Financial Stability Report

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

1H 24

CENTRAL BANK OF SOLOMON ISLANDS

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

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This report uses data up to 30 June 2024.

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ABBREVIATIONS

CBSI	Central Bank of Solomon Islands
2H23	Second half of 2023, which ended 31st December 2023
1H24	First half of 2024, which ended 30th June 2024
NPS	National Payment System
SIG	Solomon Islands Government
SINPF	Solomon Islands National Provident Fund
ATS	Automated Transfer System
SOLATS	Solomon Automated Transfer System
GDP	Gross Domestic Product
IFC	International Finance Corporation
WBG	World Bank Group
CSD	Central Securities Depository

CHAPTER 1: OVERVIEW OF INTERNATIONAL & DOMESTIC FINANCIAL CONDITIONS

1.1: International Financial Condition

Financial conditions eased as the disinflation entered its last mile.

According to the International Monetary Fund the global disinflation is entering its last mile and monetary easing is probable[1]. This was underscored by the sturdy performance exhibited over the preceding episodes of high interest rates and tight financial conditions. Global financial conditions have improved since the last quarter of 2023. Interest rates have fallen worldwide, stocks rose by 20 percent while corporate and sovereign borrowing costs have decreased notably.

The improved financial conditions have fuelled optimism among investors about a favourable future economic environment. This has reignited capital flows into many emerging economies. Some frontier markets and low-income economies have taken advantage of the strong investors' risk appetite and seized the opportunity to issue sovereign bonds. Meanwhile, the outlook for capital outflows from emerging economies indicates a likely downward direction.

The existence of conspicuous vulnerabilities could complicate the optimism about successfully controlling inflation in the final stretch.

While the global financial system has demonstrated resilience in managing the impacts of high interest rates and tight monetary conditions, contained any contagion of the Swiss and US bank failures in March 2023, and mitigated near-term financial stability risks, notable fragilities persist. These, if not mitigated, could undermine confidence in achieving a smooth economic landing in 2024.

Such fragilities could arise from sudden policy changes, escalating geopolitical tensions, and financial risks associated with climate change. All these may worsen commodity and supply chain disruptions, as well as frustrate efforts to return inflation back to target.

The continued decline in real estate prices could also threaten financial stability. For commercial real estate (CRE), the decline mirrored structural changes in post-pandemic. While most banks have generally contended with CRE loan losses, other banks that hold considerable amounts of CRE loans have experienced strains due to less stable funding. Similarly, residential real estate (RRE) also witnessed a decline during the period. This is largely attributed to high mortgage rates, which reduces residential buyers' affordability and demand, ultimately exerting a downward pressure on residential prices. Although most households have managed their debt well, the risk of mortgage default remains elevated. If manifested, these vulnerabilities could be transmitted into the broader financial system through bank nexus and pose financial stability risks.

Furthermore, private and sovereign debt have been accumulated in both the advance and emerging economies over the years. This, in the medium term, could risk financial stability. Meanwhile, digital innovation in the financial sector is accelerating, and regulators must strive to keep up with this rapid transformation. Failing to keep pace with such transformations could obscure identification of potential areas of vulnerabilities, multiplies the exposure of financial systems to such vulnerabilities, and further threatens financial systems' stability.

1.2: Domestic Financial Condition

Domestically, the financial system remained sturdy despite the challenges posed by the slow economic progress, inflationary pressures, and tight fiscal and monetary conditions experienced over the preceding periods. The banking sector demonstrated buoyancy throughout the first half of 2024 (1H24) with its total capital ratio reaching 36.7 percent cumulative to the end of the period. This outcome underscored the sector's resilience to withstand potential financial shocks that may come to its fore. The total liquidity level for the industry remained ample to meet its short to medium-term liabilities. This highlights the banks' solvency strength and financial muscles to maintain smooth operations. However, the elevated levels of non-performing loans (NPLs) continue to raise concerns regarding the sector's asset quality.

Similarly, the superannuation sector also exhibited a strong performance over the period, bolstered by adequate liquidity and robust earnings from both domestic and external equity investments. Likewise, the insurance sector, also demonstrated resilience over the period, driven by positive financial performance.

Meanwhile, the credit union sector, despite experiencing a sluggish growth in membership and a decline in its net surplus position, remained stable throughout the review period. This stability is supported by a sturdy capital protection, indicating the sector's ability to maintain stable operations in the short to medium terms. However, this outcome is not uniform across all credit unions. Some small to medium-sized credit unions are facing financial difficulties and liquidity issues, leading to partial withdrawal for members and loan holidays to address liquidity mismatches. This situation raises concerns from members who have retired and wish to withdraw their saving.

While the domestic financial conditions remained stable during the 1H24, several notable vulnerabilities persist within the broader financial system, which if left unaddressed, could undermine financial stability. One significant concern stem from the ongoing de-risking trend,

1 International Monetary fund, Global Financial Stability Report, April 2024 Issue.

where many correspondent banking relationships (CBRs) of Pacific Island countries, including the Solomon Islands, are at risk of being terminated.

The primary drivers behind this potential loss of CBRs are scalability and compliance challenges, both of which are particularly acute in the region. The Solomon Islands is no exception to this issue, and any disruption in CBRs could adversely affect the country's access to global markets and key economic pillars.

While the Central Bank of Solomon Islands (CBSI) has been committed to enhancing banks' compliance with international standards, these efforts alone are insufficient as it requires the government's support in modernizing the legislations governing the financial sector to ensure it matches the rapid pace of global financial developments.

Additionally, the acceleration of digital technology has introduced new challenges to financial stability. As financial institutions increasingly rely on digital systems to expand financial reach, access, and economies of scale, they have become more susceptible to cyberattacks. The lack of any national legislation to effectively address this risk further complicates mitigation efforts. Nonetheless, the CBSI is committed to strengthening its cyber governance framework to ensure that cyber risks are minimized and the financial system remains safeguarded against cyber threats.

Other vulnerabilities that continue to pose risks to the financial system include climate change, geopolitical tensions, weak risk management and governance frameworks for smaller financial institutions, and anti-money laundering and countering the financing of terrorism (AML/CFT) risks.

Other risks and vulnerabilities are to be discussed in detail in the subsequent chapters of this report.

1.3: National Payment System

Box 1: National Payments System Development in the 1H24

The National Payments System, which is called the Solomon Automated Transfer System (SOLATS), and the Central Securities Depository (CSD) went live on 8th and 9th April 2024 respectively. The SOLATS has two main components: Real Time Gross Settlement (RTGS) and the Automated Clearing House (ACH). Under the ACH, there are two schemas namely Electronic Funds Transfer (EFT) and the Instant Funds Transfer (IFT). The EFT schema has been in operation since go-live in April while both CBSI and the Montran Corporation (the Vendor) have agreed to implement IFT post-live. In addition, the Ministry of Finance and Treasury (MOFT) Payments Integration is also part of the original scope of the NPS project, but it was agreed between CBSI and Montran for this solution to be implemented post-live as well.

A total of 26,556 credit transfers were accepted and settled in the ACH whilst 9,152 transactions passed through RTGS since 8th of April 2024.

As regards CSD operations, a total of 338 transactions were facilitated through the CSD with Auction Treasury Bill recording the highest volume of 317 transactions amounting to a sum SBD$111.3m compared to only 11 transactions in the Bokolo Bills auctions and a sum total of SBD$2.1bn.

Table: 1 Volume of Payments, April to June, 2024

	RTGS	ACH	TOTAL
APRIL	2317	6744	9061
MAY	3560	10606	14166
JUNE	3275	9206	12481
	9152	26556	35708

Whilst the Payments System Act (PSA) 2022 has been enacted, operationalising the PSA through the issuing of relevant regulations remains outstanding. A draft payment system regulation is ready and awaiting vetting by the Attorney General's Chambers (AGC). The CBSI remains hopeful that this will be finalised in the second half of 2024.

Meanwhile, CBSI remains committed to the successful integration of MOFT's accounting systems to the ATS application in the second half of 2024, thus increasing the number of ATS participants to six. In addition, the rollout of the IFT schema in the second half of 2024 (2H24) should see the completion of the major deliverables in the NPS project.

CHAPTER 2: FINANCIAL SECTOR RESILIENCE AND PERFORMANCE

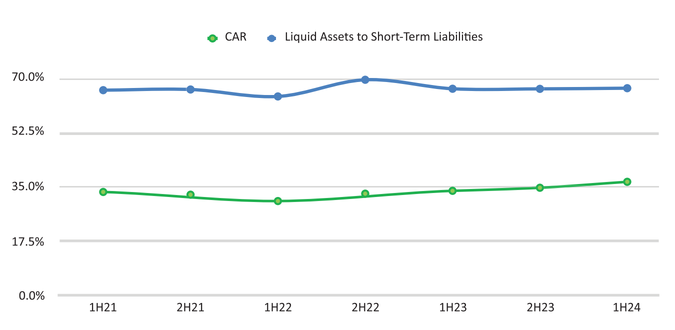
2.1 Banking Sector: Resilience and Performance

In the first half of 2024, the banking sector demonstrated resilience, as evidenced by key financial soundness indicators. Notably, banks maintained robust capital ratios, with the capital adequacy ratio (CAR) increased by 1.9 percentage point to 36.7 percent in 1H24. This improvement underscores the sector's capacity to absorb potential losses and sustain operations despite persistent inflationary pressures and subdued economic growth during this period[2]. The rise in CAR was driven by a reduction in risk weighted assets, reflecting a lower overall risk in banks' asset portfolios due to a decline in loans and cancellation of bank guarantees.

The growth in CAR was complemented by a strong liquidity position, with liquid assets to short-term liabilities remaining steady at 67.2 percent. This ensured that banks could meet their short-term liabilities without strain. Additionally, the banks' stability stemmed from banks' own prudent risk management practices, enabling the sector to mitigate economic uncertainties effectively. While the industry indicators depicted resilience, liquidity in the banking system was unevenly distributed with a few banks having CARs hovering slightly above the total regulatory capital limits of 15 percent.

Furthermore, the sector continues to experience pressure on its loan quality with the NPL ratio increasing by 1.0 percentage point to 10.6 percent in 1H24. This rise was primarily driven by delayed rental payments from the Solomon Islands Government (SIG), which adversely affected loan repayment obligations of borrowers in the construction, distribution and investment property loans in the personal sector.

Figure 1: Banking Sector Half Yearly CAR and Liquid Assets Growth 1H21-1H24

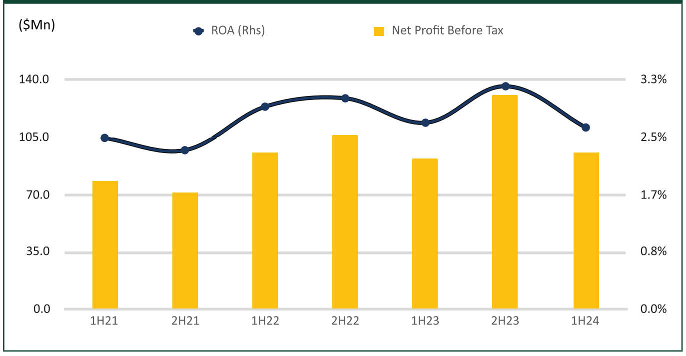


Source: Central Bank of Solomon Islands

The banking sector remains profitable despite a 27.3 percent decline in net profit before tax (NPBT) in 1H24 compared to the second half of 2023 (2H23). NPBT decreased by $35.8 million from $130.9 million in 2H23 to $95.1 million in 1H24. This decline was primarily attributed to an increase in provision expenses and non-interest expenses during the reporting period. Provisioning expenses for the sector increased by 16.3 percent to $17.9 million, due to the growth in NPL, as several loans have transitioned into stages 2 and 3 as per IFRS 9 classifications[3]. Additionally, non-interest expenses for the sector saw a significant rise due to an increase in e-banking expenses including the purchasing of EFTPOS[4] machines, smart cards and visa cards; core-banking licence fees; and other daily operational expenses.

The sector's profitability continued to be driven by interest income from loans and advances, as well as fees and commissions receivable. Notably, the latter experienced a substantial increase of 89.7 percent during the reporting period, largely due to an uptick in foreign exchange gains, which supported the sector's profitability. The sector's return on assets ratio stood at 2.6 percent for the reporting period.

Figure 2: Banking Sector Half-Yearly Growth in NPBT and ROA, 1H21 – 1H24



Source: Central Bank of Solomon Islands

Credit to the private sector grew at a diminishing rate of 0.8 percent in 1H24 to $2.77 billion, following a 1.6 percent growth in 2H23. This represents the slowest growth rate over the past four periods and could be partly contributed by the political uncertainty associated with the Joint Provincial and National General Elections in April 2024

2 Central Bank of Solomon Islands, Quarterly Review, Vol. 36, No.1

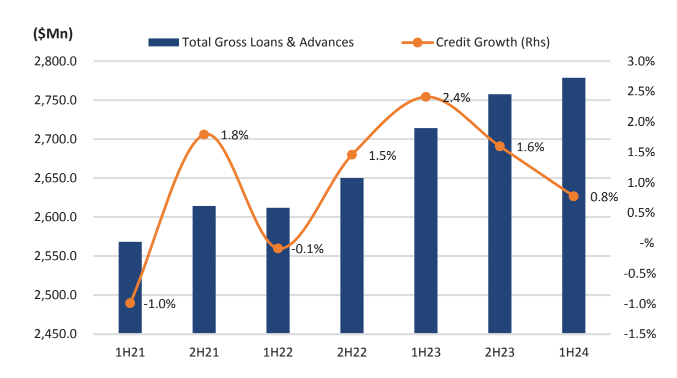
3 IFRS 9 three stages of impairment are summarized by Bank of International Settlements as follows: Stage 1 – When a loan is originated or purchased, ECLs resulting from default events that are possible within the next 12 months are recognised (12-month ECL) and a loss allowance is established. Stage 2 - If a loan's credit risk has increased significantly since initial recognition and is not considered low, lifetime ECLs are recognised. The calculation of interest revenue is the same as for Stage 1. Stage 3 - If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

4 Electronic Funds Transfer at Point of Sale

combined with the subdued economic growth.

In terms of sectoral distribution, lending remains concentrated in the personal (38.1 percent), distribution (23.8 percent), and construction (15.7 percent) sectors. The remaining 22.4 percent is allocated across various other sectors.

Figure 3: Banking Sector Half-Yearly Growth in Loans and Advances, 1H21 – 1H24



Source: Central Bank of Solomon Islands

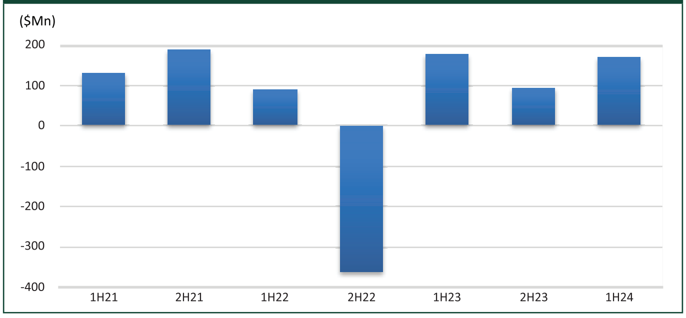
2.2 Superannuation Sector: Resilience and Performance

Amidst the subdued domestic condition[5] during 1H24, the Solomon Islands National Provident Fund (the Fund) demonstrated resilience by maintaining adequate liquidity and attaining a positive financial performance. This positive performance underpins a solid income earned from domestic equities through dividend income and positive unrealized gain from the offshore equities. Consequently, liquid asset to short term liabilities increased by 14 percent to 24 percent, indicating a sufficient liquidity level to meet its obligation in the short to medium term.

Furthermore, supporting the sound performance was the steady inflow of interest income on fixed investment arising from government securities, term deposit, loans and rental income during the reviewed period. While unrealized gains were positive in 1H24, volatility in price of shares remained uncertain due to fluctuation in global financial markets and a narrow domestic market. On the expenditure front, the Fund overall expenses nearly doubled, increasing by 46 percent, primarily due to a more than 50 percent rise in direct investment expenses. This increase was driven by higher repair and maintenances costs, and other related expenses for investment properties. Personal expenses also indicated a significant increase of 40 percent as a result of a spike in operational expenses during 1H24. Nevertheless, the growth in profitability offsets the increase in expenditure, resulting in a positive outcome.

The Fund's gross assets grew by 4 percent to $4,389 million in 1H24. This growth was supported by an increase of 3 percent in total investment. Of the total gross assets,

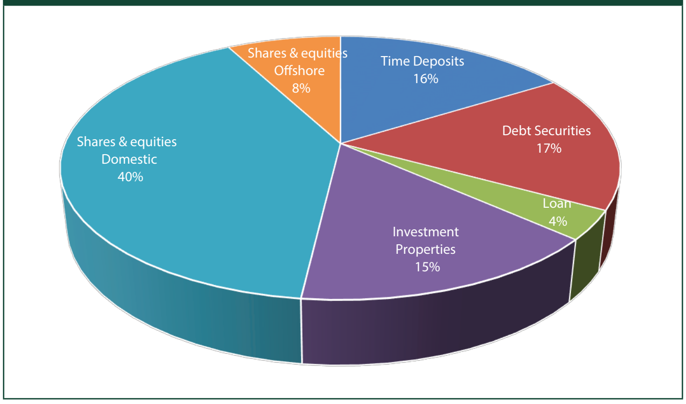
Figure 4: Superannuation sector Half-Yearly unaudited Net Profit, 1H21 - 1H24



Sources: SINPF; Central Bank of Solomon Islands

87 percent, amounting to $3,834 million, was invested across various investment classes in accordance with the Fund's investment policy. The upward trend noted in total investments was bolstered by additional investment undertaken in 1H24 particularly in domestic government securities, PNG government securities, domestic time deposits, and domestic investment properties.

Figure 5: Superannuation Sector Investment Assets Allocation 1H24



Sources: SINPF; Central Bank of Solomon Islands

Although total investment continued to grow, the Fund's portfolio mix remains heavily invested in the domestic market, which accounted for 87 percent, while only 13 percent invested in various offshore markets. Domestic equities continue to dominate the investment portfolio, accounting for 40 percent, followed by government securities at 17 percent, time deposits at 16 percent, investment properties at 15 percent, offshore equities at 8 percent, and loans and advances at 2 percent. While the trustees are mandated to ensure prudent management of the Fund's investments, the subdued market conditions remain a challenge to strategically balance risks and rewards.

In terms of members contributions, as at 30th June 2024, the total value of members' contributions reached $3,848.5 million, with a total membership of 294,315. During 1H24, the Fund received a total of $208 million from members contribution, which represented a 10 percent increase compared to $190 million received in 2H23. Albeit the continuous influx of members' contributions, the Fund still faces challenges with unidentified contributions and

5 Central Bank of Solomon Islands, Quarterly Review, Vol. 36, No.1

inactive members. As of 30th June 2024, 70 percent of the membership is inactive, accounting for 20 percent of the total contribution value, while unidentified contributions fell to $4 million from $4.5 million in 2H23. Although the issue of unidentified contributions remains a challenge due to the country's geographical location, the Fund's board and management have implemented measures such as sending automated emails notifications to employers and raising awareness through social media publication.

With the current adequate liquidity level, the Fund remains resilient to meet short to medium term obligations. This is reflected in the liquid assets to short term liabilities ratio of 24 percent, and the liquidity ratio to the total value of members' contributions, particularly for members aged 50 and above, which stood at 32 percent. Also, the sustainability of the Fund's liquidity is mainly supported by the ongoing influx of members' contributions. On the contrary, the persistent early withdrawals through Minister's discretion and the lenders pledge claims remain a challenge and risk in terms of the Fund's liquidity risk management and governance. During 1H24, withdrawals under Minister's discretion increased by 7 percent while lenders claim declined by 20 percent as a result of slight improvements in the asset quality of the banking sector.

2.3 Insurance Sector: Resilience and Performance

General Portfolio Performance

Despite the inflationary pressure experienced in 1H24[6], the overall insurance industry remained stable. The outcome for the general insurance segment of the industry was supported by the sector's profitability as demonstrated by the positive outcome shown from key earnings ratios, particularly - the loss and expense ratio which remained under 50 percent when combined (NCOR)[7]. This indicates that the industry maintained disciplined underwriting, ensuring that risks insured are within the relevant appetite, resulting in an underwriting profit of more than 50 percent for 1H24. In addition, the risk retention ratio of 68.8 percent[8] recorded during the period further highlights a well-balanced approach between retained risk and risk ceded to offshore reinsurers. This balanced approach reflects the industry's cautious approach to avoiding underwriting businesses beyond its appetite. This is also reflected by the industry's low claims ratio outcome.

The aggregated insured risks retained are well supported by adequate industry capital for 1H24. This is reflected by the industry's net premium to capital ratio of 62.5 percent, which is significantly within the best practice limit[9] of 300 percent. The net premium to capital ratio is a key indicator of the financial soundness of the industry, as it measures the industry's capital adequacy, which is essential for absorbing any shocks emerging from within the industry. Nonetheless, the gap between the actual result of 62.5 percent and the best practice benchmark of 300 percent for the net premium to capital ratio implied that the industry still has ample capital to underwrite additional risks. However, since the industry is dominated by properties, motor vehicles, and contractor's businesses, much of the underwriting opportunities indicated by this gap are supposedly opportunities for other classes of business that have low demand, despite underwriters still having the capacity to underwrite them. The key reason for this low demand is that the market is largely compliance-driven[10], rather than driven by the voluntary interest or desire for risk management. As a result, the industry lacks the opportunity to diversify further into other classes of business and fully utilize its available capital.

Over the past seven periods, the sector's net premium to capital ratio remained consistently stable with minimal fluctuations. This indicates a stable insurance industry to date. The stability is further underpinned by prudent risk management practices employed by the industry's underwriters as well as good governance upheld by insurers' respective management and board cascading down to their customer service operations and intermediaries. These have also assisted the industry to continue to maintain a good level of asset quality to support its operation during 1H24. For the domestic industry, credit risk arising from debtors' default remains a key risk to the industry's asset quality. Hence the level of asset quality observed is denoted by the low debtors to total assets, which comprised only 43 million, making up only 20 percent of the industry's total assets. Maintaining a lower debtor's ratio through strict credit control policies leads to lower credit risk and improves the industry's overall asset quality through improved liquid assets. This is evident from the liquidity ratio, where the liquid asset to technical reserves ratio stood at 111.5 percent. The ratio indicates that the industry can meet all its liabilities in times of crisis and thus, highlights that the sector remained solvent and stable in the first half of the year (1H24). Thus, despite the domestic inflationary pressures, the sector continues to remain resilient.

The insurance industry comprises companies offering general insurance business and the overall performance for general business did not vary much in 1H24 compared

6 (Central Bank of Solomon Islands, September 2024)

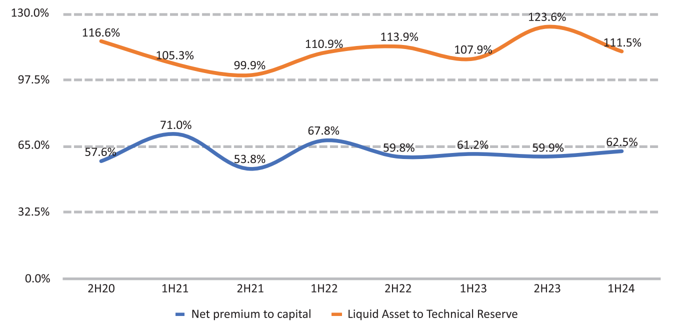
7 Net Combine Ratio (NCOR) is an addition of operational expense and claims costs measured against net premium income for same period.

8 Net Combine Ratio (NCOR) is an addition of operational expense and claims costs measured against net premium income for same period.

9 Sourced from Financial Health & Soundness Indicators (CARAMEL). The net risk ratio is used to measure the insurance sector's capital adequacy. It is calculated by dividing Net Written Premium with insurer's available capital. Greater than 300 percent is considered to be a high risk and less than 100 percent is considered to be a low risk with more capacity to underwrite more policies.

10 Compliance driven is when people purchase insurance primarily because it is required by law, regulation, or contractual obligation (such as for a loan, vehicle license, or to win a construction bid) as oppose to risk management.

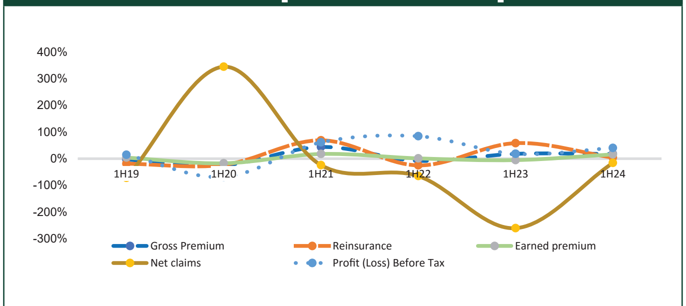
Figure 6: Insurance Sector Half-Yearly Growth in Net Premium to Capital and Liquid Assets, 1H21 – 1H24 [General Insurance]



Source: Insurance Sector, Central Bank of Solomon Islands

to 1H23 and 2H23 performances. Year-on-year growth for 1H24 showed gross written premium grew by 18 percent, matching the performance of 1H23. This growth was largely driven by the top five classes of business, namely fire, contractors all risks, motor vehicles, workmen's compensation and home contents. As highlighted earlier, the majority of the demand for insurance products from individual households is due to compliance requirements. Two examples for instance are; banks requiring customers to get insurance before obtaining a loan and private entities being required to have insurance to successfully bid for large contractual tenders. Thus, most insurance products are demanded because of this compliance requirements and not because of the risk culture to obtain financial security.

Figure 7: Insurance Sector Performance Growth, 1H21 – 1H24 [General Insurance]

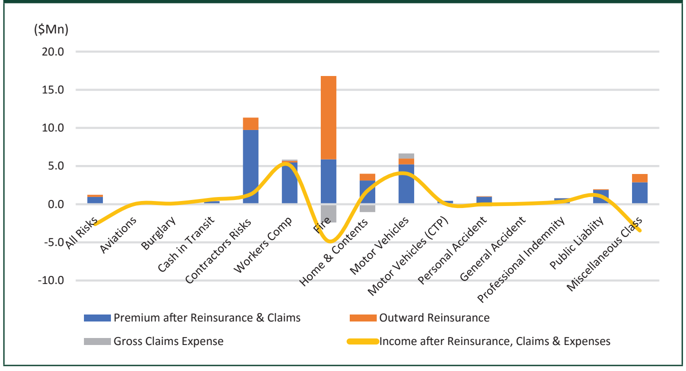


Source: Insurance Sector, Central Bank of Solomon Islands

In terms of the value of premium inflow per class of business, fire class contributed the highest gross written premium, amounting to $14.4 million, followed by contractor-all-risk at $9.7 million and motor vehicle at $6.7 million. In terms of retained risk which may expose the industry to shock, contractor-all-risk holds the highest at $9.7 million followed by fire at $5.9 million and workmen's compensation at $5.5 million. Reinsurance and claims continue to remain stable with no major spike observed for 1H24.

Global reinsurance price remains elevated and so is the domestic operational cost for the sector. The expense ratio is reported to be at 43 percent for 1H24, surpassing the total number of claims recorded. The high operational cost

Figure 8: Insurance Sector Performance Growth by Class, 1H24 [General Insurance]

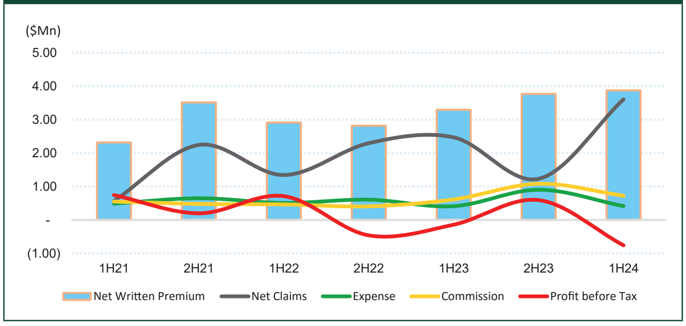


Source: Insurance Sector, Central Bank of Solomon Islands

is driven by high reliance on the head office for technical support resulting in high expenses incurred from foreign exchange losses through outward cost remittance. Fortunately, low claims enabled the industry to maintain adequate profitability and high liquidity amidst inflationary pressures. Over the years, claims have been on a downward trend since cyclone Harold struck in 1H20 and the slight decline in claims trend helped improved some of the financial pressures exerted by increase in cost of operation. This also contributed to the sector's financial stability.

Life Portfolio Performance

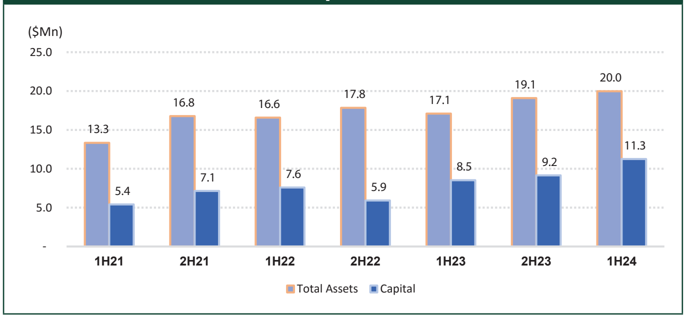
Figure 9: Life Insurance Sector Half-Yearly Growth Performance, 1H21 – 1H24



Source: Insurance Sector, Central Bank of Solomon Islands

Life insurance, remains a very small segment of the domestic insurance market, mainly as an added benefit to few of the existing general insurance products. Over the years, it has never been sold as a stand-alone policy due to its high-risk exposure. For 1H24, it remained resilient similar to the general insurance segment, despite recording a loss of $0.7 million. Loss incurred for 1H24 was mainly driven by increasing claims cost for the period. Most claims are related to medical repatriation and workmen's compensation which has risen significantly due to inflationary pressures within the economy as depicted by the rising cost of medical fees. The upside for the life insurance segment is that the related operational cost and commission cost remained the same as in 2H23, lessening the impact to industry's overall profitability. Nonetheless, despite reporting a loss, life insurance's total assets and capital remained sound for 1H24, reporting $20 million in total assets and $11.3 million in capital.

Figure 10: Life Insurance Sector Performance Growth in Assets and Capital, 1H21 – 1H24



Source: Insurance Sector, Central Bank of Solomon Islands

The main cause for this steady growth in both asset and capital is that the life segment is heavily supported by the general insurance segment and therefore all losses are mostly absorbed by profits earned by the general insurance segment in 1H24.

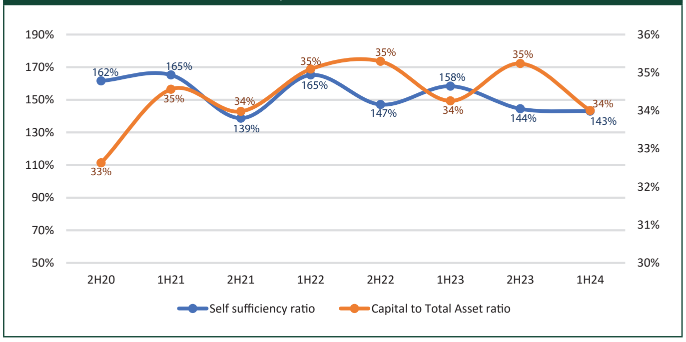
2.4 Credit Union Sector: Resilience and Performance

The credit union sector witnessed a stable performance in 1H24 despite slowdown in economic activities. The sector remained resilient and continued to serve members, specifically in the lending space. The credit unions' ability to provide fair interest rates and ease of access to financing has instilled confidence in their members, fostering members' loyalty to credit unions. Member engagement and embracing member–centricity contributes to financial wellbeing and resilience of credit unions. The ongoing financial support in the members' overall well–being also sets the pace for the resilience of the movement.

The credit union sector recorded a net surplus of $1.29 million in 1H24, this is 19 percent lower than the 2H23. The decrease stemmed from a decline in total income resulting from the drop in lending which led to a decrease in interest income. In terms of asset quality, the total capital to total asset ratio stood at 34 percent, significantly exceeding the benchmark of 10 percent. Liquidity in the context of reserves to savings ratio remains within the 15 percent threshold under PEARLS[11] requirement. The aforementioned ratios indicate that the sector has a level of capital that could sustain the industry in the event of any adverse impact, signifying its resilience.

The strong capital buffer of 34 percent in 1H24 demonstrated the credit union's capability to operate sustainably over the medium to long term. Effective and sound governance practices are best catalysts of credit union resilience. The board of directors must take ownership in the operations of the credit unions by implementing good governance strategies, which play a crucial role in enhancing the sector's resilience.

Figure 11: Credit Union Sector Half-Year Self Sufficiency Performance, 1H21 – 1H24

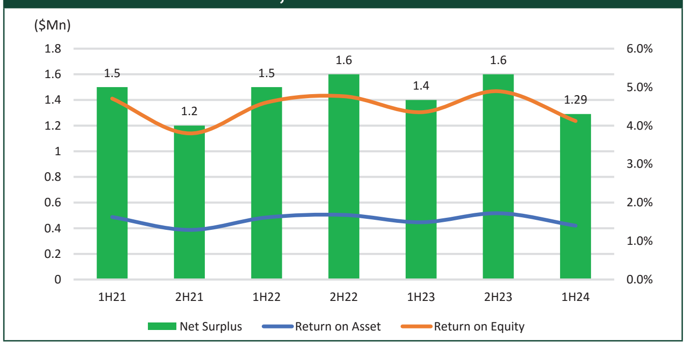


Sources: Credit Union Sector; Central Bank of Solomon Islands

The balance sheet recorded $92.1 million in 1H24, with loans comprising 60 percent of the asset composition. Loans amounted to $55.7 million during the review period, a slight decline from $56.2 million in the previous period. The decline was mainly from the measures taken by credit unions to control and impose secured lending. Savings and deposits rose to $47.1 million in 1H24 from $46.3 million in the previous period, reflecting higher savings contributions from financial members. During the reporting period, members' share capital increased marginally to $31.2 million.

Credit union membership remains around 6,850 members in total, with anticipations for continued long-term growth. There is significant potential for growth within the industry, particularly in its capacity to serve members more efficiently and effectively. However, the expansion of credit union membership depends on the deepening financial inclusion programs, economic activities in rural areas and the quick passage of the Credit Union Bill, which is currently stalled in parliament.

Figure 12: Credit Union Sector Half-Year Profit Performance, 1H21 – 1H24



Sources: Credit Union Sector; Central Bank of Solomon Islands

11 PEARLS – A monitoring tool used to identify solutions for institutional deficiencies within a credit union operation in the following areas; 1. Protection, 2. Effective Financial Structure, 3. Assets Quality, 4. Rate of Return & Cost, 5. Liquidity & 6. Signs of growth.

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

3.1 Banking Sector: Vulnerabilities & Risks

Credit risk has remained a significant concern for the banking sector during the first half of 2024. This risk primarily arises from the persistent delays by the SIG in settling its debts with service providers, who are also borrowers of the banks. Furthermore, delays in rental payments by SIG have hindered property owners' ability to meet their debt contractual obligations. Consequently, the NPL to total gross loans ratio increased by 1.0 percentage points to 10.6 percent at the end of the 1H24. The sector's NPL ratio is above CBSI's internal supervisory limit of 5 percent, thereby rated as high risk. However, the residual risk is considered medium since all loans are fully collateralized by assets, providing a substantial buffer against potential losses, as the collateral can be utilized to recover outstanding loan amounts.

Cyber risk remains a prominent concern for banks in the Solomon Islands due to the increasing reliance on digital infrastructure and the growing sophistication of cyber threats. As Solomon Islands banking sector continues to adopt advanced technologies to enhance processes and better serve customers, it becomes an attractive target for cyberattacks, including data breaches, ransomware, and phishing schemes. Such cyber-attacks could lead to disruptions in banking operations, financial losses, and reputational damage to the broader financial system. The inherent risk rating is medium; however, due to the sector's ongoing robust security measures, including penetration tests, vulnerability scans, and continuous staff awareness programs, the residual risk is rated low. Despite the current assessment, it remains crucial for banks to diligently implement comprehensive risk management practices. This proactive approach ensures that potential threats are mitigated and that the sector remains resilient against any unforeseen cyber incidents. By staying vigilant and prepared, banks can safeguard their assets and maintain the trust of their customers.

The sector's reliance on wholesale deposits continues to present liquidity risks. By the end of this reporting period, the ratio of wholesale deposits to total loans increased by 320 basis points to 31.3 percent. The country's slow economic growth and inflation persistence might drive wholesale depositors, including statutory non-bank financial institutions and state-owned enterprises, to withdraw funds in pursuit of higher-yield investments in country or abroad. This could result in liquidity mismatches within the banking sector. Despite the inherent risk being rated as medium, the residual risk remains low due to the robust liquidity management practices adopted by banks and the sector's maintenance of high-quality liquid assets.

Lastly, inadequate road infrastructure and frequent power outages (proxied by decline in electricity production)[12] pose significant operational risks for banks, potentially disrupting critical banking functions. Power outages can cause system downtimes in telecommunication networks, interrupt banking services, compromise data integrity, and potentially lead to financial losses. These disruptions not only impede the bank's ability to serve its customers effectively but also heighten the risk of security breaches, as systems become more vulnerable during outages. Furthermore, recurring infrastructure issues can erode customer trust and satisfaction in the banking sector. The sector, however, continually manages this risk through proactive strategies and contingency planning, including investments in backup power systems and ongoing management and communication with third-party service providers of material business activities. Consequently, the residual risk is considered low.

Table 2: Banking Sector Key Vulnerabilities and Risks, 1H24

Vulnerabilities	Risk Type	Risk Description	Inherent Risk	Residual Risk
			1H24 Rating	2H24 Rating
Growing household indebtedness	Credit	Deterioration in quality of housing and investment property loans	High	Medium
Increasing use of technologies	Cyber security	Deterioration in confidentiality, integrity or availability of information or data	Medium	Low
Reliance on wholesale deposits for funding	Liquidity	Inability to meet obligations when fall due and lead to a system wide bank run	Medium	Low
Poor road infrastructure and unreliable network infrastructure	Opera-tional	Inability to provide smooth and efficient banking services	Low	Low

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

Source: Central Bank of Solomon Islands

3.2 Superannuation Sector: Vulnerabilities & Risks

As a financial institution and the only superannuation fund in country, it continues to face various risks and vulnerabilities. The key vulnerabilities and risks have remained unchanged since the first half of 2023, with additional implications to the current risk.

The outdated legal framework remains a key governance risk. The delay in modernizing the legal framework exposes the Fund's operation and investment decisions to undue political influence. This is evident from the ongoing early withdrawals of member benefits at the discretion of the Minister. While controls are in place, modernizing the current legislation and incorporating best international practices are crucial for enhancing the board's independence and effective risk management.

12 Central Bank of Solomon Islands, Quarterly Review, Vol. 36, No.1

The Fund's investment portfolios expanded further in 1H24 particularly towards the domestic unlisted equities. This heightens the Fund's exposure to concentration risk especially if the market conditions deteriorate. This remains to be a challenge for the Fund's board and management to re-strategize due to the narrow domestic market environment.

The Fund is also vulnerable to market risk and valuations risk due to fluctuations in global markets and the uncertainty of valuations for domestic equities. As observed in 1H24, the Fund posted a positive unrealized gain; however, adverse market movements could induce different outcomes. The uncertainty of valuations for domestic equities could result in either an overstating or understating of the value of domestic equities, especially in the absence of a local stock market.

Although the Fund's liquidity remains adequate to sustain its operations, the obsolete legal framework that governs the members' withdrawal categories poses a significant risk to the Fund's liquidity management. While aging demography of the Fund is certain, the unexpected early withdrawals through lenders claims and Ministers discretion remains a challenge and could pose liquidity mismatch in the future. As one of the major distributors of liquidity in the financial system, particularly to the banking sector, the Fund's liquidity is systemically important.

With the rapid growth in connectivity, digitization and technological innovations, the Fund is also vulnerable to cyber risks and attacks. While cyber risk has not yet materialized in the Fund's operations, as a financial institution, the Fund remains exposed to this risk. The onboarding of the informal sector and the increasing use of digital innovation platform to enhance member access may improve efficiency in line with promoting financial inclusion. However, these digital advancements also expose the Fund to potential cyber-attacks. As the custodian of members' personal data, the Fund's board and management must implement a robust cybersecurity strategy to mitigate these risks.

Table 3: Superannuation Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk 1H24 Rating	Residual Risk 1H24 Rating
Strong political influence due to outdated legal framework	Governance risk	Elevate imprudent practises jeopadise best practises	Extreme	Extreme
Aging fund population and rising demand for early withdrawals	Liquidity risk	Deterioration in the liquidity management	Extreme	High
Geographical location	Operational Risk	Continuously rely on single unlisted entities	Extreme	Extreme
Narrow local market condition	Investment Risk	Concentration risk	Extreme	Extreme
Fluctuation of global markets and uncertainties of valuations	Market and valuation Risk	Inability to meet legal requirement due to poor financial performance	Medium	Medium
Increase in digitalization and technology innovations	Cyber Risk	Deterioration in confidentiality and data breaches	Medium	Medium

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

Source: Central Bank of Solomon Islands

3.3 Insurance Sector: Vulnerabilities & Risks

The insurance sector, though stable, continues to face uncertainty in light of strategic business decisions by current players to either reduce presence or exit the domestic market. With the transition of Trans Pacific Assurance now licensed after taking over from Tower Insurance, there is still scepticism around the insurance market composition. The risk of having well established insurers leaving the market and new entrants coming on board would be significant for the industry. Thus, adapting to the new operating environment, particularly adjusting with the risk management culture can be onerous. New entrants coming into the country might be overly eager to expand their business that focus more on driving up earnings and ignoring risks outside of their appetite, putting the sector at risk.

With the changes that is unfolding in the neighbouring countries specifically Vanuatu and Papua New Guinea[13], it is very likely that the domestic insurance industry would be dominated by foreign insurers. This ownership arrangement could trigger potential ownership concentration risk where the local industry could be susceptible to international insurance risks. If a large catastrophic event were to occur and affect the Papua New Guinea insurance market, this would significantly affect the parent insurers, and in turn the local branches or subsidiaries in Solomon Islands as well.

High reinsurance cost remains a key risk for the sector in 1H24 for several reasons. First, the local insurance industry is heavily reliant on the global market and therefore any changes to that market environment always have an immediate effect on the local insurers, particularly its budget and policyholders' premium prices. Second, adverse foreign exchange fluctuations could result in the local insurers paying more for reinsurance because of the lower purchasing power of the local currency. The negative impact of this is it forces insurers to increase premiums and in the long run, would lead to a loss of appetite from policyholders to renew their insurance coverage as local customers may shift their demand overseas to insurance markets offering affordable and cheaper premium prices.

All insurers coming from the same geographical region Concentration Risk Concentration risk could arise if all insurers' headquarters face crisis (economic, political, natural disaster, etc.), impacting their capacity to support its subsidiaries. This leads to systemic risk in the local

13 Kitchen, N. (2023, 11 1). QBE divests operations in Papua New Guinea. Retrieved from QBE Press Release: https://www.qbe.com/newsroom/news/qbe-divests-operations-in-papua-new-guinea.

Table 4: Insurance Sector Key Vulnerabilities and Risks, 1H24

Vulnerabilities	Risk Type	Risk Description	Inherent Risk 1H23 Rating	Residual Risk 1H23 Rating
Changing Insurance Industry Composition	Strategic & Insurance Risk	Competent insurers leaving market and new entrants coming into the market with less strict risk management culture	High	Medium
All insurers coming from the same geographical region	Concentration Risk	Concentration risk could arise if all insurers' headquarters face crisis (economic, political, natural disaster, etc.), impacting their capacity to support its subsidiaries. This leads to systemic risk in the local insurance industry, with multiple insurers experiencing financial difficulties and potentially leading to reduce capacity to meet claims or insolvencies.	Medium	Medium
High Cost of Reinsurance	Liquidity Risk	High reinsurance cost continuous to put pressure on insurers operational cost and subsequently liquidity position	Medium	Low
Low	Implies generally stable micro-financial conditions with minimal threat to financial stability			
Medium	Signals moderate levels of systematic risk build u p that suggest the need for closer monitoring but not an immediate policy response			
High	Indicates potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated			
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy intervention			

Source: Central Bank of Solomon Islands

3.4 Credit Union Sector: Vulnerabilities & Risks

Management information system (MIS) is still a challenge for the industry in terms of collecting, storing, organizing and utilizing large amounts of data to support board and managerial decision making within the credit union sector. This increases the sector's exposure to operational risk. It is vital for credit unions to streamline their operations and enhance decision making process to gain a competitive edge in the financial sector. The Registrar's Office (RO) has been in discussion with vendors about affordable systems that could assist credit unions with their information systems; however, the project has not materialized, primarily due to limited resources. The League's funds invested in Treasury Bills at the Central Bank is designated for the project.

Having a proper reporting framework is vital for credit unions to effectively monitor their performance, identify serious institutional deficiencies and find meaningful solutions. Without a proper framework credit unions are exposed to governance risk. The PEARLS monitoring system could be a potential solution for credit unions to adopt due to its ability to accurately identify areas ¬¬¬of concern and facilitate necessary adjustments. It is an "early warning system" that generates invaluable management information system.

Adherence to lending policies by credit committees remains a challenge that leads to weak underwriting and assessment within the lending portfolio. Credit Unions have resorted to scheduling disbursement of approved loan applications as instalment payments. The board and management are not properly appraising members' loan applications, which often have poor or inadequate repayment schedules or even non-repayment of loans. There is also insufficient knowledge and underwriting skills among credit committee members in several credit unions, which has led to credit unions setting their own loan repayment terms rather than adhering to proper loan amortization practices which exposes them to credit risk.

Liquidity risk associated with credit union members' deposits and savings is a primary concern for the industry as many credit unions continue to face ongoing cashflow constraints. There has been a decline in assets allocated to cash and certain investments, exacerbating these issues. Credit unions must be proactive in preparing for potential liquidity crisis by conducting thorough assessments and continuous monitoring of their financial landscape to effectively respond to any liquidity emergencies.

Table 5: Credit Union Sector Key Vulnerabilities and Risks, 1H24

Vulnerabilities	Risk Type	Risk Description
Inadequate Management Information	Operation Risk	Inadequate Management Information systems for credit unions
Inadequate reporting	Governance Risk	Lack of comprehensive Prudential Reporting Templates & Reporting Compliance
Weak Underwriting Practices	Credit Risk	Weak Underwriting Practices

Source: Central Bank of Solomon Islands

CHAPTER 4: FINANCIAL SECTOR OUTLOOK AND CHALLENGES

4.1 Banking Sector: Outlook & Challenges

Despite its resilience in 1H24, the banking sector continues to face challenges stemming from delays in loan repayments by customers who rely primarily on SIG payments as the primary source for loan repayments, and weak economic growth in the country. The fiscal standing of the Government has impeded timely loan repayments from SIG customers, hereby elevating credit risk. Additionally, high operating costs remain a persistent challenge for banks. The sluggish economic growth has also led to a sluggish demand for loans and other financial products, adversely affecting banks' profitability and stability. Moreover, the sector's ability to diversify and expand credit outside of Honiara remains a challenge due to the scarcity of bank-accepted collateral outside of provincial areas and the high costs associated with monitoring these collaterals.

As the economy continues to be challenged by slow economic growth, the outlook on credit to the private sector is expected to remain sluggish. Therefore, to remain resilient, it is important that banks continually adapt and strategize to diversify revenue streams, strengthen risk management practices, and maintain prudent capital management.

However, the ongoing digitization of products, services, and processes within banks is expected to continue in the coming 6 months. The sector's investment in EFTPOS, online payment options and e-banking facilities is expected to grow in the medium term to further streamline operations and drive customers into using digital platforms. To some extent, this is expected to improve the banks' cost efficiency and provide additional revenue streams for banks. Furthermore, the upward trend in FinTech entities establishing in country, may potentially push the banks to adopt digitization in its banking strategy so as to remain competitive. However, it is important that banks digital strategy aligns with their core objectives, financial capabilities and with clear and realistic strategic plans. Finally, the expansion of agent banking services to other provinces may grow in the medium term.

4.2 Superannuation Sector: Outlook & Challenges

The Fund anticipates a moderate growth rate in total membership. One of the Fund's ongoing strategies for onboarding new members is through technological innovations, specifically for the informal sector. Moreover, as anticipated in 2H23, geopolitical landscape continues to significantly influence economic activities, potentially leading to improve employment opportunities, and this trend may persist.

On the assets side, the Fund's total investment is anticipating some growth, however on a slower to moderate rate similar to 2H23 predictions. This growth is expected to derive from property investments, government securities and fixed income investments. Furthermore, the anticipated growth over the next 6 to 12 months may proceed from valuation of unlisted equities and positive gains from offshore investment.

4.3 Insurance Sector: Outlook & Challenges

Looking ahead into 2H24, the market may expect some changes based on the developments occurring during 1H24. Interest continues to grow within both the underwriting and intermediary business space with the Controller of Insurance office already licensing one new insurance broker and one new insurer during 1H24. This is good for the insurance industry as competition demands participants to put more effort into their branding and networking, particularly in the intermediary space. More competition is likely to provide policyholders with a variety of options to choose from. Thus, may cause intermediaries to sharpen their knowledge of insurance products, risk management, and improve compliance with best practices and regulatory requirements in order to keep up with competition and meet policyholders needs. This requires intermediaries to invest more in training and development and build up a capable and knowledgeable team.

More on the sector's outlook, UNCDF is also working tirelessly behind the scene with its stakeholders to bring to market a new parametric insurance product that will help vulnerabilities in the climate risk space[14]. The project has already been successfully piloted in other regional countries like Fiji, Papua New Guinea and Samoa and a pilot for the Solomon Islands is expected soon.

In terms of challenges, the insurance sector continues to encounter the same challenges from 2H23 in 1H24. Two notable challenges are concentrated business activities in the Capital Honiara and the low penetration rate of insurance in rural communities because of high illiteracy on the benefits of insurance. Key business activities are centralized in Honiara and thus the industry is heavily concentrated mostly on one geographical location with only few risks being insured in other provinces, particularly the western province. The industry therefore cannot expand due to limited business opportunities. Additionally, there are also other risks which have high demand for insurance coverage but are not offered by the industry because it is outside of their risk appetite. These are marine hull and machinery, protection and indemnity, and professional indemnity for specialized professions. As a result, policyholders have to seek these insurance coverages overseas under section 11 of the Insurance Act.

Challenges relating to low insurance penetration into the wider rural communities persists. This requires coordinated efforts from all stakeholders to do more in terms

14 14 UNCDF. (2024, September 18). Pacific Insurance and Climate Adaptation Programme: Results at a glance 2021-2022. Retrieved from Pacific Insurance and Climate Adaptation Programme (PICAP): https://www.uncdf.org/article/8150/pacific-insurance-and-climate-adaptation-programme-results-at-a-glance-2021-2022.

of awareness and education for the development of this sector. With the majority of Solomon Islanders lacking the understanding of the benefits of insurance, people look at insurance as an additional expense as opposed to a risk management tool to provide financial security (safety net). This is further compounded by existing safety-net provided by communal relationships in the Solomon Islands which is essential to provide support to individuals similar to the principles of insurance. This leads to less demand for insurance, hindering the growth of the industry Having said that, the anticipated launching of the parametric product on the horizon, should contribute to local awareness on what insurance is and its benefits, however enticing people to buy insurance regularly will probably take some time to achieve.

4.4 Credit Union Sector: Outlook & Challenges

Despite facing slow performance, the resilience of credit unions has been demonstrated by their steady performance in lending and their ability to consistently overcome challenges in terms governance, credit and operation. It now lies with the board of directors and management of credit unions to prioritize and strengthen their oversight on key areas affecting the sector going forward. With prudent practices and proactive responses credit unions can reach their potential capacity within the sector.

4.5 Regulatory Sandbox Developments

Box 2: Regulatory Sandbox Developments

During the first half of 2024, CBSI continued to fulfil one of its core responsibilities as administrator of the Regulatory Sandbox Framework (CBSIRSB) to support the booming FinTech sector in the country. CBSI maintained its critical and supportive role within the CBSIRSB in providing a safe testing ground for innovative solutions. In doing so, the CBSIRSB helps to accelerate the adoption of fintech in the country, mitigate risks associated with untested fintech solutions and enable regulatory authorities to better understand the implications of new financial technologies.

Table 6: Summary of RSB Applicants

Applicant No.	Application Product/ Services Type	Application Status
1	Digitalized Remittances & Payments	Platform Application rejection
2	Digitalized Money Remittances	Exit RSB assessment process
3	Digital Payment Services through airtime top-up for Utility services	Exit RSB assessment process
4	Digitalized Money Remittances	Platform Testing
5	Digitalized Nano Loan Product	Platform Testing

Number of applicants has decreased from the second half of 2023. During the outlook period, two applicants admitted to the CBSIRSB continued operating within the controlled pilot environment with mutually agreed-upon testing parameters and conditions. These applicants have consistently submitted required reports and maintained operative communications with the CBSI. One applicant hitherto had exited the CBSIRSB and transitioned into full operation in the domestic market after being subject to a thorough assessment and eventually granted an exclusive restricted classified FX Dealers License for Money Transfer Service (MTS) operation. The first cohorts of CBSIRSB applicants included digitalized remittances and payments, and digitalized nano loan products.

CBSI continues to exert its supporting role in the FinTech industry, ensuring that non-financial entities provide their innovative financial products and services to the local market within the set guidelines and parameters under its supervision regime. The aim is to ensure that the piloted financial technology innovations are operating safely and responsibly in the spirit of overcoming the barriers to financial inclusion. Thus, CBSIRSB remains a valuable tool for promoting sustainable financial innovation while maintaining consumer protection.

CBSI welcomes and anticipates more CBSIRSB applications in the 2H24. CBSIRSB will remain a pivotal platform for fostering innovation under regulator's guidelines and criterion enabling supportive regulation and supervision by the CBSI in the country.

APPENDICES

APPENDIX 1: BANKING SECTOR

Appendix A1.1: Banking Sector Financial Soundness Indicators, 1H21 – 1H24

In Percent	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Capital Adequacy	33.4	32.6	30.5	32.9	33.8	34.8	36.7
Total regulatory capital ratio	33.4	32.6	30.5	32.9	33.8	34.8	36.7
Tier 1 Capital ratio	33.0	31.0	30.5	32.8	33.8	34.2	36.7
Leverage Ratio >3% [Basel III]	13.9	13.3	13.9	13.6	14.2	13.8	14.5
Profitability	1722.2	2068.3	2073.7	2132.1	2211.8	2294.5	2345.9
Return on Equity (ROE)	13.4	8.6	15.5	16.1	14.1	17.0	14.4
Return on Assets (ROA)	2.5	2.3	2.9	3.0	2.7	3.2	2.6
Operational Risk							
Cost to income ratio (CIR)	58.3	56.7	57.1	56.0	56.1	52.3	59.0
Total Asset Growth	1.7	(2.1)	(2.3)	3.9	1.3	3.8	1.7
Credit Risk							
Credit Growth	(0.6)	1.5	1.0	(0.1)	1.5	1.3	(0.5)
Credit Concentration Risk	0.1	0.1	0.1	0.1	0.1	0.1	0.1
All Large Exposures / Tier I Capital	50.5	45.4	25.1	46.9	25.3	35.6	15.0
Sectoral HHI of credit sector portfolio	1722.2	2068.3	2073.7	2132.1	2211.8	2294.5	2345.9
Credit Quality							
Gross Stressed Exposures (GSE) to Total Exposures	11.9	11.2	10.9	9.3	8.9	9.3	11.0
Gross NPLs to Total gross Loans	11.4	10.4	10.9	9.4	8.3	9.6	10.6
Provisioning							
Provisioning Coverage Ratio: Specific Loan Loss to NPLs	28.7	36.4	36.2	39.8	44.8	41.4	43.3
Liquidity Risk							
Wholesale Deposits (OFCs) to Total Loans	31.7	29.5	33.0	32.8	31.9	28.1	31.3
Total Gross Loans to Total Deposits	51.2	50.9	52.9	50.3	51.9	49.9	49.5
Liquid Assets to Short Term Liabilities	59.7	64.1	67.4	66.1	66.8	67.5	67.2
Forex Risk							
Net overall Open Position: Net overall open position to total capital & reserves	2.4	2.9	2.6	2.8	5.1	2.6	5.9

Low	**Indicator is within the internal thresholds**
Medium	**Indicator is within the internal thresholds however on the lower or higher end of the internal thresholds**
High	**Indicator is above or below the internal thresholds**
Extreme	**Indicator is extremely above or extremely below the internal thresholds**

Sources: Commercial Banks; Central Bank of Solomon Islands

Appendix A1.2: Banking Sector Half-Year Income Statement ($ Million), 1H21 – 1H24

	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Net interest income	113	120.1	113.7	118	122.3	124.5	125.4
Noninterest income	76.6	92.9	86.5	109.7	97.2	104	129.5
Noninterest expenses	110.6	117.6	114.3	125.4	123.1	111.3	150.4
Provisions	0.7	24.7	(10.1)	(3.9)	4.3	(13.7)	9.5
Net profit before tax	78.3	70.8	95.9	106.2	92.2	130.9	95.1

Sources: Commercial Banks; Central Bank of Solomon Islands

Appendix A1.3: Banking Sector Half-Year Balance Sheet ($ Million), 1H21 – 1H24	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Cash and Deposits	3,143.1	3,293.7	3,145.3	3,479.2	3,387.6	3570.4	3777.5
Loans net of specific provision for loan losses	2,484.8	2,515.7	2,509.2	2,550.5	2,612.9	2,647.7	2,651.0
Debt securities	471.5	476.7	441.0	484.0	495.5	500.0	507.2
Nonfinancial assets	206.1	286.5	278.9	273.9	271.9	298.4	285.5
Total assets	6,397.5	6,685.4	6,464.6	6,907.6	6,898.7	7215.1	7366.0
Currency and deposits	5,012.6	5,133.5	4,941.6	5,273.9	5,233.8	5521.0	5615.8
Other Liabilities	234.5	316.1	293.4	333.7	369.2	359.9	435.0
Capital and reserves	1,150.4	1,235.9	1,229.6	1,300.1	1,295.7	1334.2	1315.3
Total Liabilities & Capital	6,397.5	6,685.4	6,464.6	6,907.6	6,898.7	7215.1	7366.0

Sources: Commercial Banks; Central Bank of Solomon Islands

APPENDIX 2: SUPERANNUATION SECTOR

Table A2.1: Superannuation Sector Financial Soundness Indicators

In Percent	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Total Reserve-to-total assets ratio	12.0	11.8	13.0	2.6	6.8	5.2	8.9
Investment Growth	1.8	0.6	(0.7)	0.5	2.4	1.3	1.1
Investment assets allocations							
Time deposit	18.0	16.6	17.0	18.7	18.5	16.1	16.3
Government Securities	7.5	8.6	8.7	10.5	12.6	15.3	15.6
Loans and Bonds	5.1	4.3	4.4	4.3	4.7	4.7	4.3
Investment Properties	15	14	13	17	16	15	15
Shares-Unlisted	48.4	49.9	50.6	43.3	41.7	41.6	40.5
Shares-Listed	5.8	6.6	6.0	6.6	7.0	7.1	7.9
Return on Total Investment Assets	7.2	10.2	4.8	(6.2)	9.4	8.7	8.8
Cost-to-income ratio	23.0	21.0	32.5	(13.2)	20.5	24.0	24.9
Core liquid assets-to-total assets ratio	6.8	4.4	5.8	5.8	5.2	4.4	4.9
Liquid assets to total value of members contributions ratio	26.2	22.7	24.6	23.6	23.8	20.3	21.7
Liquid assets -to-short term liabilities	38	24	31	29	26	21	24
Liquid assets-to-total assets ratio	22.5	19.5	20.7	22.3	21.4	18.8	19.2
Members Contribution Growth	(1.0)	0.3	(1.0)	0.0	(1.0)	0.6	(0.8)

Low	Indicator is within the internal thresholds
Medium	Indicator is within the internal thresholds however on the lower or higher end of the internal thresholds
High	Indicator is above or below the internal thresholds
Extreme	Indicator is extremely above or extremely below the internal thresholds

Sources: SINPF; Central Bank of Solomon Islands

Table A2.2: Superannuation Sector Half-Year Income Statement ($Millions), 1H21 – 1H24	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Investment Income	135.17	275.24	102.77	281.73	179.06	170.04	188.88
Less: Direct Investment Expenses	17.50	14.95	15.96	12.59	14.59	12.38	19.27
Net Investment Income	117.68	260.29	86.81	294.32	164.46	157.66	169.62
Non-Investment Income	38.35	(30.85)	40.60	(30.55)	46.80	(35.35)	48.55
Gross Income	156.03	229.44	127.41	324.87	211.26	122.30	218.17
Less: Operational Expenses	22.47	32.98	30.66	27.98	31.63	28.08	39.76
Net Profit before interest payable	133.56	196.45	96.75	352.84	179.64	94.22	178.41
Less: Interest payable to members	2.71	6.47	5.86	8.74	2.88	(0.40)	6.56
Net Profit After Interest to Members	130.84	189.98	90.89	361.58	176.75	94.62	171.85

Sources: SINPF; Central Bank of Solomon Islands

Table A2.3: Superannuation Sector Half-Year Balance Sheet Statement ($millions), 1H21 – 1H24							
Investments Assets	**1H21**	**2H21**	**1H22**	**2H22**	**1H23**	**2H23**	**1H24**
Fixed Term Deposit	601.3	612.5	616.9	630.8	647.7	598.3	620.1
Loans and Advances	164.7	150.6	154.6	137.1	148.3	157.3	137.1
Government Securities	250.6	316.0	314.4	352.4	440.4	568.1	595.3
Debt securities	6.5	6.5	6.5	6.5	18.1	18.3	48.3
Investment Properties	502.3	515.5	486.6	557.7	545.0	566.3	587.8
Shares and equities	1,835.9	2,077.6	2,061.1	1,688.3	1,714.8	1,816.7	1,853.5
Other Assets							
Cash and Demand Deposit	260.55	180.4	240.9	221.6	205.7	183.9	213.7
Property Plant and Equipment	196.3	196.0	196.5	197.5	213.2	231.5	235.0
Other assets	45.5	49.0	91.2	58.9	82.2	61.7	98.2
Total assets	**3,863.7**	**4,104.0**	**4,168.5**	**3,850.7**	**4,015.2**	**4,202.0**	**4,389.0**
Members' contributions	3,285.6	3,493.6	3,492.2	3,609.4	3,589.8	3,854.0	3,848.5
Other Liabilities	117.8	128.7	139.6	143.7	155.6	132.7	150.9
Capital & reserves	460.2	481.8	536.7	97.6	269.9	215.3	389.7
Total liabilities& capital	**3,863.7**	**4,104.0**	**4,168.5**	**3,850.6**	**4,015.2**	**4,202.0**	**4,389.0**

Sources: SINPF; Central Bank of Solomon Islands

APPENDIX 3: INSURANCE SECTOR

Table A3.1: General Insurance Sector Financial Soundness Indicators, 1H21 – 1H24							
In Percent	**1H21**	**2H21**	**1H22**	**2H22**	**1H23**	**2H23**	**1H24**
Capital Adequacy							
Net Premium to Capital							
(Low Risk ≤ 300%)	71.0	53.8	67.8	59.8	61.2	59.9	62.5
Capital & Reserves to Total Assets (Low Risk ≥ 15%)	41.2	40.5	47.5	43.5	43.9	50.9	53.0
Asset Quality							
Debtors to Total Assets (Low Risk ≤ 25%)	14.7	14.8	18.8	18.4	18.7	15.5	20.1
Debtors to (Gross Premium + Reinsurance) (Low Risk ≤ 35%)	32.8	36.6	48.5	36.2	41.3	38.4	42.5
Reinsurance & Actuarial Issues							
Risk Retention Ratio (Low Risk ≥ 40% ≤ 80%)	67.6	65.0	73.6	65.9	64.7	68.2	68.8
Adequacy of Claims							
Loss Ratio (Net Claims to Net Premiums) (Low Risk ≥ 40% ≤ 80%)	18.8	62.1	6.5	38.5	(11.0)	27.5	(7.9)
Earnings & Profitability							
Expense Ratio (Expense to Net Premium) (Low Risk ≤ 45%)	59.8	47.2	51.4	54.0	58.7	43.1	43.0
Combined Ratio (Net Claims + Expense to Net Premiums) (Low Risk ≥ 60% ≤ 105%)	78.5	109.3	57.9	92.5	47.7	70.6	35.0
Investment Income Ratio (Investment Income to Net Premium) Low ≥ 2% ≤ 30%)	0.5	1.7	0.8	0.5	0.7	0.5	0.5
Return on equity							
Low Risk ≥ 5% ≤ 30%)	16.1	(3.8)	28.1	6.0	28.9	18.7	33.0
Return on Asset							
(Low Risk ≥ 4%)	6.6	(1.5)	13.4	2.6	12.7	9.5	17.5
Liquidity Ratio							
Liquid Assets to Short Term Liabilities (Low Risk ≥ 120%)	105.3	99.9	110.9	113.6	107.9	123.6	111.5

Low	Indicator is within the internal thresholds
Medium	Indicator is within the internal thresholds however on the lower or higher end of the internal thresholds
High	Indicator is above or below the internal thresholds
Extreme	Indicator is extremely above or extremely below the internal thresholds

Sources: Insurance Sector; Central Bank of Solomon Islands

Table A3.2: General Insurance Half-Yearly Income Statement ($ Million), 1H21 – 1H24							
	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Gross Written Premium	39.9	29.4	36.8	37.6	43.6	42.0	51.4
Outward reinsurance	12.9	10.3	9.7	12.8	15.4	13.4	16.0
Premium net of reinsurance	27.0	19.1	27.1	24.7	28.2	28.6	35.4
Unearned premium reserves	1.8	(0.3)	1.7	1.1	4.1	0.4	7.4
Net earned premium	25.1	19.5	25.4	23.6	24.1	28.3	28.1
Gross claims expense	6.5	19.5	11.2	14.3	1.3	3.7	(3.0)
Total recoveries	1.7	7.5	9.5	5.2	4.0	(4.1)	(0.8)
Net claims expenses	4.7	12.1	1.6	9.1	(2.6)	7.8	(2.2)
Acquisition Costs	0.0	(0.0)	0.0	0.0	(0.1)	(0.5)	(0.8)
Total underwriting expenses	11.8	18.6	8.7	15.4	4.9	14.6	6.1
Underwriting Results	13.3	0.8	16.8	8.2	19.2	13.7	22.0
Investment income on assets backing insurance liabilities	0.1	0.3	0.2	0.1	0.2	0.1	0.1
Insurance Results	13.4	1.1	17.0	8.3	19.4	13.8	22.1
Other operating expenses or management expenses	7.3	2.5	6.0	6.5	6.1	4.9	3.6
Net Profit (Loss) Before Tax	6.1	(1.4)	11.3	2.5	13.3	8.9	18.7
Income tax or provisions	1.6	1.0	3.2	0.9	1.8	4.8	5.6
Net Income (Loss) End of Current Period	4.5	(2.3)	8.0	1.6	11.5	4.2	13.1

Sources: Insurance Sector; Central Bank of Solomon Islands

Table A3.3: General Insurance Half-Year Balance Sheet Statement ($ Million), 1H21 – 1H24							
	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Total Assets	184.3	175.3	168.4	190.2	217.7	187.9	213.8
Nonfinancial assets	6.0	7.9	7.5	8.4	7.9	5.4	20.0
Financial assets	178.3	167.5	160.9	181.8	209.8	182.6	193.8
Currency and deposits	114.1	104.1	98.1	122.1	131.4	114.2	112.2
Shares and other equity	0.7	0.6	0.6	0.6	0.6	0.7	0.8
Debt securities	16.0	16.0	15.7	16.0	15.7	15.7	15.0
Insurance technical reserves (Assets)	44.7	44.2	44.0	42.1	61.1	47.0	63.9
Other assets	2.8	2.6	2.5	0.9	1.1	5.1	1.9
Liabilities	108.3	104.3	88.4	107.5	134.4	92.3	100.5
Insurance technical reserves (Liabilities)	83.5	84.4	70.5	86.5	115.7	78.1	87.2
Other liabilities	24.8	19.9	17.9	20.9	18.8	14.3	13.3
Capital and reserves	76.0	71.0	80.0	82.7	83.3	95.6	113.3
Balance Sheet Total	184.3	175.3	168.4	190.2	217.7	187.9	213.8

Sources: Insurance Sector; Central Bank of Solomon Islands

APPENDIX 4: CREDIT UNION SECTOR

Table A4.1: Credit Union Sector Financial Soundness Indicators, 1H21 – 1H24

	1H21	2H21	1H22	2H22	1H23	2H23	1H24
Balance Sheet (SBD Million)							
Total Loans	56.5	56.8	55.5	60.9	57.4	56.2	55.68
Total Assets	92.3	93	92.9	95.2	94	92.8	92.14
Total Deposits/Savings	54.2	55	53.4	55.6	45.9	46.3	47.14
Total Share Capital	31.9	31.6	32.6	33.6	32.2	32.7	31.32
Income Statement (SBD Million)							
Income	3.8	4.3	3.8	5	3.8	5.2	4.30
Expenses	2.3	3.1	2.3	3.4	2.4	3.6	3.01
Net Surplus	1.5	1.2	1.5	1.6	1.4	1.6	1.29
Statistics							
Membership	6850	6850	6850	6850	6850	6850	6850
No. of Reporting Credit Unions	10	10	10	10	10	10	10
Protection							
Self Sufficiency Ratio (> 111%)	165%	139%	165%	147%	158%	144%	143%
Effective rate of Efficiency							
Loans to Assets (70-80%)	61%	61%	60%	64%	61%	61%	60%
Savings Deposits to Assets (70-80%)	59%	59%	57%	58%	49%	50%	51%
Asset Quality							
Non-earning Assets to Total Assets (<=5%)	17%	17%	17%	15%	16%	17%	13%
Rate of Return							
Net Income to Loan	3%	2%	3%	3%	2%	3%	2%
Liquidity							
Reserves to Savings (15%)	22%	22%	22%	21%	26%	26%	15%
Signs of Growth							
Growth in Loans	1%	1%	(2%)	10%	(6%)	(2%)	(1%)
Growth in Savings	6%	1%	(3%)	4%	(17%)	1%	2%
Growth in Share Capital	15%	(1%)	3%	3%	(4%)	2%	(4%)
Asset Quality							
Capital to Total Asset ratio	35%	34%	35%	35%	34%	35%	34%
Return on Equity	5%	4%	5%	5%	4%	5%	4%
Return on Asset	1.6%	1.3%	1.6%	1.7%	1.5%	1.7%	1.4%

Sources: Credit Union Sector; Central Bank of Solomon Islands