

**CENTRAL BANK OF SOLOMON ISLANDS**

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

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## **Independent Auditor's Report**

To the Board of the Central Bank of the Solomon Islands

### **Scope**

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

### **Management's Responsibility for the Financial Report**

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

### **Auditor's Responsibility**

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

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

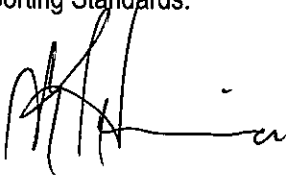
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Audit Opinion**

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

### **Report on other Legal and Regulatory Requirements**

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

A handwritten signature in black ink, appearing to read 'Mr. Edward Ronia', is written over the printed name.

Mr. Edward Ronia  
Auditor-General

Office of the Auditor-General  
Solomon Islands

29 April 2013

STATEMENT OF COMPREHENSIVE INCOME – FOR YEAR ENDED 31 DECEMBER 2012

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

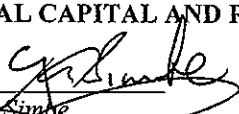
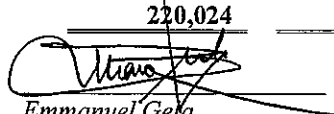
*This statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 31.*

**STATEMENT OF TRANSFERS TO GOVERNMENT OF SOLOMON ISLANDS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

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

## STATEMENT OF FINANCIAL POSITION – AS AT 31 DECEMBER 2012

	Note	2012 (\$000's)	2011 (\$000's)
<b>ASSETS</b>			
<b>Foreign Currency Assets</b>			
Money at call	4	764,448	954,458
Accrued Interest		9,593	9,922
Term Deposits	4	2,560,720	1,958,415
International Monetary Fund			
- Holding of Special Drawing Rights	5	106,087	104,741
Gold Investment	10	218,628	-
		<u>3,659,476</u>	<u>3,027,536</u>
<b>Local Currency Assets</b>			
Cash on Hand		456	98
Loans and Advances	7	87,174	107,828
Property, Plant and Equipment	8	139,787	93,240
Investment Properties	9	11,323	5,641
Other Assets	11	45,747	47,552
		<u>284,487</u>	<u>254,359</u>
<b>Total Assets</b>		<u><b>3,943,963</b></u>	<u><b>3,281,895</b></u>
<b>LIABILITIES</b>			
<b>Foreign Currency Liabilities</b>			
Demand Deposits	12	86,103	11,332
International Monetary Fund			
-Standby Credit Facility	13	141,630	141,942
-Special Drawing Rights Allocations	5	111,807	112,110
-Capital Subscription	5	915	919
-Extended Credit Facility	13	1,676	-
<b>Total – Foreign Currency Liabilities</b>		<u><b>342,131</b></u>	<u><b>266,303</b></u>
<b>Local Currency Liabilities</b>			
Demand Deposits	14	1,721,457	1,487,513
Currency in Circulation	15	599,669	527,702
SIG Monetary Operations Account	16	37,906	37,547
Fixed Deposits	17	997,811	797,146
Provision for transfer to SIG Consolidated Fund		480	5,243
Other Liabilities	18	24,485	19,430
<b>Total Local Liabilities</b>		<u><b>3,381,808</b></u>	<u><b>2,874,582</b></u>
<b>Total Liabilities</b>		<u><b>3,723,939</b></u>	<u><b>3,140,885</b></u>
<b>NET ASSETS</b>		<u><b>220,024</b></u>	<u><b>141,010</b></u>
<b>EQUITY</b>			
<b>Capital and Reserves</b>			
Authorized Capital		<u>50,000</u>	<u>50,000</u>
Paid up Capital		<u>20,000</u>	<u>20,000</u>
Gold Revaluation Reserve	10	(2,122)	-
General Reserve	19	63,652	58,707
Foreign Exchange Revaluation Reserve	20(a)	(7,169)	(51,002)
Premises and Equipment Assets Revaluation Reserve	20(c)	83,788	51,428
Capital Asset Reserve	21	<u>61,875</u>	<u>61,877</u>
<b>TOTAL CAPITAL AND RESERVES</b>		<u><b>220,024</b></u>	<u><b>141,010</b></u>
			
Gane Simbe Deputy Governor			
		Emmanuel Gela Chief Manager	

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 CAPITAL AND RESERVES –  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

*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.*



**CASH FLOW STATEMENT – FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 (\$000's)	2011 (\$000's)
<b>Cash flows from operating activities</b>			
Interest received		64,131	52,171
Cash received from other income		13,171	18,448
Interest paid		(5,480)	(3,026)
Cash payments in course of operations		<u>(61,621)</u>	<u>(36,175)</u>
<b>Net cash inflow from operating activities</b>		<b>10,201</b>	<b>31,418</b>
Cash received in placement of deposits		434,605	1,027,606
Increase on IMF Allocation of SDR		-	(10,396)
Decrease in government finance provided		<u>20,654</u>	<u>12,976</u>
<b>Net cash provided by operating activities</b>	6	<b>465,461</b>	<b>1,061,604</b>
<b>Cash flows from investment activities</b>			
Payments for Premises, plant and equipment		(18,360)	(28,446)
Proceeds from sale of Premises, plant and equipment		99	159
Increase in foreign and domestic investments		<u>(590,232)</u>	<u>(1,136,412)</u>
<b>Cash flows from financing activities</b>		<b>(608,493)</b>	<b>(1,164,699)</b>
Net movement in issue of circulating currency		71,968	91,131
Net movement in foreign currency loan		75,828	14,767
Solomon Islands Government Monetary Operations		359	(406)
Dividend paid		<u>(4,765)</u>	<u>(2,452)</u>
<b>Net cash provided by financing activities</b>		<b>143,390</b>	<b>103,038</b>
<b>Net increase/(decrease) in cash held</b>		<b>358</b>	<b>(57)</b>
<b>Cash at the beginning of the financial year</b>		<u>98</u>	<u>155</u>
<b>Cash at the end of the financial year</b>		<u><b>456</b></u>	<u><b>98</b></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 2012**

**1. THE LEGAL FRAMEWORK**

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

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

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

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

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

**2. BASIS AND FORMAT OF PRESENTATION**

**(a) Basis of preparation**

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

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

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

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

**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 2013 when CBSI Act 2012 becomes effective. 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 2012, there was a net revaluation gain of \$43.8 million (2011: \$245.3 million loss).

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

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

**c) Impairment of other tangible and intangible assets**

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

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

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

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

**d) Foreign currency assets and liabilities**

*Treasury notes, bonds and bills*

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

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

**e) Gold**

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

**f) Coins sold as numismatic items**

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

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

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

**g) 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.

**h) 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, but excluded from distributions.

Where the property is held to earn rentals and/or for capital appreciation, the property are retained in Land and Buildings.

*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 firstly done in 2006 and recently done in 2012. 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 2015.

**i) 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 2012**

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

**j) Income Tax**

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

**k) Employee entitlements**

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

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

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

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

**l) Solomon Islands Pension /Provident Fund**

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

**m) Cash and cash equivalents**

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

**n) Solomon Islands Government bonds**

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

**o) Allowance for Bad and Doubtful Debts**

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

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

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

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

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

**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).

	<b>2012</b> <b>(\$ 000's)</b>	<b>2011</b> <b>(\$000's)</b>
Operating (loss)/profit	(734)	20,971
<i>Non-cash items:</i>		
Depreciation	3,940	6,095
<i>Net (increase)/decrease in:</i>		
Other receivables	22,593	12,947
Accrued expenses	439,662	1,021,591
<b>Net cash provided by operating activities</b>	<b>465,461</b>	<b>1,061,604</b>

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

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**8. PROPERTY, PLANT AND EQUIPMENT**

	Land & buildings	Equipment & furniture	Computer	Work in progress	Total
	(\$ 000's)	(\$000's)	(\$ 000's)	(\$000's)	(\$ 000's)
<b>At 31 December 2011</b>					
Cost	48,481	21,854	4,609	37,653	112,597
Accumulated depreciation	(2,603)	(14,148)	(2,606)	-	(19,357)
<b>Net book amount</b>	<b>45,878</b>	<b>7,706</b>	<b>2,003</b>	<b>37,653</b>	<b>93,240</b>
<b>Year ended December 2011</b>					
Opening net book amount	53,026	10,635	380	12,719	76,760
Additions	-	1,100	2,412	24,934	28,445
Disposals	-	(220)	(10)	-	(230)
Depreciation charge	(1,507)	(3,809)	(779)	-	(6,095)
Transfer to investment property	(5,641)	-	-	-	(5,641)
<b>Closing net book amount</b>	<b>45,878</b>	<b>7,706</b>	<b>2,003</b>	<b>37,653</b>	<b>93,240</b>
<b>At 31 December 2012</b>					
Cost	123,302	24,721	5,406	6,343	159,772
Accumulated depreciation	-	(16,329)	(3,656)	-	(19,985)
<b>Net book amount</b>	<b>123,302</b>	<b>8,392</b>	<b>1,750</b>	<b>6,343</b>	<b>139,787</b>
<b>Year ended December 2012</b>					
Opening net book amount	45,878	7,706	2,003	37,653	93,240
Additions	-	3,642	797	13,921	18,360
Disposals	(167)	(66)	-	-	(233)
Depreciation charge	-	(2,890)	(1,050)	-	(3,940)
Internal Transfer	45,231	-	-	(45,231)	-
Revaluation increment	32,360	-	-	-	32,360
<b>Closing net book amount</b>	<b>123,302</b>	<b>8,392</b>	<b>1,750</b>	<b>6,343</b>	<b>139,787</b>

The Land and Buildings valuations was undertaken by a registered valuer, Pacific Architect Ltd on the 21<sup>st</sup> November 2012. It was carried out based on the market value of the properties. These valuations have been incorporated into the financial statements and effective as at 31 December 2012.

Similar valuation on Land & Buildings will occur again in 2015 in compliance with IAS16. The periodical (3 year period) valuation of Land & Building was approved by the Board of Directors on the 7<sup>th</sup> of September 2006.

The carrying amount of land and buildings had they been recognised under the cost model are as follows:

	2012 (\$ 000's)	2011 (\$ 000's)
Land and Buildings	90,942	51,519
	<u>90,942</u>	<u>51,519</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	2012 (\$ 000's)	2011 (\$ 000's)
<b>9. INVESTMENT PROPERTIES</b>		
Balance at beginning of financial year – at fair value	5,641	6,148
Change in fair value	5,682	-
Transferred from Office & Other Building and Residences --		
Accumulated Depreciation	-	(507)
<b>Balance at end of financial year – at fair value</b>	<b>11,323</b>	<b>5,641</b>

**10. GOLD INVESTMENT**

Gold investment consists of the following:

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

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

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

**11. OTHER LOCAL CURRENCY ASSETS**

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

**12. FOREIGN CURRENCY DEMAND DEPOSITS**

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

**13. IMF STANDBY CREDIT FACILITY**

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

**IMF Assistance to Solomon Islands Economic Reform Program.**

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

**Final disbursement of review of program**

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	<u>2012</u> (S 000's)	<u>2011</u> (S 000's)
<b>14. LOCAL CURRENCY DEMAND DEPOSITS</b>		
Commercial banks	1,446,496	1,125,909
Solomon Islands Government	265,088	332,868
Financial Corporations	8,369	28,362
Other	<u>1,504</u>	<u>374</u>
	<u><b>1,721,457</b></u>	<u><b>1,487,513</b></u>
<b>15. CURRENCY IN CIRCULATION</b>		
Notes	583,107	515,271
Coins	<u>16,562</u>	<u>12,431</u>
	<u><b>599,669</b></u>	<u><b>527,702</b></u>
<b>16. SIG MONETARY OPERATIONS ACCOUNT</b>		
SIG Securities	<u><b>37,906</b></u>	<u><b>37,547</b></u>
<b>17. FIXED DEPOSITS</b>		
(a) Solomon Islands Government (SIG)	629,923	555,833
<p>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.</p>		
(b) Central Bank of Solomon Islands (CBSI) Securities	<u>367,888</u>	<u>241,313</u>
	<u><b>997,811</b></u>	<u><b>797,146</b></u>
<b>18. OTHER LOCAL CURRENCY LIABILITIES</b>		
Unpresented bank cheques	6,963	6,495
Provision for employee entitlements	5,974	6,736
Other liabilities	<u>11,548</u>	<u>6,199</u>
	<u><b>24,485</b></u>	<u><b>19,430</b></u>

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

**19. GENERAL RESERVE AND DISTRIBUTION OF PROFITS**

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

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

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

**20. REVALUATION RESERVE ACCOUNTS**

**a) Foreign Exchange Revaluation Reserve**

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**20. 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 currently holds foreign currency denominated investments in fixed term bank deposits, treasury bonds and paper gold. In addition, because of the very limited market for Solomon Islands Government securities, holdings of such assets are recorded at cost. Accordingly, there are revaluations amounts recorded in appropriate asset revaluation reserve(s) covering foreign investments except for 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)).

**21. 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.

	<b>2012</b> (\$ 000's)	<b>2011</b> (\$ 000's)
<b>Capital Asset Reserve</b>	<b>61,875</b>	<b>61,877</b>

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	2012 (\$ 000's)	2011 (\$ 000's)
<b>23. AUDITOR'S REMUNERATION</b>		
Amounts received or due and receivable by the External Auditors of the bank for:		
- Auditing the financial statements	641	413
	641	413

**24. 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 2012, this group comprises 14 in total (14 in 2011), including the two Governors, 7 non-executive CBSI Board of Directors and 7 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	2,158	1,366
Post-employment benefits	-	-
Other long-term benefits	-	-
Total Compensation	2,158	1,366

Short-term benefits include cash salary, and in the case of staff, annual leave, motor vehicle benefits, health benefits and the fringe benefits of 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 2012 loans by the Bank to key management personnel are as follows:

Housing loan	3,887	3,532
Personal loan	843	828
Management car loan	348	212
Total loans	5,078	4,572

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.

**25. EMPLOYEES**

The number of full time permanent Central Bank employees as at 31<sup>st</sup> December 2012 was 109 (2011: 100)

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

**26. CONTINGENT LIABILITIES**

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

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

**27. FINANCIAL INSTRUMENTS**

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

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

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

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

**Credit risk**

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

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

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

**Liquidity risk**

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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The table below shows financial assets and liabilities at 31 December 2012 (and 2011 comparatives) grouped by remaining contractual maturity.

**2012 Maturity Analysis**

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**2011 Maturity Analysis**

	On Demand (SBD 000's)	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD000's)
<b>Foreign Currency Financial Assets</b>							
Money on Demand	954,458	-	-	-	-	-	954,458
Accrued Interest	-	-	9,922	-	-	-	9,922
Term Deposits	-	752,441	1,205,974	-	-	-	1,958,415
Holding of Special Drawing Rights	-	104,741	-	-	-	-	104,741
<b>Total</b>	<b>954,458</b>	<b>857,182</b>	<b>1,215,896</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,027,536</b>
<b>Local Currency Financial Assets</b>							
Cash on Hand	-	98	-	-	-	-	98
Loans and Advances	-	-	-	10,240	97,587	-	107,827
<b>Total</b>	<b>-</b>	<b>98</b>	<b>-</b>	<b>10,240</b>	<b>97,587</b>	<b>-</b>	<b>107,925</b>
<b>Total Financial Assets</b>	<b>954,458</b>	<b>857,280</b>	<b>1,215,896</b>	<b>10,240</b>	<b>97,587</b>	<b>-</b>	<b>3,135,461</b>
<b>LIABILITIES</b>							
<b>Foreign Currency Financial Liabilities</b>							
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
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141,942</b>	<b>124,361</b>	<b>266,303</b>
<b>Local Currency Financial Liabilities</b>							
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
<b>Total</b>	<b>-</b>	<b>212,455</b>	<b>32,760</b>	<b>5,045</b>	<b>27,050</b>	<b>2,577,841</b>	<b>2,855,151</b>
<b>Total Financial Liabilities</b>	<b>-</b>	<b>212,455</b>	<b>32,760</b>	<b>5,045</b>	<b>168,992</b>	<b>2,702,202</b>	<b>3,121,454</b>
<b>Net Liquidity Gap</b>	<b>954,458</b>	<b>644,825</b>	<b>1,183,136</b>	<b>5,195</b>	<b>(71,405)</b>	<b>(2,702,202)</b>	<b>14,007</b>

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

**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 3 (m)	-	fixed interest rates, maturing as detailed in note
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.
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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 2012**

**a) Foreign Exchange Risk**

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

**Concentration of foreign exchange**

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

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

**Sensitivity to foreign exchange rate risk**

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

**b) Interest Rate Risk**

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

**Sensitivity to interest rate risk**

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

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

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

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

**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, and recently commodity market. 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 2012**

**2012 Foreign Currency Risk**

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

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

**2011 Foreign Currency Risk**

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

**LIABILITIES**

<b>Foreign Currency Financial Liabilities</b>	<b>Fixed Coupon 0-1 (SBD) (000's)</b>	<b>1-3 Months (SBD) (000's)</b>	<b>3-12 Months (SBD) (000's)</b>	<b>Over 1 Year (SBD) (000's)</b>	<b>Non Interest Bearing (SBD) (000's)</b>	<b>Total (SBD) (000's)</b>
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
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141,942</b>	<b>124,361</b>	<b>266,303</b>
<b>Net liquidity gap</b>	<b>77,163</b>	<b>1,629,736</b>	<b>1,205,974</b>	<b>(141,942)</b>	<b>(9,698)</b>	<b>2,761,233</b>

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

**28. GOING CONCERN**

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

**29. EVENTS AFTER THE REPORTING PERIOD**

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