Financial Stability Report

... to foster and maintain a stable financial system...

1H 23

CENTRAL BANK OF SOLOMON ISLANDS

The Financial Stability Report (FSR) is prepared by the Financial Systems Regulation Department (FSRD) of the Central Bank of Solomon Islands (CBSI).

The report is published half yearly, and all enquiries pertaining to the FSR should be addressed to:

The Chief Manager
Financial Systems Regulation Department
Central Bank of Solomon Islands
P O Box 634
Honiara
Solomon Islands

Telephone: (677) 21791/21792/21793

Facsimile: (677) 23513

SWIFT BIC: CBSISBSB

Email: info@cbsi.com.sb
Website: www.cbsi.com.sb

Follow Central Bank of Solomon Islands on:

Twitter: @cbsiinfo
Facebook: www.facebook.com/cbsiinfo

Note:
This report is only available online on CBSI website.

This report uses data up to 30 June 2023.

TABLE OF CONTENTS

LIST OF BOXES

ABBREVIATIONS

CBSI	Central Bank of Solomon Islands
2H22	Second half of 2022, which ended 31st December 2022
1H23	First half of 2023, which ended 30th June 2023
NPS	National Payment System
SIG	Solomon Islands Government
SINPF	Solomon Islands National Provident Fund
ATS	Automated Transfer System
SOLATS	Solomon Automated Transfer System
GDP	Gross Domestic Product
IFC	International Finance Corporation
WBG	World Bank Group
CSD	Central Securities Depository

CHAPTER 1: OVERVIEW OF INTERNATIONAL & DOMESTIC FINANCIAL CONDITIONS[1]

1.1: International Financial Condition

The first half of 2023 has been marked by high inflation, originating from multiple shocks ranging from global supply chain disruptions, the ongoing adverse consequences of the Russian-Ukraine conflict, and the enduring after-effects of COVID-19. Most central banks worldwide maintained a tight monetary policy stance to tame inflation. However, the pace of tightening has started to decelerate as some central banks paused to reassess the effect of the continuous increase of interest rates on the economy. Labour markets started to gain momentum after the elimination of mobility restrictions and the reboot of economic activities post-pandemic. Yet, financial conditions remained tight due to high interest rates, pushing up borrowing costs for individuals and firms, resulting in limited consumption and subdued investment. Securities values also declined, levering up unrealised losses for banks' holding asset-backed securities to maturity. This has the potential to erode banks' capital and liquidity buffers built during the pandemic and, if protracted, would threaten their solvency position and heighten financial stability issues.

The high-interest rate environment unearthed vulnerabilities inadequately addressed by fundamental reforms or obscured by accounting principles and regulatory standards. These vulnerabilities, if interacted with the tight monetary and financial conditions, could trigger financial stability issues, thereby resulting in a loss of market confidence.

The recent events in March involving the Silicon Valley Bank (SVB) and Signature Bank of New York, and the loss of confidence in Credit Suisse are testimonies of the manifestation of the interaction between the tight monetary and financial conditions together with vulnerabilities cumulated in the obscure nooks of the financial system in the advanced economies. Fortunately, early intervention by relevant supervisory and regulatory bodies has managed to prevent broader contagion effects and restore the financial system's integrity.

Besides banks, Non-Bank Financial Institutions (NBFIs) are also facing similar headwinds. NBFIs played a crucial role in complementing banks through intermediating financial services, providing credit and investment opportunities, and facilitating cross-border capital flows. However, the NBFIs had to leverage asset-backing financial assets to boost financial returns and build their capital, which made them vulnerable to volatility in asset prices and liquidity stresses. Following the global financial crisis, most NBFIs comfortably accumulated riskier assets, capitalising on the prolonged low-interest rate and loose financial condition to boost investment returns. However, the current stress episode has put pressure on the NBFIs' balance sheets, causing a cutback on investments, high liquidity stresses and dwindling investor confidence. Given the interdependent of banks and NBFIs for financial leverage and liquidity support, any strain on the NBFI ecosystem can easily transmit to the banking system, causing a contagion effect on the overall financial system.

Geopolitical tensions also exacerbate further financial stability risks. These risks could be transmitted to the financial system from various dimensions through financial and non-financial channels. The weaponization of economic policy to contain the rise of others through the imposition of capital flow restrictions, financial sanctions and international asset freezes would affect cross-border capital flows and exacerbate financial fragmentation. This could prompt uncertainty among investors and lenders, causing them to pull back on investments and cross-border lending activities, which induce a fall and shift in asset prices and capital allocation respectively, thereby provoking liquidity and solvency stress. Furthermore, geopolitical tension can restrict trade and technological transfers, disrupt supply chains and commodity markets, and subsequently affect international trade. This conceivably stifle economic progress, leading to high inflation and further tightening of monetary policy. Consequently, a downward pressure on asset prices and a simultaneous increase in borrowing costs is imminent, leading to severe problems for the financial system and financial instability.

1.2: Domestic Financial Condition

The Solomon Islands' financial system remained functional and stable amid turmoil and fragilities in the global financial system. However, vulnerabilities remained high, owing to continued inflation pressures earlier in the year, increased interest rates together with the weak economic environment and changes in consumer behaviours.

Financial institutions remained strong, albeit under strain conditions induced by high inflation and elevated interest rates. The prevailing high-cost environment has also exacerbated financial stress on consumers, with households experiencing weak purchasing power. Similarly, domestic firms' financial performances, in particular, those that were small to medium in size, were also adversely impacted. As a result, those with limited economies of scale or with operational scalability issues had to cut back on production and capital investment.

Besides, high interest rate has also elevated borrowing costs, exposing domestic firms and households to the risk of default. This, combined with the weak state of the local economy will disincentivise domestic firms and households from taking fresh or additional loans to meet the rising demand for cost of living, additional capital investments and other intertemporal planning and decision making.

1 information used in the chapter was obtained from CBSI Quarterly Review, June 2023 & International Monetary Fund, Global Stability Report, April 2023

As a result, the banking and credit union sector witnessed a drop in their total deposits and savings, resulting in a fall in liquidity. Investment incomes also fell over the period. Despite this, both sectors maintained strong liquidity and robust capital position.

Likewise, the superannuation sector continued to record a stable performance over the period. The sector's total assets grew during the period due to a slight increase in membership contributions, dividends received from domestic unlisted entities, and unrealised gains from international investments. However, volatility in the labour and financial markets persisted as economic performance remained fragile. A prolonged inflationary period would affect the financial performance of the domestic unlisted entities, hence, would have a cascading effect on the sector's financial performance. Similarly, the tight market condition could affect the international investment's asset price, causing a drop in unrealised gains. This would have adverse effects on the sector's financial performance.

In terms of the insurance sector, it continued to maintain positive performance over the review period on the back of low claims recorded. However, the persisting high inflation partly contributed to rising operating costs and reinsurance prices for the sector, threatening future profitability and eroding its solvency and capital position. In addition, the elevating uncertainty, coupled with the ongoing weak economic condition, will exacerbate pressure on the sector's risk-taking decision, causing them to pull back on taking additional risks, while limiting its expansion plans.

While risks to the financial stability remained anchored, pockets of vulnerabilities persisted, warranting close attention by the central bank and the government. The ongoing price increase and tight monetary conditions might expose some unpatched gaps within the financial system, giving room for risk invasion. Such openings include weak and outdated regulatory frameworks, limited fiscal support and fragilities, and narrow investment opportunities, if left unaddressed, would be a threat to financial stability.

It is also worthwhile to highlight the recent uptake of financial technology (fintech) to promote financial inclusiveness in Solomon Islands. While fintech has effectively streamlined conventional banking practices and contributed substantially to increasing financial access points, reach and efficiencies across Solomon Islands' financial sector; this revolution has brought with it new sets of risks, vulnerabilities and challenges to supervision, regulations and, more importantly, to the overall financial system's stability. However, CBSI remains committed to ensuring that whilst Solomon Islands embraced new technologies; the risks related to technology, cybersecurity, fraud, money laundering, terrorism financing, and customer identities and their regulations were adequately identified and managed. Also, fintech customer remains one of the focus areas of CBSI's supervision and risk management and this resulted in the adoption of a specific prudential guideline on financial consumer protection.

In light of these, the CBSI remains focused on ensuring the financial system is stable, despite challenges presented by the current fragile economic and financial environment. The Bank is collaborating with relevant stakeholders to review the Financial Institution Act, the Credit Union Act and the Insurance Act. The main intention of this exercise is to ensure that the local regulatory framework is at par with the current business practices and considers international best practices in managing the risk that comes to the façade of the financial system. This is critical to ensure that the financial system remains stable to support economic progress.

1.3: National Payment System

Box 1: National Payment System

The proposal for Solomon Islands Automated Transfer System (SOLATS) to go-live in 1H23 did not eventuate as planned. This was anticipated due to disruptions caused by COVID-19 and the need to fast track project implementation post COVID-19 in other countries in the region. Despite the delay, CBSI in collaboration with the development partners IFC, WBG, Montran and the participants has completed installation of hardware and equipment, and progressed with network connectivity during 1H23. Although expected to go-live in 2H23, systems compatibility requires urgent upgrades to participants' core banking systems to ensure compliance to ISO20022 standards, which could take a while to complete.

Regulations to operationalise the Payment Systems Act 2022 has been drafted in consultation with experts from IFC and the World Bank Group. The regulations provide CBSI the mandate to perform its oversight and operational roles over the payment's ecosystem.

The Central Securities Depository (CSD) is an additional module of the SOLATS. It shall keep a registry of holders of debt, money market instruments issued by CBSI such as Treasury and Bokolo Bills. The CSD will improve efficiency in settlement of interest and redemption payments of securities in conjunction with the RTGS. A training on the CSD module was conducted by the Montran in March for the CBSI (the Operator) staff to familiarise and understand system functions. The User acceptance testing continues.

The Business rules of the SOLATS and CSD are both under review where final document shall be signed prior to go-live. This ensures case testing are thorough and according to rules that shall be implemented going forward.

CHAPTER 2: FINANCIAL SECTOR RESILIENCE AND PERFORMANCE

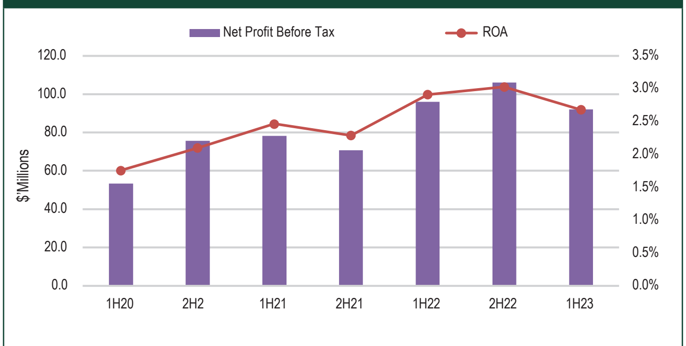
2.1 Banking Sector: Resilience and Performance

The Solomon Islands Banking System remained resilient in 1H23 despite sluggish economic performance, high inflation, and heightened concerns following the failure of a few banks in the United States (Silicon Valley Bank, Silvergate Bank and Signature Bank) and Switzerland (Credit Suisse). The banks' resilience is reflective in their overall strong capital position that are comfortably above the regulatory minimum requirements of 15 percent, strong liquidity positions, and reasonably good culture, conduct and corporate governance practices. Capital and reserves position rose to register at 33.8 percent at the end of June 2023. Retained earnings continued to support the sector's growth in ensuring adequate capital is present to cushion against unexpected losses. Despite a 2.8 percent fall in liquidity reserves, the sector's liquid assets to short-term liabilities stood at 66.3 percent, comfortably high enough to cover the banks' short-term obligations to depositors and creditors.

The banking sector's non-performing loans (NPLs) ratio also fell by 1.1 percentage points to 8.3 percent at the end of this reporting period. Banks are expecting a further improvement in the asset quality by the end of 2023 as more recoveries are anticipated for the latter half of the year.

Net Profit Before Tax (NPBT) saw a slight fall of 13.2 percent in 1H23, as reflected by the fall in dollar value from $106.2 million in 2H22 to $92.2 million in 1H23. Driving the slight decline was the increase in general provisions, as banks established stage 1 customer provisions for likely credit impairments as per the IFRS 9 model. In addition, non-interest income was relatively lower in 1H23 due to lower demand for foreign currencies and fewer foreign exchange trading activities.

Figure 1: Banking Sector Half Year Growth, 1H20-1H23

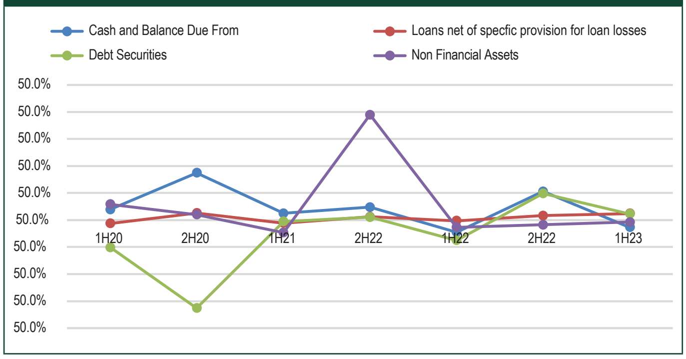


***Source**: Central Bank of Solomon Islands*

The banking sector's balance sheet marginally contracted in 1H23 by 0.13 percent to $6.8 billion in 1H23. The reduction stemmed from a fall in term deposits (TD) placed with the depository institutions abroad during the period. Contrary to this decline, the stock of debt securities held by the sector further increased by 2.3 percent in 1H23 to $495.4 million. Meanwhile, the banks increased their holdings of the central bank papers, called Bokolo Bills, during the period. Overall, the sector continues to maintain high level of liquid assets to fulfill their financial obligations to creditors and depositors as they become due.

Total deposits fell by 0.8 percent, largely owing to a fall in TD owned by private non-bank financial institutions and statutory non-financial corporations, as they redeemed the maturing deposits for additional liquidity to support business operations.

Figure 2: Banking sector Half-Year Growth in Assets, 1H20-1H23

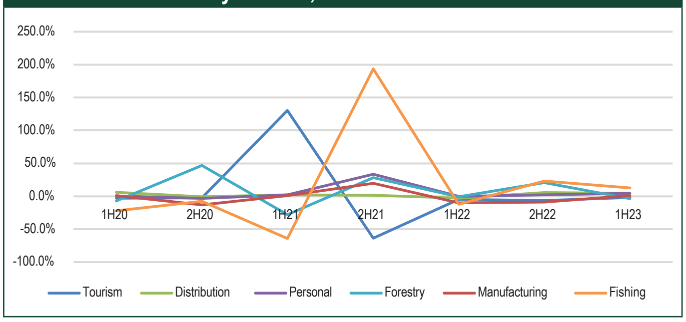


***Source**: Central Bank of Solomon Islands*

Total credit increased further by 2.4 percent to a total stock of loans and advances of$2.7 billion at the end of June. The growth was largely concentrated in the personal, distribution, and construction sectors. The personal sector is predominantly relate to investment property loans. Part of the growth is also due to banks providing the needed funding for expanding businesses in the distribution sector, as well as construction companies that commenced new infrastructure projects tied to the 2023 Pacific Games.

The sectoral distribution of credit to the private sector continues to be concentrated in the personal sector with 36.5 percent, followed by distribution with 24.4 percent,

Figure 3. Banking Sector Half-Year Growth in Key Loans and Advances by Sectors, 1H20-1H23



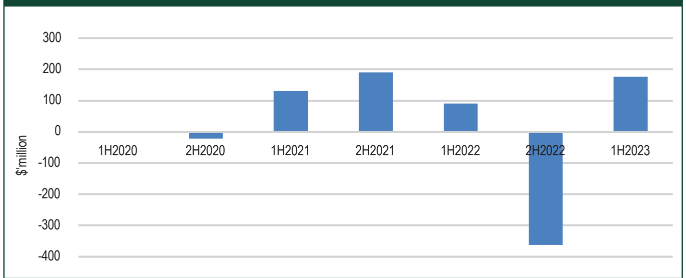
***Source**: Central Bank of Solomon Islands*

and construction sector constituting 13.8 percent while several other sectors made up the remaining 25 percent of the aggregate credit.

2.2 Superannuation Sector: Resilience and Performance

Against the background of fragility and volatility in the international financial market, domestically the Solomon Islands National Provident Fund (hereafter The Fund) remained comparatively resilient following the remarkable performance posted in 1H23. The positive outcome for this reporting period was mainly driven by high income earned from domestic unlisted equities, in particular, from communication and energy sector through dividend and unrealized gains from offshore investments. Despite the volatility in the offshore markets, the positive unrealized gain noted in 1H23 further boosted the overall financial performance of the Fund.

Figure 4: Superannuation Sector Half-Year Net Profit, 1H20 – 1H23

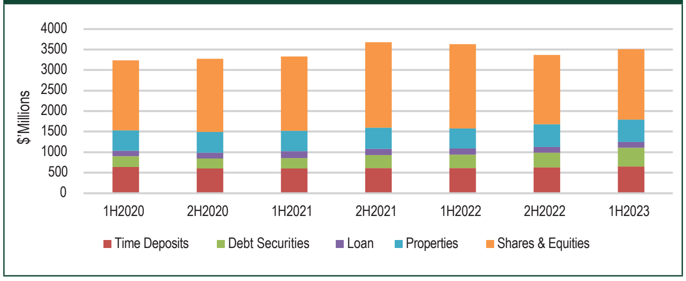


Source: *Central Bank of Solomon Islands*

On the asset side, the proportion of the superannuation sector's total assets to total financial system assets remained systemically important at 35 percent. The Funds' balance sheet further expanded by 2 percent to $4,015.2 million in 1H23. The observed growth in total assets was driven by the positive growth in total investments, representing 87 percent of the total assets.

During the reporting period, the Funds' total investment assets grew by 4 percent following additional purchases of government bonds and additional loans issued to subsidiaries. The additional exposures to government and subsidiaries are still within the Fund's risk appetite as per the investment asset allocation policy. The allocations remained around the same level since 2H22 as investment centered around unlisted equities and fixed term deposits. In terms of geographical distribution of its investment portfolio, 87 percent of the Fund's total investment is in the domestic market, while the remining 12 percent are investments abroad. Considering the Funds' heavy reliance on the domestic market, the narrow market conditions remained a challenge for the Fund to seek strategic investment partner to diversify its current concentrated assets. Against this background, offshore investment, though accounts for only 12 percent of the total investment, which is still below the Fund's appetite for offshore, can have a substantial impact on the Fund's overall performance due to exchange rate volatility and adverse movement in offshore investment prices that may result in unrealize losses.

Figure 5: Superannuation Sector Half-Year Investment Composition, 1H20 – 1H23



Source: *Central Bank of Solomon Islands*

At the end of June 2023, the Funds' total membership slightly went up by 2 percent reaching 281,731 members, with total contributions amounted to approximately $3,569 million. In terms of contribution, only 24.4 percent of members are actively remitting their contributions while 58.2 percent are non-active members, and 17.3 percent comprised members without proper registration documentations, double registration members, and deceased members with credit balances. The growth in membership was mainly underpinned by a 5 percent and 2 percent increase in members for the informal sector under the youSave scheme and formal sector respectively. The inclusion of the informal sector and the promotion of converting airtime credit to savings for youSave members enabled growth in the informal sector membership. The informal sector registered a total of 55,794 members actively contributing to the Fund, with total contribution reaching $2,834 million.

The Fund still maintain a strong liquidity position and continues to meet its short and medium-term obligations. The strong liquidity position is continuously supported by the uninterrupted inflow of required members contributions from employers. In 1H23, the Fund showed net positive contributions inflow of $19.2 million. On the total benefits paid in 1H23, members' withdrawals under retirement ground accounted for 63 percent, followed by lenders claim at 11 percent, exception under the Ministers discretion at 9 percent and other major withdrawal grounds such as death, disability, migration and redundancy representing the remaining 16 percent. Despite the fall in domestic inflation as noted in the latter part of 1H23, demand for withdrawal by members continued to peak, as reflected by growth observed in the Minister's discretion and lenders claim withdrawals.

2.3 Insurance Sector: Resilience and Performance

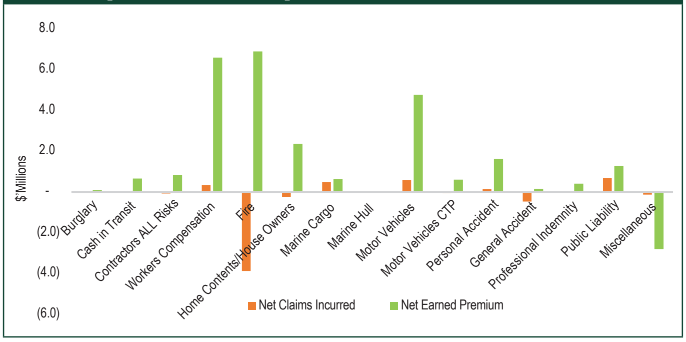
The insurance sector demonstrated resilience during the COVID-19 pandemic amidst notable pressures induced by domestic inflation and increasing global reinsurance prices. The general insurance portfolio's profit improved by 43 percent from 1H22 and grew from $1.6 million in 2H22 to $11.4 million in 1H23. This came on the back of a decline in the number of claims recorded over the period, which mainly attributed to the absence of catastrophic losses, particularly for dominant classes such as Fire, Contractors All Risks, Workers Compensation, Motor Vehicle and Home Content Insurance which trajected cost savings, resulting in improved profitability for the sector.

Table 1: General Insurance Sector Industry Distribution Gross Written Premium by Class, 1H20 – 1H23

Distribution of Gross Written Premium 2H22	$ Millions		Percentage Change		Share	
Portfolio by Class	1H22	1H23	1H22	1H23	1H22	1H23
Burglary	0.06	0.74	-35%	1133%	0.2%	1.7%
Contractors All Risks	3.919	2.457	18%	-37%	10.6%	5.6%
Employers' Liability or Workers' Compensation	4.824	6.124	-11%	27%	13.1%	14.1%
Fire	13.182	19.599	-11%	49%	35.8%	45%
Home Contents and House Owners	2.866	3.553	-37%	24%	7.8%	8.2%
Marine Cargo	0.651	0.627	18%	-4%	1.8%	1.4%
Marine Hull	0.013	0	-28%	-100%	0%	0%
Motor Vehicles	5.081	5.554	-3%	9%	13.8%	12.7%
Motor Vehicles (CTP)	0.535	0.647	-42%	21%	1.5%	1.5%
Personal Accident	1.600	1.837	52%	15%	4.3%	4.2%
General Accident	0.187	0.159	2%	-15%	0.5%	0.4%
Professional Indemnity	0.597	0.655	4%	10%	1.6%	1.5%
Public Liability	1.33	1.375	0%	4%	3.6%	3.2%
Miscellaneous	1.989	0.258	6%	-87%	5.4%	0.6%
TOTAL	36.83	43.59	-8%	18%	100%	100%

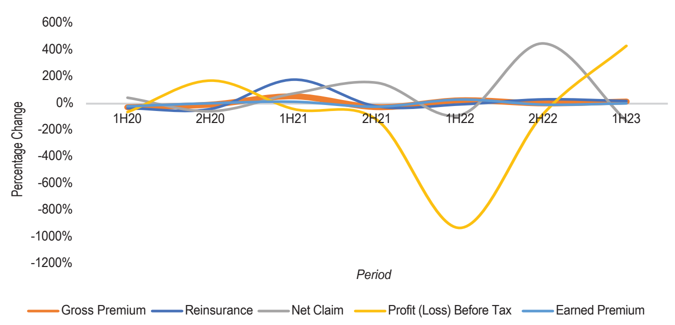
***Source**: Central Bank of Solomon Islands*

Figure 6: Insurance Sector Earned Premium Against Net Claims 1H23 [General Insurance]



***Source**: Central Bank of Solomon Islands*

Figure 7: Insurance Sector Half-Year Growth in Key Components of Income Statement, 1H20 – 1H23 [General Insurance]



***Source**: Central Bank of Solomon Islands*

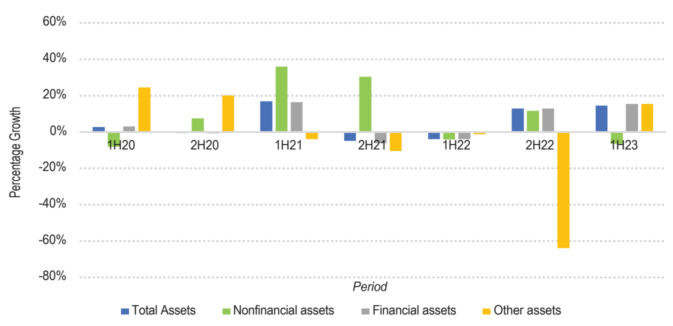
The insurance market in the Solomon Islands is highly concentrated with the majority of the insured risks located within the capital city, Honiara, compared to a handful in the other provinces, notably Western and Malaita provinces. The low uptake of insurance in the provinces mirrored low economic activities, zero representation of insurers in the provinces, high cost of provincial entities accessing insurance services in Honiara, and low levels of insurance awareness. Moreover, significant reliance on traditional support systems for safety nets during times of hardship had also been inhibiting the provincial appetite for buying insurance policies including the penetration and expansion of the industry in the provinces over the years.

Investment portfolio of the industry, unlike other major economies, contributed negligibly towards the insurance sector's overall profitability. Narrowed financial and economic base, limited investment opportunities and under developed financial infrastructure remained the main challenges that stifle financial investment in the country. However, the sluggish investment income received by the sector was mainly derived from interests generated from cash deposits with commercial banks.

Meanwhile, the industry's total assets grew by 14 percent over the first half of 2023. This was driven mainly by the sector's profitability. In terms of asset composition, liquid assets constituted the majority of the sector's total assets. This is mainly related to cash deposits held by commercial banks. Given the increase in liquidity, the liquid assets to short-term liabilities for the sector stood at 107.9 percent.

While the outcome indicated sufficient financial assets to meet its short-term dues, it remained 12.1 percentage points shy of the CBSI's prudential benchmark of 120 percent. This warrant improvements by the industry to ensure they meet regulatory obligations and build sufficient financial buffers to respond to any abrupt liquidity crisis. However, in the meantime, the sector's liquidity position remained sufficient to meet the industry's short to medium-term obligations.

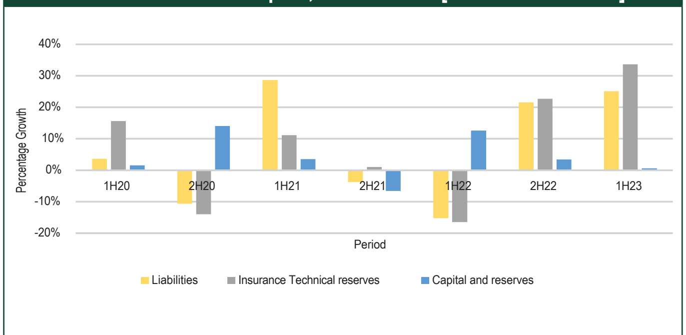
Figure 8: Insurance Sector Half-Year Growth in Major Component of Assets, 1H20 – 1H23 [General Insurance]



***Source**: Central Bank of Solomon Islands*

Conversely, despite witnessing a decline in the sector's claim liabilities, total liabilities rose further by 25 percent this reporting period. The major increase came from outstanding dues for reinsurance contracts and unearned premium liabilities. Besides that, outstanding dues held by insurers to their head office for technical support plus other additional operational costs have also increased, implied by the high expense ratio of 58.7 percent. This is common amongst the domestic insurers who are heavily reliant on their parent companies for back-office support, to maintain their customer services.

Figure 9: Insurance Sector Half-Year Growth in Major Component of Liabilities and Capital, 1H20 – 1H23 [General Insurance]



***Source**: Central Bank of Solomon Islands*

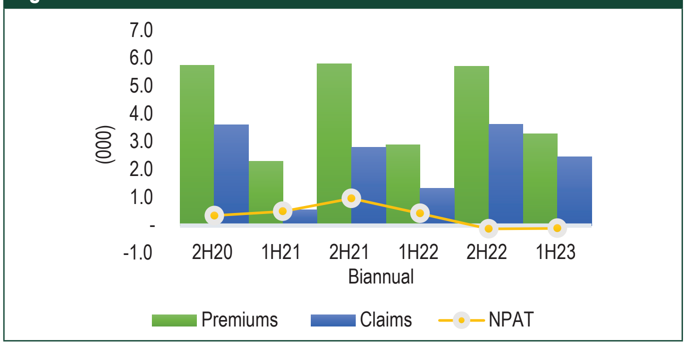
In terms of capital, the insurance sector maintained adequate capital buffer to cushion the risks it takes. This is reflected by the net premium to capital ratio of 61.2 percent recorded over the period. More so, the strength of the sector's capital position is further reinforced by the strong capital to total asset ratio of 43.9 percent. In terms of its retention ratio, the sector continues to operate within expected prudential bound, clinging on to 64.7 percent of total risk insured and ceding off 35.3 percent to off-shore reinsurers. Thus, indicating diligent risk management approach to mitigate catastrophic losses.

Debtors to gross premium and reinsurance recoveries ratio on the other hand rose to 41.3 percent over the first half of 2023. The increase is caused by delayed collections from policy holders plus few outstanding reinsurance recoveries not yet settled by reinsurers. Despite the increase, total debtors remain low, constituting only 18.7 percent of the sector's total asset for the period. With the auspices of new premium financing facilities deployed by Credit Corporation Solomon Islands Ltd (CCSIL), presumably this will ease debtors' issues as that part of the industry debtors' collections will gradually shift to Credit Corp and the overall level of debtors for the industry will improve over time with this shift. Meanwhile, both return on asset and return on equity ratios improved on the back of high profits, recording ratios of 12.7 percent and 28.9 percent respectively.

Life Insurance Sector Performance

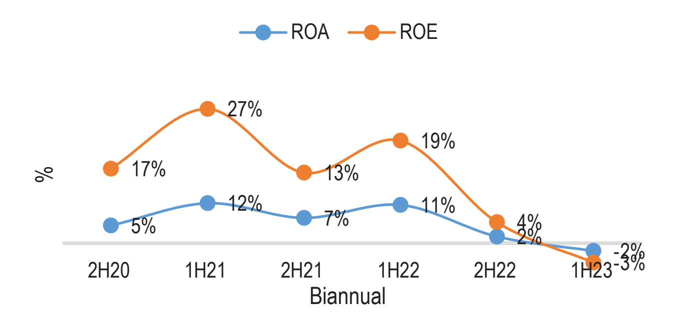
In contrast to the general insurance segment, the life segment remains relatively small, and contributed 7.4 percent of the overall assets for the insurance industry. Post-pandemic, the domestic economic environment continues to pose challenges for the insurance industry's life segment as it recorded a net loss of $0.1m. From the life industry soundness indicators, the results showed a negative return to equity and negative return on assets respectively (See Chart. ROE & ROA) because of the loss results. The loss was due in part to a $2.5m claim paid out for medical evacuations plus other operational costs which exceeded business underwritten for 1H23 of $3.3m. The risks insured were mostly for returning customers with no major new business. The unfavorable performance was partly driven by the higher underwriting and operational expenses similar to the general segment. Growing the life portfolio remains strenuous due to low demand for life products coupled with the limited investment opportunities available to support and grow such a market. Similar to the general insurance segment, part of the cause to the low uptake for life products pointed to the information

Figure10: Insurance Sector Performance 1H23



***Source**: Central Bank of Solomon Islands*

Figure 11: Insurance sector ROE and ROA for 1H23



***Source**: Central Bank of Solomon Islands*

asymmetry and lack of good understanding amongst the general population of the country regarding insurance as a safety net.

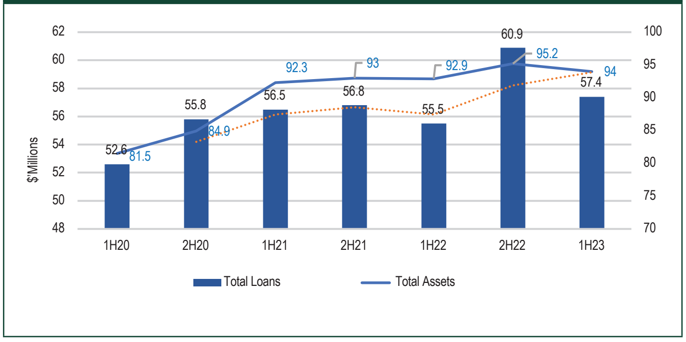
Despite the unfavorable financial performance for the life sector in 1H23, there is still adequate capital support for the segment, particularly for current policy contracts being issued for life insurance. This is reflected by the capital to total assets and technical provisions indicators for the life segment.

2.4 Credit Union Sector: Resilience and Performance

The credit union sector although is a relatively small player in the financial ecosystem, it remained operational post COVID-19 condition. The sector continued to generate adequate profitability, with a net result of $1.4million, despite a drop-in lending portfolio in the first half of 2023. Total capital to total asset ratio stood at 34 percent above the required limit of 10 percent and liquidity ratio stood at 24 percent above the minimum benchmark of 15 percent. Both ratios indicate a strong capital position to meet any unexpected losses and sufficient liquidity buffer to meet unexpected changes in cashflow and fulfil short to medium term obligations as they fall due. Against this backdrop, the credit union sector continued to serve as an alternative vehicle for members to access funds and banking needs.

The sector's balance sheet shrunk this reporting period. Its assets declined to $94 million from $95.2 million in 2H22. Similarly, its lending portfolio, which constituted 61 percent of the sector's total assets, plunged 5.7 percent to $57.4 million this reporting period. Lending activities declined as a result of tight internal controls over unsecured loan. On the liability side, total deposits also declined due to pressure from members to withdraw their well-earned savings for consumption, prompting a 17.1 percent fall in members' savings to $45.9 million this reporting period. Meanwhile, total equity for the sector stood at $32.2 million and was anticipated to increase in future periods given the continuous positive trend of earnings.

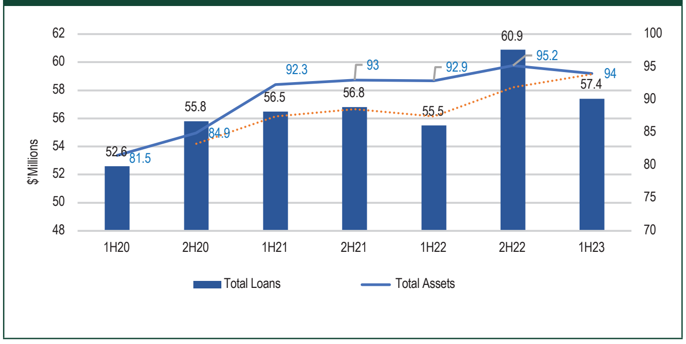
Figure 14: Credit Union Sector Half Year Total Asset Growth, 1H20 – 1H23



***Source**: Central Bank of Solomon Islands*

The membership growth remains steady with 6800 members in total. It is anticipated that membership will continue to grow, as more awareness is carried out. The review of the Credit Union Bill, is a way forward for attracting new credit unions into the industry, in particular for rural communities. The role of the credit union is also paramount in terms of driving financial inclusion and reaching the unbanked and underserved individuals and communities in Solomon Islands.

Figure 15: Credit Union Sector Half Year Profit Performance, 1H20 – 1H23



***Source**: Central Bank of Solomon Islands*

CHAPTER 3: KEY VULNERABILITIES AND RISKS TO THE FINANCIAL STABILITY IN THE SOLOMON ISLANDS

3.1 Banking Sector: Vulnerabilities and Risks

Due to persistently elevated inflation and the tightening of global and domestic financial conditions, banks remain exposed to vulnerabilities and inherent risks. Key vulnerabilities and risks remain unchanged from 2H22, with additional risks being observed in 1H23.

The commercial banks' exposure to credit risk has persisted in 1H23, and remains to be one of the top risks for banks. Measure on a consolidated basis, which also covers the quality of assets held by credit institutions saw a decline in the NPLs to total gross loans ratio from 9.4 percent in 2H22 to 8.3 percent in 1H23. Despite the improvement in NPLs, concerns remain given the lengthy collateral registration process, the sluggish growth of the economy, the continuous delay by government to settle its domestic service providers, and the lengthy process of bad debts recovery. Additionally, the stubbornly high consumer price inflation during the reporting period also remains a concern for the supervisory authorities given the positive relationship between inflation, the regularity and timeliness of loan repayments, and the materialization of credit risk for banks. The residual risk remains medium in the short term.

Over the recent periods, cyber risks facing banks globally has become a growing concern[2]. Despite no material cyber incidents in the Solomon Islands banking system, the banks remain vulnerable and are not spared from any cyberattacks which could have significant financial damages on banks and the financial system. The increasing use of sophisticated fintech and the trend of digitalisation of banking processes and services which include mobile banking, internet banking, and other interchangeable money transfer services such as online payments pose greater threat as banks are at risk of cyberattacks. Banks are encouraged to continually assess their cybersecurity risk framework and conduct repeated tests to probe the effectiveness of their security measures and ensure robust controls are in place, as well as build further cyber resilience through embedding minimum requirements of the CBSI issued Prudential guideline on Cyber risk. The residual risk is however low.

Climate-related financial risk is another prominent risk for the banking sector. Driven by the increasing change in weather conditions[3], growing natural disasters, and the rise in temperature pose as a physical risk to banks. This could have negative impact to the credit worthiness of bank borrowers as physical climate risk could lead to closure of business operations. The residual risk remains low given no impact on domestic banks recorded to date, however it is important for banks to embedded climate risk into their risk management frameworks and conduct climate scenario analysis on its possible impact on banks.

Liquidity risk remains in the banking sector over the review period. Banks' reliance on wholesale funding from corporate and state-owned enterprises (SOE) to fund loans exposes them to liquidity threats. There has never been an issue with liquidity for banks, however, the possibility of large depositors withdrawing their funds from institutions through the occurrence of prolonged health pandemics, man-made and natural disasters may bring rise to a liquidity crisis and a bank run in the banking system. Banks are expected to conduct liquidity stress testing regularly to ensure it has enough funding sources for unexpected disruptions in the market.

Finally, the recent collapse of a few regional banks in the United States raised reputational risk concerns as the turbulence in the global banking system might deteriorate public confidence and trust in the domestic banking system. However, the Solomon Island banking system was not impacted by the events in the USA. This is because the Regulator has elevated its regulatory oversight and supervision to the banks to ensure that consumer trust and confidence in the domestic banking system are maintained. However, it is crucial that banks continue to strengthen their governance to mitigate operational risks, more specifically, people, process, systems and compliance risks, that may weaken customer trusts. Additionally, to proactively engage with customers through various communication channels when issues arise. The residual risk is low in 1H23.

Table 2: Banking Sector Key Vulnerabilities and Risks[4]

Vulnerabilities	Risk Type	Risk Description	Inherent Risk	Residual Risk
			1H23 Rating	2H22 Rating
Growing household indebtedness	Credit	Deterioration in quality of housing and investment property	Extreme	Medium
Increasing change weather conditions	Climate	Deterioration in quality of assests and loss of assets	Medium	Low
Increasing use of technologies	Cyber security	Deterioration in confidentiality, intergrity or availability of information or data	Medium	Low
Reliance on wholesale deposits for funding	Liquidity	Inability to meet obligations when fall due and lead to a system wide bank run	Medium	Low
Failure of regional banks in USA	Reputational	Deterioration of public confidence in the banking system	Low	Low

Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematic risk build u p that suggest the need for closer monitoring but not an immediate policy response
High	Indicates potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy intervention

2 International Monetary Fund. (2021) The Global Cyber Threat.

3 International Federation of Red Cross and Red Crescent Societies (IFRC). (2022) World Disaster Report.

4 Risk ratings for past periods were updated following CBSI's review of key risk indicators thresholds.

3.2 Superannuation Sector: Vulnerabilities and Risks

The Fund is one of the systemically important financial institutions in the Solomon Islands, however governed by outdated legal framework which pose risks to the overall governance of the Fund. To operate effectively and efficiently, the Fund needs modernization of legal framework as a way forward. The delay in progressing to next stage the National Provident Fund Bill has increased the exposure of the Fund to potential operational and liquidity risks and to a wide variety of governance vulnerabilities. Importantly, a perceived liquidity risk is evident from a continuous increase in members' withdrawal under the Minister's discretion and lenders claim as allowed by the current legislation. Considering the lack of commitment for the legislation reformation, the Fund management had collaborated with the Ministry of Finance to develop mechanisms aimed at controlling the high demand of members withdrawal under the Minister's discretion.

The ongoing digitalization and use of emerging technology can be efficient and effective for the Fund's operations, however may increase the exposure of the Fund to cybersecurity risks and threats. In this regard, the Fund should remain vigilant at all times by periodically testing the efficacy and effectiveness of its business continuity protocols and cyber risk framework.

Given its corporate objective to invest in higher return portfolios, the Fund was considered as being over exposed to investment and market risks. As shown in Table 3, investment concentration risk for the Fund remained high owing to continuous reliance on single unlisted entities in the domestic market. The Fund is encouraged to strategically manage its investment activities through a robust investment policy and to ensure appropriate buffers are in place to protect the Fund from adverse movements in its major investment portfolios.

Table 3: Superannuation Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk	Residual Risk
Elevation of Imprudent practise due to outdated legal framework	Goverance risk	Elevate imprudent practises jeopadise best practises	High	High
Rising demand for early withdrawals of contributions through Minister's Discretion and lenders claim	Liquidity risk	Deterioration in the liquidity management	Extreme	High
Emerging use of digitilization	Cyber Security	Loss of data intergrity and confidentially	High	Medium
Narrow market Conditions	Investment risk	Continuously rely on single unlisted entities	Extreme	Extreme

Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematic risk build u p that suggest the need for closer monitoring but not an immediate policy response
High	Indicates potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy intervention

3.3 Insurance Sector: Vulnerabilities and Risks

Unpredictable Weather Events

The vulnerabilities relating to climate risks, changing weather patterns and natural disasters remains a threat to the insurance sector. Climate related shocks are evident globally, thus may be a potential threat to domestic insurance as it could expose the industry to significant losses during large claim pay outs. Whilst no significant climate related event impacted the industry in 1H23, the sector remains vulnerable, and therefore needs to be vigilant. Already the sector has incurred significant losses due to weather impacts, and any significant climate related shocks could trigger significant pressure on the insurance industry's capital reserves.

Insurance and reinsurance Risk.

One of the risks that the insurance industry is currently facing is rising reinsurance cost which added more pressure to the already high operational expenses of the sector. This was evident from the 20 percent surge in reinsurance cost in the first half of this year against 2H22. To manage this, underwriters are now passing the cost on to customers who are now feeling the brunt of the sudden increase in the price of reinsurance coverage. This would in turn affect the underwriter's retention level if customers believe insurance is no longer worth it and start lapsing their policies.

Liquidity Risk

While the insurance sector has maintained adequate liquidity, there is still room to improve its liquidity above the recommended threshold of 120 percent of total liabilities to ensure sector has more than sufficient liquidity buffer to cater for any catastrophic claims pay out. In the short to medium term, the rising reinsurance cost could slowly squeeze current liquidity buffers that in turn would force insurers to find alternative investment solutions to build up its liquidity position.

Table 4: Insurance Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk 1H23 Rating	Residual Risk 1H23 Rating
Unpredictable Weather Events	Insurance and Reinsurance Risk	Imprudent underwriting and inadequate reinsurance coverage Medium	Medium	Low
Changing Insurance Market Composition	Market Risk	Exit of one insurer might put pressure on remaining insurers to try and meet market demand. This could lead to Asset and Liability mismatch.	Medium	Low
Rising Cost of Reinsurance	Liquidity Risk	High reinsurance cost continuous to put pressure on insurers operational cost and subsequently liquidity position	Medium	Low

Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematic risk build u p that suggest the need for closer monitoring but not an immediate policy response
High	Indicates potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy intervention

3.4 Credit Union Sector: Vulnerabilities and Risks

Despite the credit union sector's resilience and positive performance, the sector is exposed to vulnerabilities and risks. One of the major risks for the sector is operational risk imposed by lack of an effective and or an efficient management information system (MIS) for quality data storage and accurate reporting. The lack of a good MIS has long been a hinderance to the sector's development. Having foresight to adoption of technological changes will be very beneficial to the operation of the credit union to serve the core principle of helping members financially and foster growth and support sustainability of the sector.

Deficiency in board oversight, reporting, and compliance culture have been identified as areas of concern, posing governance risk for the sector. While CBSI acknowledged some improvement in governance and management direction in 1H23, there are still a number of key risk management weaknesses. To ensure the credit unions risk management strategy is in line with international best practice, the Central Bank has approved Prudential Guidance Notes (PGN) 3 and 4 to enhance good governance and institute credit risk management requirements. The Registrar's Office (RO) has already directed credit unions to implement PGN 3 and 4. The Bank is also working on a PGN5 that would assist credit unions to set minimum limits and control on board and committee allowances. The PGN5 is currently on consultation stage.

Weak underwriting practices may escalate credit risk and liquidity risk to the credit union sector. Given the voluntary nature of the sector, board members and committee members tend to relax the underwriting practices and extend unsecured loans to members. It is vital that Board, Committee members and CU members are aware and trained on the importance of prudent lending and underwriting practices to preserve loan quality and ensures the bottom line of the credit union is positive.

The RO will continue to provide the appropriate supervisory role to enforce prudential discipline and sound management within the sector, as well as setting out proper guidelines to improve credit union governance that is critical for the stability of the sector.

Table 5: Credit Union Sector Key risk vulnerabilities

Vulnerabilities	Risk Type	Risk Description	Inherent Risk	Residual Risk
			1H23 Rating	1H22 Rating
Inadequate of recording systems for credit unions	Operation	Lack of proper system in place to store data and accurate reporting	Medium	Medium
Absence of adequate policies to guide operations	Governance	Lack of policies to guide and manage the credit unions	Medium	Medium
Non – compliance to policies put in place in terms of lending and loan repayment	Credit	Lack of compliance to lending policies leads to high non- performing loans	High	High

Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematic risk build u p that suggest the need for closer monitoring but not an immediate policy response
High	Indicates potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy intervention

CHAPTER 4: FINANCIAL SECTOR OUTLOOK AND CHALLENGES 2023

4.1 Banking Sector: Outlook and Challenges

There are medium-term developments that banks anticipated to undertake in the second half of 2023. These developments fall under the three (3) main categories, namely infrastructure, service and product offerings.

In terms of infrastructure, the upgrading of core banking systems is one of the top priorities for all banks. This would enable the sector to increase its operational efficiency, increase product offerings and scalability of banks' operations. Introduction of the ATS and CSD payment system for banks is another milestone that would support banks in providing a more efficient service.

In expanding its services, the sector onboarded money transfer services to meet the growing demand for cross-border remittances which is fuelled by the increase in seasonal workers' scheme. Agency banking is also another area that can potentially expand banking services to the unbanked population whilst simultaneously increasing the customer deposit base. Banks are looking to enhance agency banking cooperation with other parties to expand their services outside of the capital city of Honiara.

Finally, an increase in product offerings in the market is expected to commence in the medium term. This includes an increase in lease financing, mortgage loan facilities and project financing facilities. This is expected to boost the sector's income and capital.

4.2 Superannuation Sector: Outlook and Challenges

The Fund, as the only mandatory saving scheme for formal employees and a vehicle for promoting financial inclusiveness for the informal sector in Solomon Islands, anticipated slow to moderate growth in earnings, in the medium term, driven by investment performances.

In terms of membership, the Fund is anticipating a positive growth though at a slower rate. The projected growth is likely to come from the informal sector as the youSave digital platform aims at onboarding more members. Membership growth for the formal sector is anticipated to be subdued due to the weak economic conditions which may not be conducive for employment growth.

While the Fund is mandated to invest members assets for a higher return, the unpredictable offshore markets conditions and narrow local market condition remains a challenge for the Fund to determine the real and market value of its investment assets. The Fund's unlisted equities and investment will undergo valuation process in 2H23.

In terms of the upcoming events such as the Pacific Games in 2H23, there may not be any direct impact on the Fund, however the spill over effect to the unlisted equities may likely to pose a positive outlook for the Fund, due to the valuation process. Nevertheless, the ongoing Russia Ukraine war may continue to have an indirect impact to the Fund's investment returns and the overall financial performance.

4.3 Insurance Sector: Outlook and Challenges

A number of changes have occurred during 1H23, particularly around the preparation to adhere to IFRS-17 and IFRS 9 international reporting standards. All insurers are expected to comply to these new standards, starting from the 1st of January 2023. Under these new global standards, insurers are expected to provide more detailed disclosures surrounding their valuation of assets and liabilities.

Moreover, there are also other developments on the lower scale of the insurance market. During 1H23, it was observed that micro-insurance, particularly the parametric insurance has also stirred up interest from a private sector company and non-governmental organization to try and make available these lower cost insurance products to rural communities, particularly those lacking formal financial safety net. However, like the life insurance segment, the micro-insurance in the form of parametric insurance has also its share of hurdles, attributed to the lack of awareness and information asymmetry amongst people in the rural communities. The major challenge going forward is how to stimulate the local demand for the products. Thus, it is anticipated that no major changes in market composition for the domestic life, microinsurance and parametric insurance segment for 2H23.

4.4 Credit Union Sector: Outlook and Challenges

The credit union industry is anticipating growth to track sluggishly below that of other financial service providers. The lack of political will to quickly pass the revised Credit Union Bill hampers the effort to maintain level of participation in financial inclusion space. Lack of robust supervision framework and inadequate information systems are ongoing challenges to the credit unions operation. The absence of an agency such as SICUL with the mandate to actively provide education, awareness and promotion to credit union limits the growth potential of the industry.

Despite those challenges, the sector remains strong and continues to serve its financial members. The RO is striving to transform the sector by establishing networks with World Council of Credit Union (WOCCU) to access resources that can be utilized to strengthen and grow credit unions in the country and across the region. The RO is taking an aggressive step now as opposed to the traditional approach of "watching from the sidelines" and engage in counteractive conversation with important stakeholders and players within the global credit union network to address the sector's challenges and reform the credit union industry.

APPENDICES

APPENDIX 1: BANKING SECTOR

Table A1.1: Banking Sector Financial Soundness Indicators, 1H20 – 1H23

In Percent	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23
Capital Adequacy							
Total regulatory capital-to-risk weighted asset ratio	29.2	33.7	33.4	32.6	30.5	32.9	33.8
Tier 1 regulatory capital-to-risk weighted assets ratio	29.2	33.7	33.4	32.6	30.5	32.9	33.8
Profitability							
Return on Equity (ROE)	10.0	11.8	13.4	8.6	15.5	16.1	14.1
Return on Assets (ROA)	1.8	2.1	2.5	2.3	2.9	3.0	2.7
Operational Risk							
Cost to income ratio (CIR)	56.4	57.1	58.3	56.7	57.1	56.0	56.1
Total Asset Growth	0.6	3.0	1.7	-2.1	-2.3	3.9	1.3
Credit Risk							
Credit Growth	-0.8	1.1	-0.6	1.5	1.0	-0.1	1.5
Credit Concentration Risk							
All Large Exposures /Tier I Capital	68.7	58.7	50.5	45.4	25.1	46.9	25.3
Sectoral HHI of credit sector portfolio	1807.3	1757.2	1722.2	2068.3	2073.7	2132.1	2211.8
Credit Quality							
Gross Stressed Exposures (GSE) to Total Exposures	12.7	11.6	11.9	11.2	10.9	9.3	8.9
Gross NPLs to Total gross Loans	11.8	10.6	11.4	10.4	10.9	9.4	8.3
Provisioning							
Provisioning Coverage Ratio : Specific Loan Loss to NPLs	27.9	29.9	28.7	36.4	36.2	39.8	44.8
Liquidity Risk							
Wholesale Deposits (OFCs) to Total Loans	31.1	30.2	31.7	29.5	33.0	32.8	31.9
Total Gross Loans to Total Deposits	53.0	52.5	51.2	50.9	52.9	50.3	51.9
Liquid Assets to Short Term Liabilities	56.2	65.1	65.9	66.1	63.9	69.2	66.3
Forex Risk							
Net overall Open Position: Net overall open position to total capital & reserves	7.4	2.4	2.4	2.9	2.6	2.8	5.1

***Source**: Central Bank of Solomon Islands*

(green)	Indicator is within the internal thresholds
(yellow)	Indicator is within the internal thresholds however on the lower or higher end of the internal threshold.
(orange)	Indicator is above or below the internal thresholds
(red)	Indicator is extremely above or extremely below the internal thresholds

Table A1.2: Banking Sector Half Year Income Statement ($ Million), 1H20 – 1H23

	1H20	2H20	1H20	2H21	1H22	2H22	1H23
Net interest income	118.6	120.6	113	120.1	113.7	118	122.3
Noninterest income	85.3	80.4	76.6	92.9	86.5	109.7	97.2
Noninterest expenses	115	116.1	110.6	117.6	114.3	125.4	123.1
Provisions	35.6	9.1	0.7	24.7	-10.1	-3.9	4.3
Net profit before tax	53.3	75.8	78.3	70.8	95.9	106.2	92.2

***Source**: Central Bank of Solomon Islands*

Table A1.3: Banking Sector Half Year Balance Sheet ($ Million), 1H20 – 1H23

	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Cash and Deposits	2,610.20	3,065.70	3,143.10	3,293.70	3,145.25	3,479.2	3,387.6
Loans net of specific provision for loan losses	2,447.90	2,511.70	2,484.80	2,515.70	2,509.20	2,550.50	2,612.9
Debt securities	703.1	474.1	471.5	476.7	441	484	495.5
Nonfinancial assets	212	216.2	206.1	286.5	278.9	273.9	271.9
Total assets	6,083.30	6,367.90	6,397.50	6,685.40	6,464.60	6,907.6	6,898.7

Currency and deposits	4,772.50	4,939.00	5,012.60	5,133.50	4,941.60	5273.9	5,233.8
Other Liabilities	245.8	265.1	234.5	316.1	293.4	333.7	369.2
Capital and reserves	1,065.00	1,163.90	1,150.40	1,235.90	1,229.60	1300.1	1,295.7
Total Liabilities & Capital	6,083.30	6,367.90	6,397.50	6,685.40	6,464.60	6,907.6	6,898.7

Source: *Central Bank of Solomon Islands*

Table A1.4: Half Yearly Loans and Advances by Key Sectors ($ Million), 1H20 – 1H23

	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Manufacturing	120.5	105.0	106.4	127.6	114.9	105.1	106.4
Forestry	70.4	103.5	74.8	96.1	95.6	115.7	111.6
Fishing	8.8	8.2	2.9	8.6	7.6	9.3	10.5
Distribution	593.1	588.6	603.1	612.1	595.5	631.6	662.3
Communication	81.3	80.3	64.3	86.5	72.5	112.3	110.4
Personal	698.0	676.5	690.4	922.5	921.9	945.3	989.3

Source: *Central Bank of Solomon Islands*

APPENDIX 2: SUPERANNUATION SECTOR

Table A2.1: Superannuation Sector Financial Soundness Indicators, 1H20 – 1H23

In Percent	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23
Total Reserve-to-total assets ratio	12.3%	9.2%	12.0%	11.8%	13.0%	2.6%	6.8%
Investment Growth	-5.8%	-5.1%	1.8%	0.6%	-0.7%	0.5%	2.4%
Investment assets allocations							
Time deposit	19.9%	18.4%	18.0%	16.6%	17.0%	18.7%	18.5%
Government Secuirites	7.3%	7.5%	7.5%	8.6%	8.7%	10.5%	12.6%
Loans and Bonds	4.8%	4.5%	5.1%	4.3%	4.4%	4.3%	4.7%
Investment Properties	15%	15%	15%	14%	13%	17%	16%
Shares-Unlisted	48. 4%	48.5%	48.4%	49.9%	50.6%	43.3%	41.7%
Shares-Listed	4.2%	5.9%	5.8%	6.6%	6.0%	6.6%	7.0%
Return on Total Investment Assets	0.01%	0.7%	7.2%	10.2%	4.8%	-6.2%	9.4%
Cost-to-income ratio	74.7%	104.7%	23.0%	21.0%	32.5%	-13.2%	20.5%
Core liquid assets-to-total assets ratio	4.5%	5.9%	6.8%	4.4%	5.8%	5.8%	5.2%
Liquid assets to total value of members contributions ratio	25.7%	24.9%	26.2%	22.7%	24.6%	23.6%	23.8%
Liquid assets -to-short term liabilities	252%	239%	38%	24%	31%	29%	26%
Liquid assets-to-total assets ratio	21.7%	22.0%	22.5%	19.5%	20.7%	22.3%	21.4%
Members Contribution Growth	-4.2%	0.2%	-1.0%	0.3%	-1.0%	0.0%	-1.0%

Source: *Central Bank of Solomon Islands*

- Green: Indicator is within the internal thresholds
- Yellow: Indicator is within the internal thresholds however on the lower or higher end of the internal threshold.
- Orange: Indicator is above or below the internal thresholds
- Red: Indicator is extremely above or extremely below the internal thresholds

Table A2.2: Half Year Profit and Loss Statement of Superannuation Sector ($ Million), 1H20 – 1H23

	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Investment Income	15.8	62.8	135.2	275.2	102.8	-281.7	179.1
Non-Investment Income	44.25	16.19	38.35	-30.85	40.60	-30.5	46.8
Gross Income	60.09	78.97	173.52	244.39	143.36	-312.28	225.9
Total Expenditure	44.88	82.64	39.97	47.93	46.62	41.4	47.0
Net Profit before interest payable	15.21	-3.67	133.56	196.45	96.75	-353.7	178.9
Interest payable to members	15.23	17.65	2.71	3.59	5.86	8.7	2.9
Net Profit/(Loss) After Interest to Members	-0.02	-21.32	130.84	192.86	90.89	-362.4	176.0

Source: *Central Bank of Solomon Islands*

Table A2.3: Half Year Balance Sheet Statement of Superannuation Sector ($ Million), 1H20 – 1H23

	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Demand deposits	167	218.9	260.6	180.3	241	221.6	205.8
Time deposits	642.6	600.9	601.3	612.4	617	630.8	647.7
Loans	150.6	111	134.2	119.5	155	137.1	148.3
Debt securities	264.3	251.1	257.1	322.5	321	358.9	458.4
Shares and equities	1745.2	1779.8	1835.9	2077.6	2,061	1,688.2	1,714.8
Accrued interest & dividend receivables	39.3	39.4	11.1	8.7	11	11.1	16.8
Non-financial assets	680.5	692.1	698.6	711.5	683	755.2	758.1
Other assets	44.5	34.3	34.4	40.4	80	47.8	65.4
Total assets	3734.1	3727.4	3,833.1	4072.9	4,169	3,850.7	4,015.3
Members contributions	3154.6	3294.2	3285.7	3493.6	3,492	3,609.4	3,589.8
Other Liabilities	117.9	89.4	87.3	97.5	140	143.7	155.6
Capital & reserves	459.6	343.8	460.2	481.8	537	97.6	269.9
Total liabilities& capital	3734.1	3727.4	3833.1	4072.9	4,169	3,850.7	4,015.2

Source: *Central Bank of Solomon Islands*

APPENDIX 3: INSURANCE SECTOR

Table A3.1: General Insurance Sector Financial Soundness Indicators, 1H20 – 1H23

In Percent	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Capital Adequacy							
Net Premium to Capital (Low Risk ≤ 300%)	62.4	57.6	71.0	53.8	67.8	59.8	61.2
Capital & Reserves to Total Assets (Low Risk ≥ 15%)	41.1	47.2	41.2	40.5	47.5	43.5	43.9
Asset Quality							
Debtors to Total Assets (Low Risk ≤ 25%)	15.9	14.8	14.7	14.8	18.8	18.4	18.7
Debtors to (Gross Premium + Reinsurance) (Low Risk ≤ 35%)	39.0	44.8	32.8	36.6	48.5	36.2	41.3
Reinsurance & Actuarial Issues							
Risk Retention Ratio(Low Risk ≥ 40% ≤ 80%)	72.4	82.1	67.6	65.0	73.6	65.9	64.7
Adequacy of Claims							
Loss Ratio (Net Claims to Net Premiums)(Low Risk ≥ 40% ≤ 80%)	29.1	12.2	18.8	62.1	6.5	38.5	11.0-
Earnings & Profitability							
Expense Ratio (Expense to Net Premium)(Low Risk ≤ 45%)	50.8	42.6	59.8	47.2	51.4	54.0	58.7
Combined Ratio (Net Claims + Expense to Net Premiums)(Low Risk ≥ 60% ≤ 105%)	79.9	54.8	78.5	109.3	57.9	92.5	47.7
Investment Income Ratio (Investment Income to Net Premium)Low ≥ 2% ≤ 30%)	3.4-	1.6	0.5	1.7	0.8	0.5	0.7
Return on equity Low Risk ≥ 5% ≤ 30%)	11.8	28.1	16.1	3.8-	28.1	6.0	28.9
Return on Asset(Low Risk ≥ 1% ≤ 4%)	4.8	13.3	6.6	1.5-	13.4	2.6	12.7
Liquidity Ratio							
Liquid Assets to Short Term Liabilities (Low Risk ≥ 120%)	109.2	116.6	105.3	99.9	110.9	113.6	107.9

***Source**: Central Bank of Solomon Islands*

Green	Indicator is within the internal thresholds
Yellow	Indicator is within the internal thresholds however on the lower or higher end of the internal threshold.
Orange	Indicator is above or below the internal thresholds
Red	Indicator is extremely above or extremely below the internal thresholds

Table A3.2: Half Yearly Income Statement ($ Million), 1H20 – 1H23

	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Gross Written Premium	27.7	25.8	39.9	29.4	36.8	37.6	43.6
Outward reinsurance	7.6	4.6	12.9	10.3	9.7	12.8	15.4
Premium net of reinsurance	20.1	21.2	27.0	19.1	27.1	24.7	28.2
Unearned premium reserves	(1.3)	(0.8)	1.8	(0.3)	1.7	1.1	4.1
Net earned premium	21.3	22.0	25.1	19.5	25.4	23.6	24.1
Gross claims expense	10.8	2.5	6.5	19.5	11.2	14.3	1.3
Total recoveries	4.6	(0.2)	1.7	7.5	9.5	5.2	4.0
Net claims expenses	6.2	2.7	4.7	12.1	1.6	9.1	-2.6
Acquisition Costs	0.2	0.2	0.0	(0.0)	0.0	0.0	-0.1
Total underwriting expenses	13.7	9.6	11.8	18.6	8.7	15.4	4.9
Underwriting Results	7.7	12.3	13.3	0.8	16.8	8.2	19.2
Investment income on assets backing insurance liabilities	0.1	0.1	0.1	0.3	0.2	0.1	0.2
Insurance Results	6.9	12.7	13.4	1.1	17.0	8.3	19.4
Other operating expenses or management expenses	3.2	2.4	7.3	2.5	6.0	6.5	6.1
Net Profit (Loss) Before Tax	3.8	10.3	6.1	(1.4)	11.3	2.5	13.3
Income tax or provisions	1.1	3.0	1.6	1.0	3.2	0.9	1.8
Net Income (Loss) End of Current Period	2.7	7.3	4.5	(2.3)	8.0	1.6	11.5

***Source**: Central Bank of Solomon Islands*

Table A3.3: Half Year Balance Sheet Statement of Insurance Sector ($ Million), 1H20 – 1H23							
	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Total Assets	158.5	157.6	184.3	175.3	168.4	190.2	217.7
Nonfinancial assets	4.1	4.4	6.0	7.9	7.5	8.4	7.9
Financial assets	154.4	153.1	178.3	167.5	160.9	181.8	209.8
Currency and deposits	100.7	95.5	114.1	104.1	98.1	122.1	131.4
Shares and other equity	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Debt securities	16.0	16.0	16.0	16.0	15.7	16.0	15.7
Insurance technical reserves (Assets)	34.5	38.0	44.7	44.2	44.0	42.1	61.1
Other assets	2.5	3.0	2.8	2.6	2.5	0.9	1.1
Liabilities	94.2	84.2	108.3	104.3	88.4	107.5	134.4
Insurance technical reserves (Liabilities)	87.3	75.1	83.5	84.4	70.5	86.5	115.7
Other liabilities	6.8	9.1	24.8	19.9	17.9	20.9	18.8
Capital and reserves	64.3	73.4	76.0	71.0	80.0	82.7	83.3
Balance Sheet Total	158.5	157.6	184.3	175.3	168.4	190.2	217.7

***Source**: Central Bank of Solomon Islands*

APPENDIX 4: CREDIT UNION SECTOR

Table A4.1: Credit Union Sector Financial Soundness Indicators, 1H20 – 1H23							
	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Balance Sheet (SBD Million)							
Total Loans	52.6	55.8	56.5	56.8	55.5	60.9	57.4
Total Assets	81.5	84.9	92.3	93.0	92.9	95.2	94.0
Total Deposits/Savings	51.2	51.3	54.2	55.0	53.4	55.6	45.9
Total Share Capital	26.1	27.7	31.9	31.6	32.6	33.6	32.2
Income Statement (SBD Million)							
Income	2.9	4.2	3.8	4.3	3.8	5.0	3.8
Expenses	1.6	2.6	2.3	3.1	2.3	3.4	2.4
Net Surplus	1.5	1.6	1.5	1.2	1.5	1.6	1.4
Statistics							
Membership	6,795	6,800	6,850	6,850	6,850	6,850	6850
No. of Reporting Credit Unions	10	10	10	10	10	10	10
Capital Adequacy							
Capital to Total Asset Ratio	32.0%	32.6%	34.6%	34.0%	35.1%	35.3%	34.0%
Earnings & Profitability							
ROA	1.8%	1.9%	1.6%	1.3%	1.6%	1.7%	2.4%
Loans to Assets (70%-80%)	64.5%	65.7%	61.2%	61.1%	59.7%	64.0%	61.0%
ROE	5.7%	5.8%	4.7%	3.8%	4.6%	4.8%	4.3%
Self Sufficiency Ratio (>111%)	181.3%	161.5%	165.2%	138.7%	165.2%	147.1%	158.0%

***Source**: Central Bank of Solomon Islands*