



CENTRAL BANK OF SOLOMON ISLANDS

**ANNUAL STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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Central Bank of the Solomon Islands

Director's report

The Directors present this report together with the financial statements of the Central Bank of the Solomon Islands ("the Bank") for the year ended 31 December 2019 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, contract end 22nd August 2019) Luke Forau (appointed Chairman and Governor 1st October 2019)

Luke Forau (Deputy Governor)

Mckinnie Dentana (Permanent Secretary of Finance)

Thomas Ko Chan (Resigned 24/06/2019)

David Dennis

David K C Quan

Christina Lasaga

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 2019 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 2019 was \$93.9 million (2018: \$83.6 million profit).

Reserves

The Board approved the following transfers to reserves from the statement of profit and loss and other comprehensive income during the year: \$44.9 million to capital asset reserve, \$48.9 million to Foreign exchange revaluation reserve and \$47.6 million to gold 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 the next 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.

Central Bank of the Solomon Islands

Director's report (continued)

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

The coronavirus disease (COVID-19) outbreak has developed rapidly in 2020, bringing a significant health impact globally. Measures taken to contain the virus are already having a significant impact on global markets and economic activity and Solomon Islands is also feeling the impact with business disruption and levels of activity already reducing in several market sectors. The spread and considerable disruption of this epidemic will be exacerbated by the increasingly intertwined trade and investment relationships between China and its neighbours in the Asia Pacific region.

There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come subsequently from the disruption caused. The Bank is exposed to the possibility of incurring losses arising from changes in the fair value of financial assets, credit loss impairment, cash inflows from operations and net interest income of the Bank.

Directors and management are carefully considering the impact of the COVID-19 outbreak on the Bank and assessing future operational options. The financial impacts, however, cannot be reasonably estimated at this time, as they will be largely the product of matters the Bank cannot control.

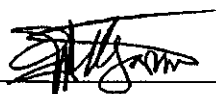
Directors and management believe the Bank has sufficient financial resources at this time to be able to successfully manage its business risks despite the current uncertain economic outlook due to the COVID-19 outbreak. They have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Subsequent to year end, the Bank has received debt repayment relief from IMF for a period of six months with the potential for that to be extended by a further six months if required.

Other circumstances


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

Dated at Honiara on 16 April 2020.

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



Luke Forau



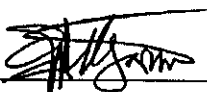
Rodney Rutepitu

Statement by Directors

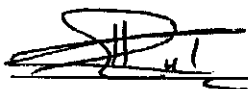
In the opinion of the Directors:

- (a) the accompanying statement of profit or 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 2019;
- (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 2019;
- (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 2019;
- (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 2019;
- (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 dated on 16 April 2020.



Luke Forau
Chairman of the Board and Governor



Rodney Rutepitu
Director

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

Report on the Audit of the Financial Statements

**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 Central Bank of Solomon Islands ("the Bank") 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 statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes 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 2019, 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 my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report.

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

Independence

I am independent of the Bank in accordance with International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements.

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 2019 (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 except that not all other information was available to us at the date of our signing.

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

Report on the Audit of the Financial Statements

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 IFRS, and the requirements of the Central Bank of Solomon Islands Act, 2012 and for such internal control as the board members 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, 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 directors and management either intend to liquidate the Bank or to cease its operations, or have 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 auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, 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

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

Report on the Audit of the Financial Statements

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 me 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.



Peter Lokay
Auditor-General
28th April 2020

Office of the Auditor-General
Honiara, Solomon Islands

Central Bank of Solomon Islands
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Income			
Interest income	4(a)	99,194	85,587
Fees and commission income	4(b)	29,557	73,495
Other income	4(c)	1,761	1,301
Change in fair value of investment properties	10	-	836
Net foreign exchange revaluation gain		48,946	2,680
Total income		179,458	163,899
Expenses			
Interest expense	4(d)	5,667	5,508
Fees and commission expense		1,190	1,296
Administrative expenses	4(e)	54,248	48,220
Impairment allowance on financial instruments		1,283	-
Other expenses	4(f)	23,166	25,260
Total expenses		85,554	80,284
Net operating profit		93,904	83,615
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value (property, plant and equipment)		-	14,958
Net change in fair value (gold)		47,558	(1,806)
Income from demonetisation		-	7,209
Total other comprehensive income		47,558	20,361
Total comprehensive income		141,462	103,976

This statement of profit or 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 12 to 47.

Central Bank of Solomon Islands
Statement of financial position
As at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Foreign currency assets			
Cash and cash equivalents	22	405,392	955,001
Accrued interest		26,634	26,784
Fixed income securities	5	3,951,024	3,748,353
Gold	6	300,110	251,538
International Monetary Fund	7	247,348	248,309
Total foreign currency assets		4,930,508	5,229,985
Local currency assets			
Cash on hand	22	205	599
Loans and advances	8	17,504	13,857
Currency inventory	9	42,177	37,511
Investment properties	10	-	2,324
Property, plant and equipment	14	180,273	174,267
Intangibles	11	253	443
Other assets	12	41,310	27,219
Right-of-use asset	13(a)	1,381	-
Total local currency assets		283,103	256,220
Total assets		5,213,611	5,486,205
Foreign currency liabilities			
International Monetary Fund	7	323,348	355,488
Demand deposits	15(a)	155,724	145,907
Total foreign currency liabilities		479,072	501,395
Local currency liabilities			
Demand deposits	15(b)	2,603,104	3,038,648
Currency in circulation	16	955,285	947,167
Fixed deposits	17	761,457	761,673
SIG monetary operations account	18	87,888	60,242
Employee entitlements	19	22,980	21,395
Other liabilities	20	11,828	6,581
Lease liabilities	13(b)	1,432	-
Total local liabilities		4,443,974	4,835,706
Total liabilities		4,923,046	5,337,102
Net assets		290,565	149,103
Capital and reserves			
Paid up capital	23	50,000	50,000
General reserve	24(a)	172,188	172,188
Foreign exchange revaluation reserve	24(b)	(147,553)	(196,499)
Asset revaluation reserve	24(c)	120,112	120,112
Gold revaluation reserve	24(d)	(18,222)	(65,780)
Capital asset reserve	24(e)	114,040	69,084
Total capital and reserves		290,565	149,103

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 12 to 47.

Central Bank of Solomon Islands
Statement of changes in equity
For the year ended 31 December 2019

	Issued & paid up capital \$'000	Gold revaluati on reserve \$'000	General reserve \$'000	Foreign exchange assets revaluati on reserve \$'000	Asset revaluation reserve \$'000	Capital assets reserve \$'000	Total \$'000
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 for the year (Note 21)	-	-	80,099	2,680	836	-	83,615
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	-	(1,806)	80,099	2,680	15,794	7,209	103,976
Balance as at 31 December 2018	50,000	(65,780)	172,186	(196,499)	120,112	69,084	149,103
Balance at 1 January 2019	50,000	(65,780)	172,186	(196,499)	120,112	69,084	149,103
Total comprehensive income for the year							
Profit for the year (Note 21)	-	-	-	48,946	-	44,956	93,904
Other comprehensive income/(losses)							
Fair value gains – gold	-	47,558	-	-	-	-	47,558
Fair value gains – Property, plant and equipment	-	-	-	-	-	-	-
Transfer of remaining distributed profits for 2018 in accordance with Section 55(1) of the Central Bank of Solomon Islands Act., 2012	-	-	-	-	-	-	-
Total other comprehensive income	-	47,558	-	48,946	-	44,956	141,462
Balance as at 31 December 2019	50,000	(18,222)	172,186	(147,553)	120,112	114,040	290,565

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 12 to 47.

Central Bank of Solomon Islands
Statement of cash flows
For the year ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Operating activities			
Interest received		99,344	69,603
Cash received from other income		31,318	74,979
Interest paid		(5,595)	(5,508)
Cash paid to suppliers and employees		(66,967)	(76,642)
Net movement in fixed income investments		(203,390)	(290,663)
Net movement in International Monetary Fund accounts		(14,346)	(2,649)
Net movement in other receivables		(14,092)	36,683
Net movement in other payables		-	-
Cash flows (used in) operating activities		(173,728)	(194,197)
Investing activities			
Acquisition of property, plant and equipment		(12,974)	(5,337)
Proceeds from sale of premises, plant and equipment		214	-
Net movement in gold		(1,014)	(8,311)
Net movement in loan to government		(746)	(49)
Net movement in loans and advances to staff		(3,436)	(877)
Cash flows (used in) investing activities		(17,956)	(14,574)
Financing activities			
Net movement in currency in circulation		8,118	22,858
Net movement in demand deposits		(425,728)	512,253
Net movement in fixed deposits received		(216)	14
Solomon Islands government monetary operations		27,646	(138,980)
Net movement in International Monetary Fund credit facilities		(16,832)	(12,013)
Repayment of leases		(151)	-
Interest payment on lease liabilities		(72)	-
Cash flows (used in)/ generated from financing activities		(407,235)	384,132
Net effect of exchange rates		48,946	2,680
Net (decrease)/increase in cash		(549,973)	178,041
Cash at bank and on hand at the beginning of the financial year		955,600	777,559
Cash at bank and on hand at the end of the financial year	22	405,627	955,600

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 12 to 47.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

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; and
- (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 16th April 2020.

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 Solomon Islands Act., 2012.

(b) Standards, Amendments and Interpretations Issued

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2019

- IFRS 16: ‘Leases’
- IFRIC 23, ‘Uncertainty over income tax treatments’
- Annual improvements 2015-2017
- Amendment to IFRS 9 on prepayment features with negative compensation
- Amendments to IAS 28 ‘Investments in associates’ on long term interests in associates and joint ventures
- Amendments to IAS 19 ‘Employee benefits’ on plan amendments, curtailment or settlement.

The Bank has adopted IFRS 16 Leases as issued by the IASB in January 2016 with a date of transition of 1 January 2019, which resulted in changes in accounting policies. The Bank did not early adopt IFRS 16 in previous periods.

The implementation of IFRS 16 Leases required the Bank to change its accounting policy as a lessee under lease contracts as set out in note 13. The other changes referred to above did not have any material impact on the Bank.

New standards, amendments and interpretations issued and effective for the financial years beginning on or after 1 January 2020 and not early adopted

- Amendments to IFRS 3 – definition of a business
- Amendments to IAS 1 and IAS 8 on the definition of ‘material’
- Amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform
- IFRS 17: ‘Insurance contracts’

These are not expected to have any material financial impact in future years.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

(c) Going concern basis of accounting

The financial statements have been prepared on a going concern basis. At 31 December 2019 the Bank had a surplus in net assets of \$291m.

(d) 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.

- Gold is measured at fair value.
- Cash and cash equivalents, fixed income securities and loans and advances 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.

(e) Functional and presentation currency

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

(f) Use of estimates and 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 employee entitlements.

3. Statement of significant accounting policies

Changes in accounting policies

The Bank was required to change its accounting policy for lease contracts as a lessee in accordance with IFRS 16 with effect from 1 January 2019.

Previously, leases in which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the Bank had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment was apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of finance charges, were included in borrowings in the statement of financial position.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

3. Statement of significant accounting policies (continued)

The property, plant and equipment acquired under finance leases was depreciated over the shorter of the useful life of the asset and the lease term.

From 1 January 2019, all leases are now accounted for in accordance with the policy set out in note 3(m) below. In accordance with the transition provisions of IFRS 16, the Bank has elected to apply the simplified approach to adopting the new rules retrospectively with the cumulative effect of initially applying the standard recognised as at 1 January 2019. Comparatives for the year ended 31 December 2018 have not been restated.

On adoption the Bank has recognised lease liabilities in respect of leases previously classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 and new leases entered into during 2019 was 10%.

There was no adjustment required to retained earnings as at 1 January 2019.

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases
- excluding initial direct costs for the measurement of right of use assets as at 1 January 2019
- single discount rate is applied to a portfolio of leases with reasonably similar characteristics

The Bank had no operating leases at 1 January 2019, but entered into a lease during the 2019 year.

(a) Finance income and finance costs

The Bank's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- 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.

For the year ended 31 December 2019

3. Statement of significant accounting policies (continued)

(a) Finance income and finance costs (continued)

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

(b) Revenue from contracts with customers

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 receives 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.

(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

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.

3. Statement of significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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.

The financial assets that are measured at amortised costs includes cash and cash equivalents, fixed income securities, loans and advances.

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.

The financial asset that is measured at fair value through other comprehensive income is gold.

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;

3. Statement of significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

- 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

3. Statement of significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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.

3. Statement of significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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 (S&P).

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

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

3. Statement of significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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 counter-party does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Amortised cost measurement

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

Fair value measurement

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

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

3. Statement of significant accounting policies

(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) Fixed income securities

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

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

(g) Investments at fair value

The Bank holds Gold investments at fair value.

Fair value changes 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 gold revaluation reserve is reclassified to retained earnings.

(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 and similar balances to the Solomon Islands Government and staff loans.

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

(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 acquiring from the currency printers and mint the notes and coins that are subsequently 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.

3. Statement of significant accounting policies

(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 accounted for at fair value.

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

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

Subsequent costs

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

Depreciation

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

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

Periodic revaluation

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded on an historical cost basis. With Board approval, a three year periodical revaluation of its land and buildings is done. As part of this cycle a revaluation was completed 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 was 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 were 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 other comprehensive income. 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 performed 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 general reserves.

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.

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2019

3. Statement of significant accounting policies

(m) Leases, right-of-use asset and lease liability

Bank as Lessee (applicable before 1 January 2019)

All leases entered into by the Bank are operating leases. Total payments made are charged to the statement of profit or loss and other comprehensive income using the straight line method.

Bank as Lessee (applicable after 1 January 2019)

Right-of-use assets and lease liabilities arising from lease contracts are initially measured on a present value basis. Lease liabilities include the present value of all fixed payments (less any lease incentives receivable), variable lease payments that are based on an index or rate, any amounts expected to be paid under residual value guarantees, the exercise price of any purchase options that are reasonably certain to be exercised and any payments for terminating a lease if the lease term reflects the exercise of that termination option. The lease payments are discounted using the discount rate implicit in the lease, if that rate can be determined, or the company's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short term leases of 12 months or less and leases of low value assets are recognised as an expense on a straight line basis. Variable lease payments that are not based on an index or rate are recognised as an expense as incurred.

Right-of-use assets are initially measured at cost, comprising the amount on initial recognition of the lease liability plus any lease payments made before commencement of the lease, any initial direct costs and the estimated costs of any restoration required upon completion of the lease contract. Right-of-use assets are subsequently measured at cost less depreciation and any impairment. Right-of-use assets are depreciated on a straight line basis over the shorter of the term of the lease and the asset's useful life, unless there is a purchase option which is reasonably certain of being exercised, in which case the asset will be depreciated over its useful life.

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

Critical judgements in determining the lease term

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

The assessment is reviewed if a significant event or significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The Bank presents right-of-use asset and lease liability as separate line items in the statement of financial position.

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2019

3. Statement of significant accounting policies

(n) 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.

(o) 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 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.

(p) 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.

(q) Comparative figures

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

	2019 \$'000	2018 \$'000
4. Income and expenses		
(a) Interest income		
Overseas investments	98,878	85,319
Local investments	316	268
	<u>99,194</u>	<u>85,587</u>
(b) Fees and commission income		
Foreign dealings	25,559	70,833
Local dealings	3,998	2,662
	<u>29,557</u>	<u>73,495</u>

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2019

	2019 \$'000	2018 \$'000
4. Income and expenses (continued)		
(c) Other income		
Gain on disposal of fixed assets	711	221
Rent received	102	453
Sale of numismatic coins	97	247
Royalties on numismatics	61	66
Others	790	314
	<u>1,761</u>	<u>1,301</u>
(d) Interest expense		
Foreign liabilities	1,167	977
Local liabilities	4,427	4,531
Interest on lease liability - IFRS 16	73	-
	<u>5,667</u>	<u>5,508</u>
(e) Administrative expenses		
Staff costs	40,297	36,961
Telecommunication	2,879	2,399
Utilities	2,567	1,737
Repairs and maintenance	2,175	2,222
Insurance	496	463
Consumables	341	253
Stationery, printing and postage	517	404
Consultancy	64	431
Other	4,912	3,350
	<u>54,248</u>	<u>48,220</u>
(f) Other expenses		
Board of directors remunerations and expenses	317	349
Currency expenses	10,411	15,668
Depreciation and amortisation	6,617	6,299
Depreciation charge - right-of-use asset	202	-
Auditors remuneration	525	427
Other	5,094	2,517
	<u>23,166</u>	<u>25,260</u>
5. Fixed income securities		
Fixed term deposits	3,469,791	3,404,011
Short term commercial paper	199,692	187,849
Bonds	282,260	156,493
Total amortised cost	3,951,743	3,748,353
Allowance for impairment losses	(719)	-
	<u>3,951,024</u>	<u>3,748,353</u>
6. Gold		
Unallocated gold - at fair value	145,470	121,926
Gold bullion - at fair value	154,640	129,612
	<u>300,110</u>	<u>251,538</u>

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 Islands' 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 23 June 2010. The final disbursement was transacted on 1 December 2011.

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

IMF related assets and liabilities

	2019 \$'000	2018 \$'000
Foreign currency assets		
- Reserve tranche position	35,499	35,567
- Special drawing rights	12,954	13,467
- Currency subscription	198,895	199,275
	<u>247,348</u>	<u>248,309</u>
Foreign currency liabilities		
- Standby credit facility	-	38,540
- Special drawing rights allocation	112,326	111,870
- Extended credit facility	10,760	3,656
- Securities	195,201	196,361
- Capital subscription	5,061	5,061
	<u>323,348</u>	<u>355,488</u>
8. Loans and advances		
<i>Solomon Islands Government</i>		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	815	69
Other securities	4,936	4,936
Total amortised cost	<u>5,824</u>	<u>5,078</u>
Allowance for impairment losses	(40)	-
	<u>5,784</u>	<u>5,078</u>
<i>Staff loans</i>		
Staff housing loans	10,116	8,738
Management car loans	880	-
Personal loans	1,219	41
Total amortised cost	<u>12,215</u>	<u>8,779</u>
Allowance for impairment losses	(495)	-
	<u>11,720</u>	<u>8,779</u>
Total loans and advances	<u>17,504</u>	<u>13,857</u>

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2019

	2019 \$'000	2018 \$'000
9. Currency inventory		
Notes	23,826	18,449
Coins	18,351	19,062
	<u>42,177</u>	<u>37,511</u>
10. Investment properties		
Balance at beginning of financial year – at fair value	2,324	13,292
Transfer to Property, Plant and Equipment	(2,324)	(11,804)
Changes in fair value	-	836
Balance at end of financial year – at fair value	<u>-</u>	<u>2,324</u>

Investment property previously comprised of commercial and a residential properties that were 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 were negotiated with the lessee.

During the year the commercial property was reclassified to property, plant and equipment as the property is to be redeveloped for use by the Bank and the Bank is no longer holding any investment property.

Fair value

The fair values of investment property and land and buildings 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 within Property, plant and equipment are categorised into Level 3 of the fair value hierarchy. The last independent valuation was at 31 December 2018. The directors believe the 2018 valuation remains a reasonable process for the value at 31 December 2019.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties and land and buildings at 31 December 2018, 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.	<ul style="list-style-type: none"> • Depreciation rate applied. • Locality of the property • Proximity to civic amenities • Topography/geographical features of the land • Demand for the land • Comparative sales 	<p>The estimated fair value of property would increase (decrease) if:</p> <ul style="list-style-type: none"> • depreciation rate were lower (higher); • the property's urban locality; • closer to civic amenities; and • the demand for the land increases.

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2019

	2019 \$'000	2018 \$'000
11. Intangible assets		
Computer software		
Cost	4,709	4,752
Accumulated amortisation	(4,309)	(3,578)
Amortisation – current year	(147)	(731)
Balance at end of financial year	<u>253</u>	<u>443</u>
12. Other assets		
Commercial bank clearing	34,213	22,645
Others	7,097	4,574
	<u>41,310</u>	<u>27,219</u>
13. Right-of-use asset and lease liability		
(a) Right-of-use asset		
Balance at 1 January	-	-
Additions	1,583	-
Disposals	-	-
Depreciation	(202)	-
Balance at 31 December	<u>1,381</u>	<u>-</u>
Cost	1,583	-
Accumulated depreciation	(202)	-
Net book amount	<u>1,381</u>	<u>-</u>
(b) Lease liability		
Current liability	334	-
Non-current liability	1,098	-
	<u>1,432</u>	<u>-</u>
(c) Maturity analysis - contractual undiscounted cash flows		
Less than one year	457	-
One to five years	1,242	-
More than five years	-	-
Total undiscounted liabilities	<u>1,699</u>	<u>-</u>

The lease relates to a property lease which was entered into during 2019.

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2019

14. Property, plant and equipment

	Land and buildings	Plant, equipment and furniture	Motor vehicles	Computer	Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cost/valuation</i>						
Balance at 1 January 2018	140,972	26,022	2,098	10,520	6,098	185,710
Acquisitions	-	362	558	2,635	1,480	5,035
Transfers	11,804	-	-	(4,315)	-	7,489
Revaluation	10,977	-	-	-	3,981	14,958
Adjustments	-	7	-	41	-	48
Disposals	-	-	(389)	-	-	(389)
Balance at 31 December 2018	163,753	26,391	2,267	8,881	11,559	212,851
Acquisitions	1,163	581	599	1,082	9,549	12,974
Transfers	10,394	-	-	-	(8,070)	2,324
Disposals	(12,083)	(121)	(1,258)	(393)	(12)	(13,867)
Balance at 31 December 2019	163,227	26,851	1,608	9,570	13,026	214,282
<i>Accumulated depreciation</i>						
Balance at 1 January 2018	5,956	21,343	1,126	8,345	-	36,770
Depreciation charge for the year	3,204	780	384	1,258	-	5,626
Disposals	-	-	(203)	-	-	(203)
Transfers	-	-	-	(3,609)	-	(3,609)
Balance at 31 December 2018	9,160	22,123	1,307	5,994	-	38,584
Depreciation charge for the year	3,740	696	408	1,626	-	6,470
Disposals	(9,460)	(136)	(1,093)	(356)	-	(11,045)
Balance at 31 December 2019	3,440	22,683	622	7,264	-	34,009
<i>Carrying amount</i>						
At 1 January 2018	135,016	4,679	972	2,175	6,098	148,940
At 31 December 2018	154,593	4,268	960	2,887	11,559	174,267
At 31 December 2019	159,787	4,168	986	2,306	13,026	180,273

Central Bank of Solomon Islands
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For the year ended 31 December 2019

	2019 \$'000	2018 \$'000
15. Demand deposits		
(a) Foreign currency demand deposits		
Demand deposits	155,724	145,907
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.		
(b) Local currency demand deposits		
Commercial banks	1,942,336	2,171,897
Solomon Islands Government	654,887	861,346
Other financial corporations	5,881	5,405
	<u>2,603,104</u>	<u>3,038,648</u>
16. Currency in circulation		
Notes	922,761	915,320
Coins	32,524	31,847
	<u>955,285</u>	<u>947,167</u>
17. Fixed deposits		
Bokolo bills	761,457	761,673
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.		
18. SIG monetary operations account		
SIG monetary operations account	87,888	60,242
19. Employee entitlements		
Gratuity	2,275	2,283
Long service leave	991	695
Early retirement benefit	19,714	18,417
	<u>22,980</u>	<u>21,395</u>
20. Other liabilities		
Unpresented bank cheques	7,258	3,975
Other liabilities including operating expenditure payable	4,570	2,606
	<u>11,828</u>	<u>6,581</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
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21. 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:

	2019 \$'000	2018 \$'000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating profit	93,904	83,615
Less - net unrealised foreign exchange gain	(48,946)	(2,680)
- changes in fair value in investment properties	-	(836)
Net gain recorded in capital asset reserve/ general reserve	<u>44,958</u>	<u>80,099</u>

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

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

22. Cash and cash equivalents

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

	2019 \$'000	2018 \$'000
Cash on hand – local currency	205	599
Cash at bank – foreign currency	280,703	768,673
Short term deposits with maturities up to 3 months	124,719	186,328
Total amortised costs	405,627	955,600
Allowance for impairment losses	(30)	-
	<u>405,597</u>	<u>955,600</u>

23. 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.

	2019 \$'000	2018 \$'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	<u>50,000</u>	<u>50,000</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
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24. Reserves

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

(a) General reserve

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

(b) Foreign exchange asset revaluation reserve

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

(c) Asset revaluation reserve

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

(d) Gold revaluation reserve

The unallocated and allocated gold is valued at current quoted market prices. Gold is accounted for as at fair value through other comprehensive income. Unrealised gains and losses arising from revaluation are recognised in the other comprehensive income and are transferred to the gold revaluation reserve at end of the accounting period.

(e) Capital asset reserve

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

25. Financial risk and management policies

(a) Introduction and review

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

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

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

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

Risk management framework

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

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.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(a) Introduction and review (continued)

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*).

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(b) Liquidity risk (continued)

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

Maturity analysis as at 31 December 2019	On Demand S'000	0-3 Months S'000	3-6 Months S'000	6-12 Months S'000	Over year S'000	Undefined S'000	Total S'000
Foreign currency financial assets							
Money on demand	280,703	124,719	-	-	-	-	405,422
Accrued interest	-	-	26,634	-	-	-	26,634
Fixed term deposit	-	-	908,277	1,366,571	1,194,913	-	3,469,761
Holding on special drawing rights	-	-	-	-	-	12,954	12,954
Reserve tranche	-	-	-	-	-	35,499	35,499
Subscription	-	-	-	-	-	198,895	198,895
Gold investment	-	-	-	-	-	300,110	300,110
Bonds	-	-	-	-	282,260	-	282,260
Short term commercial papers	-	-	199,692	-	-	-	199,692
	280,703	124,719	1,134,603	1,366,571	1,477,173	547,458	4,931,227
Local currency financial assets							
Cash on hand	205	-	-	-	-	-	205
Other assets	-	41,310	-	-	-	-	41,310
Loans and advances	-	-	-	-	18,039	-	18,039
	205	41,310	-	-	18,039	-	59,554
Total financial assets	280,908	166,029	1,134,603	1,366,571	1,495,212	547,458	4,990,781
Foreign currency financial liabilities							
Demand deposits	155,724	-	-	-	-	-	155,724
IMF special drawing rights allocation	-	-	-	-	-	112,326	112,326
IMF extended credit facility	-	-	-	-	-	10,760	10,760
Securities	-	-	-	-	-	195,201	195,201
Subscription	-	-	-	-	-	5,061	5,061
	155,724	-	-	-	-	323,348	479,072
Local currency financial liabilities							
Demand deposits	2,603,104	-	-	-	-	-	2,603,104
Currency in circulation	-	-	-	-	-	955,285	955,285
SIG monetary operations account	-	87,888	-	-	-	-	87,888
Fixed deposits	-	749,692	11,765	-	-	-	761,457
Employee entitlements	-	-	-	-	22,980	-	22,980
Other liabilities	-	11,827	-	-	-	-	11,827
	2,603,104	849,407	11,765	-	22,980	955,285	4,442,541
Total financial liabilities	2,758,828	849,407	11,765	-	22,980	1,278,633	4,921,613
Net liquidity gap	(2,477,920)	(683,378)	1,122,838	1,366,571	1,472,232	(731,175)	69,168

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(b) Liquidity risk (continued)

Maturity analysis as at 31 December 2018	On Demand S'000	0-3 Months S'000	3-6 Months S'000	6-12 Months S'000	Over year S'000	Undefined S'000	Total S'000
Foreign currency financial assets							
Money on demand	768,713	-	-	-	-	-	768,713
Accrued Interest	-	-	26,784	-	-	-	26,784
Fixed term deposit	-	1,146,308	2,444,032	-	-	-	3,590,340
Holding on special drawing rights	-	-	-	-	-	13,467.00	13,467
Reserve tranche	-	-	-	-	-	35,567.00	35,567
Subscription	-	-	-	-	-	199,276.00	199,276
Gold investment	-	-	-	-	-	251,538	251,538
Bonds	-	-	-	-	156,493	-	156,493
Short terms	-	187,848	-	-	-	-	187,848
	768,713	1,334,156	2,470,816	-	156,493	499,848	5,230,026
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	769,312	1,361,372	2,470,816	-	170,350	499,848	5,271,698
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
Subscription	-	-	-	-	-	5,061	5,061
	145,908	-	-	-	-	355,488	501,395
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 entitlements	-	-	-	-	18,271	-	18,271
Other liabilities	-	-	-	-	-	-	-
	3,038,648	60,242	-	-	18,271	947,167	4,064,328
Total financial liabilities	3,184,555	60,242	-	-	18,271	1,302,655	4,565,723
Net liquidity gap	(2,415,243)	1,301,130	2,470,816	-	152,079	(802,807)	705,975

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
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25. 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 (S&P), 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:

	2019	2018
	\$'000	\$'000
Foreign currency assets		
Cash at bank	280,703	768,673
Fixed income securities	4,076,462	3,934,381
International Monetary Fund	247,348	248,309
Gold	300,110	251,538
	<u>4,904,623</u>	<u>5,203,201</u>
Local currency assets		
Loans and advances	18,039	13,857
	<u>4,922,662</u>	<u>5,217,058</u>

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

Concentration of financial assets by credit rating	2019	2018
	%	%
AAA	30	21
AA+ - AA-	35	37
A+ - A-	7	21
BBB+ - BBB-	13	21
BB+ - BB-	8	-
B+ - B-	-	-
N/R	7	-
	<u>100</u>	<u>100</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(c) Credit risk (continued)

Cash and cash equivalents

The Bank held cash at banks in foreign currencies of \$280.7 million at 31 December 2019 (2018: \$768.7 million). The cash is held with banks, which are rated BBB to AAA, based on S&P 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 2019. The amount of the allowance did not change during 2019.

Debt investment securities

The Bank held debt investment securities of \$609 million at 31 December 2019 (2018: \$3,934.7 million). 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 B- to AAA, based on S&P 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.

Loans and advances

The Bank adopts a similar approach to that adopted for debt securities to its consideration of ECLs for its loans and advances. Those loans not individually assessed for expected credit losses have PD rates assigned using S&P rates appropriate to the rating of the organisation, or a proxy for that rating if that organisation is not specifically rated.

IMF balances

The Bank did not recognize an impairment allowance against IMF balances during the year as the balances held with IMF are at a net liability position.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(c) Credit risk (continued)

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

	2019		2018	
Concentration by currency	\$'000	%	\$'000	%
USD	3,091,180	63	3,303,211	63
AUD	1,070,651	22	1,192,210	23
EUR	22,720	-	11,816	-
SDR	247,348	5	239,027	5
NZD	247,205	5	245,775	5
SGD	89,003	2	86,509	2
GBP	135,940	3	136,770	2
SBD	18,039	-	13,857	-
JPY	4	-	3	-
CNY	572	-	585	-
Total financial assets	4,922,662	100	5,217,058	100

Credit quality	Gross \$'000	Impairment \$'000	Net \$'000
31 December 2019			
<i>Foreign currency assets</i>			
Central banks	580,813	30	580,783
Commercial banks	4,076,462	719	4,075,743
International Monetary Fund	247,348	-	247,348
	4,904,623	749	4,903,874
<i>Local currency assets</i>			
Solomon Islands Government loan and advances	5,824	40	5,784
Staff loan and advances	12,215	495	11,720
	18,039	535	17,504
	4,922,622	1,284	4,921,378

	2019		2018	
Concentration by sector	\$'000	%	\$'000	%
<i>Foreign currency assets</i>				
Central banks	580,813	8	1,019,638	16
Commercial banks	4,076,462	87	3,935,254	78
International Monetary Fund	247,348	5	248,309	5
	4,904,623	100	5,203,201	100
<i>Local currency assets</i>				
Solomon Islands Government loan and advances	5,824	33	5,078	40
Staff loan and advances	12,215	67	8,779	60
	18,039	100	13,857	100
Gross assets subject to impairment consideration	4,922,622		5,217,058	

Central Bank of Solomon Islands
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25. Financial risk and management policies (continued)

(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	
	2019	2018
	\$'000	\$'000
Fixed rate instruments		
Cash and cash equivalents (Financial assets)	405,392	768,673
Fixed income securities (Financial assets)	3,951,024	3,934,082
Loans and advances (Financial assets)	17,504	13,856
Demand deposits (Financial liabilities)	(161,605)	(151,416)
Fixed deposits (Financial liabilities)	(761,457)	(761,673)
Lease liabilities	(1,432)	-
	3,449,426	3,803,522
Variable rate instruments		
International Monetary Fund (Financial assets)	247,348	248,309
International Monetary Fund (Financial liabilities)	(323,348)	(355,488)
	(76,000)	(107,179)

Fair value sensitivity analysis for fixed instruments

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(d) Market risk (continued)

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 2019	\$'000	\$'000
Variable rate instruments	3,594	(3,685)
31 December 2018		
Variable rate instruments	1,810	(1,810)

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.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(d) Market risk (continued)

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

Foreign currency risk as at 31 December 2019

Foreign Currency Financial Assets	AUD (SBD) (000's)	NZD (SBD) (000's)	USD (SBD) (000's)	EUR (SBD) (000's)	GBP (SBD) (000's)	SGD (SBD) (000's)	CNY (000's) (SBD)	JPY (000's) (SBD)	OTHERS (SBD) (000's)	Total (SBD) (000's)
Money at call	64,588	-	316,769	22,720	769	-	572	4	-	405,422
Accrued interest	3,633	1,686	20,461	-	490	364	-	-	-	26,634
Fixed term deposits	524,051	247,246	2,474,301	-	135,171	88,992	-	-	-	3,469,761
Holding of special drawing rights	-	-	-	-	-	-	-	-	12,954	12,954
Reserve Tranche	-	-	-	-	-	-	-	-	35,499	35,499
Subscription	-	-	-	-	-	-	-	-	198,895	198,895
Gold investment	-	-	300,110	-	-	-	-	-	-	300,110
Bonds	282,260	-	-	-	-	-	-	-	-	282,260
Short term commercial papers	199,692	-	-	-	-	-	-	-	-	199,692
Total	1,074,224	248,932	3,111,641	22,720	136,430	89,356	572	4	247,348	4,931,227
Foreign Currency Financial Liabilities										
Demand deposits	155,724	-	-	-	-	-	-	-	-	155,724
IMF special drawings rights allocation	-	-	-	-	-	-	-	-	112,326	112,326
IMF extended credit facility	-	-	-	-	-	-	-	-	10,760	10,760
IMF securities	-	-	-	-	-	-	-	-	195,201	195,201
Capital subscription	-	-	-	-	-	-	-	-	5,061	5,061
Total	155,724	-	-	-	-	-	-	-	323,348	479,072
Net foreign currency asset	918,500	248,932	3,111,641	22,720	136,430	89,356	572	4	(76,000)	4,452,155

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2019

25. Financial risk and management policies (continued)

(d) Market risk (continued)

Foreign currency risk as at 31 December 2018

Foreign Currency Financial Assets	AUD (SBD) (000's)	NZD (SBD) (000's)	USD (SBD) (000's)	EUR (SBD) (000's)	GBP (SBD) (000's)	SGD (SBD) (000's)	CNY (SBD) (000's)	JPY (SBD) (000's)	OTHERS (SBD) (000's)	Total (SBD) (000's)
Money at call	102,848	-	624,371	15,030	25,886	-	573	4	-	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	573	4	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	573	4	107,178	4,728,590

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25. Financial risk and management policies (continued)

(d) Market risk (continued)

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:

	2019		2018	
	\$'000	%	\$'000	%
USD	2,791,071	64	2,603,280	58
AUD	1,070,651	25	1,153,529	24
EUR	22,720	0	61,197	3
NZD	247,204	6	240,398	6
SGD	89,004	2	143,777	4
STG	135,941	3	186,166	5
JPY	4	-	4	-
CNY	572	-	2,847	-
	<u>4,357,167</u>	<u>100</u>	<u>4,391,198</u>	<u>100</u>

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

	2019	2018
AUD	0.1745	0.1745
USD	0.1220	0.1230
NZD	0.1815	0.1832
STG	0.0931	0.0971
EUR	0.1089	0.1077
JPY	13.3050	13.6100
SGD	0.1646	0.1684
SDR	0.0882	0.0886
CNY	0.8527	0.8452

Sensitivity to foreign exchange rate risk

Impact of a:	2019 \$M	2018 \$M
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(80)	(121)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	83	60

Other pricing risk

The Bank holds gold which is subject to market pricing risk. At 31 December 2019, gold was revalued at USD/oz 1,523 (2018: 1,282).

25. Financial risk and management policies (continued)

(e) Operational risk management

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

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

Operating loss is the risk of loss from breakdown of internal controls. 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.

26. 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.

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26. Fair value of financial assets and liabilities (continued)

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

31 December 2019	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Gold	6	300,110			300,110

31 December 2018	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Gold	6	251,538			251,538

27. Related parties

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

The Board of Directors during the year were:

Luke Forau (Chairman and Governor)	(Appointed 1/10/2019)
Denton Rarawa (Former Chairman and Governor)	(Resigned 30/09/2019)
Thomas Ko Chan	(Resigned 24/06/2019)
Raynold Moveni (Deputy Governor)	(Appointed 30/01/2020)
Christina Lasaga	
David Dennis	
David K C Quan	
Dennis Meone	
McKinnie P. Dentana	
Rodney Rutepitu	
Sonia Marahare (Board Secretary)	

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.

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27. Related parties (continued)

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

Luke Forau	Governor
Denton Rarawa	Former Governor
Jimmy Sendersley	Director SIFIU
Michael Kikiolo	Management Advisor Policy
Marlon Houkarawa	Management Advisor Operations
Sonia Marahare	Board Secretary/ Legal Advisor
Ali Homelo	Chief Manager International
Daniel Haridi	Chief Manager Currency and Banking Operations
Donald Kiriau	Chief Manager Economics Research and Statistics
John Bosco	Chief Manager Human Resource 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:

	2019	2018
	\$'000	\$'000
Short-term employee benefits	3,293	1,484
Long-term benefits	688	1,997
	<u>3,981</u>	<u>3,481</u>

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 2019 loans by the Bank to key management personnel are as follows:

	2019	2018
	\$'000	\$'000
Housing loan	1,553	1,100
Personal loan	178	26
Management car loan	386	65
	<u>2,117</u>	<u>1,191</u>

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 (2018: \$nil) of interest income relating to their investments in Government securities. The Bank also made no payment to the Government in accordance with Section 34 of the Central Bank of Solomon Islands Act., 2012 during the financial year (2018: \$nil). The balance of the Bank's investment in Government securities at year end amounted to \$5.7m (2018: \$5.0m).

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28. Commitments and contingent liabilities

The Bank has guaranteed staff housing loans with the commercial banks to the sum of \$0.79m as at 31 December 2019 (2018: \$0.79m). The guarantee scheme was no longer available to staff since 2011 and is valid for eligible staff until the date of cessation of employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided \$10m for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2019, a total of 9 (2018: 3) loans with a net guarantee of \$1.31m (2018: \$0.576m) have been administered under the scheme.

The Bank has commenced a project to construct a building adjacent to its present property. There are no capital commitments at 31 December 2019 in relation to this project.

29. Events subsequent to balance date

The coronavirus disease (COVID-19) outbreak has developed rapidly in 2020, bringing a significant health impact globally. Measures taken to contain the virus are already having a significant impact on global markets and economic activity and Solomon Islands is also feeling the impact with business disruption and levels of activity already reducing in several market sectors. The spread and considerable disruption of this epidemic will be exacerbated by the increasingly intertwined trade and investment relationships between China and its neighbours in the Asia Pacific region.

There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come subsequently from the disruption caused. The Bank is exposed to the possibility of incurring losses arising from changes in the fair value of financial assets, credit loss impairment, cash inflows from operations and net interest income of the Bank.

Directors and management are carefully considering the impact of the COVID-19 outbreak on the Bank and assessing future operational options. The financial impacts, however, cannot be reasonably estimated at this time, as they will be largely the product of matters the Bank cannot control.

Directors and management believe the Bank has sufficient financial resources at this time to be able to successfully manage its business risks despite the current uncertain economic outlook due to the COVID-19 outbreak. They have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Subsequent to year end, the Bank has received debt repayment relief from IMF for a period of six months with the potential for that to be extended by a further six months if required.

Apart from the matters specifically referred to above, 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.