



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:

- **QUALITY**- To provide quality research, policy analysis, advice and quality services
- **INTERGRITY** - To discharge duties with utmost integrity, honesty and earn trust
- **EXCELLENCE** - To deliver through professionalism and innovation
- **ACCOUNTABILITY** - To exercise responsibility in decisions and actions taken
- **INCLUSIVENESS** - To embraces respect and team work for achieving results

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CENTRAL BANK OF SOLOMON ISLANDS

11th May 2022

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

Dear Minister,

Re: 2021 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 2021.

Yours sincerely,

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

LUKE FORAU, Ph.D
Governor



GOVERNOR'S FOREWORD



This annual report outlines the Central Bank of Solomon Islands operations in 2021. It also includes information on macroeconomic developments of the economy, monetary policy developments, the Bank's governance and the performance of other tasks within the Bank's mandate. The report also presents the annual financial

statements of the Bank for the 2021 financial year.

2021 was an extremely challenging year for the Solomon Islands' economy. The global economic fallout from the pandemic had not only hit the economy hard but had also exerted enormous pressures on the public health system, exacerbated socio-economic challenges and added to the economic toll on activity that led to worsened fiscal and external positions. In addition, the adverse impacts of the November riot, coupled with the continued containment measures to contain the virus, further weakened the already fragile growth outlook, reversing the rebound that was anticipated earlier.

In response, both fiscal and monetary policies remained expansionary during the year, providing timely support to the recovery as needed and averting a potential steep plunge in GDP growth. This resulted in a 30% increase in total government debt, equivalent to 15% of GDP at the end of 2021, due to pandemic related expenditures. CBSI pursued accommodative monetary policy measures to support the Government's effort in recovering the economy. These policy measures helped cushioned the impact of the pandemic during the year.

Looking ahead, CBSI projects the economy to decline by -7.3% in 2022, as on-going containment measures continues to disrupt activity. Recovery from the pandemic is expected to be protracted under the

current business as usual environment, with RGDP growth estimated to rebound to positive level by 2024. However, any significant adjustment to fiscal policy, early re-opening of the economy and eased restrictions would allow for a speedier recovery by 2023. Downside risks and uncertainties to this outlook are high and could weigh down any incipient recovery and dampen growth prospects rapidly. This would be further exacerbated by the Russia-Ukraine war.

Against this backdrop, continued fiscal and monetary policy interventions will be required in the short-term to support activity among vulnerable businesses and households until recovery takes hold. After this health crisis recedes and becomes manageable, rebuilding of fiscal buffers, strengthening of tax regimes and implementation of appropriate structural policies are crucial to mitigate future shocks. COVID-19 provides us with windows of opportunities to facilitate recovery especially in the digital space. Accelerating these opportunities now will set a stronger foundation for a broader and resilient post-pandemic recovery.

In terms of the CBSI operations, the pandemic has had a toll on the Bank's financial position, which ended 2021 with a loss of \$62.7 million, as investment returns remained weak throughout the year. Of the \$62.7 million loss, \$15.5 million are realised losses and \$47.1 million was due to unrealised foreign currency revaluation losses. However, the Bank's net equity remained firm at \$308 million.

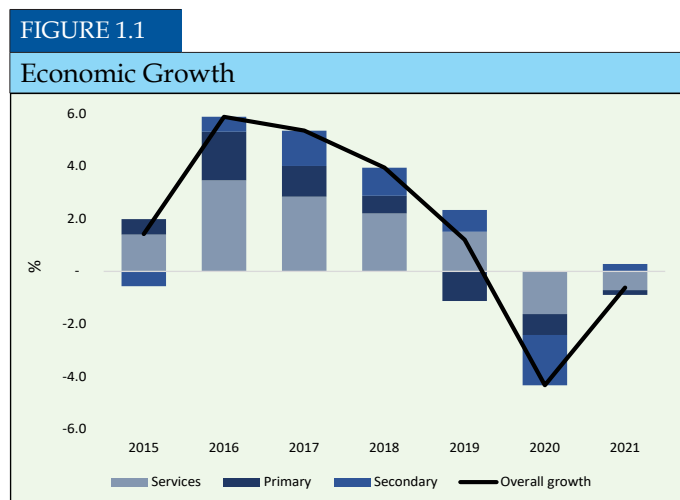
The resilient working spirit of the Staff, Management and Board ensured Central Bank services continued through the year. The Management and Board continued to recognise the service made by staff to remain at work and continued to support staff and their families survive through this tough time. That said, CBSI remains vigilant of the role it plays in the economy and the need to frugally manage its resources to achieve its mandate.

Luke Forau, Ph.D
Governor

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2021

Overview

In 2021, the global economy recovered quicker than expected on the back of faster vaccine rollouts and sustained fiscal and monetary support. The Solomon Islands economy was set to rebound in 2021 however, growth was interrupted by the adverse impacts of the riot in November which pushed the economy back into a recession. Real output contracted by 0.6% led by broad-based declines in key indicators of the economy.



Source: CBSI & SINSO

International Economy

Following the contraction by 3.1% in 2020 due to the global pandemic, the global economy rebounded by 6.1%¹ in 2021, owing to successful implementation of expansionary fiscal and quantitative easing policies across governments. The recovery was further boosted by early discovery and rolling out of the COVID-19 vaccination across the globe. However, these measures were scaled down in the second half of 2021 and will slowly phase out, as inflation pressures continue to emerge. Consequently, global growth prospect for 2022 has been projected to slow down to 3.6%. Adding to this slow growth is the impact of the Russia-Ukraine war, which has already triggered higher commodity prices. On the regional front, both the Australian and New Zealand economies have been projected to recover to 4.1% and 3.3% respectively in 2021 in line with global growth.

Global commodity prices surged in the second half of 2021 in line with higher fuel and food prices over the second half of the year. Tapis oil price, the main imported fuel for Solomon Islands surged 18% to US\$82/bbl at end 2021.

Global inflation remained higher than expected, reflecting the resurgent omicron variant and supply disruptions that took hold towards the end of 2021. Inflation for advanced economies grew to 3.1% from 0.7% a year ago whilst inflation for emerging markets

and developing economies reached 5.7% from 5.1% in 2020. Inflation in Australia and New Zealand soared above their target ranges at 3.5% and 5%, respectively, during the year.

Domestic Economy

After bottoming out from the contraction in 2020, recovery was underway in the Solomon Islands economy in 2021, but lost momentum due to the November riot. Real GDP contracted by 0.6% as shown by declines in key indicators including the production index, employment, electricity, transport, retail & wholesale, and foreign investment applications.

The CBSI annual production index deteriorated further by 7% to 76 points, owing to sluggish outcomes in round logs by 14%, palm oil by 11% and cocoa production by 10% during the year. The fall in these commodities reflected supply and climate factors as well as weak demand in China for round logs. On the other hand, fish catch and copra output grew markedly by 39% and 16% respectively, buoyed by favourable weather and strong prices over the period.

The balance of payments witnessed a surplus position of \$411 million in 2021, stemming largely from the surplus in the capital and financial account. Nonetheless, the current account deficit widened to \$715 million (6% of GDP) on the back of weakening trade in goods and services. Gross foreign reserves grew over the review period by 2% to \$5,430 million and was equivalent to cover 14.2 months of imports, well above the minimum target of six months.

On exchange rate developments, weaker USD in the global currency markets in the first half of the year led to the strengthening of the Solomon Islands dollar (SBD) by an annual average of 2.3% to \$8.03 per USD. On the other hand, the SBD weakened against the Australian and New Zealand dollars, by 6.1% to \$6.04 per AUD and \$5.68 per NZD, respectively. Due to the strong dominance of the USD within the currency basket, the trade-weighted index (TWI) strengthened by 3.8% to 107.4 points for the year. Meanwhile, the real effective exchange rate (REER), depreciated by 1.4% from an index of 129.7 to 118.8 in 2021 reflecting improved trade competitiveness during the year.

Monetary conditions were largely stable during the year on the back of COVID-19 related monetary and fiscal support. Reserve money (M0), narrow money (M1), broad money (M3), and liquidity all grew moderately by 8%, 0.4%, 1%, and 8%, respectively, over the year. In contrast, private sector credit and the average interest rate margins eased by 0.5% and 0.2% respectively for the year.

¹ IMF WEO Jan 2022 updates

The fiscal deficit position widened by 5% of GDP in 2021, as the adverse impacts of the COVID-19 pandemic and November riot dragged on activity and government revenues. Consequently, total revenue declined by 14% to \$3,250 million, reflecting lower receipts from tax revenues and grants, despite higher-than-expected non-tax collections. Total expenditure also fell by 5% to \$3,893 million on account of reductions in both the recurrent and capital spending by 5% each to \$3,307 million and \$586 million, respectively. Subsequently, total government debt stock grew by 30% to \$1,886 million, 30% higher than in 2020 and equivalent to 15% of GDP, largely driven by COVID-19 related borrowings during the year.

Labour market conditions remained soft amid an uncertain business environment during the year. Based on the partial employment indicator provided by the Solomon Islands National Provident Fund (SINPF), active contributors dropped by 1,455 workers to 55,573 contributors at the end of 2021; a decline by 3% from 2020. Public Services Employment (PSE) also slowed by 38% to 17,784 filled positions reflecting to a larger extent, a change in data sources and the freeze in public service recruitment.

Advertised positions, on the other hand, surged to 1,760 from 541 vacancies posted in 2020. Additionally, short-term employment under the World Bank Community Access and Urban Services Enhancement (CAUSE) project added a total of 2,150 jobs by the end of 2021 whilst the unskilled labour mobility schemes to New Zealand and Australia under the Recognized Seasonal Employer (RSE), Seasonal Worker Program (SWP), and Pacific Labor Scheme (PLS) added 2,500 workers by the end of the year.

Consumer prices bounced back to a positive trajectory during the year, following muted prices in 2020. Headline inflation rose to 2.5% at end 2021, largely due to soaring global food and fuel prices in the second half of the year. Reflecting the pass-through effects from these global prices increases, imported inflation accelerated significantly from -7% in 2020 to 4% by the end of 2021. Likewise, domestic inflation rose to 1.9% in 2021 from 0.7% a year ago. As a result, core inflation pressures held up during the year; rising to 1.2% in 2021 from -1.5% in 2020.

Economic outlook

Global growth is projected to grow by 3.6% in 2022, 0.8 percentage point lower than forecasted earlier in the October WEO, as the resurging omicron variant, rising food and energy prices and supply disruptions limited growth prospects. This drag on growth in part, also reflected slower recoveries in the US and Chinese economies, mainly due to the scale back in fiscal policies in both these economies in the second half of 2021.

In China, continued weakness in the property market amid mounting defaults, combined with a weaker-

than-expected recovery in private consumption on account of China's zero covid-19 strategy, induced the downgrade to 4.8% in 2022. For the US, a smaller fiscal package than earlier anticipated, coupled with an early withdrawal of monetary policy, explain the forecast downgrade to 4% for 2022. On the regional front, the Australian and New Zealand economies are projected to recover in 2022 to 4% and 3.3% respectively, on account of anticipated strong consumption and investment.

Domestically, the Solomon Islands economy is projected to decline by 7.3% in 2022 on the back of sluggish economic activity and on-going COVID-19 containment measures. The contraction will be driven by anticipated falls across all sectors of the economy led by the services sector, followed by the primary sector and secondary sector. This economic fallout is expected to bottom out over the medium term with some moderate rebound expected to start in 2024. However, if mobility and international border restrictions are lifted early, GDP growth is expected to grow by 1% in 2023.

In terms of other macroeconomic outlooks, wider deficits are projected for both fiscal and current accounts by 5% and 9% of GDP respectively in 2022. Drivers for these wider deficits are anticipated lower revenue amid elevated spending for fiscal and anticipated slower imports and FDI inflows for balance of payments in line with anticipated low growth. Accordingly, a slightly weaker growth of gross foreign reserves is also expected over the medium term.

Developments in key monetary aggregates are expected to grow moderately in line with activity in the near to medium term.

However, enormous uncertainty surrounds these forecasts, including prolonged COVID-19, supply disruptions, non-quality fiscal spending and higher food and fuel prices. If these risks materialize, growth could be sharply hampered.

Inflation is expected to be contained within the desired range in 2022 against the backdrop of slower GDP growth, weak demand and anticipated global inflation easing. Headline inflation is projected to rise to 3% in June 2022, and 3.2% end of 2022 on account of fuel and food price increases. Core inflation is projected to be contained in the range of 3% to 4% on the back of supply-side constraints and food price pressures. Downside risks to this outlook remain, including persistent supply disruptions and commodity price shocks which may feed through to higher prices beyond the inflation outlook. And now, escalating tensions between Russia and Ukraine adds to further risks to both the economic and inflation outlooks. With great uncertainty in the horizon, CBSI will remain vigilant and carefully monitor these risks to inflation and act accordingly if necessary.

CHAPTER 2: GOVERNANCE AND ORGANISATION

THE BOARD

The Board is made up of nine members consisting of two executive members, one ex-officio, and six non-executive members appointed by the Minister of Finance and Treasury. The Board oversees the operations and governance of the Central Bank of Solomon Islands (CBSI). They are charged with the formulation, supervision and implementation of the CBSI policies; and the supervision of the administration and operations of the Bank. The Powers and functions of the Board are set out under s39 of the CBSI Act 2012.

NAME	POSITION	APPOINTMENT PERIOD	
Dr. Luke Forau	Governor, Chairperson, Executive Director	6 years from 1 October 2019	
Mr Raynold Moveni	Deputy Governor, Executive Director	6 years from 30 January 2020	
Mr. McKinnie Dentana	PS Finance	Until term as PS lapses	
Mr. David K C Quan	Non- Executive Director	5 years from 1 August 2021	Re-appointed 1st August
Mr. Rodney Rutepitu	Non- Executive Director	5 years from 20 February 2018	
Mrs. Christina Lasaga	Non- Executive Director	5 years from 20 February 2018	
Mr. Dennis Meone	Non- Executive Director	5 years from 20 February 2018	Resigned 6th August
Mr. David Dennis	Non- Executive Director	5 Years from 20 February 2018	Resigned 24th September
Mr. Bob Pollard	Non- Executive Director	5 Years from 8 May 2020	
Mrs. Kathleen M. Matautia	Non- Executive Director	5 years from October 2020	Appointment 1 october
Mr. Jeremy P Bartlett	Non- Executive Director	5 years from October 2020	Appointment 1 october

Membership and Meetings

The Board membership saw the following changes during the year: Mr Dennis Meone resigned in August, and Mr. David Dennis resigned in September to take up his appointment as the Auditor General of Solomon Islands. In October, two new members, Mrs. Kathleen M. Matautia and Mr. Jeremy P. Bartlett, were appointed as replacements. The Board is required to convene as often, but not less frequently than six times in a calendar year. A quorum of two-third of the members is required, one of whom must be the Governor or in his absence the Deputy Governor and the other a non-executive member, for each board meeting. Decisions are made by simple majority of the members present at the meeting and each member shall have one vote and in the event of a tied vote, the chair shall have a casting vote. In 2021, the Board met 10 times and considered

16 decision papers and 16 information papers. All meetings were held at the CBSI in Honiara, except for one meeting which was held at the CBSI Aruligo Gane Simbe Conference Haus.

The Governor

The Governor serves as the Chief Executive of the CBSI and is charged with the day to day management of the operations of the Bank and is assisted by the Deputy Governor. The Governor is accountable to the Board and reports, at least 6 times each year, to the Board on the conduct of the Bank's operations and policies. In 2021, the Governor tabled 7 reports to the Board. The powers and functions of the Governor are set out in s40 of the CBSI Act, 2012.

Board Committees

There are four established Board Committees pursuant to s39(r) of the CBSI Act 2012, to assist in exercising its authority. Each of the Committees has a term of reference under which authority is delegated by the Board.

Board Committees	Membership	No of Meetings in 2021
Board Audit Committee	4	2
Board Remuneration Committee*	3	1
Board HQ Expansion Project Committee	4	no meetings held due to Covid-19
Board Disciplinary Appeals Committee	3	no meetings held

Board and Board Committee attendance in FY 2021

	Board	Board Audit Committee	Board Remuneration Committee*	Board HQ Expansion Project Committee
Luke Forau	10/10			
Raynold Moveni	10/10	2/2		*
McKinnie Dentana	10/10		1/1	*
David K C Quan	10/10		1/1	*
Rodney Rutepitu	6/10	2/2		
Christina Lasaga	7/10			*
Dennis Meone	0/4 ²			
David Dennis	5/5 ³	4/4		
Bob Pollard	10/10		1/1	
Kathleen Matautia	3/3 ⁴			
Jeremy Bartlett	2/3 ⁵			

*No meeting in 2021

² Resigned after four meetings were held

³ Resigned after five meetings were held

⁴ Appointed 1st October

⁵ Appointed 1st October

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



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



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



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



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

- Management Accountant, Pacific Islands Forum Fisheries Agency.

Previous Positions held:

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



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

- Assistant Chief Executive; Our Telekom

Previous Positions held:

- Head of Sales and Marketing; Our Telekom



DENNIS MEONE
(Non-Executive Member) since 20 February 2018
Resign on 6th August 2021

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



DAVID DENNIS
(Non-Executive Member) since 15 January 2019 Private Consultant
Resign on 24th September 2021

Previous Positions held:

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



JEREMY P BARTTLET
(Non- Executive Member)

- Appointment on 1 October 2021



KATHLEEN M. MATAUTIA
(Non- Executive Member)

- Appointment on 1 October 2021



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



SONIA MARAHARE
Legal Compliance, Governors Office

- Appointed as Secretary to the Board in May 2017

STAFF COMPLEMENT

The Central Bank of Solomon Islands' staff complement⁶ in 2021 remained unchanged at 157, as was in 2020. In terms of recruitment, nineteen new staff were recruited, of which thirteen are on temporary contract, one on secondment to Solomon Islands Financial Intelligence Unit and four for permanent positions.

The Bank continues to encourage equal employment opportunities. In 2021, the Bank records a gender composition of 61% male to 39% female.

In terms of loyalty, ten staff have served 10 years and two staff each 20 and 30 years of continuous employment service with the Bank.

Retirement, Resignations and Secondments

In 2021, nineteen staff left the services of the Bank, of which, fourteen were temporary casual staff, one a secondee from the Solomon Islands Police, two resigned, and two terminated.

COVID-19 community transmission

COVID-19 remained a challenge in 2021 for the operation of the Bank. With community transmission in early 2022, the Bank maintained its services through a skeleton team. Staff are encouraged to work from home and only access the office if required tasks are critical and cannot be performed offsite. The experience during the year has provided very useful experience for planning and re-adjustments in the operation of the Bank.

Workplace Health and Safety

The Bank is committed to providing and upholding a safe and conducive workplace for its employees and customers. Despite no COVID-19 community transmission, the Bank continued to safeguard its staff by providing information through various staff awareness sessions as well as implementing preparedness and safety measures throughout the past year.

The Bank's COVID-19 Taskforce met seven times as part of the Bank's effort to develop and prepare strategies and mitigative measures for COVID-19.

FEMPower Programme

The FEMPower Programme is an initiative by the Governor and was introduced in July 2021 as part of our Gender Inclusiveness with the goal of having an established platform for activities supporting women through awareness, information sharing, mentoring, and networking to celebrate and appreciate women's achievements. The programme also aims to empower our female officers to reach their potentials and help them increase and improve their self-realization. Under this programme, influential female guests are invited once a month to speak on topics affecting our women.

TRAINING AND DEVELOPMENT

The COVID-19 pandemic has disrupted the Bank's training and development plans in 2021. New training scholarship awards were postponed and deferred with many other specialized and technical short-term trainings halted and cancelled. Nevertheless, the Bank maintained its support for on-going trainings and other continuous learning opportunities available to enable employees obtain skills and higher qualifications that are necessary to improve work performance and increase the institution's overall productivity. A total of 20 officers continued full-time and part-time trainings, pursuing tertiary qualifications at undergraduate and postgraduate levels with local and regional institutions in Australia, New Zealand and Fiji. Most trainings were funded by the Bank with additional funding support provided by the external sponsors. As at the end of the year, nine officers successfully completed their studies with seven officers graduating with a master's degree, one with a bachelor's degree and the other with a professional diploma- all in the areas of economics, accounting, finance, policy and risk management.

Furthermore, twenty-three officers of the Bank had also participated in 26 on-line and virtual short-term trainings during the year. These courses were provided by technical and support organizations like the International Monetary Fund (IMF), Central Bank Institutes, Pacific Financial Inclusion Program (PFIP) and others. This is in light of the pandemic and the international travel restrictions which halted staff travel and engagement in the overseas short-term trainings to address specialized technical skills and knowledge gaps essential to improve work performance. The Bank's in-house training program also played a pivotal role in terms of customizing trainings to improve employees' understanding, knowledge, skills and behaviours. A total of 21 in-house trainings and seminars were also conducted for staff on various bank policies, processes, procedures and other important subject areas to staff. Other staff development initiatives engaged in included: the introduction of leadership and mentoring programs to improve staff personal and career development, women empowerment program to enable women employees to achieve full potential, and on the job rotation exercise to enable staff to improve skills and knowledge.

CAPITAL PROJECTS

Planned capital projects for 2021 were severely affected by the pandemic, resulting in project phases and schedules being shifted or shelved indefinitely. Apart from the CBSI's head office project, some of the projects earmarked for the year include; design and development of CBSI's alternative office at Noro; conversion of CBSI's Mbokona clerical houses to concrete; and design development of a strong storage building. These projects are important for the Bank and will continue to be pursued when the pandemic subsides. With regards to the CBSI new head office project, it continues to progress, albeit at a slower pace, with the Environmental Impact Assessment of the

⁶ This is inclusive of non-established staff, temporary contracted staff, and temporary casual staff.

project completed and given approval by the Ministry of Environment. This is a milestone achievement which paved the way for the new HQ project to be carried out with due consideration to the social and environmental risks the project will have on the neighbouring establishments, offices, aviation and telecommunication infrastructures, and the general public at large. The other ongoing component of the project is the reinvestigation and finalisation of the geotechnical report which is very important for the foundation design. A Solomon Islands local firm, Engineering Environmental Services Ltd and T&T (Tonkin and Taylor) from New Zealand have been engaged to redo the geotechnical investigation. In terms of the project's administration and management, the leading design and project management firm, James Cubitt Architects (JCA) continues to be engaged with the CBSI inhouse project team, to ensure the project stays on course. The support by the Bank's management has been vital and has enabled the HQ project to progress despite the impact of the COVID-19 pandemic. The Bank will continue to pursue some of these development projects in 2022.

COMMUNITY AND PUBLIC RELATIONS

Annual awareness activities and CBSI programs like the Solomon Islands Money Day (SIMD) were all affected by the pandemic. This also affected planned schools and community visits on a wider scale. CBSI had to put on-hold all these plans till further notice as a result of the COVID-19 related state of public emergency, and the Bank's cautious approach in terms of its budget and overall finances.

In terms of community support, CBSI sponsored prizes for winning contestants during the 26th National Oratory Contest for schools. CBSI is a proud co-sponsor of this program, which hosted a total of 24 participating schools in 2021.

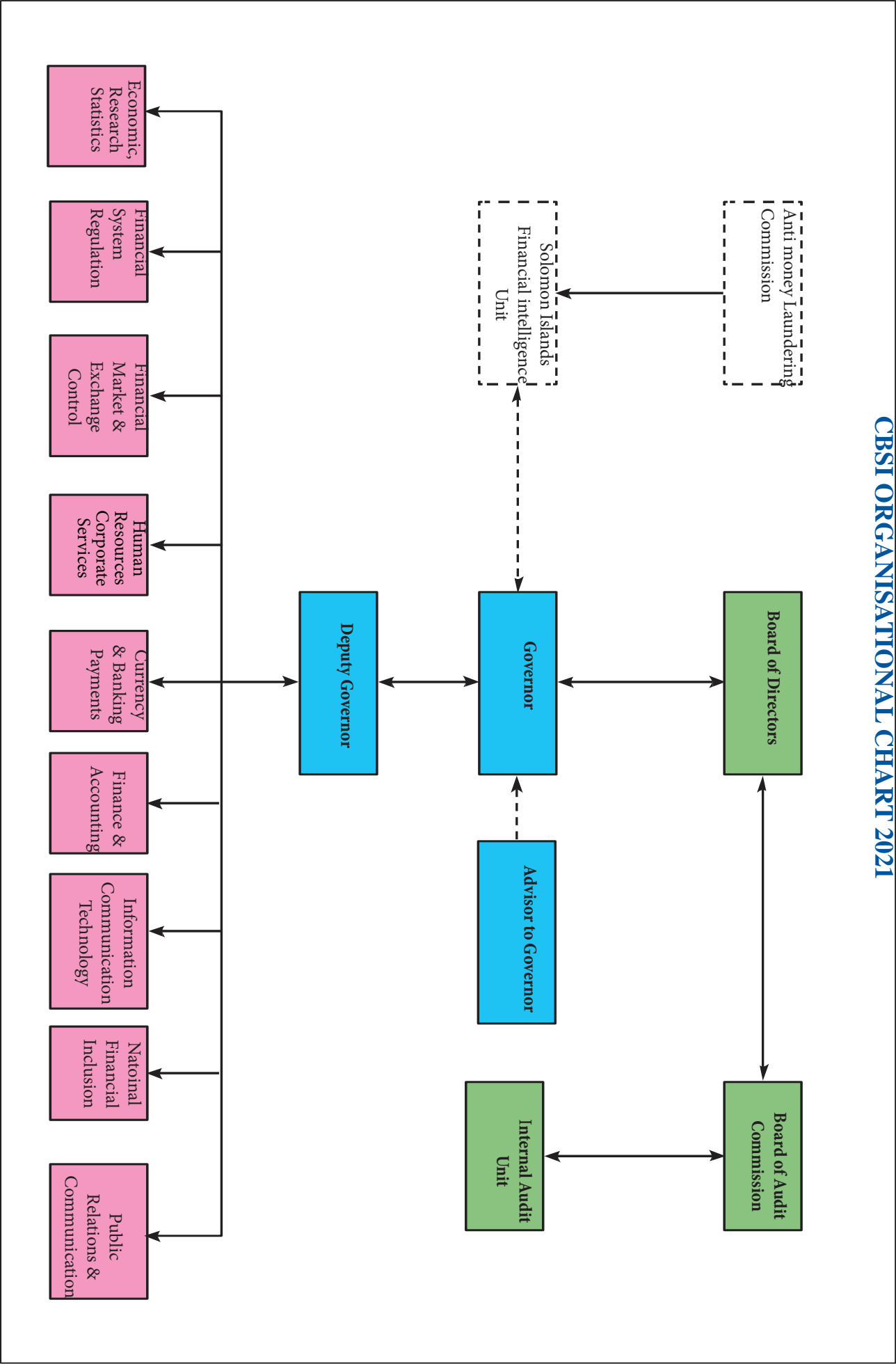
With the limitation on budget and government restrictions curbing any roll out programs, CBSI turned its focus mainly to the radio program format on SIBC.

The broadcast platform plus the active social media presence of the Bank, provided weekly information and updates to those who had access to it. The CBSI Money Matters program was aired weekly on weekends, beginning from April to December. It covers mainly general awareness topics such as currency, economics, financial inclusion, and financial matters. A total of 22 radio programs were produced specifically on topics provided, whilst the rest were CBSI activity coverage, announcements and updates.

On the engagement with external customers and clients on-line, it was mainly through the CBSI website, Facebook, LinkedIn and Twitter accounts. The Bank also contributed regularly to articles published in the daily newspapers on a weekly basis, covering similar topics and outlines, as contributed by authors within the bank. A total of 15 featured articles were published from CBSI, plus a few op-ed articles circulated internally. CBSI dealt with a lot of queries and responses to questions from the public regarding fake currency or counterfeit banknotes that are in circulation together with the on-going fast money schemes still being promoted by few individuals and groups.

CBSI also had a higher engagement level with the media in 2021. The Bank released 23 official press releases and held two major press conferences in 2021 covering the Governor's macroeconomic update, and the IMF's press conference after the IMF's Article IV virtual meetings with local stakeholders. Other programs with CBSI stakeholders and partners that were covered extensively by the media included events such as the programs launched by the Financial Inclusion Unit, International credit Union Day, a major IT project signing and the announcement of a new export financing facility from CBSI. CBSI Governor Dr. Luke Forau was also able to take one interview with ABC News, in which the Governor was asked to provide commentaries relating to the economic impact of the riots in November.

CBSI ORGANISATIONAL CHART 2021



CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2021

GOVERNOR'S OFFICE



DR LUKE FORAU
Governor



RAYNOLD MOVENI
Deputy Governor



MARLON HOUKARAWA
Management Advisor Operation



MICHAEL KIKIOLO
Management Advisor Policy

ECONOMIC RESEARCH & STATISTICS DEPARTMENT



LOUISA BARAGAMU
Chief Manager



JOHN ROHI
Manager



DANIEL HARIDI
Chief Manager



SAMUEL WARUNIMA
Chief Manager (Ag)



RONSLEY PANA
Manager/ Applied Research ,
Policy & Regulation

FINANCIAL SYSTEMS REGULATION DEPARTMENT

FINANCIAL MARKET & EXCHANGE CONTROL DEPARTMENT



ALI HOMELO
Chief Manager



DENSON DENNI
Manager/ Financial Control



CHARLIE SIVU
Manager/Financial Markets



JOHN DOSCO
Chief Manager



MICHAEL EREKALI
Manager/ Corporate Service

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT

CURRENCY & BANKING PAYMENTS DEPARTMENT



JOE VASUNI
Manager

Enoch Illisia
Manager (Ag)

Doreen lai
Manager (Ag)

John M Namana
Manager (Ag)



JENNY AIAPU
Manager/ Human Resources



ROSE SULU
Manager Training Development

CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2021

FINANCE & ACCOUNTS DEPARTMENT



EMANUEL GELA
Chief Manager



SIMON RAMOIFAI
Manager

INFORMATION & COMMUNICATION TECHNOLOGY DEPARTMENT



EDWARD MANEDIKA
Chief Manager



BADLY TEDDY
Manager

NATIONAL FINANCIAL INCLUSION UNIT



LINDA FOLIA
Manager

INTERNAL AUDIT



OLIVER KAROA
Manager

RISK MANAGEMENT & CORPORATE COMMUNICATION



SONIA MARAHARE
Chief Manager



URIEL MATANANI
Manager

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT



JIMMY SENDERLEY
Director



TOM HAAUTE
Manager/ Intelligence



JIMMY VAJA
Manager/ Policy Development,
Coordination, Supervision Compliance

CHAPTER 3: MONETARY POLICY DEVELOPMENTS

MONETARY POLICY FORMULATION

In formulating the monetary policy, the Central Bank assesses the macroeconomic conditions and outlook with careful attention to its primary objective of price stability. This was however done in consideration of the other objectives such as financial stability and support for the general economic policies of the government.

At the start of 2021, inflation was forecasted to be contained and the macroeconomy below its potential. Given the impact of the pandemic, one of the key fiscal policy goals focused on economic recovery. In light of these prevailing economic developments, the CBSI Board resolved for an expansionary monetary policy in March and again in September to support the government's effort on economic recovery.

During the year, the Monetary Policy Committee held four meetings. These include the March and September meetings that deliberated on the monetary policy stance which the Board subsequently approved. The June meeting ratified the relaxation of exchange control policy for Board resolution. The meeting also follows preliminary findings of the financial depth review for noting purposes. The August meeting discussed and provided feedback on the macroeconomic forecasting.

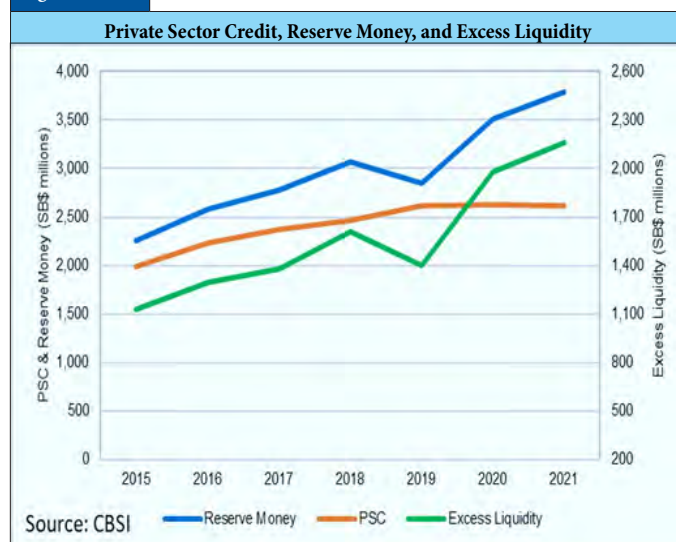
MONETARY POLICY IMPLEMENTATION

With the adoption of an expansionary monetary policy throughout the year, the Bank maintained the cash reserve ratio (CRR) at 5% and Bokolo Bills (short term securities) capped at \$430 million to ensure banks have adequate liquidity. In the third quarter, the bank relaxed certain exchange control requirements allowing flexibility for international trade and investments within the compliance requirements. In the fourth quarter, the Bank also rolled out an export finance facility aimed at providing avenues for exporters to access short term credit financing. In addition, the Central Bank continued with the quantitative easing by purchasing two government development bonds amounting to \$120 million through the secondary market supporting government financing in the economic recovery efforts.

MONETARY POLICY OUTCOMES

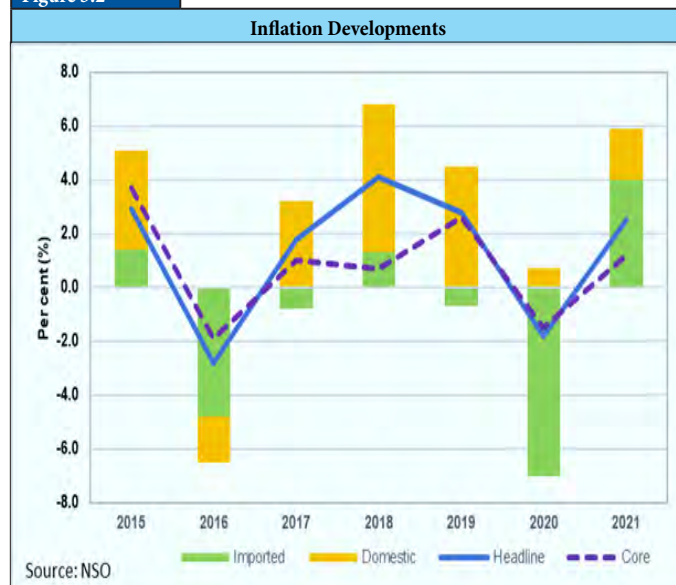
The expansionary policy led to an increase in excess liquidity especially among less liquid banks as private sector credit (PSC) was relatively weak amid the subdued domestic economy. As a result, reserve money built up moderately by the end of 2021 (see Figure 3.1). In line with this outcome, interest rates for short term securities dropped during the year. The 28 days interest rates for Bokolo Bills declined 25 basis points (bps) to 0.10%. The government treasury bills for 182 days fell by 8 bps to 0.99% while for 91 days remained at 0.49%. Correspondingly, the interest rate margin from Other Deposit-taking Corporations reduced by 3 bps to 9.71%.

Figure 3.1



On inflation, the dominant supply-side factors over demand led to a rise in inflation at the end of 2021 although contained at a desirable level.

Figure 3.2



Headline and core inflation rose to 2.5% and 1.7%, respectively. Imported inflation substantially rose, following the global economic recovery and rising international energy prices. Some pressures on food supply shortages due to the riot in the capital city towards the end of the year also contributed. The pass-through effect on world fuel prices pushed up domestic prices especially on transport and utilities. Parallel to headline inflation, core inflation rebounded, reflecting broad price rise in non-volatile items.

CHAPTER 4: CENTRAL BANKING OPERATIONS

ECONOMICS, RESEARCH & STATISTICS

During the year, the Economics, Research & Statistics Department (ERSD) through its functions to provide macroeconomic analysis, monetary policy formulation and dissemination of economic statistics, information and reports to stakeholders, published twelve Monthly Economic Bulletins, four Quarterly Economic Reviews (QER) and two Monetary Policy Statements.

Over the course of the pandemic, assessments on economic conditions were disseminated at different points in time, thereby, improving and enhancing the availability of relevant information in real time to stakeholders.

A key outcome in research activities during the year was the acceptance of two research papers for Journal publication. One paper was published in the Journal of Financial Risk Management, marking a major research milestone for CBSI. While another paper that was submitted to a Journal had passed the journal editorial review process in 2021, with publication envisaged for 2022. These research publications were made possible with the joint collaboration with the Griffith University of Australia, which continued to provide a series of virtual research workshops, trainings, seminars and forums geared towards capacity building of bank staff during the year.

INTERNATIONAL OPERATIONS

The Financial Markets and Exchange Control Department (FMECD) is tasked with the following key operational functions: the management of the country's official external reserves, reserve management policy 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.

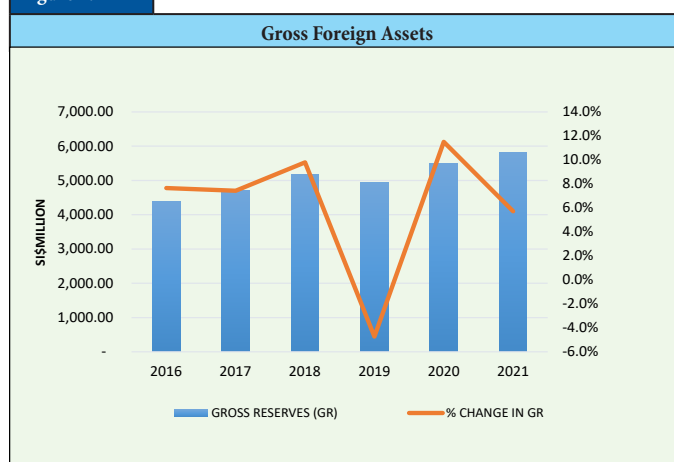
Foreign Reserve Management

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. These objectives in the order of priority are: 1) Safety (preserving capital); 2) ensuring adequate liquidity for external obligations; and 3. optimizing returns. CBSI also holds Special Drawing Rights and Standby Credit Facility with IMF.

Foreign Reserves Position

The gross foreign reserves amounted to \$5.820 billion in 2021, up 5.7% on 2020. This increase is attributed to favourable donor inflows, in particular, COVID-19 related grants and support for national infrastructure projects.

Figure 4.1

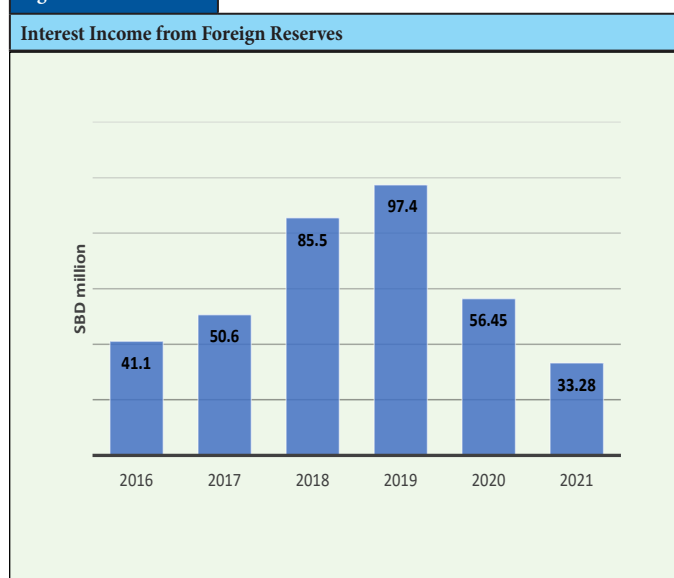


Source: CBSI

Return on Investments of Foreign Reserves

Interest income on foreign reserves investments further dwindled by 41% to \$33.0 million from \$56.0 million in 2020. This decline was attributed to weak market demands driven by inflation concerns, mix market sentiments and reactions, uncertainties and unfavourable market interest rates exacerbated by COVID-19 impact during the year. The annualized return on interest on investable reserves dropped by 0.29%, lower than the annualized return of 0.60% reported in 2020.

Figure 4.2



Source: CBSI

Gold Investment Policy

Gold Investment Portfolio strategy requires the Bank to hold gold as a reserve asset. This is an integral part of risk management strategy for safety and security as guided by the CBSI Gold Investment Policy.

In 2021, CBSI developed a gold tactical strategy as an alternate investment option to generate returns amidst bearish global financial conditions. The strategy was to

get into gold trading. The CBSI monitors the volatility of gold market prices via Reuters and Bloomberg terminals and started entering into a gold trading agreement (BUY/SELL) of unallocated gold with the Perth Mint of Australia. CBSI earned reasonable income from gold trading, surpassing its 2021 gold trading income target.

Exchange Rate Policy and Regime

Solomon Islands exchange rate regime is such that of a crawling peg and the local currency, Solomon Islands Dollar (SBD), is pegged to a basket of trade invoicing currencies.

The Solomon Islands Dollar Basket index depreciated to 110.01 points from 106.3 points in 2021, following Fed's announcement to keep the interest rate unchanged at 0.25% whilst increasing the speed of bond tapering initiative of USD 30 billion to commence in 2022.

Figure 4.3

Annual Exchange Rate Basket Index Trend



Middle Office Operations

The Middle Office (MO) function performs three key reserves management roles, including foreign reserves risk management, compliance monitoring and investment performance measurement. The year 2021 was marked by heightened financial risks, security yields in the fixed income markets were historically low at near zero rate and term deposits in negative territory. Recessionary pressures in the global economy have heightened market risks, putting additional pressure on strategic asset allocations and counterparty relations.

The Middle Office conducted biennial market outlook assessments and quarterly compliance evaluations to strengthen resilience and tactical strategies for foreign reserves management. Necessary tactical deviations in the asset allocations were maintained to mitigate revaluation impacts from currency volatility particularly the USD and AUD allocations. During the year, two counterparties ceased relationship management agreement with the CBSI due to internal restructures. The CBSI also pursued establishment of

settlements and clearing accounts in the Singapore dollar and New Zealand dollar to mitigate settlement risk. Considerations in terms of diversification of portfolios and the need for external asset management were pursued. However, the China bond market registration and onboarding was temporarily on hold due to the ongoing disruptions of the pandemic, while external asset management consideration was shelved due to cost implications and limited internal capacity.

The Back Office

The Back Office (BO) plays a critical role for settlements of payments related to investments and allocations of the external reserves. It also maintains the records of all foreign currency accounts and the standard settlements instructions held by the Bank. During the year, the Unit established a JICA Yen deposit account purposely to facilitate the implementation of COVID-19 crisis response emergency program in JPY Currency. The unit also facilitates both the international receipts and payments via SWIFT terminal for its clients comprising the Solomon Islands Government (SIG), CBSI, donor partners and the commercial banks. Back Office is also mandated to ensure reconciliation of all foreign accounts are maintained each month and annually.

Table 4.1

Number of SWIFT Messages SENT and RECEIVED

	2014	2015	2016	2017	2018	2019	2020	2021
Outgoing messages (sent)	1039	1314	1301	1272	1853	1928	1718	1209
Incoming Message (Received)	2279	3562	3804	3178	3690	3816	3125	3492

Source: CBSI

In 2021, a total of 1,209 outgoing messages were sent via SWIFT system, a reduction of 509 messages from 2020 (See Table 4.1). This reflects a decrease in CBSI's payments due to stringent adherence on spending as the impact of the pandemic hits hard on the economy. Similarly, 3,492 messages were received, an increase of 367 messages compared to the previous year.

Table 4.2 provides the number of all receipts and payments transactions facilitated through SWIFT during the year, with the exception of foreign exchange deals between CBSI and the commercial banks. The total value of all the receipts in 2021 dropped by 44.5% to \$279 million from \$627 Million in 2020. The CBSI's total payments also dropped to \$15 million from \$478 million in 2020. IMF loan repayment for the extended credit facility was paid under the IMF's grant assistance for immediate debt service relief.

Table 4.2

Value of Receipts and Payments Transaction through Swift (2014-2021)

	2014	2015	2016	2017	2018	2019	2020	2021
CBSI Receipts	581.15	2329.6	1229.9	780.6	3214	627	627	279
CBSI Payments	204.16	296.8	120.0	120.0	74	428	478	15

Source: CBSI

Exchange Control Administration

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

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

Applications for Temporary Resident (TR) Status

In 2021, CBSI approved 193 TR status permits, of which, 133 were new applicants and 60 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 will be assessed accordingly as residents as per exchange control policy requirements and are permitted to repatriate income earned in Solomon Islands or brought in from abroad without limitation. The 133 new TR applicants were non-residents mostly employed under the major national projects in the country and by the new Chinese Embassy in Honiara.

Table 4.3						
Number of Temporary Resident Accounts Application approved 2016-2021						
	2016	2017	2018	2019	2020	2021
Newly Approved Temporary Resident applications	149	248	302	289	156	133
TR Applications Renewals	53	16	144	112	48	60
Total TR Approved	202	264	446	401	204	193

Source: CBSI

Non-resident (NR) Accounts

In 2021, CBSI approved one non-residents account for a non-resident. Individuals and corporate entities residing outside Solomon Islands who wish to open and hold bank accounts with a resident authorised dealer (commercial banks) in Solomon Islands require CBSI approval. Sources of funds for the NR account are usually from local business operations or local bona-fide activities

Foreign Currency Account (FCA) Facility

In 2021 CBSI approved ten new FCA applications and renewed twelve expired accounts. The majority of these accounts were denominated in USD while a few

were in different currencies. There was an increase in the reported foreign exchange exposure from \$1,465 million in 2020 to \$1,536 million at the end of 2021 (See Table 4.4). Most account holders complied by providing monthly reports and data on time. To date, there are 74 active foreign currency account holders approved by CBSI of which 64 FCA are held with local banks while 10 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 recognised the importance of expanding the foreign exchange market and thus extended the facility on a case-by-case basis to non-exporters, corporates and the public at large. The operation of FCAs is a privilege and is strictly granted on merit. This facility is also open to eligible Individuals, corporates and all others for personal and official investments offshore.

Table 4.4

Number of Approved FCA Held by Exporters and Non-Exporters 2016-2021						
	2016	2017	2018	2019	2020	2021
Account Holder/ Entities	50	27	30	36	45	53
Qualified Exporters	13	5	5	6	2	5
Non- Exporters	37	22	25	30	43	48
Total Number of accounts held	78	35	38	56	65	74
On- shore	71	32	35	51	57	64
Off- shore	7	3	3	5	8	10
Total Value : (SBD million)	434	468	750	1,291	1,465	1,536

Note: Some account holders hold more than one FC account

Source: CBSI

Foreign exchange (FX) Restricted Classified Dealers

In 2021, CBSI specifically approved one new classified foreign exchange dealer's license and renewed nine existing FX dealers' licenses (See Table 4.5). Of the thirteen valid licenses issued, ten were issued to eligible local companies to operate as money changer services dealers whilst three licenses were for money transfer services providers in the country. The money transfers services licenses were issued to companies with approved and well recognised money transfer platforms with appropriate AML policy standards. This foreign exchange dealers' licence is valid for 12 months and renewable thereafter with standard annual license Fees. The bank continued to monitor all classified money changers license holders reporting to ensure CDD and KYC is carried out appropriately by FX licenses Holders, however, this remains a challenge in 2021.

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						
	2016	2017	2018	2019	2020	2021
Money Transfer services	4	3	3	3	3	3
Money Changer Services	9	10	10	10	11	10
Total FX Classified Dealers	13	13	13	13	14	13

Source: CBSI

Private Sector Debt (Private Sector Offshore Borrowing)

Resident entities or persons wishing to borrow funds from abroad or creating debt in favour of non-residents must obtain CBSI approval pursuant to exchange control policy and regulations. This is exchange control requirements for private offshore debt and 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 9 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 USD 4.3 million (SBD 34.8 million).

Table 4.6						
Number of Private Sector Overseas Borrowing Approved						
	2016	2017	2018	2019	2020	2021
Applications received & approved	11	20	7	16	13	9
Value in SBD million	133	1,681	291	106	456	35

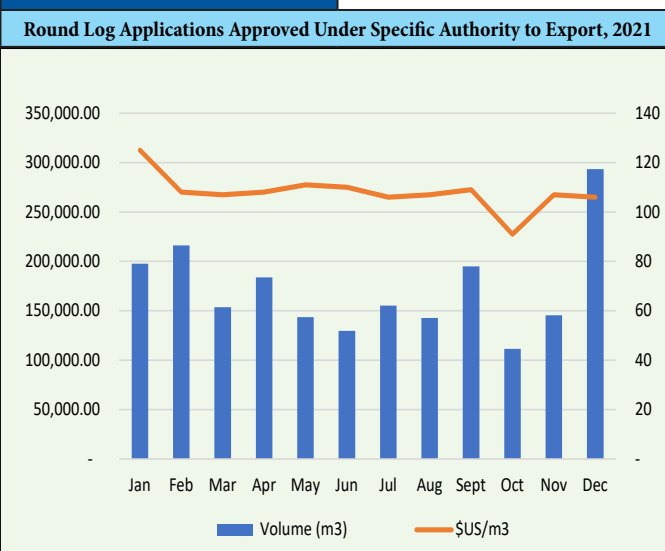
Source: CBSI

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 or surrendered to a commercial bank in the Solomon Islands. CBSI administers controls on exports using two authority frameworks namely: (i) the General Authority (GA) to Export and (ii) the Specific Authority (SA) to Export. Specific Authority covers round logs and beche-de-mer exports and General Authority covers all other commodities not listed under SA.

In 2021, CBSI issued 618 Specific Authorities to export to round log exporters. This was a decrease of 26.6% from the preceding year. The estimated volume also decreased by 13.1% to 2.068 million cubic metres with an approximated value of \$1,742 million (See Table 4.7).

Figure 4.4



Source: CBSI

Table 4.7						
Number and Value of Log Applications for Specific Authority to Export, 2021						
	2016	2017	2018	2019	2020	2021
Total Applications approved (numbers)	829	997	924	922	842	618
Total Value of Exports-SA Approved SB\$ million	2,368	2,995	2,997	2,526	1,999.6	1,742
Volume of Exports-SA Approved (million m3)	2.612	3.156	2.822	2.717	2.379	2.068

Source: CBSI

In September 2021, the Ministry of Fisheries and Marine Resources (MFMR) lifted the ban on harvesting Beche-de-mer effected in August 2019. As a result, CBSI approved 15 applications for the Specific Authority to export beche-de-mer in 2021. This was lower by 25 applications compared to 2019 when the last export was recorded before it was banned for harvesting in 2020. The total weight of the commodity was 173,805 kilograms valued at \$13.1 million (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 exploitation.

Table 4.8				
Number and Value of Beche-De-Mer Applications for Specific Authority To Export, 2021				
	2018	2019	2020	2021
Total applications approved	13	40	NIL	15
Total value of exports (SBD Million)	5.363	16.238	NIL	13.059
Total Volume (Kg)	92,522	223,559	NIL	173,805

Source: CBSI

Imports Payment Administration: Applications above required CBSI limits.

In 2021, the CBSI reviewed and approved new threshold limit for all foreign exchange payments from the previous years. 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 \$100,000 require approval by the Bank. Furthermore, trade and services payments exceeding \$250,000 (Prepayments) and \$1,000,000 (Goods on credit payments) must be referred to CBSI for approval before the commercial banks can settle payments. The authorised dealers (commercial banks) are permitted to approve foreign exchange payments for amounts less than the \$100,000 and \$250,000 - \$1,000,000 thresholds. This is the new payment limits revised and allowed by CBSI under this policy requirement in 2021.

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 2021, the number of applications referred to CBSI for approval totalled 4,905 applications and valued at \$4,298 million. This figure includes all merchandise trade comprising around 71.2%, service payments at 17.0%, capital transfers at 10.6% and personal transfers comprising 1.2% of the total payments (See Table 4.9). The average value per application increased from \$565,766 in 2020 to \$876,249 in 2021, indicating a significant rise in high value payments overseas.

Table 4.9						
Number and Value of Foreign Exchange Applications Approved by CBSI: 2016-2021						
	2016	2017	2018	2019	2020	2021
Total Applications approved	8,992	8,766	8,700	7,291	7,435	4,905
Value of applications Approved SBD (Millions)	5,258	5,977	6,167	5,372	4,125	4,298

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 2021, the CBSI granted authority to three resident companies 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 or ownership to a non-resident corporate entity.

Relaxation of Exchange Control Policies on Foreign Currency Account and Overseas Investment Portfolio Facilities

In 2021, the CBSI reviewed two Exchange Control Policies on Foreign Currency Account (FCA) and Overseas Investment Portfolio (OIP) or offshore investment.

The CBSI Board approved the relaxation of the FCA to open up the facility to all other qualified and eligible residents, temporary residents and non-residents both individuals and corporate companies in an effort to further grow and deepen the financial market services to residents and non-residents. This is a privileged facility and must be approved and granted by CBSI.

The Exchange Control Policy on OIP Facility was relaxed to enable all qualified and eligible residents of Solomon Islands to invest off-shore or undertake to invest overseas part of their resources should their applications satisfy the CBSI Exchange Control Requirements. The OIP facility is not delegated to Authorised Dealers, approval for the facility requires CBSI's approval.

FINANCIAL SYSTEM REGULATION

The Financial System Regulation Department (FSRD) working within the constraints of its human 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 and the Central Bank Act 2012.

Similar to 2020, the overall the financial system was relatively stable in 2021 amidst the weak economic performance and disruptions caused by containment measures to minimise spread of the Covid-19 in the country. However, the most affected businesses and individuals were those located in Honiara. Despite the setbacks, commercial banks, credit institutions, superannuation, development bank, insurance companies, and credit unions in the financial system continued to provide necessary lending services, trading services, deposit services, retirement policies, and insurance covers to their customers and policyholders.

Spurred by the increasing demand for FSRD to continue to balance the need to comply with public health warnings and containment measures in response to the COVID-19 pandemic, FSRD shifted from face-to-face supervision to virtual supervision to implement its licensing and supervisory mandates in 2021. In its effort to maintain this balance, the department completed 79.2% of its key responsibility areas (KRAs) as shown in Table 4.10, lower than 86% completion rate recorded in 2020.

Table 4.10	
Key Responsibility Area	Completion Status of KPIs (Scale 5=100% completed, 4=75%, 3=50%, 2=25%, 1's= not started)
KRA 2.1: Develop and review legislations, regulations, policies and guidelines for financial institution supervision	2,3
KRA 2.3: Regulate, license, register, supervise and oversee the financial institutions and credit information systems	4,6
KRA 2.5: Safeguard the financial systems and institutions through effective risk management	4,3
KRA 4.4: Cooperate with international organisations for improved capacity development towards financial systems stability	4,8
KRA 6.1: Manage human resource and performance culture	3,8
Percentage completion	79.2% [19.8/25x100%]

Source: CBSI

The KRA largely supports CBSI strategic themes and projects for the year spreading across the review of legislations, documentation of prudential standards, onsite examinations, implementation of prudential guidelines and directives, and capacity development.

The department reviewed seven existing prudential guidelines with the assistance of the Pacific Financial Technical Assistance Centre (PFTAC) in Suva, Fiji. It was followed by two weeks virtual consultation from 18 October 2021. The review covered prudential guidelines on asset classification and minimum provision requirements, foreign currency exposures, related party transactions, liquidity risk management, and outsourcing. In the same vein, four new prudential standards have been drafted and reviewed by CBSI and awaiting industry consultation and adoption. These include governance, risk management, interest rate risk management, and business continuity management.

As part of its implementation of its existing prudential guidelines and directives, the Central Bank, in 2021 issued a total of 24 non-objection approvals to banks, credit institutions, the Development Bank of Solomon Islands, and insurance companies in compliance with requirements of Prudential Guideline 15. Of the 24 non-objection approvals, 3 were board of directors, 4 were board committee members, 2 were country heads, and 19 were executive officers.

Similarly, during the year the Controller of Insurance Office (COIO) had facilitated and approved 36 exemptions amounting to \$20.1 million. The insurance classes spread across insurance covers that could not be provided by licensed insurers in the country.

In terms of relevant legislations for supervision, the progress on legal reforms had been delayed largely due to redirection of government priorities as a result of the global pandemic. Consequently, the following legislations except the Payments System Bill 2021 were

not ready for the Bills and Legislation Committee to review before enactment by the Parliament during the year.

Figure 4.11	
Name of Legislation	Status
Financial Institution Act 1998(as amended)	No progress after drafting completed in 2020
Credit Union Bill	No progress after drafting completed in 2020
Insurance Act	Consultation on policy for review of Insurance Act had been completed in 2021
National Payments System Act	Bills and Legislation Committee reviewed the Payments System Bill 2021
SINPF Act	Amendment to the Bill remained outstanding

Source: CBSI

Despite the delay, the Central Bank working in partnership with its stakeholders including the IMF, World Bank Group, ADB and other donor governments and agencies is hopeful to complete the necessary reviews and get clearance from the Bills and Legislation Committee in 2022.

In terms of the financial infrastructure, the number of credit institutions increased to three in 2021 from two in 2020 following the granting of a full banking license to Solomon Finance Limited (SFL) to operate as a credit institution in December 2021. In contrast, the number of insurance brokers and insurance corporate agents reduced to 2 in 2021 from 3 in 2020 respectively. The commercial banks, insurance companies and brokers, development bank and active credit institutions remained unchanged in the financial system during the year.

Table 4.12		
Institution	2020	2021
Commercial Banks	4	4
Superannuation	1	1
Credit institutions	2	3
Development Bank	1	1
Insurance Companies	3	3
Insurance Brokers	3	2
Active credit unions	10	10
Corporate insurance agents	3	2

Source: CBSI

Despite the disruptions caused by Covid-19 pandemic, FSRD was able to conduct 8 on-site examinations across the banking sectors, superannuation sector, insurance sector and the credit unions sector in 2021. The risk based on-site examinations carried out in 2021 primarily focused on governance, credit risk, liquidity risk and compliance risk pertaining the instruction to correctly compile monthly and quarterly prudential returns for commercial banks and credit institutions. Besides onsite supervision, FSRD also maintained its offsite surveillance through virtual bilateral meetings which saw a total of 56 meetings conducted in 2021.

Table 4.13	
Institution	On-site Examinations
Commercial Banks	4
Superannuation	1
Credit institutions	1
Insurance Companies	1
Credit unions	1

Source: CBSI

FSRD's commitment in ensuring financial system is safeguarded saw disclosure of necessary information to financial institutions and the general public. From monthly and quarterly prudential returns collected from financial institutions, FSRD hosted four Bankers meeting for heads of banks and credit institutions giving them the opportunity to evaluate their own performance against pressure from the economic downturn during the year whilst maintaining their competitiveness through delivering their products to the general public. In the same manner, FSRD published two financial stability reports for second half of 2020 and first half of 2021 respectively on resilience, vulnerabilities and risks facing banking, superannuation, insurance, and credit union sectors. The department also resorted to offsite surveillance through virtual meetings, emails, and telephones to ensure supervisory mandates were carried out during the coronavirus situation.

With uncertainty of the impact of Covid-19 pandemic and as part of the Bank's relief measures, the Central Bank had given waiver of two provisions under Prudential Guideline No. 2 on Asset Classifications and Minimum Provision Requirements and Prudential Guideline No. 8 on Disclosure of Interest Rates, Fees and Charges. The waiver gives flexibility to commercial banks and credit institutions to restructure terms and conditions of existing borrowers who experience financial hardships as result of Covid-19 measures to contain further transmission of Covid-19 virus in the country.

The pandemic situation has led to various short virtual trainings in 2021. The trainings were largely provided by IMF and other agencies covering topics on financial soundness indicators, digital finance, international financial reporting standards, and English communication. That said, several trainings on new prudential standards and key risk indicators were provided by PFTAC towards the end of 2021. The trainings addressed knowledge and skills gap in the department and enhanced broader understanding and appreciation of the supervision responsibilities of FSRD.

FINANCE & ACCOUNTS

Finance and Accounts Departments continue to deliver its responsibilities in 2021, in ensuring the operation of the Bank is financed and managed to deliver the yearly plans and mandatory objectives. Operationally, 2021 was a challenging year for CBSI as returns

on investments were insufficient to finance CBSI operations. During the year, active gold trading had provided an alternative source of income. Nevertheless, the Bank continued to maintain operations to the end of the financial year with a loss of \$62.7 million, of which \$47.1 million constituted unrealised losses from foreign currency revaluations, and \$15.5 million for realised losses. In terms of balance sheet components, total assets of the Bank was \$6,267 million, total liabilities \$5,958 million and equity \$308 million. Details of this financial status and performance is on page 44 (p44), the audited financial statements of the Bank for 2021.

Budget

The Board approved an annual budget of \$103 million for 2021 in November 2020 with knowledge of the COVID-19 situation, this was reviewed in June 2021 to \$109 million to accommodate the experience and realities of the first half of the year brought about by the COVID-19 situation. While some changes were made, the critical functions of the Bank were maintained.

Reports

The Department continued to dispense financial reports on a regular basis; weekly, monthly and quarterly to assist the Management and Board to make timely critical decisions in managing the Bank during this challenging time.

Audit

Auditing on both internal and external operations continued during the year. External auditors continue to maintain their service through an off-site connect system where communications and information provision was facilitated and tracked. This approach had ensured that this mandatory service is maintained amid COVID-19 uncertainties and challenges.

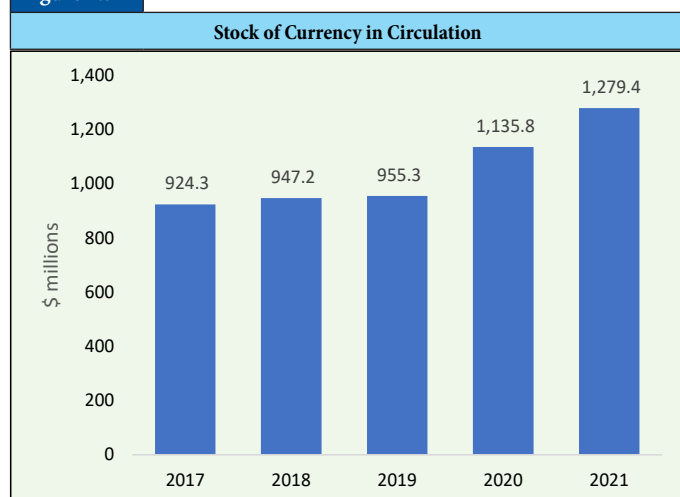
CURRENCY AND BANKING OPERATION

Section 9(f) of the Central Bank Act 2012 provides that one of the functions of the Bank is 'to issue, regulate and manage the currency of Solomon Islands' and in conjunction with Sections 18 to 25 provision in Part 5 of the CBSI Act 2012. Some of specific responsibilities required of this function includes currency stock control and management; issuing of notes to commercial banks for circulation; receiving of currency deposits from commercial banks and Solomon Islands government; sorting and destruction of unfit and soiled banknotes; designing and ordering of new banknotes or coins; advising and educating the public on care for notes and coins, and warning public about counterfeit notes. Outline below are the activities performed by the Department to implement this function.

Currency in Circulation stock

As at the end of 2021, the total value of currency notes and coins in circulation increased by 12.7% to \$1,279.37 million from \$1,135.79 million in the previous year (See Figure 4.5). Currency notes accounted for \$1,243 million of the total circulation and coins made up the remaining balance.

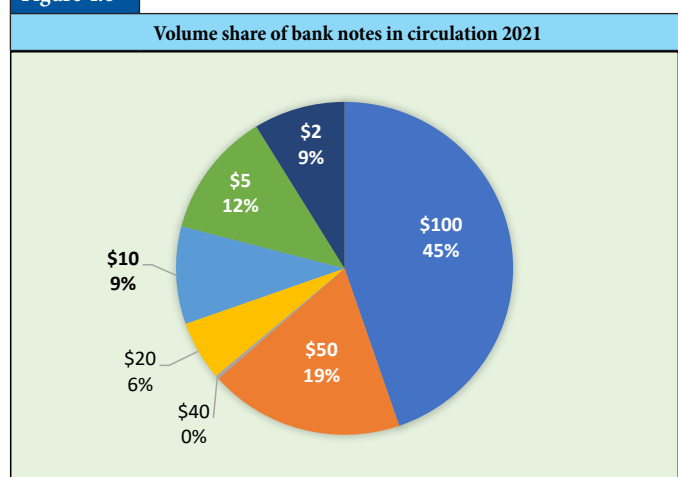
Figure 4.5



Source: CBSI

Figure 4.6 below shows the share of each note in terms of volume (numbers of notes) denomination in circulation at the end of the year.

Figure 4.6

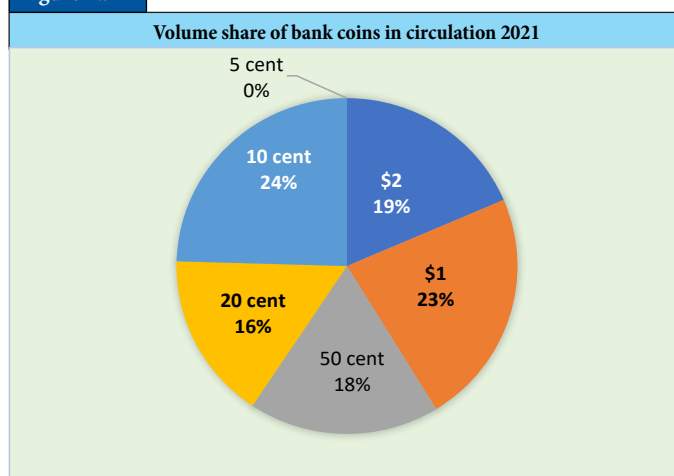


Source: CBSI

The 100 dollars note represented 45 per cent of the notes in the hands of the public, followed by 19% for the \$50s; reflecting commonly used notes for payment and store of value. This trend is also evidenced in other countries. One reason for holding higher value notes could be for precautionary health measures being imposed or simply for store of value for future.

Coins in circulation increased by 7% in 2021 compared to 5% growth in 2020. Of the total coins in circulation by volume, 19% is in \$2, 23% is in \$1, 24% is in 10 cents and 18% is shared by 20cents and 50 cents, respectively.

Figure 4.7

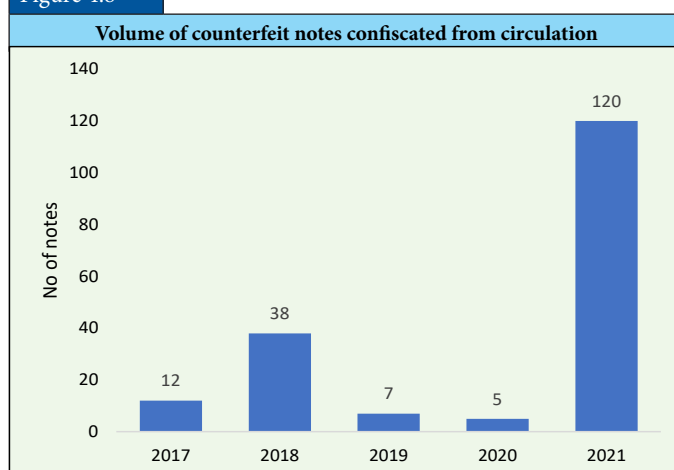


Source: CBSI

Counterfeit Notes, 2021

A total of 120 counterfeit notes were confiscated from circulation in 2021 compared to five registered in 2020. Of the total counterfeit notes impounded, twenty-seven pieces were counterfeits of the new \$100 notes series introduced in 2016, ninety-one pieces of the \$50 notes series introduced in 2013 and two pieces of the \$20 notes. The higher denominations as opposed to the lower denominations are the most targeted notes by counterfeiters as evident in confiscated records during the year. Figure 4.8 revealed an upward trend in counterfeit notes in our communities in 2021. The Bank continues to use radio and print media in 2021 to conduct awareness programs to various communities under the 2020/2021 Currency Survey throughout the country. The public were encouraged to develop and practice the basic habit of knowing, checking and feeling genuine currency notes before accepting them in exchange for goods or services.

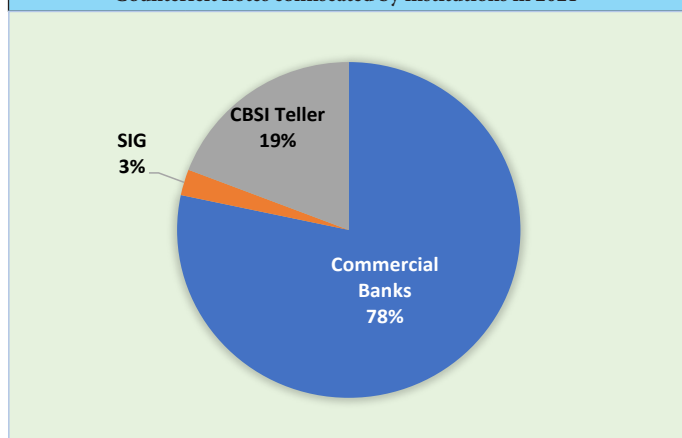
Figure 4.8



Source: CBSI

Figure 4.9

Counterfeit notes confiscated by institutions in 2021



Source: CBSI

Figure 4.9 illustrates the percentage of fake notes confiscated by institutions and individual in 2021. Hence, of the total 120 pieces of fake notes, 78% were confiscated by Commercial Banks, 19% by the CBSI teller and the remaining 3% by SIG Cashiers. More than 92% of the fake notes were confiscated in the months of October, November and December of 2021.

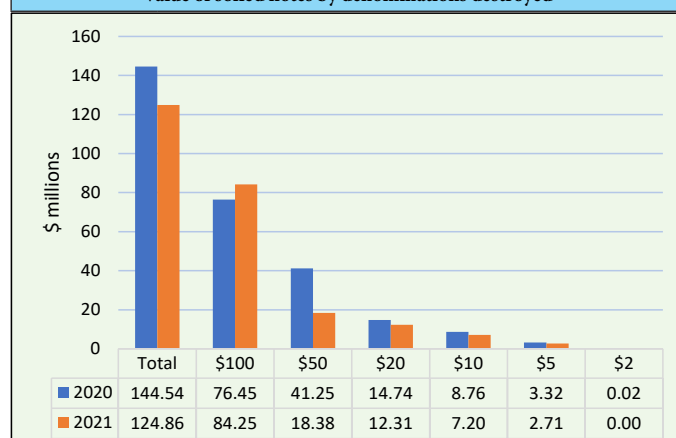
Cash Notes Processing

In 2021, \$124.8 million value of soiled notes was processed and destroyed compared to \$144.5 million in 2020, representing a 14% decrease in the values of notes destroyed. The high rate of notes being returned from circulation is a subject of concern for CBSI, as pressure on replacement costs continues to rise whilst the demand for FIT and clean note and ATM notes also increased. It generally shows poor handling of currency notes despite widespread public awareness of how to care for the currency notes. With the implementation of the Bank's approved Quality Banknote Policy in 2022, an improvement in the bank quality notes circulated into the banking systems and the public is envisaged. However, effective results will take some time to eventuate.

Cash Processing Solution Engineer, Australia and Kusters Engineer, Netherland had continued to provide general maintenance and servicing support of our Cobra sorting and destruction or Shredder machine. The Bank had seen this as an important investment that helps to improve efficiency and build local capacity in the Bank's back-office cash operations. Figure 4.10 show the value of actual notes destroyed by denomination in 2020-2021.

Figure 4.10

Value of soiled notes by denominations destroyed



Source: CBSI

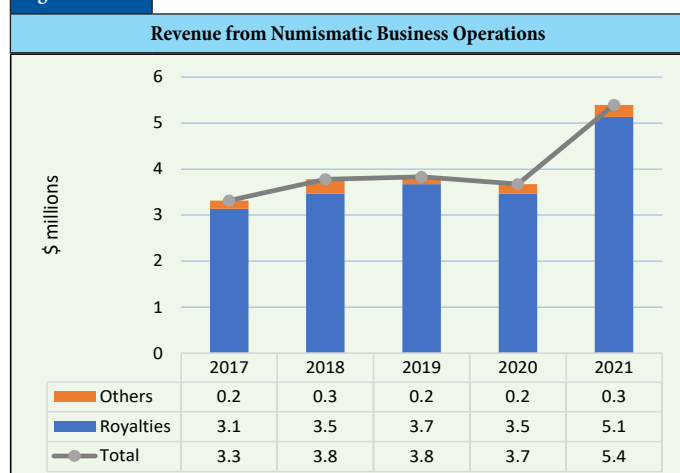
Numismatic Business Operations 2021

Numismatic operations recorded another successful year for 2021 with improvement to its income generating royalties earned from signed numismatic contracts. The overall revenue on numismatic operations during the year had increased to \$5.4 million in 2021 from \$3.7 million in 2020. The recorded surge was expected as a result of an increased participation of signed numismatic contracts both from MDM/WCA and Royal Mint Australia (RAM). Of the total revenue, 99.8% (\$5.13m) was from royalty receipts whilst 0.20% (\$260k) was raised from the sale of commemorative coins and numismatic bank notes & coins both locally and internationally. The overall revenue raised for 2021 had also exceeded the budget estimate figure of \$4.5 million. Moreover, genuine numismatic programs that added value to the banks functions in this area were being considered and signed during the year.

The Bank through active participation within the Numismatic business operations had continued to ensure that only high demanding commemorative and attractive royalty returns is renewed in conjunction with concurrent popular coin program running contracts initiated by the Bank. The Bank continued to respond and participate in several new commemorative coin programs, with expectation for better and improved revenue in 2021 and 2022. It was also noted that CBSI had increased its participation in the coin's programs in 2021 to around 136 programs from 120 programs in 2020. These coin programs were produced in the international numismatic market with its integrity seen to remain as the overall determinant for its approval by the Bank's participation in the coins' programs.

Moreover, CBSI is expected to participate in several new commemorative coin programs, with the vision for better and improved revenue in 2022 and beyond, assuming global situations are manageable with the new normal.

Figure 4.11



Source: CBSI

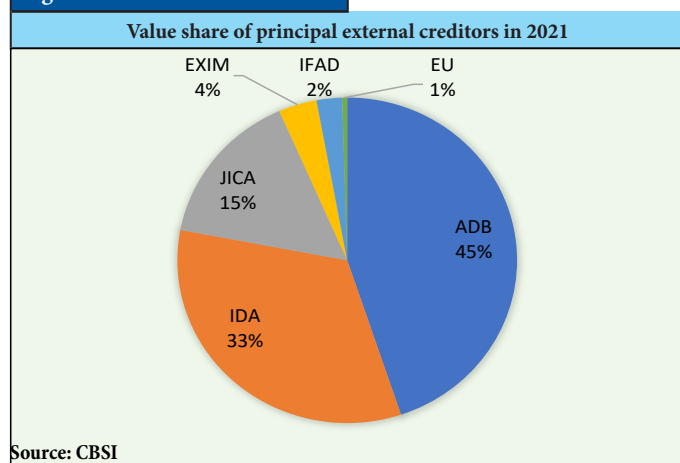
Government Debt Statistical Database.

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 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 Central Bank's website after each weekly auction. CDU also maintains the external private debt database. This database records and monitors the external loans contracted by private companies from offshore sources. CDU continues to collaborate with the DMU on administrative and technical issues including capacity development issues.

The external public debt profile is made up of thirty-six (36) active loans, eight of which are still disbursing. The principal creditors include the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU), International Fund for Agriculture Development (IFAD), Export Import Bank of Republic of China (EXIM) and Japan International Cooperation Agency (JICA). Figure 4.12 shows the proportional shares of the amounts owed to the principal creditors as at end of 2021.

Figure 4.12



Source: CBSI

Total public disbursed outstanding debt (DOD) of the Solomon Islands as at 31st December 2021 totalled to \$1,137.884 million and is projected to further increase to \$1,245.51 million at the end of 2022. Compared to 2020, the DOD increased by \$138.99 million from \$998.89 million. The increase in the total stock was due to exchange rate movement and disbursements of external loans during the year. Total external debt repayments in 2021 was \$52.5 million of which \$42.05 million was for principal repayments and \$10.45 million for interest payments.

In terms of currency composition of the total official debts, the special drawing rights (SDR) accounted for 67.9 percent of the total DOD or \$772.5 million followed by the United States Dollars with 16.2 percent or \$183.9 million, Japanese Yen with 15.5 percent or \$176.1 million and the EURO with 0.5 percent or \$5.4 million.

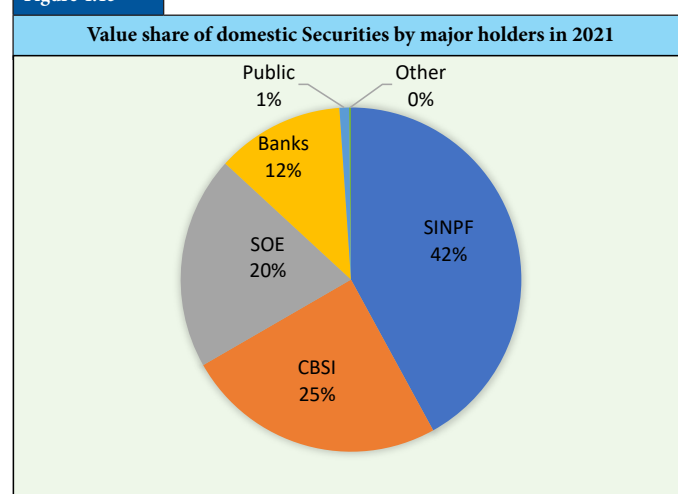
Government's Domestic Securities borrowings increase during the year as the Government remained committed to service its debts

Solomon Islands Government's (SIG) domestic debt outstanding at end of year 2021 was \$747.8 million, an increase of \$296.2 million from \$451.6 million in December 2020. The domestic debt outstanding balance comprised \$92.8 million in treasury bills, \$650.0 million in SIG Bonds and \$4.9 million in other SIG special securities. The increase in domestic debt is due to issuance of new SIG bonds during the year. Total domestic debt repaid during the year amounted to \$21.1 million, comprising the interest payments only.

The major holders of domestic securities were the Solomon Islands National Provident Fund (SINPF) with 42.0%, CBSI with 24.7%, State Owned Enterprises (SOE) with 20.1%, commercial banks with 12.1%, general public with 0.9% and other creditors with 0.2%.

Most of the borrowings were in the form of treasury bills and development bonds (refer to Figure 4.13).

Figure 4.13



Source: CBSI

Banking Support Services

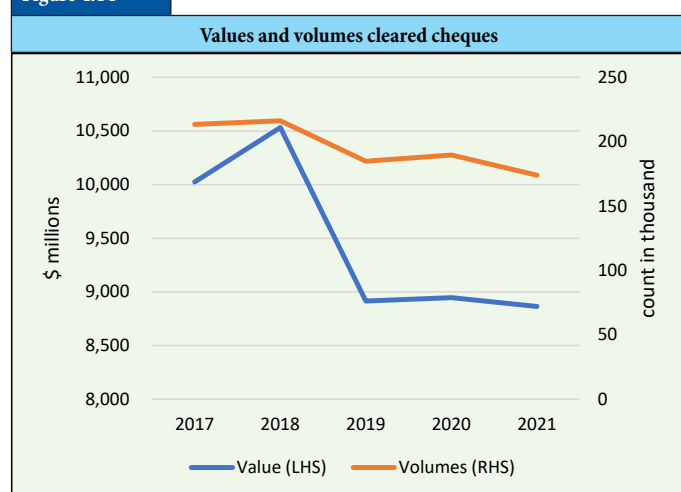
Despite the challenges caused by the pandemic, the CBSI continued to deliver banking services to licensed financial institutions, the Solomon Islands Government

(SIG) and other non-banking financial institutions as mandated in the CBSI Act 2012. Such banking support services include, but are not limited to, administering the local and foreign currency denominated accounts established with the Bank by SIG and its donor partners, facilitating domestic transfer payments, providing general account enquiry services daily, monitoring of free liquidity of the commercial banks and the safe up-keeping of e-registers and records for audit requirements.

Clearing House Activities

The CBSI facilitates clearing of cheques drawn on the four licensed commercial banks operating in Honiara. In 2021, a monthly average of 14,492 cheques with a total average value of \$738 million passed through the Clearing House. The total volume of cheques cleared in 2021 was slightly reduced by 6% compared to 15,345 cleared cheques in 2020. The total value of cheques cleared also showed a decrease by \$30 million in 2021 compared to \$768 million in 2020. The reduction in the use of cheques by banks may be ascribed to the introduction and increased usage of other financial payment platforms and the impact of the COVID-19 pandemic on the financial business operations. Of the total volumes of cheques exchanged and cleared at the clearing house, BSP represents 32%, ANZ at 26%, CBSI at 25% followed by POB and BBS at 11% and 5%, respectively.

Figure 4.14



Source: CBSI

Small Business Finance Guarantee Scheme.

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

In 2021, 23 loans were received from participating institutions and approved for guarantee under the scheme compared to 12 approvals in 2020. This brings the cumulative approved loans from 2016 to 2021 to 51.

- Following the higher number of nominations approved during the year, the total gross value of loan guaranteed increased by 41% from \$3.347

million in 2020 to \$4.742 million at end of 2021.

- Risk to the scheme for 2021 is \$3.082 million as compared to \$2.113 million for 2020 and \$1.177 million for 2019. This is an increase of 45% as compared to 79% from 2019 to 2020.
- As at the end of 2021, YTD commitment to the scheme is \$6.372 as compared to \$3.290 million in 2020.

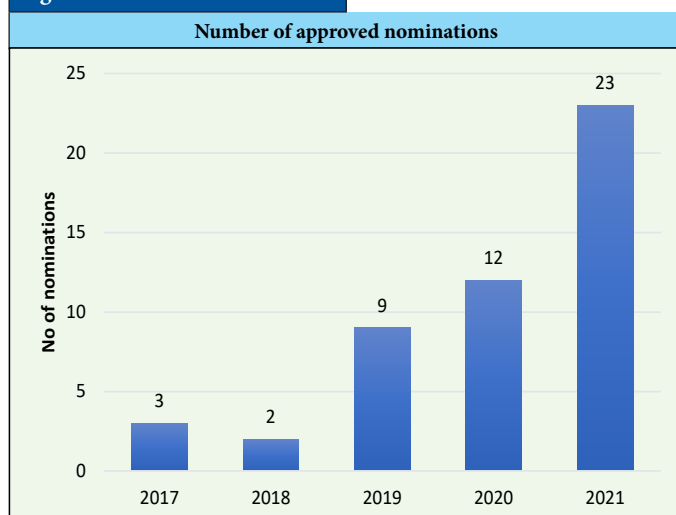
Table 4.14 Summary of the SBFGS Performance from 2016 to end of 2021

Year	Gross loan Amount (\$m)	Risk to Borrower	Unsecured Amount (\$m)	Risk to scheme (\$m)	Risk to PFIs (\$m)	Approved Nominations	Rejected Nominations	Total sub-mitted Nominations
2016	0.718	0.245	0.473	0.426	0.047	2	0	2
2017	0.957	0.317	0.640	0.576	0.064	3	1	4
2018	0.720	0.330	0.390	0.351	0.039	2	0	2
2019	1.702	0.395	1.308	1.177	0.131	9	1	10
2020	3.347	0.999	2.347	2.113	0.235	12	0	12
2021	4.742	0.1320	3.421	3.082	0.339	23	1	24
YTD Balance 2021	12.186	3.606	8.579	7.725	0.855	51	3	54
Less: Cancelled Guarantees (paid in full)	0.500	0.200	0.300	0.270	0.030	1	0	1
Less: cancelled Guarantees (Claims paid to banks)	1.235	0.402	0.833	0.750	0.083	4	0	4
Less: Cancelled Guarantees (term expires)	0.660	0.290	0.370	0.333	0.037	2	0	2
YTD Commitment to the scheme (End of 31/12/2021)	9.791	2.714	7.076	6.372	0.705	44	3	47

Source: CBSI

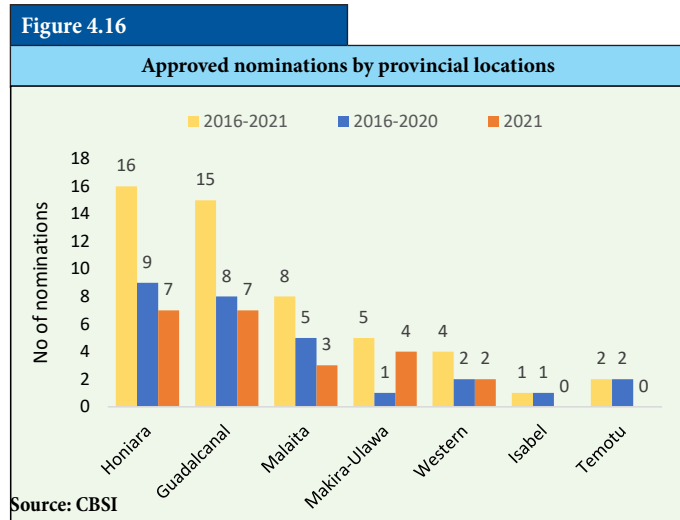
Annual Approved Nominations

Figure 4.15



Source: CBSI

Nominations by Provincial Location



As at year end of 2021, a total of eight nominations from Malaita Province, sixteen from Honiara, four from Western Province, two from Temotu Province, one from Isabel Province, five from Makira/Ulawa Province and fifteen from Guadalcanal Province were received. Guadalcanal and Honiara are dominant as they have more access to financing accessibilities and support providers.

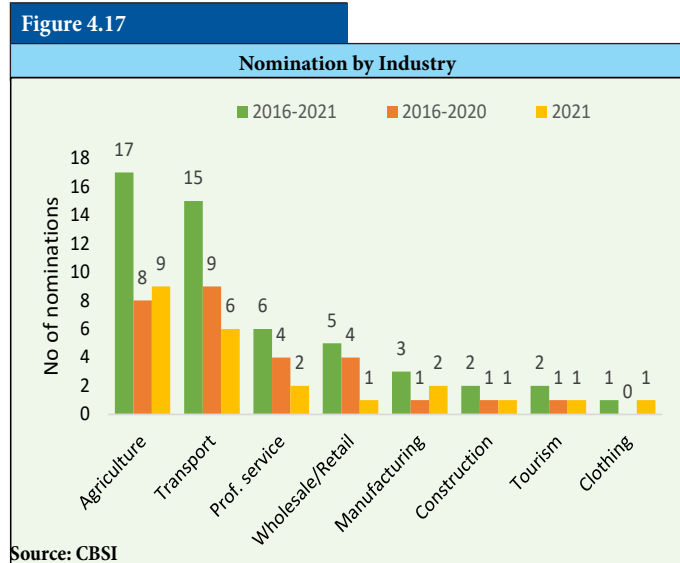


Figure 4.17 shows the distribution of approved YTD nominations according to industries at end of 2020 and 2021. The most nominated industry is Agriculture followed by transportation SMEs. Nine of the approved nineteen applications from DBSI are from the agriculture sector mostly from GPPOL oil palm growers.

Nominations by Gender Ownership

All SMEs owned and managed by women who are Solomon Island citizens are eligible for guarantee under the scheme, with 95% guarantee of their unsecured loan amount as compared to 90% eligibility for male ownership.

At end of 2021, female owned approval is recorded at thirteen (13), of which four (4) were new approvals. Nine of the thirteen are female managed while four (4) are managed with their spouses. Three (3) female sole owned SMEs have claimed guarantee as their loans go into default. Financial management and diverting business interest to other areas are noted to be the main reasons for SME business default that can be better improved and managed going forward.

INFORMATION TECHNOLOGY

The Information and Communications Technology Department (ICTD) continued to support the Bank's corporate objectives through carrying out its functions in managing, securing and delivering of the Bank's ICT services.

The projects that were either completed or progressed in 2021 across the activities of the Bank include:

Continuous Enhancement of the ICT Infrastructure

The following ongoing enhancements project activities provide a better and resilient platform for effective delivery of Bank's IT services:

- The completed installation of a redundant link between the production site and the disaster recovery site through fibre.
- The acquisition and installation of new Uninterruptible Power Supply (UPS) for the National Payment System servers.
- The acquisition and installation of Cambium external access point devices to improve internet access at the Bank's recreational site at Aruligo.
- The maintenance and upgrade support provided for the Bank's servers, computers, printers, network cabling, and UPS that helped prevent major operational disruption.
- Maintained the network services on the Bank's rented office and the Bank's DR Office.
- The acquisition, installation and deployment of new Bank computers, printers and other network devices that replaced the outdated ones and helped staff improve their work.

Systems Enhancement and Development

The Bank engaged on supporting development of new systems, upgrading and maintaining of existing systems. These included:

- Provided support on the migration project activities from the Bank's existing Commonwealth Secretariat Debt Management and Recording System (CS DRMS) to a new system, the Meridian System. Work on this project will continue into 2022.
- Provided support on the ongoing development of the National Payment System, which will continue in 2022.

- Provided support on the enhancement of the Bank's general Ledger chart structure project activities, which the Bank progressively used the revised general ledger as of 2022. The outstanding project components will continue into 2022.
- Upgraded the Bank's Contingency SWIFT Systems, which enabled the Bank to comply with the SWIFT security standards and strengthen the Bank's international payment system. Upgrades on the SWIFT production System will continue in 2022.
- Provided ongoing maintenance support on the Bank's existing software applications.

ICT Security and Disaster recovery

The Bank had progressively worked across 2021 on projects to enhance the ICT security posture of the Bank. These projects were necessary to ensure integrity, confidentiality and availability of the Bank ICT systems and its data from both internal and external cyber security threats. In terms of the latter threat, these included work on the Unified Security Monitoring project and Email protection project which will continue into 2022.

Essential cyber security control measures were maintained or enhanced across 2021 including the use of upgraded security software such as anti-virus and anti-malware and the strengthening of the rules on the firewall. The regular updates of Bank's software and devices also supported the Banks security control measures. Cyber security awareness was provided for staff who also have responsibility to help keep the Bank's IT infrastructure secure.

Data and systems backup operation were improved with the acquisition and installation of new backup server and backup tapes. This improvement helped to maintain the Bank's Disaster Recovery Response plan through continued replications of production systems and data to Disaster Recovery Servers. Disaster Recovery testing will continue in 2022 to help the Bank on its preparedness and responses to disaster risk management in the future.

Enhancing ICT Helpdesk Support Services (to be reviewed)

The Bank had continued to promote improved access to its ICT services. These included:

- The increase of the Bank's internet bandwidth to enhance access on internet services.
- The management and maintenance of g remote access to business data and systems, which enable staff work from home.
- The delivery of network support services 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 inhouse training for staff either individually or groups with the Bank's available software applications and tools such as training on VPN connectivity, WebEx team application and soft phone application.

Enhancing ICT policies

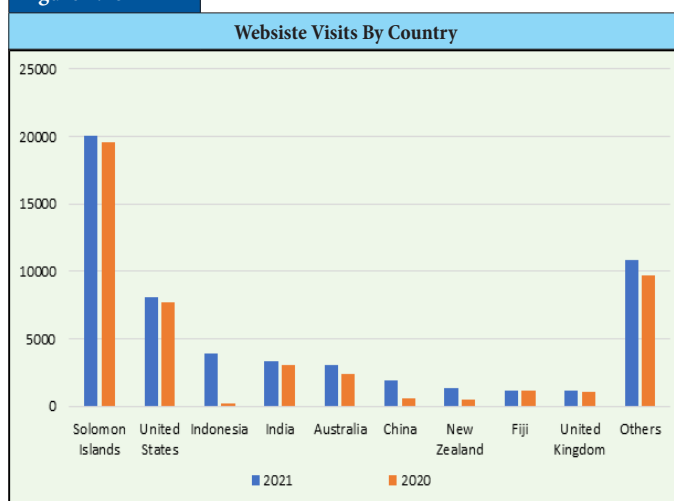
To assist in guiding and controlling the IT operations effectively, the Bank progressively worked on the referenced procedures and standards of the existing ICT policies. These included:

- The drafting of the Cyber Security Procedure for further review.
- The drafting of Cyber Security Standards
- The drafting of the IT hardware and Software Standards
- The drafting of the Bank's Cyber Security Risk Management Framework.

Website Visits

In 2021, the total number of visits to the CBSI website was 54,894, an increase of 19.6% from 45,916 visits in 2020. The visits were from 198 countries. In terms of visits to CBSI website by country, Solomon Islands' visitors constituted 37%, United States 15%, Indonesia 7%, India 6%, Australia 6%, China 3%, New Zealand 3%, Fiji 2%, and United Kingdom 2%. The website contains updated information for public to access and gather useful information about the Solomon Islands economy.

Figure 4.18



Source: CBSI

INTERNAL AUDIT

The Internal Audit function within the Central Bank of Solomon Islands is a dynamic profession committed to helping the Bank achieve its operational and mandatory objectives, through its involvement in appraising and enhancing the effectiveness of risk management, internal controls and governance processes.

The function closely works with the Management across all areas of the Bank to systematically review

systems and operations, aimed at identifying how well risks are managed including whether the right processes are in place, and whether agreed procedures are being adhered to. Processes and systems that would impact risks to the Bank, could be included in internal audit's scope.

Internal audit reports are presented to the responsible department's senior management, as well as to the Executives and the Board through the Board Audit Committee (BAC). The BAC provides an independent viewpoint on the extent to which the Bank is controlled and managed for success, and where necessary, advices on areas for improvement.

Professional and ethical conducts (including duties and responsibilities) of internal auditors had been closely guided by the CBSI Internal Audit Charter and the relevant International Professional Practices Frameworks and Standards.

Manager Internal Audit assumes the role of the Board Audit Committee's Secretary. The BAC, is to meet at least four times in an operational year. The CBSI Board had been continually informed of the IA operations and the activities of the BAC, through the Chairman of the BAC, whom is a non-

executive and a member of the current CBSI Board. The positive tone from the top on risk management, is the most critical enabling factor in the good execution of the third line of defence role, by the IA function. The IA Officers within the Internal Audit Unit (IAU) will continue to adhere to the applicable IIA Code of Ethics. These are:

- Integrity – establish trust that provides the basis for reliance on their judgment.
- Objectivity – exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Ensure that it is a balanced assessment of all the relevant circumstances and, are not unduly influenced by their own interests or by others in forming judgments.
- Confidentiality – to respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency – to apply the knowledge, skills, and experience needed in the performance of internal audit services.

CHAPTER 5: FINANCIAL INCLUSION

The Bank and its stakeholders launched the third National Financial Inclusion Strategy for Solomon Islands (NFIS3) in 2021.



CBSI Governor, Dr. Luke Forau presenting the official NFIS 3 document to the Honourable Prime Minister, Manasseh Sogavare, during the launching. The occasion was graced by the presence of the Honourable Prime Minister Manasseh Sogavare who officially launched the NFIS 3 and announced the IDES for Solomon on Friday 23rd April at the Heritage Park Hotel.

The NFIS3 provides an overall roadmap of national efforts with a goal to advance financial inclusion in Solomon Islands. The NFIS3 stipulates the vision and key strategic objectives of financial inclusion policies to help expand the goals of financial inclusion in Solomon Islands through a broad convergence of actions involving all the stakeholders in both public and private sectors. The strategy aims to provide access to a range of quality and affordable financial services and products and, increase competency in usage of these financial services, broadening and deepening financial inclusion and promoting financial literacy and consumer protection.

The NFIS3 mission stipulates two national goals to achieve by 2025:

1. Increase active users of financial accounts to 400,000 (of which 50% are women); and
2. Increase access points to 1155.

Within the overall vision and mission of the strategy, there are six strategic objectives to support the implementation of varied activities and targets;

1. Amplify the reach and quality of digital financial services, products and channels;
2. Improve and promote MSMEs;
3. Include women, youth and rural adults as fully engaged participants in the national financial sector;

4. Build financial resilience in households and communities;
5. Build financial empowerment in ways that are motivating, actionable and relevant to daily life; and
6. Develop and Implement Data & Measurement framework.

Complementing the NFIS3 is the development of the National Women's Financial Inclusion Policy 2022-2026 (NWFIP), outlining targeted financial activities and actions that should help increase women participation in the financial sector. Four key priority areas to drive women's financial inclusion in Solomon Islands are (i) increased access to and sustainable use of financial services, (ii) Financial Literacy and Consumer Protection, (iii) Savings Groups and (iv) Disaggregated gender data, which is crucial for evidence-based policy decisions.

NWFIP overall goals to achieve by 2026;

- Increase women active users of financial accounts to 200,000 (50% of total active users); and
- Reduce gender gap in formal financial inclusion by 50 percent.

These Strategies are in recognition of the Government's National Development Strategy and the United Nations Sustainable Development Goals (SDGs) emphasising financial inclusion through access and usage of quality financial services.

Active Users of Financial Accounts

As at end-December 2021, active users of financial accounts were 277,621 of which 148,992 are women. This includes, users of formal financial institutions, Superannuation Fund (formal and informal sector), Credit Unions, Savings Groups members and micro-finance institutions. Of the total active users, 86% represented formal active users of financial accounts.

Access Points

Access points refer to the regulated physical locations where cash-in (including deposits) and cash-out transactions can be performed physically or digitally. This include but not limited to traditional bank branches, branchless banking agents, EFTPOS merchants & terminals, ATM & Agencies.

Based on the overall national goals, by end of 2021, total access points from few reporting institutions stood at 752. All access points recorded are mainly from the commercial banks. NFIU will diversify its reports to include other access points upon finalization of the NFIS3 data template. This is to capture a robust number of access points given the presence of more financial service providers in the market.

Table 5.1

COMMERCIAL BANKS ACCESS POINTS															
Indicators	2017	2018	2019	2020	2021	Choiseul	Western	Isabel	Malaita	Guadal-canal	Central	Makira	Renbel	Temotu	Honiara
No. of Branches	14	15	15	14	14	0	3	0	1	0	0	0	0	0	0
No. ATMs	53	56	57	58	56	0	7	0	2	1	0	0	0	0	46
No. of EFTPOS Terminals	416	440	404	325	361	6	42	3	7	12	4	5	0	4	278
No. EFTPOS Merchants	280	306	289	253	264	0	30	0	5	11	0	1	0	0	217
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	234	210	164	50	50	7	11	2	9	1	3	5	0	4	9
Total Access Points	1,004	1,034	936	707	752	14	94	6	26	24	7	12	0	9	560

In terms of access points distribution by province, majority of access points are centralized in Honiara, while the remainder are spread across the other provinces. All provinces except Renbel have 6 or more access points. Meanwhile, the social unrests during the year had resulted in the loss of a bank branch, and at least 4 ATMs along with numerous EFTPOS merchants and terminals. This is a huge setback for financial institutions as they strive to improve financial services by deploying more DFS channels. It is therefore important to respect critical financial infrastructures provided by financial institutions as they enable easy access to finance.

The six strategic objectives under the NFIS3, 2021-2025 Following the launch of NFIS3, four working groups were established to provide support to the National Financial Inclusion Taskforce (NFIT) to implement the six objectives under NFIS3. The working groups are, Digital Finance Working Group (DFWG), Micro Small Medium Enterprises Working Group (MSMEWG), Consumer Empowerment Working Group (CEWG) and Data & Measurement Working Group (DMWG).

Strategic Objective 1: Amplify the reach and quality of digital financial services, products & channels

A key aspect of NFIS3 which also underlies other strategic objectives is the role of Digital Finance Services (DFS) to extend financial services to the last mile and also improve quality of financial services channels. This is done so in the context that digital technologies have greater potential to bank the unbanked and enable access to finance for our greater population including the underserved and those in the rural and remote areas. It also underscores the importance of integrating into the digital economy, which is symbiotic to using digital financials services as a medium to plug-in various economic sectors and population segments. Accordingly, strategic objective 1 prescribes the enactment of relevant legislations, regulations and development of policy frameworks to create an enabling regulatory environment for DFS initiatives to thrive. Further, it also recommends promotion of DFS initiatives in government and private sector transaction by relevant stakeholders.

Following the NFIS3 launch, the DFWG was established by the NFIT in August 2021 to coordinate the implementation of DFS enablers and related aspects, as prescribed by NFIS3. The Working Group which is Chaired by the Ministry of Finance and Treasury (MOFT-Treasury), is composed of stakeholders from the Government, financial institutions and private sector. The DFWG held a meeting in the second half of the year with focus on enabling policies and regulations for DFS initiatives particularly, developing the Regulatory Sandbox Framework, enactment of National Payment Systems Bill and the e-money regulation, which has been submitted to Economic Reform Unit – MOFT.

Among others, the NPS Bill is significant for proliferation of instant payment and inclusive financial services as it would provide appropriate legal framework and robust infrastructure for the operation of a national payment system, while also laying digital rails for existing and emerging DFS initiatives to seamlessly plug into. Moreover, the Regulatory Sandbox Framework and e-money regulations shall provide a regulatory framework required to necessitate market entry of responsible innovative solutions from e-money service providers and other DFS/Fintech providers to offer financial services, with an overarching goal to advance financial inclusion in the country. Furthermore, a framework that will enable effective regulation and supervision of third-party providers and FinTech.

Regarding awareness on DFS, the financial sector especially commercial banks had conducted awareness for their customers on the importance of using digital (contactless payments) channels which include mobile banking, online banking, ATMs and EFTPOS. Other digital payment providers - Solomon Post and SINPF youSave have also conducted awareness of their respective digital payment channels that includes EziPei and youSave loMobile. The IRD continues to conduct awareness via online and print media including training for their clients through onsite visits.

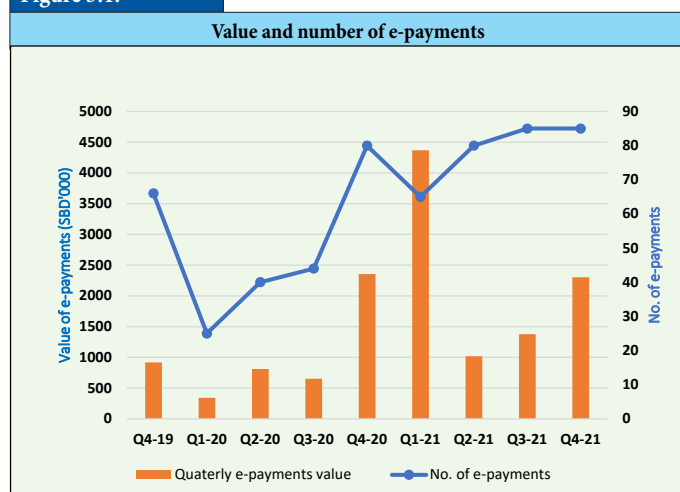
In terms of DFS related initiatives by NFIT-DFWG, ongoing initiatives include the IRD E-tax, youSave loMobile Service, and the Bulk Shop's Digital Marketplace.

IRD E-tax

The electronic tax system (e-tax) of IRD provides an online portal for customers to file their taxes through while tax payments can be made electronically using internet banking.

From Q42019 up to Q42021, aggregated registered e-tax clients reached 594 while 3066 taxes were filed online. Regarding electronic transactions, taxes filed online have amassed \$14.1 million from 570 e-payments transactions. This indicated that traction for online tax filing coupled with number of e-payments are increasing as more businesses become comfortable with filing taxes online.

Figure 5.1:

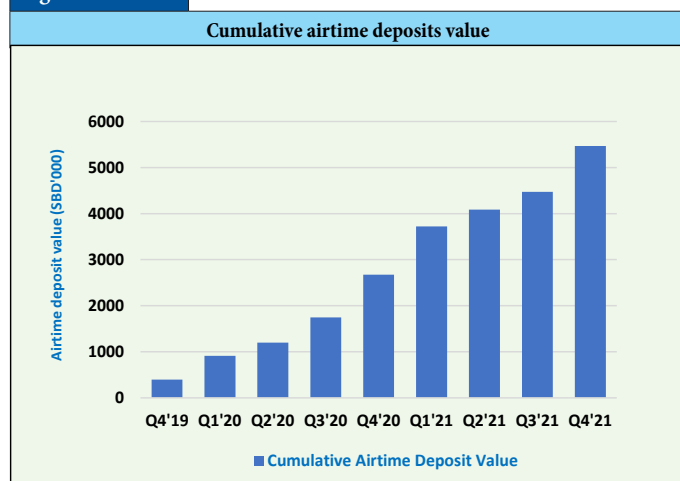


Source: CBSI

The youSave loMobile

The youSave loMobile service was launched in 2019 to provide easy access for youSave members who are particularly residing in the rural and remote areas to make savings deposits using mobile top-ups (airtime credit) and check balance freely from their phones. The service is available for both Solomon Telekom and Bmobile youSave loMobile subscribers. As of Q42021, number of youSave members using the youSave loMobile service totalled 13,913 of which 54% were women, reflecting 45% of youSave's overall membership.

Figure 5.2:



Source: CBSI

In terms of deposits via the youSave loMobile channel, total airtime value remitted by members accumulated to \$5.4 million.

Due to the importance of the SINPF youSave loMobile service to enable ease of access for youSave members who are mostly women from the informal sector, SINPF has won the "Innovation and Technology Award" for their demonstrated commitment to improve and scale up the youSave scheme's service delivery through adoption of the Mobile phone technology-based Solution.

Bulk Shop Digital Market-Place (DMP)

Bulk Shop Solomons is a successful recipient of the overarching Digital Marketplace (DMP) initiative launched in 2020 by the United Nations Capital Development Fund, with funding support from the Australian Government. The objective of DMP is to aid existing businesses by converting part of their store into a digital marketplace where customers can navigate through and place their orders online. This support is provided in anticipation of the COVID-19 transmission whereby enhancing business capability to safely operate and deliver essential supplies to customers is critical.



The Bulk Shop team during the launching of digital marketplace platform.

The service features an online order service in which successful orders can be picked-up or delivered. Due to lack of a payment gateway, payments for goods ordered online can only be made with cash or using EFTPOS.

Strategic Objective 2: Improve and promote MSME finance

Following the NFIS3 launch, the MSMEWG was formed and held a meeting in 2H2022. The key areas which MSME members considered include the status of MSME Bill drafting with Attorney General Chambers (AGC) and initiatives that would support MSMEs in terms of finance and capacity building during the COVID-19 pandemic.

During the year, a number of initiatives to support MSMEs in terms of accessing finance have been introduced by MSMEWG stakeholders from the Government line ministries. This include the Tourism

Support Facility by Ministry of Culture and Tourism (MCT) to assist existing tourism operators access finance; the Agriculture Support Scheme by Ministry of Agriculture and Livestock (MAL) to assist farmers throughout the country access credit facilities; the MSME Credit Line facility by Ministry of Commerce, Immigration, Labour and Industry (MCILI) to support MSMEs access sectoral credit funding support for sectors such as agricultural production and related industries, fisheries sector, tourism and agro-forestry; and the SME Export facility by the Central Bank of Solomon Islands. MSMEs can access these schemes from the Development Bank of Solomon Islands (DBSI).

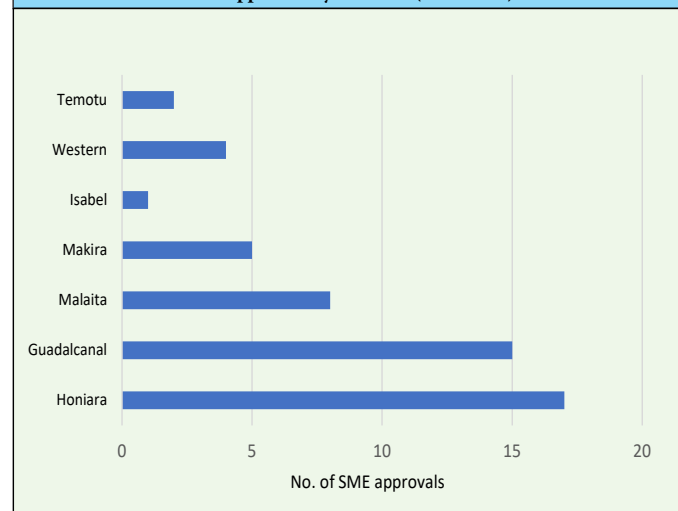
For the MSME Credit Line facility, 18 MSMEs have been approved to access a \$4.5 million worth of finance from various credit line products under the facility. Of the total approved MSME loans, 10 loans have already been disbursed totalling \$2.5 million, which includes four women-owned MSMEs accounting for \$516k of the total loan disbursement.

Meanwhile, an ongoing initiative to support MSMEs is the SME Small Business Finance Guarantee Scheme (SBFGS) provided by the Solomon Islands Government through MCILI and administered by CBSI. Current partners of the scheme include Development Bank of Solomon Islands (DBSI), ANZ Bank, Bank South Pacific (BSP), Pan Oceanic bank (POB), and Credit Corporation Solomon Islands Limited (CCSIL).

Temotu and Isabel have one or more SME nominations approved.

Figure 5.4:

Cumulative No. of SMEs approvals by Province (2016-2021)



Source: CBSI

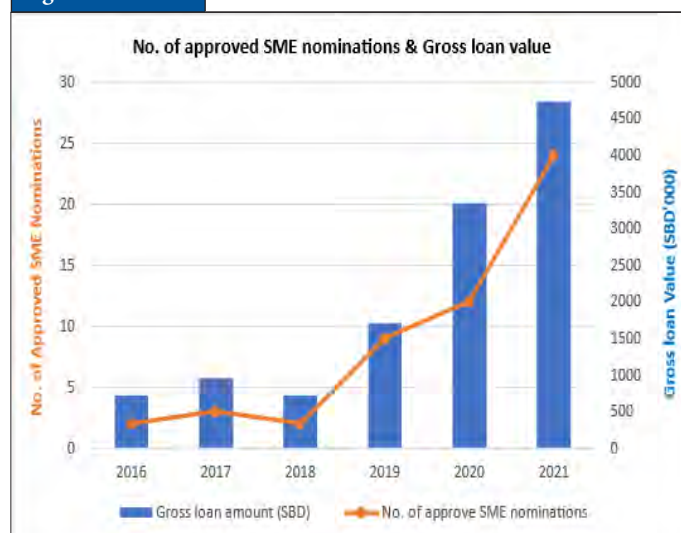
In terms of MSME trainings, a number of training providers have continued to provide skills development trainings to equip MSMEs with the right knowledge and skills to help them access finance and build capacity towards growing their business. The providers are the Small Business Enterprise Centre (SBEC), Solomon Islands Chamber of Commerce and Industry (SICCI), and the Young Entrepreneurs Council of Solomon Islands (YECI), and other NFIT stakeholders. Meanwhile, SICCI has conducted 3 trainings for its members which also include SMEs. A total of 148 participants (of which 69 are females) attended these various topics include: Social Media Masterclass, SIG Procurement Workshop, and Boost with Facebook. In addition, YECI also conducted 4 trainings for its youth entrepreneurs' members. Topics include basic records keeping (Bookkeeping) and preparation of financial reports, small business financial management, cash flow management & budgeting, and business internal control. A total of 71 members attended the 4 trainings of which 45% were women.

Regarding microfinance institutions, South Pacific Business Development (SPBD) continues to serve women in the rural areas by enabling women to save and obtain microloans. As at Dec 2021, the number of savings accounts reached 4,686 with savings value of \$1.95 million. Meanwhile, total value of loans disbursed is \$14.2 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) is a working group representing stakeholder organizations from the financial institutions, Government ministries, Development Partners, NGOs, and Savings Group practitioners. This working group was established and held its first meeting in September

Figure 5.3:



Source: CBSI

As at Dec 2021, the total loan uptake has increased to 24 SME approved nominations in 2021 with a total gross loan value of \$4.71 million. A total of four women have accessed the facility during the year, two of which are women-owned SMEs and another two are women co-owned SMEs with their spouses. The participation of DBSI has driven the increased uptake of the scheme which accounted for 79% of the total approved nominations. In terms of SME access by provinces including Honiara, the majority of SME approved nominations were mainly from Honiara followed by Guadalcanal and Malaita while Makira, Western,

2021 with the Ministry of Women Youth Children and Family Affairs (MWYCFA) representative was appointed as Chairperson. The key focus areas involve digital financial services, financial literacy and consumer protection. The CEWG main activities for the year are promoting access to and usage of innovative and transformational financial services through digital and physical channels and financial literacy and consumer awareness targeting schools, Savings Groups, communities and key events within the country. Despite numerous challenges, the NFIT through its respective stakeholders had offered financial literacy and awareness through face to face, media (radio) and social media (facebook) including print media.

The Secretariat with the support of Good Return Australia has initiated its financial literacy activities through the dissemination of the CBSI-led Financial Competency/Coaching Program, “Mekem Selen Waka for Gudfala Future” that was conducted in 2021, covering Honiara and Guadalcanal Provinces. The program involves a one-week Training of Trainers (TOT) followed by a seven (7) weeks face to face implementation by the trainers with their respective savings groups, women groups, church groups particularly within the informal sector. The total participants completing the program were 140 of which 125 were females and 15 Males.

a total of 60 participants (38 Females & 22 Males). As part of the annual Global Money Week (GMW) 2021, CBSI in partnership with Honiara City Council Women’s Division marked the “Children’s International Day” by conducting the “Pikinini Financial Literacy” to six primary schools in Honiara reaching 624 children and teachers.



Some of financial literacy interactions with students.



One of the TOT sessions conducted for trainers.

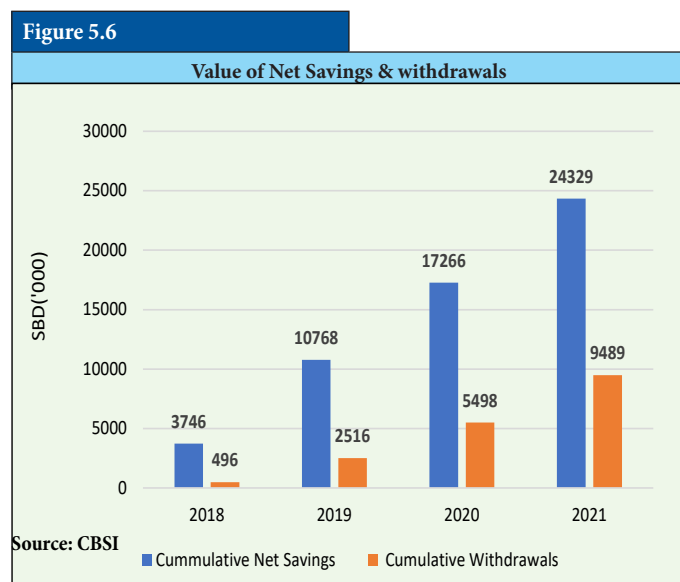
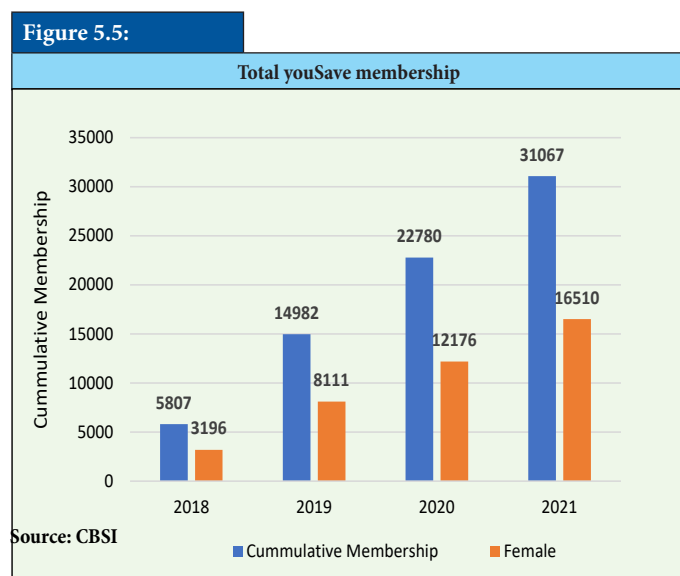
CBSI also delivered the financial competency programme to British High Commission & New Zealand High Commission staff and also conducted financial literacy session with teachers during the year,

In terms of women economic empowerment, the Savings Groups have over the years played a role in providing an accessible and affordable means of finance for women in rural areas to save money, obtain small loans and invest in new or existing small income generating activities. The NFIU Secretariat continued to monitor the Savings Groups activities in 2021 and received data from the Practitioners particularly, WARA and its network and MWYCFA. There are a total of 38 savings groups representing five provinces. The total membership in 2021 reached 2,720 members (mainly women). A total of five savings groups had been linked to formal financial services (bank accounts held with a licensed financial institution). In partnership with WARA Savings Group practitioner and supported by Strongim Bisnis, a training on savings groups data reporting and savings groups establishment was undertaken with a total of 117 participants, of which 112 were females. With the increase of 2,720 savings club membership this year, total savings groups membership to date reached 26,373.

Strategic Objective 4: Build financial resilience in households and communities

On the policy front, a re-submission of the policy paper on the Insurance bill was requested by the Economic Reform Unit, Ministry of Finance & Treasury (ERU-MoFT), which was completed including a nation-wide consultation on the policy paper. This is now awaiting cabinet approval to review the drafting of the bill.

The SINPF youSave savings for the informal sector continued to increase in membership and savings. As at Q42021, total membership reached 31,067 of which 53% are women, while total savings grossed \$33.8 million in which 39% accounted for withdrawal.



Majority of the withdrawals were mainly for family & personal need, school related expenses, transport & logistics, income generating, medical expenses, building and constructions. Other withdrawals were for social and cultural obligations. A key factor which continuously boosts membership savings uptake is the convenience with youSave LoMobile mobile channel. Value of airtime deposits remitted using the

service accounted for 16% of the overall youSave gross savings. This reflected low value high volume deposit transactions anticipated from low-income earners.

One of the challenges faced by youSave members is the ability to earn income, which may be due to COVID-19 restrictions that though had eased later in the year, economic opportunities available were still insufficient to enable majority of whom had lost their small markets/canteens to earn income.

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

Consumer Protection for users of financial services, products and channels is crucial as the financial system develops and licensed institutions including third-party providers and fintechs are opting for innovative solutions in the market to better serve their customers. NFIS3 highlighted the need to establish inter-agency coordination for financial consumer protection and to develop adequate policies and standard operating procedures (SOP) for e-money providers in the market. In terms of the development of mobile money procedures, this did not progress during the year. These procedures are for mobile money customers when conducting mobile transactions including complaints and redress mechanisms as well as for mobile money service providers for purposes of fair practices on offered products & services in the market.

Currently the CBSI Prudential Guideline No. 8 (PG8) on Disclosure requirements and PG9 on complaints management are in place for licensed financial institutions only.

Strategic Objective 6: Develop and implement Data & Measurement Framework

During the year, the proposed local consultancy task to review and develop reporting templates aligning to NFIS3 measurement framework, did not eventuate. This is an ongoing task to be pursued to ensure adequate reporting of the status of financial inclusion in Solomon Islands.

A Memorandum of Understanding was signed with the Solomon Islands National Statistics Office (SINSO) to progress Phase 1 task on geo-tagging within Honiara and the outskirts of Honiara. Proposed Phase 2 targeting the urban provincial centres will be undertaken in the coming year. This initiative is part of the larger National Financial Inclusion Strategy 3, 2021-2025 coordinated by the CBSI to undertake geo-spatial mapping. The map will visualize the distribution of financial services or access points within Solomon Islands particularly, financial services representation within urban and rural areas. This information is crucial for policy decisions to identify opportunities for relevant financial services as well as national planning of underserved areas.

During the year, the assistance from development partners also contributed to the development and

implementation of NFIS3 including the United Nations Capital Development Fund (UNCDF) with its funding partners, the Australian Government, European Union (EU), New Zealand Government and United Nations Development Programme (UNDP). The Alliance for Financial Inclusion (AFI) through its grant assistance supported the CBSI in the development of the Solomon Islands Regulatory Sandbox and SOP as well as the

National Women's Financial Inclusion Policy. Further, the AFI continued to support its members through its capacity building program. The Good Return Australia continued its assistance with implementation of the Financial Competency Training of Trainers Program. The Strongim Bisnis also provides support for the development of key regulations for E-money services and Agency Banking.

CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

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

As of 2020, the SIFIU increased its staffing from 4 officers to 12, including two seconded officers, one from the Ministry of Police, National Security and Correctional Services and one from the Customs division of the Ministry of Finance and Treasury. The latter joined the Unit in the last quarter of 2021.

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

The Solomon Islands Anti-money laundering regime has been carrying out its obligations to fight money laundering and terrorism financing activities seriously, since its establishment in 2006.

Money laundering, terrorism financing and proliferation financing are global issues threatening countries today. Solomon Islands therefore is not immune to these problems. In combating these unwanted activities, the country has put in place mechanisms and controls that are capable of making our financial system safe from being misused by criminals and also mitigating 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. The SIFIU is committed to carrying out its obligations to ensure Solomon Islands is protected from money laundering and terrorism financing activities.

Membership to International Anti Money Laundering Groups provides support to work of SIFIU

SIFIU is a member of the Asia Pacific Group (APG) on Money Laundering and also a member of the EGMONT Group. As a member of these international and regional organizations, the SIFIU and the AMLC are committed to performing their responsibilities to meet International AML/CFT standards and requirements. In addition, being members of these international

bodies ensures that Solomon Islands stays current with the best practices in combating of money laundering, terrorism financing and proliferation financing.

Financing of SIFIU operations comes from the SI Government and the Central Bank of Solomon Islands

Funding for the operation of the SIFIU in 2021 came from the SI Government and the Central Bank of Solomon Islands, totalled up to \$4,158,722.56; \$728,820.00 from the Government and \$3,429,902.56 from the CBSI. Apart from funding contribution that goes toward meeting the salaries and other benefits of twelve (12) officers, the CBSI also supported the Unit through subsidising most of its vital expenditure heads, such as office space monthly rental payments, medical benefits, leave entitlements, office equipment and IT services.

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 IMF has supported Solomon Islands in 2021 by providing technical assistance on priority areas that Solomon Islands needs to focus on in relation to the 2019 Mutual Evaluation Report. As a result, the priority area 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.

SIFIU maintained its relationships with reporting agencies through regular contacts

The SIFIU continues to maintain its close working relationships with the reporting agencies during the year, despite the COVID-19 pandemic. As a result of the state of public emergency declared in March 2020 and with the COVID-19 restrictions; all face-to-face bilateral meetings normally held with the reporting entities and stakeholders were suspended and only limited contact meetings held during the year. However, most of the contacts with reporting entities were conducted offsite and with regular email and phone contacts.

Advising Public Against Financial Scams

The SIFIU in 2021 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 email scams, social media scams and other fast money schemes that emerge during the COVID-19 pandemic.



Photo taken during the awareness program at FM Campbell and Waimapuru Secondary Schools in Makira Province.

Numbers of reports received from the reporting agencies

In 2021, total STRs received by SIFIU was 87 compared to 106 STRs received in 2020, a decline of 22 percent. Total CTRs received in 2021 was 33,451 compared to 36,100 recorded in the previous year, a slight decline by 8 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 2021 increased slightly by 1 percent to 21,143, compared to 21,005 reported in 2020. In terms of the BCRs, a total of 19 BCRs were received for 2021. All the BCRs reported were for outgoing declarations made by outgoing passengers. For Case Dissemination Reports, a total of 17 cases were disseminated to relevant competent authorities in 2021 for their further investigations, the same figure reported in 2020.

Table 6.1 Type and number of reports received by SIFIU in 2021.

Type of Reports	Received	
	2021	2020
Suspicious Transaction Reports (STRs)	87	106
Cash Transaction Reports (CTRs)	33,451	36,100
Electronic Funds Transfer Reports (EFTRs)	21,143	21,005
Border Currency Reports (BCRs)	19	Nil
Case Dissemination Reports (CDRs)	17	17

Source: SIFIU

Trainings/Workshops/Meetings Attended By SIFIU

Table 6.2 Number of trainings, courses and workshops attended by SIFIU in 2021.

Date	Particular of Training	Facilitator	Venue
16-25/2/2021	Pacific Intelligence Fundamentals Course	AUSTRAC	Virtual
17/3/2021	Informative Session on Right to Information Best Practices for the Integrity Institutions Webinar	UN-PPRAC and UNDP Solomon Islands	Virtual
27 - 29/4/2021	Financial Investigation Linked to Forestry Crime	INTERPOL	Virtual
28/4/2021	DNFBP Webinar	APG	Virtual
4/5/2021	Dow Jones Training	Dow Jones	Virtual
18 - 21/05/2021	Cyber week	AUSTRAC	Virtual
26/5/2021	AML Case Experience Discussion	AUSTRAC	Virtual
7 - 18/6/2021	Managing Financial Investigations	OECD Asia-Pacific Academy	Virtual
5 - 9/7/2021	Asia AML/CFT 3rd Annual Summit 2021	Fintelekt Advisory Services Pvt Ltd	Virtual
24 - 25/8/2021	Trade Based Money Laundering	AUSTRAC	Virtual
14/09/2021	AML/CFT Compliance Priorities in the Pacific	Fintelekt Advisory Services Pvt Ltd	Virtual
13 - 15/09/2021	PIRI Regulatory Sandbox for Fintech Innovation	AFI	Virtual
28 - 29/09/2021	AML/CFT Controls in the Insurance Sector	Fintelekt Advisory Services Pvt Ltd	Virtual
25-29/10/2021	FATF Standards Training Course	FATF	Virtual
16-25/2/2021	Pacific Intelligence Fundamentals Course	AUSTRAC	Virtual

Source: SIFIU

Local Trainings and Workshops Conducted By SIFIU

The unit along with its partners also conducted trainings/ workshops for local stakeholders in the country as well.

Table 6.3 Local trainings and workshops conducted by SIFIU in 2021.

Date	Particulars of Training	Participants	Facilitator	Number of Participants
25/5/2021	Awareness outreach on scams and other false money-making schemes.	Staff and Students of St. Joseph Tenaru School, Guadalcanal.	SIFIU/CBSI	Whole School.
2/6/2021	Awareness outreach on scams and other false money-making schemes	Staff and Students of Ruavatu Secondary School, Guadalcanal.	SIFIU/CBSI	150 students and staff members.
10/8/2021	Awareness outreach on scams and other false money-making schemes.	Staff and students of FM Campbell Community High School, Makira Province.	SIFIU/CBSI	400 plus students and staff members
11/8/2021	Awareness outreach on scams and other false money-making schemes.	Staff and Students of Pamua National Secondary High School, Makira Province.	SIFIU/CBSI	Form 5 and Form 6 Students and staff members
11/8/2021	Awareness outreach on scams and other false money-making schemes.	Staff and Students of Waimapuru National Secondary High School, Makira Province.	SIFIU/CBSI	Whole school
16/11/2021	Refresher workshop for Financial Institutions (FIs).	Financial Institutions	SIFIU/CBSI	21 participants.

Source: SIFIU

CHAPTER 7: CALENDAR OF EVENTS 2021

MONTHS	EVENTS
JANUARY	<ul style="list-style-type: none"> As part of the annual Global Money Week (GMW) 2021, CBSI in partnership with Honiara City Council Women's Division marked the "Children's International Day" by conducting the "Pikinini Financial Literacy" to six primary schools in Honiara reaching 624 children and teachers.
FEBRUARY	<ul style="list-style-type: none"> Governor Dr Luke Forau made his annual address to staff.
MARCH	<ul style="list-style-type: none"> Board Meeting held in Honiara. CBSI Board approved the Monetary Policy Stance March 2021 Board Audit Committee Meeting Governor conduct first ever leadership training for management and staff of the Bank
APRIL	<ul style="list-style-type: none"> Board Meeting, Honiara: Q1 Budget update CBSI and its stakeholders launched the third National Financial Inclusion Strategy for Solomon Islands (NFIS3).
MAY	<ul style="list-style-type: none"> Governor Networks with Credit Unions SIFIU awareness outreach on scams and other false money-making schemes to staff and student of St. Joseph Tenaru and Ruavatu Secondary School, Guadalcanal CBSI conducts information session with office of the opposition.
JUNE	<ul style="list-style-type: none"> Board Meeting, Honiara. CBSI Board approved the COI Directive No.4 on Complaints Management for Insurers; Exchange Control – Portfolio Investment Overseas Policy Review; and Exchange Control- Portfolio Investment Overseas Policy Review. CBSI plays hosts to South Pacific Central Bank 2021 Virtual Governors Forum.
JULY	<ul style="list-style-type: none"> CBSI Financial Stability Report launched CBSI Participates in Inaugural South Pacific Central Banks regional research seminar Governor launches new In-house mentorship program for staff. A FEMPOWER program was initiated for CBSI women to responds positively to leadership opportunities.
AUGUST	<ul style="list-style-type: none"> Board Meeting, Honiara. CBSI Board approved the 1H2021 Budget Review and 1H2021 Workplans Re-appointment of Director David K C Quan for another term of 5 years CBSI signs a memorandum of understanding with Good Return CBSI in partnership with Good Return Australia (World Education Australia Limited) conduct one-week Financial Literacy training for Coaches.
SEPTEMBER	<ul style="list-style-type: none"> Board Meeting held at the CBSI Conference Haus at Aruligo. CBSI Board approved the Monetary Policy Stance September 2021. Farewelled Director David Dennis CBSI signs MOU with the U.S Trade and Development Agency.
OCTOBER	<ul style="list-style-type: none"> Two Board Meetings held Honiara. CBSI Board approved the Export Finance Facility Guideline Appointment of Mrs. Kathleen Matautia and Mr. Jeremy Bartlett to the CBSI Board.
NOVEMBER	<ul style="list-style-type: none"> Two Board Meetings held in Honiara. CBSI Board approved the Proposal for SI Commemorative Banknote for the XVII Pacific Games 2023; CBSI Quality Banknote Policy; and grant full license to SFL, with conditions, to operate as credit institution in Solomon Islands. Board Induction for new directors
DECEMBER	<ul style="list-style-type: none"> Board Meeting, Honiara. CBSI Board approved the 2020 Financials.



CENTRAL BANK OF SOLOMON ISLANDS

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of the Central Bank of the Solomon Island ("the Bank") and the related statements of profit and loss and other comprehensive income, changes in equity and cash flow for the year and the report as follows:

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)
Mckinnie Dentana (Permanent Secretary of Finance)
Sonia Marahare (Board Secretary)
David K C Quan (Re- appointed 1st August 2021)
Christina Lasaga
Rodney Rutepitu
Bob Pollard
Kathleen Matautia (Appointed 1st October 2021)
Jeremy Bartlett (Appointed 1st October 2021)

STATE OF AFFAIRS

In the opinion of the Directors:

- There were no significant change in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report of 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 2021 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.

OPERATION RESULTS

The Bank incurred a net loss of \$62.7 million for the year ended 31 December 2021 (2020: \$76.2 million profit).

RESERVES

The Board approved the following transfers to reserves from the statement of profit and loss and other comprehensive income: \$15.5 million loss to general reserve and \$47 million loss to foreign exchange revaluation reserve. No distribution of loss to Solomon Islands government as per section 55 (3) of CBSI Act 2012.

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 financial buffers in General Reserve and the Paid up Capital.

ASSETS

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

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

SIGNIFICANT EVENTS DURING THE YEAR

Following the recession in 2020, the global economy in 2021, according to IMF¹, rebounded on the back of substantial

¹ IMF World Economic Outlook, January 2022

fiscal and monetary support and availability of COVID-19 vaccines ensuring economies gradually opened up from the lockdowns. The Solomon Islands as a small island economy, on the other hand, has limited sizeable fiscal space to fast-track the economic recovery. The on-going pandemic together with the measures to evade community outbreaks has therefore dragged on economic activity. Vaccination rolled out in April, however, the uptake was very slow, thus, far below the targeted rate to re-open the borders.

Despite the commencement of donor-backed public infrastructure constructions such as the national stadium for the Pacific Games scheduled for 2023, and the Honiara International Airport expansion, general economic conditions remained subdued. The country's exports declined by 4%, government revenue by 14%, lending to the private sector by 0.5%, and SINPF (active and slow active) members contributions as a proxy for employment declined by 3%. The riot, arsons, and lootings in the capital city in late November further crippled the economy. All these together, CBSI estimated the real economy in 2021 to contract by 0.6%. With the surge in international crude oil prices in the second half of the year and the riot-induced supply shortages, inflation reached 2.5% at the end of the year. To support foreign exchange reserves, the IMF allocated additional SDRs of SDR19.9 million in August providing the country with a supplementary comfortable level of foreign reserves.

Central banks' monetary policy around the world remained broadly accommodative to support the economic recovery. As such, policy rates stayed low impacting earnings on financial investments including the CBSI's incomes on its foreign investment portfolios. On a similar stance to other central banks, CBSI also continued with an expansionary monetary policy to support the government economic policy of recuperating the economy and in consideration that the forecasted inflation rate in 2021 is to be contained at the desired rate. As such, CBSI maintained its statutory cash reserve requirements at 5%, Bokolo bills capped at \$430 million, and in the second half of the year purchased additional \$60 million government bonds through the secondary market. Moreover, in July given the comfortable level of foreign reserves, CBSI liberalised certain exchange control requirements and focused more on compliance.

DIRECTORS' BEFEBIT

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

UNUSUAL TRANSACTIONS

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

EVENTS SUBSEQUENT TO BALANCE DATE


There are no events or transaction of a material unusual nature, in the opinion of the directors of the Bank, likely 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 in 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 on 30th June 2022.

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



Luke Forau
Chairman of the Board and Governor



David K C Quan
Director

STATEMENT BY DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2021

In the opinion of the Directors:

- (a) the accompanying statement of profit or loss and other comprehensive income is drawn up to give a true and fair view of the results of the Bank for the year ended 31 December 2021
- (b) the accompanying statement of financial position is drawn up to give a true and fair view of the state of affairs of the Bank as at 31 December 2021;
- (c) the accompanying statement of changes in equity is drawn up to give a true and fair view of the changes in equity of the Bank for the year ended 31 December 2021;
- (d) the accompanying statement of cash flows is drawn up to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2021;
- (e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts 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 of 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 31st June 2022.



Luke Forau
Chairman of the Board and Governor



David K C Quan
Director

Solomon Islands Office of the Auditor-General



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

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of Central Bank of Solomon Islands (the 'Bank'), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the basis of preparation and the accounting policies described in Note 2 of the financial statements and in the manner required by the Central Bank of Solomon Islands Act, 2012.

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 *Auditors' Responsibilities for the Audit* of the Financial Statements section of my report. I am independent of the Authority 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to Note 2 (a) and 2 (m) to the financial statements which refer to the reporting framework and the policy on the treatment of gold reserves and its variance with IFRS 9 "Financial Instruments". My opinion is not qualified in respect of this matter."

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 authorized 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 statement and I have fulfilled my other ethical responsibilities in accordance with these requirements.

Independent Auditor's Report to the Board of Directors of Central Bank of Solomon Islands
Report on the Audit of the Financial Statements (continued)

Other information

Management is responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and my auditors' 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 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 Management and Those Charged with Governance for the Financial Statements

Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional scepticisms 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 Authority's internal control.

Independent Auditor's Report to the Board of Directors of Central Bank of Solomon Islands
Report on the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditors' report. However, future events or conditions may cause the Authority 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 those charged with governance 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:

- 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;
- to the best of my knowledge and according to the information and explanations given to me, the financial statements give the information required by section 54 of Central Bank of Solomon Islands Act 2012 in the manner so required; and
- the Bank did not comply with the requirements of Section 58(2) of the Central Bank of Solomons Islands Act, 2012, which requires the certified financial statements to be submitted to the Minister of Finance not later than 4 months of the following year to which the financial statements relate.



David Dennis
Auditor General

Office of the Auditor-General
Honiara, Solomon Islands

**STATEMENT OF PROFIT OR LOSS AND AND OTHER COMPREHENSIVE INCOME FOR THE
YEAR ENDED 31 DECEMBER 2021**

	Notes	2021 \$'000	2020 \$'000
Income			
Interest income	3(a)	32,428	53,605
Fees and commission income	3(b)	21,018	24,894
Other income	3(c)	10,544	46,663
Net foreign exchange revaluation gain		-	37,909
Total income		63,990	163,071
Expenses			
Interest expense	3(d)	3,210	5,345
Fees and commission expense		706	990
Administrative expenses	3(e)	51,980	58,973
Other expenses	3(f)	22,231	20,044
Impairment allowance on financial instrutments		1,458	1,471
Net foreign exchange revaluation loss		47,149	-
Total expenses		126,734	86,823
Net operating profit/(loss)		(62,744)	76,248
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value (gold)		(9,528)	-
Total other comprehensive income		(9,528)	-
Total comprehensive income		(72,272)	76,248

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 48 to 72

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 2021

	Notes	2021 \$'000	2020 \$'000
Foreign currency assets			
Cash and cash equivalents	20	2,461,746	757,276
Accrued interest		5,406	15,415
Fixed income securities	4	2,801,923	4,492,803
Gold	5	81,057	-
International Monetary Fund	6	475,215	246,540
Total foreign currency assets		5,825,347	5,512,035
Local currency assets			
Cash on hand	20	147	155
Accrued interest		806	-
Loans and advances	7	198,658	78,310
Currency inventory	8	31,749	40,746
Property, plant and equipment	12	182,635	184,893
Intangibles	9	54	177
Other assets	10	27,842	18,521
Right-of-use asset	11(a)	573	977
Total local currency assets		442,464	323,779
Total assets		6,267,811	5,835,814
Foreign currency liabilities			
International Monetary Fund	6	783,413	561,412
Demand deposits	13(a)	47,802	56,294
Total foreign currency liabilities		831,215	617,706
Local currency liabilities			
Demand deposits	13(b)	3,322,100	3,177,904
Currency in circulation	14	1,279,371	1,135,789
Fixed deposits	15	402,735	441,649
SIG monetary operations account	16	81,852	39,664
Employee entitlements	17	32,983	30,210
Other liabilities	18	8,017	6,805
Lease liabilities	11(b)	610	1,053
Total local liabilities		5,127,668	4,833,074
Total liabilities		5,958,883	5,450,780
Net assets		308,928	385,034
Capital and reserves			
Paid up capital	21	50,000	50,000
General reserve	22(a)	156,593	172,188
Foreign exchange revaluation reserve	22(b)	(156,794)	(109,645)
Asset revaluation reserve	22(c)	120,112	120,112
Gold revaluation reserve	22(d)	(9,528)	-
Capital asset reserve	22(e)	148,545	152,379
Total capital and reserves		308,928	385,034

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 47 to 72.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Issued & paid up capital	Gold revaluation reserve	General reserve	Foreign exchange assets revaluation reserve	Asset revalu- ation reserve	Capital as- sets reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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 19)	-	-	-	37,909	-	38,339	76,248
<u>Other comprehensive income/ (losses)</u>							
Fair value gains – gold	-	18,222	-	-	-	-	18,222
<i>Total other comprehensive income</i>	-	18,222	-	37,909	-	38,339	94,470
Balance as at 31 December 2020	50,000	-	172,188	(109,645)	120,112	152,379	385,034
Balance at 1 January 2021	50,000	-	172,188	(109,645)	120,112	152,379	385,034
<i>Total comprehensive income for the year</i>							
Net foreign exchange loss(section 53(2))				(47,149)			(47,149)
Net loss for the year: Transfer to General Reserves as required under: Section 55(3) of of the Central Bank of Solomon Islands Act., 2012	-	-	(15,595)		-	-	(15,595)
<u>Other comprehensive income/ (losses)</u>							
Fair value loss – gold(Section 53(2))	-	(9,528)	-	-	-	-	(9,528)
Transfer of remaining distributed profits for 2021 in accordance with Section 55(1) of the Central Bank of Solomon Islands Act., 2012	-	-	-	-	-	(3,834)	(3,834)
<i>Total other comprehensive income</i>	-	(9,528)	(156,595)	(47,149)	-	(3,834)	(76,106)
Balance as at 31 December 2021	50,000	(9,528)	156,593	(156,794)	120,112	148,545	308,928

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 48 to 72.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 \$'000	2020 \$'000
Operating activities			
Interest received		40,825	64,823
Cash received from other income		31,562	89,780
Interest paid		(3,210)	(5,724)
Cash paid to suppliers and employees		(64,065)	(69,517)
Net movement in fixed income investments		1,690,275	(542,580)
Net movement in International Monetary Fund accounts		78,266	160,188
Net movement in other receivables		(9,321)	22,789
Cash flows from/ (used in) operating activities		1,764,332	(280,241)
Investing activities			
Acquisition of property, plant and equipment		(3,540)	(10,682)
Proceeds from sale of premises, plant and equipment		(584)	115
Net movement in gold		(81,057)	300,110
Net movement in loan to government		(120,029)	(59,195)
Net movement in loans and advances to staff		(853)	(2,228)
Cash flows (used in) / from investing activities		(206,063)	228,120
Financing activities			
Net movement in currency in circulation		143,582	180,504
Net movement in demand deposits		51,391	555,845
Net movement in fixed deposits received		(38,914)	(319,808)
Solomon Islands government monetary operations		42,188	(48,224)
Net movement in International Monetary Fund credit facilities		(4,461)	(1,794)
Repayment of leases		(444)	(380)
Interest payment on lease liabilities		(82)	(45)
Cash flows (used in)/ generated from financing activities		193,260	366,098
Net effect of exchange rates		(47,149)	37,909
Net increase/(decrease) in cash		1,704,380	351,886
Cash at bank and on hand at the beginning of the financial year		757,513	405,627
Cash at bank and on hand at the end of the financial year	20	2,461,893	757,513

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 48 to 72

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. Principal activities and principal place of operations

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

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

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

The financial statements were authorised for issue by the Board of Directors on 30th June 2022

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.

As set out in note (m), the movements in revaluation of gold holdings is taken into a reserve as opposed to the profit or loss statement under IFRS 9 as the Bank is now trading in gold. The impact to profit or loss would be a decrease in profit by \$9,528,000

The Bank has complied with the requirements of Section 54 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 2021 and not early adopted

- Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

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 2021 the Bank had a surplus in net assets of \$308m.

(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 judge-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

ments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

The more significant areas of estimation include the estimation of factors that go into the determination of any impairment allowances for financial assets, and in the determination of certain employee entitlements.

(g) Finance income and finance costs

The Bank's finance income and finance costs include:

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

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

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

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

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

(h) Revenue from contracts with customers

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

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

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

(i) Income tax

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

(j) Financial assets and financial liabilities

The Bank measures and classifies its financial statements into three categories: amortised cost, fair value through

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

other comprehensive income and fair value through profit or loss.

Valuation of financial instruments

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

Classification and subsequent measurement

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

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

Financial assets measured at amortised costs

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

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

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

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

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

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Derecognition

Financial assets

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

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

Financial liabilities

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Offsetting

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

Impairment

Financial assets

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

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

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

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

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

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

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

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

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

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

Measurement of ECLs

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

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

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

Credit-impaired financial assets

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

Amortised cost measurement

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

Fair value measurement

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

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

(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) Gold Revaluation Reserve

Gold valuations have been translated to SBD currency at rates of exchange ruling at year end. The gains and losses arising during the year from changes in the valuation of the gold reserves are taken to the Gold Revaluation Reserve Account in accordance with the provisions of Section 53 (2) of the CBSI Act 2012.

The Bank no longer holds Gold as a reserve as it is now actively involved in gold trading. However, the gains and losses in revaluation are not included in the computation of annual profits or losses of the Bank which is not in line with the requirements of IFRS 9 on Financial Instruments. The impact of this in the statement of profit or loss would be a decrease in net profit by \$9,528,000 (2020: \$nil).

In accordance with the Act, the Central Bank has a revaluation reserve accounts to account for unrealized gains and losses owing to its positions with gold.

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

(o) **Currency inventory**

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

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

(p) **Currency in circulation**

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

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

Recognition and measurement

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

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

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

Subsequent costs

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

Depreciation

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

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

Periodic revaluation

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

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

Bank as Lessee

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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.

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 \$'000	2020 \$'000
3. Income and expenses		
(a) Interest income		
Overseas investments	26,704	53,354
Local investments	5,724	251
	<u>32,428</u>	<u>53,605</u>
(b) Fees and commission income		
Foreign dealings	19,386	22,464
Local dealings	1,632	2,430
	<u>21,018</u>	<u>24,894</u>
(c) Other income		
Gain on disposal of fixed assets	183	83
Rent received	99	109
Sale of numismatic coins	53	103
Royalties on numismatics	208	106
Sale of gold	9,242	43,224
Others	759	3,038
	<u>10,544</u>	<u>46,663</u>
(d) Interest expense		
Foreign liabilities	1,777	1,872
Local liabilities	1,351	3,352
Interest on lease liability - IFRS 16	82	121
	<u>3,210</u>	<u>5,345</u>
(e) Administrative expenses		
Staff costs	39,683	46,713
Telecommunication	2,481	2,695
Utilities	2,469	2,541
Repairs and maintenance	1,134	1,946
Insurance	500	493
Consumables	192	154
Stationery, printing and postage	482	542
Consultancy	-	-
Other	5,039	3,889
	<u>51,980</u>	<u>58,973</u>
(f) Other expenses		
Board of directors remunerations and expenses	217	205
Currency expenses	13,543	11,406
Depreciation and amortisation	6,552	6,150
Depreciation charge - right-of-use asset	404	404
Auditors remuneration	300	406
Other	1,215	1,473
	<u>22,231</u>	<u>20,044</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 \$'000	2020 \$'000
4. Fixed income securities		
Fixed term deposits	1,771,510	3,680,591
Short term commercial paper	287,102	410,469
Bonds	745,435	403,262
Total amortised cost	2,804,047	4,494,322
Allowance for impairment losses	(2,124)	(1,519)
	2,801,923	4,492,803
5. Gold		
Unallocated gold - at fair value	81,057	-
Gold bullion - at fair value	-	-
	81,057	-
6. International Monetary Fund		
<i>IMF related assets and liabilities</i>		
	2021 \$'000	2020 \$'000
Foreign currency assets		
- Reserve tranche position	36,021	35,667
- Special drawing rights	237,349	11,011
- Currency subscription	201,845	199,862
	475,215	246,540
Foreign currency liabilities		
- Standby credit facility	-	-
- Special drawing rights allocation	337,986	115,066
- Extended credit facility	84,984	89,445
- Securities / extended financial instrument	355,442	351,949
- Capital subscription	5,001	4,952
	783,413	561,412

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.

The extended financial instrument was approved and received on 3 June 2020

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 \$'000	2020 \$'000
7. Loans and advances		
<i>Solomon Islands Government</i>		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	39	10
Covid bond	180,000	60,000
Other securities	4,936	4,936
Total amortised cost	185,048	65,019
Allowance for impairment losses	(34)	(73)
	185,014	64,946
<i>Staff loans</i>		
Staff housing loans	12,624	13,424
Management car loans	1,346	649
Personal loans	1,283	370
Special loans	43	-
	15,296	14,443
Allowance for impairment losses	(1,652)	(1,079)
	13,644	13,364
Total loans and advances	198,658	78,310
8. Currency inventory		
Notes	16,951	23,803
Coins	14,798	16,943
	31,749	40,746
9. Intangible assets		
Computer software		
Cost	4,780	4,780
Accumulated amortisation	(4,726)	(4,603)
Amortisation – current year	-	-
Balance at end of financial year	54	177
10. Other Assets		
Commercial Bank clearing	21,093	15,882
Others	6,749	2,639
	27,842	18,521

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 \$'000	2020 \$'000
11.		
(a) Right-of-use asset and lease liability		
Right-of-use asset		
Balance at 1 January	977	1,381
Additions	-	-
Disposals	-	-
Depreciation	(404)	(404)
Balance at 31 December	573	977
(b) (i) Lease liability		
Balance as at 1 st January 2021	1,053	1,433
Less: Lease Payments	(526)	(425)
Add: Interest Expense	82	45
Balance as at 31 st Decemeber	610	1,053
Disclosed		
Current Liability	443	380
Non- current Liablitiy	167	673
Balance as at 31 st Decemeber	610	1,053
(ii) Amounts recognised in the statement of profit or loss and other comprehensive income		
Depreciation charge on right of us assets	404	404
Interest expense (included in finance cost)	82	45
Expense relating to variable lease payments not included in lease liabilities (included in other expenses)	-	-
(iii) Amounts recognised in statement of cash flow- financing		
Principal elements of lease payment	443	380
Interest elements of lease payment	82	45
Total cash outflow of leases	525	425
(c) Maturity analysis- contractual undiscounted cash flows		
Less than one year	480	480
One to five years	282	762
More than five years	-	-
Total undiscounted liabilities	762	1,242

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

12. Property, plant and equipment

	Land and buildings	Plant, equipment and furni- ture	Motor vehicles	Computer	Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cost/valuation</i>						
Balance at 1 January 2020	163,227	26,851	1,608	9,570	13,026	214,282
Acquisitions	-	190	637	1,030	8,825	10,682
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Disposals	-	(64)	-	(910)	-	(974)
Balance at 31 December 2020	163,227	26,977	2,245	9,690	21,851	223,990
Acquisitions	-	333	-	3,084	1,749	5,166
Transfers	-	85	-	(58)	(1,053)	(1,026)
Disposals	-	(153)	(237)	-	-	(390)
Balance at 31 December 2021	163,227	27,242	2,008	12,716	22,547	227,740
<i>Accumulated depreciation</i>						
Balance at 1 January 2020	3,440	22,683	622	7,264	-	34,009
Depreciation charge for the year	3,296	607	406	1,693	-	6,002
Disposals	-	-	-	-	-	-
Transfers	-	(19)	-	(895)	-	(914)
Balance at 31 December 2020	6,736	23,271	1,028	8,062	-	39,097
Depreciation charge for the year	3,295	1,424	453	1,257	-	6,429
Transfers	-	(3)	-	(28)	-	(31)
Disposals	-	(153)	(237)	-	-	(390)
Balance at 31 December 2021	10,031	24,539	1,244	9,291	-	45,105
<i>Carrying amount</i>						
At 1 January 2020	159,787	4,168	986	2,306	13,026	180,273
At 31 December 2020	156,491	3,706	1,217	1,628	21,851	184,893
At 31 December 2021	153,196	2,703	764	3,425	22,547	182,635

	2021	2020
	\$'000	\$'000

13. Demand deposits

(a) Foreign currency demand deposits

Demand deposits	47,802	56,294
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Demand deposits include deposits from international organisations such as the Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD) and International Development Association

(b) Local currency demand deposits

Commercial banks	2,309,515	2,100,634
Solomon Islands Government	682,813	753,754
Other financial corporations	5,385	6,239
Other- LC	324,387	317,277
	3,322,100	3,177,904

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 \$'000	2020 \$'000
14. Currency in circulation		
Notes	1,242,646	1,101,606
Coins	36,725	34,183
	<u>1,279,371</u>	<u>1,135,789</u>
15. Fixed deposits		
Bokolo bills	402,735	441,649
16. SIG monetary operations account		
SIG monetary operations account	81,852	39,664
17. Employee entitlements		
Gratuity	4,161	3,801
Long service leave	1,463	1,273
Early retirement benefit	27,359	25,136
	<u>32,983</u>	<u>30,210</u>
18. Other liabilities		
Unpresented bank cheques	6,416	4,188
Other liabilities including operating expenditure payable	1,601	2,617
	<u>8,017</u>	<u>6,805</u>
19. Determination of distributable profit		

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

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

- (c) Accordingly, the profit for the year has been distributed as follows

	2021 \$'000	2020 \$'000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating profit/loss	(62,744)	76,248
Less - net unrealised foreign exchange gain	47,149	(37,909)
Net gain recorded in capital asset reserve/ general reserve	<u>(15,595)</u>	<u>38,339</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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

20. Cash and cash equivalents

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

	2021	2020
	\$'000	\$'000
Cash on hand – local currency	147	155
Cash at bank – foreign currency	2,411,760	715,704
Short term deposits with maturities up to 3 months	49,986	41,654
Total	2,461,893	757,513
Allowance for impairment losses	(214)	(82)
	2,461,679	757,431

21. 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.

	2021	2020
	\$'000	\$'000
Balance at the beginning of the year	50,000	50,000
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	-	-
Balance at the end of the year	50,000	50,000

22. Reserves

Under Section 53(2) of the Central Bank of Solomon Islands Act., 2012, the Bank shall maintain the following reserves. Their purpose and methods of operation are as follows:

- (a) **General reserve**
The general reserve was established under Section 53(1) as a reserve for the purposes of covering losses sustained by the Bank.
- (b) **Foreign exchange asset revaluation reserve**
Unrealised gains and losses on revaluation of foreign exchange balances are recognised in the profit or loss and are transferred to the foreign exchange asset revaluation reserve at the end of the accounting period in accordance with section 54(2)(a)
- (c) **Asset revaluation reserve**
The asset revaluation reserve reflects the impact of changes in the market value of property.
- (d) **Gold revaluation reserve**
The unallocated and allocated gold is valued at current quoted market prices. Gold is accounted for as at fair value through other comprehensive income. Unrealised gains and losses arising from revaluation are recognised in the other comprehensive income and are transferred to the gold revaluation reserve at end of the accounting period. Gold revaluation reserves were transferred to the statement of profit or loss when the Bank disposes its gold reserves during the year.
- (e) **Capital asset reserve**
The capital asset reserve is used to strengthen the Bank's equity position in relation to future major capital investment in buildings and equipment.

23. 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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 Supnationals, 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 2021

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

	On De- mand	0-3 Months	3-6 Months	6-12 Months	Over year	Unde- fined	Total
Maturity analysis as at 31 December 2021	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Foreign currency financial assets							
Cash at bank	2,461,746	-	-	-	-	-	2,461,746
Accrued interest	-	-	5,406	-	-	-	5,406
Fixed term deposit/Income securities	-	-	600,408	847,771	321,207	-	1,769,386
IMF- Holding on special drawing rights	-	-	-	-	-	237,349	237,349
-Reserve tranche	-	-	-	-	-	36,021	36,021
-Subscription	-	-	-	-	-	201,845	201,845
Bonds	-	-	-	81,057	745,435	-	826,492
Short term commercial papers	-	-	287,102	-	-	-	287,102
	2,461,746	-	892,916	81,057	1,066,642	475,215	5,825,347
Local currency financial assets							
Cash on hand	147	-	-	-	-	-	147
Accrued interest local	-	-	-	-	806	-	806
Loans and advances	-	-	-	-	198,658	-	198,658
Currency Inventory	-	-	-	-	31,749	-	31,749
Property, Plant and equipment	-	-	-	-	182,635	-	182,635
Intangibles	-	-	-	-	54	-	54
Right of Use asset	-	-	-	-	573	-	573
Other Assets	-	27,842	-	-	-	-	27,842
	147	27,842	-	-	414,475	-	442,464
Total financial assets	2,461,893	27,842	892,916	928,828	1,481,117	475,215	6,267,811
Foreign currency financial liabilities							
Demand deposits	47,802	-	-	-	-	-	47,802
IMF special drawing rights allocation	-	-	-	-	-	337,986	337,986
IMF extended credit facility	-	-	-	-	-	84,984	84,984
Securities	-	-	-	-	-	355,442	355,442
Subscription	-	-	-	-	-	5,002	5,001
	47,802	-	-	-	-	783,413	831,215
Local currency financial liabilities							
Demand deposits	3,322,100	-	-	-	-	-	3,322,100
Currency in circulation	-	-	-	-	-	1,279,371	1,279,371
SIG monetary operations account	-	81,852	-	-	-	-	81,852
Fixed deposits	-	390,970	11,765	-	-	-	402,735
Employee entitlements	-	-	-	-	32,983	-	32,983
Lease Liabilities	-	-	-	-	610	-	610
Other liabilities	-	8,017	-	-	-	-	8,017
	3,322,100	480,839	11,765	-	33,593	1,279,371	5,127,668
Total financial liabilities	3,369,902	480,839	11,765	-	33,593	2,062,785	5,958,883
Net liquidity gap	(908,009)	(452,997)	881,151	928,828	1,447,524	1,587,570	308,928

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Maturity analysis as at December 2020	On Demand \$'000	0-3 Months \$'000	3-6 Months \$'000	6-12 Months \$'000	Over 1 year \$'000	Unde-fined \$'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	5,512,034
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	5,835,813
Foreign currency liabilities							
Demand deposits	56,294	-	-	-	-	-	56,294
IMF special drawing rights allocation	-	-	-	-	-	115,066	115,066
IMF extended credit facility	-	-	-	-	-	89,445	89,445
Securities	-	-	-	-	-	351,949	351,949
subscription	-	-	-	-	-	4,953	4,953
	56,294	-	-	-	-	561,412	617,706
Local currency financial liabilities							
Demand deposits	3,177,904	-	-	-	-	-	3,177,904
Currency in circulation	-	-	-	-	-	1,135,789	1,135,789
SIG monetary operations account	-	39,664	-	-	-	-	39,664
Fixed deposits	-	429,884	11,765	-	-	-	441,649
Employee entitlements	-	-	-	-	-	-	1,053
Lease liabilities	-	-	-	-	30,210	-	30,210
Other liabilities	-	6,805	-	-	1,053	-	7,858
	3,177,904	476,353	11,765	-	31,263	1,135,789	4,833,074
Total financial liabilities	3,234,198	476,353	11,765	-	31,263	1,697,201	5,450,780
Net liquidity gap	(2,518,420)	665,219	1,059,878	1,933,394	695,623	(1,450,661)	385,034

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Concentration of credit exposure

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

	2021	2020
	\$'000	\$'000
Foreign currency assets		
Cash at bank	2,461,746	757,358
Fixed income securities	2,801,923	4,492,803
International Monetary Fund	475,215	246,540
Gold	81,057	-
	5,819,941	5,496,701
Local currency assets		
Loans and advances	198,658	78,310
	6,018,598	5,575,011

The following table presents the Bank's financial assets and gold held with financial institutions based on S&P credit ratings 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	2021	2020
	%	%
AAA	19	45
AA+ - AA-	14	22
A+ - A-	24	15
BBB+ - BBB-	24	12
BB+ - BB-	9	5
B+ - B-	10	1
N/R	-	-
	100	100

Cash and cash equivalents

The Bank held cash at banks in foreign currencies of \$2,461 million at 31 December 2021 (2020: \$757 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 12month 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.

Debt investment securities

The Bank held debt investment securities of \$2,9886 million at 31 December 2021 (2020: \$4,557million). 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 12month 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).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Impairment on debt investment securities held with the Solomon Islands Government has also been measured on the 12month 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	2021		2020	
	\$'000	%	\$'000	%
USD	3,493,660	58	3,440,650	62
AUD	1,341,573	22	1,313,477	24
EUR	10,098	-	19,556	-
SDR	475,215	8	246,540	4
NZD	144,591	2	222,014	4
SGD	32,054	1	70,780	1
GBP	121,055	2	128,095	1
SBD	198,658	2	78,310	1
JPY	98,281	3	4	-
FJD	3,855	-	1,986	-
CNY	99,560	2	53,600	1
	6,018,599	100	5,575,011	100

Credit quality	Gross \$'000	Impairment \$'000	Net \$'000
31 December 2021			
<i>Foreign currency assets</i>			
Central banks	2,461,960	214	2,461,746
Commercial banks	2,804,047	2,124	2,801,923
International Monetary Fund	475,215	-	475,215
Available for sale investments	81,057	-	81,057
	5,822,279	2,338	5,819,941
<i>Local currency assets</i>			
Solomon Islands Government loan and advances	185,048	34	185,014
Staff loan and advances	15,296	1,652	13,644
	200,344	1,686	198,658
Gross assets subject to impairment consideration	6,022,623	4,024	6,018,599

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	2021		2020	
	\$'000	%	\$'000	%
Concentration by sector				
<i>Foreign currency assets</i>				
Central banks	2,461,746	42	757,358	13
Commercial banks	2,801,923	48	4,492,803	83
International Monetary Fund	475,215	8	246,540	4
Available for sale investments	81,057	1	-	-
	5,819,941	100	5,496,701	100
<i>Local currency assets</i>				
Solomon Islands Government loan and advances	185,014	93	64,946	83
Staff loan and advances	13,644	7	13,364	17
	198,658	100	78,310	100
	6,018,599		5,575,011	

(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	
	2021	2020
	\$'000	\$'000
Fixed rate instruments		
Cash and cash equivalents (Financial assets)	2,461,893	757,431
Fixed income securities (Financial assets)	2,801,923	4,492,803
Loans and advances (Financial assets)	198,658	78,310
Demand deposits (Financial liabilities)	(3,322,100)	(3,177,904)
Fixed deposits (Financial liabilities)	(402,735)	(441,649)
Lease liabilities	(610)	(1,053)
	1,737,029	1,707,938
Variable rate instruments		
International Monetary Fund (Financial assets)	475,215	246,540
International Monetary Fund (Financial liabilities)	(784,413)	(561,412)
	(308,198)	(314,872)

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Profit or loss	
	100bp increase	100bp decrease
31 December 2021	\$'000	\$'000
Variable rate instruments	3,082	(3,082)
31 December 2020		
Variable rate instruments	3,148	(3,148)

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 2021

	AUD	NZD	USD	EUR	GBP	SGD	CNY	JPY	OTH-ERS	Total
	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)
Foreign Currency Financial Assets										
Money at call	394,628	-	1,915,412	10,098	38,849	-	624	98,281	3,855	2,461,747
Accrued interest	2,321	387	2,257	-	103	63	275	-	-	5,406
Fixed term deposits	174,935	144,591	1,286,727	-	82,206	32,054	48,873	-	-	1,769,386
Holding of special drawing rights	-	-	-	-	-	-	-	-	237,349	237,349
Reserve Tranche	-	-	-	-	-	-	-	-	36,021	36,021
Subscription	-	-	-	-	-	-	-	-	201,845	201,845
Gold investment	-	-	-	-	-	-	-	-	81,057	81,057
Bonds	745,435	-	-	-	-	-	-	-	-	745,435
Short term commercial papers	287,102	-	-	-	-	-	-	-	-	287,102
Total	1,604,421	144,978	3,204,396	10,098	121,158	32,117	49,772	98,281	560,127	5,825,348
Foreign Currency Financial Liabilities										
Demand deposits	47,802	-	-	-	-	-	-	-	-	47,802
IMF special drawings rights allocation	-	-	-	-	-	-	-	-	337,986	337,986
IMF extended credit facility	-	-	-	-	-	-	-	-	84,984	84,984
IMF securities	-	-	-	-	-	-	-	-	355,442	355,442
Capital subscription	-	-	-	-	-	-	-	-	5,002	5,002
Total	47,802	-	-	-	-	-	-	-	783,413	831,215
Net foreign currency asset	1,556,619	144,978	3,204,396	10,098	121,158	32,117	49,772	98,281	223,386	4,994,133

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Foreign currency risk as at 31 December 2020

	AUD	NZD	USD	EUR	GBP	SGD	CNY	JPY	OTHERS	Total
Foreign Currency Financial Assets	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)
Money at call	202,798	-	514,600	19,908	12,447	-	5,533	4	1,987	757,277
Accrued interest	3,863	1,167	9,455	-	160	406	364	-	-	15,415
Fixed term deposits	384,551	222,014	2,885,825	-	115,648	22,996	48,067	-	-	3,679,071
Holding of special drawing rights	-	-	-	-	-	-	-	-	11,011	11,011
Reserve Tranche	-	-	-	-	-	-	-	-	35,667	35,667
Subscription	-	-	-	-	-	-	-	-	199,862	199,862
Gold investment	-	-	-	-	-	-	-	-	-	-
Bonds	403,262	-	-	-	-	-	-	-	-	403,262
Short term commercial papers	410,469	-	-	-	-	-	-	-	-	410,469
Total	1,404,944	223,181	3,409,880	19,908	128,255	23,372	53,964	4	248,527	5,512,035
Foreign Currency Financial Liabilities										
Demand deposits	56,294	-	-	-	-	-	-	-	-	56,294
IMF special drawings rights allocation	-	-	-	-	-	-	-	-	115,066	115,066
IMF extended credit facility	-	-	-	-	-	-	-	-	89,445	8,966
IMF securities	-	-	-	-	-	-	-	-	351,949	351,949
Capital subscription	-	-	-	-	-	-	-	-	4,953	4,953
Total	56,294	-	-	-	-	-	-	-	561,413	617,707
Net foreign currency asset	1,348,650	223,181	3,409,880	19,908	128,255	23,372	53,964	4	(312,886)	4,894,328

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:

	2021		2020	
	\$'000	%	\$'000	%
USD	3,493,660	65	3,440,650	65
AUD	1,341,573	25	1,313,477	25
EUR	10,098	0	19,556	0
NZD	144,591	3	222,014	4
SGD	32,054	1	70,780	1
GBP	121,055	2	128,095	2
JPY	98,281	2	4	-
CNY	99,560	2	53,600	1
FJD	3,855	-	1,986	-
	5,344,726	100	5,250,162	100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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	2021	2020
AUD	0.1703	0.1622
USD	0.1235	0.1243
NZD	0.1807	0.1729
GBP	0.0915	0.0915
EUR	0.1090	0.1011
JPY	14.2200	12.8355
SGD	0.1670	0.1646
SDR	0.0883	0.0861
CNY	0.7873	0.8117
Sensitivity to foreign exchange rate risk	2021	2020
Impact of a:	\$M	\$M
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(78)	(77)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	79	42

Other pricing risk

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

(e) Operational risk management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than liquidity, credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank's operations. Managing operational risk in the Bank is an integral part of day-to-day operations and oversight. This includes adherence to Bank wide corporate policies. There is also an active internal audit function carried out on a quarterly basis. Operating loss is the risk of loss from breakdown of internal controls at the Bank. Operational risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operational risk.

24. Related parties

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

The Board of Directors during the year were:

Luke Forau (Chairman and Governor)
 Raynold Moveni (Deputy Governor)
 McKinnie Dentana (Permanent Secretary of Finance)
 Sonia Marahare (Board Secretary)
 David K C Quan (Re- appointed 1 August 2021)
 Christina Lasaga
 Rodney Rutepitu
 Dennis Meone (Resigned 6th August 2021)
 David Dennis (Resigned 24 September 2021)
 Bob Pollard
 Kathleen Matautia (Appointed 1 October 2021)
 Jeremy Bartlett (Appointed 1 October 2021)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Directors' fees and emoluments

Amounts paid to directors during the year are disclosed in Note 3 (f).

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

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

Luke Forau	Governor
Raynold Moveni	Deputy Governor
Jimmy Sendersley	Director SIFIU
Michael Kikiolo	Management Advisor Policy
Marlon Houkarawa	Management Advisor Operations
Sonia Marahare	Board Secretary/ Legal Advisor
Ali Homelo	Chief Manager Financial Markets and Exchange control
Joe Vasuni	Chief Manager Currency Banking, and Payment
Louisa Baragamu	Chief Manager Economics Research and Statistics
John Bosco	Chief Manager Human Resource and Corporate Services
Emmanuel Gela	Chief Manager Finance and Accounts
Daniel Haridi	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:

	2021	2020
	\$'000	\$'000
Short-term employee benefits	3,876	3,876
Long-term benefits	1,008	483
	4,884	4,359

Short-term benefits include

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 2021 loans by the Bank to key management personnel were as follows:

	2021	2020
	\$'000	\$'000
Housing loan	2,007	1,686
Personal loan	111	155
Management car loan	611	595
Staff Special loan	43	-
	2,771	2,436

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

interest income relating to investments in Government securities. The Bank also made no payment to the Government in accordance with Section 34 of the Central Bank of Solomon Islands Act, 2012 during the financial year 2021. The balance of the Bank's investment in Government securities at year end amounted to \$185m (2020: \$64.9m).

25. Commitments and contingent liabilities

The Banks guarantee scheme for staff housing loans is no longer available to staff since 2011 and its obligation has now reduced to zero from \$0.79 million in 2020

Approved but undisbursed staff housing loan at end of 31 December 2021 was \$1,684 million

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 2021, a total of 23 (2020:12) loans with a net guarantee of \$4.740 million (2020: \$7.40 million) 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 2021 is \$1.6 million. Approved commitments in 2021 in relation to this project totalled to \$13.6 million

26. Impact of Covid-19

Following the recession in 2020, the global economy in 2021, according to IMF, rebounded on the back of substantial fiscal and monetary support and availability of COVID-19 vaccines ensuring economies gradually opened up from the lockdowns. The Solomon Islands as a small island economy, on the other hand, has limited sizeable fiscal space to fast-track the economic recovery. The on-going pandemic together with the measures to evade community outbreaks has therefore dragged on economic activity. Vaccination rolled out in April, however, the uptake was very slow, thus, far below the targeted rate to re-open the borders.

Despite the commencement of donor-backed public infrastructure constructions such as the national stadium for the Pacific Games scheduled for 2023, and the Honiara International Airport expansion, general economic conditions remained subdued. The country's exports declined by 4%, government revenue by 14%, lending to the private sector by 0.5%, and SINPF (active and slow active) members contributions as a proxy for employment declined by 3%. The riot, arsons, and lootings in the capital city in late November further crippled the economy. All these together, CBSI estimated the real economy in 2021 to contract by 0.6%. With the surge in international crude oil prices in the second half of the year and the riot-induced supply shortages, inflation reached 2.5% at the end of the year. To support foreign exchange reserves, the IMF allocated additional SDRs of SDR19.9 million in August providing the country with a supplementary comfortable level of foreign reserves.

Central banks' monetary policy around the world remained broadly accommodative to support the economic recovery. As such, policy rates stayed low impacting earnings on financial investments including the CBSI's incomes on its foreign investment portfolios. On a similar stance to other central banks, CBSI also continued with an expansionary monetary policy to support the government economic policy of recuperating the economy and in consideration that the forecasted inflation rate in 2021 is to be contained at the desired rate. As such, CBSI maintained its statutory cash reserve requirements at 5%, Bokolo bills capped at \$430 million, and in the second half of the year purchased additional \$60 million government bonds through the secondary market. Moreover, in July given the comfortable level of foreign reserves, CBSI liberalised certain exchange control requirements and focused more on compliance.

27. 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.



