Financial Stability Report

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

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

This report uses data up to 31 December 2024.

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

1.1: GLOBAL AND REGIONAL ECONOMIC ENVIRONMENT AND FINANCIAL CONDITIONS

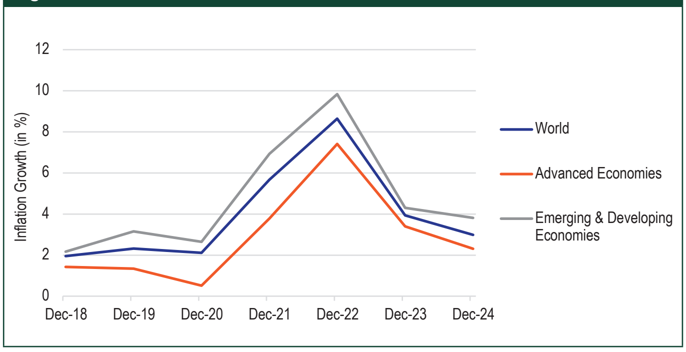
Growth in the global economy has been steady but slow, reflecting divergent economic conditions experienced across different countries and regions.

According to the International Monetary Fund[1], Global Gross Domestic Product (GDP) fell short of the initial growth estimates by 1 percentage point in the October 2024 World Economic Outlook (WEO). The U.S. economy experienced a growth of 2.7 percent in 2024, however, this growth was dampened by the slower performances experienced in China, India, the Euro area and Japan, limiting its overall impact on global GDP growth.

Global inflation eased but price pressure remained elevated in some part of the world owing to individual country's economic factors.

The effect of post Covid 19 pandemic and the Russian/ Ukraine war on price stability have eased, leading to a decline in global inflation in the second half of 2024. Global headline inflation has on a year-on-year basis, edged down by 1 percentage point following a general decline in energy prices and normalizing labour market. However, some countries are still grappling with persisting price pressures. This mixed outcome is mainly driven by specific national factors and unique economic environmental conditions.

Fig 1: Global Headline Inflation



Source: *: IMF, world Economic Outlook, April 2025*

Meanwhile, global financial conditions remain supportive of growth, with stock prices in developed economies improving due to optimism about favourable economic conditions, bolstered by policy changes from the U.S. government. However, this positive trend has put pressure on emerging economies, making it more difficult for them to reap similar benefits.

Uncertainties surrounding future economic policies relating to trade and government finances increased notably in the last quarter as countries closely watching the policy shifts in the U.S.

These have had some influence on the market prices and investment decisions to some extent. Moreover, political instability, escalating geopolitical tensions and ongoing trade disputes across multiple regions continue to heighten concerns the stability of the global economy.

Interest rates have taken diverging paths, despite a synchronized global monetary policy.

This outcome reflects slow economic growth in the Euro area and some major emerging economies. As a result, investor expectations have risen for a faster-than-expected easing of policy rates by central banks to stimulate growth in these regions. While interest rates have declined in other major advanced and emerging economies, medium-to long-term yields in the U.S. have increased. With the cooling of the U.S. labour market, the potential for further policy rate hikes remains elevated. These divergent trends are expected to widen the interest rate gap between the U.S. and other major economies, strengthening the U.S. dollar against other major currencies.

The appreciation of the U.S. dollar could have detrimental effects on emerging and developing economies that trade in U.S. dollars.

Smaller economies with weak currency value and narrow economic base may find it more expensive and challenging to engage in international trade. Furthermore, the strengthening of the U.S. dollar, coupled with rising trade uncertainty and geopolitical tensions, could prompt increased capital outflows.

The global financial environment has been supportive of growth, yet somewhat tight, with equity prices rallying since the fourth quarter of 2024 due to optimism around U.S favourable policy expectations.

In contrast, emerging and developing economies continue to face asset repricing risks due to their sensitivity to shifts in trade policy and currency movements. A disorderly market adjustment could significantly impact investor sentiment, triggering a repricing of risky assets and sudden global financial tightening.

1.2: DOMESTIC MACRO FINANCIAL CONDITIONS

The domestic financial system in the Solomon Islands, comprises banks, credit institutions, credit unions, a superannuation fund, and insurance companies.

Besides, there are also non-licensed credit institutions that intermediate financial services. Although these institu-

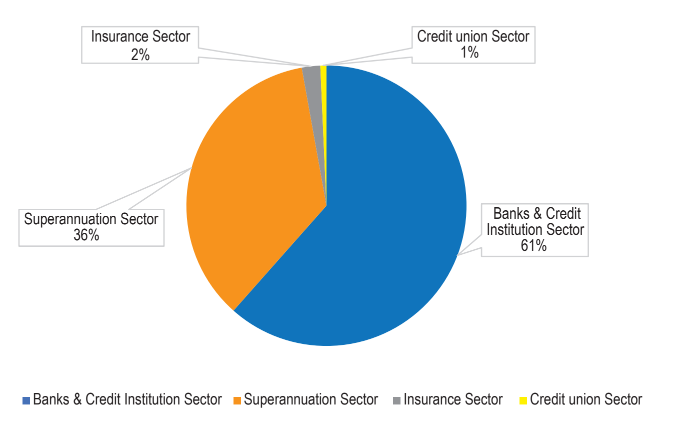
1 IMF World Economic Outlook, January 2025 Update

tions are not regulated by the Central Bank of Solomon Islands (CBSI), they play a crucial role in facilitating the flow of financial capital across the economy. Apart from that, there are other non-bank financial institutions that also provide financial intermediation services in the country, such as Mobile Money Operators (MMOs) licensed money changers, and Money Transfer Operators (MTOs). Together, these entities form an integral part of the financial ecosystem of the Solomon Islands and their performance is crucial for the country's financial stability.

The financial system assets continued to exhibit growth in 2024, with banks holding majority of these asset.

Total financial assets in the system grew by 1.1 percent $12.3 billion in the second half of 2024 (2H24) compared to the 1H24, and by 4.6 percent on a year-on-year basis. This growth was mainly driven by stable earnings from most sectors over the reporting period. Of this, banks and credit institutions accounted for 61 percent, followed by superannuation with 36 percent while the insurance sector and credit union sector accounted for 2 percent and 1 percent, respectively.

Fig 2: Composition of Domestic Financial System Asset



***Source**: CBSI*

Due to its size, the banking sector remains a systemically important sector in the domestic financial system. During 2H24, the sector continued to demonstrate strong performance, reinforcing its resilience to financial shocks. This is evident in its sound capital adequacy ratio, backed by sufficient liquidity buffers and robust risk management framework. These strengths have enabled the banking sector to support the overall economy by providing credit to individuals and business.

Despite these strengths, access to credit by the private sector remains a challenge due to tight credit environment, characterized by high interest rates and strict credit requirements. Although cost of borrowing in the country has improved in recent years, it remained elevated compared to peer countries in the region. This, together with the steep credit prerequisites set by banks and credit institutions, made it challenging for individuals and micro, small, and medium-sized enterprises (MSMEs) to access financial capital through credit.

On another note, despite the presence of excess liquidity in the financial system, banks and credit institutions have been issuing loans selectively. As a result, only individuals and business with high credit scores and are able to meet these strict credit requirements are able to access credits. The combination of high liquidity and cautious lending practices reflects a credit market that is liquidity-rich but risk-averse. Nevertheless, banks and credit institutions continued to play a pivotal role in providing essential financial services to support the local economy.

Non-bank financial institutions remain sturdy but challenges persist.

The superannuation sector, while experiencing a decline in its net profit, witnessed an increase in its total assets, supported by modest growth in investment income. The credit union sector, on the other hand, saw a decline in its assets and deposits due to a dip in its lending portfolio. Nevertheless, it remained profitable as its income outweighed the growth in expense recorded over the period. Meanwhile, the insurance sector expanded in 2H24 wi th its gross written premium (GWP) reaching $98 million. Although total asset declined slightly, the sector remained resilient with its asset holding firm at $203.9 million, underpinning the sector's profitable performance in 2H24.

The local financial system is remained exposed to vulnerabilities and risks, mainly relating to operational failure of parent company, credit risk, cyber risk and weak regulatory framework.

The domestic financial institutions comprise branches and subsidiaries of a foreign bank, insurance companies, or foreign holding companies. As such, these institutions can be exposed to financial stress experienced by their respective parent companies. Any financial stress derived from adverse developments—whether economic, social, or political—in t before tabling it Parliament.

Meanwhile, the CBSI maintains rigorous oversight on financial institutions (FIs) to mitigate emerging risks, while awaiting the issuance of updated legislations. This includes issuing regulatory guidelines, directives and standards aligned with international standards and best practices. Additionally, CBSI conducts regular risk assessments to identify vulnerabilities that could threaten the stability of the financial system, ensuring risks to financial stability are proactively managed.

CHAPTER 2: FINANCIAL SYSTEM OF SOLOMON ISLANDS

The financial system of Solomon Islands is categorized under two broad categories, these are the CBSI - regulated and non-CBSI-regulated Financial Institutions.

The categorization highlights the contrast between well-regulated, structured financial institutions and unregulated financial activities in the Solomon Islands.

As shown in Table 1, the CBSI regulated institutions include four commercial banks, two credit institutions, a development bank, a superannuation fund, insurance companies, two insurance agents, three insurance brokers, eighteen foreign exchange dealers, six mobile money service providers and eleven credit unions. The CBSI exercises primary regulatory authority over the majority of financial institutions in the formal sector. However, insurance companies, brokers, and agents are subject to oversight by the Controller of Insurance, a role fulfilled by the Governor of the Central Bank. Similarly, credit unions fall under the jurisdiction of the Registrar's Office, who is also the Governor.

In contrast, the non-CBSI-regulated FIs includes mainly private lending companies, microfinance institutions, and savings clubs. These operate with greater flexibility and are subject to minimal regulation, either from Solomon Islands Government or no formal regulation, reflecting their role in providing accessible financial services outside the structured system.

Table 1: Financial System Structure of Solomon Islands – December 2024

	Type of Institution	Number of Institutions	Regulator
Formal Sector	Commercial Banks	4	
	Superannuation Funds	1	
	Development Banks	1	
	Credit Institutions	2	Central Bank of Solomon Islands
	Mobile Money Service Providers	6	
	Foreign Exchange Dealers (Money Transfers and Changers)	18	
	Insurance Companies, Brokers and Agents	8	Controller of Insurance
	Credit Unions	11	Registrar's Office
Informal Sector	Micro finance Institutions	76	Unregulated

Source: *CBSI*

CHAPTER 3: BANKING SECTOR'S PERFORMANCE

3.1: ASSET OF THE BANKING SECTOR

The banking sector's assets grew by 1.7 percent from 1H24 to $7.4 billion in 2H24.

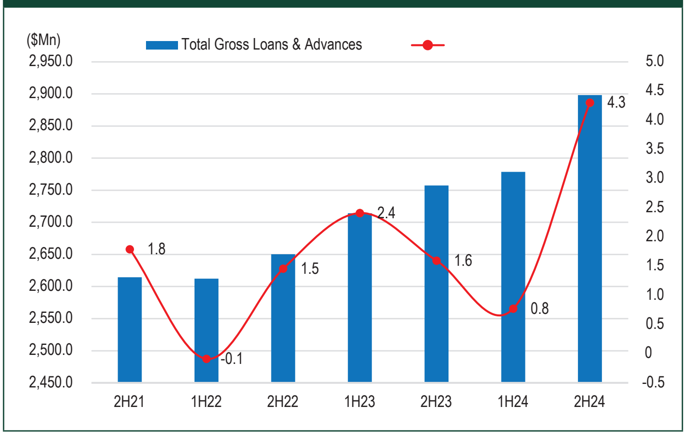
This came from a 4.8 percent rise in balances due from depository institutions and a 4.3 percent expansion in loans and advances. Of the total assets, Cash and balances due from depository institutions form the largest share at 50 percent, followed by loans and advances at 37 percent. Non-financial assets account for 6 percent of the total, while debt securities and other assets collectively comprise the remaining 7 percent.

Total loans and advances grew by 4.3 percent, reaching $2.89 billion. This growth was driven by increases across several sectors; personal sector rose by 3.5% ($37.4 million), forestry by 29.1% ($25.9 million), professional and other services by 20.5% ($19.9 million), construction by 4.5% ($19.6 million), transportation by 9.5% ($15.9 million), and distribution by 2.1% ($13.7 million). The growth in personal loans was largely attributed to the heightened demand for real estate financing, as banks extended more credit to new customers for the purpose of constructing and renovating residential properties. Similarly, loans across several sectors saw notable growth, driven by companies leveraging overdraft facilities to manage cash flow, fund business expansion and support seasonal operations. Increased borrowing was particularly evident in the forestry, professional services, construction, and distribution sectors, reflecting increased demand for working capital and financing of infrastructure projects during 2H24.

On the other hand, debt securities held by the banking sector declined by 26.3 percent ($133.3 million) from 1H24, bringing the total stock to $373.8 million. The debt securities held by the banking sector currently consist of Central Bank Securities (Bokolo Bills), SIG Treasury Bills and SIG Bonds.

Real estate[2] loans grew by 8.9 percent to $856.4 million by the end of this reporting period and constitutes 29.6 percent of the sector's total gross loans. In terms of its breakdown, construction loans account for 53 percent while the remaining 47 percent is made up of personal loans which also includes housing loans.

Fig 3: Banking Sector Half-Yearly Growth in Loans & Advances 2H21 – 2H24



***Source**: CBSI*

2 Measured by Construction and Personal (Housing & Land) loan

3.2: NON-PERFORMING LOANS, PROVISIONS, WRITTEN-OFF LOANS AND ADVANCES IN THE BANKING SECTOR

The non-performing loan (NPL) ratio remains high above the 5 percent supervisory target but the banking sector remains resilient, with strong provisioning and stable NPL distribution.

As measured by the ratio of non-performing loans (NPLs) to total gross loans, the banking sector's asset quality slightly deteriorated by 1.1 percentage points to 11.7 percent at the end of the reporting period (refer to appendix 1.1). This uptick was primarily driven by a rise in NPLs within the transportation sector, where term loans were not renewed prior to their maturity dates. Despite the elevated NPL ratio, the sector's coverage ratio remained robust at 44.2 percent, well above internal monitoring thresholds, indicating adequate provisioning for potential losses. However, legacy NPLs remain a challenge due to delays in rental payments from the SIG and prolonged court proceedings, which slow down recovery efforts. The sectoral distribution of NPLs remained consistent with the first half of 2024 (1H24), with the personal sector accounting for the largest share at 35.7 percent, followed by distribution at 26.5 percent, transportation at 17.2 percent, construction at 9.2 percent, and the remaining sectors accounted for a combined total of 11.7 percent.

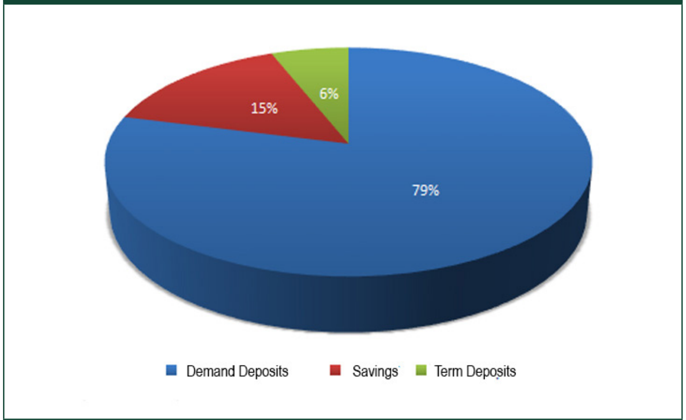
3.3: LIABILITY STRUCTURE OF THE BANKING SECTOR

Solomon Islands Banking sector sees 1.7 percent growth in total deposits in 2H24, driven by government and private sector contributions.

As of the end of the second half of 2024 (2H24), total deposits were recorded at $5.7 billion, representing 72.7 percent of the sector's total liabilities. During this period, total deposits grew by 1.7 percent, driven primarily by a $67.1 million increase in demand deposits. This growth was largely due to development funds received by the SIG to finance government projects, along with contributions from the private sector. Additionally, savings from individuals grew by $23.6 million.

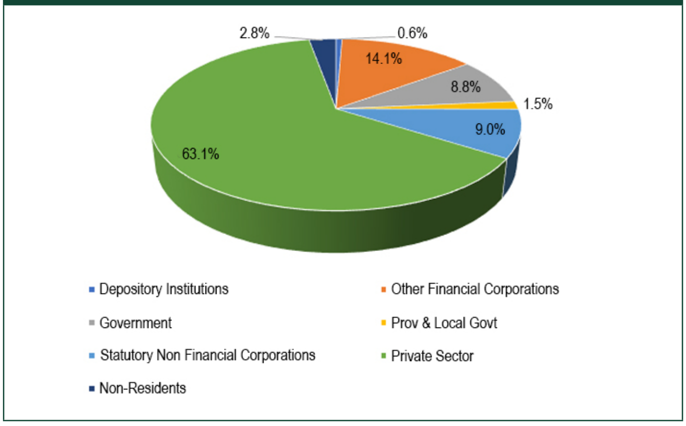
The composition of total deposits in 2H24 is illustrated in chart 4 below. Demand deposits account for 79 percent of the sector's total deposits, followed by term deposits at 15 percent, with savings deposits comprising the remainder. Regarding the breakdown by institutional type, the majority of deposits originate from the private sector (63.1 percent), followed by Other Financial Corporations at 14.1 percent. Government deposits constitute 10.3 percent, Statutory Non-Financial Corporations contribute 9

Fig 4: Breakdown of Deposits by Type 2H24



Source: CBSI

Fig 5: Breakdown of Deposits by Institutional Type 2H24



Source: CBSI

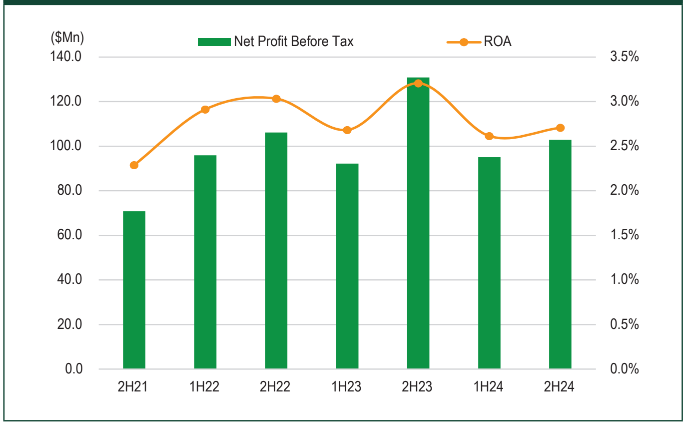
percent, and Depository Institutions and non-residents together account for 3.4 percent of the total deposit base.

3.4: BANKING SECTOR PROFITABILITY

Lower expenses and interest income from credit drives improved profitability in 2H24.

Profitability in the banking sector remained strong during the reporting period. Net Profit Before Tax (NPBT) increased by 8 percent in 2H24 compared to 1H24. This growth was primarily driven by a 10 percent decline in non-interest expenses, mainly due to a decline in office and maintenance costs. Additionally, outsourcing expenses decrease in the second half of the year, reflecting decreased reliance on external service providers following completion of IT system upgrades for some banks. Similarly, the release of cost accruals and a reduction in miscellaneous expenses further contributed to the overall decline.

Fig 6: Banking Sector Half Yearly Growth in NPBT 2H21-2H24



Source: CBSI

The banks' profitability was also bolstered by a decline in provisions for loan losses, as several loans transitioned from stage 2 to stage 1 under the IFRS 9 framework, indicating a lower risk of default across the sector's loan portfolio. Consequently, the sector's return on assets (ROA) improved by 1 percentage point to 2.7 percent in The profitability of the banking sector continues to be driven by interest income from loans and advances, as well as non-interest income from gains on foreign currency revaluations and fees from foreign exchange services.

CHAPTER 4: BANKING SECTOR RISKS

4.1: OVERALL RISK PROFILE

The Solomon Islands banking sector faces credit, cybersecurity, funding, and operational risks, but strong risk management measures help mitigate these challenges.

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

Vulnerabilities	Risk Type	Risk Description	Inherent Risk 2H24 Rating	Residual Risk 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
Human errors, natural disasters, poor road infrastructure and unreliable network infrastructure	Operational	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: CBSI

4.2: CREDIT RISK

Credit risk remains a significant concern for the banking sector, primarily due to cash flow stress within the SIG.

These financial constraints affect customers' ability to repay loans. Additionally, prolonged court proceedings significantly challenge banks attempt to swiftly acquire and liquidate collateral to recover funds from bad debts. The sector's NPLs to total gross loans ratio increased by 1.1 percentage points to 11.7 percent, well above the CBSI's internal supervisory threshold of 5 percent, resulting in a high-risk rating. Nevertheless, the residual risk is considered medium, as all loans are fully collateralized, providing banks with a safeguard to recover outstanding amounts in the event of defaults.

4.3: CYBER RISK

Although the banking sector has not experienced a significant cybersecurity incident to date, concerns remain due to the increasing sophistication of cyberattacks globally [3].

Moreover, as banks continue to expand their digital services to improve accessibility, their exposure to cyber threats grows. A successful cyberattack could compromise sensitive customer data, disrupt critical operations, and erode trust in financial institutions. Beyond the immediate impact on a single bank, a successful cyber breach could destabilize the broader financial system by triggering liquidity issues, undermining interbank confidence, and potentially sparking systemic contagion. While the inherent cybersecurity risk is assessed as medium; CBSI encourages the financial institutions to implement robust security measures such as regular penetration testing, vulnerability scans and comprehensive cyber-awareness programs to reduce the risk to low. Despite this, banks must remain vigilant and proactive in safeguarding their cyber security defences.

4.4: FUNDING LIQUIDITY RISK

Funding liquidity risk remains a notable concern for the banking sector, driven by its dependence on wholesale deposits.

At the end of 2H24, wholesale deposits accounted for 27.7 percent of total loans, indicating a significant reliance on this less stable funding source. CBSI currently assigns this a medium risk rating based on its internal supervisory thresholds. However, the sector has improved since 1H24, with reliance on wholesale funding declining by 4.3 percentage points. This reduction stems from withdrawals by wholesale depositors, coupled with a strategic increase in retail deposits from the private sector, as banks actively pursue more stable funding sources. Despite the inherent medium risk rating, the residual risk is considered low, owing to the sector's robust liquidity management practices. Banks have maintained adequate buffers of high-quality liquid assets[4] (HQLA) to mitigate potential pressures from short-term liabilities and sudden customer withdrawals. This resilience is underscored by the liquid assets-to-short-term liabilities ratio, which reached 51.1 percent at the close of 2H24, demonstrating a strong capacity to absorb liquidity shocks. These measures collectively reinforce the sector's ability to navigate funding challenges effectively.

4.5: OPERATIONAL RISK

Operational risk poses a growing concern for the banking sector, driven by vulnerabilities to human errors, natural disasters, deteriorating road infrastructure, and unreliable network connectivity. Human errors due to inadequate training and poor bank internal controls and monitoring has emerged as a vulnerability for the banking sector. Mistakes made by bank staff such as processing or transaction errors could lead to service interruptions. Secondly, according to the World Meteorological Organization (2024), Asia, including the Pacific Islands, were the most disaster-hit region globally in 2023. As such, frequent and severe weather events in the country, such as floods or hurricanes, posed a risk and disrupted physical branch operations and impair access to critical systems. Additionally, deteriorating road conditions in the capital

3 IBM. (2024). Cost of a data breach report 2024.

4 Call Balances with the CBSI, Central Bank Securities (Bokolo Bills), SIG Treasury Bills, Government Bonds

in 2H24 continue to pose a challenge for banks, hindering staff mobility and logistics, delaying service restoration. Intermittent network connectivity further compounds these issues by disrupting digital banking services, delaying payment processing, and impairing real-time risk management. If these risks materialize, banks could face prolonged outages, increased operational costs from repairs and contingency measures, and reputational damage from customer dissatisfaction. Additionally, disrupted transaction flows and data breaches during connectivity failures could erode trust and trigger financial losses. However, both the inherent, and residual risk remain low, as banks have well-established Business Continuity Plans (BCPs) to ensure ongoing operations during disruptions. It is recommended that banks regularly test their BCPs to maintain their effectiveness. Additionally, ensure ongoing strengthening and testing of operational risk management controls.

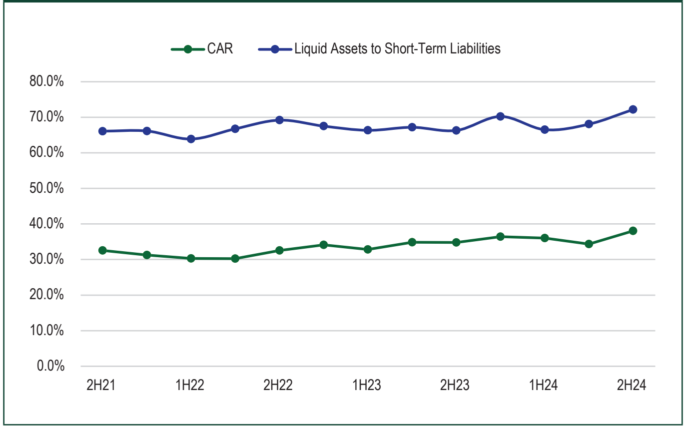
CHAPTER 5: BANK AND FINANCIAL INSTITUTION RESILIENCE

5.1: BANKING SECTOR RESILIENCE

The banking sector showed resilience in 2H24, supported by strong capital, improved liquidity, and effective risk management.

The banking sector demonstrated resilience in 2H24, underpinned by robust risk management frameworks and key financial ratios that reflect its capacity to withstand economic, operational, and market challenges. This resilience is critical as banks navigate through a dynamic environment marked by digital transformation, shifting economic conditions, and emerging risks.

Fig 7: Banking Sector Half Yearly CAR and LAR 2H21-2H24



***Source**: CBSI*

The sector's capital adequacy ratio (CAR) stood at 38.0 percent at the end of 2H24, well above CBSI's minimum capital requirements. The sector's CAR aligned with its Tier 1 capital ratio at 38 percent driven by supervisory deductions imposed by the regulator. CAR increased by two percentage points owing primarily to the increase in retained earnings (8 percent) during the period. Although risk-weighted assets (RWA) grew in 2H24 due to expanded credit exposures, the sector's CAR remains well above regulatory thresholds, ensuring banks retain sufficient capital to absorb potential losses and support ongoing operations effectively. Complementing this capital strength, the sector's liquidity position improved notably in 2H24. The liquid assets-to-short-term liabilities ratio climbed to 72.2 percent, up 5.7 percentage points from 66.5 percent in the first half of 2024 (1H24), signalling a strong ability to meet short-term obligations.

Finally, banks' well-established BCPs and robust risk management frameworks played a critical role in maintaining uninterrupted operations throughout the reporting period, reinforcing operational stability amid potential disruptions.

5.2 BANKING SECTOR OUTLOOK

The banking sector in 2025 will focus on resilience, growth, and digital transformation to enhance efficiency, customer engagement, and scalability amid economic challenges.

The outlook for the banking sector will take a strategic focus on resilience, growth, and technological advancement. Banks are strengthening their commercial lending portfolios, expanding foreign exchange (FX) and payments businesses, and driving a digital agenda to reduce reliance on traditional brick-and-mortar operations. This forward-looking approach aims to modernize financial services while encouraging customers to transition to online platforms. Banks are set to continue simplifying, standardizing, and centralizing processes, accounts, and client services where feasible, enhancing efficiency and scalability.

The accelerating shift toward digital banking will dominate the sector's strategy in the coming year, demanding substantial investments in digital infrastructure. Upgrading core systems, fortifying cybersecurity frameworks, and adopting cloud computing solutions will be critical investments in 2025 to reducing costs, improving flexibility, and ensuring faster, more reliable services. These enhancements promise to deepen customer engagement and operational efficiency, though they also introduce challenges, such as heightened exposure to cyber risks and the need for robust risk management. While challenges due to sluggish economic growth, high inflation in 2H24, poor road infrastructure and persistent high operating costs remain in the banking sector, however, banks remain steadfast and continue to adapt and employ strategies to remain resilient and provide banking services to the economy.

CHAPTER 6: NON-BANK FINANCIAL INSTITUTIONS PERFORMANCE

6.1: SUPERANNUATION SECTOR

6.1.1: The Fund's Systemic Importance to the Domestic Financial System

The Solomon Islands National Provident Fund (the Fund) is pivotal to financial stability, holding 36 percent of total financial system assets and supporting banks liquidity and government investments.

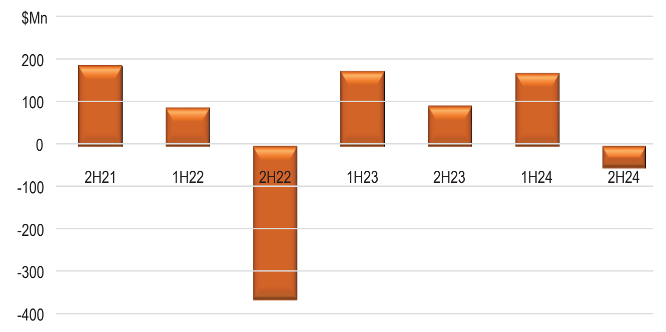
The domestic financial system is primarily dominated by the banking sector and the Fund. While the banking sector consists of four commercial banks and two credit institutions, the Fund, as the only superannuation sector, accounts for 36 percent of the total financial system assets. The Fund, being the second largest sector, is a key component of systemic importance within the financial sector, contributing to the stability and resilience of the broader financial system.

Furthermore, within the Solomon Islands financial ecosystem, the Fund plays a critical role not only in ensuring the financial security of members upon reaching retirement age but also in promoting economic stability. For commercial banks and credit institutions, the Fund deposits serve as a significant source of liquidity comprising both term deposits and demand deposits, which account for 11 percent of total domestic banking deposit liabilities. This supports lending, term deposits, and other operational activities within the banking sector. For the government, a total of $706 million has been invested in government securities, including treasury bills and bonds. Additionally, the Fund's total assets represent 40 percent of the GDP, making it a key contributor to both economic and financial stability of the Solomon Islands economy.

6.1.2: Financial Performance and Investment Trends Profitability

The overall performance of the Fund in 2H24 was negatively impacted by unrealized losses, a sharp decline in investment income and market volatility; however, the Fund remained resilient and met its mandatory requirements.

Fig 8: Superannuation Financial performances and trends



Source: CBSI

The Fund recorded a negative net profit of $49.3 million in 2H24.This negative performance was largely attributed to unrealised losses incurred during 2H24, as well as a 77 percent decline in investment income. The continuous fluctuation in earnings remains a risk and concern regarding the long-term sustainability of the Fund, and the potential impact on the members' future security. Moreover, the uncertainty surrounding the valuation of domestic unlisted equities and the volatility of offshore markets as highlighted in the performance trends, adds to this concern.

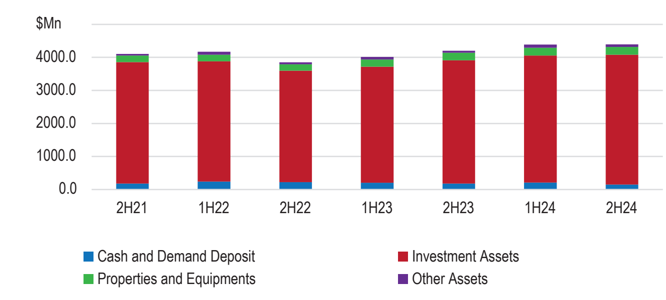
The key determinants of the Fund's performance are unrealised gains and losses on both unlisted and listed equities, dividend income and fixed income. During the review period of 2H24, the Fund incurred an unrealised loss of $12 million and experienced a decline in dividend income. While these trends may reflect the timing of earnings for the Fund, it is important to note that high-risk high-return investments plays a critical role in maintaining the stability of the Fund's performance.

Asset Growth and Composition

The growth in balance sheet is driven by investment gains and reduced cash holdings, further reflecting on the Fund's financial strength and its ability to maintain stability and resilience amidst challenging and limited local market conditions.

The Fund's total assets grew marginally by 0.1 percent, rising to $4,391.5 million in December 2024 from $4,389 million in June 2024. Cash and demand deposits recorded the largest reduction, decreasing by 29 percent, while total investments experienced a modest increase of 2 percent. The decline in cash and demand deposit reflects the new investments undertaken in the second half of 2024, including other administrations activities.

Fig 9: Superannuation Asset Growth and Composition



Source: CBSI

Investments

The Fund's investment portfolio grew by 2 percent in 2H24, driven by increased allocations to government securities and properties, while maintaining a strategic asset mix to optimize returns and sustain long-term stability.

To achieve its corporate objective of delivering high returns for its members, the Fund's board invested in various investments classes, in line with the Fund's Strategic Asset Allocation (SAA). As at end of 2H24, the Fund's total investment saw a modest growth of 2 percent, increasing to $3,910 million from $3,834 million in 1H24. Major growth was observed on both onshore and offshore government securities. Additionally, the Fund's investment in properties continues to show strong progress, as the Fund aligned its investment strategic allocations to include major ongoing investment projects within this asset class

In terms of investment assets allocation, 55 percent of the Fund's portfolios remains predominantly invested in unlisted domestic equities, followed by government securities at 18 percent, time deposits and investment properties each at 16 percent, and the remaining 8 percent and 3 percent were accounted for by offshore shares and equities, and loans respectively. While high risk investments have the potential to deliver higher returns, their volatility can have impact on the Fund's stability and long-term financial security.

Contributions and withdrawals

Member contributions grew by 5 percent to $4,038m, while retirements dominated withdrawals, with rising concerns over early withdrawals made under the Minister's discretion and lender claims. Moreover, contributions are integral to the long-term stability and growth of the Fund, ensuring its capacity to meet future financial obligations.

The structured contributions, as mandated by the SINPF Act Cap 109 from both employers and employees, support the consistent inflow of cash, contributing to the Fund's stability. As at December 2024, total member contributions grew by 5 percent, reaching $4,038 million, compared to $3,848 million at the end of June 2024. This increase is a result of a 4 percent interest credited to members' accounts as of 30th September 2024. Furthermore, total receipts for 2H24 rose by 3 percent to $216 million, compared to $209 million in 1H24.

The retirement category remains to be the primary reason for withdrawals, representing 86 percent of the total withdrawals, followed by withdrawals under Minister's discretion at 14 percent and lenders' claim at 11 percent. The remaining 15 percent falls under various other withdrawal grounds specified in the NPF Act. While member contributions are sufficient to cover financial obligations, the increasing trend of benefits paid under the Minister's discretion signals an alarm regarding the need for effective assets and liabilities management. In addition, withdrawals related to lenders' claims triggered a concern, as $1,201 million of members' contributions are pledged as loans with various financial institutions, accounting for 30 percent of total member contributions.

Liquidity and Sustainability/Solvency

The continuous inflow of member contributions is essential in ensuring the Fund maintains an adequate level of liquidity to meet its financial obligations.

As of the second half of 2024, the Fund's liquidity remains adequate, with liquid assets to short term liabilities stood at 17 percent. Although liquidity indicators show some signs of stress, the positive net contributions of $52 million, coupled with inflows from fixed investment income, continue to be a major source of liquidity for the Fund.

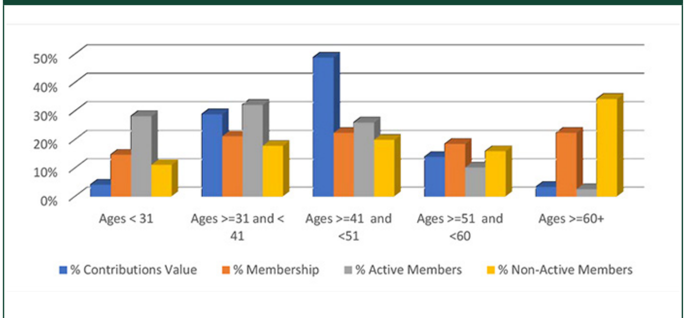
An analysis of contributions outflows reveals that the Fund's age demographic is largely skewed towards the working age population, suggesting a strong inflow of contributions. Nevertheless, the increasing tendency for early withdrawals by members under lenders' claims and Minister's discretion may indicate potential liquidity stress in the future.

6.1.3: Superannuation Demographic and Membership Trends

The Fund's predominantly working-age members contributed most funds, while participation declines among those over 50, reflecting retirement trends.

The Fund's membership is predominantly comprised of the working age population, particularly members aged 31 to 50 years contributing the largest share of the total contributions. In comparison, participation among the older age population, particularly those over the age of 50 is relatively lower, as many members in the demographic are eligible to withdraw their contributions.

Fig 10: Superannuation Membership and Demographic trends



***Source**: CBSI*

Active members represent 27 percent of total membership, while non-active members accounts for 72 percent. Despite the smaller proportion of active members, their contributions are significantly higher, comprising 83 percent of the total value, compared to just 17 percent for non-active members. Analysis of age demographics reveals that individuals under the age of 50 are more likely to be active contributors. Conversely, those aged 50 and above tend to be less active, with few contributions recorded. This trend may be indicative of retirement related patterns.

6.1.4: Key Risks and Mitigation Measures in the Superannuation Sector

The superannuation sector remains stable but faces ongoing risks, including outdated governance frameworks,

market volatility, cyber threat and liquidity risks, underscoring the urgent need for legislative reforms, strengthened risk management, and enhanced cyber security measures to safeguard its long-term sustainability.

The Fund remained resilient and stable in 2H24, yet it continues to be exposed to various risks and vulnerabilities. The key risks for the Fund remained unchanged since 1H23, with additional implications to the risks.

The ongoing governance risk for the Fund remains the outdated legal framework that governs its operations. The delay in modernising the Fund's legislation hinders the ability to effectively address the overall inefficiencies in the governance of the Fund. As highlighted in the previous stability report, the continued increase in the withdrawals under the Minister's discretion is a clear indication of misalignment with international regulatory best practises. The push to modernise the legislative framework and align it with current frameworks largely depends on the political will of the current government.

Market volatility and valuations risks pose potential threats to the stability of the Fund's performance. The uncertainty in global markets exacerbate the challenges faced by the Fund, as observed in 2H24. For instance, while offshore investments accounts for only 8 percent of total investments, unrealised losses in this segment significantly affects the overall performance of the Fund. Additionally, valuation risks related to domestic unlisted equities are heightened due to the lack of a tradable market, making accurate pricing more challenging. The absence of readily available market prices for domestic unlisted equities increases reliance on subjective valuation models, thereby amplifying the risk of mispricing.

As highlighted in our previous financial stability report, the increasing use of online platforms, digitization and global interconnectivity expose the Fund to cyber risks. While the Fund continues to enhance efficiency through digital platforms, such as M-Selen for the informal sector and online registration, these advancements bring associated risks. It is imperative for the Fund's board and management to remain vigilant in implementing a robust cyber security framework to ensure that such vulnerabilities are effectively mitigated.

Early withdrawals of members' funds, through lender claims and withdrawals made at the Minister's discretion, may expose the Fund to liquidity risks. Although the Fund is intended to provide financial security upon a member's retirement, early withdrawals can strain its liquidity, particularly if such withdrawals occur at a higher-than-expected rate. More so, early withdrawals may create a mismatch between the Fund's short term cash flow requirements and its long-term investment strategy, potentially increasing the risk of suboptimal assets allocation. To mitigate these risks, modernising the current legislation to align with international best practises is a crucial way forward.

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 jeopardise best practises	Extreme	Extreme
Continuous rising demand for early withdrawals	Liquidity risk	Deterioration in the liquidity management	Extreme	High
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: CBSI

6.2: INSURANCE SECTOR

The insurance sector remained resilient in 2H24, supporting financial stability with strong performance despite challenges; however, market penetration remained slow.

The local insurance industry played an important role in maintaining financial stability by providing a risk management mechanism for banks, corporations, private businesses, and individuals. The sector remained resilient during the period, continuing to provide safety net for policyholders. Strong risk management controls and effective risk transfer mechanisms contributed significantly to financial stability during the reporting period.

During this period, the industry demonstrated strong profitability and sound performance despite challenges from political, social, economic, environmental risks, including climate-related factors. The robust performance clearly demonstrates its ability to withstand major losses that could have otherwise disrupted the sector. However, insurance penetration remained a challenge, with growth progressing at a slow and measured pace. Nevertheless, the industry remained resilient, successfully avoided significant catastrophic losses in 2H24, which led to favorable results.

Similar to other jurisdictions, the local industry operated both General and Life Portfolios. The sector comprised three underwriters, one life insurer, three brokers, two corporate agents, and one micro life agent.

6.2.1: Premium Growth and Asset Size

The insurance sector saw modest premium growth, reaching $98 million in 2024, while maintaining strong assets of $203.9 million through demand-driven underwriting

and prudent investments.

The underwriting business remained positive in the reporting period, recording a 0.13 percent growth in GWP from 2H23 to 2H24. On a year-to-date (YTD) basis, GWP saw significant growth, reaching $98.9 million by the end of 2024. However, on a half yearly basis the business experienced a slight decline of 8 percent, decreasing from $51.4 million in 1H24 to $47.5 million in 2H24. The increase GWP was primarily driven by retention efforts, new business acquisitions, and mid-term adjustments, particularly in the commercial sector. Growth in property and construction classes, workers' compensation, and various commercial policies contributed significantly to this rise. Additionally, the increased uptake of specific covers, such as industrial special risks played a key role in boosting the sector's consolidated GWP. The retention of insurance coverage was further supported by favorable renewal terms and conditions.

The sector's balance sheet remained strong, with total assets reaching $203.9 million as of 2H24. This growth was driven by the robust performance of the underwriting business, supported by sustained demand balances surging during the period by 17 percent, term deposit balances held with commercial banks slightly increased by 2 percent, while investment in government debt securities held with the CBSI remained same. Despite the limited investment opportunities and lack of market depth within the jurisdiction, the sector adopted a conservative approach to ensure adequate capital reserves matches its underwriting risks. The insurance sector accounted for approximately 2 percent of the financial sector's total assets. To manage exposures, major underwriters maintained sufficient catastrophe reserves as a buffer against their risk appetites, as measured by the total risk insured.

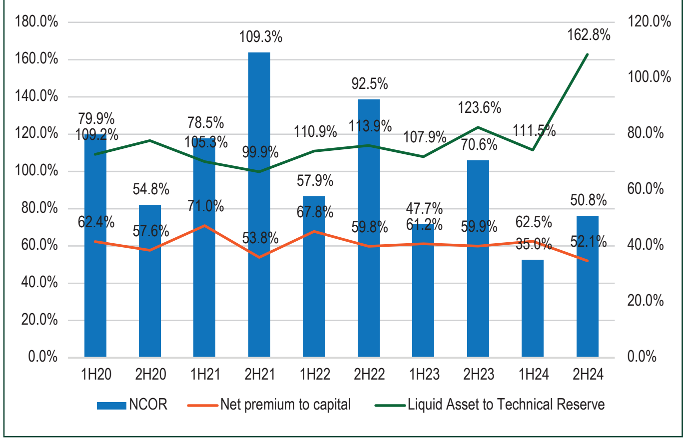
6.2.2: Key Indicators of General Insurance Sector

The general insurance sector remained strong in 2H24, driven by robust capital, low claims, high risk retention, and strong liquidity.

The general insurance segment maintained sturdy performance during the reporting period (2H24). This was attributed to the sector's satisfactory financial position, evidenced by robust capital adequacy ratio of 52.1 percent, well above the benchmark of 300 percent (Appendix 3.3). This ratio reflects prudent risk management practices, ensuring sound and effective risk assumption. The net combined ratio for the period stood at 50.8 percent, comfortably below the maximum benchmark of 80 percent. This outcome was driven by reduced claims and expense ratios recorded during the period. Regarding claims, no severe risks were reported in 2H24, except for tolerable attritional claims. As a result, the loss ratio (claims ratio) for the general insurance businesses remained low at 12.6 percent, indicating sustainability in risk appetite and the capacity to increase business. Meanwhile, expenses rose slightly, but still remain within the industry's capacity.

The retention ratio also remained within satisfactory limits, with 30.8 percent of total business ceded offshore, meaning the industry retained 69.2 percent. This retention level demonstrates the sector's financial capacity to effectively underwrite risk and reduce reliance on reinsurance. It also reinforces policyholder confidence in the sector's long-term sustainability. Finally, the overall liquidity indicator for the general portfolio remained solid at 162.8 percent, indicating adequate liquidity to meet day-to-day obligations and buffer against short-term shocks.

Fig 11: Key Indicators of the General Insurance Portfolio 2H24



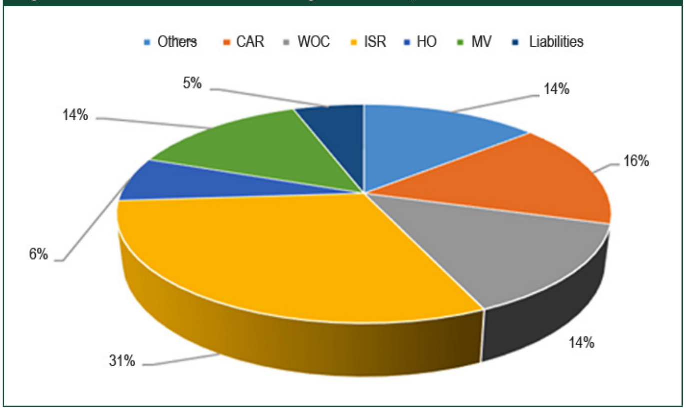
***Source**: CBSI*

6.2.3: Comparison Among Different Categories of General Insurance

In 2024, growth in the insurance business was driven by key classes, with Fire (ISR) class dominating the portfolio.

The growth in the general business underwritten during the period was driven by several major classes of insurance: (1) Contractors All Risk (CAR), (2) Fire (Industrial Special Risks, ISR), (3) Home Contents and House Owners (HO), (4) Motor Vehicles (COM), (5) Liability, and other miscellaneous covers. As at the end of 2024, ISR class dominated the insurance portfolio, accounting for 31 percent of the total business. This was followed by CAR which contributed 16 percent. Motor Vehicles, Workers' Com-

Fig 12: General Insurance Categories comparison



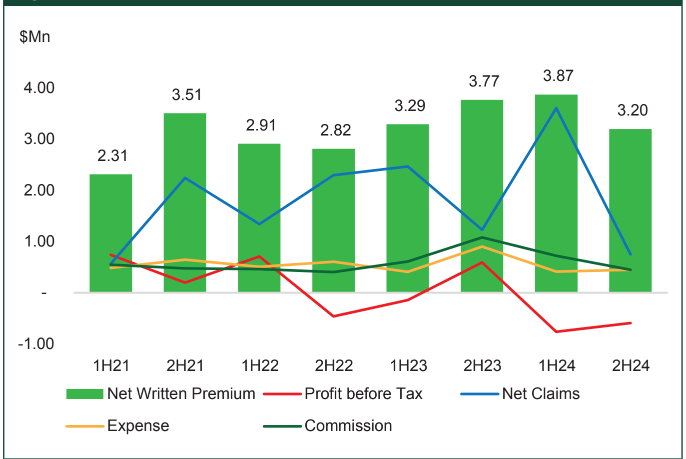
***Source**: CBSI*

pensation, and miscellaneous covers (including All Risk, Marine, Cash in Transit, and Burglary) together made-up 14 percent, while Householders and Liabilities contributed modestly at 6 percent and 5 percent respectively6.2.4: Key Indicators of Life Insurance Sector

Despite the medical losses claims and expenses in 2H24, the life insurance segment remained vital, backed by strong capital buffers and asset quality

The life insurance segment, though small, remained a vital part of the insurance industry in 2H24. It played a crucial role in complementing the general business by providing vital coverage for niche clients, particularly those seeking medical coverage for repatriation and mortgage protection. During this period, the life segment recorded a loss, primarily driven by medical claims from policyholders receiving treatment both domestically and internationally. Despite medical claim losses in 2H24, the life insurance segment remained vital, backed by strong capital buffers

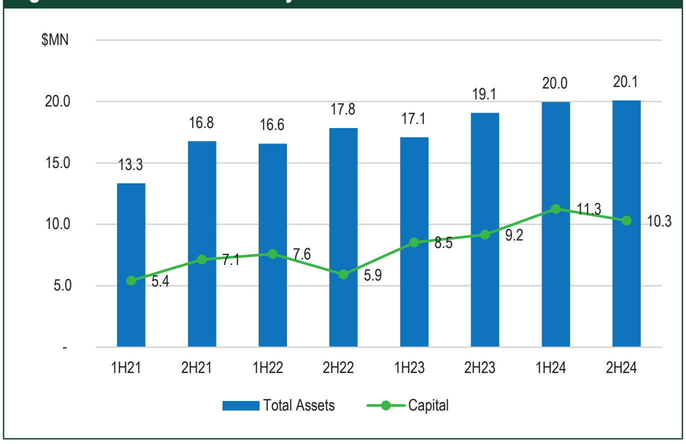
Fig 13: Life Insurance performances



Source: *CBSI*

and asset quality. Net written premiums to capital ratio was recorded at 59 percent, significantly lower than the 500 percent benchmark, indicating that the capital is adequate to cover insured risks. Additionally, underwriting

Fig 14: Life Insurance Quality



Source: *CBSI*

expenses continued to rise during the period, particularly in commissions paid for indirect business through intermediaries, which also impacted the performance of the life insurance segment. This was further attributed to changes in policy pricing, and commission rates for some business classes. Non-underwriting expenses, particularly management costs for Head Office support, also contributed to the expense pool.Nevertheless, the life segment remained resilient, underscored by robust asset quality. Liquid assets and investments infused a strong asset base of $20.1 million, supported by a sturdy capital base of $10.3 million, which reinforced the life segment's ability to absorb risk.

6.2.5: Interconnectedness Between Insurance and Other Sectors

The insurance sector supports economic stability through banking, property, capital allocation, risk mitigation, and workforce protection.

The insurance sector supported the wider economy through critical links with the banking sector, particularly via mortgage protection insurance cover. Its role in the property market is pivotal, acting as a buyer, developer, and underwriter of risks. Underwriters allocated capital to the real economy by purchasing debt securities, which contributed to the fiscal sector. Short-tail coverage for small to medium enterprises, such as contractual liability policies, enhanced the sector's economic participation.

The insurance sector continued to play a key role in border risk mitigation by offering statutory insurance policies to support the operationalization of relevant legislation of the country. This includes Workmen's Compensation Insurance and Motor Vehicle Compulsory Third Party (CTP) insurance. The former is a statutory requirement under the Labour Act [CAP. 73] for all employers, providing financial safety net for employees in case of any work-related injuries. The latter, offers compensation for pedestrian and passenger involved in any motor vehicle accidents. The life portfolio also provides medical insurance with additional benefits, such as repatriation, which are available to corporate entities further enhancing incentives for staff protection.

6.2.6: Risk and Vulnerabilities Assessment and Outlook of the Sector

Risk Governance and Management

The insurance industry, despite governance challenges, remained resilient by strengthening risk management and regulatory compliance for sustainable growth. Vulnerabilities in governance and management persisted as newly incorporated insurance businesses strived to establish themselves and comply to regulatory policies. Thus, insurers were required to uphold strong governance, effective oversight, and regulatory compliance while operating prudently. Amid ongoing challenges and restructuring, the industry is encouraged to enhance its risk governance and management, mitigating compliance risks and aligning with risk management frameworks. With competent leadership, the sector focused on smooth transitions while minimizing the impact of insurance risks. Despite the vulnerabilities, the industry remained resilient and continues to prioritize sustainable growth and safeguarding policyholder interests.

Insurance Risk

Weak underwriting practices, poor risk selection, and rising reinsurance costs threaten insurance stability, underscoring the need for stronger standards and improved risk management. Strong risk management controls and up-to-date underwriting frameworks have supported the stability of the insurance industry. However, weaknesses in underwriting practices and risk selection, present vulnerabilities, particularly in certain classes, such as property, natural catastrophes or fire. These vulnerabilities are influenced by risk parameters such as location, limits and hazards, which are important for accurate assessments. Inadequate underwriting, whether design flaws, poor risk assessment, mispricing could dampen business appetite and could lead to inherent risks such as over and under-pricing. Additionally, rising reinsurance costs and inefficiencies in claims management pose ongoing challenges. Strengthening underwriting standards and enhancing risk management frameworks is critical to sustaining industry resilience. The office of the controller's (OCOI) continued to provide robust on-sight and off-sight monitoring to the industry limiting residual risk to "low",

Operational Risk

Rising costs and exchange rate risks challenge insurers, requiring CBSI oversight and innovation to drive growth. Operational costs increased due to higher expenditures in back-office support services, with management costs significantly contributing to the growth of non-underwriting expenses. Operating in a small jurisdiction with slow sector growth, the insurance companies found it costly to maintain fully functional onshore operations. As a result, they rely on Head Office support for underwriting, claims processing, and financial reporting functions. While this approach enhances efficiency and reduces costs, it exposes insurance entities to inherent risk such as foreign exchange risk. Given the relative weakness of the Solomon Islands Dollar (SBD) compared to the currencies of neighbouring Pacific countries, fluctuations in exchange rates could erode insurers' operating profits. However, the residual risk remains "low" as the OCOI continued to provide oversight and monitor management expenses through the provision provided for in section 46, Insurance Act [CAP.82]

Table 4: Insurance Key Vulnerabilities & Risks

Risks & Vulnerabilities	Risk Type	Risk Description	Inherent Risk 1H24 Rating	Residual Risk 2H24 Rating
Effective oversight & Regulatory Compliance	Risk Governance & Management	Adequate Risk management framework, Appropriate Competence and Regulatory compliance to safeguard policyholders	None	None
Insurance pricing & Internal Controls	Insurance Risk	Vulnerabilities arising from inadequate pricing as well as taking into consideration risk arising from changes in insurance markets	Medium	Low
Rising Operational Cost	Operational Risk	High operational cost due to support functions allocated to HO attracting FX	Medium	Low
Low	Implies generally stable micro-financial conditions with minimal threat to financial stability			
Medium	Signals moderate levels of systematic risk build up that suggest the need for closer monitoring but not an immediate policy response			
High	Indicates potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated			
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy intervention			

Source: CBSI

Despite its small size, the insurance industry continues to play a critical role in supporting the growth and development of the financial system. The sector remains optimistic about its growth, stability, and resilience. CBSI will continue to maintain supervisory oversight and surveillance to manage systemic risks while supporting initiatives aimed at improving the sector's performance. However, constant coordination with stakeholders is essential to drive growth in the sector through innovation, value-driven products, diverse distribution channels, and digital platforms. Leveraging mobile technology will be key to increasing insurance penetration locally.

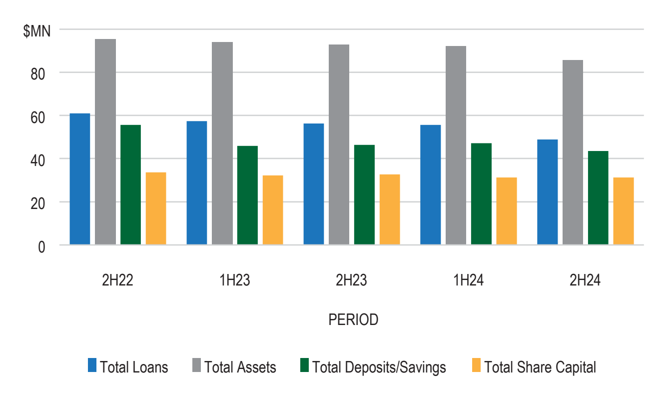
6.3: CREDIT UNION SECTOR

6.3.1: Assets Composition

The credit union sector's assets and deposits contracted in 2H24, driven by declining in lending and increased loan offsets.

At the end of the second half of 2024, the credit union's total assets contracted by 7 percent compared to the first half of the year, reflecting a decline of $85.6 million. This contraction stemmed from a significant 12 percent decline in lending, which in value terms amounted to $48.9 million. This reduction reflects an increase in loan offsets and tightened lending measures among credit unions. Despite the decline, lending portfolio remain the largest component of credit union assets, accounting for 54 percent in 2H24. Notably, credit unions continue to serve members and deliver lending needs.

Fig 15: Credit Union Sector Asset Composition



Source: CBSI

On the liabilities side, members' deposits also declined by 8 percent representing a decrease of $43.4 million. This downturn is attributed to increasing loan offsets and higher withdrawal rates. Members' share capital remained unchanged at $31.2 million with retained earnings and regulatory reserves forming a significant portion of share capital.

6.3.2: Financial Performance and Profitability Trends

The credit union sector posted a $1.6 million surplus in 2H2024, with strong financial resilience and growing membership.

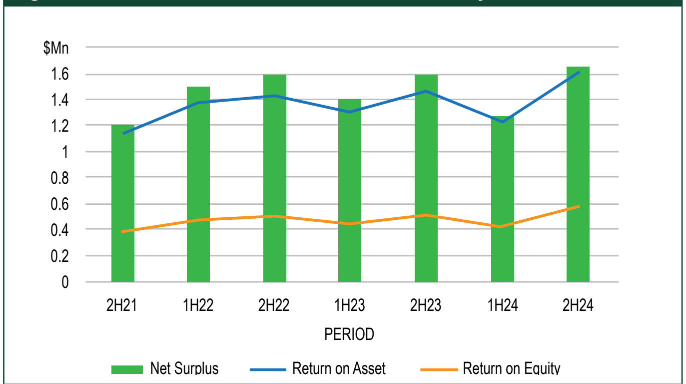
The sector achieved a net surplus of $1.6 million in 2H24, marking a 29 percent increase from previous period. This was driven by a 10 percent increase in total income, which surpassed 2 percent increase in overall expenses. ROA stood at 2 percent, driven by higher non-interest income and increased return from the lending portfolio. Additionally, the self-sufficiency ratio improved to 155 percent.

Similarly, the sector's reserve-to-savings ratio saw a slight increase to 16 percent, while the capital-to-asset ratio settled at 36 percent, indicating the credit union's ability to absorb shocks in periods' ahead. Also, the credit unions demonstrated continued ability to sustain its operations and delivering services to members. Membership grew year on year by 0.72 percent to 6,900 members, with further growth anticipated due to ongoing promotional and awareness activities. The sector remains committed to serving its members, with notable improvements in operational efficiency compared to the beginning of the year.

6.3.3: Industry Developments

Key developments in the credit union industry in 2H24 include the issuance of a Practice Guidance Note 5 (PGN 5) on Board and committee allowances, ongoing monitoring of credit management and governance under PGN 3 & 4, and the planned reintroduction of the Credit Union Bill in 2025 to drive industry reforms.

Fig 16: Credit Union Performance and Profitability trends



Source: *CBSI*

The Registrar Office (RO) issued a PGN 5 on Allowances for Members of the Board and Committees of credit unions in 2H24. The implementation of the PGN 5 is aimed to guide credit unions in establishing appropriate policies for the payment of allowances to officers. Given the voluntary nature of the industry, it is crucial that the actions and decisions of credit unions' board and management are properly guided to ensure prudent day-to-day operations. The revised Credit Union Bill 2020 was completed and set down for Parliamentary proceeding in 2020 but withdrawn due to the Covid-19 declared State of Emergency. The Bill was deferred for re-introduction in 2025 as it is critical to reform the credit union industry to adapt to international standards and best practices.

Similarly, the RO, through bilateral consultations with individual credit unions, continued to monitor the implementation of PGN 3 and PGN 4 on credit management and governance, respectively. The focus of these PGNs is to ensure prudent lending practices and sound governance of credit unions, thereby facilitating informed decision making by the board, committees and management.

6.3.4: Key Risks and Vulnerabilities

In 2H24, credit unions face significant risks and vulnerabilities related to governance, credit, and liquidity, with challenges in establishing effective control processes, managing credit risk, and addressing liquidity issues that affect cash flow stability.

Governance, credit, and liquidity risks remain key concerns. Governance culture of the sector is still a challenge in terms of establishing appropriate control process and accountability systems, and operations within the legal framework. Managing credit risk in terms of compliance, unsecured lending, and loan recovery needs to be strengthened. Suffocating liquidity causes undue stress on credit unions cashflow. Board and management need to have proper liquidity management framework in place to improve liquidity position of the credit unions. Implementation of practice guidance notes 3, 4 and 5 is crucial for ensuring robust governance and financial stability. Board and management are responsible for establishing sound policies to manage allowances and operational risks.

Solomon Islands has continuously seen significant growth in the financial sector over the recent years, spurred by increasing digitization and the rise of financial technology (fintech). In response, the Bank is committed to ensuring a robust regulatory environment that fosters innovation

CHAPTER 7: DEVELOPMENTS IN THE FINANCIAL SYSTEM

while maintaining financial stability and consumer protection.

7.1: REGULATORY AND SUPERVISORY DEVELOPMENTS

Financial regulators around the world are increasingly adopting a proportional approach to their regulatory frameworks. This approach aims to tailor regulations based on the size, complexity, and risk profile of financial institutions. It recognizes that smaller institutions typically pose less systemic risk compared to larger banks. Key components of this strategy include implementing Tiered Regulatory Requirements and a Risk-Based Supervision model. Under this framework, institutions face different regulatory obligations depending on whether they are classified as banks or non-banks, with oversight prioritized based on their risk exposures.

In 2024, CBSI received technical assistance from the Pacific Financial Technical Assistance Centre (PFTAC)[5] to enhance its prudential guidelines, upgrade risk-based supervision, and strengthen supervisory capacity. A significant part of this initiative involved developing risk-based supervision manuals for the Non-Bank Financial Institutions (NBFIs) sector, a project that will continue into 2025. The Bank also received technical assistance from ADB through the Pacific Private Sector Development Initiative (PSDI) for financial regulatory reforms, particularly the Financial Institutions Act and the Insurance Act.

Additionally, CBSI is investing in enhancing its supervisory capacity through short training sessions, workshops, and meetings for its supervisors and regulators. These training opportunities are provided both domestically and internationally, in collaboration with institutions such as International Monetary Fund (IMF)-Singapore Technical Institute (STI) Singapore, the Association of Financial Supervisors of Pacific Countries (AFSPC), the Bank of South Pacific (BSP) Supervisory College, PFTAC, and the Alliance for Financial Inclusion (AFI).

In response to an increase in complaints about financial products and services, CBSI has introduced measures to enhance consumer protection. A key aspect of this effort is ensuring that financial institutions provide clear and understandable information regarding fees, charges, and terms and conditions. CBSI is also establishing accessible channels for consumers to address grievances and disputes, in line with the provisions outlined in PG21 on Financial Consumer Protection.

5 PFTAC, is an IMF initiative supported by Pacific Islands member countries and development partners such as DFAT-Australia, ADB, EU, UK, NZFAT, Japan and USA.

The rising popularity of fintech solutions, especially mobile money and money transfer services, has intensified the need for regulatory compliance with existing frameworks such as PGN2 and the RSB. CBSI has also increased its awareness and preparedness against cyber threat by developing a cyber security strategy.

7.2: POLICY DEVELOPMENTS

During the year, the Bank worked closely with the Government through MoFT to progress legislative reforms such as the Financial Institution Act, the Insurance Act, as well as introducing new regulations for electronic money (e-money). The Government has approved the review of these two laws, and drafting will start in 2025.

The Bank is also helping the MoFT with a proposal to review the SINPF Act. This proposal is awaiting Government approval for drafting instructions. Additionally, the Credit Union Reform Bill is set to be resubmitted to the Government for Parliament's consideration. This bill was withdrawn in 2020 due to disruptions caused by Covid-19, but instructions have now been given to resubmit it for Cabinet approval.

However, the introduction of the e-money regulation is currently on hold because it overlaps with provisions in the draft Payment System Regulation, which is still pending approval. The team needs to review and update the e-money regulations to fill any gaps before submitting them to the Government for final approval.

Furthermore, the Bank has approved three new Prudential Standards (PS) in 2024: (i) PS on Risk Management, (ii) PS on Operational Risk Management, and (iii) PS on Business Continuity Management. To help the credit union industry operate more efficiently, the Bank also approved a Practice Guidance Note on the Allowances of Boards and Committees of Credit Unions this year.

In addition to these legislative and prudential updates, there are other regulatory issues that require immediate attention in 2024. However, due to time constraints, the Bank plans to address these in 2025. These include reviewing the RSB Framework, updating the Credit Reporting Regulations, converting existing Prudential Guidelines to PSs, creating a Directive for Offshore Insurance Business, developing supervision manuals for banks and non-bank financial institutions and research to policy.

APPENDICES

APPENDIX 1: BANKING SECTOR

Appendix A1.1: Banking Sector Financial Soundness Indicators, 2H21 – 2H24							
Key Risk Indicators (%)	**2H21**	**1H22**	**2H22**	**1H23**	**2H23**	**1H24**	**2H24**
Capital Adequacy							
Total regulatory capital ratio	32.6	30.3	32.5	32.8	34.8	36.0	38.0
Profitability							
Return on Assets (ROA)	2.3	2.9	3.0	2.7	3.2	2.6	2.7
Net Interest Margin (NIM)	7.7	7.3	7.2	7.2	7.3	7.2	7.2
Operational Risk							
Cost to income ratio (CIR)	56.7	57.1	56.0	56.1	52.3	59.0	57.5
Credit Risk							
Credit Growth	1.5	1.0	-0.1	1.5	1.3	-0.5	1.3
Credit Concentration Risk							
All Large Exposures / Tier I Capital	45.4	25.1	46.9	25.3	35.6	15.0	31.0
Sectoral HHI of credit sector portfolio	2068.3	2073.7	2132.1	2211.8	2294.	2345.9	2309.6
Credit Quality							
Gross Stressed Exposures (GSE) to Total Exposures	11.2	10.9	9.3	8.9	9.3	11.0	12.0
Gross NPLs to Total gross Loans	10.4	10.9	9.4	8.3	9.6	10.6	11.7
Special Mention Exposures to Total Exposures	0.8	0.7	0.5	0.7	0.4	0.6	0.6
Provisioning							
Provisioning Coverage Ratio: Specific Loan Loss to NPLs	36.4	36.2	39.8	44.8	41.4	43.3	44.2
Liquidity Risk							
Wholesale Deposits (OFCs) to Total Loans (2)	29.5	33.0	32.8	31.9	28.1	31.3	27.7
Liquid Assets to Short Term Liabilities	64.1	67.4	66.1	66.8	67.5	67.2	70.2
Forex Risk							
Net overall Open Position: Net overall open position to total capital & reserves	2.9.	2.6	2.8	5.1	2.6	5.9	3.2

Low	**Within the internal thresholds**
Medium	**Slightly above or outside internal thresholds**
High	**Above or outside the internal thresholds**
Extreme	**Significantly above and or outside internal thresholds**

Sources: CBSI

Appendix A1.2: Banking Sector Half-Year Income Statement ($ Million), 2H21 – 2H24							
	2H21	**1H22**	**2H22**	**1H23**	**2H23**	**1H24**	**2H24**
Net interest income	120.1	113.7	118	122.3	124.5	125.4	127.4
Noninterest income	92.9	86.5	109.7	97.2	104 .0	129.5	124.6
Noninterest expenses	117.6	114.3	125.4	123.1	111.3	150.4	141.1
Provisions	24.7	-10.1	-3.9	4.3	-13.7	9.5	8.1
Net profit before tax	70.8	95.9	106.2	92.2	130.9	95.1	102.8

Sources: CBSI

Appendix A1.3: Banking Sector Half-Year Balance Sheet ($ Million), 1H21 – 1H24							
	2H21	**1H22**	**2H22**	**1H23**	**2H23**	**1H24**	**2H24**
Cash and Deposits	3,293.7	3,145.3	3,479.2	3387.6	3570.4	3,777.5	3,958.2
Loans net of specific provision for loan losses	2,515.7	2,509.2	2,550.5	2,612.9	2,647.7	2,651.0	2,747.8
Debt securities	476.7	441.0	484.0	495.5	500.0	507.2	373.8
Nonfinancial assets	286.5	278.9	273.9	271.9	298.4	285.5	244.9
Total assets	**6,685.4**	**6,464.6**	**6,907.6**	**6898.7**	**7215.1**	**7,366.0**	**7,493.7**
Currency and deposits	5,133.5	4,941.6	5,273.9	5233.8	5521.0	5,615.8	5,709.6

Other Liabilities	316.1	293.4	333.7	369.2	359.9	435.0	414.9
Capital and reserves	1,235.9	1,229.6	1,300.1	1295.7	1334.2	1,315.3	1,369.1
Total Liabilities & Capital	**6,685.4**	**6,464.6**	**6,907.6**	**6898.7**	**7215.1**	**7,366.0**	**7,493.7**

Sources: CBSI

APPENDIX 2: SUPERANNUATION SECTOR

Appendix A2.1: Half year Profit and Loss Statement ($Million)

	2H21	1H22	2H22	1H23	2H23	1H24	2H24
Investment Income	275.24	102.77	-281.73	179.06	170.04	188.88	36.42
Less: Direct Investment Expenses	14.95	15.96	12.59	14.59	12.38	19.27	12.87
Net Investment Income	260.29	86.81	-294.32	164.46	157.66	169.62	23.55
Non-Investment Income	-30.85	40.60	-30.55	46.80	-35.35	48.55	-33.28
Gross Income	**229.44**	**127.41**	**-324.87**	**211.26**	**122.30**	**218.17**	**-9.73**
Less: Operational Expenses	32.98	30.66	27.98	31.63	28.08	39.76	33.69
Net Profit before interest payable	196.45	96.75	-352.84	179.64	94.22	178.41	-43.42
Less: Interest payable to members	6.47	5.86	8.74	2.88	-0.40	6.56	5.85
Net Profit After Interest to Members	**189.98**	**90.89**	**-361.58**	**176.75**	**94.62**	**171.85**	**-49.27**

Sources: SINPF; Central Bank of Solomon Islands

Appendix A2.2: Half year Balance Sheet Statement ($Million)

Investments Assets	2H21	1H22	2H22	1H23	2H23	1H24	2H24
Fixed Term Deposit	612.45	616.88	630.80	647.67	598.31	620.15	616.37
Loans and Advances	150.62	154.56	137.08	148.30	157.27	137.12	118.40
Government Securities	315.96	314.35	352.37	440.36	568.06	595.31	654.49
Debt securities	6.50	6.50	6.50	18.07	18.26	48.25	52.00
Investment Properties	515.49	486.61	557.72	544.98	566.26	587.76	614.30
Shares and equities	2,077.60	2,061.10	1,688.25	1,714.77	1,816.72	1,853.48	1,870.73
Other Assets							
Cash and Demand Deposit	180.35	240.86	221.56	205.74	183.90	213.74	152.68
Property Plant and Equipment	195.99	196.54	197.45	213.15	231.51	235.00	237.17
Other assets	49.04	91.15	58.94	82.20	61.70	98.22	75.41
Total assets	**4,104.00**	**4,168.54**	**3,850.65**	**4,015.24**	**4,201.98**	**4,389.03**	**4,391.55**
Members' contributions	3,493.60	3,492.23	3,609.40	3,589.81	3,853.97	3,848.51	4,038.68
Other Liabilities	128.65	139.57	143.65	155.57	132.71	150.87	156.60
Capital & reserves	481.75	536.74	97.60	269.86	215.30	389.66	196.27
Total liabilities& capital	**4,104.00**	**4,168.54**	**3,850.65**	**4,015.24**	**4,201.98**	**4,389.03**	**4,391.55**

Sources: CBSI

APPENDIX 3: INSURANCE SECTOR

Appendix A3.1: General Insurance Half-Yearly Income Statement ($ Million), 1H21 – 1H24

	2H20	1H21	2H21	1H22	2H22	1H23	2H23	1H24	2H24
Gross Written Premium	25.8	39.9	29.4	36.8	37.6	43.6	42	51.4	47.5
Outward reinsurance	4.6	12.9	10.3	9.7	12.8	15.4	13.4	16	14.6
Premium net of reinsurance	21.2	27	19.1	27.1	24.7	28.2	28.6	35.4	32.8
Unearned premium reserves	-0.8	1.8	-0.3	1.7	1.1	4.1	0.4	7.4	7.4
Net earned premium	22	25.1	19.5	25.4	23.6	24.1	28.3	28.1	36.4
Gross claims expense	2.5	6.5	19.5	11.2	14.3	1.3	3.7	-3	1.9
Total recoveries	-0.2	1.7	7.5	9.5	5.2	4	-4.1	-0.8	-2.6
Net claims expenses	2.7	4.7	12.1	1.6	9.1	-2.6	7.8	-2.2	4.5

Acquisition Costs	0.2	0	0	0	0	-0.1	-0.5	-0.8	0
Total underwriting expenses	9.6	11.8	18.6	8.7	15.4	4.9	14.6	6.1	14.2
Underwriting Results	12.3	13.3	0.8	16.8	8.2	19.2	13.7	22	22.1
Investment income on assets backing insurance liabilities	0.1	0.1	0.3	0.2	0.1	0.2	0.1	0.1	0.1
Insurance Results	12.7	13.4	1.1	17	8.3	19.4	13.8	22.1	22.1
Other operating expenses or management expenses	2.4	7.3	2.5	6	6.5	6.1	4.9	3.6	3.9
Net Profit (Loss) Before Tax	10.3	6.1	-1.4	11.3	2.5	13.3	8.9	18.7	18.8
Income tax or provisions	3	1.6	1	3.2	0.9	1.8	4.8	5.6	6.8
Net Income (Loss) End of Current Period	7.3	4.5	-2.3	8	1.6	11.5	4.2	13.1	12

Sources: CBSI

Appendix A3.2: General Insurance Half-Year Balance Sheet Statement ($M),2H20-2H24

	2H20	1H21	2H21	1H22	2H22	1H23	2H23	1H24	2H24
Total Assets	157.6	184.3	175.3	168.4	190.2	217.7	187.9	213.8	203.9
Nonfinancial assets	4.4	6	7.9	7.5	8.4	7.9	5.4	20	21.2
Financial assets	153.1	178.3	167.5	160.9	181.8	209.8	182.6	193.8	193.8
Currency and deposits	95.5	114.1	104.1	98.1	122.1	131.4	114.2	112.2	125.5
Shares and other equity	0.7	0.7	0.6	0.6	0.6	0.6	0.7	0.8	0.7
Debt securities	16	16	16	15.7	16	15.7	15.7	15	15
Insurance technical reserves (Assets)	38	44.7	44.2	44	42.1	61.1	47	63.9	39.6
Other assets	3	2.8	2.6	2.5	0.9	1.1	5.1	1.9	2
Liabilities	84.2	108.3	104.3	88.4	107.5	134.4	92.3	100.5	74.5
Insurance technical reserves (Liabilities)	75.1	83.5	84.4	70.5	86.5	115.7	78.1	87.2	64.6
Other liabilities	9.1	24.8	19.9	17.9	20.9	18.8	14.3	13.3	13.3
Capital and reserves	73.4	76	71	80	82.7	83.3	95.6	113.3	126
Balance Sheet Total	157.6	184.3	175.3	168.4	190.2	217.7	187.9	213.8	203.9

Sources: CBSI

Appendix A3.3: Insurance Sector Financial Soundness Indicators, 1H21-2H24

In Percent	1H21	2H21	1H22	2H22	1H23	2H23	1H24	2H24
Capital Adequacy								
Net Premium to Capital (Low Risk ≤ 300%)	71.0	53.8	67.8	59.8	61.2	59.9	62.5	52.1
Capital & Reserves to Total Assets (Low Risk ≥ 15%)	41.2	40.5	47.5	43.5	43.9	50.9	53.0	62.1
Asset Quality								
Debtors to Total Assets (Low Risk ≤ 25%)	14.7	14.8	18.8	18.4	18.7	15.5	20.1	15.2
Debtors to (Gross Premium + Reinsurance) (Low Risk ≤ 35%)	32.8	36.6	48.5	36.2	41.3	38.4	42.5	34.5
Reinsurance & Actuarial Issues								
Risk Retention Ratio (Low Risk ≥ 40% ≤ 80%)	67.6	65.0	73.6	65.9	64.7	68.2	68.8	69.2
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	12.6
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	38.1
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	50.8
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	0.5
Return on equity (Low Risk ≥ 5% ≤ 30%)	16.1	-3.8	28.1	6.0	28.9	18.7	33.0	29.8
Return on Asset (Low Risk ≥ 4%)	6.6	-1.5	13.4	2.6	12.7	9.5	17.5	18.5
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	162.8

Sources: CBSI

APPENDIX 4: CREDIT UNION SECTOR

Appendix A4.1: Credit Union Sector Financial Soundness Indicator, 2H22-2H24					
	2H22	**1H23**	**2H23**	**1H24**	**2H24**
Balance Sheet (SBD Million)					
Total Loans	60.9	57.4	56.2	55.68	48.91
Total Assets	95.2	94.0	92.8	92.14	85.68
Total Deposits/Savings	55.6	45.9	46.3	47.14	43.48
Total Share Capital	33.6	32.2	32.7	31.32	31.23
Income Statement (SBD Million)					
Income	5.0	3.8	5.2	4.30	4.73
Expenses	3.4	2.4	3.6	3.01	3.06
Net Surplus	1.6	1.4	1.6	1.29	1.67
Statistics					
Membership	850	6850	6850	6850	6850
No. of Reporting Credit Unions	10	10	10	10	10
Protection					
Self Sufficiency Ratio (> 111%)	147%	158%	144%	143%	155%
Effective rate of Efficiency					
Loans to Assets (70-80%)	64%	61%	61%	60%	57%
Savings Deposits to Assets (70-80%)	58%	49%	50%	51%	51%
Asset Quality					
Non-earning Assets to Total Assets (<=5%)	15%	16%	17%	13%	14%
Rate of Return					
Net Income to Loan	3%	2%	3%	2%	3%
Liquidity					
Reserves to Savings (15%)	21%	26%	26%	15%	16%
Signs of Growth					
Growth in Loans	10%	-6%	-2%	-1%	-12%
Growth in Savings	4%	-17%	1%	2%	-8%
Growth in Share Capital	3%	-4%	2%	-4%	0%
Asset Quality					
Capital to Total Asset ratio	35%	34%	35%	34%	36%
Return on Equity	5%	4%	5%	4%	5%
Return on Asset	1.7%	1.5%	1.7%	1.4%	1.9%

Sources: CBSI