Our Bank. Our Future!
Think Solo.

DEVELOPMENT BANK OF SOLOMON ISLANDS

2021 ANNUAL REPORT

Our Bank. Our Future!
Think Solo.

Purpose

The Development Bank of Solomon Islands (DBSI) is a development financing institution re-established by the DBSI Act 2018 to facilitate the economic and social development of Solomon Islands within the overall development plans and strategies of the Solomon Islands Government (SIG), with particular emphasis on the following:

1. Inclusive economic development;
2. Rural development;
3. Encouraging manufacturing and industrial activities;
4. Assisting business startups;
5. Promoting export and import substitution,
6. Encouraging the use of technology in business.

Mission

To provide sustainable financial services to all Solomon Islanders, in particular in the development of the rural areas, small and medium enterprises and commerce and industry.

Vision

To be the leader in the provision of development finance in the Solomon Islands and the Pacific.

Core Values

- Belief in the future of Solomon Islands
- Integrity
- Excellence
- Teamwork
- Customer Service

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Letter to the Minister

Development Bank of Solomon Islands

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Our Bank. Our Future!
Think Solo.

December 31, 2022

The Honourable Harry Kuma
Minister of Finance and Treasury
PO Box G26
Honiara
Solomon Islands

Dear Honourable Minister,

DEVELOPMENT BANK OF SOLOMON ISLANDS ANNUAL REPORT FOR THE FINANCIAL YEAR, JANUARY TO DECEMBER 2021.

On behalf of the Directors of the Development Bank of Solomon Islands, I am pleased to present the organisation's 2021 Annual Report.

This is the second report for the organisation, and covers the period, January –December 2021, incorporating the Audited Financial Accounts for the 2021 Financial Year.

The report also contains the Bank's activities for the reporting period under review.

Yours sincerely,

Mckinnie P. Dentana
Chairman
Development Bank of Solomon Islands

Chairman's Address

It gives me great honour and pleasure to be writing the Chairman's address for the second time for the Development Bank of the Solomon Islands, newly re-established under the new DBSI Act of 2018 that was passed in 2018. The Act was reviewed and strengthened by a Parliamentary Committee, with sufficient safeguards in place, to protect the Bank and to guarantee that past mistakes were not repeated.

The re-establishment of the Development Bank of Solomon Islands has been eagerly received by the people of the Solomon Islands. After 15 years without a development financial institution to cater for their entrepreneurial opportunities, we have seen a sudden increase in the number of our citizens approaching the Bank with their development dreams and plans for financing, and expressing an interest in developing their businesses.

However, we acknowledge that, as well as the opening of DBSI, the various programmes and initiatives of the Solomon Islands Government (SIG) and government agencies, development partners, NGO's and other institutions have played a significant role in supporting this growing interest in business and its potential for success.

They have continued to provide assistance and guidance to enhance entrepreneurship, with financial literacy programmes and basic business skills awareness and trainings across the country, to sustain knowledge and interest in good business practices. After the first year of opening, the Bank has witnessed various degrees of business understanding across sectors, but not without providing advice and assistance to individual entrepreneurs, to enable access for loan considerations for their business proposals.

This was one of the main purposes of the Government's objectives in announcing its intention to facilitate the re-establishment of the Development Bank of Solomon Islands, to cater for SMEs and micro-financing services in rural areas, which received wide bi-partisan support from all political parties and from the general public.

In July 2019, an Interim Board of Directors was appointed, to operationalise the DBSI Act. In July 2020, the Minister for Finance appointed the current Board of 8 members, retaining 4 of the Interim Board members, for a new term of three years. Their task remains unchanged; to sustain gradual business growth and ensure that the Bank is appropriately guided by best practices, implemented through documented policies, processes and procedures, and that the Bank is in compliance with all banking-related regulations, Acts, and in particular, the Central Bank of Solomon Islands.

The overarching directive was specified under the five-year Strategic Plan that was based on three building blocks; ensuring that the Bank will overcome the challenges that the former DBSI faced; to assess, improve and facilitate access to affordable financial services for all Solomon Islanders with a viable agricultural, commercial, or business idea, and work with and assist Government to implement its vision of the future for Solomon Islands, based on the Bank's own underlying lending criteria.

The whole premise of the Strategic Plan is established on promoting DBSI to be a policy instrument for SIG, in facilitating the various strategic objectives of the productive-sector Ministries. DBSI's strategic objectives include assisting Government to deliver on the mandates of the National Development Strategies, under its independent normal lending parameters, where the normal risk assessments, pricing, and other strategies to protect the integrity of the Bank are permitted without political interference or influence. Government, itself, must take charge of protecting the integrity of the Bank by ensuring that there is clarity in its dealings with the Bank.

To support the Board with the implementation of the action items under the Strategic Plan, it was necessary to ensure there is adequate leadership capacity within the management team and the support staff. Amidst the COVID-19 pandemic period, the recruitment of the

Chief Executive Officer was finalised early in the year, but due to travel restrictions, could not take up the position until November. The Board had to extend the term for the Interim Chief Executive Officer until the reins of leadership were handed over. The Manager Finance and Administration Executive Officer had joined the Bank earlier in the year, while travel was still possible.

The Bank and the Board were determined to invest in the future of its staff by ensuring that the best training that could be made available is provided as part of an all-encompassing training programme. This will cover the next five years of the Bank's development plan, in spite of the COVID-19 challenges. The Bank saw exponential growth in its popular, hybrid, Livelihood Micro Loan Product that is popular with its small and micro-customers, and the COVID-19 stimulus support that is being rolled out steadily to customers who meet its lending criteria. The Small and Medium Enterprises Loans Product was also introduced to cater for all sectors, especially within the Agricultural sector.

I would like to take this opportunity to thank the Democratic Coalition for Change Government, and all members of parliament, for the continued support, and for standing by the commitment to see the Bank grow, in spite of the challenges it faced, in providing the missing balance in the economic participation of the people. Thank you, also, for your valuable counsel as we work together to develop the way forward for the Bank.

To the members of the Board of Directors, I thank you for your continued support and promotion of the Bank and its aims. There is still a lot of work to be done and I look forward to your continued advice and guidance in the coming years.

To the Management and Staff of the Development Bank of Solomon Islands. I want to thank each and every one of you for your efforts in the last twelve months, January to December 2021. The Board is proud of you all, especially as, for most, this is your first real employment since graduating from university. You have all risen to the challenge and have performed exceptionally well in establishing the Bank, despite the height of the COVID-19 pandemic and the political event late in the year. Even with limited training, you have delivered your roles with integrity and honesty, and you have all learned very quickly to manage customers' expectations, always dealing with them with honour and humility.

Mckinnie P. Dentana
Chairman

Board of Directors

Mckinnie Dentana
Chairman
Bachelor of Arts Degree (Economics); Post Graduate Certificate; Post Graduate Diploma; MBA, University of the South Pacific, Fiji and Solomon Islands.

Tukana Borovo
Interim CEO/Board Secretary
BA Accounting & Management, MBA.

David Faradatolo
Board Member
Dip. Commerce, University of Technology; B. Economics and Management, University of South Pacific (USP), Fiji; Post Graduate Certificate in Education, University of Wolverhampton, UK; Post Graduate Diploma, Development Studies and M. A. Development Studies, USP, Fiji.

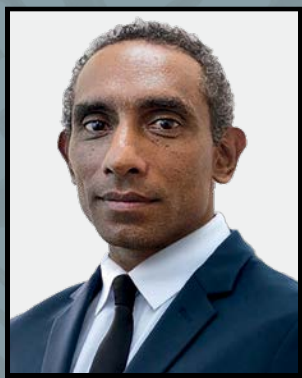
John Muria Jnr
Board Member
Bachelor of Laws (LLB), Bond University, Queensland, Australia.

Dr Maclean Vaqalo
Board Member
B. Agriculture, USP Samoa; M.Sc., University of Reading, U.K.; PhD Degree, and University of Queensland, Australia.

Pamela Alamu
Board Member
M.A. Commerce - Professional Accounting, University of the South Pacific, CPA member of CPA Australia, CPA member of ISIA.

Peter Soqoilo
Board Member
Dip. Business Finance, Solomon Island College of Higher Education.

Trevor Manemahaga
Board Member
Bachelor of Arts, (Economics and Politics); Post Graduate Diploma, Economics; Master of Commerce – Economics, USP, Fiji.



Robson Djokovic
Board Member
Bachelor of Business Management; Bachelor of Applied Science; Bachelor of Laws, Queensland University of Technology, Australia.

Corporate Governance

The Board

The Development Bank of Solomon Islands (DBSI) Board of Directors is established as the governing body of Bank, under the DBSI Act No. 12 of 2018. It is responsible for ensuring that the powers and functions of the Bank are exercised and performed in an efficient and effective manner and in accordance with the Act.

The Board of the Development Bank of Solomon Islands sets the tone in developing governance, transparency, and ethical behaviour in the Bank, through its Board meetings and by adopting, and ensuring, that the Board's core values are an intrinsic part of the Bank's recruitment, appointment and training processes.

Keys for Success

In developing a plan for the future of the Bank, the Board has adopted the following tenets as the basis for delivering on its mandate, as required under the Act, and which underpin the achievement of its strategies, goals and objectives. These tenets are the keys to the Bank's success:

1. Recognising the nature of our markets and developing products that provide practical solutions in the value chain for our customer.
2. Pricing right
3. Developing the right culture in the network.
4. Constant monitoring and evaluation of performance against set deliverables
5. Using the digital platform as much as is practicable in the delivery of DBSI services.
6. Collaborating with other shareholders in the productive and other economic sectors.
7. Thinking SOLO in everything we do.

Core Values

The core values of the Development Bank of Solomon Islands are:

- Belief in the future of the Solomon Islands (Love of Country and its Peoples)
- Integrity (Honesty, Truthfulness, Transparency and Good Governance)
- Excellence (Competence, Dedication to Work, Professionalism)
- Teamwork (Harmony, Cooperation, Synergy)
- Service to Others (Customer-Oriented)

The Board understands that core values are meaningless unless they are used:

1. To evaluate prospective employees,
2. To measure employee performance accordingly, and
3. Most importantly, are used and not forgotten.

The Board ensures that the Keys to Success and Core Values are ingrained into the very fibre of the Bank, by ensuring that these are an integral part of each employee's employment contract, and are always part of the Bank's in-house and external training.

Board Meetings

Under the DBSI Act 2018, the Chairperson must convene Board meetings at least six times each year. During the year, a total of twelve meetings were held.

Name	Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5	Meeting 6	Meeting 7	Meeting 8	Meeting 9	Meeting 10	Meeting 11	Meeting 12
Mckinnie P. Dentama	√	√	√	√	√	√	√	√	√	√	√	√
Peter Soqoilo	√	√	√	√	√	√	√	√	√	√	√	√
David Faradatolo	√	√	√	√	√	√	√	√	√	√	√	√
John Muria Junior	√	√	√	√	X	X	√	X	√	√	√	X
Pamela Naesol Alamu	√	√	√	√	√	√	√	√	√	√	√	√
Trevor Manemahaga	√	√	√	X	√	√	√	√	√	√	√	√
Robson Djokovic	√	√	X	X	√	X	X	X	X	X	X	X
Dr. Maclean Vaqalo	√	X	√	√	√	√	√	√	√	√	√	√
Tukana Bovoro	√	√	√	√	√	√	√	√	√	√	√	√

Figure 1

Interim CEO's Report

Year in Review

The year 2021 is the second financial year of operation of the newly established Development Bank of Solomon Islands. The Bank was pleased to undertake the milestone journey for its stakeholders, and to achieve the Government's expectations. However, there were pronounced economic challenges brought about by the COVID-19 pandemic and the year ended with civil unrest brought about by the sovereign switch from Taiwan to China, culminating in a riot in November. The Development Bank of Solomon Islands depends on the Government for financial support, but recognises that there are inevitable, emerging, national priorities to be addressed as well. Such was the tenor of the circumstances the Bank had to withstand while asserting its interest in fulfilling the organisation's vision, mission and objectives.

The year was a time to reconnect the new Bank with the communities, the provinces, business sectors, government agencies, and the regional and global players in entrepreneurial development and support. It was important to re-establish the Bank's foothold early, and understand the credit demands and financial literacy level, and build capacity to meet the needs that have not been tended to, due to the absence of a development financing institution, since 2004.

Strategic Plan

The current Strategic Plan was developed and adopted in December 2019 by the Interim Board, together with its supporting lending and financial projection plan.

In implementing the plan, the current Board is mindful of the great responsibility incumbent upon them to lead the institution with the highest level of good governance, integrity, professionalism, and transparency. The evolution of the strategic plan is firmly based on three pillars:

a) Not to repeat the mistakes of the past,

b) Engage with and provide finance to the peoples of the Solomon Islands in a sustainable manner, and

c) To work with the Government of the day to achieve its economic development vision, based on the Bank's rules and regulations.

The Four Goals of the Strategic Plan are:

1. To support Government's strategic objectives of improving the social and economic livelihoods for all Solomon Islanders.
2. Invest in the economic and social wellbeing of our stakeholders in an environmentally sustainable manner.
3. Invest in our people by developing the highest standards of service, integrity, and professionalism in the delivery of our services.
4. To become profitable in a sustainable manner.

CEO Appointment

The Chief Executive's position was advertised locally and abroad, attracting four (4) potential candidates shortlisted from several applications received, and consisted of three expatriates and a local candidate. A three-member Selection Committee assessed the candidates, based on a quantitative Balance Score Card approach, guided by the 4 Pillars in Banking Experience; Strategic Thinking, Competency, Knowledge, and Skills. A special Board meeting was convened in March to decide on the candidate that best suited expectations, based on the capability for exercising diligence, sound judgment, confidentiality and impartiality in the performance of the position's functions. The appointment was confirmed, subject to an amendment to the DBSI Act on the age limitation.

The CEO selection and recruitment process was affected by the COVID-19 pandemic with the closure of borders and difficulties in getting flights across the globe. The time of commencement was deferred and the CEO finally arrived on 30th October 2021 and physically joined the bank on the 15th of November after the 14 days' quarantine period.

Because of this delay, the Interim Chief Executive Officer's contract was extended, to ensure the smooth transition of duties and responsibilities after the newly appointed DBSI CEO took up his role.

Staff Recruitment, Incentives & Training

The Bank sustained the business operation for the year under review, with the same complement of staff that were already on board, but who underwent vigorous training and capacity building. The 26 positions were held by 24 locals and two (2) expatriates. However, by August, a Business Support Officer in the Finance and Accounting Department resigned, reducing the Bank's workforce to 25. There was an urgent search for a Manager Business Risk Services, which was re-advertised by Pacific HR, but there was little interest shown in the position by qualified, potential local candidates, which could force the Bank to look abroad. The Bank was also in search for leadership skills for the middle-management echelon.

Training

The Bank maintained the strategy adopted from the outset, to train young, qualified Solomon Islanders and build ''the DBSI culture'' from within, by helping them develop and take ownership of the Bank's mission and values. This young team have all completed their first degrees or diplomas in Banking and Finance-related fields of study from the Solomon Islands National University and the University of the South Pacific (USP) (Fiji and Samoa campuses), the Fiji National University (FNU) and the University of Sydney, respectively. The Bank is the first permanent employer of these qualified young people, and will build its future around them while developing theirs.

The Bank engaged several training sessions for staff with the Association of Development Finance in Asia and Pacific (ADFIAP), including training for the Board members via Zoom and live stream. The Development Bank of Solomon Islands is a member of ADFIAP, which has over 200 members in the Asian Pacific region, and facilitates training in all aspects of development and modernised banking services. Other training providers included the Institute of Solomon Islands Accountants (ISIA) who supplied training for Finance and Accounting officers, who participated in the International Financial Reporting Standards (IFRS) training. There were various training schedules for MYOB that also commenced and continued throughout the year, as well as the online training for the Bank's IT Support Officer on Windows

Server 2019 and training on the on Back Up and Replication module.

The St John Ambulance Solomon Islands conducted Basic First Aid training for all the 25 staff and officers, together with the Interim Chief Executive Officer and Board Directors. This was a requirement under Workplace Occupational Health and Safety (Safety at Work Act, 1982) to equip staff to be prepared in times of emergencies.

Discussions took place with the University of South Pacific to provide a Basic English Grammar course, as a report writing improvement programme for all staff.

A high-level workshop on Enterprise Risk Management was undertaken during the year, through Online Training via Zoom and was attended by four (4) Board members and two (2) of the Senior Management team. The workshop was facilitated by Ken Knowledge International Pte. Ltd of Singapore, who continues to be a training provider for DBSI in other key areas of our training needs.

Training that was undertaken has increased the knowledge and skills base of staff members, boosted staff morale and enhanced their confidence in working for DBSI. The continuing development and training programme for Bank staff will focus on both core banking skills (technical) and the soft skills that will complement their technical training and assist in their work. The Bank's aim in staff training and development is to develop well-rounded officers who can represent the Bank in a confident, courteous and efficient manner. The Board of the Bank understands this objective, and is fully supportive of, and is committed to, delivering the planned training programme for the Bank.

Staff Incentive

In addition to the facilitation of various training programmes, the Bank was also conscious of the minimum qualification requirement to meet current and future needs and for individual career paths. The Board approved a policy on the reimbursement basis for tuition and incidental expenses to encourage staff

to pursue formal studies under Part Time or Extension Studies. As an incentive to remain with the Bank, officers are able to attend Bank approved courses of study at universities and reputable training agencies and institutions while work performance and academic achievement remains satisfactory. Staff who attend training programmes are required to sign a bond for the duration of the training or study programme, based on the value of the study.

The Bank is committed to supporting its employees in as practical and reasonable a manner as possible, as well as to maximise the return of the investment in staff development by retaining staff as much as possible. Various staff incentives were introduced that would have direct impact on the young team's personal welfare, financial health and the cultural obligation expected from permanently employed family members. During the time of grief for immediate family members, a policy was approved to allow bereavement leave up to five (5) working days with financial assistance of $1,000. Staff were offered three (3) loan facilities, secured by savings pledges with National Provident Fund (NPF), for personal, education and the purchase of a laptop. The Board also approved the Medical and Health Insurance cover for regular Bank employees and for Board members as well.

Office Space

Additional floor space was required as growth was forecasted in the near future. The Bank secured another 5–year lease rental extension with NPF, with remodeling to include a Board room facility, customer meeting room and senior managers' office space. The services offered at the original office space at Room 27 NPF Plaza were relocated to a more comfortable area for both customers and staff. The Small Medium Enterprise (SME) lending team and the Finance team joined the management team at the new office space on the second floor of Anthony Saru building. The Micro Loans Lending team remained at the first level, conveniently accessible to the general public who come for general office and stationery services, ministerial services for Tourism, Rural and Provincial support, Seasonal Workers offices, NPF Savings Scheme and other support services.

Governance

A Sub-committee of the Board Internal Committee was established by the Board in July, with their role specified under the Charter for appointments of the Board members to a sub-committee. A two-member committee will review the Accounting and Financial policies and manage the outsourcing of the internal audit function. The Board, in acknowledging the importance of the internal audit function, recognised that the size of the Bank does not warrant the establishment of a fully-fledged audit function.

For the lending activities, a Management Credit Committee was created to review, approve and to make recommendations to the Board on all Credit papers for funding and monitor the Credit and Asset quality position of the lending book. The Delegated Lending Authority (DLA) for the Management Committee of $1,000,000 was reduced to $500,000 as the Bank received very few loans above $500,000.

Under the Prudential Guideline 15 Assessment, the Central Bank of Solomon Islands issued a No Objection Approval on the appointment of DBSI Directors, with conditions on the tenure of Politically Exposed Persons (PEP) and the fulfillment of Fit and Proper requirements. The Board agreed to develop an exit strategy to be rolled out before the expiry of the 3-year term.

Relevant clauses of the Prudential Guideline 15 and Fit and Proper Requirements Policy were amended by the Board Credit Committee to align with the standards. New policies on Cybersecurity (PG 20 and PG 16) on Money Laundering, Financing of Terrorism & Proliferating Financing and Risk Management were introduced and approved for implementation. There were 9 Prudential Guidelines that the Bank was to incorporate into the Bank policies as highlighted by the External Auditor.

Loan Products & Services

The report covers the full 12 months of lending operations, and as such, some of the services that the Bank would like to provide have not been rolled out yet. Products covered are those that have been rolled out and which the general public can access. The Development Bank, as with other traditional development financing institutions, had developed its underwriting criteria to be able to assist in the traditional areas of operations – that is, micro-loans, small to medium enterprises and the larger commercial projects.

The Bank developed two innovative products that have contributed in assisting Government's overall strategy of creating aggregate demand, as part of its overall approach to stimulating the economy as a response to the COVID-19 driven, economic slowdown.

Review of 2021 Loan Products and Sectoral Activities

Overall Lending Activities 31 December 2021

Lending Activities	2020 Amount ($)	2021 Amount ($)	Variance ($)	Variance (%)
Loans Approved	68,773,860	81,951,724	13,177,864	19%
Loans Disbursed	56,480,438	78,624,065	22,143,627	39%
Balance Outstanding	55,446,970	67,267,690	11,820,720	21%

Figure 2

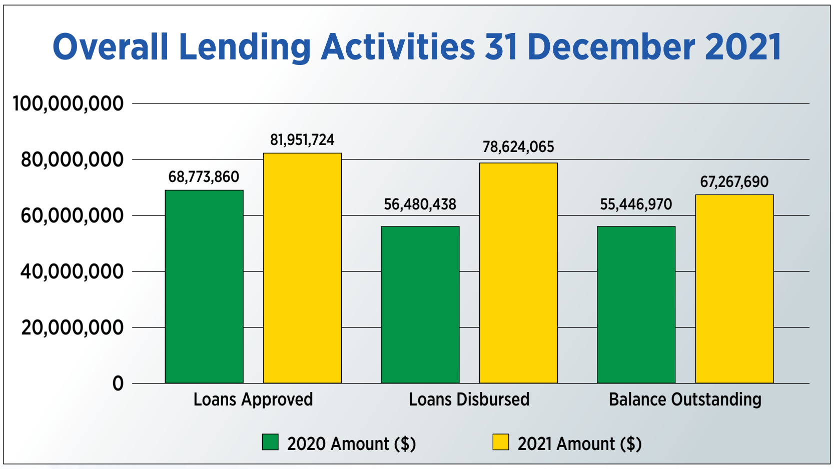


Figure 3

- The Bank's overall Portfolio movements increased by 21% from $55.45 Million in 2020 to $67.27 Million in 2021, driven by Micro-LAIF loans which represent 77% of the total portfolio.
- Total Loans Approved and Disbursed also increased, by 19% and 39% respectively, from the previous year.
- DBSI has lent the equivalent of 43.16% of the total outstanding loans in the Agriculture sector, 30.12% in the Fisheries sector, Entertainment and Catering 17.75%, and 10.58% in the Construction sector, when compared to the overall lending in the country.

Tourism Support Facility

The grant fund from the Ministry of Tourism was formalised with the signing of the agreement to support the Tourism sector of the Solomon Islands. The grant is intended to achieve the Government's redirection policy objective and budget theme in sustaining the tourism industry of the country during this period of pandemic. This will improve the growth prospects of the tourism industry when the borders open up. The beneficiaries of the grant were identified as those whose businesses are already operational. The grant can be made available to borrowers for expansion and upgrade of existing tourism products, to provide interest payment support to existing tourism operators for up to 2 years, and to introduce loan guarantees to support existing tourism operators.

The Development Bank of Solomon Islands, operating as a financial and commercial institution, will assist the Government to achieve its policy objectives, especially in the Tourism sector.

Export Finance Credit Facility

The objective of the Export Finance Credit Facility was to encourage local exporters and promote export earnings. The Export Finance Credit Facility was jointly developed with all the Banks under the initiative of the Central Bank of Solomon Islands. In support of the Central Bank, the Board Credit Committee (BCC) reviewed the policy in enriching the facility and developed the Implementing guideline to complement the Bank's existing lending product. The facility was offered at a rate of 7% to customers at a cost of 1.5% from the CBSI funding. Staff were briefed on the product in conjunction with CBSI before the launch in October 2021. The product was rolled out on the 1st of November 2021. However, as international freight services were restricted and borders were still closed due to COVID-19, the uptake was expected to increase once the travel restrictions were eased.

Livelihood and Investment Facility (LAIF Loans)

An important goal for the DBSI is to "invest in the economic and social wellbeing of our stakeholders in an environmentally sustainable manner", which supports Government's strategic objectives of improving the social and economic livelihoods for all Solomon Islanders. For the Bank to successfully achieve this, it must operate in the areas where about 80% of the country's citizens reside. This is also the area where commercial banks and other regulated institutions are hesitant to venture, because of the risky nature of lending to these areas and for other valid and proven negative reasons. The DBSI was set up to perform this task, that is, to operate in the rural areas or the risky areas, however, this does not mean that the Bank must lend in a risky manner. The DBSI must balance its developmental role together with its sustainability goal.

The Livelihood and Investment Facility (LAIF Loans) was developed by the Bank on the back of the unique legislation that allowed Solomon Islanders to use their superannuation savings as security for personal loans, with repayments sourced from regular salaries. The fact that this facility is accessed heavily by Solomon Islanders is borne out in the lending statistics published regularly by the Banking Regulator. The objective of this product was to encourage entrepreneurship, to develop an alternative source of income, improve living conditions, or invest in education, and/or the acquisition of goods that will generally lead to an improvement in the borrower's lifestyle.

All Solomon Islanders have access to traditional or communally owned land that has not been developed because of the lack of titles or leases that financial institutions can use to secure their borrowings. In most areas these traditionally owned lands have been developed by the landowners in small subsistence farming activities, planting trees in wood lots, or other activities that show some entrepreneurial inklings, or the land is simply used for subsistence farming as it is the only option available because of the lack of finance to venture into semi- or commercial farming.

The Livelihood and Investment Loan Facility or LAIF is a hybrid development loan that is not fully developmental in the normal sense. Normal developmental loans are expected to generate enough income to meet operating costs, meet loan repayments and make a profit from the proceeds of the loans. LAIF will fund developmental and livelihood loans, but repayments will made from the borrower's salary.

The rationale for LAIF loans is to provide the working Solomon Islander the ability to acquire funds to develop their traditionally owned land and venture into activities of interest to them in the productive sectors, using their current income to secure loan repayments to the Bank. The items to be funded will assist in developing investments for the future, an additional source of income and to improve living conditions in the rural areas.

The Livelihood and Investment Facility is marketed as a loan facility aimed at the employed wage earning or salaried citizen who:

(a) desires to improve his or her livelihood by undertaking small agricultural, fishing or other entrepreneurial endeavors on their own land or villages of origin etc., that will lead to an increase in income; or

(b) desires to invest in improving facilities that will improve lifestyle and health for his or her family, eg., repairing houses, purchase of water tanks, solar lights, access to water supplies and improved sanitation in rural and residential areas;

(c) invests in a small business that he or she builds up for retirement purposes;

(d) invests in trees by planting woodlots now for the future of their children, or

(e) starts small livestock, poultry, eggs, orchards farming, etc.

LAIF Loans 31 December 2021

Lending Activities	2020 Amount ($)	2021 Amount ($)	Variance ($)	Growth (%)
Loans Approved	60,905,051	64,411,366	3,506,315	19%
Loans Disbursed	49,862,190	61,479,857	11,617,667	23%
Balance Outstanding	48,884,826	51,524,039	2,639,213	5%

Figure 4

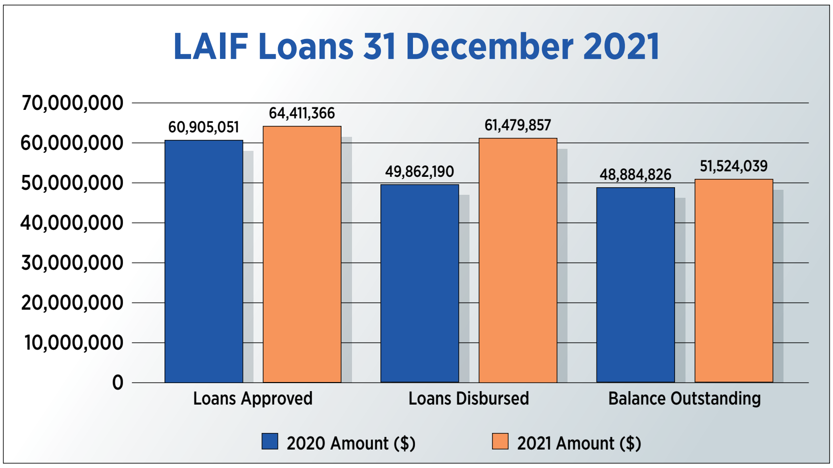


Figure 5

Our LAIF product is a hybrid development loan designed specifically for the employed Solomon Islander who has thought about some investment activity or lifestyle improvement project but has not had the capital to do so. LAIF will give him or her the opportunity to;

- Make home improvements, such as adding a new solar system to light up homes, extending the family home or building a new toilet and bathroom in the village, and so on.
- Acquire white goods from reputable retailers to improve current lifestyles.
- Be able to purchase IT equipment for children in the family.
- Plant trees for harvesting in retirement, or to leave as a legacy to the family.
- As at December 2021, about 757 households have benefitted from the LAIF product, to the value of $18.12 Million.

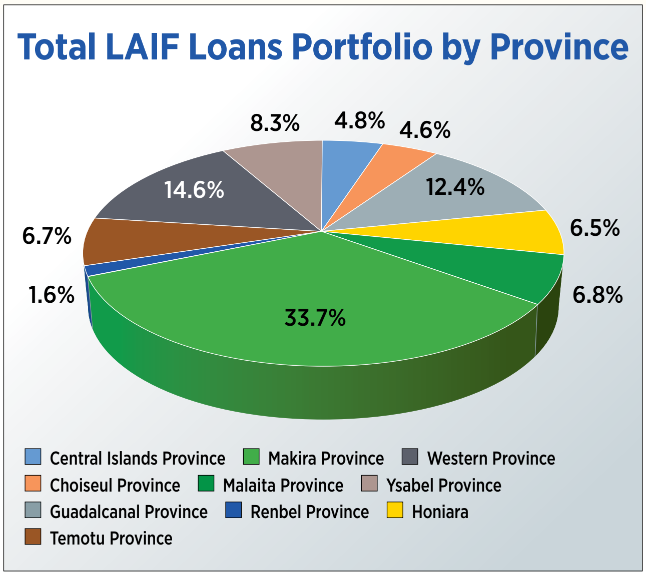


Figure 6

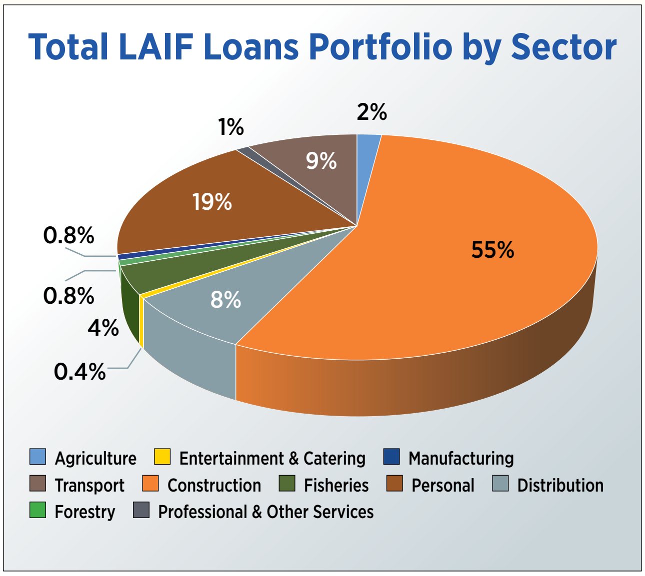


Figure 7

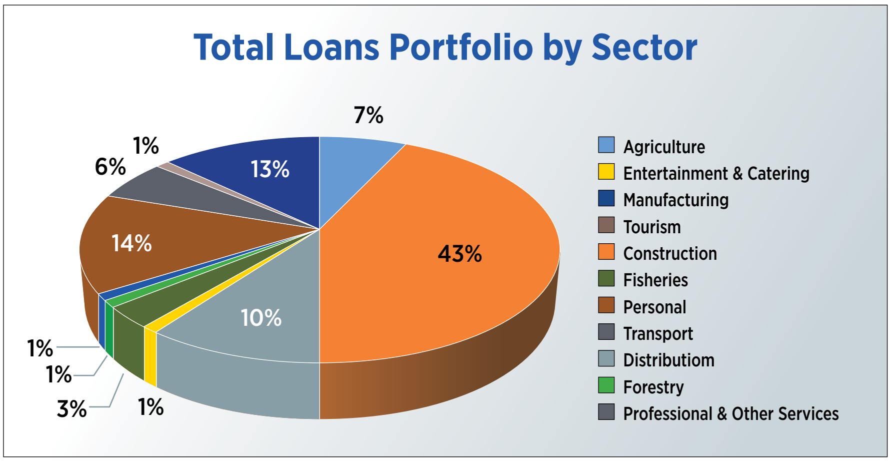


Figure 8

COVID-19 Response

The Solomon Islands Government took steps to develop and implement a stimulus package amounting to $309 Million to support and enable businesses and households to continue to produce, trade, employ people, and boost aggregate demand in the economy. As part of its strategy, Government wanted to ensure that its support is directed towards deserving entities, such as manufacturing, export, farming, etc., that have been in business prior to the COVID-19 pandemic and have been genuinely affected by the pandemic.

Government identified DBSI to be responsible for the deployment of some of these funds. The assistance is aimed both at assisting those businesses in the productive sector whose ability to operate successfully has been affected by this pandemic, and larger businesses that wish to improve processes and so on, in order to overcome the challenges posed by the pandemic. Government allowed the Bank to dictate its own underwriting criteria. A total of $28 Million was allocated by the Solomon Islands Government for these purposes.

Assistance is directed to two specific areas: those directly involved in primary production, and those in a secondary or manufacturing category.

To be eligible, those in the business of farming or directly involved in the propagation and sale of commodities must be able to:

(i) show evidence of activities over the last two years, prior to COVID-19. This can be in form of evidence of sales of products to buyers or exporters over the period (volume and $ value); Ministry of Agriculture and Livestock letter of support and confirmation that the farmer has been in operation, and evidence of crops (count) on the ground now; MAL Cropping programme to support expansion or improvement of existing operations; CEMA, or certification or registration, etc.;

(ii) have at least 1 hectare of crops on the ground and in production or almost in production;

(iii) be able to show that proposed support will expand production and/or improve quality of products, or both;

(iv) be able to show that proposed support will increase overall farm income;

(v) show that proposed support will increase exports,

(vi) show that proposed support will lead to value adding opportunities.

To be eligible, those in the secondary or manufacturing category needed to be able to show that:

(i) they have been in operation for at least the last 2 years as a retailer/ wholesaler/ manufacturer/ miller/ exporter/ mechanical engineer/ fabrication, etc., and, can show evidence of economic activities undertaken, through proper financial statements, annual returns, registration, etc., for the business, and

(ii) can show that support will:

a. improve profitability;

b. lead to innovation in approach to the business or industry;

c. lead to new ways and methods of doing things – process improvements;

d. increase employment back to, and above, pre-COVID levels;,

e. introduce new technologies;

f. lead to development of new markets,

g. lead to development of new skills.

Purpose of the loan will include, but is not limited to, any of the following: working capital; equipment; machineries; purchase of assets to assist in production or improvement of processes and quality of export commodities; acquisition of modern technology related to improving quality standards etc., to meet export demands, and for seedlings, feed, machinery hire, and so on.

A minimum 20% of the loan amount sought, and in the case of farming businesses, sweat equity in lieu of cash, could be considered. Normal collateral requirements will be required.

Loan repayments would be aligned to the project being funded and aligned to the income generating capacity of the business.

Interest rate for the COVID-19 stimulus package was flexible, starting from 8%.

Export Credit Facility

DBSI was in partnership with the Central Bank of Solomon Islands to implement the Export Credit Facility (EFF) and the facility was actually launched in September 2021.

The Export Finance Facility Export Credit Facility serves as an initiative by the CBSI to complement the ongoing national recovery efforts to boost the local economy with other fiscal stimuli and loan moratoria offered by banks to revive the economy.

Recognising MSMEs' contributions to the Solomon Islands economy through their participation in various economic sectors, including the export industry, the CBSI considers the need to enhance access to finance through this Facility. This aligns to the Solomon Islands National Financial Inclusion Strategy 3, Objective 2, "to improve and promote MSME Finance", which reinforces efforts towards access to finance and credit for MSMEs that participate in the Export sector.

The Facility is set up to enable local owned exporting MSMEs to access credit financing through their respective financial institutions at concessional rates of interest, much lower than the prevailing market interest rates

The following are the desired outcomes of this facility:

i. Support and enable more locally owned MSME that enter into the Export sector.
ii. Increase the total contribution of MSME exports (in terms of volume, value and commodities) to the country's total trade.
iii. Stimulate growth in credit to the MSME segment.
iv. More farmers and rural communities benefit from the gains of external trade.

Under this Facility, DBSI will borrow from the CBSI at 1.5% percent and on-lend to eligible exporting MSME applicants, up to a maximum interest rate of 5.5% with a margin of 4 percentage points. The term of the facility is six months but can be rolled over, only once, for another six months. All export finance facility-related payments shall be effected from the call accounts with CBSI or bank cheque payments.

The total seed amount available for this facility is $40 Million and will be allocated on a first come, first served basis to eligible applicants. All loans will be assessed under the DBSI normal lending criteria for MSME, including guarantees where applicable. Funds provided to eligible businesses are at the risk of DBSI with no recourse to CBSI.

To date, DBSI has not utilised this facility, as the Bank does not have a permanent source of capital to fall back on when liquidity becomes a challenge. The only challenge here is the term of 12 months and roll over for another 12 months. Loans, therefore, are structured in such a way to fit the term.

Small Business COVID-19 Relief Package

Economic Stimulus Package (ESP) funds provided by SIG to DBSI summary as at 31 December 2021

TOTAL FUNDS PROVIDED	$28,000,000.00

COVID-19 LOANS	$11,677,871.96
OTHER SME LOANS	$4,917,540.56
MICRO - LAIF LOANS	$11,404,587.48

No. of Loans Approved - Covid-19 Loans	38
Average Size of Approvals	$307,312.42
No. of Loans Approved - SME Loans	23
Average Size of Approvals	$213,806.11
No. of Loans Approved - Micro - LAIF Loans	314
Average Size of Approvals	$36,315.46

COVID-19 LOANS		
Breakdown by Sector	**No**	**Amount**
Agriculture	11	$2,544,539.96
Construction	2	$1,000,000.00
Livestock	2	$830,968.00
Manufacturing	1	$300,000.00
Professional & Other Services	6	$1,289,178.00
Retail	9	$3,596,310.00
Transport	7	$2,116,876.00
Total	**38**	**$11,677,871.96**

OTHER SME LOANS		
Breakdown by Sector	**No**	**Amount**
Agriculture	5	$1,084,917.56
Construction	1	$425,000.00
Livestock	2	$130,000.00
Entertainment & Catering	1	$221,000.00
Fishing	1	$15,000.00
Professional & Other Services	3	$615,623.00
Retail	5	$586,000.00
Tourism	3	$1,240,000.00
Transport	2	$600,000.00
Total	**23**	**$4,917,540.56**

LAIF LOANS		
Breakdown by Sector	**No**	**Amount**
Agriculture	11	$114,533.38
Construction	135	$4,980,013.00
Fishing	18	$489,707.00
Forestry	4	$135,530.00
Livestock	2	$52,000.00
Personal	51	$1,444,512.00
Professional & Other Services	19	$880,300.00
Retail	30	$806,129.00
Transport	44	$2,501,863.10
Total	**314**	**$11,404,587.48**

Figure 9

All/the majority of loans approved during the period were sourced from the ESP funding and can be justified by that fact everyone financed was affected by COVID, one way or the other.

Small and Medium Enterprises Guarantee Scheme

The Ministry of Commerce and the Central Bank of Solomon Islands has had in place a guarantee scheme to assist SMEs in the islands. The purpose of the scheme is to encourage participating financial institutions to support viable business proposals that lack adequate collateral to secure a loan. The scheme was developed in an effort to promote and develop local business and industry, and to improve private sector lending to SMEs and stimulate growth. The main role of the scheme is to bridge the gap between the Bank's collateral security required and the collateral that the borrower can provide.

Loans Approved Under CBSI Guarantee Scheme as at December 2021.

Sectors	Loans Outstanding ($)	Tally	CBSI Guarantee Approved Amount ($)	Total Security Value ($)
Agriculture	1,705	10	1,248	1,597
Construction	437	1	279	396
Livestock	224	2	307	337
Manufacturing	317	1	259	271
Professional	572	4	391	564
Retail	706	3	576	753
Tourism	512	1	270	470
Transport	957	3	540	900
Total	**5,430**	**25**	**3,870**	**5,288**

Figure 10

- The CBSI Guarantee Scheme is to bridge the gap between the Bank's collateral security required and the collateral that the borrower can provide.
- The Scheme can provide up to 90% of the security shortfall amount. 10% of the unsecured portion of the loans risk are absorbed by the Bank.
- From the above Table, Total CBSI Approved Guarantee Amount of $3.870 Million is noted as at 31st December 2021.
- We have approved and disbursed total of 25 loans worth $5.430 Million under the CBSI Guarantee Scheme with Total Security Value of $5.288 Million.

SME Loans 31 December 2021

Lending Activities	2020 Amount ($)	2021 Amount ($)	Variance ($)	Variance (%)
Loans Approved	7,868,809	17,540,359	9,671,550	19%
Loans Disbursed	6,618,248	17,144,209	10,525,961	159%
Balance Outstanding	6,562,111	15,743,651	9,181,540	140%

Figure 11

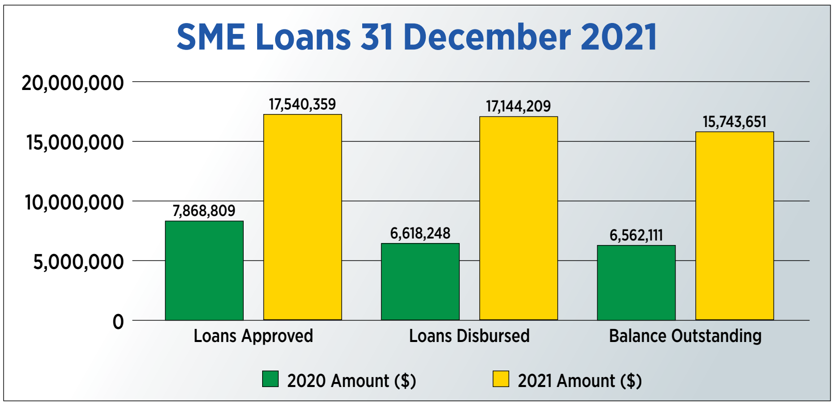


Figure 12

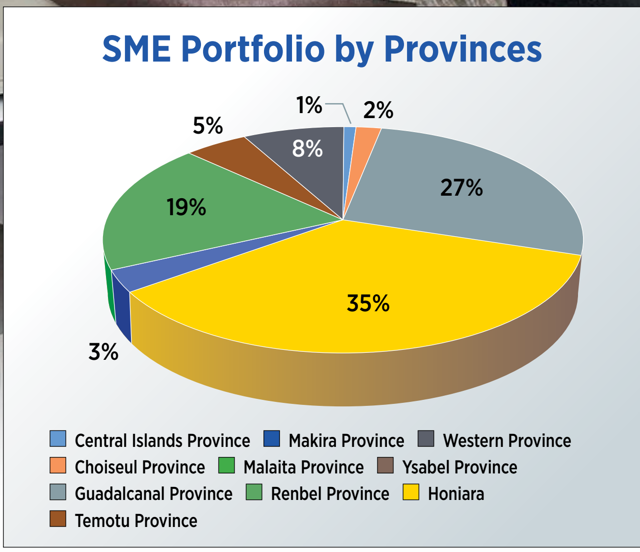


Figure 13

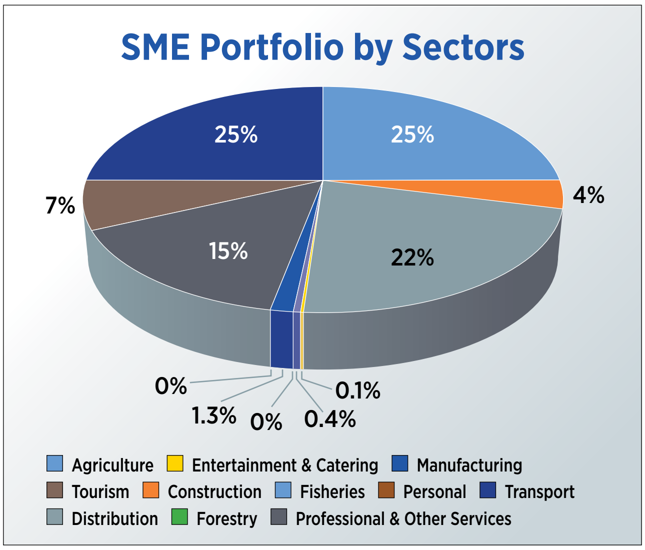


Figure 14

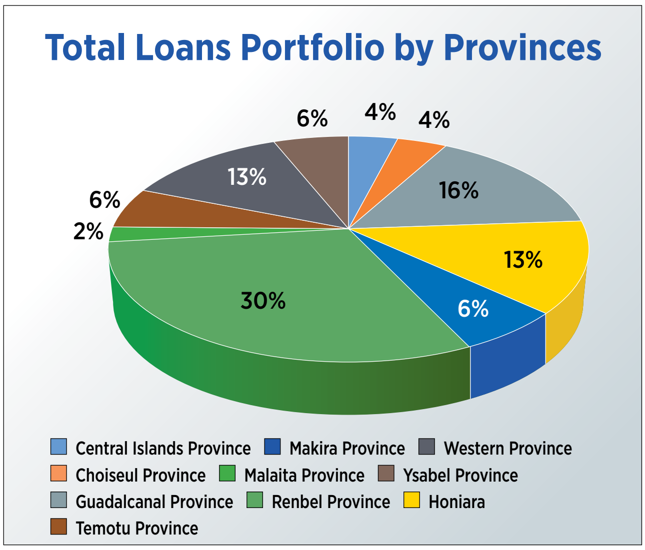


Figure 15

Contract Farming for Value Chain Financing

Agriculture remains an important means of alleviating poverty, but accessing finance constrains development in the sector, for local consumption and food security. However, at the same time, agriculture is evolving towards a global system requiring high-quality, competitive products and is organised in value chains which often exclude smallholders. DBSI is fully aware that value chain financing in agriculture offers an opportunity to increase the scope, reduce cost and the risk of financing to agriculture. Value chain financing can also help in promoting inclusiveness by making resources available for smallholders to be integrated into higher value market opportunities.

In 2021, the Bank worked with the outgrowers and SME clusters at the Guadalcanal Plains Palm Oil Ltd (GPPOL) to establish and implement a Value Chain Finance mechanism. However, as an initial step, loans are approved during initial discussions to encourage each applicant to register their farms as a business. During the year, the Bank approved 20 loan applications to the value of $922,000, out of 40 applications received. The obstacles to advance these approvals to actual loans has been identified and a series of discussions held to provide solutions. Through such deliberation, the Guadalcanal Province agreed to reduce fees for the business license to an affordable rate. This is to the benefit of the individual outgrowers and families who own an average of 3 to 4 hectares. As the SME Guaranty support managed by the CBSI remains critical to the success of these plans, the Ministry of Commerce, in consultation with the Micro, Small and Medium Enterprises Working Group Committee (MSMEWG) and CBSI, reviewed and approved the lowering of the minimum guarantee level from $50,000 to $10,000, especially for GPPOL outgrowers This enabled seven (7) applicants from the approved twenty (20) of the forty (40) applications received to fulfill the requirements and five (5) loans were disbursed. Another obstacle encountered was the process of GPPOL assigning outgrowers' sales proceeds directly to DBSI as loan repayments, as GPPOL had to seek approval from the company's head office in New Britain.

DBSI Loan Sectors vs CBSI Sectoral Distribution, as at 31st December 2021

Loan Sectors as at 31st December 2021 Vs CBSI Sectoral Distribution of Depository Corporations Credit Outstanding.

	CBSI		DBSI	
	December 21 Quarter		Month of December 2021	
LOANS SECTORS	Value ($)	Percent	Loans Bal Ost ($)	Percent
Agriculture	10,957	43.16%	4,729	7.03%
Communication	86,544	0.00%	-	0.00%
Construction	272,187	10.58%	28,799	42.81%
Distribution	599,612	1.28%	7,668	11.40%
Entertainment & Catering	1,211	17.75%	215	0.32%
Fisheries	6,617	30.12%	1,993	2.96%
Forestry	95,690	0.42%	403	0.60%
Manufacturing	126,015	0.47%	598	0.89%
Personal	910,586	1.07%	9,738	14.48%
Professional & Other Services	106,389	3.63%	3,860	5.74%
Tourism	124,395	0.53%	665	0.99%
Transport	158,527	5.42%	8,600	12.78%
Central Governement	1	0.00%	0	0.00%
Provincial & Local Governements	6	0.00%	0	0.00%
Statutory Corporations	19,804	0.00%	0	0.00%
Private Financial Institutions	141	0.00%	0	0.00%
Total	2,518,682	100%	67,268	100%

Figure 16

- DBSI figures are included in the Industry Total lending of $2.50 Billion recorded as at 31 December 2021 shown above, but it does reveal that the Bank's lending is now around 3% of Industry Total.
- Internally, DBSI has lent 42.81% towards the Construction sector, followed by Personal at 14.48%, Transport 12.78% and Distributions at 11.40%.

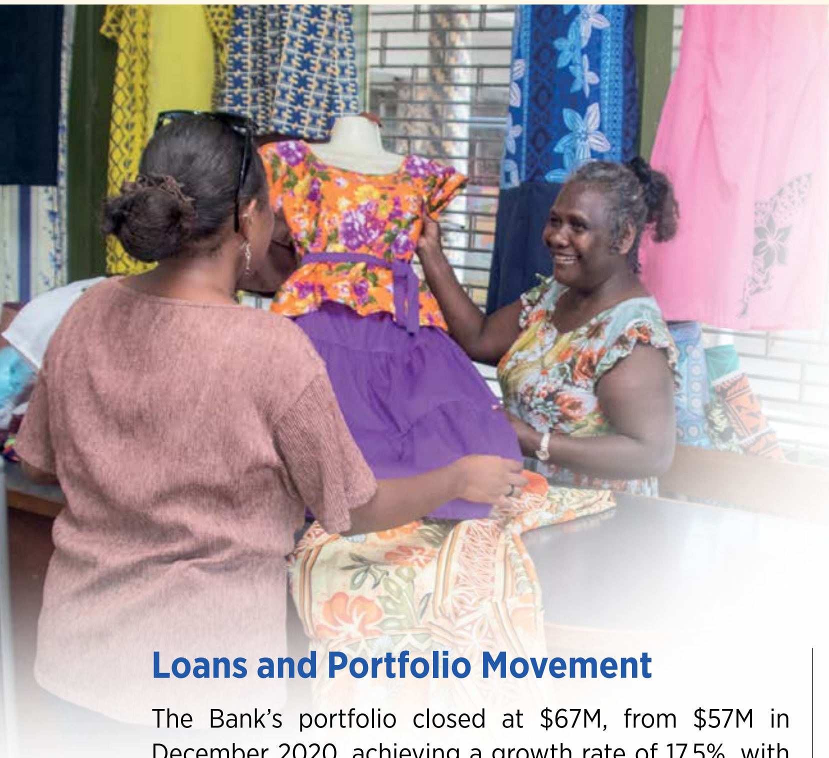
Lending Operations

In 2021, the Bank maintained the two lending streams for its micro loans under the Livelihood and Investment Facility (LAIF) and the Small and Medium Enterprise loans, through which the Government's direct and Ministerial support mechanism is channeled, which included the 2020 Solomon Government's COVID stimulus support.

The Bank's micro loans facility has been successful and will continue to be an important part of the Bank's offerings in the future. DBSI understands that it is the SME sector, that focuses in the rural areas and creates and fosters entrepreneurial activities, on which it must concentrate its resources.

A critical component of DBSI's ability to foster and grow the SMEs in the rural areas, and even in the townships, is that of financial literacy. The Bank believes that financial literacy has to be a key component of its loan offerings if its development efforts are to be successful. Given the limited resources and limited manpower capabilities the Bank has at this stage of its development, the Bank is developing relationships with other developmental agencies of the SIG to obtain support for DBSI customers to access financial literacy programmes. Discussions have been positive, and these government agencies have indicated their willingness to complement DBSI services with the provision of financial literacy programmes for all entrepreneurs or SMEs funded by DBSI.

The Bank looks at and treats farming and fishing in the rural areas as businesses and it is from this viewpoint, amongst others, that the Bank must insist on the provision of financial literacy to be provided in support of borrowers in the rural areas, or for any SME for that matter.



Loans and Portfolio Movement

The Bank's portfolio closed at $67M, from $57M in December 2020, achieving a growth rate of 17.5%, with a striking increase in interest income of 215%, from $2.3 Million in 2020 to $7.3 Million in 2021. Loan disbursement with available funding totaled $32 Million, and overall collection of $29 Million, achieving an overall collection rate of 93%. The Fee Income was adjusted in December 2021 in compliance with the IFRS 9, whereby only the current establishment fees were recognised fees. Total number of clients increased from 1908 in 2020 to 2114 in 2021, showing an aggregate increase of 10%. There has been a lot of movements in the LAIF loans where clients paid off their accounts early. In December alone, 200 clients cleared their accounts and were replaced by new customers.

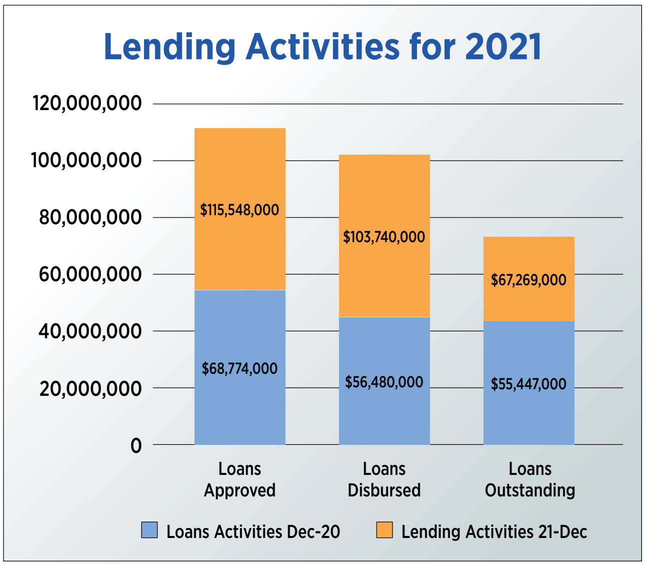


Figure 17

The demand for the Bank's LAIF Micro Loans product continued to spread, through our aggressive marketing and awareness campaign, with visits undertaken by the LAIF team to the provinces and institutions.

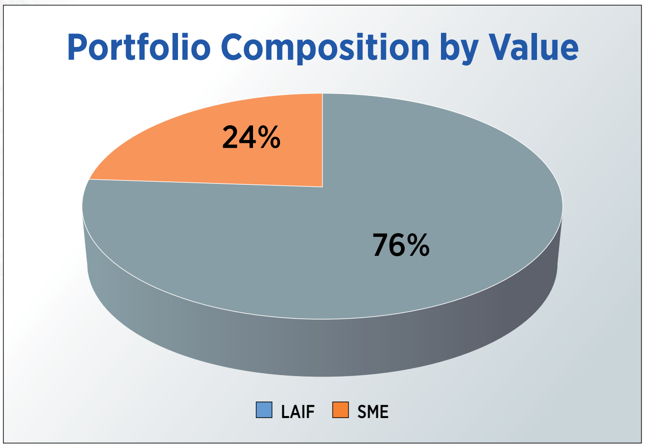


Figure 18

The Bank made the decision to grow the LAIF product as it fulfills the needs of its stakeholders, and the minimum requirement to access the facility and the quick delivery time was attractive to the public. The Bank had the appetite to allow easy access, given that the loans are secured by the savings with the Solomon Islands National Provident Fund and repayments are guaranteed from salary. This decision meant that bulk of the Bank's resources were directed towards meeting this demand from the public.

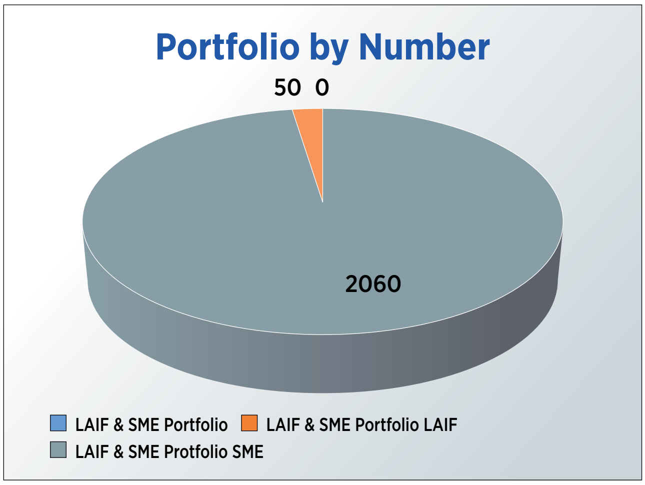


Figure 19

It provided the Bank space and time to build its credit skills-set in assessing applications from those in the SME sectors. The Total Loan Portfolio of $67.27 Million, as at 31st December 2021, is comprised primarily of $51.53 Million in Micro loans (LAIF), $15.74 Million in COVID/ SME/TSF/MSME and AGS. This total loan portfolio represents an increase in our loan books by 0.73% from the previous month.

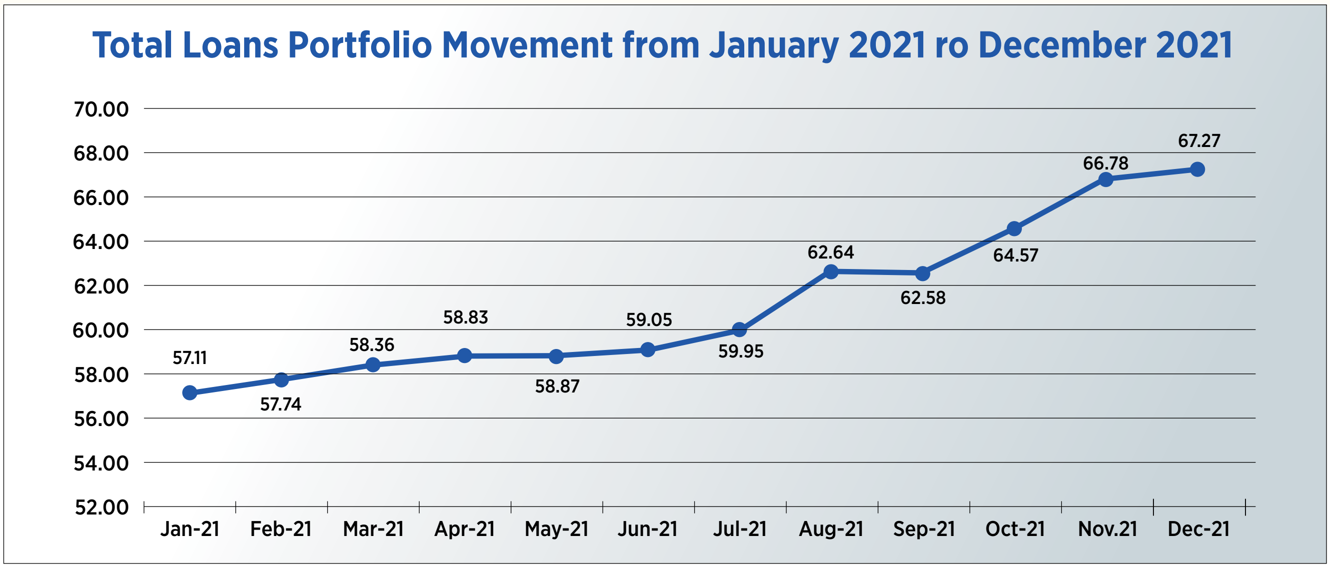


Figure 20

Small to Medium Enterprise Loans

The DBSI was, in 2020, the newest financial institution in the country and although there was great expectation and great demand for its services, the Bank decided to take a very careful approach in developing and growing its non-LAIF portfolio, given the higher inherent risks involved with loans where repayments were dependent on income generated from the business financed. The DBSI's lending to the SME sector was riskier compared to its LAIF loans where repayments were made from salary through direct deductions or by direct bank transfers.

Between June 2020 to December 2020, the Bank approved a total of 24 loans worth $7,868,809. As can be expected, the bulk of the loans were approved to businesses in Honiara, which amounted to $3,619,124.00 representing 56% of loan approvals, followed by Guadalcanal with $1,063,712.00 or 13%, Malaita with $913,876.00 or 11%, Western Province with $750,000 worth of loans or 10% of the total approval, Temotu with $480,000.00 or 6%, and Choiseul and Central Province trailing, with $150,000.00 and $120,000.00, or 2% and 1%, respectively. See Figure 22.

A total of $6,562,112.00, or 83.4%, of the total loans approved had been disbursed by December 2020.

The total outstanding loans in the SME sector was $6,618.48 as at December 2020. These loans, where necessary, were supported by the CBSI-administered, Ministry of Commerce's Small & Medium Enterprises Business Loans Scheme.

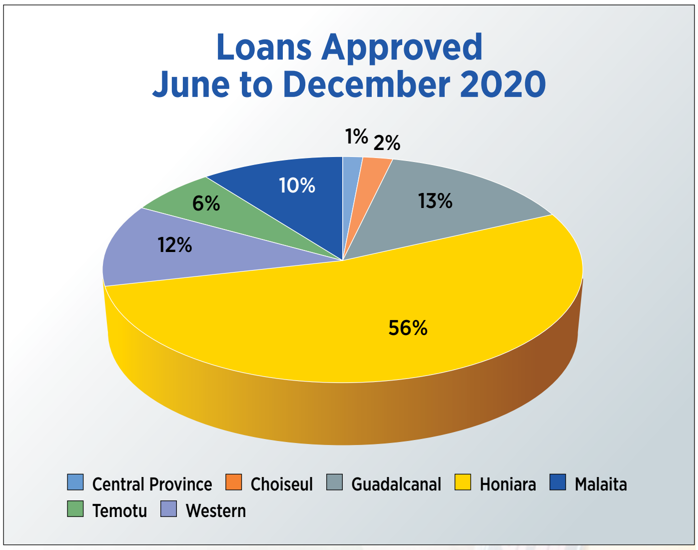


Figure 21

Enterprises Business Loans Scheme

Of the loans approved, 45% ($3,507,226) were approved to the Retail sector, with 7 loans in total. Four of these loans were made to borrowers in Honiara and one each to Choiseul, Guadalcanal and Western Province. The second largest sector funded in 2020 was to borrowers classified under Professional and Other Services – 21% ($1,652,049) – again, these were mainly to borrowers in Honiara.

Loans were approved for a wide variety of purposes under the various SME sectors, including capital for copra and cocoa buying and selling, and construction. Several loans were approved specifically to assist in the transportation of these commodities in the rural areas. These loans have been approved on the basis of the viability of the proposals assessed and on a fully secured basis – either by the properties provided by the borrowers located in Honiara, or supported by the CBSI

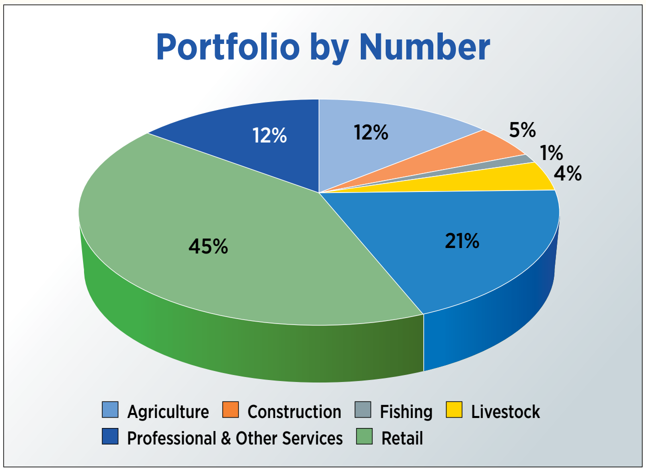


Figure 22

Small Business Loans Scheme. Figure 25 on the next page is a summary of loans approved, by sectors and composition of the SME loans.

SME Loans Portfolio

Sector	Loan Amount	Disbursed Amount	Total Outstanding December 2020	Composition by Approval
Agriculture	$944,744	$559,744	$578,033	12%
Construction	$400,000	$400,000	$400,068	5%
Fishing	$44,946$	44,946	$42,529	0.6%
Livestock	$330,968	$330,968	$327,884	4%
Professional Other Services	$1,652,049	$1,299,178	$1,302,901	21%
Retail	$3,507,226	$2,938,400	$2,998,294	45%
Transport	$988,876	$988,876	$968,539	13%
Total	**$7,868,808.78**	**$6,562,111.78**	**$6,618,248.28**	**100%**

Figure 23

SME loans are made up of two types of borrowers – those assisted under the COVID-19 Economic Stimulus Package and those who are supported under the Bank's normal lending programme. Loans provided under the COVID-19 support facility comprise $6,863,863 or 87%, with the balance of $1,262,946 falling under the normal Bank SME lending portfolio. Loans provided under the COVID-19 support facility attract an 8% interest rate, as funds were provided by Government specifically for these purposes. These loans are provided mainly to those businesses that have been in operation for some time prior to the pandemic and were able to demonstrate their operations have been affected by COVID-19.

SME Loans Under COVID Support Facility

Sector	Loan Amount	Disbursed Amount	Total Outstanding December 2020	Composition by Approval
Agriculture	$944,744	$559,744	$578,033	14%
Construction	$400,000	$400,000	$400,068	6%
Livestock	$330,968	$330,968	$327,884	5%
Professional Other Services	$1,592,049.00	$1,238,906.34	$1,242,900.84	23%
Retail	$2,607,226.00	$2,167,304.32	$2,248,294.15	38%
Transport	$988,876	$988,876	$968,539	14%
Total	**$6,863,863**	**$5,685,798**	**$5,765,720**	**100%**

Figure 24

Financial Operation

Finance and Accounting Policy

An Accounting Consultant was engaged by the Bank to assist in localising the policies adopted from the Fiji Development Bank (FDB) and to draft additional policies. Out of the 28 policies to be adopted by DBSI, 27 were completed while 1 remaining policy relates to the alignment of Prudential Guidelines 6, 7 and 19. Management has reviewed 24 polices, and amendments have been incorporated. The 4 remaining policies are on hold until applicable for use.

Capital Raising

The Board and management fully apprehend the importance of adequate capitalisation of the Bank at all times. As a new institution, this critical element was always on the agenda, as dependency on Government grants and capital injection was not to be expected in the long-term. The Bank must raise its own funding and, with the assistance of the Board, discussion with the Debt Management Unit progressed for an application of a $20M Guarantee facility to support its borrowing. Discussions with financiers, in particular the National Provident Fund, for a long-term relationship commenced during the year, with an initial approval to accept a ten (10) year bond at 5% interest rate with a 1% early redemption clause. The acceptance was conditional on DBSI's good standing with the IRD and compliance with DMU's condition. Simultaneously, management sought further discussions with Investment Corporation of Solomon Islands on additional equity infusion.

Grant Support

The Bank entered into a long-term engagement with the Ministry of Commerce, the Ministry of Agriculture and the Ministry of Tourism, in developing lending programmes to be supported through their allocations from Government. The lending programmes aimed at addressing the needs of the Small Business, the Agriculture and the Tourism sectors, in a more transparent manner with controlled level of discipline and accountability. Guarantee arrangements and financial literacy, particularly in the Rural sector, was a critical component of the Bank's overall approach in lending to the productive sectors.

In April 2021, a Memorandum of Agreement was signed between DBSI and the Ministry of Tourism for a $2,000,000 grant, to provide assistance to the ailing Tourism sector in the Solomon Islands that was affected by the COVID-19 pandemic. A further approval by Parliament of a grant of $10M from the Ministry of Commerce and $3M from the Ministry of Agriculture was earmarked for DBSI to fund projects to the respective sectors. A total of $15M in directed lending grant was received by the Bank by July 2021.

Product wise as at 31 December 2021

Sectors	Loans Approved	Loans Disbursed	Balance Outstanding
Micro - LAIF	$64,411,366	$61,479,857	$51,524,039
Agriculture Grant Scheme	$795,554	$795,554	$796,762
COVID 19	$11,478,076	$11,228,076	$9,941,982
MSME Credit Line	$575,000	$575,000	$589,049
SME	$2,931,729	$2,931,729	$2,747,615
Tourism Support Facility	$1,240,000	$1,093,850	$1,127,721
Working Capital Line of Credit	$520,000	$520,000	$540,522

Figure 25

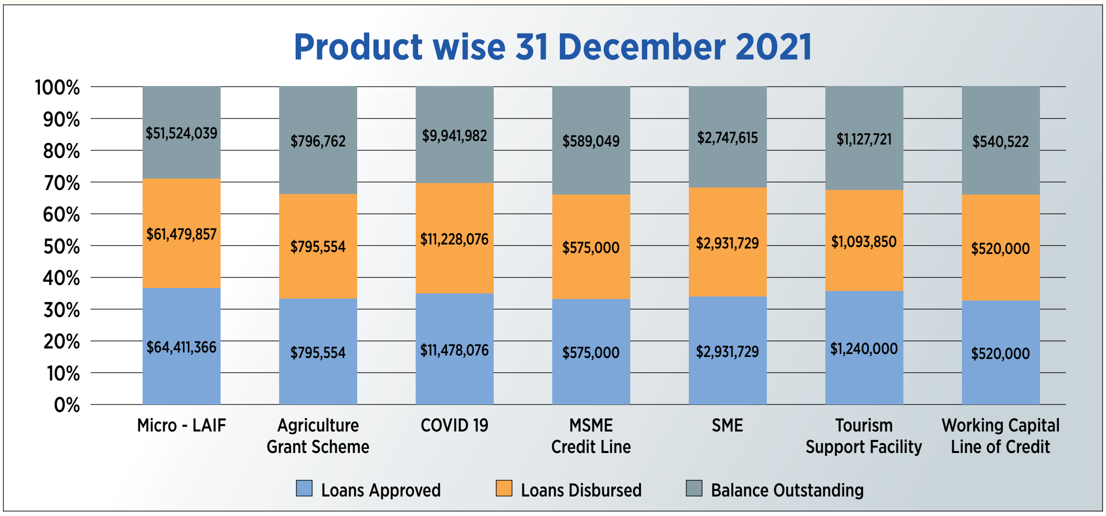


Figure 26

- As at December 2021, it is noted that 77% of our loan books were funded by Micro - LAIF loans and fully secured by NPF Cash Security.
- COVID-19 portfolio reduced from 15% to 5% in December 2021 as there were no new loans being approved under COVID during the period.
- Growth in SME has picked up significantly in the last 3 months, from 4% to 15%, as the Bank disbursed 5 loans to the value of $466K from the GPPOL Outgrowers in December 2021.
- Tourism and Agriculture are low with total disbursements of $2.0 Million out of the $5.0 Million grant funds provided by the two Ministries.

Future Outlook

The Bank's LAIF loans programme is well accepted by the public at large and the Bank intends to continue to pursue increasing its exposure in this area by continuous enhancement of the product and by providing additional services to the existing clientele, when the time is right. Variations in product offerings are being considered so that focus on the investment by borrowers in the productive sectors could be enhanced and encouraged – this could in the form of tree planting (agro-forestry), support on renewable energy, water sanitation etc., in line with, and in direct support of, the SIG's developmental perspectives.

The Bank is currently working very closely with palm oil outgrowers and the company that purchases their production to develop a value chain financing mechanism. Once established and operating, existing farmers should be able to initially increase production through better and proper maintenance and husbandry application. This will be a step in the right direction in the Bank's efforts to push funding out into the rural areas and can be replicated with other commodity producers, with whom discussions are being held.

The impact of COVID-19 pandemic has also had a devastating effect on the economy. However, the Bank has adopted the view that this disruption in the way things have been done demands a relook at the status quo, and that it is imperative that, together with other developmental arms of Government, newer development financing models need to be put in place to ensure that the Bank is able to meet its developmental mandate.

The old and accepted definition of development financing, where the development bank is characterised as a bank of last resort, no longer holds true. The development financing institution of today needs to evolve into providing services that other financial institutions are providing – given that, as is the case for DBSI and many other DFIS in the Pacific, it competes for its funds in the market with other commercial banks. Development banks in the Pacific pay a higher price to fund their financial activities, even with the sovereign guaranty of the Government of the day.

DBSI will continue to work hard to meet international reporting standards, banking best practice, governance and all prudential guidelines so that it will be able to raise funds in the market in a commercial manner, and not be penalised for being a Government-owned institution.

Our Bank. Our Future!
Think Solo.

Development Bank of Solomon Islands

Financial Statements

For the Twelve (12) Months Period Ended 31 December 2021

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Directors' Report

In accordance with a resolution of the Board of Directors, the directors herewith submit the statement of financial position as at 31 December 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the twelve months ended on that date and report as follows.

The Development Bank of Solomon Island (Bank) was incorporated under the Development Bank of Solomon Islands Act 2018, which was passed in Parliament on 7 December 2018. Under Section 2 of the Act, the Minister of Finance and Treasury declared 21 June 2019 as the date of commencement of the Act. No activity or transaction was undertaken by the Bank until 1 September 2019 when funds were transferred to its Bank account, hence the first financial statements of 16 months operation ending December 31st, 2020 was prepared and tabled on the first sitting of Parliament in 2022. The 2021 financial statements will be the second year of operation.

1. DIRECTORS

The following persons were Directors of the Bank at any time during the financial year and up to the date of this report.

- McKinnie Dentana — Chairman (Permanent Secretary of the Ministry for Finance)
- Peter Soqoilo — Vice Chairman
- Pamela Alamu — Member
- David Faradatolo — Member
- Dr Maclean Vaqalo — Member
- John Muria Junior — Member
- Robson Djokovic — Member
- Trevor Manemahaga — Member

2. PRINCIPAL ACTIVITY

The principal activities of the Bank is providing loans for micro livelihood projects and small and medium enterprises involved in various sectors of the economy, especially in agriculture, fisheries, tourism, manufacturing, other industries, commercial activities and other enterprises in the rural areas.

3. TRADING RESULTS

The Net income of Bank for the 12 months period ended 31st December 2021 was at $1,727,332. The Bank is exempt from income tax under the Development Bank of Solomon Islands Act 2018 therefore no provision was made for income tax for the 12 months period.

4. DIVIDENDS

The directors declared that no dividends be declared or paid for the 12 month period ended 31st of December 2021 (2020: $NIL).

5. BASIS OF ACCOUNTING

The directors believe that the basis of preparation of the financial statements is appropriate and the Bank will continue to operate in the next twelve months from the date of the signing of this report.

6. IMPACT OF COVID-19 AND GOING CONCERN

On 11 March 2020, the World Health Organisation declared a pandemic in relation to the Novel Coronavirus (COVID-19), bringing a significant health impact globally. Measures taken to contain the virus are having a significant negative economic impact on global markets including the Solomon Islands markets. There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come from the disruption caused due to the fluidity of the situation.

Directors' Report *(cont'd)*

The spread of the Coronavirus in the Solomon Islands had considerable negative impact in the country's economy. The spread and disruption of the pandemic will be exacerbated by the increasing relationship between trade and investments. Being an open small economy, the Solomon Islands will likely be adversely affected through trade channel and therefore affect the country's fiscal and monetary policies. On the supply side, travel has been restricted, some supply chains have been affected and there has been disruptions to business activity. While on the demand side of the economy, there has been uncertainties on global demand for the country's export as well as the significant restraints in consumer spending. The Bank is solely owned by the Solomon Islands Government who has given support to the Bank to continue with its operations and meet its obligations

Section 36 of the DBSI Act of 2018, sub-section 4 (a) & (b) states that subject to any law relating to the giving of guarantees, the Minister may, on behalf of Government guarantee the payment of a loan raised or amount borrowed and any related interest; and that, any amount required to fulfil the guarantee is a charge on the Consolidated Fund. The Minister of Finance has in a letter dated 6th of February 2023 assured of continuing government support for the Bank.

Accordingly, the directors believe the classification and carrying amounts of assets and liabilities as stated in these financial statements to be appropriate. The directors believe that at the date of this Bank will be able to pay its debts as and when they fall due.

7. BAD AND DOUBTFUL DEBTS

Prior to the completion of the financial statements, the directors took reasonable steps to ascertain that reasonable action had been taken to write off bad debts and the allowance recorded by the Bank. In the opinion of the directors the adequate allowance has been made for doubtful debts.

At the date of this report the directors are not aware of any circumstances which would render the amount written off for any bad debts or allowance for doubtful debts inadequate to any substantial extent.

8. UNUSUAL OR SIGNIFICANT TRANSACTIONS

Apart from those matters especially referred to in the financial statement, in the opinion of the directors the results of the operations of the Bank during the period were not substantially affected by any item, transaction or event of material and unusual nature likely to affect substantially the result of the operations of the Bank in the current year.

9. NON-CURRENT ASSETS

Prior to the completion of the financial statements of Development Bank of Solomon Islands "the Bank", the Directors took reasonable steps to ascertain whether any non- current assets were likely to be realized in the ordinary course of the business compared to the values are record in the accounting records of the Bank. Where necessary these assets have been written down and adequate provisions has been made to bring the values of such assets to an amount that they might be expected to realize. As at the date of this report, the Directors are not aware of any circumstances that will cause the value of non-current assets in the financial records to be unrecoverable.

10. SIGNIFICANT EVENTS

During the period under operation, the Bank continues to face the effects of the COVID-19 and the directors are not aware of any specific events that will likely affect the affairs of the Bank. Further, Solomon Islands experienced a series of demonstrations and violent riots from the 24th to the 27th of November 2021 resulting to the declaration of a 36-hour lockdown in the city.

Directors' Report *(cont'd)*

11. EVENTS AFTER BALANCE DATE

There has been no significant event, material or transaction or matter that the directors are aware of that may significantly affect the operations of the Bank or the state of the Bank in the subsequent years.

12. OTHER CIRCUMSTANCES

As at the date of this report

i) No charge on the assets of the Bank has been given since the end of the financial period to secure the liabilities of any person or entities.

ii) No contingent liabilities have arisen that the Bank may become liable.

iii) No contingent liabilities of the Bank or its subsidiary have become or is likely to become enforceable within twelve months after the end of the financial year in the opinion of the directors, which may substantially affect the Bank as and when the obligations fall due.

The directors are not aware of any circumstances that may have arisen, that have not otherwise been dealt with in this report or the financial statements, which would make adherence to the existing method to the valuation of assets or liabilities of the bank misleading or inappropriate.

Signed in accordance with a resolution of the directors this 29th November 2023.

....

Director Director

Statement by Directors

In the opinion of the directors:

(a) The accompanying statement of comprehensive income and expenditure are drawn up so as to give a true and fair view of the results of the Bank for the 12 months period ended 31st December 2021.

(b) The accompanying statement of changes in equity are drawn up so as to give a true and fair view of the changes in equity of the Bank for the 12 months ended period 31st December 2021.

(c) The accompanying statement of financial position are drawn up so as to give a true and fair view of the changes in equity of the Bank as at 31st December 2021.

(d) The accompanying statement of cash flow are drawn up so as to give a true and fair view of the cash flows of the Bank for the 12 months period ended 31st December 2021.

(e) At the date of this statement there are reasonable grounds to believe the Bank will pay its debts as and when they fall due; and,

(f) Related party transactions have been adequately recorded in the books of the bank.

(g) The financial statements of the bank have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the Development Bank of Solomon Islands Act 2018.

....

Director

....

Director

Auditors Report

Solomon Islands
Office of the Auditor-General

Independent Auditor's Report to the Board of Directors of the Development Bank of Solomon Islands

Report on the audit of the financial Statements

Opinion

I have audited the accompanying financial statements of Development Bank of Solomon Islands (the "Bank") which comprise the statement of financial position as at 31 December 2021, and the statements of profit or loss and other comprehensive income, statement of Changes in Equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 23.

In my opinion the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit* of the Financial Statements section of my report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence

I am independent of the Bank in accordance with International Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements.

Material Uncertainty Related to Going Concern

Attention is drawn to Note 2(b) of the financial statements which highlights that the Bank has incurred an operating loss before grant income of $3,558,655 for the financial year ended 31 December 2021 and its ongoing reliance on the Solomon Islands Government for financial support to continue its operations. This indicates the existence of a material uncertainty which may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and my auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Auditors Report *(cont'd)*

Independent Auditor's Report to the Board of Directors of the Development Bank of Solomon Islands

Report on the audit of the financial Statements (Continued)

Responsibilities of the management and those charged with governance for the financial Statements

The management and directors are responsible for the preparation of and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Development Bank of Solomon Islands Act 2018 and the Financial Institutions Act 1998, and for such internal control as the management and directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management and directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management and directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management and directors.
- Conclude on the appropriateness of the managements and directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Auditors Report *(cont'd)*

Independent Auditor's Report to the Board of Directors of the Development Bank of Solomon Islands

Report on the audit of the financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

a) The Financial Institutions Act 1998

The Financial Institutions Act 1998 requires that in carrying out my audit I consider and report on the following matters. I confirm in relation to my audit of the financial statements for the year ended 31 December 2021:

- I have obtained all the information and explanations that to the best of my knowledge and belief were necessary for the purposes of our audit;
- in my opinion, proper books of accounts have been kept by the Bank, so far as appears from my examination of those books;
- the statement of financial position and statement of profit or loss and other comprehensive income dealt with by my report are in agreement with the books of account and returns;
- in my opinion, and to the best of our information and according to the explanations given to me, the financial statements give a true and fair view:
    - o in the case of the statement of financial position, of the state of the Bank's affairs as at 31 December 2021; and
    - o in the case of the statement of profit or loss and other comprehensive income, of the profit for the year ended 31 December 2021
- in cases in which I have called for explanation or information from the officers or agents of the Bank, these have been satisfactory.

b) Development Bank of Solomon Islands Act 2018

The Bank has not complied with the requirement of Section 40 (4) of the Development Bank of Solomon Islands Act 2018 which require the audited financial statements to be submitted to the Minister within 3 months of the financial year end to which the financial statements relate. The signed statements were presented to me on 29 November 2023.

David Teika Dennis
Auditor General
29 November 2023

Office of the Auditor-Genral
Honiara, Solomon Islands

Statement of Profit or Loss & Other Comprehensive Income

	Notes	12 months period ended 31 December 2021 $	16 months period ended 31 December 2020 $
Income			
Interest income	5	7,385,40	2,332,086
Interest and other borrowing expenses	5	(347,328)	(74,203)
Net interest income		**7,038,072**	**2,257,883**
Fees and commission income	6	1,695,081	769,202
Net other operating income		**8,733,153**	**3,027,085**
Expenditure			
Personnel expenses	7	2,826,482	866,408
Other operating expenses	8	6,030,248	5,220,841
Depreciation and amortisation	12,13 & 14	3,113,457	1,952,294
Impairment loss on loan and advances	10	321,621	1,512,999
Total expenditure from continuing operations		**12,291,808**	**9,552,542**
Loss before income tax		**(3,558,655)**	**(6,525,457)**
Grant Income		5,285,987	-
Income tax expense	17	-	-
Income for the period		**1,727,332**	**(6,525,457)**

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 31 December 2021

	Notes	31 December 2021 $	31 December 2020 $
ASSETS			
Cash on hand and at Bank	9	11,670,218	17,324,630
Loans and advances to customers	10	64,092,285	52,910,642
Other assets	11	384,630	239,327
Property, plant and equipment	12	3,304,815	3,051,143
Right-of-use assets	14	723,433	2,029,284
Intangible assets	13	2,144,252	2,615,180
Total Assets		**82,319,633**	**78,170,206**
LIABILITIES			
Term deposits	15	20,238,436	25,031,397
Lease liabilities	14	743,756	2,654,508
Other liabilities	16	10,941,700	1,815,892
Total Liabilities		**31,923,892**	**29,501,797**
Net Assets		**50,395,741**	**48,668,409**
EQUITY			
Owner's equity		55,193,866	55,193,866
Accumulated loss		(4,798,125)	(6,525,457)
Total Equity		**50,395,741**	**48,668,409**

The above balance sheet should be read in conjunction with the accompanying notes.

Director

Director

Statement of Changes in Equity

For the 12 Months Period Ended 31 December 2021

	Notes	Owner's Equity $	Retained Earnings $	Total $
Balance as of 1 September 2019		55,193,866		55,193,866
Loss for the period			(6,525,457)	(6,525,457)
Dividends			-	-
Balance as of 31 December 2020		**55,193,866**	**(6,525,457)**	**48,668,409**
Profit for the year		-	1,727,322	1,727,322
Dividends			-	-
Balance as of 31 December 2021		**55,193,866**	**(4,798,125)**	**50,395,741**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the 12 Months Period 31 December 2021

	Notes	12 months period ended 31 December 2021 $	16 months period ended 31 December 2020 $
Cash flows from operating activities			
Interest received		7,354,662	2,332,086
Fees and other income		1,725,819	769,202
Interest Expense		(347,328)	(74,203)
Interest Payable		107,039	-
Payment to employees and suppliers		(15,873,627)	(3,420,586)
Grant Received		15,000,000	-
Term deposits received during the period		100,000	-
Term Deposit Repaid during the period		(5,000,000)	25,031,397
Disbursements of loans and advances to customers		(5,219,875)	(55,470,934)
Net cash used in operating activities		**(2,153,310)**	**(30,833,038)**
Cash flows from Investing activities			
Payment for property plant and equipment		(1,276,509)	(3,898,971)
Payment for intangible assets		(313,841)	(3,137,227)
Net cash (used) in investing activities		**(1,590,350)**	**(7,036,198)**
Financing activities			
Proceeds from the shareholder		-	55,193,866
Lease repayments		(1,910,752)	-
Net cash from financing activities		**(1,910,752)**	**55,193,866**
Net increase in cash and cash equivalents		**(5,654,412)**	**17,324,630**
Cash and cash equivalents at beginning of period		17,324,630	-
Cash and cash equivalents at end of period	9	**11,670,218**	**17,324,630**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to and Forming Part of the Financial Statements

For the 12 Months Period 31 December 2021

1 GENERAL INFORMATION

The Development Bank of Solomon Islands (the "Bank") provides development-banking services in the Solomon Islands.

The Bank was incorporated under the Development Bank of Solomon Islands Act 2018, which was passed in Parliament on 7 December 2018. Under Section 2 of the Act, the Minister of Finance and Treasury declared 21 June 2019 as the date of commencement of the Bank. No activity or transaction was undertaken by the Bank until 1 September 2019 when funds were transferred to its Bank account. The Bank's registered office is at the Anthony Saru Building, Hibiscus Avenue, Honiara.

The financial statements for the 12 months period ended 31 December 2021 were approved for issue by the Directors on ______________________.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the information presented, unless otherwise stated.

(a) Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and requirements of the Development Bank of Solomon Islands Act 2018 and the Financial Institutions Act. The financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

New standards and interpretations not yet adopted

There are no new standards, amendments or interpretations that have been released and not yet adopted that are expected to have a significant financial impact on the Bank in future periods.

(b) Impact of COVID-19 and going concern

On 11 March 2020, the World Health Organisation declared a pandemic in relation to the Novel Coronavirus (COVID-19), bringing a significant health impact globally. Measures taken to contain the virus are having a significant negative economic impact on global markets including the Solomon Islands markets. There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come from the disruption caused due to the fluidity of the situation.

The spread of the Coronavirus in the Solomon Islands will have considerable negative impact in the country's economy. The spread and considerable disruption of the pandemic will be exacerbated by the increasingly relationship between trade and investments. Being an open small economy, the Solomon Islands will likely be adversely affected through trade channel and therefore affect the country's fiscal and monetary policies. On the supply side, travel has been restricted, some supply chains have been affected and there has been disruptions to business activity. While on the demand side of the economy, there has been uncertainties on global demand for the country's export as well as the significant restraints in consumer spending. The Bank is solely owned by the Solomon Islands Government and it will ensure that the Bank continue with its operations and meet its obligations.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(b) Impact of COVID-19 and going concern *(Continued)*

Section 36 of the DBSI Act of 2018, sub-section 4 (a) & (b) states that subject to any law relating to the giving of guarantees, the Minister may, on behalf of Government guarantee the payment of a loan raised or amount borrowed and any related interest; and that, any amount required to fulfil the guarantee is a charge on the Consolidated Fund. The Minister of Finance has in a letter dated the 6th of February 2023 assured of continuing government support for the Bank.

The directors believe the basis of preparation of the Bank's financial statements are appropriate and the Bank will be able to continue in operation for at least twelve months from the date of this report. Accordingly, the directors believe the classification and carrying amounts of assets and liabilities as stated in these financial statements to be appropriate. The directors believe that at the date of this report there are reasonable grounds to believe the Bank will be able to pay their debts as and when they fall due.

(c) Financial assets and liabilities

Measurement Methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets. Under IFRS 9 (Financial Instruments), the interest income on non-performing loans are recognised on the net amount (gross loans minus provision for impairment).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial assets and liabilities *(Continued)*

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, as described in note 3, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss;

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement category:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss ('FVPL'), are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 3. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost, which are recognised in profit, or loss.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(c) Financial assets and liabilities *(Continued)*

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

i) the Bank's business model for managing the asset; and
ii) the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following measurement categories:

- Amortised cost.
- Fair value through profit or loss

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial assets and liabilities *(Continued)*

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence of a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at FVPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Other income' when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3 provides more detail of how the expected credit loss allowance is measured.

Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(c) Financial assets and liabilities *(Continued)*

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).The impact of modifications of financial assets on the expected credit loss calculation is discussed in note 3.

De-recognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities arising from the transfer of financial assets which did not qualify for de-recognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

(ii) De-recognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(c) Financial assets and liabilities *(Continued)*

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in note 3); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calculated as described in note 3). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(d) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of profit or loss and other comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(d) Interest income and expense *(Continued)*

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Non-refundable front-end loan fees are capitalized and deferred over the expected term of the financial instrument.

(e) Fee and income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Service fees charged by the Bank for servicing a loan are recognised as revenue as the services are provided. Loan establishment fees are recognised as income in the accounting period in which it is earned rather than received. The amount received is deferred over the term of the financial asset other than the earned amount which is recognised as income in the current accounting period.

(f) Grant Income

In 2021, the Development Bank of Solomon Islands received Grants from the following Solomon Islands Ministries:

- Ministry of Tourism:$2,000,000
- Ministry of Agriculture: $3,000,000
- Ministry of Commerce: $10,000,000

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance was applied in the reporting of the Bank's Financial Statement. Initially the Grant is recognized in the Books of the Bank as deferred liability and are recognized in the Profit and Loss over the period for which the grant are intended to compensate. In the case of the Grant received by the Bank, the said grant was released in August 2021 and is expected to be utilized over a period of twelve (12) months from the date the grant is credited in the Bank account of DBSI.

(g) Property, plant and equipment

Land and buildings comprise mainly Bank offices located in Honiara, Solomon Islands. All property, plant and equipment are stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items and major structural developments.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis so as to write off the cost of each property, plant and equipment over its expected useful life. The expected useful life of each asset is as follows:

	Years
Office Improvement	4
Plant and Equipment	4
Computer Equipment and Software	4

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss and other comprehensive income.

(h) Intangible assets

Costs incurred to develop and enhance the Bank's computer systems are capitalised to the extent that benefits do not relate solely to revenue that already has been brought to account and will contribute to the future earning capacity of the economic entity. The cost of intangible assets is amortised over the economic life on a straight-line basis. The amortisation rate is at 25%. Costs associated with maintaining computer software programs are recognised as an expense when incurred.

(i) Impairment of non-financial asset

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Leases

(i) As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(j) Leases *(Continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The bank does not have leases which contain the amounts expected to be payable by the lessee under residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Bank's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Cash payments for the principal portion of the lease liabilities are presented as cash flows from financing activities. Cash payments for the interest portion are presented as cash flows from operating activities, consistent with presentation of other interest payments. Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities are presented as cash flows from operating activities.

Critical judgements in determining rates for discounting future lease payments

The bank has entered into a lease for its bank operations. Management applied judgment in selecting an appropriate rate to discount the remaining future lease payments when determining lease liabilities under IFRS 16.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of 1 September 2019. The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted cash balance and demand deposits. Demand deposits are short term (mature within 3 months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

(n) Income tax

Under Section 41 of the Development Bank of Solomon Islands Act No. 12 of 2018 the bank is exempted of tax.

(o) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

(p) Share capital

The Bank is 100% owned by the Solomon Islands government, which has infused a total of $55Million as initial capital. Ordinary shares are classified as equity and carried at the Bank's financial statements at par value.

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the period that are declared before the balance sheet date are dealt with in the statement of changes in equity.

(q) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Solomon Islands Dollars, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at half year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

(r) Earnings per share

Basic earnings/loss per share is determined by dividing the profit after tax by the weighted average number of ordinary shares outstanding during the financial period.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Comparatives

Current period ended results are for the period 1 September 2019 to 31 December 2020. There are no comparatives as this is the first year of operations of the bank.

(t) Rounding

Amounts have been rounded to the nearest dollar except where otherwise noted.

3 FINANCIAL RISK MANAGEMENT

The following section discusses the Bank's risk management policies. The measurement of expected credit loss (ECL) under IFRS 9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9.

3.1 Credit Risk

The Bank incurs risk with regard to loans, advances and other receivables due from customers and other monies or investments held with financial institutions. Credit risk is the likelihood of future financial loss resulting from the failure of clients or counter-parties to meet contractual obligations to the Bank as they fall due.

Credit risk is managed by analysing the risk spread across various sectors of the economy and by ensuring risk is diversely spread by personal and commercial customer. Individual exposures are measured using repayment performance, reviews and statistical techniques. Comprehensive credit standards and approval limits have been formulated and approved by the Board. The Board is responsible for the development and implementation of credit policy and loan portfolio review methodology. The Board is the final arbiter of risk management and loan risk concentration.

The Bank has in place processes that identify, assess and control credit risk in relation to the loan portfolio, to assist in determining the appropriateness of provisions for loan impairment. These processes also enable assessments to be made of other classes of assets that may carry an element of credit risk. The Bank assigns quality indicators to its credit exposures to determine the asset quality profile.

3.1.1 Credit Risk Measurement

Loans and advances (incl. loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

Credit risk grading

The Bank uses an internal credit risk grading system as part of its loan appraisal process. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. Once loans are approved, a separate grading system that reflects the Bank's assessment of the probability of default of individual counterparties is used.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

3 **FINANCIAL RISK MANAGEMENT** *(Continued)*

3.1.2 Expected Credit Loss Management

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition, as summarised below:

(i) A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.

(ii) If a significant increase in credit risks ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 3.1.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.

(iii) If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer below for a description of how the Bank defines credit-impaired and default.

(iv) Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

(v) A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information. Note 3.1.2.4 includes an explanation of how the Bank has incorporated this in its ECL models.

The following diagram summarises the impairment requirements under IFRS 9.

Change in credit quality since initial recognition		
Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

3.1.2.1 Significant Increase in Credit Risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- Qualitative Criteria - if the instrument meets one or more of the following criteria:
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

Backstop - A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 and 35 days past due for commercial and retail customers respectively on its contractual payments. The Bank has not used the low credit risk exemption for any financial instrument in the half year ended 31 December 2021.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1.2 Expected Credit Loss Management *(Continued)*

3.1.2.2 Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term for bearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originate data deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

3.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses is the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

(i) The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

(ii) EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

3 **FINANCIAL RISK MANAGEMENT** *(Continued)*

3.1.2 Expected Credit Loss Management *(Continued)*

(iii) Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 3.1.2.4 for an explanation of forward- looking information and its inclusion in ECL calculations.

3.1.2.4 Forward-looking information incorporated in the ECL models

The Bank used statistical models to convert historical PDs into forward looking lifetime PDs. The conversion process looks at the historical relationship between long-term PDs for a particular year and the observed (annual) default rate for the same year (known as the 'Z-factor') and a set of systematic factors for the year. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses which are as follows:

I. GDP Growth (%)

II. Change in Unemployment (%)

III. Change in Equity Index (%)

IV. Change in Energy index (%)

V. Change in Non- Energy Index (%)

VI. Change in Proportion of Downgrades (%)

These are then compared to the expected systematic factors and long-term PDs for a future year to estimate the point in time ("PiT") PDs for that future year. Forecasts of these economic variables (the "base economic scenario") are based on externally available data and provide the best estimate view of the economy over the next five years. Z-factors are estimated for five years based on forecast systematic data and all future years from year 6 are adjusted using Z- factors which diminish in magnitude from the one estimated for year 5.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2021 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		Y1	Y2	Y3	Y4	Y5
GDP Growth (%)	Base	2.9%	3.3%	3.5%	3.5%	3.5%
	Upside	4.2%	3.6%	4.0%	4.0%	4.0%
	Downside	2.7%	3.1%	3.0%	3.0%	3.0%
Change in Unemployment (% total labour force) (%)	Base	0.0%	0.0%	-0.1%	0.0%	0.0%
	Upside	-1.0%	-1.0%	-1.0%	-1.0%	-1.5%
	Downside	1.0%	1.0%	1.0%	1.0%	1.0%

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1.2 Expected Credit Loss Management *(Continued)*

The weightings assigned to each economic scenario at 30 June 2021 were as follows:

Scenario	Base	Upside	Downside
Weight	60.00%	10.00%	30.00%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

3.1.3 Credit Risk Exposure

3.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

	2021			
	Stage 1 12-month ECL **($)**	**Stage 2** Lifetime ECL **($)**	**Stage 3** Lifetime ECL **($)**	**Total ($)**
Credit grade				
Performing	57,316,815	-	-	57,316,815
Under-performing	-	3,685,274	-	3,685,274
Non-performing	-	1,773,360	-	1,773,360
Default	-	-	287,177	287,177
Specific Provision			4,205,065	4,205,065
Gross carrying amount	57,316,815	5,458,634	4,492,241	67,267,690
Loss allowance	578,880	416,732	839,008	1,834,620
Carrying amount	**56,737,935**	**5,041,902**	**3,653,232**	**65,443, 070**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 3.1.2 'Expected credit loss measurement'.

3.1.3.2 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

3 **FINANCIAL RISK MANAGEMENT** *(Continued)*

3.1.2 Expected Credit Loss Management *(Continued)*

i. Mortgages over residential properties;

ii. Charges over investments such as term deposits

iii. Charges over business assets such as premises, inventory and accounts receivable; and

iv. Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure ($)	Impairment allowance ($)	Carrying amount ($)	Fair value of collateral held ($)
Credit-impaired assets				
Loans to individuals:				
• Micro customer	2,953,810	370,582	2,583,229	4,393,411
Loans to corporate entities:				
• Small and medium-sized enterprises & commercial customers	1,538,431	468,427	1,070,004	1,782,090
Total credit-impaired assets	**4,492,241**	**839,008**	**3,653,233**	**6,175,502**

3.1.4 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

(i) Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;

(ii) Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;

(iii) Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

(iv) Impacts on the measurement of ECL due to changes made to models and assumptions;

(v) Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and

(vi) Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.1.2.3, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas are set out in note 3.1.2.

5. INTEREST

	2021 $	2020 $
Interest income	7,385,400	2,332,086
Interest expense	(347,328)	(74,203)
Net interest income	7,038,072	2,257,883

6. FEES AND COMMISSION INCOME

	2021 $	2020 $
Establishment fee	514,214	490,657
Maintenance fee	718,713	220,413
Other fee	462,154	58,132
	1,695,081	769,202

7. PERSONNEL EXPENSES

	2021 $	2020 $
Wages and salaries	1,557,111	687,929
SINPF Contributions	172,342	46,046
HCC Levy	22,254	8,593
Other payroll costs	1,074,776	123,840
	2,826,482	866,408

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

8. OTHER OPERATING EXPENSES	2021 $	2020 $
Pre operating expenses	-	2,992,469
Administrative expenses	5,356,567	1,532,320
Advertising & Promotions	124,834	265,017
Auditor's remuneration – audit fee	349,026	250,000
Travel	199,821	181,035
	6,030,248	**5,220,841**

9. CASH AND CASH EQUIVALENTS	2021 $	2020 $
Cash at Bank	7,629,480	17,314,630
Petty Cash	10,000	10,000
Short term Deposit	4,030,738	-
	11,670,218	**17,324,630**

10. LOANS AND ADVANCES	2021 $	2020 $
Gross loans and advances to customers	67,085,882	55,470,934
Less: Allowances for losses on loan and advance	(1,834,620)	(1,512,999)
Net loans	**65,251,262**	**53,957,935**
Deferred fee income	(1,158,977)	(1,047,293)
Net Loans and Advances after deferred fee income	**64,092,285**	**52,910,642**

Movement in allowances for losses on loan and advances are as follows:

Balance at 31 December 2021		
Provision for loan impairment	1,834,620	1,512,999
Balance at period end	**1,834,620**	**1,512,999**

Composition of allowance for losses on loan and advances are as follows:

Collective provisions	995,612	1,512,999
Specific provisions	839,008	-
	1,834,620	**1,512,999**

There were no write-offs during the period.

11. OTHER ASSETS	2021 $	2020 $
Prepayments	152,910	12,126
Bonds and security deposit	231,720	227,201
	384,630	**239,327**

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

12. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment $	Furniture, Fixtures & Fittings $	Motor Vehicles $	Office Equipment $	Office Improvement $	Total $
Cost						
Deemed cost at 1 September 2019	-	-	-	-	-	-
Additions	2,553,067	354,095	175,130	457,777	358,902	3,898,971
Disposals	-	-	-	-	-	-
Cost at 31 December 2020	**2,553,067**	**354,095**	**175,130**	**457,777**	**358,902**	**3,898,971**
Accumulated depreciation						
Accumulated depreciation at 1 September 2019	-	-	-	-	-	-
Depreciation charge for the period	583,419	82,262	38,625	76,211	67,311	847,828
Disposals	-	-	-	-	-	-
Accumulated depreciation at 31 December 2020	**583,419**	**82,262**	**38,625**	**76,211**	**67,311**	**847,828**
Net carrying amount at 1 September 2019	-	-	-	-	-	-
Net carrying amount at 31 December 2020	**1,969,648**	**271,833**	**136,505**	**381,566**	**291,591**	**3,051,143**
Deemed cost at 31 December 2020	2,553,067	354,095	175,130	457,777	358,902	3,898,971
Additions	315,385	947,906	-	3,120	10,098	1,276,509
Disposals		-	-	-	-	-
Cost at 31 December 2021	2,868,452	1,302,001	175,130	460,897	369,000	5,175,480
Accumulated depreciation						
Accumulated depreciation at 31 December 2020	583,419	82,262	38,625	76,211	67,311	847,828
Depreciation charge for the period	669,162	104,444	43,783	114,837	90,611	1,022,837
Disposals		-	-	-	-	-
Accumulated depreciation at 31 December 2021	1,252,581	186,706	82,408	191,048	157,922	1,870,665
Net carrying amount at 31 December 2020	1,969,648	271,833	136,505	381,566	291,591	3,051,143
Net carrying amount at 31 December 2021	1,615,871	1,115,295	92,722	269,849	211,078	3,304,815

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

13 INTANGIBLE ASSETS

	$
Cost at 31 December 2020	3,120,857
Additions	158,315
Work in Progress	155,526
Cost at 31 December 2021	3,434,698
Amortisation and impairment	
Accumulated Amortization as at 31 December 2020	505,677
Amortisation	784,769
Accumulated amortisation at 31 December 2021	1,290,446
Net carrying amount at 31 December 2020	2,615,180
Net carrying amount at 31 December 2021	2,144,252

Intangible assets relates to the bank's financial, lending and payroll software systems.

14. LEASES

Right of use asset relates to leased assets under IFRS16. The bank leases properties for it operations as disclosed herein.

(a) Right-of-use assets	**2021 $**	**2020 $**
Balance as at 31 December 2020	2,029,284	-
Additions	-	2,611,703
Depreciation charge for the period	(1,305,851)	(582,419)
Balance as at 31 December 2021	723,433	2,029,284

(b) Lease liabilities		
Current	743,756	1,910,752
Non-current	-	743,756
Total lease liabilities	**743,756**	**2,654,508**

Lease liabilities included in the statement of financial position as of period ended 31 December 2021.

The statement of comprehensive income shows the following amounts relating to leases:

	2021 $	**2020 $**
Depreciation charge of right-of-use assets	1,305,851	582,419
Interest expense (included in interest expense)	60,617	42,806

Maturity analysis – contractual undiscounted cash flows	**2021 $**	**2020 $**
Not later than one year	743,756	1,971,370
Later than one year but not later than five years	-	755,270
Total undiscounted lease commitments	**743,756**	**2,726,640**

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

15. TERM DEPOSITS

	2021 $	2020 $
Term deposit- SIG	20,000,000	25,000,000
Term deposit against Customer	100,354	-
Term deposit interest payable	138,082	31,397
	20,238,436	**25,031,397**

The term deposits are from the Government of Solomon Islands and interest is payable at 1.20% per annum.

The Bank paid off $5,000,000 of its loan obligation with the Solomon Islands Government in October 2021. With the payment, the remaining outstanding term deposit of the Bank with SIG is at $20,000,000 that matured in July 2021. A moratorium of twelve (12) months from the date of signing of the final audited was given to the Bank as a form of Financial Support.

The Bank funded an $80,000 for a piggery project in Guadalcanal against a term deposit security of $100,000 in August 2021. The interest payable is at 1% per annum.

16. OTHER LIABILITIES

	Total $	Total $
Statutory liabilities	201,820	39,943
Other payables and accruals	10,739,881	1,775,949
	10,941,700	**1,815,892**

The Bank signed a Concessional Loan Agreement on the 5th of November 2021 with DT New Zealand Pty Ltd for a "no cost" Wholesale Capital to support the underwriting of individual concessional loan to SME of between SBD35,000 and SBD250,000 to qualifying SME Borrowers in the Solomon Islands. The total amount of the Wholesale Capital is NZ400,000 and NZS35,000 to assist in with related programme administration costs giving a consolidated envelope of $435,000. The Wholesale Capital is to be repaid by or at sixty (60) months from the date execution of the Financial Institution Partnership Agreement.

As of the closing of the calendar year 2021, funds have not been released from the Concessional Loan with DT New Zealand Pty Ltd as compliance with the conditions precedent to loan release is yet to be completed by the Development Bank of Solomon Islands.

17. TAXATION

The bank has not made any provision as it is exempted from income tax pursuant to Section 41 of the Development Bank of Solomon Island Act 2018.

18. CAPITAL

The Bank is wholly owned by the Solomon Islands Government, which has injected a total of $55 Million into the Bank as initial capital.

Notes to and Forming Part of the Financial Statements *(cont'd)*

For the 12 Months Period 31 December 2021

19. RELATED PARTY TRANSACTIONS

(a) Directors

(i) Directors' fees and emoluments and key management compensation during the period/year ended:

	2021 $	2020 $
Directors' fees	477,371	188,349
Management salaries, consultancy fees and other short term employee benefits	2,175,493	2,550,744
Total	2,652,864	2,739,093
(ii) Transactions with key management personnel		
Consultancy fees payable to key management personnel	1,568,475	603,093

The consultancy fee amounting to $1,568,475 was paid to ICEO Tukana Bovoro for his services in 2021.

Management include Tukana Bovoro (Interim Chief Executive Officer), Nafitalai Cakacaka (Chief Executive Officer), Jose Antonio C. Magtibay (Manager, Finance and Administration), Stanley Peter Havae (Senior Operations Officer) and Patrick Suti (Relationship Manager).

There were no other transactions with directors.

(b) Shareholders

The transactions with the shareholder are set out in notes 15 and 18 of the financial statements.

20. CONTINGENT LIABILITIES

The Bank has no contingent liabilities as at 31 December 2021.

21. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2021.

22. SUBSEQUENT EVENTS

Apart from those matters disclosed in the notes to the financial statements, the directors are not aware of any other matters or circumstances that has significantly affected the operations of the Bank, the results of those operations or state of affairs of the Bank.

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