Financial Stability Report

... to foster and maintain a stable financial system...

2H 23

CENTRAL BANK OF SOLOMON ISLANDS

The Financial Stability Report (FSR) is prepared by the Financial Systems Regulation Department (FSRD) of the Central Bank of Solomon Islands (CBSI).

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This report is only available online on CBSI website.

This report uses data up to 30 December 2023.

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Abbreviations

CBSI Central Bank of Solomon Islands
IFC International Finance Corporation
2H23 Second half of 2023, which ended 31st December 2023
1H23 First half of 2023, which ended 30th June 2023
NPS National Payment System
SIG Solomon Islands Government
SINPF Solomon Islands National Provident Fund
ATS Automated Transfer System
SOLATS Solomon Automated Transfer System
GDP Gross Domestic Product
RSB Regulatory Sandbox

CHAPTER 1: OVERVIEW OF INTERNATIONAL & DOMESTIC FINANCIAL CONDITIONS

1.1: International Financial Condition[1]

The global economy is set to recover modestly by 3.1 percent and 3.2 percent in 2024 and 2025, respectively. According to the International Monetary Fund (IMF), this projection is primarily driven by a strong recovery in the US economy and other emerging and developing economies and a fiscal stimulus in China. The outcome mirrored a 0.2 percent improvement from the initial estimates in the October projection owing to an upward revision of the US, China and major emerging and developing economies' growth prospects. However, the outcome was lower than the historical annual average growth of 3.8 percent. Weak productivity, low fiscal support and restrictive monetary policies are among the main drivers that drove the outcome. Against this backdrop, growth in the global economy remained sedate, underscoring resilience in the global economy.

Meanwhile, global inflation moderated towards the end of 2H23, owing to enhancements in the supply side and the tight monetary stance employed by Central Banks. Yet, this outcome is not uniform across all countries, as some continue to face persistent price pressures. Consequently, a divergent approach has emerged among Central banks across the globe, as some have begun relaxing their monetary stance to stimulate growth while others, especially the frontier and low-income economies, maintain their grip on a tight monetary stance due to the lingering price pressures.

Global financial conditions have eased thus far in tandem with receding inflationary pressures. The loose financial condition was attributed to increased stock valuations, reduced market volatility, and tight spreads in the corporate bond market. Simultaneously, long-term bond yields have declined significantly towards the end of 2023 due to a fall in real rates. On the upside, this could decrease borrowing costs, provide governments with more room for fiscal manoeuvring, and boost investor confidence and asset prices. Consequently, Investors are moving toward riskier assets in search of higher returns. This was fuelled by optimism of favourable future interest rates, backed by expectations that Central banks will loosen policy rates for an extended period.

However, against this backdrop, demand for credit remained restrained, attributable to the residual effect of the high-interest rate episode of 2023 and banks' low appetite to build credit books due to the customers' declining creditworthiness. Low demand for real estate remained a concern for banks. This, along with the interest rate volatility experienced in some economies, caused banks to shy away from providing credit to this sector due to the heightened risk of default. In light of these circumstances, Central Banks continued to reduce their balance sheets. But this has ironically fomented liquidity stress in the financial system. For instance, signs of liquidity shortage have emerged in some major economies, which could jeopardise market functionalities. This is notable in the US repo market, where episodic spikes have been evident in the last few months.

Additionally, repercussions of high yields in advanced economies are reverberating across several emerging and developing economies. This is notable in economies with weak fundamentals, prompting capital outflows. However, despite a reversal witnessed in November, the future outlook for these economies remained cloudy.

In line with the above, despite the sturdy recovery in 2023, risks to financial stability remained elevated on several fronts. This would stem from the ongoing geopolitical tensions, climatic variabilities, and elevating sovereign and corporate debt.

The ongoing geopolitical tensions between Ukraine and Russia, Gaza attacks, and continuous attacks in the Mediterranean Sea supply route would exacerbate supply chain issues, causing a resurgence in fuel and commodity prices. This would prompt central banks to tighten monetary policy, leading to tighter financial conditions globally. Consequently, this could weigh on the anticipated growth and usher in financial stability issues.

In addition, climate pattern fluctuations continue to threaten financial stability. Indeed, it undermines the creditworthiness of customers, particularly those highly exposed to its effects. This presents challenges in accessing credits and can result in high-interest rates for some. Yield output for agricultural products will suffer, affecting the repayment capacity of agricultural borrowers. This will have a negative effect on the overall supply-side value chain. Assets will likely be repriced higher than the current prices in order to weather the financial impact of this phenomenon. These factors will subsequently level up default risk for borrowers, putting negative pressure on banks' capital.

Periodic sluggish economic performance, coupled with the high interest rate, has led to an increase in sovereign and corporate debt levels in some economies. While economic performance has since improved and interest rates subsided overall, some frontier and low-income economies continue to face financing challenges due to the high volume of debt accumulated during the pandemic era. These elevated debt levels, if interacted with persisting higher interest rates and slow economic recovery, pose a risk of default. Should this risk materialise, it could trigger a cascade of financial stability issues, including bankruptcy and credit rating downgrades, thereby impacting investors' sentiments. Consequently, waves of default may

1 Information used in this section was Obtained from the International Monetary Fund (IMF) World Economic Outlook, Jan 2024

follow, potentially resulting in systemic risk.

A delicate approach is required to mitigate risk to financial stability. However, this can only be effective if there is collaboration between stakeholders from all levels of the global economy.

1.2: Domestic Financial Condition

The Solomon Islands financial system remained stable in the second half of 2023 due to a firm recovery in the economy. The domestic economy is projected to have grown by 4 percent in the year, up from 2.4 percent recorded in 2022[2]. This was driven by positive rebounds in key sectors such as mining, forestry, production, and manufacturing activities.

However, despite this positive outturn, fiscal conditions remained fragile due to lower revenue collections amid mounting expenditure pressures. This has limited the government's ability to pay its domestic suppliers on time.

Indeed, the fiscal setback experienced by the Government reverberated repercussions to the financial system. Delays by the Government to settle its dues with its local service providers, have restricted these venders to repay their loans on time, causing an increase in Non-performing loans (NPL) in the banking sector. Additionally, delays in debt recovery processes undermined by slow court processes further exacerbated the situation. Besides, the rise in NPLs can also be attributed to the lingering effects of weak domestic economic performances cascaded from the global economic disruption induced by the pandemic and the war in Ukraine and Russia from 2020 to 2022, hampering borrowers' repayment ability. This, if prolonged, will increase the number of toxic assets in the system.

Despite these backdrops, the domestic financial system remained stable, demonstrating its resilience against converging shocks stemming from both internal and external factors. This pointed to strong capital buffers and high liquidity, flunked by a strong governance system employed by domiciled institutions to ensure smooth progressions.

Total capital position for banks, although slightly declining, remained strong, with its CAR recorded well above the regulatory threshold. This came on the back of sustained return on earnings, which provided the banks with sufficient capital to absorb losses when they occurred. Similarly, the Credit Union and Insurance sector witnessed growth in the capital, while the superannuation sector saw a minor reduction in its capital. Although there were mixed movements in the capital positions of these sectors, all were able to maintain sufficient capital positions during the period. This bolstered their ability to absorb financial losses and support the system's resilience in periods' ahead.

The Solomon Islands is highly vulnerable to shifts in global economic conditions. A sudden increase in international commodity prices will have a significant impact on the local economy and the financial sector thence. Because the Solomon Islands is susceptible to import inflation, its pass-through effect will be significant. For instance, the ongoing geopolitical tension and frequent disruptions on essential trade routes will spike fuel and commodity prices in the short to medium term. Consequently, this would drive up prices of goods and services domestically. As a result, it would affect households' disposable income and their loan servicing ability and over time the performance of domestic financial institutions. Operational expenses will increase and negate profit. As such, a tight condition will emanate, affecting credit growth and weight on the prospective economic recovery. Hence, the Government need to strengthen the domestic market to minimize the external effects.

2 Obtained from CBSI Quarterly Economic Review, Dec 2023

1.3: National Payment System

Box 1: National Payment System

The Central Bank of Solomon Islands (CBSI) continues to collaborate with development partners, the IFC and the World Bank, in developing the Financial Market infrastructure, which will be governed by rules and regulations established under the Payment Systems Act 2022. Montran (the vendor) is assisting Technical Teams from CBSI and Participants to ensure the infrastructure is in place by the end of 2H23. Nevertheless, there were challenges the team faced, including connectivity issues and resource constraints, to name a few.

On the 19th of June 2023, the Central Securities Depository (CSD) User Acceptance Test (UAT) Acceptance delivery document was signed, followed by Participant training on the 26th to 30th of June 2023. As preparatory work progresses, it was deemed crucial to enhance capacity in the area of automated securities issuance by upskilling responsible staff members. Montran demonstrated the automated processes integral to the Central Securities Depository (CSD) and simulated RTGS settlement relevant to the domestic securities market in the Country.

The Participants Working Group (PWG) held biweekly meetings to monitor progress and address issues that require urgent action. The Technical teams depending on the availability of resources, also continued to resolve connectivity stability issues encountered by Participants. Consequently, this caused a delay in delivering User Acceptance testing to Participants. However, on the 4th of December 2023, after successful connecting to the Montran Gateway, Participants commenced User Acceptance Test (UAT) in the Solomon automated Transfer System (SOLATS). Resources were made available during the blackout periods. UAT meetings are conducted bi-weekly on Tuesdays and Thursdays to address issues encountered during the testing phase.

The Payment systems regulation is still under review and will undergo the legislative process for its approval.

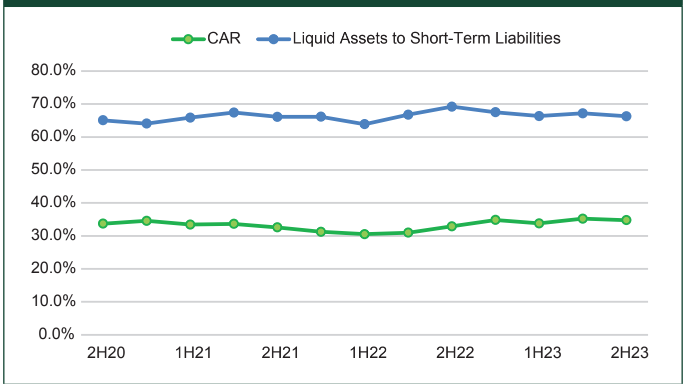
Despite the expectation of having the infrastructure in place by the 4th Quarter of 2023 not materializing, activities were able to progress, and CBSI remains hopeful for a positive outcome in 2024.

CHAPTER 2: FINANCIAL SECTOR RESILIENCE AND PERFORMANCE

2.1 Banking Sector: Resilience and Performance

In the second half of 2023, the banking sector remained stable and resilient as demonstrated by sustaining a Capital Adequacy Ratio (CAR) of 34.8 percent, strong liquidity position, effective board oversight, and senior management's adherence to good governance practices. Despite experiencing a slight deterioration in asset quality[3], the CAR continued to strengthen, consistently exceeding the regulatory threshold of 15 percent set by the CBSI. Retained earnings played a crucial role in supporting the growth of CAR, thereby ensuring the availability of ample capital that serves as a cushion to absorb any unexpected losses. During the reporting period, liquidity reserves experienced a 6 percent surge, bolstering banks' capacity to meet short-term obligations as they arise. This is evidenced by the ratio of liquid assets to short-term liabilities, which stood at 67.5 percent at the end of the reporting period.

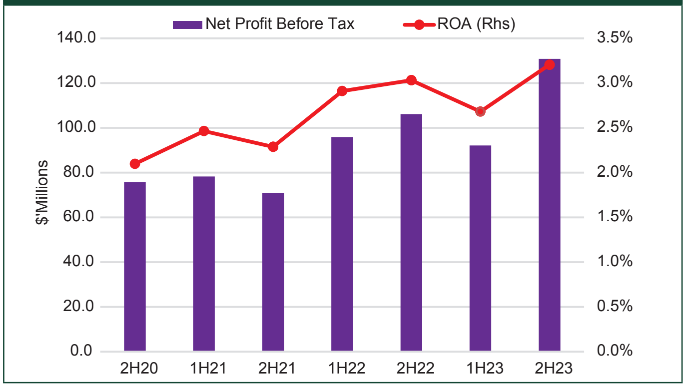
Figure 1: Banking Sector Half Yearly CAR and Liquidity Ratio, 2H20-2H23



Source: Central Bank of Solomon Islands

Profitability within the banking sector experienced a notable increase in 2H23. The uptick in performance is indicated by the rise in Return on Assets (ROA) by 50 basis points in 2H23. Net Profit Before Tax (NPBT) saw a significant surge of 41 percent during 2H23, from $92.2 million to $130.9 million. The growth in NPBT was primarily driven by a marked decrease in provision expenses, which declined by 410 percent. This reduction was mainly attributed to the recovery of legacy problem loans in the latter part of 2023. Additionally, the sectors' profit performance was further supported by the increase in foreign currency exchange and EFTPOS transactions during the 2023 Pacific Games which contributed to a 7 percent rise in non-interest income. A 10 percent reduction in non-interest expense was also noted, largely due to decreased professional charges and fees incurred by banks in 2H23.

Figure 2: Banking Sector Half-Yearly Growth in NPBT and ROA

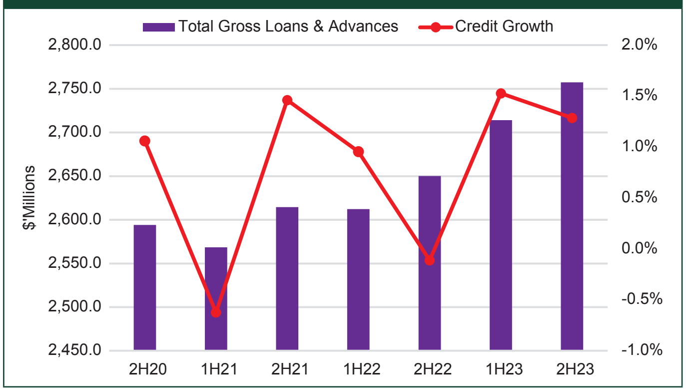


Source: Central Bank of Solomon Islands

Total credit grew by 1.3 percent in the second half of 2023, marginally below the 1.5 percent growth observed in 1H23, resulting in the total stock of loans and advances reaching $2.8 billion by the end of December 2023. The increase in lending came mainly from the Personal, Construction, Transportation, and Distribution sectors. Within the personal sector, investment property loans were the primary driver, while the expansion of businesses and the additional funding needs for the 2023 Pacific Games spurred growth in the distribution, construction, and transportation sectors particularly among small and medium businesses.

In terms of sectoral distribution, the majority of credit extended to the private sector is concentrated in the personal sector, constituting 37.2 percent. Following closely is the distribution sector at 24.6 percent, with the construction sector trailing at 14.8 percent. The remaining 23 percent of aggregate credit is distributed among several other sectors.

Figure 3: Banking Sector Half-Yearly Growth in Loans & Advances, 2H20 – 2H23



Source: Central Bank of Solomon Islands

Developments in 2H23

There were few developments in the banking sector during

3 Rise in NPL ratio of 130 basis points

the second half of 2023. The observed developments can be categorized as strategic initiatives undertaken by banks to strengthen growth, efficiency, and profitability.

BSP Finance Solomon Islands Limited, the asset financing arm for the BSP Group Limited was absorbed into the Bank South Pacific Financial Group Limited (SI) operations, with the aim to enhance efficiency and strengthen the bank's ability to serve its customers' effectively. Additionally, BSPFGL SI has recently opened a new branch in East Honiara with the primary objective of providing services to customers in the eastern part of Honiara. This new branch is expected to alleviate the long queues experienced at the other branches located within the Honiara CBD.

Quite different in its strategic approach, the Australia New Zealand Bank Solomon Islands Branch closed its Panatina Branch in favour of bolstering its digital strategy. This action reduces the bank's presence to just two (2) Branches in the Solomon Islands, indicating a significant shift in its operational approach and direction. While the closure may signify a shift away from the traditional brick-and-mortar banking model, ANZSI remains steadfast in its objective to deliver accessible and convenient financial services to its customers.

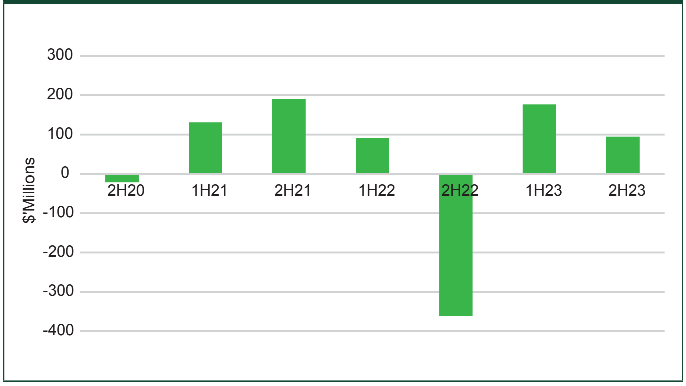
During the second half of 2023, Pan Oceanic Bank Limited became an agent for RIA Money in the Solomon Islands, marking a significant expansion in its financial services offerings. This allows customers to access RIA Money's global money transfer network, enabling them to send and receive funds securely and efficiently. With plans to extend services to other provinces outside of the capital city, the initiative would promote financial inclusion by bridging the gap between the global remittance network and rural communities in the Solomon Islands.

2.2 Superannuation Sector: Resilience and Performance

The Solomon Islands National Provident Fund (the Fund) displayed resilience during 2H23, by consistently maintaining adequate liquidity level and achieving positive earnings. Despite a decline in liquid asset to short term liability ratio to 21 percent in 2H23 from 26 percent in 1H23, the fund maintains the capacity to meet member withdrawal demands and sustained its operations. The continued influx of members contributions from monthly contributions inflows coupled with positive earnings primarily from fixed investment income bolster the Fund's liquidity position.

Notwithstanding the narrow domestic market environment and offshore market fluctuations, the Fund shows a positive turnover in 2H23. The positive result was driven by boosted earnings from offshore investments, positive unrealized gain from domestic equities and stable earnings from fixed income investments. On the expenditure front, investment expenses experienced a decline, reflecting efficient resource management by the trustees through decline in maintenance cost to achieve the Fund's investment objective. Though the performance remained positive, valuation and market risks persist due to uncertainty in both the domestic and offshore markets, which could directly influence the Fund's overall performance in the future.

Figure 4: Superannuation Sector Half-Yearly Net Profit, 2H20 – 2H23

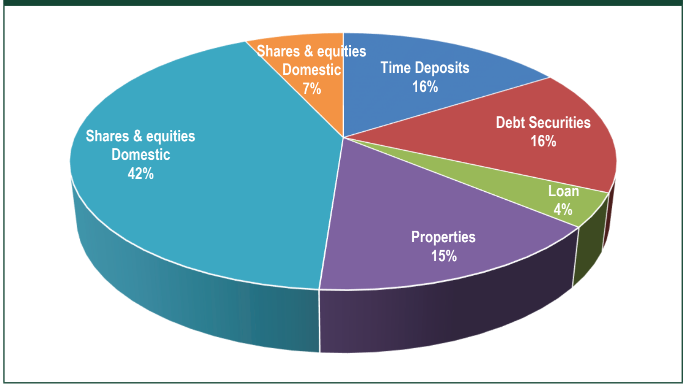


Source: Central Bank of Solomon Islands

Since its inception, the Fund's balance sheet has further expanded, reaching a total of $4,201 million as at end of 2H23. Of the total asset, 87 percent were invested in various investments classes with the purpose of earning returns for members. The trustees of the Fund are mandated to ensure that members receive their contributions plus the interest on investments upon reaching retirement age.

As at end of 2H23, investment assets totaled $3,717 million, reflecting a 6 percent growth from 1H23. These investment assets constitute a crucial element of the Fund's balance sheet. In alignment with the Fund's investment strategy, the Fund holds longer-term investments to generate sufficient returns for members while simultaneously managing investment risk. Nevertheless, the investment composition remains heavily concentrated on unlisted equities which accounts for 42 percent, with fixed income investment at 36 percent, property investment at 15 percent and offshore listed equities at 7 percent. In 2H23, the Fund undertook additional investments which totaled to $82 million and this includes purchasing of the Solomon Islands government bonds and extending credit to the pri-

Figure 5: Superannuation Sector Investment Assets Allocation, 2H23



Source: Central Bank of Solomon Islands

vate sector.

As the value of members' contributions increased by 7 percent to $3,854 million, members' benefit payments also increased during the review period. Specifically, 63 percent of benefits paid out are attributed to members withdrawing under the retirement category, while early withdrawal categories under lenders' claims and the Minister for Finance and Treasury discretion make up 20 percent while the remaining 17 percent is allocated to other major withdrawal categories such as death, disability, migration and redundancy. Recent quarters have witnessed a continued increase in demand for early withdrawals, possibly stemming from the financial hardship faced by members. The Fund also anticipated a further increase in withdrawal demands in the short to medium term, considering its aging population as 42 percent of the total members had reached the age of 50 years and above by the end of 2023.

The Funds' total memberships experienced a 2 percent growth from 1H23 to 287,716 members in 2H23, both in the formal and informal sectors. While this growth is observed, the Fund continues to face challenges concerning unidentified contributions and inactive members. As at December 30th, 2023, total inactive members comprised of 65 percent of the total membership. The persistent trend of inactive members may pose operational risks to the Fund and exacerbate liquidity mismatches in the future. In addition, the geographical dispersion of islands in the country has also compounded the issue of unidentified members contributions, making it challenging to: i) register names of new employees with the Fund; and ii) provide NPF registration numbers and identity cards to members' employer. However, this issue expected to cede in the future with the increasing use of communication technology. The fund management has slowly increased avenues for members to conduct proper registration through online platform.

The Funds' liquidity remained at an adequate level in the second half of 2023, with liquid assets to short term liabilities ratio standing at 21 percent and liquid assets to total value of contributions ratio particularly from members aged 50 and above reached 29 percent. While the ongoing influx of member contributions supports liquidity, the aging demographic of the Funds' population poses challenges. There is growing demand for early withdrawals and the sustained high level of inactive members, which may potentially trigger liquidity mismatches in the near future. The Fund Board and Management continue to have dialogue with the Ministry of Finance and Treasury to put in place some measures to minimize the elevation of early withdrawals.

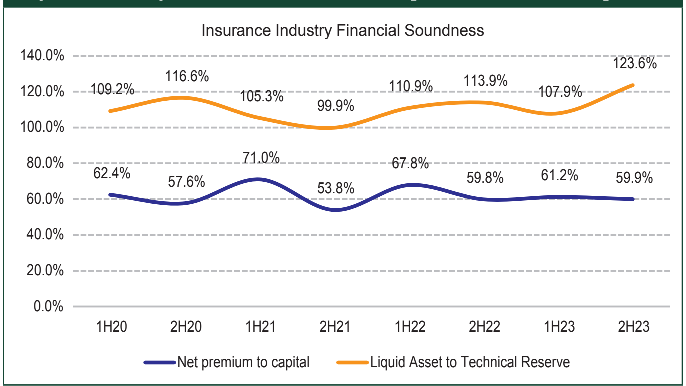
2.3 Insurance Sector: Resilience and Performance

The insurance sector remained stable throughout 2H23, with no major spike in reported claims against gross written premium. Underwriting expenses on the other hand continued to remain high but manageable. Aggregate risks insured by the domestic insurance industry remained well within the bounds of best practice capital adequacy limits[4]. Insurers continued to follow strict internal underwriting guidelines, and enforce appropriate terms and conditions on policies sold during 2H23. Total Net Premium to Capital Ratio (NPCR) for the sector stood at 59.9 percent at the end of 2H23. This depicts sufficient capital buffer to cover the net insured risk retained by the industry. This outcome positively underscores the insurance sector's resilience, which contributed to the overall financial system stability with the sector's NPCR remaining well below the CBSI internal benchmark limit of 300 percent. This notably implies underutilization of risk-taking capacity by the insurance industry. Whilst such conservative approach may be beneficial in limiting insurers' capital exposure to risk, it also denies growth for the sector in the long term. Furthermore, this also limits the support to other sectors like banks that rely on insurance as a form of risk management mechanism to boost lending.

The Insurance industry continued to maintain adequate asset quality over the period, reinforcing the sector's financially sound position in 2H23. Whilst asset diversification is still low in 2H23, the industry continuously maintained high liquid assets which remain adequate to cover its current liabilities. This is shown by the liquid assets to technical liability reserves ratio which stood at 123.6 percent, surpassing the CBSI internal benchmark of 100 percent. This ratio primarily consisted of liquid cash available to cover the industry's total liabilities. Notably, this ratio has remained consistent since 1H22 and implies adequate cash available within the sector to meet policyholders' claims.

Furthermore, the sector's resilience is further supported by good governance and effective risk management and internal control system being put in place by insurers to manage its operational and financial risks. In spite of the vulnerabilities and challenges from the market, the indus-

Figure 6: Insurance Sector Half-Yearly Growth in Net Premium to Capital and Liquid Assets, 2H20 - 2H23 [General Insurance]



Source: Central Bank of Solomon Islands

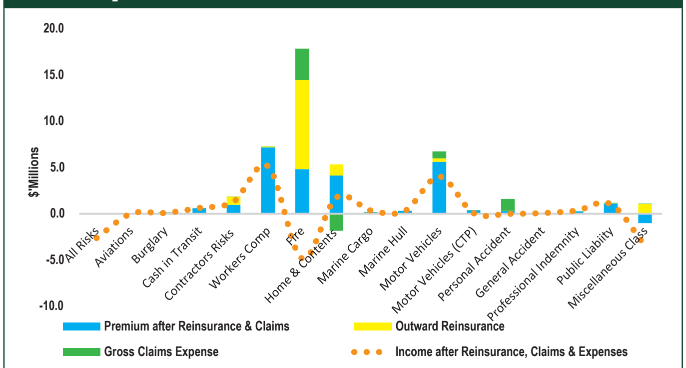
4 Financial Health & Soundness Indicators (CARAMEL). The net risk ratio is used to measure the insurance sector's capital adequacy. It is calculated by dividing Net Written Premium with insurer's available capital. Greater than 300 percent is considered to be a high risk and less than 100 percent is considered to be a low risk with more capacity to underwrite more policies.

try resilience continued to be reinforced by good governance and risk management from individual insurers board and senior management. By leveraging their experience from other jurisdictions, the executives continue to use their skills and integrity to guide each insurer's strategic direction in a sound manner which also contributed to the sector's overall resilience for 2H23.

General Portfolio Performance

The insurance sector's performance for 2H23 remained normal for the industry. Albeit witnessing a modest decline of 4 percent in total gross written premium from $43.6 million in 1H23, the outcome mirrored a noteworthy increase of 12 percent from the same period in 2022. This positive outcome was primarily from growth in contract works and property class of business, which is fueled by routine renewals and new business acquired through donor funded projects. Fire class continued to remain the largest contributor of $17.8 million to the sector's gross written premium pool in 2H23, owing to the size of the risk insured. Fire insurance was the preeminent class for the local industry's total portfolio with its demand surpassing current market supply. This is trailed by Worker's compensation, with total premium of $7.3 million, and boasting commendable profitability in 2H23. Meanwhile, the motor vehicle class posted significant growth in the second half of 2023, credited to the influx of imported vehicles over the period, while other classes of insurance, such as contract works and home content insurance, modestly contributed to the premium pool.

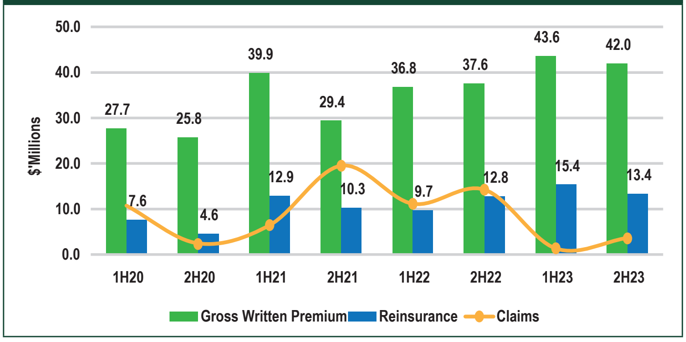
Figure 7: Insurance Sector Performance by Class, 2H23 [General Insurance]



Source: Central Bank of Solomon Islands

Reinsurance cost on the other hand continue to gradually increase from 1H23 to 2H23, as global prices continue to move up. During 2H23, reinsurance costs absorbed around 31.8 percent of total underwriting premium, and expected to increase further as reinsurance market continue to tighten in 1H24. The increase in reinsurance prices is driven by global losses, inflation and increase in risk profiles. Given the scarcity of reinsurance to support local industry, it is expected that reinsurance will continue to put pressure onto the industry's underwriting costs. However, in spite of that, the industry manages to improve profit by 155 percent for 2H23, reflecting good balance maintained by the insurers on their spending for reinsurance support and retention of risks.

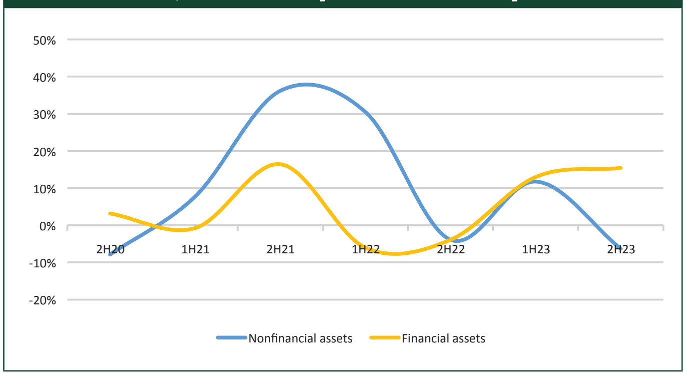
Figure 8: Insurance Sector Half-Yearly Growth in Major Components of Income Statement, 2H20 – 2H23 [General Insurance]



Source: Central Bank of Solomon Islands

Claims ratio for 2H23 remained moderately low, primarily driven by claims for property businesses of around $3.3 million, followed by motor and personal accidents. For personal accidents, overseas medical evacuation expenses (Medivac) constituted the largest cost for claims of roughly $1.3 million. All other class of businesses like cash-in-transit, contractors all risk, workers compensation, fire, house contents, motor vehicle and public liabilities all boasted good profitability thus, effectively reduces any impact from the losses incurred during the 2H23 period (See figure performance by class).

Figure 9: Insurance Sector Half-Yearly Growth in Major Components of Assets, 2H20 – 2H23 [General Insurance]

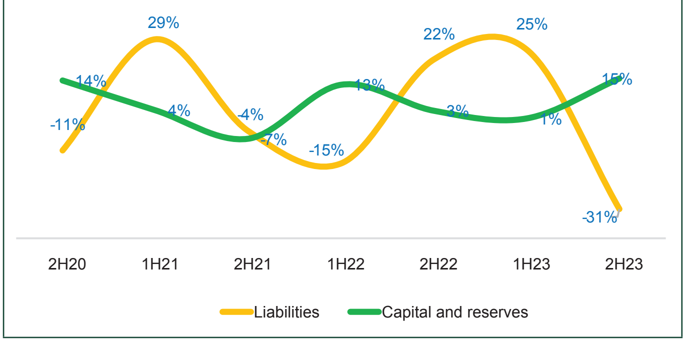


Source: Central Bank of Solomon Islands

The insurance sector's total assets marginally contracted in the second half of 2023 to $188 million. The reduction in asset stemmed from a slight decline of 15 percent in currency and deposits due to increase in underwriting expenses and operational expenses, the obvious being the gradual increase in reinsurance costs. Despite the reduction of industry's total assets, the sector's asset quality remains suitable to match its liabilities as most of the assets are all in liquid form held with financial institutions as deposits. Unlike other jurisdiction, due to limited opportunities to diversify, no insurers have invested in stock markets or properties. Thus, the industry's asset quality remains less vulnerable to market[5] and credit risk[6] for 2H23. The low credit risk is evident from the debtors to asset ratio of 15.5 percent, which indicates that only 15.5 percent of the sector's total assets are vulnerable to credit risk.

The insurance sector's liquidity ratio also reinforces its asset quality by showing a 123 percent result in 2H23, 23 percent higher than CBSI internal bench-mark of 100 percent. The liquidity ratio remains an important indicator as it depicts the sector's ability to meet its short-term obligations. Having adequate liquid assets in 2H23 ensures that industry is able to meet policy holder claims and other industry obligations in the short to medium term.

Figure 10: Insurance Sector Half-Yearly Growth in Major Component of Liabilities and Capital, 2H20 – 2H23 [General Insurance]



Source: Central Bank of Solomon Islands

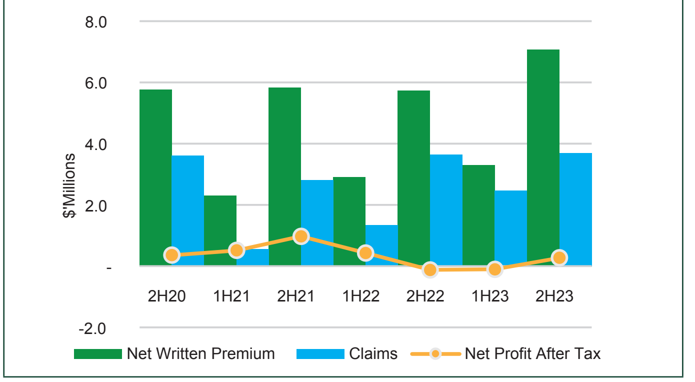
The industry's outstanding liabilities on the other hand remains low in 2H23, as most dues have been reduced, evident from the reduction of the currency and deposits balances from the industry's assets side.

Life Portfolio Performance

The Life Insurance portfolio performance remains stable despite payouts for outstanding claims incurred in the last periods. The steadfast performance resulted in an increase in business portfolio, with net written premiums netting a 37 percent growth in 2H23. The increase catalyzed an expansion in the portfolio's Return on Assets (ROA) & Return on Equity (ROE) of 4 percent and 5 percent respectively. Total Assets and Capital simultaneously increase in 2H23, providing sufficient solvency coverage and buffering against any urgent exposures.

Claims for the life portfolio increased modestly by 19 percent in the period, primarily driven by payouts for repatriation in the medical portfolio for medical services abroad. Nonetheless, the life portfolio demonstrated resilience during the period with the portfolio resources (Balance Sheet Assets: $19 million) remained at satisfactory levels cumulative to the end of 2023. Life insurance underlying profitability remains positive at the conclusion of 2H23. The positive growth was a relief for the life sector compared to the negative result in previous periods.

Figure 11: Life Insurance Sector Half-Yearly Growth Performance, 2H20 – 2H23

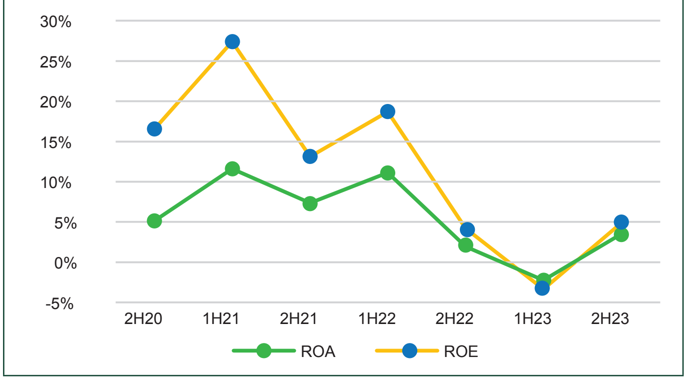


Source: Central Bank of Solomon Islands

Developments in 2H23

During 2H23, a number of developments have occurred. One of the major changes in the insurance sector is the discontinuation of the medical portfolio by one of the insurers due to a lack of expertise to continue underwriting this portfolio. Thus, existing customers are expected to obtain medical policies elsewhere given that policy will no longer be covered after 2024.

Figure 12: Life Insurance Sector Half-Yearly Growth in ROA, ROE, 2H20 – 2H23



Source: Central Bank of Solomon Islands

Furthermore, the Controller of Insurance's Office have also performed a number of licensing assessment during 2H23 and have approved two new applicants to participate in the market. It is therefore expected that these new players will be contributing to local insurance underwriting market in 2024.

2.4 Credit Union Sector: Resilience and Performance

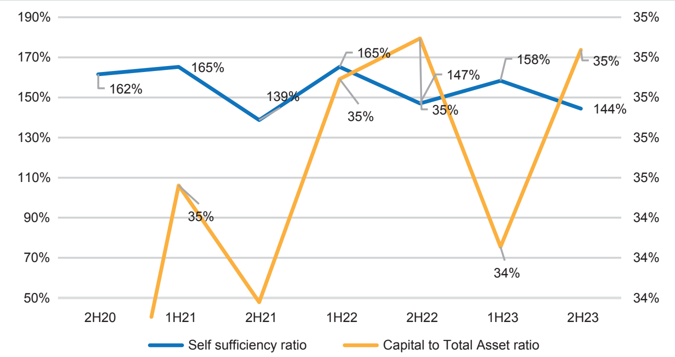
Credit union sector maintained normal operations throughout the 2H23. The sector's resilience was evident in its ability to maintain strong capital to asset ratio of 35

5 Market risk – Risk of loss to value of assets invested in the stock market like equities, stock price etc.

6 Credit Risk – Refers to inability of debtors to pay up their dues which will affect overall total asset for insurance industry.

percent and self-sufficiency ratio (SSR)[7] of 144 percent. Both ratios remained above the supervisory benchmark, indicating the sector's capacity to meet both long-term and short-term obligations and maintain operations from a sufficient capitalized position. Despite the ongoing credit risk and governance challenges, credit unions witnessed a positive growth in total income, which rose from $3.8 million in 1H23 to $5.6 million in 2H23. The growth in incomes stemmed from interest income. Correspondingly, the sectors total capital grew by 2 percent to $32.7 million.

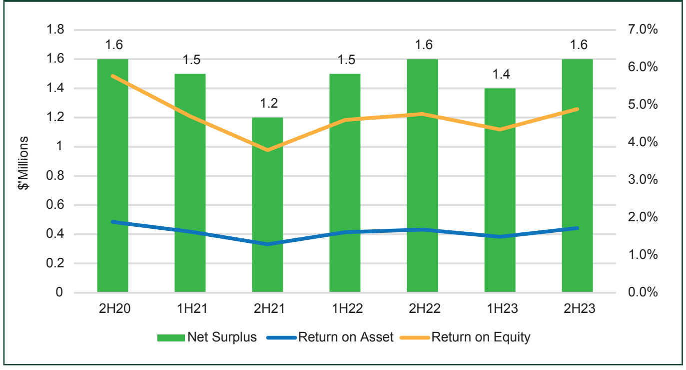
Figure 13: Credit Union Sector Half Year Self Sufficiency Performance, 2H20- 2H23



Source: Central Bank of Solomon Islands

The sector's growth in capital base was attributed to a 1 percent increase in total share capital relative to total assets. Although a decline in self-sufficiency ratio due to increase in total expenses, credit unions were able to effectively sustained operations and fulfill short-term to long-term commitments to its members. The credit union sector's ability to remain resilient is also attributed to good governance practices and effective management by the Board and Management, as the ultimate responsible officers to drive good governance and operational culture of the credit unions. Operating with a member-oriented approach, the sector continues to provide savings, credit and other financial services[8] to its members while sustaining operations during the period.

Figure 14: Credit Union Sector Half Year Profit Performance, 2H20- 2H23



Source: Central Bank of Solomon Islands

The sector experienced a decline in its overall balance sheet, primarily driven by a decrease in total loans by 2 percent to $56.4 million in 2H23. However, loan portfolio still constitutes the highest proportion of assets at 61 percent, indicating that lending remains the core activity and significantly contributed to income of the sector. Profitability of the sector remain stable, as evidenced by a 14.3 percent growth in net surplus to $1.6 million during 2H23. This growth was driven by an increase in total income, stemming from interest income generated mainly from the lending portfolio. The sector's performance is further affirmed by its positive return on asset ratio and return on equity ratio[9].

On the liabilities side, the stock balance for total member savings deposits grew by 1 percent to $46.3 million in 2H23 from $45.9 million in 1H23. This growth was attributed to an increase in total member deposits across various savings products offered by the credit unions. The growth in membership contributed to this increase, driven by new recruits from employer-based credit unions.

7 Self-sufficiency ratio measures the extent to which non-profit can cover its operating expenses through earned income.

8 Credit unions also purchase houses under their investment plans and rental proceeds are record as income to the credit union.

9 Return on assets equals net income divide by total assets. Return on equity equals to net Income divide by Shareholder's equity.

CHAPTER 3: KEY VULNERABILITIES AND RISKS TO FINANCIAL STABILITY IN THE SOLOMON ISLANDS

3.1 Banking Sector: Vulnerabilities & Risks

The banking sector is susceptible to risks and vulnerabilities that could potentially impact its stability. Several key risks and vulnerabilities remained unchanged in the second half of 2023.

Credit risk remains a major concern for the banking industry. In 2H23, the NPL to total gross loans ratio, which indicates credit risk associated with its loan portfolio, increased by 130 basis points in 2H23. Concerns persisted due to the ongoing delays by SIG in settling its debts with service providers and the protracted court process for bad debt recovery. While credit risk is rated high-risk according to CBSI's internal supervisory limits, the residual risk is classified as medium given loans are fully collateralized and banks are taking proactive measures to monitor delinquencies in their portfolios and are enhancing their communication and management of problem loan customers.

With the increasing reliance on digital technologies and online banking services, banks are vulnerable to cyber-attacks that could compromise customer data, disrupt operations, and result in financial losses. The Asia Pacific region (APAC) is experiencing huge increase in cyberattacks compared to its global counterparts, one of the main reasons being the accelerated digital transformation[10]. Cyber risk is another growing concern for the banking sector, therefore posing a risk for the Solomon Islands banking system. To protect against cyber threats and safeguard sensitive information, banks must invest in robust cybersecurity measures, conduct regular risk assessments, and enhance employee awareness.

Liquidity risk persists within the banking sector in the latter half of 2023. This is primarily stemming from banks' reliance on wholesale deposits from statutory non-bank financial institutions and state-owned enterprises, as indicated by the wholesale deposits to total loans ratio of 28.1 percent. Despite a 380 basis points improvement from 31.9 percent in 1H23, banks remained vulnerable and exposed to liquidity mismatches. Such mismatches could materialize if investors quickly withdraw these funds during period of market stress, economic downturns, or higher yield investment opportunities. Although the inherent risk rating is assessed as medium, banks mitigate this risk through their holdings of high-quality liquid assets and robust liquidity risk management practices, resulting in a low residual risk.

The unreliability of power and network infrastructure also pose a vulnerability for banks which could potentially lead to operational risk. The intermittent outages in power and networks experienced in the country may disrupt banks' ability to deliver smooth and efficient banking services, which may reasonably erode customer satisfaction and confidence in the banking system. Therefore, it is essential to have adequate data storage and electricity backup systems in place to mitigate the risk of data loss and ensure business continuity. Additionally, monitoring of third-party service providers engaged in material business activities is crucial, along with maintaining continuous communication with customers during operational disruptions or service unavailability. Operational risk, however, remains low in 2H23.

10 World Economic Forum, 2023, Why is the Asia Pacific region a target for cybercrime - and what can be done about it?

Table 1: Banking Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk 2H23 Rating	Residual Risk 2H23 Rating
Growing household indebtedness	Credit	Deterioration in quality of housing and investment property loans	High	Medium
Increasing use of technologies	Cyber security	Deterioration in confidentiality, intergrity or availability of information or data	Medium	Low
Reliance on wholesale deposits for funding	Liquidity	Inability to meet obligations when fall due and lead to a system wide bank run	Medium	Low
Poor road infrastructure and unreliable network infra-structure	Operational	Inability to provide smooth and efficient banking services	Low	Low
Low	Implies generally stable micro-financial conditions with minimal threat to financial stability			
Medium	Signals moderate levels of systematic risk build up that suggest the need for closer monitoring but not immediate policy response			
High	Indicatives potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated			
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy interventions			

Source: Central Bank of Solomon Islands

3.2 Superannuation Sector: Vulnerabilities & Risks

In view of the non-existence of stock market in the domestic market and the volatility in the global market, the fund continues to expose to vulnerabilities and inherent risks. The key vulnerabilities and risks have remained unchanged since the first half of 2023, with additional implications to the current risk.

The continual delay in modernizing the legal framework has a ripple effect on the overall risk governance structure of the Fund. A significant concern has been observed, and evident through the ongoing escalation of demands for early withdrawals through lenders' claims and Ministerial discretion. Moreover, political influence over the governance structure and investment decisions persists. While the trustees (board of directors) are mandated for the oversight function of the fund, the independence of the governance structure ultimately rests with the political regime, as per the current legislation. The certainty of rectifying this ongoing outdated legal framework is expected in the second half of 2024.

Investment concentration risk stemming from narrowed investment opportunities remain a concern within the superannuation sector. The Fund remains heavily invested in unlisted equities, which poses a significant risk due to constrained market conditions. During the review period, the Funds' total exposure to unlisted investment remained dominate, comprising 42 percent of the total investment and this is above the internal assets' allocation of the Fund. Any adverse movements in the domestic market could result in negative performance and further deteriorate the Funds' overall investment position. Moreover, the continuous growth of unlisted equities through annual valuation may pose uncertainty in the event of adverse conditions in the domestic market. Despite the risk is assessed as high, the Funds' board and management remain vigilant, continuously monitoring and implementing investment risk management strategies to reduce the risk.

Moreover, spillover effects from financial hardship and member behavior constitute a contingent risk to the Fund. This could lead to persistent high demand for early benefit withdrawals through lenders claim and Ministerial discretion. Such circumstances may potentially impose liquidity stress, particularly as the Fund observes an aging population, further driving up the demand for withdrawals. While the liquid asset remains adequate, the upward trend in early withdrawals and increased demand upon retirement resulting from an aging population may induce cashflow mismatch for the Fund.

Table 2: Superannuation Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk	Residual Risk
Lack of independent due to outdated legal framework	Governance risk	Elevate imprudent practises jeopardise best practises	High	High
Aging fund population and rising demand for early withdrawals	Liquidity risk	Deterioration in the liquidity management	Extreme	High
Narrow local market condition and uncertainty in the offshore markets	Investment Risk	Concentration risk	Extreme	Extreme

Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematic risk build up that suggest the need for closer monitoring but not immediate policy response
High	Indicatives potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated
Extreme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy interventions

Source: Central Bank of Solomon Islands

3.3 Insurance Sector: Vulnerabilities & Risks

Changing Market Composition and Reputation Risk

The insurance sector, though stable, continue to face unpredictable changes. One of the major changes that occurred during 2H23 was the exit of one of the reputable insurers due to a change in its strategic priorities. This led to a new competitor joining the domestic insurance market. Whilst these exchanges did not leave any major gap to the market, this abrupt change does have a significant bearing to the market in terms of reputation risks. An example of such risk would be loss of trust from foreign investors and consumers when they see a highly rated insurer exits the local market. Investors and consumers will perceive this as a sign of uncertainty within the local insurance market.

Rising reinsurance Cost

Similar to 1H23, rising reinsurance costs remain a risk for the sector in 2H23 as it continues to put financial strain on insurer's budgets and policy-holders pockets. The rising global reinsurance cost on the domestic market is influenced by global losses, inflation and increasing risk profiles. The impact from this high cost of reinsurance is insurers starts to pass on these costs to their customers. This leads to more customer complaints. As more and more policy holders complain on the high premium cost, few and fewer people will be willing to renew their policy coverage in the local market. This results in loss of customers and decline in business growth for insurers in the long run.

Table 3: Insurance Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk	Residual Risk
Changing Market Composition	Strategic risk	Competent insurers leaving market and new entrants coming into the market	High	Medium
Rising Reinsurance Cost	Insurance risk	Continuous global increase in reinsurance prices leading to higher premium for policyholders	High	Medium
Regulatory Arbitrage	Strategic Risk	Mass exit of insurers into a more conducive regulatory environment leading to market monopoly or policy holders getting alternative cover from offshore market	Medium	Low

Low	Implies generally stable micro-financial conditions with minimal threat to financial stability.
Medium	Signals moderate levels of systematic risk build up that suggest the need for closer monitoring but not immediate policy response.
High	Indicatives potentially disruptive levels of systematic risk to the point where policy intervention should be seriously contemplated
Exterme	Denotes that materialization of systematic risk is imminent with a significant threat to the real economy which requires immediate policy interventions.

Source: Central Bank of Solomon Islands

Rigid and Outdated Legislative Framework

Another risk is regulatory arbitrage. Stringent regulations and outdated legislation can lead to regulatory arbitrage. Insurers might find it difficult to operate within current regulatory environment and thus opted to move their operations to a more favorable and less restrictive environment. Hence the risk to the local market would be seeing multiple insurers leaving the insurance market because of regulatory arbitrage leading to monopoly of the insurance market. This will lead to concentration risk in the sector which would not be good for the sector in the long run.

3.4 Credit Union Sector: Vulnerabilities & Risks

Governance and board oversight still persist with the way the credit unions are managed within the credit unions. Lack of robust policies and risk management framework contributes to ineffective and inefficient of managing the credit unions. There are evidence of conflict of interest and lack of transparency within the board in making prudent decisions towards loans and advances. Such imprudent practices led to high non - performing loans that exposed the members funds to high risk. The Registrar's Office (RO) has issued the Practice Guidance Note 3 & 4 to the credit union to implement during the second half of the year. These practice guidance notes, provides an avenue to have proper governance framework to manage the internal operations in accordance to internal best standard and manage the loan portfolio in terms of managing the credit risks and provisions of loans. The RO will monitor the credit unions to ensure requirements under the PG 3 & 4 are implemented and complied. The RO has completed the consultancy stage of the PGN5 on "Allowance to Board and Committee Members" during the second half.

The net residual risk is medium. The board will ensure to implement the recommendations outline in PGN 3 & 4. It is important the board and management to put in place internal controls to safe guard of member interest.

The absence of an adequate information system in most of the credit unions, places the sector vulnerable to deficiencies in recording and monitoring particularly lending activities, thereby amplifying credit risk within the sector. The Management information system (MIS) which would serve as the central nervous system for managing information within any financial system, with particular relevance to the credit union sector to ensure customer satisfaction and regulations compliance is still not available. Specifically, without a proper MIS in place, the board of directors and management are unable to effectively track loan delinquency or adequately provide for loan losses.

Implementation a Core Banking and Lending system provides banking solutions for credit unions to streamline operations, enhance efficiency and increase members satisfaction. MIS plays a crucial role in facilitating real-time processing and updating of financial transactions efficiently. During the second half of 2023, the registrar's office had facilitated market research and vender evaluation to identify a suitable MIS vendor specializing in providing solutions tailored to the specific needs of credit unions in the Solomon Islands.

CHAPTER 4: FINANCIAL SECTOR OUTLOOK & CHALLENGES

4.1 Banking Sector: Outlook & Challenges

Despite the improved performance of the sector in 2H23, banks continue to encounter challenges arising from collateral registration delays and the prolonged court process for debt recovery. Collateral registration delays not only prolong the lending process but also increase the risk exposure for banks. Furthermore, delays in court proceedings for debt recovery prolong the time required for banks to recoup defaulted loans. This poses the risk that banks may receive collaterals that have depreciated in value due to wear and tear effects.

Despite the challenges, banks are increasingly focusing on expanding their agent banking and digital offerings as part of their growth strategy. With the ongoing trend of digitalization and the adoption of Mobile and Internet banking services, banks are strategically expanding their reach to customers beyond traditional brick-and-mortar branches. The sector remains optimistic about this strategy given the increasing demand for convenient and accessible banking services in the country. This would not only allow banks to grow their customer base but also does so in a cost-effective manner. Although the outlook for credit in the banking sector is anticipated to be positive, albeit with a downward trend, banks foresee growth in the construction, distribution and personal sector in the medium to long term. However, despite positive expectations, the pace of growth may decelerate as indicated by data from preceding periods primarily due to sluggish growth and economic uncertainties.

4.2 Superannuation Sector: Outlook & Challenges

Amidst the prevailing slow recovery of economic conditions in the country, the Fund anticipates a moderate to slower rate of membership growth. One of the key strategies for onboarding informal sectors members into the Fund involves the continuous pursuit of technological innovations within the informal sector. In light of the formal sector, the dynamic geo-political landscape may play a significant role in in shaping economic activities potentially leading to an improvement in employment opportunities.

Regarding the Funds' investments, there is optimism that total investments may see a moderate trajectory over the next 12 months. This growth is expected to derive from property investments and other fixed income investments. Furthermore, the anticipated growth over the next 12 months may stem from valuation of unlisted equities and positive gains from offshore investment.

4.3 Insurance Sector: Outlook & Challenges

The insurance sector continued to experience challenges to grow. Some factors hindering the sector's growth spiralled from not having proper bodies/authorities that conducts regular test and certifies whether the risks are insurable or not. For example, bodies that conduct fire-resistant tests to certifies that insured properties is fireproof safes et cetera on a regular basis.

Also, business activities are concentrated within Honiara and few from other provinces only, hence this limits the number of insurable opportunities for the industry to grow outside of Honiara. Most new business for 2H23 are donor related projects and lasts for only a set period of time. Additionally, individual insurers also have strict underwriting guidelines which deters them from insuring risks that are beyond their underwriting guidelines and risk appetite in country. This pose challenge to policy holders to obtain coverage for their risk locally and induces them to seek insurance covers offshore.

Moreover, people's illiteracy about the benefits of insurance, financial hardship to afford insurance policies plus safety-nets provided by relatives through common understanding of reciprocity and mutual obligation, all contributed to deter people from seeking financial safety-nets like insurance. These challenges coupled with old legislations and rigid regulatory frameworks all contributed towards impeding growth from both the supply side and demand side for insurance.

On the outlook, with a new insurer entering the general insurance market for 1H24, this is anticipated to bring about price competition, efficiency and introduction of new products from the supply side of the market. These changes are expected to slowly improve the demand side of the insurance market over time and lead to market growth. The new player is expected to bring about some balance to alleviate some of the concentration risk observed in some portfolios within the market. For the micro-insurance space, more opportunities to innovate new products are currently being explored however on the down side, demand for these products are very slow to pick up.

4.4 Credit Union Sector: Outlook & Challenges

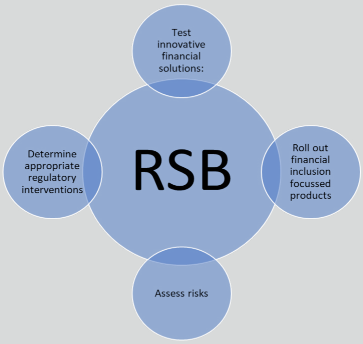
In 2H23, the Registrar's Office (hereafter RO) has taken further steps by establishing connections and networks with World Council of Credit Unions (WOCCU). The RO, in conjunction with WOCCU is exploring opportunities for technical support to strengthen the credit union industry in Solomon Islands and the Pacific Region by utilizing available resources especially on areas of information Management system and supervision monitoring tool. Successful collaboration between these organizations will drive the industry to realize various opportunities and enhance financial inclusion in the broader community. Given the pivotal need to reform the sector, the RO eagerly anticipates the parliamentary process regarding the Credit Union Bill, which aims to align the credit union sector with international best practices.

4.5 Regulatory Sandbox Developments

Box 2: Regulatory Sandbox Developments

On 14th April 2022, the Central Bank of Solomon Islands (CBSI) successfully launched and implemented the Regulatory Sandbox (RSB) Framework to encourage and facilitate financial innovation within the Solomon Islands. The RSB Framework for the Solomon Islands defined RSB as a controlled environment for fintech/innovators/firms to conduct live testing or experiment of their completed innovative solutions (i.e. financial products/ services/delivery channels/business processes) with real customers under CBSI's supervision, prior to market deployment. The rationale of RSB is to encourage new innovations to be prototyped and rolled out in the market while being mindful of the need to balance innovation and risks. This framework aims to support the development of innovative financial solutions that could benefit the country's economy and financial sector.

Diagram 1: The Purpose of RSB in Solomon Islands

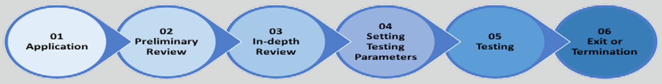


The RSB initiative provides a structured platform that offers guidelines and framework in a well-defined space and duration that allows authentic innovators in Financial Technologies (Fintech) and its ecosystem an opportunity to validate their new ideas, assess their innovative financial products' and services' performance and ensure compliance with relevant regulatory requirements in a safe space under controlled condition before full-scale implementation and launched to the public.

The fundamental purposes of the RSB framework for the Solomon Islands are: i) test innovative financial solutions regarding their genuineness, viability and market scalability, ii) roll out financial inclusion-focused products, iii) assess risks associated with new innovative financial solutions, and iv) determine appropriate regulatory interventions to facilitate market deployment of RSB successfully tested innovative solutions. The RSB framework also promotes innovative regulatory approaches that will gradually improve the business environment in the country, with particular emphasis on enhancing access to high-quality financial services to the unbanked or underbanked and underserved segment of our society and our nation as a whole.

The RSB process in the Solomon Islands is summarised as follows:

Diagram 2: RSB Process in Solomon Islands



The CBSI maintained its collaborative efforts with the key stakeholders and players to advance the development of new and innovative technology-driven financial services, or FinTech, within the framework of the Regulatory Sandbox.

Table 4: Summary of RSB Applicants

Applicant No.	Application Product/ Services Type	Application Status
1	Digitalized Remittances & Payments	Platform Application rejection
2	Digitalized Money Remittances	Platform Testing
3	Digital payment services through airtime top-up for utility services	Exit RSB assessment process
4	Digitalized Money Remittances	Platform In-depth Review
5	Digitalized Nano Loan Product	Setting Testing Parameters

Over the second half of 2023, CBSI remained actively involved in the Regulatory Sandbox, conducting the assessments and facilitating the testing processes for a digital money remittance product/service. During the review period, CBSI received and assessed five (5) applicants through the RSB, but only one digital money remittance solution was able to be successfully admitted into the RSB Framework. This enables the applicant to interact with real consumers in a controlled pilot environment defined by mutually agreed testing parameters and conditions.

In its endeavour to drive financial innovation in the country, the CBSI continues to provide essential regulatory support by relaxing specific legal and regulatory requirements prescribed by CBSI, which the RSB applicant(s) will otherwise be subject to, particularly for the duration of the RSB process.

In this regard, a special Working Group Committee was formed as required by the RSB framework. This working group committee serves as the primary decision-making body for the regulatory sandbox initiative. Over the latter half of 2023, the special Working Group convened three (3) meetings to review application assessments, establish regulatory exemptions and reliefs, and develop testing parameters for the sandbox successful applicant.

In essence, the CBSI RSB Framework incorporates adequate measures and safeguards to mitigate the impacts of potential failures and preserve the overall safety and stability of the financial system.

Therefore, the approach adopted by the CBSI effectively underscores a balance between encouraging innovation and facilitating the growth and enhancement of the financial sector while ensuring the maintenance of financial stability. It also aims to foster responsible, innovative financial services by creating an enabling environment conducive to financial innovation while safeguarding the integrity and stability of the financial system in the Solomon Islands.

APPENDICES

APPENDIX 1: BANKING SECTOR

Table A1.1: Banking Sector Financial Soundness Indicators, 2H20 – 2H23

In Percent	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Capital Adequacy	33.7%	33.4%	32.6%	30.5%	32.9%	33.8%	34.8%
Total regulatory capital ratio	33.7	33.4	32.6	30.5	32.9	33.8	34.8
Tier 1 Capital ratio	31.5	33.0	31.0	30.5	32.8	33.8	34.2
Leverage Ratio >3% [Basel III]	13.2	13.9	13.3	13.9	13.6	14.2	13.8
Profitability	1757.2	1722.2	2068.3	2073.7	2132.1	2211.8	2294.5
Return on Equity (ROE)	11.8	13.4	8.6	15.5	16.1	14.1	17.0
Return on Assets (ROA)	2.1	2.5	2.3	2.9	3.0	2.7	3.2
Operational Risk							
Cost to income ratio (CIR)	57.1	58.3	56.7	57.1	56.0	56.1	52.3
Total Asset Growth	3.0	1.7	-2.1	-2.3	3.9	1.3	3.8
Credit Risk							
Credit Growth	1.1	-0.6	1.5	1.0	-0.1	1.5	1.3
Credit Concentration Risk	0.1	0.1	0.1	0.1	0.1	0.1	0.1
All Large Exposures /Tier I Capital	58.7	50.5	45.4	25.1	46.9	25.3	35.6
Sectoral HHI of credit sector portfolio	1757.2	1722.2	2068.3	2073.7	2132.1	2211.8	2294.5
Credit Quality							
Gross Stressed Exposures (GSE) to Total Exposures	11.6	11.9	11.2	10.9	9.3	8.9	9.3
Gross NPLs to Total gross Loans	10.6	11.4	10.4	10.9	9.4	8.3	9.6
Provisioning							
Provisioning Coverage Ratio: Specific Loan Loss to NPLs	29.9	28.7	36.4	36.2	39.8	44.8	41.4
Liquidity Risk							
Wholesale Deposits (OFCs) to Total Loans	30.2	31.7	29.5	33.0	32.8	31.9	28.1
Total Gross Loans to Total Deposits	52.5	51.2	50.9	52.9	50.3	51.9	49.9
Liquid Assets to Short Term Liabilities	53.9	59.7	64.1	67.4	66.1	66.8	67.5
Market Risk							
Net overall Open Position: Net overall open position to total capital & reserves	2.4	2.4	2.9	2.6	2.8	5.1	2.6

Low	Indicator is within the internal thresholds
Medium	Indicator is within the internal thresholds however on the lower or higher end of the internal thresholds
High	Indicator is above or below the internal thresholds
Extreme	Indicator is extremely above or extremely below the internal thresholds

Source: Central Bank of Solomon Islands

Table A1.2: Banking Sector Half Year Income Statement ($ Million), 2H20 – 2H23

	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Net interest income	120.6	113	120.1	113.7	118	122.3	124.5
Noninterest income	80.4	76.6	92.9	86.5	109.7	97.2	104
Noninterest expenses	116.1	110.6	117.6	114.3	125.4	123.1	111.3
Provisions	9.1	0.7	24.7	-10.1	-3.9	4.3	-13.7
Net profit before tax	75.8	78.3	70.8	95.9	106.2	92.2	130.9

Source: Central Bank of Solomon Islands

Table A1.3: Banking Sector Half Year Balance Sheet ($ Million), 2H20 – 2H23							
	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Cash and Deposits	3,065.7	3,143.1	3,293.7	3,145.3	3,479.2	3387.6	3570.4
Loans net of specific provision for loan losses	2,511.7	2,484.8	2,515.7	2,509.2	2,550.5	2,612.9	2,647.7
Debt securities	474.1	471.5	476.7	441.0	484.0	495.5	500.0
Nonfinancial assets	216.2	206.1	286.5	278.9	273.9	271.9	298.4
Total assets	6,367.9	6,397.5	6,685.4	6,464.6	6,907.6	6898.7	7215.1
Currency and deposits	4,939.0	5,012.6	5,133.5	4,941.6	5,273.9	5233.8	5521.0
Other Liabilities	265.1	234.5	316.1	293.4	333.7	369.2	359.9
Capital and reserves	1,163.9	1,150.4	1,235.9	1,229.6	1,300.1	1295.7	1334.2
Total Liabilities & Capital	6,367.9	6,397.5	6,685.4	6,464.6	6,907.6	6898.7	7215.1

Source: Central Bank of Solomon Islands

APPENDIX 2: SUPERANNUATION SECTOR

Table A2.1 :Superannuation Sector Financial Soundness Indicators							
In Percent	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Total Reserve-to-total assets ratio	9.2	12.0	11.8	13.0	2.6	6.8	5.2
Investment Growth	(0.05)	0.02	0.01	(0.01)	0.01	0.02	0.01
Investment assets allocations							
Time deposit	18.36	18.03	16.65	16.99	18.74	18.46	16.10
Government Secuirites	7.47	7.51	8.59	8.66	10.47	12.55	15.28
Loans and Bonds	4.46	5.13	4.27	4.44	4.27	4.74	4.72
Investment Properties	15.32	15.06	14.01	13.41	16.57	15.54	15.24
Shares-Unlisted	48.45	48.45	49.88	50.55	43.33	41.74	41.57
Shares-Listed	5.93	5.82	6.59	5.95	6.63	6.96	7.09
Return on Total Investment Assets	0.68	7.23	10.20	4.78	(6.16)	9.38	8.67
Cost-to-income ratio	104.65	23.03	21.18	32.52	(51.61)	20.46	24.04
Board Members Expenses total expenses	1.10	1.64	1.60	1.15	1.39	2.48	2.13
Core liquid assets-to-total assets ratio	5.87	6.80	4.43	5.82	5.81	5.17	4.41
Liquid assets to total value of members contributions ratio	24.88	26.23	22.69	24.56	23.61	23.77	20.30
Core liquid assets-to-value of members contr. Aged 51+>100%	43.73	49.91	36.59	42.79	38.61	34.27	28.57
Liquid assets -to-short term liabilities	238.66	37.59	24.27	30.79	28.84	25.52	21.28
Liquid assets-to-total assets ratio	21.99	22.48	19.47	20.74	22.34	21.44	18.77

Low	Indicator is within the internal thresholds
Medium	Indicator is within the internal thresholds however on the lower or higher end of the internal thresholds
High	Indicator is above or below the internal thresholds
Extreme	Indicator is extremely above or extremely below the internal thresholds

Source: Central Bank of Solomon Islands

Table A2.2: Half Year Profit and Loss Statement of Superannuation Sector ($ Million), 2H20 – 2H23							
	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Investment Income	62.8	135.2	275.2	102.8	-281.7	179.1	170.0
Non-Investment Income	16.2	38.4	-30.9	40.6	-30.6	46.8	-35.4
Gross Income	79.0	173.5	244.4	143.4	-312.3	225.9	134.7
Expenses	82.6	40.0	47.9	46.6	41.4	47.0	40.5
Net Profit before interest payable	-3.7	133.6	196.5	96.8	-353.7	178.9	94.2
Interest payable to members	17.7	2.7	3.6	5.9	8.7	2.9	-0.4
Net Profit/(Loss) After Interest to Members	-21.3	130.8	192.9	90.9	-362.4	176.0	94.6

***Source:** Central Bank of Solomon Islands*

Table A2.3: Half Year Balance Sheet Statement of Superannuation Sector ($ Million), 2H20 – 2H23

	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Demand deposits	218.9	260.6	180.3	240.9	221.5	205.8	183.9
Time deposits	600.9	601.3	612.4	616.9	630.8	647.7	598.3
Loans	111.0	134.2	119.5	154.6	137.1	148.3	157.3
Debt securities	251.1	257.1	322.5	320.8	358.9	458.4	586.3
Shares and equities	1,779.8	1,835.9	2,077.6	2,061.1	1,688.3	1,714.8	1,816.7
Accrued interest & dividend receivables	39.4	11.1	8.7	10.8	11.1	16.8	28.8
Non-financial assets	692.1	698.6	711.5	683.2	755.2	758.1	797.8
Other assets	34.3	34.4	40.4	80.3	47.8	65.4	32.9
Total assets	3,727.4	3833.1	4,072.9	4,168.5	3,850.6	4,015.3	4,202.0
Members contributions	3,294.2	3,285.7	3,493.6	3,492.2	3,609.4	3,589.8	3,854.0
Other Liabilities	89.4	87.3	97.5	139.6	143.7	155.6	132.7
Capital & reserves	343.8	460.2	481.8	536.7	97.6	269.9	215.3
Total liabilities& capital	3,727.4	3,833.1	4,072.9	4,168.5	3,850.7	4,015.2	4,202.0

Source: Central Bank of Solomon Islands

APPENDIX 3: INSURANCE SECTOR

Table A3.1: General Insurance Sector Financial Soundness Indicators, 2H20 – 2H23

In Percent	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Capital Adequacy							
"Net Premium to Capital (Low Risk ≤ 300%)"	57.6	71.0	53.8	67.8	59.8	61.2	59.9
Capital & Reserves to Total Assets (Low Risk ≥ 15%)	47.2	41.2	40.5	47.5	43.5	43.9	50.9
Asset Quality							
Debtors to Total Assets (Low Risk ≤ 25%)	14.8	14.7	14.8	18.8	18.4	18.7	15.5
"Debtors to (Gross Premium + Reinsurance) (Low Risk ≤ 35%)"	44.8	32.8	36.6	48.5	36.2	41.3	38.4
Reinsurance & Actuarial Issues							
"Risk Retention Ratio (Low Risk ≥ 40% ≤ 80%)"	82.1	67.6	65.0	73.6	65.9	64.7	68.2
Adequacy of Claims							
"Loss Ratio (Net Claims to Net Premiums) (Low Risk ≥ 40% ≤ 80%)"	12.2	18.8	62.1	6.5	38.5	-11.0	27.5
Earnings & Profitability							
"Expense Ratio (Expense to Net Premium) (Low Risk ≤ 45%)"	42.6	59.8	47.2	51.4	54.0	58.7	43.1
"Combined Ratio (Net Claims + Expense to Net Premiums) (Low Risk ≥ 60% ≤ 105%)"	54.8	78.5	109.3	57.9	92.5	47.7	70.6
"Investment Income Ratio (Investment Income to Net Premium) Low ≥ 2% ≤ 30%)"	1.6	0.5	1.7	0.8	0.5	0.7	0.5
"Return on equity Low Risk ≥ 5% ≤ 30%)"	28.1	16.1	-3.8	28.1	6.0	28.9	18.7
"Return on Asset (Low Risk ≥ 4%)"	13.3	6.6	-1.5	13.4	2.6	12.7	9.5
Liquidity Ratio							
"Liquid Assets to Short Term Liabilities (Low Risk ≥ 120%)"	116.6	105.3	99.9	110.9	113.6	107.9	123.6

Low	Indicator is within the internal thresholds
Medium	Indicator is within the internal thresholds however on the lower or higher end of the internal thresholds
High	Indicator is above or below the internal thresholds
Extreme	Indicator is extremely above or extremely below the internal thresholds

Source: Central Bank of Solomon Islands

Table A3.2: General Insurance Half Yearly Income Statement ($ Million), 2H20 – 2H23							
	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Gross Written Premium	25.8	39.9	29.4	36.8	37.6	43.6	42.0
Outward reinsurance	4.6	12.9	10.3	9.7	12.8	15.4	13.4
Premium net of reinsurance	21.2	27.0	19.1	27.1	24.7	28.2	28.6
Unearned premium reserves	(0.8)	1.8	(0.3)	1.7	1.1	4.1	0.4
Net earned premium	22.0	25.1	19.5	25.4	23.6	24.1	28.3
Gross claims expense	2.5	6.5	19.5	11.2	14.3	1.3	3.7
Total recoveries	(0.2)	1.7	7.5	9.5	5.2	4.0	(4.1)
Net claims expenses	2.7	4.7	12.1	1.6	9.1	(2.6)	7.8
Acquisition Costs	0.2	0.0	(0.0)	0.0	0.0	(0.1)	(0.5)
Total underwriting expenses	9.6	11.8	18.6	8.7	15.4	4.9	14.6
Underwriting Results	12.3	13.3	0.8	16.8	8.2	19.2	13.7
Investment income on assets backing insurance liabilities	0.1	0.1	0.3	0.2	0.1	0.2	0.1
Insurance Results	12.7	13.4	1.1	17.0	8.3	19.4	13.8
Other operating expenses or management expenses	2.4	7.3	2.5	6.0	6.5	6.1	4.9
Net Profit (Loss) Before Tax	10.3	6.1	(1.4)	11.3	2.5	13.3	8.9
Income tax or provisions	3.0	1.6	1.0	3.2	0.9	1.8	4.8
Net Income (Loss) End of Current Period	7.3	4.5	(2.3)	8.0	1.6	11.5	4.2

Source: Central Bank of Solomon Islands

Table A3.3: General Insurance Half Year Balance Sheet Statement ($ Million), 2H20 – 2H23							
	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Total Assets	157.6	184.3	175.3	168.4	190.2	217.7	187.9
Nonfinancial assets	4.4	6.0	7.9	7.5	8.4	7.9	5.4
Financial assets	153.1	178.3	167.5	160.9	181.8	209.8	182.6
Currency and deposits	95.5	114.1	104.1	98.1	122.1	131.4	114.2
Shares and other equity	0.7	0.7	0.6	0.6	0.6	0.6	0.7
Debt securities	16.0	16.0	16.0	15.7	16.0	15.7	15.7
Insurance technical reserves (Assets)	38.0	44.7	44.2	44.0	42.1	61.1	47.0
Other assets	3.0	2.8	2.6	2.5	0.9	1.1	5.1
Liabilities	84.2	108.3	104.3	88.4	107.5	134.4	92.3
Insurance technical reserves (Liabilities)	75.1	83.5	84.4	70.5	86.5	115.7	78.1
Other liabilities	9.1	24.8	19.9	17.9	20.9	18.8	14.3
Capital and reserves	73.4	76.0	71.0	80.0	82.7	83.3	95.6
Balance Sheet Total	157.6	184.3	175.3	168.4	190.2	217.7	187.9

Source: Central Bank of Solomon Islands

APPENDIX 4: CREDIT UNION SECTOR

Table A4.1: Credit Union Sector Financial Soundness Indicators, 2H20 – 2H23

	2H20	1H21	2H21	1H22	2H22	1H23	2H23
Balance Sheet (SBD Million)							
Total Loans	55.8	56.5	56.8	55.5	60.9	57.4	56.2
Total Assets	84.9	92.3	93	92.9	95.2	94	92.8
Total Deposits/Savings	51.3	54.2	55	53.4	55.6	45.9	46.3
Total Share Capital	27.7	31.9	31.6	32.6	33.6	32.2	32.7
Income Statement (SBD Million)							
Income	4.2	3.8	4.3	3.8	5	3.8	5.2
Expenses	2.6	2.3	3.1	2.3	3.4	2.4	3.6
Net Surplus	1.6	1.5	1.2	1.5	1.6	1.4	1.6
Statistics							
Membership	6800	6850	6850	6850	6850	6850	6850
No. of Reporting Credit Unions	10	10	10	10	10	10	10
Protection							
Self Sufficiency Ratio (111%)	162%	165%	139%	165%	147%	158%	144%
Effective rate of Efficiency							
Loans to Assets (70-80%)	66%	61%	61%	60%	64%	61%	61%
Savings Deposits to Assets (70-80%)	60%	59%	59%	57%	58%	49%	50%
Asset Quality							
Non-earning Assets to Total Assets (>=5%)	17%	17%	17%	17%	15%	16%	17%
Rate of Return							
Net Income to Loan	3%	3%	2%	3%	3%	2%	3%
Liquidity							
Reserves to Savings (10%)	13.2%	20.1%	20.2%	20.8%	21.2%	24.5%	16.0%
Signs of Growth							
Growth in Loans	6%	1%	1%	-2%	10%	-6%	-2%
Growth in Savings	4%	6%	1%	-3%	4%	-17%	1%
Growth in Share Capital	0%	15%	-1%	3%	3%	-4%	2%
Asset Quality							
Capital to Total Asset ratio	33%	35%	34%	35%	35%	34%	35%
Return on Equity	6%	5%	4%	5%	5%	4%	5%
Return on Asset	1.9%	1.6%	1.3%	1.6%	1.7%	1.5%	1.7%

Source: Central Bank of Solomon Islands