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This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to December 31, 2017 unless stated otherwise in the relevant chapters/sections.

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Abbreviations

1H20 refers to end June 2020
2H20 referes to end of Decemner 2020

CBSI	Central Bank of Solomon Islands
Central Bank	refers to Central Bank of Solomon Islands
DBSI	Development Bank of Solomon Islands
FCOPR	Foreign currency open position ratio
FSI's	Financial soundness indicators
IMF	International Monetary Fund
NPLs	Non-Performing Loans
PFTAC	Pacific Financial Technical Assistance Centre
SINPF	Solomon Islands National Provident Fund
The Fund	refers to Solomon Islands National Provident Fund

Chapter 1: OVERVIEW OF INTERNATIONAL & DOMESTIC FINANCIAL CONDITIONS

The COVID-19 pandemic has been and remains the most significant drag on the global economy and society in 2H20. Whilst large uncertainties prevail, recent approval of roll-out of vaccines and strong policy support in few large economies led to an upward revision on the global growth in the third and fourth quarter of 2020. According to the IMF's January 2021 World Economic Outlook (WEO)[1] global growth is projected to grow by 5.5 percent in 2021, an upward revision of 0.3 points relative to 2020 October WEO forecast. Financial conditions for both advanced and emerging market economies have rebounded in the second half of 2020 and is projected to surge above pre-pandemic level in 2021. In advanced economies, low interest rates and a recovery in risk asset markets have continued to support further easing in financial conditions. In emerging markets, especially in China, financial conditions have remained broadly stable as authorities have scaled back expectations for further interest rate reductions amid improving economic activity and rising financial sector risks.

Global financial conditions have eased significantly [2] since June 2020, allowing countries and firms to benefit from continued access to capital market and bank funding and preventing liquidity pressures from turning into broad-based insolvency. The global banking system remains fairly well capitalized against additional adverse shocks.

Following the stronger rebound in economic activity seen across most advanced and emerging market economies in the second half of 2020, global financial conditions have remined accommodative on the back of continued policy support. Whilst large uncertainties prevail, downside risks to the financial outlook include renewed waves of COVID-19 infections and new variants of the virus that could dampen the economic and financial recovery prospects across the globe persists.

The January 2021 IMF's Financial Stability Report highlighted that vulnerabilities and risks identified in the June report persists. This includes rising corporate debt, fragilities in the nonbank financial institutions sector, increasing sovereign debt, market access challenges for some developing economies, and declining profitability in some banking sector.

Domestic economic conditions remained weak in 2H20 as the prolonged uncertainties brought by COVID19 continues to have profound societal and economic impacts in the domestic economy. Preliminary estimates showed that the domestic economy contracted by 4.3[3] percent in 2020, down from the negative 3.9 percent estimated in 1H20.

The overall financial system of Solomon Islands remained resilient in the 2H20 amidst the uncertainties brought about by the COVID-19 pandemic and the downturn in the overall economy during 2020. The latest financial sector resilience assessment conducted by CBSI gave an overall 'satisfactory' rating for the entire financial system. The key financial soundness indicators such as capital adequacy, asset quality, profitability and liquidity remained adequate in 2H20. Moreover, vulnerabilities and risks identified in 1H20 Financial Stability Report remained relevant in 2H20 report. Despite the overall satisfactory rating concentration risk, credit risk, liquidity risk, operational risk, cybersecurity risk, corporate governance risk, market risk and high non-performing loans remained risks to financial stability.

During the second half of 2020, key sectors of the financial system experience different movements in terms of their assets and financial performance. All the sectors have recorded positive movement in their total assets in 2H20. The banking sector's total asset grew by 3.8 percent to $6.3 billion and recorded a net profit before tax of $77.2 million. The superannuation sector registered a marginal growth of 0.6 percent in its total assets to $3.75 billion and recorded a net loss of $21.2 million. In the insurance sector, the net profit before tax surged from $3.8 million to $11.6 million whilst total assets rose by $1.2 million to $168.1 million. Credit Union sector's total assets grew from $81.5 million in 1H20 to $85.5 million in 2H20 and recorded annual profit of $1.6 million during the year. DBSI being new to the market and as expected of a newly established entity did not record any profit during its first six months of operation. DBSI's total assets expanded during the first six months of operation to $84.7 million[4] .

1 Obtained from the International Monetary Fund (IMF) World Economic Outlook, January 2021

2 Obtained from International Monetary Fund (IMF) Financial Stability Report, October 2020

3 Obtained from CBSI Monetary Policy Statement, March 2021.

4 DBSI's audited accounts were not yet ready when the 2H20 FSR report was published

Chapter 2: FINANCIAL SECTOR RESILIENCE

The overall financial system of Solomon Islands remained resilient in the 2H20 amidst the uncertainties brought about by the COVID-19 pandemic and the downturn in the overall economy during 2020. Preliminary estimates showed that the domestic economy recorded an annual growth rate of negative 4.3 percent[5] in 2020. Despite contraction in the economy, the country's latest financial sector resilience assessment has an overall rating of 'satisfactory', reflecting stability in key financial soundness indicators (FSIs)[6] such as capital adequacy, asset quality, profitability, and liquidity (Appendix B).

Notwithstanding the satisfactory rating, key sectors of the financial system experienced mixed movements in terms of their assets. On the upside, the asset base of the banking sector and the superannuation sector expanded while that of the insurance and the credit union sectors contracted in the second half of 2020 compared to their positions in 1H20 (Appendix A).

Banking Sector

The banking sector[7] contributed the largest to the overall resilience of the financial system in 2H20. The resilience was owed mainly to a strong customer resolve, prudent management practices, and reasonably stable financial conditions as reflected by the licensed financial institutions having ample capital position, a reasonably low level of toxic assets, a satisfactory liquidity position to meet deposit obligations and a strong profitability outcome (Appendix B).

In terms of capital adequacy, the sector recorded a ratio of 32.6 percent, this is a better outcome and well above the regulatory threshold limit of 15 percent (See Table 1). The improvement in capital adequacy ratio reflected the retained earnings and capital injection to one of the commercial banks from parent in July 2020. Despite the compounding pressure exerted by the COVID-19 pandemic in 2H20 and loan repayment moratorium offered by banks and credit institutions, the banking sector witnessed an improvement in its asset quality, as indicated by the drop in non-performing loans to total gross loans ratio from 11.8 percent to 10.8 percent (See Table 1). While the NPL ratio is still considered high, the banking sector does have adequate level of capital to absorb future losses that may arise. Consequently, the banking system continued to remain profitable.

Similarly, the liquidity of the banking sector continued to remain high. Adequacy in liquidity indicates stability in the banking sector. From a commercial perspective, high liquidity reflects the cautious approach taken by banks in terms of lending to mitigate potential risks of loan default during the pandemic situation. The adequate liquidity is confirmed by the deposits to loans ratio which remained above 100 percent mark (see Table 1). Additionally, liquid assets to short term liabilities ratio also improved further in 2H20 from 55.7 percent to 64.7 percent.

Exposure to foreign currency holding remained relatively lower at 2.5 percent during 2H20, compared to the overall regulatory threshold limit of 25 percent since 1H20 (see Table 1). This reflects a general slowdown in both domestic economic and international trade activities due to pressures associated with COVID-19 pandemic and the governments containment measures.

Overall, the sector continued to provide core banking services to its customers under difficult circumstances.

5 Obtained from CBSI Monetary Policy Statement, March 2021
6 The FSIs are internationally used to measure financial soundness of financial system. Some of the FSIs have been introduced by International Monetary Fund
7 Comprises of four commercial banks and two credit institutions

Table 1: Banking Sector Financial Soundness Indicators, 2H17 - 2H20

	2H17	1H18	2H18	1H18	2H19	1H20	2H20
Capital Adequacy							
Total regulatory capital-to-risk weighted assets (RWAs) (CAR) >15%	35.0%	32.9%	31.1%	28.9%	31.3%	28.4%	32.6%
Nonperforming loans (NPLs) net specific loan loss provisions-to-capital & reserves	12.2%	10.9%	11.8%	18.3%	18.0%	20.7%	17.2%
Asset Quality							
NPL-to-total gross loans	6.4%	5.8%	7.1%	9.8%	10.4%	11.8%	10.8%
Specific loan loss provisions-to-NPLs (Coverage Ratio)W	18.7%	23.2%	30.9%	25.5%	29.4%	27.9%	30.1%
Earnings & Profitability							
Return on Assets (ROA)	3.9%	3.8%	3.5%	3.6%	3.1%	1.8%	2.2%
Return on Equity (ROE)	23.1%	21.8%	20.4%	21.4%	18.3%	10.2%	12.3%
Net-interest Income to Gross Income ratio	55.0%	53.8%	54.6%	52.4%	53.6%	58.1%	58.7%
Cost-to-income ratio	47.4%	51.8%	52.1%	52.5%	54.0%	56.1%	55.9%
Non-interest income-to-gross income ratio	45.0%	46.2%	45.4%	47.6%	46.4%	41.9%	41.3%
Personnel expenes-to-noninterest expenses ratio	33.9%	31.4%	30.9%	30.2%	29.7%	32.2%	31.7%
Interest spread	10.7%	10.4%	20.8%	10.1%	20.1%	9.8%	19.3%
Liquidity							
Deposits-to-loans ratio	146.3%	145.7%	158.4%	148.2%	143.0%	148.9%	156.0%
Liquid assets-to-total assets ratio	38.4%	39.0%	40.4%	38.7%	37.4%	39.3%	45.7%
Sensitivity to Market Risks							
Net open position in foreign exchange-to-capital ratio	3.8%	3.5%	4.1%	2.2%	2.1%	7.6%	2.5%

Source: *Central Bank of Solomon Islands*

Superannuation Sector

Like the banking sector,[8] the superannuation sector remained resilient in 2H20 amidst the increasing pressures from the pandemic and its impact. The resilience was largely underpinned by the overall satisfactory and stable financial conditions stemming from satisfactory liquidity, and fair asset quality despite unsatisfactory earnings, and capital (See Table 2).

The liquidity position as indicated by high liquid assets to total value of all members' contributions ratio however, dropped slightly by 24.9 percent due to reduction in liquid assets. The fall in liquid assets reflected increased investments and members' withdrawals in 2H20 compared to 1H20 (See Table 2).

The asset quality as indicated by substandard investment assets to total investment assets ratio improved to 2.2 percent from 2.8 percent from 1H20, following a reduction in debts due to repayments of loans.

The earnings and capital, on the other hand, deteriorated in 2H20 largely due to fall in interest income and unrealised losses from asset revaluation and foreign exchange revaluations.

Notwithstanding the resilience of the superannuation sector, there are risks to its stability if the profitability of the Fund does not improve and the concentration risk stemming from shares and equities are not addressed effectively in a timely manner.

Table 2: Superannuation Sector Financial Soundness Indicators, Dec 2017 - Dec 2020

	2H17	1H18	2H18	1H19	2H19	1H20	2H20
Capital Adequacy							
Capital to total assets	9.0%	11.9%	10.7%	18.8%	12.0%	12.3%	9.2%
Asset Quality							
Substandard investment assets to total investment assets	3.6%	3.0%	3.5%	3.3%	3.2%	2.8%	2.2%
Earnings & Profitability							
Return on investment assets ratio	9.0%	13.9%	8.6%	16.1%	9.3%	13.7%	8.2%
Cost to income ratio	63.3%	16.2%	29.3%	11.1%	18.2%	74.7%	104.7%
Return on assets ratio	-2.8%	5.7%	2.0%	18.2%	8.4%	0.0%	-0.6%
Liquidity							
Liquid assets to total value of members contribution ratio	35.7%	36.4%	30.2%	31.2%	27.7%	25.7%	24.9%
Liquid assets to total assets ratio	31.3%	30.9%	26.0%	24.4%	23.7%	21.7%	21.8%

Source: *Central Bank of Solomon Islands*

8 Comprises of one superannuation which is Solomon Islands National Provident Fund

Insurance Sector Resilience

Like the banking and superannuation sector, the local insurance sector [9] also remained resilient across the 2H20. Financial soundness indicators for the industry was satisfactory, delineating adequate financial strength to hedge unforeseen shocks within the industry. Overall capital adequacy position for the industry was robust - owing to favorable net premium to capital ratio in tandem with sound capital and reserve to total asset ratio. Net premium to capital ratio albeit lower in 2H20 than 1H20, was relatively stable at 26.6 percent. This mirrored sufficient capital buffers to cushion the level of risks retained by the local industry. Capital and reserves to total assets ratio on the other hand grew by 5.1 percentage points to 47.4 percent, signifying sufficient level of capital to support its assets to absorb losses when arise (See Table 3).

The industry's adequate capital position was underpinned by a comforting profitability performance. This was due to lower loss and expense ratios, which together led to a decline in the industry's combine ratio. The back drop in combined net loss and expense also led to a rebound in the industry's net-profit before tax. This outcome subsequently levers the industry's equity ratio up by 18.3 percentage points from 10.7 percent recorded in 1H20, to 29 percent at the end of 2H20 (Table 3).

The industry's resilience is further affirmed by its liquidity position. Liquid asset to short-term liability ratio recorded 170.8 percent as at end of 2020, indicating sufficient liquidity available to meet its immediate dues despite sudden spikes in policy redemptions. Meanwhile, the industry's overall asset quality remained firm despite an increase in its debtors to gross premium plus reinsurance recoveries. This is underscored by a stable debtor to total asset ratio of 24.3 percent, which indicated sufficient asset to more than offset the level of debtors in the industry (See Table 3).

Table 3: Insurance Sector Financial Soundness Indicators, Dec 2017 – Dec 202

	Dec-17	Jun-18	Dec-18	Jun-19	Dec-19	Jun-20	Dec-20
Capital Adequacy							
Net premium to capital ratio	33.3%	47.0%	33.4%	41.6%	37.4%	28.4%	26.6%
Capital & reserves to total assets ratio	46.6%	38.6%	41.2%	46.2%	46.6%	42.3%	47.4%
Asset Quality							
Debtors to total assets ratio	24.5%	24.2%	14.0%	14.5%	15.4%	21.5%	24.3%
Debtors to (gross premiums + reinsurance recoveries) ratio	90.1%	81.5%	57.5%	53.9%	57.3%	112.4%	158.8%
Reinsurance and Actuaries Issues							
Risk retention ratio (net premium to gross income)	62.9%	67.8%	55.2%	73.0%	69.3%	72.4%	82.1%
Adequacy Claims							
Loss ratio (Net claims to net premiums)	-14.1%	19.2%	16.8%	5.2%	16.3%	30.9%	12.7%

9 Comprises of three insurers or insurance companies

Earnings and Profitability							
Expense ratio (Expense to net premiums)	47.8%	38.5%	55.3%	44.7%	44.5%	44.9%	35.9%
Combined ratio (net claims and expenses to net premiums)	33.7%	57.7%	72.1%	49.9%	60.8%	75.8%	48.6%
Investment income ratio (investment income to net premium)	0.4%	1.2%	1.5%	1.2%	1.3%	-3.6%	1.7%
Return on Equity (ROE)	27.4%	17.5%	11.9%	17.7%	13.6%	10.7%	29.0%
Liquidity							
Liquid assets to short term liabilities ratio	134.3%	142.3%	162.1%	177.7%	153.3%	146.5%	170.8%

Source: *Central Bank of Solomon Islands*

Credit Union Sector

The credit union sector[10] recorded a satisfactory stable financial condition in 2H20. This is reflected by satisfactory capital and fair liquidity (Appendix B). With close supervision and guidance by the Registrar's office[11] , credit unions, through their boards and committees, have been committed to ensure compliance with Credit Union Act (1986) and Credit Union Standard By-Laws 1987.

Despite the challenge to fully comply with credit union requirements and uncertainties surrounding COVID-19 pandemic, credit unions have been taking steps to ensure operations continued and at the same time serve their members.

Table 4: Credit Union Sector Financial Soundness Indicators, Dec 2016 to Dec 2020

	Dec-16	**Jun-17**	**Dec-17**	**Jun-18**	**Dec-18**	**Jun-19**	**Dec-19**	**Jun-20**	**Dec-20**
Capital Adequacy									
Capital to total assets ratio	19.0%	16.0%	17.0%	21.0%	22.0%	22.0%	33.0%	32.0%	32.0%
Earnings & Profitability									
Return on assets ratio (ROA)	6.2%	2.9%	3.8%	2.5%	2.5%	2.2%	3.0%	1.8%	1.9%
Return on equity ratio (ROE)	32.8%	17.6%	22.5%	12.1%	11.8%	10.3%	9.2%	5.7%	5.8%
Self-sufficiency ratio	415.4%	290.0%	308.3%	263.6%	200.0%	176.0%	214.3%	181.3%	161.5%

Source: *Central Bank of Solomon Islands*

10 Comprises of ten (reporting) credit unions
11 Governor of Central Bank of Solomon Islands is the registrar of credit unions

Chapter 3: FINANCIAL SECTOR DEVELOPMENT

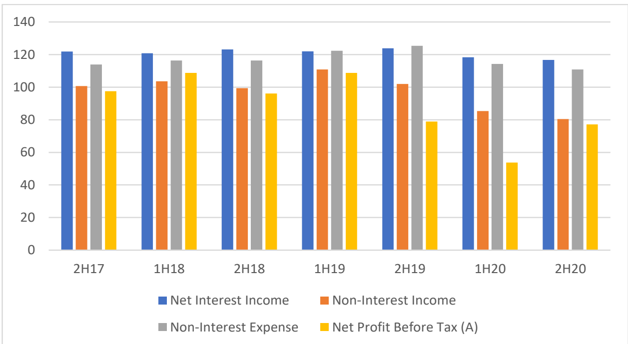
Banking Sector Performance

Over the past five years, the banking sector, especially the commercial banks have been gradually transitioned from traditional banking[12] to digital banking[13] . This is evident with the closure of branches that had been operating in the provinces. The physical presence is being replaced with the digital banking platforms such as mobile banking and internet banking which are the most efficient, effective and flexible ways to deliver banking services. The new digital platform promises cost savings, operational efficiency and improve customer services.

Profitability

The core sources of income of the sector has been hit hard by the containment measures undertaken by the Government to combat the spread of the pandemic in the country. Net interest income fell by 1.4 percent to $116.7 million in 2H20 from $118.3 million in 1H20 (Figure 1). The negative growth in net interest income was largely driven by the loan's repayment moratorium commercial banks and credit institutions introduced to customers experiencing financial hardship. The moratorium, which commenced in February 2020, involved suspension of interests for terms of 3 months and 6 months.

Figure 1: Banking Sector sources of income & expenses, 2H17 - 2H20



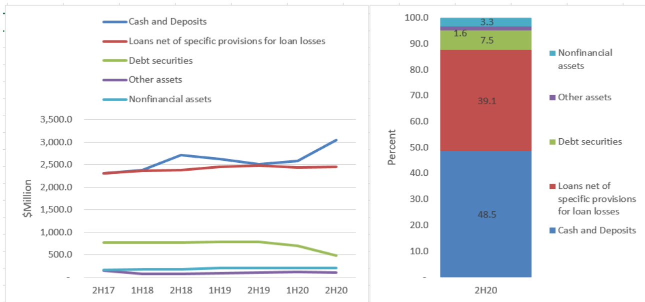
Source: Central Bank of Solomon Islands

Similarly, noninterest income contracted in 2H20. It fell by 5.7 percent to $80.4 million from $85.3 million in 1H20. The decline was largely owed to reduced volume of trading activities and volatility of foreign exchange rates as a result of the impact of the pandemic in 2020. Expectedly, the noninterest expenses behaved the same way. It settled at $110.9 million, down by 3 percent in 2H20 from $114.3 million in 1H20. The improvement was mainly due to decline in other expenses incurred during the bank's operation. The net profit before tax increase to $77.2 million in 2H20 from $53.7 million in 1H20. The increase was mainly due to fall in operating expenses incurred during the reporting period (Figure 1).

Assets

Despite the impact of the COVID-19 pandemic together with the downturn[14] in economic activities in 2020, the banking sector's total assets grew slightly in 2H20. It increased by 3.8 percent from $6.1 billion in 1H20 to $6.3[15] billion in 2H20. The sector's total assets represented 61.1 percent of total assets for the financial system as at end of 2H20 (Appendix A). The growth was largely driven by the growth in cash and deposits (include CBSI call account and demand balance offshore) representing 48.5 percent of the total asset composition, followed by loans with 39.1 percent and debt securities with 7.5 percent as at end of 2H20 (Figure 2).

Figure 2: Banking sector asset composition, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

With the dominance of cash and deposits, along with risk aversion appetite taken during the review period, the banking sector continues to maintain excess liquidity in terms of its short-term obligations and funding need. Likewise, COVID-19 pandemic has taught financial institutions important lessons around the need to adapt to changing business landscapes to ensure business continuity in the face of uncertainties. With excess liquidity and support from parent companies, commercial banks and credit institutions were able to weather the effects of the pandemic in the country in 2H20. But any prolonged effects of the pandemic may push smaller financial institutions into a liquidity crunch in periods' ahead due to the uneven distribution of liquidity across the institutions.

The sector's core banking business somewhat slowed down in 2H20. Loans and advances net of specific provision for loan losses saw a flat growth of 0.5 percent from $2.4 billion in 1H20 to $2.5 billion in 2H20. The minimal growth was mainly from the forestry sector ($32.8 million), followed by the construction sector ($20.7 million), and professional & other services ($10.2 million). The uptick was mainly due to utilisation of overdraft facilities &

12 Traditional banking includes classic banking services (loans, deposits, payments) for individuals and corporate clients, as well as investment banking.

13 Digital banking involves the provision of various channels of banking services by banks to their clients, among which the digital channel plays a significant role.

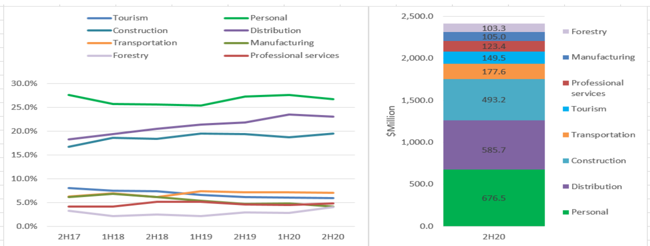
14 Refer to CBSI quarterly review December 2020 report

15 Total Gross Assets less Interest in suspense on loans and advances, specific provisions for losses on loans and accumulated depreciation

drawdowns to various corporate customers during the reporting period despite the COVID-19 pandemic situation.

In terms of sectoral distribution of gross loans, the personal sector continues to dominate the loan portfolio in 2H20 with 26.6 percent. This was followed by distribution with 23.1 percent, construction 19.4 percent, transportation 7 percent, tourism 5.9 percent, professional services 4.9 percent, and remaining sectors constituted less than 4 percent each at end of 2H20 (Figure 3).

Figure 3: Banking sector core sector distribution of loans to total gross loans, 2H17 - 2H20

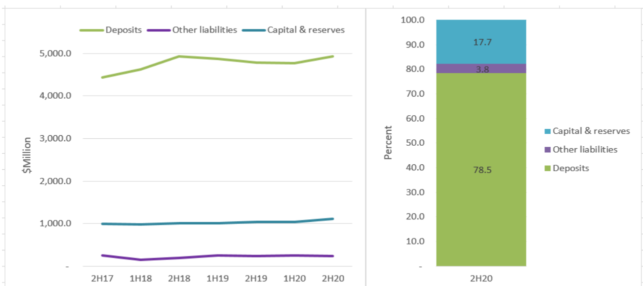


Source: *Central Bank of Solomon Islands*

Liabilities

Despite the negative economic growth experienced in 2020, the total liabilities of the banking sector maintained a positive growth in 2H20. It increased by 3.1 percent from $5.1 billion in 1H20 to $5.2 billion in 2H20. The upward trend was largely driven by the growth in customer deposits, which reflects moderate business activities from the private sector (Figure 4). Of the customer deposits, demand deposits, which is largely held by the private sector, soared ahead of savings deposits while time deposits declined further in 2H20 (Figure 4).

Figure 4: Banking sector major liabilities of the sector & deposit composition, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

Superannuation Sector Performance

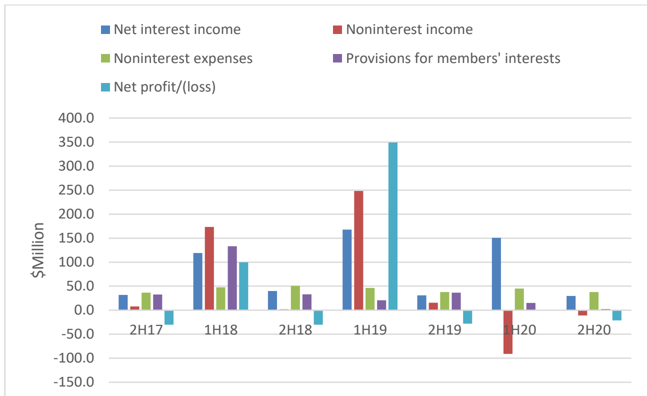
Solomon Islands National Provident Fund (SINPF) remains as the sole and important superannuation fund within the superannuation sector and the financial system.

Profitability

All sources of income have been hampered by the impacts of the coronavirus (COVID-19) pandemic since 1H20 (Figure 5). On a six-month movement, the net interest income significantly decreased by 80.2 percent to $29.8 million in 2H20 from $150.8 million in 1H20. This was particularly due to weak cashflows of tenants and travel restrictions that significantly slowed down SINPF income from rentals, loans and private bond.

Noninterest income, on the other hand, improved to negative $10.6 million in 2H20 from negative $90.7 million in 1H20 but did not contribute positively to overall income. The negative earnings are primarily driven by the losses from asset revaluation as a result of volatility in prices of domestic and offshore equities. This has led to high cost to income ratio in 2H20 compared to 1H20 (Table 2). Noninterest expenses, however improved and, slightly fell by 15.9 percent to $37.8 million in 2H20 from $44.9 million in 1H20 while provisions for members interest payments also dropped to $2.4 million in 2H20 from $15.2 million in 1H20. Given the movements, the SINPF's bottom line deteriorated to $21.2 million loss in 2H20 compared to the $0.02 million loss in 1H20 (Figure 5).

Figure 5: Superannuation sector sources of income and expenses, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

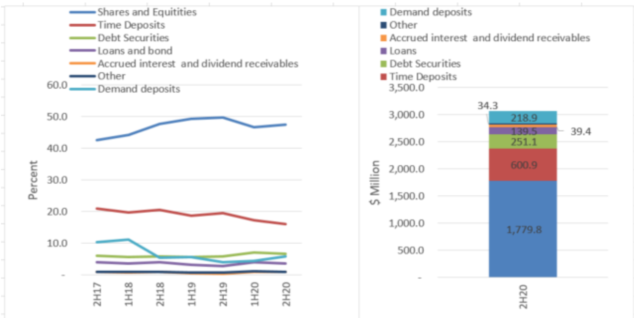
Assets

As a result of the downturn in the local economy, the superannuation sector registered a marginal growth of 0.6 percent in its total assets from 1H20 to settle at $3.75 billion in 2H20.

Looking closer at the asset portfolio, shares and equities continues to dominate the portfolio with time deposits, debt securities, loans and properties trailing behind. Further to the overall trend, there has been little change in the mix of financial assets in 2H20 (Figure 6). Shares and equities in subsidiaries of the Fund and overseas entities accounted for 47.4 percent, time deposits held locally and overseas accounted for 16 percent, Solomon Islands government bond and treasury bills [16] accounted for 6.7 percent, demand deposits accounted for 5.4 percent, loans largely issued to and bond received from subsidiaries accounted for 3.7 percent, receivables from loans and shares and equities accounted for 1 percent, and other assets accounted for 0.9 percent in 2H20.

In terms of movements, shares & equities slightly increased by 2 percent, while time deposits, debt securities and loans decreased by 6.5 percent, 5.0 percent, and by 7.3 percent respectively from 1H20 to 2H20 (Figure 6). The increase in shares & equities reflects the additional investments while reductions in debt securities and loans demonstrates capacity of debt issuer and borrowers to meet obligations when fall due.

Figure 6: Superannuation sector proportion of individual assets to total assets, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

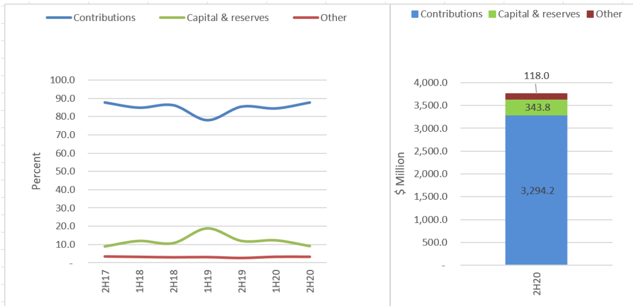
Liabilities

Contributions received from members have been fairly consistent over the past five years (Figure 7). Despite the additional withdrawal grounds introduced by the SINPF Board to accommodate requests from members who were affected by COVID-19, the Fund recorded a 4.4 percent growth in contributions in 2H20 compared to a negative growth of 3.6 percent in 1H20. The slight increase in the member contributions reflects the appetite of non-formal members for the YouSave products in 2H20.

Payments for retirement continued to dominate total payments in 2H20 constituting 37.5 percent, followed by COVID-19 and other payments with 27.7 percent, death 13.8 percent, lenders claim 10.1 percent, disability 4.6 percent, redundancy 3.5 percent, and migration 2.9 percent in 2H20.

Capital & reserves has been trended downward in 2H20 (Figure 7). Capital and reserves declined by 25.2 percent and 25 percent respectively to $343.8 million in 2H20 from 1H20. The negative growth in capital was primarily due to net loss from operating activities of the Fund and crediting of interests to the members' savings accounts in 1H20 as required under section 8 of the SINPF Act (Cap 109).

Figure 7: Superannuation sector major liabilities, 1H17 - 2H20



Source: *Central Bank of Solomon Islands*

Resurrection of Development Bank of Solomon Islands (DBSI)

Following the enactment of the Development Bank of Solomon Islands Act in 2018, DBSI commenced its operation in June 2020. The Bank is wholly owned by the Government of Solomon Islands.

DBSI's primary focus is to facilitate the economic and social development plans and strategies of the Solomon Islands government with particular emphasis on **(i)** participation of Solomon Islanders in economic development; **(ii)** rural development; **(iii)** stimulating processing and industrial activities that strengthen the economics of Solomon Islands; **(iv)** assisting industries that are new to Solomon Islanders; **(v)** promoting export and import substitution activities that encourage external trade; and **(vi)** encouraging modernisation and the use of technology in business[17] .

DBSI is a deemed licenced financial institution under section 5 of the Financial Institutions Act 2013 (amended). Accordingly, the DBSI is subjected to the similar supervisory and regulatory frameworks that are in place for all licenced financial institutions. In keeping with its responsibility for the stability of Solomon Islands financial system, CBSI provided guidance to the management of the bank to ensure compliance to regulatory requirements and prudent measures as stipulated in the relevant legislations and prudential guidelines of the Central Bank.

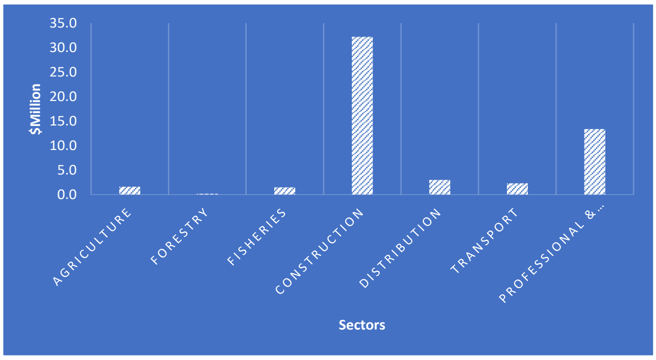
Despite the challenges faced by the DBSI in developing the necessary policies and procedures, DBSI's total assets expanded during the first six months of operation to $84.7 million, of which total loans constituted 64 percent. The loan portfolio has been fairly distributed across the bank's three core loan products namely; Livelihood Assistance Initiative Funding (LAIF), Small Medium Enterprises (SME's) and COVID-19 funding (Figure 8).

16 Major components of the Fund's debt securities

17 Obtained from DBSI Act 2018

With the direct support of the government, total capital reached $52.9 million at end of December 2020, a level that is sufficient to support the bank's operation.

Figure 8: DBSI's loans by sectors, December 2020

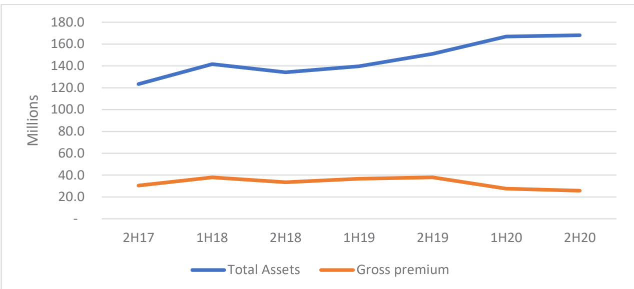


Source: *Central Bank of Solomon Islands*

Insurance Sector Performance

The insurance industry [18] continued to maintain positive performance in light of the financial distresses in-pounded by the corona virus pandemic. The industry's total assets, which constituted 1.6 percent of the overall financial system's asset grew marginally by $1.2 million, up from $166.9 million at the end of 1H20, to $168.1 million over the last six months period cumulative to end of 2H20 (Figure 9). This was largely driven by an uptake in currency and deposits held with commercial banks.

Figure 9: Insurance sector total assets and gross premium, 2H17 - 2H20



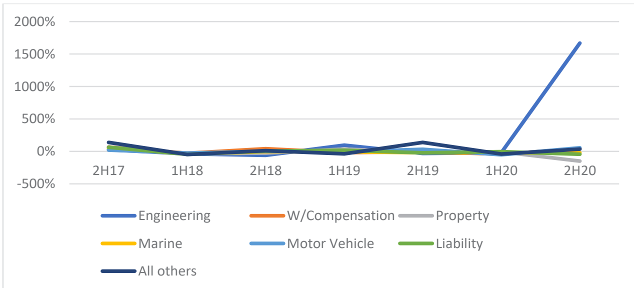
Source: *Central Bank of Solomon Islands*

In spite of this positive performance, growth in the industry's overall premium income was slow over the period. This was driven mainly by the sharp declines in the liability, marine and property classes of insurance. These collectively drove the gross premium income downhill by a further 7 percent to $25.8 million (Figure 9), following the 27% decline in 1H20. The outcome mirrored weak economic activities especially in the property market as well as the slowdown in both domestic travels and international cross border trade activities. These puts a strain on both Businesses' and households' financial positions, which consequently constricted their abilities to renew or even purchase new insurance covers.

Along the same line, overall gross premium income for the industry was relatively flat over the years mainly due to persistent low demand for insurance products. This is due in part to the weak economic conditions and inherent issues such as limited public knowledge on insurance products and their benefits, and the absence of appropriate insurance product that commensurate customer demand. Fortunately, the impact of the current COVID-19 pandemic is not direct as pandemics are excluded from most policy coverage. Nevertheless, the industry continued to experience the pinch of the crisis as each policy ends its life cycle. Workmen Compensation Insurance despite improved in 2H20, was lower than the 2H19. Property portfolio slumped to record a low of $6.6 million – constituting 17 percent of the overall premium. Liability and marine classes of insurance also declined at 43 percent and 23 percent respectively.

Meanwhile, Engineering classes, which includes constructions surged during the last six months of 2020 (Figure 10). This was mainly accredited to construction works on the national stadiums for the Pacific Games, the Henderson international airport upgrade and the Mamara/Tasivarongo housing estate, which took off later during the period. In light of the current developments, local insurers are optimistic that these projects will have positive knock-on effects on other insurance portfolios in the near term.

Figure 10: Insurance sector gross premium growth by class 2H17 - 2H20



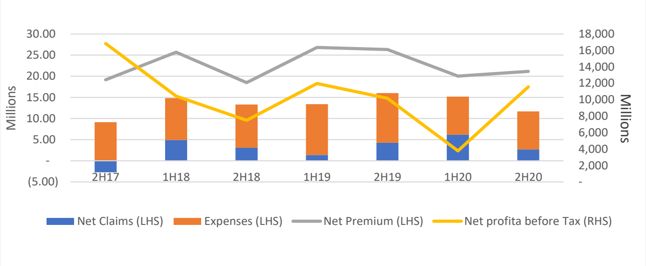
Source: *Central Bank of Solomon Islands*

Despite having to grapple with the financial pressures induced by the crisis, the insurance industry continued to remain profitable. The industry's net profit before tax swung positively in 2H20, reversing the consecutive declines recorded since 2H19. Net profit before tax surged from $3.8 million to $11.6 million mainly due to low claims and expenses, along with favourable net premium income recorded (Figure 11). The industry's net claims plumped by 57 percent, down from $6.2 million to $2.7 million due to the absence of cataclysmic events that would trigger large losses. Meanwhile, expenses subsided by 16 percent from $9 million to $7.6 million at the end of 2020. On the flip side, net premium edged upwards by a dismal 1 per-

18 Solomon Islands' insurance industry consists of three insurers, four brokers and one agent as at end of December 2020.

cent to $21.2 million mainly due to a drop-in reinsurance expense (Figure 11).

Figure 11: Insurance sector profitability, 2H17 - 2H20



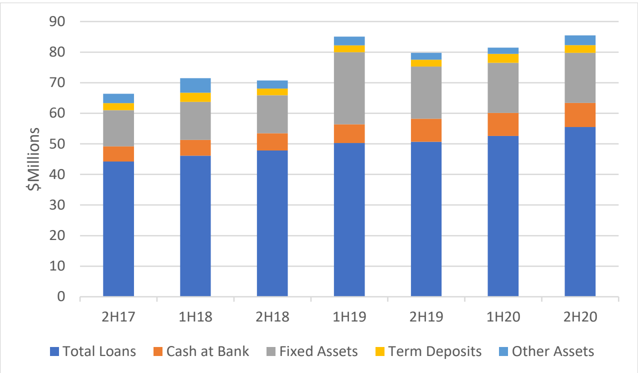
Source: *Central Bank of Solomon Islands*

Credit Union Sector

The profitability of the sector remained positive in the 2H20. Despite the pandemic, the sector recorded an annual net profit of $1.6 million at end December 2020.

The performance is backed by the assets of the sector which grew by 1.6 percent from 1H20 to $85.5 million in 2H20 (Figure 12). The sector's total assets accounted for 0.8 percent of the total assets of the overall financial system. Lending remains the key activity of the credit union sector. It recorded a year on year growth of 8 percent to $55.5 million at end 2H20 (Figure 12).

Figure 12: Credit Union sector assets composition, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

Total deposits, which comprised of demand and savings deposits, increased by 2 percent from the previous year largely due to savings by members. Total capital of the credit union stood at $27.5 million at end 2H20, a 5 percent increase from 1H20. The increase was largely due to new membership shares.

Chapter 4: KEY VULNERABILITIES & RISKS TO THE FINANCIAL STABILITY IN THE SOLOMON ISLANDS

Most of the financial system vulnerabilities identified in the 1H20 Financial Stability Report (FSR) remained relevant in the 2H20 report. Similarly, their associated risks remain unchanged as well as the ratings. The overall rating of the consolidated risks in the financial system remained low (Appendix C).

Banking Sector Vulnerabilities and Risks

Table 5: Key Vulnerabilities and Risks to the Financial Stability of the Banking Sector

Vulnerabilities	Risk	Risk Description	Rating
Travel restrictions imposed by COVID 19 protocols to tourism sector	Credit risk	Deteriorating asset quality	Low
The increasing construction sector indebtedness	Credit risk	Deteriorating asset quality	Low
Credit concentration in personal sector	Credit risk	Deterioration in asset quality	Low
Increased development and usage of digital Infrastructure to deliver for banking services	Operational risk	Increasing incidents of services disruptions and loss of assets	Low

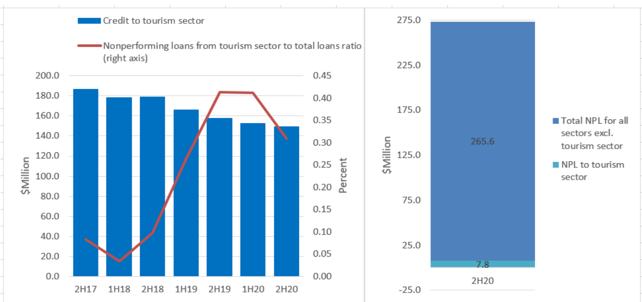
Source: *Central Bank of Solomon Islands*

Travel restrictions imposed under COVID-19 Protocols to Tourism Sector

Lending to the tourism sector witnessed a steady fall in 2H20 (Figure 13). It slipped from $152.2 million in 1H20 to $149.5 million in 2H20. Given the evolving nature of the coronavirus (COVID-19) and the unlikely lifting of border restrictions in the immediate future, the exposure it has on the tourism sector remains eminent.

The credit risk pertaining to the deteriorating asset quality under the tourism sector is low (Appendix D). This is because the impact of the travel restrictions had been slightly felt in 2H20. The nonperforming loans to total loans ratio from the tourism sector improved from 3.5 percent in 1H20 to 2.9 percent in 2H20. The total nonperforming loans to tourism sector stood at $7.8 million in 2H20 (Figure 13). The improvement in NPL primarily underpins slow recovery by hotels despite the COVID-19 pandemic.

Figure 13: Credit to Tourism Sector, 2H17 - 2H20

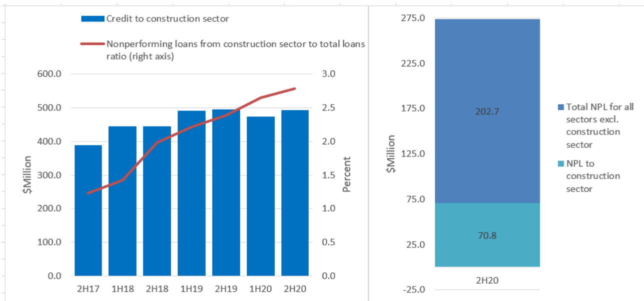


Source: *Central Bank of Solomon Islands*

The increasing construction sector indebtedness

The sector saw a sturdy increase ahead of other sectors in 2H20. The increase was largely attributed to construction of commercial and residential properties that are intended to be occupied by tenants (Figure 14). Most of the loans had been approved prior to the COVID-19 pandemic and later funded in 2H20.

Figure 14: Credit to Construction Sector, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

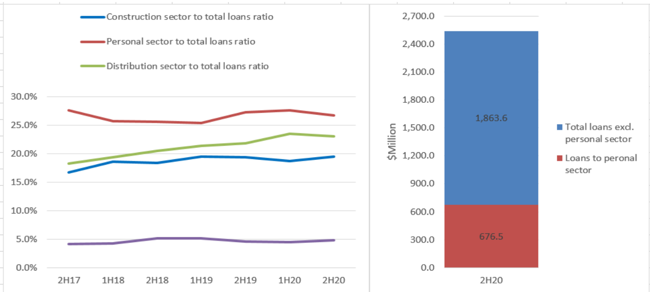
The credit risk pertaining to deterioration in asset quality under construction sector however, remained low (Appendix D). Despite holding the highest nonperforming loans (NPL) to total loans ratio ahead of other sectors and recording a slight uptick in the said ratio to 2.9 percent in 2H20 from 2.7 percent in 1H20, the sector's interest income remained adequate to support its operating expenses in 2H20. The rise in NPL is largely attributed to delays in government payments as well as poor management of business cash flows by concerned borrowers.

Credit concentration under personal sector

The personal sector maintained its dominance in 2H20 by constituting more than 25 percent of total loans (Figure 15). Thus, significant deterioration in the level of performing loans in this sector could reduce the banking sector's profitability and the current level of adequate capital.

The credit risk pertaining to deterioration in asset quality under loans to personal sector however, remained low (Appendix D). The nonperforming loans (NPL) to total loans ratio dropped from 2.8 percent in 1H20 to 2.3 percent in 2H20. Furthermore, almost all of the personal loans are secured by the two third pledge held with SINPF. The current level of NPLs is largely due to the slowed economic activities and poor management of business cash flows by borrowers. Nonetheless the default risk is minimal.

Figure 15: Credit concentration in personal sector, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

Increased development and usage of digital Infrastructure to deliver banking services

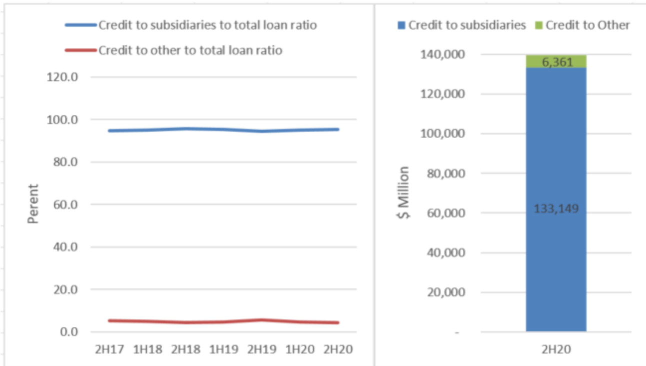
The pandemic has given opportunities for banks to invest in digital infrastructure to maintain efficient service delivery through the use of online banking and payments platforms. Furthermore, banks and credit institutions employ digital platforms to work remotely from home or other locations other than their permanent offices. Such critical arrangements expose banks and credit institutions to cyber risk. The operational risk stemming from service disruptions and loss on information assets is, however, rated low (Appendix D). There has not been any incidents of business disruptions and loss of information and financial assets in the 2H20.

Superannuation Sector Vulnerabilities and Risks

High subsidiary indebtedness

The Fund is vulnerable to the high indebtedness of subsidiaries. Despite the Fund's subsidiaries loan portfolio remained stable in the last five years, it continues to expose the Fund to unexpected losses. Credit to subsidiaries to total loans ratio edged slightly higher to 95.4 percent in 2H20 from 95.2 percent in 1H20 (Figure 16). The minor movement reflects the ongoing loan repayments, loan restructure and additional credits issued over the five-year period.

Figure 16: Credit to Subsidiaries, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

The credit risk as reflected by deteriorations in the quality of subsidiaries' loan portfolio is moderate (Appendix D). The level of substandard assets of the Fund improved, partly due to restructured assets. The substandard assets to total assets ratio slightly improved by reducing from 2.8 percent in 1H20 to 2.1 percent in 2H20. The restructure exercise reflects the Fund's effort in ensuring toxic assets are kept within bay and problem assets are minimal.

Table 6: Key Vulnerabilities and Risks to the Financial Stability of the Superannuation Sector

Vulnerabilities	Risks	Risk Description	Risk Taking
High subsidiaries indebtedness	Credit risk	Deterioration in quality of subsidiary loan portfolio	Moderate
Highly concentrated local equity investments	Market risk	Volatility in price of domestic equities	Elevated
Maintaining investments in offshore equities and time deposits	Market risk	Volatility in price of offshore equities and interest rates	Moderate
Weak government revenue and travel restrictions due to COVID-19 protocols	Credit risk	Deterioration in occupancy rates and high rental arrears	Moderate
Declining liquid assets and members' withdrawals due to COVID-19 community transmission and lock down	Liquidity risk	Deterioration in liquidity	Low

Source: *Central Bank of Solomon Islands*

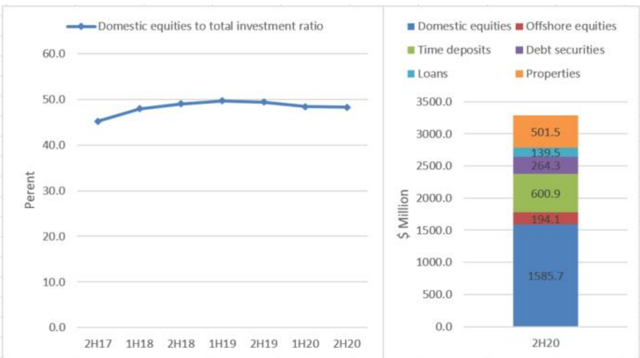
High concentrated local equity investments

The Fund remains vulnerable to highly concentrated equity investments in its subsidiaries. The domestic equities comprise more than 50 percent of total investment assets, exposing the Fund's overall investments to possible losses when the market conditions are unfavourable. It had slightly soared to 54.2 percent in 2H20 from 52.6 percent in 1H20 (Figure 17). The marginal rise was largely driven by additional loans approved during the 2H20.

Market risk owing largely to the volatility in the prices of domestic equities is very high (Appendix D). The return on assets ratio (ROA) has been volatile and was driven primarily by the volatility in gains or losses from asset revaluations[19] (Figure 17).

Benchmarking against the Fund's capital, the concentration has elevated significantly in 2H20. Domestic equities and loans to total capital ratio soared to 496.4 percent in 2H20 from 372.4 percent in 1H20. The rise largely reflects the ongoing negative growth in capital and reserves as a result of consecutive losses from operation of the Fund and mandatory crediting of interests to members' contribution accounts as required under section 8 of the SINPF Act (Cap109). The capital & reserves were at its lowest in 2H20, sitting at 9.2 percent, lower than the minimum required CAR of 15 percent for the banking sector (Figure 17).

Figure 17: Key Investments, 2H17 - 2H20



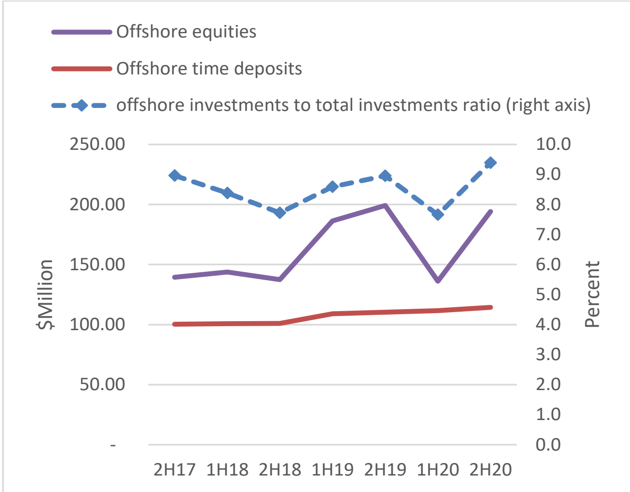
Source: *Central Bank of Solomon Islands*

Maintaining Investments in Offshore equities and time deposits

Beside the volatility in domestic equities, the superannuation sector's holding of foreign currencies for its equity investments and time deposits, albeit lower than 10 percent (Figure 18), also expose the sectors' capital to foreign currency risk. Net overall foreign currency open position ratio (FCOPR) remains high and reflects the Board's appetite to hold foreign equities and time deposits with expectation to generate adequate income to support the Fund's operation. The FCOPR is being maintained above 100 percent and stood at 108 percent in 2H20.

Market risk as reflected by volatilities in the prices of offshore equities and interest rates is very high (Appendix D). The Fund also witnessed series of losses from offshore equities due to contraction in prices and reduction in its interest income streams from time deposits as a result of the impact of COVID-19 pandemic and changes in market conditions in 2020.

Figure 18: Offshore Investments, Dec 2016 - Dec 2020



Source: *Central Bank of Solomon Islands*

Weak government revenue and COVID-19 travel restrictions

The negative economic growth coupled with the weak government revenue [20] and the COVID-19 travel restrictions continued to adversely affect the Fund's interest income. The Fund's potential rental income sits between $30 million to $40 million per year[21] but this range had not been reached since 2019. Apart from the pandemic induced factors, ongoing renovation work on the Anthony Saru Building was a key contributing driver behind the lower than expected rental income in 2020. While the economy is anticipated to improve slightly in 2021[22] , government revenue is likely to remain weak and ban on international travel restrictions would remain intact.

Credit risk remains elevated in 2H20 as reflected by the deterioration of occupancy rates and increasing high rental arrears (Appendix B). Despite this, rental income improved in 2H20 from 1H20, with annual growth hovering around 24 percent up in 2H20 (Figure 19).[23]

19 At end of June 2020, South Pacific Oil Limited, one of the SINPF's largest exposures, experienced reduction in its market value due to weak market demand for such investment in the open market.

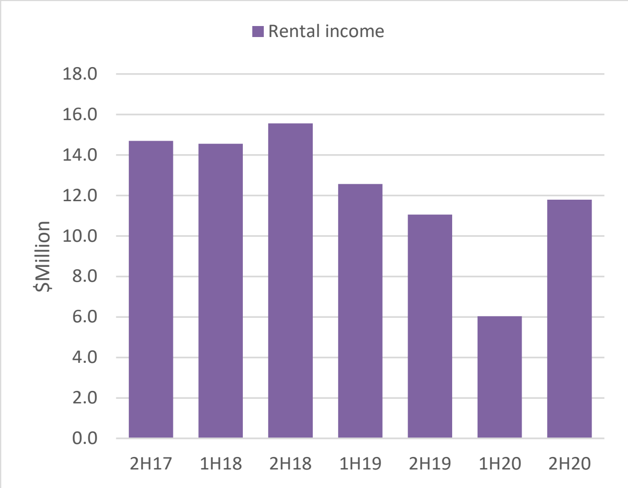
20 This is experienced by the Fund management

21 This is evident from rental income recorded in December 2016.

22 Obtained from March 2021 CBSI Monetary Policy Statement.

23 The December dollar values are for 12-month period

Figure 19: Rental Income, 2H17 - 2H20

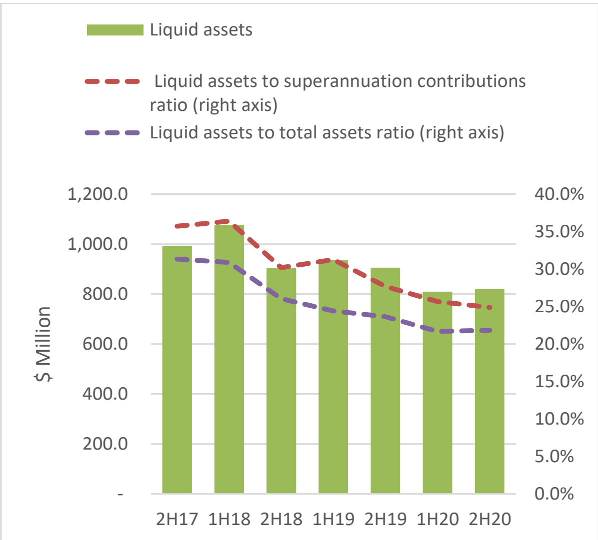


Source: *Central Bank of Solomon Islands*

Declining liquid assets and members' withdrawals due to natural aging and COVID-19 withdrawal ground

The Fund's liquid assets [24] levelled off in 2H20 after the sharp decline in 1H20 (Figure 20). Despite the levelling off, any further withdrawals in 2021 may put pressure on the Fund's investments and liquidity if not managed effectively. The vulnerability to liquidity risk might be compounded if additional requests [25]for withdrawals are made in the event of a COVID-19 community transmission and lock down.

Figure 20: Liquid Assets and Ratios, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

Despite the general downward trend in liquidity assets and liquidity ratios (Figure 20), liquidity risk as reflected in the deterioration in liquidity is low (Appendix D). The fall in liquid assets and liquidity ratios reflect largely the Fund's appetite to increase its investment in debt securities and payments of its members' claims in 1H20.

24 Liquid assets comprise of demand deposits and time deposits owned by the Fund

25 Experience registered by the Fund management at a series of meetings with CBSI in second half of 2020

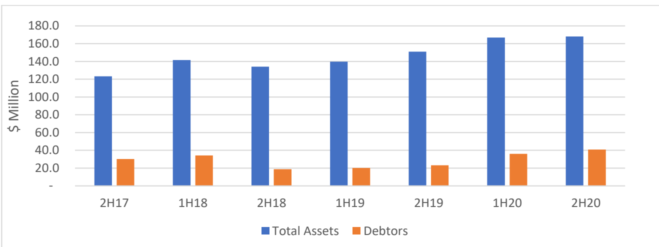
Insurance Sector Vulnerabilities and Risks

In spite of the favourable underwriting performance displayed by the industry, there are pockets of vulnerabilities and risks within the industry that has the potential to derail the industry's stable financial position if they are not managed prudentially. (**See Table 7 next page**).

Instalment payment of premium leads to high build-up of debtors

Following the onset of the pandemic, policyholders were cornered by the financial pressures that accompanied the crisis hence, insurers undertook supportive actions by allowing premium instalment payments for their policyholders in an effort to assist those who are faced with financial difficulties and at the same time maintain their customer base and market share. While this maybe fine in the short to medium term, this could cumulate into a debtors' issue - reflecting credit risk for the industry in the long term if it is not prudentially managed. Moreover, continuous delay of premium receipts will culminate significant amounts of debtors that will potentially intoxicate the industry's asset quality, putting pressure on its capital. Notwithstanding all these, the vulnerability and its associated risk still remained low for the meantime as the current level of debtors were negligible compared to the industry's overall asset (Figure 21). Moreover, the level of controls employed by each insurer were sufficient to avoid any risk escalations. This was further backed by collaborative actions that both insurers and policyholders undertook to support each other amidst the unprecedented crisis.

Figure 21: Total Assets and Debtors, 2H17 - 2H20



Source: *Central Bank of Solomon Islands*

Table 7: Key Vulnerabilities and Risks to the Financial Stability of the Insurance Sector

Vulnerabilities	Risks	Risk Description	Risk Taking
High build-up of debtors resulted from instalment payment by insured as a result of unstable cash flow.	Credit Risk	Continuous delay in receiving premium receipts will cumulate debts and affect asset quality of the industry	Low
Cyber-attack as industry put heavy reliance on digital technology for business growth	Cybersecurity Risk.	Use of cloud computing to store data and information puts the sector to the risk of data loss and manipulation.	Moderate
Continuous downturn in economic activities forcing insurers into price war resulting in under-pricing of risk	Liquidity risk	Undercutting premium in an effort to retain customers leading to liquidity and solvency problems	Low

Source: *Central Bank of Solomon Islands*

Increasing reliance on digital technologies provokes the vulnerability of Cyber attacks

Digital technology can expose the industry to the risk of cyber-attacks. During the last six months of 2020, all licensed insurers and brokers undertook digital upgrades in their systems in preparation for any pandemic related nationwide lockdown, as this is the only way they can reach out to their customers and continue to stay in business during such an unprecedented time. The use of cloud computing to store customers data and information might risk the vulnerability of data poaching by third-party and can be used against each insurer or even brokers. As such, the central bank issued a cyber security prudential guideline in 2020 with the hope to assist financial institutions manage their cyber risks going forward. In light of the above, the vulnerability and risk in the cyber space for the local industry remained at a moderate level as each player continued to undertake cyber risk management protocols in line with CBSI's guidelines (Appendix D). However, a third-party concentration risk remains elevated as all insurers and brokers rely mostly on a single telecommunication provider for internet services. Additionally, despite having a cyber risk management guideline in place for financial institutions, broadly, the country is yet to enact a cyber related legislation and procedures for prosecuting cyber related incidents at the judiciary level is still vague.

Prolonged economic downturn prompts price war that may result in risk under-pricing

On a further note, the continuous deterioration of economic activities might elevate a soft market for the industry which may potentially set off a price war resulting in under-pricing of risk. This can lead to significant solvency and liquidity risk for the industry if the premiums are too low to cover claims and expense. Despite looming signs of soft market this vulnerability and its associated risk remained low, considering signs of price war are yet to surface as insurers continued to maintain aversion of going down that road (Appendix D). Moreover, the level of capital and liquidity buffers built over the years are still sufficient to provide ample cushion going forward.

Credit Union Vulnerabilities and Risks

The vulnerabilities and risks identified in the 1H20 Financial Stability Report (FSR) remain relevant in the 2H20 FSR for the Credit Union Sector (**See Table 8 next page**).

Non-robust credit union legal framework

The slow progress to pass the country's Credit Union Bill continues to expose the sector to corporate governance risk. Given the limited pool of qualified and skilful members and commitment of members to their daily official duties, the effectiveness of board oversight is being limited. Furthermore, credit unions do not have prudential standards that set the regulatory capital minimum requirement.

Corporate governance risk is, however, moderate given it does not pose threat to the financial stability of the sector (Appendix D).

Table 8: Key Vulnerabilities and Risks to the Financial Stability of the Credit Union Sector

Vulnerabilities	Risks	Risk Description	Risk Taking
Non-robust credit union legal framework	Corporate governance risk	Deterioration in effectiveness of board oversight	Moderate
High household indebtedness	Credit risk	Deterioration in quality of loans to household portfolio	Low
Inadequate loan ageing reporting capability	Operational risk and credit risk	Deterioration in late loan repayments or under loan repayments	Elevated
High members' withdrawals due to fear of COVID-19 community transmission and lock down	Liquidity risk.	Deterioration liquid assets	Low

Source: *Central Bank of Solomon Islands*

High Household Indebtedness and Negative Economic Growth

High household indebtedness exposes the sector to credit risk. A trend that is being upheld given credit unions are owned by members. This vulnerability has been further compounded by the negative economic growth experienced in 2020 [26]. This to a certain extent had affected the quality of loans.

Credit risk is low. While a few credit unions have come across difficulties to closely monitor loan repayments due to absence of loan underwriting system, majority of borrowers continue to repay their loans on time (Appendix D). This risk does not pose threat to the sector's stability.

Inadequate loan ageing reporting capability

Unlike commercial banks, proper reporting of ageing loans is still a challenge for credit unions thus Loans were not properly classified according to the number of days in arrears.

The capital adequacy ratio of the credit unions remains sufficient. The sectors self-sustainability ratio is 55 percent at the end of 2H20. This result indicates that credit unions could be sustained in the long run relatively to costs associated with the operation. The sector has the ability to generate revenue to cover its total cost while maintaining its capital base and other reserves.

High members' withdrawals due to fear of COVID-19 Community transmission and possible lock down

The sector's liquidity could be exposed to high withdrawals if the coronavirus (COVID-19) spreads to the community and the Government orders a lockdown. It is likely that members who do not access their savings through other electronic means would request for huge withdrawals.

The liquidity risk is low (Appendix D). There is being little threat to financial stability of the sector given the coronavirus had been contained within the quarantine centres.

26 Obtained from International Monetary Fund (IMF) Word Economic Report 2021

Chapter 5: PROMOTING FINANCIAL STABILITY

Understanding the challenges faced by the financial institutions within Solomon Islands financial system as a result of COVID-19 pandemic in 2020 and efforts to maintain financial system stability, the CBSI had effected regulatory and supervisory measures in terms of its requirements and prudential standards.

They include:

Waiver of requirements on loan loss provisions.

CBSI waived the requirement under Prudential Guideline No. 2 on asset classification and minimum provision requirement in 1H20, to allow commercial banks and credit institutions to suspend principal and interest amount for loans of their borrowers who are being affected by the COVID-19 situation without adding additional provisions.

Waiver of duration to disclose new interest rates, fees and charges.

CBSI waived the requirement under Prudential Guideline No. 8 on disclosure on interest rates, fees & charges, to allow commercial banks and credit institutions to amend interest rates, fees and charges and apply it without publishing them in public media and wait for 30 days before implementing the said changes.

Reduction of the CBSI Cash Reserve Requirement (CRR).

CBSI took a policy response and reduced the CRR from 7.5 percent to 5 percent on 15th June 2020. This change is to allow commercial banks to hold additional liquid funds that they can either borrow or support their operations. CRR has been effective as of 15th June 2020.

The above measures and supervisory responses, which are temporary and given for a specific time period only, complement the COVID-19 relief payments[27] that had been provided by the commercial banks and credit institutions.

Development of Prudential Guidelines and Regulations.

CBSI continues to develop and strengthen its supervisory tools to keep at pace with international best supervisory practices. Two new suites of prudential guidelines were developed in the 2H20. The first was on Cybersecurity and the latter was on Complaint Management for Insurers and Insurance Intermediaries. The former was issued in the fourth quarter of 2020, while the latter will be issued in the first half of 2021. In addition, with the assistance from PFTAC[28] TA mission, CBSI has started reviewing eleven (11) of its current suites of prudential guidelines in 2020.

Reform of Financial Sector Legislations.

CBSI is working closely with its development partners and agents in reforming the financial sector legislations. The legislative reform is progressing on a snail's pace since the government of the day is prioritising other areas, especially the Covid-19 pandemic prevention and recovery strategy. The following financial sector legislations are currently under reform; **(i)** Financial Institutions Act 1998 (amended), **(ii)** Credit Unions Act 1986 and **(iii)** Insurance Act 1996. The delay in reforming the financial sector legislations weakens the CBSI's supervisory role of ensuring the financial system is stable while protecting consumers and depositors.

Development of National Payment System

The CBSI is working in collaboration with the World Bank Group and Montran Team (System Provider) to develop the National Payments System of Solomon Islands. This Payment System (ATS) is a centralised system that will allow processing of both low and high value payments in real time. The project is now at its final phase; however, some project activities were delayed in 2020 as a result of the global Covid-19 travel restrictions imposed by governments around the world. Regulations and Guidelines for the monitoring of compliance and related risk assessments of the Payment system is at the draft stage awaiting National Payment System Bill 2020 to be enacted by Parliament. While there are setbacks CBSI is optimistic for the successful implementation of the project to ensure a way forward for the promotion of financial stability and financial inclusion in the national economy.

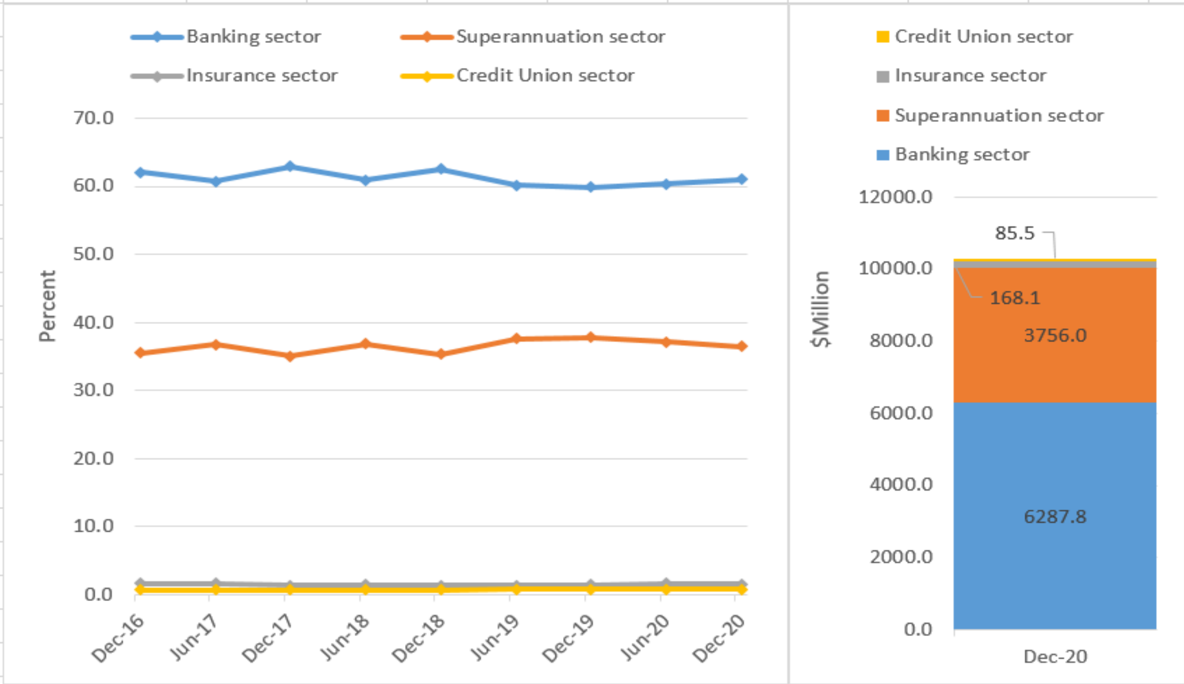
27 Relief payments range from 3-6 months

28 PFTAC stands for "Pacific Financial Technical Assistance Centre" and is funded by IMF and other development partners to provide financial technical advice to Pacific Island Countries from its base in Suva, Fiji.

APPENDICES

APPENDIX A:

Asset Composition of the Solomon Islands Financial System, Dec 2016 - Dec 2020



Source: Central Bank of Solomon Islands; restated

APPENDIX B:

Resilience Assessment and Explanations

Extremely unsatisfactory	Total weakness and does not meet minimal expectations. Deficiencies compounded to level that is beyond control. Lack of ability to withstand shocks and recover in long term.
Unsatisfactory	Weak and does not meet moderate expectations. Evidence of deficiencies exist and is not easily managed in the medium to long term. Weak ability to withstand shocks and recover in medium to long term.
Fair	Inadequate and might not meet full expectations with evidence of deficiencies but can be easily managed in the short to medium term. Limited ability to withstand shocks but may recover in short to medium term.
Satisfactory	Adequate and meets expectations and persist to maintain same trend in the short and medium term. Deficiencies are very minimal. Adequate ability to withstand shocks and recover in short to medium.
Extremely Satisfactory	Highly adequate. Above expectations and persist to maintain same trend in the short, medium, and long term. Absence of material deficiencies. Strong ability to withstand shocks and recover in the short term.

Source: Central Bank of Solomon Islands

APPENDICES

APPENDIX C:

Vulnerabilities and Risks Assessment of Overall Financial System

The rates reflect the probability (likelihood that an event will occur) and the impact (magnitude of the potential loss) that could stem from the event.

Low	Implies generally immaterial risk with little threat to financial stability of the sector
Moderate	Refers to minimal risk build-up that do not yet pose a threat to financial stability of the sector
Elevated	Refers to micro-financial conditions which signal high levels of risk build up that suggest the need for closer monitoring but not an immediate policy response for the sector
High	Indicates potentially disruptive levels of risk to the point where policy intervention should be seriously contemplated for the sector
Very High	Denotes that materialization of risk is imminent with a significant threat to the financial condition of the sector which requires immediate policy intervention.

Source: Central Bank of Solomon Islands

APPENDIX D:

Vulnerabilities and Risks Assesment of Individual Sector

The rates reflect the probability (likelihood that an event will occur) and the impact (magnitude of the potential loss) that could stem from the event.

Low	Implies generally immaterial risk with little threat to financial stability of the sector
Moderate	Refers to minimal risk build-up that do not yet pose a threat to financial stability of the sector
Elevated	Refers to micro-financial conditions which signal high levels of risk build up that suggest the need for closer monitoring but not an immediate policy response for the sector
High	Indicates potentially disruptive levels of risk to the point where policy intervention should be seriously contemplated for the sector
Very High	Denotes that materialization of risk is imminent with a significant threat to the financial condition of the sector which requires immediate policy intervention.

Source: Central Bank of Solomon Islands

APPENDICES