CENTRAL BANK OF SOLOMON ISLANDS

ANNUAL STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Directors' report

Central Bank of the Solomon Islands

The Directors present their report together with the financial statements of the Central Bank of the Solomon Islands ("the Bank") for the year ended 31 December 2018 and the auditors' report thereon.

Directors

The Directors in office during the financial year and at the date of this report were:

Denton Rarawa (Chairman and Governor)
Gane Simbe/Luke Forau (Deputy Governor)
Harry Kuma (Permanent Secretary of Finance)
Thomas Ko Chan
John Usuramo
David K C Quan
Christina Lasanga
Dennis Meone
Rodney Rutepitu

State of affairs

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2018 and the accompanying statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, of the Bank for the year then ended.

Principal activities

The Bank's role as a central bank, as defined in the Central Bank of Solomon Islands Act., 2012 is:

(a) to achieve and to maintain domestic price stability;
(b) to foster and to maintain a stable financial system;
(c) to support the general economic policies of the government.

Results

The net profit of the Bank for the year ended 31 December 2018 was $83.6 million (2017: $30.5 million profit).

Reserves

The Board approved the following transfers of reserves in the statement of profit and loss and other comprehensive income during the year ($83.6 million) to capital asset reserve.

Provisions

There were no material movements in provisions during the year apart from the normal amounts set aside for such items as depreciation and employee entitlements.

Going Concern

The Board believe that the Bank will be able to continue to operate for at least 12 months from the date of this report.

Assets

The Directors took reasonable steps before the Bank's financial statements were made out to ascertain that the assets of the Bank were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the Directors were not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

Directors' benefit

No director of the Bank has, since the last financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the Bank's financial statements) by reason of a contract made with the Bank or a related corporation with the director or with a firm of which he is a member, or in a Bank in which he has a substantial financial interest.

Unusual transactions

Apart from these matters and other matters specifically referred to in the financial statements, in the opinion of the Directors the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material unusual nature, nor has there arisen between the end of the financial year and the date of this report any item, transaction or event of a material unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Bank in the current financial year.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Bank, to affect significantly the operations of the Bank, the results of those operations, or the state of affairs of the Bank, in future financial years.

Other circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

Dated at Honiara this 6th of May 2019.

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

Luke Forau **Chairman of the Board and Deputy Governor**	**David KC Quan** **Director**

Central Bank of Solomon Islands

Statement by Directors

In the opinion of the Directors:

(a) the accompanying statement of profit and loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2018;

(b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2018;

(c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Bank for the year ended 31 December 2018;

(d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2018;

(e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;

(f) all related party transactions have been adequately recorded in the books of the Bank, and

(g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") and Central Bank Solomon Islands Act 2012 ("Act 2012").

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 6th of May 2019.

Luke Forau
Chairman of the Board and Deputy Governor

David KC Quan
Director

Solomon Islands Office of the Auditor-General

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

Opinion

I have in joint consultation with the Board of Directors of the Central Bank of Solomon Islands ("the Bank") and pursuant to Section 60(1) of the Central Bank of Solomon Islands Act 2012 contracted PricewaterhouseCoopers Fiji which is part of the PricewaterhouseCoopers International network, to assist me to audit the accompanying financial statements of the Bank, which comprise the statements of financial position of the Bank as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

I conducted the audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Bank in accordance with the ethical requirements that are relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

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

Other information

Directors and Management are responsible for the other information. The other information comprises the information included in the Bank's Annual Report for the year ended 31 December 2018 (but does not include the financial statements and my auditor's report thereon).

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Directors and Management for the Financial Statement

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirement of the Central Bank of Solomon Islands Act, 2012, and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors and management are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern and

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the directors and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

Report on Other Legal and Regulatory Requirements

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

In my opinion:

i.) proper books of account have been kept by the Bank, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and

ii) to the best of my knowledge and according to the information and explanations given to us the financial statements give the information required by the Section 51(1) of the Central Bank of Solomon Islands Act 2012, in the manner so required.

iii) the Bank has not complied with Section 58 of the *Central Bank of Solomon Islands Act 2012 which* requires the audited financial statements and the auditor's report thereon to be presented to the Minister of Finance within four months of the end of the financial year. The management signed financial statements were not presented to me until 7th May 2019. The Bank did inform the Minister of Finance prior to the due date that it expected the audited statements to be delayed.

Peter Lokay
Auditor-General
10th May 2019

Office of the Auditor-General
Honiara, Solomon Islands

Central Bank of Solomon Islands

Statement of profit and loss and other comprehensive income

For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Income			
Interest income	4(a)	85,587	49,089
Fees and commission income	4(b)	73,495	28,269
Other income	4(c)	1,301	6,728
Change in fair value of investment properties	10	836	-
Net unrealised foreign exchange revaluation gain		2,680	15,498
Total income		**163,899**	**99,584**
Expenses			
Interest expense	4(d)	5,508	5,098
Fees and commission expense		1,296	1,378
Administrative expenses	4(e)	48,220	42,928
Other expenses	4(f)	25,260	19,615
Total expenses		**80,284**	**69,019**
Net operating profit		**83,615**	**30,565**
Other comprehensive income/(loss)			
Items that will not be reclassified to proft or loss			
Net change in fair value (property, plant and equipment)		14,958	-
Net change in fair value (available - for - sale financial assets)		(1,806)	25,955
Income from demonetisation	27	7,209	-
Total other comprehensive income/(loss)		**20,361**	**25,955**
Total comprehensive (loss)/income		**103,796**	**56,520**

This statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 40.

Central Bank of Solomon Islands
Statement of financial position
As at 31 December 2018

	Note	2018 $'000	2017 $'000
Foreign currency assets			
Cash and cash equivalents	20	955,001	777,368
Accrued interest		26,784	10,800
Held-to-maturity investments	5	3,748,353	3,457,690
Available-for-sale investments	6	251,538	245,034
International Monetary Fund	7	248,309	240,203
Total foreign currency assets		**5,229,985**	**4,731,095**
Local currency assets			
Cash on hand	20	599	191
Loans and advances	8	13,857	12,931
Currency inventory	9	37,511	29,244
Investment properties	10	2,324	13,262
Property, plant and equipment	12	174,267	148,940
Intangibles	10	443	-
Other assets	11	27,219	63,900
Total local currency assets		**256,220**	**268,468**
Total assets		**5,486,205**	**4,999,563**
Foreign currency liabilities			
International Monetary Fund	7	355,488	362,044
Demand deposits	13(a)	145,908	92,919
Total foreign currency liabilities		**501,396**	**454,963**
Local currency liabilities			
Demand deposits	13(b)	3,038,648	2,579,384
Currency in circulation	14	947,167	931,519
Fixed deposits	15	761,673	761,658
SIG monetary operations account	16	60,242	199,222
Employee entitlements	17	21,395	18,920
Other liabilities	18	6,581	8,769
Total local liabilities		**4,835,706**	**4,499,472**
Total liabilities		**5,337,102**	**4,954,435**
Net assets		**149,103**	**45,128**
Capital and reserves			
Paid up capital	21	50,000	50,000
General reserve	22(a)	172,188	92,088
Foreign exchange revaluation reserve	22(b)	(196,499)	(199,179)
Asset revaluation reserve	22(c)	120,112	104,318
Gold revaluation reserve	22(d)	(65,781)	(63,974)
Capital asset reserve	22(e)	69,084	61,875
Total capital and reserves		**149,103**	**45,128**

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

Luke Forau
Chairman of the Board and Deputy Governor

David K C Quan
Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 40.

Central Bank of Solomon Islands
Statement of changes in equity
For the year ended 31 December 2018

	Issued & paid up capital $000	Gold revaluation on reserve $000	General reserve $000	Foreign exchange assets revaluation on reserve $000	Asset revaluation reserve $000	Capital assets reserve $000	Total $000
Balance at 1 January 2017	50,000	(89,929)	77,021	(214,677)	104,318	61,875	(11,392)
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	15,067	-15,498	-	-	30,565
Other comprehensive income/(losses)							
Fair value losses – gold	-	25,955	-	-	-	-	25,955
Fair value gains – Property, plant and equipment	-	-	-	-	-	-	-
Total other comprehensive income/(losses)	-	**25,955**	**15,067**	**15,498**	-	-	**56,520**
Balance as at 31 December 2017	**50,000**	**(63,974)**	**92,088**	**(199,179)**	**104,318**	**61,875**	**45,128**
Balance at 1 January 2018	**50,000**	**(63,974)**	**92,088**	**(199,179)**	**104,318**	**61,875**	**45,128**
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	80,100	2,680	836	-	83,616
Other comprehensive income/(losses)							
Fair value losses – gold	-	(1,806)	-	-	-	-	(1,806)
Fair value gains – Property, plant and equipment	-	-	-	-	14,958	-	14,958
Income from demonetisation	-	-	-			7,209	7,209
Total other comprehensive income gain.	-	**(1,806)**	**80,100**	**2,680**	**15,794**	-	**103,976**
Balance as at 31 December 2018	**50,000**	**(65,781)**	**172,188**	**(196,499)**	**120,112**	**69,084**	**149,103**

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 11 to 40.

Central Bank of Solomon Islands

Statement of cash flows

For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Operating activities			
Interest received		69,603	43,610
Cash received from other income		74,797	34,716
Interest paid		(5,508)	(5,249)
Cash paid to suppliers and employees		(76,459)	(50,727)
Net movement in held to maturity investments		(476,991)	(598,634)
Net movement in International Monetary Fund accounts		(2,649)	25,357
Net movement in other receivables		36,683	(4,411)
Net movement in other payables		-	-
Cash flows (used in) operating activities		**(380,524)**	**(555,368)**
Investing activities			
Acquisition of property, plant and equipment		(5,337)	(4,843)
Proceeds from sale of premises, plant and equipment		-	301
Net movement in available-for-sale investments		(8,311)	-
Net movement in loan to government		(49)	(10)
Net movement in loans and advances to staff		(877)	(660)
Cash flows (used in) investing activities		**(14,574)**	**(5,212)**
Financing activities			
Net movement in currency in circulation		22,858	63,124
Net movement in demand deposits		512,253	93,317
Net movement in fixed deposits received		14	-
Solomon Islands government monetary operations		(138,980)	147,863
Net movement in International Monetary Fund credit facilities		(12,013)	(30,397)
Cash flows from financing activities		**384,132**	**273,907**
Net effect of exchange rates		**2,680**	**15,498**
Net decrease in cash		**(8,286)**	**(271,175)**
Cash at bank and on hand at the beginning of the financial year		**777,559**	**1,048,734**
Cash at bank and on hand at the end of the financial year	**20**	**769,272**	**777,559**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 40.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2018

1. Principal activities and principal place of operations

The Central Bank of Solomon Islands ("the Bank") operates under the Central Bank of Solomon Islands Act., 2012. The Bank is an independent legal entity wholly owned by, and reporting to, the Government of the Solomon Islands. The Bank's primary objective as defined in the Central Bank of Solomon Islands Act., 2012, Section 8 is:

(a) to achieve and to maintain domestic price stability;
(b) to foster and to maintain a stable financial system;
(c) to support the general economic policies of the government.

The Bank's principal place of operations is located at Mud Alley Street, Honiara, Solomon Islands.

The financial statements were authorised for issue by the Board of Directors on 25th April 2019.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS') and the Central Bank of Solomon Islands Act., 2012, except where the Central Bank of Solomon Islands Act 2012, requires different treatment in which case the Central Bank of Solomon Islands Act., 2012 takes precedence.

The Bank has complied with the requirements of Section 56 of the Central Bank of Solomn Islands Act., 2012.

(b) Going concern basis of accounting

The financial statements have been prepared on a going concern basis. At 31 December 2018 the Bank had a surplus in net assets of $173m.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis and do not take into account changes in money values except for the following material items in the statement of financial position.

- Available-for-sale financial assets are measured at fair value.
- Held to maturity financial assets are measured at amortised cost.
- Land and buildings classified as property, plant and equipment are measured at fair value.
- Investment properties are measured at fair value.

(d) Functional and presentation currency

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

(e) Use of estimates and judgement

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in the following paragraphs;

The more significant areas of estimation include the estimation of factors that go into the determination of any impairment allowances for financial assets, the determination of fair values and particularly those level 3 type valuations of properties, and in the determination of certain employe entitlements.

Statement of significant accounting policies

Changes in accounting policies

The Bank has adopted the following accounting standards which became effective from 1 January 2018

Due to the transition methods chosen by the Bank in applying IFRS 9 *Financial Instruments*, comparative information throughout these financial statements has not been restated to reflect its requirements.

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in the financial statements.

i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requires judgement.

The Bank has adopted IFRS 15 using the cumulative effective method with the effect of initially applying this standard recognised at the date of initial application (i.e., 1 January 2018) and applying the requirements to only contracts that are not completed contracts at the date of initial application. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

The adoption of IFRS 15 *Revenue from Contracts with Customers* did not impact the timing or amount at revenue from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on comparative information is limited to new disclosure requirements of the standards.

ii) IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 *Financial Instruments* issued with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the Bank adopted consequential amendments to IAS 1 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Bank's approach was to include the impairment on financial assets in other expenses.

Additionally, the Bank adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The nature and effects of the key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the Bank classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 3(d).

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are generally recognised earlier than under IAS 39 – see note 3(d).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in general reserve as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The determination of the business model within which a financial asset is held is an assessment that has been made on the basis of the facts and circumstances that existed at the date of initial application.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The impact of transition to IFRS 9 as at 1 January 2018 was not considered material by the Bank thus the general reserve at 1 January 2018 had not been adjusted.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 $'000	New carrying amount under IFRS 9 $'000
Financial assets				
Debt securities	Held to maturity	Amortised cost	3,468,490	3,468,490
Loans and advances	Loans and receivables	Amortised cost	12,931	12,931
International Monetary Fund	Loans and receivables	Amortised cost	240,203	240,203
Cash at bank	Loans and receivables	Amortised cost	777,368	777,368
Total financial assets			**4,498,992**	**4,498,992**

Financial liabilities

International Monetary Fund	Other financial liabilities	Other financial liabilities	362,044	362,044
Fixed deposits	Other financial liabilities	Other financial liabilities	761,658	761,658
Demand deposits	Other financial liabilities	Other financial liabilities	2,672,303	2,,672,303
SIG monetary operations account	Other financial liabilities	Other financial liabilities	199,222	199,222
Other liabilities	Other financial liabilities	Other financial liabilities	8,769	8,769
Total financial liabilities			**4,003,996**	**4,003,996**

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(d). The application of these policies resulted in the reclassifications set out in the table above and explained below:

Cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost and allowance for impairment was recognised in opening general reserve at 1 January 2018 on transition to IFRS 9.

Debt securities that were previously classified as loans and receivables and held□to□maturity are now classified at amortised cost. The Bank intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

No differences have been identified between the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018, due to re-classification and re-measurement.

(a) Finance income and finance costs

Policy applicable from 1 January 2018

The Bank's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) on investments in debt securities carried at amortised cost;

Interest income or expense is recognised using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit□impaired) or to the amortised cost of the liability. However, for financial assets that have become credit□impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit□impaired, then the calculation of interest income reverts to the gross basis.

Interest income and expense presented in the statement of profit and loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Policy applicable before 1 January 2018

Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit and loss and other comprehensive income include:

- *Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and*
- *Interest on available-for-sale investments securities calculated on an effective interest basis.*

(b) Revenue from contracts with customers

Policy applicable from 1 January 2018

Revenue is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

Products and services	**Nature, timing of satisfaction of performance obligations and significant payment terms**	**Revenue recognition under IFRS 15 (applicable from 1 January 2018)**
Sale of numismatic coins/Royalties on numismatic	Sales include the selling of numismatic to the customer. Performance obligation is satisfied when the customer received the numismatic coins. At this point, the revenue is recognised.	Revenue and associated costs are recognised when the goods are provided - i.e. when the numismatic is issued to the customer.
Dealing profit – fees and commissions	The income involves the spreads earned by the Bank in buy and sell arrangements (sold deals) and sell and buy back arrangements (bought deals) of foreign currencies. Performance obligation is satisfied when the customer is issued with a deal voucher of the deals. At this point, the revenue is recognised.	Revenue and associated costs are recognised when the deals are provided - i.e. when the deal is issued to the customer.

Policy applicable before 1 January 2018

Fees and commission

Fees and commission income and expense relate mainly to transaction and service fees, which are recognised as revenue when services are rendered or expensed as the services are received.

Other income
Other income are brought to account on an accrual basis.

(c) Tax expense

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).

(d) Financial assets and financial liabilities

Policy applicable from 1 January 2018

Recognition and initial measurement

The Bank initially recognises loans and advances, deposits and debt securities on the date that they are originated. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment□by□investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Bank's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Bank's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

– contingent events that would change the amount or timing of cash flows;

– terms that may adjust the contractual coupon rate, including variable rate features;

– prepayment and extension features; and

– terms that limit the Bank's claim to cash flows from specified assets (e.g. non□recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Derecognition

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

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

Financial liabilities
The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non□cash assets transferred or liabilities assumed) is recognised in profit or loss.

Modifications of financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment

Financial assets
The Bank recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The Bank measures loss allowances at an amount equal to the lifetime ECL, except for the following, which are measured as 12□month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and including forward□looking information.

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

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

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

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

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

Measurement of ECLs
ECLs are a probability□weighted estimate of credit losses. They are measured as follows:
▪ *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
▪ *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows.
ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit□impaired. A financial asset is 'credit□impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit□impaired includes the following observable data:
– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a receivable by the Bank on terms that the Bank would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL for financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write□off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and present actual and regularly occurring market transactions on an arm's length basis.

Policy applicable before 1 January 2018

Recognition and initial measurement

The Bank initially recognises loans and advances, deposits and debt securities on the date that they are originated. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

The Bank classifies its financial assets in one of the following categories:

- *loans and advances;*
- *held to maturity;*
- *available-for-sale.*

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost.

Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and present actual and regularly occurring market transactions on an arm's length basis.

Assets are measured at a bid price, while liabilities are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of credit risk of the Bank.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Bank on terms that the Bank would not consider otherwise, indications that a debtor or issuer will enter into bankruptcy, adverse changes in the payment status of borrowers or issuers in the Bank, economic conditions that correlate with defaults or the disappearance of an active market for a security.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins held by the Bank, teller's cash, current accounts with a maturity of three months or less from the acquisition date and other short term highly liquid term deposits.

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

(f) Held-to-maturity investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payment and fixed maturity that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments comprise of fixed term deposits, short term commercial papers and bonds.

Held-to-maturity investments are carried at amortised costs using the effective interest method less any impairment losses. A sale or reclassification of more than an insignificant amount of held-to-maturity investments prior to maturity would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

(g) Available-for-sale investments

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise of gold holdings and are carried at fair value.

Fair value changes other than impairment losses are recognised in other comprehensive income and presented in the gold revaluation reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss. Impairment losses are recognised in profit or loss.

(h) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances comprise of loans and advances to the Solomon Islands Government and staff loans.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised costs using the effective interest method.

(i) Currency inventory

Currency inventory is recognised in the statement of financial position at cost.

Currency inventory relates to notes and coins purchased for circulation. The amount expensed in profit or loss is based on the cost of notes and coins that are issued into circulation.

(j) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. Currency in circulation comprises notes and coins issued by the Bank and the liability for currency in circulation is recorded at face value in the statement of financial position.

(k) Property, plant and equipment

Recognition and measurement

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

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

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

Subsequent costs

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

Depreciation

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

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

Periodic revaluation

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded on an historical cost basis. With Board approval, a three year periodical revaluation of its land and buildings is done. As part of this cycle a revaluation was completd at 31 December 2018. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to be realised for, if put for sale on private treaty. The valuations are performed by an independent valuer. The Board will continue to have such asset revaluations every three years. The next revaluations will be done in 2021.

(l) Investment properties

Investment property, is property held either to earn rentals or for capital appreciation or for both. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Costs include expenditure that is directly attributable to the acquisition of the investment property. The fair values are determined on a similar basis as with other property valuations referred to above and are based on valuations erformed by an independent valuer.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of the property changes such that it is reclassified as property, plant and equipment, its fair value at the date of the reclassification becomes its cost for subsequent accounting.

(m) Demand deposits

Demand deposits represent funds placed with the Bank by financial institutions and other organisations. Demand deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. These deposits are at call.

(n) Employee entitlements

Short-term employee benefits

Short-term employee benefits comprising of accrued wages and salaries, annual leave and entitlement to Solomon Islands National Provident Fund are measured on an undiscounted basis and are expensed as the related service is provided.

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

Long-term employee benefits

Long-term employee benefits comprise of long service leave and early retirement benefits.

Liabilities recognised in respect of long-term employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made resulting from employee's service provided to balance date, based on staff turnover history and is discounted using the rates attaching to the external bonds portfolio.

(o) Impairment

The carrying amounts of the Bank's non-financial assets are reviewed at balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(p) Comparative figures

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

(q) New standards and interpretations not yet adopted

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. The Bank will now be required to recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Bank has yet to fully assess the impact of this standard and intends to adopt the standard from 1 January 2019.

		2018 $'000	2017 $'000
4.	**Income and expenses**		
(a)	**Interest income**		
	Overseas investments	85,319	48,824
	Local investments	268	265
		85,587	49,089
(b)	**Fees and commission income**		
	Foreign dealings	70,833	27,662
	Local dealings	2,662	607
		73,495	28,269
(c)	**Other income**		
	Gain on disposal of fixed assets	221	301
	Rent received	453	1000
	Sale of numismatic coins	247	180
	Gains on foreign currency exchange	-	-
	Royalties on numismatics	66	4558
	Others	314	689
		1,301	6,728
(d)	**Interest expense**		
	Foreign liabilities	977	483
	Local liabilities	4,532	4,615
		5,508	5,098
(e)	**Administrative expenses**		
	Staff costs	36,961	32,093
	Telecommunication	2,399	1,876
	Utilities	1,737	1,906
	Repairs and maintenance	2,222	3,052
	Insurance	463	675
	Consumables	253	512
	Stationery, printing and postage	404	544
	Consultancy	431	-
	Other	3,349	2,2705
		48,220	42,928
	Other expenses		
		34	23
(f)	Board of directors remunerations and expenses	9	8
	Currency expenses	15,668	11,872
	Depreciation and amortisation	6,299	5,547
	Auditors remuneration	427	384
	Other	2,517	1,574
		25,260	19,615

		2018 $'000	2017 $'000
	Held-to-maturity investments		
	Fixed term deposits	3,590,339	3,105,070
5.	Short term commercial paper	187,849	182,623
	Bonds	156,493	169
		3,934,681	3,457,690
	Available-for-sale investments		
	Unallocated gold - at fair value	121,926	118,773
6.	Gold bullion - at fair value	129,612	126,261
		251,538	245,034

7. International Monetary Fund

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

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

(i) payment to the IMF out of the Central Bank's external assets which have been reimbursed by the Government of Solomon Islands by issue of non-interest bearing securities;

(ii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Government of Solomon Islands.

(iii) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No. 2 accounts, are disclosed together as capital subscription. The IMF maintains such balances in their accounts in both Special Drawing Rights (SDR) and Solomon Islands dollar equivalents; the Bank balances are maintained only in Solomon Islands dollars.

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

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

IMF related assets and liabilities

	2018 $'000	2017 $'000
Foreign currency assets		
- Reserve tranche position	35,567	35,185
- Special drawing rights	13,467	7,879
- Currency subscription	199,275	197,139
	248,309	240,203
Foreign currency liabilities		
- Standby credit facility	38,540	42,593
- Special drawing rights allocation	111,870	110,670
- Extended credit facility	3,656	11,616
- Securities	196,361	192,104
- Capital subscription	5,061	5,061
	355,488	362,044

	2018 $'000	2017 $'000
8. Loans and advances		
Solomon Islands Government		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	69	20
Other securities	4,936	4,936
	5,078	5,029
Staff loans		
Staff housing loans	8,738	6,117
Management car loans	-	771
Personal loans	41	1,014
	8,779	7,902
	13,857	12,931
9. Currency inventory		
Notes	18,449	7,851
Coins	19,062	21,393
	37,511	29,244

10. **Investment properties**

Balance at beginning of financial year – at fair value	13,262	13,262
Transfer to Property, Plant and Equipment	(11,804)	-
Changes in fair value	866	-
Balance at end of financial year – at fair value	2,324	13,262

Investment property comprises of a commercial and a residential properties that are leased to third parties. Each lease contains a lease period of 3 and 2 years respectively with annual rental subject to increase upon renewal indexed to the Honiara retail price index. Subsequent renewals are negotiated with the lessee.

When rent reviews or lease renewals have been pending with anticipated reversionary increases, all notices, when appropriate counter-notices, have been served validly and within the appropriate time.

Rental income from investment properties of $452,935 has been recognised in other income.

Fair value hierarchy
The fair values of investment property and land and buildings (refer to note 12) were determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued. The independent valuer provides the fair value of the Bank's investment property portfolio on a regular basis.

The fair value of the Bank's investment properties and land and buildings included withn Property, plant and equipment are categorised into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs
The following table shows the valuation technique used in measuring the fair value of investment properties, as well as significant unobservables inputs used.

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Market value considering the Highest and Best use basis: The valuation is specifically to value Land & Buildings, Civil infrastructure like roads, drains and retaining walls "as is where basis is". The valuation includes the consideration of "Highest and Best Use" method.	• Depreciation rate applied. • Locality of the property • Proximity to civic amenities • Topography/geographical features of the land • Demand for the land • Comparative sales	The estimated fair value of property would increase (decrease) if: • depreciation rate were lower (higher); • the property's urban locality; • closer to civic amenities; • the demand for the land. increases

Intangible assets	**2018**	**2017**
Computer software	**$000**	**$000**
Reclassification from property, plant and equipment		
- Cost	4,315	4,301
- Accumualated amortisation	(3,637)	(2,927)
Amortisation – current year	(235)	(695)
Balance at end of financial year	443	679

		2018	**2017**
		$000	**$000**
11.	**Other assets**		
	Commercial bank clearing	22,645	53,714
	Others	4,574	10,186
		27,219	63,900

12. Property, plant and equipment

	Land and buildings	Plant, equipment and furniture	Motor vehicles	Computer	Work in Progress	Total
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Cost/valuation						
Balance at 1 January 2017	140,972	24,610	1,905	9,407	4,912	181,806
Acquisitions	-	1,420	1,124	1,113	1,186	4,843
Transfers	-	-	-	-	-	-
Disposals	-	(8)	(931)	-	-	(939)
Balance at 31 December 2017 cost	**140,972**	**26,022**	**2,098**	**10,520**	**6,098**	**185,710**
Acquisitions		362	558	2,635	1,479	5,035
Transfers from investment properties	11,804	-	-	-	-	11,804
Revaluation gain	10,977				3,981	14,958
Transfer to Intangibles				(4,315)		(4,315)
Adjustments to prior year balances		7		41		48
Disposals	-	-	(389)	-	-	(389)
Balance at 31 December 2018	**163,753**	**26,391**	**2,267**	**8,881**	**11,559**	**212,838**
Accumulated depreciation						
Balance at 1 January 2017	**2,978**	**20,581**	**1,682**	**6,921**	-	**32,162**
Depreciation charge for the year	2,978	770	375	1,424	-	5,547
Disposals	-	(8)	(931)	-	-	(939)
Balance at 31 December 2017	**5,956**	**21,343**	**1,126**	**8,345**	-	**36,770**
Depreciation charge for the year	3,204	780	384	1,258	-	5,626
Transfer to Intangibles				(3,609)		(3,622)
Disposals	-	-	(203)	-	-	(203)
Balance at 31 December 2018	**9,160**	**22,123**	**1,307**	**5,994**	-	**38,625**
Carrying amount						
At 1 January 2017	137,994	4,029	223	2,486	4,912	149,644
At 31 December 2017	135,016	4,679	972	2,175	6,098	148,940
At 31December 2018	**154,593**	**4,268**	**960**	**2,887**	**11,559**	**174,267**

13. Demand deposits

	2018 $000	2017 $000
(a) Foreign currency demand deposits		
Demand deposits	145,908	92,919

Demand deposits include deposits from international organisations such as the Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD) and International Development Association.

	2018 $000	2017 $000
(b) Local currency demand deposits		
Commercial banks	2,171,897	1,875,049
Solomon Islands Government	861,346	694,609
Other financial corporations	5,408	1,273
Other	-	8,453
	3,038,648	2,579,384

14. Currency in circulation

Notes	915,320	895,790
Coins	31,847	35,729
	947,167	931,519

15. Fixed deposits

Bokolo bills	761,673	761,658

Bokolo bills are short term discount securities issued and backed by the Central Bank of Solomon Islands. The instrument is used by the Bank for its monetary operations.

	2018 $000	2017 $000
16. SIG monetary operations account		
SIG monetary operations account	60,242	199,222

17. Employee entitlements

Gratuity	2,283	1,080
Long service leave	695	734
Early retirement benefit	18,417	17,104
	21,395	18,920

18. Other liabilities

Unpresented bank cheques	3,975	6,086
Other liabilities	2,606	2,683
	6,581	8,769

19. Determination of distributable profit

Profits of the Bank are determined and dealt with in accordance with Section 54 and 55 of the Central Bank of Solomon Islands Act., 2012 as follows:

a) Section 54(2)(a) states that unrealised revaluation gains shall be deducted from the net profits and shall not be available to be distributed but allocated to the respective unrealised revaluation reserve account;

b) The realised gains from previous years shall be deducted from the appropriate revaluation reserve account and added to the distributable earnings as determined in section 54(2)(a).

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

	2018 $'000	2017 $'000
Net profit distribution according to CBSI Act 2012		
Net operating profit /(loss)	83,616	30,565
Add/(less) - net unrealised foreign exchange loss/(gain)	(2,680)	(15,498)
- changes in fair value in investment properties	(836)	-
Net gain recorded in general reserve	80,100	15,067

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

20. Cash and cash equivalents

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

	2018 $'000	2017 $'000
Cash on hand – local currency	599	191
Cash at bank – foreign currency	768,673	777,368
Held-to-maturity term deposits with maturities up to 3 months	186,328	-
	955,600	777,559

21. Share capital

Section 6 (1) of the Central Bank of Solomon Islands Act.,2012, states that the authorised and paid up capital of the bank shall be an amount equivalent to $50 million dollars. The capital is fully subscribed by the Government of Solomon Islands.

	2018 $'000	2017 $'000
Balance at the beginning of the year	50,000	50,000
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	-	-
Balance at the end of the year	50,000	50,000

22. Reserves

Under Section 53(2) of the Central Bank of Solomon Islands Act., 2012, the Bank shall maintain the following reserves. Their purpose and methods of operation are as follows:

a) General reserve

The general reserve was established under Section 53(1) as a reserve for the purposes of covering losses sustained by the Bank.

22. Reserves (continued)

b) Foreign exchange asset revaluation reserve

Unrealised gains and losses on revaluation of foreign exchange balances are recognised in the profit and loss and are transferred to the foreign exchange asset revaluation reserve at the end of the accounting period.

c) Asset revaluation reserve

The asset revaluation reserve reflects the impact of changes in the market value of property.

d) Gold revaluation reserve

The unallocated and allocated gold is valued at current quoted market prices. Gold is accounted for as an available for sale financial asset. Unrealised gains and losses arising from revaluation are recognised in the Other Comprehensive Income and are transferred to the gold revaluation reserve at end of the accounting period.

e) Capital asset reserve

The capital asset reserve is used to strengthen the Bank's equity position in relation to future major capital investment in buildings and equipment.

23. Financial risk and management policies

(a) Introduction and overview

The structure of the Bank's statement of financial position is primarily determined by the nature of its statutory functions. IFRS 7 *Financial Instrument Disclosures* requires disclosure of information relating to financial instruments, their significance, performance, accounting policy, terms and conditions, fair values and the Bank's policies for controlling risks and exposures relating to the financial instruments.

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

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

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and procedures for measuring and managing risk.

Risk management framework

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

The Bank's management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring and managing risk exposure. The Board of Directors and management are responsible for managing and monitoring the business strategy, risks and performance of the Bank.

Internal Audit forms part of the Bank's risk management framework. This function reports to the Governor and the Board Audit Committee on internal audit and related issues. All areas in the Bank are subject to periodic internal audit review.

The Bank is subject to an annual audit by an external auditor. Auditing arrangements are overseen by an Audit Committee of the Board to monitor the financial reporting and audit functions within the Bank and the committee reviews the internal audit functions as well. The committee reports to the Board of Directors on its activities.

The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risk. The Bank seeks to ensure the risk management framework is consistent with financial market best practice.

The risk tables in this note are based on the Bank portfolio as reported in its statement of financial position.

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

To limit the liquidity risk, the Bank maintains an adequate level of reserves and taking into consideration the transaction demand on foreign exchange, ensures that an acceptable amount is maintained in current accounts at all times. The Bank invests in high quality instruments, including commercial paper and debt issued by Governments and Supranationals, all of which are easily converted to cash (*refer to maturity analysis on liquidity*).

(b) Liquidity risk (continued)

Maturity analysis

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

Maturity analysis as at 31 December 2018	On Demand	0-3 Months	3-6 Months	6-12 Months	Over year	Undefined	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Foreign currency financial assets							
Money on demand	768,673						768,673
Accrued Interest	-	-	26,784	-	-	-	26,784
Fixed term deposit	-	1,146,308	2,444,032	-	-	-	3,590,340
Holding on special drawing rights	-		-	-	-	13,467	13,467
Reserve tranche	-		-	-	-	35,567	35,567
Subscription	-		-	-	-	199,276	199,276
Gold investment	-	-	-	-	-	251,538	251,538
Bonds	-	-	-	-	156,493	-	156,493
Short terms	-		-	-	-	-	-
	-	187,848	-	-	-	-	187,848
	768,673	1,334,156	2,470,816	-	156,493	499,848	5,229,986
				-	-		-
Local currency financial assets							
Cash on hand	599			-	-	-	599
Other receivables	-	27,216	-	-	-	-	27,216
Loans and advances	-	-	-	-	13,857	-	13,857
	599	27,216	-	-	13,857	-	41,672
Total financial assets	**769,272**	**1,361,372**	**2,470,816**	**-**	**170,350**	**499,848**	**5,271,658**
Foreign currency financial liabilities							
Demand deposits	145,908	-	-	-	-	-	145,908
IMF standby Credit facility	-	-	-	-	-	38,540	38,540
IMF special drawing rights allocation	-	-	-	-	-	111,870	111,870
IMF extended credit facility	-	-	-	-	-	3,656	3,656
Securities	-	-	-	-	-	196,361	196,361
Subscrition	-	-	-	-	-	5,061	5,061
	-	-	-	-	-	-	
	145,908	-	-	-	-	355,488	501,396
Local currency financial liabilities							
Demand deposits	3,038,648	-	-	-	-	-	3,038,648
Currency in circulation						947,167	947,167
SIG monetary operations account	-	60,242	-	-	-	-	60,242
Fixed deposits	-	-	-	-	-	-	-
Employee entitilements	-	-	-	-	18,271	-	18,271
Other liabilities	-	-	-	-	-	-	-
	3,038,648	60,242	-	-	18,271	947,167	4,064,328
Total financial liabilties	**3,184,556**	**60,242**	**-**	**-**	**18,271**	**1,302,655**	**4,565,724**
Net liquidity gap	**(2,415,284)**	**1,301,130**	**2,470,816**	**-**	**152,079**	**(802,807)**	**705,934**

23. Financial risk and management policies (continued)

(b) Liquidity risk (continued)

Maturity analysis as at 31 December 2017	On Demand	0-3 Months	0-3 Months	3-6 Months	6-12 Months	Over year	Undefined	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Foreign currency financial assets								
Money on demand							777,368	777,368
Accrued Interest	-	-	-	11,979	-	-	-	11,979
Fixed term deposit	-	1,461,718	-	1,643,353	-	-	-	3,105,071
Holding on special drawing rights	-	-	-	-	-	-	7,878	7,878
Reserve tranche	-	-	-	-	-	-	35,185	35,185
Subscription	-	-	-	-	-	-	197,139	197,139
Gold investment	-	-	-	-	-	-	243,994	243,994
Bonds	-	-	-	-	-	170,812	-	170,812
Short terms	-	182,623	-	-	-	-	-	182,623
	-	-	-	-	-	-	-	
	-	1,644,341	-	1,655,332	-	170,812	1,261,564	4,732,049
			-		-	-		-
Local currency financial assets								
Cash on hand	191		-		-	-	-	191
Other receivables	-	62,744	-	-	-	-	-	62,744
Loans and advances	-	-	-	-	-	12,931	-	12,931
	191	62,744	-	-	-	12,931	-	75,866
Total financial assets	**191**	**1,707,085**	**-**	**1,655,332**	**-**	**183,743**	**1,261,564**	**4,807,915**
Foreign currency financial liabilities								
Demand deposits	152,999	-	-	-	-	-	-	152,999
IMF standby Credit facility	-	-	-	-	-	-	8,297	8,297
IMF special drawing rights allocation	-	-	-	-	-	-	110,670	110,670
IMF extended credit facility	-	-	-	-	-	-	3,535	3,535
Securities	-	-	-	-	-	-	190,895	190,895
Subscrition	-	-	-	-	-	-	4,928	4,928
	-	-	-	-	-	-	-	
	152,999	-	-	-	-	-	318,326	471,325
Local currency financial liabilities								
Demand deposits	2,756,763	-	-	-	-	-	-	2,756,763
Currency in circulation							924,300	924,300
SIG monetary operations account	-	17,695	-	-	-	-	-	17,695
Fixed deposits	-	-	-	-	-	-	-	-
Employee entitilements	-	-	-	-	-	18,485	-	18,485
Other liabilities	-	-	-	-	-	-	-	-
	2,756,763	17,695	-	-	-	18,485	924,300	3,717,243
Total financial liabilties	**2,909,762**	**17,695**	**-**	**-**	**-**	**18,485**	**1,242,626**	**4,188,567**
Net liquidity gap	**(2,909,570)**	**1,689,390**	**-**	**1,655,332**	**-**	**165,258**	**18,938**	**619,347**

23. Financial risk and management policies (continued)

(c) Credit risk

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations.

Selection of a counterparty is made based on their respective credit rating. Investment decisions are based on the credit rating of the particular issuer, country limits and counterparty limits in place to control exposure risks.

The Bank uses Standard and Poor's, Moody's and Fitch credit ratings for assessing the credit risk of foreign counterparties. The credit ratings of counterparties are closely monitored and are updated as new market information is available. Foreign exchange limits per bank are imposed for all currency dealings.

Concentration of credit exposure

The Bank's significant end-of-year concentrations of credit exposure by portfolio type were as follows:

	2018 $000	2017 $000
Foreign currency assets		
Cash at bank	768,673	777,368
Held to maturity investment	3,934,681	3,457,690
International monetary fund	248,309	240,203
Gold investment	251,538	245,034
	5,203.201	4,720,295
Local currency assets		
Loans and advances	13,857	12,931
	5,217,058	4,733,226

The following table presents the Bank's financial assets and Gold held with financial institutions based on Moody's credit rating of the foreign counterparties. AAA is the highest quality rating possible and indicates the counterparty has a strong capacity to pay interest and principal. N/R indicates that the counterparty has not been rated by Moody.

Concentration by credit rating	**2018** **%**	**2017** **%**
Aaa	21	34
Aal – Aa3	37	30
A1 – A3	21	16
Baa1+ - Baa3	21	12
Ba1+ - Ba3	-	7
B1 – B3	-	1
N/R	--	-
	100	100

Cash

The Bank held cash of $769.3 million at 31 December 2018 (2017: $777.6 million). The cash is held with banks, which are rated Baa2 to Aaa, based on Moody's ratings.

Impairment on cash has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Bank considers that its cash has low credit risk based on the external credit ratings of the counterparties.

The Bank uses a similar approach for assessment of ECLs for cash to those used for debt securities.

Accordingly, due to short maturities and low credit risk, on initial application of IFRS 9, the Bank did not recognise an impairment allowance against cash as at 1 January 2018. The amount of the allowance did not change during 2018.

Debt investment securities
The Bank held debt investment securities of $3,934.7 million at 31 December 2018 (2017: $3,457.7m). The debt investment securities are held with banks and the Solomon Island Government. Debt investment securities held with banks and the Solomon Island Government are rated B3 to Aaa, based on Moody's ratings.

Impairment on debt investment securities held with banks has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Bank considers that its debt investment securities held with banks have low credit risk based on the external credit ratings of the counterparties (in relation to banks) and available press and regulatory information (in relation to credit institutions).

Impairment on debt investment securities held with the Solomon Islands Government has also been measured on the 12-month expected loss basis.

Accordingly due to short maturities and low credit risk, on initial application of IFRS 9, the Bank did not recognise an impairment allowance against debt investment securities as at 1 January 2018. The amount of the allowance did not change during 2018.

The Bank also monitors credit risk by currency and sector. An analysis of concentrations of credit risk is shown below:

Concentration by currency	**2018 $,000**	**%**	**2017 $'000**	**%**
USD	3,303,211	63	2,690,277	57
AUD	1,192,210	23	1,155,426	25
EURO	11,816	-	61,197	1
SDR	239,027	5	240,203	5
NZD	245,775	5	240,398	5
SGD	86,509	2	143,777	3
STG	136,770	2	186,166	4
SBD	13,857	-	12,931	-
JPY	3	-	4	-
CNY	585	-	2,847	
Total financial assets	5,217,058	100	4,733,226	100

	2018 $'000	**%**	**2017 $'000**	**%**
Concentration by sector				
Foreign currency assets				
Central banks	1,019,638	16	774,520	25
Commercial banks	3,935,254	78	3,705,572	66
International Monetary Fund	248,309	5	240,203	6
	5,203,201	100	4,720,295	100
Local currency assets				
Solomon Islands Government loan and advances	5,078	40	5,029	41
Staff loan and advances	8,779	60	7,902	59
	13,857		12,931	100
Total financial assets	**5,217,058**		**4,733,226**	

(d) Market risk

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

Interest rate risk management

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

At the reporting date the interest rate profile of the Bank's interest-bearing financial instruments was:

	Carrying amount	
	2018	**2017**
	$000	**$000**
Fixed rate instruments		
Cash at Bank (Financial assets)	768,673	66,148
Held-to-maturity investments (Financial assets)	3,934,082	3,457,690
Loans and advances (Financial assets)	13,856	12,931
Demand deposits (Financial liabilities)	-	-
SIG monetary operations account (Financial liabilities)	-	-
Fixed deposits (Financial liabilities)	(761,673)	-
		(761,658)
	3,954,938	**2,775,111**
Variable rate instruments		
Cash at Bank (Financial assets)	768,673	711,220
International Monetary Fund (Financial assets)	248,309	7,879
International Monetary Fund (Financial liabilities)	(355,488)	(110,670)
	661,494	**608,429**

Fair value sensitivity analysis for fixed instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

Profit or loss

	100bp increase	100bp decrease
31 December 2018	$000's	$000's
Variable rate instruments	1,810	(1,810)
31 December 2017		
Variable rate instruments	6,984	(6,084)

Foreign exchange risk management

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

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

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

2018 foreign currency risk

	AUD	NZ	USD	EURO	GBP	SGD	CNY	JPY	OTHERS	Total
Foreign Currency Assets	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD (000's)	(SBD) (000's)	(SBD) (000`s)	(SBD) (000`s)	(SBD) (000`s)	(SBD) (000's)	(SBD) (000's)
Money at call	102,848		624,371	15,030	25,886		573	4	0	768,712
Accrued Interest	5,509	2,147	18,421		247	460				26,784
Term Deposits	755,208	239,793	2,385,487		105,939	103,873				3,590,300
Holding of Special Drawing Rights									13,467	13,467
Reserve Tranche									35,567	35,567
Subscription									199,276	199,276
Gold Investment			251,538							251,538
Bonds	156,493									156,493
Short Term Commercial paper	187,849									187,849
Total	1,207,907	241,940	3,279,817	15,030	132,072	104,333			248,310	5,229,986
Foreign Currency Financial Liabilities										
Demand deposits	145,908									145,908
IMF Standby credit facility									38,540	38,540
IMF special drawings rights allocation									111,870	111,870
IMF extended credit facility									3,656	3,656
IMF securities									196,361	196,361
Capital subscription									5,061	5,061
Total	145,908	-	-	-	-	-			355,488	501,396
Net foreign currency asset	1,061,999	241,940	3,279,817	15,030	132,072	104,333			- 107,178	4,728,590

2017 foreign currency risk

	AUD	NZ	USD	EURO	GBP	SGD	OTHERS	Total
Foreign Currency Assets	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)
Money at call	49,567		661,421	61,197	2,333		2851	777,369
Accrued Interest	5,648	1,147	4,688		278	219		11,980
Term Deposits	753,240	240,398	1,783,822		183,833	143,776		3,105,069
Holding of Special Drawing Rights							7,878	7,878
Reserve Tranche							35,185	35,185
Subscription							197,139	197,139
Gold Investment			243,994					243,994
Bonds	170,812							170,812
Short Term Commercial paper	182,623							182,623
Total	1,161,890	241,545	2,693,925	61,197	186,444	143,995	243,053	4,732,049
Foreign Currency Financial Liabilities								
Demand deposits	152,999							152,999
IMF Standby credit facility							8,297	8,297
IMF special drawings rights allocation							110,670	110,670
IMF extended credit facility							3,535	3,535
IMF securities							190,895	190,895
Capital subscription							4,928	4,928
Total	152,999	-	-	-	-	-	318,326	471,325
Net foreign currency asset	1,008,891	241,545	2,693,925	61,197	186,444	143,995 -	75,273	4,260,724

Concentration of foreign exchange

The Bank's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at year end:

	2018 $000	%	2017 $000	%
USD	3,303,211	60	2,603,280	58
AUD	1,192,210	26	1,153,529	24
EURO	11,816	1	61,197	3
NZD	245,775	5	240,398	6
SGD	86,509	3	143,777	4
STG	136,770	5	186,166	5
JPY	3	-	4	-
CNY	585	-	2,847	-
	4,976,879	100	4,391,198	100

The following significant exchange rates were used at year end to convert foreign currency balances to the Solomon Island dollar equivalent.

Reporting date spot rate

	2018	2017
AUD	0.1745	0.1633
USD	0.1230	0.1272
NZD	0.1832	0.1797
STG	0.0971	0.0947
EURO	0.1077	0.1066
JPY	13.6100	14.370
SGD	0.1684	0.1703
SDR	0.0886	0.0895
CNY	0.8452	0.8320

Sensitiviy to foreign exchange rate risk

Impact of a:	2018 $M	2017 $M
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(121)	(97)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	60	87

(d) Operational risk management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than liquidity, credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank's operations.

Managing operational risk in the Bank is an integral part of day-to-day operations and oversight. This includes adherence to Bank wide corporate policies. There is also an active internal audit function carried out on a quarterly basis.

Operating loss is the risk of loss from breakdown of internal controls. The Bank has established an internal audit function which will exercise monitoring and control over accounting policies and procedures, and the effective functioning of the system of internal controls at the Bank.

Operational risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operational risk.

24. Fair value of financial assets and liabilities

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Quoted market values represent fair value when a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader.

Valuation of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active market for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The table below analyses financial instruments measured at fair value at the end of the reporting period.

31 December 2018	**Note**	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Investment securities					
Available for sale financial assets (Gold)	6	251,538			**251,538**

31 December 2017	**Note**	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Investment securities					
Available for sale financial assets (Gold)	6	243,994			**243,994**

25. Related parties

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

The Board of Directors during the year were:

Denton Rarawa (Chairman and Governor)
Gane Simbe/Luke Forau (Deputy Governor)
Harry Kuma
Thomas Ko Chan
John Usuramo
David K C Quan
Christina Lasanga
Dennis Meone
Rodney Rutepitu

Directors' fees and emoluments

Amounts paid to directors during the year are disclosed in Note 4 (f). No other emoluments were paid or are due to the directors at year end.

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

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

Denton Rarawa	Governor
Gane Simbe	Deputy Governor
Luke Forau	Advisor to Governors
Denson Denii	Chief Manager International
Daniel Haridi	Chief Manager Currency and Banking Operations
Donald Kiriau	Chief Manager Economics Research and Statistics
John Bosco	Chief Manager HR and Corporate Services
Emmanuel Gela	Chief Manager Finance and Accounts
Raynold Moveni	Chief Manager Financial Market Supervision
Edward Manedika	Chief Manager Information Technology

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

	2018 $000	2017 $000
Short-term employee benefits	1,484	3,028
Long-term benefits	1,997	1,046
	3,481	4,074

Short-term benefits include cash salary, and in the case of staff, annual leave, motor vehicle benefits, health benefits and the fringe benefits tax paid or payable on these benefits.

Long-term benefits include gratuity, long service leave and early retirement benefits.

As at 31 December 2018 loans by the Bank to key management personnel are as follows:

	2018 $000	2017 $000
Housing loan	1,100	1,667
Personal loan	26	63
Management car loan	65	131
	1,191	**1,861**

There were no other related party transactions with Board members; transactions with director-related entities which occurred in the normal course of the Bank's operations were conducted on the terms no more favorable than similar transactions with other employees or customers.

Transactions with the Solomon Islands Government

The transactions with the Solomon Islands Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received $nil (2017: $nil) of interest income relating to their investments in Government securities. The Bank also paid $nil million (2017: $nil) to the Government in accordance with Section 34 of the Central Bank of Solomon Islands Act., 2012. The balance of the Bank's investment in Government securities at year end amounted to $5.0 million (2017: $5.0m).

26. Commitments and contingent liabilities

The Bank has guaranteed staff housing loans with the commercial banks to the sum of $0.79 million as at 31 December 2018 (2017: $0.79m). The guarantee scheme was no longer available to staff since 2011 and is valid for eligible staff until the date of ceasation of 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 2018, a total of 3 (2017: 3) loans with a net guarantee of $0.576m (2017: $0.576m) million have been administered under the scheme.

27. Income from demonetisation

The Bank has recognised demonetisation income of $7.2 million (2017: $Nil). Under Section 22 of the Central Bank of Solomon Islands Act the Bank is empowered to redeem currency from circulation. Upon issue of new coins in 2012, a demonetisation period of 5 years was allowed for exchange at face value and the old coins were removed from circulation. During 2018, the remaining balance of demonetised coins physically in circulation ceased to be legal tender disposing the Bank's liability of exchange at face value.

28. Events subsequent to balance date

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.