

CENTRAL BANK OF SAMOA

ANNUAL REPORT

FOR THE FINANCIAL YEAR JULY 2003 TO 30 JUNE 2004



PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR

7 February 2005

The Hon. Misa Telefoni
Deputy Prime Minister and Minister of Finance
Ministry of Finance
APIA

Dear Deputy Prime Minister and Minister of Finance

I have the honour of submitting the Annual Report of the Central Bank of Samoa, for the financial year July 2003 to 30 June 2004:

- (a) a review of economic performance and policies during the twelve months to end June 2004;
- (b) a report on the Bank's operations during the same period; and
- (c) the Bank's annual accounts for the twelve months ended June 2004 and the auditors' report.

Yours faithfully

(Leasi Papali'i T. Scanlan)
GOVERNOR

CENTRAL BANK BOARD

Leasi Papali'i Tommy D. Scanlan - Governor	-	Chairman
Hinauri Petana - Financial Secretary	-	Director
Lealii'e Rudy Ott	-	Director
Muliagatele Leki MacDonald	-	Director
Norman Wetzell	-	Director



Standing : L-R. Tupa'imatuna Iulai Lavea (*representing the Ministry of Finance*), Norman Wetzell
Sitting : Muliagatele Leki MacDonald, Leasi Papalii T. Scanlan, Lealii'e Rudy Ott
Absent: Ms. Hinauri Petana

MANAGEMENT



Standing: L-R. Iosefo Bourne - *Manager Research & Statistics*, Taveuveu Asora Simanu - *Manager Management Resources*, Malaeoalii S. Pua - *Manager Banking & Corporate Services*, Tootoovao S. Afoa - *Manager Accounting & Budget*.

Sitting: L-R Erna Vaai - *Registrar Offshore Finance Centre*, Filipino M. Penn - *Deputy Governor*, Leasi Papalii T. Scanlan - *Governor*, Atalina Enari - *Manager Financial Markets*.

CONTENTS

	Page
I. Overview	1
II. Central Bank of Samoa - what we do	8
III. Central Bank Structure	9
IV. Board of Directors	10
V. Governance	11
VI. Chronology	12
VII. The Year in Review	15
1. Monetary Policy Formulation	15
2. Monetary Policy Implementation	18
3. Foreign Reserves Management	19
4. Exchange Rates	20
5. Bank Supervision	20
6. Banking and Corporate Services	24
7. Currency	27
8. Staff Development	29
9. Financial Performance	30
VIII. Contents of the Financial Statements	31
IX. Offshore Finance Centre	39

I. OVERVIEW

1. A SNAP SHOT:

This Annual Report covers the operations and activities of the Central Bank for the financial year July 2003 to June 2004. It is the first such Annual Report to cover the full fiscal year (July-June) following the previous Annual Report which covered the eighteen months to 30 June 2003. The latter incorporated the transitional first six months of the calendar year 2003 when the financial year of the Central Bank was changed from the calendar year (January-December) to the fiscal year (June-July) under the Central Bank of Samoa Amendment Act 2001.

As in the recent Annual Reports, this Annual Report is focused more on explaining the operation and activities of the Central Bank during the twelve months to June 2004 and less emphasis on the detailed economic analysis. More details on the country's economic performance and developments are covered in other publications of the Central Bank, most of which are compiled and published on a monthly basis.

Activities in the Samoan economy during the year under review were influenced by both external and domestic factors.

Global economic growth took a firmer footing as actual real growth rates overshot forecast figures. The world economy grew in real terms by 4.3 percent in the fiscal year 2003/04 compared to the forecast 3.7 percent. Inflation, on the other hand, registered at the expected rate of 1.8 percent.



Apia Beach Road - Pulu trees uprooted by Cyclone Heta

For the Samoan economy in the fiscal year 2003/04, monetary policy set out to accommodate fiscal policy in generating real economic growth especially following the onslaught of Cyclone Heta in January 2004. A comfortable level of international reserves and the realization that a steep rise in domestic prices, was unavoidable following Cyclone Heta, supported this policy stance. In the event, the level of banks' excess reserves increased. This resulted in lowering the level of official interest rates and therefore the commercial banks' interest rates. In addition to the reduction in interest rates, further easing of foreign exchange controls on capital transactions saw credit to the private sector rise in 2003/04.

Overall, the macro economic results for 2003/04 turned out reasonably positive, despite the adverse impact of Cyclone Heta in the second half of the financial year and the continued strong rise in international petroleum prices. The latest estimate put real domestic economic growth for the fiscal year 2003/04 at 1.7 percent and international reserves at over 4 months of imports of goods. On the other hand, the annual rate of inflation rose, reaching 7.9 percent at the end of June 2004, consequent of the shortages in local food supplies and increased petroleum prices.



Road repair at Luatuanuu after Cyclone Heta

The Government Budget for 2003/04 projected an expansionary fiscal policy stance with an overall budget deficit of \$14.1 million in 2003/04. The overall deficit reflected a \$23.3 million, or 7.5 percent expansion in total expenditures, partially offset by a \$22.0 million or 9.6 percent increase in total domestic revenues and grants from abroad. On

the expenditure side, current expenditures rose \$5.8 million or 3 percent, development outlays increased \$6.6 million and a further investment in the national flag carrier Polynesian Airlines saw the net contributions to statutory bodies and government corporations rise \$10.9 million or 55 percent.

Actual figures on Government's financial operations during the fiscal year 2003/04 are not yet available. However, there was an actual overall deficit of \$17.6 million in Government's financial operations vis-à-vis the monetary system in the fiscal year under review compared with a \$6.2 million surplus in the year before.

2. MONETARY POLICY AND CONDITIONS IN 2003/04:

Despite an expansionary budget, in view of the need to promote economic activities, especially given the slow growth in the previous year an accommodative monetary policy stance was pursued for 2003/04. This was achieved by maintaining, on average, a higher level of commercial banks excess reserves than in the previous year. In 2003/04, therefore, the monthly average level of excess reserves of the commercial banks was increased 75 percent to \$21.5 million. This saw the yields on the main monetary policy instrument, the Central Bank securities, falling during the year. In particular, the 91 days benchmark yield fell from 5.46 percent in 2002/03 to 4.94 percent in 2003/04.

In line with the downward trend in official interest rates, the weighted average deposits and lending rates of the commercial banks also fell, by 2 percentage points to 4.48 percent and 3 percentage points to 11.29 percent respectively.

Early in the second half of the financial year, however, Cyclone Heta struck Samoa causing significant damage to agricultural production, infrastructure, communication facilities, homes and some buildings. Consequently, inflation accelerated sharply due to shortages in local food supplies. This created a dilemma whereby monetary policy would need to be tightened to stem the surge in inflation. However, it was felt that a tightening policy was not

appropriate since efforts needed to be focused more on rehabilitation and reconstruction of damages caused by the Cyclone. In the event, monetary policy (as well as fiscal policy) remained eased in the second half of the fiscal year.



Family home damaged by Cyclone Heta

In July 2003, the national airline borrowed some \$10 million from the commercial banks, backed by Government Guarantee, to meet its contractual obligations for the early return of one of its two large aircrafts. With the approval of the 2003/04 Government Budget, this loan was fully repaid by November 2003, easing pressure on the commercial banks liquidity position.

With international reserves at a comfortable level, foreign exchange regulations governing lending to overseas residents were relaxed in May 2004, to allow the commercial banks to lend to the overseas branches of some local companies. These loans totaled \$19.6 million and were for terms ranging from six months to five years.

The reduction in lending rates, the borrowing by the national airline and further relaxation of foreign exchange regulations saw total commercial bank credit to the private sector and public enterprises combined expand 11 percent to \$369.5 million in 2003/04 on an end year on end year basis. This, together with an overall net inflow of liquidity from abroad, saw money supply (M2) grow 13 percent in 2003/04 on an end year on end year basis.

On exchange rate policy, the Central Bank remained focused on ensuring that exports remained

competitive whilst imported inflation was minimized. In the fiscal year 2003/04, the Tala appreciated by 1.17 percent in nominal terms against the currencies of Samoa's main trading partners and appreciated in real terms by 1.86 percent. This real appreciation of the Tala was due mainly to Samoa's higher rate of inflation, particularly following Cyclone Heta in January 2004, compared with her major trading partners.

Against the above economic and policy background, there was an overall positive outturn for the economy in fiscal year 2003/04.

3. **MACRO-ECONOMIC PERFORMANCE IN 2003/04:**

Estimates showed that the economy grew 1.7 percent in fiscal year 2003/04, down from 2.9 percent and 3.2 percent in each of the two preceding years. The slow growth in 2003/04 reflected a 4 percent decline in agricultural output particularly in the second half of the financial year due to Cyclone Heta. The overall level of supplies of agricultural produce to the Fugalei Market declined 12 percent pushing up produce prices to record levels. The "fishing" industry continued to decline with real output down by 11 percent. "Commerce" and "Other Manufacturing" sectors also declined.



Afega Primary School

On the positive side, real economic growth came from the other sectors particularly "Construction". The "Construction" industry grew in real terms by 10 percent. Activity in this sector was boosted by major projects such as the new SamoaTel building, Aggie Grey's Faleolo Resort, new school buildings,

roads and bridges and the repair and reconstruction of infrastructure that was damaged by Cyclone Heta. In fact, construction activity was so strong that imports of construction materials surged \$10 million to \$59.3 million in 2003/04.



Aggie Grey's Faleolo Resort under construction

The annual inflation rate continued its downward trend in the first half of 2003/04 before reversing upwards steeply in the latter half as shocks (Cyclone Heta) to the supply side of the Samoan economy dictated the movement of prices in the unfolding months of 2004. Local food prices, which stabilized in the first half after rising strongly in the fiscal year 2002/03, skyrocketed in the latter half of the financial year under review following the devastation of agricultural production by Heta. Supplies of taro and taamu diminished while those of taro palagi, banana and breadfruit virtually disappeared two months after the Cyclone resulting in their prices surging to record



Fugalei Agricultural Market - rebound in supplies

levels. Also impacting strongly on the movement of overall prices was the upward spiraling of international oil prices, which in turn passed through to adversely jack up local transportation costs.

Consequently, the annual rate of inflation, which decelerated consistently in the first half down to 0.1 percent at the end of December 2003, escalated sharply in the second half reaching 7.9 percent at the end of June 2004.

In the public sector, the larger than expected overall fiscal deficit reflected the increased expenditures for rehabilitation and reconstruction of infrastructure, buildings and communication facilities as well as a reduction in revenue collections following the onslaught of Cyclone Heta in January 2004. The excess, however, was manageable and was well within Government's financial capability.

On the external sector, the balance of payments recorded an overall surplus of \$7 million in 2003/04 in contrast to an overall deficit of \$17 million in 2002/03. The surplus was mainly due to a large reduction in the current account deficit following strong growths in private remittances and tourism earnings.



Nonu fruit, a promising export product

The merchandise trade deficit, on the other hand, widened slightly by 1 percent as a result of a 0.4 percent (\$1.6 million) increase in imports and a 1 percent (\$0.5 million) decline in export earnings. Imports totalled \$425.3 million. The small increase in imports was the result of an 8 percent (\$4.5 million) jump in petroleum imports, partially offset by a drop in Government imports (down \$5.8 million) and non-petroleum private sector imports (down \$2.9 million). Total export earnings in 2003/04 registered \$40.8 million which was lower than \$41.3 million in the previous year due to shortfalls in supplies. The largest fall in export earnings was for fresh fish

exports. Widespread damage by Cyclone Heta saw disruption to the production of coconut oil, coconut cream, banana and vegetables. The desiccated coconut factory at Vaitele was closed during much of the year as efforts were directed to building a new factory. These falls were partially offset by significant increases in earnings from garment, nonu juice and taro as well as improvements in nonu fruit and beer export revenues.



Fugalei Agricultural Market - rebound in supplies

There was no significant change in the direction of exports in 2003/04. The source of imports, on the other hand, continued to change in 2003/04 with estimates showing that the volume of imports from New Zealand and Australia fell further in 2003/04, largely reflecting the appreciation in the value of the Kiwi and Aussie dollars. The weakening of the Greenback and the sourcing of petroleum supplies from Singapore saw the volume of imports from the US and Asia expanding in 2003/04.

In contrast to the slide in export revenues, earnings from tourism rose 16 percent (up \$24.2 million) to \$178.8 million in 2003/04 due to a 26 percent surge in tourist arrivals. The year 2003/04 marked another promising period for the tourism industry as Samoa played host to several regional and international meetings. Visitors from Australia grew 26 percent and those from New Zealand and American Samoa went up 24 percent and 19 percent respectively.

Private remittances, another large credit item in the balance of payments, increased 12 percent (up \$21.8 million) to \$206.1 million in 2003/04 as global economic conditions began to improve. The bulk of the increase came from the US, New Zealand, Australia and American Samoa.

Following the deregulation of monetary controls in 1998, the Central Bank has continued to strengthen its prudential supervisory regime in order to maintain and promote a sound and innovative financial system. The banking sector continued to be strongly capitalized in 2003/04 as it maintained a capital ratio of 24 percent, which is well above the Central Bank's minimum requirement of 15 percent. Total assets and liabilities grew 13 percent and 14 percent respectively, and were attributed to the steady increase in loans and advances against a relatively faster rise in deposits. Loans to deposits ratio stood at 89.6 percent at end June 2004, down from 90.2 percent a year earlier. Compared to the preceding year, the pressures from non-performing loans which reached \$17 million (equivalent to 5 percent of total loans and advances) eased as liquid assets (which account for 20 percent of total deposit liabilities) doubled to \$70 million at the end of June 2004. Nevertheless, the level of non-performing loans was high and banks have undertaken remedial measures to address this issue.

4. LOOKING AHEAD:

The outlook for the world economy appears promising as the largest economy in the world - the US economy - rides on a path of strong recovery. This is expected to be the catalyst for growth in the other regions of the world. Australia and New Zealand economies are also expected to perform well in 2004/05. The IMF forecast world growth at 3.3 percent and world inflation at 1.4 percent for 2004/05.



Construction of new sports complex at Tuanaimato

For the Samoan economy, fiscal policy is again focused on boosting real economic growth in the financial year 2004/05. Growth is expected to be led by the booming construction sector, large inflows of foreign aid, increased private remittances and a further expansion in the tourism sector. With the expected recovery in the world economy, the balance of payments is forecast to generate an overall surplus despite the anticipated sharp rise in imports of goods and services. Headline inflation, on the other hand, will continue to feel the aftermath of Cyclone Heta and is forecast to rise to about 17 percent in December 2004 before eventually declining to 8 percent at the end of the financial year. However, the underlying rate of inflation is expected to register at around 2 to 3 percent on an end-year on end-year basis by June 2005.

Overall, the macro economic outlook for the fiscal year to end June 2005 appears favourable. With growth in 2003/04 being low, monetary policy is again focused on supporting fiscal policy in boosting real economic growth in 2004/05. In pursuing this monetary policy stance, interest rates are expected to remain or fall further from their current levels. This should see the annual level of commercial bank credit to the private sector increase by 13 percent and money supply (M2) to rise 9 percent. In the event, the economy is expected to grow by about 3 percent (in real terms) in the 2004/05 financial year.

Government has recognized, in its development strategy, the need to focus on Tourism as an important industry in expanding its economic base. Tourism has the potential for generating positive and strong linkages with the other sectors of the economy, especially in the creation of employment opportunities that will lead to providing income particularly to the rural areas. The industry also has the potential to maintain its role as the major foreign exchange earner for the country. Whilst, the completion of the first phase of Aggie Grey's Faleolo Resort is scheduled in the middle of 2005, there is a strong possibility of two other substantial hotel developments commencing construction in the next year.



New Treasure Garden Hotel, Apia

In addition, the completion of the SamoaTel building complex by the end of 2004 plus other related capital works will certainly improve telecommunication



New SamoaTel Headquarter at Maluafoa

under Japanese Government assistance have been completed. The wharf will provide adequate berthing space for the increasing number of visiting cargo and cruise ships.



Apia Wharf Upgraded

Samoa will host the next South Pacific Games in 2007 and substantial new sporting facilities are in the pipeline for construction during the next three years. Also, the construction of the new five storey Headquarters for the Development Bank is expected to commence in the current financial year. These construction projects will continue to provide increased employment as well as other development activities for the domestic economy.



Site for the new DBS Building Headquarters

The supervision of the non bank financial institutions added more challenges to the work of the Central Bank. Satisfactory progress, however, has been achieved in this direction. Whereas the Prudential Guidelines for the National Provident Fund and the Development Bank have been approved by the Central Bank Board in June 2003, the licensing and supervision of the insurance sector by the Central Bank will be covered under a proposed new Insurance legislation.

To comply with strong and unrelenting international initiatives to fight against transnational crime, particularly money laundering and the financing of terrorism, Samoa has already put in place the necessary legislative, enforcement and prosecutorial framework. These relate to enhancing the anti money laundering law, and the drafting of an insurance bill, the proceeds of crime bill and mutual assistance in criminal matters bill. In addition, Samoa has taken substantial steps towards adopting the Financial Action Task Force (FATF) Revised 40+9 Recommendations on the Prevention of Money Laundering and the Suppression of Terrorism Financing.

The Central Bank is tasked with the carrying out of the functions of the Money Laundering Prevention Authority (MLPA) as stipulated under the Money Laundering Prevention Act 2000. A Financial Intelligence Unit (FIU) has already been established within the Central Bank as a critical element in the global gathering, coordination and sharing of financial surveillance information on transnational crime. In the meantime, all these additional functions have been absorbed by existing staff of the Central Bank without recourse to recruiting new employees.

During the period under review, the Central Bank worked hard to improve its services to the general public. The quality of currency notes in circulation has greatly improved as a result of the Central Bank's public awareness program in the past three years. However, counterfeit notes (though few in numbers) are detected occasionally. To counter this concern, more security features have been added to the new order of banknotes to be issued in early 2005.



Apia Township, August 2004

II. CENTRAL BANK OF SAMOA - WHAT WE DO

The Central Bank of Samoa is the nation's Reserve Bank and, as such, it acts as banker to the Government and the commercial banks.

Pursuant to its mandate under the Central Bank of Samoa Act 1984, the Financial Institutions Act 1996 and the Money Laundering Prevention Act 2000, the Central Bank has the following main functions:

- regulating the issue, supply, availability and international exchange of money;
- advising the Government on banking and monetary matters;
- promoting internal and external monetary stability;
- promoting a sound financial structure;
- promoting credit and exchange conditions conducive to the orderly and balanced economic development of Samoa;
- supervising and regulating banking business and the extension of credit; and
- implementing counter measures against money laundering such as to deter, detect and criminalise money laundering activities.

The Central Bank undertakes the formulation and implementation of monetary policy and related measures, which include open market operations in Central Bank Securities, to influence the level of interest rates and the availability of credit in the financial system.

It is also responsible for the management of the rate at which Samoa's Tala is exchanged with currencies of other countries and, when necessary, administers exchange control measures with regard to monitoring foreign currency transactions.

The Central Bank, in addition, is responsible for the custody and management of Samoa's reserves of international currencies for the payment of goods and services.

The issue of currency notes and coins to meet the needs of the business community and the general public is another crucial role for which the Central Bank is widely known.

As fiscal agent of Government, the Central Bank undertakes, when required, the issue and administration of Treasury Bills and other Government securities. Moreover, it issues its own Central Bank Securities to the commercial banks and non-banks and maintains a registry service and rediscount facilities.

The Central Bank is responsible for the registration and prudential supervision of commercial banks. It also acts as banker for the commercial banks, provides a facility for the clearing and settlement of inter-bank payments, and is also custodian of the commercial banks' statutory minimum cash reserves.

The Financial Institutions Act 1996 appointed the Central Bank as the authority that issues licenses to financial institutions and, shall undertake the prudential supervision of licensed financial institutions. Following the 2001 amendments of the Financial Institutions Act, the Bank's supervisory role has been extended to non bank financial institutions such as the Samoa National Provident Fund and the Development Bank of Samoa.

The Money Laundering Prevention Act 2000 also mandates the Central Bank of Samoa as the Money Laundering Prevention Authority. Under the Act, a Financial Intelligence Unit has been established in the Central Bank. As such, the Central Bank collects information on suspicious transactions and undertakes further scrutiny of any information suggesting money laundering taking place.

At the end of June 2004, the Central Bank employed a total of 90 staff. The Bank's organization structure is provided later in this Report and is divided into six main Departments based on their operational functions.

III. CENTRAL BANK STRUCTURE

In the period under review, the structure of the Bank follows closely that provided under its second Corporate Plan for the years 2003-2005 which stipulates the Bank's functional long-term strategies in attaining the major targets and objectives in 2003-2005.

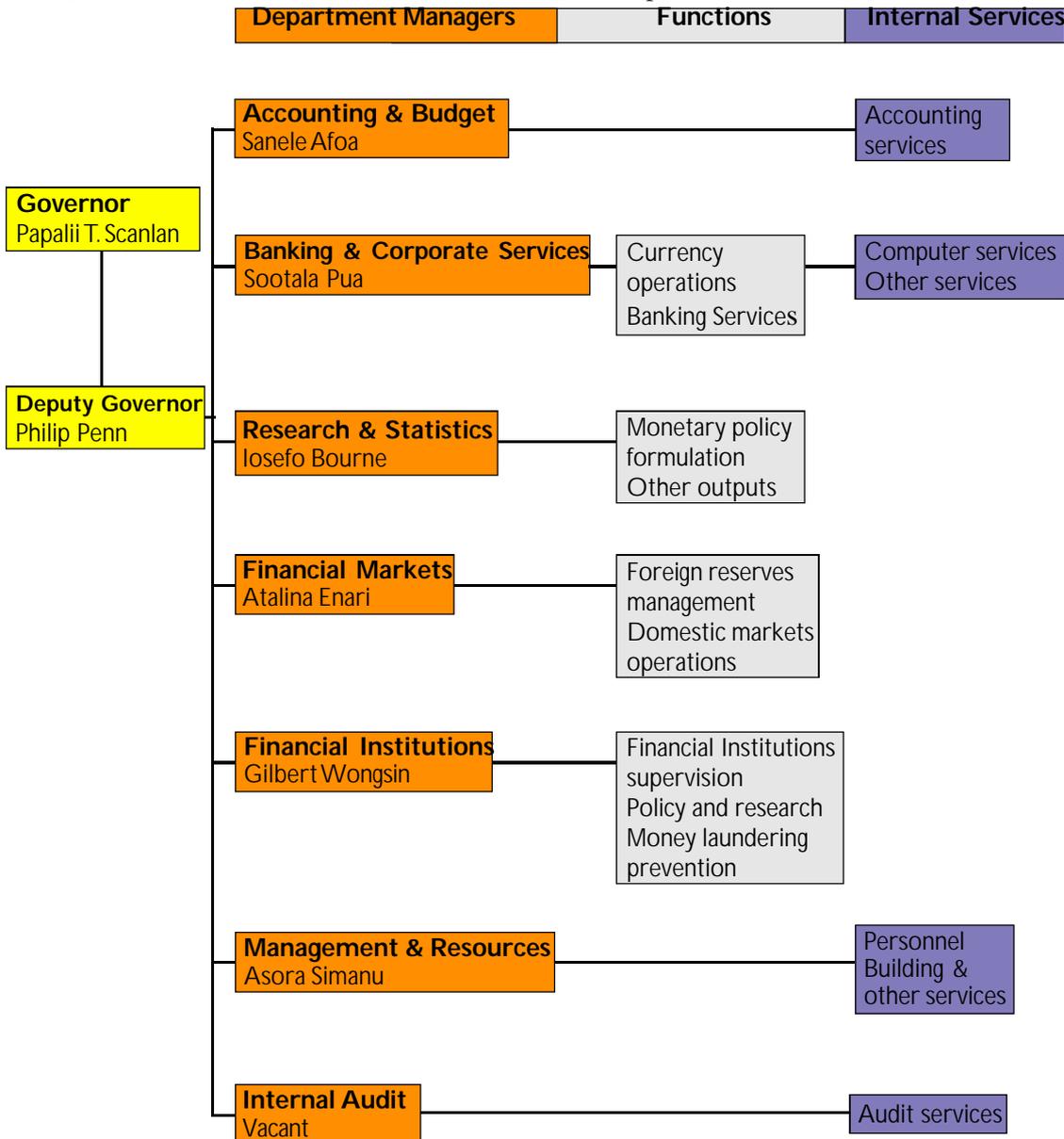
The following Chart "Central Bank Structure" gives the organizational structure of the Central Bank at the end of June 2004.

The organizational structure consists of six (6) Departments divided into two (2) functional groups. Specific responsibilities for each group are highlighted in the following text of this Annual Report.

There were minor changes which took place throughout the year, with staff movements through

new appointments and resignations while the hierarchical structure remained the same. However, the positions of the Secretary to the Bank and the Internal Auditor which became vacant since February and August 2002 respectively have not been filled. In the meantime, the duties of the Secretary to the Bank are mostly absorbed by the Deputy Governor. The position of the Internal Auditor was reassessed on a cost effective basis and outsourcing it to the private sector was the agreed option. Tenders were invited from the local auditors but due to concerns like inadequate staff capacity and conflict of interest, a decision on this post has been put on hold for the time being.

Staff changes and developments are being elaborated on, under the Section "Staff Development" of this Report.



IV. BOARD OF DIRECTORS

The Board of Directors of the Central Bank is responsible for the policy and the general administration of the Central Bank. Moreover, the Board may exercise any of its powers under the Central Bank of Samoa Act 1984; it may make by-laws for the conduct of its business, and can issue directives for the purpose of effecting the provisions of the Act and other related legislations.

The Members of the Board are appointed by the Head of State, acting upon the advice of Cabinet. Following important amendments to the Central Bank Act on 6 September 2001, the Board comprises of the Governor of the Central Bank, who is the Chairman of the Board, the Financial Secretary and three other independent Board members, who are citizens of Samoa. They include one or more persons having industrial, commercial or agricultural experience.

The Act stipulates that the Governor shall serve as the Chief Executive of the Bank, and is responsible for the execution of the Bank's policies and for the efficient management of the Bank. In doing so, the Chief Executive must follow any general or special directions given to him by the Board.

The composition of the Board remained the same during the year under review. The Governor of the Central Bank, Leasi Papalii Tommy Scanlan, and the Chief Executive Officer of the Ministry of Finance (Ms Hinauri Petana) who together with other independent Members, Lealiiee Rudy Ott, Muliagatele Leki Macdonald and Norman Wetzell complete the membership of the Board.

The Board, as a whole, met on seven occasions during the twelve months to the end of June 2004.

V. GOVERNANCE

Management has continued to perform periodic reviews and surveys of the most critical areas of the Bank to ensure that risks are controlled and mitigated.

Fundamental in these on-going reviews is the tendency to strengthen its internal control system and ensure that the Bank is efficiently run, morally sound, technologically advanced, and safe from unnecessary risk.

A close monitoring of both the Corporate Plan 2003-05 and the Output budget is undertaken every month. The focus here is on delivering results and implementing preventive actions, rather than simply uncovering problems after the fact.

In addition, during the twelve months to end June 2004, Management continued to provide a wide assessment of the risks as well as appropriate compliance review to provide a mechanism for further process improvement in the system of internal control. These include:

- * Reliability and integrity of information
- * Compliance with policies, plans, procedures, laws, and regulations
- * Safeguarding of assets, and
- * Accomplishment of established objectives and goals for operations or programs.

As part of its role, Management will continue to provide a plan to address key governance issues which are fundamental to achieving and maintaining an effective and an efficient Central Bank.



Governor's Department Staff

VI. CHRONOLOGY

CHRONOLOGY OF MONETARY POLICY AND MONETARY CONDITIONS SINCE THE DEREGULATION OF THE FINANCIAL SYSTEM IN 1998

1998:

- January: Liberalization of the financial system commenced with the elimination of direct controls on credit ceilings and interest rates of the commercial banks. Auction of Central Bank Securities was adopted as an indirect monetary instrument. Minimum liquid assets requirement was redefined to be equivalent to 20 percent of private sector deposits.
- February: The minimum liquid assets -requirement for the commercial banks was reduced by 1 percentage point per month until completely eliminated.
- June: Technical adjustment to the commercial banks' statutory reserve ratio, reducing it to 4.8 percent from 5.0 percent.
- August: Exchange Control Regulations 1999 became effective which, among other things, allowed the licensing of foreign exchange dealers.
- September: Issued guidelines for foreign currency exposures of the commercial banks.
- November: Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.

2000:

- May: The 1998/1999 Government Budget projected a cash surplus of \$1.9 million and an overall deficit of \$11.4 million, equivalent to less than 1 percent of GDP.
- June: Allowed commercial banks to engage in forward contracts with clients in the buying and selling of foreign exchange.
- September: The Central Bank published the first series of commercial banks' interest rates, fees and charges.
- November: Annual Exporters of the Year Awards in which the Central Bank participated as one of the major sponsors.
- February: The Bank's Accounting computer software system became operational.
- May: (a) Government launched its third Statement of Economic Strategy for 2000 and 2001.
(b) The 2000/2001 Government Budget projected a cash surplus of \$0.5 million and an overall deficit of \$40.4 million, equivalent to 3.6 percent of GDP.
- June: Enacted the Money Laundering Prevention Act 2000.

1999:

- January: The one percent Government levy on the purchase of foreign exchange was abolished.
- May: The 1999/2000 Government Budget projected a cash surplus of \$1.7 million and an overall deficit of \$34.1 million, equivalent to 3 percent of GDP.
- July: Further relaxation of the remaining exchange control requirements on current payments.
- October: (a) The Central Bank hosted the Pacific Regional Central Bank Seminar on "Central Bank Balance Sheet in a Liberalised Financial System".
(b) The Central Bank conducted a Seminar on Money Laundering for all the interested stakeholders of the

	financial system.		
November:	Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.		year) of the Central Bank to be the same as the fiscal year (July-June) of Government; (ii) re designate the titles of the Members of the Board as Board of Directors; (iii) re designate the title of the Chief Executive of the Bank as Governor; and (iv) appoint the Governor as Chairman of the Board.
December:	(a) Celebrated the 25th Anniversary of the Central Bank as the monetary authority.		(b) Relaxed the limits on the sale of foreign exchange (up to \$7,000) and the remittance of foreign exchange (up to \$80,000) specifically for the payment of imports by authorized foreign exchange dealers.
	(b) Launched the Central Bank 25th Anniversary Book		
	(c) Launched the Central Bank Corporate Plan 2001-2002.		
	(d) Launched the Central Bank website cbs.gov.ws	September	In view of the after effects of the terrorist attacks on the US on the global economy, the Central Bank's accommodative monetary policy stance was maintained so as to support economic growth and export capacity.
	(e)The 2000/2001 First Supplementary budget projected a cash surplus of \$0.4 million and an overall deficit of \$44.5 million.		
2001		December	Launching of the first Central Bank Monetary Policy Statement for the financial year 2001/2002.
January	The Financial Institutions Act 1996 was amended to enable the prudential supervision of non bank financial institutions.	2002	
		May:	The 2002/2003 Government Budget projected a cash surplus of \$0.3 million and an overall deficit of \$31.9 million, equivalent to 1.9 percent of GDP.
February	(a) Samoa hosted the IMF/PFTAC Conference on Financial Sector Stability and Development: The Case of the Pacific Island Countries, 20-21 February 2001. (b) Asia Pacific Group on Money Laundering conducted a mutual evaluation of Samoa's jurisdiction.	August :	Public Awareness TV Programs on Damaged Currency Notes and Counterfeit Currency Notes.
		September:	(a) IMF Assessment of the Regulation and Supervision of Financial Services.
May	(a) The 2001/2002 Government Budget projected a cash surplus of \$0.5 million and an overall deficit of \$39.0 million, equivalent to 2.9 percent of GDP.		(b) Public Awareness TV Program on the Government Export Guarantee Scheme.
August	(a) The Central Bank of Samoa Act 1984 (principle Act) was amended to (i) change the financial year (calendar		(c) Issued the second Central Bank Monetary Policy Statement for the financial year 2002/2003.

November: Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.

2003

March: IMF Article IV Consultations.

Mar-Apr: Onsite inspections of the commercial banks were carried out for the first time.

April: Samoa Commercial Bank Limited, the fourth commercial bank, commenced operation.

May: The 2003/2004 Government Budget projected a cash surplus of \$0.1 million and an overall deficit of \$28.5 million, equivalent to 1.5 percent of GDP.

June: Published the second CBS Corporate Plan for 2003-2005.

September: Issued the third Central Bank Monetary Policy Statement for the financial year 2003/2004.

2004

January: (i) Cyclone Heta struck Samoa.

(ii) Eased monetary policy by increasing commercial banks' levels of available funds for lending.

May: (i) Relaxed foreign exchange controls governing lending to non residents.

(ii) The 2004/2005 Government Budget projected a cash surplus of \$0.04 million and an overall deficit of \$22.4 million, equivalent to 1 percent of GDP.

(iii) CBS Prudential Guidelines for the National Provident Fund and Development Bank became effective.

VII. THE YEAR IN REVIEW

1. MONETARY POLICY FORMULATION

The Research and Statistics Department is responsible for advice on monetary policy formulation. In the course of carrying out this core function of the Bank, the Department collects, reviews and reports on the latest developments in the domestic economy and compiles forecasts of macro economic developments twelve months ahead. Since Government operations have a dominant impact on the domestic economy, monetary policy reviews are timed to coincide with the approval of the Government Budget for the next fiscal year.

In the second half of 2003/04, the Statistical Services Division of the Ministry of Finance compiled and released an underlying Consumer Price Index as a core measure of inflation using the exclusion principle. This measure resulted in the removal of 49 percent of the items from the consumer price basket. Because the items being removed represented almost half of the CPI, the Central Bank was concerned that it would not be acceptable by the general public as a credible target for monetary policy. The Central Bank then began to explore other measures of core inflation, particularly the "trimmed mean" measure to find one that would be most appropriate for monetary policy in Samoa. This research is continuing.



CBS training by IMF PFTAC Expert

1.1 MONETARY POLICY AND CONDITIONS IN 2003/04

At the start of the financial year 2003/04, with inflation expected to decline, both fiscal and monetary policies focused on generating real growth of the economy. Although the level of international reserves was

expected to fall, it was not too much of a concern since it was still expected to remain above the minimum required level of 4.0 months import cover.



Vaimoso Primary School

The Government Budget for 2003/04 projected an expansionary fiscal policy stance with an overall budget deficit of \$14.1 million. Actual figures on Government's financial operations during fiscal year **2003/04 are not yet available**. However, it is known that there was an actual overall deficit of \$17.6 million in Government's financial position vis-à-vis the monetary system in the fiscal year under review compared with a \$6.2 million surplus the year before. The larger than expected overall fiscal deficit reflected the increased expenditures for rehabilitation and reconstruction of infrastructure, buildings and communications facilities as well as a reduction in revenue collections following the onslaught of Cyclone Heta in January 2004. The excess, however, was manageable and was well within Government's financial capability.



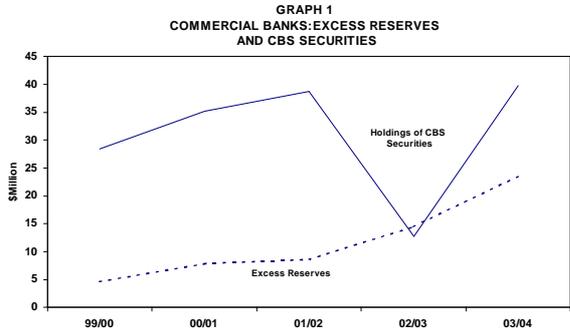
Apia Wharf extension allows more berthing space for large vessels

Early in the second half of the year, cyclone Heta struck Samoa causing significant damage to agricultural production, infrastructure, communications facilities, homes and some buildings. Consequently, inflation was forecast to accelerate sharply due to the impending shortages in local food supplies. This created a dilemma whereby macro-economic policies would need to be tightened to stem inflation. However, it was felt that tightening policies, particularly monetary policy, was not the appropriate stance to take since efforts needed to be focused on rehabilitation and reconstruction of damages caused by the cyclone. Therefore both fiscal and monetary policies remained eased in the second half of the fiscal year.



Cleaning of debris following Cyclone Heta

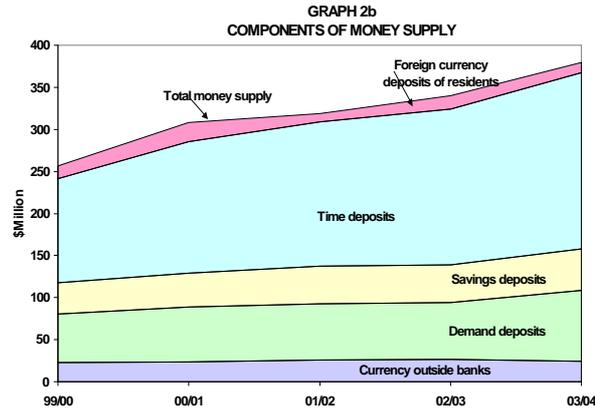
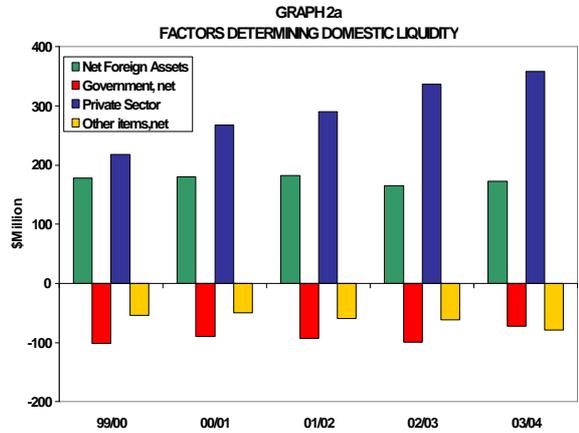
In line with the Bank's accommodative monetary policy stance, the level of excess reserves for the commercial banks increased 63 percent to \$23.6 million. (See Graph 1.) This saw the yields on the



main policy instruments, Central Bank securities, falling during the year. In particular, the 91-days benchmark yield, fell 52 points from 5.46 percent in 2002/03 to 4.94 percent 2003/04. And in line with the downward trend in official interest rates, the weighted average deposits and lending interest

rates of the commercial banks also fell to 4.48 percent and 11.29 percent respectively.

With international reserves at a comfortable level, the foreign exchange regulations governing lending to overseas residents was relaxed in May 2004, to allow the commercial banks to lend to the overseas branches of local companies. These loans totaled \$19.6 million and were for terms ranging from six (6) months to five (5) years. This saw the assets composition of the commercial banks changing dramatically with net foreign assets declining to negative levels while domestic credit to the private sector expanded substantially starting in May 2004. The reduction in lending rates, the borrowing by national airline and further relaxation of foreign exchange regulations saw total commercial bank credit to the private sector and public enterprises combined expand 11 percent to \$369.5 million in 2003/04 on an end-year on end-year basis. This, together with an overall net inflow of liquidity from abroad saw money supply (M2) expand 13 percent. (See Graphs 2a and 2b.)



Despite the onslaught of Cyclone Heta in January 2004, there was an overall positive outturn for the economy in fiscal year 2003/04. (See Table 1.)

Table 1 Selected Economic Indicators					
Fiscal Year to end June	99/00	00/01	01/02	02/03	03/04
Monetary Aggregates					
(Tala Million; end period)					
Net Foreign Assets	178.56	179.93	182.19	165.46	172.13
Government, net	-101.50	-89.54	-93.02	-99.21	-72.67
Private sector (1)	218.37	267.76	289.98	336.32	358.51
Other items, net	-54.27	-49.88	-59.93	-62.14	-78.89
Money Supply (M2)	256.60	308.27	319.22	340.43	379.59
Currency (2)	22.56	23.34	26.05	26.21	24.43
Demand deposits	58.04	65.33	66.24	67.62	84.20
Savings deposits	36.54	40.37	45.46	45.51	49.38
Time deposits	124.02	156.56	171.37	184.76	209.35
Foreign currency deposits (3)	15.44	22.67	10.10	16.33	12.23
Commercial Banks					
Excess Reserves	4.59	7.85	8.60	14.50	23.58
Holdings of CBS Securities	28.37	35.15	38.69	12.73	39.71
Annual rate of inflation (percent)	-0.1	1.9	7.4	4.3	7.9
Gross Domestic Product					
(During period)					
Nominal (Tala million)	718.3	801.4	860.2	912.4	963.3
Real (Tala million)	791.5	852.5	879.5	904.8	920.4
Average GDP deflator (2002=100)	90.8	94.1	97.9	100.8	103.9
Nominal Annual growth rate (percent)	7.3	11.6	7.3	6.1	5.6
Real Annual growth rate (percent)	4.2	7.7	3.2	2.9	1.7
Balance of Payments					
(Tala Million; during period)					
Exports (f.o.b)	53.2	49.9	49.7	41.3	40.8
Imports (c.i.f)	-314.2	-412.9	-465.0	-423.7	-425.3
Travel, net	116.9	135.0	137.6	144.6	165.0
Private remittances, net	130.4	153.8	175.5	184.4	207.2
Government transfers, net	41.3	68.0	77.0	71.2	67.0
Government capital, net	-5.2	-2.8	11.6	4.7	13.2
All other items, net	-21.0	10.5	16.0	-39.3	-61.3
Overall balance	1.4	1.4	2.3	-16.7	6.7
Net Foreign Assets					
(End period)					
Months of imports of goods	6.8	5.2	4.7	4.7	4.9

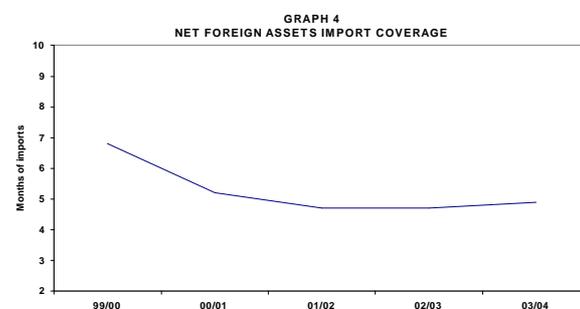
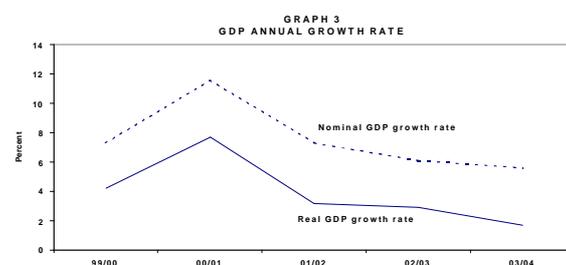
(1) Includes non-monetary financial institutions and non-financial public enterprises.
 (2) Currency outside banks.
 (3) Foreign currency deposits of residents.

Actual national accounts figures and Central Bank estimates showed that the economy grew 1.7 percent in the fiscal year under review. (See Graph 3.) The slow growth largely reflected a decline in agricultural output particularly in the second half of the financial year due to the devastating impact of Cyclone Heta on plantations around the country and the continued decline in the output of the fishing industry. These



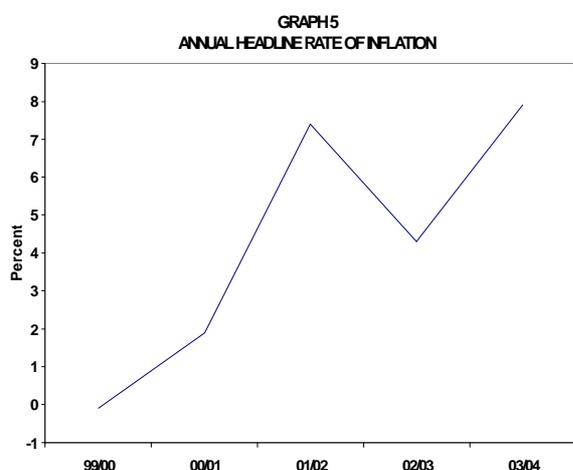
Idle fishing boats

were mainly offset by an upswing in construction activity, which was boosted by some major projects such as the new SamoaTel building, Aggie Grey's Faleolo Resort, new schools buildings, roads and bridges and the repair and reconstruction of infrastructure that was damaged by Cyclone Heta. On the external sector, the balance of payments recorded an overall surplus of \$7 million in 2003/04 compared to an overall deficit of \$17 million in 2002/03. The surplus was mainly due to a large reduction in the current account deficit as a result of strong growths in private remittances and tourism earnings. In the event, the level of net foreign reserves improved to the equivalent of 4.9 months imports of goods in 2003/04 from 4.7 months in the previous financial year. (See Graph 4.)



New LDS Temple at Pesega under construction

The inflation trend was favourable in the first half of the 2003/04 before climbing steeply in the latter half as shocks to the supply side of the Samoan economy dictated the movement of overall prices during the year. Local food prices, which stabilized in the first half, after rising strongly in fiscal year 2002/03, skyrocketed in the latter half of the financial under review following the devastation of agricultural production by Cyclone Heta. Supplies of taros and taamu diminished while those of taro palagi, banana and breadfruit virtually disappeared a couple of months after the cyclone, resulting in their prices surging to record levels. This also saw the prices of imported substitutes such as rice and potato rise sky high. Also impacting strongly on the movement of overall prices was the high volatility in international oil prices, which in turn passed through to adversely influence local transport costs. The annual rate of inflation, which decelerated in the first half down to 0.1 percent at end December 2003, was driven helplessly upwards in the second half reaching 7.9 percent at end June 2004. (See Graph 5.)



Rebound in pineapple supply at the Fugalei Agricultural Market

For the financial year 2004/05, monetary policy will again focus on assisting fiscal policy in boosting real economic growth. Growth is expected to be led by the booming construction sector, large inflows of foreign aid, private remittances and further expansion in the tourism sector. With the expected recovery in the world economy, the balance of payments is forecast to generate an overall surplus despite the anticipated sharp rise in imports of goods and services. Headline inflation will continue to feel the aftermath of Cyclone Heta, rising to 17 percent in December 2004 before eventually declining to 8 percent at the end of the financial year. However, the underlying rate of inflation, as measured by the Statistical Services of the Ministry of Finance, is expected to register at around 2 to 3 percent at the end of June 2005.

2. MONETARY POLICY IMPLEMENTATION

The Central Bank continues to rely on market based techniques in implementing monetary policy. It conducts open market operations by issuing its own securities, the Central Bank of Samoa Securities, to influence the amount of liquidity in the financial system by targeting commercial banks demand deposits with the Central Bank and eventually money market interest rates.

During the year, the operational framework for short term liquidity forecasting was improved to strengthen the effectiveness of monetary operations. Under this revised framework, the quality of forecasts was improved with the production of daily forecasts of liquidity as opposed to the weekly forecasts. The results were promising with a higher degree of accuracy than the previously produced weekly forecasts.

No new additions have been made to the list of six papers (14-day, 28-day, 56-day, 91-day, 182-day and 365-day), which are currently available.

In 2003-2004, the number of auctions increased to 44 compared to 40 in the previous period, while the total value of securities floated rose 45.9 percent

to \$264.0 million, from \$181.0 million in 2002-2003. Of the \$279.2 million worth of tenders received, only \$215.9 million were successful. Total rediscounted bank bills for the period amounted to \$5.49 million and as at 30 June 2004, \$40.0 million worth of securities had yet to mature.

	2001-2002	2002-2003	2003-2004
Number of Floats	31	40	44
Amount Floated	\$133.0	\$181.0	\$264.0
Amount Tendered	\$141.3	\$199.6	\$279.2
Amount Allotted	\$99.1	\$134.4	\$215.9
Amount Matured	\$87.5	\$113.9	169.9
Amount Outstanding	\$39.6	\$13.1	\$40.0

Interest rates on short-term Central Bank Securities for 2003-2004 generally declined while that of longer durations remained unchanged from the previous period. This was due to the slightly easing monetary policy stance implemented for the period, which called for less issuance of longer-term maturities and more of the short-term maturities. Accordingly, the amount of liquidity in the banking system for the same period increased.

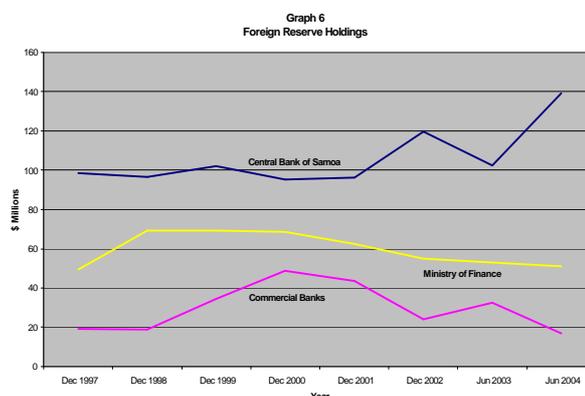
The interest cost of conducting monetary policy fell by around 15 percent to \$1.3 million in 2003-04 from \$1.5 million in 2002-03. This was mainly due to the general reduction in interest rates and the issuance of more short term maturities (in line with monetary policy stance) during the review period.

The repurchase facility, introduced in April 2003, is another tool available to the Central Bank to influence the amount of liquidity in the monetary system. Since its inception, the commercial banks have not utilised this facility but have continued to opt for rediscounts.

3. FOREIGN RESERVES MANAGEMENT

At end June 2004, total gross foreign reserves recorded a 10.1 percent increase to \$207.1 million from \$188.2 million in the previous fiscal year. A 36 percent increase to the Central Banks foreign exchange holdings accounted for this increase while both the commercial banks and the Ministry of

Finance (inclusive of SDR holdings) recorded declines in their foreign exchange holdings. Of the \$207.1 million, the Central Bank contributes the most with 67 percent, then the Ministry of Finance with 25 percent and the commercial banks with 8 percent. Please see Graph 6.



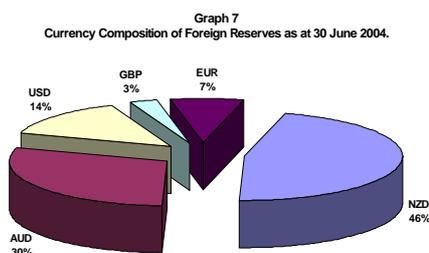
The Central Banks investment strategy for 2003-2004 was to maximise our investment returns, subject to prudent exposures to liquidity and credit risk. Funds were continually invested in liquid short-term instruments, namely term deposits, bank bills, certificates of deposit, repurchase agreements and interest bearing call accounts with those institutions with a minimum AA credit rating.

Net interest income from the investment of foreign reserves in 2003-04 amounted to \$5.1 million, an increase of 5.4 percent from 2002-03, despite lower global interest rates during the review period. The increase in income was mainly due to the increase in foreign exchange reserves from \$100.8 million in June 2003 to \$139.2 at end June 2004.

As with the past year, the Central Banks Investment Committee, which is made up of the Governor, Deputy Governor and several senior bank officials, continued to meet on a regular basis. These meetings took place to discuss and endorse investment recommendations submitted by the Financial Markets Department. In approving investment recommendations, factors such as investment bank credibility and security, investment liquidity and return on investment were considered by the Committee.

At end June 2004, the Central Bank's total foreign exchange portfolio amounted to \$139.26 million, of which 46.4 percent was invested in New Zealand

Dollars, 29.5 percent in Australian Dollars, 13.9 percent in US Dollars, 2.8 percent in British Pounds and 7.4 percent in Euros. Compared to the previous fiscal period, both Australian Dollar and Euro holdings increased (13 percent and 23 percent respectively), while New Zealand Dollar, US Dollar and British Pound holdings decreased (7.2 percent, 0.71 percent and 30 percent respectively).



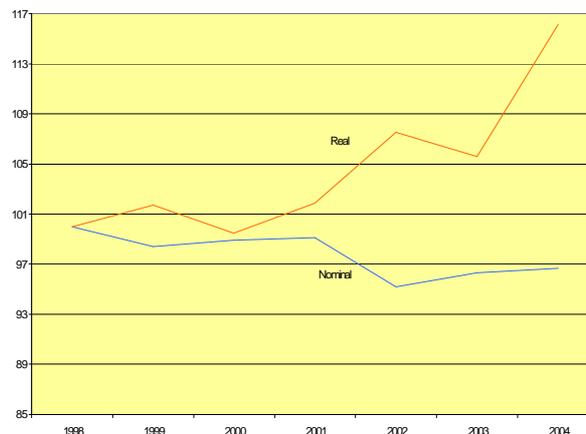
4. EXCHANGE RATES

The main objective of the Central Bank's exchange rate policy is to maintain the competitiveness of local export industries in international markets whilst minimizing imported inflation.

The exchange rate of the Tala is determined on the basis of a trade-weighted basket of currencies, based on Samoa's distribution of trade, private remittances and travel transactions. This currency basket is reviewed annually to reflect changes in trade and payment patterns between Samoa and its major trading partners. On 1 April 2004, a revised exchange rate basket came into effect, with the 5 currencies inside the basket allocated with new weights. The basket comprises the currencies of NZ, US, Australia, Euro and Fiji.

The exchange rate continued to remain stable during the year. The Nominal Effective Exchange Rate Index (NEER) appreciated 1.17 percent in the fiscal year 2003-04, indicating an appreciation of the Tala against the basket of currencies. The Real Effective Exchange Rate Index (REER), which adjusted the NEER for inflation differentials appreciated by 4.90 per cent. This appreciation of the Tala in real terms was due mainly to Samoa's higher rate of inflation compared to our major trading partners during the period under review. The high domestic rate of inflation was due to the soaring local food prices, following Cyclone Heta in January 2004. (See Graph 8)

GRAPH 8
TRADEWEIGHT EXCHANGE RATE INDEX



5. BANK SUPERVISION

The Financial Institutions Department (FID) is one of the policy implementing Department's of the Central Bank. It undertakes one of the Bank's statutory roles which is to regulate, licence and supervise banks and selected non-bank financial institutions.

In discharging this responsibility, the Bank endeavours to promote a sound and efficient domestic financial system.

5.1 PRUDENTIAL SUPERVISION

Prudential supervision concentrates primarily on detecting early signs of weaknesses of financial institutions. This is carried out through regular review and analysis of financial information and reports provided by the financial institutions. Figures are compared against prudential standards and the legal requirements that are currently in place and with previous periods performance in order to highlight any significant changes in the financial institutions financial position.

More frequent consultations and discussions were held with the banks on their performance on prudential issues. Particular issues included the maintenance of the capital adequacy ratio, undue concentration of credit to single borrowers, the maintenance of realistic provisions against unexpected losses and the adequacy of systems to monitor and control risks.

Notwithstanding the above, the ultimate responsibility for the affairs and performance of supervised financial institutions operating in Samoa rests solely with their boards of directors and management. The Central Bank can neither guarantee the soundness of a financial institution nor can it provide complete protection for its depositors, creditors and other claims on it.

However, by ensuring that supervised financial institutions follow prudent management practices, the Central Bank is able to promote public confidence in these institutions and to help maintain a sound financial system.

5.1.1 Commercial banks performance for the twelve months (July 2003 - June 2004)

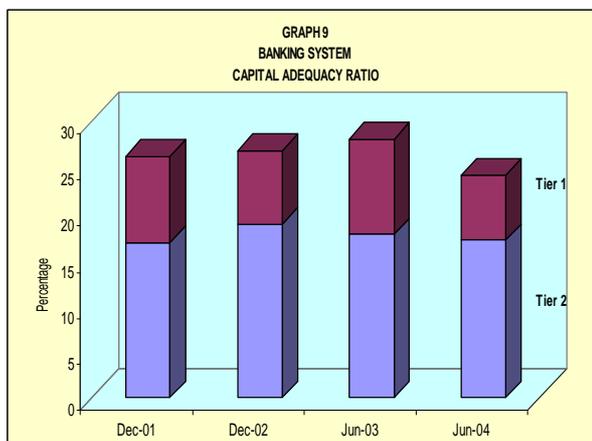
For the period under review, the banking system recorded a steady increase in total assets by 13.3 percent (\$63.5 million) to \$540.5 million versus total liabilities of \$445.5 million which grew by 13.9 percent (\$54.5 million) respectively. Much of the growth of assets was attributed to the increase in lending by 11.4 percent (\$38.0 million), coupled with the marked increase in liquid assets by 101.0 percent (\$35.2 million) to \$70.1 million over the year. Total loans to deposits ratio stood at 89.6 percent whereas 90.2 percent was recorded in June 2003.

Prudential supervision of banks revolved on how banks efficiently manage the various types of risks inherent within their operations and determining their performance in adhering to certain prudential standards set by the Central Bank.

Particular standards include, among others, the maintenance of the capital adequacy ratio, the adequacy of systems to monitor and control credit risk and liquidity management.

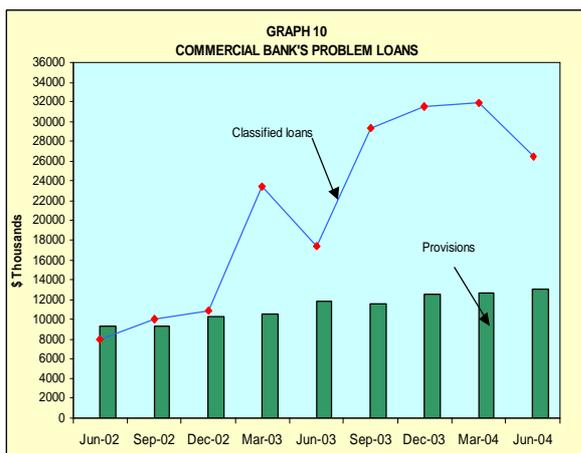
(a) Capital provides an essential buffer to absorb losses that might arise in banking business. A risk based minimum capital requirement of 15.0 percent must be maintained by the banks at all times. At the end of June 2004, the banking system remained strongly capitalized in comparison to the Central Bank's minimum

capital adequacy requirement, achieving an aggregate ratio of 24.2 percent (28.2 percent in the previous year), comfortably above that of the Central Bank's minimum required ratio of 15.0 percent.



(b) In terms of credit risk, the Central Bank places a lot of emphasis on a bank's internal management system to monitor and provide adequate controls on credit to reduce possible losses. Supervisors therefore must ensure that satisfactory levels of provisions are maintained by the commercial banks to cushion problem loans.

For the year under review, the commercial banks participated strongly in lending activities. And, as loans increased in size, the risk and complexity of loans conditions also increased. Total loans and advances grew by 11.4 percent (\$38.0 million) to \$372.2 million as compared to the year earlier. At this level, non-performing loans was recorded at \$17.3 million, representing 4.6 percent of total loans and showed a reduction of \$1.4 million (7.4 percent) over the year. Provision for bad and doubtful loans amounted to \$13.0 million, equivalent to 3.5 percent of total loans and covered 75.2 percent of total non-performing loans



(c) Since the elimination of the minimum Liquid Assets Requirement (LAR) in May 1999, the onus has been imposed on the commercial banks to manage their day to day liquidity, as well as for handling any unexpected strain on their cash flows. As such, banks are expected to have in place effective systems for managing their liquidity positions. Total liquid assets as a percentage of total domestic deposit liabilities stood at 19.6 percent (\$70.1 million), up significantly by 101.0 percent (\$35.2 million) when compared to the previous year.

The Central Bank ensures that commercial banks disclose financial reports and other relevant information to the public in due time as required under the Financial Institutions Act 1996. The Bank also plays an integral role in promoting the understanding and awareness of the business community and the general public on important financial system and information issues, through several publications on interest rates, fees and charges, money laundering issues and standards. These are useful information that should influence a customer's ability to make sound financial decisions in dealing with banks.

5.1.2 *Supervision of non-bank financial institutions*

As approved by the Minister of Finance, the following non-bank financial institutions have been selected to be governed under the Central Bank's prudential framework:

* Development Bank of Samoa

- * National Provident Fund
- * The Colonial Insurance Company Limited
- * The National Pacific Insurance Company Limited
- * The Samoa Life Assurance Corporation
- * The Progressive Insurance Company Limited.



Apia Township - NPF Building behind Townclock

Through its off-site surveillance approach, the Central Bank undertakes regular analysis of financial information it receives from these institutions and make assessments in accordance with certain prudential standards applicable to the type and nature of business involved in these financial institutions.

The Central Bank is committed to the continuing development and enhancement of its ability to supervise non-bank financial institutions operations to ensure that prudential standards are working effectively to assist and promote financial soundness and management of financial institutions' operations.

In the meantime, the Bank adopts a more consultative approach to inform and discuss any relevant issues with the institution concerned thus ensuring that timely and corrective measures are taken as appropriate.

5.2 **MONEYLAUNDERING PREVENTION**

The vulnerability of the Samoan financial system, like all other financial systems, to money laundering is highly recognized. The threat that money laundering could pose to national stability and credibility emphasizes the need for Samoa to implement appropriate legislation to combat money laundering activities. Furthermore, it demonstrates to the

international community Samoa's commitment to support the global efforts in the fight against money laundering.

In the current setting, the Central Bank of Samoa is the Money Laundering Prevention Authority (MLPA). The Financial Institutions Department of the Bank plays a pivotal role in this area and has continued to develop its capacity in carrying out the functions of the Money Laundering Prevention Authority. For the effective coordination and implementation of the provisions of the Act, the Bank recognizes the important role of the Attorney General's Office, the Police and Customs Department to investigate and prosecute any person(s) involved in money laundering.

Equally important, all financial institutions as defined under the Money Laundering Prevention Act 2000 are subject to several obligations that require them to develop and improve their capacity to identify and report to the Authority any business transaction which they may suspect to involve money laundering. In essence, close consultation and cooperation between the Authority and all related parties is vital in the fight against money laundering activities.

5.2.1 Review and Amendments of Relevant Legislation

To ensure that a sound and effective legislative framework is in place for Samoa's financial system, as well as keeping abreast with internationally accepted standards in prudential supervision and anti-money laundering matters, the Bank has undertaken further reviews of the relevant legislation and the drafting of new legislation to this effect. As such, several amendments have been proposed to strengthen and improve on the current legislation. Also, in relation thereto, new legislation have been drafted to govern:

- * the supervision of insurance activities
- * proceeds of crime; and
- * mutual assistance in criminal matters

The main emphasis include, among others, the sharing and exchange of information, emphasis on customer due diligence by financial institutions,

reporting of suspicious transaction, powers to carry out investigation, seizing and forfeiture of criminal assets and international cooperation.

5.3 FINANCIAL INTELLIGENCE UNIT (FIU)

The Financial Intelligence Unit (FIU) has been established within the Financial Institutions Department of the Bank to carry out the function of monitoring, receiving and dissemination of financial information to other relevant agencies for proper investigation and prosecution as appropriate.

Pursuant to the Money Laundering Prevention Act, financial institutions are required to report to the Money Laundering Prevention Authority (FIU) any transaction that is suspected to involve money laundering.

For the year under review, thirty nine (39) suspicious reports (compared to nine (9) reports received last year) have been filed by financial institutions in accordance with their obligations under the Act and Regulations on anti-money laundering. Accordingly, further enquiries have been made by the FIU in gathering more information in order to determine further actions by the Authority.



Deputy Prime Minister presenting a gift to the ADB Executive Director for Samoa

The Bank shall continue to explore and coordinate training opportunities for its staff for the effective undertaking of their relevant duties in this area. Moreover, it shall continue to build on coordinated efforts with other relevant law enforcement agencies in Samoa in the fight against money laundering and financing of terrorism. Efforts to upkeep regular

consultations with financial institutions, both on a formal and informal basis, regarding their statutory obligations under the law persisted through out the year.

5.4 INTERNATIONAL SCENE

Samoa is a member of the Asia Pacific Group on Money Laundering (APG), a multilateral body established with broad activities to combat money laundering. Also, Samoa is a member of the Association of Financial Supervisor of Pacific Countries (AFSPC) which deals mainly with prudential supervision issues relating to the financial system. As such, the Bank has secured a mutual and close relation with other international supervisory bodies and agencies regarding up to date supervisory information and techniques towards ensuring the soundness of the financial system.

Over the recent past, Samoa undertook mutual evaluations and country assessments conducted by several international organizations such as the APG, IMF and ADB with respect to its compliance status with international minimum standards on legal, institutional and prudential supervisory frameworks on prudential supervision, anti-money laundering and combating the financing of terrorist activities.

The Central Bank is grateful for several technical assistance received over the past from several international organisations including the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Pacific Islands Forum Secretariat,



Visiting ADB President , Misa Chino Tadau acknowledging a gift from the Deputy Prime Minister

the Commonwealth Secretariat, the Asia Pacific Group on Money Laundering (APG), the Pacific Financial Technical Assistance Centre (PFTAC) and the New Zealand Financial Intelligence Unit (NZFIU) through the New Zealand Agency for International Development (NZAID) which greatly helped the Bank's efforts to develop and strengthen its regulatory and supervisory regime over the financial system in many aspects.

More specifically, opportunities were made available for staff to attend international conferences, training and attachments during the year which greatly enhanced their knowledge and ability to undertake their duties more efficiently.

6. BANKING & CORPORATE SERVICES

The Banking and Corporate Services Department (BCSD) provides banking services to the Government, commercial banks and the general public. It also oversees exchange control procedures and provides corporate services for the Central Bank.

6.1 EXCHANGE CONTROL

In administering the Exchange Control Regulations 1999, the Banking & Corporate Services Department ensures that the country's foreign exchange reserves are maintained at a sustainable level which is conducive to the country's financial and economic stability.

6.1.1 Restricted Foreign Exchange Dealers

The Exchange Control Regulations 1999 authorizes the granting of licenses to foreign exchange dealers to do business in Samoa in accordance with stipulated operating procedures established by the Central Bank. For monitoring purposes, dealers are required to submit periodic statistical reports to the Central Bank.

Dealers offer the public competitive foreign exchange dealing services. Since the enactment of the Restricted Foreign Exchange License Regulations

in 2000, the Central Bank has so far granted a total of three licenses with no new licenses granted last year or the year before.

6.1.2 Money Transfer Business

The Central Bank granted approval for the operation of one new money transfer business in 2003-2004 (same as the year before), increasing the number of approved money transfer businesses to nine. These businesses also offer competitive services in outward money transfer, under specified limits authorized by the Central Bank, and are required to provide periodic statistical reports to the Central Bank.

6.1.3 Offshore Borrowing and Remittance of Capital

Prior approval is required from the Central Bank for offshore borrowing as well as the outward remittance of capital. Approval is normally granted in the case of overseas borrowing for development projects and bona fide requests for remittance of capital.

6.1.4 Exports

The objective of the Central Bank's export procedures is to ensure that exports are sold for their proper value and full export proceeds are repatriated to the domestic economy. In the last year, the Central Bank processed an average of 155 export shipment forms per month from individual exporters compared to the previous year where 200 export forms were processed. The decrease is due



Stock of nonu juice barrels to be exported overseas

to the reduction in the number of exporters of traditional crops mainly to American Samoa due to Cyclone Heta.

The Central Bank continues to monitor the inflow of funds to ensure that all export proceeds are repatriated into the local economy.

6.1.5 Foreign Currency Deposit Accounts

Resident individuals or firms who are earners of foreign exchange are eligible to apply for Central Bank approval to open foreign currency deposit accounts with the local commercial banks. The use of these accounts is for the settlement of their overseas commitments pertaining to their lines of business. In the twelve months to end June 2004, the number of approvals for new foreign currency deposit accounts was 59, while 54 approvals were granted in the previous year. A total of 515 approvals have been granted for foreign currency deposit accounts, since the commencement of this facility in 1994.

6.2 BANKING

The Central Bank also provides a range of banking, registry and settlement services.

6.2.1 Customer Banking Services

Special banking services are provided to the Government and a number of overseas official institutions (e.g. the European Union and the World Bank).

6.2.2 Registry

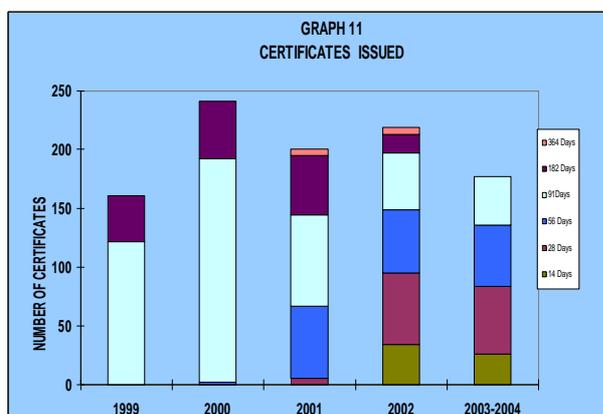
A registry service is maintained for the trading of Central Bank Securities (CBSS). Records are kept with regard to the issuance of securities, redemption, rediscounting and payment of interest.

The issuance of Central Bank Securities is tender-based, with registered bidders submitting tenders based upon the invitations for tender. Details of each tender and the results are announced in the local media and published on the Central Bank's website on a weekly basis.

In 2003/04, 44 tenders were held compared to 41 in the previous year. A total of 177 certificates were issued in July 2003/04 compared to 165 the year before, with durations of 14 days, 28 days, 56 days and 91 days issued. There were no 182 days or 364 days CBS Securities issued during 2003/04.

Please see Table 3 and Graph 11.

TERM	1999	2000	2001	2002	2003-2004
14 Days	Nil	Nil	Nil	34	26
28 Days	Nil	Nil	5	61	58
56 Days	Nil	2	62	54	52
91 Days	122	190	78	48	41
182 Days	39	49	50	16	Nil
364 Days	Nil	Nil	5	6	Nil
TOTAL	161	241	200	219	177



During 2003/04, the Central Bank issued CBS Securities with a face value of \$264,000,000. The interest cost of these Securities was \$1,296,712.97 and was paid for by the ADB Financial Sector Program Loan through Treasury. Accordingly, this amount is not included in both the income and the expense accounts of the Central Bank.

6.2.3 Interbank Settlement

The Central Bank's role, in so far as the interbank settlement system is concerned, is to be a facilitator in ensuring the smooth exchange of payments amongst the commercial banks. It does this by providing office facilities where the commercial banks exchange cheques at the end of each business day and maintaining commercial banks Exchange Settlement Accounts (ESAs) through which the necessary transactions are made. In addition, these ESAs are used to settle foreign exchange and currency transactions with the Central Bank as well

as dealings in CBS Securities. ESAs are required to be in credit at all times.

6.3 CORPORATE SERVICES

6.3.1 Communication

During the year, the Central Bank continued disseminating information, and explaining monetary and banking policies. This is an important part of the Central Bank's effort to be transparent in its work and accountable for its decisions.



Banking and Corporate Services Department

The Governor maintained a busy public speaking schedule in the last twelve months. He was invited to speak on public fora on issues of topical nature including those on the domestic and the global economies. The Governor also took an active role in policy committees such as the Cabinet Development Committee (CDC).



Governor delivering a Speech at the Regional Development Financial Institutions Seminar, Apia.

The Central Bank also provided information on the economy of Samoa to assist inquiring students in their studies, holding tours and sessions on the functions of the Central Bank for visiting colleges.

The popularity of the Central Bank's web site continues to grow with an average of 60 visitors per day resulting in several emails received requesting information on the economy, banking system and note collection. The Central Bank's web site is at <http://www.cbs.gov.ws>.

6.3.2 Publications

Annual Report and Financial Statements.

Quarterly Bulletins: March issue
September issue
December issue

Include commentary on economic and financial conditions and statistical tables.

Monthly: Selected Economic Indicators
Monetary Survey
Exchange Rate Developments
Fugalei Market Survey
Foreign Trade report
Prime Minister's Economic Brief

Monetary Policy Statement 2003-2004

6.3.3 Information Technology

The major IT projects implemented in 2003-2004 were the migration of the SWIFT system to SWIFTNet and the continued redesign of the CBS website.

Since the SWIFT system is a vital part of the banks' settlement system it is important to ensure there is a smooth migration to SWIFTNet. IT staff were sent on training held by SWIFT responsible for the Pacific region to ensure the Central Bank will have trained operators and back up staff to manage the system.

The CBS Website, now includes new features which allow quicker access to all the Central Bank's publications and general information. The redesign has enabled CBS to reach a wider audience overseas, with the volume of emails received daily by CBS from collectors, individuals and organizations worldwide on the rise.

7. CURRENCY

One of the Central Bank's key obligations is to meet the currency needs of the public. Therefore, as the sole provider of the currency, it has to ensure that stocks of all currency denominations (notes and coins) are in adequate supply and of high quality to meet the transactional requirements of the public.

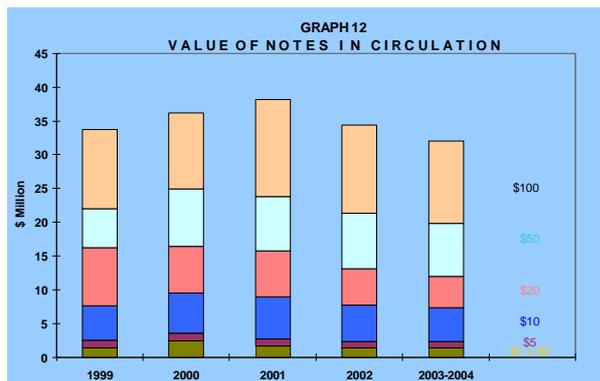
It is an offence to deface any currency by means of writing, stamping, erasure or any other actions that would change the features of the currency.

7.1 Cash Operations

Commercial banks make daily deposits of surplus cash with the Central Bank, when they receive more cash from their customers than the amount required for their daily operations. If the commercial banks receive fewer cash deposits from their customers, than the amount required for their daily operations, they make withdrawals from their excess cash deposited with the Central Bank.

7.2 Currency in Circulation

As at 30 June 2004, the value of currency (notes and coins) in circulation amounted to \$35 million compared to \$34 million in June 2003. New currency notes issued totalled (with face value of) \$24 million compared to \$31 million in 2002/03. Please see Graph 12.



7.3 Counting and Sorting of bank notes

The quality of banknotes is determined to a great extent by the manner in which the members of the general public handle and care for the currency notes.

Poor quality notes removed from circulation in 2003/04 decreased due to the strong public awareness program carried out in 2002/03. The program made the public aware of damage done to notes such as writings, crumpling, tearing, removal of watermark and other damaging actions.

Poor quality banknotes are removed from circulation through manual sorting by staff. Unissuable (soiled) notes are destroyed once a month by shredding. A total of 1.1 million pieces (worth \$18 million) of unissuable currency notes were withdrawn from circulation and destroyed in 2003/04 compared to 2.1 million pieces (worth \$28 million) in 2002/03. This is a substantial drop of 1 million pieces (worth \$10 million) as a result of the Central Bank's public awareness program on proper handling of banknotes.

In addition, continuous meetings with commercial banks were also conducted throughout the year to ensure they issued quality notes to the public.

7.4 Counterfeit Currency Notes

Consequent to the prosecution of a counterfeiter in 2003, counterfeit notes presented to the Central Bank by the commercial banks, retailers and the public declined. However, the 12 counterfeit

banknotes (mostly in \$50 and \$100 denominations) which had since been detected, although a big drop from the 35 counterfeit pieces previously found, is still unacceptable. To solve this problem, new security features have been included in new banknotes which will be issued for circulation in early 2005.

7.5 Damaged Currency Notes Public Awareness Program

The Central Bank has in recent years conducted several public awareness programs to advise people about the need to look after the currency notes as well as the legal penalties of deliberate damage to banknotes. In addition, regular consultative meetings were held with the commercial banks throughout the year to ensure they issue good quality notes to the public. The program also promoted the use and presentation of wallets (34,000) for the public's use which were generously donated by the ANZ and WESTPAC banks. Crumbling, tearing, folding, writings are qualities of poor banknotes which are constantly removed and replaced from circulation.

Since May 2003, all damaged notes (as classified by the Central Bank) were considered unacceptable for the payment of goods or services but were required to be referred to the Central Bank for further examination and replacement. The volume of damaged notes replaced have fallen, compared to the previous year with the \$2 and \$5 being the predominant denominations.

7.6 Currency Notes and Coins for Collectors

From time to time, coins and currency notes are provided to overseas collectors upon request. In 2003/04, 1,342 pieces (worth \$6,561) of currency notes and 26,886 pieces (worth \$1,851.85) of currency coins were issued to 34 requests from interested overseas note and coin collectors.

8. STAFF DEVELOPMENT

Staff development has always been and still is one of the Bank's main tasks, pursued through training and rationalisation of staff positions; the latter via promotions and direct transfers.

Providing on the job training on a regular basis, provision of incentives through its local training policies and securing relevant training opportunities abroad have immensely assisted the Bank in its efforts as far as training is concerned. In recent years, several staff have pursued and attained higher qualifications under the Bank's existing training programme and will continue to push this initiative to encourage the staff to take up part time courses relevant to their work and for career development. At the Management level, management training on selected topics has been provided as and when needed.



Induction Training for new CBS Staff

Part-Time Educational Courses

For the twelve months ending 30th June 2004, nine CBS staff were pursuing courses in various disciplines such as Commerce, Management, Law and Librarianship. Two graduated with Diplomas in Accounting from the National University of Samoa, and one with a Diploma in Librarianship from the University of the South Pacific, Alafua. While the others are continuing with their courses, two of last year's graduates are now taking degree courses in Commerce and Sociology while one other is doing a Diploma in Banking.

Work Experience Program and Study Visits



Management briefing the visiting Tuasivi College students.

Providing vocational working opportunities for third year students (on overseas scholarship) and local final year students has become a tradition of the Bank. The Bank has continued to provide this service not only in support of schools programs, but also for the reciprocating benefit in staff recruitment for positions in the Bank requiring people fresh from school with merits. In addition, the Bank continued to provide assistance for school children with their research work on a regular basis, as well as making presentations on the role of the Bank and other topics at the request of several institutions.

Staff Promotions and New Appointments

Ten (10) new appointments were made, of which eight (8) were to replace staff members who resigned and the other two (2) to fill positions which remained vacant since the start of financial year July 31st 2003 - June 30th 2004. Seven (7) promotions were made during the year, two (2) at the Management level and the rest at levels below. As in the past, staff promotion is a strategy where by staff with potential is accorded recognition and serves as catalyst for others aspiring for the same recognition by developing and expanding the level of their skills and knowledge.

At year end 30th June 2004, the Bank had a staff of ninety (90), which included four (4) part timers but excluding scholarship students on vacation and those from the Samoa Polytechnic and NUS accepted for short term work experience attachments.

Overseas Representation and Liaison

The Governor and other Management staff represented the Central Bank in several overseas high level meetings and conferences during the year. The Executive Management and a member of the Management staff also attended the Annual South Pacific Central Bank Governors' Meeting held in Papua New Guinea. On training, the Central Bank maintained a strong liaison relationship with sponsoring institutions and agencies like the IMF and PFTAC in Fiji.

9. FINANCIAL PERFORMANCE

Appearing at the end of this section are the audited accounts of the Central Bank for financial year July 2003 to June 2004.

In 2003-2004, total assets and liabilities of the Bank went up \$37.7 million. On the liabilities side, there were increases in securities deposits of \$26.9 million, demand deposits of banks \$9 million, external liabilities of \$2.3 million, statutory deposits of banks of \$1.6 million, notes and coins in circulation of \$1.2 million, and other liabilities of \$0.2 million. These were partly offset by decreases in Government Deposits of \$1.4 million, and capital and reserves of \$1.1 million. On the assets side, increases were noted in external assets of \$38.3 million and money at call of \$1.4 million. These were partly offset by a decrease in other assets of \$1.0 million.

The Central Bank made a net operating profit of \$309,850.00 in the 2003/04 financial year, compared to a net operating profit of \$32,042.00 in 2002/03. As required under Section 8(1) of the Central Bank Act 1984, 50 percent of the profit (equivalent to \$154,925.00) was transferred to Government and other 50 percent was transferred to General Reserve.

The increase in profitability of the Central Bank of \$277,808 in 2003/04 was a result of an increase in total income of \$327,168 which was partly offset by a marginal increase in total expenses of \$49,360. The main items that contributed to the increase in

total income was the increase in interest received from overseas investments of \$273,781.

Twenty percent of the credit balance of the Central Bank's Revaluation Reserve Account is payable to the Government under Section 28(3) of the Central Bank of Samoa Act 1984. Accordingly, the Central Bank transferred \$1,696,241 to the Government for 2003/04 compared with \$2,051,480 in the previous year.

9.1 Performance Budget

Under the Corporate Plan, the Accounting and Budget Department (ABD) continued to prepare, review, monitor, and control the internal budget process. The ABD also continued to advise Management on outcomes of the monthly budget reviews.

AUDITORS' REPORT TO THE MEMBERS OF CENTRAL BANK OF SAMOA

SCOPE

We have audited the financial statements of the Central Bank of Samoa for the year ended 30 June 2004, consisting of the balance sheet, statement of profit and loss, statement of cash flows and accompanying notes. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Bank.

Our audit has been conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with International Accounting Standards and statutory requirements so as to present a view which is consistent with our understanding of the Bank's financial position and the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Opinion

In our opinion:

- (a) proper books of account have been kept by the Bank, so far as appears from our examination of those books.
- (b) the accompanying financial statements are properly drawn up so as to give a true and fair view of the state of affairs of the Bank as at 30 June 2004 and of the results and cash flows of the Bank for the financial period then ended; and
- (c) the accompanying financial statements are properly drawn up to give in the prescribed manner the information required by the Central Bank of Samoa Act 1984.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

Apia, Samoa
13 December 2004

Certified Public Accountants

**CENTRAL BANK OF SAMOA
BALANCE SHEET
30 JUNE 2004**

	Note	30 June 2004 SAT\$	30 June 2003 SAT\$
CAPITAL AND RESERVES			
Authorised capital	2	\$ 10,000,000	\$ 10,000,000
Paid up capital	2	10,000,000	10,000,000
General reserve	3	10,091,520	9,936,595
Revaluation reserve	4	6,784,964	8,205,920
		<u>\$ 26,876,484</u>	<u>\$ 28,142,515</u>
Represented by :			
ASSETS :			
EXTERNAL			
Money at call		36,309,585	25,265,287
Short term deposits		25,721,842	12,214,273
Bank bills		52,883,458	44,240,872
Negotiable certificates of deposits		24,998,398	19,815,531
		<u>139,913,283</u>	<u>101,535,963</u>
NON GOVERNMENT			
Money at call		2,014,555	578,048
OTHER ASSETS			
Notes and coins		3,601,275	3,888,417
Receivables and prepayments	8	4,433,754	4,341,494
Fixed assets	9	20,459,027	21,349,334
		<u>28,494,056</u>	<u>29,579,245</u>
TOTAL ASSETS		<u>170,421,894</u>	<u>131,693,256</u>
Less - LIABILITIES :			
DOMESTIC GOVERNMENT			
Demand deposits		22,170,497	23,419,830
Government allocation of net profit and revaluation reserve	5	1,851,166	2,067,501
		<u>24,021,663</u>	<u>25,487,331</u>
NON GOVERNMENT			
Notes and coins in circulation		35,233,815	34,036,433
Demand deposits due to banks		23,573,424	14,509,858
Statutory deposits of banks		17,169,000	15,508,000
Securities	6	39,717,262	12,738,617
		<u>115,693,501</u>	<u>76,792,908</u>
EXTERNAL LIABILITIES	7	2,735,851	433,964
OTHER LIABILITIES			
Creditors and accruals		1,094,395	836,538
TOTAL LIABILITIES		<u>143,545,410</u>	<u>103,550,741</u>
		<u>\$ 26,876,484</u>	<u>\$ 28,142,515</u>

The relevant notes on pages 34 to 37 form part of this balance sheet.

Chairman of the Board of Directors _____ Director _____

**CENTRAL BANK OF SAMOA
STATEMENT OF PROFIT AND LOSS
TWELVE MONTHS ENDED 30 JUNE 2004**

	Note	30 June 2004 SAT\$	30 June 2003 SAT\$
INCOME			
Interest from overseas deposits and investments		5,065,515	4,791,734
Rents		1,157,917	1,156,639
Other income		<u>283,075</u>	<u>230,966</u>
		<u>6,506,507</u>	<u>6,179,339</u>
EXPENSES			
Audit fees		25,870	25,106
Board expenses		23,557	23,397
Communication costs		164,862	149,016
Currency issue costs		1,418,878	1,367,152
Depreciation	9	1,032,594	1,054,536
Directors' fees		27,805	8,870
Finance costs		428,243	591,748
Occupancy costs		465,786	545,716
Other administrative expenses		<u>2,583,801</u>	<u>2,363,032</u>
		<u>6,171,396</u>	<u>6,128,573</u>
NET PROFIT/(LOSS) BEFORE INCOME TAX		335,111	50,766
Withholding tax/levies on overseas investment income		<u>(25,261)</u>	<u>(18,724)</u>
		<u>309,850</u>	<u>32,042</u>
NET PROFIT/(LOSS) FOR THE PERIOD		309,850	32,042
APPROPRIATIONS			
Transfer to general reserve in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		(154,925)	(16,021)
Transfer to Government of Samoa in terms of Section 8 (1) (b)		<u>(154,925)</u>	<u>(16,021)</u>
		<u>\$NIL</u>	<u>\$NIL</u>

The relevant notes on pages 34 to 37 form part of this statement of profit and loss.

**CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004**

1. STATEMENT OF ACCOUNTING POLICIES

The accounting principles adopted by the Bank are in accordance with the laws of Samoa and in particular the Central Bank of Samoa Act 1984 and amendments. The accounts have been prepared on the basis of historical costs and do not take into account changing money values or current valuations of non current assets.

Set out below is a summary of the significant accounting policies adopted by the Bank and in particular the accounting policy adopted where there exists a choice between two or more acceptable policies.

(a) Income and expenditure

Income and expenditure have been accounted for on the accrual basis.

(b) Depreciation

Depreciation is provided on all fixed assets so as to write off the assets over their estimated economic lives. Depreciation on the building are at the rates ranging from 10 years to 50 years. This was based on the estimated useful lives of various categories of the building as initiated by the engineers and approved by the Board of Directors. The straight line method of depreciation has been used. The main categories of fixed assets and their respective estimated economic lives are:

	Years
Furniture and fittings	10
Plant and equipment	5
Motor vehicles	5
Computer network	5
Building	10 to 50

(c) Foreign currencies

Transactions involving foreign currencies have been recorded in tala using the rates of exchange ruling on the date of the transaction. Assets and liabilities in foreign currencies have been translated into tala at the rates of exchange prevailing at period end.

(d) Valuation of overseas assets and liabilities

The gains or losses arising from an appreciation or depreciation of the Bank's overseas assets and liabilities due to movements in exchange rates have been dealt with in accordance with Section 28(1) of the Central Bank of Samoa Act 1984 and amendments and are not included in the determination of net profit. (See also note 4)

(e) Currency issue costs

Currency issue costs are taken to profit and loss on the basis of an apportionment between issued and unissued notes. Costs of minting and delivery of coins are amortised over a period of five years.

(f) Collectors' currency

The face value of collectors' currency is accounted as income at the date of sale. It is most unlikely that significant amounts of collectors' currency will be returned for redemption. Therefore, the value of collectors' currency is recognised as a contingent liability.

**CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004**

	30 June 2004 SAT\$	30 June 2003 SAT\$
2. CAPITAL		
Authorised capital	<u>\$10,000,000</u>	<u>\$10,000,000</u>
Paid up capital	<u>\$10,000,000</u>	<u>\$10,000,000</u>
3. GENERAL RESERVE		
Balance at 1 July 2003	9,936,595	9,920,574
Transfer from profit and loss in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.	309,850	32,042
Government of Samoa allocation in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.	(154,925)	(16,021)
Balance at 30 June 2004	<u>\$10,091,520</u>	<u>\$9,936,595</u>
4. REVALUATION RESERVE		
Balance at 1 July 2003	8,205,920	5,584,892
Gains for the period in terms of Section 28(1) of the Central Bank of Samoa Act 1984 and amendments.	275,285	4,672,508
Government of Samoa allocation in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments.	(1,696,241)	(2,051,480)
Balance at 30 June 2004	<u>\$6,784,964</u>	<u>\$8,205,920</u>
5. GOVERNMENT ALLOCATIONS OF NET PROFIT AND REVALUATION RESERVE		
Balance at 1 July 2003	2,067,501	1,396,223
Payment during the year	(2,067,501)	(1,396,223)
Transfer of portion of accumulated gains arising from valuation of overseas assets and liabilities in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments	1,696,241	2,051,480
Transfer of net profit in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.	154,925	16,021
Balance at 30 June 2004	<u>\$1,851,166</u>	<u>\$2,067,501</u>
6. SECURITIES		

Unsecured notes issued to the public as negotiable instruments, all maturing within 12 months with weighted average interest rates ranging from 2.18% to 6.90%.

**CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004**

	30 June 2004 SAT\$	30 June 2003 SAT\$
7. EXTERNAL LIABILITIES		
(1) European Development Fund (EDF)	2,726,200	425,500
(2) Inland Revenue Department - (New Zealand)-Levy	9,651	8,464
	<u>\$2,735,851</u>	<u>\$433,964</u>

(1) Represents funds available for development projects in Samoa financed by the European Economic Community.

(2) Represents amount of 2% levy owing to the Government of New Zealand on investments income not matured at balance date.

8. RECEIVABLES AND PREPAYMENTS

Interest receivable	1,211,858	816,487
Prepaid expenses	784,807	1,140,351
Other receivables - (secured) current	310,389	317,482
- (secured) long terms	2,126,700	2,067,174
	<u>\$4,433,754</u>	<u>\$4,341,494</u>

9. FIXED ASSETS

30 June 2004	Cost SAT\$	Accumulated Depreciation SAT\$	Net book Value SAT\$	Charge for year SAT\$
Furniture and fittings	837,408	686,985	150,423	42,866
Plant and equipment	1,832,606	1,486,948	345,658	224,877
Motor vehicles	396,125	254,986	141,139	60,583
Building	27,577,720	7,839,966	19,737,754	652,552
Computer network	290,317	206,264	84,053	51,716
	<u>\$30,934,176</u>	<u>\$10,475,149</u>	<u>\$20,459,027</u>	<u>\$1,032,594</u>

30 June 2003

Furniture and fittings	820,556	644,119	176,437	73,430
Plant and equipment	1,725,458	1,262,071	463,387	222,767
Motor vehicles	396,125	194,403	201,722	59,875
Building	27,577,720	7,187,414	20,390,306	650,768
Computer network	272,030	154,548	117,482	47,696
	<u>\$30,791,889</u>	<u>\$9,442,555</u>	<u>\$21,349,334</u>	<u>\$1,054,536</u>

**CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004**

10. INCOME TAX

The Bank is exempt from paying income tax in Samoa in accordance with Section 48 of the Central Bank of Samoa Act 1984 and amendments.

11. FOREIGN CURRENCY EXPOSURE

The Bank holds net foreign cash, deposits, treasury bills and bonds amounting to SAT\$139,913,283 for the twelve months ended 30 June 2004 (2003: SAT\$101,535,963). These are spread over the major overseas trading partner of Samoa and other recognised financial centres of the world. Liabilities in foreign currencies for the twelve months ended 30 June 2004 are SAT\$2,735,851 (2003 : SAT\$433,964)

12. CHANGE IN BALANCE DATE

The legislative amendments made in August 2001 to the Central Bank of Samoa Act 1984 included the change of the financial year (previously January to December) of the Central Bank in order to be coincided with the fiscal year (July - June) of the Government's financial operations.

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Board of Directors is not aware of any capital commitments, relating to the Bank as of 30 June 2004. (2003: Nil). The Bank has a contingent liability for the face value of collectors' currency issued, however it is more unlikely that the amounts of collectors' currency will be returned for redemption at face value. The face value of all collectors' currency issued by the Bank for the period under review is SAT\$39,151.

14. LEASE COMMITMENTS

The Central Bank building is built on a leasehold land. The land belongs to the Government of Samoa. Terms and conditions of the lease are yet to be finalized.

15. NATURE OF BUSINESS

The Bank is responsible for the implementation of monetary and financial policies of the Government and for the promotion of conditions conducive to orderly and balanced economic development in Samoa.

**CENTRAL BANK OF SAMOA
STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED 30 JUNE 2004**

	30 June 2004 SAT\$	30 June 2003 SAT\$
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES:		
Cash income received from investments	4,953,219	5,151,621
Cash received from rent	1,161,085	1,126,319
Net gain on revaluation reserve	275,285	4,672,508
Cash paid for services	(2,463,324)	(4,994,876)
Cash paid to employees	(1,379,490)	(1,368,662)
Interest paid on deposit	(476,307)	(754,001)
Cash paid/transferred to Government on revaluation reserve and net profits	(1,851,166)	(2,067,501)
	<u>219,302</u>	<u>1,765,408</u>
CASH FLOWS FROM/(TO) INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	-	47,559
Purchases of fixed assets	(142,287)	(353,554)
Net cash used in investing activities	<u>(142,287)</u>	<u>(305,995)</u>
CASH FLOWS FROM/(TO) FINANCING ACTIVITIES:		
Increase in notes and coins in circulation	1,197,382	1,822,572
(Decrease) in deposits by domestic Government	(1,465,668)	(4,207,496)
Increase/(Decrease in securities)	26,978,645	(25,944,132)
Increase in external liabilities	2,301,887	32,527
Increase in deposits due to banks	10,724,566	7,594,554
Net cash provided from/(to) financing activities	<u>39,736,812</u>	<u>(20,701,975)</u>
NET INCREASE/(DECREASE) IN CASH	39,813,827	(19,242,562)
Cash and cash equivalent at beginning of the period	102,114,011	121,356,573
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$141,927,838</u>	<u>\$102,114,011</u>
CASH AND CASH EQUIVALENTS:		
Money at call - external	36,309,585	25,265,287
- domestic non government	2,014,555	578,048
Short term deposits - external	25,721,842	12,214,273
Bank bills	52,883,458	44,240,872
Negotiable Certificates of Deposits	24,998,398	19,815,531
	<u>\$141,927,838</u>	<u>\$102,114,011</u>

The relevant notes on pages 34 to 37 form part of this statement of cash flows.

IX. THE OFFSHORE FINANCE CENTRE (Also known as the International Companies Office or the Office of the Registrar of International and Foreign Companies)

The Office of the Registrar of International and Foreign Companies is attached to the Central Bank to facilitate its administration. This arrangement is flexible and efficient in managing staff and administering offshore laws. A Steering Committee comprising the Governor of the Central Bank, Chief Executive Officer of the Ministry of Finance, the Attorney General and the Registrar oversee operations of the Office to ensure its integrity is maintained and advise the Minister of Finance on all licensing and regulatory matters.

1. INTRODUCTION

The Offshore Finance Centre was set up in October 1988 as a quasi government unit within the Central Bank of Samoa. It operates under the following Acts:-

- * International Companies Act 1987
- * Offshore Banking Act 1987
- * International Trusts Act 1987
- * Trustee Companies Act 1987
- * International Insurance Act 1988
- * International and Limited Partnership Act 1998
- * Segregated Fund International Companies Act 2000

The Office is managed by the Registrar who is assisted by a Deputy Registrar, Assistant Manager Accounts and eight support staff.

Following our commitment to the OECD in 2002, the Samoa Offshore Finance Centre continued to be actively involved in consultations with the OECD as a Participating Partner. This partnership was towards developing the framework for implementation of the commitment and ensuring a "level playing field" for all OECD and non-OECD countries, through Samoa's leadership and membership of various OECD SubCommittees.

The 2004 Report by the International Monetary Fund on the offshore sector, following its Module 2 assessment of our Centre, is posted on the IMF website located at www.imf.org. The report contains recommendations on ways to improve the regulation and supervision of all registered entities. An Action Plan is also posted which shows steps taken by the Centre in complying with the IMF recommendations.

2. INCORPORATIONS

The Office achieved another excellent financial year in terms of business received and profits made. The number of companies incorporated in the past 12 months continued to increase strongly. It is a pleasing indication of the increased confidence with our Centre bearing in mind ongoing consultations with influential international organisations such as OECD, IMF and FATF. These organisations advocate compliance with international standards for the regulation of the financial sector which bears onerous pressure on small and sometimes under resourced operations of smaller offshore financial centres. These standards include the need to exchange information on tax matters by certain deadlines, implementing internationally accepted banking practices and combating laundering of crime proceeds and financing of terrorists activities.

In the past 12 months, the number of newly incorporated companies reached 3,658 compared to 2,865 companies incorporated in 2003. We also registered 20 new long term companies and 10 new trusts.

Entities on the register as at 30 June 2004 include 11,778 international companies, 148 long term companies, 173 international trusts, 7 offshore banks, 3 insurance companies, 3 segregated funds and 6 trustee companies.

Since the establishment of the Offshore Finance Centre in October 1988, the total or gross number of entities that have been registered were 17,411 international companies, 210 long term companies, 341 international trusts, 25 offshore banks, 19 insurance companies, 3 segregated funds and 8 trustee companies.

3. REVENUE

The increase in new incorporations and renewals is reflected in record levels of revenue and profits made during the past 12 months. Total revenue reached SAT10,609,422.00 which earned a net profit of SAT9,409,591.00. The change in our financial year from the calendar year to the Government's fiscal year (1 July to 30 June) makes it difficult to compare our reported 12 month performance against our previous reported performance which was on the

basis of an 18 month period.

The primary source of revenue for the Office is from the incorporation and renewal of international companies. The secondary source of revenue is derived from interest earned on term deposits with locally licensed banks. The amount of interest therefore earned on term deposits in the past 12 months reached SAT1,377,378.00 which was about 13 percent of total revenue.

4. STAFF ACTIVITIES

Staff training is accorded priority given the fast pace of developments in the offshore industry. Capacity building of support staff through training attachments



Offshore Finance Centre

and participation of Executive and Management Staff in international conferences has proved successful in enhancing staff knowledge and performance. In the past 12 months, staff and Steering Committee Members attended:-

- * meetings of the Offshore Group of Insurance Supervisors (OGIS) and the International Association of Insurance Supervisors (IAIS) in Singapore.
- * consultation meetings of the Organisation for Economic Cooperation and Development (OECD) and the International Trade & Investment Organisation (ITIO) in Canada, London and Germany.
- * regional workshops on the Regulation and Supervision of Banks and Financial Institutions in Fiji and Australia.
- * attachments with the New Zealand Registry of Companies.
- * attachments with the Reserve Bank of Fiji.
- * local short courses on various database software.

- * workshop co-sponsored by the IMF on money laundering issues to raise awareness and to discuss international standards that Samoa can implement to combat this global problem.
- * Workshop co-sponsored by the Commonwealth Secretariat on e-commerce issues and potential to help maximise Samoa's marketability worldwide.

The Centre wishes to record its appreciation to the IMF and the Commonwealth Secretariat for the continued technical assistance provided towards its staff training programme and overall development.

5. PROMOTION

The outbreak of SARS (Severe Acute Respiratory Syndrome) in 2003 resulted in a premature cancellation of our Asian promotional efforts following our delegation's first seminar in Bangkok in April 2003.

In view of the continued and increased popularity of our offshore companies in Asia, we anticipate further promotion of our Centre in Singapore in March 2005.

6. DEVELOPMENTS

Important developments in the past 12 months:-

- * The International Banking Bill 2003 is scheduled for discussion in Parliament in its next session. This important piece of legislation will address requirements of the Basel Core Principles for Effective Banking Supervision.
- * At the Inaugural Meeting of the Joint Ad Hoc Group on Accounts in the Cayman Islands last year, Samoa earned the distinction of being elected the leader of the Informal Contact Group for the Asia-Pacific region. The chiefly memorable events in relation to the OECD Project include Samoa's Co-Chairmanship of the OECD Informal Contact Group, the SubGroup on level playing field and ultimately and most recently the Global Forum.
- * Finally the Samoa International Finance Authority Bill 2003 to set up the International Companies Office as an independent corporate body is envisaged to be tabled in Parliament sometime during the next 12 months.