



CENTRAL BANK OF SOLOMON ISLANDS

**ANNUAL STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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Independent Auditor's Report

To the Board of the Central Bank of the Solomon Islands

Scope

I have audited the accompanying financial statements of Central Bank of Solomon Islands which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of transfers to the Solomon Islands Government, the statement of changes in equity and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Report

The Board and management of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Central Bank of Solomon Islands Act (Cap 49) and International Financial Reporting Standards. The responsibilities of the Board and management of the Bank include implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting estimates made by the Board and management, as well as evaluating the overall presentation of the financial statements.

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

Audit Opinion

In my opinion, the financial statements presents fairly in all material respects, the financial position of Central Bank of Solomon Islands as at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

The financial statements of Central Bank of Solomon Islands are in accordance with the provisions of the Central Bank of Solomon Islands Act (CAP 49) and International Financial Reporting Standards.

A handwritten signature in black ink, appearing to be 'Mr. Edward Ronia', written over a horizontal line.

Mr. Edward Ronia
Auditor-General

Office of the Auditor-General
Solomon Islands

29 April 2013

STATEMENT OF COMPREHENSIVE INCOME – FOR YEAR ENDED 31 DECEMBER 2012

	Note	2012 (\$000's)	2011 (\$000's)
Income			
Interest income	22(a)	64,131	52,171
Fees and commissions	22(b)	9,771	14,021
Royalties		807	831
Other income	22(c)	1,966	1,268
Net gain on foreign currency exchange		492	2,256
Changes in fair value of investment properties	9	5,682	-
Net unrealised foreign exchange revaluation gain		<u>43,833</u>	<u>-</u>
Total Income		<u>126,682</u>	<u>70,547</u>
Expenses			
Interest expense	22(d)	5,480	3,026
Fees and commissions	22(e)	540	224
Administrative expenses	22(f)	31,944	27,511
Other operating expense	22(g)	39,937	18,815
Net unrealised foreign exchange revaluation loss		<u>-</u>	<u>245,344</u>
Total expense		<u>77,901</u>	<u>294,920</u>
Net Profit/(Loss)		<u>48,781</u>	<u>(224,373)</u>
Other Comprehensive Income			
Gains/(losses) on:			
Gold		(2,122)	-
Properties, plant and equipment		<u>32,360</u>	<u>-</u>
		<u>30,238</u>	<u>-</u>
Total Other Comprehensive Income		<u>79,019</u>	<u>(224,373)</u>
NET PROFIT DISTRIBUTION ACCORDING TO CBSI ACT			
Net Operating profit/(loss) in terms of IFRS		48,781	(224,373)
Add: (IFRS required items not included in CBSI Law):			
Net unrealised (gain)/loss on foreign exchange revaluation		(43,833)	245,344
Changes in fair value in investment properties		<u>(5,682)</u>	<u>-</u>
Net Operating Profit according to CBSI ACT		<u>(734)</u>	<u>20,971</u>
Net (Loss)/Profit transferred to General Reserve according to section 20(1) of CBSI ACT (CAP 49)		(734)	10,486
Transfer to Other Reserves according to section 20(2) of the CBSI ACT (CAP 49)		-	5,243
Due to Solomon Islands Government, according to section 20(2) of the CBSI ACT (CAP 49)		-	5,243

This statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

	Note	2012 (SBD000's)	2011 (SBD000's)
Appropriation of profits according to Section 20 (2) of the CBSI Act (CAP 49)		-	5,243
Total transfer to Solomon Islands Government		<u>-</u>	<u>5,243</u>

The statement of transfers to Government of Solomon Islands is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

**STATEMENT OF CHANGES IN CAPITAL AND RESERVES –
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Issued & Paid up Capital (\$000's)	Gold Revaluation Reserve (\$000's)	General Reserve (\$000's)	Foreign Exchange Assets Revaluation Reserve (\$000's)	Premises & Equipment Asset Revaluation Reserve (\$000's)	Capital Assets Reserve (\$000's)	Total \$000's)
Balance as at 1 January 2011	20,000	-	48,221	194,343	51,428	56,634	370,625
Transfer of net operating profit according to Section 20(1) and 20(2) of CBSI Act CAP(49)	-	-	10,486	-	-	5,243	15,729
Transfer of Foreign Exchange Revaluation Gains/(Losses) for the year according to CAP(49) section 45 (1) of CBSI Act	-	-	-	(245,344)	-	-	(245,344)
At 31 December 2011	20,000	-	58,707	(51002)	51,428	61,877	141,010
Transfer of net operating profit/(loss) according to Section 20(1) and 20(2) of CBSI Act CAP(49)	-	-	(734)	-	-	-	(734)
Loss on Revaluation of Gold	-	(2,122)	-	-	-	-	(2,122)
Property Revaluation Gain	-	-	-	-	32,360	-	32,360
Changes in fair value – Investment Properties	-	-	5,682	-	-	-	5,682
Transfer of Foreign Exchange Revaluation Gains for the year according to CAP(49) section 45 (1) of CBSI Act	-	-	-	43,833	-	-	43,833
Others	-	-	(3)	-	-	(2)	(5)
At 31 December 2012	20,000	(2,122)	63,652	(7,169)	83,788	61,875	220,024

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

1. THE LEGAL FRAMEWORK

The Central Bank of Solomon Islands (CBSI) operates under the Central Bank of Solomon Islands Act (CAP 49) (1996 as amended). The CBSI is an independent legal entity wholly owned by, and reporting to, the Government of the Solomon Islands. The CBSI is responsible for ensuring:

- Regulation of the issue, supply, availability and international exchange of the currency of the Solomon Islands;
- Advising the Solomon Islands Government on banking and monetary matters;
- Promoting monetary stability;
- Supervision and regulation of banking business;
- Promoting a sound financial structure;
- Fostering economic conditions conducive to the orderly and balanced economic development of the Solomon Islands.

Section 19 of the CBSI Act states that the Board shall determine the net profit of the Bank for the current financial year after meeting current expenditures and making such provisions as it views appropriate for bad and doubtful debts, depreciation in investments and other assets; contribution to staff and pension funds, and such other purposes as the Board may deem necessary. Section 43 states that any capital profit or loss resulting from the sale or maturity of Central Bank investments in securities, shall represent an accrual or charge against the General Reserve, as the case may be, and shall not be deemed a profit or loss for the purposes of the calculation of net profits of the Central Bank in accordance with Section 19. Section 45 requires that gains arising, other than from normal trading activity shall be allocated to a Revaluation Reserve Account and neither, they nor similar losses (other than from trading activity) shall be included in the computation of annual profits and losses of the Central Bank.

The Board is also aware, in terms of current best Central Bank practice, and International Financial Reporting Standards (IFRS), that there is a need to harmonise the CBSI Act (CAP 49) with the current best practice. Accordingly, as from 2013 financial year, the CBSI Act 2012 will replace CBSI (CAP 49) and becomes the basis to publish the financial accounts of the Bank.

The net profit will be determined in terms of IFRS and Section 54(1) of CBSI Act 2012 and distributable earnings will be determined under Section 54(2) which requires adjustment for unrealized and realized income, CBSI Act 2012.

2. BASIS AND FORMAT OF PRESENTATION

(a) Basis of preparation

The financial statements of the Bank are based on IFRS adopted by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB except where the Central Bank of Solomon Islands Act (CAP 49) requires different treatment in which case the CBSI Act takes precedent. They are prepared under the historical cost basis and do not take into account changing money values except where stated.

The accounting policies have been consistently applied over the reporting and comparative years with the exception of Solomon Islands notes and coins. Up until 2008, the production costs of Solomon Islands notes and coins are initially capitalized under Other Local Currency Assets and later expensed when issued into circulation. As from 2009, the production cost of Solomon Islands notes and coins will be treated as an expense under Other Operating Expenses, as per note 3(i). This has been possible with the accounts full compliance to IFRS since 2006.

The financial statements are expressed in the Solomon Islands dollar (SBD), rounded to the nearest thousand.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c) Impairment of other tangible and intangible assets

At each reporting date, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

d) Foreign currency assets and liabilities

Treasury notes, bonds and bills

At present CBSI holds foreign currency denominated interest bearing fixed bank deposits, and bonds denominated in foreign currencies which are re-valued at fair value ("market value") on a weekly basis. In terms of IAS 39, as a Central Bank, the CBSI would classify such portfolios within the residual "fair value option" through profit and loss category. Central banks do not actively trade in such securities for profit maximization purposes; activity reflects monetary policy considerations.

Under Section 43 (2) of the CBSI Act, such associated net unrealized gains and losses must accrue to the General Reserve. Section 19 also states that depreciation of such investments would accrue to profit and loss. In terms of IFRS, unrealized amounts would be accumulated in an appropriate Foreign Investments Asset Revaluation Reserve, prior to conformity with the existing dated legislation.

e) Gold

The Bank has diversified its portfolio to include Gold in 2012, it includes physical gold bars and paper gold. The Board approved that gold bars are valued using the cost model which does not change with changing market price and paper gold using the revaluation model available-for sale (AFS) which fluctuates with market price. Revaluation gains and losses are transferred to the Gold Revaluation Reserve..

f) Coins sold as numismatic items

The Bank sells, or receives royalties on, coins which are specially minted or packaged as numismatic items. These coins have not been accounted for as currency in circulation as they were not issued for monetary purposes.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

j) Income Tax

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

k) Employee entitlements

Employee remuneration entitlements are determined by the Board in terms of Section 14 of the CBSI Act.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Bank in respect of services provided by employees up to reporting date.

l) Solomon Islands Pension /Provident Fund

The Bank and its employees make contributions to the Solomon Islands National Provident Fund (Fund). The Bank had contributed to the Fund on behalf of its staff at the rate of 7.5% per cent of salaries and other staff entitlements/incomes. This amounts to \$0.83 million (2011; \$0.69 million) in this financial year. CBSI staff in respect of income received, also contributed \$0.56 million (2011; \$0.49 million) to the Fund at the range of 5% to 7.5%. The legal minimum employee's contribution rate is 5%.

m) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash held at the Bank as till money.

n) Solomon Islands Government bonds

Solomon Islands Government bonds are valued at cost. Due to the present very thin secondary market for such securities in the Solomon Islands, they are held to maturity by the Central Bank. Accordingly in terms of IAS 39, they are classified as "held to maturity" and recorded at cost in the Bank's accounts.

o) Allowance for Bad and Doubtful Debts

Any allowance for bad and doubtful debts is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the receivable.

Objective evidence that receivables are impaired includes observable data that come to the attention of the Bank about the following events:

- Significant financial difficulty to the debtor
- A breach of contract, such as default or delinquency in payments
- It becoming probable that the debtor will enter bankruptcy or other financial reorganization

The amount of allowance is the difference between the carrying amount and the recoverable amount of the asset being the present value of expected cash flows discounted at the market rate of interest for similar borrowers. The amount of the provision is recognized as a charge in the statement of comprehensive income.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012 (S000's)	2011 (S 000's)
7. LOANS AND ADVANCES		
a) Loans and Advances to Solomon Islands Government		
Loans and advances	2,402	10,240
Development bonds	27	27
Treasury bills	40	20
Other securities	4,936	4,940
Amortizing bonds	74,691	88,029
Total Loans and Advances to Solomon Islands Government	82,096	103,256
 b) Staff Loans		
Staff housing loans	3,887	3,532
Management car loans	348	212
Personal loans	843	828
Total Staff Loans	5,078	4,572
 Total Loans and Advances	87,174	107,828

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012 (S 000's)	2011 (S 000's)
9. INVESTMENT PROPERTIES		
Balance at beginning of financial year – at fair value	5,641	6,148
Change in fair value	5,682	-
Transferred from Office & Other Building and Residences –		
Accumulated Depreciation	-	(507)
Balance at end of financial year – at fair value	11,323	5,641

10. GOLD INVESTMENT

Gold investment consists of the following:

a) Gold Bullion at cost	75,308	-
b) Unallocated Gold at fair value	143,320	-
	218,628	-

The board of directors resolved to recognize the gold bullion (commodity) at cost, therefore, no valuation was carried.

On the other hand, unallocated gold or paper gold has been recognized as an available-for-sale financial asset which was revalued at the market price ruling at year end. As a result of the valuation, \$2.122m of unrealised loss was recognized and transferred to the Gold revaluation reserve.

11. OTHER LOCAL CURRENCY ASSETS

Sundry debtors & other cheques held	45,540	46,543
Advances and prepayments	207	1,009
	45,747	47,552

12. FOREIGN CURRENCY DEMAND DEPOSITS

Demand Deposits	86,103	11,332
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Demand deposit of international organizations such as the Asian development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.

13. IMF STANDBY CREDIT FACILITY

IMF standby credit facility	141,630	141,942
IMF Extended credit facility	1,676	-

IMF Assistance to Solomon Islands Economic Reform Program.

Standby Credit Facility (SCF) with IMF commenced in 2010 with 1st disbursement on the 23 June 2010, 2nd on the 30th November 2010, 3rd on the 8th July 2011 and the final disbursement was transacted on the 1st December 2011.

Final disbursement of review of program

Extended Credit Facility (ECF) with IMF approved for its disbursement on the 11th December 2012 under the agreement.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

19. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

The general reserve is maintained to cover net losses incurred by the Bank and unforeseen events and contingencies.

The requirements of Section 19 and 20 of the CBSI Act are:

- (a) When the Central Bank determines net profit for the year after meeting all current expenditures, and making allowance for bad and doubtful debts, depreciation in investments, and contribution to staff and pension funds; and such other purposes as the Board may deem necessary.
- (b) The net profit shall then be allocated to a General Reserve each year until such time as the General Reserve is equal in amount to half the authorized capital of the Central Bank. After which, half of the net profit shall be allocated to this General Reserve until the General Reserve is equal to twice the authorized capital of the Central Bank.
- (c) After such allocations, the Board, with the Minister's approval, may then direct such part of remaining net profit as it considers appropriate, be allocated to one or more Special Reserves, and after such allocations, the remainder of the net profit shall be transferred to the Solomon Islands Government Consolidated Fund.
- (d) If there is a net loss in any year that exceeds the amount of the General Reserve at end year, then such excess shall be paid to the Bank from the Consolidated Fund.
- (e) With approval of the Minister, the Board may direct that a proportion, not exceeding half, of the General Reserve may at any time after the General Reserve has reached an amount equal to half the authorized capital of the Central Bank be converted into issues and fully-paid capital; provided such amounts do not cause paid up capital to exceed authorized capital.

20. REVALUATION RESERVE ACCOUNTS

a) Foreign Exchange Revaluation Reserve

Under Section 45 of the CBSI Act, gains arising from any change in the valuation of the Central Bank's assets or liabilities in, or denominated in, gold, foreign currencies or other units of account as a result of alterations of the external value of the currency of the Solomon Islands, or any change in the values, parities or exchange rates of such assets and liabilities with respect to the currency of the Solomon Islands other than gains arising from normal trading activity of the Central Bank, shall be credited to a Foreign Exchange Revaluation Reserve Account. Losses arising from any change other than losses from normal trading activity of the Central Bank shall be included in the computation of the annual profits or losses of the Central Bank. As discussed in the Notes, such treatment is inconsistent with IFRS. The CBSI provides additional disclosures in a profits distribution reconciliation statement accompanying the profit and loss account, which links IFRS net profit to profit distributable under the CBSI Law.

The losses arising from any such valuation changes other than losses arising from normal trading activity shall be set off against any credit balance in the Foreign Exchange Asset Revaluation Reserve Account and, notwithstanding any other provision of the Act, if such balance is insufficient to cover such losses, the Government shall issue to the Central Bank non-negotiable non-interest bearing securities to the extent of the deficiency. Any credit balance at the end of each financial year in the Foreign Exchange Asset Revaluation Reserve Account shall be applied first, on behalf of the Government, to the redemption of all securities issued and outstanding under this Section of the CBSI Act.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012 (\$ 000's)	2011 (\$ 000's)
22. INCOME AND EXPENSES		
a) Interest income		
Interest received from foreign investments	62,010	49,644
Interest received from local investments	<u>2,121</u>	<u>2,527</u>
	<u>64,131</u>	<u>52,171</u>
b) Fees and commissions received		
Fees and commissions – foreign dealings	9,244	13,708
Fees and commissions – local dealings	<u>527</u>	<u>313</u>
	<u>9,771</u>	<u>14,021</u>
c) Other income		
Gain from disposal of fixed assets	134	72
Rent received	1,028	896
Sale of numismatic coins	355	191
Others	<u>449</u>	<u>109</u>
	<u>1,966</u>	<u>1,268</u>
d) Interest expenses		
Interest expense on foreign liabilities	179	520
Interest expense on local liabilities	<u>5,301</u>	<u>2,506</u>
	<u>5,480</u>	<u>3,026</u>
e) Fees and commissions paid	<u>540</u>	<u>224</u>
f) Administration expenses		
Staff costs	21,554	17,794
Others	<u>10,390</u>	<u>9,717</u>
	<u>31,944</u>	<u>27,511</u>
g) Other operating expenses		
Board of directors remunerations and expenses	403	186
Currency expenses	34,083	10,164
Depreciation	3,940	6,316
Auditors remuneration (Note 21)	641	413
Others	<u>870</u>	<u>1,736</u>
	<u>39,937</u>	<u>18,815</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

26. CONTINGENT LIABILITIES

The Bank has guaranteed staff housing loans with the commercial banks to the sum of \$0.8 million as at 31 December 2012 (2011: \$0.8 million). The guarantee is valid until the date the staff ceases employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided \$10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2012 a total of 36 loans with a net guarantee of \$3.95 million (2011: \$1.87 million) have been administered under the scheme.

27. FINANCIAL INSTRUMENTS

Exposure to operational, credit, liquidity, interest rate, and currency risk arises in the normal course of the Bank's operations. The structure of the CBSI's balance sheet is primarily determined by the nature of its statutory functions, rather than commercial considerations. At the same time, CBSI continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the CBSI is regulated by internal instructions and closely monitored by the Board.

Operating loss is the risk of loss from breakdown of internal controls. The CBSI has established the internal audit function internally which exercises monitoring and control over accounting policies and procedures, and the effective functioning of the system of internal controls at the CBSI. Operating risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operating risk.

The material financial instrument to which the Bank has exposure includes:

- (i) External assets
- (ii) External liabilities.

Credit risk

CBSI takes on exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. CBSI's maximum credit risk, excluding the value of collateral, is generally reflected in the carrying of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Bank does not require collateral in respect of financial assets except in respect of loans to staff.

Management has a credit policy in place. Credit risk on transactions in foreign currency reserves is managed through the approval of transactions and placement of funds, the establishment of limits restricting risk and constant monitoring of positions. Counter party limits are set based on credit ratings and are subject to regular review. Currency risk and the exposure in the local currency portfolio is also monitored and managed.

Credit risk on financial assets is minimized by dealing with recognized monetary institutions. At balance sheet date, there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. The maturities of assets and liabilities is the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the CBSI and its exposure to changes in interest and exchange rates.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

The table below shows financial assets and liabilities at 31 December 2012 (and 2011 comparatives) grouped by remaining contractual maturity.

2012 Maturity Analysis

	On Demand (SBD 000's)	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD000's)
Foreign Currency Financial Assets							
Money on Demand	764,448	-	-	-	-	-	764,448
Accrued Interest	-	-	9,593	-	-	-	9,593
Term Deposits	-	637,970	1,922,750	-	-	-	2,560,720
Holding of Special Drawing Rights	-	106,087	-	-	-	-	106,087
Gold Investment(Unallocated)	-	-	-	-	-	143,320	143,320
Total	764,448	744,057	1,932,343	-	-	143,320	3,584,168
Local Currency Financial Assets							
Cash on Hand	-	456	-	-	-	-	456
Loans and Advances	-	-	2,403	-	84,771	-	87,174
Total	-	456	2,403	-	84,771	-	87,630
Total Financial Assets	764,448	744,513	1,934,746	-	84,771	143,320	3,671,798
LIABILITIES							
Foreign Currency Financial Liabilities							
Demand Deposits	-	86,103	-	-	-	-	86,103
IMF Standby Credit Facility	-	141,630	-	-	-	-	141,630
IMF Special Drawing Rights Allocations	-	-	-	-	-	111,807	111,807
IMF Extended Credit Facility	-	1,676	-	-	-	-	1,676
Capital Subscriptions	-	-	-	-	-	915	915
Total	-	229,409	-	-	-	112,722	342,131
Local Currency Financial Liabilities							
Demand Deposits	-	-	-	-	-	1,721,457	1,721,457
Currency in Circulation	-	-	-	-	-	599,669	599,669
SIG Monetary Operations Account	-	37,906	-	-	-	-	37,906
Fixed Deposits	-	-	216,806	62,219	-	718,786	997,811
Provision for transfer to SIG Consolidated Fund	-	-	-	-	-	480	-
Total	-	37,906	216,806	62,219	-	3,040,392	3,357,323
Total Financial Liabilities	-	267,315	216,806	62,219	-	3,153,114	3,699,454
Net Liquidity Gap	764,448	477,198	1,717,939	(62,219)	84,771	(3,009,794)	(27,656)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2011 Maturity Analysis

	On Demand (SBD 000's)	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD000's)
Foreign Currency Financial Assets							
Money on Demand	954,458	-	-	-	-	-	954,458
Accrued Interest	-	-	9,922	-	-	-	9,922
Term Deposits	-	752,441	1,205,974	-	-	-	1,958,415
Holding of Special Drawing Rights	-	104,741	-	-	-	-	104,741
Total	954,458	857,182	1,215,896	-	-	-	3,027,536
Local Currency Financial Assets							
Cash on Hand	-	98	-	-	-	-	98
Loans and Advances	-	-	-	10,240	97,587	-	107,827
Total	-	98	-	10,240	97,587	-	107,925
Total Financial Assets	954,458	857,280	1,215,896	10,240	97,587	-	3,135,461
LIABILITIES							
Foreign Currency Financial Liabilities							
Demand Deposits	-	-	-	-	-	11,332	11,332
IMF Standby Credit Facility	-	-	-	-	141,942	-	141,942
IMF Special Drawing Rights Allocations	-	-	-	-	-	112,110	112,110
Capital Subscriptions	-	-	-	-	-	919	919
Total	-	-	-	-	141,942	124,361	266,303
Local Currency Financial Liabilities							
Demand Deposits	-	-	-	-	-	1,487,513	1,487,513
Currency in Circulation	-	-	-	-	-	527,702	527,702
SIG Monetary Operations Account	-	12,602	24,945	-	-	-	37,547
Fixed Deposits	-	199,853	7,815	5,045	27,050	557,383	797,146
Provision for transfer to SIG Consolidated Fund	-	-	-	-	-	5,243	5,243
Total	-	212,455	32,760	5,045	27,050	2,577,841	2,855,151
Total Financial Liabilities	-	212,455	32,760	5,045	168,992	2,702,202	3,121,454
Net Liquidity Gap	954,458	644,825	1,183,136	5,195	(71,405)	(2,702,202)	14,007

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

a) Foreign Exchange Risk

Foreign exchange risk (currency risk) that arises from the loss of foreign reserves from changes in exchange rates against the Solomon Islands dollar. The Central Bank of Solomon Islands has adopted a currency risk management policy, which always maintains the Solomon Islands dollar value of foreign reserves and manages the fluctuations in the Revaluation Reserve Account – Foreign Currency.

Concentration of foreign exchange

The CBSI's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 31 December 2012:

	% of foreign exchange	
	2012	2011
US Dollar	42	50
Australian dollar	36	30.2
Euro Dollar	7	11.4
Sterling Pound	8	3.2
New Zealand dollar	5	5
Singapore dollar	2	0.2
Total foreign exchange	100	100

Sensitivity to foreign exchange rate risk

	2012 (\$M)	2011 (\$M)
Change in profit/equity due to a 2 per cent appreciation in the reserves – weighted value of the Solomon Islands dollar	-65	-54
Change in profit/equity due to a 2 per cent depreciation in the reserves-weighted value of the Solomon Islands dollar	66	56

b) Interest Rate Risk

Interest rate risk relates to the risks that the fair value or cash flows of financial instruments will fluctuates because of a change in market interest rates. The Central Bank of Solomon Islands is exposed to interest rate risk because most of its assets are financial assets such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security will fall if market rates rises.

Sensitivity to interest rate risk

The figures show the effect on the profit and equity of a movement of +/-1 percentage point in interest rates.

The valuation effects shown are generally reflective of the bank's exposure over the financial year.

	2012 (SBDM)	2011 (SBDM)
Change in Profit/Equity due to movements of +/-1 percentage point across yield curves:	+/-36	+/-31
Foreign Reserves		
Securities market	+/-24	+/-20
Money market	+/-10	+/-11
Commodities market	+/-1	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2012 Foreign Currency Risk

	Fixed Coupon 0-1 (SBD) (000's)	1-3 Months (SBD) (000's)	3-12 Months (SBD) (000's)	Over 1 Year (SBD) (000's)	Non – Interest Bearing (SBD) (000's)	Total (SBD) (000's)
Foreign Currency Financial Assets						
Money on Demand	235,682	528,766	-	-	-	764,448
Accrued Interest	-	-	-	-	9,593	9,593
Term Deposits	-	225,868	2,334,852	-	-	2,560,720
Holding of Special Drawing Rights	-	-	-	-	106,087	106,087
Gold Investment (Unallocated)	-	-	-	-	143,320	143,320
Total Foreign Currency Financial Assets	235,682	900,076	2,334,852	-	259,000	3,584,168
LIABILITIES						
Foreign Currency Financial Liabilities						
Deman Deposits	-	-	-	-	86,103	86,103
IMF Standby Credit Facility	-	-	-	141,630	-	141,630
IMF Extended Credit Facility	-	-	-	1,676	-	1,676
IMF Special Drawing Rights Allocations	-	-	-	111,807	-	111,807
Capital Subscriptions	-	-	-	-	915	915
Total Foreign Currency Financial liabilities	-	-	-	255,113	87,019	342,131
Net liquidity gap	235,682	900,076	2,334,852	(255,113)	171,981	3,242,037

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

2011 Foreign Currency Risk

Foreign Currency Financial Assets	Fixed Coupon 0-1 (SBD) (000's)	1-3 Months (SBD) (000's)	3-12 Months (SBD) (000's)	Over 1 Year (SBD) (000's)	Non Interest Bearing (SBD) (000's)	Total (SBD) (000's)
Money at call	77,163	877,295	-	-	-	954,458
Accrued Interest	-	-	-	-	9,922	9,922
Term Deposits	-	752,441	1,205,974	-	-	1,958,415
Holding of Special Drawing Rights	-	-	-	-	104,741	104,741
Total	77,163	1,629,736	1,205,974	-	114,663	3,027,536

LIABILITIES

Foreign Currency Financial Liabilities

Demand Deposits	-	-	-	-	11,332	11,332
IMF Standby Credit Facility	-	-	-	141,942	-	141,942
IMF Special Drawing Rights Allocations	-	-	-	-	112,110	112,110
Capital Subscriptions	-	-	-	-	919	919
Total	-	-	-	141,942	124,361	266,303
Net liquidity gap	77,163	1,629,736	1,205,974	(141,942)	(9,698)	2,761,233

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

28. GOING CONCERN

In the backdrop of the global uncertainty and slow recovery; and the slow growth in the Solomon Islands economy in 2012, the country's foreign reserves position remains comfortable for safe and secured facilitation of the Bank's operations and the ongoing payment of all international obligations including the external debts which will fall due in the next twelve months.

29. EVENTS AFTER THE REPORTING PERIOD

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Bank, the results of those operations, or the state of affairs of the Bank in future financial years.