




2023

ANNUAL REPORT

CENTRAL BANK OF
SOLOMON ISLANDS

A photograph of the Central Bank of Solomon Islands building, a modern multi-story structure with large windows, partially obscured by a diagonal yellow graphic element. In the foreground, there is a sign that reads "CENTRAL BANK OF SOLOMON ISLANDS".

CENTRAL BANK
OF
SOLOMON ISLANDS



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;
- **INTEGRITY** - To discharge duties with utmost integrity, honesty and earn trust;
- **EXCELLENCE** - To deliver through professionalism and innovation;
- **ACCOUNTABILITY** - To exercise responsibility in decisions and actions taken;
- **INCLUSIVENESS** - To embrace respect and team work for achieving results.

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CENTRAL BANK OF SOLOMON ISLANDS

22nd April 2023

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

Dear Minister,

Re: 2023 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 2023.

Yours sincerely,

LUKE FORAU, Ph.D
Governor

 GOVERNOR'S FOREWORD



Governor, Dr. Luke Forau

The Solomon Islands economy in 2023 returned to normalcy from the pandemic, the November 2021 riot, and the shocks to international food and energy prices in the past three years. Economic growth rebounded strongly to 4% from a slower growth of 2.4% in 2022. This was driven by a surge in gold exports, higher production in copra and cocoa, smaller rebound in logging than

was expected, higher outturns in manufacturing, and improved labor market conditions. The government's fiscal expansion to accommodate the hosting of the 17th Pacific Games in November 2023 and the preparation for the National General Election also contributed to this overall growth.

In adherence to the Bank's primary objective in maintaining price stability, CBSI adopted a tight monetary policy stance throughout the year to bring inflation down. As a result, inflation decelerated from 9.1% in 2022 and stabilizes at 3.5% by year end. The slowdown in inflation was also fast-tracked by a reduction in global crude oil prices as well as a moderation in global inflation.

The economic outlook for 2024, post Pacific Games, is conservatively projected to soften to 2.9% following the robust growth witnessed in 2023. Agriculture, fishing, manufacturing, and mining are expected to be the key drivers of growth with moderate expansion in construction and

services sector. These sectors are projected to collectively offset the anticipated contraction in the forestry sector. However, there are lingering downside risks to the outlook given the geopolitical tensions globally and the country's susceptibility to natural disasters, climate variations, deteriorating infrastructure, and limited fiscal capacity. Reforms and policies geared towards expanding and inclusive economic opportunities and rebuilding fiscal buffers are crucial for the country's economic resilience.

In pursuing other CBSI's mandates and primary functions, the Bank continued to undertake its supervisory and regulatory roles diligently to safeguard the country's financial system and to maintain macroeconomic stability. As a result, the Solomon Islands financial system in 2023 remained stable and resilient characterized by ample capital and liquidity reserves, as well as sustained profitability. Furthermore, the Bank continued to prudently managed the nation's official foreign reserves in accordance to the international best practice with the core objectives of safety, adequate liquidity and optimizing returns. Accordingly, official reserves were held and invested in grade BBB to AAA credit rating institutions based on Standard and Poor's (S&P) rating and the import cover sitting at 11.8 months, well above the 6 months benchmark.

In terms of currency and legal tender, the Bank has issued a limited series of new \$10 commemorative banknotes, dedicated to commemorating the country's hosting of the 17th Pacific Games and was launched before the commencement of the games. The Bank also introduced new security features embedded in the latest reprints of the \$100 and \$50 notes. In ensuring that the Bank keep pace with modern central banking practices and evolving economic landscape, CBSI conducted a comprehensive consultation in Honiara and the provinces for the review of



Governor, Dr Luke Forau, Finance Minister, Hon. Harry Kuma and Deputy Governor Raynold Moveni, sited with other Governors and Senior Executives of the region during the 38th PCB Governor' meeting.

the Central Bank Act 2012 and the amendments have been passed in the National Parliament in October 2023.

With regards to the operations and governance, the Bank incurred a net operating profit of \$199 million in 2023, derived from a \$70 million operational profit and \$129 million from unrealized foreign exchange revaluation gains. The Bank's total assets amounted to \$6,596 million and bulk of its assets comprised of foreign reserves maintained to support the country's international trading transaction needs.

In this report, you will also find commentaries on the state of the Solomon Islands economy, a comprehensive view of the central banking activities as well as the Bank's financial statements for 2023. I would also like to extend my heartfelt appreciation to the Board of Directors, dedicated staff, and esteemed stakeholders for their steadfast support. The Central Bank remains committed to contributing to the prosperous and stable future for our nation.



Governor, Dr. Luke Forau

I am pleased to commend the Central Bank of Solomon Islands' 2023 Annual Report for your perusal.



Governor Dr. Luke Forau speaking during the launch of the new \$10 commemorative banknote in Honiara

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2023

OVERVIEW

The domestic economy in 2023 recuperate strongly from the multiple crisis over the past three years with overall improvement in production and exports, positive outturn in manufacturing and services, improved labor market conditions, and easing inflation. The country's hosting of the 17th Pacific Games benefited the construction, transportation and accommodation sectors, although this comes at a higher cost to the government resulting in a wider fiscal deficit. Government infrastructure projects through donor capital grants and loans continued to support activities in the economy. Despite the positive economic outcome, the country's vulnerability to external and domestic shocks remains an issue to tackle in policy considerations for reforms and economic management.

INTERNATIONAL ECONOMY

The global economy continued to recover slowly from the long-term consequences of the COVID-19 pandemic, Russia's invasion of Ukraine, surge in inflation and tighter monetary conditions, and extreme weather events. Global growth is estimated at 3.1% in 2023 from 3.5% in 2022. The slower recovery is pronounced in Advance Economies including Australia and New Zealand, the country's two major trading partners in the region. Growth in emerging markets and developing economies remained constant at 4% attributing to a post-pandemic expansion in China.

In terms of international commodity prices, the IMF's primary price index dropped by 17% in 2023 following the fall in both energy and non-energy prices. Tapis crude oil price per barrel dropped to US\$87 from US\$103 a year ago despite a partial reversal of the price declines registered during the first half of the year.

Consistent to the decline in international commodity prices, global headline inflation eased from 8.7% to 6.8% due to rounds of monetary policy tightening implemented by central banks to bring prices back under control. In Australia and New Zealand, inflation also eased although it still remained above their targets.

DOMESTIC ECONOMY

The domestic economy in 2023 is estimated to have grown by 4% from a slower growth of 2.4% in 2022 driven by a surge in gold exports, higher production in copra and cocoa, smaller rebound in logging than was expected, and improved outturns in manufacturing. The country's hosting of the Pacific Games also drives the expansion in economic activities in the capital city particularly for construction, transportation, accommodation, wholesale and retail trade, and public administration. On the other hand, fishing activities underperformed due to weather related factors and downtime of fishing boats whilst lower yields in palm oil was driven by replanting and application of fertilizers. In addition, the power disruptions between May and August have negatively impacted businesses ac-

tivities in Honiara.

In tandem with the improved economic growth, the labor market conditions, as proxied by the SINPF's active and slow active contributors, increased by 3% to 57,151 contributors. Government employment under the public service also increased from 19,803 to 20,024 filled positions, of which majority were paid teachers, police, and health workers. Moreover, advertised vacancies sourced from the Pasifiki HR services almost double to 2,456 vacancies, partly driven by higher short-term labor demands for the Pacific Games and National General Election voters' registration.

Corresponding to the improved domestic productions, mining activities, tuna processing, and a surge in visitor's arrival related for the Pacific Games, the country's export of goods and services improved substantially. In addition, significant growth in remittances from the government's managed labor mobility scheme, higher fishing license from the vessel day schemes, and donor grants all contributed to a favorable outcome in the country's external sector. As a result, the current account deficit narrowed by 8% to \$1,438 million (or 11% of GDP) and was sufficiently financed through inward FDI and donor grants and credits to the government for capital infrastructure projects. Overall, the Balance of Payment position recorded a surplus of \$218 million resulting in a buildup in the country's gross foreign reserves by 6% to \$5,775 million at the end of 2023. This is adequate to cover 11.8 months of imports of goods and services.

On exchange rate developments, the Solomon Islands



Governor and Finance Minister Launch the new \$10 commemorative banknote

dollar, on annual average, depreciated against the US dollar by 2.6% to \$8.38 per USD reflecting the strengthening of the US dollar in the global currency market due to a higher US Fed's fund rate. On the other hand, the SBD appreciated by 1.7% against the Australian dollar to \$5.57 per AUD and 0.8% against the New Zealand dollar to \$5.14 per NZD. The country's real effective exchange rate (REER) appreciated 1.7% to 135 index points indicating relatively weaker trade competitiveness against the country's trading partners.

The fiscal environment remained subdued with a wider provisional deficit of \$950 million (7% of GDP) driven by substantial rise in government spending against weak revenue collection. Government expenditure expanded by 12% to \$4,408 million in 2023 attributable to higher spending geared towards the country's hosting of the 17th Pacific Games and the preparation towards the National General Election. Meanwhile, total government revenue fell by 3% to \$3,458 million reflecting a notable reduction in budgetary donor grants to \$279 million despite an 8% increase in domestic sourced revenue to \$3,185 million.

Mirroring the fiscal deficit, the government total debt stock surged by 36% to \$2,827 million (20% of GDP) in 2023 and comprised of 58% as external loans and the 42% representing domestic loans. External borrowing was mainly from ADB, World Bank, and EXIM Bank of China for infrastructure developments while the government borrow domestic through the issuance of short-term and long-term maturity bonds.

Monetary conditions remain buoyant in 2023 with money supply aggregates including reserve money (M0), narrow money (M1), and broad money (M3) registered growths during the year, rising by 10%, 5%, and 6% respectively. This outcome was mainly driven by fiscal expansion and a surplus in the balance of payments position. Private sector credit also picked up by 5% to \$2,763 million in 2023, following a modest growth of 1% in 2022. The moderate pickup in lending was attributed mainly to personal loans and to a lesser extent to the distribution, construction, transport, and agriculture sectors. Moreover, the weighted average interest rate margin between lending and deposit rates declined to 8.36% from 9.13% reflecting the reduction in lending rates from 9.6% to 8.76%. The growth in reserve contributed to a 6% increase in the liquidity in the banking system to \$2,648 million.

Headline inflation (end of period) eased from 9.1% in 2022 to 2.8% in 2023 following the fall in international crude oil prices during the year and pass-through effect of lower oil prices to domestic transport and electricity. As a result, both imported and domestic inflation diminished from 8.5% to 4.4% and from 9.9% to 2.1%, respectively. Overall, food, housing and energy, and transportation prices have relatively stabilized from their peak in 2022.

ECONOMIC OUTLOOK

The global economy is projected to sustained at similar levels in 2024 as economic growth in advanced economies is expected to soften primarily due to subdued growth in the United States as the lagged effects of earlier monetary policy tightening, gradual fiscal contraction, and labour-market easing all contributing to a slowdown in aggregate demand. Conversely, growth is projected to remain stable in EMDEs supported by stronger domestic demand.

In the Pacific region, the Australia economy is forecasted to remain subdued in 2024 due to lingering inflationary

pressures and earlier interest rate hikes weighing on aggregate demand. For New Zealand, the slow growth of 2023 is forecast to persist into 2024, as increased consumer spending from high net immigration and a modest housing-market recovery are counteracted by tight domestic monetary conditions and reduced export demand. However, growth in Australia and New Zealand is expected to pick up gradually towards end of 2025 as inflation subsides and pressures on household incomes ease.

In terms of commodity prices, the latter semester of 2023 saw a partial reversal of the price declines registered during the first half of the year. Following this, both food and energy prices are forecasted to be relatively stable in 2024.

Global headline inflation is forecast to ease further to 5.8% in 2024 on the back of favorable global supply developments and restrictive monetary policies. Regionally, inflation in Australia and New Zealand is expected to gradually ease and eventually return to their targets by 2025.

The IMF's risks assessment to this global outlook are broadly balanced. Potential growth upsides include faster disinflation, which might lead to an easing of financial conditions, loose fiscal policy causing temporary growth spikes, and an acceleration in Chinese economic recovery benefiting global growth. On the other hand, a prolonged tightening of monetary conditions and ongoing conflict in the Middle East present downside risks to the outlook, with continued attacks on key global shipping routes in the Red Sea potentially deepening supply-chain disruptions and causing new commodity price hikes.

As for the Solomon Islands economy, economic growth in 2024 is conservatively forecasted to slow down to 2.9% from a robust growth of 4% in 2023, partly boosted by the hosting of the Pacific Games, which is a one-off event. Growth is expected to be driven by an anticipated rebound in fishing and palm oil, and an expansion in mining with the expected spike in nickel production, with moderate expansion in wholesale and retail and accommodation. The ongoing support by development partners towards infrastructure projects is also expected to support growth across these sectors. The activities towards the national general election are expected to have some short-term spillover effects on employment, transportation and logistics services, however businesses are cautious to undertake investment unless a new government is formed with clear policy priorities. Thus, government contribution to the economy and business investment is expected to be minimal in the first half of the year.

The outlook for the external sector in the near term is weak, with an expected smaller surplus of \$25 million in overall Balance of Payments position whilst the country's gross foreign reserves are projected to remain at the same level as in 2023, and still sufficient to cover 12 months of imports. The smaller surplus forecasted in the balance of payments is in line with the anticipation for a substantial reduction in donor funds for infrastructure project post

Pacific Games, despite moderate rise expected in remittances and higher exports in gold, nickel, tuna, and palm oil.

The fiscal outlook is for a smaller deficit in 2024, amount-



CBSI Board of Directors with Finance Minister, Hon. Harry Kuma

ing to 4% of GDP from a provisional 7% of GDP in 2023. The outgoing government passed a \$4.2 billion budget for 2024 with the key policy priorities of strengthening economic resilience, promoting sustainable growth, and improving service delivery which includes the 2024 National General Election. A reduced deficit requires fiscal discipline and effective management of the budget. There is ambiguity in terms of the fiscal stance to be undertaken after the formation of the new government in April. Undertaking a fiscal expansionary amidst lower cash reserves requires strong compliance to raise revenue.

Monetary conditions are expected to remain positive.

Most key monetary indicators such as broad and reserve money, private sector credit and liquidity are projected to grow in line with increased economic activity and expected fiscal deficit.

Headline inflation is projected to increase from 3.3% estimated in December 2023 to reach slightly above 5% in June 2024 considering the pass-through effect of the temporary upsurge in international crude oil price in the second half of 2023 and the domestic supply factors associated with the rainy season in the first four months of the year. In line with World Bank's forecasts for international commodity price forecasts to stable in the near term, inflation is projected to moderated between 2% and 3% by year end.

Despite the positive outlook, the domestic economy remains fragile given the geopolitical tensions globally, and the country's vulnerability to natural disasters and climate change, deteriorating infrastructures that hinders businesses and service delivery, and inefficiencies in inter-island transport system which continue to deter market access for domestic producers. Moreover, a recurring fiscal deficit without donor financing may lead to a faster accumulation of debt and reaching the debt-ceiling faster than anticipated, thus limiting the fiscal space to borrow in order to support the economy during any future shocks or unexpected crisis. 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 Board of Directors, as outlined in the Central Bank of Solomon Islands Act 2012 (referred to as the “Act”), comprises a chairperson, who also serves as the Governor, the Deputy Governor, the Permanent Secretary to the Ministry of Finance and Treasury (MOF), and Six Non-Executive Directors. According to the Act, the Governor General, in consultation with the Minister for Finance and Treasury, appoints the Governor/Chairman, while the Deputy Governor is appointed solely by the Minister for Finance and Treasury. Both the Governor and Deputy Governor are appointed for a term of 6 years and may be reappointed for another term. The Minister for Finance and Treasury also appoints all Non-Executive Directors, except for the Permanent Secretary to the MOF, who holds an ex-officio position. The Non-Executive Board members serve five-year terms and may be reappointed.

The Board has a fiduciary duty to protect the interest of the Central Bank in so far as its mandate is concerned. Such a fiduciary role entails Directors to maintain objectivity and impartiality, and avoid any (potential) conflict of interest – both perceived and actual.

The Board convenes at least six times per calendar year, following a formal agenda schedule for deliberations. Directors receive timely information to facilitate comprehensive oversight of strategic, financial, and operational matters concerning the Bank. While the day-to-day operations fall within the purview of the Governor and Deputy Governor as per legal mandates, the Board retains authority to approve Bank policies, including the annual budget and work plan.

The table 2.1 below shows the Board of Directors’ appointment dates and contract end dates.

TABLE 2.1

BOARD COMPOSITION					
NO.	NAME	POSITION	DISCIPLINE	DATE OF APPOINTMENT	CONTRACT END DATE
1	Dr. Luke Forau	Governor Chairperson	Economics	1 October 2019	30 September 2025
2	Mr. Raynold Moveni	Deputy Governor Executive member	Economics	30 January 2020	29 January 2026
3	Mr. McKinnie Dentana	PSF, Ex-Officio	Economics	Ex- Officio	
4	Mr. David K C Quan	Non-Executive Director	Management/Leadership	Reappointed 1 August 2021	31 July 2026
5	Mr. Rodney Rutepitu	Non-Executive Director	Accounting	Reappointed 1 February 2023	31 January 2028
6	Mr. Bob Pollard	Non-Executive Director	Economics /Theology	8 May 2020	7 May 2025
7	Mrs. Kathleen Matautia	Non-Executive Director	Management/Pharmacy	1 October 2021	31 September 2026
8	Mr. Jeremy P. Bartlett	Non-Executive Director	Management/Finance	1 October 2021	31 September 2026
9	Mrs. Helen I. Beck	Non-Executive Director	International Financial Management/Planning	20 February 2023	19 February 2028
	Mrs. Christina Lasaqa	Non-Executive Director	Management	20 February 2018	19 February 2023 Term expired

For the year ended 31 December 2023, the Board held nine meetings and member’s attendance was as follows:

TABLE 2.2

BOARD AND BOARD COMMITTEE ATTENDANCE IN FY 2022			
NO.	NAME	POSITION	MEETINGS ATTENDED
1	Dr. Luke Forau	Governor Chairperson	9
2	Mr. Raynold Moveni	Deputy Governor Executive member	7
3	Mr. McKinnie Dentana	PSF, Ex-Officio	8
4	Mr. David K C Quan	Non-Executive Director	9
5	Mr. Rodney Rutepitu	Non-Executive Director	5
6	Mr. Bob Pollard	Non-Executive Director	8
7	Mrs. Kathleen M. Matautia	Non-Executive Director	9
8	Mr. Jeremy P. Bartlett	Non-Executive Director	8
9	Mrs. Helen I. Beck	Non-Executive Director	8
	Mrs. Christina Lasaqa	Non-Executive Director	1*

*Term expired on 19 February 2023

The Non-Executive Directors are paid a monthly fee and a sitting allowance for every meeting attended.

Secretary To Board

The Board Secretary provides secretarial services as well as logistical support to the Board. In conjunction with the Chairman, the Board Secretary ensures good and timely information flow among the Board members, the Board Committees, and Management. All members of the Board and Management have access to the Board Secretariat services.

Board Remuneration Committee

The members of the Board Remuneration Committee for the year ended 31 December 2023 were Mr. David K C Quan (Chairman), Mr. McKinnie Dentana, Mr. Bob Pollard, and Mrs. Kathleen Matautia. The Committee meets quarterly and for the year-end, the committee held two meetings. Their term of reference includes reviewing policy issues concerning the Terms and Conditions of Em-

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 & Statistics Dept., CBSI
 - Assistant Manager, Economics & 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, MoF



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



MR. 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



HELEN I. BECK
(Non-Executive Member)

- Retired/Self Employed
- Appointed 20 February 2023



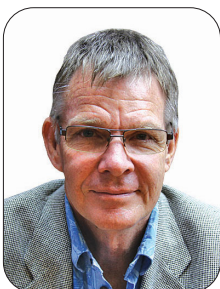
JEREMY P. BARTTLET
(Non- Executive Member)

- Appointed on 1 October 2021
 - Managing Director, Hatanga Ltd.
- Previous Position:
- SICCI Chair Technical Evaluation Committee, TCSI



KATHLEEN M. MATAUTIA
(Non-Executive Member)

- Appointed 1 October 2021
- Managing Director & Pharmacist, Our AIGA CO. Ltd T/A Le Pharmacy
- Current Member of Pharmacy & Poisons Board



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



CHRISTINA LASAQA
(Non-Executive Member) since 20 February 2018
Term expired on 19th February 2023

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



SONIA MARAHARE

- Appointed as Secretary to the Board in May 2017

ployment, and deliberating on matters as directed by the Board.

Board Head Quarter (HQ) Project Expansion Committee

The Board HQ Project Expansion Committee held two meetings during the year. The members of the Committee for the year ended were Mr. David K C Quan (Chairman), Mr. McKinnie Dentana, and Mrs Kathleen Matautia. Their terms of reference are to report to the Board regularly concerning the HQ project.

Board Audit and Risk Committee

The members of the Board Audit and Risk Committee for the year ended 31 December 2023 were Mr. Rodney Rutepitu (chairman), Mr. Jay Bartlett, and Mrs Helen Beck. On 15 September 2023, Mr. Rodney Rutepitu stepped down as chairman of the Committee due to medical reasons and Mrs Helen Beck took up the Chairperson’s role immediately thereafter. The members are all non-executive directors with experience in Accounting, Finance, and Management. Their terms of reference are to provide an oversight function on CBSI’s governance, risk management, and internal control practices.

ENTERPRISE RISK MANAGEMENT FUNCTION

Throughout 2023, the Bank’s dedicated its efforts to strengthening Enterprise Risk Management (ERM) through the development of the enterprise risk management framework. The year’s activities focused on enhancing the ERM infrastructure, engaging with stakeholders, and cultivating a risk aware culture across the organization.

Key activities performed during the year were; i) Enterprise Risk Management Framework Development (ERMF), ii) Embedding a risk aware culture, and iii) Enterprise Risk Reporting. Table 2.3, presents the detailed ERM activities performed during the year.

TABLE: 2.3			
KEY RESULT AREAS	ACTIVITIES	STAKEHOLDERS	RESULTS
1. ERMF Development	<ul style="list-style-type: none"> Designing and formulation of CBSI Risk Management Framework 	<ul style="list-style-type: none"> Staff & Management Senior Leadership Team Board Members IMF Technical Mission – Risk Management 	<ul style="list-style-type: none"> Board approved Risk Management Policy 2023.
2. Embedding Risk Aware culture	<ul style="list-style-type: none"> Risk culture survey & awareness programs; Risk Assessments, Incident Reporting 	<ul style="list-style-type: none"> Department Management & Staff 	<ul style="list-style-type: none"> i) Conducted inhouse risk awareness programs & survey ii) Risk Assessments <ul style="list-style-type: none"> Internal payments processes; Controls Management process, 35 Incident Reports
3. Enterprise Risk Reporting	<ul style="list-style-type: none"> Integrated risk reporting, Risk Management Committee (RMC) secretariate 	<ul style="list-style-type: none"> Senior Management Team; 	<ul style="list-style-type: none"> Board 6 RMC meetings

The Bank greatly benefited from the International Monetary Fund (IMF) Technical Assistance Mission to the CBSI on risk management, which took place in Honiara from August 11-12, 2023. The mission objectives were to review the progress on the implementation of the recommendations from the 2021 TA mission and to provide further guidance on business continuity management. The visit played an important role in the ERMF development leading to the Board’s approval of the Bank’s Risk Management policy in December 2023.

With the Risk Management Policy now approved, the Bank is committed to implement the policy by integrating risk management activities at all levels across the Bank. The Risk Management Unit (RMU) will play a crucial role in this process, ensuring that risk management activities are integrated effectively and that the Bank remains aligned with its commitment to enhanced risk management. The RMU will continue to work closely with internal departments to ensure the successful achievement of the enterprise-wide risk management objective.

STAFFING

At the end of 2023, the Central Bank of Solomon Islands’ staff composition was at 165, an increase from 148 at the end of 2022 due to back filling of existing vacant positions in 2022.

In terms of recruitment, sixteen (16) new staff were recruited by the Bank of which two (2) are for established positions and the rest as Temporary contracted staff. The Bank continues to encourage equal employment opportunities and currently holds a gender composition of 59% males to 41% females in 2023.

A total of staff two (2) staff has left the employment services of the Bank through retirement and none renewal of contract in 2023. Of the departing staff, one was a permanent staff while the other a Non- Established Staff (NES).

Health, Safety, and Wellbeing

The Bank continues to maintain its commitment to ensuring a safe and healthy workplace for its employees with the launch of ‘CBSI Wellness Program’ that promotes healthy lifestyle, mental health and wellness activities for all staff. The Bank also revised the Staff Instructions Terms and Condition (SITC) in its strive to retain its qualified and experienced employees and be an employer of choice.

The Staff Recognition and Awards Program continues to promote, acknowledge and celebrate staff performance and achievements in the areas of Research, Regulatory support and Operational Excellence in 2023.

STAFF TRAINING AND DEVELOPMENT

2023 was an exciting year with the full resumption of all staff training and development plans since COVID-19. This was embraced with the Bank’s continued support for staff learning and development through full-time and

part-time trainings, on-the-job trainings and work attachments, in-house trainings, seminars and mentoring programs, job rotations, study visits, and specialized short courses at both local and overseas institutions and venues.

As at the end of 2023, the number of employee enrolments into full-time and part-time studies increased from 13 in 2022 to a total of 32 employees and all pursuing higher academic qualifications in various fields relevant to the Bank. Eight (8) employees were on full-time study leave with 5 officers' study abroad while three (3) were study full-time locally. One graduated with a Master's Degree in Accounting in October with more graduations expected in the coming year. In addition, 20 employees enrolled for part-time studies at USP, SINU and other institutions abroad with 4 employees postponing their studies to a later resumption. While most of these trainings were supported by the Bank, we also want to acknowledge the additional funding support provided by the Australia and New Zealand Government through their in-country training Scholarships awarded to some of our employee's studying full-time.

Furthermore, the number of employees that participated in various specialized and technical short courses supported by the Bank increased from 48 in 2022 to 85. Most of these short courses were delivered in-person abroad beside other ongoing trainings undertaken by employees online. Most of these short course trainings and workshops 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. A series of in-house trainings, workshops were conducted by various departments with various guest speakers and internal resource persons invited to present seminars on selected topics of importance to employees, aimed to raise awareness, understanding and to broaden employee knowledge.

FACILITIES & CAPITAL PROJECTS

The Central Bank is committed to ensuring that it aligns its facilities development plans to its mandatory business and social needs. Over the years the Bank has developed and acquired facilities to enhance its expanded operations. It currently owns an office building in Honiara, vacant lands in Noro for its planned alternative office, residential buildings, and recreational facilities for its staff. The bank has also embarked on using solar energy to some of its facilities as part of improving its environmental performance in its operations. The Bank also ensures that all its properties are well secured and regularly maintained.

In its ongoing commitment to cater for its business needs, the bank has begun its new head office development project

in 2018. During the pre-covid years this new Head office project has progressed to the design development phase and the completion of project statutory requirements. The project came to a halt during the covid-19 period and has slowly picked up momentum after the covid, with the acquisition of additional building space and progressive geotechnical investigation in 2022 and 2023. Due to the slow start post-covid, the project was not able to meet its construction phase proposed start time, scheduled to begin in the fourth quarter of 2023. As part of the project requirement to decant the current CBSI office, the bank has also leased a building during the year. This has enabled some of the departments to relocate to this temporary office. The bank is currently working on its plans to relocate the rest of its staff once the project construction phase starts. The construction phase of the project is expected to commence in the fourth quarter of 2024.

NATIONAL PAYMENT SYSTEM DEPARTMENT

The significant development for 2023 was the establishment of a new department on 20th February called, National Payment System Department. The formation of the department focuses specifically on the implementation of the National Payment System.

The first half of the year saw the technical teams completed installation of Hardware and network connectivity to Participants, which comprises of the Banks and CBSI. The Software requirements was to be ISO20022 compliant hence requiring system upgrades for a successful integration of systems to the SOLATS. Participants successfully integrated to the SOLATS, addressed issues arising on tests to connectivity

Training was delivered to CBSI and SOLATS Participants on the CSD module to ensure understanding of automated processes and its relevance to that currently in place in the domestic securities market. Participants staff were engaged in June 2023, with hands on activities involved in the automate process of the auction and bidding scenarios expected in the securities market.

Despite the Country hosting the biggest Pacific Games, the Participants still engaged resources to test the SOLATS system with the support the Project team.

In 2023, CBSI began to roll out more of its public awareness programs given the past few years of limited activity being influenced by the COVID-19 situation and the active State of Public Emergency (SOPE) within the country. The year also saw CBSI finally engage in its main Annual Report launching program, directly with stakeholders and partners in April, and this was also after conducting the program on a virtual mode in those preceding years. The Annual Report is one of CBSI's flagship formal programs and CBSI, led by the Governor, was able to share the performance of the nations and economy, and also provide key take-aways to Solomon Islanders to reflect upon the nations state and encourage the need to rebuild, post-pandemic.

COMMUNICATION AND PUBLIC RELATIONS

CBSI was able to align its annual Solomon Islands Money Day (SIMD) program plans alongside other activities and trade events in 2023, and this was mainly to allow the bank to gradually re-engage with the wider public, hence throughout the year, the primary interactions between CBSI and the general public occurred through established communication channels, with a focus on mainstream media such as local newspapers (Solomon Star and Island Sun) and over the radio, mainly on the Solomon Islands Broadcasting Corporation (SIBC).

Formal publications, press releases, and advertisements were the other primary tools used for communicating CBSI information to the wider public. The weekly radio program “Money Matters,” produced in-house by CBSI, maintained its regular weekly schedule and served as the key platform for information dissemination. Airing on Sunday evenings and Monday mornings via the SIBC and Wantok FM, the target audience from this platform was wider rural populace that had access to radio. This, alongside online channels, played a crucial role in distributing important updates, announcements, and specialized topics provided by various CBSI departments/units as scheduled and when called upon. In terms of public feedback, again the usual process involved the use of phone calls and emails, with many of the major inquiries forwarded directly to the relevant departments and units for immediate response(s).

Major events of the Bank apart from the formal flagship programs that CBSI participated in included the 2023 Pacific Games new \$10 Commemorative banknote launch and dissemination, and the Pacific Central Bank Governors Meeting held in November. Outside programs included participating in the Guadalcanal Mini-Trade show and the Solomon Islands National Institute of Sports (SINIS) awareness expo for athletes and school children. CBSI also used the Provincial Consultations on the CBSI 2012 Act legislation review process to also engage in general awareness talks with various schools and communities in the provinces. In Temotu and Makira Province, CBSI was able to present financial literacy awareness talks and also made small donations to Lata School and St. Joseph Pamua School respectively. These schools were visit-

ed by the Governor himself and CBSI staff.

CBSI also improved on its media relations by participating with the Media Association of Solomon Islands (MASI) and BBC Media Watch to conduct a media workshop on economic and business reporting. The event was successful given the participation of experienced and senior reporters and journalists going over CBSI information to understand the news angles to cover in order to cater for the wider public interest and impact.

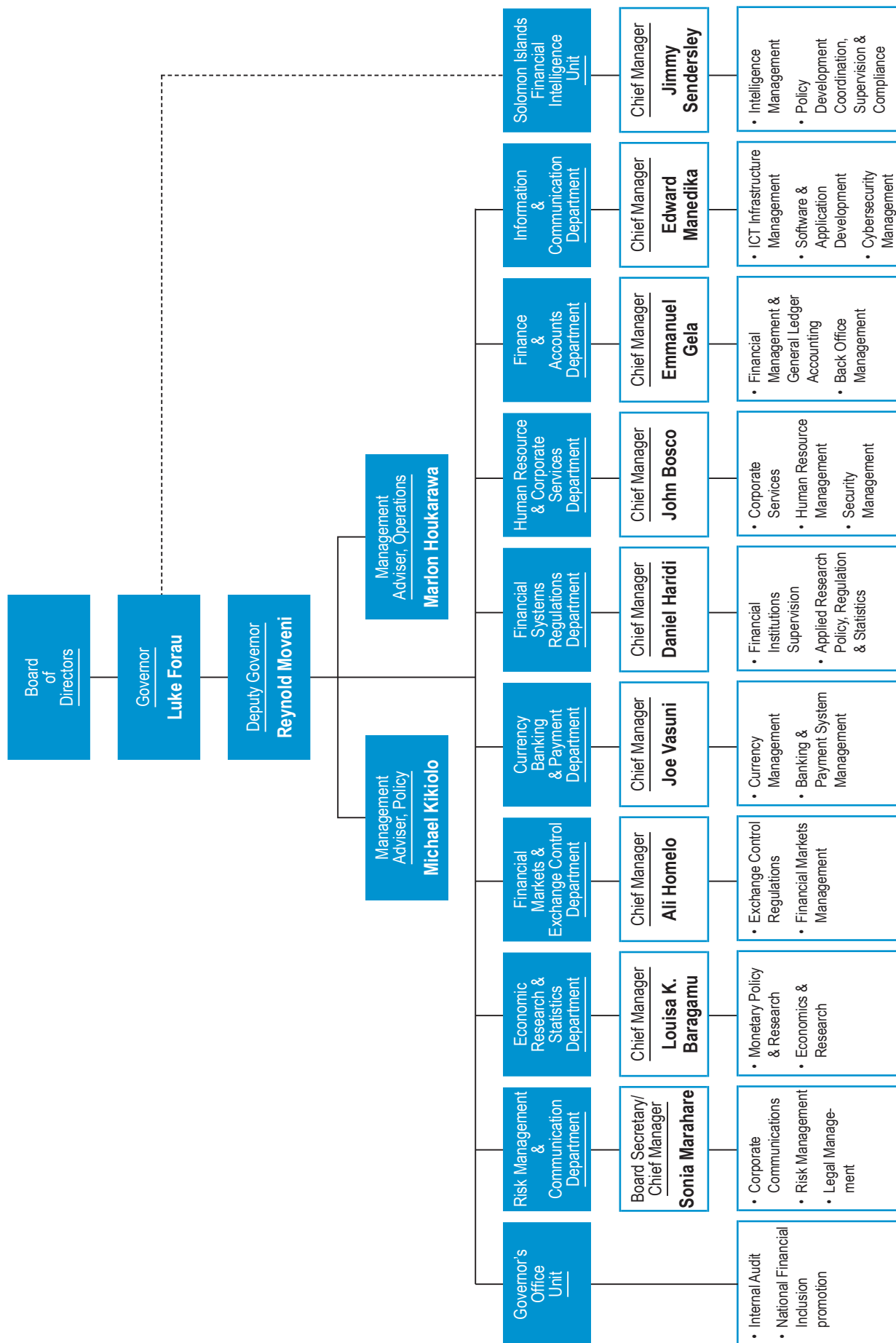
Finally, as part of its corporate social responsibility CBSI had responded to selected schools (named) throughout Solomon Islands (named) to support their need for computer resources. CBSI was able to donate refurbished IT equipment as part of its asset disposal policy, and these items included desktops, computer screens, and laptops to several schools. All items had a limited warranty after testing, and were fit for use.

2023 MAJOR ACTIVITIES			
CHANNEL	TOOLS	QTY	COMMENTS
Print Media	<ul style="list-style-type: none"> Newspaper articles Formal Press Releases Notices/Adverts 	<ul style="list-style-type: none"> # Press Releases # feature articles On-going adverts/notices 	Routine releases, and /including re-searched papers
Broadcast	<ul style="list-style-type: none"> SIBC – Money Matters Online video 	<ul style="list-style-type: none"> 14 productions/ 28 broadcasts 	Radio production and video production work were done in-conjunction with other stakeholder and partners.
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 	CBSI employed these platforms as key to providing information to staff and managers and its external audience.
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 are included below: Annual Report Launch (first live program after COVID-19) \$10 Commemorative Banknote Launch for PG2023 Credit Union Symposium Pacific Central Bank Governors Forum Meeting in Honiara The school donation by the CBSI Governor during provincial visits.



CBSI Staff with AHC Sally-Anne participating in the CBSI female engagement program

CBSI ORGANISATION STRUCTURE 2023



CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2023

GOVERNORS OFFICE



DR LUKE FORAU
Governor



RAYNOLD MOVENI
Deputy Governor



MARLON HOUKARAWA
Management Advisor Operations



MICHAEL KIKIOLO
Management Advisor Policy

ECONOMIC RESEARCH & STATISTICS DEPARTMENT



LOUISA K BARAGAMU
Chief Manager



JOHN R. ROHI
Manager/ Economics & Statistics

FINANCIAL SYSTEMS REGULATION DEPARTMENT



SAMUEL WARUNIMA
Chief Manager



DENSON DENNI
Manager/ Applied Research, Policy & Regulation

FINANCIAL MARKET & EXCHANGE CONTROL DEPARTMENT



ALI HOMELO
Chief Manager



RONSLY PANA
Manager/ Exchange Control



CHARLIE SIVU
Manager/ Financial Markets

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT



JOHN BOSCO
Chief Manager



MICHAEL EREKALI
Manager/Corporate Services

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 2023

FINANCE & ACCOUNTS DEPARTMENT



EMMANUEL GELA
Chief Manager



SIMON RAMOIFAI
Manager

INFORMATION & COMMUNICATION TECHNOLOGY DEPARTMENT



EDWARD MANEDIKA
Chief Manager



BADLEY TEDDY
Manager

NATIONAL PAYMENTS SYSTEM DEPARTMENT



DANIEL HARIDI
Chief Manager

NATIONAL FINANCIAL INCLUSION UNIT



LINDA FOLIA
Manager

INTERNAL AUDIT UNIT



OLIVER KAROA
Manager

RISK MANAGEMENT & CORPORATE COMMUNICATIONS



SONIA MARAHARE
Chief Manager



URIEL MATANANI
Manager/ Corporate
Communications



ANTHONY MAKABO
Manager/ Legal



CHARLEY KUPER
Manager/ Risk Management

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT



JIMMY SENDERSLEY
Director



TOM HA'AUTE
Manager/PDCSC



JIMMY VAJA
Manager/IMD

CHAPTER 3: MONETARY POLICY DEVELOPMENTS

MONETARY POLICY FORMULATION

The Bank's primary objective is the achievement and maintenance of price stability in the economy. To that end, the Bank's Monetary Policy Committee (MPC), chaired by the Governor, was set up as the organ tasked with formulating the monetary policy direction for the Bank on a semestral basis, based on a careful assessment of the economic conditions, its fundamentals as well as the macroeconomic outlook. The Committee's recommendations are then presented to the CBSI Board for endorsement, thus becoming the Bank's official monetary policy stance. The Bank reviews its monetary policy stance bi-annually, in March and September, in light of domestic and global developments as well as inflation expectations in the near and medium term.

The MPC was convened for a total of five times during the course of 2023. Two of these meetings were called for members to deliberate on the Bank's monetary policy stance for the March and September semesters, respectively, following updates on recent macroeconomic developments and the outlook for the domestic and global economy. In addition, three special meetings were also held in 2023. The first was called in June 2023 purposely for Committee members to review as well as provide insights on the preliminary findings of a research paper aiming to assess the channels of transmission of monetary policy in Solomon Islands. A second special MPC meeting was convened in November 2023, with members briefed on the new suite of econometric models developed as part of the Forecasting and Policy Analysis System (FPAS) Technical Assistance (TA) mission by the International Monetary Fund (IMF) and used by the Economics, Research and Statistics Department (ERSD) for the purposes of monetary policy analysis. The final special MPC meeting of the year was called in December 2023 for MPC members to deliberate on, and endorse, a Memorandum of Understanding (MOU) between the Bank and the Ministry of Finance and Treasury (MoFT) in relation to the Intra-Day Facility (IDF) and the 90-day Temporary Advance Facility (TAF).

Following the March 2023 MPC meeting, the CBSI Board resolved to adopt a tighter monetary policy stance. This was in light of mounting inflationary pressures arising from a surge in global fuel and food prices in the latter half of 2022, as well as heightened global uncertainty amid ongoing geopolitical tension. In September 2023, the Bank further committed to maintaining a tight monetary policy stance, due to expectations for inflation to remain elevated due to a combination of both domestic demand and supply factors, as well as lingering global risks. These policy positions collectively aimed to ensure that inflation stabilised within the desired range, while also supporting the country's economic growth.

MONETARY POLICY IMPLEMENTATION

In light of the higher inflation seen in the latter half of



USTDA Consultants

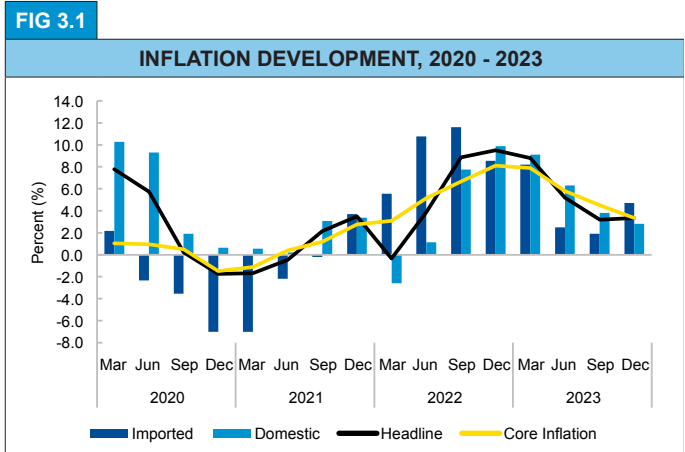
2022 and expectations for it to remain elevated in the first half of 2023, the Bank resolved to tighten the monetary policy stance in March 2023 by raising the cash reserve ratio (CRR) from 5% to 6%, while keeping the Bokolo Bills (short-term instruments issued to commercial banks) capped at \$430 million. In the latter half of 2023, the Bank maintained its tight monetary policy stance by holding the CRR at 6% and keeping the stock of Bokolo Bills cap at \$430 million to ensure inflation actually eased. Moreover, the Bank continued its prudent management of the exchange rate in order to facilitate trade and investment and cushion any adverse external shocks.

MONETARY POLICY OUTCOMES

High levels of excess liquidity in the banking sector remained a challenge for the Bank in 2023, a phenomenon attributable to factors including a high incidence of non-performing loans, non-bankable projects, and a high perceived risk involved in lending to individuals, among other impediments limiting bank lending. Additionally, an extension of the Bank's claims to the Government by way of an increased holding of Government securities, the provision of overdraft facilities to accommodate fiscal needs and higher donor inflows to support Government infrastructure projects all resulted in growth in key monetary aggregates in 2023, in spite of the tight monetary policy stance adopted by the Bank. Consequently, narrow money (M1), a key measure of the money supply within the economy, grew by 8% to \$5,143 million at the end of 2023, mirroring increases in both currency in circulations and demand deposits. Similarly, private sector credit rose by 5% year-on-year to \$2,763 million, reflecting a pick-up in lending activities facilitated by overall economic growth. Moreover, banks' free liquidity expanded by 5% to \$2,629 million. Meanwhile, the weighted interest rate for the Bokolo Bills rose to 0.24% in 2023 from 0.12% the previous year. Similarly, the weighted average yield for the Government's Treasury Bills increased from 0.98% to 1.69% and from 1.84% to 2.08% for the 182-day and 365-day Bills, respectively. The interest rate margin for other deposit-taking corporations, however, narrowed from

9.13% at the end of December 2022 to 8.36% in December 2023, driven by a decline in lending rates during the year.

Meanwhile, inflation conditions improved significantly throughout 2023, in spite of a slight upturn witnessed in the final quarter of the year. In particular, headline inflation decelerated from 9.5% in December 2022 to 2.8% at the end of November 2023, an outcome driven by a fall in both domestic and imported inflation. The reduction in the former, which eased to 2.1% in November 2023 from 9.9% at the end of the prior year, is reflective of lower energy and transport prices, revealing some degree of pass-through from decline in global fuel prices, and an improvement in supply-side conditions in the domestic economy. The latter, meanwhile, dropped from 8.6% at the end of 2022 to 0.8% in August, driven by the slowdown in energy prices, before picking up to 4.3% in November. The recent rise is attributable to historically high rice prices and a temporary spike in the global oil price following the outbreak of the Israel-Hamas conflict in October 2023. Finally, core inflation (which excludes items subject to price control, excise taxes and volatile items) declined to 3.3% in No-



Source: SINSO

vember 2023 from 8.1% in December 2022. Despite this reduction, however, core inflation remains elevated due to downward price rigidities in domestic price-setting, as well as a rebound in consumer spending buoyed by the pick-up in economic activity.

CHAPTER 4: CENTRAL BANKING OPERATIONS

ECONOMICS, RESEARCH AND STATISTICS

The Economics, Research and Statistics Department (ERSD) continued performing its functions by providing valuable macroeconomic analysis and forecasting, formulating monetary policy, research, compilation and dissemination of economic statistics, information, and reports to stakeholders during the year. The department 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). These reports were published on the CBSI's website and can be accessed by stakeholders. ERSD continued to source and compile statistics on the domestic activities, monetary and banking, external, and government finance sectors in a timely manner and in accordance with the International Monetary Fund (IMF) compilation standards. The statistics produced during the year were disseminated on the Bank's website and directly to the IMF and other relevant stakeholders. Throughout the year, the department's staff continued to demonstrate dedication, diligence and team effort in performing the key functions of the department and strive towards achieving the mandates of the Bank.

A number of research initiatives were conducted in 2023, in line with the Bank's strategic objective of enhancing capacity for research and analysis. As part of the ongoing research collaboration with Griffith University of Australia, researchers in the Department undertook two research projects, - one aiming to empirically evaluate the channels of transmission of Monetary Policy in Solomon Islands, and the other assessing the historical structure of fiscal-policy cyclicalities in the country. The latter paper marks the first joint research collaboration between CBSI and Solomon Islands Ministry of Finance. Both papers were presented at the 3rd Pacific Research Conference and Leaders' Forum in Palau in June 2023. CBSI was also a successful recipient of the DFAT Fellowship for Policymakers, in which 13 Fellows from CBSI and the Reserve Bank of Fiji participated in a three-week training programme centered on the theme of "Financing Pacific Futures: Finance in a Digital Economy", in partnership with Griffith University. Besides these events, the Griffith University continued to provide a series of virtual research workshops, trainings, seminars and forums geared towards capacity building of Bank staff in 2023.

The Department's Research Unit further conducted a total of five econometrics-related refresher trainings to ERSD staff, focusing on topics pertaining to the ongoing IMF Technical Assistance mission on the Forecasting and Policy Analysis System (FPAS). Furthermore, as part the Department's continued outreach and awareness campaigns to the general public, the Research Unit delivered a workshop on Economics and Finance Reporting at an event organised by BBC Media Action for journalists in March 2023, as well as a guest lecture on Central Banking in Solomon Islands to students on the Public Finance and

Economics course at the Solomon Islands National University (SINU).

ERSD continued to benefit from the previous and ongoing Technical Assistance (TA) from the IMF and other partners. In 2023, the department received one (1) TA missions from the IMF which was held in person in September under the FPAS project. This five-year project is aimed at developing a Quarterly Projection Model (QPM) for the Bank for the purpose of enhancing monetary policy analysis and decision-making. Moreover, ERSD officers also benefited from the capacity development trainings offered by IMF through its Singapore Training Institute and the Pacific Financial Technical Assistance Centre (PFTAC) in Fiji. The key training areas include macroeconomic statistics and analysis, economic modelling and forecasting and policy analysis. These trainings were in line with the Department's development plans and strategic objective of building the Bank's research capacity and economic modelling to enhance policy formulation and decision. Furthermore, the PFTAC in collaboration with the Central Bank, hosted a two-days in-country workshop as part of improving economic statistics for macroeconomic and fiscal policy analysis as well as strengthening stakeholder relations with data providers.

INTERNATIONAL OPERATIONS

The Financial Markets and Exchange Control Department (FMECD) of the Central Bank of Solomon Islands (CBSI) performs an integral part of the CBSI Act 2012 and is responsible for the International and foreign exchange Operations. Its core functions involved the following: (i) the management of the country's official external reserves. (ii) Foreign reserves investment policy; (iii) the administration of Exchange Control Act and foreign exchange control policy and regulations; (iv) the management and administration of the exchange rate regime and exchange rate policy; (v) the administration of international payments systems (SWIFT OFFICE) and the management of foreign accounts and international settlements and (vi) managing corresponding banking relations with CBSI.

During 2023, The department continued to uphold and discharged its mandatory operational role in accordance to the conventional standards and international best practices. The work on upgrading SWIFT payment system transitioning into adopting ISO20022 (MX or FinPlus) as new SWIFT payment system message types from MT or Fin is in progress. The due date for the first phase of MX message ISO20022 is November 2024. CBSI has been in close collaboration with SWIFT to ensure smooth transition into live roll out of MX messages in November 2024 and December 2025 (final phase of the rollout). During 2023 CBSI upgraded and enhance its Payment transactions checks and compliance with SWIFT by subscribing to SWIFT Payment Control System service- this is to assist in ensuring delegated internal rules put in place within our swift payment system. In Addition, during the year

CBSI also subscribed to Transaction Screening Service of SWIFT. This will be implemented in 2024.

Foreign Reserve Management

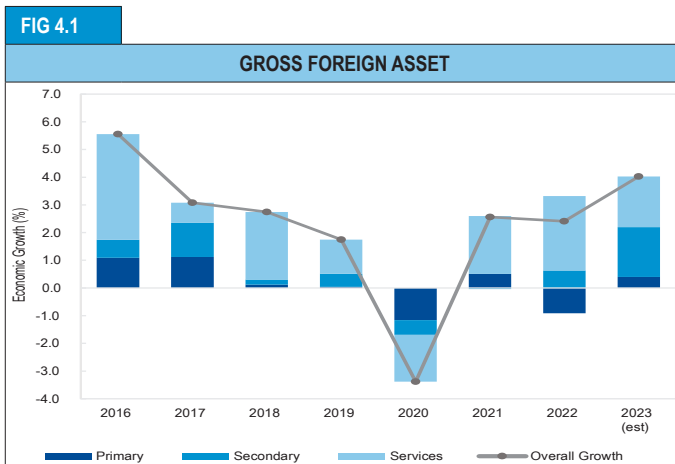
The management of the international reserves is based on CBSI Board approved Reserve Management Policy. The policy promotes sound governance and risk management framework which comprises of the Board as policy decisions makers, Investment Committee (IC) which deliberate on strategic and tactical decisions, Middle office which oversees investment rules management operations and financial risks management. The Financial Market (FM) and investment team as the technical team and implementers of the Reserves Management policy framework.

As specified in section 17 of the CBSI Act 2012 and in line with best practice, the three key principle objectives of the reserve management in the order of priority are, 1.) Safety (capital preservation), 2.) ensuring adequate liquidity for external obligations and 3.) optimizing returns. The foreign reserves are managed and maintained in accordance to the CBSI Reserves Management Policy (RMP) and approved investment rules of 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.

In terms of currency composition of foreign reserves, weighted according to the Solomon Dollar (SBD) basket index, USD and AUD continue to be the most dominant currencies in reserve portfolios followed by NZD, GBP and JPY. A review of the currency weights will be conducted by CBSI and IMF technical team in March 2024. CBSI also holds IMF special drawings rights as supplement to the official reserves and IMF standby Credit facility as compliment to short term balance of payment needs. A minimal amount of EUR, SGD and Chinese Renminbi (CNY) is maintained for investments and to support national government’s external obligations.

Foreign Reserves Position

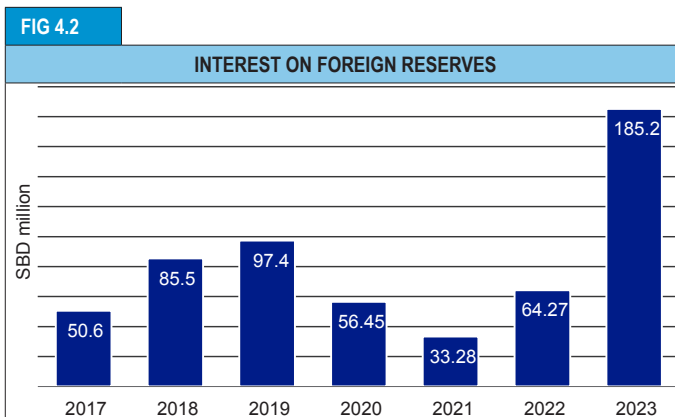
The Gross Foreign Reserves (GFR) increased to a record high in 2023 from \$5.632 billion (USD 681.23 million) in 2022 to \$5.935 billion, equivalent of USD\$702.11 million. This is a 5.4% growth from the previous year. The increase was supported mainly from inflows for SIG budgetary support from donor partners including grants, receipt from SIG fishing licenses and CBSI investment income receipts. On the other hand, outflows during the year also widens stemming from high commercial bank FX trading payment demand, external debt Settlements, CBSI expenses and SIG payment obligations. The rise in commercial banks FX deals with CBSI indicated strong spending demand by private sectors and positive economic activity in 2023. As at end of Dec 2023, official foreign reserve level remains adequate at levels above 11 months of import cover. This is above the conventional import cover threshold level of 6 months.



Source: CBSI

Return on Investments of foreign reserves

With tactical changes to the investment approaches adopted by the bank and favorable market rates above four (4%) percent in 2023, interest income on foreign reserves investments recorded a dramatic increase by 188.8%, growth of \$121.2 million from \$64 million recorded in 2022 to \$185.2 million. This significant increase was attributed to both favorable market rates above an average 4% and tactical investment approaches and decisions undertaken on investments with calculated risks in 2023. With positive market environment and interest rate hikes persist during the year, yields on financial market instruments CBSI contracted from its counterparties such as term deposits, fixed income, treasury notes, NCDs and bonds for long term also resulted in a positive outcome with high return on investments. The rise in interest income is represented in an annualized rate of return on investable foreign reserves assets by 4%, higher than the annualized return of 1.17% recorded in 2022.



Source: CBSI

Gold Investment Policy

In line with best practice and CBSI Gold Investment policy, gold forms part of the reserves as a strategic asset to maintain stability, diversify reserves and enhance monetary autonomy and for investments and gold trading. The framework also specifies that gold holdings should not be more than 10% of the total foreign reserves. As gold has

a strong negative correlation to the US dollar making it a good hedge against US dollar assets. In 2023, CBSI actively trades in unallocated gold (paper gold) amidst economic uncertainties for income optimization. A total of 30,900 ounces of unallocated gold bought at varying prices from USD \$1,600- \$2,040 and all purchases were sold before end of 2023 at higher prices. With gold price hovers above \$2000/oz level for quite a period of time, this allows gold purchased below USD1,700 prices traded at good margin, leading to gold trading income target recorded \$10.4 million, a record achievement surpassing the 2023 target.

Exchange rate regime

As the custodian of the country's external reserves, the CBSI is also responsible for the management of the exchange rate regime and policy. CBSI adopts the fixed or pegged exchange rate regime with Solomon Islands Dollar (SBD) pegged to an invoice-based weighted basket of currencies consisting of the US dollar (USD), Australian dollar (AUD), the New Zealand dollar (NZD), the Japanese Yen and the British pound (STG). The value of the SBD is determined on a daily basis with reference to the movement of the currencies in the basket. The USD and AUD accounts for 90 percent of the total weights with USD weight of 58 percent and AUD 32 percent. The remaining 10 percent is distributed amongst the NZD (5 percent), YEN (3 percent) and STG (2 percent).

In 2023, the Exchange Rate Regime (ERR) remained effective and mitigate volatility in the exchange.

However, the weights of the currency basket will be reviewed in 2024 as it remains unchanged and maintained over the last few years. A review on the currency weights by IMF technical team with CBSI will be conducted in March 2024. This will ensure that the currency composition and weights of the basket appropriately reflect the country's trade structure.

CBSI continues to regulate daily exchange spread for Interbank and FX trading on both the USD and AUD and liberalize exchange rate on other bilateral trading currencies for the Commercial Banks to determine.

The SBD index appreciated to reaching 118.0 points mid-year and gradually depreciated till reaching 113.0 points at the end of 2023. This reflects market volatilities remain strong drawing from notable risks and negative senti-

ments in the market in the medium term.

MIDDLE OFFICE OPERATIONS

The middle office is one of the key operational units that sits between the front and back office within the Financial markets and exchange control department. It performs key reserve management function that include foreign reserves management oversight, compliance monitoring and investment performance measurement.

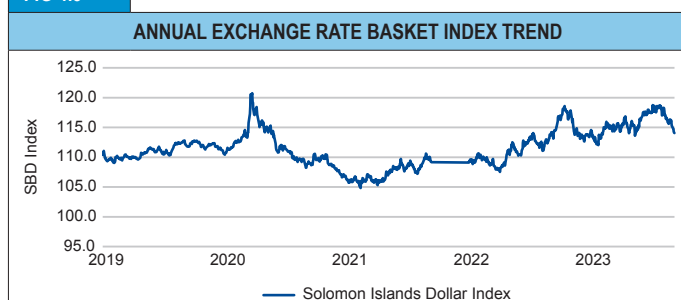
With the on-boarding of the senior middle office analyst in February 2023, the middle office operation effectively implemented most of its oversight functions covering foreign reserve management risks, policy and investment rule compliance and internal controls, daily monitoring and investment performance analysis and measurement.

Middle officer reports on the exposure of foreign reserves, internal controls and compliance and performance analysis and measurement of investments with respect to dynamic changes in the market brought about by high inflation, high interest rates, contagion risks and mix market reactions and sentiments.

During the year, with high prevalence of downside risks the middle office highlighted the need for the investment committee to ensure the investment risks are mitigated within the manageable risk appetite levels in 2023. While most of the risks are rated insignificant to low, exchange rate risks or currency exposure risk remains a challenge as it is externally driven. During 2023 efforts have been pursued through effective exchange rate management intervention and strategic asset allocation to control extensive revaluation losses. The favorable volatility in the Basket index has also attributed to the positive revaluation position in 2023.

In terms of the overall investment performance in 2023 – there was a significant improvement in terms of investment returns compared to the previous year record owing to favourable market conditions and tactical investment approaches applied by Investment Team. The middle office has highlighted additional tactical and technical areas in its monthly and quarterly reports to the Investment Committee during the year in relation to investment rules and risk framework exposures. Whilst actions were taken to address and progressively implemented a few, others remain a challenge owing to technical gaps and staffing capacity and time constraints within the financial market unit. The core investment rules and the performance measurement matrix within the RMP is the key technical issue the Middle office is anticipating to review progressively in the years ahead starting 2024. Eventual implementation of the progressive tasks on these technical issues will be jointly undertaken by investment team and middle office. The Middle office highly recommends continuous engagements with reputable experts, counterparty colleagues and specialized training as the way forward to improve technical capacity and enhanced strategic and tactical foreign reserve management decisions going forward.

FIG 4.3



Source: CBSI

Back Office:

The Back Office and CBSI SWIFT Payment System

The Back-office (BO) unit or foreign account settlement and payments unit performs an integral part of CBSI international financial markets operations particularly on SWIFT international Settlements of transactions with our counterparties, clients' and the administration of SWIFT payment systems. Its core functions involves accounting and Bank reconciliations of foreign currency accounts, settlement and payment of all CBSI and CBSI client's offshore payments, Investments and foreign reserves allocations and settlement of SIG payments. The Back Office also facilitates Foreign Donors funds to the Solomon Islands Government Accounts channelled through CBSI. In line with CBSI standards and best practice, the unit was also obligated to provide quarterly reports on FX transactions (both inflows and outflows) to the CBSI management and donor partners. The BO team continues to adhere to the accounting standards (IAS and IFRS) on all foreign accounts and investment assets accounting and promptly settle investment instruments contracted by the Front Office.

As a global financial messaging network that enable CBSI to interact electronically with both the financial institutions locally and internationally via SWIFT System. A renowned secure and accurate messaging system that supports CBSI operation during the year. With SWIFT transitioning into fully adopting ISO20022 (MX) as a new type of payment mode, phasing out MT messages in November 2024 and fully rolling out of the new SWIFT payment format (MX) commencing November 2025, CBSI is ready to accommodate such changes going forward.

TABLE 4.1

NUMBER OF SWIFT MESSAGES SENT AND RECEIVED										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Outgoing messages (Sent)	1039	1314	1301	1272	1853	1928	1718	1209	1220	1090
Incoming Messages (Received)	2279	3562	3804	3178	3690	3816	3125	3492	3578	4551

Source: CBSI

In 2023, a total of 1090 SWIFT standard messages were sent through SWIFT system compared to 1220 messages facilitated in 2022, as shown in the table above, this reflects drop in outgoing messages by 130 messages. However, by contrast, incoming messages increased dramatically by 973 messages [4551-3578] compared to incoming messages recorded in 2022. This reflects increased engagements with our counterparties and the volume of the types of messages that are accepted and transacted through our correspondent banks increases.

In terms of receipts and payments facilitated through SWIFT during the year, total inflows amount to \$152 million, an upsurge by \$94 million from 58million recorded in 2022. This increase was attributed to favourable market environment triggering better investment return. Similar-

ly, total outflows amount to \$91 million compared to \$18 million recorded in the previous year. Rising payments was attributed to IMF- Rapid Financing Instrument (RFI) repayment facilitated during the year. The table shows correlation between the payments and receipts, as investments initiative undertaken by CBSI rises, costs associated with investment activities and operational costs also increases.

TABLE 4.2

CBSI RECEIPTS & PAYMENTS (SBD M)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CBSI Receipts (SBD Million)	581	2329	1229	780	780	627	627	279	58	152
CBSI Payments (SBD Million)	204	296	120	120	74	428	478	15	18	91

Source: CBSI

Exchange Control Administration

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

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

Applications for Temporary Resident (TR) Status

In 2023, CBSI approved 353 TR status permits, of which, 239 were new applicants and 114 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 2015-2023									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Newly Approved Temporary Resident applications	125	149	248	302	289	156	133	275	239
TR Applications Renewals	85	53	16	144	112	48	60	81	114
Total TR Approved	210	202	264	446	401	204	193	356	353

Source: CBSI

Non-resident (NR) Accounts

In 2023, CBSI approved two (2) non-resident account, of which all are non-resident individuals. Individuals and corporate entities residing outside Solomon Islands who wish to open and hold bank accounts with a resident 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 are permissible however sources of funds must be properly declared and approved by relevant authorities (CBSI and Commercial Banks).

Foreign Currency Account (FCA) Facility

In 2023, CBSI approved Twenty-Four (24) new FCA applications and renewed terms of Eighteen (18) FCA accounts. The majority of these FCA accounts were denominated in US Dollar, AUD, NZD and other currencies comprised of the remaining. There was an increase in the reported foreign exchange total allowable holdings from \$706 million in 2022 to \$1,121 million at the end of 2023 (See Table 4.4). The increase in the value of FCA was driven mainly by active renewal of the terms of FCA upon expiry date by account holders and more so the facilitation and approval of new FCA applications. During 2023 Most account holders complied by providing monthly Reports and data on time. To date there are 49 active foreign currency account holders approved by CBSI of which 43 FCA are held with local banks while 6 FCA are held with banks outside the Country.

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

TABLE 4.4

NUMBER OF APPROVED FCA HELD BY EXPORTERS AND NON-EXPORTERS 2015-2023									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Account holders/ Entities	44	50	27	30	36	45	53	24	39
Qualified Exporters	12	13	5	5	6	2	5	7	11
Non –Exporters	32	37	22	25	30	43	48	17	28
Total number of accounts held	72	78	35	38	56	65	74	34	49
On-shore	65	71	32	35	51	57	64	28	43
Off-shore	6	7	3	3	5	8	10	6	6
Total value: (SBD million)	1,132	434	468	750	1,291	1,465	1,536	706	1,121

Note: Some account holders hold more than one FC account

Source: CBSI

Foreign exchange (FX) Restricted Classified Dealers

There are 14 restricted classified FX license holders appointed by CBSI to date. In 2023, Two (2) new restricted classified foreign exchange dealer's license issued, and Seven (7) existing license holders were renewed during the year (See Table 4.5). Of the Fourteen (14) approved FX Dealers licensed holders 9 were issued to eligible local companies to operate as authorised foreign exchange (FX) money changer services dealers and 5 FX Dealers licenses as authorised money transfer services providers in the country. The money transfers services licenses were issued to companies operating under approved and global and regional FX money transfer services platforms namely Western Union money transfers services and Money-Gram money transfers services). A new money transfer service license was issued to POB in 2023 as a super-agent of RIA Money Transfer Service system platform. This is the fourth Money Transfer service provider in the country. The current appointed FX dealers MTS providers are Western Union- FEXCO Ltd & BSP; Money Gram-BSP; Money Gram - SI Postal Corp; RIA- POB. Another MTS service provider applicant was recommended to be tested under the Regulatory Sandbox framework during 2023. This foreign exchange dealers' licence is renewable annually with standard annual license Fees. CBSI closely monitors all restricted classified money changers and money transfers transactions and license holders are obligated to submit weekly transaction report to CBSI.

The Bank continues to support and promote development of the financial services sector in the country through the licensing and monitoring of foreign exchange market dealers in the country.

TABLE 4.5

NUMBER OF APPROVED FOREIGN EXCHANGE MONEY TRANSFER AND MONEY CHANGER LICENSES									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Money Transfer services	4	4	3	3	3	3	3	3	5
Money Changer Services	11	9	10	10	10	11	10	6	9
Total FX Classified Dealers	15	13	13	13	13	14	13	9	14

Source: CBSI

Private Sector Debt (Private Sector Offshore Borrowing)

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

During the year, CBSI approved eleven (11) external loan applications from private companies and corporations (See Table 4.6) for the purpose of financing business expansions and other investment projects in the country.

The total foreign currency exposure of these authorized external loans is equivalent to USD18.6 million (SBD154.2 million).

TABLE 4.6

NUMBER OF PRIVATE SECTOR OVERSEAS BORROWING APPROVED									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Applications received & approved	10	11	20	7	16	13	9	11	14
Value in SBD million	217	133	1,681	291	106	456	35	154	415

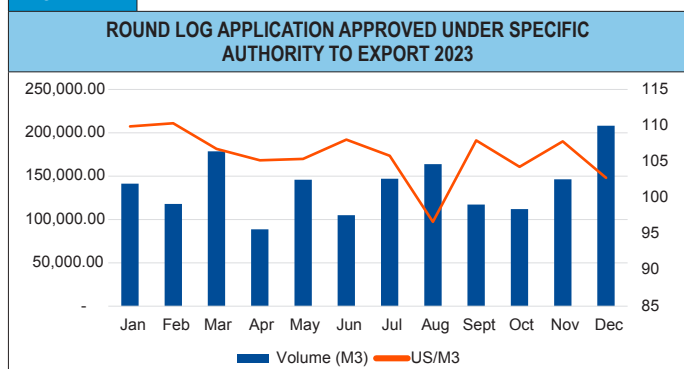
Source: CBSI

Exports Administration

The primary objective of export administration is to ensure that the country fully benefits from the proceeds or foreign exchange earnings of the exported goods and services. The Exchange Control (EC) Regulation requires that exported goods and services should receive a fair and reasonable world market price for its commodities. It also requires that foreign export receipts must be remitted back fully within 3 months from the date of export. The EC regulation requires that foreign exchange exports proceeds must be sold to a commercial bank in the Solomon Islands. These FX funds forms part of the country’s foreign reserves earnings level in the country. CBSI administers controls on commodity 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, Bechedemer and Minerals exports and General Authority to Exports covers all other commodities not listed under SA. The exporting of minerals came under the Specific Authority administration in Q4-2022.

In 2023, CBSI issued and approved 496 Specific Authority applications to export round logs to exporters. This was an increase of 10.28% from the previous year. The estimated volume also increased by 5.38% to 1.673 million cubic metres with an approximated value of \$1,504 million or \$1.5 billion (See Fig 4.4). There was a drop in log price in Aug 2023, driven mainly by the movement in the global market prices.

FIG 4.4



Source: CBSI

TABLE 4.7

NUMBER AND VALUE OF LOG APPLICATIONS FOR SPECIFIC AUTHORITY TO EXPORT, 2023									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Applications approved (numbers)	819	829	997	924	922	842	618	445	496
Total Value of Exports-SA Approved SB\$ million	2,536	2,368	2,995	2,997	2,526	1,999	1,742	1,306	1,504
Volume of Exports-SA Approved (million m3)	2.679	2.612	3.156	2.822	2.717	2.379	2.068	1,583	1.673

Source: CBSI

In 2023, there was no approval for Specific Authority to export Bechedemer. This was following a ban on harvesting and exporting of this valuable sea resources enforced by the Ministry of Fisheries and Marine Resources (MFMR), SIG; effective as of 1st September 2022 (see Table 4.8). The ban had been a conservation measure to protect the resources from deflection and over harvesting.

TABLE 4.8

NUMBER AND VALUE OF BECHE-DE-MER APPLICATIONS FOR SPECIFIC AUTHORITY TO EXPORT, 2022							
	2017	2018	2019	2020	2021	2022	2023
Total applications approved	16	13	40	NIL	15	36	0
Total value of exports (SBD Million)	13,127	5,363	16,238	NIL	13,059	19,839	0
Total Volume (Kg)	219,343	92,522	223,559	NIL	173,805	252,074	0

Source: CBSI

A total of 94 Specific Authority to Export Mineral application was received, assessed and approved, of which 2.1% are Nickel Lateritic Ore, 19.1% are Gold Concentrate, 51.1% are Gold Bars/Dore and 27.7% are gold dusts with the total average exports value (prior to final refinery assay Report) of \$1,098 million (\$1.098 billion). (See Table 4.9). The amount includes Nickel Lateritic Ores \$36.0million, Gold Concentrate \$314.7 million, Gold Bars/Dore \$701.7million and Gold Dust \$46.6 million respectively.

A total of 4 098 110.grams of Gold was exported during the year of which 96% are Gold Bars/Dore and 4% Gold Dust. A total of 140,323 Weighted MT of Nickel Lateritic Ore (3%) and Gold Concentrate 97% were exported in 2023 as well.

Imports Payment Administration: Applications above required CBSI limits.

As part of its Exchange Control Policy requirements and in relation to our foreign reserve management, CBSI monitors most major overseas payment transactions or capital flows. All applications for travel, personal transfers and sustenance above \$100,000 requires approval by the Bank. Furthermore, trade and services payments exceeding \$250,000 must be referred to CBSI for approval before the commercial banks can settle payments. For settlements of

TABLE 4.9

NUMBER AND VALUE OF MINERAL APPLICATIONS FOR SPECIFIC AUTHORITY TO EXPORT IN 2023									
TYPE OF MINERAL	NO. OF APPLICATIONS	DESCRIPTION	NO. OF ITEMS	GROSS WEIGHT			GROSS VALUE F/C		GROSS VALUE
				GRAMS	MT	OUNCE	CODE	VALUE (USD)	
Nickel Lateritic Ores	2	Nickle Lateritic Ores Comprise of Nickel, Iron, Silica with Moisture	21 Containers		116,000		USD	4,356,000.00	36,099,236.84
Gold Concentrate	18	Gold & Other Minerals	993 Containers		24,323.10		USD	37,598,468.54	314,765,149.37
Gold Bars/Dore	48	Gold Associated with Silver	1010 Dore/Bars	3,936,472.88			USD (Equiv)	85,247,783.02	701,589,254.29
Gold Dust	26	Gold Associated with Silver	67 Bottles	161,637.26			USD (Equiv)	5,548,180.21	45,661,523.10
Total	94			4,098,110.14	140,323.10			132,750,431.77	1,098,115,163.40

Source: CBSI

goods on credit payments with good already cleared at SIG Customs- amounts above 1million must be referred to CBSI for approval. The authorised dealers (commercial banks) are permitted to approve foreign exchange payments for amounts less than a delegated threshold. There is no change to the current authorised dealer's threshold allowed by CBSI under this policy requirement in 2023.

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

During 2023, the number of applications referred to CBSI for approval totalled 3,224 applications and valued at \$5,797 million (\$5.7 billion). This amount includes all merchandise trade payments 69.98%, service payments 19.37%, capital transfers 9.53% and personal transfers comprising 1.11% of the total payments (See Table 4.10). The average value per application decreased from \$1,851,983 in 2022 to \$1,798,077 in 2023, indicating a slight drop in high value payments overseas or favourable pricing.

TABLE 4.10

NUMBER AND VALUE OF FOREIGN EXCHANGE APPLICATIONS APPROVED BY CBSI: 2015-2023									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Applications approved	8,135	8,992	8,766	8,700	7,435	7,291	4,905	2,547	3,224
Value of applications Approved SBD (Millions)	5,284	5,258	5,977	6,167	5,372	4,125	4,298	4,717	5,797

Source: CBSI

Share Transfers

The purchase and sale of shares in companies registered in Solomon Islands by emigrating residents or 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 le-



Chairman of the 38th Pacific Central Bank Governors Meeting

gal transfer of valuable considerations to the new owners who may wish to remit capital funds, profits or dividends at a later date.

In 2023, the CBSI granted authority to Four (4) 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 three (3) non-resident individuals. Additionally, we have one (1) resident corporate companies registering or purchasing 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

Under CBSI's vision: Leading the Development of a modern, stable and prosperous Solomon Islands¹ and mission: 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, Financial System Regulation Department (FSRD) incorporated a workplan for 2023 that supported three of four strategic themes of the Bank. The three strategic themes are: research and analysis, regulations and supervision, and risk management². Based on these thematic areas, FSRD workplan for 2023 support the following three (3) objectives:

- (i) Improve research, review and development of robust legislations, regulations, guidelines and directives for the financial system;
- (ii) Improve licensing and supervision of the financial institutions; and
- (iii) Safeguard the financial systems and institutions through effective risk management

¹ CBSI Strategic Plan 2020-2023

² CBSI Strategic Plan 2020-2023

Improve research, review and development of robust legislations, regulations, guidelines and directives for the financial system

The first objective aims to drive the research culture with the department and seek ways to identify gaps in existing legal framework the department is mandated to administer in its licensing and supervision work.

As shown under Table 4.11 the department has twenty agreed initiatives. The department was able to implement and complete five initiatives, partially complete thirteen initiatives and declined three initiatives.

TABLE 4.11

FSRD'S APPROVED INITIATIVES					
OBJECTIVE	MEASURE	NO. INITIATIVES	COMPLETION STATUS	AV. PERCENT	
Improve research, review and development of robust legislations, regulations, standards, guidelines, and directives for the financial system	No. of approved policies, standards, guidelines and directives	5	Completed	100%	
		13	In progress	59%	
		3	Declined	0%	

Review of Existing Legislations and Development of New Guidance Notes and Directive

For the completed initiatives, the department successfully carried out key legislative reforms and practice guidance notes. These include the review of the existing Financial Institutions Act (1998) as amended (FIA), Insurance Act 1982 (IA), Practice Guidance Note 3 on Governance, practice guidance note 4 on Credit Risk Management, and a directive on allowance for board of credit unions.

With support of the Asian Development Bank (ADB) through its Pacific Support Development Initiatives (PSDI) program, policy papers for both the FIA and IA were completed and submitted to Ministry of Finance and Treasury through the Economic Reforms Unit (ERU) which is still pending Cabinet's approval before drafting of instructions and bills commences.

For the in-progress initiatives the department, as part of its workplan for 2023, revisited three regulations and develop six prudential standards which had been developed with the commitment and support rendered by Asian development Bank (ADB), World Bank (WB) and International Monetary Fund (IMF) through the Pacific Financial Technical Assistance Centre (PFTAC), during the year. They include:

- (i) Agent Banking Regulations,
- (ii) eMoney Regulations,
- (iii) Credit Reporting Regulations
- (iv) Prudential Standards on Governance
- (v) Prudential Standard on Risk Management
- (vi) Prudential Standard on Credit Risk Management
- (vii) Prudential Standard on Interest Rate Risk Management, and

- (viii) Prudential Standard on Business continuity Management.

In ensuring the prudential standards are relevant to context of Solomon Islands financial system, FSRD carried out industry consultations on prudential standards on Governance, Risk Management, Operational Risk Management and Business Continuity Management in first half and second half of 2023 which saw the finalisation of the prudential standards. In addition to the prudential standards, FSRD reviewed existing prudential guidelines and converted them into prudential standards. The converted prudential standards include: Prudential Standards on Foreign Currency and Open Position, Large Exposures, and Outsourcing.

These regulations and prudential standards aim to fill existing gaps and strengthen CBSI regulatory and supervision framework. And in the long term reflects CBSI's commitment to carry on risk-based supervision approach.

On the development of Capital Market research paper, the initiative is also in-progress. FSRD has commenced the work on this initiative during the year with drafting of initial paper. Given other priorities FSRD was not able to complete this. Thus, it will carry on this initiative in 2024 given its importance to ascertain appetite for alternative investments by individuals and corporates in the financial system.

Improve licensing and supervision of the financial institutions

The second tier 2 strategic objective aims to introduce improve licensing and supervision tools for analysts to use. These tools would assist analysts to collect relevant data and information for their financial analyses of commercial banks, superannuation fund, credit institutions and insurance companies licensed by the CBSI. As shown under Table 4.12, there were a total of 8 initiatives which support this objective. Their completion status is in-progress with 57% completion rate.

TABLE 4.12

FSRD'S APPROVED INITIATIVES				
OBJECTIVE	MEASURE	NO. INITIATIVES	COMPLETION STATUS	AV. PERCENT
Improve licensing and supervision of the financial institutions	No. of new and or approved manuals and returns	8	In Progress	57%

Some of the initiatives were initiated by PFTAC and supported and adopted by CBSI while a few were initiated and developed by FSRD with clear focus and commitment to adopt risk-based supervision approach especially for commercial banks, superannuation and insurance companies. They include:

- (i) Prudential standards impact template for credit risk management
- (ii) Prudential standard impact template for liquidity risk management

- (iii) Prudential standard impact template for interest rate risk in the banking book
- (iv) Prudential return on Member contributions for Solomon Islands National Provident Fund (SINPF)
- (v) Prudential returns for calculation of Financial Health Soundness Indicators (FHSI) for insurance companies
- (vi) Offsite supervision manual on key risk indicators (KRI) for commercial banks
- (vii) Offsite supervision manual on FHSI for insurance companies
- (viii) Annual levy model for insurance companies

Consultations on the 3 prudential standard templates were completed through submission of e-copies and face to face meetings with commercial banks. These meetings were important to iron out doubts on how to compile the templates. Furthermore, the templates aid banks to clearly establish their compliances to new the prudential standards that are likely to be implemented in 2024.

Similarly, the work on the prudential returns and offsite supervision manual is in-progress and is expected to complete in 2024. The delays were largely due to commitments to attend to other initiatives and business as usual (BAU) tasks which are wholly carried out on manual basis.

As part of its responsibility to ensure Solomon Islands financial system is safe from possible financial shocks, FSRD also carried out business as usual (BAU) work under this strategic objective. As shown in Table 4.13, majority of the BAU work were completed with 100% completion rate.

OBJECTIVE	MEASURE	NO. BAU	COMPLETION STATUS	AV. PERCENT
Improve licensing and supervision of the financial institutions	No. of risk reports	44	Completed	100%
	No. of Financial Stability Reports	2	Completed	100%
	No. of weekly reports	208	Completed	100%
	No. of onsite examinations	4	In Progress	57%
	No. of onsite examinations	1	Declined	5%
	No. of Credit Union Symposium	1	Completed	100%
	No. of Credit Union provincial consultations	3	Completed	100%

The risk reports provide supervision stances for banks, superannuation, insurance companies and the credit union sector, prompting FSRD to take appropriate actions in the short or medium term to mitigating possible risks while the weekly reports provide information on movements in assets and liquid assets of banks. Similarly, the financial stability reports which were published on the CBSI website guide individuals, corporates, government and gen-

eral public to understand the level of the stability of the financial system.

The onsite examinations were conducted on Credit Corporation (SI) Ltd, Tower Insurance New Zealand Solomon Islands Branch, and Solomon Islands Health Workers Credit Union Limited. The scope of the onsite examinations covered credit risk, operational risk and governance. Findings were communicated to respective institutions for actioning. The onsite examination proposed for Pan Oceanic Bank was deferred to 2024 given competing priorities within FSRD.

The credit union symposium was held in Honiara providing avenue for board and committees of credit unions to learn knowledge on and acquire skills on financial risks, strategic planning and management of financial resources. This is important given they provide stewardship role over their members savings. In addition, provincial meetings were conducted to introduce new practice guidance notes to the credit unions.

Safeguard the financial systems and institutions through effective risk management

The third strategic objective aims to protect the financial systems through ongoing reporting and monitoring. This oversight role is carried out by special committees within CBSI and in partnership with industries. The platform allows open discussion and decision making on policies that are crucial to the financial stability of the country. As in Table [4.14], a total of 12 meetings were successfully held to which FSRD was the secretariat of.

OBJECTIVE	MEASURE	NO. BAU	COMPLETION STATUS	AV. PERCENT
Safeguard the financial systems and institutions through effective risk management	No. of Bankers Meetings	4	Completed	100%
	No. of Financial Stability Committee Meetings	6	Completed	100%
	No. of CBSI Regulatory Sandbox Working Group Committee Meetings	2	Completed	100%

A total of four (4) Banker's meeting was held during the year. The meeting is organised for country managers, general managers and chief executive officers of banks and credit institutions to discuss businesses relating to economic performance and how it would impact financial performance of banks and credit institutions.

In the same vein six (6) Financial Stability Committee meetings were held. It is one of the committees of CBSI that focuses mainly on prudential policies, regulations and supervision for the banking, superannuation, insurance, credit union sectors and mobile money service providers.

Like other committees, Regulatory Sandbox Working

Group Committee of CBSI is assigned to deliberate on and make decision on applications by fintech innovators, digital financial service providers and agents. This Committee supports one of CBSI's function³ and that is to promote financial inclusion in the country. The Committee deliberated and made decision on a total of five (5) applications during the year which saw two (2) applications deployed to the CBSI Regulatory Sandbox to test their mobile service and money remittance products. The other applicants were at the assessment stage at end of 2023.

Enhancing competencies and capabilities of staff

Supporting the implementation of FSRD work plan in 2023 is pool of knowledge FSRD officers gained from workshops and short trainings. A total of sixteen (16) workshops and short-term trainings were attended in 2023. As shown in Table 4.15, the workshops and trainings covered range of topics covering financial reporting, financial payments, financial risk, anti-money laundering and counter- terrorism financing (AML/CTF), financial inclusion, credit reporting, digital economy, stress testing, Microsoft and power BI, financial regulations and balanced scorecard framework, and financial analysis and supervision. The workshops and trainings reflect increasing demand not only to regulate financial service providers but also promote financial development in the country.

TABLE 4.15

WORKSHOPS AND TRAININGS		
NO. OF TRAININGS	NO. OF PARTICIPANTS	THEMES OR TOPICS
1	2	IFRS 9 – Financial Instruments
2	1	Enhancing Financial Inclusion through Innovative Digital Payment
3	1	Safeguard Financial Stability amid Increased Interest Rates and Geopolitical Risks
4	1	AM/CTF Target Risk- based supervision
5	4	Insurance Regulatory Reforms in the Pacific Island Countries and IFRS17 Insurance Contract
6	12	Financial Risk Analysis
7	1	Financial Inclusion Development
8	2	Credit Reporting
9	2	Financing Pacific Futures: Finance in a Digital Economy
10	1	Pacific Research Conference and Leaders' Forum
11	1	Stability, Sustainability and Inclusivity for Shared Prosperity
12	4	Stress Test for Banks
13	2	MS Excel Tools and Data Visualization with Power BI
14	1	Financial Regulations and Supervision for Banking Supervisory Authority
15	2	Balanced Scorecard Framework
16	1	Balanced Scorecard Key Performance Indicators
17	1	PEALS and Financial Risks for Credit Unions

The knowledge gained from the trainings helped FSRD

deliver some of its initiatives and BAU in its 2023 work-plan and is committed to complete the initiatives that are In-Progress status.

Furthermore, FSRD has successfully rolled out the risk reporting knowledge through producing of quarterly risk reports for commercial banks, credit institutions and insurance companies. Similarly, the credit union sector produced quarterly reports on PEARLS. These reports are important and provide analysis on soundness through a supervisory stance rating for each financial institution.

On the regulatory front the training in banking and insurance regulatory framework helped FSRD to effectively contribute to the review of insurance act 1995 and financial institutions act 1998 (as amended).

However, there are still knowledge gaps in terms of stress testing, implementation of IFRS17s the insurance sector prudential returns, development of Financial Health Soundness Indicators (FHIs) for the insurance sector, and completion of credit reporting framework. FSRD is committed to ensure these gaps are filled as soon as possible under its training and development plan for 2024- 2027.

FINANCE AND ACCOUNTS

Finance and Accounts Department (FAD) is the department that is responsible for planning, administration and reporting of all financial matters related to the work of CBSI. FAD ensures that CBSI is financially operational, maintains proper records and reports to the stakeholders regularly at required intervals.

Staffing

In 2023 the department is maintained by 11 staff (7 female and 4 male), delivering the responsibilities in budgeting, procurement & payment, Accounting and Reconciliation, Asset management, payroll and reporting.

Budget

Budget 2023 was prepared and approved in November 2022 with a value of \$188 million: 113 million was for operations and \$75 million for capital. It was reviewed half way and changed to \$199 million: \$146 million for operation and \$53 million for capital. These changes were necessary to ensure that CBSI accommodates the changes experienced in the first half and the anticipated changes in second half of the year 2023.

Accounting

As budgeted financial resources are consumed in the delivery of services by the CBSI, required recording of these events are also maintained. CBSI continued to maintain its financial records according to the International financial reporting standards and the CBSI Act 2012. This is to meet the needs of both the local and international stakeholders which CBSI is a member of, and participates collectively and actively in their discussions and decision makings. Discussions of relevance to the CBSI as an organization

³ Section 13 of the CBSI Act 2012

and the Solomon Islands as a country, living in the global community.

REPORTING

Reporting is a very important responsibility for management decision making. Reports are produced weekly, monthly, quarterly and yearly and provided to management, Board, Ministry of Finance, Solomon Islands Government, the people of Solomon Islands through hard copy reports and digital form through the CBSI Website and it is mandatory that financial reports are made available by the required timing by the CBSI Act 2012.

Audit

External audit is maintained as required by CBSI Act 2012 throughout 2023, in addition to the internal audit function that is maintained continuously by the internal audit unit within the organization.

Ernest & Young Fiji begins to provide this service in 2024 after PWC cooper's Fiji's contract ends in 2023 after five consecutive years. This service was organized by the office of the Auditor General with collaboration with the CBSI management and Board.

This service while its mandatory is also helpful for the CBSI as an organization to focus on its responsibilities and delivers on its responsibilities with integrity and diligence expected by the stakeholders and the people of Solomon Islands,

Annual financial report

The financial performance for the year 2023 was an improved one from year 2022, with a net operating profit of \$199 million, as compared to negative \$12 million in 2022.

This improved performance in profitability of 745% was largely contributed by: the improved interest rates in the financial markets which help increased returns of the Banks investments, the positive currency revaluation gains of the strong United States and Australia dollar against the Solomon Island dollar and supported by strong and decisive investment decisions during the year of 2023.

As a result of this performance: Total assets improved to \$6,596 Total liabilities \$6,064 million and Net equity of \$531 million. Assets, liabilities and equities all move positively in 2023 against 2022 financial status.

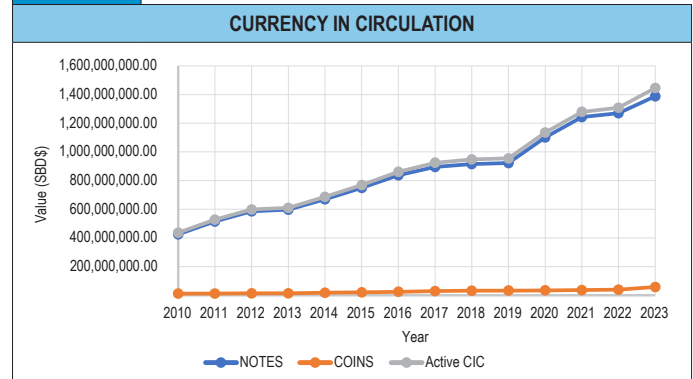
ADMINISTRATION AND MANAGEMENT OF CURRENCY

Section 9 (f) of the Central Bank Act 2012 provides CBSI the key mandate for the production, supply, regulate and manage the Currency of Solomon Islands. In addition, sections 18 to 25 of the CBSI Act 2012 provides the detailed key requirements for effective administration and management of Solomon Islands' currency.

Some key areas would include inventory control and man-

agement, issuing of notes and coins to commercial banks for circulation, receiving of cash deposits from commercial banks and Solomon Islands Government, sorting and destruction of unfit and soiled bank notes, engage in the design of new currencies to enhance the durability and security of banknotes and coins and monitor cash stock to ensure there is availability of cash to meet trades, business and public demand. The administrations and operational roles and activities performed by the Bank to effectively implement these functions are outlined as follows:

FIG 4.5



Source: CBSI

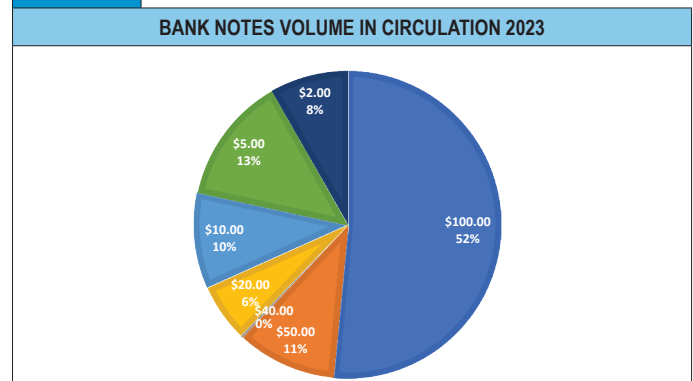
As at the end of 2023, the total value of currency notes and coins in circulation increased by over 1per cent to \$1,1445.6 million from \$1,309.04 million in the previous year. Of the total currency in circulation, notes accounted for \$1,388.11 million while the coins made up about \$57.54 million. Figure 4.5 shows the trend in the currency in circulation from year 2010 to 2023.

As the stewardship of the money and payments, CBSI are progressing work to improve the efficiency, resilience and inclusiveness of the money and cash system.

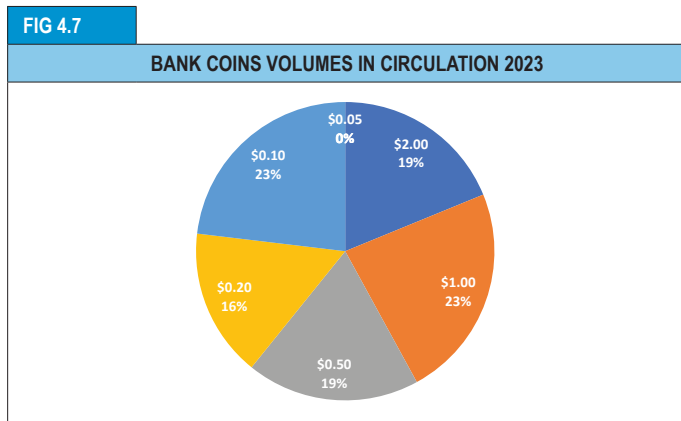
Currency in Circulation is influenced by number of factors such as significance public and business demand for cash including changing payments and shopping preferences and increased access to Banks including ATM cash services for individuals and retail customers

Figure 4.6 shows the share of each note in terms of volume

FIG 4.6

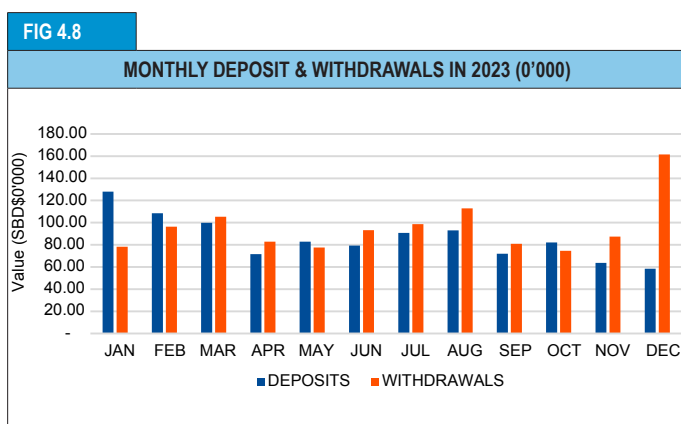


Source: CBSI



Source: CBSI

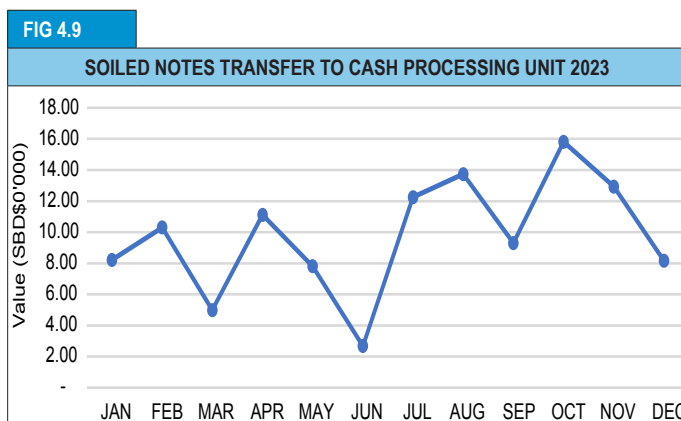
(numbers of notes) by denomination in circulation at the end of the year, 2023



Source: CBSI

The 100 dollar note represented 52 per cent of the notes in the hands of the public, which reflect the note as the note for payments and store of value. The share of 100 dollar note increased in 2023 by additional 2 percent from 50 percent in 2022.

Coins in circulation increased by 9.43 per cent in 2023 compared to 6.71 percent increase in 2022. Of the total coins, 19 per cent is in \$2, 23 per cent is in \$1, 19 per cent is in 50 cents, 16 percent is in 20cent and 23percent in 10cent. The chart above shows the deposit and withdrawal trends



Source: CBSI

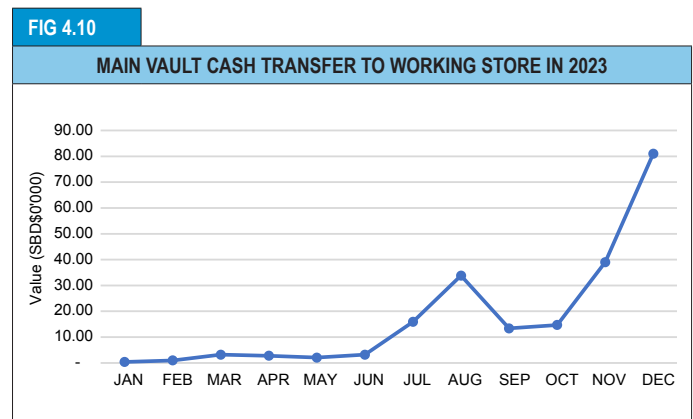
within the working store in 2023. The average monthly deposit in 2023 was \$85.87 million while average issued per month was \$95.81 million.

The total cash withdrawal fluctuates between the first and second quarter but higher in fourth quarter due to seasonal high demands for cash from public and from commercial Banks for their ATM during the festive season.

The Cash Control Unit in 2023 transferred a sum of \$117.295 million worth of soiled notes to Cash Processing Unit for destruction. The graph above shows the trend in which soiled notes were transferred to Cash processing Unit on monthly basis in 2023.

Currency replenishment for Main vault to working store in 2023

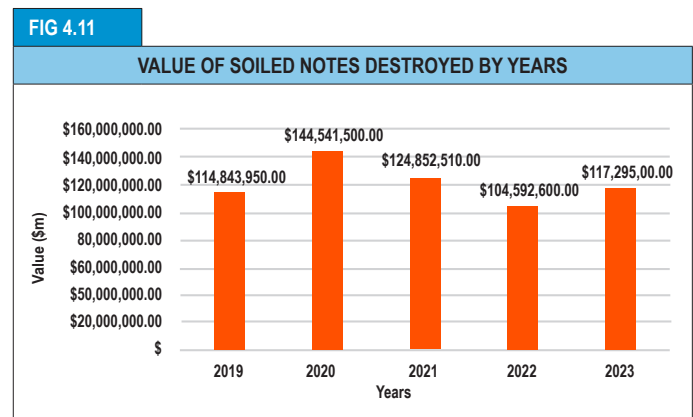
The above line graph shows the transfers of new notes from main vault to working store vault in 2023 to replenish the on-demand stock at the working store vault. The slight increase in June 2023 to August 2023 and then in the last quarter were a result of the increasing demands for cash to facilitate business trades of goods and services which is being supported by the commercial banks.



Source: CBSI

NOTES PROCESSING

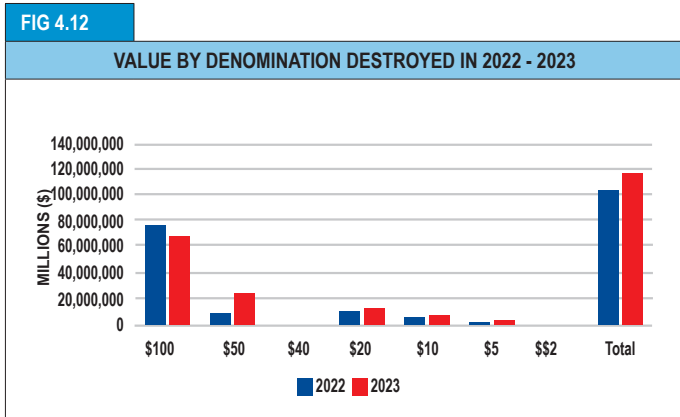
The total value of soiled banknotes processed and de-



Source: CBSI

stroyed in 2023 rose by over 12 per cent to \$117.295 million compared to \$104.593 million in 2022. This shows an upward trend in the value of soiled notes destroyed. This partly reflects poor handling of currency notes by public despite the on-going public awareness programs over the years on educating people on how to care for our currency notes. The upward trend remains a concern of CBSI as the replacement cost continue to increase. It is important that the public take heed and positively act upon the CBSI currency education and awareness that has been given out to various media and prints publications during each year so that we can best minimise the cost of replacing soiled and damaged (mutilated) banknotes.

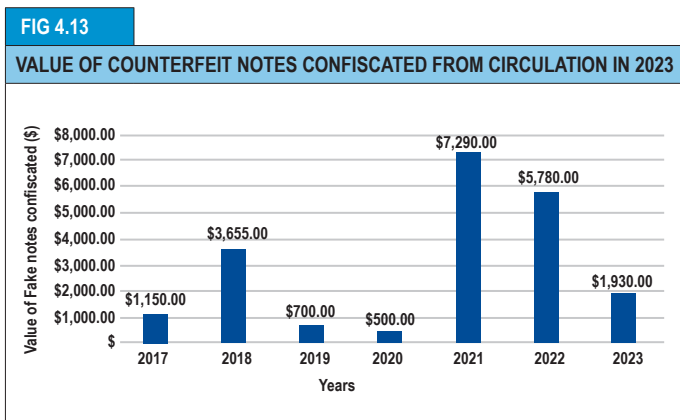
Figure 4.12 illustrate the values and denomination of soiled notes destroyed in year 2022-2023. The higher value of notes destroyed is from the higher denomination as compared to lower denomination. Of the total value destroyed, 59% are in \$100 denomination followed by 21% in \$50 denomination and the balance are shared by the \$20, \$10 and \$5 denominations.



Source: CBSI

Counterfeit Notes, 2023

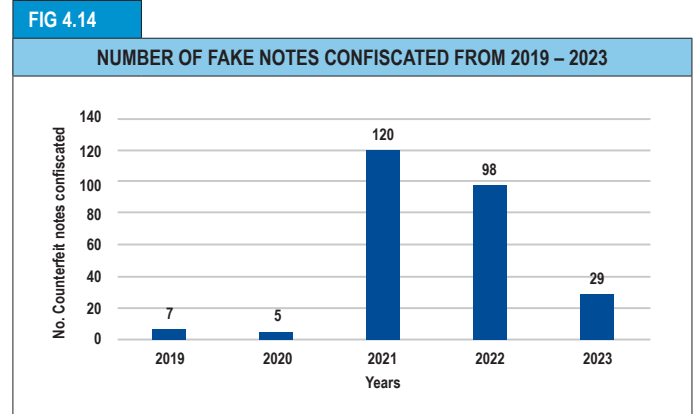
Figure 4.13 shows the Value of Counterfeit Notes Confiscated from Circulation in 2023.



Source: CBSI

A total value of \$1,930.00 of counterfeit notes were confiscated from circulation in 2023 compared to \$5,780.00 from

the record in 2022. This shows an improved knowledge on SI currency features by the public and individuals as they are becoming more vigilant to ensure only legal tendered notes are accepted for purchases of goods and services. Most of the counterfeit notes confiscated in year 2023 was collected through the CBSI counter and Commercial banks tellers.



Source: CBSI

Figure 4.14 shows the number of fake notes confiscated from 2019 - 2023. In 2023, only 29 pieces of fake notes was collected as compared to 98 pieces of counterfeit notes collected in previous year 2022. Of the total 29 pieces, 13 pieces is of \$50 note, 12 pieces of \$100 note and 4 pieces of \$20 note. This shows that higher denomination remains the target of professional counterfeiter throughout those years, as evident in the record collected. A higher number of pieces was collected in the month of February, April and December. Referring to the two previous years records of counterfeit notes, this year shows a downward trend in the number of fake notes collected. Which indicates that the measures taken by CBSI to address the issue through its on-going public education and awareness programs really have a positive impact on the general public.

Bank continues to assist Government in the 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 Debt Management Unit (DMU) for other analysis. A new system called the Commonwealth Meridian system was installed in May 2023 which is replacing the current CS-DRMS database recording system.

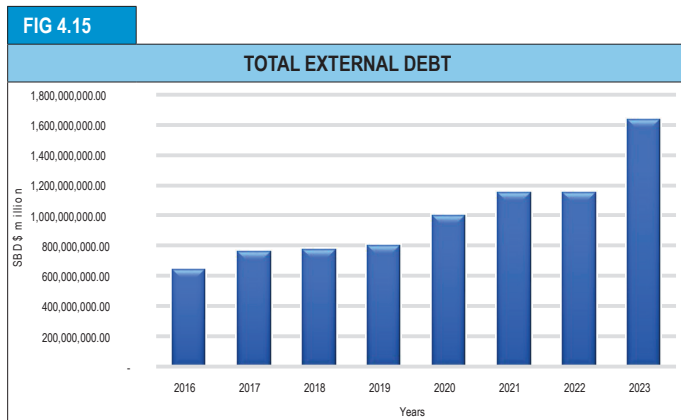
As part of its activities, CDU performs the monthly loan validations on the CS-DRMS, dispatches quarterly external debt statistics (QEDs) to the World Bank and issues domestic securities on behalf of the Solomon Islands Government namely the Treasury Bills and the Development Bonds. CDU also maintains the External Private Debt database in the CS-DRMS. The Private loans are borrowed off shore by the private companies. CDU also holds regu-

lar meetings with the DMU on administrative and technical issues including capacity development issues.

The External public debt profile is made up of forty three (43) active loans, with six (6) main Principal creditors namely, the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU), International Fund for Agriculture Development (IFAD), Export Import Bank of Republic of China (EXIM) and Japan International Corporation Association. Out of the 43 loans, ten (10) are still disbursing while 1 is yet to be disbursed. A total of one (1) loan was fully repaid during the year, however the increase in the number of loans was due to seven (7) new loans being contracted and disbursed in 2022.

Outstanding balance of Public External debt of Solomon Islands

Total Public Disbursed Outstanding debt (DOD) of the Solomon Islands at 31st December 2023 totalled \$1,635.1million and is expected to increase to \$1,668.9 million at the end of 2023. Compared to 2022, the DOD was increased by \$486.4 million from \$1,148.7 million. The increase in the total stock was mainly due to exchange rate movement and disbursements of external loans during the year which totalled to 380.3 million. Total external debt repayments in 2023 were \$51.0 million of which \$39.8 million was for Principal repayments and \$11.2 million for interest payments.



Source: CBSI

In terms of currencies composition of the total official debt, the Special drawing rights (SDR) accounted for 62.4 percent of the total DOD or \$1,020.4 million followed by the United States Dollars with 20.6 percent or \$336.7 million, Yen with 9.2 percent or \$150.0 million, Yuan Renminbi (CNY) with 7.5 percent or \$123.6 million and European Currency Units with 0.3 percent or \$4.4 million.

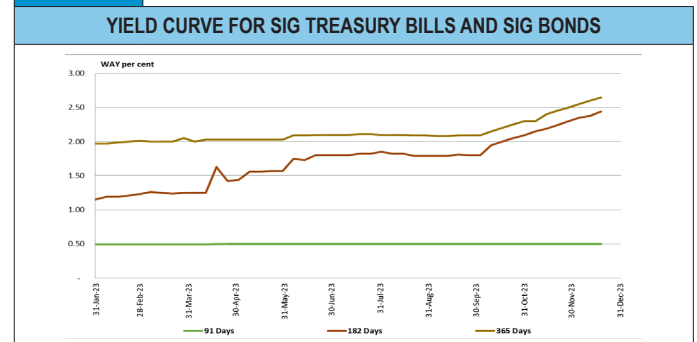
Government's Domestic Securities.

Government's Domestic Securities borrowings increase during the year as Government continue to services its debt

Solomon Islands Government (SIG) domestic debt out-

standing at end of year was \$1,192.1 million, an increase of \$373.0 million compared to \$819.1 million in December 2022. The domestic debt outstanding balance comprised of \$131.3 million in Treasury Bills, \$1,035.8 million in Government Bonds, \$4.9 million in other SIG special securities and \$20.0 million in Temporary Advances. Total domestic debt repaid during the year was \$96.2 million of which \$41.4 million was for Principal and \$54.8 million for Interest. The repayment increased by \$56 million from the previous year.

FIG 4.16

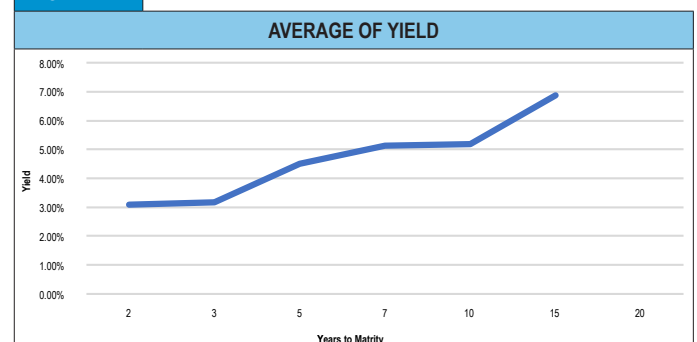


Source: CBSI

Demand for Treasury bill declined throughout the year due to non-participation from some major investors. The Banks and non-financial institutions continue to dominate the weekly auctions with higher volumes of stock in the 182 days and 365 days maturities compared to the 91days maturity. There was a steady increase in the interest rate in the fourth quarter (Q4) for 182 days with average of 1.7% and 365 days with average of 2.1%, but fairly consistent throughout the year with 0.50% for 91 days,

The total volume issued for SIG bonds increased to \$1,035.8 million as compared to \$760.4 million in 2022. The shortest maturity is 2 years with average of 3.00 % and the longest maturity is 15 years with average interest of 7.00%

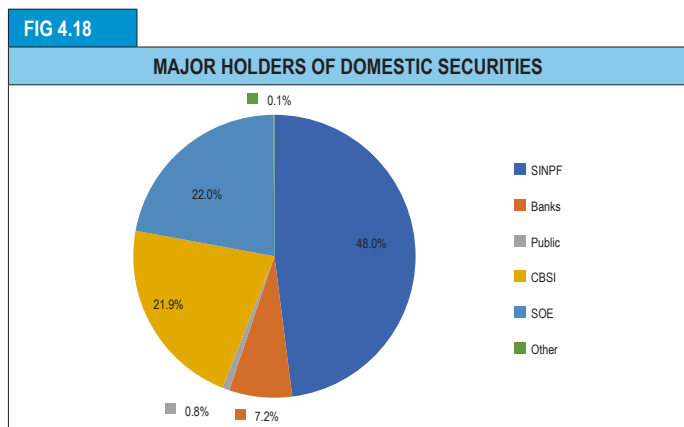
FIG 4.17



Source: CBSI

The major holders of domestic securities were the Solomon Islands National Provident fund with 48.0%, Central Bank of Solomon Islands (CBSI) with 21.9%, State Owned Enterprises (SOE) with 22%, Commercial Banks with 7.2%, General Public with 0.8% and other Creditors with 0.1%.

The securities issued were mainly in the form of treasury



Source: CBSI

bills, SIG bonds and other advances (refer to pie chart.).

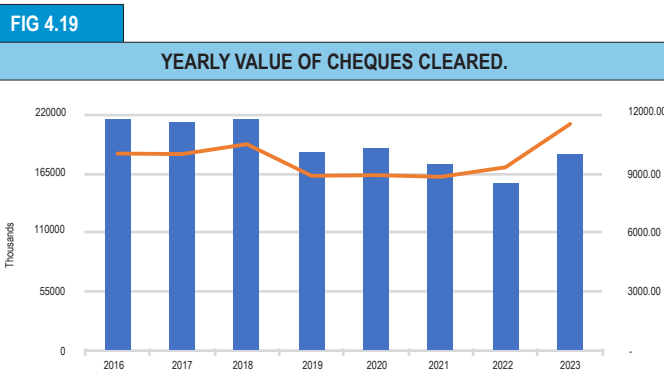
The increase in the total outstanding domestic debt was due to the issuance of SIG domestic development bonds in Q2 and Q4. This is part of the Governments strategy to mobilise resources to support Solomon Islands Government spending and obligations during the year 2023.

Customer Banking & Payment Services

The Bank continued to deliver banking services to licensed financial institutions, the Solomon Islands Government and other non-banking financial institutions as mandated in the CBSI Act 2012. Such banking services include, but are not limited to, administering local and foreign currency denominated impressed accounts established with the Bank by SIG and its donor partners, facilitating transaction payments instructions, reconciliation of account balances, daily monitoring of free liquidity of the commercial banks and the proper upkeep of records for audit trails and requirements. Apart from the newly established (revived) Development Bank of Solomon Islands (DBSI), there were currently being four licensed commercial banks operating in the country that are customers to CBSI.

Clearing House Activities

The CBSI facilitates clearing of cheques drawn on the four licensed commercial banks operating in Honiara. In 2023, a monthly average of 15,245 cheques with a total average value of \$963 million passed through the Clearing House. The increase of the cheques attributed to the continuous demands in cheque instrument within business houses for settlements of goods and services to adding values to their business activities. The total volume of cheques cleared in 2023 increase by 26,998 cheques compared to 2022. The total value of cheques cleared in 2023 increase by \$2,211 million compared to 2022. The increase in value ascribed to the business activities gather momentum after the COVID-19.



Source: CBSI:

CBSI role in the administration of Small Business Finance Guarantee Scheme.

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

In 2023, 34 loan application were received from a single participant institution and approved for guarantee under the scheme compared to 42 approvals in 2022. A slight decrease of 6.5% from 2022 due to only one active participant engaging in the scheme. The total cumulative approved loan by end of 2023 now records at 127.

The total gross amount approved increased by 31.99 million in 2023 from 23.54 million in 2022 reflecting an increasing demand from local business for financial support due to the aftermath of COVID-19.

A summary of performance of the SBFCGS at the end of 2023 in terms of value of the total gross loans and the total risks of the unsecured amount shared between the borrower, the scheme and the Participant Financial institution is provided below:

TABLE 4.16

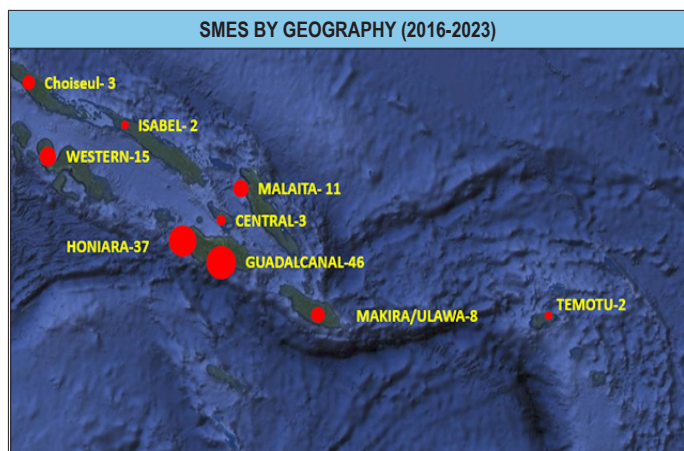
SUMMARY OF PERFORMANCE 2023

YEAR	TOTAL GROSS AMOUNT (\$M)	TOTAL RISK TO BORROWER (\$M)	TOTAL UNSECURED AMT (\$M)	TOTAL RISK TO SCHEME 90% (\$M)	TOTAL RISK TO 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
2023	8.448	3.879	4.568	4.131	0.413	34
Total	31.988	11.706	20.279	6,296.854	1.913	127

Approved Nomination by Province:

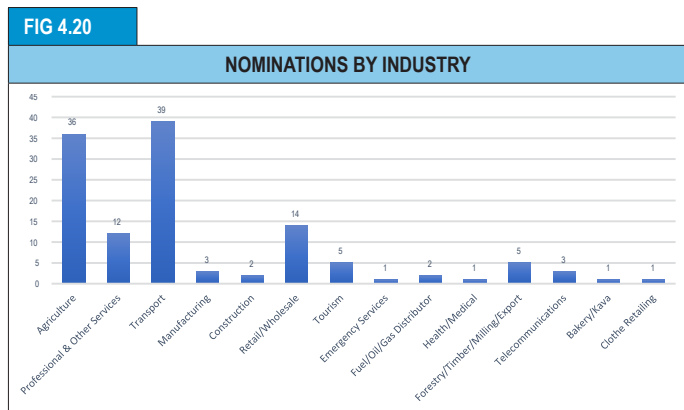
Disaggregating the cumulative approved nomination by province showed that Guadalcanal and Honiara still dom-

inated the scheme with 46 and 37 respectively. Western and Malaita province recorded more than 10 while the rest of the province recorded less than 10 at the end of 2023. Refer to map below.



Approved nominations by Industry

In terms of cumulative approved nomination by industries, the transport industry recorded the highest with 39 nominations, followed by agriculture industry by 36. Wholesale and retail and professional services with more than 10 nominations, whilst all the other industry recorded 5 or less nomination by end of 2023. Refer Fig 4.20 below.



Source: CBSI

Nomination by gender ownership

All SMEs owned and managed by women who are Solomon Islands citizen are also eligible for guarantee under the scheme with 95% guarantee of the unsecured loan amount as compared to 90% guarantee for SMEs owned by males. By end of 2023, the cumulative total number of approved nominations for female owned stood at 20 of which six additional nominations were approved last year. 19 nominations were recorded for SMEs that were managed by females and their spouses. Meanwhile, two SMEs owned by individual have claimed guarantee as a result of default due to poor management of the business.

TABLE 4.17

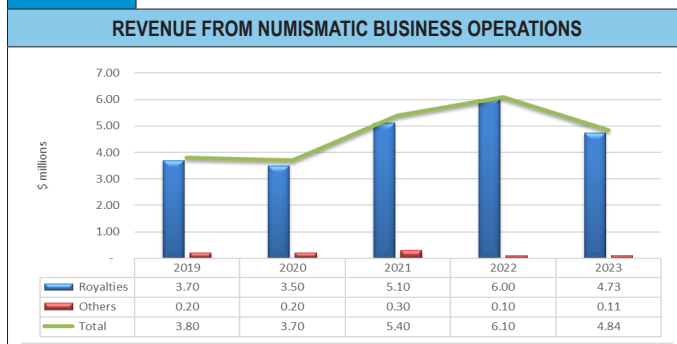
NOMINATION BY GENDER OWNERSHIP							
YEAR	M	F	CO-JOINT	COMMUNITY	GROUP	M/GP	TOTAL
2016	1	1					2
2017	2	1					3
2018	1	1					2
2019	7	1	1				9
2020	8	1	3				12
2021	18	2	2	1			23
2022	22	7	9	2	2		42
2023	22	6	4	2			34
TOTAL	81	20	19	5	2	0	127

Numismatic Business 2023

Total revenue from numismatic business operations during the year dropped by 26% to \$4.84 million compared to \$6.10 million the previous year. Sales from commemorative coins and uncirculating notes and coins locally and externally, however, slightly increase by \$0.11 million in 2023 compared to \$0.10 million in 2022. Of the total revenue, 98% (\$4.73 million) was from royalty receipts whilst 2% (\$0.11 million) was raised from the sale of commemorative coins and, numismatic notes and coins both locally and internationally.

In terms of coin programs, the bank has approved 65-coin programs from MDM/WCA in Germany and 32-coin programs from Royal Australian Mint (RAM), in total 97-coin programs were approved during the year. A huge percentage of the approved coin programs portrayed historical icons, nature land marks and cultural heritages sites of significant value. Other designs portrayed important technological developments and innovations in the transport and communications industries that also impacted on humanity generally. Some of the coins produced in 2023 were products of innovations involving state of the art technology which rendered them very unique in the market. One exciting coin program in 2023 was the License projects on the Disney 100th celebration and High-volume bullion projects. The integrity of the coins continued to be the major determinant in approving the Bank’s participation in the coin programs.

FIG 4.21



Source: CBSI



Course participants of the CBSI and Commonwealth Secretariat during the Meridan System Trainings

Moreover, CBSI is expected to participate in several new commemorative coin programs, with the vision for better revenue in 2024 and beyond.

INFORMATION TECHNOLOGY

The Bank has persistently pursued its endeavour to uphold and augment its technological infrastructure in order to sustain efficiency, relevance, security, and resilience. These efforts encompassed improvements to the infrastructure supporting the network, systems, and applications, as well as the integration of cloud services to advance the Bank's corporate objectives.

The pursuit of automation and digital transformation in the Bank's business processes led to the engagement of an approved consultancy team under the U.S. Trade and Development Agency (USTDA) arranged project for the review of the Bank's IT Systems and Infrastructure during the year. Work on this review will persist into 2024.

Continuous Enhancement of the ICT Infrastructure

Several ongoing enhancement projects have contributed to the establishment of a more robust and resilient platform for the effective delivery of the Bank's IT services:

- Approval and successful implementation of the Bank's VOIP System, facilitating smooth, reliable, and effective communications between the Bank and its stakeholders.
- Successful installation and setup of the extended Bank's network at the Aura Building, enabling Bank officers to fulfill their mandated duties.
- Approval for the temporary relocation of the Bank's Data Centre to another site, with signed agreements in place. This project will extend into 2024 as part of the Bank's preparations for the construction of its new Head office at its current site.
- Management and maintenance of the bank's local area network, Point-to-Point links, and Metropoli-

tan area network, ensuring secure and continuous connectivity and access.

- Management and maintenance of servers and storage, ensuring secure and valid access to data and information for the bank's network users.
- Hosting of the National Payment System (SOLATS) Servers Infrastructure on both the Production and Disaster Recovery sites, along with the completion of its primary interbank direct connectivity via fiber, providing participants with access to the SOLATS.
- Ongoing management and maintenance of the Bank's computers and printers, involving the acquisition, installation, and deployment of new computer hardware items and printers to replace outdated ones, thereby enhancing staff efficiency.

Systems Enhancement and Development

The Bank has actively supported the development of new systems, as well as the upgrading and maintenance of existing ones. These initiatives include:

- The successful migration of the Bank's Finance and Accounting system from an on-premise environment to a cloud environment (SaaS) occurred during the fiscal year. This transition facilitated continuous vendor support for the bank's accounting system and paved the way for an upgrade from the current platform (CI) to a higher platform (CIA), slated for implementation in 2024.
- The Bank has been providing continuous support for the implementation of the National Payment System (SOLATS), entailing close collaboration with the system vendor, the contracted hardware agent, the approved Internet Service Provider, and the SOLATS project team. This ongoing project is scheduled for completion in 2024.
- During the reporting period, the Bank achieved a successful migration of its Debt Recording and Management System from CS-DRMS to the Meridian System. This migration aligns with the requirements stipulated by the system's provider, given that CS-DRMS is no longer supported.
- Commitment to enhancing the security functionalities of the SWIFT System and compliance with mandatory requirements, including migration to ISO 20022 message standards. Throughout the fiscal year, the Bank remained actively involved in the SWIFT project aimed at transitioning to ISO 20022 message standards, a requisite compliance for global financial messaging. Concurrently, the Bank consistently furnished updates on the ongoing SWIFT Customer Security Program and executed necessary software upgrades on both the SWIFT Production systems and the SWIFT Contingency system. Furthermore, the Bank committed to implementing a project to incorporate the SWIFT Transaction

screening feature, thereby augmenting the security framework governing SWIFT transactions.

- The ongoing business-as-usual project involves the provision of continuous maintenance and support services for other existing software applications and systems within the Bank.
- The identification of potential new systems has emerged as a consequence of the USTDA project team review. These systems will either replace existing ones or be integrated as new proposed systems. Detailed discussions with relevant stakeholders and the progressive implementation of these system development projects are scheduled to commence in 2024.

ICT Security and Disaster Recovery

The Bank remained committed to strengthening its IT security infrastructure, undertaking projects aimed at safeguarding the confidentiality, integrity, and availability of its IT systems, data, and network connectivity against internal and external cyber threats.

The successful implementation of an email protection system throughout the year significantly contributed to mitigating threats originating from external senders. This system also facilitated the secure transmission of encrypted files or data over the Bank’s email network.

Conducting the first-ever penetration testing on the Bank’s IT network systems yielded early identification of weaknesses and threats, providing valuable insights for enhancing the Bank’s network security. The Bank plans to continue conducting such penetration testing activities biennially or as needed.

The acquisition of a vulnerability scanning system during the year further augmented the capabilities of the ICT team in detecting vulnerabilities and providing updated security reports on areas of risk within the Bank’s network systems.

Progress continued on the Unified Security Monitoring project, anticipated to enhance the Bank’s monitoring and reporting services by capturing information and data from various systems. This project is slated to extend into 2024.

Additionally, the Bank maintained and improved various cybersecurity control measures, including upgrades to anti-virus and anti-malware software, firewall enhancements, and patch updates on other Bank systems and software. Cybersecurity awareness initiatives were conducted for Bank employees holding significant roles in asset security.

The Bank ensured the ongoing maintenance and updates of systems and data hosted on Disaster Recovery (DR) servers at its DR site, utilizing daily data and systems replications and scheduled backups as part of its risk mitigation strategy against data or system loss during disaster events or incidents.

Enhancements to ICT Helpdesk Support Services

In pursuit of greater operational efficiency within the Bank, a help desk support system has been implemented, with the expectation that its full utilization will enhance the management and resolution of reported requests. The Bank has consistently provided support services encompassing network, printing, internet, email, file sharing and management, VOIP telephone services, as well as video and audio-conferencing services.

Furthermore, the Bank has actively encouraged and facilitated information sharing regarding its available technological assets and tools. This initiative has played a pivotal role in enhancing staff knowledge and skills, leading to the prompt and efficient resolution of issues.

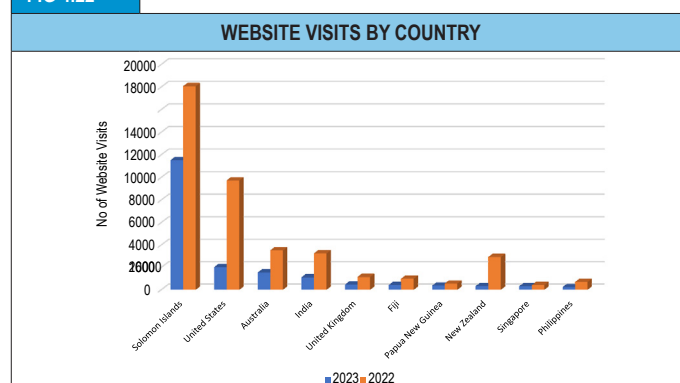
Enhancement of ICT Policies

The Bank has made progressive strides in developing necessary policies, procedures, and standards to effectively guide and regulate IT operations. These efforts encompass the alignment of procedures and standards with Cybersecurity policies and procedures, as well as with the overarching IT Policy and Procedure. Work on the cloud policy is slated to continue into 2024.

Website Visits

The CBSI website serves as a public resource for individuals seeking information about the Central Bank of Solomon Islands and the Solomon Islands economy. However, in 2023, there was a significant reduction in website visits, with a decrease of 61% from 55,275 visits in 2022 to 21,310 visits. This reduction was observed across most visited countries, particularly among dominant visitors. Among visitors from 188 countries, the top 10 dominant visitors in 2023 included Solomon Islands (54%), United States (9%), Australia (7%), India (5%), United Kingdom (2%), Fiji (2%), Papua New Guinea (2%), New Zealand (2%), Singapore (1%), and the Philippines (1%).

FIG 4.22



Source: CBSI

INTERNAL AUDIT UNIT (IAU)

The International Internal Auditing Standard, defines Internal auditing as 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, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance. The Internal Audit Function within the Central bank of Solomon Islands is established by the Board under the CBSI Act, as part of its governance mechanism within the Bank.

The primary role of the Internal Audit Unit (IAU or the Unit) is to provide the Central Bank Solomon Islands (CBSI or the Bank) with independent assurance that an organization's risk management, governance and internal controls are operating effectively and efficiently. This mandate requires the Unit to appropriately assess the CBSI's risk exposures, including identifying the control mechanisms to mitigate these risks. The control mechanisms must then be assessed as to their adequacy and effectiveness. Developing the competencies to accomplish these assessments efficiently and systematically, will undoubtedly take some time and effort, to concretely establish.

To fulfill its responsibilities as provided for in the IAU's charter, the IAU will need to develop an Audit Manual. The Audit Manual is a comprehensive document that provides the framework for planning and executing audits across the CBSI. The Audit Manual outlines the policies and procedures for the Auditors to ensure consistency and quality in conducting the audits as well as emphasizing value-added perspectives on the managing the risks of the CBSI. Audit Manuals are often structured along similar lines as the International Professional Practices Framework (IPPF) providing detailed guidance to ensure that standards are being applied. Currently, the Internal Audit Manual is in draft but should be ready for approval and implementation by the first quarter of the ensuing operational year. The Unit had applauded the kind positive response from the IMF Technical Assistance team for the successful in-country consultation and hands-on assistance given in risk-based auditing and the future production of the IA Manual.

To develop its annual work plan, the IAU will need to define the Audit Universe and rank each Auditable Entity within that universe based on their assessment of CBSI's risk exposure in those processes. The IAU needs to consider all aspects of the Bank in articulating the Audit Universe, including the economics and research, monetary policy, and financial systems regulations functions, the functions that did not usually part of past audits. To achieve this, an enhanced business partnership with all stakeholders, is crucial. It will be more beneficial to establish a coherent basis for the measurement of risk exposures and their likely impacts. Such coordinated taxonomy, will ensure that Management and the Board can equally appreciate which and why risks are elevated and which are not, based on that common language.

Conducting quality audits and providing relevant and effective recommendations means that internal auditors will need to better understand the CBSI's key business func-

tions and the inherent risk(s) that may hinder the good achievement of goals and objectives. Under Risk Based Internal Audit (RBIA), compliance with processes designed and implemented by the operational manager become an accountability of the responsible management itself, with the IAU only to conduct sampling transactions to test and affirm compliance. Where necessary, this may mean that certain accountabilities within the Bank may require further realignment with the relevant business functions and operations, going forward.

Preparing for an audit and finalizing the findings requires greater discussion and collaboration with process owners. The IAU staff is expected to effectively engage with the Auditee, during the planning phase to ensure good understanding of the process, as well as any changes to the business environment that may have occurred, since the last audit. Equally important, when finalizing the findings, it will be useful to discuss the audit results prior to finalizing and issuing the report to the Auditee to ensure that all controls and other crucial mitigating factors, have been considered. The final report issued to the Auditee and the Board Audit and Risk Committee, should include the Auditee's agreed response(s) to the recommendations, including the respective timeframe or due date for addressing the audit observation.

Effective tracking and monitoring of outstanding recommendations, involves the onsite and physical review of management implemented actions and more so, retesting of their effectiveness, as required under the apparatus of risk-based. The Internal Audit's risk-ranking of audit observations are generally the measurement of the residual risk, after taking into consideration, the relative adequacy and effectiveness of established controls and other mitigation factors. The risk appetite of the Bank has to be taken into consideration. The rate or status of implementing management agreed up remedial actions on audit observations are reported to the BARC on a quarterly basis or even more frequently, as may be required. Those ranked with a high residual risk should be implemented within six to twelve months, while additional time may be allowed, on items with medium and lower rated residual risk. Further direction may be required from BARC, through the Governors' offices, if implementation rates remain low.

Quarterly, the IAU will continue to provide assurance to the BARC as to the functioning of the CBSI's control environment and the observed residual risks. Reports need to emphasize high risk areas with more summarized information on the medium and low risk areas. This information, when coupled with reports from the Risk Management function, External Auditors, Accounting and Compliance, should provide an enabling environment for the BARC to effectively and appropriately discharge its governance roles and responsibilities.

The Board Audit and Risk Committee (BARC) is also responsible for the overall functional oversight and effectiveness of the Internal Auditing Function. The IAU re-

ports functionally to the BARC and administratively to the Governor's Office, through the Management Advisor Operations.

The International Professional Practices Framework (IPPF, 2017) or standards, apply to both individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care, relevant to the performance of their job responsibilities. Chief audit executive or the head of the internal audit is additionally, accountable for the internal audit activity's overall conformance with the Standards. The International Internal Audit Standards Board has completed a major milestone in the IPPF Evolution, a multiyear project to update the mandatory guidance of the IPPF. Whilst the revised Global Internal Audit Standards is due to be released in January 9, 2024, the 2017 IPPF will continue to remain in effect, for the next 12 months. The CBSI Internal Auditing and the individual internal auditors are required to adopt the new Global Internal Audit Standards by January 9, 2025 and, thereafter.

The Internal Audit Team would like to firmly confirm and affirm their (and that of their activities) continual respect and pledge of the professions, core values and professional code of ethics and conducts.

Assurance - internal auditing provides assurance on the organizational governance, risk management, and control processes to help the Bank achieve its strategic, operational, financial, and compliance objectives and mandates.

Insight - internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on professional and knowingly analyses and assessments.

Integrity - establish trust that provides the basis for reliance on the judgement of the Internal Auditor.

Objectivity - exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Ensure there is always a balanced and consistent assessment of all the relevant facts and 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

The Solomon Islands National Financial Inclusion Strategy 3 2021-2025 (NFIS3) is an overall roadmap of national efforts to drive financial inclusion in Solomon Islands. The priority focus for Solomon Islands are on four thematic areas of development:

Digital Financial Services - a key catalyst to overcome barriers to access and use of formal financial services and, enhance inclusion by expanding the number of eligible account users.

Micro Small Medium Enterprises (MSMEs) - strengthening the productive capacity of MSMEs through providing access to a broad range of financing options and building entrepreneurial capability through business mentoring and skills development.

Consumer empowerment & protection - building the financial capability of target groups, providing them the opportunity to be financially competent and to achieve a greater financial security.

Data Measurement - the importance of evidenced-based policies that identifies appropriate policy interventions for an inclusive financial sector, one that provides for the diverse needs of Solomon Islands population including the underserved and marginalized groups.

Financial Inclusion underscores the importance for the development of an inclusive financial sector, which enables individuals to participate in the formal financial services. A well developed and inclusive financial sector is a catalyst for economic development by lessening income inequality and reducing poverty. The foreseeable impact of the NFIS3 therefore, is to provide all Solomon Islanders, including the marginalized population and people in the rural remote areas, access to savings and credit, remittances, payment mechanisms among others, providing them the means to accumulate savings, invest in productive activities thereby, assisting them to navigate poverty and contribute to the vision of increased financial resilience and improved economic livelihoods. This can positively impact consumption, employment and the overall income in the economy.

The NFIS3 stipulates two national goals to

be met by 2025:

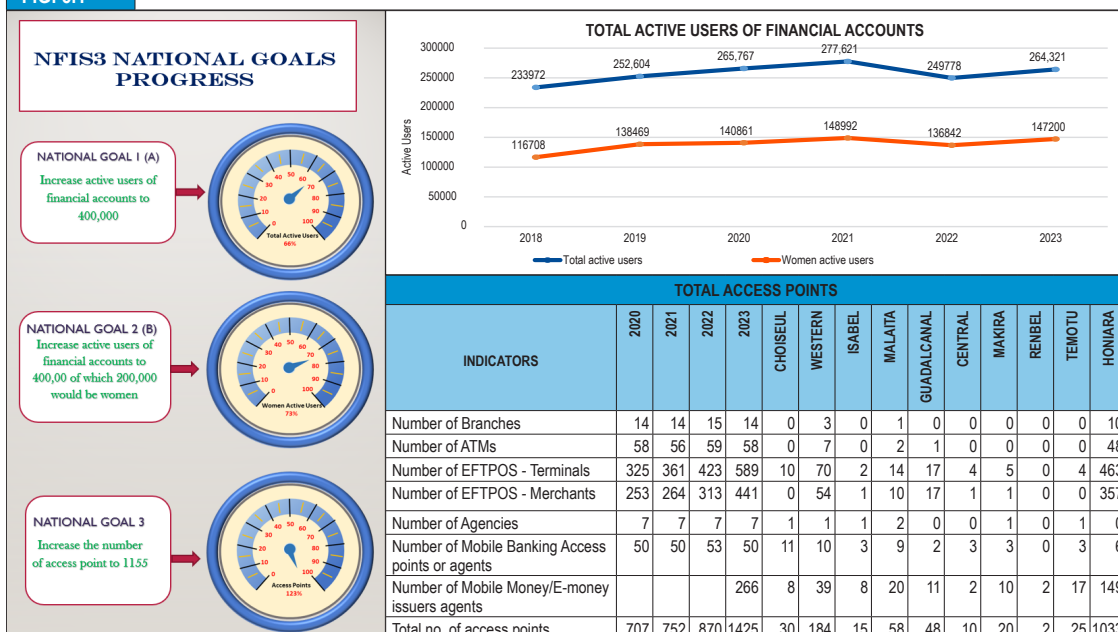
- Increase active users of financial accounts to 400,000 (of which 50% are women); and
- Increase the number of access points to 1155

By end of 2023, total active users of financial accounts reached 264,321 of which 147,200 (56%) were women active users indicating increased active users. Users of financial services includes formal financial institutions, superannuation fund (formal & informal), credit unions, micro-finance institutions and savings groups. In terms of the figures, a caveat to this aggregate figure is the issue of double-counting from supply-side data and this remains a challenge due to lack of a national identification number in order to identify a customer as a unique user.

The NFIS3 second national goal has been achieved with total access points reached 1425 as at end 2023 which surpasses the target of 1155 access points. The achievement was driven by the continuous growth in the number of EFTPOS terminals and merchants as well as new additional data compiled for E-money/Mobile Money issuers agents and branches. While reaching the target indicated great efforts to expand access points so that these channels are within reach to access financial services, the challenge of decentralization still persists with about 70% of access points are located in the capital, Honiara.

This persistent challenge also implies a broader national issue in relation to infrastructure, support to Financial Service Providers to establish access points in rural, remote areas and, the development of inclusive products & services. These access points were established by financial institutions, semi-formal institutions and mobile money providers that facilitate cash in (including deposits) and

FIG: 5.1



cash out (withdrawal).

The six Strategic Objectives under NFIS3

These strategic objectives under four broad thematic areas, are mainly implemented by the National Financial Inclusion Taskforce (NFIT) stakeholders and the Working Groups. These working groups are, Digital Finance Working Group (DFWG), Micro Small Medium Enterprises Working Group (MSMEWG), the Consumer Empowerment Working Group (CEWG) and Data & Measurement Working Group (DMWG). Detailed below are some key financial inclusion activities undertaken during the year;

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

A key aspect of NFIS3 which also underlies other strategic objectives is the role of Digital Finance Services (DFS) to extend financial services to the last mile and also improve quality of financial services channels. Across the financial sector, DFS is gaining some traction in the market with new players in the payments space particularly, non-banking institutions.

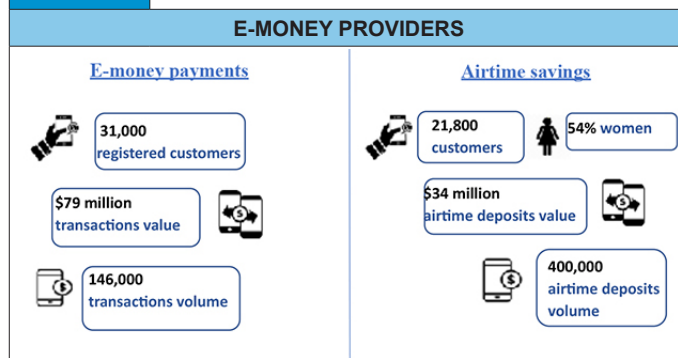
Digital Financial Services:

The new players offering digital financial services are assessed either through the Practice Guidance Note 2 (PGN2) on Mobile Money Services or the Regulatory Sandbox Framework (RSB). The RSB, which was launched in 2022, establishes the controlled environment for innovators with responsible financial technological solutions to provide and improve delivery of financial services in Solomon Islands. More importantly, these solutions have the potential to address the unbanked and underserved Solomon Islands population. The interested genuine innovators can be 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.

The launch of M-Selen and ACCountplan during the year, provided alternative digital payment channels that customers can use to access financial services. M-Selen enables users to conduct their basic financial transactions such as transfers, bill payments, mobile top-ups and have proposed expansion of payment use cases to facilitate other payment needs. This is also a key initiative towards addressing the issue of limited access points especially, for rural, informal sector customers.

There are other e-money providers that have provided similar financial services such as cash in (deposit), cash out (withdraw) or payments (pay bills or Person to Person transfer) through a mobile phone including, merchant payments and money transfer services using ePOS (Point of Sale) and QR code. These other providers are Ezi Pei, Iumi Cash, Aelan Digital & ACCountplan Ltd.

FIG: 5.2



Source: CBSI

The reporting entities are Ezi Pei, M-Selen and Iumi Cash while ACCountplan reports on Money Transfer Service transactions. The new reporting template that will be issued to the e-money providers in 2024 will assist to enhance reporting of the e-money performance in Solomon Islands.

During the year, a scoping study on the Retail Payments Ecosystem in Solomon Islands was completed. Recommendations highlighted key priority focus areas on (i) Infrastructure – to support secure, safe and real time digital payments, (ii) Regulatory framework – to provide a conducive environment for innovation and (iii) User engagement – to spur supply and demand in improving the scale.

In terms of other initiative collaborations, CBSI continues to part of the consultations with its NFIT stakeholders. This includes the Solomon Islands Inclusive Digital Economy Scorecard (IDES) which highlighted the Digital Economy score of 43% indicating the level of development of Solomon Islands digital economy.

Regarding awareness, digital awareness is mainly undertaken by the financial institutions and other financial service providers on the importance and the convenience of using digital channels.

Strategic Objective 2: Improve and promote MSME finance

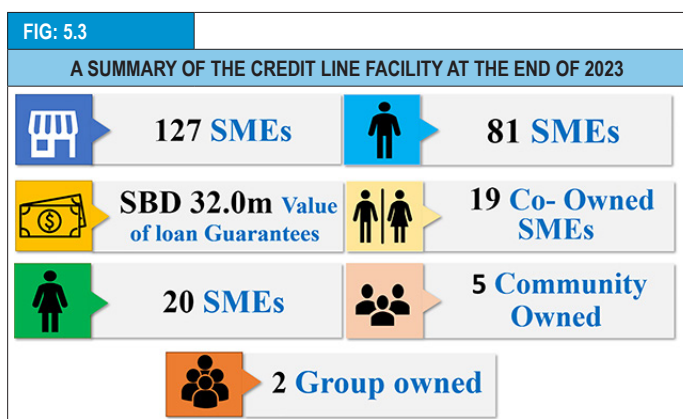
The four key activities under strategic objective 2, purposely to strengthen the productive capacity of MSMEs in Solomon Islands are (1) Enhance SME Access to finance through implementation of revised SME Credit Guarantee Scheme (SMECGS), (2) Strengthen the credit risk information system and information 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.

During the year, the key MSME activities were centered on Access to Finance and some financing facilities are SME Credit Guarantee Scheme (CGS) and MSME Credit Line Facility initiated by the Solomon Islands Government through Ministry of Commerce, Industries, Labour

& Immigration (MCILI) and administered by the CBSI and DBSI respectively, while the SME Export Finance Facility is developed by CBSI. These financing facilities provides critical support to MSMEs growth and development and strengthen their productive capacities as they contribute to the economic activities.

SME Credit Guarantee Scheme

This financing facility supports the SMEs to access credit from Participating Financial Institutions (PFI) by offering a 90% guarantee on collateral shortfalls. Current PFIs are; the Development Bank of Solomon Islands (DBSI), Credit Corporation Solomon Islands (CCSI), Bank South Pacific (BSP), Pan Oceanic Bank (POB) and ANZ Bank.



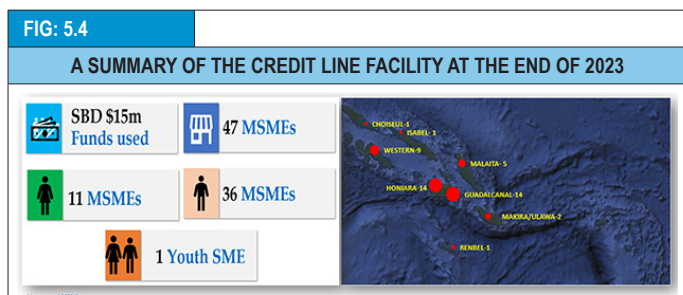
Source: CBSI

(Refer to CBPDs section on Guarantee Scheme) for details of approved SMEs, gross loan value, SMEs by geography and industry)

By end of 2023, a cumulative total of 127 SMEs received guarantees under the scheme, an additional 34 SMEs compared to 2022. These 34 SMEs received a total value of guaranteed loans of \$8.4 million particularly, from agriculture and transportation sectors. In terms of gender and other categories, male owned, women-owned and co-owned (men & women) SMEs comprised the majority of loans being guaranteed under this facility.

MSME Credit-line facility

The MSME Credit Line facility includes the support for micro enterprises and target groups particularly, women and youth entrepreneurs. The credit funding support is made available across a wide sectoral spectrum including



Source: CBSI

agriculture and agricultural related industries, fisheries, tourism, and agro-forestry sectors.

Compared to 2022, there is an increase in total MSMEs driven by the increase in women entrepreneurs, an additional 8 women accessing this facility which indicated their increasing confidence and capability to acquire credit to support their businesses. The total value of funds reached \$15million in 2023.

The MSME working group continues to encourage financial institutions and financial service providers to design and offer products that meet the needs of Solomon Islanders including women and youth entrepreneurs.

The majority of SME accessing the facility are in Honiara, Guadalcanal and Western Province. There are also few SMEs from Malaita, Makira/Ulawa, Choiseul, Renbel and Isabel. Limited access to the facility remains a challenge for SMEs in the provinces and as such, a key priority area under NFIS3, is to explore online portal submissions for MSME applicants.

SME EXPORT FINANCE FACILITY

There are 2 SME exporters accessing the Export Finance Facility by end of 2023. The low number of SME exporters accessing the facility is reflected by the low participation of financial institutions. This export credit facility is important to support SME exporters in Solomon Islands to strengthen their businesses in facilitating international trade and thereby, promote economic development.

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

Financial and digital literacy programs contribute significantly towards ensuring that all Solomon Islanders have the opportunity to access a range of quality and affordable financial services to increase resilience for the underserved such as women, youth and rural adults. Further, the implementation of financial consumer protection by all financial service providers and their agents is crucial for fair and responsible treatment of financial consumers when accessing financial services and products.

Consumer Empowerment Working Group:

The Consumer Empowerment Working Group (CEWG) was established to implement related policy areas and activities under NFIS3 Objective 3 on: Include women, youth and rural adults as fully engaged participants in the formal financial sector. The CEWG membership representatives are from the Government Ministries, Development Partners, Non-Government Organisations (NGOs) and Financial Institutions.

2023 CEWG Workplan

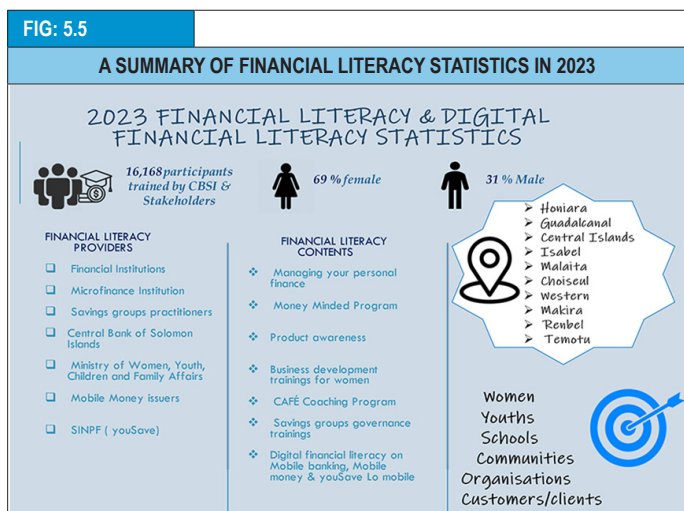
The workplan was aligned to NFIS3 and the National Women Financial Inclusion Policy (NWFIP) focusing on the following strategic objectives; (i) Include women,

youth and rural adults as fully engaged participants in the financial sector to develop women-centre products, services & delivery channels, (ii) Build financial resilience in households and communities and (iii) Support savings groups to promote women’s financial & economic inclusion.

ONGOING INITIATIVES

Financial Literacy:

CBSI and its stakeholders continue to provide financial literacy programs in 2023. Most programs and trainings were conducted through face-to-face mode of delivery and few were delivered through media channel. These financial literacy programs are vital to equip Solomon Is-



Source: CBSI

landers with financial knowledge and skills to make informed financial decisions and to become financially competent.

Consumer Awareness Financial Empowerment (CAFE) Financial Competency/Coaching Programme

The CAFE program continued into its third year of implementation of the Training of Trainers (TOT) Program.

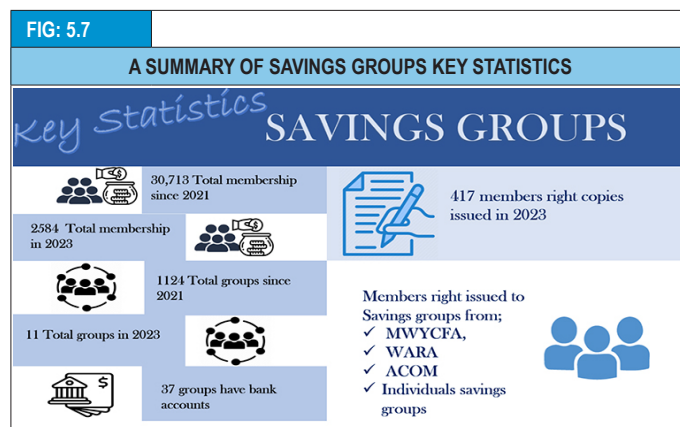
FIG. 5.6
FINANCIAL COMPETENCY IMPLEMENTATION PROGRAM (TRAINING OF TRAINERS - TOT) CBSI & GOOD RETURN

NFIS 3 objective 3.3 Continue to deliver TOT Programme to reach all Constituencies by 2025: Financial Competency Implementation (Training of trainers - TOT) CBSI & Good Return

Province	Constituency	Partners	No. of Coaches	Total Participants	Female	Male
Honiara	E/Honiara C/Honiara W/Honiara	ACOM MWYCFA	17	158	144	14
Guadalcanal	C/Guadalcanal EC/Guadalcanal W/Guadalcanal N/Guadalcanal S/Guadalcanal NW/Guadalcanal N/Guadalcanal E/Guadalcanal	MWYCFA	19	384	355	29
Central	Ngella Save/Russet	MWYCFA	13	125	125	
Total	13	2	49	667	624	43

Source: CBSI

Since its inception in 2021 to 2023, a total of 13 constituencies participated in the program. The TOT program involves individuals or leaders in the communities who become certified trainers to deliver financial literacy ses-



Source: CBSI

sions in their respective communities. The trainings are a partnership with Ministry of Women, Youth, Children and Family Affairs (MWYCFA) and Anglican Church of Melanesia (ACoM) who works with rural women through their savings groups.

Savings groups

NFIS3 and NWFIP emphasised the need to strengthen and expand Saving Groups to address the gender disparities in terms of limited access to financial services. This recognises the crucial role played by women especially in the rural areas and the need to increase their participation to support their family’s financial and economic well-being through savings groups, as an avenue to save and access micro-loans. As the secretariat, CBSI assisted savings groups through the distribution of “Savings Groups Members Rights” Guide so that members understand their rights when saving their money with a savings group.

Strategic Objective 4: Build financial resilience in households and communities

The SINPF youSave Savings for the informal sector increased in membership and savings in 2023. As at Q42023, total membership reached 40,693 of which 53% are women, while total savings grossed \$39 million of which 6% accounted for withdrawals. The youSave lomobile service offers convenience to members through airtime credit deposits to members’ youSave accounts. Total value of airtime deposits by end-December 2023 increased to \$34 million.

While there were efforts for Financial Education in Rural Training Centres curriculum, which was an initiative in 2022, there are no further updates on Financial Education in school core curriculum. This initiative is critical to support students in their financial management skills.

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

In its efforts on consumer protection, the CBSI has issued Prudential Guideline No. 21 on Financial Consumer Protection to address financial consumer protection issues and unethical practices for users of financial services.

The draft E-money regulation is also an important regulation which outlines the consumer protection for e-money service providers highlighting Customer rights and Provider responsibilities. The regulation is still outstanding.

In terms of the Savings Groups consumer protection, the Solomon Islands Savings Groups Members Rights continues to be promoted & distributed by CBSI & Savings Groups Practitioners. By end of 2023, a total of 417 copies was distributed.

Strategic Objective 6: Develop & 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 representatives of the working group comprised of officials from government ministries, financial institutions and development partners. 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.

2023 WORK PLAN

The working group is guided by a workplan with activities focusing on the review of the reporting templates, geo-spatial mapping of access points, and the National Census 2019 survey outcome on financial services. In 2023, there is no progress on the geo-spatial mapping while the national Census 2019 survey outcome is yet to be finalized.

Financial Inclusion Disaggregated Data Policy and Review of Financial Inclusion reporting templates

During the year, CBSI developed a new policy on Financial Inclusion Disaggregated Data, which was endorsed by NFIT. The policy highlighted the need for granular data on provision of financial services by both financial institutions, credit institutions and other financial service providers including e-money providers. This is important for purposes of appropriate product or service design and policy interventions that will also address the diverse financial needs of Solomon Islanders including the margin-

alised groups.

In aligning with the financial inclusion disaggregated data policy, CBSI reviewed and developed new reporting templates for the financial institutions and the E-money issuers as well as the Instructions Manual for the Reports. The reporting templates were finalised and endorsed by NFIT while the Instructions Manual for the reporting templates is still work in progress. There were prior consultations held with financial institutions, credit institutions and e-money issuers to gather their feedbacks followed by a further consultation on the revised reporting templates communicated through email. A training session is planned for 2024 prior to implementing these reporting templates.

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 protection. These dimensions are aligned with the NFIS3 data measurement framework which is vital to monitor the progress of the strategy implementation.

Regarding financial inclusion national surveys and studies to support evidence-based policymaking, CBSI was supported by UNCDF on a national Digital & Financial Literacy survey conducted for the Pacific region including Solomon Islands. The survey results were presented to NFIT members and other stakeholders in October. Findings noted that financial literacy and competency outperforms digital and digital financial literacy which indicated the need for financial service providers and relevant stakeholders to also incorporate digital literacy when delivering financial literacy. The report also highlighted those target groups with low level of digital literacy and financial competency particularly, the retired, low-income earners, living in Malaita (with larger population and spread therefore, limited reach) and those within the age range 45 - 74 years. Therefore, there should be increased reach and support for these target groups.

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 though providing capacity development trainings for technical staff. The Alliance for Financial Inclusion (AFI) also continued with its support to members by providing technical assistance on policy development and capacity building programs. The Good Return Australia continued to provide assistance with the implementation of the Financial Competency Training of Trainers Program.

CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

The Solomon Islands Financial Intelligence Unit (SIFIU) is established under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCAA 2010). The vision of the SIFIU is to ensure “Solomon Islands is protected from money laundering, terrorism financing and proliferation financing activities”. The roles and functions of the Unit are specified in the MLPCAA 2010. SIFIU is one of the leading agencies that is 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 the 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 are 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, 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 we are confident of, capable of making sure our financial system is safe from the misuse by criminals.

Also, 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 EGDMONT 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. In addition to being members of these International bodies ensures that Solomon Islands remain relevant with the best practices to counter threats and vulnerabilities associated with money



Management Advisor Operations Marlon Houkarawa speaks to participants during the NFIS Taskforce update to stakeholders

laundering, terrorism financing and proliferation financing are mitigated.

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

Funding for the operation of the SIFIU in 2023 came from the SI Government, the Central Bank of Solomon Islands, and also the United Nations Development Program office, totalled up to \$5,262,774.26; \$728,820.00 from the SI Government and \$3,879,757.95 from the CBSI, and \$406,524.92 from the UNDP. The Unit also had a brought forward amount of \$247,671.39 from 2022. Apart from funding contribution that goes toward meeting the salaries and other benefits of thirteen (13) officers, the CBSI also supported the Unit through subsidising most of its vital expenditure heads, such as office space monthly rental payments, medical benefits, leave entitlements, office equipment and IT services.

Solomon Islands Post Mutual Evaluation

The Solomon Islands has commenced to address 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 focus on for the next four (4) years.

It is very important 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 key agencies during the year, despite the global pandemic. With the easing of restrictions on movement

now, the Unit is now embarking on face-to-face consultations and supervision.

Apart from the core functions 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 two financial institutions.

While the inherent level of risks associated with the entities was generally high, it was observed, 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 emerged during the covid 19 pandemic.

Review of the legal framework

In 2023, SIFIU has progressed in the process of reviewing its legal framework the MLPCA, to combat the ever-changing landscape of increasing trends of money laundering and other financial crimes as well as to adhere to current international best practices. The MLPCA had been reviewed by SIFIU and the Ministry of Justice and Legal Affairs (MJLA) and was endorsed by the Cabinet in August 2023. The endorsement by the cabinet allows SIFIU and MJLA to carry on with the review which will include the drafting instructions, draft bill and the stakeholders’ consultations.

Numbers of reports received from the reporting agencies

In 2023, total STRs received by SIFIU was 109 compared to 93 STRs received in 2022, an increase of 17 percent. To-

tal CTRs and EFTRs received in 2023 were not available at the time this report was compiled. The New Database system could not provide the information required as it was going through the data ingestion stage. In terms of the BCRs, a total of 19 reports were received for 2023, 3 were for Incoming Passengers and 16 were for Out bound passengers. For Case Dissemination Reports, a total of 3 cases were disseminated to relevant competent authorities in 2023 for further investigations.

Table 6.1 below show the type and number of reports received by SIFIU in 2023 compared to the previous year 2022.

TYPE OF REPORTS	RECEIVED	
	2023	2022
Suspicious Transaction Reports (STRs)	109	93
Cash Transaction Reports (CTRs)	N/A	N/A
Electronic Funds Transfer Reports (EFTRs)	N/A	N/A
Border Currency Reports (BCRs)	19	11
Case Dissemination Reports (CDRs)	3	13

Source: SIFIU

Trainings/Workshops/Meetings Attended By SIFIU

In 2023, a total of seven SIFIU staff members underwent attachment training with two regional FIUs. The first batch of four SIFIU officers, consisted of three fulltime SIFIU senior supervisors and a secondment officer from the RSIPF attended a two-week successful attachment in Port Moresby with Papua New Guinea’s Financial Analysis & Supervision Unit (FASU) from 13th to 24th February.

The second batch of three SIFIU analysts attended a successful two-week attachment program with the Cook Islands FIU (CIFIU) in Rarotonga, Cook Islands. While in Rarotonga, two SIFIU analysts had the privilege to attend a training that was conducted by APG in Cook Islands around the same time.

Table 6.2 Below show the number of trainings, courses and workshops attended by SIFIU in 2023.

DATE	PARTICULAR OF EVENT	FACILITATOR	DELIVERY MODE
26/1/2023	Risk Management Awareness Training	RMCCD/CBSI	Face to face/Virtual
31/1/2023	Staff Association Meeting	SA CBSI	In Person - CBSI HQ
31/1/2023	Presentation for the Annual Briefing on Transnational Crime, Drugs, and Non-Traditional Security Challenges in the Pacific	UNODC	Virtual
8/2/2023	Signing of MOU between SIFIU and OAG	OAG	In Person - OAG Office, Honiara
13 - 23/2/2023	Four officers undergoing attachment with FASU (PNG FIU)	FASU	In Person - Port Moresby, PNG
16/2/2023	Bilateral Meeting with IMF - 2023 Article IV Consultation	CBSI	In Person - Honiara
16/2/2023	Meeting with Pacific Australia Labour Mobility	CBSI	In Person - Honiara

6/3/2023	Prosecution of Corruption Workshop	UNDP	In Person - Honiara, Solomon Islands
7-8/3/2023	Beneficial Ownership Workshop	UNDP	In Person - Honiara, Solomon Islands
10/3/2023	Briefing on the MLPC review to the Minister for Justice and Legal Affairs	SIFIU/MJLA	In Person - Honiara, Solomon Islands
9 - 13/3/2023	APG Assessor Training Workshop	APG	In Person - Tokyo, Japan
13-16/3/2023	IMF Legal Department meeting with the AMLTEG members.	IMF	In person - Honiara, Solomon Islands
14/3/2023	Fishing or Fishing Emails Awareness Training.	ICTSU/ CBSI	Virtual
15/3/2023	AMLTEG members meeting with the IMF.	IMF	In Person - Honiara, Solomon Islands
20 - 24/3/2023	Regional UNODC Cryptocurrencies and Darknet Investigations Training Course	UNODC	In Person - Nadi, Fiji
22 - 30/3/2023	Peer-to- peer Mentoring & Capacity Building Attachment Program (PPMCB)	Cook Islands FIU (CIFIU)	In Person - Rarotonga, Cook Islands
23/3/2023	AMLRO meeting with ODPP.	SIFIU	In Person - Honiara, Solomon Islands
27 - 30/3/2023	Financial & Money Laundering Investigations & Criminal Asset Confiscation	APG	In Person - Rarotonga, Cook Islands
25 & 29/4/2023	CBSI Strategic Plan – Balance Score Card – training.	CBSI	In Person - Honiara, Solomon Islands
26/4/2023	CDF Bill Consultation.	MRD	In Person - Honiara, Solomon Islands
28/4/2023	CBSI Strategic Planning Project.	CBSI	In Person - Honiara, Solomon Islands
13 - 23/5/2023	Intermediate Level AML/CFT Supervision of Offshore Entities	APG	Virtual
19/5/2023	BCU Supervisory Committee meeting.	BCU	In Person - Honiara, Solomon Islands
22 - 26/5/2023	Balance Score Card Training	Training Provider	In Person - Gold Coast, Australia
29/5/2023 – 1/6/2023	AML/CFT Pacific Supervisors Forum.	APG	In Person - Auckland, New Zealand
30/5 - 1/6/ 2023	Pacific Supervisors Forum	APG/NZ/Pacific Islands Forum	In Person - Auckland, New Zealand
8/6/2023	PNG and Cook Islands Attachment candidates interview with UNDP.	UNDP	In Person - Honiara, Solomon Islands
12 - 15/6/2023	AML/CFT Mentoring Program	UNDP	In Person, SIFIU Office, Honiara, SI
13-15/6/2023	Capacity Building & Consultative Workshop - Investigating & Prosecuting Wildlife Crime	UNODC	In Person - Honiara, Solomon Islands
20/6/2023	Staff Association meeting.	SA/CBSI	In Person - Honiara, Solomon Islands
9 - 14/7/2023	APG Plenary	APG	In Person - Vancouver, Canada
17 - 21/7/2023	UNODC Mentoring Program	UNODC	In Person - Honiara, Solomon Islands
5-6/7/2023	Senior Officials' Meeting on the Certification and Professional Development of Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) Professionals	UNODC	In Person – Nadi, Fiji
20/7/2023	Mobile Money Platform and the related regulations.	Solomon Telekom	In Person - Honiara, Solomon Islands
20/7/2023	Building Investigative Capacities in the Fight against Corruption.	UNDP	In Person - Honiara, Solomon Islands
2/8/2023	CBSI FEMpower Talk.	Australian High Commissioner	In Person - Honiara, Solomon Islands
17/8/2023	Meeting with UNDP and PMO on National Anti-Corruption Strategy.	UNDP	In Person - Honiara, Solomon Islands
5-8/09/2023	UNODC Global Program Against Money Laundering (AML/CFT Training on Financial Crime Investigations (Intermediate Level)	UNODC	In Person Nadi, Fiji
18 - 22/09/2023	Multilateral Intelligence Analyst Exchange Program	PFIC/AUSTRAC	In Person - Canberra, Australia
18/10/2023	Draft Budget Regulations Consultations for the Ministry of Finance and Treasury (MOFT).	MOFT	In Person - Honiara, Solomon Islands
30/10/2023	Discuss CBSI AML/CFT Refresher Training and Awareness.	RMU	In Person - Honiara, Solomon Islands
6 - 10/11/2023	FATF Standards Training Course	FATF/APG	In Person - Kuala Lumpur, Malaysia
15- 17/11/2023	Pacific Financial Intelligence Community 2nd Plenary	APG/PFIC	In Person - Rarotonga, Cook Islands
16 -17/11/2023	Asset Recovery Conference	ECOFEL	In Person - Taipei, Taiwan
27- 28/11/2023	Cyber Security meeting.	UNODC	In Person - Suva, Fiji
29/11/2023 -1/12/2023	Ransome Ware Training.	UNODC	In Person - Suva, Fiji.

Source: SIFIU

Local Trainings and Workshop Conducted By SIFIU

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

Table 6.3 Show Local Trainings and Workshops Conducted by SIFIU in 2023.

TABLE 6.3				
DATE	PARTICULARS OF EVENT	PARTICIPANTS	FACILITATOR	NUMBER OF PARTICIPANTS
23/3/2023	Meeting with ODPP	ODPP/SIFIU	SIFIU	5
25/4/2023	AMLTEG Q1 meeting	AMLTEG members	SIFIU	10
3/5/2023	AMRO Q1 meeting	AMLRO members	SIFIU	10
7/6/2023	PDCSCD in-house meeting.	PDCSCD team	SIFIU	5
20/6/2023	In-house meeting.	PDCSCD Team	SIFIU	5
27/6/2023	AMLTEG Q2 meeting	AMLTEG members	SIFIU	12
22/7/2023	In-house meeting in preparation for the Suva Training - PROLIFERATION QUESTIONNAIRE.	SIFIU team	SIFIU	5+
27/9/2023	AMLRO Q3 meeting	AMLRO members	SIFIU	10
18/10/2023	AMLTEG Q3 meeting	AMLTEG members	SIFIU	10
19/10/2023	FIs Refresher Training.	Financial Institutions	SIFIU	10+

Source: SIFIU

AWARENESS OUTREACH PROGRAM SIFIU PARTICIPATED IN 2023

The unit along with CBSI conducted the following awareness outreach program for local stakeholders and the general public in 2023.

Table 6.4 shows the Awareness and Outreach Programs SIFIU and CBSI conducted in 2023:

TABLE 6.4				
DATE	PARTICULARS OF EVENT	PARTICIPANTS	FACILITATOR	NUMBER OF PARTICIPANTS
2/3/2023	LMU Workers Pre-Departure Briefing	LMU Workers	LMU/MFAET	124
29/7/2023-1/8/2023	Guadalcanal Province 2nd Appointed Day Mini Trade Show – Awareness and Brochure and information sharing.	General Public	CBSI/SIFIU	General Public
2/11/2023	CBSI AML/CFT Refresher Training and Awareness session.	CBSI Staff	SIFIU/RMU/CBSI	20+

Source: SIFIU

AML/CFT Onsite Inspections Conducted by SIFIU in 2023

SIFIU has conducted two onsite inspections in 2023, one for CBSI and the other for Pan Oceanic Bank (POB).

Table 6.5 shows the number and details of onsite inspections SIFIU has conducted in 2023:

TABLE 6.5		
DATE	PARTICULAR OF EVENT	ENTITY INSPECTED
17 – 21/4/2023	CBSI AML/CFT Mini Onsite Inspection.	CBSI
23/10/2023	POB Follow-Up AML/CFT Onsite Inspection.	POB

Source: SIFIU

CHAPTER 7: CALENDAR OF EVENTS

MONTHS	EVENTS
JANUARY	
FEBRUARY	<ul style="list-style-type: none"> • CBSI Board Meetings held in Honiara on the Economic Update
MARCH	<ul style="list-style-type: none"> • CBSI conducts Media Training for local journalists with Media Association of Solomon Islands (MASI) and BBC Media Watch –Economics & Financial News Reporting • CBSI commence participation in the Labour Mobility Unit (LMU) on-going Pre-departure Briefings for Seasonal Workers • CBSI Board Meeting in Honiara approves the Monetary Stance March 2023
APRIL	<ul style="list-style-type: none"> • CBSI Board Meeting in Honiara approves the Financial Report 2022 • CBSI makes first ever live launch of the Annual Report (2022) since COVID-19. Launch takes place at the Honiara Hotel
MAY	<ul style="list-style-type: none"> • CBSI joins the Go Green Clean Up Campaign in Honiara in the lead up to the 2023 Pacific Games
JUNE	<ul style="list-style-type: none"> • CBSI participated in the Career & Education Expo at the Solomon Islands National Institute of Sports (SINIS) • CBSI Board Meeting in Honiara
JULY	<ul style="list-style-type: none"> • CBSI participated in the Guadalcanal Mini- Trade Show
AUGUST	<ul style="list-style-type: none"> • CBSI Act Review – Nationwide Consultation Program • Two CBSI Board Meetings in Honiara on the Mid-Year Budget review and the Monetary Policy Stance September 2023
SEPTEMBER	
OCTOBER	<ul style="list-style-type: none"> • CBSI hosts Credit Union Symposium at Aura Building (CBSI Satellite Office) marking the 75th Anniversary of credit union movement • CBSI launches the new \$10 polymer banknote in commemoration of the 2023 Pacific Games held in Honiara. Host held at the CBSI Board Room. • CBSI selected personnel participate in a 3-week research program with Griffith University in Australia • Two CBSI Board Meetings held in Honiara approve the Staff T&C Review and Staff Benefit Review
NOVEMBER	<ul style="list-style-type: none"> • CBSI launches new digital currency project with SORAMITSU – Bokolo Cash • CBSI hosts the 38th Pacific Central Bank Governors Meeting in Honiara
DECEMBER	<ul style="list-style-type: none"> • CBSI Board Meeting held at Aruligo approve the 2024 Budget and plans and the Risk Management Policy



CENTRAL BANK OF SOLOMON ISLANDS

DIRECTORS' REPORT

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DIRECTORS' REPORT

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 Islands ("the Bank") as at 31 December 2023 and the related statements of profit and loss and other comprehensive income, changes in equity and cash flows 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
- Hellen Beck

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 2023 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 gain of \$199.43 million for the year ended 31 December 2023 (2022: \$12.79 million loss restated).

RESERVES

The Board approved the following transfers to reserves from the statement of profit or loss and other comprehensive income: \$60.27 million to the capital asset reserve, \$129.15 million to foreign exchange revaluation reserve at year end and \$10 million to the Solomon Islands government consolidated fund as per section 55 (1)(d) 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 economy in 2023 returned to normalcy from multiple shocks in the past three years including the pandemic, Honiara November riots, and hikes in food and energy prices. The government prioritized the country's hosting of the 17th Pacific Games in the capital city from 19th November to 2nd December 2023 and the nationwide biometric voter registrations for the National General Election to be held on 17th April 2024. Economic indicators on consumption, investment, exports, and employment showed overall positive outcomes, however, as a small island economy, challenges remained such as being a price taker, narrow economic and tax base, and reliance on development partners for major infrastructure projects.

Global inflation has subsided although it still remains above targets and central banks overseas continued to tighten monetary policy by raising policy rates. The US economy in 2023 proved more resilient in the second half of the year accompanied with the higher US Fund Fed rate which fueled an appetite for US assets and translated to a stronger US dollar against other major global currencies. As a result, the Solomon Islands dollar weakened against the US dollar. These global financial and currency market developments benefited the CBSI's financial position particularly with a substantial rise in interest income on overseas investments and an overall gain on foreign exchange revaluations.

In carrying out the Bank's primary mandate of price stability, CBSI, similar to other central banks overseas, adopted a tight monetary policy stance in 2023 from an accommodative stance in 2022. The shift reflected the expectations of high inflation persistency following the Russian-Ukraine war related supply disruptions especially on energy prices. Domestic headline inflation diminished from a higher rate of 9.1% in 2022 to a moderate level of 3.5% in 2023.

On 18th of October 2023, the National Parliament passed the Central Bank of Solomon Islands (Amendment) Act 2023 which provided amendments to the Central Bank of Solomon Islands Act 2012. The amendments aim to strengthen the Bank's capacity under its mandated objectives to effectively manage the economy in an evolving financial environment and the ongoing advancement of digital technology, in order to remain aligned with modern central banking practices.

In terms of currency and legal tender, the Bank launched a new \$10 commemorative banknote, dedicated to commemorating the 17th Pacific Games. The Bank also introduced new security features embedded in the \$100 and \$50 banknotes and were introduced into the currency circulation prior to the end of the year.

DIRECTORS' BENEFIT

Other than directors' remuneration and benefits disclosed in the financial statements, 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. ve, either directly or indirectly through any entity that he/she is a member of or with substantial financial interest.

UNUSUAL TRANSACTIONS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Bank, the results or cash flows of those operations, or the state of affairs of the Bank in future financial years.

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 11th April 2024.

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



Luke Forau
Chairman of the Board and Governor



David KC Quan
Director

STATEMENT BY DIRECTORS

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 2023;
- (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 2023;
- (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 2023;
- (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 2023;
- (e) at the date of this statement there are reasonable grounds to be 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 the 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 11th April 2024.



Luke Forau
Chairman of the Board and Governor



David KC Quan
Director

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

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 2023, 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, comprising significant accounting policies and other explanatory information as set out in notes 1 to 28.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, 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,

Earnst and Young (EY) Fiji, have been engaged to undertake the audit on my behalf. This opinion is in line with the independent advice provided by EY 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 on this matter.

Other information

Management are responsible for the other information. The other information comprises the information included in the Directors' report but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of management and those charged with governance for the Financial Statements

Management is 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

In accordance with Section 36 of the Central Bank of Solomon Islands Act, amended in November 2023, the total balance of government debt must not exceed 15% of the annual average of ordinary government revenue for the previous three financial years. The Central Bank of Solomon Islands complies with the above regulatory requirement. However,

the Bank has not adhered to the previous version in the Central Bank of Solomon Islands Act, 2012 which required the total balance of government debt to not exceed 5% of the annual average of government ordinary revenue for the three financial years immediately preceding for which audited accounts are available.

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion 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
20 April 2024

Office of Auditor-General
Honiara, Solomon Island

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023**

	Note	2023 \$000	2022 \$000 <small>Restated (note 2v)</small>
Income			
Interest income	3(a)	167,173	60,779
Fees and commission income	3(b)	22,727	26,413
Other income	3(c)	11,227	9,435
Net foreign exchange revaluation gain		<u>129,156</u>	<u>-</u>
Total income		<u>330,283</u>	<u>96,627</u>
Expenses			
Interest expense	3(d)	21,293	5,620
Fees and commission expense		542	666
Administrative expenses	3(e)	75,870	60,331
Other expenses	3(f)	32,273	19,263
Impairment allowance on financial instruments		873	528
Net foreign exchange revaluation loss		<u>-</u>	<u>23,011</u>
Total expenses		<u>130,851</u>	<u>109,419</u>
Net operating profit/(loss)		<u>199,432</u>	<u>(12,792)</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value (gold)		7,536	(7,560)
Net change in revaluation (property, plant, equipment)		<u>-</u>	<u>40,071</u>
Total other comprehensive income		<u>7,536</u>	<u>32,511</u>
Total comprehensive income		<u>206,968</u>	<u>19,719</u>

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

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023**

	Note	2023 \$000	2022 \$000 <small>Restated (note 2v)</small>	As at 1 st January 2022 <small>Restated (note 2v)</small>
Foreign currency assets				
Cash and cash equivalents	20	574,079	1,172,064	2,461,746
Accrued interest		40,594	19,953	5,406
Fixed income securities	4	4,892,684	3,878,192	2,797,880
Gold	5	-	118,614	81,057
International Monetary Fund	6	457,406	442,129	475,215
Total foreign currency assets		5,964,763	5,630,952	5,821,304
Local currency assets				
Cash on hand	20	487	195	147
Accrued interest		156	156	806
Loans and advances	7	280,984	200,095	198,658
Currency inventory	8	21,878	30,035	31,749
Property, plant and equipment	12	230,732	231,217	182,635
Intangible assets	9	25	52	54
Other assets	10	94,242	30,035	27,842
Right-of-use asset	11(a)	2,806	169	573
Total local currency assets		631,310	491,954	442,464
Total assets		6,596,073	6,122,906	6,263,768
Foreign currency liabilities				
International Monetary Fund	6	738,399	740,578	783,413
Demand deposits	13(a)	47,641	52,171	47,802
Total foreign currency liabilities		786,040	792,749	831,215
Local currency liabilities				
Demand deposits	13(b)	3,297,819	3,214,508	3,322,100
Currency in circulation	14	1,431,696	1,309,043	1,279,371
Fixed deposits	15	425,690	398,689	402,735
SIG monetary operations account	16	4,973	40,993	81,852
Employee entitlements	17	37,592	36,361	32,983
Other liabilities	18	77,765	5,854	8,017
Lease liabilities	11(b)	2,924	105	610
Total local currency liabilities		5,278,459	5,005,553	5,127,668
Total liabilities		6,064,499	5,798,302	5,958,883
Net assets		531,574	324,604	304,885
Capital and reserves				
Paid up capital	21	50,000	50,000	50,000
General reserve	22(a)	162,769	162,769	152,550
Foreign exchange revaluation reserve	22(b)	(50,649)	(179,805)	(156,794)
Asset revaluation reserve	22(c)	160,183	160,183	120,112
Gold revaluation reserve	22(d)	(9,552)	(17,088)	(9,528)
Capital asset reserve	22(e)	218,823	148,545	148,545
Total capital and reserves		531,574	324,604	304,885

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023**

	Issued & paid up capital	Gold revaluation reserve	General reserve	Foreign exchange assets revaluation reserve	Asset revaluation reserve	Capital assets reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Restated (note 2v)							
Balance at 1 January 2022	50,000	(9,528)	152,550	(156,794)	120,112	148,545	304,885
Total comprehensive income for the year							
Net foreign exchange loss (section 53(2))	-	-	-	(23,011)	-	-	(23,011)
Net loss for the year: Transfer to General Reserves as required under: Section 55(3) of the Central Bank of Solomon Islands Act., 2012	-	-	10,220	-	-	-	10,220
Other comprehensive income/ (losses)							
Fair value loss – gold(Section 53(2))	-	(7,560)	-	-	-	-	(7,560)
Transfer of remaining distributed profits for 2021 in accordance with Section 55(1) of the Central Bank of Solomon Islands Act., 2012	-	-	-	-	-	-	-
Fair value gains on revaluation of PPE	-	-	-	-	40,071	-	40,071
Total other comprehensive income/(loss)	-	(7,560)	-	-	40,071	-	32,511
Balance as at 31st December 2022 (note 22)	50,000	(17,088)	162,769	(179,805)	160,183	148,545	324,604
Total comprehensive income for the year							
Net foreign exchange gain Section 53(2)	-	-	-	129,156	-	-	129,156
Net profit for the year: Transfer to Capital Asset as required under: Section 55(1)(c) of the Central Bank of Solomon Islands Act., 2012	-	-	-	-	-	70,278	70,278
Other comprehensive income/(losses)							
Fair value gain gold(Section 53(2))	-	7,536	-	-	-	-	7,536
Total other comprehensive income	-	7,536	-	129,156	-	70,278	206,970
Balance as at 31st December 2023	50,000	(9,552)	162,769	(50,649)	160,183	218,823	531,574

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023**

	Note	2023 \$'000	2022 \$'000
Operating activities			
Interest received		146,532	46,076
Cash received from other income		33,954	35,849
Interest paid		(11,508)	(5,620)
Cash paid to suppliers and employees		(30,157)	(77,090)
Net movement in fixed income investments		(1,006,515)	(1,084,965)
Net movement in International Monetary Fund accounts		(18,970)	(5,479)
Net movement in other receivables		(64,207)	(2,193)
Cash flows (used in) operating activities		(950,871)	(1,093,422)
Investing activities			
Acquisition of property, plant and equipment		(4,479)	(14,845)
Proceeds from sale of premises, plant and equipment		(27)	(48)
Net movement in gold		118,614	(37,558)
Net movement in loan to government		(77,740)	(30)
Net movement in loans and advances to staff		(4,019)	(1,420)
Cash flows from (used in) investing activities		32,349	(53,901)
Financing activities			
Net movement in currency in circulation		122,653	29,672
Net movement in demand deposits		78,781	(103,223)
Net movement in fixed deposits received		27,001	(4,046)
Solomon Islands government monetary operations		(36,020)	(40,859)
Net movement in International Monetary Fund credit facilities		1,516	(4,273)
Repayment of leases		(1,968)	(468)
Interest payment on lease liabilities		(295)	(37)
Cash flows from/ (used in) financing activities		191,675	(123,234)
Net effect of exchange rates		129,156	(23,011)
Net (decrease) in cash		(597,691)	(1,293,568)
Cash at bank and on hand at the beginning of the financial year		1,172,259	2,465,827
Cash at bank and on hand at the end of the financial year	20	574,568	1,172,259

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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, 2023. 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, 2023 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 11th April 2024.

2. Summary 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, 2023 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 increase in profit by \$7.53 million.

The Bank has complied with the requirements of Section 54 of the Central Bank of Solomon Islands Act, 2012.

(b) Changes in accounting policies and disclosures.

New and amended standard and interpretations.

New and amended standards that have been adopted in the annual financial statements for the year ended 31 December 2023, but have not had a significant effect on the Bank are:

- Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies;

Material accounting policy information

The Bank adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) on 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of 'material, rather than "significant" accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity specific accounting policy information that users need to understand other information in the financial statements. Management reviews the accounting policies and determined that no updates to the information disclosed was required.

- Amendments to IAS 8 *Definition of Accounting Estates*; and
- Amendments to IAS 12 *Deferred Tax Related to Assets and Liabilities arising from a Single Transaction*.

New standards, interpretations and amendments not yet effective

The following amendments are effective fro the period beginning 1 January 2024:

- Amendments to IFRS 16: *Lease Liability in a Sale and Leaseback*;
- Amendments to IAS 1 : *Classification of Liabilities as Current or Non-current*; and
- Amendments to IAS 7 and IFRS 7: *Supplier Finance Arrangements*

The Bank is currently assessing the impact of theses new accounting standards and amendments. The Bank does not consider that there are any measurement or recognition issues arising from the release of these new pronouncements that will have a material impact on the reported financial position or financial performance of the Bank.

(c) Going concern basis of accounting

The financial statements have been prepared on a going concern basis. At 31 December 2023 the Bank had a surplus in net assets of \$531 million (2022 \$324million).

(d) Basis of measurement and presentation

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

- The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.
- These accounting policies adopted in the preparation and presentation of these financial statements are consistent with the use of the prior year.

(e) Functional and presentation currency

The financial statements are presented in Solomon Islands dollars, which is the Bank's functional currency. All financial information presented in Solomon Islands dollars has been rounded to the nearest thousand except when otherwise indicated.

(f) Use of estimates and judgment

The preparation of the financial statements in conformity with IFRS requires management to make judgments, 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
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 2023

(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 assets 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 instruments; FVOCI - equity instruments; 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 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 comprise 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 meet the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Derecognition

Financial assets

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

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

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or canceled, 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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 information credit assessment and including forward-looking information

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

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

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

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

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

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

Measurement of ECLs

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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, tellers cash, current accounts with a maturity of three months or less from the acquisition date and other short term highly liquid term deposits.

Cash and cash equivalents are carried at amortised costs in the statement of financial position.

(l) Fixed income securities

Fixed income securities are non-derivative assets with fixed or determinable payment and fixed maturity. The Bank intends to hold these to maturity. Fixed income securities include fixed term deposits, short term commercial papers and bonds.

Fixed income securities are carried at amortised costs using the effective interest method less any impairment losses.

(m) Gold revaluation reserve

Gold valuations have been translated to SBD currency at rates of exchange ruling at year end. The gains and losses arising during the year from changes in the valuation of the gold 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 Gold as a reserve. Profit and losses 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 profit by \$7.53m (2022: \$7.56m).

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

Recognition and measurement

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

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

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

Subsequent costs

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

Depreciation

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

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

Periodic revaluation

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded on an historical cost basis. With Board approval, 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 updates 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 Bank's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Payments associated with short term leases of 12 months or less and leases of low value assets are recognised as an expense on a straight line basis. Variable lease payments that are not based on an index or rate are recognised as an expense as incurred.

Right-of-use assets are initially measured at cost, comprising the amount on initial recognition of the lease liability plus any lease payments made before commencement of the lease, any initial direct costs and the estimated costs of any restoration required upon completion of the lease contract.

Right-of-use assets are subsequently measured at cost less depreciation and any impairment. Right-of-use assets are depreciated on a straight-line basis over the shorter of the term of the lease and the asset's useful life, unless there is a purchase option which is reasonably certain of being exercised, in which case the asset will be depreciated over its useful life.

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

Critical judgements in determining the lease term

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

The assessment is reviewed if a significant event or significant change in circumstances occurs which affects this assessment and that is

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 turn-over history and is discounted using the rates attaching to the external bonds portfolio.

(v) 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.

Correction to an error

In 2023, after detailed review of the bonds amortization an error was discovered. This error was a result of incorrect accounting treatment of the initial acquisition cost of bonds. As a consequence, interest income was overstated. The error has been corrected by restating each of the affected financial statement line items for the prior period, as follows;

Impact on Equity (decrease In equity)	31 Dec 2022	01 Jan 2022
Fix income securities	(3,934)	(4,043)
Total assets	(3,934)	(4,042)
Total liabilities	-	-
Net impact on general reserves	(3,934)	(4,042)
Impact on Statement of profit or loss (increase) 31 Dec 2023		
Interest income	(3,934)	
Net impact on the net profit of the year	(3,934)	
Impact on statement of cash flow		
Operating activities	(3,934)	
Net movement in fixed income securities	(3,934)	

(w) Comparative figures

Where necessary, comparative figures have been changed to conform to changes in presentation in the current year.

2023

2022

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

		\$'000	\$'000
3.	Income and expenses		
(a)	Interest income		
	Overseas investments	161,001	56,201
	Local investments	6,171	8,512
		<u>167,173</u>	<u>64,713</u>
(b)	Fees and commission income		
	Foreign dealings	21,100	24,678
	Local dealings	1,627	1,735
		<u>22,727</u>	<u>26,413</u>
(c)	Other income		
	Gain on disposal of fixed assets	68	98
	Rent received	87	91
	Sale of numismatic coins	42	10
	Royalties on numismatics	74	97
	Sale of gold	10,421	8,071
	Others	535	1,069
		<u>11,227</u>	<u>9,436</u>
(d)	Interest expense		
	Foreign liabilities	19,899	5,045
	Local liabilities	1,098	538
	Interest on lease liability - IFRS 16	295	37
		<u>21,292</u>	<u>5,620</u>
(e)	Administrative expenses		
	Staff costs	58,330	47,181
	Telecommunication	3,642	2,608
	Utilities	2,661	2,547
	Repairs and maintenance	2,444	1,632
	Insurance	535	529
	Consumables	438	196
	Stationery, printing and postage	669	834
	Other expenses	7,152	4,804
		<u>75,870</u>	<u>60,331</u>
(f)	Other expenses		
	Board of directors remunerations and expenses	1,258	1,085
	Currency expenses	14,339	9,232
	Depreciation and amortisation	4,991	6,382
	Depreciation - right-of-use asset	1,727	404
	Auditors remuneration	472	400
	Other expense	9,486	1,760
		<u>32,273</u>	<u>19,263</u>
		<u>2023</u>	<u>2022</u>
		<u>\$'000</u>	<u>\$'000</u>
4.	(a) Fixed income securities		

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

Fixed term deposits	1,659,047	1,022,766
Short term commercial paper	197,416	290,959
Bonds – Refer note 4 (b)	<u>3,039,070</u>	<u>2,575,293</u>
Total amortised cost	4,906,309	3,889,018
Allowance for impairment losses	<u>(2,849)</u>	<u>(3,449)</u>
	<u>4,892,684</u>	<u>3,885,569</u>
4. (b) Amortized Bond (Bonds at amortized cost includes the following debt instruments)		
Investment in AUD bond	1,048,372	757,908
Investment in US Treasury bills	<u>1,990,698</u>	<u>1,817,385</u>
	<u>3,039,070</u>	<u>2,575,293</u>
5. Gold		
Unallocated gold - at fair value	<u>-</u>	<u>118,614</u>
	<u>-</u>	<u>118,614</u>
The balance represent the banks holding of gold investment at year end.		
6. International Monetary Fund		
<i>IMF related assets and liabilities</i>		
Foreign currency assets		
Reserve tranche position	35,728	33,873
Special drawing rights	219,735	218,443
Currency subscription	<u>201,943</u>	<u>189,813</u>
	<u>457,406</u>	<u>442,129</u>
Foreign currency liabilities		
Special drawing rights allocation	340,836	320,911
Extended credit facility	82,226	80,711
Securities / extended financial instrument	310,420	334,252
Capital subscription	<u>4,917</u>	<u>4,704</u>
	<u>738,399</u>	<u>740,578</u>

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

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

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

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

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

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

7. Loans and advances

Solomon Islands Government

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

	2023 \$'000	2022 \$'000
Loans and advances	20,046	46
Development bonds	27	27
Treasury bills	95	69
COVID bonds	237,714	180,000
Other securities	4,936	4,336
Total amortised cost	262,818	184,478
Allowance for impairment losses	(1,979)	(506)
	<u>260,839</u>	<u>183,972</u>

The bank purchased the Solomon Islands Government COVID-19 bond from the Solomon Islands National Provident Fund and Solomon Power Limited between December 2020 and October 2021. These Solomon Islands Government COVID-19 bonds have a term of 10 years term with interest rates ranging between four percent (4 %) to five percent (5%).

In 2023, the Bank acquired an additional \$60 million of the government bond from the Solomon Islands Ports Authority. Bringing the cumulative value of the bank's holdings in government bonds to a value of \$240 million. Solomon Islands Government made a repayment of \$4.3 million in December 2023, reducing the balance to \$237 million.

	2023 \$'000	2022 \$'000
7. Loans and advances (cont.)		
<i>Staff loans</i>		
Staff housing loans	17,728	13,769
Management car loans	1,724	1,650
Personal loans	1,264	1,266
Special loans	19	31
	<u>20,735</u>	<u>16,716</u>
Allowance for impairment losses	(591)	(593)
	<u>20,144</u>	<u>16,123</u>
Total loans and advances	<u>280,984</u>	<u>200,095</u>
8. Currency inventory		
Notes		
Coins	12,440	17,154
	<u>9,438</u>	<u>12,881</u>
	<u>21,878</u>	<u>30,035</u>
9. Intangible assets		
Computer software		
Cost	120	4,780
Addition	-	48
Amortization for the year	-	(50)
Accumulated amortisation	(95)	(4,726)
Balance at 31 December	<u>25</u>	<u>52</u>
10. Other Assets		
Commercial Bank clearing	84,836	25,596
Others	9,406	4,439
	<u>94,242</u>	<u>30,035</u>
11. Right-of-use asset and lease liability		
(a) Right-of-use asset		

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

	2023 \$'000	2022 \$'000
Balance as at 1 January	169	573
Additions	4,364	-
Depreciation	(1,727)	(404)
Balance as at 31 December	2,806	169
(b)(i) Lease liability		
Balance as at 1 January	105	610
Additions	4,321	-
Less: Lease payments	(1,968)	(542)
Add: Interest expense	295	37
Adjustment during the year	170	-
Balance as at 31 December	2,924	105
Disclosed		
Current liability	20	105
Non-current liability	2,904	-
Balance as at 31 December	2,924	105
(ii) Amounts recognised in the statement of profit or loss and other comprehensive income		
Depreciation charge on right-of-use assets	1,727	404
Interest expense (included in finance cost)	295	37
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	2629	468
Interest elements of lease payment	295	37
Total cash outflow of leases	2,924	505
(c) Maturity analysis - contractual undiscounted cash flows		
Less than one year	-	105
One to five years	2,870	-
More than five years	-	-
Total undiscounted liabilities	2,870	105

The lease relates to a property lease which was entered into during 2021 and 2023.

12. Property, plant and equipment

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.

	Land and Buildings \$'000	Plant, equipment and furniture \$'000	Motor vehicles \$'000	Computer \$'000	Work in progress \$'000	Total \$'000
<i>Cost/valuation</i>						
Balance at 1 January 2022	163,227	27,242	2,008	12,716	22,547	227,740
Acquisitions	-	427	506	1,159	12,753	14,845
Transfers	-	-	-	-	-	-
Revaluation	30,040	-	-	-	-	30,040

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

	Land and Buildings	Plant, equipment and furniture	Motor vehicles	Computer	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Disposals	-	(861)	(213)	(5,033)	-	(6,107)
Balance at 31 December 2022	193,267	26,808	2,301	8,842	35,300	266,518
Acquisitions	-	1,471	571	2,008	429	4,479
Disposals	-	(20,879)	(144)	(4,238)	-	(25,261)
Balance at 31 December 2023	193,267	7,400	2,728	6,612	35,729	245,736
<i>Accumulated depreciation</i>						
Balance at 1 January 2022	10,031	24,539	1,244	9,291	-	45,105
Depreciation charge for the year	2,654	471	487	2,720	-	6,322
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
Depreciation charge for the year	2,661	589	389	1,325	-	4,964
Disposals	-	(20,879)	(144)	(4,238)	-	(25,261)
Balance at 31 December 2023	5,315	3,859	1,763	4,067	-	15,004
<i>Carrying amount</i>						
At 1 January 2022	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
At 31 December 2023	187,952	3,541	965	2,545	35,729	230,732
					2023	2022
					\$'000	\$'000

13. Demand deposits**(a) Foreign currency demand deposits**

Demand deposits	47,641	52,171
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Demand deposits include deposits from international organisations such as the Asian Development Bank-ADB, European Development Bank, International Fund for Agricultural development (IFAD).

(b) Local currency demand deposits

Commercial banks	2,602,203	2,434,127
Solomon Islands Government (SIG)	322,448	450,754
Other financial corporations	6,403	(2,152)
Reserve accounts - Commercial banks	366,765	331,779
	3,297,819	3,214,508

14. Currency in circulation

Notes	1,388,106	1,269,922
Coins	43,590	39,121
	1,431,696	1,309,043

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

15. Fixed deposits

Bokolo bills	425,690	398,689
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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(j).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

	2023 \$'000	2022 \$'000
16. SIG monetary operations account		
SIG monetary operations account	4,973	40,993
17. Employee entitlements		
Gratuity	4,467	4,216
Long service leave	1,192	1,456
Early retirement benefit	31,933	30,689
	<u>37,592</u>	<u>36,361</u>
The accounting policy adopted in respect of the employee entitlement is set out in Note 2(t).		
18. Other liabilities		
Unpresented bank cheques	63,694	2,223
Other liabilities including operating expenditure payable	14,071	3,631
	<u>77,765</u>	<u>5,854</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., 2023 as follows:

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

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

	2023 \$'000	2022 \$'000
Net profit distribution according to CBSI Act 2012		
Net operating profit/(loss)	202,230	(8,858)
Less - net unrealised foreign exchange gain	(129,156)	23,011
Net profit recorded in general reserve	<u>73,074</u>	<u>14,153</u>

Section 55(3) of the Central Bank of Solomon Islands Act., 2012 states that negative distributable earnings shall first be charged to the general reserve account and subsequently applied to authorised capital, if necessary.

Section 55(1) requires distributable profits in excess of 200% of authorised capital to be placed into a special reserve and retained at the Board's discretion.

20. Cash and cash equivalents

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

	2023 \$'000	2022 \$'000
Cash on hand – local currency	487	195
Cash at bank – foreign currency	547,375	1,079,610
Short term deposits with maturities up to 3 months	26,713	92,460
Total	574,574	1,172,265
Allowance for impairment losses	(6)	(6)
	<u>574,568</u>	<u>1,172,259</u>

21. Share capital

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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.

	2023	2022
	\$'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

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. IFRS 7 *Financial Instrument Disclosures* requires disclosure of information relating to financial instruments, their significance, performance, accounting policy, terms and conditions, fair values and the Bank's policies for controlling risks and exposures relating to the financial instruments.

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

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

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

Risk management framework

Like most central banks, the nature of the Bank's operations creates exposures to a range of operational and reputational risks. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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

Maturity analysis as at 31 December 2023	On Demand	0-3 Months	3-6 Months	6-12 Months	Over year	Undefined	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash at bank	574,079	-	-	-	-	-	574,079
Accrued interest	-	-	40,594	-	-	-	40,594
Fixed term deposit / income securities	-	26,713	414,965	1,214,520	-	-	1,656,198
IMF- Holding on special drawing rights	-	-	-	-	-	219,735	219,735
-Reserve tranche	-	-	-	-	-	35,728	35,728
-Subscription	-	-	-	-	-	201,942	201,942
Bonds	-	-	-	-	3,039,070	-	3,039,070
Short term commercial papers	-	-	197,416	-	-	-	197,416
	574,079	26,713	652,975	1,214,520	3,039,070	457,406	5,964,763
Local currency financial assets							
Cash on hand	487	-	-	-	-	-	487
Accrued interest local	-	-	-	-	156	-	156
Loans and advances	-	-	-	-	280,984	-	280,984
Currency inventory	-	-	-	-	21,878	-	21,878
Property, plant and equipment	-	-	-	-	230,732	-	230,732
Intangible assets	-	-	-	-	25	-	25
Right-of-use asset	-	-	-	-	2,806	-	2,806
Other assets	-	94,242	-	-	-	-	94,242
	487	94,242	-	-	536,581	-	631,310
Total financial assets	574,566	120,955	652,975	1,214,520	3,575,651	457,406	6,596,073
Foreign currency financial Liabilities							
Demand deposits	47,641	-	-	-	-	-	47,641
IMF Special drawing rights allocation	-	-	-	-	-	340,836	340,836
IMF Extended credit facility	-	-	-	-	-	82,226	82,226
Securities	-	-	-	-	-	310,420	310,420
Subscription	-	-	-	-	-	4,917	4,917
	47,641	-	-	-	-	738,399	786,040
Local currency financial liabilities							
Demand deposits	3,297,819	-	-	-	-	-	3,297,819
Currency in circulation	-	-	-	-	-	1,431,696	1,431,696
SIG monetary operations account	-	4,973	-	-	-	-	4,973
Fixed deposits	-	413,925	11,765	-	-	-	425,690
Employee entitlements	-	-	-	-	37,592	-	37,592
Lease liabilities	-	-	-	-	2,924	-	2,924
Other liabilities	-	77,765	-	-	-	-	77,765
	3,297,819	496,662	11,765	-	40,516	1,431,696	5,278,459
Total financial and non-financial liabilities	3,345,460	496,662	11,765	-	40,516	2,170,095	6,064,498
Net liquidity gap	(2,770,894)	(375,707)	641,210	1,214,520	3,535,135	(1,712,689)	531,574

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Maturity analysis as at 31 December 2022	On Demand	0-3 Months	3-6 Months	6-12 Months	Over year	Undefined	Total
	\$'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	-	-	609,377	406,562	-	-	1,019,939
IMF- Holding on 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	-	-	-	-	2,575,293	-	2,575,293
Short term commercial papers	-	-	290,959	-	-	-	290,959
	1,172,064	-	920,332	525,176	2,575,293	442,129	5,630,953
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 and non-financial assets	1,172,259	30,035	916,289	525,176	3,037,017	442,129	5,122,907
<hr/>							
	On Demand	0-3 Months	3-6 Months	6-12 Months	Over year	Undefined	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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
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
Total financial and non-financial liabilities	3,214,508	433,771	11,765	-	36,466	1,309,043	5,005,553
	3,266,679	433,771	11,765	-	36,466	2,049,621	5,798,302
Net liquidity gap	(2,094,420)	(403,736)	904,524	525,176	3,000,551	(1,607,490)	324,605

(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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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:

	2023 \$'000	2022 \$'000
Foreign currency assets		
Cash at bank	574,079	1,172,064
Fixed income securities	4,892,683	3,878,192
International Monetary Fund	457,405	442,129
Gold	-	118,614
	5,924,167	5,610,999
Local currency assets		
Loans and advances	280,984	200,095
	6,205,151	5,811,094

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	2023 %	2022 %
AAA	15	16
AA+ - AA-	29	27
A+ - A-	17	18
BBB+ - BBB-	11	11
BB+ - BB-	2	2
B+ - B-	26	26

Cash and cash equivalents

The Bank held cash at banks in foreign currencies of \$574 million at 31 December 2023 (2022: \$1,172 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.

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 \$5,164 million at 31 December 2023 (2022: \$4,071 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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	2023		2022	
	\$'000	%	\$'000	%
USD	3,243,546	52	3,171,780	55
AUD	1,688,990	27	1,537,231	26
EUR	28,425	-	8,192	-
SDR	457,406	8	442,129	8
NZD	238,892	4	197,565	3
SGD	56,790	1	52,970	1
GBP	104,157	2	104,352	2
SBD	278,128	4	200,095	3
JPY	48,665	1	50,525	1
FJD	3,418	-	8	-
CNY	56,734	1	54,224	1
	6,205,151	100	5,819,071	100

Credit quality	Gross	Impairment	Net
	\$'000	\$'000	\$'000
31 December 2023			
<i>Foreign currency assets</i>			
Central banks	574,085	(6)	574,079
Commercial banks	4,895,532	(2,849)	4,892,683
International Monetary Fund	457,406	-	457,406
	5,927,023	(2,855)	5,924,167
<i>Local currency assets</i>			
Solomon Islands Government loan and advances	262,818	(1,979)	260,839
Staff loan and advances	20,735	(591)	20,144
	283,554	(2,570)	280,983
Gross assets subject to impairment consideration	6,210,275	(5,425)	6,205,151

Concentration by sector	2023		2022	
	\$'000	%	\$'000	%
<i>Foreign currency assets</i>				
Central banks	574,079	10	1,172,064	21
Commercial banks	4,903,460	83	3,886,169	69
International Monetary Fund	457,406	8	442,129	8
Gold investment	-	0	118,614	2
	5,934,945	100	5,618,976	100
<i>Local currency assets</i>				
Solomon Islands Government loan and advances	260,840	93	183,972	92
Staff loan and advances	20,144	7	16,123	8
	280,984	100	200,095	100
	6,215,929		5,819,071	

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Interest rate risk management

The principal risk to which trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair value of financial instruments because of a change in market interest rates. The Bank limits interest rate risk by modified duration targets. The duration of the portfolio is re-balanced regularly to maintain the targeted duration. Operations are largely money market focused.

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

	Carrying amount	
	2023 \$'000	2022 \$'000
Fixed rate instruments		
Cash and cash equivalents (Financial assets)	574,079	1,172,259
Fixed income securities (Financial assets)	4,903,460	3,886,169
Loans and advances (Financial assets)	280,984	200,095
Demand deposits (Financial liabilities)	(3,297,819)	(3,214,508)
Fixed deposits (Financial liabilities)	(425,690)	(398,689)
Lease liabilities	(2,924)	(105)
	2,032,090	1,645,221
Variable rate instruments		
International Monetary Fund (Financial assets)	457,406	442,129
International Monetary Fund (Financial liabilities)	(738,399)	(740,578)
	(280,993)	(298,449)

Fair value sensitivity analysis for fixed instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100bp increase \$'000	100bp decrease \$'000
31 December 2023		
Variable rate instruments	5,523	(5,523)
31 December 2022		
Variable rate instruments	3,409	(3,239)

Foreign exchange risk management

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Foreign currency risk as at 31 December 2023

Foreign Currency Financial Assets	AUD (000's) (SBD)	NZD (000's) (SBD)	USD (000's) (SBD)	EUR (000's) (SBD)	GBP (000's) (SBD)	SGD (000's) (SBD)	CNY (000's) (SBD)	JPY (000's) (SBD)	OTHERS (000's) (SBD)	Total (000's) (SBD)
Money at call	574,079	-	-	-	-	-	-	-	-	574,079
Accrued interest	11,054	2,879	24,197	-	1,603	495	366	-	-	40,594
Fixed term deposits	301,119	228,079	916,636	-	101,263	56,790	52,311	-	-	1,656,198
Holding of special drawing rights	-	-	-	-	-	-	-	-	219,735	219,735
Reserve Tranche	-	-	-	-	-	-	-	-	35,728	35,728
Subscription	-	-	-	-	-	-	-	-	201,943	201,943
Bonds	1,059,148	-	1,990,698	-	-	-	-	-	-	3,049,846
Short term commercial papers	197,417	-	-	-	-	-	-	-	-	197,417
Total	2,142,818	230,958	2,931,530	-	102,866	57,285	52,677	-	457,407	5,975,539
Foreign Currency Financial Liabilities										
Demand deposits	47,641	-	-	-	-	-	-	-	-	47,641
IMF special drawings rights allocation	-	-	-	-	-	-	-	-	340,836	340,836
IMF extended credit facility	-	-	-	-	-	-	-	-	82,226	82,226
IMF securities	-	-	-	-	-	-	-	-	310,420	310,420
Capital subscription	-	-	-	-	-	-	-	-	4,917	4,917
Total	47,641	-	-	-	-	-	-	-	738,399	786,040
Net foreign currency asset/(liability)	2,095,177	230,958	2,931,530	-	102,866	57,285	52,677	-	280,993	5,189,499

Foreign currency risk as at 31 December 2022

Foreign Currency Financial Assets	AUD (000's) (SBD)	NZD (000's) (SBD)	USD (000's) (SBD)	EUR (000's) (SBD)	GBP (000's) (SBD)	SGD (000's) (SBD)	CNY (000's) (SBD)	JPY (000's) (SBD)	OTHERS (000's) (SBD)	Total (000's) (SBD)
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/(liability)	1,490,214	199,303	3,064,997	8,192	104,928	53,246	54,602	50,525	(179,827)	4,846,180

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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:

	2023		2022	
	\$'000	%	\$'000	%
USD	3,243,546	61	3,171,780	61
AUD	1,699,767	30	1,537,231	30
EUR	28,425	-	8,192	-
NZD	238,892	4	197,565	4
SGD	56,790	1	52,970	1
GBP	104,157	2	104,351	2
JPY	48,665	1	50,525	1
CNY	56,734	1	54,224	1
FJD	3,418	-	8	-
	5,480,395	100	5,176,846	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	2023	2022
AUD	0.1728	0.1788
USD	0.1183	0.1208
NZD	0.1864	0.1907
GBP	0.0926	0.1002
EUR	0.1066	0.1133
JPY	16.6700	16.1193
SGD	0.1560	0.1626
SDR	0.0882	0.0907
CNY	0.8420	0.8421

Sensitivity to foreign exchange rate risk Impact of a:	2023 \$M	2022 \$M
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(71)	(71)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	72	72

Other pricing risk

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

(e) Operational risk management

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

24. Related parties

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

The Board of Directors during the year were:

- Luke Forau (Chairman and Governor)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

- Raynold Moveni (Deputy Governor)
- Mckinnie Dentana (Permanent Secretary of Finance)
- Sonia Marahare (Board Secretary)
- David K C Quan
- Christina Lasaga (Term Expired 19th February 2023)
- Rodney Rutepitu (Reappointed 1st February 2023)
- Bob Pollard
- Kathleen Matautia
- Jeremy Bartlett
- Helen Beck (Appointed 20th February 2023)

Directors' fees and emoluments

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

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

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

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

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

	2023	2022
	\$'000	\$'000
Short-term employee benefits	3,581	3,166
Long-term benefits	844	870
	4,425	4,036

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 2023 loans by the Bank to key management personnel were as follows:

	2023	2022
	\$'000	\$'000
Housing loan	2,398	1,891

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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Personal loan	122	130
Management car loan	621	664
Staff special loan	19	31
	3,160	2,716

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.

25. Transactions with the Solomon Islands Government

During the financial year, the Bank conducted a range of transactions with the Solomon Islands Government, which included providing banking services, facilitating foreign exchange transactions, handling registry operations, and purchasing Government securities. The interest received from government securities was \$8.3 million this period. The Bank also provided a special advance to the government of \$20 million as per section 34 of the Central Bank of Solomon Islands Act, 2012. At the end of year 2023, the cumulative balance of Solomon Islands government securities with the Bank is \$256 million.

26. 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 2023, a total of 32 (2022: 42) loans with a net guarantee of \$8.4 million (2022: \$4.19 million) have been administered under the scheme.

The Bank's new head quarters office building had commenced in 2019. The accumulated cost at the end of 2023 is \$23.2 million. (2022; \$22.8 million).

27. Impact of higher global inflation and US tighter monetary policy.

The global inflation has subsided although it still remains above central bank's targets. With the inflation pressures, most central banks around the world pursued a tighter monetary policy including the US Federal Reserve and Australia Reserve Bank which kept raising the fund rate and cash rates, respectively. This benefited the CBSI's income earnings from its foreign investment portfolios. On the other hand, the higher fund rate combined with the US economy being more resilient had fueled an appetite for US assets and significantly strengthened the US dollar against major global currencies, particularly in the second half of 2023. Accordingly, the Solomon Islands dollar weakened against the US dollar giving rise to the overall gain in the foreign exchange revaluations.

28. 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.

