



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 descisions and actions taken; and
- **INCLUSIVENESS** - To embrace respect and team work for achieving results.

CONTENTS

VISION, MISSION AND VALUE STATEMENTS	i
GOVERNOR’S FOREWORD	1
CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2022	2
International Economy	2
Domestic Economy	2
Economic Outlook	3
CHAPTER 2: GOVERNANCE AND ORGANISATION	5
The Board	5
Central Bank of Solomon Islands Board of Directors	6
Staffing	7
Training and Development	7
Capital Projects	7
Communications and Public Relations	8
CBSI Organisational Structure 2022	10
Central Bank of Solomon Islands Management 2022	11
CHAPTER 3: MONETARY POLICY DEVELOPMENTS	13
Monetary Policy Formulation	13
Monetary Policy Implementation	13
Monetary Policy Outcomes	13
CHAPTER 4: CENTRAL BANKING OPERATIONS	14
Economic, Research and Statistics	14
International Operations	14
Financial System Regulation	19
Finance and Accounts	22
Currency and Banking Operations	23
Information Technology	27
Internal Audit	29
CHAPTER 5: FINANCIAL INCLUSION	31
CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES	41
CHAPTER 7: CALENDAR OF EVENTS 2022	44
CENTRAL BANK OF SOLOMON ISLANDS AUDITED FINANCIAL ACCOUNTS.	46

LIST OF FIGURES

Figure 1.1: Economic Growth	2
Figure 3.1: Private Sector Credit, Reserve Money, and Excess Liquidity	13
Figure 3.2: Inflation Developments	13
Figure 4.1: Gross Foreign Assets	15
Figure 4.2: Interest income from Foreign Reserves	15
Figure 4.3: SBD currency Basket Index	15
Figure 4.4: Round Log Applications Approved Under Specific Authority to Export, 2022	18
Figure 4.5: Budget 2021- 2022	22
Figure 4.6: Financial Performance in 2021- 2022	22
Figure 4.7: Financial Status in 2021 - 2022	22
Figure 4.8: Stock of Currency in Circulation	23
Figure 4.9: Volume of Currency notes in circulation	23
Figure 4.10 Volume of Currency coins in circulation	23
Figure 4.11 Volume of Counterfeit notes confiscated from circulation	24
Figure 4.12 Value of Counterfeit notes confiscated from circulation	24
Figure 4.13: Values of Soiled Notes Destroyed	24
Figure 4.14: Revenue from Numismatic Business Operations	25
Figure 4.15: Value share of Principal external creditors: 2022	25
Figure 4.16: Value Share of Domestic Securities by Major Holders : 2022	26
Figure 4.17: Value and volume of Cheques Cleared	26
Figure 4.18: Cumulative Distribution of Approved Nominations by Provinces end of 2022	26
Figure 4.19: Cumulative Nomination by Industry at the end of 2022	27
Figure 4.20: Website Visits by Country	29
Figure 5.1: Value and Number of e-Tax Payments	34
Figure 5.2: Cumulative Airtime Deposits Value	34
Figure 5.3: A Summary of the Credit Guarantee Scheme as at the end of 2022	35
Figure 5.4: No. of Approved SME Nominations & Gross Loan Value	35
Figure 5.5: Distribution of SMEs who accessed to the Facility by Provinces	35
Figure 5.6: No. of Approved SME Nomination by Industry; 2022	36
Figure 5.7: A Summary of the MSME Credit - Line Facility uptake as of 2022	36
Figure 5.8: Distribution of SMEs who accessed the Facility by Province	36

LIST OF TABLES

Table 2.1: Board Composition	5
Table 2.2: Board Committees	5
Table 2.3: Board and Board Committee Attendance in FY 2022	5
Table 2.4: CPRU Major Activities in 2022	8
Table 4.1: Number of Swift Messages Sent and Received	16
Table 4.2: Value of Receipts and Payments Transaction through SWIFT 2018 - 2022	16
Table 4.3: Number of temporary Resident Accounts Applications Approved 2018 - 2022	17
Table 4.4: Number of Approved FCA Held by Exporters and Non-Exporters 2018 - 2022	17
Table 4.5: Number of Approved Foreign Exchange Money Transfer & Money Changer Licenses	18
Table 4.6: Number of Private Sector Overseas Borrowing Approved	18
Table 4.7: Number and Value Log of Application for Specific Authority to Export, 2022	18
Table 4.8: Number and Value of Beche-de-mer Applications for Specific Authority to Export	18
Table 4.9: Number and Value of Mineral Applications for Specific Authority to Export, 2022	19
Table 4.10: Number and Value of Foreign Exchange Applications Approved by CBSI	19
Table 4.11: FSRD's Approved Key Responsibility Areas for 2022 and Completion Status	21
Table 4.12: Number of On-Site Examination Conducted in 2022	21
Table 4.13: Current Status of the Legislation reform work as the end of 2022	21
Table 4.14: Summary of SBFGS.	27
Table 5.1: Commercial Bank Access Points	31
Table 5.2: Financial Competency TOC Implementation CBSI & Good Return	38
Table 6.1: The Type and Number of Reports received by SIFIU in 2022	42
Table 6.2: Number of Trainings, Courses and Workshops attended by SIFIU in 2022	42
Table 6.3: Local Trainings and Workshops conducted by SIFIU in 2022	43



CENTRAL BANK OF SOLOMON ISLANDS

27th April 2023

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

Dear Minister,

Re: 2022 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 2022.

Yours sincerely,

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

LUKE FORAU, Ph.D
Governor

GOVERNOR'S FOREWORD



The Solomon Islands economy entered 2022 in a much weaker position, with abounding uncertainty and risks. The first half of the year was marked by a confluence of multiple shocks from the lingering impacts of the November 2021 riot, pandemic, local transmission of COVID-19 and commodity shocks driven by the Russia-Ukraine war.

This led to higher inflation and wider twin deficits (current account and fiscal deficits) which resulted in the reduction of the country's gross foreign reserves.

Additionally, the move to work from home in January following COVID-19 related lockdowns tested our capabilities and resources. I am extremely proud of how the Board and CBSI management and staff responded to ensure the activities of the bank continued. The re-opening of the border and lifting of mobility restrictions in the second half of the year nonetheless, led to a rapid return in economic activity and provided impetus for the economy to slowly recuperate. Appropriate fiscal and monetary policies during the year also supported economic recovery.

Looking ahead, the economy is projected to recover by 2.7% in 2023 and slow to 2.1% in 2024, following three consecutive years of negative growth. Risks to this outlook are considerable, including on-going risks from supply driven inflation that could persist and remain

high due to the on-going war, potential resurgence of the virus, lingering supply chain disruptions from the pandemic and climate induced impacts. Pressures from these risks, amplify uncertainties on the horizon. In our current economic environment, this calls for a careful balancing of risks, that does not allow high inflation to persist and get entrenched in the economy while at the same time not slowing down growth too much.

Moreover, accelerating reforms that expands economic opportunities in the near-term for the economy as a whole is critical. Considerations should be given to growth policies that drive economic recovery, increase investment and promote exports. Once the recovery is firm, rebuilding of fiscal buffers and strengthening of tax regimes is crucial not only to expand the revenue base but to build buffers and resilience for future shocks.

In terms of the Bank's operations, the bank incurred a net operating loss of \$8.85 million in 2022. Transfers to the general reserves from the statement of profit or loss and other comprehensive income was \$14.15 million. The loss attributed to unrealised foreign currency revaluation was \$23.01million. No distribution of loss was made to SIG as per Section 55 (3) of CBSI Act 2012.

In this report, you will also find commentaries on the state of the Solomon Islands economy as well as the bank's financial and operational results in 2022.

It is my pleasure to commend the Central Bank of Solomon Islands' 2022 Annual Report for your reading.



Luke Forau, Ph.D
Governor

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2022

Overview

In 2022, the domestic economy faced multiple shocks including the local outbreak of COVID-19 at the beginning of the year, the lingering effects of the November 2021 riot, and the Ukraine war that led to weaker demand from trading partners and hikes in fuel and food prices. Losses in production output was more pronounced in the first half of the year following the measures to contain the spread of COVID-19. This led to a decline in exports and lower government revenue which in turn reduced gross foreign reserves and constrained fiscal operations. Following the reopening of the borders and full relaxation of the COVID-19 prevention measures in the second half of the year, production and several sectors which were largely impacted by the pandemic such as tourism showed signs of recovery whilst inflation surged to a record high weighing on households' real income. In 2023, the economic outlook is positive with a recovery of 2.7% whilst inflation is projected to gradually decline. However, risks to these outlooks are tilted downwards considering the vulnerability of the economy to global and domestic risks and uncertainties.

International Economy

The global economy slowed in 2022 amid higher inflation. Growth decelerated markedly to 3.4%¹ from 6.2% in 2021 weighed down by the Russian war in Ukraine, the COVID-19 pandemic, soaring prices, and tighter monetary conditions. These factors have widespread negative implications on trade, consumption, and investments across economies. Growth in both the US and China, the world's largest economies, slowed substantially. The US economy dropped to 2% in 2022 from 5.9% in 2021 and China's economy, which is Solomon Islands' key trading partner, shrank to 3% in 2022 from 8% growth in 2021. On the regional front, growths in Australia and New Zealand receded from growth paths above 4% in 2021 to below 3% in 2022.

The global commodity prices soared in 2022 with sharp increases seen in the second and third quarters of the year escalated by supply shortages driven by the war in Ukraine, in addition to the existing supply-chain disruptions associated with the COVID-19 pandemic. As a result, tapis oil price, the main fuel imported by Solomon Islands, increased significantly by 50% to US\$108/bbl² in 2022. Triggered by higher commodity prices, global inflation surged to a record high of 8.8% in 2022 from 4.7% in 2021. In line with the surge in global inflation, the annual inflation in Australia and New Zealand rose to 7.8% and 7.2% respectively in the December quarter. In pursuit to combat inflation, most central banks tightened monetary conditions by raising central banks' official rates.

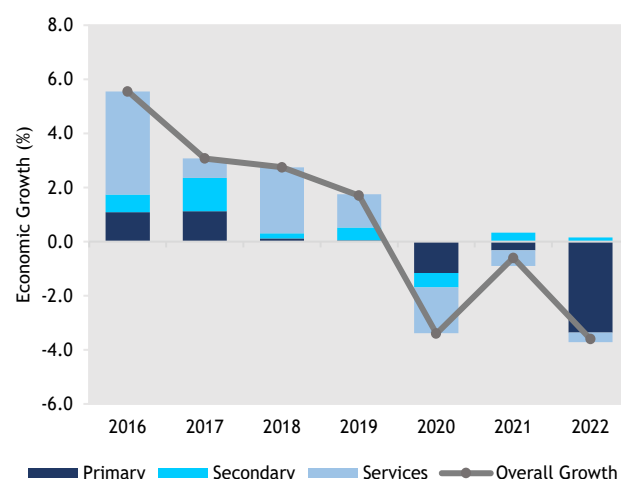
¹ All statistics of the performance and outlook in the international economy are obtained from the IMF WEO January 2023 Update, unless otherwise stated.

² Sourced from Bloomberg

Domestic Economy

The domestic economy contracted by 3.6% in 2022 underpinned by COVID-19 community transmission in January, the persistent effects of the November 2021 riot, and the indirect effects of the Russian war in Ukraine through weaker export demand from trading partners and higher import prices, adding cost pressures to businesses and households.

Figure 1.1: Economic Growth



Source: CBSI

The CBSI annual production index for the major export commodities declined in 2022 by 13 points to 108 index points owing to weaker performance in the first half of the year. This outcome stemmed from the fall in round logs, palm oil, copra, coconut oil, cocoa, and fish catch which outweighed the increase in minerals. The fall in production was attributed to the disruptions from the COVID-19 community outbreak, weaker external demand, and to some extent, the impacts of climate change variations, especially on the agriculture and fisheries sectors.

In line with the adverse global environment and the fall in domestic production, the external sector recorded a 7% drop in exports while imports rose considerably by 19% from higher imports of construction-related materials for the Pacific Games sports facilities and higher invoice prices for imported fuel and food. International freight payments also increased which offset the higher inward remittances from Solomon Islands workers abroad under the Labor Mobility Scheme. The worsening external trade led to a widening deficit in the current account at 14% of GDP notwithstanding the improvement in the surplus capital & financial account to 12% of GDP. As a result, the Solomon Islands' overall balance of payments position reverted to a deficit of \$192 million and consequently lowered gross foreign reserves by 3% to \$5,458 million³ at the end of 2022.

³ The value of gross foreign reserves reported here is slightly different from the figure reported in Chapter 4. This value is in line with the Balance of Payment classification of reserve assets in accordance to the IMF's BPM6.

On exchange rate developments, the weaker external conditions along with the strengthening of the US dollar, owing to the increase in the US Fed's fund rate had led to the depreciation of the Solomon Islands dollar (SBD) by 1.8% against the US dollar to \$8.25 per USD at the end of 2022. On the other hand, the SBD appreciated significantly against the Australian dollar and New Zealand dollar by 4.0% to \$5.56 per AUD and 4.9% to \$5.24 per NZD by year end. With the significant strengthening of the SBD against the AUD and NZD compared to a moderate weakening against the USD, the country's real effective exchange rate (REER) appreciated by 4.2% to 130 index points in 2022 indicating relatively weaker trade competitiveness against the country's trading partners.

The fiscal environment remained subdued in 2022 driven mainly by the adverse effects of the COVID-19 outbreak amidst weaker economic conditions throughout the year. Hence, this put additional spending pressure on the government to limit the impacts of the pandemic whilst continuing to provide public goods and services to cushion the economy from a further downfall. This led to a 4% fall in revenue and a 2% rise in expenditure which resulted in a widening fiscal deficit of \$376 million (3% of GDP) from \$153 million deficit (1.2% of GDP) in 2021.

In line with the higher fiscal deficit, total central government debt stock grew by 5% to \$1,971 million in 2022, equivalent to 16% of GDP. This reflected the additional borrowing from both external and domestic creditors mainly for COVID-19 containment-associated spending, and for development purposes, which more than offset debt servicing during the year. External debt which comprised 58% of the total debt edged up slightly reflecting additional loan disbursements from the Asian Development Bank (ADB) and the World Bank. Domestic debt grew moderately attributed to an increase in auction treasury bills and development bonds.

Monetary conditions sustained in 2022 reflecting the ongoing monetary and fiscal support towards the economic recovery efforts. Key monetary aggregates including reserve money (M0), narrow money (M1), and broad money (M3) saw growths during the year, rising by 11%, 7%, and 5%, accordingly. Private sector credit (PSC) increased marginally by 1% largely driven by lending to the distribution, forestry, and personal sectors. The growth in money aggregates amid slower lending contributed to a 5% increase in liquidity during the year. Moreover, the weighted average interest rate margins for other depository corporations (ODCs) also narrowed in 2022.

Labor market conditions remained muted in 2022 reflecting weaker economic conditions and business activities during the year. The SINPF's active and slow active contributors reduced marginally by 0.6% to 55,224 contributors in 2022. Besides, the number

of advertised vacancies sourced from the Pasifiki HR services dropped by 11% to 1,564 advertisements against 1,760 advertised vacancies in 2021.

Headline inflation (end of period) surged to 9.1% in 2022 from 2.5% in 2021 driven largely by cost-push factors related to higher world prices for fuel and food. That saw a rapid increase in prices of food, transport, and housing & energy categories. Inflation began rising in the June quarter driven by elevated imported prices before gaining momentum in the second half of 2022 reflecting the combined effects of higher imported prices and strong pass-through effects of higher fuel prices on electricity and transport in the domestic economy.

Economic Outlook

The global growth outlook for 2023, according to IMF, is expected to reduce further to 2.9% from 3.4% in 2022 largely implicated by the Advanced Economies facing a heavy toll from the Ukraine war and policy trade-offs taken to reduce high inflation. The US economy is expected to slow further to 1.5% in 2023 from 2% in 2022 as the impact of rising interest rates or tight monetary conditions feeds into slower consumer spending. China's economy, however, is anticipating a rebound to above 5% from 3% in 2022 following the lifting of most COVID-19 restriction measures which is expected to boost economic activities and consumption. On the regional front, the 2023 growth path for Australia and New Zealand is also forecasted to ease just below 2% reflecting tight monetary policy aiming to reduce higher inflation to the target levels. Adverse risks to these outlooks have moderated although remained tilted downwards on the back of the ongoing war in Ukraine, inflation persistence, intensifying climatic conditions, and China's contracting property market.

Meanwhile, commodity prices have since eased in the second half of the year as demand relatively weakened following the tightening monetary policies and tumbling global growth. The IMF projects both energy and non-energy prices to fall in 2023 on average by 16% and 6.3%, respectively. With the expected ease in world commodity prices and tighter monetary conditions, global inflation is forecasted to decline to 6.6% in 2023. However, inflation is projected to remain elevated and may persist before reducing to pre-pandemic levels.

The domestic economy is anticipated to recover in 2023 after three consecutive years of negative growth following the COVID-19 pandemic and socio-political upheaval. Economic growth is projected to rebound to 2.7% from a contraction of 3.6% in 2022. The upgrade for 2023 reflects broader recuperation expected across all sectors with economic activities synchronizing to the new normal following the pandemic. The reopening of Gold Ridge Mining towards the end of 2022 is expected to boost gold production and additional gains in the export sector. Furthermore, the preparations and hosting of the Pacific Games in November 2023 is a

key catalyst underpinning the recovery with spillover benefits anticipated in transport, accommodation, catering, logistics, and wholesale and retail trade sectors.

The outlook for the external sector is of mixed outcomes with the current account deficit anticipated to narrow to 11% of GDP in 2023 in line with the expected recovery in domestic economic activities and improve exports in mining. Meanwhile, the capital and financial account surpluses are expected to reduce to 9% of GDP given the anticipated decline in donor capital inflows as most infrastructure projects related to the Pacific Games are near completion and the anticipated slower uptake in FDI. With the sizeable deficit in the current account, the gross foreign reserves are forecasted to drop by 5% though remaining at a sufficient level well above the threshold of six (6) months of import cover.

The fiscal outlook is for a wider fiscal deficit in 2023 reflecting the Government's commitment to financing its two key policy priorities of hosting the Pacific Games and the preparation for the 2024 national general elections. With the additional spending towards these two major events on top of financing its normal operations, government expenditure is anticipated to increase markedly amid lower revenue expectations. As a result, the fiscal deficit is projected to widen to around 9% of GDP in 2023.

All key monetary aggregates including reserve money, broad money, and private-sector credit are expected to grow moderately in 2023 in line with the projected economic recovery and the sizeable expansionary fiscal policy.

Inflation is projected to remain elevated at above 5% in the first six months to June 2023 before gradually declining to around 3% by the end of 2023. This forecast is based on the assumption that global food and fuel prices which reached peak levels in mid-2022 ease gradually by the second half of 2023 translating to lower domestic food, transport, and household utility prices. However, in the circumstance that this assumption does not hold due to any unforeseen global financial turbulences, or substantial constraints on rice supply, combined with the downward stickiness of prices domestically, inflation would be relatively higher than expected.

Despite the positive outlook, the domestic economy remains fragile given the external uncertainties, and the country's vulnerability to natural disasters and climate change, deteriorating infrastructures for service delivery, and inefficiencies in inter-island transport system which hinders market access for domestic producers. The bank will remain vigilant and continue to monitor the macroeconomic environment and inflation conditions and take appropriate actions as necessary.

CHAPTER 2: GOVERNANCE AND ORGANISATION

THE BOARD

The Central Bank of Solomon Islands (CBSI) is led by a Board of Directors consisting of nine members. The Governor served as both the Chairman and Chief Executive Officer, the Deputy Governor as an executive member, one ex-officio, and six non-executive members appointed by the Ministry of Finance and Treasury. The Board oversees the operations and governance of the Central Bank and are charged with the formulation and supervision of the implementation of the CBSI policies; and the supervision of the administration and operations of the Bank. Their Powers and functions are set out under section 39 of the CBSI Act 2012.

Board composition

Table 2.1			
Board Composition			
NAME	POSITION	APPOINTMENT PERIOD	Remain-ing Term
Dr. Luke Forau	Governor, Chairman & Chief Executive Officer	6 years from 1 October 2019	3 years
Mr. Raynold Moveni	Deputy Governor, Executive member	6 years from 30 January 2020	4 years
Mr. McKinnie Dentana	PSF, Ex-Officio	Until term as PS lapses	
Mr. David K C Quan	Non-Executive Director	5 years from 1 August 2021	4 years
Mr. Rodney Rutepitu	Non-Executive Director	5 years from 20 February 2018	<1 year
Mrs. Christina Lasaga	Non-Executive Director	5 years from 20 February 2018	<1 year
Mr. Bob Pollard	Non-Executive Director	5 years from 8 May 2020	3 years
Mrs. Kathleen M. Matautia	Non-Executive Director	5 years from 1 October 2021	4 years
Mr. Jeremy P. Bartlett	Non-Executive Director	5 years from 1 October 2021	4 years

Meetings

In 2022, the Board held seven meetings, and considered 24 decision papers and 20 information papers. Out of the seven meetings, six were held in Honiara whilst one meeting in October was held at Agnes Gateway Hotel in Munda, Western Province.

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 powers and functions of the Governor are set out in section 40 of the CBSI Act 2012.

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 2022, the Governor tabled 6 reports to the Board.

Board Committees

There are four Board Committees established by the Board under section 39(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.

Table 2.2		
Board Committees		
Board Committees	Membership	No of Meetings
Board Audit Committee	4	2
Board Remuneration Committee	4	3
Board HQ Expansion Project Committee	4	No meetings held due to Covid-19
Board Disciplinary Appeals Committee	2	1

Board and Board Committee attendance in FY 2022

Table 2.3					
Board and Board Committee Attendance in FY 2022					
	Board	Board Audit Committee	Board Remuneration Committee	Board HQ Expansion Project Committee	Board Disciplinary Appeals Committee
Luke Forau	6/7				
Raynold Moveni	6/7				
McKinnie Dentana	7/7		3/3	-	
David K C Quan	7/7		3/3	-	
Rodney Rutepitu	2/7*	1/2			
Christina Lasaga	6/7	2/2		-	
Bob Pollard	6/7		3/3		1/1
Kathleen Matautia	7/7		3/3		1/1
Jeremy Bartlett	7/7	2/2			

*Absent on medical grounds

CENTRAL BANK OF SOLOMON ISLANDS BOARD OF DIRECTORS



DR LUKE FORAU
Governor and Chairman of the Board

- Previous positions held;
- Deputy Governor, CBSI
 - Advisor to the Governor, CBSI
 - Chief Manager, Economics, Research & Statistics Dept., CBSI
 - Assistant Manager, Economics, Research & Statistics Dept. CBSI



RAYNOLD MOVENI
Deputy Governor
and Deputy Chairman of the Board

- Previous positions held;
- Chief Manager, Financial Systems Regulation Dept., CBSI
 - Advisor, Office of the Executive Director Asia Pacific, IMF
 - Assistant Manager, Financial Systems Regulation Dept., CBSI



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 Re-source Development



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

- Chief Executive Officer, Our Telekom

- Previous Positions held:
- Assistant Chief Executive, Our Telekom
 - Head of Sales and Marketing, Our Telekom



BOB POLLARD
(Non-Executive Member) since May 2020

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

- Previously held position:
- Senior Lecturer, SICHE, 1988-1992



KATHLEEN M. MATAUTIA
(Non-Executive Member) Since 1 October 2021.

- Managing Director & Pharmacist, Our AIGA CO. Ltd T/A, Le Pharmacy.

- Current Member on Pharmacy and Poisons Board.



JEREMY P. BARTTLET
(Non-Executive Member)

- Since 1 October 2021
- Managing Director, Hatanga Ltd.

- Previous Position :
- Chair Solomon Islands Chamber of Commerce Industry (SICCI)
 - Technical Evaluation Committee, TCSI, Member



SONIA MARAHARE

- Appointed as Secretary to the Board in May 2017.

STAFFING

At the end of 2022, the Central Bank of Solomon Islands' staff complement¹ was 148, a slight reduction from 157 staff at the end of 2021. This was due to the expiry and none renewal of employment contracts, outsourced services, and delayed onboarding following the COVID-19 restrictions. In terms of recruitment, two (2) new staff were recruited by the Bank for established positions during the year.

The Bank continues to encourage equal employment opportunities and currently maintains a gender composition of 58% males to 42% females in 2022.

Retirement, resignations, and secondments

In 2022, ten staff left the services of the Bank, of which, two were permanent staff, seven were Temporary Staff (TS) and one was an Non- Established Staff (NES). Meanwhile, only one staff was on secondment in 2022.

Health, Safety, and Wellbeing

The Bank continues to maintain its commitment to ensuring a safe and healthy workplace for its employees to perform their mandatory roles and responsibilities. The Bank, through the COVID-19 Taskforce, continued to safeguard the staff with the implementation of its established safety measures, awareness, and other safety-related trainings throughout the year.

Employment Service Recognition

Long Service Awards recognizes commitment, dedication, and continuous service to the Bank. At the end of 2022, twenty-seven staff achieved at least 15 to 19 years of service, ten staff reached at least 20 to 29 years of service, and six staff reached more than 30 years of service with the Bank. Other awards recognising staff performance, excellence, and achievement were also rewarded by the Executives in 2022.

TRAINING AND DEVELOPMENT

The impacts of the COVID-19 pandemic continued to challenge the Banks training and development plans in 2022 with most staff training opportunities deferred until the second half of the year. Most specialized and short-term technical trainings were disrupted in the first half of the year due to the office lock-downs following the COVID-19 community transmission. Nevertheless, the Bank picked up in the second half of the year and continued its support for on-going trainings and other continuous learning opportunities available via online mode. This is to enable its staff to obtain skills and higher qualifications necessary to improve work performance and increase the institution's overall productivity.

A total of 13 officers continued with their full-time and part-time trainings in 2022, pursuing tertiary qualifications at under-graduate and post-graduate

levels both 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. Furthermore, a total of 48 officers were engaged in various online and face-to-face short-term trainings sponsored by the Bank. These were provided by technical and support organizations including the International Monetary Fund (IMF), Central Bank Institutes, Pacific Financial Inclusion Program (PFIP) and others. These trainings were aimed at addressing the specialized technical skills and knowledge gaps essential to improve work performance.

The Bank's in-house training programs also played a pivotal role in terms of customizing trainings to improve employee's understanding, knowledge, skills and work behaviours. In 2022, a series of in-house trainings and seminars were conducted which helped broaden staff knowledge and to better understand the Bank's policies, processes, and procedures.

Facilities

The CBSI continues to ensure that all necessary physical infrastructures that enable it to operate efficiently are acquired and developed in accordance with its existing and future needs. Over the years, the Bank has acquired and owned premises in Honiara and Noro in the Western Province. The Bank's facilities include: The Head office; Vacant land for its proposed new Head office; A Disaster Recovery Office; Staff accommodations (limited number); Recreational and Conferencing Facilities; and two vacant lands in Noro, Western Province which were acquired for a proposed CBSI alternative office. At the end of 2022, the total value of the Bank's domestic property assets was estimated at \$192,065,731.

In line with the Central Bank's vision, its functions have also expanded recently, where new departments and units were established, resulting in office space issues. To deal with this issue, CBSI had to rent externally in the interim, whilst it pursues the development of its new Head Office with a capacity to accommodate its growing number of staff.

CAPITAL PROJECTS

During the year, there were no major capital works due to the ongoing disruptions of the COVID-19 pandemic. However, the Bank was able to advance the new CBSI Head Office project by progressing with the Geo-technical studies for the new office site and other preliminary requirements. The Bank also acquired an additional plot of land adjacent to the proposed site for the new office. This was a great relief as it provides additional space capacity. Despite the current slow pace of the new CBSI Head Office project, the Bank is making progress, with most mandatory requirements and designs already being completed and awaiting further review after the final geotechnical investigation

¹ This is inclusive of non-established staff, temporary contracted staff, and temporary casual staff.

report is validated. The construction phase of the new CBSI Head Office Project is expected to commence in the 4th quarter of 2023.

COMMUNICATION AND PUBLIC RELATIONS

In 2022, CBSI has reduced much of its community outreach and awareness activities due to the COVID-19 community outbreak, hindrances of the COVID-19 preventive measures, and the State of Public Emergency (SOPE), especially in the first half of the year. As a result, major awareness programs such as the Solomon Islands Money Day (SIMD) program, and the schools and community visits and awareness programs which were usually conducted by the bank had to be deferred or were limited. In compliance with the SOPE and COVID-19 restrictions, a few official programs including the 2021 Annual Report Launch ceremony, where the Governor provides his official address on the state of the economy to key stakeholders, were conducted virtually.

In terms of engagement with the general public, the Central Bank continued to utilize the existing mainstream communication channels, particularly, the local newspapers and national radio during the year. The main communication tools were in the form of formal publications, press releases, notices, and advertisements. The CBSI's Money Matters program continued to be broadcasted weekly every Sunday evenings and Monday mornings over the Solomon Islands Broadcasting Corporation (SIBC). This 15-minutes radio program was the main mode of information dissemination throughout the year, covering most of the country. In addition, the on-line

channels were also vital in distributing important information relating to current major updates and announcements as well as coverage of specific topics provided by Departments or Units. Feedback from and responses to the public relating to information disseminated and topics covered were mainly channeled through direct phone calls or emails. All major enquiries have to be forwarded to relevant Departments and Units for further clarifications and responses.

In 2022, the CPRU also ventured into exploring the use of the television format, under broadcasting. This was another channel to promote and raise awareness on important topics such as counterfeits, scams, benefits of savings, personal financial management and so forth. CBSI was able to broadcast short infomercials over Telekom Television (TTV) during the World Cup towards the end of 2022. The use of videos with actors performing skits with key messages was identified as a significant tool to utilize as part of the Bank's community outreach and awareness activities going forward.

CBSI is considering appropriate and effective approaches to evaluate and measure the impacts and effectiveness of the bank's messaging through these various broadcasting formats and platforms. By collecting data and assessing responses or feedbacks, the CPRU would be able to determine the success of the CBSI's educational campaigns over these platforms, strategically design its programs, and continue improving its awareness and messaging to the wider public.

Table 2.4: CPRU Major Activities in 2022

Channel	Tools	Quantity	Comments
Print Media	<ul style="list-style-type: none"> Newspaper articles Formal Press Releases Notices/ Adverts 	<ul style="list-style-type: none"> 5 feature articles 21 Press Releases On-going adverts/notices 	Routine releases, research papers
Broadcast	<ul style="list-style-type: none"> SIBC - Money Matters TTV (Awareness or infomercials) 	<ul style="list-style-type: none"> 14 productions/28 broadcasts 2 infomercials on TTV Joint adverts on TTV 	The TV infomercials were produced in conjunction with NFIU and other stakeholders. These were broadcast mostly during World Cup period when viewership was very high
On-Line	<ul style="list-style-type: none"> Website Facebook Page Twitter Linked In 	<ul style="list-style-type: none"> Timely and consistent updates on all platforms 	Part of the CBSI's response to COVID-19. These platforms were used to providing key information to staff and management, especially during the SOPE period.
Events/Campaigns	<ul style="list-style-type: none"> Launch program Donation announcements Information sessions on-line (zoom) 	<ul style="list-style-type: none"> 10+ major events and programs were conducted during the year, which involved external groups and stakeholders. 	Major programs included: <ul style="list-style-type: none"> Commemorative Banknote Project for PG2023 with SI athletes Launch of Regulatory Sandbox for CBSI Credit Union Symposium South Pacific Governors Forum Meeting in Vanuatu The school donation by the CBSI board in Munda, Western Province equivalent to around \$10,000.

Enterprise Risk Management Framework

The Bank is committed to the development of an Enterprise Risk Management framework (ERMF).

With the establishment of the Risk Management Unit (RMU) under the Risk Management and Corporate Communication Department (RMCCD); RMCCD is responsible for the formulation and designing of the ERMF of the bank.

In 2022, the Bank began to formalize its ERM framework by setting up a Risk Management Committee (RMC). The committee is chaired by the Deputy Governor and its members comprised of the Management Advisors and Chief Managers of the key operational departments of the bank. Its key role is to maintain oversight on the enterprise-wide risk profile of the Bank and supporting the RMU with its role. After its establishment in August 2022, the committee held two meetings in October and November respectively. The development and designing of the CBSI Risk Management Policy also began during the year as a key role of the RMU.

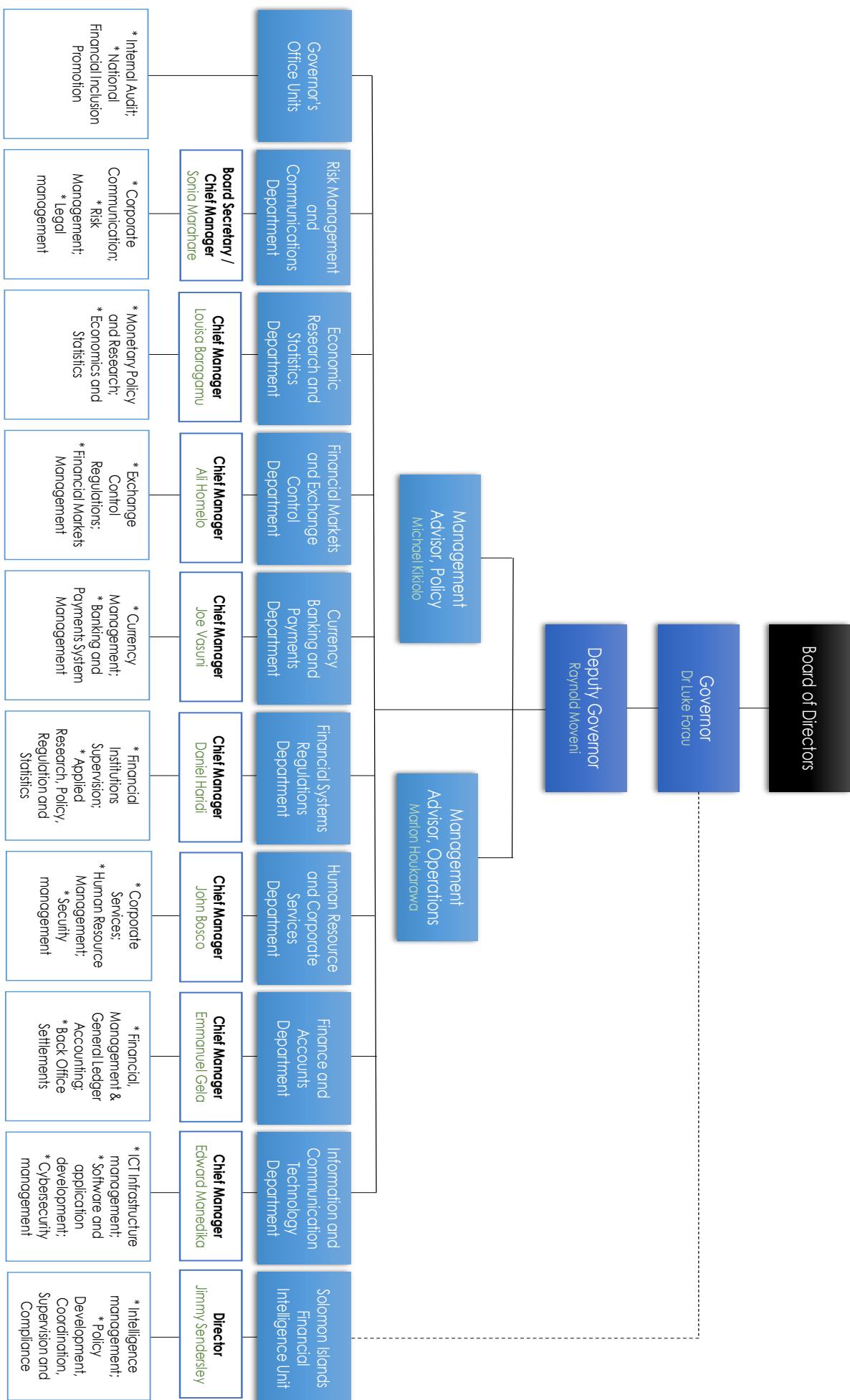
Incident reporting is also a part of the risk management framework of the Bank. This started in 2021, where this reporting framework ensure operational incidents are

identified and resolved effectively, and that appropriate mitigation measures are in place. This process also aligns to cultivating a risk aware culture within the bank.

In addition to this, the RMU also performed two (2) risk assessment exercises, i) The Human Resources (HR) Policy Compliance review and, ii) Internal Control Risk Assessment review. These activities feed into the Bank's internal assurance processes whereby key findings and recommendations are provided to the relevant internal stakeholders for their actions.

Apart from these key activities during the year, risk management remains a central activity within the operations of the Bank. The senior management is responsible for the consistent implementation and maintenance of mitigation measures for risks identified within their domain. And they ensured that appropriate policies and processes are in place to manage specific risk exposures. The RMU forms the second line of defenses in the management of risk within the Bank. The middle office is within the RMU, and is independent of the front office and back office of the foreign reserve management. It is responsible for monitoring and reporting on risks relating to the bank's reserves management operations.

CBSI ORGANISATIONAL STRUCTURE 2022

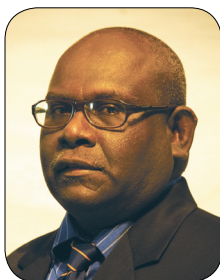


CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2022

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 K. BARAGAMU
Chief Manager



JOHN R. ROHI
Manager



DANIEL HARIDI
Chief Manager



SAMUEL WARUNIMA
Manager / Financial Institution
Supervision



DENSON DENNI
Manager/ Applied Research,
Policy & Regulation

FINANCIAL SYSTEMS REGULATION DEPARTMENT



ALI HOMELO
Chief Manager



RONSLEY PANA
Manager/ Exchange Control



CHARLIE SIVU
Manager/Financial Markets



JOHN DOSCO
Chief Manager

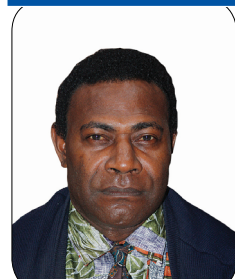


MICHAEL EREKALI
Manager/ Corporate Service

FINANCIAL MARKET & EXCHANGE CONTROL DEPARTMENT

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT

CURRENCY & BANKING PAYMENTS DEPARTMENT



JOE VASUNI
Chief Manager



ENOCH ILISIA
Manager



JENNY AIAPU
Manager/ Human Resources



ROSE SULU
Manager Training Development

CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2022

FINANCE & ACCOUNTS DEPARTMENT



EMMANUEL GELA
Chief Manager



SIMON RAMOIFAI
Manager

INFORMATION & COMMUNICATION TECHNOLOGY DEPARTMENT



EDWARD MANEDIKA
Chief Manager



BADLEY TEDDY
Manager

NATIONAL FINANCIAL INCLUSION UNIT



LINDA FOLIA
Manager

INTERNAL AUDIT



OLIVER KAROA
Manager

RISK MANAGEMENT & CORPORATE COMMUNICATIONS



SONIA MARAHARE
Chief Manager



CHARLEY KUPER
Manager/ Risk Management Unit



URIEL MATANANI
Manager/ Corporate Communications Unit

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT



JIMMY SENDERSLEY
Director



TOM HAAUTE
Manager/ Intelligence



JIMMY VAJA
Manager/ Policy Development, Coordination, Supervision Compliance

CHAPTER 3: MONETARY POLICY DEVELOPMENTS

MONETARY POLICY FORMULATION

While achieving and maintaining price stability remained the underlying consideration behind Central Bank's monetary policy, the macroeconomic conditions in 2022 steered the CBSI to formulate monetary policies that could cushion the economy from adverse shocks emanated from the COVID-19 pandemic and the ongoing Russian war in Ukraine, safeguard financial stability, and supports economic recovery. In formulating its monetary policies, the Central Bank performed sound assessments of the macroeconomic conditions and outlook and the associated risks in the domestic and global economy over the course of the year.

At the start of 2022, inflation was forecasted to be contained, and amid weak economic conditions, elevated uncertainties following the COVID-19 transmission and the Russian war in Ukraine, the lingering impacts of the 2021 November riot, and the projected recession for 2022, the CBSI Board has resolved for an expansionary monetary policy stance in March 2022 geared towards supporting economic recovery. In line with the projected higher inflation during the second half of the year from the increase in international food and fuel price and ongoing external uncertainties, the Board has resolved on adopting an accommodative monetary policy stance aimed at taming inflation in September 2022 and a lessening the mounting pressures on inflation from overshooting whilst supporting the economic recovery efforts.

During the year, the Monetary Policy Committee (MPC) held two (2) meetings. These meetings deliberated on the monetary policy stances (MPS) for March and September. The first meeting held in February for the March MPS was conducted virtually due to the disruptions following the COVID-19 outbreak, whilst the second meeting was held in-person in August. During these meetings, macroeconomic updates and projections were also presented.

MONETARY POLICY IMPLEMENTATION

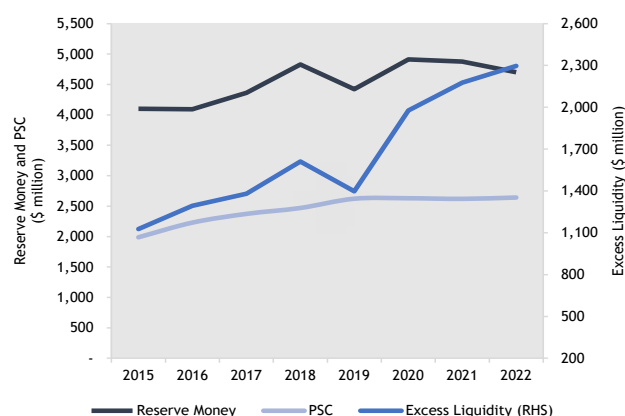
With the adoption of the expansionary and the accommodative monetary policy stances over the first six months of the year, the Bank maintained the cash reserve ratio (CRR) at 5% and the Bokolo Bills (short-term securities) remain capped at \$430 million to ensure banks have adequate liquidity. Moreover, the Bank continued managing the exchange rate to facilitate international trade and investments and cushion any adverse external shocks. In addition, the Bank continued administering the export facility which aimed at providing a facility for MSME export-oriented firms to access short-term credit financing should there be needed.

MONETARY POLICY OUTCOMES

The accommodative monetary policies assisted in providing adequate liquidity, however, the private

sector credit (PSC) only picked up in the second half as economic conditions started to return to normalcy from the COVID-19 outbreak in the first half. This slower pace in PSC led to a build-up in excess liquidity increased by 9% at the end of 2022. Consequently, the weighted average lending rate by Other Deposit-taking Corporations was reduced by 45 bps to 9.6%. Meanwhile, the weighted interest rate for the Bokolo Bills increased by 15 basis points (bps) to 0.25% from 0.10% in 2021 following the \$430 million cap.

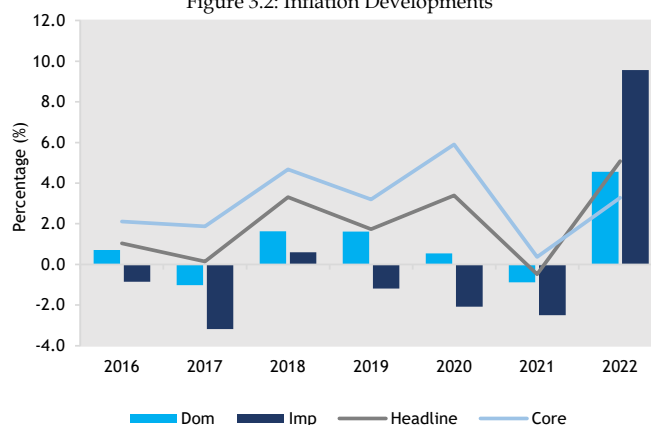
Figure 3.1 PSC, Reserve Money, Excess Liquidity



Source: CBSI

With the inflationary pressures from external factors witnessed over the year, headline inflation outcomes for 2022 were higher than forecasted reflecting larger movements in volatile items, although contained within a single digit given monetary and fiscal actions to lessen the mounting pressures on imported inflation.

Figure 3.2: Inflation Developments



Source: CBSI

The national headline inflation jumped to 9.1% at the end of 2022 from 2.5% a year ago driven by the increase in both imported and domestic inflation during the year. The major drivers of inflation over the period were food, transport, and housing & energy. Core inflation (excluding volatile, price control, and excise goods) peaked level in the September quarter at 6.1% from 2.8% at the end of 2021 and gradually diminished to 5.9% at the end of 2022.

CHAPTER 4: CENTRAL BANKING OPERATIONS

ECONOMICS, RESEARCH & STATISTICS

The Economics, Research and Statistics Department (ERSD) continued with its functions to provide macroeconomic analysis and forecasting, monetary policy formulation, research, compilation and dissemination of economic statistics, information and reports to stakeholders during 2022. Amongst its core responsibilities, ERSD published two (2) Monetary Policy Statements (MPS) in March and September respectively, four (4) Quarterly Economic Reviews (QER), and twelve (12) Monthly Economic Bulletins (MEB) in 2022, all of which were published on the CBSI's website. It continued to source and compile statistics on the real, monetary, external and government finance sectors in a timely manner and disseminate the data on the website and directly to the International Monetary Fund (IMF) and other relevant external stakeholders. As part of improving statistics and maintaining better relationship with its data providers, the Balance of Payments Unit within ERSD hosted one stakeholder refresher workshop in September 2022. Despite the disruptions and challenges caused by the COVID-19 transmission which resulted in staff working remotely from home, ERSD was able to perform its functions effectively and deliver to expectations in a timely manner.

On research activities, a Joint Working Paper (JWP) entitled '*Solomon Islands Banking Sector: A 40-year depth and efficiency analysis on a global scale*', was successfully published in 2022 as part of CBSI's joint research collaboration with Griffith University of Australia. Moreover, another of its JWP was published in the *Journal of Electronic Commerce in Organizations*, an international and well-recognised journal. The Griffith University continued to provide a series of virtual research workshops, trainings, seminars and forums geared towards capacity building of bank staff throughout the year. This included an introductory regional short-course on *R for Practitioners* which was successfully completed by two officers from ERSD. Furthermore, ERSD also contracted a new ODI fellow to assist in advancing the department's research agenda and to support the Bank's strategic objective to lead and provide quality research and evidence-based policy decisions.

ERSD continued to benefit from the previous and ongoing Technical Assistance (TA) from the IMF and other partners. In 2022, it received three (3) TA missions from the IMF as part of a three-year project which aimed at developing a Forecasting and Policy Analysis System (FPAS) for the Central Bank, of which one (1) was hosted virtually and two (2) missions were held in-person in August and December respectively. The IMF, through the Pacific Financial Technical Assistance Centre (PFTAC) in Fiji, also conducted a series of virtual TA missions and trainings as part of the ongoing staff capacity development.

INTERNATIONAL OPERATIONS

The Financial Markets and Exchange Control Department (FMECD) continued to perform the core international operational functions of the Central Bank including: (i) the management of the country's official external reserves and investment policy; (ii) the administration of the Exchange Control Act and foreign exchange control policy and regulations; (iii) the management and administration of the exchange rate regime and exchange rate policy; and (iv) the administration of international payments systems (SWIFT) and the management of foreign accounts and corresponding banking relations with CBSI and SIG counterparties.

In 2022, the Bank continued to uphold and discharge its international operational mandate to the best standard. The CBSI has been in close collaboration with SWIFT in relation to the major upgrade to SWIFT Messages Transaction upgrade from MT to MX standard in preparation for live rollout in early 2023.

Foreign Reserve Management

In 2022, CBSI manages the official foreign reserves of the Solomon Islands in accordance with section 17 of the CBSI Act 2012 with three principal objectives. These objectives in the order of priority are safety (capital preservation), ensuring adequate liquidity for external obligations, and optimizing returns. Furthermore, the foreign reserves are managed and maintained according to the CBSI's reserves management policy and the approved investment rules stipulated under the Reserves Management policy.

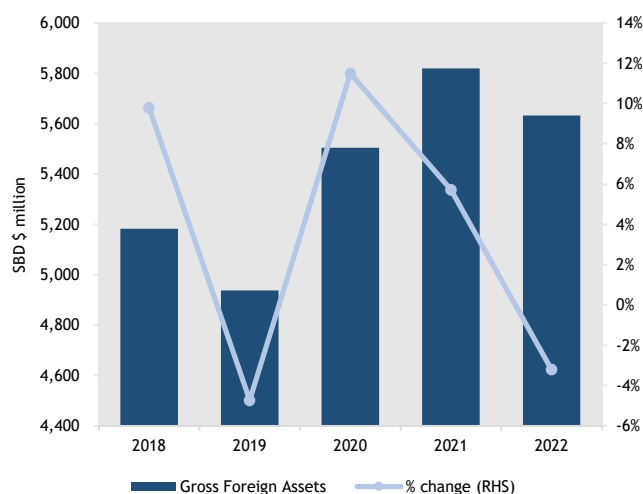
The strategic asset allocation of foreign reserves remains a fundamental part of foreign reserves management in terms of the long-term strategic goal of reserves management. The composition and allocation of foreign reserves holdings by major currencies (USD, AUD, NZD, JPY, GBP) are determined according to the reserve management policy. A minimal amount of EUR, SGD, and Chinese Renminbi (CNY) is maintained in support of the national Government's external obligations as well as for investment purposes. CBSI also holds the IMF Special Drawing Rights and IMF Standby Credit Facility.

Foreign Reserves Assets

The stock of gross foreign assets recorded at the end of 2022 stood at \$5,633 million, a 3.2% decline from \$5,820 million reported in 2021. The foreign reserves peaked in the first quarter at \$5,873 million as a result of higher fishing and donor receipts. However, external receipts slowed down in the second half of the year against consistent outflows emanating from high commercial bank FX trading payment demand, external debt settlements, and SIG external payments obligations resulting in a 4.1% drop eventually reaching \$5,633 million at year end. This level of official foreign reserve

assets remained adequate above the conventional threshold of six (6) months of import cover.

Figure 4.1: Gross Foreign Assets

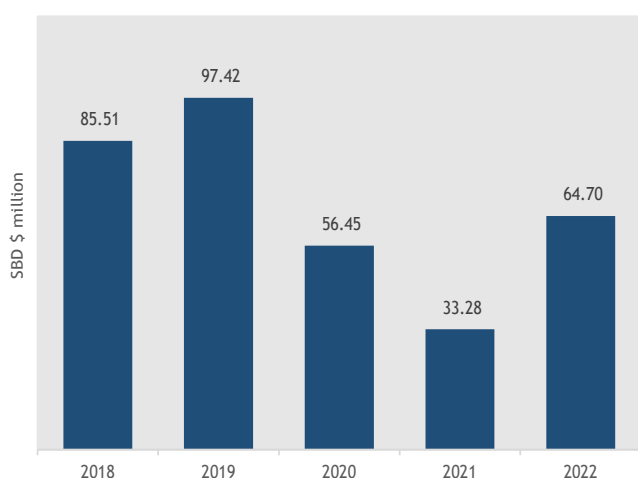


Source CBSI

Return on Investments of Foreign Assets

Interest income on foreign asset investments in 2022 almost doubled to \$65 million from \$33 million in 2021. The increase in interest income follows a turnaround of interest rate market conditions in the second half of 2022. Major Central Banks raised their cash rate in their fight to curb and tame inflation in the second half of the year. This translates to improved credit rates on cash balances and investment assets. This positive outturn on interest income in 2022 was largely attributed to the tactical approaches to investment with favourable interest rates and yields on term deposits, fixed income, and long-term treasury notes instruments. The interest income calculated based on annualized rate of return on investable reserve assets was recorded at 1.71%, higher than the annualized return of 0.29% in 2021.

Figure 4.2: Interest Income from Foreign Reserves



Source: CBSI

Gold Investment Policy

Gold investment portfolio as a reserve asset and integral part of risk management strategy for safety and security is guided by the Gold Investment Policy. CBSI gold trading activities continued in 2022. The first half of the year has seen sturdy gold prices resulting in favourable gold trading outcomes for the bank compared to the second half of 2022 when gold prices trended downwards. The decline in gold prices was driven by the strengthening of the US dollar as FED continues to maintain its hawkish outlook towards the end of 2022.

With the gold price falling to below US\$1,680 per Oz for six consecutive months from the US\$1,850 per Oz mark, CBSI was unable to sell much of its gold holdings during this period as they were purchased at a higher price. A total of 46,400 Oz of gold was traded during 2022 whilst 7,900 Oz remained and carried forward to 2023. CBSI earned \$8.1 million from gold trading activities in 2022, which was lower than \$9.2 million earned in 2021.

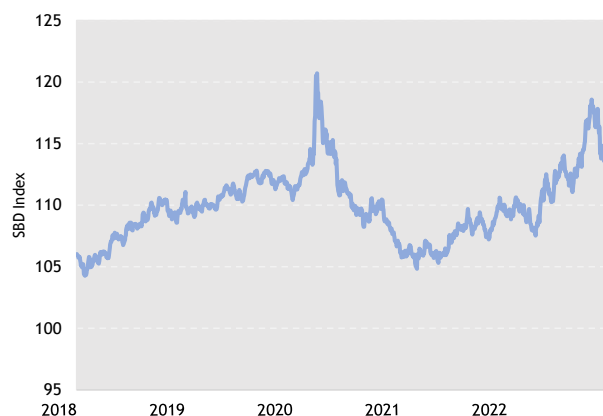
Exchange rate regime

The Solomon Islands Dollar (SBD) is pegged to a basket of major trade invoicing currencies. The exchange rate regime was of a crawling peg and was able to mitigate volatility in the currency market following the strengthening of the US dollar and cushion shocks in imported prices.

The Central Bank calculated the SBD mid-rate against the USD each morning to determine the SBD value against other basket currencies. In terms of the daily exchange rate spread, CBSI regulates both the USD and AUD spread whilst allowing commercial banks to determine their commercial exchange rates in other bilateral trading currencies.

The Solomon Island Dollar basket depreciated to 113.4 points in 2022 from 110.0 points in 2021, reflecting market volatilities owing to the notable risks and negative sentiments in the market in the medium term.

Figure 4.3: SBD Currency Basket Index



Source: CBSI

MIDDLE OFFICE OPERATIONS

The Middle Office continued to perform three key reserves management functions including foreign reserves risk management, compliance monitoring and investment performance measurement.

The year 2022 was one of the worst in terms of the investment environment since the 2008 financial crisis due to the notable downside risks including persistent high inflation, supply chain disruptions and uncertainties caused by the ongoing Ukraine-Russia crisis, and monetary policy tightening. The consequential effects of these heightened risks have mixed impacts on both asset classes and economic performance globally. The interest rate increases have seen market yields to rise markedly, however, subdued growth across major economies further worsened the knock-on effects on vulnerable economies.

Volatilities in the financial market continued to put pressure on strategic allocations and foreign reserves exposure on markets, credit, interest rate, foreign exchange rate risks and so forth.

The Middle Office continues to assess the market, perform quarterly compliance evaluations and formulate appropriate recommendations to strengthen resilience, compliance, and safety in foreign reserve management. During the year, necessary deviations on asset allocations and approved benchmarks have been pursued to accommodate market changes and mitigate revaluation losses from variations in the exchange rate. The CBSI also formally established its Nostro account with the Reserve Bank of New Zealand in September 2022 as part of its on-going pursuit to mitigate settlement risks in the New Zealand Dollar (NZD). The establishment of the settlements and clearing accounts in the Singapore Dollar is still in progress.

Apart from monitoring external risks, the middle office continued to monitor operational risk exposures in reserve management activities internally. Besides regular checks, surprise spot checks were also conducted to verify and ensure adequate compliance with established operational risk procedures. Appropriate mitigation measures are in place to control risks exposures identified during the year.

Going forward, the recruitment of a full-time middle office analyst will further strengthen the middle office role in terms of technical support and general administration of the front and back office. Currently, most middle office functions were assumed by the Manager for Risk Management Unit during the year, while anticipating the position to be filled in 2023.

The Back Office

The Back Office is primarily responsible for settlements of all CBSI payments related to investments and allocations of reserves. The Back Office also maintains the records of all foreign currency accounts and the

standard settlements instructions held by the Bank with its offshore counterparties. During the year, the Unit established a Nostro (NZD) account with the Reserve Bank of New Zealand purposely to facilitate all NZ dollar transactions.

The Back Office also facilitated both international receipts and payments via the SWIFT terminal for CBSI and other clients comprising commercial banks, the Solomon Islands Government (SIG), and all official donor funding receipts of SIG channelled through CBSI.

Back Office is also mandated to ensure accounting and reconciliation of all foreign accounts and investment instruments are maintained to best practices each month and annually. The Back office also administers CBSI's SWIFT Office transactions.

Table 4.1

Number of SWIFT Messages SENT and RECEIVED					
	2018	2019	2020	2021	2022
Outgoing messages (Sent)	1,853	1,928	1,718	1,209	1,220
Incoming Messages (Received)	3,690	3,816	3,125	3,492	3,578

Source: CBSI

In 2022, a total of 1,220 outgoing messages were sent via the SWIFT system, an increase of 11 messages from 2021 (See Table 4.1). Similarly, 3,578 messages were received, an increase of 86 messages compared to the previous year.

Table 4.2 provides the value of all receipts and payment 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 fell drastically to \$58 million in 2022 from \$279 million in 2021 due to changing market environment and a one-off receipts of IMF SDR allocation in 2021. On the other hand, CBSI's total payments increased to \$18 million from \$15 million in 2021.

Table 4.2

Value of Receipts and Payments Transactions through SWIFT (2018–2022)					
	2018	2019	2020	2021	2022
CBSI Receipts (SBD Million)	780	627	627	279	58
CBSI Payments (SBD Million)	74	428	478	15	18

Source: CBSI

During 2022, CBSI's Backoffice has been in close collaboration with the SWIFT Technical and administration team in relation to the major upgrade to its system to ISO 20022 standardisation approach.

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.

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

Applications for Temporary Resident (TR) Status

In 2022, CBSI approved 356 TR status permits, of which, 275 were new applicants and 81 were renewals (See Table 4.3). TR status is granted to non-residents, who intend to reside in Solomon Islands for a period of four years or less; or Solomon Islanders who are intending to reside overseas permanently. Non-residents working in the country on contractual basis can also apply and be granted TR status for exchange control purposes. Non-residents who are granted temporary residence status are permitted to repatriate income earned in Solomon Islands or brought in from abroad without limitation. Specific exchange control exemption for approved TR holders is specified under Regulation 22 of the Exchange Control Act and Regulations.

Table 4.3					
Number of Temporary Resident Accounts Application approved					
2018 - 2022					
	2018	2019	2020	2021	2022
Newly Approved Temporary Resident applications	302	289	156	133	275
TR Applications Renewals	144	112	48	60	81
Total TR Approved	446	401	204	193	356

Source: CBSI

Non-resident (NR) Accounts

In 2022, CBSI approved one (1) non-resident account for a non-resident individual. 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. External receipts to the account is permissible, however, sources of funds must be properly declared and approved by relevant authorities (CBSI and Commercial Banks).

Foreign Currency Account (FCA) Facility

In 2022, CBSI approved eleven (11) new FCA applications and renewed twelve (12) expired accounts. The majority of these accounts were denominated in USD while a few were in AUD, EURO, and other

currencies. There was a decline in the reported foreign exchange exposure from equivalent SBD1,536 million in 2021 to SBD706 million at the end of 2022 (See Table 4.4). The decline in the value of FCA was driven mainly by the non-renewal of FCA at expiry date by account holders. At the end of 2022, there were 34 active FCA holders approved by CBSI of which 28 FCA were held with local banks while 6 FCA with banks outside the country.

The foreign currency account facility is designed to support exporters in meeting their external operational obligations and minimizing their foreign currency costs. Over the years, the Central Bank recognised the importance of expanding the foreign exchange market and thus relaxed and extended the facility to all others including non-exporters. The operation of FCAs is a privilege and is strictly granted on merit upon satisfactory assessment by CBSI.

Table 4.4					
Number of Approved FCA Held by Exporters and Non-Exporters					
2018-2022:					
	2018	2019	2020	2021	2022
Total Account holders/ Entities	30	36	45	53	24
Qualified Exporters	5	6	2	5	7
Non -Exporters	25	30	43	48	17
Total number of accounts held	38	56	65	74	34
On-shore	35	51	57	64	28
Off-shore	3	5	8	10	6
Total value: (SBD million)	750	1,291	1,465	1,536	706
Note: Some account holders hold more than one FC account					

Source: CBSI

Foreign exchange (FX) Restricted Classified Dealers

In 2022, there was no new classified foreign exchange dealer's license issued, however, six (6) existing license holders were renewed during the year (See Table 4.5). Of the nine (9) approved and active licenses issued, six (6) were issued to eligible local companies to operate as money changer services dealers whilst three (3) licenses were for money transfer services providers in the country. The money transfers services licenses were issued to companies operating under approved and well-recognised money transfer platforms with appropriate AML policy standards (Western Union and MoneyGram money transfer services). This foreign exchange dealers' license is valid for 12 months and renewable thereafter with standard annual license Fees. CBSI monitors all classified money changers and money transfer transactions and license holders are obligated to report all transactions to CBSI.

The Bank generally supports and continuously promotes the development of financial services sector through the licensing of foreign exchange market dealer services in the country.

Table 4.5

Number of Approved Foreign Exchange Money Transfer and Money Changer Licenses					
	2018	2019	2020	2021	2022
Money Transfer services	3	3	3	3	3
Money Changer Services	10	10	11	10	6
Total FX Classified Dealers	13	13	14	13	9

Source: CBSI

Private Sector Debt (Private Sector Offshore Borrowing)

Resident entities or persons wishing to borrow funds from abroad or create debt in favour of non-residents must obtain CBSI approval pursuant to Exchange Control policy and regulations. The approval is also a prerequisite for any loan principal and interest repayments in the future. Moreover, it is necessary to ensure private sector debt is properly registered and monitored.

During the year, CBSI assessed and approved 11 external loan applications from private businesses, individuals, and corporations for the purpose of financing business expansions and other capital projects in the country (See Table 4.6). The total foreign currency exposure of these authorized external loans is equivalent to USD 18.6 million (SBD154.2 million).

Table 4.6

Number of Private Sector Overseas Borrowing Approved					
	2018	2019	2020	2021	2022
Applications received & approved	7	16	13	9	11
Value in SBD million	291	106	456	35	154

Source: CBSI

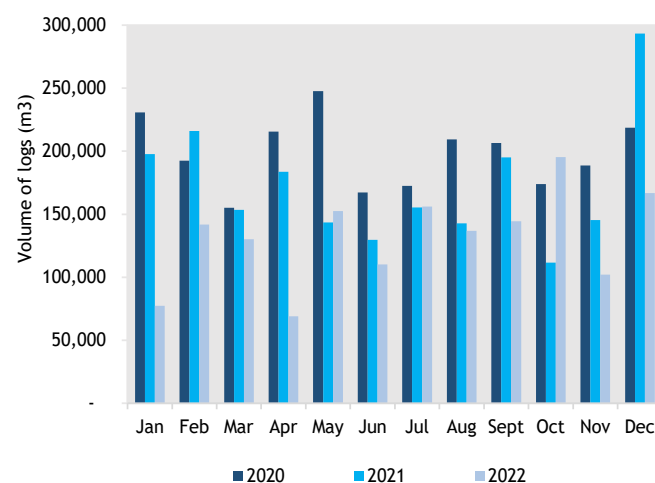
Exports Administration

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 export proceeds must be sold to a commercial bank in the Solomon Islands. These FX funds form part of the country's foreign reserves. 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, Bechdemer, and Minerals exports whilst the General Authority to Exports covers all other commodities not listed under the SA. The exporting of minerals came under the Specific Authority administration in the fourth quarter of 2022.

In 2022, CBSI issued 445 Specific Authorities to export to round log exporters. This was a decline of 27.9% from

the previous year. The estimated volume of round logs also declined by 23.5% to 1.583 million cubic metres with an approximated value of \$1,306 million (See Table 4.7).

Figure 4.4: Round Log Applications Approved under Specific Authority to Export in 2022



Source: CBSI

Table 4.7

Number and Value of Log Applications for Specific Authority to Export, 2022					
	2018	2019	2020	2021	2022
Total Applications approved (numbers)	924	922	842	618	445
Total Value of Exports-SA Approved SB\$ million	2,997	2,526	1,999.6	1,742	1,306
Volume of Exports- SA Approved (million m3)	2.822	2.717	2.379	2.068	1.583

Source: CBSI

CBSI also received and approved a total of 36 Bechdemer applications during the year with a total of 252,074 kg in weight and at an estimated value of \$19.839 million (See Table 4.8)

Table 4.8

Number and Value of Beche-De-Mer Applications for Specific Authority to Export, 2022					
	2018	2019	2020	2021	2022
Total applications approved	13	40	NIL	15	36
Total value of exports (SBD Million)	5.363	16.238	NIL	13.059	19.839
Total Volume (Kg)	92,522	223,559	NIL	173,805	252,074

Source: CBSI

During the fourth quarter, the CBSI included the exporting of minerals under the Specific Authority to Exports which previously exported under the General Authority to Export. A total of 13 Specific Authority to Export mineral application was

received, assessed, and approved following these administrative changes. A total volume of 276,218 grams of minerals, mainly gold and alluvial gold was exported with the total export value (prior to the final refinery assay Report) at \$96.1 million (See Table 4.9).

Table 4.9

Number and Value of Mineral Applications for Specific Authority to Export, 2022		
	2021	2022
Total applications approved	NIL	13
Total value of exports (SBD Million)	NIL	96.1
Total Volume (grams)	NIL	272,218

Source: CBSI

Imports Payment Administration: Applications above required CBSI limits.

As part of its Exchange Control Policy duties and requirements, CBSI is obliged to monitor most major overseas payment transactions. All applications for travel, personal transfers, and sustenance above \$100,000 require approval by the Bank. Furthermore, trade and services payments exceeding \$250,000 and \$1,000,000 must be referred to CBSI for approval before the commercial banks can settle payments. The authorised dealers (commercial banks) are permitted to approve foreign exchange payments for amounts less than the \$100,000 and \$250,000 - \$1,000,000 thresholds. This is the current authorised dealer's threshold approved by CBSI under this policy requirement.

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 2022, the number of applications referred to CBSI for approval totalled 2,547 applications and was valued at \$4,717 million (See Table 4.9). In terms of composition share of total payments, merchandise trade has a share of 73.8%, service payments with 16.1%, capital transfers 8.9%, and personal transfers 1.2%. The average value per application increased from \$876,249 in 2021 to \$1,851,983 in 2022, indicating a significant rise in high-value payments overseas.

Table 4.10

Number and Value of Foreign Exchange Applications Approved by CBSI					
	2018	2019	2020	2021	2022
Total Applications approved	8,700	7,435	7,291	4,905	2,547
Value of applications Approved (SBD millions)	6,167	5,372	4,125	4,298	4,717

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 2022, the CBSI granted authority to two (2) 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 ownership to a non-resident corporate entity.

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

FINANCIAL SYSTEM REGULATION

During 2022, the Central Bank continued its focus on maintaining public confidence in the banking industry, managing relations with licenced financial institutions, and enhancing supervisory and regulatory frameworks to remain compliant in the face of evolving regulatory standards whilst also ensuring a robust and resilient financial system. The licenced activities of the Bank were executed under the Financial Institutions Act 1998 (as amended), the CBSI Act 2012, the Credit Unions Act 1986 and the Insurance Act 1985. This is underpinned by the Central Bank's regulatory and supervisory mandate to maintain and promote financial stability as required in section 9 of the CBSI Act 2012.

Despite the unprecedented challenges brought about by the health-induced economic crisis and geo-political uprisings that continued to adversely impact the country's economy, the financial soundness indicators for the financial system revealed that the system was robust and stable despite some vulnerabilities that had the potential to lead to stress, particularly in the banking sector. This was evident in the banks' strong balance sheet position showing sufficient liquidity in the system, adequate capital to absorb losses, and profitability. That being said, the Central Bank acknowledges the need for early detection of potential stressful situations during these unprecedented times by enhancing policy tools and adopting suitable regulatory and supervisory frameworks. Subsequently, the Central Bank continued to work in partnership with the development partners to undertake the reform work on existing regulations and practices to ensure compliance and efficiency in the execution of mandatory supervision and regulatory frameworks.

The licenced financial institutions in the financial system comprise the commercial banks (4), the Solomon Islands National Provident Fund (SINPF) (1), the credit institutions (3), insurance companies (3), the Development Bank of Solomon Islands (DBSI) (1), and credit unions (10). Commercial banks hold about 60% of the total assets in the financial system, SINPF holds slightly above 30% of financial assets, whilst the rest of the institutions share the remaining balance. Solomon Finance Limited (SFL), a subsidiary of SINPF, was the newest licenced financial institution to be granted full licence to operate banking business as a credit institution in Solomon Islands. The total number of financial institutions supervised by CBSI increased by one with the licencing of SFL. Both SINPF and DBSI are deemed licenced for provisions that apply to them as specified under section 34 (2) of the Financial Institutions Act 1998 (as amended).

CBSI regulatory policy response to COVID-19 remained unchanged until September 2022 when it was discontinued following the termination of the State of Public Emergency in the country and assurance from the commercial banks that the policy responses were no longer required. These policy responses included the waiver on the application of paragraphs 33, 34 and 40 of prudential guideline 2 (PG 2) and the application of paragraph 7 of prudential guideline 8 (PG 8). With heightened threats from cybersecurity and fraud risk, the Central Bank continued to effect appropriate supervisory actions through directives, prudential guidelines, and practice guidance notes. One such requirement is for persons holding responsible persons position in licenced financial institutions in the Solomon Islands under PG 15. A sum total of 10 applications for CBSI no-objection approval were issued to licensed commercial banks under PG 15. Of the 10 no-objection approvals, 1 was a country head, and 9 were senior executive officers. Similarly, during the year, the Office of the Controller of Insurance (OCOI) facilitated and approved 58 exemptions amounting to \$10 million. The insurance classes spread across insurance covers that could not be provided by licensed insurers in the country. One insurance broker licence was cancelled following a supervisory stance to de-license the Broker for breaching regulatory requirements pursuant to s61 of the ACT[CAP.82].

Similar to other jurisdictions, the Central Bank experienced a surge in enquires about the use of digital banking services during the COVID-19 crisis. Subsequent to this, the Central Bank rolled out a regulatory sandbox in 2022 in a bid to promote fintech innovations and developments and allow potential service providers to trial their financial products and services in the market. The uptake was slow but expected to increase in the ensuing years as the

demand for affordable payment services and the push to accommodate the 'last mile' takes shape in post COVID-19.

With regard to supervision mandates, the Central Bank adopted both onsite and offsite surveillance for licenced financial institutions that it supervised. Supervision encompassed prudential meetings, desk reviews, on-site examinations, risk assessments and analysis. There were, however, temporary disruptions during the first quarter of 2022 due to COVID-19 community outbreak which impacted supervisors in terms of staff movement, access to information and capacity. The subsequent change in priorities saw investments in technology that enabled virtual prudential meetings as a success story for the Central Bank during the COVID-19 situation. Hence, adapting and continuous dialogue effectively contributed to the Central Bank's maintaining compliance with health and safety measures whilst delivering on its key supervision mandates.

In the course of executing its roles in Financial System Regulation and Supervision Department (FSRD), complemented the important mandate with the introduction of new supervisory tools particularly for the credit union sector. During the second half of 2022, FSRD launched and conducted two (2) public consultations for the credit union sector on its newly proposed Prudential Guidance Notes 3 (PGN3) and Practice Guidance Notes 4 (PGN4) on Governance and Credit Risk Management Framework respectively.

These PGNs are pivotal for credit union safe and sound operations in Solomon Islands. PGN3 on Governance sets out requirements that it is crucial for a credit union to ensure putting in place minimum sound governance framework and is managed prudently by a competent Board. PGN4 on Credit Risk Management sets out minimum requirements that a credit union must ensure to have in place sound credit risk management and maintain prudent lending practices whilst still fulfilling their obligations to protect the savings and provide equitable loans to members.

As part of this consultation, FSRD is calling for observations, views and reactions from the board, committee members and management of credit unions as well as pioneers in the development of the credit union sector respectively. The consultation was conducted with Honiara and provincial based credit unions particularly in Western and Isabel provinces. Table 4.11 below shows the FSRD's approved Key Responsibility Areas (KRAs) for 2022 and completion status.

Table 4.11	
FSRD's Approved Key Responsibility Areas for 2022 and Completion Status	
	Completion Status of KPIs (Scale 5=100% completed, 4=75%, 3=50%, 2=25%, 1's= not started)
Key Responsibility Area	Key Performance Indicators (KPIs)
KRA 2.1: Develop and review legislations, regulations, policies and guidelines for financial institution supervision	4
KRA 2.3: Regulate, license, register, supervise and oversee the financial institutions and credit information systems	5
KRA 2.5: Safeguard the financial systems and institutions through effective risk management	5
KRA 4.4: Cooperate with international organisations for improved capacity development towards financial systems stability	5
KRA 6.1: Manage human resource and performance culture	5
Percentage completion	79.2% [19.8/25x100%]

Source: CBSI

The KRAs largely support CBSI's strategic themes and projects for the year including the review of legislations, documentation of prudential standards, onsite examinations, implementation of prudential guidelines and directives, and capacity development.

Despite the disruptions caused by the COVID-19 pandemic, FSRD was able to conduct 4 on-site examinations across the banking sectors, superannuation sector, insurance sector and the credit unions sector in 2022. The risk-based examinations carried out in 2022 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 held in 2022.

Table 4.12	
Number of On-Site Examination Conducted in 2022	
Institution	On-site Examinations
Commercial Banks	1
Superannuation	1
Credit institutions	0
Insurance Companies	1
Credit unions	1

Source: CBSI

Building on from work carried out in 2021, the IMF-Pacific Financial Technical Assistance Centre (PFTAC) fielded a virtual mission on the development of prudential standards for non-banks and credit institutions (NBCI) in Solomon Islands. The remote mission team performed a diagnostic of NBCIs that included DBSI, Credit institutions and Credit Unions. The mission identified two prudential standards for the governance and risk management, the key prudential requirements of NBCIs in terms of capital adequacy, asset classification, provisioning and the recognition of interest income, large exposures, related party transactions and liquid asset requirements, and the need to review associated prudential returns in subsequent missions. On a related matter, the review work on converting prudential guidelines to prudential standards continued during the year. The prudential guidelines reviewed include asset classification and minimum provision requirements, foreign currency exposures, related party transactions, liquidity risk management, and outsourcing. Industry consultation and adoption of prudential standards on governance, risk management, interest rate risk management, and business continuity management will be conducted in subsequent year.

In terms of relevant legislations for supervision, some progress was made in the reform work during 2022. Table 4.13 shows the current status of the legislation reform work.

Table 4.13	
Current Status of the Legislation reform work as the end of 2022	
Name of Legislations	Status
Financial Institutions Act 1998 (as amended)	Cabinet endorsed policy for the review of the Financial Institutions Act 1998 (as amended)
Credit Union Bill	No progress after drafting completed in 2020
Insurance Act	External review of the Policy Paper and Consultation Paper on reforms to the Insurance Act (CAP 28) completed
National Payment System Act	Payment Systems Act 2022 enacted by Parliament
Solomon Islands National Provident Fund Act	Amendment to the Bill remained outstanding

Source: CBSI

Despite the delay, the Central Bank continued to work in partnership with its stakeholders including the IMF, World Bank Group, ADB and other donor governments and agencies and is optimistic to complete the necessary reviews to escalate the reform work to the next process in the legislation enactment process.

The need to disseminate accurate information cannot be ignored as information is a valuable resource in the banking industry. The Central Bank employs a variety of platforms to share information. One platform the FSRD utilises to share and receive feedback on banks

and credit institutions financial performances besides prudential meetings is the Bankers meeting. In 2022, the FSRD could only convene three out of four Bankers meetings planned for heads of banks and credit institutions, of which one of the three meetings was conducted virtually. Notwithstanding the setback caused by COVID-19, FSRD went on to publish two financial stability reports (FSR) for the second half of 2021 and the first half of 2022 respectively. The FSRs focused on resilience, vulnerabilities and risks facing banking, superannuation, insurance, and credit union sectors.

Capacity development remains critical in ensuring that supervisors are equipped with necessary skills and knowledge to discharge their responsibilities effectively. The evolving nature of supervisory duties and responsibilities make it highly necessary that supervisors are aware of changes in the regulatory and supervisory frameworks and global standards, principles and requirements that come with the changes. Whilst the pandemic restrictions did not allow face-to-face courses and workshops to occur, the FSRD benefitted from online courses delivered by the IMF and other training institutions for Central Banks. FSRD staff, for instance, benefitted from an online course on selected issues in the evolving financial regulatory framework conducted by IMF-STI based in Singapore. Online seminars and workshops on topical discussions including financial soundness indicators, digital finance, international financial reporting standards, and English communication complemented the ongoing capacity development program by IMF-PFTAC for Central Banks in the region.

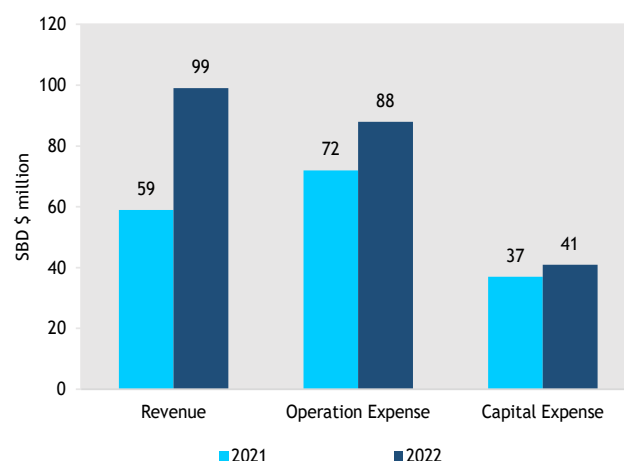
FINANCE & ACCOUNTS

The Finance and Accounts Department (FAD) is responsible for the financial planning, implementation, and reporting to CBSI's key stakeholders. Operationally, 2022 was extremely challenging as the department was required to maintain its operations amid the COVID-19 community outbreak and restrictions. However, with commitment, dedication and team work, the department continued to ensure that the operations of the Bank are financially maintained to deliver its annual plans and achieved its mandatory objectives.

2022 Budget

The Board approved a total budget of \$109 million for 2022 in November 2021. This comprised of \$79 million for operating expenses and \$30 million for capital expenditures. With the developments brought about by the COVID-19 situation in the first six months of the year, the 2022 budget was reviewed in June 2022 and revised upward to \$129 million. The final budget for 2022 was 18% higher than in 2021 reflecting the increases on both revenue and expenses.

Figure 4.5: Annual Budget: 2021 and 2022

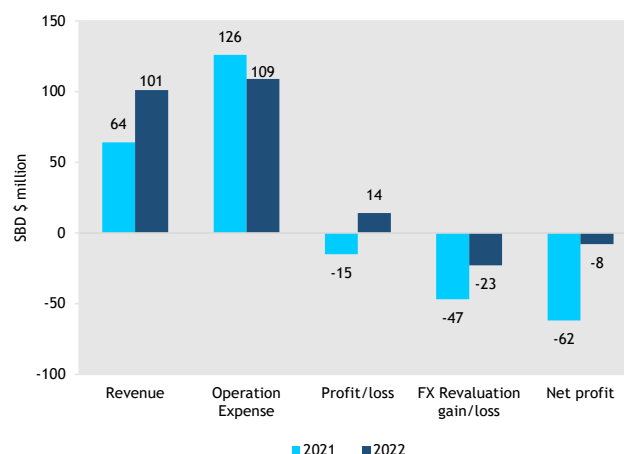


Source: CBSI

2022 Financial Performance

The annual financial performance of the Central Bank of Solomon Islands improved in 2022 with a smaller loss compared to 2021.

Figure 4.6: Financial Performance in 2021 and 2022



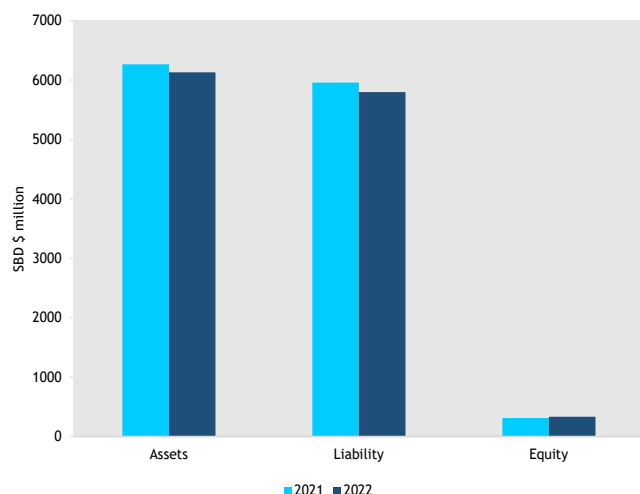
Source: CBSI

The Central Bank made an operating net loss of \$8 million in 2022 and an unrealized revaluation loss of \$23 million. The distributable profit was \$14 million. This would be written down against the general reserve of the Bank as required under Section 53 of the CBSI Act 2012. The unrealised foreign currency loss of \$23 million would be transferred directly to the foreign currency revaluation reserves from the Profit and Loss and Comprehensive Income.

2022 Financial Status

The Central Bank's financial status at year-end remained elevated with the equity position exceeding the legally mandated minimum equity of \$50 million by almost seven folds.

Figure 4.7: Financial Status in 2022 and 2021



Source: CBSI

In terms of assets and liabilities, total assets declined by 2% to \$6,131 million at year end, whilst total liabilities contracted by 3% to \$5,798 million. Meanwhile, the equity position of the Bank increased by 8% to \$333 million by the end of 2022.

Audit

Auditing on the operations of the Bank continued during the year. Price Waterhouse Coopers (PWC) of Fiji has been conducting auditing services for the Bank since 2018, however, their five-year contract with the Bank was ended in 2022. In 2023, the Bank is expected to contract new external auditors. Over the last five years, the Central Bank continued to receive unqualified audit opinions.

Staffing and training

FAD has a total of ten (10) staff comprising of 6 females and 4 males. Apart from performing its core functions, the department continued to support its officers to acquire necessary skills and qualifications to enhance work output and raise productivity. During the year, five (5) officers continued with their full-time and part-time studies pursuing higher accounting qualifications, of which three (3) officers were pursuing under-graduate program, one (1) officer undertaking post-graduate studies, and one (1) officer successfully graduated at the end of the year.

CURRENCY ADMINISTRATION AND MANAGEMENT

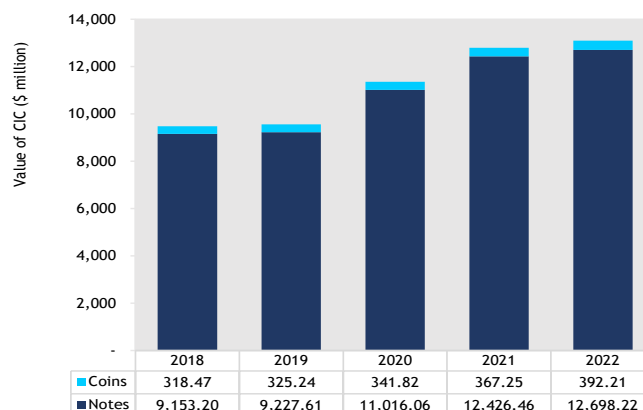
Currency in Circulation Stock

At the end of 2022, the total value of currency notes and coins in circulation rose by 2% to \$1,309.04 million from \$1,279.37 million at the end of 2021. This was attributed to the growing demand for currency notes and ATM Fit Notes throughout the country. Of the total, banknotes accounted for \$1,269.82 million while coins made up for the remaining \$39.22 million (See Figure 4.8).

Disaggregating the note denominations in circulation by share, the \$100 denomination accounted for the largest share at 50%, the \$50 denomination at 12%, \$20 denomination at 6%, \$10 denomination at 10%,

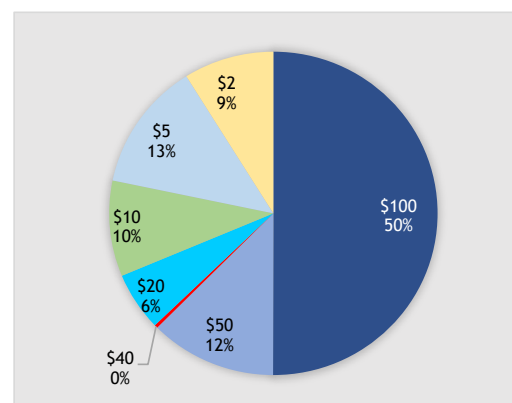
whilst the \$5 and \$2 denominations at 13% and 9%, respectively (See Figure 4.9).

Figure 4.8: Stock of Currency in Circulation



Source: CBSI

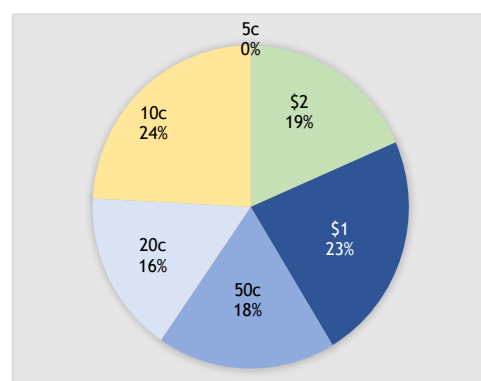
Figure 4.9: Volume of Currency Notes in Circulation



Source: CBSI

Coins in circulation grew by 6.8% to \$39.22 million in 2022 reflecting the increase in demand for all the coins during the year. The demand for both the \$1 and 20 cents coins grew by 7.7%, demand for 50 cents went up by 7.5%, \$2 by 6.1%, and 10 cents by 5%. Of the total volume of coins in circulation, the \$2 coins accounted for 19%, \$1 represented 23%, 50 cents accounted for 18%, whilst the 20 cents and 10 cents represented 16% and 24%, respectively.

Figure 4.10: Volume of Currency Coins in Circulation



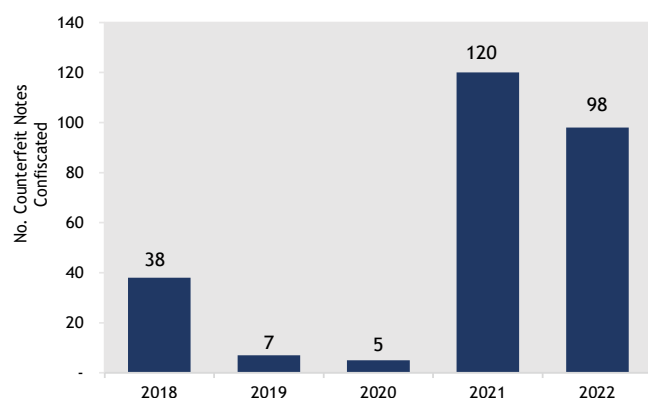
Source: CBSI

The Central Bank received \$299.98 million worth of new notes from De La Rue in 2022 and mostly in \$100 denomination. Of the new \$100 denomination notes reprinted, 4% were received in April while the remaining 96% were received in June.

Counterfeit Notes, 2022

In 2022, a total of 98 counterfeit notes were confiscated compared to 120 pieces recorded in 2021. A higher number of pieces were collected in March, June and July, and was likely attributed to the increase in demand for finances as a result of the financial distress faced by individuals and households due to the higher prices and the loss of real income, and the impacts of the COVID-19 pandemic.

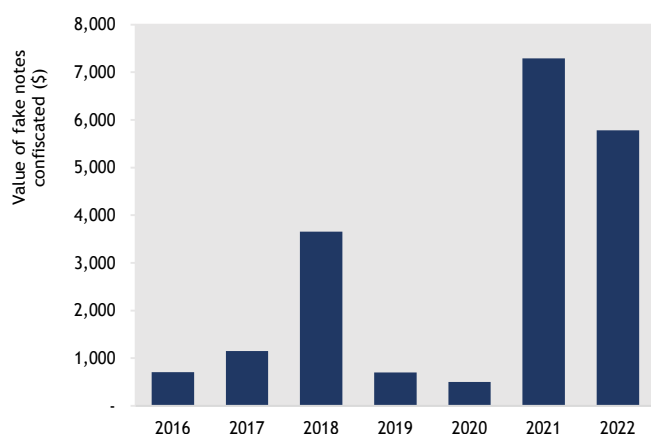
Figure 4.11: Volume of Counterfeit Notes Confiscated from Circulation



Source: CBSI

The counterfeit notes confiscated in 2022 were valued at \$5,780 against \$7,290 in 2021. Despite the decline in the value of the counterfeit notes collected, the higher value of confiscated notes reported in 2021 and 2022 reflected the economic and financial difficulties associated with the COVID-19 pandemic during these periods.

Figure 4.12: Value of Counterfeit Notes Confiscated from Circulation



Source: CBSI

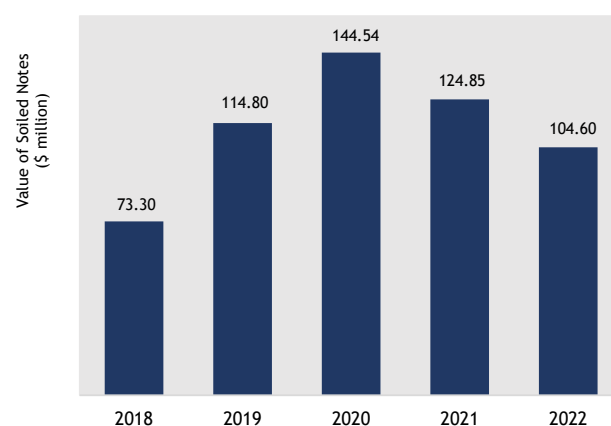
Of the total counterfeit notes collected last year, \$2,800 were counterfeits of the \$100 notes from the 2015 series,

and \$2,650 were \$50 notes mainly from the 2013 issues. Based on observations, more \$50 counterfeit notes were reported when the Bank issues more \$50 denominations than the \$100 notes. With the ongoing expansion of high-tech printing machines and technology, the \$50 counterfeit notes were produced using glossy materials, which means that they cannot wear easily when testing the texture of the note. The Central Bank continues to take appropriate measures to address this issue through its on-going public awareness programs using the radio and print media in 2022 targeting its stakeholders and the general public as well as through dissemination of information over the counter.

Cash Notes Processing

The total value of notes processed and destroyed in 2022 fell by 16% to \$104.6 million from \$124.8 million in 2021.

Figure 4.13: Value of Soiled Notes Destroyed.



Source: CBSI

The high rate of notes being returned from circulation remained a subject of concern to the CBSI as the replacement costs continue to increase whilst the demand for fit and clean notes and ATM notes also rises. This reflected poor handling of currency notes despite the on-going public awareness programs over the years on educating people on how to care for our currency notes. With the approval of the Central Bank's Quality Banknote Policy, it is anticipated that the policy will be implemented in 2023 once the stakeholder consultations with institutions in Honiara and other Provincial centres are completed. The Bank is expecting to see quality notes in circulation in our banking system and to the public from 2023 onwards.

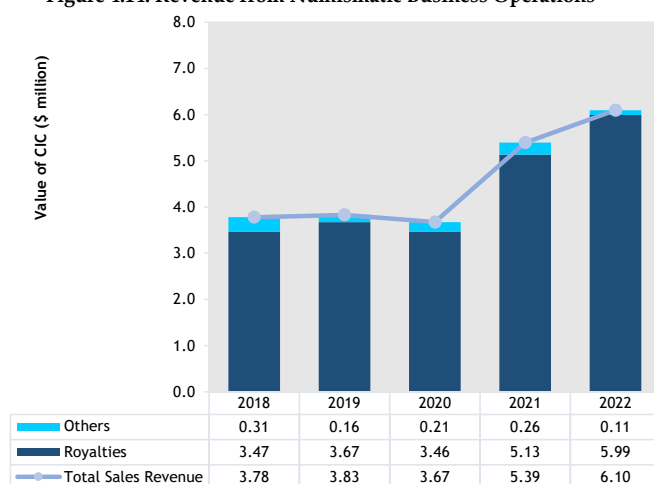
During the year, the cobra machine which handles the sorting and destruction of mostly \$50 and \$100 notes has not been functioning although there were several visits and technical support from Cash Processing Solution Engineer, Australia and Kusters Engineer, Netherlands. As a result, all cash destructions for 2022 were done using the off-line shredder. The technical issues with the cobra machine had been rectified and the engineers are now working on resolving the

issues. This machine is an important investment for the Bank as it assists in improving the efficiency in cash processing over the years.

Numismatic Business Operations

Numismatic operations recorded another successful year in 2022 with favourable outcomes in its income generations royalties earned from the signed numismatic contracts. Total revenue earned from numismatic operations increased by 12% to \$6.1 million in 2022 from \$5.4 million in 2021. This positive result was expected driven by the increased participation of signed numismatic contracts both from MDM/WCA and Royal Australian Mint (RAM). Of the total revenue, 98% (\$5.99 million) was from royalty receipts, whilst only 2% (\$0.1 million) was earned from the sales of commemorative and numismatic notes and coins both locally and internationally. The total revenue earned exceeded the 2022 budget of \$5 million reflecting the Bank's continuous effort in managing the numismatic operations, and positive business communication and relationship approach with its clients and customers despite the challenges posed by the COVID-19 pandemic.

Figure 4.14: Revenue from Numismatic Business Operations



Source: CBSI

The Central Bank participated in around 128 royalty coin programs in 2022 compared to 133 programs in 2021. Through its ongoing participation in the numismatic business operations, the Bank continued to ensure that only highly demanding commemorative and attractive royalty proceeds are considered and renewed upon the Executive's approval in conjunction with the concurrent popular coin program running contracts initiated and supported by the Bank. Furthermore, the Bank continued to respond and participate in several new commemorative coin programs with the expectation for favourable and improved revenue outcomes in 2023 and over the medium term once global conditions improved and transition to the new normal.

Governance and Administration of the Government Debt Statistical Database

The CBSI Debt Unit (CDU) continues to act as the

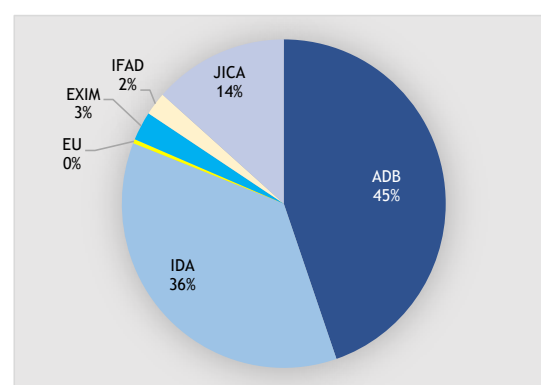
secondary site for government's external public debt database. Public debt data is kept on the CS-DRMS system while a portfolio analysis tool is maintained by the government's Debt Management Unit (DMU) for analysis of multicurrency loans. CDU also administers the operations of the domestic market which includes the issuance of the Solomon Islands Government's Treasury bills and the development bonds, and the Central Bank's Bokolo bills.

As part of its activities, CDU continues to perform the monthly loan validations on the CS-DRMS, dispatches quarterly external debt statistics (QEDS) to the World Bank, issue SIG development bonds, and uploads the 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 monitor the external loans contracted by private companies from off shore. CDU also holds regular meetings with the DMU on administrative and technical issues including capacity development issues.

Government's External Debt

The external public debt profile is made up of 41 active loans, nine (9) of which are still disbursing. Four (4) new loans were contracted in 2022 from the International Development Assistance (IDA) which led to an increase in the number of active loans. The principal creditors include the Asian Development Bank (ADB), 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 4.15: Value Share of Principle External Creditor: 2022



Source: CBSI

Total public Disbursed Outstanding Debt (DOD) of the Solomon Islands as at 31st December 2022 totalled \$1,152.36 million, an increase of \$14.48 million from \$1,137.88 million at the end of 2021. The total DOD is expected to further increase to \$1,474.05 million at the end of 2023. The growth in the total debt stock was due to the exchange rate movements and disbursements of external loans during the year. Total external debt repayments in 2022 was \$49.7 million, of which \$40.5 million was for principal repayments and \$9.2 million for interest payments.

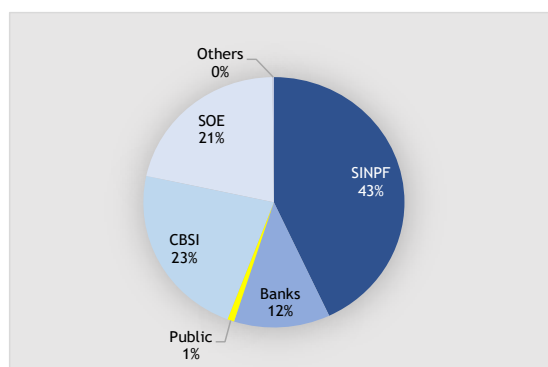
In terms of currency composition of the total official debt, the Special Drawing Rights (SDR) accounted for 67.8% (\$781.6 million) of the total DOD, followed by the United States Dollars (USD) with 18.3% (\$211.0 million), Japanese Yen (JPY) made up 13.5% (\$155.1 million), whilst the DOD in European Currency Units (EURO) accounted for 0.4% (\$4.7 million).

Government's Domestic Securities

Solomon Islands Government (SIG) domestic debt outstanding at the end of 2022 stood at \$819.1 million, an increase of \$71.3 million from \$747.8 million in December 2021. The domestic debt outstanding balance comprised of \$100.4 million in Treasury Bills, \$713.8 million in SIG Bonds and \$4.9 million in other SIG special securities. The increase in domestic debt is due to the issuance of new SIG bonds during the year. Total domestic debt repaid in 2022 totalled \$40.2 million of which \$7.3 million was for principal repayment and \$32.9 million for interest payments.

The major holders of domestic securities were the Solomon Islands National Provident Fund (SINPF) with 43%, State Owned Enterprises (SOEs) with 21.5%, Central Bank of Solomon Islands (CBSI) with 22.6%, Commercial Banks with 11.9%, General Public with 0.9% and other Creditors with 0.2%. Most of the borrowings were in the form of treasury bills and Solomon Islands Government bonds (See Figure 4.16).

Figure 4.16: Value Share of Domestic Securities by Major Holders: 2022



Source: CBSI

Despite the ongoing impacts of the COVID-19 global pandemic, the Solomon Islands Government remained committed to servicing its debt obligation both on external and domestic debt throughout the year.

Banking Support Services

The Central Bank of Solomon Islands continued to deliver professional banking services to all licensed financial institutions, the Solomon Islands Government (SIG) and other non-banking financial institutions as mandated in the CBSI Act 2012, notwithstanding all the banking challenges faced during the pandemic crisis especially with the COVID-19 community transmission during the first quarter of 2022. 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

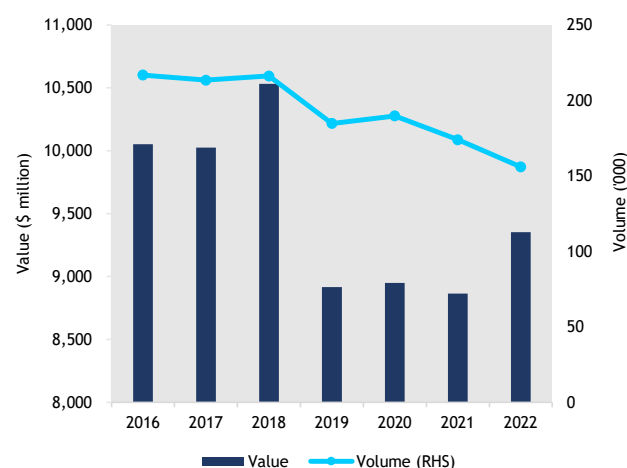
partners, facilitating domestic transfer payments, providing general account enquiry services daily, monitoring of free liquidity of the commercial banks, and the safe upkeeping of e-registers and records for audit requirements.

Clearing House Activities

The CBSI facilitates clearing of cheques drawn on the four (4) licensed commercial banks operating in Honiara. In 2022, a monthly average of 12,995 cheques with a total monthly average value of \$779 million passed through the Clearing House.

The total volume of cheques cleared in 2022 significantly reduced by 10% to 155,945 cheques compared to 173,904 in 2021. The reduction in the use of cheques may be attributed to the introduction and higher usage of other financial payment platforms and the impact of the COVID-19 pandemic on the financial business operations. Meanwhile, the total value of cheques cleared in 2022 increased by 5% to \$9,351 million compared to \$8,863 million in 2021. The increase in value of cheques partly attributed to higher donor inflows to support the SIG's COVID-19 commitments and stimulus payments via individual bank accounts.

Figure 4.17: Value and Volume of Cheques Cleared



Source: CBSI

Small Business Finance Guarantee Scheme

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

In 2022, 42 loan applications were received from participating institutions and approved for guarantee under the scheme compared to 23 approvals in 2021. This indicates high demand for the scheme from the Small Medium Enterprise (SMEs) though only two active participants were recorded last year. This brings the total cumulative approved loans to 93 by the end of 2022.

The total gross amount approved increased by almost three-fold to \$11.35 million in 2022 from \$4.74

million in 2021 reflecting the increasing demand from local businesses for financial support due to the negative impacts of the COVID-19 pandemic on business operations throughout the year. A summary of performance of the SBFCGS as at the end of 2022 in terms of the number of the total gross amount guaranteed, approved nominations, and the risk to the borrowers, the scheme and the participating financial institutions (PFI) is provided in Table 4.14 below.

Table 4.14

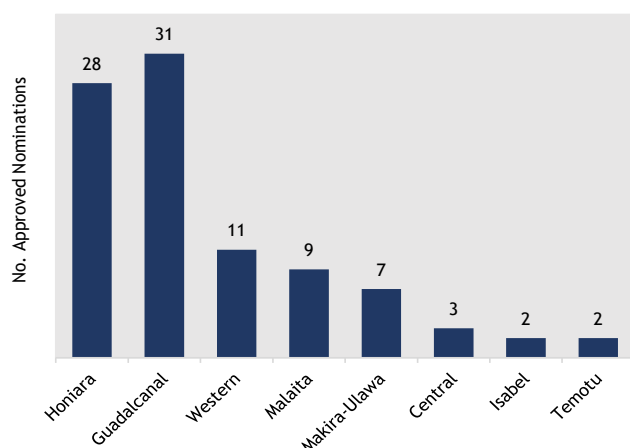
Summary of the Guarantee Scheme Performance: 2016 - 2022.						
Year	Total Gross Amount (\$)	Total Risk Borrower (\$m)	Total Unsecured Amt	Total Risk to Scheme 90% (\$m)	Total Risk PFI 10% (\$m)	Approved Nominations
2016	0.718	0.245	0.473	0.426	0.047	2
2017	0.957	0.317	0.640	0.576	0.064	3
2018	0.720	0.330	0.390	0.351	0.039	2
2019	1.702	0.395	1.308	1.177	0.131	9
2020	3.347	0.999	2.347	2.113	0.235	12
2021	4.742	1.320	3.421	3.081	0.339	23
2022	11.354	4.221	7.132	6.285	0.645	42
YTD Total	23.539	7.827	15.712	14.008	1.500	93

Source: CBSI

Approved Nominations by Province

Disaggregating the cumulative approved nominations by provinces showed that Guadalcanal and Honiara still dominated the scheme with 31 and 28 approved nominations, respectively. Western province recorded 11 nominations, whilst the other remaining provinces all recorded less than 10 nominations at the end of 2022 attributed to the difficulties in accessing financial services in the provinces.

Figure 4.18: Cumulative Distribution of Approved Nominations by Provinces at the end of 2022.

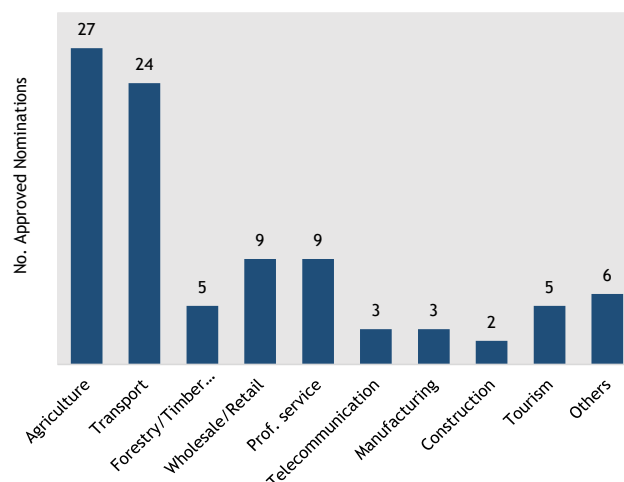


Source: CBSI

Approved nominations by industry

In terms of cumulative approved nominations by industries, the agriculture industry reported the highest with 27 nominations, followed by the transport industry with 24 nominations, wholesale and retail, and professional and other services with 9 nominations each, whilst all the other industries recorded five (5) or less nominations each by the end of 2022.

Figure 4.19: Cumulative Nomination by Industry at the end of 2022



Source: CBSI

Nominations by Gender Ownership

All SMEs owned and managed by women who are Solomon Island citizens are also eligible for guarantee under the scheme with 95% guarantee of their unsecured loan amount as compared to 90% guarantee for SMEs owned by males. By end of 2022, the cumulative total number of approved nominations for female-owned SMEs stood at 14, of which seven (7) additional nominations were approved last year. Moreover, 15 nominations were recorded for SMEs that were managed by females and their spouses. Meanwhile, three (3) SMEs solely owned by individual females have claimed the guarantee as a result of loan default. This was largely due to poor financial management and the diversion of business interest to other areas.

INFORMATION TECHNOLOGY

The Bank continued to maintain and enhance its operations through the use of its IT Systems and Infrastructure, which is seen as the driver for automation and digital transformation of the Bank's business processes that supports the Bank's corporate objectives.

The Bank also continued to maintain and update its technologies to remain efficient and relevant. Its infrastructure including the cloud services, website and network has remained secure and resilient during the year.

Moreover, the COVID-19 pandemic and local outbreak provided a window of opportunity for the Bank on

enhancing its connectivity to enable staff to work effectively from home and held virtual meetings, trainings, and workshops during the year.

The IT projects that were undertaken either completed or progressed in 2022 across the activities of the bank include:

Continuous Enhancement of the ICT Infrastructure

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

- Successful review of the enhanced Bank's internet connectivity allowed the authorised staff with improved access to the Bank's network resources and improve working from outside of the Bank's main office. The review also enabled the Bank to revive its redundancy internet service with an improved redundant internet service after it was temporarily suspended during the COVID-19. The improvement in the redundant Internet service supported the continuity of the Bank's services and operations;
- The work from home arrangement was further boosted with the approved engagement of a service provider in setting up the agreed internet connectivity package to residents occupied by management and some identified and approved staff. The installations to the identified staff residences will be completed in 2023;
- The continuation of the business-as-usual project in ensuring the network services is maintained and upgraded on the Bank's main office, Disaster Recovery site and the Bank's rented office. Furthermore, the Bank continued the acquisition, installation and deployment of the new computer hardware items that replaced the outdated ones and helped staff improve their work;
- The maintenance and upgrade support provided for the Bank's servers, computers, printers, network cabling, and UPS that helped preventing from major operational disruptions.

Systems Enhancement and Development

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

- The Bank's continuity support on the implementation of the National Payment System (NPS) and its connectivity to the Commercial Banks through working closely with the required partners which included the system vendor, the contracted hardware agent, the approved Internet Service Provider and the NPS project team;
- The Bank through the Solomon Islands Financial Intelligence Unit (SIFIU) partnership with AUSTRAC has acquired, installed and hosted the Taipan System. This system enhanced SIFIU's

ability to respond to complex money laundering and combat criminal and national security threats in the region;

- The Bank's commitment to complying with the SWIFT mandatory requirements for Customer Security Program (CSP). The SWIFT security attestation will continue in 2023. Furthermore, the Bank has also embarked on the SWIFT mandatory project on migration to ISO20022, which is part of being compliant with global financial messaging requirements. Moreover, the SWIFT system has adopted Payments Control System (PCS) to enhance its security in cross boarder payments. The Bank also continued to upgrade both the SWIFT Production and Contingency Systems to strengthen and protect its international payment system;
- The Bank also embarked on a project for its primary accounting system to be hosted on the Cloud since the supplier will no longer provide its normal maintenance support on the current on-site environment. Its implementation will kick off in the second quarter of 2023;

Furthermore, the Bank continued with the outstanding work components related to the revised general ledger structure project, which if completed will enhance monitoring and reporting;

- Continue providing 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 2023 when a CS-DRMS support team will implement the system on-site;
- The continued business - as - usual project in providing ongoing maintenance support on the Bank's existing software applications.

ICT Security and Disaster recovery

In its efforts to strengthen the Bank's ICT Security, the Bank continued to work on projects that uphold confidentiality, integrity and availability of its ICT systems and data from both internal and external cyber security threats. These included projects on the Unified Security Monitoring project and Email Protection Project, Vulnerability Scanning and Systems penetration testing project. Work on these projects will continue into 2023.

Furthermore, essential cyber security control measures were maintained or enhanced. These included continued installation of the upgraded security software such as anti-virus and anti-malware as well as strengthening the rules on the firewall. The regular updates of the Bank's software and electronic devices also supported the Banks security control measures. Cyber security awareness has been provided for the Bank's employees who are responsible in keeping the

Bank's systems and data secure.

During the year, the Bank successfully conducted testing on the systems and data hosted on its Disaster Recovery site to ensure the hardware and software at the DR site worked as planned in the event that the systems at the production site failed.

Enhanced backups and replications software application enabled the Bank to perform scheduled backup tasks and replication tasks effectively. Recovery tests on the Backup systems and data will continue into 2023 to confirm and guarantee the systems and data working conditions.

Enhancing ICT Helpdesk Support Services

- To strengthen its users' support services, the Bank acquired and installed a Web Help Desk Support System. The system will enable the Bank's IT support team to better manage and attend to users log in requests;
- The continued business-as-usual project in providing ongoing support for the Bank's employees on the delivery of network support services which included printing service, email services, file sharing and management service, VOIP telephone service, video and audio-conferencing services and ensuring appropriate level of access for staff on the Bank's network;
- Continue with information sharing for staff either individually or in groups on the Bank's available software applications and tools.

Enhancing ICT policies

The Bank has progressively pursued the completion of its needed procedures and standards to support its Cyber Security policy and IT Policy. These will support in guiding and controlling the IT operations effectively when fully completed.

During the year, the following policy and draft procedures were either completed or progressively documented;

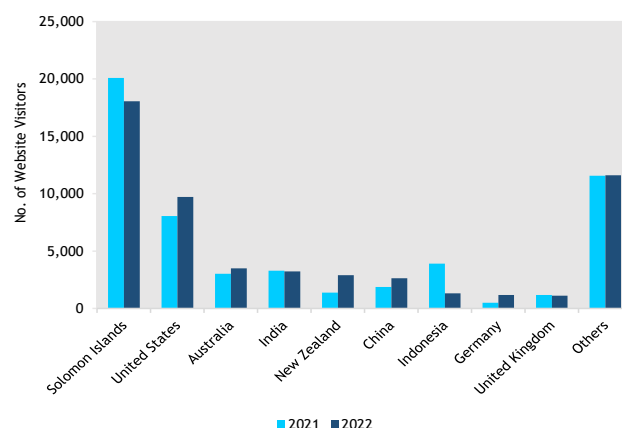
- The completion of the data security and privacy policy;
- The drafting of the Cyber Security Control Procedure and standards;
- The drafting of the IT hardware and Software Standards; and
- The drafting of the Bank's Cyber Security Risk Management Framework.

Website Visits

In 2022, the total number of visits to the CBSI website was 55,275 visitors, a slight increase of 1% from 54,894 visits in 2021. The visits were from 198 countries. In terms of visits to the CBSI website by country, Solomon Islands visitors remained the highest at 33%, the United

States constituted 18%, Australia and India represented 6% each, New Zealand and China accounted for 5% each, whilst Indonesia and Germany represented 2% each. The remaining 23% represented other countries. The website contains updated information for the public to access and gather useful information about the Solomon Islands economy.

Figure 4.20 : Website Visits By Country



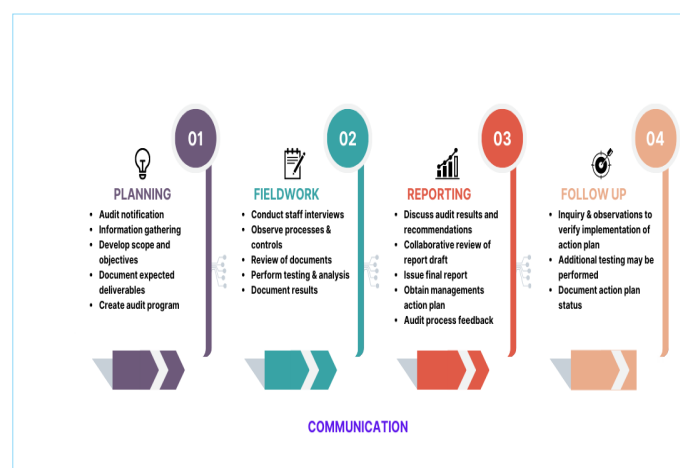
Source: CBSI

INTERNAL AUDIT UNIT

Internal auditing is an independent, objective assurance and consulting activity, designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The core functions of the Internal Audit Unit (IAU) within the Central Bank of Solomon Islands were established by the Board under the CBSI Act 2012 to oversee the governance process and improve the effectiveness of the Bank's internal control processes and business operations, and achieve its risk management objectives.

The IAU performs its audit activities under four (4) typical phases outlined in the diagram below:



Source: IIA

In 2022 the IAU continued to perform its internal auditing functions under three (3) core values:



i. **Assurance:** The IAU provides assurance on the Bank's governance, risk management, and control processes to help the Bank achieve its strategic, operational, financial, and compliance objectives.

ii. **Insight:** Through its insights and recommendations based on analyses and assessments of data and business processes, the IAU acts as a catalyst for improving the Bank's effectiveness and efficiency.

iii. **Objectivity:** With commitments to integrity and accountability, the IAU's activities and other consultative services, should be of value to Board Audit and Risk Committee and the senior management, as an objective source of independent advice.

Assurance activities were conducted as per the Audit Committee's approved 2022 Internal Audit

Annual Plan (AIAP). Professional and ethical conduct (including duties and responsibilities) of internal auditors had been closely guided by the CBSI Internal Audit Charter, the International Professional Practices Frameworks (IPPF), and other applicable Institute of Internal Auditors (IIA) Standards. The review of the CBSI Internal Audit Charter had been conducted and the revised version had been subsequently approved by the Board Audit and Risk Committee in the fourth quarter of 2022.

Internal Auditors within the IAU had been demonstrating strong adherence (and will continue to do so in the future) to the following IIA Code of Ethics as a guide, in their codes of conduct over the year.

- **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 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 use in conducting the auditing activity.
- **Competency** – to apply the knowledge, skills, and experience needed in the performance of internal auditing.

CHAPTER 5: FINANCIAL INCLUSION

2022 marks the second year of implementation of the Third National Financial Inclusion Strategy (NFIS3) for Solomon Islands. NFIS3 stipulates two national goals to achieve by 2025:

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

In 2022, NFIS3 national goal 1 target has reached a total of 249,291 active users of which 136,842 were women, a 10% decline in active users compared to 2021. This outcome was likely due to the impact of the COVID-19 pandemic on customers reducing users' active participation in financial services. Users of financial services includes formal financial institutions, superannuation fund (formal & informal), credit unions, micro-finance institutions, and savings groups. A caveat to these aggregate figures is the issue of double-counting from supply-side data.

In terms of the second national goal, the number of access points increased by 118 new access points to 870 access points by the end of 2022, equivalent to more than half of the target of 1155, although this represents only commercial banks. The increase in the number of access points was driven mainly by the expansion in the number of EFTPOS terminals and merchants. These are regulated access points offered by financial institutions and semi-formal institutions where cash in (including deposits) and cash out can be facilitated. Nevertheless, the challenge of decentralization persists as majority of the access points were located in the capital city (Honiara). Other financial service providers access points will be captured with the issuance of the revised reporting templates in 2023.

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

The role of Digital Finance Services (DFS) to extend financial services to the last mile and also improve quality of financial services channels is essential given the geographical challenges in the country, which limits the reach of financial service access points to the provinces. Digital technologies have greater potential in enabling access to finance to a larger population including the underserved population in the rural and remote areas. Moreover, there is countless potential for DFS to integrate various economic sectors and population segments into the digital economy given that digital finance and payment services are at the core of any economy.

Accordingly, Strategic Objective 1 of the NFIS3 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 awareness and promotion of DFS initiatives in government and private sector transactions by relevant stakeholders. To implement the Strategic Objective 1, the Digital Finance Working Group (DFWG) is tasked by the National Financial Inclusion Taskforce (NFIT) to explore and progress key focus areas and other related aspects. The DFWG is comprised of stakeholders from the Government, Financial sector, Private sector, and Development partners. Objective 1 of the NFIS3 covers three core activities – (1) *Create legal and regulatory environment to expand digital financial services*, (2) *Promote Digital Payment channels in Bulk Government transactions*, and (3) *Promote Digital Payment channels in private transactions*. In 2022, the DFWG was able to advance some of the activities whilst other planned activities are yet to progress.

Table 5.1

COMMERCIAL BANKS ACCESS POINTS													
Indicators	2020	2021	2022	Choiseul	Western	Isabel	Malaita	Guadalcanal	Central	Makira	Renbel	Temotu	Honiara
Number of Branches	14	14	15	0	3	0	1	0	0	0	0	0	11
Number of ATMs	58	56	59	0	7	0	2	1	0	0	0	0	49
Number of EFTPOS-Terminals	325	361	423	10	64	2	18	12	4	5	0	4	304
Number of EFTPOS-Merchants	253	264	313	0	47	0	7	11	1	1	0	0	246
Number of Agencies	7	7	7	1	1	1	2	0	0	1	0	1	0
Number of Mobile Access	50	50	53	10	11	2	9	1	3	4	0	4	9
Total no. of access points	707	752	870	21	133	5	39	25	8	11	0	9	619

Source: CBSI

Working Group Meetings

In 2022, the DFWG held two (2) meetings; the first meeting was in April and the second meeting was in November. These meetings focused on enabling policies and regulations for DFS initiatives particularly, developing the Regulatory Sandbox Framework, the enactment of National Payment Systems Bill, e-money regulations, awareness on DFS, and other initiatives to expand access to financial services.

Emerging Developments

During the year, the negative impacts of the COVID-19 community transmission and the associated measures that limit movements, combined with the lingering effects of the November 2021 riots that led to the loss of some key systematic infrastructures, have slowed the progress of implementing some of the initiatives during the first half of the year. Nonetheless, the resilience of DFWG Stakeholders has been impeccable, which resulted in the DFWG being able to progress numerous key focus areas of Strategic Objective 1. A key market development within the digital finance space was the emergence of additional market players including e-wallet providers, Cash Voucher Assistance Program, and online marketplaces. The array of services provided by these players includes e-money, tokenized-card payment solutions, e-voucher for cash payment assistance to disaster affected communities and recipients, and e-commerce. While gaps in regulations and the absence of appropriate legal framework for FinTech have been cited as a constraint that limits the rollout of their full-scale market operations, the CBSI has been very receptive and supportive in providing regulatory guidance to these market players and continuously liaising with the providers to ensure minimum regulatory requirements are met on a proportionate scale.

Regulation, Policy, Collaboration, Infrastructure development.

I. MOU on regulatory and supervisory collaboration.

In hindsight of the convergence of telecommunication services and digital finance, CBSI has signed a Memorandum Of Understanding (MOU) with the Telecommunications Commission of Solomon Islands (TCSI) on 17th February 2022

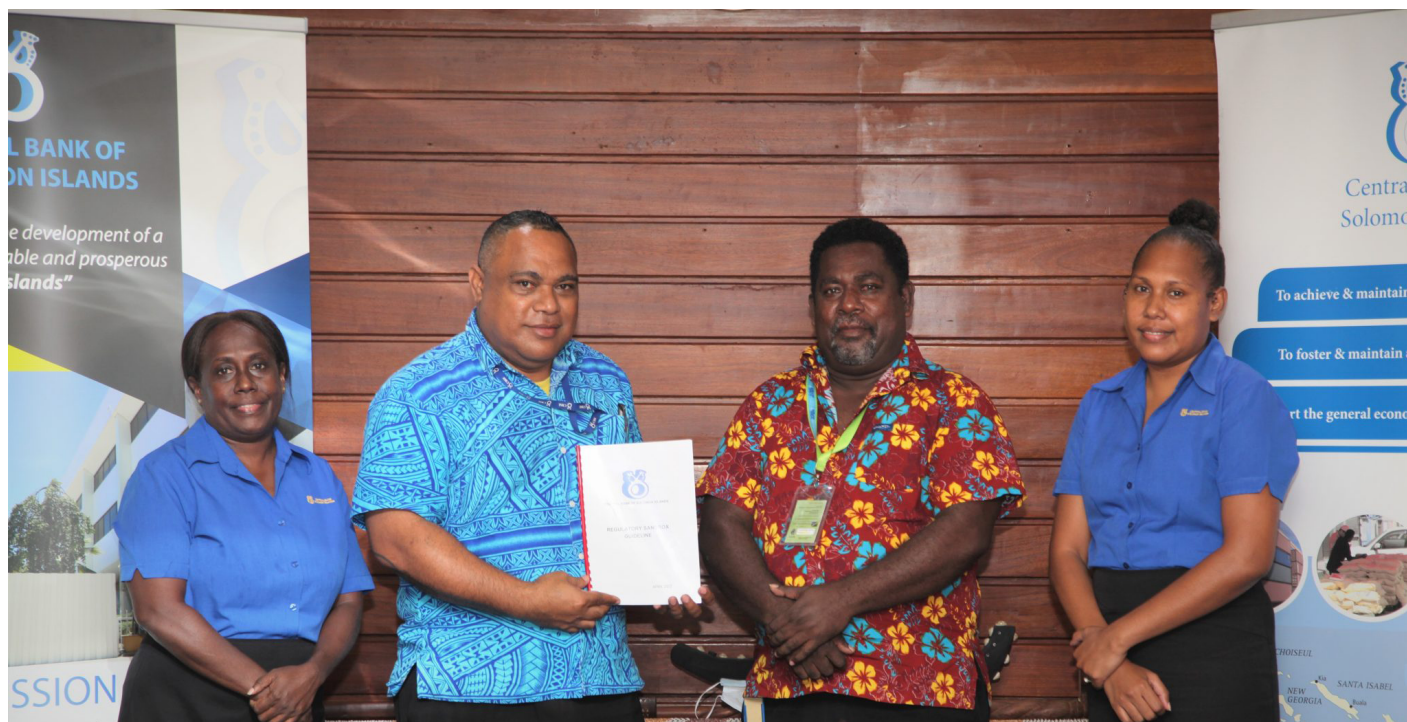


CBSI Governor, Dr. Luke Forau and TCSI Commissioner, Calvin Ziriu holding copies of the MOU after the signing.

The MOU is to complement the CBSI and TCSI's duties in regards to the oversight and supervision of Digital Financial Services Providers (DFSPs) under the related statutory instruments that govern their work.

II. National Payment Systems (NPS) Act 2022 & National Payment System Development.

A key highlight for the working group is the National Payment Systems (NPS) Act 2022, which was passed by the parliament on the 27th of July 2022. This piece of legislation ties in well with the development of the National Payment Systems (NPS) infrastructure which is set to be launched in 2023. The enactment of the NPS legislation provides CBSI with the authority to introduce relevant regulations as and when necessary. The NPS is a systematically important infrastructure which is significant for the proliferation of digital financial services while also laying digital rails for instant and inclusive payment services or solutions to seamlessly plug into. The NPS will feature an Automated Clearing House (ACH) for retail payments and Real Time Gross Settlement (RTGS) for large value payments. The ACH will include two schemas – Instant Funds Transfer (IFT) and Electronic Funds Transfer (EFT). Accordingly, the key areas of the NFIS 3 strategic objective 1.2 related to the enactment of NPS Bill and development of the NPS infrastructure have now been achieved. The next steps include the activation of the NPS, and the introduction of NPS rules and regulations.



CBSI Governor, Dr Luke Forau, Manager- NFIU, Manager- FSRD and Senior Analyst-FSRD during the launching of the Regulatory Sandbox Framework

III. Regulatory Sandbox Framework

On April 2022, the CBSI launched the Regulatory Sandbox Framework (RSB) for implementation. The RSB is a controlled testing environment for innovators with financial technological solutions that have the potential to expand access to financial services for the unbanked population and capable of reaching market scale. Innovators can be Fintech companies and related entities that provide responsible technological solutions to improve delivery of financial services.

The RSB includes payment service providers, innovative solution providers, Micro Small and Medium Enterprise financing, agriculture and climate financing, insurance, savings, credit, investment and wealth generation, sustainable and renewable power generation, mobile money, remittances, payment transfers, tourism, and any other key priority areas.

IV. E-money regulations and review of Practice Guidance Note 2 (PGN2).

One of the important regulations which is still outstanding is the E-Money regulations. This regulation is important to facilitate market entry of e-money service providers and will enable the CBSI to regulate and supervise e-money service providers. It is anticipated that with the enactment of the NPS Act 2022, the e-money regulations would be vetted soon by the Attorney General Chambers. In the meantime, the CBSI also conducted a review of the PGN2 for mobile money service providers with the financial service industry players.

V. Other regulatory and initiative collaborations.

Throughout the year, CBSI continued to be part of numerous discussions to develop national strategies and initiatives. This includes the National E-Commerce

Strategy 2022-2027, which is led by the Ministry of Communications and Aviation (MCA) and the Ministry of Commerce, Industry, Labour and Immigration (MCILI) with technical support from the UNCTAD and UNCDF, and the FinTech Innovation Challenge organized by the UNCDF, that led to the selection of a local Fintech company to explore and design a digital micro-lending product for the informal sector. In addition, the CBSI in collaboration with the Reserve Bank of Australia conducted a workshop on electronic know your customer (e-KYC) with local stakeholders to understand the needs, benefits, challenges, and regulatory implications of establishing an e-KYC facility for Solomon Islands. Given the importance of verifications for electronic payments and online transactions, having an e-KYC will spur the growth of e-commerce transactions, reduce cost for KYC and customer onboarding as well as complementing AML/CFT monitoring.

VI. Awareness of DFS

Regarding awareness of DFS, the financial service providers especially commercial banks continued to conduct 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 including the Solomon Post and the Solomon Islands Provident Fund (SINPF) have also conducted awareness on their respective digital payment channels such as the EziPei and youSave IoMobile. Likewise, the IRD continued to conduct awareness relating to the IRD electronic tax system (e-tax) through online and print media.

Ongoing Digital initiatives

Ongoing initiatives initiated by the NFIT includes the

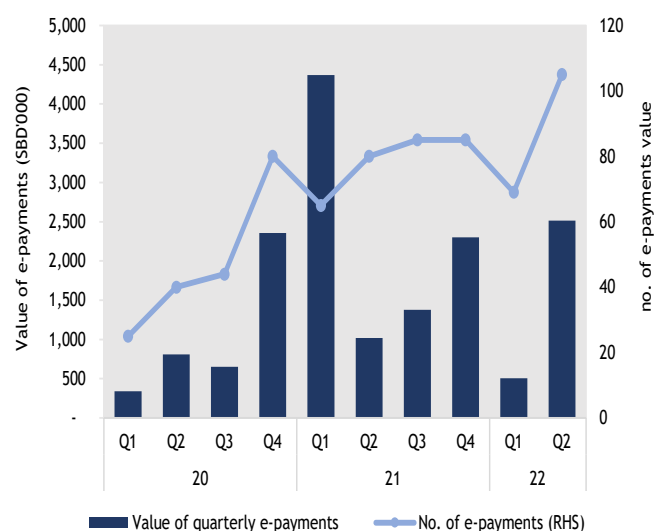
youSave loMobile Service, IRD e-tax, and BulkShop's marketplace.

IRD E-tax

The electronic tax system (e-tax) of IRD is an online portal for customers to file and submit their taxes and make tax payments electronically using internet banking.

From the fourth quarter of 2019 to the second quarter of 2022, the total registered e-tax clients had reached 614 clients and a cumulative total of 3932 tax submissions were filed online. In terms of the value of the electronic transactions, taxes filed online amounted to \$17.2 million resulting from 744 e-payments transactions. This indicated that traction for online tax filing coupled with number of e-payments are increasing as more businesses become more familiar with filing taxes online.

Figure 5.1: Value and Number of e-Tax Payments

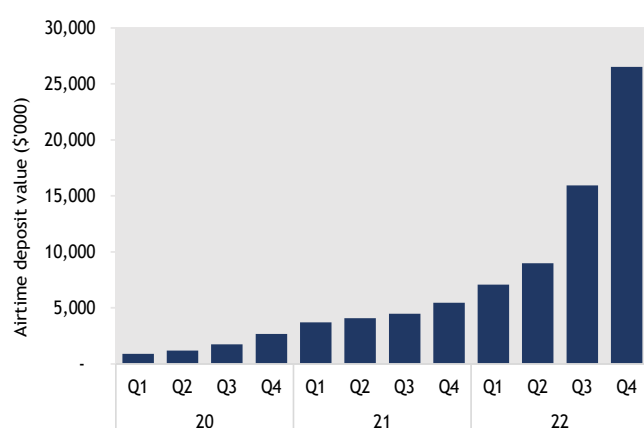


Source: CBSI

The youSave loMobile

As of the fourth quarter of 2022, the number of youSave members using the youSave loMobile service has reached 17,855 member, of which 54% were women.

Figure 5.2: Cumulative Airtime deposits Value



Source: CBSI

In terms of deposits via the youSave loMobile channel, total airtime value remitted by members accumulated to \$26.5 million.

As membership increases, there is need to explore products to enable youSave members to become active users. Accordingly, the SINPF will be exploring the design of an innovative digital microlending product following the successful conclusion of the FinTech Innovation challenge in Singapore.

BulkShop Digital Market-Place

BulkShop Solomons online marketplace features an online order service in which successful orders can be picked-up or delivered. This initiative was developed in anticipation of the COVID-19 transmission whereby enhancing the business capability to safely operate and deliver essential supplies to customers is critical.

Some of the challenges that limits maximising online sales and customer touchpoints were related to the 'See and Touch' factor where customer prefer in-store shopping or pick-up orders to see and touch the goods before purchasing. Moreover, with the lack of a payment gateway due to the underdeveloped payment infrastructure, payments for goods ordered online can only be made with cash or using EFTPOS.

Strategic Objective 2: Improve and promote MSME finance

The NFIS3 Strategic Objective 2 covers four activities – (1) Enhance SME Access to finance through implementation of revised SME Credit Guarantee Scheme (SMECGS), (2) Strengthen the credit risk information system and information sharing to increase credit to MSME, (3) Target MSMEs in strategic rural value chains for business mentoring and skills development, and (4) Develop and implement MSME centric financial and digital literacy programmes.

The MSME Working Group (MSMEWG) is the nodal group tasked by the NFIT to implement the key activities related to Strategic Objective 2 of the NFIS3. Due to the prolonged impact of the November 2021 riot coupled with the COVID-19 community transmission in the first quarter of the year, all MSME activities were implemented in the later half of the year. The MSMEWG comprised of stakeholders from relevant Government Ministries, Financial Sector, the Private Sector and Development Partners who shared a collective interest to develop the growth of the MSME sector in the Solomon Islands. Throughout the year, the MSME Working Group was able to advance some of the core activities while other activities are yet to be progressed.

MSMEWG Meeting

The MSMEWG held two meetings during the year to discuss initiatives that would broaden access to finance for MSMEs with special focus on women and youths, training and awareness programs for MSMEs, and the MSME Bill.

Regulation and Policy

MSME Bill

The MSME Bill, once passed, will be an important legislation that provides a legal framework for implementing and coordinating MSME activities in the country. The Ministry of Commerce, Industries, Labor, and Immigration (MCILI) managed to progress the Bill by completing and receiving its first draft. MCILI intends to conduct consultations with all relevant stakeholders once the draft is finalized.

Ongoing Initiatives

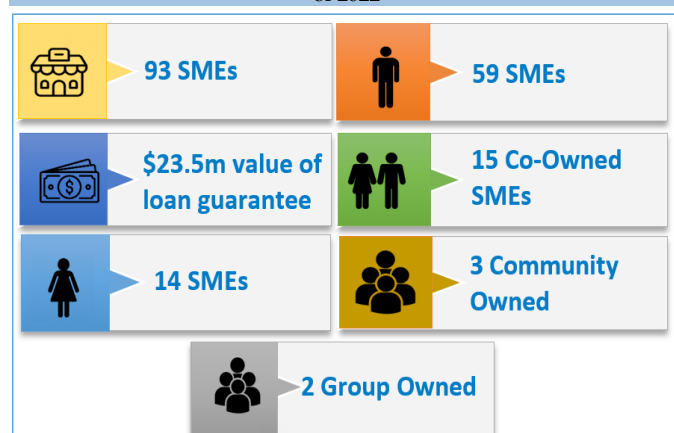
The MSME Working Group ongoing initiatives include the SME Credit Guarantee Scheme (CGS), MSME Credit line Facility administered by MCILI and the SME Export Finance Facility initiated and facilitated by CBSI.

I. SME Credit Guarantee Scheme

The SME Credit Guarantee Scheme is a scheme by the Solomon Islands Government initiated by the MCILI and administered by the CBSI. The scheme aimed at assisting SMEs to access credit from Participating Financial Institutions (PFI) by offering a 90% guarantee on collateral shortfalls. Current PFIs includes the Development Bank of Solomon Islands (DBSI), Credit Corporation Solomon Islands (CCSI), Bank South Pacific (BSP), Pan Oceanic Bank (POB) and ANZ Bank.

As SMEs are reeling from the impact of COVID-19 community transmission, demand for collateral support has increased further compared to 2021. If the current level of demand for collateral support persists, it is anticipated that the available funds for the guarantee scheme would be fully utilized by the end of the September quarter of 2023. Of all the PFI's, DBSI and CCSI are the most active participants with majority of nominations.

Figure 5.3: A Summary of the Credit Guarantee Scheme as at the end of 2022

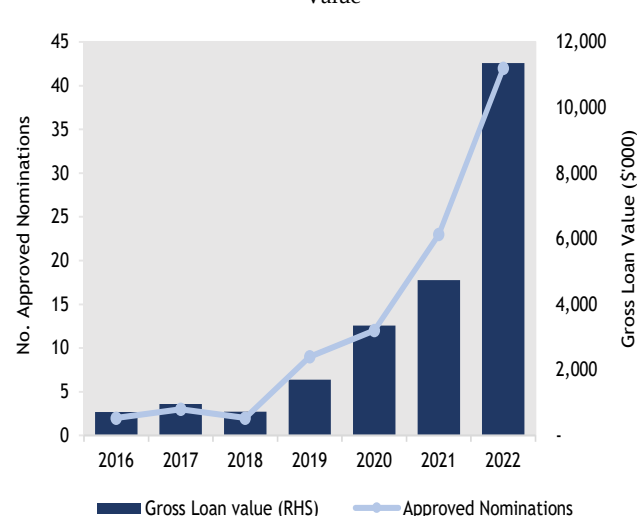


Source: CBSI

By end of 2022, a total of 93 SMEs has been offered guarantees under the scheme which valued at \$23.5m. In terms of gender and other categories, male owned, Co-owned (joint Male and women ownership) and

women owned SMEs represents majority of those who access the guarantees from the facility. Meanwhile, the least categories of SMEs who accessed the facility were the community owned and group owned SMEs.

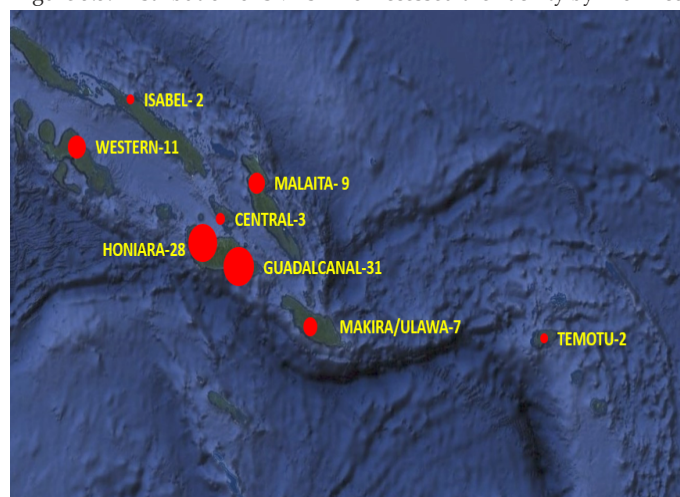
Figure 5.4: No. of approved SME Nominations and Gross Loan Value



Source: CBSI

The number of approved SMEs and the gross loan value have been growing since 2019. In 2022, the number of SMEs which accessed the facility almost doubled to 42 SMEs with a total gross loan value of \$11.3 million. The upsurge in the total number of approved SMEs nominations reflect the pickup in active participation of new players in the market with the recognition to support and drive economic activities through the SME sector. Furthermore, there is ongoing awareness and increase in the publicity of the guarantee scheme.

Figure 5.5: Distribution of SMEs who Accessed the Facility by Province



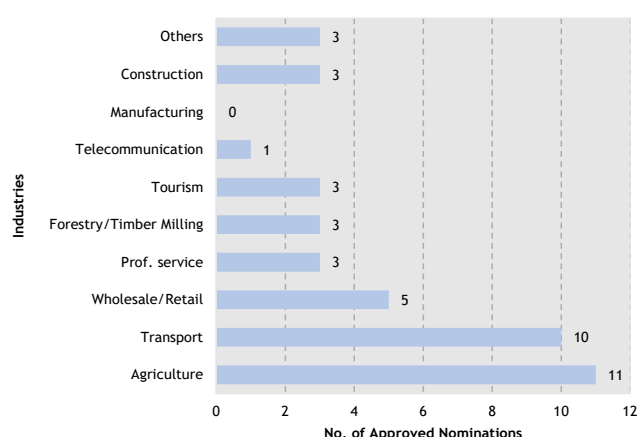
Source: CBSI

Majority of the SMEs that accessed the facility were mainly from Guadalcanal, Honiara, Malaita and Western while Temotu, Central, Isabel and Makira/Ulawa provinces comprised the least. The limited presence of financial access points has been cited as

one of the common reasons only few SMEs from the provinces access credit guarantee support from the scheme.

By industry comparison, more SMEs that accessed the guarantee scheme in 2022 were from the agricultural and transportation industries. These were mostly farmers and transport operators. Other SMEs within the wholesale and retail, professional services, forestry, tourism, communication, and construction and other sectors have also accessed the facility during the year. No SME from the manufacturing industry accessed the guarantee scheme during the year. (See Figure 5.6 below)

Figure 5.6: No. of Approved SME Nominations By Industry: 2022

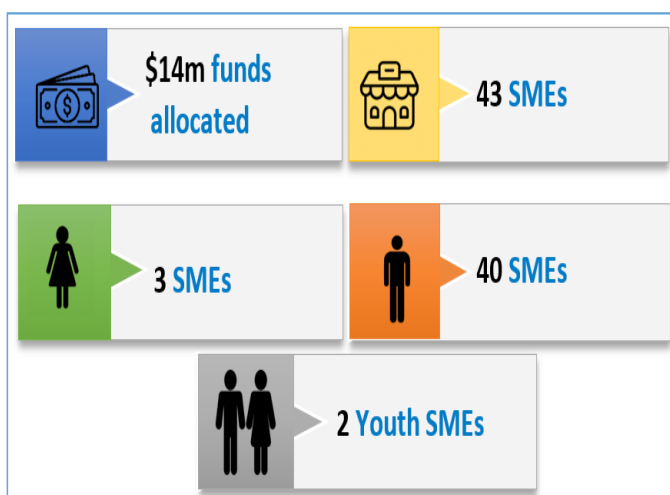


Source: CBSI

II. MSME Credit-line facility

The MSME Credit Line facility is an initiative by MCILI to support MSMEs access sectoral credit funding support for sectors such as agricultural and related industries, fisheries, tourism, and Agro-forestry sectors. The facility is administered by DBSI and focuses on women and youth entrepreneurship and initiatives.

Figure 5.7: A summary of the MSME Credit-Line Facility Uptake as of 2022



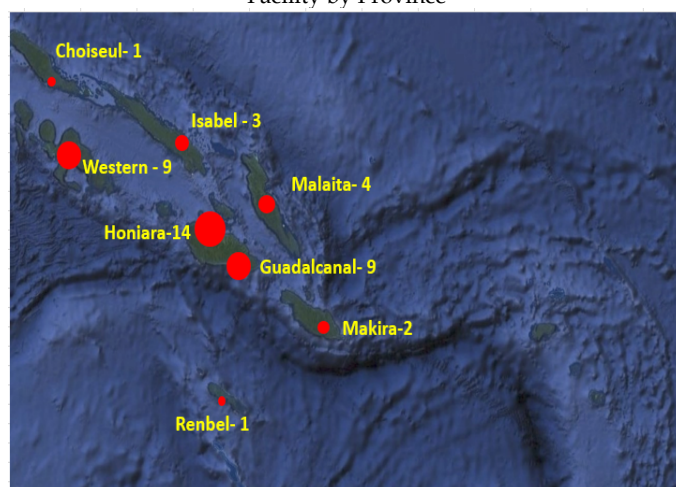
Source: CBSI

The total funds allocated for the MSME credit line

facility was \$14m. In 2022, 42 SMEs accessed the facility of which 40 were men and 3 were women including 2 SMEs owned by young entrepreneurs. The MSME working group continue to encourage more women and youth entrepreneurs to access this facility to support their business operations.

The majority of the SMEs accessing the credit line facility are in Honiara, Guadalcanal, and Western provinces, and at least one SMEs from Choiseul and Renbel provinces have accessed the facility. Meanwhile, SMEs from Temotu and Central provinces does not access the facility in 2022. Limited access points remained one of the challenges for SMEs in the provinces.

Figure 5.8: Distribution of SMEs who accessed the Credit - Line Facility by Province



Source: CBSI

MSMEWG trainings

MSME Working Group Stakeholders continued to conduct trainings for MSMEs. During the year, the following stakeholders have conducted trainings or capacity building initiatives for MSMEs within their respective organizations and industries:

- 1. Ministry of Commerce, Industry, Labour and Immigration (MCILI)** – The MCILI in collaboration with several stakeholders including the Small Business Entrepreneurs Council (SBEC) and Business Link Pacific has conducted financial literacy trainings for MSMEs.
- 2. Solomon Islands Chamber of Commerce and Industry (SICCI)** – SICCI continues to deliver trainings for its members in Honiara, Malaita and Western Provinces. Amongst other trainings provided, SICCI in partnership with SBEC delivered trainings on financial literacy topics such as basic record keeping, financial management and customer service.
- 3. Young Entrepreneurs Council of Solomon Islands (YECISI)** – YECISI conducted series of trainings for its members despite the COVID-19 pandemic and among other trainings provided, YECISI in partnership with V-lab participated

in an online exchange learning program. The joint ideation program covers topics on how to develop an effective idea, confidence, culture and customs, gender inclusion and business sustainability and resilient.

4. **Strongim Bisnis** - Strongim Bisnis has also piloted an SME Agency Services Improvement Project (ASIP) with Business Advisory Service Providers (BASPs). The training is aimed at equipping BASPs to provide capacity trainings for MSMEs on accessing credit facilities and build strong business cases.
5. **Ministry of Culture and Tourism (MCT)** - MCT has conducted series of trainings for Tourist operators in preparation for the opening of international borders in July 2022.
6. **Small Business Entrepreneurs Council (SBEC)** - SBEC conducted trainings on financial literacy for MSMEs during the latter half of the year due to the COVID-19 community transmission.

Apart from the trainings conducted by stakeholders, the MSMEWG led by the MCILI has also conducted an awareness session for YECSI members regarding the various initiatives undertaken by the working group including some of the finance schemes being established to enable MSMEs to access finance. A total of 35 youth entrepreneurs attended the awareness session.



YECSI Participants who attended the awareness session.

Photos Credit: Supplied by the Young Entrepreneurship Council of Solomon Islands (YECSI) Secretariat.

The various initiatives undertaken by stakeholders include trainings and capacity building and, the increasing uptake of credit by MSMEs in 2022 demonstrated the resilience of the MSME sector and its stakeholders as they navigated their path to recovery and expansion due to the impacts of COVID-19 and the prolonged effects of the November 2021 riots.

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

With the financial inclusion strategy vision to ensure all Solomon Islanders have the opportunity to access a full range of quality and affordable financial services and products and be competent to use these services to increase their resilience, the need for digital and financial literacy is important to empower and educate consumers to access and use financial services. Moreover, the implementation of financial consumer protection by all financial service providers including their agents is also important.

Consumer Empowerment Working Group

Consumer Empowerment Working Group (CEWG) has been an instrumental group that implemented related policy areas and activities under objective 3: *Include women, youth, and rural adults as fully engaged participants in the formal financial sector.* The working group comprised of representatives from the Government Ministries, Development Partners, Non-Government Organisations (NGOs), and Financial Institutions.

The key focus areas that aligned with the CEWG workplan are, (i) advocating and encouraging women, youths, and rural families to access and utilise innovative and digital financial services, (ii) the development and dissemination of financial literacy and consumer protection, and, (iii) the expansion and



strengthening of Savings groups. To achieve these national targets, collaborative efforts and networking among stakeholders are crucial.

Working Group Meetings

CEWG convened 2 meetings during the year. One virtual meeting was held in April due to the Covid-19 transmission, whilst the second meeting was convened in October with key discussions on the need for all stakeholders to conduct financial literacy when offering a financial product or service, establishing a saving groups or engaging in any related financial matters. Furthermore, the CEWG also discussed on other initiatives for women and youths.

Financial Literacy

Delivering financial literacy is the responsibility of all stakeholders engaging in the provision of financial services and products including savings groups practitioners. In 2022, most sessions were conducted in the second half of the year due to the COVID-19 community transmission which impacted planned activities in the first half of the year. The financial literacy programs and trainings conducted by stakeholders and CBSI were centred around financial management, budgeting, financial goal settings, savings, and product awareness. The total number of participants attending these trainings was 8,844 participants, of which 68% were women. Sessions were delivered through face-to-face and media including radio and TTV. The stakeholders include Financial Institutions, Government Ministries, Microfinance Institution, NGOs, Savings Groups, and Faith Based Organisations targeting women, youth, and communities.

The CBSI also engaged in delivering financial literacy to West Wainoni Council of Women Savings group in Honiara on financial inclusion and Savings groups, and worked in partnership with MCILI for Youth Entrepreneurs Council Solomon Islands on SME financing facilities.



TOC training with women from the Guadalcanal Province's Savings groups

Financial Competency Training of Coaches (TOC) Program

The Financial Competency Training of Coaches program in partnership with Good Return continued in 2022 in Honiara and Guadalcanal province. The NFIS3 objective 3.3 target is to disseminate the financial competency "Mekem Selen Waka for Gudfala Future" program to reach all constituencies by 2025.

Table 5.2:

Province	Constituency	Partners	No. of Coaches	Total Participants	Female	Male
Honiara	E/Honiara C/Honiara W/Honiara	ACOM	24	229	206	23
Guadalcanal	C/Guadalcanal E/Guadalcanal W/Guadalcanal NE/Guadalcanal S/Guadalcanal NW/Guadalcanal N/Guadalcanal E/Guadalcanal	MWYCFA	12	134	121	13
Total	11	2	36	363	327	36

Source: CBSI

By the end of 2022, 11 constituencies in Honiara and Guadalcanal province participated in the program. There were 36 coaches being trained and 363 individuals participate in the program, of which 327 were women. The training was made possible through the partnerships between CBSI, Good Return, Ministry of Women, Youth, Children and Family Affairs (MWYCFA), and the Anglican Church of Melanesia (ACOM).

Savings Groups Update

In terms of women economic empowerment, the NFIS3 and National Women Financial Inclusion Policy 2022-2026 (NWFIP) recognised and thereby emphasised the need to strengthen and expand savings groups to address gender gaps in accessing and participating in the financial sector.

Savings groups played a crucial role for women in the rural areas as an avenue for micro savings and loans. Savings cumulative groups membership increased by 1,756 members in 2022, most of which were women. As a result, savings groups membership has reached 28,129 members by year end. These statistics represented only few savings groups.

Strategic Objective 4: Build financial resilience in households and communities

The SINPF youSave Savings for the informal sector witnessed an increase in membership and savings in 2022. As of the fourth quarter of 2022, total membership reached 35,352 members, of which 53% were women. Meanwhile Total gross savings stood at \$44.4 million, of which 25% of this amount has been withdrawn. The youSave loMobile service offers convenience to

members through airtime credit deposits to members' youSave accounts. Total value of airtime deposits by end of December 2022 was \$26 million.

The Financial Education in Rural Training Centres (RTCs) curriculum was an initiative to support students in their financial management skills. This was implemented with six ACOM RTCs which continued in 2022.

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

The CBSI has developed the draft Prudential Guideline on Financial Consumer Protection to address financial consumer protection issues and unethical practices for users of financial services as part of its effort to enhance consumer protection.

The guideline incorporates the principles of fair practice, transparency and disclosure, consumer redress mechanism, and consumer data protection and privacy. This is applicable to all financial service providers including digital financial services providers. On provider responsibility, one of the requirements is for the financial service provider to ensure its brand ambassadors (staff, agents) are trained to implement the guideline and are treating customers fairly.

This guideline complements the existing licensed financial institutions guidelines on Disclosure of interest rates, fees and charges, and complaints management. Furthermore, the CBSI had earlier developed the Solomon Islands Savings Groups Members Rights and have disseminated copies to the Savings Groups Practitioners for promotion across local community savings groups. By end of 2022, a cumulative total of 425 copies was distributed since its effective date.

Objective 6: Develop and implement Data & Measurement Framework

Data and Measurement Working group

The Data and Measurement Working Group (DMWG) was established and assigned to implement three (3) policy areas under objective 6 in the NFIS3. The aim is to develop a robust data framework to monitor the reach and coverage of financial services. These policy areas are; (i) *Develop database to monitor and evaluate the strategy implementation progress and its dissemination to stakeholders* (ii) *Develop and maintain a geo-spatial map of all access points in the Solomon Islands* (iii) *Continue to conduct financial inclusion surveys and studies to support evidence-based policymaking*. The representatives of the working group comprised of officials from government ministries, financial institutions and development partners. The working group is guided by a workplan with activities focusing on the review of the reporting template, geo-spatial map project, and the Census 2019 survey outcome.

DMWG meetings

The DMWG held 2 meetings later in the year due to the Covid-19 community transmission in the first half of the year. This working group creates a platform that brings relevant stakeholders together to discuss and deliberate on the implementation strategy and progress of the activities under the yearly workplan.

The ongoing initiatives

Review of the Financial Inclusion reporting templates

The work on reviewing the current reporting templates for financial institutions and credit institutions commenced in the second quarter of 2022. In addition, a new reporting template was also developed for the e-money issuers.

The first round of consultations with all reporting institutions was conducted in October to gather initial feedback prior to finalizing the reporting template. Consultations for the e-money issuers are scheduled for 2023.

The fundamental objective of the amendments to the reporting templates is to standardize and enhance financial inclusion reporting, which is crucial for evidenced-based policy decisions and increases accuracy of reporting. In this regard, the indicators are aligned to the three financial inclusion dimensions; access, usage, and, consumer empowerment and protections. These dimensions were aligned with the NFIS3 data measurement framework which is vital to monitor the progress of the strategy implementation. Work on the accompanying instructions manual and policy will be progressed in 2023.

Geo-spatial mapping project

The phase 1 of the geo-spatial mapping project which involved geo-tagging of all access points within and around the outskirts of Honiara was accomplished in the final quarter of 2022. These access points were mainly the financial institutions' branches, ATMs, EFTPOS Terminals and Merchants, branchless banking agents and savings group's locations. Phase 2, which encompasses the geo-tagging of all access points in the provinces, did not eventuate unfortunately due to the impacts of the Covid-19 community transmission and restrictions in the first half of the year. This will be considered in 2023. The completion of this project will be beneficial for policymakers and stakeholders to visualize the dispersal of financial access points in Solomon Islands. In addition, such information will assist policymakers to identify disparities and opportunities to develop appropriate policies and solutions to enhance financial services access for the underserved populace. This project was a collaborative initiative under a Memorandum of Understanding (MOU) between CBSI and the Solomon Islands National Statistics Office (SINSO).

Census 2019 survey- Financial Inclusion questionnaires

The Financial Inclusion questionnaires were also included in the Census 2019 survey. These questions focussed on the access and usage of financial services and products and financial literacy. The outcome of the survey is crucial in understanding the level of accessibility and the usage of financial services as well as the reach of financial literacy programs and trainings across Solomon Islands. Moreover, the availability of factual data will enable effective and efficient analysis to identify the obstacles and design appropriate policies and innovations to boost financial inclusion. The Census 2019 survey results are expected to be published in 2023.

During the year, the assistance from development partners also contributed to the implementation of NFIS3. The key development partners are; 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). UNCDF also supported CBSI through providing capacity development trainings for technical staff through online courses. The Alliance for Financial Inclusion (AFI) also continued with its support to members by providing technical assistance and capacity building programs. The Good Return Australia continued to provide assistance with the implementation of the Financial Competency Training of Trainers Program. The Asian Development Bank (ADB) supported the CBSI with the review of key financial sector legislations, particularly on policy considerations relating to current and future financial innovations and developments for an inclusive financial sector.

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 Unit are specified in the MLPCAA 2010. SIFIU is one of the leading agencies responsible for the coordination of key stakeholders to ensure adequate measures are in place to detect and deter money laundering, terrorist financing, and other serious financial crimes.

The Unit continued to maintain its staffing with thirteen (13) officers, including three (3) on secondment arrangement; one (1) from the Ministry of Police, National Security, and Correctional Services, and two (2) from the Customs Division within the Ministry of Finance and Treasury. The additional officer from Customs joined the Unit in the later part of the year.

In terms of reporting, the Unit reports to the Governor on operational and administrative matters, while policy issues were directed to the Anti-Money Laundering Commission (AMLC). The AMLC’s establishment and mandate were stipulated under section 11 (1) of the MLPCAA 2010. The Attorney General of Solomon Islands is the Chair of the Commission. Since the inception of the Solomon Islands AML Regime in 2006, the Unit continues to perform its mandate to fight against money laundering and terrorism financing and other financial crimes head on.

Money Laundering, Terrorism Financing, and Proliferation Financing are global issues facing 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 to be confident the financial system is safe from misuse by criminals and to ensure adequate measures to effectively mitigate vulnerabilities and gaps identified in the Solomon Islands (AML) National Risk Assessment Report (NRA) 2017 and the Solomon Islands Mutual Evaluation Report 2019. The Unit remains vigilant with its mandate to ensure the integrity of the financial system is protected from financial abuse.

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 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 honour International AML/CFT Standards and requirements. Being members of these international bodies ensures that Solomon Islands remain relevant with the

best practices to counter threats and vulnerabilities associated with money laundering, terrorism financing and proliferation financing are mitigated.

Financing of SIFIU Operations

Funding for the operation of the SIFIU in 2022 came from the Solomon Islands Government and the Central Bank of Solomon Islands, which totalled up to \$4.435 millions, of which \$0.728 million from the Government and \$3.707 million from the CBSI. Apart from funding contribution that goes toward meeting the salaries and other benefits of thirteen (13) officers, the CBSI also supported the Unit by 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 has commenced addressing the technical deficiencies identified in the 2019 Mutual Evaluation Report. As part of the post mutual evaluation work, the IMF continued to provide technical support on some of the priority areas, particularly in relation to the review of the Money Laundering and Proceeds of Crime (Amendment) Act 2010 and the AML supervision manual.

To address the deficiencies, the Solomon Islands National (AML) Strategic Plan was formulated with timeframes on key priorities or goals to prioritize in the next four (4) years. A refresher seminar was conducted in the second half of the year to coordinate with relevant stakeholders on strategies to action the recommendations that were put forward for the country. It is crucial that the country prioritise the strategies to ensure issues and gaps identified are rectified as required.

SIFIU maintained its relationships with key Agencies through AML Consultations and Supervision

The SIFIU continues to embrace its professional partnership with the key agencies during the year, despite the global pandemic. With the ease of restrictions on movement, the Unit has commenced its face-to-face consultations and supervision.

Apart from the core function of the Unit to provide financial intelligence to relevant agencies, the Unit also carried out eight (8) bilateral consultations both with the reporting entities and other law enforcement agencies (LEAs). In terms of AML supervision, two (2) onsite inspections were conducted during the year on the Money remittance and Currency Exchange Service provider and on one of the casinos in the country. While the inherent level of risks associated with the entities was generally high, it was observed that there were reasonable controls and measures put in place to mitigate them.

Advocating Against Money Laundering and Other Serious Financial Crimes

The Unit remains committed with the advocacy to fight 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-9 pandemic.

Through a partnership with other Integrity Institutions in the country, the Unit participated in the International Anti-Corruption Day with a public parade and a panel discussion held as part of the day’s program. The International Anti-Corruption Day is normally celebrated on the 9th of December every year.

Numbers of reports received from the reporting agencies

In 2022, total Suspicious Transfer Reports (STRs) received by SIFIU increased by 7% to 93 STRs compared to 87 received in 2021 (see table 6.1). Total Cash Transfer Reports (CTRs) and Electronic Funds Transfer Reports (EFTRs) received in 2022 were not available at the time this annual report was compiled for reporting due to the

new installed IT Database project that is currently at its data ingestion stage. In terms of the Border Currency Reports (BCRs), a total of 11 were received in 2022. All the BCRs reported were for outgoing declarations made by outgoing passengers. For Case Dissemination Reports (CDRs), a total of 13 cases were disseminated to relevant competent authorities in 2022 for further investigations, compared to 17 reported in 2021.

Table 6.1: The Types and Number of Reports Received by SIFIU in 2022.

Type of Reports	Total Received	
	2021	2022
Suspicious Transaction Reports (STRs)	87	93
Cash Transaction Reports (CTRs)	33,451	N/A
Electronic Funds Transfer Reports (EFTRs)	21,143	N/A
Border Currency Reports (BCRs)	19	11
Case Dissemination Reports (CDRs)	17	13

Source: SIFIU/CBSI

N/A means not available

Trainings/Workshops/Meetings Attended By SIFIU

Table 6.2: The Number of Trainings, Courses and Workshops, and Meetings Attended by SIFIU Officers in 2022.

Date	Particular of Event	Facilitator	Delivery Mode
9th Feb	Stakeholder Management Seminar	UNDP	Virtual
15th Feb	Annual Briefing on Transnational Crime	UNODC	Virtual
9th Mar	Parallel Financial Investigations & Asset Recovery: Corruption Proceeds	UNDP	Virtual
17th & 24th Mar	Blockchain & Cryptocurrency Workshop	Griffith, Monash and RMIT University	Virtual
21st to 24th Mar	Strategic Analysis Training	Egmont	Virtual
5th Apr	Pacific Tradecraft Tuesdays - Session 1: Cryptocurrency-based Money Laundering	AUSTRAC/NSW Police Force	Virtual
3rd May	Pacific Tradecraft Tuesdays - Session 2: Business Email Compromise - Multilateral FIU Engagement	AUSTRAC	Virtual
13th May	Cyber Security & Customer Fraud	Fintelekt Advisory Group	Virtual
16th to 25th May	Investigative Techniques for the effective use of banking information	OECD	Virtual
19th & 20th May	Stakeholder Management Workshop: Whole of Society Approach to Anti-Corruption	UNDP	Virtual
24th to 28th Jul	APG Plenary	APG	In-Person - Kuala Lumpur, Malaysia
1st to 10th Aug	Pacific Financial Intelligence Training	AUSTRAC	In-Person - Canberra, Australia
7th & 8th Sep	Inter-Institutional Dialogue on Anti-Corruption Coordination	UNDP	In Person - Heritage Park Hotel, Honiara, SI
13th to 21st Sep	FIU Mentoring & Capacity Program	UNDP - Avaneesh Rahman	In Person, SIFIU Office, Honiara, SI

19th to 21st Sep	Maritime Sanctions Implementation and Enforcement	Sandia National Laboratories (US Group)	In Person - Suva, Fiji
28th Sep	The Role of Financial Intelligence Units (FIU) as a key Stakeholder	UKAid and UNDP	Virtual
6th Oct	Export Promotion Training	US Scale Program Team	In Person, Honiara, Solomon Islands
10th to 13th Oct	AUSTRAC Pre-Installation Visit	SIFIU & AUSTRAC	In Person, Honiara, Solomon Islands
12th & 13th Oct	Immigration Act 2012 Review Consultation	Immigration	In Person, Honiara, Solomon Islands
18th Oct	Cooperation Between Agencies On MOU	UNDP	In Person, Honiara, Solomon Islands
11th to 21st Oct	AML/CFT Supervision of Remittance Providers	APG	Virtual
21st Oct	The Impact of Chaining Supply Chain Structures on AML/CFT Compliance	Fintelekt	Virtual
16th & 17th Nov	Pacific Financial Intelligence Community Plenary (PFIC)	PFIC Secretariat	In Person, Port Moresby, PNG
6th to 8th Dec	UNODC Ransomware Expert Group Meeting	UNODC	In Person, Kuala Lumpur, Malaysia

Source: SIFIU/CBSI

Local Trainings and Workshop Conducted By SIFIU

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

Table 6.3: Local Trainings and Workshops Conducted By SIFIU in 2022

Date	Particulars of Event	Participants	Facilitator	Number of Participants
20th Jul	Financial Scams and the Role of SIFIU	SINU Year 4 Accounting Students	SIFIU	25+
4th Aug	Radio Awareness (CBSI Money Matters Program). Topic: Financial Scams	General Audience/Members of the Public	SIFIU	Nationwide coverage
11th Aug	Radio Awareness (CBSI Money Matters Program). Topic: Role of the SIFIU	General Audience/Members of the Public	SIFIU	Nationwide coverage
23rd Aug	Post-Mutual Evaluation (ME) Seminar	LEAs	SIFIU	30+
26th Aug	Radio Awareness (CBSI Money Matters Program). Topic: Ransomware	General Audience/Members of the Public	SIFIU	Nationwide coverage
4th Oct	Tradecraft Tuesday (Virtual)	Regional FIUs & LEAs	AUSTRAC/SIFIU	30+
6th Oct	Export Promotion Presentation	Local Exporters/SME	US Scale Program Team/SIFIU	
12th & 13th Dec	AML/CFT & Corruption Prevention Awareness Workshop for DNFBP Sector in Solomon Islands	DNFBP	UNDP/SIFIU	20

Source: SIFIU/CBSI

CHAPTER 7: CALENDAR OF EVENTS 2022

MONTHS	EVENTS
JANUARY	<ul style="list-style-type: none"> Banknote Taskforce (BT) work initiated and continuously worked along with De La Rue Project Team on the Initial Design Phase of the \$10 Commemorative Note to commemorate the XVII Pacific Games (PG)
FEBRUARY	<ul style="list-style-type: none"> Design Concept level 1 on the \$10 Commemorative Note progressed
MARCH	<ul style="list-style-type: none"> Board Meeting held in Honiara Approved the Monetary Policy Stance March 2022 and the Regulatory Sandbox Guideline and Operating Standards. FSRD staff participate in an online course on selected issues in the evolving financial regulatory framework conducted by IMF-STI, Singapore BT zoom meeting with De La RUE project Team Design Concept level 2 on the \$10 Commemorative Note progressed Meeting with CEO/Pacific Games Organizing Committee and were granted the Use of the PG Logo IOC Meeting Conducted AMLRO Q1 Meeting (Virtually).
APRIL	<ul style="list-style-type: none"> FSRD staff participate in a virtual PFTAC Mission on Development of Prudential Standards for Non-Banks and Credit Institutions (NBCIs) Concept Design level 1 & 2 on the \$10 Commemorative Note reviewed by Taskforce Take safe delivery of \$100 Reprints from DeLa RUE Conducted AMLTEG Q1 Meeting (virtually).
MAY	<ul style="list-style-type: none"> CBSI hosts virtual Bankers meeting due to covid-19 restrictions Concept Design level 1 & 2 on the \$10 Commemorative Note made further reviewed for approval by MCM MSMSE Working Group Meeting
JUNE	<ul style="list-style-type: none"> Two Board Meetings in Honiara Approved the TOR on Risk Management Committee, the Social Media Policy, the Covid-19 Office Guidance Notes; and the Financial Statements 2021. Concept Design level 1 & 2 on the \$10 Commemorative Note made further reviewed for approval by MCM MSMSE Working Group Meeting Conducted AMLRO Q2 Meeting. Conducted AMTEG Q2 meeting
JULY	<ul style="list-style-type: none"> Payment System Bill 2021 enacted in Parliament Final Design Supplied and substrate for Approval being reviewed and signed approved by MCM Sports individuals signed off agreement with CBSI for Use of their individual sport images. Meridian zoom meeting with ComSec (Vikas & Banda) on the Meridian Project that will replace the CS-DRMS Debts database SIFIU conducted an Onsite Inspection on Fexco (Solomon Islands) Limited. Attended the 2022 APG Plenary in Kuala Lumpur, Malaysia
AUGUST	<ul style="list-style-type: none"> Board Meeting in Honiara. Approved the Mid-Year Budget Review. Board endorsed Final Designed on Commemorative \$10 Note with engraved and anonymized sports images. CBSI hosts in-person Bankers meeting after lifting of covid-19 restrictions Proofing arrangements and formalities initiated Formalized approval letter to Minister of Finance & Treasury on the new \$10 Polymer Commemorative Note as required under Sect 19 of CBSI Act 2012. CBSI Team (CBPD/FAD/FMEC) Meeting with MoFT for closure of non-active accounts Attended the Pacific Financial Intelligence Analyst Course (FIAC) in Sydney, Australia. SIFIU conducted a Post Mutual Evaluation Seminar for Law Enforcement Agencies (LEAs).

MONTHS	EVENTS
SEPTEMBER	<ul style="list-style-type: none"> • Board Meeting in Honiara Approved the Monetary Policy Stance September 2022. • FMEC SWIFT team joined the CBSI SWIFT Committee team attending SWIFT Community Upgrade ISO20022 training in Auckland and Sydney • CBSI hosts IFC National Payment System Mission comprising IFC and Montran Corporation technical specialists with the objective to discuss CBSI ATS CSD project implementation • Proofing made available to CBSI with CM/CBPD & CM/FAD meeting with Brooke/ DLRue in Sydney • Mr Tura left for his full-time Study in one of Chinese Uni for his Master Degree in Professional Accounting. • Attended Maritime Sanctions Implementation and Enforcement Workshop in Suva, Fiji • Conducted AMLRO Q3 Meeting.
OCTOBER	<ul style="list-style-type: none"> • Credit Union Symposium conducted in Isabel and Western Province. • Registrar's Office (RO) conducted consultation on Practice Guidance Note 3 & 4 to Honiara, Western and Isabel Province credit unions. • Proofing approval signed off and done with DLRue • CM/CBPD attended Webinar Seminar on Asian Regional Econ Outlook – presentation by STI/IMF • Bilateral Meeting with CEO/DBSI on EFF Facility operations • 1st two EFF applications approved and granted via DBSI • CM/CBPD attended Currency Seminar held in Manila, Philippine. • Conducted AMLTEG Q3 Meeting
NOVEMBER	<ul style="list-style-type: none"> • Provincial Board Meeting held in Munda, Western Province Approved the GRADUATE Trainee Program, Revised PGN2, PG21 Financial Consumer Protection Guideline, and Data Privacy Policy. • Chief Manager FMECD attended RAMP workshop in Bali Indonesia. • SWIFT ISO200220 upgrade from Fin to Fin plus rescheduled to go live in March 20th 2023. • CBSI hosts in-person training conducted by Montran Corporation for Participants of the ATS. • CBSI Financial Stability Report for First Half of 2022 published on CBSI Website • \$10 Commemorative Note finally signed off and awaits production schedule to start in January 2023. • Board approved a reprint of both the \$50 and \$100 with a new security Thread "NEXUS TM" replacing the "Optics TM window Thread" on the current notes • Attended the PFIC Heads Plenary in Port Moresby, PNG • Attended an Anti-Corruption workshop in Sydney, Australia.
DECEMBER	<ul style="list-style-type: none"> • Board Meeting in Honiara Approved the 2023 Workplan & Budget; and the TechnologyOne Migration to Cloud. • CBSI represented at the AFSPC Annual meeting in Nadi, Fiji • Public Education Material initial concept starts • Foreign Currency Teller established and begin operations serving staff needs • \$50/\$100 Reprint agreement signed • Conducted an Onsite Inspection on Supreme Entertainment (SE) or Supreme Casino (SE) • Attended UNODC Ransomware Experts Group Meeting in Kuala Lumpur, Malaysia. • Coordinated a workshop on AML/CFT and Corruption Prevention Awareness Workshop for DNFBPs.



CENTRAL BANK OF SOLOMON ISLANDS

TABLE OF CONTENTS

1.	Directors' Report	47
2.	Statement by Directors	49
3.	Independent Auditor's Report	50
4.	Statement of Profit or Loss and other Comprehensive Income	53
5.	Statement of Financial Position	54
6.	Statement of Changes in Equity	55
7.	Statement of Cash Flows	56
8.	Notes to and Forming Part of the Financial Statements	57 - 85

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of the Central Bank of 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 and Chief Manager Risk Management and Corporate Communication)

David K C Quan

Christina Lasaga

Rodney Rutepitu

Bob Pollard

Kathleen Matautia

Jeremy Bartlett

STATE OF AFFAIRS

In the opinion of the Directors:

- There was 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 2022 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 \$8.85 million for the year ended 31 December 2022 (2021: \$62.74 million loss).

RESERVES

The Board approved the following transfers to reserves from the statement of profit or loss and other comprehensive income: \$14.15 million to general reserve and \$23.01 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

The Solomon Islands faced huge challenges during the year with a double dip from global shocks and internal adverse events. Russia's war in Ukraine that started in February followed by steep hikes in food and energy prices, and COVID-19-related lockdowns in China have impeded global growth and consequent ripple effects in the domestic economy channeled through weak demand for exports, lower export prices, steep rise in imported food and energy prices, and surge in inflation.

Internally, the COVID-19 community transmission outbreak that occurred in January resulted in major health problems and disruptions which weighed down heavily on the economic activity in the first half of the year. Compounded by the global shocks on weaker demand and a sharp rise in inflation, the domestic economy is estimated to have contracted during the year.

In an effort to minimize economic loss from the COVID-19 outbreak, the government in the second quarter began easing COVID-19 restrictions internally such as lifting the ban on travel between Honiara and the provinces and reopening of schools in June. With consideration of the uptake of COVID-19 vaccinations, the government fully reopened the international borders in July which saw an influx of visitors' arrival and outward travels in the second half, as well as fast-tracking of donor-backed constructions of public infrastructures towards the hosting of the Pacific Games in November 2023. The government also imposed fuel import duty exceptions in the second half of the year to lessen the higher energy prices faced by local businesses and households.

To curb the spike in global inflation, Central banks around the world have tightened monetary policy including the US Fed which increased the Fund rate and that led to a rise in overseas interest rates and a stronger US dollar in the currency market. On a similar stance, to manage the output loss and higher inflation in the domestic economy, CBSI adopted an accommodative monetary policy stance in September which geared towards taming inflation.

The overseas Central Bank's actions of tightened monetary policy and strong US dollar in the currency market, the downturn of the domestic economy, and CBSI's monetary policy stance to managing the domestic economy have impacted CBSI's financial position which led to the declining foreign currency assets due to weaker exports and higher imports prices, and foreign exchange revaluation losses from the stronger US dollar in the currency market. The Bank, however, benefited from higher interest income earned from foreign portfolio investments.

DIRECTORS' BENEFIT

All directors had benefited from the benefits provided for in their contracts in 2022, 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 2022, this is included in the financial statements.

UNUSUAL TRANSACTIONS

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

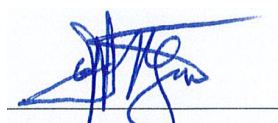
There are no events or transaction of a material unusual nature, in the opinion of the directors of the Bank, likely to affect significantly the operations of the Bank, and the results of the operations, or the state of affairs of the Bank in the future financial years.

OTHER CIRCUMSTANCES

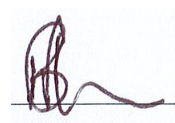
At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

Dated at Honiara on 26th April 2023.

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



Luke Forau
Chairman of the Board and Governor



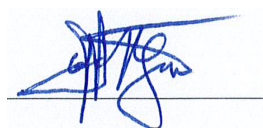
Bob Pollard
Director

STATEMENT BY DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2022

In the opinion of the Directors:

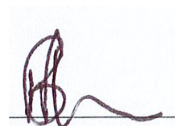
- (a) the accompanying statement of profit or loss and other comprehensive income is drawn up to give a true and fair view of the results of the Bank for the year ended 31 December 2022
- (b) the accompanying statement of financial position is drawn up to give a true and fair view of the state of affairs of the Bank as at 31 December 2022;
- (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 2022;
- (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 2022;
- (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 26th April 2023.



Luke Forau

Chairman of the Board and Governor



Bob Pollard

Director

Solomon Islands Office of the Auditor-General



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

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of Central Bank of Solomon Islands (the 'Bank'), which comprise the statement of financial position as at 31 December 2022, 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 2022, 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 for opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit* of the Financial Statements section of my report.

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

Independence

I was a Director of the Bank for the period January 2019 to 13 September 2021. Under the Public Finance and Audit Act, 1996, I am the only person authorised to certify the opinion for the Bank. This opinion falls outside my term as a Director, however, I note that outsourced contract auditors, PricewaterhouseCoopers Fiji, which is part of the PricewaterhouseCoopers International network have been engaged prior to my appointment to undertake the audit on my behalf. This opinion is in line with the independent advice provided by PWC Fiji.

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.

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."

Other information

Directors and management are responsible for the other information. The other information comprises the information included in the Directors' report and Banks Annual Report for the year ended 31 December 2022, but does not include the financial statements and my auditor's report

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

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 Directors and Management for the Financial Statements

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

In preparing the financial statements, the directors and management are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors and management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors and management are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (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 the 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors and management.
- Conclude on the appropriateness of the directors' and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material

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

Report on the Audit of the Financial Statements (continued)

uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

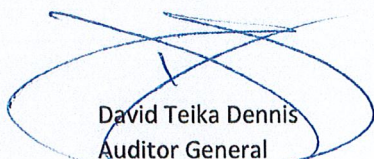
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

In my opinion the financial statements have been prepared in accordance with the requirements of the Central Bank of Solomon Islands Act, 2012 in all material respects, and;

- a) I have been given all information, explanations and assistance necessary for the conduct of the audit; and
- b) the Bank has kept financial records sufficient to enable the financial statements to be prepared and audited.


David Teika Dennis
Auditor General
26 April 2023

Office of the Auditor-General
Honiara, Solomon Islands

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 \$'000	2021 \$'000
Income			
Interest income	3(a)	64,713	32,428
Fees and commission income	3(b)	26,413	21,018
Other income	3(c)	9,435	10,544
Net foreign exchange revaluation gain		-	-
Total income		100,561	63,990
Expenses			
Interest expense	3(d)	5,620	3,210
Fees and commission expense		666	706
Administrative expenses	3(e)	60,331	51,980
Other expenses	3(f)	19,263	22,231
Impairment allowance on financial instruments		528	1,458
Net foreign exchange revaluation loss		23,011	47,149
Total expenses		109,419	126,734
Net operating loss		(8,858)	(62,744)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value (gold)		(7,560)	(9,528)
Net change in revaluation (property, plant, equipment)		40,071	-
Total other comprehensive income / (loss)		32,511	(9,528)
Total comprehensive income / (loss)		23,653	(72,272)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022 \$'000	2021 \$'000
Foreign currency assets			
Cash and cash equivalents	20	1,172,064	2,461,746
Accrued interest		19,953	5,406
Fixed income securities	4	3,886,169	2,801,923
Gold	5	118,614	81,057
International Monetary Fund	6	442,129	475,215
Total foreign currency assets		5,638,929	5,825,347
Local currency assets			
Cash on hand	20	195	147
Accrued interest		156	806
Loans and advances	7	200,095	198,658
Currency inventory	8	30,035	31,749
Property, plant and equipment	12	231,217	182,635
Intangible assets	9	52	54
Other assets	10	30,035	27,842
Right-of-use asset	11(a)	169	573
Total local currency assets		491,954	442,464
Total assets		6,130,883	6,267,811
Foreign currency liabilities			
International Monetary Fund	6	740,578	783,413
Demand deposits	13(a)	52,171	47,802
Total foreign currency liabilities		792,749	831,215
Local currency liabilities			
Demand deposits	13(b)	3,214,508	3,322,100
Currency in circulation	14	1,309,043	1,279,371
Fixed deposits	15	398,689	402,735
SIG monetary operations account	16	40,993	81,852
Employee entitlements	17	36,361	32,983
Other liabilities	18	5,854	8,017
Lease liabilities	11(b)	105	610
Total local currency liabilities		5,005,553	5,127,668
Total liabilities		5,798,302	5,958,883
Net assets		332,581	308,928
Capital and reserves			
Paid up capital	21	50,000	50,000
General reserve	22(a)	170,746	156,593
Foreign exchange revaluation reserve	22(b)	(179,805)	(156,794)
Asset revaluation reserve	22(c)	160,183	120,112
Gold revaluation reserve	22(d)	(17,088)	(9,528)
Capital asset reserve	22(e)	148,545	148,545
Total capital and reserves		332,581	308,928

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Issued & paid up cap- ital	Gold revaluation reserve	General reserve	Foreign exchange assets reval- uation reserve	Asset revalu- ation reserve	Capital assets reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2021	50,000	-	172,188	(109,645)	120,112	152,379	385,034
Total comprehensive income for the year							
Net foreign exchange loss	-	-	-	(47,149)	-	-	(47,149)
(section 53(2))							
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)
Other comprehensive income/ (losses)							
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)
	-	(9,528)	(15,595)	(47,149)	-	(3,834)	(76,106)
	50,000	(9,528)	156,593	(156,794)	120,112	148,545	308,928
Balance at 1 January 2022	-	-	-	(23,011)	-	-	(23,011)
Net foreign exchange loss (Section 53(2))	-	-	14,153	-	-	-	14,153
Net loss for the year: Transfer to General Reserves as required under: Section 55(3) of the Central Bank of Solomon Islands Act., 2012							
Other comprehensive income/(losses)	-	(7,560)	-	-	-	-	(7,560)
Fair value loss – gold(Section 53(2))	-	-	-	-	40,071	-	40,071
Fair value gains PPE	-	(7,560)	14,153	-	40,071	-	46,664
<i>Total other comprehensive income</i>	50,000	(17,088)	170,746	(179,805)	160,183	148,545	332,581
Balance as at 31 December 2022							

The above statement of changes in equity should be read in conjunction with the accompanying note.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 \$'000	2021 \$'000
Operating activities			
Interest received		50,010	40,825
Cash received from other income		35,849	31,562
Interest paid		(5,620)	(3,210)
Cash paid to suppliers and employees		(77,090)	(64,065)
Net movement in fixed income investments		(1,084,965)	1,690,275
Net movement in International Monetary Fund accounts		(5,479)	78,266
Net movement in other receivables		(2,193)	(9,321)
Cash flows (used in) / from operating activities		(1,089,488)	1,764,332
Investing activities			
Acquisition of property, plant and equipment		(14,845)	(3,540)
Proceeds from sale of premises, plant and equipment		(48)	(584)
Net movement in gold		(37,558)	(81,057)
Net movement in loan to government		(30)	(120,029)
Net movement in loans and advances to staff		(1,420)	(853)
Cash flows used in investing activities		(53,901)	(206,063)
Financing activities			
Net movement in currency in circulation		29,672	143,582
Net movement in demand deposits		(103,223)	51,391
Net movement in fixed deposits received		(4,046)	(38,914)
Solomon Islands government monetary operations		(40,859)	42,188
Net movement in International Monetary Fund credit facilities		(4,273)	(4,461)
Repayment of leases		(468)	(444)
Interest payment on lease liabilities		(37)	(82)
Cash flows (used in) / from financing activities		(123,234)	193,260
Net effect of exchange rates		(23,011)	(47,149)
Net (decrease) / increase in cash		(1,289,634)	1,704,380
Cash at bank and on hand at the beginning of the financial year		2,461,893	757,513
Cash at bank and on hand at the end of the financial year	20	1,172,259	2,461,893

The above statement of cash flows should be read in conjunction with the accompanying note.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 27th April 2023.

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 are 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 \$7.56 million.

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

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the bank. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions

- Insurance Contract – IFRS 17

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 2022 the Bank had a surplus in net assets of \$332 million (2021 \$308 million).

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(f) Use of estimates and judgement

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

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

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

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

(g) Finance income and finance costs

The Bank's finance income and finance costs include:

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

Interest income or expense is recognized 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 amortized 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 amortized 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 amortized 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 amortized 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 recognizes 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 recognized.	Revenue and associated costs are recognized 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 recognized.	Revenue and associated costs are recognized when the deals are provided - i.e. when the deal is issued to the customer.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(i) Income tax

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

(j) Financial assets and financial liabilities

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

Valuation of financial instruments

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

Classification and subsequent measurement

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

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

i. 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.

ii. 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

iii. 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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.

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:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

- *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); and
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

Amortised cost measurement

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

Fair value measurement

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

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

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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 holding are taken to the Gold Revaluation Reserve Account in accordance with the provisions of Section 53 (2) of the CBSI Act 2012.

The Bank actively trades in gold and no longer holds it as a reserve Gold. Profit and lossess from trading of gold is included in the profit or loss statement. 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 an increase in net loss by \$7.56m (2021: \$9.52m).

In accordance with the Act, the Central Bank has a revaluation reserve 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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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, Land and buildings are recognized at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. The revaluation surplus net of applicable deferred income taxes is credited to asset revaluation reserve in shareholders equity. At the end of each reporting period, the board update their assessment of the fair value of each property, taking into account the most recent independent valuations.

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

Bank as Lessee

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022

		2022	2021
		\$'000	\$'000
3.	Income and expenses		
(a)	Interest income		
	Overseas investments	56,201	26,704
	Local investments	8,512	5,724
		<u>64,713</u>	<u>32,428</u>
(b)	Fees and commission income		
	Foreign dealings	24,678	19,386
	Local dealings	1,735	1,632
		<u>26,413</u>	<u>21,018</u>
(c)	Other income		
	Gain on disposal of fixed assets	98	183
	Rent received	91	99
	Sale of numismatic coins	10	53
	Royalties on numismatics	97	208
	Sale of gold	8,071	9,242
	Others	1,069	759
		<u>9,436</u>	<u>10,544</u>
(d)	Interest expense		
	Foreign liabilities	5,045	1,777
	Local liabilities	538	1,351
	Interest on lease liability - IFRS 16	37	82
		<u>5,620</u>	<u>3,210</u>
(e)	Administrative expenses		
	Staff costs	47,181	39,683
	Telecommunication	2,608	2,481
	Utilities	2,547	2,469
	Repairs and maintenance	1,632	1,134
	Insurance	529	500
	Consumables	196	192
	Stationery, printing and postage	834	482
	Consultancy	-	-
	Other	4,804	5,039
		<u>60,331</u>	<u>51,980</u>
(f)	Other expenses		
	Board of directors remunerations and expenses	1,085	217
	Currency expenses	9,232	13,543
	Depreciation and amortisation	6,382	6,552
	Depreciation charge - right-of-use asset	404	404
	Auditors remuneration	400	300
	Other	1,760	1,215
		<u>19,263</u>	<u>22,231</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
		\$'000	\$'000
4(a)	Fixed income securities		
	Fixed term deposits	1,022,766	1,771,510
	Short term commercial paper	290,959	287,102
	Bonds – Refer note 4 (b)	2,575,293	745,435
	Total amortised cost	3,889,018	2,804,047
	Allowance for impairment losses	(3,449)	(2,124)
		<u>3,885,569</u>	<u>2,801,923</u>
4(b)	Amortized Bond (Bonds at amortized cost includes the following debt instruments)		
	Investment in AUD Bond	757,908	745,435
	Investment in US Treasury bill	1,817,385	-
		<u>2,575,293</u>	<u>745,435</u>
b (i)	Investment in AUD Bond		
	Opening Balance	745,435	403,262
	Additions	25,550	350,965
	Interest income @ effective interest rate	5,951	4,270
	Coupon payment	(15,718)	(15,796)
	Foreign currency translation effect	(3,310)	2,734
	Closing Balance	757,908	745,435
	Less: loss allowance for debt investments at amortised cost	(304)	(10)
	Net Balance	<u>757,604</u>	<u>745,425</u>
b(ii)	Investment in US Treasury bill		
	Investment in US Treasury bill	1,817,385	-
	Less: loss allowance for debt investments at amortised cost	(327)	-
	Net Balance	<u>1,817,058</u>	<u>-</u>

The duration of the bonds and treasury bills range from 6 months to 5 years.

		2022	2021
		\$'000	\$'000
5.	Gold		
	Unallocated gold - at fair value	118,614	81,057
	Gold bullion - at fair value	-	-
		<u>118,614</u>	<u>81,057</u>

The balance represent the banks holding of gold investment at year end.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. International Monetary Fund

IMF related assets and liabilities

	2022	2021
	\$'000	\$'000
Foreign currency assets		
- Reserve tranche position	33,873	36,021
- Special drawing rights	218,443	237,349
- Currency subscription	189,813	201,845
	442,129	475,215
Foreign currency liabilities		
- Standby credit facility	-	-
- Special drawing rights allocation	320,911	337,986
- Extended credit facility	80,711	84,984
- Securities / extended financial instrument	334,252	355,442
- Capital subscription	4,704	5,001
	740,578	783,413

The Solomon Islands is a member of the International Monetary Fund (IMF) and the Central Bank of Solomon Islands has been designated as the Government of Solomon Islands' fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Islands dollars.

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

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

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

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

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

	2022	2021
	\$'000	\$'000
7. Loans and advances		
<i>Solomon Islands Government</i>		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	69	39
COVID bond	180,000	180,000
Other securities	4,336	4,936
Total amortised cost	184,478	185,048
Allowance for impairment losses	(506)	(34)
	183,972	185,014

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

The bank purchased the Solomon Islands Government COVID-19 bond from the Solomon Islands National Provident Fund and the Solomon Islands Electricity Authority between December 2020 and October 2021. These Solomon Islands Government COVID-19 bonds have a term of 10 years and the interest rates range between 4 and 5 percent.

	2022	2021
	\$'000	\$'000
7. Loans and advances (continued)		
<i>Staff loans</i>		
Staff housing loans	13,769	12,624
Management car loans	1,650	1,346
Personal loans	1,266	1,283
Special loans	31	43
	16,716	15,296
Allowance for impairment losses	(593)	(1,652)
	16,123	13,644
Total loans and advances	200,095	198,658
8. Currency inventory		
Notes	17,154	16,951
Coins	12,881	14,798
	30,035	31,749
9. Intangible assets		
Computer software		
Cost	4,780	4,780
Addition	48	-
Amortization for the year	(50)	(123)
Adjustment/Transfer	-	-
Accumulated amortisation	(4,726)	(4,603)
Balance at end of financial year	52	54
10. Other Assets		
Commercial Bank clearing	25,596	21,093
Others	4,439	6,749
	30,035	27,842
11. Right-of-use asset and lease liability		
(a) Right-of-use asset		
Balance as at 1 January	573	977
Additions	-	-
Disposals	-	-
Depreciation	(404)	(404)
Balance as at 31 December	169	573

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	\$'000	\$'000
(b) (i) Lease liability		
Balance as at 1 January	610	1,053
Less: Lease payments	(542)	(525)
Add: Interest expense	37	82
Balance as at 31 December	105	610
Disclosed		
Current liability	105	443
Non- current liability	-	167
Balance as at 31 December	105	610
(ii) Amounts recognised in the statement of profit or loss and other comprehensive income		
Depreciation charge on right-of-use assets	404	404
Interest expense (included in finance cost)	37	82
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	468	443
Interest elements of lease payment	37	82
Total cash outflow of leases	505	525
(c) Maturity analysis - contractual undiscounted cash flows		
Less than one year	282	480
One to five years	-	282
More than five years	-	-
Total undiscounted liabilities	282	762

The lease relates to a property lease which was entered into during 2021.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

12. Property, plant and equipment

	Land and buildings	Plant, equipment and furniture	Motor vehicles	Computer	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cost/valuation</i>						
Balance at 1 January 2021	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)
Revaluation	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
Disposals	-	(153)	(237)	-	-	(390)
Balance at 31 December 2021	163,227	27,242	2,008	12,716	22,547	227,740
Acquisitions	-	427	506	1,159	12,753	14,845
Transfers	-	-	-	-	-	-
Disposals	-	(861)	(213)	(5,033)	-	(6,107)
Revaluation	30,040	-	-	-	-	30,040
Balance at 31 December 2022	193,267	26,808	2,301	8,842	35,300	266,518
<i>Accumulated depreciation</i>						
Balance at 1 January 2021	6,736	23,271	1,028	8,062	-	39,097
Depreciation charge for the year	3,295	1,424	453	1,257	-	6,429
Disposals	-	(3)	-	(28)	-	(31)
Transfers	-	(153)	(237)	-	-	(390)
Balance at 31 December 2021	10,031	24,539	1,244	9,291	-	45,105
Depreciation charge for the year	2,654	471	487	2,720	-	6,332
Transfers	-	-	-	-	-	-
Disposals	-	(861)	(213)	(5,031)	-	(6,105)
Revaluation	(10,031)	-	-	-	-	(10,031)
Balance at 31 December 2022	2,654	24,149	1,518	6,980	-	35,301
<i>Carrying amount</i>						
At 1 January 2021	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
At 31 December 2022	190,613	2,659	783	1,862	35,300	231,217

The depreciation policy adopted in respect of the above is set out in note 2 (q). Work in progress relates to the ongoing capital works for the new Central Bank of Solomon Islands building project.

	2022	2021
	\$'000	\$'000
13. Demand deposits		
(a) Foreign currency demand deposits		
Demand deposits	52,171	47,802

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Demand deposits include deposits from international organisations such as the Asian Development Bank-ADB \$34 million (2021: \$31 million), European Development Bank - EDB \$272K (2021: \$272K).

	2022	2021
	\$'000	\$'000
(b) Local currency demand deposits		
Commercial banks	2,434,127	2,309,515
Solomon Islands Government (SIG)	450,754	682,813
Other financial corporations	(2,152)	5,385
Reserve accounts -Commercial banks	331,779	324,387
	<u>3,214,508</u>	<u>3,322,100</u>
14. Currency in circulation		
Notes	1,269,922	1,242,646
Coins	39,121	36,725
	<u>1,309,043</u>	<u>1,279,371</u>

The accounting policy adopted in respect of the currency in circulation is set out in Note 2(p)

	2022	2021
	\$'000	\$'000
15. Fixed deposits		
Bokolo bills	398,689	402,735

Bokolo bills are short term discount securities issued and backed by the Central Bank of Solomon Islands. The instrument is used by the Bank for its monetary operations. The accounting policy adopted in respect of the fixed deposit is set out in Note 2(i)

	2022	2021
	\$'000	\$'000
16. SIG monetary operations account		
SIG monetary operations account	40,993	81,852
17. Employee entitlements		
Gratuity	4,216	4,161
Long service leave	1,456	1,463
Early retirement benefit	30,689	27,359
	<u>36,361</u>	<u>32,983</u>

The accounting policy adopted in respect of the employee entitlement is set out in Note 2(t)

18. Other liabilities		
Unpresented bank cheques	2,223	6,416
Other liabilities including operating expenditure payable	3,631	1,601
	<u>5,854</u>	<u>8,017</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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

available to be distributed but allocated to the respective unrealised revaluation reserve account;

(b) The realised gains from previous years shall be deducted from the appropriate revaluation reserve account and added to the distributable earnings as determined in section 54(2)(a).

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

	2022	2021
	\$'000	\$'000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating loss	(8,858)	(62,744)
Less - net unrealised foreign exchange loss	23,011	47,149
Net gain / (loss) recorded in general reserve / capital asset reserve	14,153	(15,595)

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.

20. Cash and cash equivalents

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

	2022	2021
	\$'000	\$'000
Cash on hand – local currency	195	147
Cash at bank – foreign currency	1,079,610	2,411,974
Short term deposits with maturities up to 3 months	92,460	49,986
Total	1,172,265	2,462,107
Allowance for impairment losses	(6)	(214)
	1,172,259	2,461,893

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.

	2022	2021
	\$'000	\$'000
Balance at the beginning of the year		
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	50,000	50,000
Balance at the end of the year	50,000	50,000

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2022**

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.

(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. IFRS7 *Financial Instrument Disclosures* requires disclosure of information relating to financial instruments, their significance, performance, accounting policy, terms and conditions, fair values and the Bank's policies for controlling risks and exposures relating to the financial instruments.

The Bank's risk management framework differs from the risk management framework for most other financial institutions. The main financial risks that the Bank faces include;

- Liquidity risk
- Credit risk
- Market risk
- Operational risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 Super nationals, 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 2022

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	Undefined	Total
Maturity analysis as at 31 December 2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash at bank	1,172,064	-	-	-	-	-	1,172,064
Accrued interest	-	-	19,953	-	-	-	19,953
Fixed term deposit / income securities	-	-	609,420	410,497	-	-	1,019,917
IMF- Holding on special drawing rights	-	-	-	-	-	218,443	218,443
-Reserve tranche	-	-	-	-	-	33,873	33,873
-Subscription	-	-	-	-	-	189,813	189,813
Available for sales investments	-	-	-	118,614	-	-	118,614
Bonds	-	-	-	-	2,575,293	-	2,575,293
Short term commercial papers	-	-	290,959	-	-	-	290,959
	1,172,064	-	920,332	529,111	2,575,293	442,129	5,638,929
Local currency financial assets							
Cash on hand	195	-	-	-	-	-	195
Accrued interest local	-	-	-	-	156	-	156
Loans and advances	-	-	-	-	200,095	-	200,095
Currency inventory	-	-	-	-	30,035	-	30,035
Property, plant and equipment	-	-	-	-	231,217	-	231,217
Intangible assets	-	-	-	-	52	-	52
Right-of-use asset	-	-	-	-	169	-	169
Other assets	-	30,035	-	-	-	-	30,035
	195	30,035	-	-	461,724	-	491,954
Total financial assets	1,172,259	30,035	920,332	529,111	3,037,017	442,129	6,130,883
Foreign currency financial liabilities							
Demand deposits	52,171	-	-	-	-	-	52,171
IMF special drawing rights allocation	-	-	-	-	-	320,911	320,911
IMF extended credit facility	-	-	-	-	-	80,711	80,711
Securities	-	-	-	-	-	334,252	334,252
Subscription	-	-	-	-	-	4,704	4,704
	52,171	-	-	-	-	740,578	792,749
Local currency financial liabilities							
Demand deposits	3,214,508	-	-	-	-	-	3,214,508
Currency in circulation	-	-	-	-	-	1,309,043	1,309,043
SIG monetary operations account	-	40,993	-	-	-	-	40,993
Fixed deposits	-	386,924	11,765	-	-	-	398,689
Employee entitlements	-	-	-	-	36,361	-	36,361
Lease liabilities	-	-	-	-	105	-	105
Other liabilities	-	5,854	-	-	-	-	5,854
	3,214,508	433,771	11,765	-	36,466	1,309,043	5,005,553
Total financial liabilities	3,266,679	433,771	11,765	-	36,466	2,049,621	5,798,302
Net liquidity gap	(2,094,420)	(403,736)	908,567	529,111	3,000,551	(1,607,492)	332,581

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

	On De- mand	0-3 Months	3-6 Months	6-12 Months	Over year	Unde- fined	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Maturity analysis as at 31 December 2021							
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	928,828	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
Intangible assets	-	-	-	-	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	-	-	-	-	-	5,001	5,001
	47,802	-	-	-	-	783,413	831,215
	On De- mand	0-3 Months	3-6 Months	6-12 Months	Over year	Unde- fined	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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	2,062,784	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 2022

(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) for assessing the credit risk of foreign counterparties. The credit ratings of counterparties are closely monitored and are updated as new market information is available. Foreign exchange limits per bank are imposed for all currency dealings.

Concentration of credit exposure

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

	2022	2021
	\$'000	\$'000
Foreign currency assets		
Cash at bank	1,172,064	2,461,746
Fixed income securities	3,886,169	2,801,923
International Monetary Fund	442,129	475,215
Gold	118,614	81,057
	5,618,976	5,819,941
Local currency assets		
Loans and advances	200,095	198,658
	5,819,071	6,018,599

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	2022	2021
	%	%
AAA	16	19
AA+ - AA-	27	14
A+ - A-	18	24
BBB+ - BBB-	11	24
BB+ - BB-	2	9
B+ - B-	26	10
N/R	-	-
	100	100

Cash and cash equivalents

The Bank held cash at banks in foreign currencies of \$1,172 million at 31 December 2022 (2021: \$2,461 million). The cash is held with banks, which are rated B+ 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 \$4,071 million at 31 December 2022 (2021: \$2,986 million). The debt investment securities are held with banks (note 4a) and the Solomon Island Government (note 7) and 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).

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	2022		2021	
	\$'000	%	\$'000	%
USD	3,171,780	55	3,493,660	58
AUD	1,537,231	26	1,341,573	22
EUR	8,192	-	10,098	-
SDR	442,129	8	475,215	8
NZD	197,565	3	144,591	2
SGD	52,970	1	32,054	1
GBP	104,352	2	121,055	2
SBD	200,095	3	198,658	2
JPY	50,525	1	98,281	3
FJD	8	-	3,855	-
CNY	54,224	1	99,560	2
	5,819,071	100	6,018,600	100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Credit quality	Gross \$'000	Impair- ment \$'000	Net \$'000
31 December 2022			
<i>Foreign currency assets</i>			
Central banks	1,172,278	(214)	1,172,064
Commercial banks	3,889,018	(2,849)	3,886,169
International Monetary Fund	442,129	-	442,129
Available for sale investments	118,614	-	118,614
	5,622,039	(3,063)	5,618,976
<i>Local currency assets</i>			
Solomon Islands Government loan and advances	184,478	(506)	183,972
Staff loan and advances	16,716	(593)	16,123
	201,194	(1,699)	200,095
Gross assets subject to impairment consideration	5,823,833	(4,762)	5,819,071

	2022 \$'000	%	2021 \$'000	%
Concentration by sector				
<i>Foreign currency assets</i>				
Central banks	1,172,064	21	2,461,746	42
Commercial banks	3,886,169	69	2,801,923	48
International Monetary Fund	442,129	8	475,215	8
Available for sale investments	118,614	2	81,057	2
	5,618,976	100	5,819,941	100
<i>Local currency assets</i>				
Solomon Islands Government loan and advances	183,972	92	185,014	93
Staff loan and advances	16,123	8	13,644	7
	200,095	100	198,658	100
	5,819,071		6,018,599	

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

	Carrying amount	
	2022	2021
	\$'000	\$'000
Fixed rate instruments		
Cash and cash equivalents (Financial assets)	1,172,259	2,461,893
Fixed income securities (Financial assets)	3,886,169	2,801,923
Loans and advances (Financial assets)	200,095	198,658
Demand deposits (Financial liabilities)	(3,214,508)	(3,322,100)
Fixed deposits (Financial liabilities)	(398,689)	(402,735)
Lease liabilities	(105)	(610)
	1,645,221	1,737,029
Variable rate instruments		
International Monetary Fund (Financial assets)	442,129	475,215
International Monetary Fund (Financial liabilities)	(740,578)	(784,413)
	(298,449)	(308,198)

Fair value sensitivity analysis for fixed instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100bp increase	100bp decrease
	\$'000	\$'000
31 December 2022		
Variable rate instruments	3,409	(3,239)
31 December 2021		
Variable rate instruments	3,082	(3,082)

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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

Foreign currency risk as at 31 December 2022

	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	289,122	92,460	669,624	8,192	38,581	-	23,552	50,525	8	1,172,064
Accrued interest	5,154	1,738	11,831	-	576	276	378	-	-	19,953
Fixed term deposits	199,242	105,105	566,157	-	65,771	52,970	30,672	-	-	1,019,917
Holding of special drawing rights	-	-	-	-	-	-	-	-	218,443	218,443
Reserve Tranche	-	-	-	-	-	-	-	-	33,873	33,873
Subscription	-	-	-	-	-	-	-	-	189,813	189,813
Gold investment	-	-	-	-	-	-	-	-	118,614	118,614
Bonds	757,908	-	1,817,385	-	-	-	-	-	-	2,575,293
Short term commercial papers	290,959	-	-	-	-	-	-	-	-	290,959
Total	1,542,385	199,303	3,064,997	8,192	104,928	53,246	54,602	50,525	560,751	5,638,929
Foreign Currency Financial Liabilities										
Demand deposits	52,171	-	-	-	-	-	-	-	-	52,171
IMF special drawings rights allocation	-	-	-	-	-	-	-	-	320,911	320,911
IMF extended credit facility	-	-	-	-	-	-	-	-	80,711	80,711
IMF securities	-	-	-	-	-	-	-	-	334,252	334,252
Capital subscription	-	-	-	-	-	-	-	-	4,704	4,704
Total	52,171	-	-	-	-	-	-	-	740,578	792,749
Net foreign currency asset	1,490,214	199,303	3,064,997	8,192	104,928	53,246	54,602	50,525	(179,827)	4,846,180

Foreign currency risk as at 31 December 2021

	AUD	NZD	USD	EUR	GBP	SGD	CNY	JPY	OTH-ERS	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	394,628	-	1,915,412	10,098	38,849	-	624	98,281	3,854	2,461,746
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	560,126	5,825,347
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	-	-	-	-	-	-	-	-	5,001	5,001
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	(223,287)	4,994,132

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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:

	2022		2021	
	\$'000	%	\$'000	%
USD	3,171,780	61	3,493,660	65
AUD	1,537,231	30	1,341,573	25
EUR	8,192	-	10,098	-
NZD	197,565	4	144,591	3
SGD	52,970	1	32,054	1
GBP	104,351	2	121,055	2
JPY	50,525	1	98,281	2
CNY	54,224	1	99,560	2
FJD	8	-	3,855	-
	5,176,846	100	5,344,727	100

The following significant exchange rates were used at year end to convert foreign currency balances to the Solomon Island dollar equivalent.

Reporting date spot rate

	2022	2021
AUD	0.1788	0.1703
USD	0.1208	0.1235
NZD	0.1907	0.1807
GBP	0.1002	0.0915
EUR	0.1133	0.1090
JPY	16.1193	14.2200
SGD	0.1626	0.1670
SDR	0.0907	0.0883
CNY	0.8421	0.7873

Sensitivity to foreign exchange rate risk

Impact of a:	2022	2021
	\$M	\$M
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(71)	(78)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	72	79
<i>Other pricing risk</i>		

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(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

Bob Pollard

Kathleen Matautia (Appointed 1 October 2021)

Jeremy Bartlett (Appointed 1 October 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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:

	2022	2021
	\$'000	\$'000
Short-term employee benefits	3,166	3,876
Long-term benefits	870	1,008
	4,036	4,884

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 2022 loans by the Bank to key management personnel were as follows:

	2022	2021
	\$'000	\$'000
Housing loan	1,891	2,007
Personal loan	130	111
Management car loan	664	611
Staff special loan	31	43
	2,716	2,772

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 and were conducted on the terms no more favorable than similar transactions with other employees or customers.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Transactions with the Solomon Islands Government

The transactions with the Solomon Islands Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received no interest income relating to investments in Government securities. 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 2022. The balance of the Bank's investment in Government securities at year end amounted to \$183m (2021: \$185m).

25. Commitments and contingent liabilities

In 2007 the Solomon Islands Government introduced and provided \$10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2022, a total of 42 (2021: 23) loans with a net guarantee of \$4.19 million (2021: \$4.74 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 2022 is \$1.8 million. (2021: 1.6 million)

26. Impact of COVID-19 and Russia's war in Ukraine

In January 2022, almost two years after the World Health Organization declared the novel coronavirus (COVID-19) a pandemic, Solomon Islands recorded its first COVID-19 community transmission outbreak after being able to contain the virus within the inbound mandatory quarantine facilities. The first wave of the Delta variant hit the country resulting in tough measures imposed by the government including several days of lockdown and movement restrictions. A second wave of the Omicron variant followed at the beginning of the second quarter although with less stringent COVID-19 measures. In the second half, the government relaxed the COVID-19 procedures and fully reopened the international borders. Overall, the community outbreak and the strict COVID-19 measures had weighed down on economic activity, particularly in the first half of the year.

In addition to the impact of COVID-19, the Russia's war in Ukraine which began in February 2022 which associated with supply-chain disruptions had affected the global economy and indirectly impacted the local economy through weaker demand for exports and a sharp increase in imported energy and food prices. In the second half of the year, domestic inflation surged to the highest record seen over the past ten years, reducing the purchasing power of consumers and eroding real income for households. The combined effect of COVID-19 and Russia's war in Ukraine had negative impacts on business profits and strain on household consumption.

Given the downturn of the domestic economy and higher inflation, CBSI adopted an accommodative monetary policy stance geared towards taming inflation. The weaker economy and the policies to curb inflation had impacts on the Bank's financial position particularly on foreign currency assets and exchange revaluation losses.

27. Events subsequent to balance date

The Bank did not identify any transaction or event of material and unusual likely, which would require adjustments to the amounts or disclosures in the financial statements in the opinion of the Directors of the Bank. Given the unpredictable nature of the current situation, the Bank will continue to regularly review forward looking assumptions and forecasts economic scenarios.

