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This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to June 30th, 2022 unless stated otherwise in the relevant chapters/sections.

TABLE OF CONTENTS

Pages

LIST OF CHARTS

LIST OF TABLES

LIST OF BOXES

Abbreviations

CBSI	Central Bank of Solomon Islands
2H21	Second half of 2021, which ended 31st December 2021
1H22	First half of 2022, which ended 30th June 2022
NPS	National Payment System
SIG	Solomon Islands Government
SINPF	Solomon Islands National Provident Fund

Chapter 1: OVERVIEW OF INTERNATIONAL & DOMESTIC FINANCIAL CONDITIONS

1.1: International Financial Condition

Just as the world economy started to overcome the economic fallout stemming from the pandemic, the war between Russia and Ukraine ushered in supplemental speedbumps that decelerated post-pandemic recoveries and obscured passages toward a smooth coronomics [1]exit. Moreover, this has further intensified the build-up of risks, which if interacted with the pre-existing market volatility and economic impairments conceived during the pandemic, would threaten the future stability of the global financial system. Fortunately, risks to global financial stability remained controlled, reflecting financial resilience brought on by a series of fundamental capital reforms undertaken during the post-global financial crisis. Yet, due to the dynamic nature of risks and the ongoing global economic uncertainty induced by the Russia-Ukraine war, and the tenacity of the Corona Virus; the tranquillity of the financial system is still far-fetched. Hence, governments and central banks alike must maintain vigilance to fend off any risk to financial stability that comes to the fore.

Financial stability pressures are still far from over as financial risks and vulnerabilities remained elevated on several fronts despite efforts to control these risks. This pointed mainly to ambiguities clouding the economic environment, which was partially augmented by the Russian invasion of Ukraine. Indeed, the war in Europe and the associated sanction on Russia have further reinforced supply chain challenges, bolstering a sharp increase in commodity prices. This has ultimately added to the price hikes induced by the COVID-19 pandemic, thus amplifying inflationary pressures; posing challenges for policymakers. Central banks and governments were put at crossroads, faced with critical policy trade-offs aimed at taming inflation and supporting post-pandemic economic recoveries.

While a tighter monetary condition is necessary to contain a runaway inflation, emerging and developing economies are bearing the brunt of such policy actions. To be specific, a move by advanced economies toward a contractionary monetary policy, while is good for anchoring inflationary pressures in advanced economies, would hike global interest rates, increase borrowing costs, increase debt burden, and slow down capital flows to developing countries. Ultimately, these developments would have cascading effects on emerging and developing economies' performances, undermine their economic recovery efforts, and stifle future growth prospects. Hence, addressing such challenges amidst limited fiscal space demands a delicate and smart balancing act between safeguarding the recovery process and bringing inflation under control.

In parallel, a tight global financial condition may trigger sovereign and bank default risk. This would be distressing for banks and other financial institutions that hold large amounts of sovereign bonds. Banks and governments are interlinked through their primary role in interaction with the macroeconomic channels and are susceptible to the economy's performance. As such, given the weak economic prospects, governments' ability to bail out financial institutions in the event of stress is unguaranteed. A prolonged economic downturn will put a strain on governments' ability to provide the adequate backstops needed to support financial institutions navigating through shocks. Hence, banks that hold significant amounts of sovereign bonds, experience weak balance sheet positions, and are overly reliant on government bonds as sources for additional liquidity, capital and investments are vulnerable to risks of default. This vulnerability is much more pronounced for banks and other financial institutions with a high degree of interconnectedness. Importantly, this is because any adverse impact on one bank may subsequently affect another bank, sparking off a systemic banking crisis and triggering transmission shocks that would have contagion effects on other sectors of the economy. Thus, influencing financial instability.

On the other hand, technological changes have recreated the financial landscape through the integration of digital technologies into financial services. Financial technology (Fintech) changes the way financial services were distributed globally. While these transformations reduce the cost of financial service delivery, enhance customer banking experience and convenience, speed up transactions, and promote financial access and inclusiveness; it gives rise to new sources of risks and vulnerabilities. COVID-19 and the associated lockdowns have accelerated the growth of fintech, which to some extent, has overtaken the pace of regulatory changes leaving most regulatory frameworks obsolete. Efforts like adopting adequate reforms should be part of the measures to accommodate such changes while at the same time mitigating the accompanying risks and vulnerabilities. Failing to undertake fundamental reforms would elevate compliance issues, uncontrol competitions, AML/CFT noncompliance, excessive risk-taking, and under-pricing risk. Without an adequate regulatory toolkit to mitigate and underscore adequate regulatory intervention, it would prompt overcrowding issues that would lead to systemic risk that may threaten financial stability.

Nevertheless, risks to financial stability remained under control as nothing systemic that would threaten global financial stability has materialized so far. This is a culmination of commitments by banks, other financial institutions, governments, and central banks in ensuring financial risks are maintained at bay. More so, it is a manifestation of the policy support by central banks and governments alike in providing much-needed support during these trying times.

1 Coronomics – refers to the economic impact of the Corona Virus

1.2: Domestic Financial Condition

On the domestic front, the Solomon Islands is still recovering from the adverse economic impact of the COVID-19 pandemic; and the business disruptions caused by both the Honiara riot in November 2021 and the COVID-19 community transmission at the beginning of 2022. These events have combinedly affected economic activities in the country, exerting a bad influence on its performance. Domestic commodities output dropped by 16 percent at end of June 2022[2] . The outcome was driven mainly by weak performances in the agriculture and forestry sectors, particularly round log and copra. Other products such as fish catch, palm oil, cocoa, and coconut oil production showed positive performance albeit negligible to offset the decline in round logs and copra. Meanwhile, the proxy for manufacturing[3] trended upwards mirroring improvements in the manufacturing sector.

Despite the mixed outcome in the domestic economy, the financial system remained in good shape to absorb shocks during the review period. This outturn was owed to the commitments made by each licensed financial institution to ensure they remained resilient to financial shocks; the ongoing commitment by the national government to keep the economy afloat, and the regulatory forbearance by the Central Bank to assist the financial institutions and their customers.

In tandem with the above, the domestic financial sector continued to exhibit strong performance over the first half of 2022 (1H22). The banking sector whose assets constituted 60 percent of the overall domestic financial system's total assets recorded a positive net profit before tax (NPBT) of $69.4 million over the 1H22. The superannuation sector, which accounted for 38 percent of the financial sector's total assets, also registered a profit but was lower than that of 2H21. Meanwhile, both the insurance sector and the credit union, which constituted 1.5 percent and 1 percent of the financial system's total assets, also performed reasonably well with profits reaching $11.3 million and $1.5 million, respectively. These outcomes underpinned the build-up of capital buffers during the review period, further reinforcing the financial institutions' resilience and financial stability.

Albeit sturdy, the domestic financial system remained exposed to risks stemming from the ongoing frail economic condition compounded by the persistence of COVID-19 and geopolitical tension experienced in the country and abroad, including cyber risk due to the rapid growth of digital transformation in the financial space, the persisting impact of climate change, and outdated legal frameworks. Such risks, if culminated and interacted with each other, can potentially evolve into a systemic risk that may destabilize the domestic financial system. Hence, banks and non-bank financial institutions must build adequate buffers as well as put in place effective safeguard mechanisms to fend off such risks once they materialize or before they actually materialize.

1.3: National Payments System

Box 1: National Payment System

A National Payment System (NPS hereafter) is crucial to the smooth and reliable functioning of the financial sector and the overall economy. The NPS includes the entire matrix of institutional and infrastructure arrangements and processes for initiating and transferring monetary claims in the form of commercial bank and central bank liabilities. As in other systems, there are significant risks in payment systems both at the micro and macro levels. These risks include systemic risks, legal risks, credit risks and operational risks. To mitigate these risks, the Payment Systems Bill 2021 is developed to ensure the payments ecosystem is sufficiently robust and reliable to mitigate these risks. In addition, the core purpose of the Payment Systems Bill 2021 is to introduce principles and elements not covered under existing legislations which is key to having a safe, sound and efficient national payment system. Under this Payment Systems Bill 2021, CBSI is given the legal power to regulate and perform oversight over payment and other settlement services. Additionally, the Act provides for the execution of transactions conforming to internal rules of systems that are legally bonded and licensed by CBSI.

This reform from a manual system to an automated payment and settlement system will make services more convenient, enables payments to flow more smoothly within the domestic economy and across borders should the need arise in the future.

The ultimate goal is to provide Solomon Islands with modern and efficient payment system, besides addressing the risks that exist in the country's current payments landscape and ensure its resiliency, with the intention to strengthening and preserving domestic financial stability and increase the level of access to finance.

2 Obtained from CBSI Quarterly Review, June 2022.

3 Refers to CBSI's manufacturing index which is used as a proxy for manufacturing activities.

Chapter 2: FINANCIAL SECTOR RESILIENCE

2.1 Banking Sector Resilience

The banking sector has proven resilient in 1H22 despite the unprecedented impact of COVID-19 on the economy. Healthy earnings, coupled with robust capital position and abounding liquidity have enabled the banks and credit institutions to construct strong buffers. The sector continued to maintain a strong level of capitalization and remained above the 15 percent regulatory minimum threshold with Total Capital to Risk-Weighted Assets positioning at 30.5 percent by the end of June 2022. Furthermore, the asset quality of the lending portfolio remained stable in 1H22. The gross NPLs ratio[4] only increased by 0.5 percentage points to 10.9 percent. This slight increase did not deter the sector from achieving higher profitability which is crucial for strengthening its resilience as reflected in the positive return on assets ratio. In terms of its liquidity, the banking system's liquidity reserves remained strong despite experiencing a 5 percent fall in 1H22. This is indicated by the stable liquid to asset ratio, implying a sturdy ability to absorb substantial liquidity shocks.

Table 1: Banking Sector Financial Soundness Indicators, 1H19 - 1H22

	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Capital Adequacy								
Total regulatory capital-to-risk weighted assets ratio (RWAs) (CAR) >15%	31.1%	28.9%	31.3%	29.2%	33.7%	33.4%	32.9%	30.5%
Tier 1 regulated capital to risk weighted assets ratio >7.5%	30.0%	28.9%	30.8%	29.2%	31.5%	33.0%	31.2%	30.5%
Nonperforming loans (NPLs) net specific loan loss provisions-to-capital & reserves	11.8%	18.3%	18.0%	20.2%	16.6%	18.1%	13.9%	14.7%
Asset Quality								
NPL-to-total gross loans ratio	7.1%	9.8%	10.4%	11.8%	10.6%	11.4%	10.4%	10.9%
Specific loan loss provisions-to-NPLs (Coverage Ratio)	30.9%	25.5%	29.4%	27.9%	29.9%	28.7%	36.4%	36.2%
Earnings & Profitability								
Return on Assets (ROA)	3.5%	3.6%	3.1%	1.8%	2.1%	2.5%	2.3%	2.9%
Return on Equity (ROE)	20.4%	21.4%	18.3%	10.0%	11.8%	13.4%	12.4%	15.5%
Net-interest Income to Gross Income	54.6%	52.4%	53.6%	58.2%	59.1%	59.6%	58.2%	56.8%
Cost-to-income ratio	52.1%	52.5%	54.0%	56.4%	57.1%	58.3%	55.7%	57.1%
Non-interest income-to-gross income	45.4%	47.6%	46.4%	41.8%	40.9%	40.4%	41.8%	43.2%
Personnel expenses-to-noninterest expenses	30.9%	30.2%	29.7%	32.2%	31.2%	34.4%	32.5%	35.8%
Interest spread	10.4%	10.1%	10.0%	9.8%	9.6%	9.2%	9.1%	9.4%
Liquidity								
Deposits-to-loans ratio	158.4%	148.2%	143.0%	148.8%	152.7%	147.8%	152.0%	143.0%
Liquid assets-to-total assets ratio	40.4%	38.7%	37.4%	39.5%	45.4%	46.5%	46.4%	45.6%
Sensitivity to Market Risks								
Net open position in foreign exchange-to-capital <25%	4.1%	2.2%	2.1%	7.4%	2.4%	2.4%	2.9%	2.6%

Source: *Central Bank of Solomon Islands*

4 Non-Performing Loans (NPLs) to Total Gross Loans ratio

Box 2: CBSI Regulatory Policy Response to minimise impacts of COVID-19 on the Banking Sector

After the outbreak of COVID-19 in December 2019, the Central Bank of Solomon Islands saw an urgent need to intervene through a policy response to mitigate potential financial risks that could stem from the impact of COVID-19 on the global financial system; and the likelihood that the virus may be imported into the Solomon Islands; disrupting business activities and its financial system.

The regulatory policy response allowed licensed commercial banks and credit institutions in the country to restructure loans and advances of performing customers who have encountered financial hardship and whose cashflows plunged as a direct result of the COVID-19 pandemic, the supply chain disruptions and the containment measures the Solomon Islands government introduced to prevent or minimise the spread of the virus in the country. Specifically, CBSI waived provisions under Prudential Guideline No. 2 on Asset Classification and Minimum Provisions Requirement and Prudential Guideline No. 8 on Disclosure of Interests and Fees on the 3rd of February 2020. Initially, the first waiver was made for a period of 6 months but this was extended for another six months to accommodate the increasing demand from the banks and credit institutions. The waiver period subsequently expired on the 3rd of August 2022 following the dramatic decline of COVID-19 infection observed in the country together with the subsequent opening of international borders in June 2022 when the State of Public Emergency ended.

It was evident that the banks and credit institutions experienced the trauma and impacts of the pandemic even though the magnitude of the impact varies over the period of the regulatory policy response. All the banks and credit institutions have been providing relief or holiday payment of principal and interest over the regulatory policy response period.

From the second half of 2019 (2H19) through to the first half of 2022 (1H22), a total of 699 loans worth $856.9 million have either been granted holiday payments or restructured by banks and credit institutions.

Banks and credit institutions provided three types of payment relief for borrowers under stress. These were in the form of principal and interest relief payment; principal relief payment only; and interest relief payment only. Principal and interest relief payments constituted 84.7 percent of total reliefs while principal relief payment only ranked second with 10.4 percent and interest relief payment with 4.9 percent (Figure 1)

Figure 1 - Types of Relief offered by commercial banks and credit institutions

Type of Relief	Number of Loan Accounts	As % of Total
Principal and interest	592	84.7
Principal only	73	10.4
Interests only	34	4.9
Total	699	100
		Source: *Central Bank of Solomon Islands*

It is also worth noting that the most desirable relief period was 6 months with 69.6 percent of the loan accounts while three months, twelve months and less than three months relief periods claimed 25.3 percent, 2.9 percent and 2.2 percent respectively of total loan accounts over the two and half years.

While it varies across different financial institutions, total restructured loans proliferated in 1H20 to $625.3 million from $0.3 million in 1H19, underpinning uncertainties surrounding the severity of credit risk and the impact it has on the banks' and credit institutions' overall income. This points to the compounding challenges faced by banks and credit institutions over the past two and a half years. The reliefs, however, eased since 2H20 despite the entry of the virus in early 2022. Simultaneously, restructured loans declined steadily from 2H20 through to 1H22.

The banking sector directly shouldered the impact of COVID-19, especially in 1H20. More than 24 percent of the sector's total loan book was affected in 1H20. Fortunately, the value of restructured loans eased to lower than 5 percent in 2H20.

With the Central Bank's regulatory policy response and the commercial banks' and credit institutions' ongoing commitment to provide loan relief payments and manage the restructured loans, the value and number of nonperforming loans recorded in 1H20 and 2H20 were contained around 3.3 percent and 6.9 percent of the total restructured loans respectively. It is relevant to note that all the nonperforming loans, which amounted to $15.1 million were recovered in the year 2020. Zero nonperforming loans were reported for other review periods.

Figure 2 - Data on loans that had been provided loan repayment holidays

Source: *Central Bank of Solomon Islands*

It becomes apparent that commercial banks and credit institutions in the domestic banking industry would have experienced firsthand the worst adverse impact of COVID-19 on the quality of their loan portfolios. However, measures undertaken both by CBSI and lending financial institutions ensured borrowers who should have defaulted on their loan repayments were protected and this helped preserve loan qualities of the banking sector. In summary, this success vividly demonstrates the need for such timely policy intervention during a crisis in the future.

2.2: Superannuation Sector Resilience

The superannuation sector[5] demonstrated resilience in the 1H22, notwithstanding the challenges of the COVID-19 pandemic and related weak economic conditions. The sector's stability and buoyancy were attributed to strong liquidity conditions and improved capital position during the reviewed period that equaled pre-COVID-19 pandemic levels. This reflected positive results in profitability against a backdrop of declining membership contributions[6] in the 1H22. The superannuation sector continues to grow members' funds and has so far managed to keep the impacts on core investments under control. To remain resilient in this highly uncertain environment is a testament of the superannuation management's commitment to ensure the sector is financially and operationally stable and is able to perform its mandated role in the best interest of its members.

Table 2: Superannuation Sector Financial Soundness Indicators, 1H19 - 1H22

	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Capital Adequacy							
Capital to total assets	18.8%	12.0%	12.3%	9.2%	11.9%	11.8%	13.0%
Asset Quality							
Substandard investment assets to total investment assets	3.5%	3.4%	3.2%	2.3%	1.2%	0.9%	0.9%
HHI (Exposure by Class)	3070.3	3056.1	2959.5	2972.6	2917.1	3016.1	3070.7
Earnings & Profitability							
Return on earning assets ratio (L >=2.5%, M<=-1.5%)	13.1%	8.4%	10.5%	6.2%	7.6%	4.9%	16.5%
Cost to income ratio (L 50%, H>70%, E>85%)	11.1%	18.2%	74.7%	104.7%	23.0%	21.0%	32.5%
Return on assets ratio (L >5%, M>1%, H>0.5%, E<0.5%)	18.2%	8.4%	0.0%	-0.6%	6.8%	7.9%	2.2%
Liquidity							
Liquid assets to total value of members contribution ratio (L >30%, M<14.9%)	175.7%	99.6%	92.6%	133.6%	166.7%	102.0%	159.4%
Liquid assets to total assets ratio (L >20%, M<10%)	24.4%	23.7%	21.7%	22.0%	22.5%	19.5%	20.7%

Source: *Central Bank of Solomon Islands*

2.3 Insurance Sector Resilience

While the insurance industry was struggling to overcome the effect of the 2021 Honiara riot and the ongoing economic distress derived from the pandemic, the COVID-19 outbreak experienced at the dawn of 2022 exerted further challenges for the local industry. Movement of people, together with economic demand and supply chains, were impacted and halted following the enforced COVID-19 lockdown pronounced by the Government as a measure to curb the community transmission of the virus on 30th January 2022. Businesses including the insurance industry were forced to retreat behind home doors and operated remotely for fear of contracting and spreading the virus but at the same time maintained essential customer services over the lockdown period. Indeed, this has put a test on the sector's operational resilience and business continuity plans. Brokers and insurers alike, leverage digital technologies to maintain insurance services and communications with policyholders. However, inadequate telecommunication infrastructures, poor network connectivity, and congested internet traffic hobbled the industry's efforts to carry out remote operations effectively. To alleviate these challenges, insurers and brokers requested the SIG to include the insurance industry as part of the essential services. This request was considered and later approved, with a provision allowing key staff of brokers and insurers to work from office during the lockdown and attend to immediate insurance service needs. However, despite securing exemption passes for the lockdown, the pandemic's toll on the industry's human resources was beyond their anticipation and consequently continue to weigh down the industry's overall operational activities during the lockdown periods.

Against these backdrops, the insurance sector remained buoyant, with its capital position posting 67.8 percent[7] in Net Premium to Capital ratio (NPCR), and 47.5 percent[8] in the Capital to Total Assets ratio (CAR). Both ratios implied sufficient capital held by insurers to cushion future losses. Sufficiency and adequacy of capital is also reflected by higher risks retained by the industry at 73.6 percent with only 26.4 percent of risks ceded offshore. This favour-

5 Comprises of the only superannuation in the country which is Solomon Islands National Provident Fund (SINPF)

6 Due to minor employee redundancies in the private sector as result of November 2021 riots and imposed COVID-19 national government policies in the 1H22.

7 NPCR measures the adequacy of insurers capital to cushion net premium risks in accordance to the Kenney rule. This rule specifies that insurers can retain net premium up to a 2-to-1 ratio (200 percent or less) against policy holder's surplus (Net Assets/Capital) before insurers' capital adequacy becomes a concern.

8 CAR measures the extent to which the capital of an insurer can bear asset risks. A higher ratio reflects higher net assets (assets less liabilities) available which effectively reduces industry's overall asset risks

able capital position resulted from a 25 percent rebound in Gross Written Premium following a decline of 26 percent recorded in December 2021, while the industry's net profit after tax (NPAT) surged notably from a negative $2.3 million in 2H21 to $8 million at the end of 1H22. The improved profit was mainly driven by the drop in net claims, as depicted by the low claims ratio of 6.5 percent recorded in 1H22 compared to 62.1 percent in 2H21. The low claims ratio is attributed to careful risk selection when underwriting new policies and the renewal of existing policies by insurers. It is also owed to the industry's conservative risk appetite amidst a sluggish economic environment with limited business opportunities.

In spite of the lower claims and improvements in underlying profitability, the expense ratio for the period although hovered slightly around the pre-COVID-19 level increased to 45.7 percent. The slight increase signalled renewed commitments from the industry to improve insurance business operations and service delivery. Thus, insurance firms depend very much on the ongoing technical support provided by parent companies (Head Offices) to maintain operational efficiency and kept align with unanticipated strategies redirections.

In terms of liquidity, the industry remained solvent to meet immediate run-offs and short to medium-term obligations. This is evident from the 11.4 percent increase in the industry's liquidity position to 104.9 percent, owing to an 8 percent drop in total demand deposits for the industry. This was attributable to large claims settlement for 2H21 which on the upside reduced the industry's overall liabilities by 18 percent and improved the industry's overall stability. Debtors to Total Asset ratio stood at 18.7 percent and 48.1 percent for Debtors to Gross Premium and Reinsurance Recoveries. Despite a marginal increase in the industry's debtors for 1H22, insurers continued to show persistence through effectively exercising prudent debtor's control on brokers and policyholders and ensure they settle dues within policy credit terms. Customers facing cashflow difficulties were granted leniencies to settle dues beyond credit terms or an option to do premium instalments but under tight controls & monitoring regimes. Overall, the general industry remained stable and focused on core business activities with limited investments made domestically or abroad as portrayed by the low investment income ratio of 0.8 percent.

Table 3: Insurance Sector Financial Soundness Indicators, 1H18 - 1H21

	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Capital Adequacy							
Net Premium to Capital	91.8 %	83.2 %	62.4%	57.6%	71.0%	53.8%	67.8%
Capital & Reserves to Total Assets	41.7%	43.5%	41.1%	47.2%	41.2%	40.5%	47.5%
Asset Quality							
Debtors to Total Assets	15.3%	16.2 %	15.8 %	14.8%	14.7%	14.7%	18.7%
Debtors to (Gross Premium + Reinsurance)	28.f %	29.1 %	38.8 %	44.6%	36.5%	36.5%	48.1%
Reinsurance & Actuarial Issues							
Risk Retention Ratio	81.7%	69.3%	72.4%	82.1%	67.6%	65.0%	73.6%
Adequacy of Claims							
Loss Ratio (Net Claims to Net Premiums)	5.4%	16.2%	29.1%	12.2%	18.8%	62.1%	6.5%
Earnings & Profitability							
Expense Ratio (Expense to Net Premium)	46.5%	44.2%	42.2%	34.6%	55.1%	40.4%	45.7%
Combined Ratio (Net Claims + Expense to Net Premiums)	52.0%	60.5%	71.3%	46.8%	73.8%	102.4%	52.2%
Investment Income Ratio (Investment Income to Net Premium)	1.2%	1.3%	-3.4%	1.6%	0.5%	1.7%	0.8%
Return on equity	41.0%	32.2%	11.8%	28.1%	16.1%	-3.8%	28.1%
Return on Asset	17.1%	14.0%	4.8%	13.3%	6.6%	-1.5%	13.4%
Liquidity Ratio							
Liquid Assets to Short Term Liabilities	97.9%	89.0%	84.7%	97.5%	114.4%	93.5%	104.9%

Source: *Central Bank of Solomon Islands*

2.4 Credit Union Sector Risilience

The credit union sector [9]continued to perform well and remained resilient in 1H22, tolerating the challenges and uncertainties generated by the COVID-19 pandemic. Like other financial service providers, the impact of the COVID-19 outbreak on credit unions has been huge and unprecedented. Despite constituting only 2% of the financial market share, the sector is important to the country's financial system. Therefore, its resilience is important to the stability of the overall financial system. The severe COVID-19 condition in 1H22, however, did not deter the sector from achieving a capital adequacy ratio of 35 percent to remain above the regulatory requirements of 10 percent. This is reflective of profit growth and strong liquidity positions, indicating relative stability of the sector to withstand negative shocks or other unforeseen losses. Again, with adequate liquidity, strong capital, strong supervision, employers' support, strong management decisions and determination to ensure continuity in credit unions operations with proactive strategies; the sector is equipped with resilient tools to navigate through this uncertain economic environment and continue to provide protection over members-owners funds.

In light of the pandemic and the mobility restrictions, the Office of the Registrar of credit unions (RO) continued to perform its mandated role virtually through the utilization of digital technology. The ongoing supervision and quarterly bilateral consultations conducted by the regulator were critical to ensuring resilience and stability within the credit union sector. Such actions not only support the operation of the credit unions sector but also provides assurance of the safeness of the sector's members' fund, thereby promoting trust and confidence in the industry and alleviating panic and mistrust that may affect members.

Table 4: Credit Union Sector Financial Soundness Indicators, 1H19- 1H22

	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Balance Sheet (SBD million)							
Total loans	50.3	50.7	52.6	55.8	56.5	56.8	55.5
Total Assets	85.1	79.8	81.5	84.9	92.3	93.0	92.9
Total Deposits/Savings	63.1	50.4	51.2	51.3	54.2	55.0	53.4
Total Share capital	18.4	26.1	26.1	27.7	31.9	31.6	32.6
Income Statement (SBD million)							
Income	4.4	4.5	2.9	4.2	3.8	4.3	3.8
Expenses	2.5	2.1	1.6	2.6	2.3	3.1	2.3
Net Surplus	1.9	2.4	1.5	1.6	1.5	1.2	1.5
Statistics							
Membership	6,750	6,790	6,795	6,800	6,850	6,850	6,850
No. of Reporting Credit Unions	10	10	10	10	10	10	10
Capital Adequacy							
Capital to Total Asset Ratio	22%	33%	32%	33%	35%	34%	35%
Earnings & Profitability							
ROA	2.2%	3.0%	1.8%	1.9%	1.6%	1.3%	1.6%
Loans to Assets	59.1%	63.5%	64.5%	65.7%	61.2%	61.1%	59.7%
ROE	10.3%	9.2%	5.7%	5.8%	4.7%	3.8%	4.6%
Self Sufficiency Ratio	176.0%	214.3%	181.3%	161.5%	165.2%	138.7%	165.2%

Source: *Central Bank of Solomon Islands*

9 Credit unions that are reported to the Central Bank are captured in the FSR.
10 out of 147 credit unions are currently reporting to Central Bank.

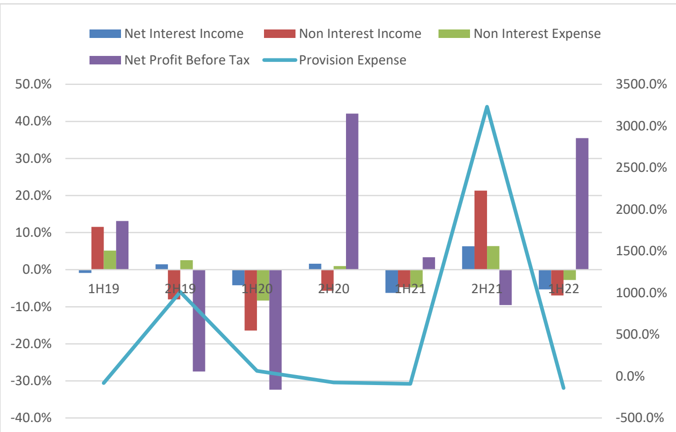
Chapter 3: FINANCIAL SECTOR PERFORMANCE & DEVELOPMENTS

3.1 Banking Sector Performance

Even though the country faced widespread community transmissions of COVID-19, the banking sector remained profitable in 1H22. The Net profit Before Tax (NPBT) of the banking sector increased significantly by 38.2 percent in 1H22 after recording a negative 9.5 percent growth in 2H21. This recovery was largely driven by the reduction in loan loss provisions during the reporting period. The reductions were necessary given the losses from November 2021 riot and anticipated losses from COVID-19 were lower as previously expected.

Delving deeper, both net interest income and non-interest income fell by 5.3% and 7% respectively due to COVID-19 restrictions in 1H22. Despite the fall, interest on loans and advances continued to dominate the core sources of income for the sector. Profitability in the sector remained and was further supported by a fall in non-interest expenses, which fell by 2.8% during the reporting. The decline was driven by the loss on sale of fixed assets due to the November 2021 riot, a reduction in consultancy fees in 1H22 and rent expense deferred as per IFRS 16 standard.

Figure 1: Banking Sector Half Year Growth, 1H19-1H22

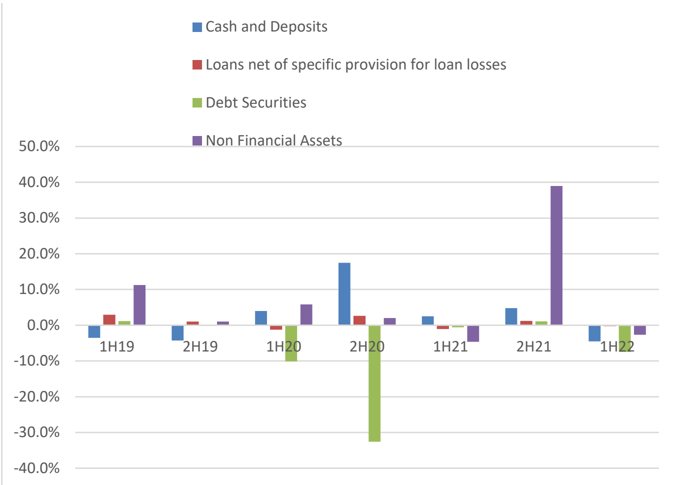


Source: Central Bank of Solomon Islands

The banking sector continued to hold a significant proportion of the assets in the financial system, representing 60 percent of total assets. According to the banking sector's data, total assets fell by 3.3 percent, which in value terms, amounted to a fall of $220.8 million to reach 6.4 billion at the end of the reporting period. The decline was driven by a decrease in demand balances due from depository institutions. This is predominantly induced by a fall in foreign currency deposits held by banks due to direct withdrawal by customers coupled with an increase in imports in 1H22. Furthermore, debt securities held by commercial banks decreased by 7.5%, owing to a fall in the demand for Central Bank securities relatively attributable to CBSI's monetary policy responses to ease CRR to 5 percent from 7.5 percent and maintaining of Bokolo Bills stock at $430 million as measures undertaken to counter economic impacts of COVID-19 during the reporting period. Similarly, non-financial assets also fell in 1H22 mainly due to loss of assets from November 2021 burning in Honiara.

Corresponding to the downsizing of the balance sheet, consolidated deposits for the banking sector slipped by 3.7 percent in 1H22 from a growth of 2.4 percent reported in 2H21. The trend was primarily attributable to a fall in demand deposits which may indicate customers' decision to hold more liquidity due to uncertainties surrounding COVID-19. Despite the decline, deposits continued to remain the most stable source of funding for the sector.

Figure 2: Banking Sector Half Year Growth in Assets, 1H19- 1H22

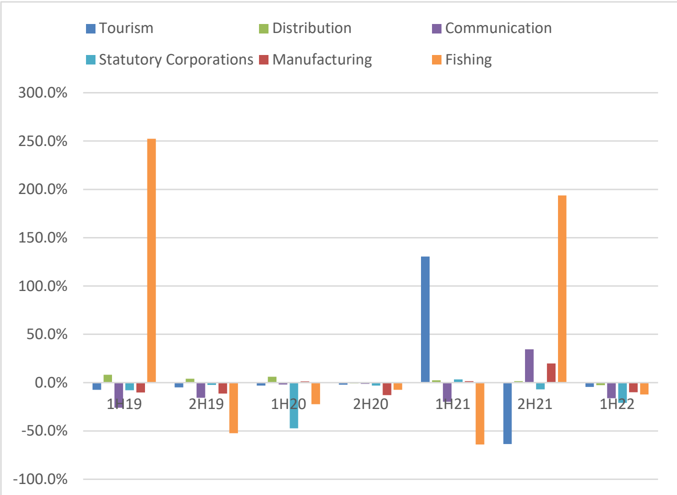


Source: Central Bank of Solomon Islands

Banks' credit level remained unchanged at $2.61 billion in 1H22. This stagnated growth signifies that banks are still cautious largely about the creditworthiness of new borrowers as COVID-19 continues to have negative impacts on businesses and the economy. Over the review period, loans and advances to several key economic sectors fell (see Figure 3), whilst agriculture, construction and transportation experienced marginal increases.

In terms of sectorial distribution of gross loans, personal sector continued to dominate the loan portfolio in 1H22 with 35.3 percent. This is followed by distribution with 22.8 percent and construction accounted for 13.3 percent. The remaining sectors constitute the outstanding 28.6 percent of the portfolio.

Figure 3: Banking Sector Half Year Growth in Key Loans and Advances by Sectors, 1H19- 1H22

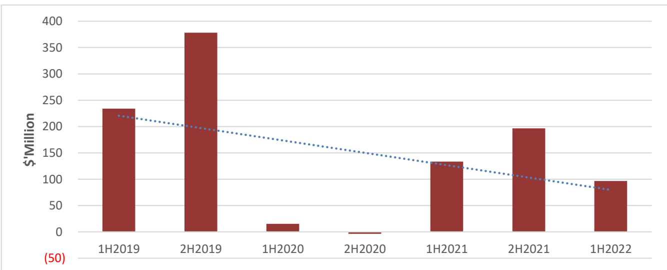


Source: *Central Bank of Solomon Islands*

3.2 Superannuation Sector Performance

Amidst the spate of uncertainties induced by the COVID-19 crisis, the superannuation sector managed to exhibit positive performance during the 1H22. The sector recorded a positive unaudited net profit of $90.8 million over the review period. Against a strong growth experienced in 2H21, the recent half year's profit was notably lower by 53 percent predominantly owing to negative unrealized gain from offshore investments. Albeit the fall, the overall sector's performance remained favorable and one significant facet of these positive results was revenue earned from domestic investment through income received from dividends, rentals, and interest.

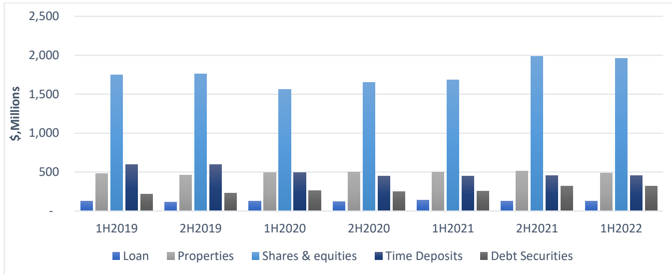
Figure 4: Superannuation Sector Half-Year Net Profit, 1H19- 1H22



Source: *Central Bank of Solomon Islands*

Total assets held by the sector edged upwards by 2 percent from 2H21, reaching $4.2 billion in 1H22. The growth emanated mainly from a rise in demand deposits with commercial banks that was associated with cash received through members' contributions. Investment assets constituted the highest portion of the total asset at 87 percent followed by demand deposit balances with 6 percent, properties and equipment at 5 percent and other assets accounted for 2 percent correspondingly. On the liability side, members' contributions account for the highest portion of total liabilities representing 96 percent. Also, notable as at the end of June 2022, both special death benefits and special provisioning for losses increased by 26 percent and 6 percent, respectively.

Figure 5: Superannuation Sector Half-Year Investment Composition, 1H19- 1H22



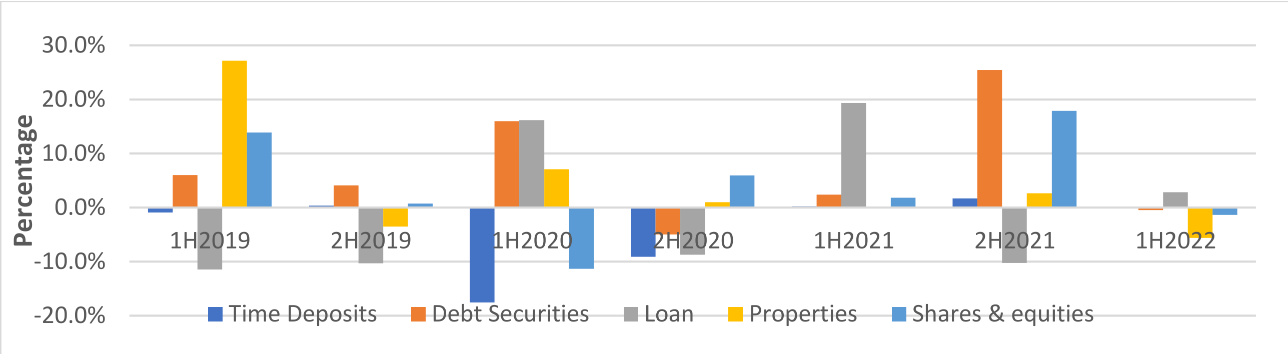
Source: *Central Bank of Solomon Islands*

The narrow investment opportunities in the local market remain a challenge for the superannuation sector to diversify its investment portfolio. Equity represents a sizable portion of the investment portfolio which accounted for 57 percent followed by term deposits with commercial banks, investment property, debt securities represented 17 percent, 13 percent, and 9 percent respectively while loans accounted for the remainder.

With the underlying global and local economic conditions, total investment marginally decreased by 1 percent in 1H22 following a notable increase of 10 percent in 2H21. The subsequential declining trend ensued as the local economy faced its first COVID-19 community transmission during 1H22 bringing an unprecedented source of uncertainty, hence inevitably no new investment was undertaken during that period. In addition, the unit prices for the offshore investment in EURO, AUD, and KINA fell during 1H22 thus triggering the downward trend in the total investment. Therewith, the total investment assets amounted to $3.63 billion of which 92 percent was invested locally while the remaining 8 percent is invested offshore.

Notwithstanding the extraordinary policy directions of SIG, particularly regarding the mandatory COVID-19 vaccination policy, members' funds continued to grow but at a moderate rate. The loyalty of both formal and informal segments is apparent in 1H22 as employers and contributors under the YouSave Saving scheme continued to remit members' contributions to the fund. This resulted in a 2 percent increase in total contributions receipts which amounted to $179.1 million in 1H22. The formal sector accounted for 92.7 percent of the total members' contributions while the remaining 7.3 percent was constituted by the informal sector indicative of YouSave contributors.

Figure 6: Superannuation Sector Growth in Investment, 1H19- 1H22

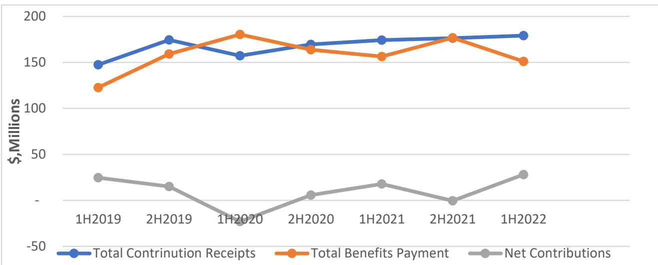


Source: *Central Bank of Solomon Islands*

In 1H22, the number of members reaching the retirement age increased, representing an 8 percent decline in membership; slightly lower than the 12 percent growth recorded in 2H21. There are two main reasons for the decline in the superannuation fund's membership: i) members exiting upon reaching retirement age, and ii) members migrating to other countries. Nevertheless, new member entrants into the superannuation fund are also detected over the review period, generally 10 percent from the formal sector and 4 percent from the informal sector.

The sector's liquidity position remained strong in 1H22

Figure 7: Superannuation Sector Growth in Dollar Value of Members Contributions & Benefits Payments, 1H19- 1H22



Source: *Central Bank of Solomon Islands*

as supported by the core liquidity ratio trends. Despite being confronted with the community transmission of COVID-19 and the accompanying multifaceted challenges, the Board and Management exemplify unwavering commitment to ensure the superannuation sector remained well capitalised and have adequate liquidity to sustain the sector's ongoing operation.

3.3 Insurance Sector Performance

Despite a slow start for 1H22, the insurance sector passed through the first six months of the year with a strong comeback in underwriting performance as evidenced by a 25 percent improvement from 2H21, totalling to $36.8 million in Gross Written Premium (GWP); just 8 percent from 1H21 performance. Fire class remains the largest contributor to the industry's premium pool of $13.1 million mainly reinforced by insurance renewal covers from existing commercial clients with minimal new business acquired during the period. Motor vehicle class on the other hand contributed $5 million in GWP; proportionate to the growing number of vehicle importation observed in the country; followed by workers compensation class posting $4.8 million in GWP; trailed by Contractors All Risks class and House Content with $3.9 million and $2.8 million in GWP, respectively. The remaining industry portfolios contributed less than $2 million each to the overall industry premium pool. Notably, the sluggish economic growth compounded by COVID-19 has ushered firms to be conservative, thereby imposing new changes to underwriting risk selections criteria such as not offering insurance coverage for travel and excluding riot, strikes and civil commotion (RSCC) extension covers for new or renewed policies.

Furthermore, net claims for the domestic underwriters significantly improved by 86 percent during 1H22 after incurring heavy losses in 2H21. Outstanding riot claims, mostly delayed by loss adjusters' assessments due to their travel restrictions, were cleared out by insurers with minimal new losses observed for the period attributed also to the slowdown in economic activities for the first half of the year. The bulk of the claims stemmed from Fire class [10] posting $0.8 million followed by Motor Vehicle class with $0.7 million. House Contents and Contractors All Risk both posted $0.2 million each in total claims respectively. Remaining industry claims were attritional[11] and transpired mainly from Burglary, Marine Cargo and Hull, General Accidents, Professional Indemnity and Public Liability (See table below). For other riot related claims with offshore insurers, brokers are still co-managing with loss adjusters to settle the outstanding claims.

Total reinsurance premium cost for the industry improved by 6 percent to $9.7 million in 1H22 from $10.2 million

10 Fire class normally reported larger amount in claims due to large sum insured coverage.

11 Attritional Losses- Losses not related to major Catastrophic events or exposures.

observed for 2H21. This pointed to good underwriting and risk management employed by domestic insurers in facilitating the spread of its insured risk across the global industry to minimize local industry exposure to multiple large events and catastrophic losses. Also, it portrays the industry's capability to underwrite within its risk appetite and retain risk that can be supported by the industry's current capital.

As net profit gradually improved to $8 million from a $2 million loss, the industry continues to remain cautious as not to underwrite risks that are short termed or beyond their risk appetite, particularly with emerging opportunities coming from large aid donor projects.

Industry's expenditure on the other hand slightly increased by 3.7 percent from 2H21 owed to an increase in other operating and management expenditures which has

Figure 8: Insurance Sector Earned Premium Against Net Claims 1H22 (General Insurance)

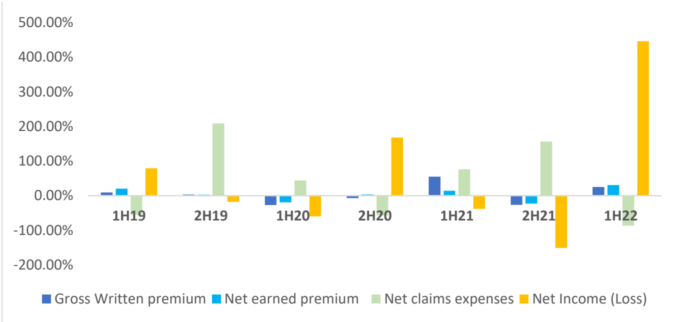
Source: *Central Bank of Solomon Islands*

doubled to $5.7 million from $2.4 million. Commission expenditure for brokers also increased by 7 percent in 1H22 coupled with a 31 percent increase in the industry's levies and charges.

Despite the quick recovery in the industry's performance, the general insurance aggregate assets dwindled further by 4 percent. This resulted from a reduction in financial assets caused by large settlements of claims in 2H21 and marginal claims in 1H22. Other assets within the industry's balance sheet also dropped by 28 percent and 27 percent respectively from the previous two periods. Nevertheless, the sector retained a sufficient solvency position with adequate liquid assets available to cushion the industry's total liabilities. Capital and reserves for the sector continued to improve by 13 percent after a flop of 7 percent in 2H21. Overall, the general insurance sector which constitutes 91 percent of the industry's total assets continued to remain stable, evident from its ability to quickly recover after incurring significant losses in 2H21.

Life insurance on the other hand remained a small segment of the domestic insurance industry with very few

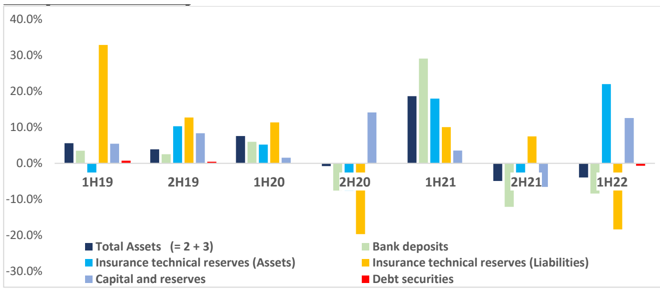
Figure 9: Insurance Sector Half Year Growth in Key Components of Income Statement, 1H19 - 1H22 (General Insurance



Source: *Central Bank of Solomon Islands*

products on offer. The sector contributes a total of $2.9 million in GWP during 1H22 with a net claim settled of $1.3 million during the period. Net profit slightly improved in 1H22 to $0.7million from $0.1 million in 2H21, however throughout the riot period and COVID-19 community transmissions, the sector has been very quiet with minimal movement observed. Total assets for the Life insurance sector was reported to be 10 percent of General insurance

Figure 10: Insurance Sector Half Year Growth in Major Assets and liabilities, 1H19-1H22 (General Insurance)



Source: *Central Bank of Solomon Islands*

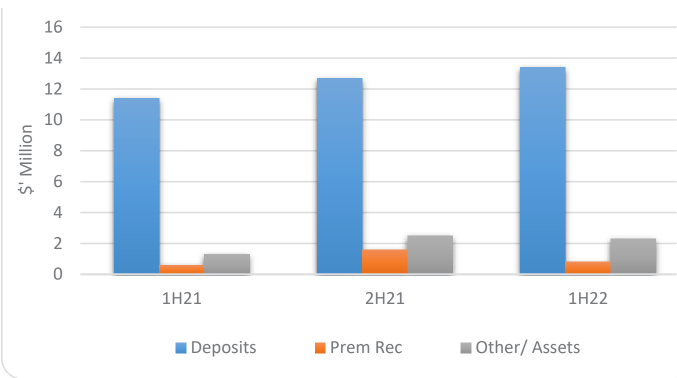
total assets for 1H22, much of which is comprised of liquid assets with depository institutions. Overall liquidity position for life insurance remains sufficient to meet immediate dues of the life insurance policy holders.

Table 5: Insurance Sector Industry Distribution of Gross Written Premium by Class, 1H21-1H22

Distribution of Gross Written Premium 1H22	$ Millions		Percentage Change		Share	
Portfolio by Class	**1H21**	**1H22**	**1H21**	**1H22**	**1H21**	**1H22**
Burglary	0.092	0.060	217%	-35%	0.23%	0.16%
Contractors All Risks	3.333	3.919	284%	18%	8.35%	10.64%
Employers Liability or Workers Compensation	5.412	4.824	49%	-11%	13.57%	13.10%
Fire	14.767	13.182	31%	-11%	37.02%	35.79%
Home Contents and House Owners	4.570	2.866	113%	-37%	11.46%	7.78%
Marine Cargo	0.550	0.651	4%	18%	1.38%	1.77%
Marine Hull	0.018	0.013	38%	-28%	0.05%	0.04%
Motor Vehicles	5.214	5.081	55%	-3%	13.07%	13.80%
Motor Vehicles (CTP)	0.924	0.535	129%	-42%	2.32%	1.45%
Personal Accident	1.055	1.600	-12%	52%	2.64%	4.34%
General Accident	0.183	0.187	-14%	2%	0.46%	0.51%
Professional Indemnity	0.573	0.597	25%	4%	1.44%	1.62%
Public Liability	1.324	1.33	9%	0.3%	3.32%	3.61%
Miscelleneous	1.879	1.989	-19%	6%	4.71%	5.40%
TOTAL	**39.89**	**36.83**	**44%**	**-8%**	**100%**	**100%**

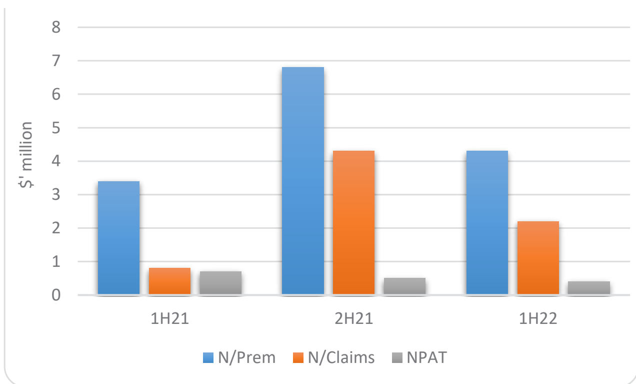
Source: *Central Bank of Solomon Islands*

Figure 11: Life Insurance Sector Half Year Distribution of Major Assets & Liabilities, 1H21 – 1H22



Source: *Central Bank of Solomon Islands*

Figure 12: Life Insurance Sector Half Year Profit Performance, 1H21 – 1H22



Source: *Central Bank of Solomon Islands*

3.4 Credit Union Sector Resilience

The first half of 2022 has been challenging for the credit union sector. The sector's balance sheet experienced a decline over the 1H22 due to reduction in lending activities and savings deposits. Nevertheless, credit unions were able to withstand the adverse impact of the COVID-19 pandemic, which enabled them to overcome cashflow pressures and continued to serve members. The sector strives to stay afloat during the pandemic is a testimony of perseverance to maintain the mandated obligation to members during such period of uncertainties. This is manifested by the positive upswing in profit by 25 percent witnessed during the period. Conversely, most credit unions have scaled down their operations by providing only minimal services and support to members, while at the same time concentrating on managing key operational risks facing the institution. As part of their control to mitigate credit risks, other credit union undertook strategic redirections from their usual practice of issuing unsecured loans to only 100 percent secured loans to members.

Reduction in loans and time investment impacted the total assets which fell marginally by 0.11 percent in 1H22 compared to 2H21. Similarly, total deposit and savings growth slowed to $53.4 million from $55 million recorded in 2H21. This resulted from the negative pressures compounded in part by weak economic performance and high inflation which puts a strain on the financial health of members leading to the cutback of deposits and savings. Nevertheless, deposits and savings remained the single largest source of finance for loan funding and buttressing. Meanwhile, total loans constituted 59.7 percent of the total assets portfolio for the sector.

The COVID-19 community transmission at the beginning of the year has caused credit unions to practice social distancing thus reluctant to provide loans to members, causing a reduction in the lending portfolio by 2.34 percent. As anticipated, the sector will continue to face long-run challenges. With the ambivalence relating to the pandemic and the weak economic conditions, credit unions' future viability still remained uncertain.

Chapter 4: KEY VULNERABILITIES & RISKS TO THE FINANCIAL STABILITY IN THE SOLOMON ISLANDS

4.1 Banking Sector Vulnerabilities & Risks

The vulnerabilities for the banking sector remain the same in 1H22.

While banks showed resilience in 1H22, the presence of COVID-19 in the country continues to bring uncertainty. Potential credit risk arising from delays in payments from the Solomon Islands Government (SIG), slow selling of collaterals in the current market and with the addition of the newly approved SIG policy on rental accommodation induces a high-risk rating on the inherent risk of credit quality. However, with internal controls and strategies put in place by banks and credit institutions, residual credit risk is medium.

The sector's operational risk is rated low[12] in spite of the high cost to income ratio. Banks and credit institutions implemented work from home strategies under the new normal during the height of the COVID-19 pandemic, lockdowns and curfews in 1H22. In spite of these disruptions, banks were able to maintain business operations and meet regulatory requirements.

4.2 Superannuation Sector Vulnearbilities & Risks

The superannuation sector remained stable throughout 1H22. Nonetheless, vulnerabilities and risks persist and additional risks have come to the fore.

For the sector, the overarching risk is the outdated legal framework. The sector is systemically important to the domestic financial system and the future financial security of members; hence, modernization of the legal framework is crucial; particularly to strengthen the regulatory function and effective oversight role to ensure that members' funds are protected, invested, and grew prudently. In this sense, the delays in progressing the SINPF Act reform work will, in turn, become a source of vulnerability to the sector. More so, the persistent growth of total assets, coupled with vast emerging risks, requires a modern legal framework to ensure efficient fund prudent management and protection of members' funds to foster confidence and in the best interest of members.

The impact of the global market due to the Ukraine war and continuing spread of COVID-19 affecting the domestic economy could potentially point to an emerging vulnerability in the superannuation sector. Although this may not directly impact the sector, the spillover effect may cause deterioration to the sector's bottom line which can pose a financial risk. Particularly, offshore investment is vulnerable to price fluctuation which induced negative unrealized gains that affected the sector's financial performance. At the macro level, the public and private sectors have also felt the impacts aforementioned, and this may subsequently contribute to declining earnings. A primary concern for the sector is the repercussion of a likely increase in default loans in the banking sector that could trigger growing demand for lenders' claims on pledged amounts which may affect the sector's liquidity position.

The concentrated investment portfolio remained a vulnerability and a risk to the sector. Limitation on local market and opportunities implies a slim chance to secure strategic partners for the highly investment portfolio concentration. Nevertheless, the board and management as mandated, continue to ensure the current concentration risk is manageable.

4.3 Insurance Sector Vulnerabilities & Risks

Despite showing resilience from 2H21 and throughout the period 1H22, the overall industry remains vulnerable to several risks, one of which is the unpredictable changing weather conditions that could lead to catastrophic events. Social and political instability also remained another risk as evident from the civil unrest in November 2021. Furthermore, cyber risk from threats such as social engineering and malware on the other hand continues to remain an emerging threat to the industry in light of insurers becoming more innovative in incorporating technological change to their current services with upgrades observed to existing insurers' service platforms and rolling out of new online portals.

The experiences from the November 2021 riots, and the COVID-19 pandemic has induced the insurance industry to realign policy coverage and risk appetites. Significant changes to coverage contracts are inevitable, prompting insurers to gradually phase out high-risk covers (policy extensions) for riots, strikes, and civil commotion (RSCC). Diligent risk assessment also continues to be reinforced by insurers on new business and renewals of policies, particularly for insurance covers susceptible to claims arising from the civil unrest and the pandemic.

With the sector constituting only three insurers, each continued to complement each other well in providing adequate and necessary insurance services to policyholders from diverse sectors. However, concentration risk is still evident in the domestic insurance market and has the potential to disrupt the sector if the risk materialises.

Nonetheless, the tight risk limit threshold imposed by parent companies (Head Offices) continues to coerce insurers from being complacent against risky portfolios in the domestic market. Overall, the insurance sector continues to pose minimal risk to the broader financial system and regulatory authorities continue to acknowledge that there

12 Ratings change from high in 2H21 to low in 1H22 due to changes in CBSI internal risk limit threshold.

are pockets of vulnerabilities within the overall insurance sector that could be addressed by legislative reforms.

4.4 Credit Union Sector Vulnerabilities & Risk

The credit union sector continues to battle risks relating to board governance, operations and credit management over the course of 1H22. Meanwhile, credit risks stemming from the uncontrolled unsecured loans remained a legacy risk for the sector. More so, governance and operation risks arising from non-compliance with relevant laws triggered concerns that would disrepute the credit union sector.

Furthermore, irrelevant out-dated Supplementary by-laws and lending policies further exacerbate risks to the sector. These along with the absence of a proper operational and risk management framework is compelling and call for quicker intervention by responsible authorities. The CBSI recognizes the need to address those risks in order to maintain stability within the credit union sector. Therefore, in an effort to assist the sector, the CBSI is now working on Good Governance and Credit Risk management Practise Guidance Notes'which will form part of the credit union supervision risk management framework that governs the operation of the credit unions in the Solomon Islands.

Table 6: Banking Sector Key Vulnerabilities and Risks

Vulnerabilities	Risks	Inherent Risk 1H22 Rating	Residual Risk 1H22 Rating
COVID-19	Substantial default by borrowers	High	Medium
Growing household indebtedness	Deterioration in quality of housing and investment property loans	High	Medium

Source: *Central Bank of Solomon Islands*

Table 7: Superannuation Sector Key Vulnerabilities and Risks

Vulnerabilities	Risks	Risk Description	1H21 Risk Indicator	2H21 Risk Indicators	1H22 Risk Indicators
COVID-19 travel restrictions, business protocols, digitisation of delivery channels, and uncertainties	Credit risk	Deterioration in rental payments	Low	Medium	Medium
		Deterioration in quality of loan portfolio	Medium	Medium	Medium
	Loss of confidence	Surge in members withdrawal risk due to delays in service deliveries	Low	Low	Low
Sovereign ratings and interconnections	Sovereign and Investment Risks	Deterioration in returns and gains from equity investments	Medium	High	High
Limited local investment environment	Credit concentration risk	Deterioration in quality of single equity and borrower	High	High	High

Source: *Central Bank of Solomon Islands*

Table 8: Insurance Sector Key Vulnerabilities and Risks

Vulnerabilities	Risks	Inherent Risks	Residual risks
Cyber Risk	Storing information and online transactions using cloud computing puts the sector at risk to cyber threats.	High	Low
Climate Change	Continuous changing weather patterns can lead to large catastrophic losses that could severely impact insurers' underlying profitability and liquidity.	Medium	Low
Social Unrest	An unpredictable political environment could lead to looting and burning of key businesses and infrastructures leading to non-renewal of policies from key customers which could affect the sector's profitability in the short to long run.	High	Low
Market Share Concentration	Deterioration in a single insurer's financial capacity who holds a huge market share could significantly reduce the industry's total assets.	High	Low
Risk Appetite Limits.	Providing insurance cover for potential large projects (particularly ones that are beyond local insurers' risk appetite and limit) could cause a systemic impact on the industry if an event of claim materializes from these large projects' coverage.	Low	Low

Source: *Central Bank of Solomon Islands*

APPENDICES

Appendix 1 - Banking Sector

Appendix 1.1 Banking Sector Half Year Income Statement ($Million)

	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Net interest income	122.0	123.8	118.6	120.6	113.0	120.1	113.7
Noninterest income	110.9	102.0	85.3	80.4	76.6	92.9	86.5
Noninterest expenses	122.3	125.4	115.0	116.1	110.6	117.6	114.3
Provision expenses	1.9	21.5	35.6	9.1	0.7	24.7	-10.1
Net profit before tax	108.7	78.9	53.3	75.8	78.3	70.8	95.9

Source: *Central Bank of Solomon Islands*

Appendix 1.2 – Banking Sector Half Year Balance Sheet ($Million)

	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Cash and deposits	2,623.2	2,510.7	2,610.2	3,065.7	3,143.1	3,293.7	3145.25
Loans net of specific provisions for loan losses	2,454.1	2,479.1	2,447.9	2,511.7	2,484.8	2,515.7	2509.2
Debt securities	782.9	782.1	703.1	474.1	471.5	476.7	441.0
Nonfinancial assets	198.2	200.2	212.0	216.2	206.1	286.5	278.9
Total Assets	**6,144.0**	**6,070.2**	**6,083.3**	**6,367.9**	**6,397.5**	**6,685.4**	**6464.6**
Currency and deposits	4,880.8	4,790.8	4,772.5	4,939.0	5,012.6	5,133.5	4941.6
Other Liabilities	259.7	234.6	245.8	265.1	234.5	316.1	293.4
Capital and reserves	1,003.5	1,044.8	1,065.0	1,163.9	1,150.4	1,235.9	1229.6
Total Liabilities & Capital	**6,144.0**	**6,070.2**	**6,083.3**	**6,367.9**	**6,397.5**	**6,685.4**	**6464.6**

Source: *Central Bank of Solomon Islands*

Appendix 1.3 Half yearly Loans and advances by key sectors ($Million)

	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Manufacturing	134.1	119.0	120.5	105.0	106.4	127.6	114.9
Forestry	52.7	75.9	70.4	103.5	74.8	96.1	95.6
Fishing	23.8	11.3	8.8	8.2	2.9	8.6	7.6
Distribution	536.7	558.5	593.1	588.6	603.1	612.1	595.5
Communication	98.5	83.0	81.3	80.3	64.3	86.5	72.5
Personal	635.6	695.3	698.0	676.5	690.4	922.5	921.9

Source: *Central Bank of Solomon Islands*

APPENDICES

Appendix 2 - Superannuation Sector

Appendix 2.1 Half Year Profit and Loss Statement of Superannuation sector ($Million)							
$(Millions)	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Investment Income	290.34	447.80	15.85	62.78	135.17	275.24	102.77
Non-Investment Income	3.18	14.49	44.25	16.19	38.35	-30.85	40.60
Gross Income	293.52	462.29	60.09	78.97	173.52	244.39	143.36
Total Expenditure	59.40	84.06	44.88	82.64	39.97	47.93	46.62
Net Profit before interest payable	234.12	378.24	15.21	-3.67	133.56	196.45	96.75
Interest payable to members	20.69	57.30	15.23	17.65	2.71	3.59	5.86
Net Profit After Interest to Members	213.43	320.94	-0.02	-21.32	130.84	192.86	90.89

Source: *Central Bank of Solomon Islands*

Appendix 2.2 Half Year Balance Sheet Statement of Superannuation Sector ($ Million)							
	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Demand deposits	215.5	158.6	167	218.9	260.6	180.3	241
Time deposits	721.8	747.4	642.6	600.9	601.3	612.4	617
Loans	124.5	111.6	150.6	111	134.2	119.5	155
Debt securities	218.9	228	264.3	251.1	257.1	322.5	321
Shares and equities	1894.1	1907	1745.2	1779.8	1835.9	2077.6	2,061
Accrued interest & dividend receivables	25.6	13.7	39.3	39.4	11.1	8.7	11
Non-financial assets	608.9	631.5	680.5	692.1	698.6	711.5	683
Other assets	31.6	32	44.5	34.3	34.4	40.4	80
Total assets	**3840.9**	**9**	**3734.1**	**3727.4**	**1**	**4072.9**	**4,169**
Members contributions	2998.4	3272.9	3154.6	3294.2	3285.7	3493.6	3,492
Other Liabilities	115.5	98.6	117.9	89.4	87.3	97.5	140
Capital & reserves	722.6	458.3	459.6	343.8	460.2	481.8	537
Total liabilities& capital	**3840.9**	**3829.9**	**3734.1**	**3727.4**	**3833.1**	**4072.9**	**4,169**

Source: *Central Bank of Solomon Islands*

APPENDICES

Appendix 3: Insurance Sector

Appendix 3.1 Half year Income Statement ($Million)							
	1H19	**2H19**	**1H20**	**2H20**	**1H21**	**2H21**	**1H22**
1. Gross Written Premium	36.7	38.0	27.7	25.8	39.9	29.4	36.8
2. Outward reinsurance	9.9	11.7	7.6	4.6	12.9	10.3	9.7
3. Premium net of reinsurance (= 1 - 2)	26.8	26.3	20.1	21.2	27.0	19.1	27.1
4. Unearned premium reserves	1.1	(0.1)	(1.3)	(0.8)	1.8	(0.3)	1.7
5. Net earned premium (= 3 - 4)	25.7	26.5	21.3	22.0	25.1	19.5	25.4
6. Gross claims expense	2.2	6.9	10.5	2.6	6.2	18.1	(2.5)
7. Total recoveries	0.8	2.6	4.3	0.0	1.5	6.0	(4.1)
8. Net claims expenses (= 6 - 7)	1.4	4.3	6.2	2.7	4.7	12.1	1.7
9. Acquisition Costs	(0.1)	0.1	0.2	0.2	(0.1)	0.1	(0.3)
10. Total underwriting expenses	8.2	12.3	13.7	9.6	11.8	18.6	8.7
11. Underwriting Results (= 5 - 10)	17.5	14.2	7.7	12.3	13.3	0.8	16.8
12. Investment income on assets backing insurance liabilities	0.3	0.3	(0.7)	0.4	0.1	0.3	0.2
13. Insurance Results (= 11 + 12)	17.8	14.6	6.9	12.7	13.4	1.1	17.0
14. Other operating expenses or management expenses	**5.9**	**4.4**	**3.2**	**2.4**	**7.3**	**2.4**	**5.7**
15. Net Profit (Loss) Before Tax (= 13 - 14)	**12.0**	**10.2**	**3.8**	**10.3**	**6.1**	**(1.4)**	**11.3**
16. Income tax or provisions	**3.7**	**3.4**	**1.1**	**3.0**	**1.6**	**1.0**	**3.2**
17. Net Income (Loss) End of Current Period (=15 - 16)	**8.3**	**6.8**	**2.7**	**7.3**	**4.5**	**(2.3)**	**8.1**

Source: *Central Bank of Solomon Islands*

Appendix 3.2 Half-year Balance Sheet ($Million)							
	1H19	**2H19**	**1H20**	**2H20**	**1H21**	**2H21**	**1H22**
18. Total Assets (= 19 + 20)	140.1	145.5	156.6	155.4	184.3	175.3	168.4
19. Nonfinancial assets	2.1	4.5	4.1	4.4	6.0	7.9	7.5
20. Financial assets (= 21 to 25)	138.0	141.0	152.5	150.9	178.3	167.5	160.9
21. Currency and deposits	63.4	65.0	68.9	63.7	82.2	72.3	66.2
22. Shares and other equity	0.8	0.9	0.7	0.7	0.7	0.6	0.6
23. Debt securities	47.6	47.8	47.9	47.9	47.9	47.9	47.5
24. Insurance technical reserves	21.4	23.6	24.8	22.9	27.0	25.8	31.5
25. Other assets	4.7	3.7	10.2	15.8	20.5	20.9	15.0
26. Liabilities (= 27+ 28)	81.7	82.2	92.3	82.0	108.3	104.3	88.4
27. Insurance technical reserves	64.8	73.0	81.3	65.3	71.9	77.3	63.1
28. Other liabilities	10.6	6.7	4.9	6.8	24.8	19.9	17.9
29. Capital and reserves	58.4	63.3	64.3	73.4	76.0	71.0	80.0
30. Balance Sheet Total (= 26+ 29 = 18)	140.1	145.5	156.6	155.4	184.3	175.3	168.4

Source: CBSI, Restated
Notes:
1) Insurance technical reserves on the asset side include premium receivables, deferred reinsurance expenses, deferred acquisition costs, and other recoverable
2) Insurance technical reserves on the liabilities side include commission payables, unearned premiums, and outstanding claims

Source: *Central Bank of Solomon Islands*

APPENDICES

Appendix 4: Vulnerabilities and Risk Assesment of Individual Sector

The rates reflect the probability (likelihood that an event will occur) and the impact (magnitude of the potential loss) that could stem from the event.	
Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematic risk build up that suggest the need for closer monitoring but not an immediate policy response
High	Indicates potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy intervention

Source: *Central Bank of Solomon Islands*