



CENTRAL BANK OF SOLOMON ISLANDS

ANNUAL STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2015



Central Bank of the Solomon Islands

Directors' report

The Directors present their report together with the financial statements of the Central Bank of the Solomon Islands ("the Bank") for the year ended 31 December 2015 and the auditors' report thereon.

Directors

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

Denton Rarawa (Chairman and Governor)
Gane Simbe (Deputy Governor)
Fred Fakarii (term expired on 13 May 2015)
Harry Kuma (appointed on 13 May 2015)
Katululu Maepioh (term expired on 5 March 2015)
Sir Thomas Ko Chan (appointed on 3 August 2015)
Loyley Ngira
Lily Lomulo
Tele Bartlett
Primo Afeau
John Usuramo

State of affairs

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2015 and the accompanying statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, of the Bank for the year then ended.

Principal activities

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

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

Results

The net profit of the Bank for the year ended 31 December 2015 was \$44.31m (2014: \$28.91m loss).

Reserves

The Board approved the following transfers of reserves in the statement of profit and loss and other comprehensive income during the year:

- \$15.23m (2014: \$2.25m) to the asset revaluation reserve;
- \$26.10m (2014: (\$28.86m) to the foreign exchange revaluation reserve; and
- \$17.61m (2014: (\$2.3m) to the general reserve.

Provisions

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

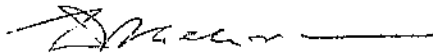
Central Bank of Solomon Islands

Statement by Directors

In the opinion of the Directors:

- (a) the accompanying statement of profit and loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2015;
- (b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2015;
- (c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Bank for the year ended 31 December 2015;
- (d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2015;
- (e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Bank, and
- (g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS").

For and on behalf of the Board of Directors by authority of a resolution of the Directors this ^{21st} of April 2016.



Denton Rarawa
Chairman of the Board and Governor

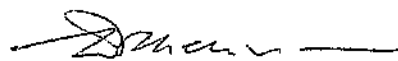


Harry Kuma
Director

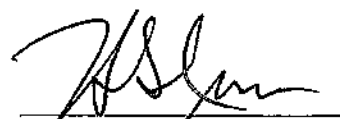
Central Bank of Solomon Islands
Statement of financial position
As at 31 December 2015

	Note	2015 \$000	2014 \$000
Foreign currency assets			
Cash at bank	20	781,517	576,723
Accrued interest		6,495	5,151
Held-to-maturity investments	5	3,094,483	2,884,550
Available-for-sale investments	6	206,921	221,368
International Monetary Fund	7	206,302	214,940
Total foreign currency assets		4,295,718	3,902,732
Local currency assets			
Cash on hand	20	196	224
Loans and advances	8	11,629	75,299
Currency inventory	9	36,623	32,347
Investment properties	10	13,262	12,662
Property, plant and equipment	12	150,180	138,116
Other assets	11	4,516	40,707
Total local currency assets		216,406	299,355
Total assets		4,512,124	4,202,087
Foreign currency liabilities			
International Monetary Fund	7	324,646	361,409
Demand deposits	13(a)	16,240	11,549
Total foreign currency liabilities		340,886	372,958
Local currency liabilities			
Demand deposits	13(b)	2,573,231	2,481,652
Currency in circulation	14	776,640	694,344
Fixed deposits	15	721,677	621,729
SIG monetary operations account	16	58,422	30,215
Employee entitlements	17	17,000	13,946
Other liabilities	18	11,025	6,044
Total local liabilities		4,157,995	3,847,930
Total liabilities		4,498,881	4,220,888
Net assets		13,243	(18,801)
Capital and reserves			
Paid up capital	21	50,000	50,000
General reserve	22(a)	53,179	35,572
Foreign exchange revaluation reserve	22(b)	(148,331)	(174,432)
Asset revaluation reserve	22(c)	104,318	89,092
Gold revaluation reserve	22(d)	(107,798)	(80,908)
Capital asset reserve	22(e)	61,875	61,875
Total capital and reserves		13,243	(18,801)

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



Denton Rarawa
Chairman of the Board and Governor



Harry Kuma
Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 38.

Central Bank of Solomon Islands
Statement of cash flows
For the year ended 31 December 2015

	Note	2015 \$000	2014 \$000
Operating activities			
Interest received		38,500	49,760
Cash received from other income		48,494	15,098
Interest paid		(12,427)	(8,057)
Cash paid to suppliers and employees		(57,050)	(43,345)
Net movement in held to maturity investments		(209,933)	(128,293)
Net movement in International Monetary Fund accounts		(1,160)	10,121
Net movement in other receivables		38,990	61,548
Net movement in other payables		4,945	(3,359)
		<u>(149,641)</u>	<u>(46,527)</u>
Cash flows used in operating activities			
Investing activities			
Acquisition of property, plant and equipment		(2,777)	(4,179)
Proceeds from sale of premises, plant and equipment		99	81
Net movement in available-for-sale investments		(12,443)	(8,021)
Net movement in loan to government		63,950	5,894
Net movement in loans and advances to staff		(280)	85
		<u>48,549</u>	<u>(6,140)</u>
Cash flows from/(used in) investing activities			
Financing activities			
Net movement in currency in circulation		82,297	76,774
Net movement in demand deposits		96,270	(154,450)
Net movement in fixed deposits received		99,948	9,797
Solomon Islands government monetary operations		28,207	(3,390)
Net movement in International Monetary Fund credit facilities		(26,965)	(3,237)
		<u>279,757</u>	<u>(74,506)</u>
Cash flows (used in)/from financing activities			
Net effect of exchange rates		<u>26,101</u>	<u>(28,860)</u>
Net increase / (decrease) in cash		204,766	(156,033)
Cash and cash equivalents at the beginning of the financial year		<u>576,947</u>	<u>732,980</u>
Cash and cash equivalents at the end of the financial year		<u>781,713</u>	<u>576,947</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 11 to 38.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

2. Basis of preparation (continued)

(d) Use of estimates and judgement

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

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

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

Impairment of financial assets

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

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

3. Statement of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Foreign currency

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

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

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

3. Statement of significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

iii. Derecognition

Financial assets

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

Financial liabilities

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

iv. Amortised cost measurement

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

v. Fair value measurement

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

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

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

(g) Cash and cash equivalents

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

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

3. Statement of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

Recognition and measurement (continued)

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

Subsequent costs

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

Depreciation

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

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

Periodic revaluation

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded at values approximating recoverable market values. With Board approval, a three year periodical revaluation of its land and buildings was first done in 2012 and recently done in 2015. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to be realised for, if put for sale on private treaty. The Board proposes to have such assets revaluation every three years. The next revaluation will be done in 2018.

(n) Investment property

Investment property, is property held either to earn rentals or for capital appreciation or for both. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Costs include expenditure that is directly attributable to the acquisition of the investment property.

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

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

	2015	2014
	S000	S000
4. Income and expenses		
(a) Interest income		
Overseas investments	38,371	46,482
Local investments	1,473	1,694
	<u>39,844</u>	<u>48,176</u>
(b) Fees and commission income		
Foreign dealings	43,249	8,958
Local dealings	649	2,938
	<u>43,898</u>	<u>11,896</u>
(c) Other income		
Gain on disposal of fixed assets	99	81
Rent received	1,075	870
Sale of numismatic coins	80	223
Gains on foreign currency exchange	1,016	114
Royalties on numismatics	2,301	1,261
Others	124	734
	<u>4,695</u>	<u>3,283</u>
(d) Interest expense		
Foreign liabilities	57	106
Local liabilities	12,406	9,758
	<u>12,463</u>	<u>9,864</u>
(e) Administrative expenses		
Staff costs	25,012	24,162
Telecommunication	1,727	2,291
Utilities	1,801	2,340
Repairs and maintenance	2,304	1,837
Insurance	441	610
Consumables	430	307
Stationery, printing and postage	478	918
Consultancy	1,351	127
Other	1,375	610
	<u>34,919</u>	<u>33,202</u>
(f) Other expenses		
Board of directors remunerations and expenses	326	190
Currency expenses	14,952	13,551
Depreciation	5,335	5,721
Auditors remuneration	330	386
Other	1,284	1,612
	<u>22,227</u>	<u>21,460</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

	2015	2014
	\$000	\$000
8. Loans and advances		
<i>Solomon Islands Government</i>		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	30	10
Other securities	4,936	4,936
Amortising bonds	-	63,970
	<u>5,039</u>	<u>68,989</u>
<i>Staff loans</i>		
Staff housing loans	5,093	4,729
Management car loans	453	424
Personal loans	1,044	1,157
	<u>6,590</u>	<u>6,310</u>
	<u>11,629</u>	<u>75,299</u>
9. Currency inventory		
Notes	11,339	10,759
Coins	25,284	21,588
	<u>36,623</u>	<u>32,347</u>
10. Investment properties		
Balance at beginning of financial year – at fair value	12,662	11,935
Less: transferred to Property, plant and equipment	-	(1,518)
Changes in fair value	600	2,245
Balance at end of financial year – at fair value	<u>13,262</u>	<u>12,662</u>

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

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

Rental income from investment properties of \$1,075,000 (2014: \$870,000) has been recognised in other income.

Fair value hierarchy

The fair value of investment property and land and building (refer to note 12) was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuer provides the fair value of the Bank's investment property portfolio every 12 months.

The fair value of the Bank's investment property are categorised into Level 3 of the fair value hierarchy.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

12. Property, plant and equipment

	Land and buildings \$000	Plant, equipment and furniture \$000	Motor vehicles \$000	Computer \$000	Work in Progress \$000	Total \$000
<i>Cost/valuation</i>						
Balance at 1 January 2014	129,234	24,602	2,242	6,403	4,412	166,893
Transfer from Investment property	1,518	-	-	-	-	1,518
Acquisitions	-	535	300	738	2,606	4,179
Transfers	4,522	195	-	-	(4,717)	-
Disposals	-	(7)	(351)	(75)	-	(433)
Balance at 31 December 2014	135,274	25,325	2,191	7,066	2,301	172,157
Acquisitions	-	162	237	570	1,808	2,777
Transfers	28	465	-	1,670	(2,163)	-
Disposals	-	(1,863)	(523)	(1,093)	-	(3,479)
Net revaluation increment	5,670	-	-	-	-	5,670
Balance at 31 December 2015	140,972	24,089	1,905	8,213	1,946	177,125
<i>Accumulated depreciation</i>						
Balance at 1 January 2014	3,288	19,085	1,410	4,970	-	28,753
Depreciation charge for the year	2,751	1,505	465	1,000	-	5,721
Disposals	-	(7)	(351)	(75)	-	(433)
Balance at 31 December 2014	6,039	20,583	1,524	5,895	-	34,041
Depreciation charge for the year	2,932	1,199	388	816	-	5,335
Disposals	-	(1,863)	(523)	(1,089)	-	(3,475)
Reversal at revaluation	(8,956)	-	-	-	-	(8,956)
Balance at 31 December 2015	15	19,919	1,389	5,622	-	26,945
<i>Carrying amount</i>						
At 1 January 2014	125,946	5,517	832	1,433	4,412	138,140
At 31 December 2014	129,235	4,742	667	1,171	2,301	138,116
At 31 December 2015	140,957	4,170	516	2,591	1,946	150,180

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

19. Determination of distributable profit

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

- a) Section 54(2)(a) states that unrealised revaluation gains shall be deducted from the net profits and shall not be available to be distributed but allocated to the respective unrealised revaluation reserve account;
- b) The realised gains from previous years shall be deducted from the appropriate revaluation reserve account and added to the distributable earnings as determined in section 54(2)(a).

	2015	2014
	\$000	\$000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating profit /(loss)	44,308	(28,912)
Add/(less) - net unrealised foreign exchange loss/(gain)	(26,101)	28,860
- changes in fair value in investment properties	<u>(600)</u>	<u>(2,245)</u>
Net gain/(loss) to be recorded in general reserve	<u>17,607</u>	<u>(2,297)</u>

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

20. Cash and cash equivalents

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

	2015	2014
	\$000	\$000
Cash on hand – local currency	196	224
Cash and cash equivalents – foreign currency	<u>781,517</u>	<u>576,723</u>
	<u>781,713</u>	<u>576,947</u>

21. Share capital

Section 6 (1) of the CBSI Act, states that the authorised and paid up capital of the bank shall be an amount equivalent to \$50 million dollars (2014: \$50 million). The capital is fully subscribed by the Government of Solomon Islands.

	2015	2014
	\$000	\$000
Balance at the beginning of the year	50,000	50,000
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>50,000</u>	<u>50,000</u>

22. Reserves

Under Section 53(2) of the CBSI Act., 2012, the Bank shall maintain the following reserves. Their purpose and method of operation are to be as follows:

a) General reserve

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

23. Financial risk and management policies

(a) Introduction and overview

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

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

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

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

Risk management framework

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

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

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

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

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

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

(b) Liquidity risk

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

Management of liquidity risk

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2015

23. Financial risk and management policies (continued)

(c) Liquidity risk (continued)

Maturity analysis as at 31 December 2015

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2015.

	On Demand \$000s	0-3 Months \$000s	3-6 Months \$000s	6-12 Months \$000s	Over 1 Year \$000s	Undefined Maturity \$000s	Total \$000s
Foreign currency financial assets							
Money on demand	781,517	-	-	-	-	-	781,517
Accrued interest	-	5,959	536	-	-	-	6,495
Fix term deposits	-	2,083,482	744,518	-	-	-	2,828,000
Holding of special drawing rights	-	-	-	-	-	93,243	93,243
Reserve tranche	-	-	-	-	-	5,981	5,981
Subscription	-	-	-	-	-	107,078	107,078
Gold investment	-	-	-	-	-	206,921	206,921
Bonds	-	-	-	-	91,189	-	91,189
Short term commercial paper	-	175,294	-	-	-	-	175,294
	781,517	2,264,735	745,054	-	91,189	413,223	4,295,718
Local currency financial assets							
Cash on hand	196	-	-	-	-	-	196
Other receivables	-	-	696	-	-	-	696
Loans and advances	-	-	-	-	11,629	-	11,629
	196	-	696	-	11,629	-	12,521
Total financial assets	781,713	2,264,735	745,750	-	102,818	413,223	4,308,239
Foreign currency financial liabilities							
Demand deposits	16,240	-	-	-	-	-	16,240
IMF standby credit facility	-	-	-	-	-	101,753	101,753
IMF special drawing rights allocations	-	-	-	-	-	107,712	107,712
IMF extended credit facility	-	-	-	-	-	8,076	8,076
IMF securities	-	-	-	-	-	102,389	102,389
Capital subscriptions	-	-	-	-	-	4,716	4,716
	16,240	-	-	-	-	324,646	340,886
Local currency financial liabilities							
Demand deposits	2,573,231	-	-	-	-	-	2,573,231
Currency in circulation	-	-	-	-	-	776,640	776,640
SIG monetary operations account	-	58,422	-	-	-	-	58,422
Fixed deposits	-	710,432	11,245	-	-	-	721,677
Employee entitlements	-	-	-	-	17,000	-	17,000
Other liabilities	6,258	4,767	-	-	-	-	11,025
	2,579,489	773,621	11,245	-	17,000	776,640	4,157,995
Total financial liabilities	2,595,729	773,621	11,245	-	17,000	1,101,286	4,498,881
Net assets/(liabilities)	(1,814,016)	1,491,114	734,505	-	85,818	(688,063)	(190,642)

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23. Financial risk and management policies (continued)

(c) Credit risk

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

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

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

Concentration of credit exposure

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

	2015	2014
	\$000	\$000
Foreign currency assets		
Cash at bank	781,517	576,723
Held to maturity investment	3,094,483	2,884,550
International monetary fund	206,302	214,940
Gold investment	206,921	221,369
	<u>4,289,233</u>	<u>3,897,582</u>
Local currency assets		
Loans and advances	11,629	75,299
	<u>4,300,852</u>	<u>3,972,881</u>

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

Concentration by currency	2015		2014	
	\$'000	%	\$'000	%
USD	2,293,297	53	1,744,765	44
AUD	841,733	20	1,133,668	29
EURO	214,842	5	245,543	6
SDR	206,302	5	214,940	5
NZD	267,494	6	191,719	4
SGD	155,461	4	64,518	2
STG	310,091	7	302,426	8
SBD	11,629	-	75,299	2
JPY	3	-	3	0
Total financial assets	<u>4,300,852</u>	<u>100</u>	<u>3,972,881</u>	<u>100</u>

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23. Financial risk and management policies (continued)

(d) Market risk (continued)

Interest rate risk management (continued)

Fair value sensitivity analysis for fixed instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100bp increase	100bp decrease
31 December 2015	\$000's	\$000's
Variable rate instruments	1,777	(1,777)
31 December 2014		
Variable rate instruments	1,882	(1,882)

Foreign exchange risk management

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

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

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23. Financial risk and management policies (continued)

(d) Market risk (continued)

2014 foreign currency risk

Foreign currency financial asset	USD \$000	NZD \$000	AUD \$000	EURO \$000	STG \$000	Others \$000
Money on demand	369,385	-	131,087	72,964	3,284	3
Fixed Term deposit	939,075	191,719	747,265	172,579	299,142	64,517
Holding on Special drawing rights	-	-	-	-	-	96,724
Reserve Trache	-	-	-	-	-	6,253
Subscription	-	-	-	-	-	111,963
Gold Investment	-	-	-	-	-	221,369
Bonds	-	-	131,235	-	-	-
Short term commercial paper	-	-	124,081	-	-	-
Total	1,308,460	191,719	1,133,668	245,543	302,426	500,829
Foreign currency financial liability						
Demand deposits	-	-	-	-	-	-
IMF standby credit facility	-	-	-	-	-	130,038
IMF Special drawing rights allocation	-	-	-	-	-	112,627
IMF extended credit facility	-	-	-	-	-	6,755
IMF securities	-	-	-	-	-	107,059
Capital subscription	-	-	-	-	-	4,930
Total	-	-	-	-	-	361,409
Net foreign currency asset	1,308,460	191,719	1,133,668	245,543	302,426	139,420

Concentration of foreign exchange

The Bank's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 31 December 2015:

	2015		2014	
	(\$000)	%	(\$000)	%
USD	2,293,297	56	1,744,765	46
AUD	841,733	21	1,133,668	32
EURO	214,842	5	245,543	7
NZD	267,494	7	191,719	5
JPY	3	-	3	-
SGD	155,461	4	64,518	2
STG	310,091	8	302,426	8
	4,082,921	100	3,682,642	100

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24. Fair value of financial assets and liabilities

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

Valuation of financial instruments

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

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

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

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

31 December 2015	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Available for sale financial assets (Gold)	6	206,921			206,921
Investment Property	10			13,262	13,262
Property, plant and equipment (only Land & Building)	12			140,957	140,957

31 December 2014	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Available for sale financial assets (Gold)	6	221,369			221,369
Investment Property	10			12,662	12,662

Refer to note 10 and note 12 which shows a reconciliation from the opening balances to the closing balances for the Level 3 fair values above.

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25. Related parties (continued)

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

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

As at 31 December 2015 loans by the Bank to key management personnel are as follows:

	2015	2014
	\$000	\$000
Housing loan	1,494	1,032
Personal loan	62	105
Management car loan	126	105
	<u>1,682</u>	<u>1,242</u>

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

Transactions with the Solomon Islands Government

The transactions with the Solomon Islands Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received \$1.3 million (2014: \$1.5m) of interest income relating to their investments in Government securities. The Bank also paid \$8.3 million (2014: \$3.9m) to the Government in accordance with Section 34 of the CBSI Act, 2012. The balance of the Bank's investment in Government securities at year end amounted to \$4.9 million (2014: \$68.9m).

26. Commitments and contingent liabilities

The Bank has guaranteed staff housing loans with the commercial banks to the sum of \$0.79 million as at 31 December 2015 (2014: \$0.79m). The guarantee scheme was no longer available to staff since 2011 and is valid for eligible staff until the date of cessation of employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided \$10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2015, a total of 64 (2014: 64) loans with a net guarantee of \$5.53m (2014: \$6.92m) million have been administered under the scheme.

27. Events subsequent to balance date

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