

CENTRAL BANK OF SOLOMON ISLANDS

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

TABLE OF CONTENTS

1.	Directors' report	3-4
2.	Statement by directors	5
3.	Independent auditors' report	6-7
4.	Statement of profit and loss and other comprehensive income	8
5.	Statement of financial position	9
6.	Statement of changes in equity	10
7.	Statement of cash flows	11
8.	Notes to and forming part of the financial statements	12-39

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 2014 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)
Shardrach Fanega (retired from membership on 25 November 2014)
Fred Fakarii (appointed 25 November 2014)
Katululu Maepioh
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 2014 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.

Trading results

The net loss of the Bank for the year ended 31 December 2014 was \$28.91m (2013: \$165.10m).

Reserves

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

- \$2.25m (2013: \$0.61m) to the asset revaluation reserve;
- (\$28.86m) (2013: (\$150.55m)) to the foreign exchange assets revaluation reserve; and
- (\$2.30m) (2013: (\$15.17m)) 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 the Solomon Islands

Directors' report (continued)

Assets

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

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

Directors' benefit

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

Events subsequent to balance date

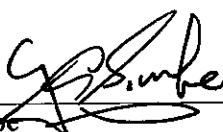
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Bank, to affect significantly the operations of the Bank, the results of those operations,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

Other circumstances


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

Dated at Honiara this 29th of April 2015.

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



Gane Simbe
Acting Chairperson and Governor



Fred Fakari'i
Director

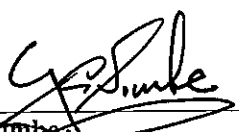
Central Bank of Solomon Islands

Statement by Directors

In the opinion of the Directors:

- (a) the accompanying statement of profit and loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2014;
- (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 2014;
- (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 2014;
- (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 2014;
- (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 29th of April 2015.


Gane Simba
Acting Chairperson and Governor


Fred Fakari'i
Director



Independent auditor's report to the Board of the Central Bank of Solomon Islands

Report on the Financial Statements

I have in joint consultation with the Board of the Bank pursuant to Section 60(1) of the *Central Bank of Solomon Islands Act 2012* contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Central Bank of Solomon Islands, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statements for the year then ended, and Notes 1 to 27 comprising of a summary of significant accounting policies and information.

Boards' and Management's Responsibility for the Financial Statements

The Board and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with the requirements of the *Central Bank of Solomon Islands Act 2012* and International Financial Reporting Standards and for such internal control as the board and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. The audit has been conducted 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 of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 policies used and the reasonableness of accounting estimates made by the 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.

Basis of qualification

Currency in circulation

As at 31 December 2014, currency in circulation is recorded in the financial statements at \$694.34m.

I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and accuracy of this balance at year end as I could not satisfy myself as to the completeness, existence and accuracy of the currency in circulation balance as at 1 January 2014. I am unable to apply alternative audit procedures to verify the balance of currency in circulation as at 1 January 2014. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

Qualified opinion

In my opinion, except for the effect if any, of the matters referred to in the qualification paragraphs above, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014 and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying my opinion, the Bank had a deficiency in net assets of \$18.8 million as at 31 December, 2014. The Bank's total assets of \$4.20 billion was less than the sum of the Bank's total monetary liabilities and its unimpaired capital of \$4.27 billion. These conditions have arisen from the Bank's large open position in foreign currency which is subject to foreign exchange rate movements.

Under section 56 of the *Central Bank of Solomon Islands Act 2012*, the Bank will be required to inform the Minister for Finance within 30 days of this report of the reasons for this shortfall and request a capital contribution to remedy the shortfall.

These conditions may cast doubt on the ability of the Bank to continue as a going concern except for the Bank's ability to access Solomon Island Government financial support should that become necessary.



Robert Cohen
Acting Auditor-General
30 April, 2015

Office of the Auditor-General
Honiara, Solomon Islands

Central Bank of Solomon Islands
Statement of profit and loss and other comprehensive income
For the year ended 31 December 2014

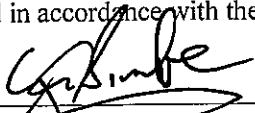
	Note	2014 \$000	2013 \$000
Income			
Interest income	4(a)	48,176	41,737
Fees and commission income	4(b)	11,896	8,958
Other income	4(c)	3,283	2,738
Change in fair value of investment properties	10	2,245	612
Total income		65,600	54,045
Expenses			
Interest expense	4(d)	9,864	7,149
Fees and commission expense		1,126	1,047
Administrative expenses	4(e)	33,202	32,579
Other expenses	4(f)	21,460	27,823
Net unrealised foreign exchange revaluation loss		28,860	150,548
Total expenses		94,512	219,146
Net operating (loss)		(28,912)	(165,101)
Other comprehensive income/(loss)			
Net change in fair value (available-for-sale financial assets)		275	(77,935)
Total other comprehensive income /(loss)		275	(77,935)
Total comprehensive loss		(28,637)	(243,036)

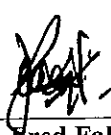
This statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

Central Bank of Solomon Islands
Statement of financial position
As at 31 December 2014

	Note	2014 \$000	2013 \$000
Foreign currency assets			
Cash at bank	20	576,723	732,680
Accrued interest		5,151	9,167
Held-to-maturity investments	5	2,884,550	2,753,823
Available-for-sale investments	6	221,368	213,073
International Monetary Fund	7	214,940	217,009
Total foreign currency assets		3,902,732	3,925,752
Local currency assets			
Cash on hand	20	224	300
Loans and advances	8	75,299	81,278
Currency inventory	9	32,347	39,859
Investment properties	10	12,662	11,935
Other assets	11	40,707	98,529
Property, plant and equipment	12	138,116	138,140
Total local currency assets		299,355	370,041
Total assets		4,202,087	4,295,793
Foreign currency liabilities			
International Monetary Fund	7	361,409	356,595
Demand deposits	13(a)	11,549	43,890
Total foreign currency liabilities		372,958	400,485
Local currency liabilities			
Demand deposits	13(b)	2,481,652	2,601,955
Currency in circulation	14	694,344	617,570
Fixed deposits	15	621,729	611,932
SIG monetary operations account	16	30,215	33,604
Employee entitlements	17	13,946	11,009
Other liabilities	18	6,044	9,402
Total local liabilities		3,847,930	3,885,472
Total liabilities		4,220,888	4,285,957
Net assets		(18,801)	9,836
Capital and reserves			
Paid up capital	21	50,000	50,000
General reserve	22(a)	35,572	37,869
Foreign exchange revaluation reserve	22(b)	(174,432)	(145,572)
Asset revaluation reserve	22(c)	89,092	86,847
Gold revaluation reserve	22(d)	(80,908)	(81,183)
Capital asset reserve	22(e)	61,875	61,875
Total (deficiency)/surplus in capital and reserves		(18,801)	9,836

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


Gane Simba
 Acting Chairperson and Governor


Fred Fakari'i
 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 12 to 39.

Central Bank of Solomon Islands
Statement of changes in equity
For the year ended 31 December 2014

	Issued & paid up capital \$000	Gold revaluation reserve \$000	General reserve \$000	Foreign exchange assets revaluation reserve \$000	Asset revaluation reserve \$000	Capital assets reserve \$000	Total \$000
Balance as at 1 January 2013	20,000	(3,248)	83,034	4,976	86,235	61,875	252,872
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	(15,165)	(150,548)	612	-	(165,101)
<u>Other comprehensive income/(losses)</u>							
Fair value losses – gold	-	(77,935)	-	-	-	-	(77,935)
<u>Total other comprehensive income/(losses)</u>	-	(77,935)	(15,165)	(150,548)	612	-	(243,036)
Total comprehensive income/(losses)	20,000	(81,183)	67,869	(145,572)	86,847	61,875	9,836
<u>Transaction with owners, recorded directly in equity</u>	30,000	-	(30,000)	-	-	-	-
Balance as at 31 December 2013	50,000	(81,183)	37,869	(145,572)	86,847	61,875	9,836
Balance at 1 January 2014	50,000	(81,183)	37,869	(145,572)	86,847	61,875	9,836
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	(2,297)	(28,860)	2,245	-	(28,912)
<u>Other comprehensive income/(losses)</u>							
Fair value gains – gold	-	275	-	-	-	-	275
<u>Total other comprehensive income/(losses)</u>	-	275	(2,297)	(28,860)	2,245	-	(28,637)
Balance as at 31 December 2014	50,000	(80,908)	35,572	(174,432)	89,092	61,875	(18,801)

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

Central Bank of Solomon Islands
Statement of cash flows
For the year ended 31 December 2014

	Note	2014 \$000	2013 \$000
Operating activities			
Interest received		49,760	42,160
Other income		15,098	11,515
Interest paid		(8,057)	(2,625)
Cash paid to suppliers and employees		(43,345)	(54,791)
Net movement in held to maturity investments		(128,293)	(198,719)
Net movement in International Monetary Fund accounts		10,121	3
Net movement in other receivables		61,548	(52,335)
Net movement in other payables		(3,359)	7,497
Cash flows used in operating activities		(46,527)	(247,295)
Investing activities			
Acquisition of property, plant and equipment		(4,179)	(10,720)
Proceeds from sale of premises, plant and equipment		81	181
Net movement in available-for-sale investments		(8,021)	(74,096)
Net movement in loan to government		5,894	7,214
Net movement in loans and advances to staff		85	(1,318)
Cash flows used in investing activities		(6,140)	(78,739)
Financing activities			
Net movement in currency in circulation		76,774	10,634
Net movement in demand deposits		(154,450)	36,406
Net movement in fixed deposits received		9,797	400,613
Solomon Islands government monetary operations		(3,390)	(4,782)
Net movement in International Monetary Fund credit facilities		(3,237)	1,786
Cash flows (used in)/from financing activities		(74,506)	444,657
Net effect of exchange rates		(28,860)	(150,548)
Net decrease in cash		(156,033)	(31,925)
Cash and cash equivalents at the beginning of the financial year		732,980	764,904
Cash and cash equivalents at the end of the financial year	20	576,947	732,980

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2014

1. Principal activities and principal place of operations

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

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

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

The financial statements were authorised for issue by the Board of Directors on April 2015.

2. Basis of preparation

(a) Statement of compliance

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

The Bank has not complied with the requirements of the Central Bank of Solomon Islands Act (Section 56) which requires that in the event that the value of its assets falls below the sum of its monetary liabilities and its unimpaired authorised capital, then –

- (a) The Board, with the advice of the external audit or of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;
- (b) If the Board approves the report under paragraph (a), the Bank shall request the Minister of Finance for a capital contribution to be made by the Government to remedy the deficit; and
- (c) Upon receipt of this request the Government shall, within a period of no more than 30 calendar days, transfer to the Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Solomon Islands.

As at 31 December 2014, the Bank’s total assets amounted to \$4.20 billion (2013:\$4.30 billion). This was less than the sum of the Bank’s total monetary liabilities and its unimpaired capital which totalled \$4.27 billion (2013:\$4.34 billion).

(b) Going concern basis of accounting

The financial statements have been prepared on a going concern basis notwithstanding that at 31 December 2014 the Bank had a deficiency in net assets of \$18.8m.

The Bank’s continuation as a going concern is dependent upon the continued support of the Solomon Islands Government. These conditions indicate the existence of a material uncertainty which may cast doubt on the Bank’s ability to continue as a going concern.

The Directors consider it appropriate to prepare these financial statements on a going concern basis as the Bank under Section 56 of the Central Bank of Solomon Islands Act 2012 is required to request the Minister of Finance for a capital contribution to be made by the Government to remedy the deficit.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts and classification of liabilities that might be necessary should the Bank be unable to continue as a going concern.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

2. Basis of preparation (continued)

(c) Basis of measurement

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

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgement

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

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

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

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.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

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.

(b) Interest

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

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

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

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

(c) Fees and commission

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

(d) Other income

Other income are brought to account on an accrual basis

(e) Tax expense

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

(f) Financial assets and financial liabilities

i. Recognition

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

3. Statement of significant accounting policies (continued)

(f) Financial assets and financial liabilities(continued)

i. Recognition (continued)

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

ii. Classification

Financial assets

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

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

Financial liabilities

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

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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at 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.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

3. Statement of significant accounting policies (continued)

v. Fair value measurement (continued)

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.

(h) Held-to-maturity

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

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

(i) Available-for-sale

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

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

(j) Loans and advances

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

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

(k) Currency Inventory

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

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

(l) Currency in circulation

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

3. Statement of significant accounting policies (continued)

(m) Property, plant and equipment

Recognition and measurement

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

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

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

Subsequent costs

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

Depreciation

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

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

Periodic revaluation

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded 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 realised if put for sale by private treaty. The Board proposes to have such assets revalued every three years.

(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 expenditures that are 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.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

3. Statement of significant accounting policies (continued)

(m) Investment property (continued)

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.

(n) Demand deposits

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

(o) Employee entitlements

Short-term employee benefits

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

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

Long-term employee benefits

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

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

(p) Impairment

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

(q) Comparative figures

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

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 Financial Instruments, which becomes mandatory for the Bank's 2018 financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

	2014	2013
	\$000	\$000
4. Income and expenses		
(a) Interest income		
Overseas investments	46,482	39,913
Local investments	1,694	1,824
	<u>48,176</u>	<u>41,737</u>
(b) Fees and commission income		
Foreign currency dealings	8,958	7,784
Local dealings	2,938	1,174
	<u>11,896</u>	<u>8,958</u>
(c) Other income		
Gain on disposal of fixed assets	81	181
Rent received	870	934
Sale of numismatic coins	223	139
Gains on foreign currency exchange	114	614
Royalties on numismatics	1,261	649
Others	734	221
	<u>3,283</u>	<u>2,738</u>
(d) Interest expense		
Foreign liabilities	106	82
Local liabilities	9,758	7,067
	<u>9,864</u>	<u>7,149</u>
(e) Administrative expenses		
Staff costs	24,162	23,306
Telecommunication	2,291	1,783
Utilities	2,340	2,442
Repairs and maintenance	1,837	2,217
Insurance	610	345
Consumables	307	834
Stationery, printing and postage	918	710
Consultancy	127	39
Other	610	903
	<u>33,202</u>	<u>32,579</u>
(f) Other expenses		
Board of directors remunerations and expenses	190	529
Currency expenses	13,551	17,913
Depreciation	5,721	7,255
Auditors remuneration	386	309
Loss on realisation of gold instrument	-	590
Other	1,612	1,227
	<u>21,460</u>	<u>27,823</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

	2014	2013
	\$000	\$000
5. Held-to-maturity investments		
Fixed term deposits	2,629,234	2,454,535
Short term commercial paper	124,081	128,914
Bonds	131,235	170,374
	<u>2,884,550</u>	<u>2,753,823</u>
6. Available-for-sale investments		
Unallocated gold - at fair value	107,302	103,281
Gold bullion - at fair value	114,066	109,792
	<u>221,368</u>	<u>213,073</u>

7. International Monetary Fund

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

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

- (i) payment to the IMF out of the Central Bank's external assets which have been reimbursed by the Government of Solomon Islands by issue of non-interest bearing securities;
- (ii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Government of Solomon Islands.
- (iii) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No. 2 accounts, are disclosed together as capital subscription. The IMF maintains such balances in their accounts in both Special Drawing Rights (SDR) and Solomon Islands dollar equivalents; the Bank balances are maintained only in Solomon Islands dollars.

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

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

IMF related assets and liabilities

	2014	2013
	\$000	\$000
Foreign currency assets		
- Reserve tranche position	6,253	6,029
- Special drawing rights	96,724	103,031
- Currency subscription	111,963	107,949
	<u>214,940</u>	<u>217,009</u>
Foreign currency liabilities		
- Standby credit facility	130,038	136,774
- Special drawing rights allocation	112,627	108,590
- Extended credit facility	6,755	3,257
- Securities	107,059	107,059
- Capital subscription	4,930	915
	<u>361,409</u>	<u>356,595</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

	2014 \$000	2013 \$000
8. Loans and advances		
<i>Solomon Islands Government</i>		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	10	483
Other securities	4,936	4,936
Amortising bonds	63,970	69,391
	<u>68,989</u>	<u>74,883</u>
<i>Staff loans</i>		
Staff housing loans	4,729	4,947
Management car loans	424	391
Personal loans	1,157	1,057
	<u>6,310</u>	<u>6,395</u>
	<u>75,299</u>	<u>81,278</u>
9. Currency inventory		
Notes	10,759	20,406
Coins	21,588	19,453
	<u>32,347</u>	<u>39,859</u>
10. Investment properties		
Balance at beginning of financial year – at fair value	11,935	11,323
Less: transferred to PPE	(1,518)	-
Changes in fair value	2,245	612
Balance at end of financial year – at fair value	<u>12,662</u>	<u>11,935</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 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 \$870,000 (2012: \$934,000) has been recognised in other income.

Fair value hierarchy

The fair value of investment property 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 provide 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 2014

10. Investment properties (continued)

Valuation techniques and significant unobservable inputs

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Replacement cost method: where the improvements are valued using current replacement cost and an allowance for depreciation and obsolescence plus the freehold value of the land (notable sales of comparable vacant sites within Honiara are noted).	<ul style="list-style-type: none"> • Depreciation rate applied. • Locality of the property • Proximity to civic amenities • Topography/geographical feature of the land • Demand for the land 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • depreciation rate were lower (higher); • the property located in urban locality; • closer to civic amenities; • the higher the demand for the land.

11. Other assets

Commercial bank clearing
Others

2014 \$000	2013 \$000
36,930	97,905
3,777	624
<u>40,707</u>	<u>98,529</u>

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2014

12. Property, plant and equipment

<i>Cost/valuation</i>	Land and Plant, equipment buildings \$000	and furniture \$000	Motor vehicles \$000	Computer \$000	Work in Progress \$000	Total \$000
Balance at 1 January 2013	123,302	22,565	2,156	5,406	3,108	156,537
Acquisitions	-	2,050	437	997	7,236	10,720
Transfers	5,932	-	-	-	(5,932)	-
Disposals	-	(13)	(351)	-	-	(364)
Balance at 31 December 2013	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
<i>Accumulated depreciation</i>						
Balance at 1 January 2013	-	16,810	1,288	3,764	-	21,862
Depreciation charge for the year	3,288	2,288	473	1,206	-	7,255
Disposals	-	(13)	(351)	-	-	(364)
Balance at 31 December 2013	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
<i>Carrying amount</i>						
At 1 January 2013	123,302	5,755	868	1,642	3,108	134,675
At 31 December 2013	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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

13. Demand deposits

2014
\$000

2013
\$000

(a) Foreign currency demand deposits

Demand deposits	<u>11,549</u>	<u>43,890</u>
-----------------	---------------	---------------

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

2014
\$000

2013
\$000

(b) Local currency demand deposits

Commercial banks	1,164,859	1,423,680
Solomon Islands Government	1,305,694	1,161,336
Other financial corporations	4,121	10,664
Other	<u>6,978</u>	<u>6,275</u>
	<u>2,481,652</u>	<u>2,601,955</u>

14. Currency in circulation

Notes	669,299	596,429
Coins	<u>25,045</u>	<u>21,141</u>
	<u>694,344</u>	<u>617,570</u>

15. Fixed deposits

Bokolo bills	<u>621,729</u>	<u>611,932</u>
--------------	----------------	----------------

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

2014
\$000

2013
\$000

16. SIG monetary operations account

SIG monetary operations account	<u>30,215</u>	<u>33,604</u>
---------------------------------	---------------	---------------

17. Employee entitlements

Gratuity	1,107	329
Long service leave	376	508
Early retirement benefit	<u>12,463</u>	<u>10,172</u>
	<u>13,946</u>	<u>11,009</u>

18. Other liabilities

Unpresented bank cheques	3,845	7,149
Other liabilities	<u>2,199</u>	<u>2,253</u>
	<u>6,044</u>	<u>9,402</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

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).

	2014 \$000	2013 \$000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating loss	(28,912)	(165,101)
Add/(less) net unrealised foreign exchange loss/(gain)	28,860	150,548
(Less) changes in fair value in investment properties	<u>(2,245)</u>	<u>(612)</u>
Net (loss)/gain to be recorded in general reserve	<u>(2,297)</u>	<u>(15,165)</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:

	2014 \$000	2013 \$000
Cash on hand – local currency	224	300
Cash and cash equivalents – foreign currency	<u>576,723</u>	<u>732,680</u>
	<u>576,947</u>	<u>732,980</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 (2013: \$50 million). The capital is fully subscribed by the Government of Solomon Islands.

	2014 \$000	2013 \$000
Balance at the beginning of the year	50,000	20,000
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	<u>-</u>	<u>30,000</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 2014

22. Reserves (continued)

b) Foreign exchange asset revaluation reserve

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

c) Asset revaluation reserve

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

d) Gold revaluation reserve

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

e) Capital asset reserve

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

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 2014

23. Financial risk and management policies (continued)

(b) Liquidity risk (continued)

The Central Bank of Solomon Islands Act 2012 (Section 56) requires that in the event that the value of its assets falls below the sum of its monetary liabilities and its unimpaired authorised capital, then –

- (a) The Board, with the advice of the external auditor of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;
- (b) If the Board approves the report under paragraph (a), the Bank shall request the Minister of Finance for a capital contribution to be made by the Government to remedy the deficit; and
- (c) Upon receipt of this request the Government shall, within a period of no more than 30 calendar days, transfer to the Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Solomon Islands.

As at 31 December 2014, the Bank's total assets amounted to \$4.20 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which totalled \$4.27 billion.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

23. Financial risk and management policies (continued)

(b) Liquidity risk (continued)

Maturity analysis as at 31 December 2014

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2014.

	On Demand \$000s	0-3 Months \$000s	3-6 Months \$000s	6-12 Months \$000s	Over 1 year \$000s	Undefined \$000s	Total \$000s
Foreign currency financial assets							
Money on demand	576,723	-	-	-	-	-	576,723
Accrued interest	-	3,197	1,954	-	-	-	5,151
Fixed term deposit	-	2,226,852	402,382	-	-	-	2,629,234
Holding on special drawing rights	-	-	-	-	-	96,724	96,724
Reserve tranche	-	-	-	-	-	6,253	6,253
Subscription	-	-	-	-	-	111,963	111,963
Gold investment	-	-	-	-	-	221,369	221,369
Bonds	-	-	-	31,195	100,040	-	131,235
Short term	-	124,081	-	-	-	-	124,081
	576,723	2,354,130	404,336	31,195	100,040	436,309	3,902,733
Local currency financial assets							
Cash on hand	224	-	-	-	-	-	224
Other receivables	-	-	36,930	-	-	-	36,930
Loans and advances	-	-	-	-	75,299	-	75,299
	224	-	36,930	-	75,299	-	112,453
Total Financial Assets	576,947	2,354,130	441,266	31,195	175,339	436,309	4,015,186
Foreign currency financial liabilities							
Demand deposits	11,549	-	-	-	-	-	11,549
IMF standby credit facility	-	-	-	-	-	130,038	130,038
IMF special drawing rights allocation	-	-	-	-	-	112,627	112,627
IMF extended credit facility	-	-	-	-	-	6,755	6,755
IMF securities	-	-	-	-	-	107,059	107,059
Capital subscription	-	-	-	-	-	4,930	4,930
	11,549	-	-	-	-	361,409	372,958
Local currency financial liabilities							
Demand deposits	2,481,652	-	-	-	-	-	2,481,652
Currency in circulation	-	-	-	-	-	694,344	694,344
SIG monetary operations account	-	30,215	-	-	-	-	30,215
Fixed deposits	-	610,484	11,245	-	-	-	621,729
Employee entitlements	-	-	-	-	13,946	-	13,946
Other liabilities	3,845	2,199	-	-	-	-	6,044
	2,485,497	642,898	11,245	-	13,946	694,344	3,847,930
Total Financial Liabilities	2,497,046	642,898	11,245	-	13,946	1,055,753	4,220,888
Net assets/(liabilities)	(1,920,099)	1,711,232	430,021	31,195	161,393	(619,444)	(205,702)

Central Bank of Solomon Islands

Notes to and forming part of the financial statements

For the year ended 31 December 2014

23. Financial risk and management policies (continued)

(b) Liquidity risk (continued)

Maturity analysis as at 31 December 2013

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2013.

	On Demand \$000s	0-3 Months \$000s	3-6 Months \$000s	6-12 Months \$000s	Over 1 year \$000s	Undefined \$000s	Total \$000s
Foreign currency financial assets							
Money on demand	732,680	-	-	-	-	-	732,680
Accrued interest	-	-	9,167	-	-	-	9,167
Fixed term deposit	-	1,329,093	1,036,891	88,551	-	-	2,454,535
Holding on special drawing rights	-	-	-	-	-	103,031	103,031
Reserve tranche	-	-	-	-	-	6,029	6,029
Subscription	-	-	-	-	-	107,949	107,949
Gold investment	-	-	-	-	-	213,073	213,073
Bonds	-	-	-	32,701	137,673	-	170,374
Short term	-	-	128,914	-	-	-	128,914
	732,680	1,329,093	1,174,972	121,252	137,673	430,082	3,925,752
Local currency financial assets							
Cash on hand	300	-	-	-	-	-	300
Other receivables	-	-	97,905	-	-	-	97,905
Loans and advances	-	-	-	-	81,278	-	81,278
	300	-	97,905	-	81,278	-	179,483
Total Financial Assets	732,980	1,329,093	1,272,877	121,252	218,951	430,082	4,105,235
Foreign currency financial liabilities							
Demand deposits	43,890	-	-	-	-	-	43,890
IMF standby credit facility	-	-	-	-	-	136,774	136,774
IMF special drawing rights allocation	-	-	-	-	-	108,590	108,590
IMF extended credit facility	-	-	-	-	-	3,257	3,257
IMF securities	-	-	-	-	-	107,059	107,059
Capital subscription	-	-	-	-	-	915	915
	43,890	-	-	-	-	356,595	400,485
Local currency financial liabilities							
Demand deposits	2,601,955	-	-	-	-	-	2,601,955
Currency in circulation	-	-	-	-	-	617,570	617,570
SIG monetary operations account	-	33,604	-	-	-	-	33,604
Fixed deposits	-	-	611,932	-	-	-	611,932
Employee entitlements	-	-	-	-	11,009	-	11,009
Other liabilities	7,149	2,253	-	-	-	-	9,402
	2,609,104	35,857	611,932	-	11,009	617,570	3,885,472
Total Financial Liabilities	2,652,994	35,857	611,932	-	11,009	974,165	4,285,957
Net assets/(liabilities)	(1,920,014)	1,293,236	660,945	121,252	207,942	(544,083)	(180,722)

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

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:

	2014	2013
	\$000	\$000
Foreign currency assets		
Cash at bank	576,723	732,680
Held to maturity investment	2,884,550	2,753,823
International monetary fund	214,940	217,009
Gold investment	221,369	213,073
	<u>3,897,582</u>	<u>3,916,585</u>
 Local currency assets		
Loans and advances	75,299	81,278
	<u>3,972,881</u>	<u>3,997,863</u>

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

	2014		2013	
	\$000	%	\$000	%
Concentration by currency				
USD	1,744,765	44	1,771,155	44
AUD	1,133,668	29	1,154,698	29
EURO	245,543	6	240,474	6
SDR	214,940	5	217,009	5
NZD	191,719	4	163,087	4
SGD	64,518	2	64,701	2
STG	302,426	8	305,457	8
SBD	75,299	2	81,278	2
JPY	3	0	4	0
Total financial assets	<u>3,972,881</u>	<u>100</u>	<u>3,997,863</u>	<u>100</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

23. Financial risk and management policies (continued)

(c) Credit risk (continued)

Concentration of credit exposure (continued)

	2014		2013	
	\$000	%	\$000	%
Concentration by sector				
Foreign currency assets				
Central banks	832,039	23	1,031,968	28
Commercial banks	2,629,234	72	2,454,536	66
International Monetary Fund	214,940	5	217,009	6
	<u>3,676,213</u>	<u>100</u>	<u>3,703,512</u>	<u>100</u>
Local currency assets				
Solomon Islands Government loan and advances	68,988	92	74,883	92
Staff loan and advances	6,311	8	6,395	8
	<u>75,299</u>	<u>100</u>	<u>81,278</u>	<u>100</u>
Total financial assets	<u>3,751,512</u>		<u>3,784,790</u>	

(d) Market risk

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

Interest rate risk management

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

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

	Carrying amount	
	2014	2013
	\$000	\$000
Fixed rate instruments		
Held-to-maturity investments (Financial assets)	2,884,550	2,753,823
Loans and advances (Financial assets)	75,299	81,278
Demand deposits (Financial liabilities)	(600,110)	(369,337)
SIG monetary operations account (Financial liabilities)	(16,449)	(33,123)
Fixed deposits (Financial liabilities)	(621,729)	(611,932)
	<u>1,721,561</u>	<u>1,820,709</u>
Variable rate instruments		
Cash at Bank (Financial assets)	204,078	124,563
International Monetary Fund (Financial liabilities)	(112,627)	(108,590)
	<u>91,451</u>	<u>15,973</u>

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

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 2014		
Variable rate instruments	915	(915)
31 December 2013		
Variable rate instruments	160	(160)

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.

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

23. Financial risk and management policies (continued)

(d) Market risk (continued)

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

2014 foreign currency risk

	USD	NZD	AUD	EURO	STG	Others
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Foreign currency financial assets						
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 tranche	6,253	-	-	-	-	-
Subscription	111,963	-	-	-	-	-
Gold investment	221,369	-	-	-	-	-
Bonds	-	-	131,235	-	-	-
Short term commercial paper	-	-	124,081	-	-	-
Total	1,744,769	191,719	1,133,668	245,543	302,426	64,520
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	1,383,360	191,719	1,133,668	245,543	302,426	64,520

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

23. Financial risk and management policies (continued)

(d) Market risk (continued)

2013 foreign currency risk

	USD	NZD	AUD	EURO	SGT	Others
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Foreign currency financial assets						
Money on demand	606,852	-	84,641	39,798	1,269	120
Fixed term deposit	734,222	163,087	770,769	200,676	304,188	64,586
Holding on special drawing rights	103,031	-	-	-	-	-
Reserve tranche	6,029	-	-	-	-	-
Subscription	107,949	-	-	-	-	-
Gold investment	213,072	-	-	-	-	-
Bonds	-	-	170,374	-	-	-
Short term commercial paper	-	-	128,914	-	-	-
Total	1,771,155	163,087	1,154,698	240,474	305,457	64,706
Foreign currency financial liability						
Demand deposits	34,591	-	9,206	-	-	93
IMF standby credit facility	136,774	-	-	-	-	-
IMF special drawing rights allocation	108,590	-	-	-	-	-
IMF extended credit facility	3,256	-	-	-	-	-
IMF securities	107,059	-	-	-	-	-
Capital subscription	914	-	-	-	-	-
Total	391,184	-	9,206	-	-	93
Net foreign currency asset	1,379,971	163,087	1,145,492	240,474	305,457	64,613

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 2014:

	2014		2013	
	(\$000)	%	(\$000)	%
USD	1,648,045	46	1,668,124	46
AUD	1,133,668	32	1,154,698	32
EURO	245,543	7	240,474	7
NZD	191,719	5	163,087	5
JPY	3	0	4	0
SGD	64,517	2	64,702	2
STG	302,426	8	305,457	8
	3,585,921	100	3,596,546	100

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

23. Financial risk and management policies (continued)

(d) Market risk (continued)

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

Reporting date spot rate		
	2014	2013
AUD	0.1603	0.1529
USD	0.1310	0.1359
NZD	0.1677	0.1663
GBP	0.0843	0.0824
EURO	0.1077	0.0986
JPY	15.674	14.290
SGD	0.1733	0.1723
SDR	0.0880	0.0913

Sensitivity to foreign exchange rate risk	2014 \$M	2013 \$M
Impact of a:		
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(76)	(77)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	80	82

(e) Operational risk management

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

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

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

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

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 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

31 December 2013	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Available for sale financial assets (Gold)	6	213,073			213,073
Investment Property	10			11,935	11,935

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

25. Related parties

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

The Board of Directors during the year were:

Denton Rarawa (Chairman and Governor)
 Gane Simbe
 Shadrach Fanega (retired from membership on 25 November 2014)
 Fred Fakarii (appointed 25 November 2014)
 Katululu Maepioh
 Loyley Ngira
 Lily Lomulo
 Tele Bartlett
 Primo Afeau
 John Usuramo

Directors' fees and emoluments

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

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

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

Denton Rarawa	Governor
Gane Simbe	Deputy Governor
Raynick Aquillah	Chief Manager International
Daniel Haridi	Chief Manager Currency and Banking Operations
Luke Forau	Chief Manager Economics Research and Statistics- on leave
Michael Kikiolo	Acting Chief Manager Economics Research and Statistics
Bella Simiha	Chief Manager HR and Corporate Services
Emmanuel Gela	Chief Manager Finance and Accounts
Raynold Moveni	Chief Manager Financial Market Supervision
Edward Manedika	Chief Manager Information Technology

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

	2014	2013
	\$000	\$000
Short-term employee benefits	2,490	3,124
Long-term benefits	660	952
	<u>3,150</u>	<u>4,076</u>

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

Central Bank of Solomon Islands
Notes to and forming part of the financial statements
For the year ended 31 December 2014

25. Related parties (continued)

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

As at 31 December 2014 loans by the Bank to key management personnel are as follows:

	2014	2013
	\$000	\$000
Housing loan	1,032	1,073
Personal loan	105	106
Management car loan	105	74
	<u>1,242</u>	<u>1,253</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 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 \$1.5 million (2013: \$1.7m) of interest income relating to their investments in Government securities. The Bank also paid \$3.9 million (2013: \$2.4m) 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 \$68.9 million (2013: \$74.8m).

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 2014 (2013: \$0.67m). The guarantee scheme since 2011 is no longer available to staff but 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 2014, a total of 64 (2013:59) loans with a net guarantee of \$6.92 (2013: \$5.28m) 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.