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This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to December 31st, 2022 unless stated otherwise in the relevant chapters/sections.

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Abbreviations

CBSI	Central Bank of Solomon Islands
1H22	First half of 2022, which ended 30th June 2022
2H22	Second half of 2022, which ended 31st December 2022
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

Chapter 1: OVERVIEW OF INTERNATIONAL & DOMESTIC FINANCIAL CONDITIONS

1.1: International Financial Condition

Global financial conditions have tightened further, with elevated financial stability risks witnessed in the second half of 2022, coupled with persistently high inflation, which prompted an unusual hike in policy rates in advanced economies. Global economic growth was revised downward from the initial estimates of 3.4 percent in 2022 to 2.9 percent in 2023[1]. According to the International Monetary Fund (IMF), despite the revision, the result still represents a 0.2 percent improvement compared to the IMF's initial projection in October 2022, reflecting sturdy GDP growth driven by strong domestic consumption and investment. However, the slowdown was mainly precipitated by a combination of central banks' rising interest rates to mute inflation, supply chain disruption resulting from the Russia-Ukraine war and the resurgence of COVID-19 in China over the fourth quarter of 2022. These collectively weighed on global economic activities, straining the anticipated economic rebound thence.

Inflation continued to overhang the global economy amid a slow recovery. The persistent increase in price continued to elevate operation costs for firms' causing shrinkage in their profit margins. Access to additional capital remained tight due to increased borrowing costs as central banks tightened monetary stances to abate inflation. Some smaller firms are encountering financial distress due to the rise in borrowing costs against a slowdown in fiscal support, causing several loan defaults and non-performing loans (NPLs). This has affected their creditworthiness, further exacerbating corporate downgrades and making credit access challenging. While equity prices have risen in some markets in tandem with the increase in interest rates, investors are concerned about the future performance of their investment assets, given elevating uncertainties surrounding the future economic outlook and potential default risks. Therefore, investors are pulling back on risk-taking causing liquidity issues. A move to normalise policies by central banks amid the slow economic condition would increase uncertainty and, if interacted with the skew in liquidity, would spark repricing risk[2] . These would create windows for financial vulnerabilities that may threaten the financial system's stability.

While the financial sector remained resilient, potential threats to financial stability could originate from Non-Bank Financial Institutions (NBFIs) as their risks and vulnerabilities may have cumulated over the years. These risks, if overlooked, may spill over to the broader financial system, causing financial instability.

The global outlook remained shrouded by uncertainty, with heightened asset price volatility, exposing NBFIs with financial leverage to the risk of financial distress. Leveraged entities are at risk of making losses as they are susceptible to fluctuations in asset prices. Hence, any abrupt negative shift in asset prices may cause them to de-lever at a depressed price, prompting further price declines and ultimately leading to financial losses.

Furthermore, investors' risk-aversion and investment drawback will accelerate liquidity issues for NBFIs, as some NBFIs allow premature redemption of shares at prices irreflective of the liquidity value of the asset. The combination of liquidity issues and falling asset prices may provoke liquidity stresses which, if spill-over to the broader financial system through its interconnectedness, might cause financial stability issues.

Growing political tension also raises elevating concerns for economic and financial fragmentation. This is much more pronounced for countries with limited international reserves and differing foreign policies. The accompanying geo-economic warfare through the weaponization of economic policies and trade sanction impositions to achieve global geopolitical objectives may trigger a sudden reversal of cross-border capital flows, increase funding costs, and negate foreign investment. This impact may be more recognisable for emerging and developing economies that rely weightily on foreign bilateral partners for budget support. This would evoke macro-financial volatility as geopolitical tension–induced financial fragmentation may erode international risk diversification opportunities, affecting cross-border portfolio and bank allocation and limiting access to foreign capital.

In light of the creeping risks, relevant governing and policy-making bodies must be cautious in taking optimal actions to mitigate financial risks without opening more windows for financial risks and vulnerabilities while simultaneously achieving their objectives.

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1 World Economic Outlook, January 2023 Update.

2 **Repricing risk** is the risk of changes in interest rate charged (earned) at the time a financial contract's rate is reset. It emerges if interest rates settled on liabilities increases at a rate higher than those on offsetting assets.

1.2: Domestic Financial Condition

On the domestic front, the economy contracted by 3.6%, stemming from the impacts of the COVID-19 community transmission, climate change, the lingering repercussion of the November 2021 riot, and the spill-over effects of the Russia-Ukraine war. Despite the sluggish economic performance and high inflation[3] in 2H22, the domestic financial sector was able to withstand pressures exerted by both the negative growth and rising prices of goods and services. Thus, it remained resilient and sturdy to cushion any financial shock that would have come to its fore. This is underscored by the substantial capital buffers built over the years, the financial institution's board and management's seamless efforts to mitigate each institution's risks, and the ongoing underlying regulatory reforms within the financial sector. However, threats to domestic financial stability remained elevated as the country remained exposed to converging headwinds. These stemmed from the weak business infrastructures, slowdown in business activities, climatic variations, limited domestic investment opportunities, and the slew of digitised delivery channels into the financial system. These, if left uncurbed, might spur financial stability issues for the domestic financial system. Therefore, financial institutions must remain vigilant to respond to a sudden swing in these risks as the institutions' high degree of interconnectedness offers a plausible conduit for cross-sectoral implication, paving the way for potential risk transmission into a systemic risk.

1.3: National Payments System

Box 1: National Payment System

As global central banks continued to weather shocks from multiple fronts, CBSI persevered to embrace its policy re-directions to enhance its monetary and financial stability objectives. One important policy concern was the implementation of initiatives towards a modernised payments and settlements landscape.

Thus, the nascent office continued to drive and implement its development strategies amidst the ongoing vulnerabilities and impediments due to the COVID-19, political instability (civil unrest Nov 2021), inflationary conditions and natural disasters (Nov 2022, quake), endured in the second half of 2022. However, with consolidated efforts from development partners, stakeholders, the government and CBSI, the most awaited legislation for the payment systems was finally enacted in parliament (Payment Systems Act 2022).

The legislative reform is pivotal in the development of a modernised, resilient financial system that enables effective risk management, compliance and supervision of the payments ecosystem. With that in mind and, following the enactment of the payment's legislation, CBSI is embedded to constitute and proliferate a supervisory regime (policies and regulatory frameworks) to administrate the system. This will no doubt provide the regulatory and oversight frameworks to support innovations and developments through the regulatory sandboxes with an additional mandate to implement an enhanced electronic funds settlement process.

With regards to the payment systems groundwork, CBSI has taken a leading role in conjunction with the Ministry of Finance and Treasury, the World Bank Payments Development Group and International Finance Corporation in implementing and carrying out an industry consultation on the System Rules (Framework) for an Automated Transfer System (ATS), during 2H22. The framework provides for the governance, management and operation of the ATS. CBSI as host and operator of the ATS anticipates the payment solution to accelerate payment processing through automation, technology and end-to-end payments visibility. Additionally, the payments solution will support the government's policy on digitisation of payments and advance the work of financial inclusion in the country. The ATS or the Solomon Automated Transfer System (SOLATS) will greatly improve the timeframe for clearing of payments.

A training on the functionalities of the SOLATS was conducted by the vendor (Montran Corporation) during the 2H22. The training provided the relevant content and topics to help the participants of the ATS aware of the application functions and ensure they can perform payment functions and assist their customers initiate payments through the SOLATS. Installation of hardware equipment and connection to the SOLATS is progressively taking shape for the system participants. CBSI is optimistic of a successful go-live in the fourth quarter of 2023.

3 Core inflation elevated to 5.9% in 2H22 from 4.8% in 1H22.

Chapter 2: FINANCIAL SECTOR RESILIENCE

2.1 Banking Sector Resilience

The banking sector[4] remained robust in 2H22 in the face of high inflation and weak economic conditions by continuing to maintain strong capital and liquidity positions. The lifting of COVID-19 mobility restrictions, which eventually led to resumption of business activities, also contributed to reinforcing the banking sector's resilience. Against these backdrops, there was further improvement in the banks' total regulatory capital, which expanded by 2.3 percent points in 2H22. The recorded growth in capital raised the capital adequacy ratio (CAR) to 32.9 percent, well above the regulatory prescribed 15 percent benchmark. Banks' CAR strong position was supported by the growth in retained earnings during the period, as reflected in the positive return on assets ratio of 3.0 percent.

NPL ratio [5] improved in the second half of 2022 by 1.5 percent points to 9.4 percent, after a 0.5 percent increase in the preceding period. This improvement was attributed to write-offs of legacy loans and restructuring of loans by both the commercial banks and credit institutions. The sector's liquidity reserves experienced a growth of 11.3 percent, reflecting a 47.6 percent in the liquid-to-total assets ratio. This is sufficient to meet the sector's liquidity obligations to depositors and other creditors in the short-term[6]. Overall, the banking sector continued to be well capitalized and profitable in spite of an unfavorable economic environment and rising inflation.

2.2: Superannuation Sector Resilience

The Solomon Islands' only Superannuation Fund (the Fund[7]) functioned without any significant disruptions during the period. It ensures that it effectively caters to the needs and meeting its overall obligations to its members and beneficiaries from the formal and informal sectors amidst the challenging macroeconomic environment.

Like the banking sector, the Fund also witnessed similar challenges which saw an overall negative performance brought about by unrealized losses of $321.6 million. Despite the loss, the Fund remained afloat and continued to maintain an adequate level of liquidity through continuous inflow of members' contribution receipts.

Generally, the Fund had sufficient capital and liquidity buffers prior to the onset of the COVID-19 pandemic, war in Ukraine and increase in overall country risk rating; this has cushioned the overall impact of negative returns as evidenced by the key financial soundness indicators in 2H22. The negative return did not pose immediate solvency risk to the Fund, as the Fund structure is a defined contribution, whereby more than 50 percent of members are within the age of 20 to 49 years. Although experiencing a negative return, other major component of the Fund investment income remains positive; abetting the sector to continue generating investment income from interest, rental, and dividend, at the end of 2H22.

2.3 Insurance Sector Resilience

The insurance sector completed 2H22 with an underwriting gain of $1.6 million in profit due to low claims following the November 2022 earthquake. Despite the profit, operational costs remained consistently higher for the industry over the years and were still persistent in 2H22. This was evident in the high industry expense ratio of 56.8 percent against a Net Combined Ratio (NCOR) of 95.2 percent for 2H22. However, the insurance industry remained sturdy to absorb the growing strains from both domestic and external factors such as COVID-19 and the inflationary pressures.

Given its profitability, the industry managed to steadily maintain sufficient capital to cushion losses. This is demonstrated by the capital adequacy indicators like the net premium to capital ratios, which recorded 59.8 percent against best practice maximum benchmark of 300 percent at the end of 2H22. Additionally, the sufficiency of the sector's capital to withstand adversities was further affirmed by its capital-to-total asset ratio of 43.5 percent, which was well above the minimum prudent buffer of 15 percent.

Similarly, the insurance industry's liquid asset to short-term liability stood at 113.6 percent which exceeded the minimum benchmark of 100 percent. This implied that sufficient liquidity is readily available for the sector to meet its immediate liabilities. Nevertheless, debtors' accumulation by brokers due to uncollected premiums from indirect clients remained a concern; which if not properly managed, would intoxicate the insurer's asset quality. Yet, on aggregate, debtors remained negligible, making up only 18.4 percent of total assets. This pointed to sound credit management policies employed by insurers, underscored by legislative requirements.

Meanwhile, the sector managed to retain the risk underwritten in 2H22 within the expected threshold of 40 to 80 percent at 65.9 percent, indicating cautious risk selection by insurers to ensure that risks undertaken were within their appetite. Conversely, despite recording a very low investment income of 0.5 percent, the majority of the insurers were able to make a profit from their core business thereby fostering the build-up of capital that reinforces the resilience of the industry during the period. This was mirrored by the favourable return on asset and return on equity position of 2.6 percent and 6.0 percent respectively recorded during the review period.

4 Include commercial banks (BSP Financial Group Ltd Solomon Islands Branch, ANZ Banking Group Ltd Solomon Islands Branch, BRED Bank Solomon Islands Branch, Pan Oceanic Bank Limited), the Development Bank of Solomon Islands, and Credit Institutions (Credit Corporation Solomon Islands Ltd, BSP Finance Solomon Islands Ltd).

5 Non- Performing Loans (NPLs) to Total Gross Loans ratio

6 Short term is ≤12 months

7 Solomon Islands National Provident Fund (SINPF)

2.4 Credit Union Sector Risilience

The credit union sector was relatively stable in 2H22, with the continuation of sustainable profit and strong capital buffers. Rollbacks of COVID-19 mitigating strategies and lifting of border and movement restrictions spurred growth in the sectors' profit during the review period. The regulated capital of credit unions rose by 3.1 percentage points to 35.3 percent. This is well above the prescribed 10 percent benchmark pursuant to the Credit Union Act 1986. The sector's regulatory capital is computed as a percentage of total assets, purposely to measure the credit union sector readiness and ability to absorb losses that could arise from shocks. The sector continued to maintain sufficient capital, ample liquidity positions, and healthy profits.

Chapter 3: FINANCIAL SECTOR PERFORMANCE & DEVELOPMENTS

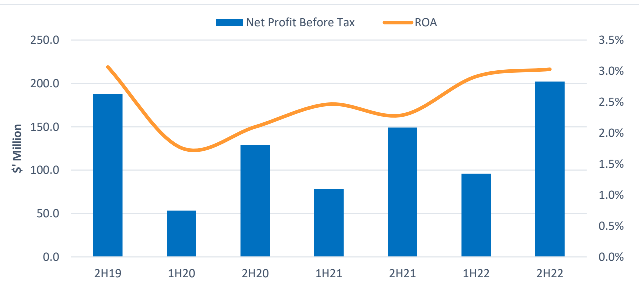
3.1 Banking Sector Performance

Profitability persists to a moderate range within the banking sector, regardless of high inflation and subdued economic growth. The sector's Net Profit Before Tax (NPBT) recorded a growth of 10.7 percent in 2H22. The increase in trade volumes in 2H22, following the relaxation of COVID-19 travelling restrictions and opening of international borders in July 2022 strengthened the non-interest income for all banks, which increased by 26.9 percent in 2H22. Besides, higher earnings from foreign currency revaluation also supported the banks' profitability on the strength of US Dollar against the Solomon Islands Dollar in 2H22.

Furthermore, the high interest rate environment coupled with the higher stock of loans throughout the review period led to 3.7 percent increase in the banks' net interest income, reversing the 5.5 percent negative growth posted in 1H22. Funds placed by Banks at depository institutions abroad also generated higher returns in 2H22. Consequently, the return on assets (ROA) ratio of improved by 3.0 percent.

Non-interest expenses grew by 9.7 percent in 2H22, which was primarily driven by increases in audit and outsourcing expenses, combined with a rise in legal related fees. These however did not deter the banking sector's ability to increase its profitability.

Figure 1: Banking Sector Half-Year Growth, 2H19-2H22

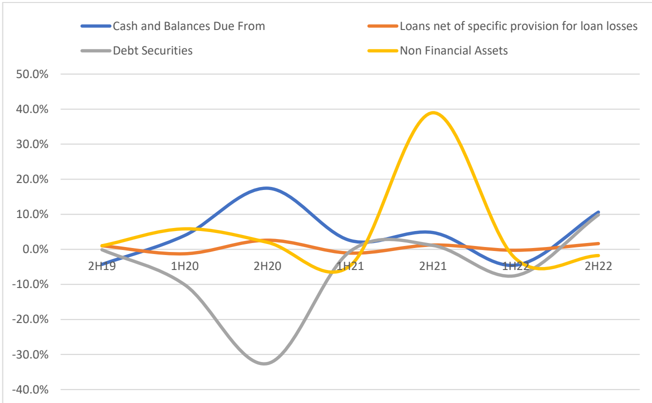


Source: *Central Bank of Solomon Islands*

The banking sector also continued to expand its balance sheet with a 6.9 percent growth in assets to $6.9 billion in 2H22. This was largely driven by an increase in the balance due from depository institutions arising from an increase in inter-bank exchange settlements with the Central Bank and direct deposits by commercial banks, as well as an increase in term deposit placements with depository institutions abroad due to attractive interest rates. The stock of debt securities held by banks increased by 9.9 percent, following a decline of 7.5 percent in 1H22. This was driven by some banks' decision to invest in CBSI bokolo bills and government treasury bills to at least earn income on these highly liquid assets given the limited lending opportunities in the current market and ongoing uncertainties surrounding COVID-19 and its impact on borrowers and the economy.

Simultaneously, total deposits grew by 6.7 percent, compared to a fall of 3.7 percent in the previous reporting period. This growth was prompted by an increase in demand deposits (other) due to an influx of funding from international donors to support Government activities and projects such as the 2023 Pacific Games and infrastructure projects, along with rise in inward remittances due to SIG's relaxation of COVID-19 restrictions in 2H22.

Figure 2: Banking Sector Half-Year Growth in Assets, 2H19-2H22

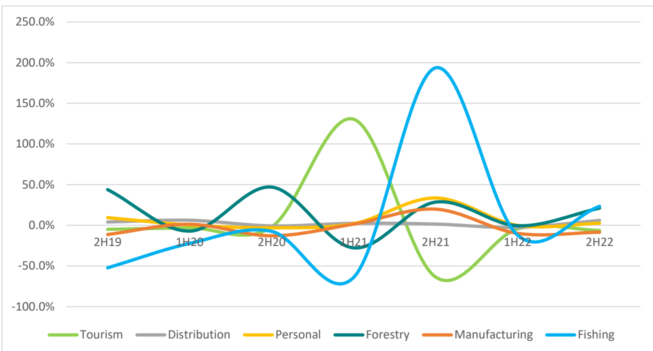


Source: *Central Bank of Solomon Islands*

On aggregate, the banking sectors' credit grew by 1.6 percent (or $38 million) in 2H22, attributing to an increase in loans and advances to the distribution, personal, and forestry sectors. This brings the total loans stock balance to $2.7 billion at the end of the reporting period. Credit to the forestry and distribution sector saw the largest increase in 2H22, particularly to support business operations and expansions.

In terms of sectoral distribution, lending continues to be concentrated in the personal (35.7 percent), followed by the distribution (23.8 percent) and construction (13.4 percent) sectors. Credit to tourism, transportation, and construction sectors is expected to grow in 2023 owing to the 2023 Pacific Games that Solomon Islands will host in November 2023. Growth in lending is expected to be driven by SMEs and individuals who are keen on utilizing the opportunity to offer economic activities during the 2023 Pacific Games.

Figure 3: Banking Sector Half-Year Growth in Key Loans and Advances by Sectors, 2H19 – 2H22

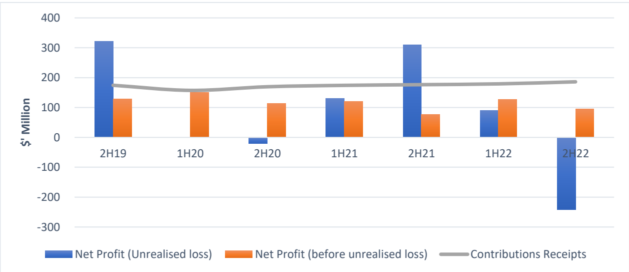


Source: *Central Bank of Solomon Islands*

3.2 Superannuation Sector Performance

The Fund's overall performance remains volatile. At the end of the review period, the Fund recorded a negative return as a result of unrealized losses from domestic equities' revaluation. The losses were significant and outweighed the Fund's investment income from interest, rental, and dividend. Nevertheless, the stable inflow of members contributions enables the Fund to have positive changes in net assets available during the reviewed period.

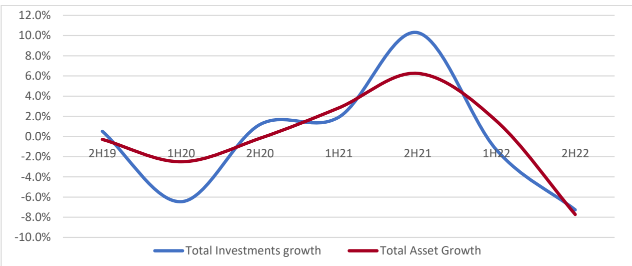
Figure 4: Superannuation Sector Half-Year Net Profit, Contributions Receipts 2H19 – 2H22



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

The Fund's total assets declined by 7.7 percent to $3,850.6 million in 2H22 from $4,168.5 million in 1H22. The Fund remained a systemically important financial institution in the domestic economy, representing 34.9 percent of the total financial systems' assets. The downward trend in total assets was mainly propped by a marginal fall in demand deposits and a 7.0 percent decline in total investment assets. The decline in demand deposit is mainly due to a combination of increased payment to members for withdrawals and reduction in dividend receivables while the total investment was driven by an 18% fall in the value of major domestic equities as a result of revaluation in 2H22.

Figure 5: Superannuation Sector Growth in Investment and Total Assets, 2H19 – 2H22



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

Total membership for both formal and informal sectors had reached 230,034 in 2H22; exclusive of other registered members without proper identification, unclaimed deposits and deceased members. Around 29.0 percent of members actively contributed to the Fund in the last 12 months with total contributions of $2,758.3 million for the formal sector and $31.3 million for the informal sector. The growth in memberships for the formal sector is minimal at 2.0 percent while that of the informal sector is 7.0 percent. The bulk of the membership were the inactive and dormant members' accounts whose contributions totalled $550.1 million in 2H22. On the contrary, there were members who contributed to the Fund but were yet to be formally registered, thence contributions were being transferred to unclaimed deposit, which remained to be an outstanding issue for the Fund. The portion of dormant members and inactive members is a risk and remains a concern for the Fund.

The Fund continues to meet its short and medium-term obligation with its current strong liquidity position amid the high inflation. The robust liquidity position is largely supported by the continuous inflow of members' contributions as a mandatory requirement. Core liquid assets stood at 5.8 percent and liquid assets to members contributions liabilities (age 51) stood at 38.6 percent in 2H22. However, the impact of the surge in inflation to cost of living resulted in members withdrawing portions of their contributions before reaching the retirement age. This was possible under the NPF Act where the Minister for Finance and Treasury has the discretionary power to make that decision. As a result, such withdrawals increased from $9.1 million in 1H22 to $15.7 million in 2H22.

3.3 Insurance Sector Performance

The insurance sector showed minimal changes in its performance in 2H22 compared to 1H22, amid rising domestic inflation induced by the pass through of imported inflation to domestic pricing mechanisms and other adverse global events such as the global uncertainties associated with the Russia-Ukraine war, the global supply chain disruptions, and the higher utility and energy costs. Gross written premium for the industry over-stepped 1H22 results by 2.0 percent to $37.5 million in 2H22. This modest growth fell behind the benchmark of 25.0 percent, reflecting adequate risk selection and operational management employed by insurers. The bulk of the industry's premium came from Contractors All Risk, which amounted to $9.2 million.

Despite a fall of 31.0 percent downward from 1H22, Fire class remained the second largest contributor to the sector's premium pool constituting a total of $9.0 million in 2H22. Employer's liability class or Workers Compensation also contributed significantly to the industry premium income, registering a total of $7.5 million of premium cumulative to the end of December 2022. Other classes of business only contributed 31.0 percent of the sector's overall gross written premium for 2H22 (Table 1). Similar to the previous reporting periods, the volume of businesses underwritten was persistently low due to the weak domestic growth and limited opportunities, regardless of the government's fiscal efforts to support economic recovery post COVID-19 and ongoing preparation to host the Pacif-

Table 1: General Insurance Sector Industry Distribution of Gross Written Premium by Class, 2H21 - 2H22

Distribution of Gross Written Premium 2H22

Portfolio by Class	$ Millions 2H21	$ Millions 2H22	Percentage Change 2H21	Percentage Change 2H22	Share 2H21	Share 2H22
Burglary	0.039	0.040	144%	3%	0.13%	0.11%
Contractors All Risks	0.655	9.236	(96%)	1310%	2.23%	24.59%
Employers Liability or Workers Compensation	5.205	7.585	0.3%	46%	17.69%	20.20%
Fire	10.665	9.097	(230%)	(15%)	36.25%	24.22%
Home Contents and House Owners	2.465	2.995	58%	21%	8.38%	7.97%
Marine Cargo	0.354	0.576	(18%)	63%	1.20%	1.53%
Marine Hull	(0.004)	0.028	(60%)	(810%)	(0.01%)	0.08%
Motor Vehicles	3.913	3.178	(25%)	(19%)	13.30%	8.46%
Motor Vehicles (CTP)	0.429	2.529	165%	490%	1.46%	6.74%
Personal Accident	1.494	1.692	(21%)	13%	5.08%	4.50%
General Accident	0.273	0.168	6%	(38%)	0.93%	0.45%
Professional Indemnity	0.186	0.18	6%	(4%)	0.63%	0.48%
Public Liability	0.957	1.40	13%	46%	3.25%	3.72%
Miscelleneous	2.791	(1.14)	(3%)	(141%)	9.49%	(3.05%)
TOTAL	**29.422**	**37.55**	**14%**	**28%**	**100%**	**100%**

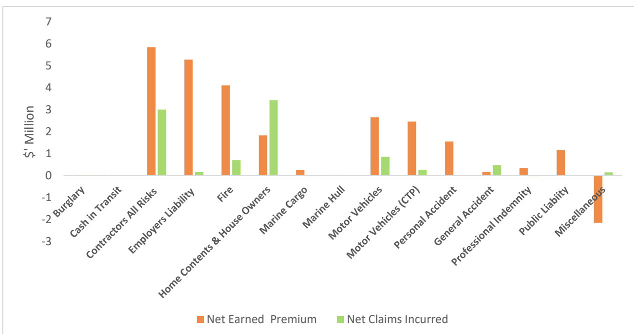
Source: *Central Bank of Solomon Islands*

ic Games. Hence, insurers resigned to customer retention strategies than new business acquisition. Meanwhile, the domestic market is still deemed infantry as its penetration ratio remained around 0.8 percent as at 2H22.

Given the increasing domestic inflation and rising global reinsurance market prices, reinsurance cost for the insurance industry has increased slightly by 31.9 percent, up from $9.7 million reported in 1H22. The ongoing positive trajectory was primarily attributed to the coercing reliance on offshore reinsurers due to the non-availability of a local reinsurer. Consequently, insurers were expected to see a progressive increase in premium prices for policy sold partly due to the persistent rise in global reinsurance market prices and fluctuation in the forex rate. However, an appreciation of domestic exchange rates to counter forex-induced inflation might help to mitigate the impact of rising reinsurance and other offshore costs for insurers going forward.

In terms of industry claims, the sector experienced a slight increase in 2H22 to $9.1 million. The bulk of claims was spurred by domestic property and contractors all risk that recorded a total of $3.4 million and $3.0 million respectively. These claims came mainly from policyholders that were affected by the earthquake which occurred in November 2022. Fortunately, other classes of insurance only incurred attritional losses which lessen the impact from property claims. Nevertheless, most of the claims reported for the second half of 2022 were lower than the earned premium. The only exception was for home contents and house owners' claims, which exceeded the earned premiums and resulted in a loss for that class of business. Meanwhile, total industry claims continue to remain low during 2H22.

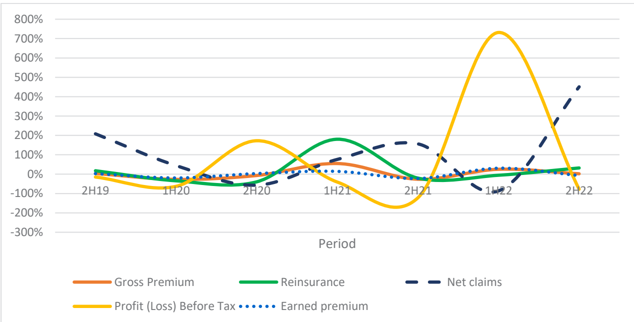
Figure 6: Insurance Sector Earned Premium Against Net Claims 2H22 [General Insurance]



Source: *Central Bank of Solomon Islands*

In contrast, the industry's expenditure remained elevated in the second half of 2022. Growth in expenses pointed to high operational costs incurred by insurers, which were attributed to technical support services provided by the parent company due to the limited availability of technical resources locally. Moreover, insurers faced high operational costs to operate in the local market, which possibly triggered by rising inflation. These costs included management expenses and other underwriting costs, as well as the head office recharges, which totalled $13.4 million, accounting for approximately 56.8 percent of the industry's earned premium, an improvement from 1H22 by 1.1 percent. These high costs were mirrored in higher premiums charged for some classes of business causing policyholders to perceive economic stress.

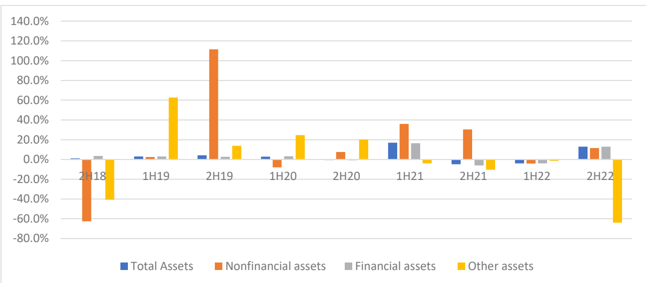
Figure 7: Insurance Sector Half Year Growth in Key Components of Income Statement, 1H19 – 1H22 [General Insurance]



Source: *Central Bank of Solomon Islands*

Notwithstanding the rise in losses resulting from the damages caused by the November 7.0 magnitude quake, attritional claims, and high operational expenses; the industry managed to remain profitable at the close of 2H22, with an after-tax profit of $1.6 million, much lower than the $8.0 million initially registered in 1H22.

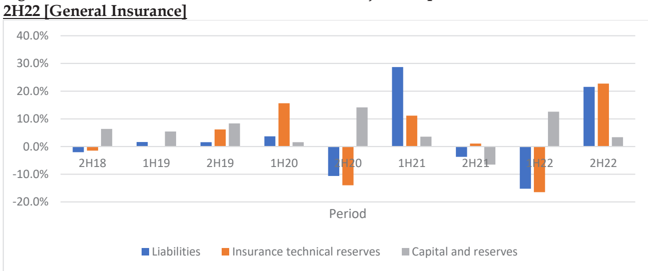
Figure 8: Insurance Sector Half-Year Growth in Major Component of Assets, 2H19 – 2H22 [General Insurance]



Source: *Central Bank of Solomon Islands*

As a result, the industry's capital improved by 3.4 percent while aggregate assets grew by 12.9 percent from 1H22. The increase was driven by rise in both financial assets and non-financial assets by 13.0 percent and 11.6 percent respectively. The sector's total assets remained highly liquid throughout the review period with demand, term and security deposits held with the commercial banks, and the central bank constituting 72.6 percent of the sector's total assets. Although this could be attributed to limited investment opportunities, it resonated with the industry's ability to meet and fulfil its immediate short to medium-term obligations and ensuring to remain solvent. The industry managed to consistently maintain higher solvency for each of the classes of business they underwrite throughout the period. Likewise, the sector's high solvency and liquidity position was reinforced by the 21.6 percent improvement in debtors' collection from 1H22.

Figure 9: Insurance Sector Half-Year Growth in Major Component of Liabilities, 2H19 – 2H22 [General Insurance]



Source: *Central Bank of Solomon Islands*

On the flip side, the sector's liabilities slightly grew by 2.8 percent from 2H21 and 19.6 percent above 1H22. The main factors driving up the liabilities were outstanding dues owed by insurers to their head office for technical support plus other additional operational costs in addition to the industry's outstanding claims of around $34.6 million.

The current industry performance reaffirmed the sector's ability to withstand external pressures amidst mounting operational costs thus, bolstering insurers' confidence (all of which are foreign-owned) which persuaded them to maintain domestic operations, as continuous confidence from these foreign companies was vital for the sector's overall stability.

Life Insurance Overview

In spite of the industry's slow recovery, the life insurance portfolio remained confronted with formidable economic challenges in 2H22. This was depicted by its net after-tax profits (NPAT) which deteriorated in the second half by $0.2 million. The weak performance was compounded by increases in underwriting and operational cost. Furthermore, there was a lack of awareness of life insurance products by consumers and limited investment opportunities to support a variety of life products. Albeit, the insurer's solvency ratio remained adequate, which was further supported by the availability of consolidated capital. Total assets continued to provide ample solvency buffer for the life portfolio. The portfolio's assets in 2H22 stood at $17.8

Figure 10: Life Insurance Sector Half Year Distribution of Major Assets and Liabilities, 1H21 – 2H22

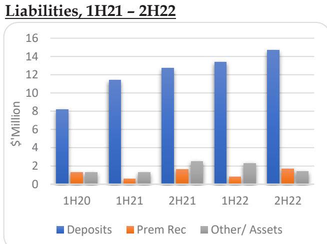
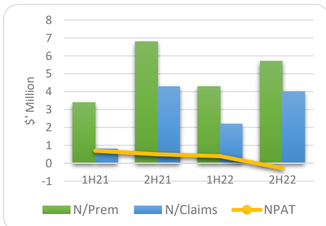


Figure 11: Life Insurance Sector Half Year Profit Performance, 1H21 – 2H22



Source: *Central Bank of Solomon Islands*

million, mainly dominated by deposits held with local banks.

Claims for life portfolio rose to $4.1 million cumulative at the end of the second half of 2022. The upturn was attributed to an increase in medical claims coupled with foreign currency movements, given that the medical bills are denominated in foreign currency. Thus, the life insurance portfolio continued to provide essential cover for much-needed repatriations. In terms of life insurance underwriting business portfolio, the major classes issued are Term Life, Medical and Loan Protection.

The outlook for the life portfolio will remain mute for the year 2023. There are opportunities for growth in the life insurance market, but low literacy and awareness levels across the country remained a key hindrance.

3.4 Credit Union Sector Resilience

The balance sheet of the credit union sector registered a modest growth in 2H22, with total assets increasing by 2.4 percent to a stock balance of $95.2 million during the review period. Members' loans continued to account for the largest share of the sector's total assets. Non-earning assets stood at 15.4 percent, well above the benchmark of 5 percent.

Demand for credit increased with the credit balance expanding by 9.7 percent over the review period, totalling $60.9 million. Lending activities were both focused on secured and unsecured personal lending. The primary funding source continues to be the members' savings and deposits. Total savings rose by 4.1 percent to $55.6 million, representing 91.0 percent of total liabilities.

Profitability improved marginally by 6.7 percent to $1.6 million at the end of 2022 compared to $1.5 million in the same period the previous year. This favourable performance was attributed to a combination of i) a manageable level of operating expenses, and ii) an increase in interest income related to a higher volume of credit activities. Capital and liquidity position remained sufficient, as regulatory capital increased by 3.1 percent which was induced primarily by an increase in retained earnings during the review period. Loans to asset ratio increased to 64.0 percent in 2H22 from 59.7 percent in 1H22, indicating more than 50 percent of the liquid assets are tied to loan contracts.

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

4.1 Banking Sector Vulnerabilities & Risks

Despite the positive performance, the banking sector remained exposed to some vulnerabilities and inherent risks during 2H22 (Table 2[8]). First is the credit risk. The combined effects of delays in rental payments from the Solomon Islands Government (SIG) which impact borrower's repayment, delays in court proceedings and the Ministry of Lands and Housing registration and the persistent low demand in the real estate market for selling collaterals are the main drivers of loan delinquencies which poses a si nificant credit risk to the banking sector. Fortunately, the residual risk was medium in 2H22.

Table 2: Banking Sector Key Vulnerabilities and Risks

Vulnerabilities	Risks Type	Risks Description	Inherent Risk 2H22 Rating	Residual Risk 2H22 Rating
Growing household indebtedness	Credit	Deterioration in aqulaity housing and investment property	Extreme	Medium
Increasing change weather conditions	Climate	Deterioration in quality of assets and loss of assets	Medium	Low
Increasing use of technologies	Cyber Security	Deterioration in confidentiality, integrity or availability of information or data	Medium	Low

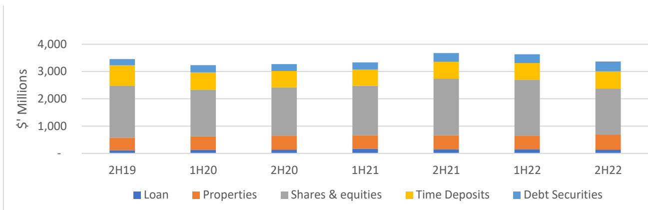
Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematic risk build up that suggest the need for closer monitoring but not an immediate policy repsonse
High	Indicates potentially disruptive levels of systematic risk 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 intervention

Second is climate-related financial risk. The unpredictable weather pattern and conditions may pose as a physical risk as increasing natural disasters may cause direct damage to bank infrastructures, which could impact the operations of banks. Additionally, underlying loan collaterals becoming exposed to heightened natural hazards may lead to financial losses. The residual risk was however low in 2H22.

Finally, the banking system is exposed to cyber risks due to the increasing usage of digital technology, which is likely to increase as the country develops and the internet penetration rate increases in the future, and embracing the rapid technology advancement. This is evident from the fact that the banking sector continued to utilize technology to provide efficient banking services to its customers. With the growing use of mobile banking, internet banking and other digital services, the sector remains vulnerable to cyber-attacks, which could result in data breaches, financial losses, and reputation damage. The residual risk somewhat remained low in 2H22.

4.2 Superannuation Sector Vulnerabilities & Risks

Figure 12: Superannuation Sector Half-Year Investment Composition, 2H19 – 2H22



Source: *Central Bank of Solomon Islands*

8 Risk ratings for past periods were updated following CBSI's review of key risk indicators thresholds

Table 3: Superannuation Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk 2H22 Rating	Residual Risk 2H22 Rating
Limited business interest to invest in the country	Investment concentration	Increasing exposure to single entity	Extreme	Extreme
Rising unpredicatble economic and political situations	Investment	Deterioartion in value of local investments	High	High
Increasing change in weather conditions	Climate	Deterioartion in quality and loss of assets	Medium	Medium
Increasing living cost and social pressures	Liquidity	Deterioarting in level of liquidity	Medium	Medium
Increasing use of technologies	Cyber security	Deteriaration in confidentiality, integrity or availability of information or data	High	Medium

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 an immediate policy repsonse
High	Indicates 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 intervention

Source: *Central Bank of Solomon Islands*

4.3 Insurance Sector Vulnerabilities & Risks

The sector is exposed to some vulnerabilities and inherent risks (Table 4). One of the main vulnerabilities is the political government's actions and/or inactions. This happens when disgruntled citizens are either not satisfied with government policies or are being deceived or manipulated by a tiny group of influential citizens and resort to unlawful activities like rioting and looting. Such unlawful activities always result in a loss of insured properties and subsequent loss of premiums as evident from the November 2021 rioting and looting. While controls to manage this risk is beyond the internal policies of the insurance sector, such event did not occur and subsequently the residual risk was low in 2H22.

Another is the climate-related risk. Climate risk and related disasters, and the subsequent industry's credit risk remained elevated as insurance providers are facing significant gravity in trying to keep the underwriting books tenable. The industry's ongoing mission to retain policyholders is sometimes subjected to maintaining a preferential relationship with all anticipated policyholders but this sometimes comes with a backdrop of compromising underwriting processes. Moreover, insurers are conservative and always resort to making suitable variations and reinstatements to accommodate better contractual terms. Any large event triggering losses to risk portfolios may give rise to significant crisis or catastrophic impacts, given the gaps in protections of climate-related risks and other risks are significant to enhance preparedness for such catastrophes, such as floods, rising sea levels, cyclone, and earthquakes. But given the renewal of intermediary contracts is managed prudently by the insurers through retaining customers whilst adhering to sound underwriting policies, the residual risk was low in 2H22.

In such a small economy with very limited growth opportunities, concentration risk continued to remain elevated for the sector. This may be attributed to dominance of insurance coverage which immersed solely within territorial centre (Honiara). Likewise, identification of exposures within a geographical location may potentially produce large losses that can threaten the sectors health or ability to maintain its core operations. Deterioration in a single insurer's financial capacity who holds a huge market share could significantly reduce the industry's total assets. Thus, could be detrimental to the market, given that there is also lack of co-sharing of insurance business. Nonetheless, the sector strives to have effective risk management controls and oversight to minimize concentration risk, thence the residual risk was low in 2H22.

Table 4: Insurance Sector Key Vulnerabilities and Risks

Vulnerabilities	Risk Type	Risk Description	Inherent Risk 2H22 Rating	Residual Risk 2H22 Rating
Geoploticial relationships	Political and Social	Deterioration in non-renewal of insurnace policies	Medium	Low
Increasing change in weather patter and conditions	Climate	Increasing catastrophic insurance claims	Medium	Low
Increasing cost of business in the country	Concentration	Deterioration in solvency of large-single insrurer	High	Low
Increasing use of technologies	Cyber security	Deterioration in confidentiality, integrity or availability of informatin or data	Medium	Low

Low	Implies generally stable micro-financial conditions with minimal threat to financial stability
Medium	Signals moderate levels of systematci risk build up that suggest the need for closer monitoring but not an immediate policy repsonse
High	Indicates 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 intervention

Source: *Central Bank of Solomon Islands*

4.4 Credit Union Sector Vulnerabilities & Risk

The key risks for the credit union sector remained within manageable limits, despite being exposed to the vulnerabilities of persistently high inflation that could limit members' disposable incomes and accelerating credit risks which poses threats to the stability of the sector.

During 2H22, the sector's risk assessment revealed an increase in the risk associated with credit which is the core business of the credit unions. Credit risk management remained to be a major concern to the credit union sector. Credit unions were subject to immense pressure on credit demands, prompting unsafe lending practices to its financial members. This along with the unorthodox 'soft heart' practice if not managed, may potentially lead to the deterioration of the credit unions' lending books and might significantly impact the bottom line of the credit unions. Managing the most productive asset of the credit union will stabilise the credit union to be more secure and profitable.

Operational and governance risk was also a concern for the sector in 2H22. Management of some credit unions capitalised on the trust of their members and have aided breaches of certain operating principles. Similarly, lack of appropriate governance structure and delay in the adaptation to the fast pace of technology innovation might expose the credit union sector to more operational and IT related risks. With the advent of digital innovations and technology, credit unions must adapt to the changing financial landscape in order to mitigate its accompanying risk whilst simultaneously continuing to serve members' demands and expectations. Additionally, operational risks could be mitigated by operating in a good governance landscape and efficiently serving members evolving needs during these unprecedented times. Credit unions' boards and management need to prioritize addressing their sustainability challenges while ensuring that strong governance and risk management are in place to support and enable them to identify and explore business opportunities on a prudent basis to serve their members' needs.

Given this spectrum of key risks in the sector, strengthening of the risk management structure by establishing robust supervision frameworks for the credit union industry is a critical action for the stability of the sector. Credit unions must adopt international and best practices thus the supervision of credit unions must be grounded on appropriate frameworks and legislations. The Credit Union Bill has since stalled with no political will to pass through Parliament on the much-needed changes to the Act. The Credit Union Bill should provide proper guidance on best practices governing the credit unions in the country. That said, the Office of the Registrar of the Credit union (ROCU) has taken steps by developing Practice Guidance Notes 3 and 4 on Governance and Credit Risk Management to strengthen the risk management framework of the credit unions in areas of Governance and Credit operations of the sector.

Towards strengthening the sector's resilience to the aforementioned risks, the ROCU continued to discharge its supervisory mandate to safeguard the stability of the sector. This exertion was enhanced by regulatory intervention in the administration of credit unions that are deemed to have undertaken unsafe lending practices. The action taken by the Registrar's Office was necessary to save the credit union from failing. Continuous dialogue between the Registrar's Office and credit unions is the way forward to ensure the credit unions continue to serve their members and to assist in finding an alternative means for accessing funds. The ROCU also held discussions with technical experts to draw out reform on adding value to the supervision landscape of the industry.

ROCU encouraged credit unions boards and managements not only to meet "members' expectations" but to consider the associated risks and ensure they are fully aware of the consequences of the decisions they made.

Chapter 5: FINANCIAL SECTOR OUTLOOK & CHALLENGES IN 2023

5.1 Banking Sector Outlook & Challenges

The banking sector is expected to improve, in line with the recovery in the local economy. Two major events namely the 2023 Pacific Games and National General Elections in early 2024 may have some positive implications for the banking sector performance.

Credit is anticipated to grow in 2023, particularly to construction, distribution, transportation, tourism, and personal sectors as contractors and SME's may need additional funds for the Pacific Games related economic activities, or individuals seeking funds for consumption during the short period.

The Pacific Games is further expected to test the operational capacity of banks to meet the high demand for banking services. Consumption spending would be the highest aspect; therefore, it is essential that infrastructures such as ATMs, EFTPOS terminals, mobile, and internet banking systems are effective and prepared to meet customers' demand during the period.

The sector's holding and trading of foreign currency is also expected to increase given the anticipated influx of foreign nationals to attend the Pacific Games. This would potentially bring higher income for banks in the form of fees and charges on foreign exchange operations, while at the same time exposing banks to foreign currency risks.

5.2 Superannuation Sector Outlook & Challenges

The superannuation sector projects a favourable return over the medium term.

Despite the positive outlook, challenges are inevitable for the Fund, especially in both its domestic and offshore investments management and performance in 2023. One of the most significant challenges is the potential increase in market volatility due to uncertainty surrounding global events which any significant downturn could negatively impact the valuation of the Fund's offshore investments, and may potentially hurt the retirement savings of its members.

Nevertheless, the Fund's Board and Management have shared responsibilities in managing the fund and ensuring its medium to long-term financial sustainability. They must avoid being complacent and work together to develop and maintain sound investment policies, monitor performances, ensure compliance and robust controls in place to safeguard members' funds and delivery of its mandatory requirements to members.

5.3 Insurance Sector Outlook & Challenges

Given the ongoing uncertainties in the industry, the outlook for insurance business is expected to remain in the slow lane throughout the rest of 2023, leading to a subdued growth trajectory. This is anticipated due to the lag in recovery from previous adverse events.

While there are opportunities for growth in the life insurance and micro insurance, low levels of literacy and awareness will continue to impede the industry's expansion.

On the other hand, archaic regulatory frameworks, have also hindered growth and deepening of the industry and its underwriting pool. Nonetheless, major funded projects, particularly in the construction sector, have produced positive spin-offs in the market. But the industry's growth potential is still subjected to trading conditions in all economic sectors. Economic expansion has been boosted by the current preparation for the Pacific Games, but its rippling effect on the industry has yet to be manifested in the industry's premium pool.

Despite the challenges, the industry is committed to retaining policyholders and building strong relationships with new ones. Although insurance coverage has experienced sluggish growth, the industry is anticipating to remain strong and stable.

5.4 Credit Union Sector Outlook & Challenges

The outlook for expansion of the credit union movement in the country is very slow due to, among other reasons, lack of effective awareness mechanisms countrywide and the lack of a robust legislation. The current economic pressure may potentially cause budgetary stresses to members that may prompt demand for credit to increase.

Credit Unions, however, must uphold safe lending practices including embracing of transparent and accountable practices to manage increase of non-performing and unsecured loans, which have potential to negatively impact the sector's loan books and profitability.

APPENDICES

Appendix 1: Banking Sector

Table A1.1: Banking Sector Financial Soundness Indicators, 2H19 – 2H22

In Percent	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Capital Adequacy							
Total regulatory capital-to-risk weighted assets ratio	31.3	29.2	33.7	33.4	32.6	30.5	32.9
Tier 1 regulatort capital to risk weighted assets ratio	30.8	29.2	31.5	33.0	31.2	30.5	32.8
Credit concentration risk							
HHI (Loans & adv concentration by sector)	1744.8	1807.3	1757.2	1722.2	2068.3	2073.7	2132.1
Asset Quality							
Credit growth	0.0	-0.8	1.1	-0.6	1.5	1.0	-0.1
NPL-to-total gross loans ratio	10.4	11.8	10.6	11.4	10.4	10.9	9.4
Specific loan loss provisions-to-NPLs ratio	29.4	27.9	29.9	28.7	36.2	36.2	39.8
Earnings & Profitability							
Return on Assets (ROA)	3.1	1.8	2.1	2.5	2.3	2.9	3.0
Return on Equity (ROE)	18.3	10.0	11.8	13.4	12.4	15.5	16.1
Net-interest income to gross income ratio	53.6	58.2	59.1	59.6	58.2	56.8	54.1
Cost-to-income ratio	54.0	56.4	57.1	58.3	55.7	57.1	56.0
Interest spread	10.0	9.8	9.6	9.2	9.1	9.1	9.2
Liquidity							
Wholesale deposits to total loans ratio	33.7	31.1	30.2	31.5	29.5	33.0	32.8
Retail Deposits to total loans ratio	66.3	68.9	69.5	68.5	70.5	67.0	67.2
Loans to deposit ratio	56.7	57.2	56.9	54.1	55.4	56.5	53.3
Liquid assets-to-short term liabilities ratio	33.2	31.2	28.3	23.2	25.3	18.7	20.8
Operational Risk							
Total assets growth	0.5	0.6	3.0	1.7	-2.1	-2.3	3.9
Market Risk							
Net open position in foreign exchange-to-capital ratio	2.1	7.5	2.4	2.4	2.9	2.6	2.8

Low	The probability of loss occurring is not possible. To maintain operation.
Medium	The probability of loss occurring may be possible but not in the short term. Necessary queries need to be raised with concern institution or sector to understand situation.
High	The probability of loss occuring is possible even though the impact might be minor or moderate. Necessary action should be taken to understand situation and request LFIs to take corrective action if necessary.
Extreme	The probability of loss occurring is evident and the impact is moderate or may be significant. Controls might be weak thus necessary actions might be required by FI to mitigate impact of risk and subsequent losses.

Source: *Central Bank of Solomon Islands*

APPENDICES

Table A1.2: Banking Sector Half Year Income Statement ($ Million), 2H19 – 2H22

	2H19	1H20	2H20	1H20	2H21	1H22	2H22
Net interest income	123.8	118.6	120.6	113	120.1	113.7	118
Noninterest income	102	85.3	80.4	76.6	92.9	86.5	109.7
Noninterest expenses	125.4	115	116.1	110.6	117.6	114.3	125.4
Provisions	21.5	35.6	9.1	0.7	24.7	-10.1	-3.9
Net profit before tax	78.9	53.3	75.8	78.3	70.8	95.9	106.2

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

APPENDICES

Table A1.3: Banking Sector Half Year Balance Sheet ($ Million), 2H19 – 2H22

	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Cash and Deposits	2,510.70	2,610.20	3,065.70	3,143.10	3,293.70	3,145.25	3479.2
Loans net of specific provision for loan losses	2,479.10	2,447.90	2,511.70	2,484.80	2,515.70	2,509.20	2,550.50
Debt securities	782.1	703.1	474.1	471.5	476.7	441	484
Nonfinancial assets	200.2	212	216.2	206.1	286.5	278.9	273.9
Total assets	6,070.20	6,083.30	6,367.90	6,397.50	6,685.40	6,464.60	6907.6
Currency and deposits	4,790.80	4,772.50	4,939.00	5,012.60	5,133.50	4,941.60	5273.9
Other Liabilities	234.6	245.8	265.1	234.5	316.1	293.4	333.7
Capital and reserves	1,044.80	1,065.00	1,163.90	1,150.40	1,235.90	1,229.60	1300.1
Total Liabilities & Capital	6,070.20	6,083.30	6,367.90	6,397.50	6,685.40	6,464.60	6907.6

Source: *Central Bank of Solomon Islands*

Table A1.4: Half Yearly Loans and Advances by Key Sectors ($ Million), 2H19 – 2H22

	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Manufacturing	119.0	120.5	105.0	106.4	127.6	114.9	105.1
Forestry	75.9	70.4	103.5	74.8	96.1	95.6	115.7
Fishing	11.3	8.8	8.2	2.9	8.6	7.6	9.3
Distribution	558.5	593.1	588.6	603.1	612.1	595.5	631.6
Communication	83.0	81.3	80.3	64.3	86.5	72.5	112.3
Personal	695.3	698.0	676.5	690.4	922.5	921.9	945.3

Source: *Central Bank of Solomon Islands*

APPENDICES

Appendix 2: Superannuation Sector

Table A2.1: Superannuation Sector Financial Soundness Indicators, 2H19 – 2H22

In Percentage	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Capital to total assets	12.00	12.30	9.20	11.90	11.80	13.00	2.60
Substandard investment assets to total investment assets	3.40	3.20	2.30	1.20	0.90	0.90	0.60
HHI (Exposure by Class)	3,056.10	2,959.50	2,972.60	2,917.10	3,016.10	3,070.70	2,572.90
Return on earning assets ratio	8.40	10.50	5.50	15.60	14.20	13.60	- 9.30
Cost to income ratio	18.20	74.70	104.70	23.00	21.00	32.50	- 13.20
Liquid assets to total value of members contribution ratio	99.60	92.60	133.60	166.70	102.00	159.40	114.80
Liquid assets to total assets ratio	23.70	21.70	22.00	22.50	19.50	20.70	22.30

Low	The probability of loss occurring is not possible. To maintain operation.
Medium	The probability of loss occurring may be possible but not in the short term. Necessary queries need to be raised with concern institution or sector to understand situation.
High	The probability of loss occuring is possible even though the impact might be minor or moderate. Necessary action should be taken to understand situation and request LFIs to take corrective action if necessary.
Extreme	The probability of loss occurring is evident and the impact is moderate or may be significant. Controls might be weak thus necessary actions might be required by FI to mitigate impact of risk and subsequent losses.

Source: *Central Bank of Solomon Islands*

Table A2.2: Half Year Profit and Loss Statement of Superannuation Sector ($ Million), 2H19 – 2H22

	2H19	**1H20**	**2H20**	**1H21**	**2H21**	**1H22**	**2H22**
Investment Income	447.80	15.85	62.78	135.17	275.24	102.77	-281.7
Non-Investment Income	14.49	44.25	16.19	38.35	-30.85	40.60	-30.5
Gross Income	**462.29**	**60.09**	**78.97**	**173.52**	**244.39**	**143.36**	**-312.28**
Total Expenditure	84.06	44.88	82.64	39.97	47.93	46.62	41.4
Net Profit before interest payable	378.24	15.21	-3.67	133.56	196.45	96.75	-353.7
Interest payable to members	57.30	15.23	17.65	2.71	3.59	5.86	8.7
Net Profit/(Loss) After Interest to Members	**320.94**	**-0.02**	**-21.32**	**130.84**	**192.86**	**90.89**	**-362.4**

Source: *Central Bank of Solomon Islands*

APPENDICES

Table A2.3: Half Year Balance Sheet Statement of Superannuation Sector ($ Million), 2H19 – 2H22

	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Demand deposits	158.6	167	218.9	260.6	180.3	241	221.6
Time deposits	747.4	642.6	600.9	601.3	612.4	617	630.8
Loans	111.6	150.6	111	134.2	119.5	155	137.1
Debt securities	228	264.3	251.1	257.1	322.5	321	358.9
Shares and equities	1907	1745.2	1779.8	1835.9	2077.6	2,061	1,688.2
Accrued interest & dividend receivables	13.7	39.3	39.4	11.1	8.7	11	19.8
Non-financial assets	631.5	680.5	692.1	698.6	711.5	683	755.2
Other assets	32	44.5	34.3	34.4	40.4	80	39.2
Total assets	**3,829.9**	**3734.1**	**3727.4**	**3,833.1**	**4072.9**	**4,169**	**3,850.7**
Members contributions	3272.9	3154.6	3294.2	3285.7	3493.6	3,492	3,609.4
Other Liabilities	98.6	117.9	89.4	87.3	97.5	140	143.7
Capital & reserves	458.3	459.6	343.8	460.2	481.8	537	97.6
Total liabilities& capital	**3829.9**	**3734.1**	**3727.4**	**3833.1**	**4072.9**	**4,169**	**3,850.7**

Source: *Central Bank of Solomon Islands*

APPENDICES

Appendix 3: Insurance Sector

Table A3.1: General Insurance Sector Financial Soundness Indicators, 2H19 – 2H22

In Percent	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Capital Adequacy							
Net Premium to Capital (Low Risk ≤ 300%)	83.2	62.4	57.6	71.0	53.8	67.8	59.8
Capital & Reserves to Total Assets (Low Risk ≥ 15%)	41.1	40.6	46.6	41.2	40.5	47.5	43.5
Asset Quality							
Debtors to Total Assets (Low Risk ≤ 25%)	15.5	15.8	14.6	14.7	14.8	18.8	18.4
Debtors to (Gross Premium + Reinsurance) (Low Risk ≤ 35%)	29.2	38.7	45.1	32.6	35.2	34.2	41.0
Reinsurance & Actuarial Issues							
Risk Retention Ratio (Low Risk ≥ 40% ≤ 80%)	69.3	72.4	82.1	67.6	65.0	73.6	65.9
Adequacy of Claims							
Loss Ratio (Net Claims to Net Premiums) (Low Risk ≥ 40% ≤ 80%)	16.2	29.1	12.2	18.8	62.1	6.5	38.5
Earnings & Profitability							
Expense Ratio (Expense to Net Premium) (Low Risk ≤ 45%)	49.7	54.7	41.4	60.4	46.9	53.3	56.8
Combined Ratio (Net Claims + Expense to Net Premiums) (Low Risk ≥ 60% ≤ 105%)	65.9	83.8	53.5	79.1	108.9	59.7	95.2
Investment Income Ratio (Investment Income to Net Premium) Low ≥ 2% ≤ 30%)	1.3	0.5	0.4	0.5	1.6	0.8	0.5
Return on equity Low Risk ≥ 5% ≤ 30%)	32.2	11.8	28.1	16.1	- 3.8	28.1	6.0
Return on Asset (Low Risk ≥ 1% ≤ 4%)	13.2	4.8	13.1	6.6	- 1.5	13.4	2.6
Liquidity Ratio							
Liquid Assets to Short Term Liabilities (Low Risk ≥ 100%)	106.6	107.0	113.5	105.3	99.9	110.9	113.6

Low	The probability of loss occurring is not possible. To maintain operation.
Medium	The probability of loss occurring may be possible but not in the short term. Necessary queries need to be raised with concern institution or sector to understand situation.
High	The probability of loss occuring is possible even though the impact might be minor or moderate. Necessary action should be taken to understand situation and request LFIs to take corrective action if necessary.
Extreme	The probability of loss occurring is evident and the impact is moderate or may be significant. Controls might be weak thus necessary actions might be required by FI to mitigate impact of risk and subsequent losses.

Source: *Central Bank of Solomon Islands*

APPENDICES

Table A3.2: Half Yearly Income Statement ($ Million), 2H19 – 2H22

	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Gross Written Premium	38.0	27.7	25.8	39.9	29.4	36.8	37.6
Outward reinsurance	11.7	7.6	4.6	12.9	10.3	9.7	12.8
Premium net of reinsurance	26.3	20.1	21.2	27.0	19.1	27.1	24.7
Unearned premium reserves	(0.1)	(1.3)	(0.8)	1.8	(0.3)	1.7	1.1
Net earned premium	26.5	21.3	22.0	25.1	19.5	25.4	23.6
Gross claims expense	7.2	10.8	2.5	6.5	19.5	11.2	14.3
Total recoveries	2.9	4.6	(0.2)	1.7	7.5	9.5	5.2
Net claims expenses	4.3	6.2	2.7	4.7	12.1	1.6	9.1
Acquisition Costs	(0.0)	0.2	0.2	0.0	(0.0)	0.0	0.0
Total underwriting expenses	12.3	13.7	9.6	11.8	18.6	8.7	15.4
Underwriting Results	14.2	7.7	12.3	13.3	0.8	16.8	8.2
Investment income on assets backing insurance liabilities	0.3	0.1	0.1	0.1	0.3	0.2	0.1
Insurance Results	14.6	6.9	12.7	13.4	1.1	17.0	8.3
Other operating expenses or management expenses	4.4	3.2	2.4	7.3	2.5	6.0	6.5
Net Profit (Loss) Before Tax	10.2	3.8	10.3	6.1	(1.4)	11.3	2.5
Income tax or provisions	3.4	1.1	3.0	1.6	1.0	3.2	0.9
Net Income (Loss) End of Current Period	6.8	2.7	7.3	4.5	(2.3)	8.0	1.6

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

Table A3.3: Half Year Balance Sheet Statement of Insurance Sector ($ Million), 2H19 – 2H22

	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Total Assets	154.1	158.5	157.6	184.3	175.3	168.4	190.2
Nonfinancial assets	4.5	4.1	4.4	6.0	7.9	7.5	8.4
Financial assets	149.6	154.4	153.1	178.3	167.5	160.9	181.8
Currency and deposits	96.8	100.7	95.5	114.1	104.1	98.1	122.1
Shares and other equity	0.9	0.7	0.7	0.7	0.6	0.6	0.6
Debt securities	16.0	16.0	16.0	16.0	16.0	15.7	16.0
Insurance technical reserves (Assets)	33.9	34.5	38.0	44.7	44.2	44.0	42.1
Other assets	2.0	2.5	3.0	2.8	2.6	2.5	0.9
Liabilities	90.8	94.2	84.2	108.3	104.3	88.4	107.5
Insurance technical reserves (Liabilities)	75.5	87.3	75.1	83.5	84.4	70.5	86.5
Other liabilities	15.3	6.8	9.1	24.8	19.9	17.9	20.9
Capital and reserves	63.3	64.3	73.4	76.0	71.0	80.0	82.7
Balance Sheet Total	154.1	158.5	157.6	184.3	175.3	168.4	190.2

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

APPENDICES

Appendix 4: Credit Union Sector

Table A4.1: Credit Union Sector Financial Soundness Indicators, 2H19 – 2H22

	2H19	1H20	2H20	1H21	2H21	1H22	2H22
Balance Sheet (SBD Million)							
Total Loans	50.7	52.6	55.8	56.5	56.8	55.5	60.9
Total Assets	79.8	81.5	84.9	92.3	93.0	92.9	95.2
Total Deposits/Savings	50.4	51.2	51.3	54.2	55.0	53.4	55.6
Total Share Capital	26.1	26.1	27.7	31.9	31.6	32.6	33.6
Income Statement (SBD Million)							
Income	4.5	2.9	4.2	3.8	4.3	3.8	5.0
Expenses	2.1	1.6	2.6	2.3	3.1	2.3	3.4
Net Surplus	2.4	1.5	1.6	1.5	1.2	1.5	1.6
Statistics							
Membership	6,790	6,795	6,800	6,850	6,850	6,850	6,850
No. of Reporting Credit Unions	10	10	10	10	10	10	10
Capital Adequacy							
Capital to Total Asset Ratio	32.7%	32.0%	32.6%	34.6%	34.0%	35.1%	35.3%
Earnings & Profitability							
ROA	3.0%	1.8%	1.9%	1.6%	1.3%	1.6%	1.7%
Loans to Assets (70%-80%)	63.5%	64.5%	65.7%	61.2%	61.1%	59.7%	64.0%
ROE	9.2%	5.7%	5.8%	4.7%	3.8%	4.6%	4.8%
Self Sufficiency Ratio (>111%)	214.3%	181.3%	161.5%	165.2%	138.7%	165.2%	147.1%

Source: *Central Bank of Solomon Islands*