

CENTRAL BANK OF THE SOLOMON ISLANDS

**ANNUAL STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2011**



Independent Auditor's Report

To the Board of the Central Bank of the Solomon Islands

Scope

I have audited the accompanying financial report of Central Bank of the Solomon Islands (the Bank), which comprises the Statement of Comprehensive Income, the Statement of Transfers to the Government, the Statement of Changes in Equity and the Statement of Cash Flows for the period ended 31 December 2011 and the Statement of Financial Position as at 31 December 2011, as well as a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Report

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

Auditor's Responsibility

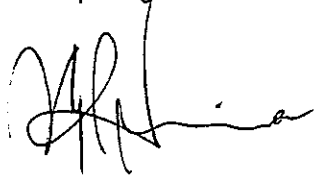
My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether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

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

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

Audit Opinion

In my opinion, the report of Central Bank of the Solomon Islands (the Bank), presents fairly in all material respects of the Bank's financial position as at 31 December 2011 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Mr. Edward Jacob Ronia
Auditor-General

Office of the Auditor-General
Solomon Islands

23 April 2012

TABLE OF CONTENTS

1.	Report of the Auditor-General	2-3
2.	Statement of Comprehensive Income	4
3.	Statement of Transfers to Solomon Islands Government	5
4.	Statement of Financial Position	6
5.	Statement of Changes in Equity	7
6.	Statement of Cash Flows	8
7.	Notes to and forming part of the financial statements	9-31

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
Operating revenue			
Interest income	20(a)	52,171	26,736
Fees and commissions	20(b)	14,021	12,085
Royalties		831	464
Other income	20(c)	1,268	4,750
Net Gain on Foreign Currency Exchange		2,256	368
Net unrealized foreign exchange revaluation gain		-	47,723
Total revenue		<u>70,547</u>	<u>92,126</u>
Operating expenses			
Interest expense	20(d)	3,026	2,068
Fees and commissions	20(e)	224	117
Administrative expenses	20(f)	27,511	22,243
Other operating Expenses	20(g)	18,815	10,160
Net unrealized foreign exchange revaluation loss		245,344	-
Total expense		<u>294,920</u>	<u>34,588</u>
Net operating profit/(loss)		<u>(224,373)</u>	<u>57,538</u>
 NET PROFIT DISTRIBUTION ACCORDING TO CBSI ACT			
Net operating profit/(loss) in terms of IFRS		(224,373)	57,538
Add (IFRS required items not included in CBSI Law): Net unrealized loss/(gain) on foreign exchange Revaluation		245,344	(47,723)
Net operating profit according to CBSI Act		<u>20,971</u>	<u>9,816</u>
Net Profit Transferred to General Reserve according to section 20(1) of CBSI Act (CAP 49)		10,486	4,908
Transfer to Other Reserves according to section 20(2) of the CBSI Act (CAP 49)		5,243	2,454
Due to Solomon Islands Government, section 20 (2) of the CBSI Act (CAP 49)		<u>5,243</u>	<u>2,454</u>

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

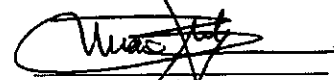
**STATEMENT OF TRANSFERS TO GOVERNMENT OF SOLOMON ISLANDS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
Appropriation of profits according to Section 20 (2) of the CBSI Act (CAP 49)		<u>5,243</u>	<u>2,454</u>
Total transfer to Solomon Islands Government		<u>5,243</u>	<u>2,454</u>

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
ASSETS			
Foreign Currency Assets			
Money at call	4	954,458	661,371
Accrued Interest		9,922	5,452
Term Deposits	4	1,958,415	1,355,164
Holding of Special Drawing Rights	5	104,741	114,481
		<u>3,027,536</u>	<u>2,136,468</u>
Local Currency Assets			
Cash on Hand		98	155
Loans and Advances	7	107,828	120,800
Property, Plant and Equipment	8	98,881	76,760
Other Assets	9	47,552	47,452
		<u>254,359</u>	<u>245,167</u>
Total Assets		<u>3,281,895</u>	<u>2,381,635</u>
LIABILITIES			
Foreign Currency Liabilities			
Demand Deposits	10	11,332	62,328
IMF Standby Credit Facility	11	141,942	76,181
IMF Special Drawing Rights Allocations	5	112,110	122,506
Capital Subscriptions	5	919	917
		<u>266,303</u>	<u>261,932</u>
Local Currency Liabilities			
Demand Deposits	12	1,487,513	964,833
Currency in Circulation	13	527,702	436,570
SIG Monetary Operations Account	14	37,547	37,953
Fixed Deposits	15	797,146	292,218
Provision for transfer to SIG Consolidated Fund		5,243	2,454
Other Liabilities	16	19,430	15,048
		<u>2,874,582</u>	<u>1,749,076</u>
Total Liabilities		<u>3,140,885</u>	<u>2,011,008</u>
NET ASSETS		<u>141,010</u>	<u>370,627</u>
EQUITY			
Capital and Reserves			
Authorized Capital		<u>50,000</u>	<u>50,000</u>
Paid up Capital		<u>20,000</u>	<u>20,000</u>
General Reserve	17	58,707	48,222
Foreign Exchange Revaluation Reserve	18(a)	(51,002)	194,343
Premises and Equipment Assets Revaluation Reserve	18(c)	51,428	51,428
Capital Asset Reserve	19	<u>61,877</u>	<u>56,634</u>
TOTAL CAPITAL AND RESERVES		<u>141,010</u>	<u>370,627</u>


Denton. H. Rarawa
Governor

Emmanuel Gela
Chief Manager
Finance and AccountsSigned in Honiara on 20th April 2012.

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 9 to 31.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Issued & Paid up Capital	General Reserve	Foreign Exchange Assets Revaluation Reserve	Premises & Equipment Asset Revaluation Reserve	Capital Assets Reserve	Total
	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)
2010						
At 1 January 2010	20,000	43,312	146,620	51,428	54,180	315,540
Transfer of net operating profit/(loss) according to Section 20(1) and 20(2) of CBSI Act CAP(49)	-	4,908	-	-	2,454	7,362
Transfer of Foreign Exchange Revaluation Gains/(Losses) for the year according to CAP(49) section 45 (1) of CBSI Act	-	-	47,723	-	-	47,723
At 31 December 2010	20,000	48,221	194,343	51,428	56,634	370,625
2011						
At 1 January 2011	20,000	48,221	194,343	51,428	56,634	370,625
Transfer of net operating profit/(loss) according to Section 20(1) and 20(2) of CBSI Act CAP(49)	-	10,486	-	-	5,243	15,729
Transfer of Foreign Exchange Revaluation Gains/(losses) for the year according to CAP(49) section 45 (1) of CBSI Act	-	-	(245,344)	-	-	(245,344)
At 31 December 2011	20,000	58,707	(51,002)	51,428	61,877	141,010

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 (SBD 000's)	2010 (SBD 000's)
Cash flows from operating activities			
Interest received		52,171	26,736
Cash received from other income		18,448	17,888
Interest paid		(3,026)	(2,068)
Cash payments in course of operations		<u>(36,175)</u>	<u>(42,135)</u>
Net cash provided by operating activities before movement in operating assets and liabilities		31,418	421
Cash received in placement of deposits		1,027,606	674,621
Increase on IMF Allocation of SDR		(10,396)	(2,599)
Decrease in government finance provided		<u>12,976</u>	<u>5,946</u>
Net cash provided by operating activities	6	1,061,604	678,389
Cash flows from investment activities			
Payments for Premises, plant and equipment		(28,446)	(16,298)
Proceeds from sale of Premises, plant and equipment		159	2,280
Increase in foreign investments		<u>(1,136,412)</u>	<u>(918,546)</u>
Net cash used in investment activities		(1,164,699)	(932,564)
Cash flows from financing activities			
Net movement in issue of circulating currency		91,131	110,125
Net movement in foreign currency loan		14,767	135,289
Solomon Islands Government Monetary Operations		(406)	8,535
Dividend paid		<u>(2,454)</u>	<u>-</u>
Net cash provided by financing activities		103,038	253,949
Net decrease in cash held		(57)	(226)
Cash at the beginning of the financial year		<u>155</u>	<u>381</u>
Cash at the end of the financial year		<u>98</u>	<u>155</u>

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 9 to 31.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

1 THE LEGAL FRAMEWORK

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

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

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

The Board is also aware, in terms of current best Central Bank practice, and International Financial Reporting Standards (IFRS), that the CBSI Act is somewhat outdated. Accordingly, as from 2006 financial year, pending any update of the Central Bank Act, the Board has decided to publish a profit and loss statement with the annual accounts, which shows net profit determined in terms of IFRS. A reconciliation statement then adjusts this net income figure to accord with CBSI Act profit distribution requirements. The latter remain the basis for determination of net profits, and their distribution, in terms of Section 19 and 20 of the CBSI Act.

2 BASIS AND FORMAT OF PRESENTATION

(a) Basis of preparation

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

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

This has been possible with the accounts full compliance to IFRS since 2006. The CBSI does not hold foreign currency denominated securities, and there is no defined market for domestic Government securities.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2 BASIS AND FORMAT OF PRESENTATION (CONT'D)

(b) Comparatives

All necessary information has been classified and presented to achieve consistency in disclosure with current financial year amounts and other disclosures.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Revenue recognition and Income presentation

Operating revenue

Operating revenue is generally recognized on an accrual basis and includes interest income, fees and commissions, and profit on foreign exchange dealing with commercial banks and sundry income.

Income presentation

As Discussed in Note 1, the Legal Framework, the Profit and Loss Statement continue to include income calculated on the basis of IFRS until such time the CBSI Law is amended. As an additional disclosure, CBSI presents net income restated in terms of the CBSI Act, which continues to be the basis for Central Bank profit distribution.

(b) Foreign currency assets and liabilities

Foreign currencies

Transactions in foreign currencies are converted to Solomon Islands dollars at the rates of exchange prevailing on transaction dates. Year-end assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at the year-end.

All unrealized gains and losses, arising from the conversion of foreign currencies are taken to the Foreign Exchange Asset Revaluation Reserve Account in accordance with the provisions of Section 45 of the CBSI Act (CAP 49). These amounts are not included in the computation of the annual profits or losses of the Bank, calculated in terms of the CBSI Act.

Net losses arising from the conversion of foreign currencies and net adverse changes in the fair value of securities are set off against any credit balance in the Foreign Exchange Asset Revaluation Reserve Account, on the basis set out in the previous paragraph. If the balance of this account is insufficient to cover such losses, they are set off against any net profit remaining after the transfer to the General Reserve Account has been made in terms of Section 20 of the CBSI Act (CAP 49). If these transfers are not adequate to cover such losses, the Government is required to transfer to the ownership of the Bank non-negotiable non-interest bearing securities to the extent of the deficiency in terms of Section 44 of the CBSI Act.

Any credit balance in the Foreign Exchange Asset Revaluation Reserve Account at the end of each year is applied first to the redemption of any non-negotiable non-interest bearing securities previously transferred to the Bank by the Government to cover losses, in terms of Section 45 (3) of the CBSI Act.

As at 31 December 2011, there was a net revaluation loss of \$245.344 million (2010: \$47.723million).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

(c) Impairment of other tangible and intangible assets

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

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

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

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

(d) Foreign currency assets and liabilities

Treasury notes, bonds and bills

At present CBSI only holds foreign currency denominated interest bearing fixed bank deposits. If held in the future, Treasury notes, bonds and bills denominated in foreign currencies would be valued at fair value ('market value'). In terms of IAS 39, as a Central Bank, the CBSI would classify such portfolios within the residual "fair value option" through profit and loss category. Central banks do not actively trade in such securities for profit maximization purposes; activity reflects monetary policy considerations.

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

(e) Coins sold as numismatic items

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

(f) Non-current assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR 31 DECEMBER 2011

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

(g) Property, plant and equipment

Acquisitions

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation, and any recoverable amount.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Disposal of assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the result in the year of disposal.

Depreciation

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:

- Central Bank buildings - 4 - 55 years
- Computers - 3 - years
- Furniture, Plant and Equipment - 3 - 5 years
- Motor vehicles - 4 - years

Assets are depreciated from the date of acquisition. Expenditure on repairs or maintenance of property, plant and equipment incurred which does not add to future economic benefits expected from the assets is recognised as an expense when incurred.

Periodic revaluations

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded at values approximating recoverable market values. With Board approval, a three year periodical revaluation of its land and buildings was due and done in late 2009. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to be realized if put for sale on private treaty. The Board proposes to have such assets revaluation every three years. The next revaluation will be done in 2012.

(h) Notes and coins

The printing and minting production cost of Solomon Islands notes and coins, plus all other related costs are expensed as and when it is incurred.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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

(i) Income Tax

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

(j) Employee entitlements

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

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

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

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

(k) Solomon Islands Pension /Provident Fund

The Bank and its employees make contributions to the Solomon Islands National Provident Fund (Fund). The Bank had contributed to the Fund on behalf of its staff at the rate of 7.5% per cent of salaries and other staff entitlements/incomes. This amounts to \$0.69 million (2010; \$0.57 million) in this financial year. CBSI staff in respect of income received, also contributed \$0.49 million (2010; \$0.43 million) to the Fund at the range of 5% to 7.5%. The legal minimum employee's contribution rate is 5%.

(l) Cash and cash equivalents

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

(m) Solomon Islands Government bonds

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

(n) Allowance for Bad and Doubtful Debts

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

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

4. EXTERNAL ASSETS

Section 30 of the CBSI Act requires the Bank to maintain a reserve of external assets, and lists the various ranges of assets which can be held. For a central bank, such assets would include all internationally recognised reserve assets. In these financial statements, external assets also include fully convertible foreign currency balances.

5. INTERNATIONAL MONETARY FUND

(a) 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 the Solomon Island's fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Island dollars.

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

- (i) payment to the IMF out of Central Bank external assets which have been reimbursed by the Government of the 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 the Solomon Islands.

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

6. RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand at Bank (till money).

	2011 (SBD 000's)	2010 (SBD 000's)
Operating profit/(loss)	20,971	9,815
<i>Non-cash items:</i>		
Depreciation	6,095	5,347
<i>Net (increase)/decrease in:</i>		
Other receivables	12,947	(10,548)
Accrued expenses	<u>1,021,591</u>	<u>673,773</u>
Net cash provided by operating activities	<u>1,061,604</u>	<u>678,389</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

7. LOANS AND ADVANCES	2011	2010
	(SBD 000's)	(SBD 000's)
a) Loans and Advances to Solomon Islands Government		
Loans and advances	10,240	14,710
Development bonds	27	27
Treasury bills	20	-
Other securities	4,940	4,940
Amortizing bonds	<u>88,029</u>	<u>97,745</u>
Total Loans and Advances to Solomon Islands Government	<u>103,256</u>	<u>117,422</u>
b) Staff Loans		
Staff housing loans	3,532	2,437
Management car loans	212	211
Personal loans	<u>828</u>	<u>730</u>
Total Staff Loans	<u>4,572</u>	<u>3,378</u>
Total Loans and Advances	<u>107,828</u>	<u>120,800</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

8. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Land & buildings	Equipment & furniture	Computer	Work in progress	Total
	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)
At 31 December 2010					
Cost	54,629	20,974	2,208	12,719	90,530
Accumulated depreciation	(1,603)	(10,339)	(1,828)	-	(13,770)
Net book amount	53,026	10,635	380	12,719	76,760
Year ended December 2010					
Opening net book amount	57,129	9,611	1,019	550	68,309
Additions	291	4,190	755	12,169	17,405
Disposals	(2,500)	81	(1,026)	-	(3,607)
Depreciation charge	(1,894)	(3,085)	(368)	-	(5,347)
Closing net book amount	53,026	10,635	380	12,719	76,760
At 31 December 2011					
Cost	54,629	21,854	4,609	37,653	118,745
Accumulated depreciation	(3,110)	(14,148)	(2,606)	-	(19,864)
Net book amount	51,519	7,706	2,003	37,653	98,881
Year ended December 2011					
Opening net book amount	53,026	10,635	380	12,719	76,760
Additions	-	1,100	2412	24,934	28,445
Disposals	-	(220)	(10)	-	(230)
Depreciation charge	(1,507)	(3,809)	(779)	-	(6,095)
Closing net book amount	51,519	7,706	2,003	37,653	98,881

The land and building is stated at its revalued amount that was determined in 2009. Similar valuation on Land & Buildings will occur again in 2012 in compliance with IAS 16. The periodical (3 year period) valuation of Land & Buildings was approved by the Board of Directors on the 7th of September 2006.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011 (SBD 000's)	2010 (SBD 000's)
9. OTHER LOCAL CURRENCY ASSETS		
Sundry debtors & other cheques held	46,543	46,448
Advances and prepayments	1,009	1,004
Less allowance for doubtful debts	<u>-</u>	<u>-</u>
	<u>47,552</u>	<u>47,452</u>
10. FOREIGN CURRENCY DEMAND DEPOSITS		
Demand Deposits	<u>11,332</u>	<u>62,328</u>
Demand deposit of international organizations such as the Asian development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.		
11. IMF STANDBY CREDIT FACILITY		
IMF Standby credit facility	<u>141,942</u>	<u>76,181</u>
A Standby Credit Facility with IMF concluded in 2010 to assist in the promotion of fiscal and other reforms, reduce destabilizing imbalances and close financing gaps, including soliciting additional donor support. The country has so far two drawn downs (first in June and the second in November), totaling to the disclosed amount at year end.		
12. LOCAL CURRENCY DEMAND DEPOSITS		
Commercial banks	1,125,909	822,373
Solomon Islands Government	332,868	142,009
Financial Corporations	28,362	367
Other	374	84
	<u>1,487,513</u>	<u>964,833</u>
13. CURRENCY IN CIRCULATION		
Notes	515,271	425,302
Coins	12,431	11,268
	<u>527,702</u>	<u>436,570</u>
14. SIG MONETARY OPERATIONS ACCOUNT		
SIG Securities	<u>37,547</u>	<u>37,953</u>
15. FIXED DEPOSITS		
(a) Solomon Islands Government (SIG)	555,833	235,433
This deposit represents funds received by SIG under the Stabex scheme of the European Community, Asian Development Bank, Republic of China, Australia, New Zealand and Papua New Guinea Government. The SIG draws on these deposits as and when it is ready to use the funds in a manner approved by the funding agencies.		
(b) Central Bank of Solomon Islands (CBSI) Securities	<u>241,313</u>	<u>56,785</u>
	<u>797,146</u>	<u>292,218</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

16. OTHER LOCAL CURRENCY LIABILITIES

	2011 (SBD 000's)	2010 (SBD 000's)
Unpresented bank cheques	6,495	4,473
Provision for employee entitlements	6,736	5,648
Other liabilities	6,199	4,927
	19,430	15,048

17. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

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

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

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

18. REVALUATION RESERVE ACCOUNTS**(a) Foreign Exchange Revaluation Reserve**

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

18. REVALUATION RESERVE ACCOUNTS (CONT'D)

(a) Foreign Exchange Revaluation Reserve (Cont'd)

In addition, under Section 44, if at any time the total assets of the Central Bank shall be less than its total liabilities, notwithstanding any other provisions of this Act, the Government shall cause to be transferred to the Central Bank non-negotiable non-interest bearing securities issued by the Government to the extent of the deficiency.

(b) Foreign Investment Revaluation Reserve

As discussed in Note 3 (b) the CBSI does not presently hold foreign currency denominated investments other than fixed term bank deposits. In addition, because of the very limited market for Solomon Islands Government securities, holdings of such assets are recorded at cost. Accordingly, there are currently no amounts to be recorded in such an asset revaluation reserve(s) covering foreign and domestic Central Bank investments.

Under Section 43 (2) of the CBSI Act, any valuation changes in the Central Bank's holdings of securities, together with any capital profit or loss resulting from sale or maturity of such assets shall represent an accrual to, or a charge against the General Reserve and shall not be deemed profit or loss for the purpose of calculating net profits under the CBSI Act.

Section 43 is not consistent with current IFRS, specifically IAS 39, which would require such valuation changes to be included in the profit and loss account.

(c) Property, Plant and Equipment Asset Revaluation Reserve

Following the first major revaluation of the Central Bank's land and premises assets in 2006, the CBSI has established an appropriate Premises and Equipment Assets Revaluation Reserve. (Refer also Notes 3(g)).

19. CAPITAL ASSET RESERVE

Other retained earnings reserves can be established under the CBSI Law (Section 20(2)) out of net profits, with the approval of the Minister. These reserves included, as at end 2005, a capital asset replacement reserve, small business finance scheme reserve, early retirements and gratuity reserve.

With the separate establishment of provision accounts in 2006 to meet IFRS requirements in relation to early retirement and gratuity payments, the Board has determined that the relevant reserve balances be transferred to the capital asset replacement reserve to strengthen the Central Bank's equity position in relation to future major capital investment in buildings and equipment.

	2011 (SBD 000's)	2010 (SBD 000's)
Capital Asset Reserve	<u>61,877</u>	<u>56,634</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011	2010
	(SBD 000's)	(SBD 000's)
20. INCOME AND EXPENSES		
(a) Interest income		
Interest received from foreign investments	49,644	24,061
Interest received from local investments	<u>2,527</u>	<u>2,675</u>
	<u>52,171</u>	<u>26,736</u>
(b) Fees and commissions received		
Fees and commissions – foreign dealings	13,708	11,765
Fees and commissions – local dealings	<u>313</u>	<u>320</u>
	<u>14,021</u>	<u>12,085</u>
(c) Other income		
Gain from disposal of fixed assets	72	(220)
Rent received	896	987
Sale of numismatic coins	191	3,543
Others	<u>109</u>	<u>440</u>
	<u>1,268</u>	<u>4,750</u>
(d) Interest expenses		
Interest expense on foreign liabilities	520	334
Interest expense on local liabilities	<u>2,506</u>	<u>1,734</u>
	<u>3,026</u>	<u>2,068</u>
(e) Fees and commissions paid	<u>224</u>	<u>117</u>
(f) Administration expenses		
Staff costs	17,794	13,934
Others	<u>9,717</u>	<u>8,309</u>
	<u>27,511</u>	<u>22,243</u>
(g) Other operating expenses		
Board of directors remunerations and expenses	186	161
Currency expenses	10,164	3,646
Depreciation	6,316	5,347
Auditors remuneration (Note 21)	413	408
Others	<u>1,736</u>	<u>598</u>
	<u>18,815</u>	<u>10,160</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

21. AUDITOR'S REMUNERATION

	2011 (SBD 000's)	2010 (SBD 000's)
Amounts received or due and receivable by the External Auditors of the bank for:		
- Auditing the financial statements	<u>413</u>	<u>408</u>
	<u>413</u>	<u>408</u>

22. RELATED PARTIES DISCLOSURES

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 CBSI Board and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. In 2010, this group comprises 12 in total (12 in 2009), including the two Governors, 5 non-executive CBSI Board of Directors and 5 Chief Managers. Fees of the non-executive members of the CBSI Board are determined by the Minister of Finance. The Governor and Deputy Governor contracts are subject to mid-term review by the Minister of Finance and annually in terms of CBSI policies. The CBSI Board of Directors determines the remuneration of the Chief Managers.

The remuneration of the CBSI's key management personnel was as follows:

Total remuneration is included in 'personnel expenses' as follows:

Short-term employee benefits	1,366	1,297
Post-employment benefits	-	-
Other long-term benefits	-	-
Total Compensation	<u>1,366</u>	<u>1,297</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.

Post-employment benefits include superannuation benefits and in the case of staff, health benefits. Other long-term benefits include long service leave. The components of remuneration are reported on an accrual basis.

As at 31 December 2011 loans by the Bank to key management personnel are as follows:

Housing loan	1,171	1,032
Personal loan	117	61
Management car loan	<u>212</u>	<u>60</u>
Total loans	<u>1,500</u>	<u>1,153</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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

23. EMPLOYEES

The number of full time permanent Central Bank employees as at 31st December 2011 was 100 (2010: 91)

24. CONTINGENT LIABILITIES

The Bank has guaranteed staff housing loans with the commercial banks to the sum of \$0.8 million as at 31 December 2011 (2010:\$0.8 million). The guarantee is valid until the date the staff ceases employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided \$10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2011 a total of 44 loans with a net guarantee of \$2.88million (2010: \$1.87 million) have been administered under the scheme.

25. FINANCIAL INSTRUMENTS

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

Operating loss is the risk of loss from breakdown of internal controls. The CBSI is in the process of establishing an internal audit function (either internally or outsourced) which will exercise monitoring and control over accounting policies and procedures, and the effective functioning of the system of internal controls at the CBSI. Operating risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operating risk.

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

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

Credit risk

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

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

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

Liquidity risk

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

The table below shows assets and liabilities at 31 December 2011 (and 2010 comparatives) grouped by remaining contractual maturity.

2011 Maturity Analysis

	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at call	-	-	-	-	954,458	954,458
Accrued Interest	-	9,922	-	-	-	9,922
Term Deposits	752,441	1,205,974	-	-	-	1,958,415
Holding of Special Drawing Rights	104,741	-	-	-	-	104,741
Total	857,182	1,215,896	-	-	954,458	3,027,536
Local Currency Assets						
Cash on Hand	98	-	-	-	-	98
Loans and Advances	-	-	10,240	97,587	-	107,828
Property, Plant and Equipment	-	-	-	98,881	-	98,881
Other Assets	-	-	46,543	-	1,009	47,552
Total	98	-	56,783	196,468	1,009	254,359
Total Assets	857,280	1,215,896	56,783	196,468	955,467	3,281,895
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	11,332	11,332
IMF Standby Credit Facility	-	-	-	-	141,942	141,942
IMF Special Drawing Rights Allocations	-	-	-	-	112,110	112,110
Capital Subscriptions	-	-	-	-	919	919
Total	-	-	-	-	266,303	266,303
Local Currency Liabilities						
Demand Deposits	-	-	-	-	1,487,513	1,487,513
Currency in Circulation	-	-	-	-	527,702	527,702
SIG Monetary Operations Account	12,602	24,945	-	-	-	37,547
Fixed Deposits	199,853	7,815	5,045	27,050	557,383	797,146
Provision for transfer to SIG Consolidated Fund	-	-	-	-	5,243	5,243
Other Liabilities	-	-	-	-	19,430	19,430
Total	212,455	32,760	5,045	27,050	2,597,271	2,874,582
Total Liabilities	212,455	32,760	5,045	27,050	2,863,574	3,140,885
Net Liquidity Gap	644,825	1,183,136	51,738	169,418	(1,908,107)	141,010

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2010 Maturity Analysis

	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at call	-	-	-	-	661,371	661,371
Accrued Interest	-	-	5,452	-	-	5,452
Term Deposits	-	1,355,164	-	-	-	1,355,164
Holding of Special Drawing Rights	114,481	-	-	-	-	114,481
Total	114,481	1,355,164	5,452	-	661,371	2,136,468
Local Currency Assets						
Cash on Hand	155	-	-	-	-	155
Loans and Advances	-	-	5,013	115,787	-	120,800
Property, Plant and Equipment	-	-	-	76,760	-	76,760
Other Assets	46,438	-	13	988	13	47,452
Total	46,493	-	5,026	193,535	13	245,167
Total Assets	161,074	1,355,164	10,478	193,535	661,384	2,381,635
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	62,328	-	-	-	-	62,328
IMF Standby Credit Facility	76,181	-	-	-	-	76,181
IMF Special Drawing Rights Allocations	-	-	-	-	122,506	122,506
Capital Subscriptions	-	-	-	-	917	917
Total	138,509	-	-	-	123,423	261,932
Local Currency Liabilities						
Demand Deposits	-	-	899,377	-	65,456	964,833
Currency in Circulation	-	-	-	-	436,570	436,570
SIG Monetary Operations Account	-	-	37,953	-	-	37,953
Fixed Deposits	1,390	7,010	33,630	56,785	193,403	292,218
Provision for transfer to SIG Consolidated Fund	-	-	-	-	-	2,454
Other Liabilities	-	2,454	-	-	-	-
	-	1,299	2,424	603	10,722	15,048
Total	1,390	10,763	973,384	57,388	706,151	1,749,076
Total Liabilities	139,899	10,763	973,384	57,388	829,574	2,011,008
Net Liquidity Gap	21,175	1,344,401	(962,906)	136,147	(168,190)	370,627

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****Interest rate risk**

The Bank's exposure to interest rate risk and the effective interest rates of financial assets and liabilities at the balance sheet date are as follows:

Financial assets:

Cash and current accounts	-	floating interest rates.
Short term deposits	-	fixed interest rates, maturing in 90 days or less.
Treasury notes and bonds	-	fixed interest rates, maturing in 9 years or less.
Solomon Islands Government bonds	-	fixed interest rates, maturing as detailed in note 3 (m)
Staff loans	-	fixed interest rates, maturing in 20 years or less.
Statutory bodies/banks	-	fixed interest rates, maturing in 30 days or less.
Solomon Islands Government	-	fixed interest rates, payable in 30 days or less
	-	Account No.1
	-	Redemption of bonds.

Financial liabilities:

Domestic Institutions	-	fixed interest rates, payable in 30 days or less.
-----------------------	---	---

All other financial assets or financial liabilities are non-interest bearing.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2011 Interest Rate Risk

	Fixed Coupon 0-1 (SBD 000's)	1-3 Months (SBD 000's)	3-12 Months (SBD 000's)	Over 1 Year (SBD 000's)	Non-Interest Bearing (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at call	77,163	877,295	-	-	-	954,458
Accrued Interest & Bill	-	-	-	-	9,922	9,922
Collectibles	-	-	-	-	-	-
Term Deposits	-	752,441	1,205,974	-	-	1,958,415
Holding of Special Drawing Rights	-	-	-	-	104,741	104,741
Total	77,163	1,629,736	1,205,974	-	114,663	3,027,536
Local Currency Assets						
Cash on Hand	-	-	-	-	98	98
Loans and Advances	-	-	-	107,828	-	107,828
Property, Plant and Equipment	-	-	-	-	98,881	98,881
Other Assets	-	-	-	-	47,552	47,552
Total	77,163	1,629,736	1,205,974	107,828	146,531	254,359
Total Assets	77,163	1,629,736	1,205,974	107,828	261,194	3,281,895
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	-	-	-	-	11,332	11,332
IMF Standby Credit Facility	-	-	-	-	141,942	141,942
IMF Special Drawing Rights Allocations	-	-	-	-	112,110	112,110
Capital Subscriptions	-	-	-	-	919	919
Total	-	-	-	-	266,303	266,303
Local Currency Liabilities						
Demand Deposits	-	272,388	-	-	1,215,125	1,487,513
Currency in Circulation	-	-	-	-	527,702	527,702
SIG Monetary Op/Account	-	12,602	24,945	-	-	37,547
Fixed Deposits	199,853	-	12,860	27,050	557,383	797,146
Provision for transfer to SIG Consolidated Fund	-	-	-	-	5,243	5,243
Other Liabilities	-	-	-	-	19,430	19,430
Total	199,853	284,990	37,805	27,050	2,324,883	2,874,582
Total Liabilities	199,853	284,990	37,805	27,050	2,591,186	3,140,885
Net Sensitivity Gap	(122,690)	1,344,746	1,168,169	80,778	(2,329,992)	141,010

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2010 Interest Rate Risk

Foreign Currency Assets	Fixed Coupon		Over 1 Year	Non-Interest Bearing	Total
	0-1 (SBD 000's)	1-3 Months (SBD 000's)			
Money at call	-	661,371	-	-	661,371
Accrued Interest	-	-	-	5,452	5,452
Term Deposits	-	1,355,164	-	-	1,355,164
Holding of Special Drawing Rights	-	-	-	114,481	114,481
Total		2,016,535		119,933	2,136,468
Local Currency Assets					
Cash on Hand	-	-	-	155	155
Loans and Advances	-	-	-	120,800	120,800
Property, Plant and Equipment	-	-	-	76,760	76,760
Other Assets	-	-	-	47,452	47,452
Total	-	-	-	124,367	245,167
Total Assets	-	2,016,535	-	120,800	2,381,635
LIABILITIES					
Foreign Currency Liabilities					
Demand Deposits	-	-	-	62,328	62,328
IMF Standby Credit Facility	-	-	-	76,181	76,181
IMF Special Drawing Rights Allocations	-	122,506	-	-	122,506
Capital Subscriptions	-	-	-	917	917
Total		122,506	-	-	139,426
Local Currency Liabilities					
Demand Deposits	-	-	899,377	65,456	457,231
Currency in Circulation	-	-	-	436,570	326,445
SIG Monetary Operations Account	-	-	37,953	-	29,418
Fixed Deposits	1,390	7,010	33,630	56,785	125,199
Provision for transfer to SIG Consolidated Fund	-	-	-	2,454	2,454
Other Liabilities	-	-	-	15,048	15,048
Total	1,390	7,010	970,960	56,785	1,749,076
Total Liabilities	1,390	129,516	970,960	56,785	2,011,008
Net Sensitivity Gap	(1,390)	1,887,019	(970,960)	64,015	(608,057)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

Currency risk

Currency risk is the risk the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on holdings of financial assets (principally external assets) that are denominated in a currency other than the Solomon Islands dollar. The currencies giving rise to this risk are primarily Australian dollars, New Zealand dollars, British pounds, Euro and United States dollars.

The Bank does not hedge its exposure to exchange fluctuations in these currencies.

In accordance with the CBSI Act, 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. Credit risk is additionally limited by the separate minimum acceptable credit ratings and operational limits.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2011 Currency Risk

	SBD (SBD) (000's)	AUD (SBD) (000's)	NZ (SBD) (000's)	USD (SBD) (000's)	EURO (SBD) (000's)	GBP (SBD) (000's)	OTHERS (SBD) (000's)	Total (SBD) (000's)
Foreign Currency Assets								
Money at call	-	105,469		2,407	35,910	512	810,160	954,458
Accrued Interest	1	7,730	739	617	677	128	31	9,922
Term Deposits	-	752,111	145,583	600,671	287,573	89,167	83,310	1,958,415
Holding of Special Drawing Rights	-	-	-	-	-	-	104,746	104,741
Total	1	865,310	146,322	603,695	324,160	89,807	998,247	3,027,536
Local Currency Assets								
Cash on Hand	98	-	-	-	-	-	-	98
Loans and Advances	107,828	-	-	-	-	-	-	107,828
Property, Plant and Equipment	98,881	-	-	-	-	-	-	98,881
Other Assets	47,552	-	-	-	-	-	-	47,552
Total	254,359	-	-	-	-	-	-	254,359
Total Assets	254,360	865,310	146,322	603,695	324,160	89,807	998,247	3,281,895
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits	-	-	-	-	-	-	11,332	11,332
IMF Standby Credit Facility	-	-	-	-	-	-	141,942	141,942
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	112,110	112,110
Capital Subscriptions	-	-	-	-	-	-	919	919
Total	-	-	-	-	-	-	266,303	266,303
Local Currency Liabilities								
Demand Deposits	1,487,513	-	-	-	-	-	-	1,487,513
Currency in Circulation	527,702	-	-	-	-	-	-	527,702
SIG Monetary Op/ Account	37,547	-	-	-	-	-	-	37,547
Fixed Deposits	797,146	-	-	-	-	-	-	797,146
Provision for transfer to SIG Consolidated Fund	5,243	-	-	-	-	-	-	5,243
Other Liabilities	19,430	-	-	-	-	-	-	19,430
Total	2,874,582	-	-	-	-	-	-	2,874,582
Total Liabilities	2,874,582	-	-	-	-	-	266,303	3,140,885
NET ASSETS	(2,620,222)	865,310	146,322	603,695	324,160	89,807	731,944	141,010

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

2010 Currency Risk

Foreign Currency Assets	SBD (SBD) (000's)	AUD (SBD) (000's)	NZ (SBD) (000's)	USD (SBD) (000's)	EUR (SBD) (000's)	GBP (SBD) (000's)	OTHERS (SBD) (000's)	Total (SBD) (000's)
Money at call	-	71,777		417,170	171,583	836	5	661,371
Accrued Interest	1	4,531	263	333	294	20	10	5,452
Term Deposits	-	554,225	81,511	473,851	191,358	47,503	6,716	1,355,164
Holding of Special Drawing Rights	-	-	-	-	-	-	114,481	114,481
Total	1	630,533	81,774	891,354	363,235	48,359	121,212	2,136,468
Local Currency Assets								
Cash on Hand	155	-	-	-	-	-	-	155
Loans and Advances	120,800	-	-	-	-	-	-	12,800
Premises and Equipment	76,760	-	-	-	-	-	-	76,760
Other Assets	47,452	-	-	-	-	-	-	47,452
Total	245,167	-	-	-	-	-	-	245,167
Total Assets	245,168	630,533	81,774	891,354	363,235	48,359	121,212	2,381,635
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits	-	-	-	-	-	-	62,328	62,328
IMF Standby Credit Facility	-	-	-	-	-	-	76,181	76,181
IMF Special Drawing Rights Allocations	-	-	-	-	-	-	122,506	122,506
Capital Subscriptions	-	-	-	-	-	-	917	917
Total	-	-	-	-	-	-	261,932	261,932
Local Currency Liabilities								
Demand Deposits	964,833	-	-	-	-	-	-	457,231
Currency in Circulation	436,570	-	-	-	-	-	-	326,445
SIG Monetary Operations Account	37,953	-	-	-	-	-	-	29,418
Fixed Deposit	292,218	-	-	-	-	-	-	212,218
Provision for transfer to SIG Consolidated Fund	2,454	-	-	-	-	-	-	2,454
Other Liabilities	15,048	-	-	-	-	-	-	15,048
Total	1,749,076	-	-	-	-	-	-	1,749,076
Total Liabilities	1,749,076	-	-	-	-	-	261,932	2,011,088
NET ASSETS	(1,503,908)	630,533	81,774	891,354	363,235	48,359	(140,720)	370,627

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

26. GOING CONCERN

The impact of the global financial crisis has effect on the performance and financial status of the Bank however the level of reserves remains adequate for safe and secured facilitation of the Banks operation with the highest level of external reserves recorded. The improving confidence in the financial market makes anticipated returns' on both external and local investments to be in upward trend. The Bank is able to facilitate all international payments obligations including the external debts that are fall due in the next twelve months.

27. EVENTS AFTER THE REPORTING PERIOD

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