

CENTRAL BANK OF SAMOA

REPORT AND FINANCIAL STATEMENTS

FOR THE EIGHTEEN MONTHS TO 30 JUNE 2003

17 February 2004

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 eighteen months to the end of June 2003, which includes:

- (a) a review of economic performance and policies during the eighteen months to end June 2003;
- (b) a report on the Bank's operations during the same period; and
- (c) the Bank's annual accounts for the six months ended June 2002 and the twelve months ended 30 June 2003 and the auditors' report.

Yours faithfully

(Papali'i T. Scanlan)
GOVERNOR

CENTRAL BANK BOARD

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 : Lealii'e Rudy Ott, Papali'i T. Scanlan, Muliagatele Leki MacDonald
Absent: Ms. Hinauri Petana

MANAGEMENT



Standing: L-R. Iosefo Bourne, *Manager Research & Statistics* - Gilbert Wongsin, *Manager Financial Institutions* - Taveuveu Asora Simanu, *Manager Management Resources* - Malaeoalii S. Pua, *Manager Banking & Corporate Services*.

Sitting: L-R. Tootoovao S. Afoa, *Manager Accounting & Budget* - Atalina Enari, *Manager Financial Markets* - Papalii T. Scanlan, *Governor* - Filipo M. Penn, *Deputy Governor*.

Insert: Erna Vaai, *Registrar Offshore Finance Centre*

CONTENTS

	Page
I. Overview	1
II. Central Bank of Samoa - what we do	5
III. Central Bank Structure	6
IV. Board of Directors	7
V. Governance	8
VI. Chronology	9
VII. The Year in Review	11
1. Monetary Policy Formulation	11
2. Monetary Policy Implementation	14
3. Foreign Reserves Management	15
4. Exchange Rates	16
5. Bank Supervision	16
6. Banking and Corporate Services	21
7. Currency	25
8. Staff Development	26
9. Financial Performance	29
VIII. Contents of the Financial Statements	30
IX. Offshore Finance Centre	46

I. OVERVIEW

Legislative amendments made to the Central Bank of Samoa Act 1984 changed, among other things, the Central Bank's financial year from calendar year (January to December) to the fiscal year (July to June). Whereas the Bank's last Annual Report released in 2002 covered the calendar year to end December 2001, this Annual Report covers the Bank's activities from January to end December 2002 as well as the first six months of 2003. Henceforth, the Central Bank will adopt the fiscal year time frame to report its activities and operations.

Samoa's economy again performed well (GDP up 5.0 percent) in the fiscal year FY2002/03, compared with 2001/02, but was slightly slower than the annual average growth rate (of 5.1 percent) in the preceding three years. This slower growth in economic activity in 2002/03 was the result of lower levels of construction and manufacturing, and unfavourable weather conditions affecting agricultural production and exports. The slowdown followed world trends, which necessitated the need for having in place appropriate fiscal and monetary policies during the period under review.

Much of the favourable performance during the fiscal year FY2002/03 occurred in the first quarter of 2003. Inflation, which accelerated in the first half of FY2002/03, subsided in the second half consequent to the improvement in local food supplies. The balance of payments recorded an overall deficit but international reserves remained at a relatively healthy level.



Fugalei Agricultural Market

The continued high inflow of private remittances and increased earnings from tourism helped to hold up the external sector. The performance of the export sector, on the other hand, was not up to expectation as total exports declined in the last eighteen months.

Relying on only a few items, exports are always affected by international factors. Exports of fish, which used to account for 60-70 percent of total exports, suffered a large slump as fish catches were adversely affected by the El Nino weather pattern. The exports of desiccated coconut (as a new product) showed fast inroads into the New Zealand markets for several months before it suffered some quality control problems at the end of 2002. The resumption of coconut oil production was rather erratic as the country's only coconut oil mill encountered supply problems relating to the drop in international prices. And, the ban on ava by the main markets in Europe and America since 2001 practically reduced exports of ava to negligible levels.



Copra stock for coconut oil production at the Vaitele Oil Mill

On imports, the total import bill declined in 2002/03 as the main Government infrastructure projects continued to wind down during the year.

The focus of monetary policy in 2002/03 was on generating real economic growth whilst, at the same time, trying to rein in inflation and maintain a comfortable level of international reserves. In the event, the average level of interest rates continued to decline and credit to the private sector expanded. On the fiscal side, Government operated within a commendable overall budget deficit of around two percent of nominal GDP with emphasis placed on key sectors such as health, education and infrastructure.

Assisted by an expansion in the Government's financial operations, coupled with the easing in monetary policy, the domestic economy grew 2.2 percent in real terms in calendar year 2002. This was somewhat slower than the average real growth rate for the previous two years of 6.6 percent. Export earnings in 2002 dropped 12 percent to \$46.3 million

with sharp reductions in exports of fish, garments and coconut cream. In particular, export prices for fish fell sharply as world demand remained sluggish. Imports, on the other hand, increased one percent to \$454.2 million.

The balance of payments recorded a surplus of \$5.0 million in 2002. And, as a result, net foreign assets



Market stall at Moataa

rose to \$178.9 million at the end of December, a level equivalent to 4.0 months of import cover.

One of the main concerns in 2002 was the acceleration in the annual inflation rate, which reached 8.3 percent in November before declining to 8.1 percent in the following month. However, as the high inflation rates were largely driven by sharp increases in local food prices, as a result of supply problems caused by unfavourable weather conditions, the Bank saw no need to tighten monetary policy in the latter half of the year.

And, with the rate of inflation slowing down (as supplies started to improve) the Bank's accommodative monetary policy stance remained unchanged in the first three months of 2003. In the event, real economic growth was up 6.2 percent in the March 2003 quarter compared with the same quarter of 2002.

Towards end March 2003, proposals for the construction of some major building projects and Government financing for the national airline were expected to exert strong pressure on the balance of payments. Therefore, while awaiting firm numbers on these proposals, there was a slight tightening of monetary policy in the second quarter of 2003, as a cautionary measure, made through the issuing of

longer term Central Bank Securities. This was intended to slow down private sector credit and contain the demand for foreign exchange.

In any event, for the first six months of 2003, monetary policy was generally accommodative. The level of interest rates remained relatively low and bank credit to the private sector expanded 7.4 percent. On the fiscal side, Government achieved a cash surplus of \$4.9 million in its financial operations in the first six months of 2003. This, together with a net outflow of foreign funds in the same period of \$13.4 million, saw money supply (M2) edge up marginally.

Overall, the macro-economic results for the first six months of 2003 were quite favourable. The annual rate of inflation continued to fall, reaching 4.3 percent at the end of June 2003, as agricultural supplies improved resulting in a drop in overall commodity prices.

Total exports in the six months to end June 2003 fell 22 percent, when compared to the same period in 2002. However, on an annual basis, the shortfall was partially offset by the resumption in coconut oil exports and increase in earnings from beer and nonu products. While private remittances slipped one percent, revenues from tourism improved 3 percent. Imports also declined to \$197.7 million.



Nonu juice production at the R & L Keil Holdings Ltd, Vaitele

The net outflow of foreign exchange in the balance of payments comprised of some one-off payments by the national airline and the remittance of proceeds from the sale of real estate assets to owners residing overseas. Although the level of international reserves fell to \$165.5 million at the end of June 2003, the

same import cover of 4.7 months (as at the end of June 2002) was maintained owing to the sharp drop in imports in 2003.



Fishing Boats at the Apia Fishery's Wharf

The latest national accounts figures released by the Ministry of Finance confirmed that real GDP for the twelve months to end June 2003 grew 5.0 percent. The main sources of this growth were "Commerce", "Food and beverages manufacturing", "Other manufacturing", "Hotels and restaurant", "Transport and Communications" and "Finance and business services".

For FY2003-04, real economic growth is forecast to slow down to 2-3 percent based on estimates from the Ministry of Finance. Developments in the tourism and services sectors have been identified as areas which will play very critical roles in this economic growth.

The Government has recognised, 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. And, with the winding down of some large Government infrastructure projects in 2002-03, the construction of Aggie Grey's Beach Resort in 2003-04 has come at an opportune time for continued economic development. There is a strong possibility of two other substantial hotel developments commencing construction in the next two to three years.

In addition, the completion of the SamoaTel building complex plus other related capital works will certainly improve telecommunication services which are essential for the tourism industry. Another important development is the completion of the extension and upgrading of the Apia wharf which is being built under Japanese Government assistance. The wharf will provide adequate and space berthing space for the increasing number of cargo and cruise ships. Samoa will host the next South Pacific Games in 2007. In the event, substantial new sporting facilities are in the pipeline for construction during the next three years. These construction projects will continue to provide increased employment as well as other development activities for the domestic economy.



Cruise ship at the Apia Wharf

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 2002/03 as it maintained a capital ratio of 26 percent, which is well above the Central Bank's minimum requirement of 15 percent. Average growths in assets and liabilities of 4 percent and 3 percent respectively were attributed to the steady increase in loans and advances against a relatively slow rise in deposits. Loans to deposits ratio stood at 90 percent at end June 2003, up from 80 percent a year earlier. The pressures from non-performing loans which reached \$10 million (equivalent to 3 percent of total loans and advances) together with the drop in liquid assets (which account for 10.8 percent total deposit liabilities) in the first half of 2003, have been progressively addressed as the banks undertook appropriate remedial measures.



New Extension to the Apia Wharf

While the supervision of banks has always been carried out through off-site reporting, on-site inspections of the banks were carried out for the first time in the second half of FY2002/03. On-site examination strategically focused on high risk areas and therefore targeted banks credit management risk and anti money laundering systems.

With the country's strong economic and financial performance, in particular the scope of positive developments that are ongoing within the financial system, a fourth commercial bank license was issued in April 2003 to the Samoa Commercial Bank Limited (SCB) which is owned and operated by local investors.

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 new Insurance legislation being drafted.

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, proceeds of crime bill and mutual assistance in criminal matters bill. In addition, Samoa has adopted the OECD Financial Action Task Force (FATF) 40+8

Recommendations on the Prevention of Money Laundering and the Financing of Terrorism.

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) was also recently 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. A public awareness program was continued from 2002 to 2003 on the safe and proper handling and keeping of banknotes as well as the deterrence of counterfeiting. The public's acceptance of the Central Bank's concerns about the fast deterioration of banknotes through poor and negligent use and handling has resulted in the vast improvement in the quality of banknotes in circulation and therefore saves a lot of cost in printing new banknotes. In addition, the public's vigilance and cooperation has resulted in the prosecution of a currency note counterfeiter in the beginning of the year.

In June 2003, the Central Bank published its second Corporate Plan for the fiscal year ending June 2005 following completion of the Plan for 2001-2002. The outcomes of the first Plan have been encouraging with many initiatives achieved. Most tasks have been completed with a few in the process of being finalized in the course of the new Plan. The current Corporate Plan outlines the new corporate direction that the Central Bank will undertake through to 2005.



CBS Building

II. THE 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.

The Money Laundering Prevention Act 2000 also mandates the Central Bank of Samoa as the Money Laundering Prevention Authority. As such, the Central Bank collects information on suspicious transactions and undertakes further scrutiny of any information suggesting money laundering taking place.

During the period under review, the Central Bank employed a total of 86 staff. Its organization structure is provided later in this Report and is divided into six main departments based on its operational functions.

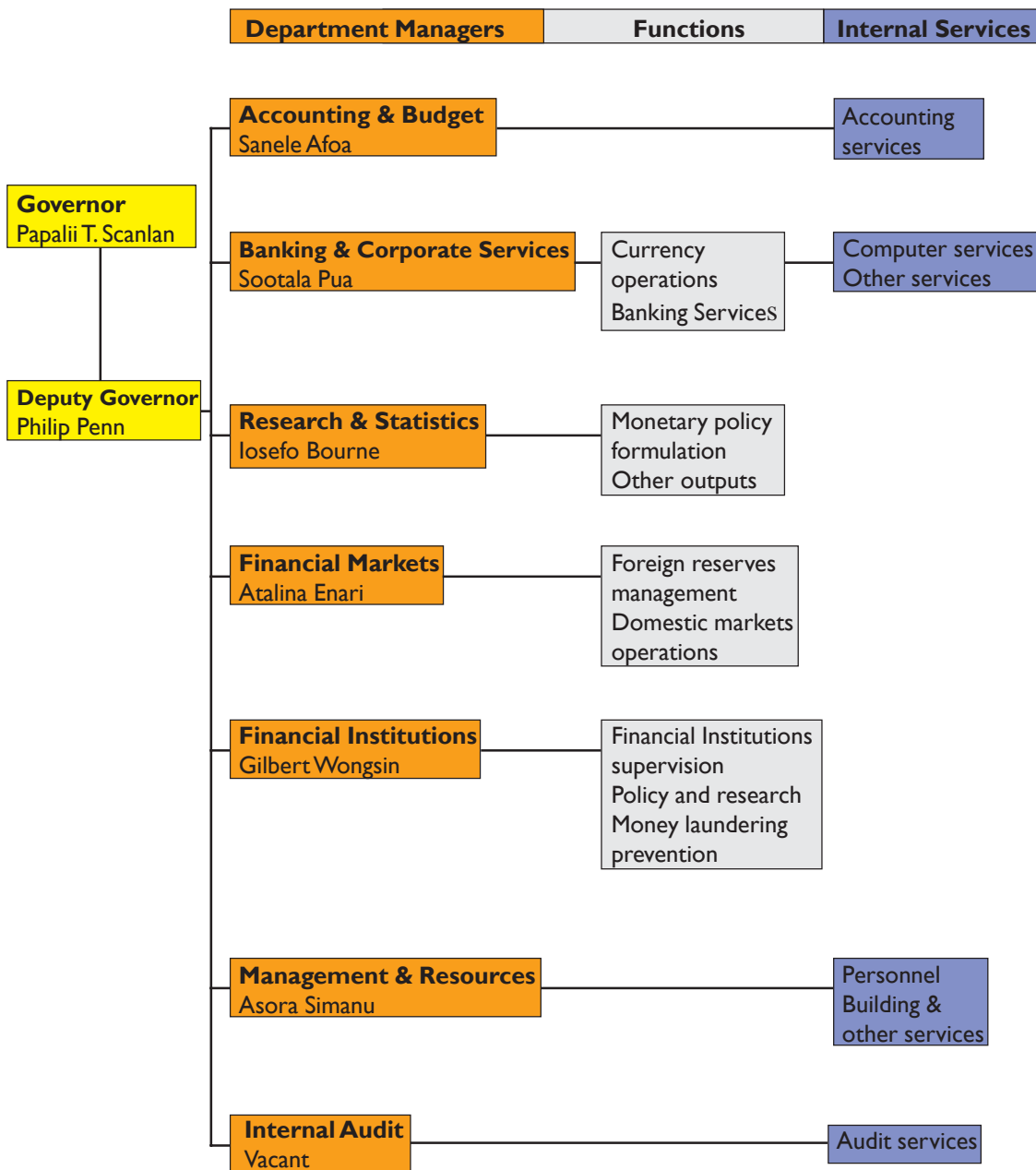
III. CENTRAL BANK STRUCTURE

Following the review of the Central Bank's first Corporate Plan for 2001-2002 last year, a new Corporate Plan for the years 2003-2005 is now in place. During the review process, no change to the Bank's structure was deemed necessary. This was based on a firm understanding that the structure approved in the Bank's first Corporate Plan in 2001 is still in line with 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 2003.

The organisational 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, which had to do more with staff movement and not the hierarchical structure itself. Some of these changes included internal promotions at the management level, and the positions of the Secretary to the Bank and the Internal Auditor which became vacant since February and August 2002 respectively. These changes 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.



CBS Board Meeting

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 shall be citizens of Samoa and include one or more persons having industrial or commercial or agricultural experience.

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.

Muliagatele Leki MacDonald, a prominent businessman and Mr Norman Wetzell, the President of the Chamber of Commerce, were appointed as independent Members of the Board in August and November 2001 respectively. They, together with another independent Member, Lealiiie Rudy Ott, the Chief Executive Officer of the Ministry of Finance (Ms Hinauri Petana) and the Governor of the Central Bank, Papalii Tommy Scanlan, complete the membership of the Board.

The Board, as a whole, met on eleven occasions during the eighteen months to the end of June 2003.



CBS Board Meeting

V. GOVERNANCE

Working in partnership with Management, the Internal Audit Department 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.

We continue to monitor both the Corporate Plan 2001-02 and Output budget very closely. The focus here is on delivering results and implementing preventive actions, rather than simply uncovering problems after the fact.

Also during the eighteen months to June 2003, we continued to provide a wide assessment of the risks as well as appropriate compliance review to provide a mechanism for further process improvement in our 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.



Governor's Department Reception front desk serving also the Offices of the Deputy Prime Minister and Minister of Finance and the Ministry of Finance

As part of its role, Internal auditing will continue to provide management and the audit committee with a plan to address key governance issues which is

fundamental to achieving and maintaining an effective and an efficient Central Bank.

The Internal Auditor resigned in August 2002 and the post has not been filled. However, this has not hindered Management's role in being vigilant in closely monitoring all operations of the Bank during the eighteen months to the end of June 2003.

The outcomes of the first Plan Corporate 2001-02 have been very encouraging with many initiatives achieved. Some tasks are ongoing or have yet to be finalized and will be carried over into the next period. And, in June 2003, the second Corporate Plan for FY2003-05 was released. The Plan describes the way the Bank undertakes its responsibilities, identifies its main functions and key objectives to improve transparency and community understanding of the Bank's operations.



Governor's Department Staff

VI. CHRONOLOGY

CHRONOLOGY OF MONETARY POLICY AND MONETARY CONDITIONS SINCE THE DEREGULATION OF THE FINANCIAL SYSTEM IN 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.	things, allowed the licensing of foreign exchange dealers.
		September: Issued guidelines for the 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.
February:	The minimum liquid assets requirement for the commercial banks was reduced by 1 percentage point per month until completely eliminated.	2000:
		February: The Bank's Accounting computer system became operational.
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.	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:	Allowed commercial banks to engage in forward contracts with clients in the buying and selling of foreign exchange.	June: Enacted the Money Laundering Prevention Act 2000.
September:	The Central Bank published the first series of commercial banks' interest rates, fees and charges.	July: Further relaxation of the remaining exchange control requirements on current payments.
November:	Annual Exporters of the Year Awards in which the Central Bank participated as one of the major sponsors.	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.
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.	November: Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.
June:	Technical adjustment to the commercial banks' statutory reserve ratio, reducing it to 4.8 percent from 5.0 percent.	December: (a) Celebrated the 25th Anniversary of the Central Bank as the monetary authority. (b) Launched the Central Bank 25th Anniversary Book (c) Launched the Central Bank's first Corporate Plan 2001-2002.
August:	Exchange Control Regulations 1999 became effective which, amongst other	

	(d) Launched the Central Bank website cbs.gov.ws	December	Launching of the first Central Bank Monetary Policy Statement for the financial year 2001/2002.
	(e) The 2000/2001 First Supplementary budget projected a cash surplus of \$0.4 million and an overall deficit of \$44.5 million.	2002	
2001		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.
January:	The Financial Institutions Act 1996 was amended to enable the prudential supervision of the non bank financial institutions.	August :	Public Awareness TV Programs on Damaged Currency Notes and Counterfeit Currency Notes.
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.	September:	(a) IMF Assessment of the Regulation and Supervision of Financial Services. (b) Public Awareness TV Program on the Government Exports Guarantee Scheme. (c) Issued the second Central Bank Monetary Policy Statement for the financial year 2002/2003.
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.	November:	Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.
August	(a) The Central Bank of Samoa Act 1984 (principle Act) was amended to (i) change the financial year (calendar 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. (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 the authorized foreign exchange dealers.	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.
September:	In view of the after effects of the terrorist attacks on the US on the global economy, domestic monetary policy remained accommodative to support economic growth and export capacity.	June:	Published the second Corporate Plan for 2003-2005.

VII. THE YEAR IN REVIEW

I. MONETARY POLICY FORMULATION IN THE EIGHTEEN MONTHS TO JUNE 2003

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 review papers are timed to coincide with the approval of the Government Budget for the next fiscal year.



Research and Statistics Departmental meeting

I.1 MONETARY POLICY IN 2002

Monetary policy continued to focus on generating real economic growth in 2002, whilst at the same time trying to rein in inflation and maintain the level of international reserves at a comfortable level. During the year, the average level of interest rates continued to decline and credit to the private sector expanded. On the fiscal side, the Government operated within a reasonable overall budget deficit of around 2 percent of nominal GDP with emphasis placed on key sectors such as health, education and infrastructure.

In 2002, a moderate cash deficit in Government's financial operations during the year saw the Government's position vis-à-vis the monetary sector reduced by \$2.4 million. Much of this reduction was recorded in Government's accounts with the monetary authorities (the Central Bank and the Treasury) whereas Government's net deposits at the commercial banks increased \$4.3 million.

The weighted average yield on all types of Central

Bank securities declined as the Central Bank continued to pursue a growth oriented monetary policy stance. In particular, for the twelve months to end December 2002, the average yield on the benchmark 91-days CBS security fell 14 points to 5.70 percent and that for the 182-days paper went down 6 points to 6.66 percent. In February 2002, a 14-days security was issued for the first time, with a weighted average yield for the year of 2.72 percent. In line with the general reduction in official interest rates, the commercial bank's average interest rate on lending dropped 34 points to 11.45 percent. On the other hand, the average commercial bank deposit rate edged up 3 points to 4.51 percent, thus lowering the commercial bank's interest rate spread by 37 points to 6.94 percent. Despite the reduction in their combined interest rate spread, the commercial banks remained financially sound in 2002.

Assisted by the reduction in interest rates, commercial bank credit to the private sector grew 11 percent or \$29.8 million to \$311.0 million at end December 2002. Much of the increased credit went to the "professional and business" sector (up \$9.4 million), "construction" and "other activities" (up \$9.7 million and 6.8 million), "manufacturing" (up \$0.9 million) and "electricity" (up \$2.0 million).

There was a net inflow of foreign funds of \$4.0 million in 2002 from an overall surplus in the balance of payments. As a result, net foreign assets rose to \$178.9 million at the end of December 2002. The cash deficit in Government's financial operations, the growth in credit and the increase in net foreign assets saw total money supply (M2) expand 10 percent to \$339.0 million at the end of December 2002.

Assisted by the cash deficit in the Government's financial operations and the easing in monetary policy,

the domestic economy grew by 2.2 percent in real terms in 2002. (See Table I.) This was somewhat slower than the average real growth rate for the previous two years of 6.6 percent, as some major Government infrastructure projects neared

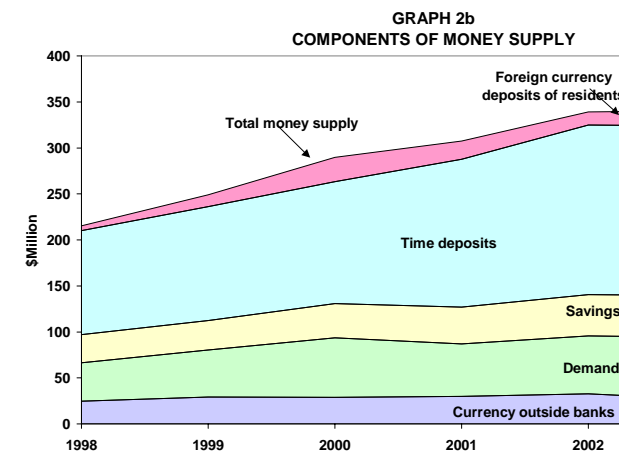
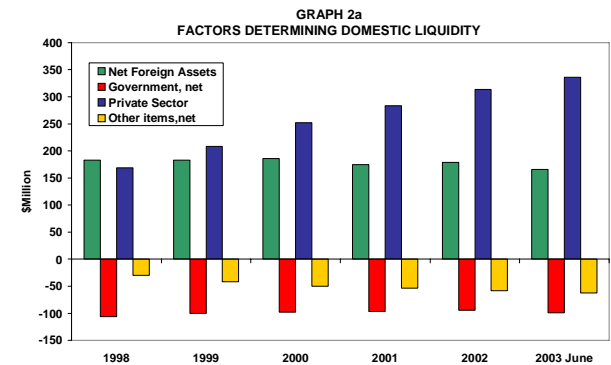
Graph 5.) Inflation in 2002 was largely driven by a sharp increase in local food prices (up 20.6 percent),

Period	1998	1999	2000	2001	2002	2003 June
Monetary Aggregates (Tala Million; end period)						
Net Foreign Assets	182.83	182.84	185.96	174.83	178.86	165.46
Government, net	-106.22	-100.09	-97.63	-96.68	-94.27	-99.21
Private sector (1)	168.77	208.21	251.76	283.36	313.29	336.32
Other items, net	-30.01	-41.72	-50.16	-53.89	-58.84	-62.14
Money Supply (M2)	215.37	249.24	289.93	307.62	339.04	340.43
Currency (2)	24.82	29.09	28.87	29.97	32.57	26.21
Demand deposits	41.71	51.23	64.41	56.87	63.04	67.62
Savings deposits	30.38	31.93	37.50	40.25	44.87	45.51
Time deposits	113.29	124.12	132.65	160.54	184.45	184.76
Foreign currency deposits (3)	5.17	12.87	26.50	19.99	14.11	16.33
Commercial Banks						
Exchange Settlement Balances	10.29	12.14	14.78	7.33	13.68	14.50
Holdings of CBS Securities	25.51	27.39	15.66	7.74	15.96	12.54
Annual rate of inflation (percent)	2.2	0.3	1.0	3.8	8.1	4.3
Gross Domestic Product (During period)						
Nominal (Tala million)	658.7	698.9	774.8	849.7	898.4	460.5
Real (Tala million)	589.2	604.4	646.3	686.5	705.3	359.7
Average GDP deflator (1994 =100)	111.8	115.7	119.8	123.8	127.3	128.1
Real Annual growth rate (percent)	2.7	2.6	6.9	6.2	2.8	5.0
Balance of Payments (Tala Million; during period)						
Exports (f.o.b)	55.5	54.7	45.5	52.6	46.3	17.3
Imports (c.i.f)	-285.7	-348.5	-348.6	-448.8	-454.2	-197.7
Travel, net	104.8	114.2	122.1	132.5	152.6	64.7
Private remittances, net	109.9	125.2	145.6	147.9	188.1	83.0
Government transfers, net	65.6	73.7	54.9	73.0	83.7	30.6
Government capital, net	-3.1	-8.4	31.3	11.1	3.2	6.0
All other items, net	-17.7	-10.9	-47.7	20.7	-15.6	-17.2
Overall balance	29.3	0.01	3.1	-11.1	4.0	-13.4
Net Foreign Assets (End period)						
Months of imports of goods	7.7	6.3	6.4	4.7	4.7	4.8

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

completion coupled with a substantial reduction in exports. In 2002, export prices for the main export commodity - fish - fell as world demand remained sluggish. Total export earnings dropped 12 percent to \$46.3 million with sharp reductions in exports of fish (down 19 percent), garments (down 19 percent) and coconut cream (down 8 percent). Imports, on the other hand, increased 1 percent or \$5.4 million to \$454.2 million. Despite the reduction in export earnings and the increase in imports, the balance of payments recorded an overall surplus of \$4.0 million largely on account of a 19 percent increase in tourism earnings (up \$13.0 million to \$152.6 million) and a 27 percent growth in private remittances (up \$40.2 million to \$188.1 million).

The main concern for monetary policy in 2002 was the acceleration in the annual rate of inflation, which reached 8.3 percent in November 2002 before declining to 8.1 percent in the following month. (See

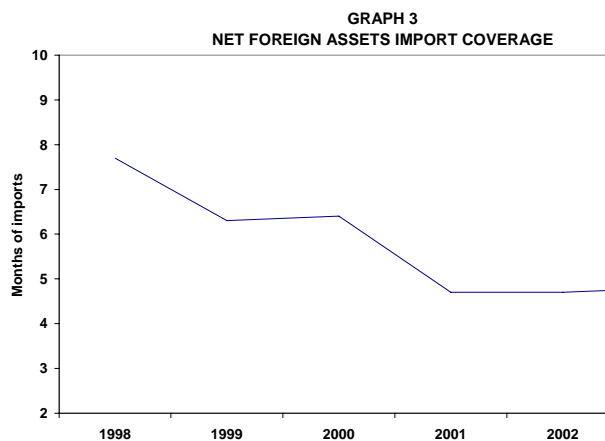


a rise in the prices of beer, cigarettes and petroleum products. The hike in local food prices reflected the generally unfavourable weather conditions, which impacted adversely on the production and harvest of the main agricultural commodities, particularly vegetables. Significant in the "Alcohol and tobacco" (up 9.3 percent) and the "Transport and communication" (up 4.3 percent) further contributed to the sharp expansion in the annual rate of inflation in 2002.

1.2 MONETARY POLICY IN THE SIX MONTHS TO END JUNE 2003

With signs that the annual rate of inflation had already started to slow down at the end of 2002, the accommodative monetary policy stance that prevailed throughout 2002 continued through to the first three months of 2003. After peaking at 8.3 percent in November 2002, the annual rate of inflation fell to 8.1 percent in December 2002 and

continued to slow down in the following three months reaching 5.4 percent at the end of March 2003. The slow down in the annual rate of inflation



reflected the improvement in supplies of the main agricultural commodities around the country, which consequently fed through to reducing the average level of their prices at the main produce market at Fugalei. On the real sector, the national accounts figures compiled by the Ministry of Finance showed that real GDP grew 6.1 percent in the March 2003 quarter when compared with the same quarter of 2002. (See Graph 4.)



Research & Statistics Department - framing monetary policy targets.

However, in March 2003, proposals for the construction of some major building projects and financing for the national airline starting in the second half of 2003 were laid-out for Government to consider. From the Central Bank's point of view, the implementation of these projects would exert significant pressure on the balance of payments. Information on the above mentioned projects were not firm at the time but the Bank, whilst waiting for more concrete information on those projects,

decided to adopt a cautious approach and implemented a slightly tightened monetary policy in the second quarter of 2003. This was largely to ease pressure on international reserves by slowing down credit to the private sector. This policy stance was implemented by issuing more CBS Securities towards the long end of the maturity spectrum so that funds were absorbed by the Central Bank for a slightly longer period than in the previous 15 months.

However, for the six months to end June 2003, monetary policy was still relatively loose, with the average level of the benchmark 91-days CBS Security interest rate declining 56 points to 5.15 percent in the period under reference. In line with the decline in official interest rates, the average interest rate on bank credit fell 14 points to 11.25 percent while the average interest rate on bank deposits rose 5 points to 4.54 percent. As a result, bank credit to the private sector expanded 7.4 percent or \$23.0 million. On the fiscal side, Government registered a cash surplus of \$4.9 million in its financial operations in the first six months of 2003. This, together with a net outflow of foreign funds in the period under review of \$13.4 million saw money supply, M2, edged up marginally (by 0.4 percent) in the period under review.

Overall, the macro-economic results for the six months to end June 2003 were quite favorable. The annual rate of inflation continued to fall, reaching 4.3 percent at the end June 2003, as the supplies of the main food commodities to the Fugalei Market continued to improve. The overall volume of the main food commodities sold at the Market expanded 11 percent when compared with the same period in 2002. As a result, the overall price level at the Market was also 11 percent lower.



Market stall at Faatoia

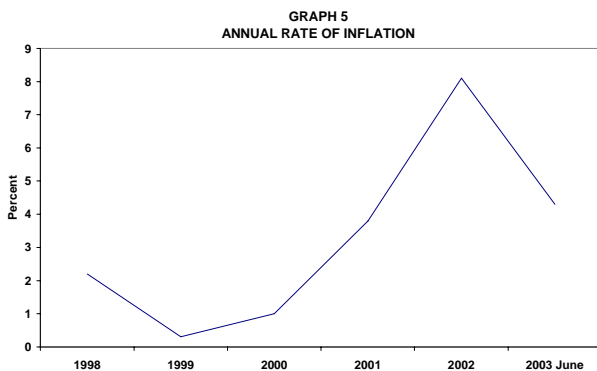
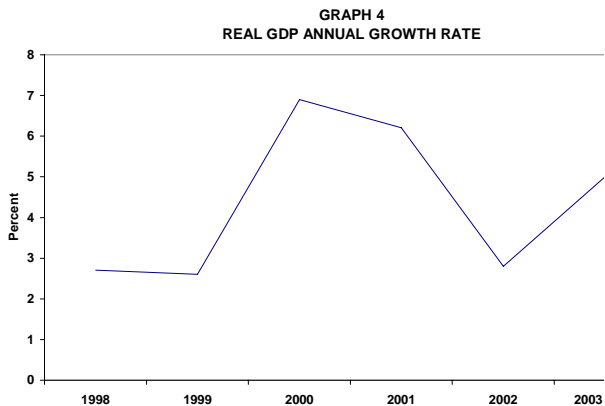
Total exports in the six months to end June 2003 fell 22 percent when compared with the same period in 2002 reflecting the sharp reduction in fish exports (down 49 percent) and garments (down 15 percent). The shortfall was partially offset by the resumption in coconut oil exports and increases in export earnings from beer (up 2 percent) and nonu products (up 21 percent). Imports, on the other hand, fell 13 percent due mainly to a substantial reduction in Government imports (down 37 percent) and imports by the private sector (down 16 percent). Whilst private remittances slipped 8 percent, revenues from tourism improved 3 percent reflecting a 1 percent improvement in tourist arrivals and a rise in average tourist expenditures. There were also some one-off outflows of foreign exchange in the first six months of 2003, the largest being for the settlement of a contractual obligation by the national carrier Polynesian Airlines of about \$10 million and sums

Despite the deficit in the balance of payments, with imports declining, international reserves held up strongly at a level equivalent to 4.7 months of imports, which was the same import coverage level as in the six months to end June 2002. Real GDP for the twelve months to end June 2003 was estimated to have grown by 5.0 percent. The main sources of this strong growth were "Commerce", "Food and beverages manufacturing", "Other manufacturing", "Hotels and restaurants", "Transport and communications" and "Finance and business services".

For the fiscal year 2003/04, monetary policy will continue to focus on generating real economic growth whilst, at the same time, restrain inflation and maintain a comfortable level of international reserves.

2. MONETARY POLICY IMPLEMENTATION

Consistent with the last two financial periods, the Central Bank continued its reliance on its main monetary instrument, Central Bank Securities, to conduct monetary policy. This tool has allowed the Central Bank to influence the amount of liquidity in the financial system by targeting commercial banks demand deposits with the Central Bank.



amounting to over \$5 million being the remittance of sale proceeds of some real estate assets that were once held by owners residing overseas. In the event, the balance of payments recorded an overall deficit of \$13.4 million in the first six months of 2003.



Financial Markets Department - setting the daily exchange rates

Since 2001, no new additions have been made to the list of six papers (18-day, 28-day, 56-day, 91-day, 182-day and 365-day), which are currently available.

In 2002, the number of auctions held increased markedly from 29 in the previous year to 43. Accordingly, the total value of securities floated rose 62.8 percent to \$184.0 million, from \$113.0 million

in 2001. Of the \$210.1 million worth of tenders received, only \$145.5 million were successful. No bank bills were rediscounted during the year and at the close of 2002, a total of \$18.7 million of Central Bank Securities have yet to mature.

Table 2: Central Bank Securities			
(Tala Million)			
	2001	2002	30-Jun-03
Number of Floats	29	43	20
Amount Floated	\$113.0	\$184.0	\$92.0
Amount Tendered	\$128.0	\$210.1	\$95.0
Amount Allotted	\$102.0	\$145.5	\$64.2
Amount Matured	\$94.7	\$128.8	\$54.1
Amount Outstanding	\$8.9	\$18.7	\$13.12

For the first six months of this year, 20 issues of Central Bank Securities were made. The combined value of these issues amounted to \$92.0 million and, of the \$95.0 million worth of bids received, only \$64.2 million worth of bank bills were awarded. By the end of June 2003, only \$1.0 million worth of securities had been rediscounted. (See Table 2.)

Interest rates on Central Bank Securities for 2002 and the first six months of 2003 generally declined. This downward trend also extended to the amount of liquidity in the banking system in the before-mentioned periods.

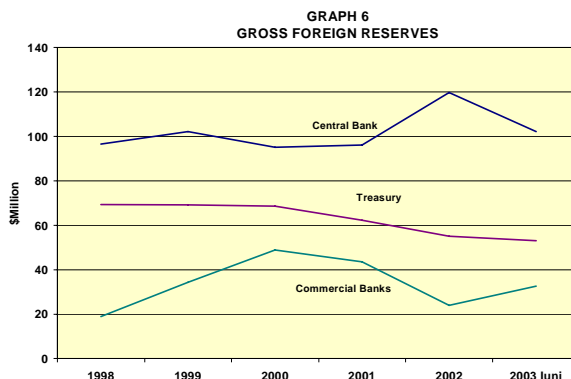
In April this year, technical assistance was received from the International Monetary Fund to develop and implement a repurchase facility. This facility is now operational and it will provide commercial banks, which they are short of liquidity, with the necessary short-term funds. Effectively, the repurchase facility will increase the number of tools which the Central bank can use to influence the amount of liquidity in the monetary system.

3. FOREIGN RESERVES MANAGEMENT

At end December 2002, gross foreign reserves recorded a slight fall of 1.6 percent to \$198.8 million from \$202.1 million in the previous year. This decline was a direct result of preceding falls in the foreign exchange holdings of commercial banks and the Ministry of Finance (formerly Treasury Department).

For the first six months of 2003, total international reserves fell further from \$198.8 million in December

2002 to \$188.2 million. This fall was caused primarily by a decline in the amount of foreign currency held by the Central Bank. (See Graph 6.)



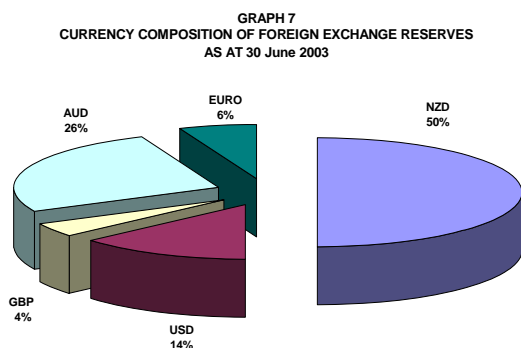
The Central Bank's investment strategy for 2002 and the first half of 2003 remained the same as that exercised in 2001 and 2000. Funds were continually invested in liquid short-term instruments, namely term deposits, bank bills, certificates of deposit and repurchase agreements. In addition to these, monies (comprising mainly of interest accrued on maturing investments) were also kept in call accounts in New Zealand, Australia, the USA and Great Britain.

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 take place to discuss and endorse investment recommendations submitted by the Financial Markets Department. In approving investment suggestions, factors such as investment bank credibility and security, investment liquidity and return on investment were considered by the committee.

At end December 2002, the Central Bank's total foreign exchange portfolio was \$119.8 million, of which 40 percent was invested in New Zealand Dollars, 20 percent in Australian Dollars, 18 percent in US Dollars, 18 percent in British Pounds and 4 percent in Euros.

By 30 June 2003, the total value of the above portfolio fell 14.4 percent to \$102.6 million, primarily due to the Central Banks position as a (net) seller of foreign exchange for the initial six months of the year. The share of New Zealand Dollar, Australian Dollar and Euro investments rose to 50 percent, 26 percent and 6 percent respectively. However, the portion of US Dollar and British Pound investments fell to

14 percent and 4 percent in that order. (See Graph 7.)

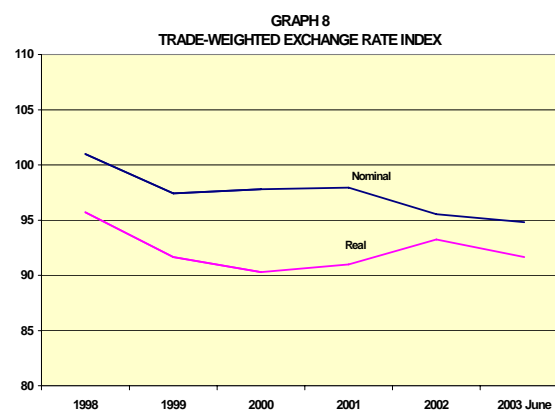


4. EXCHANGE RATES

The Central Bank's main objective in managing the exchange rate of the Tala is to ensure that the value of the Tala is such that exports remain competitive and that the balance of trade is sustainable over the long term, simultaneously taking care that imported inflation is minimised.

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 August 2002, a new exchange rate basket came into effect, with the number of currencies in the currency basket reduced from 6 to 5. The basket now comprises the currencies of New Zealand, US, Australia, Fiji and the Euro countries. In addition, the methodology used for determining the daily exchange rate was simplified.

The following chart shows the movements of the Tala in terms of its Nominal Effective Exchange Rate Index (NEER) and its Real Effective Exchange Rate Index (REER), which is adjusted for changes in prices. In 2002, the Tala depreciated by 2.44 percent in nominal terms against the currencies of the countries represented in the basket and appreciated in real terms by 2.45 percent. This appreciation of 2.45 percent in real terms was due mainly to Samoa's higher rate of inflation compared to our major trading partners. Samoa's rate of inflation was at a high of 6.4 percent in 2002, which was more than half of our major trading partners rate of inflation.



5. BANK SUPERVISION

The regulation and supervision of the commercial banks is one of the Central Bank's core responsibility. In discharging this responsibility, the Bank endeavors to promote a sound and efficient financial system in Samoa.

5.1 PRUDENTIAL SUPERVISION

Banks play a central role in the economy, hence, the stability of the banking system is recognized as a matter of general public interest. For this reason, in the interest of promoting their financial soundness, banks are subject to Central Bank's prudential supervision.



Financial Institutions Department - reviewing banks prudential compliance.

During the year, the Central Bank continued to monitor and supervise the performance of the commercial banks mainly through its program of off-site surveillance. This was done through regular analysis of financial information and reports provided by the banks. These figures were

compared to prudential standards and previous performance to highlight any significant changes in the financial positions of the banks.

More frequent consultations and discussions were held with the banks on their performances in relation to prudential issues.

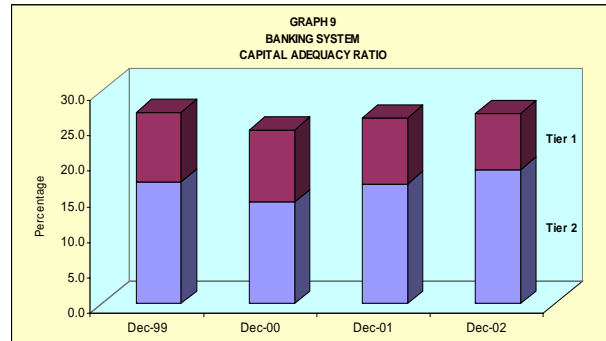
5.1.1 Commercial banks performance for the twelve months ending December 2002

For the period under review, the banking system recorded a steady increase in total assets by 4.2 percent (\$18.2 million) to \$448.3 million against total liabilities of \$365.8 million which grew marginally by 2.4 percent (\$8.6 million). Much of the growth of assets reflected an increase in lending by 7.4 percent (\$20.9 million), coupled with marked increases in reserves liquidity and fixed assets, up by 46.2 percent (\$18.0 million) and 27.6 percent (\$9.6 million) respectively. This upward movement however, was largely offset by a significant drop in the level of foreign assets by 36.6 percent (\$26.2 million) respectively.

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

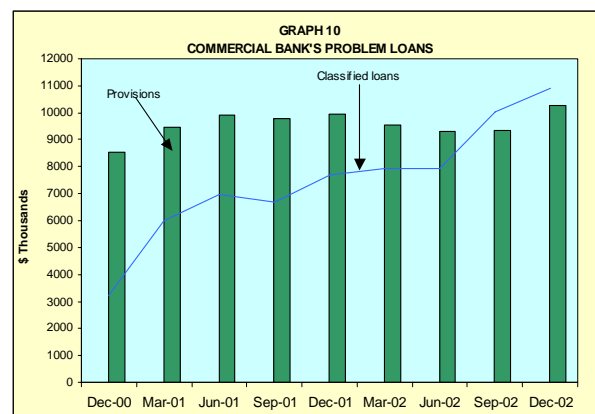
Particular standards include, among others, the maintenance of the capital adequacy ratio, the adequacy of systems to monitor and control credit risk and liquidity management.

- (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 a combined figure of \$82.4 million, total capital rose by 13.2 percent (\$9.6 million) over the past twelve months due mainly to the steady rise in banks profitability. In relation to total risk weighted assets, the system achieved a capital adequacy ratio of 26.3 percent (26.2 percent in December 2001), comfortably above of the Central Bank's minimum required ratio of 15.0 percent. (refer graph 9)



- (b) In terms of credit risk, the Central Bank places greater emphasis on banks internal management system to monitor and provide adequate controls on credit to reduce possible losses. And, in the event of default or identified losses as a result of non performing loans and other investment assets, banks must recognize that adequate levels of provisions are maintained.

For the period ending December 2002, total loans and advances of \$310.5 million rose by 7.2 percent (\$20.9 million) as compared to the year earlier. Against this level, a relatively strong growth in non-performing loans was evident at \$13.8 million, representing 4.4 percent of total loans. Total provisions for bad and doubtful debts (both general and specific provisions) stood at \$10.2 million, equivalent to 74.0 percent of total non-performing loans or 3.3 percent of total loans and advances respectively. Discussions with the commercial banks revealed that part of the increase relate mainly to recent reviews by banks on their loan portfolios under their risk grading system, taking into consideration, among others, borrowers performance and prevailing market and economic conditions in Samoa. (refer graph 10.)



(c) Since the Liquid Assets Requirement (LAR) was phased out in May 1999, the onus has been imposed on the commercial banks to manage their day to day liquidity, as well as for handling unexpected pressure 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 14.0 percent (\$42.7 million), up markedly by 64.0 percent (\$16.8 million) when compared to the same time last year. This almost double the level in 2001, which recorded total liquid assets at 9.5 percent (\$26.0 million) of total domestic deposit liabilities.

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. 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 customers 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.

The Bank, in this regard, has issued draft prudential standards to financial institutions for review and comment before these standards are finalized. This process is very important given each institution's different type and nature of activities involved. In the meantime, prudential returns have been submitted by the non-banks for the Bank's regular

review and analysis in determining financial institutions financial performance from time to time.

Generally, the Bank shall continue to develop and enhance its capacity in conducting prudential oversight of the 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 concern thus ensuring that timely and corrective measures are taken as appropriate.

5.2 MONEY LAUNDERING 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 and instrumental 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 roles 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 Act 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.

The Central Bank issued during the year Regulations and Guidelines on money laundering prevention standards and measures thus providing financial institutions with guidance and specific standards and requirements to adhere in order to comply with their obligations under the Act.

5.2.1 International Scene

Samoa was formally accepted in June 2001 as a member of the Asia Pacific Group on Money Laundering (APG), a multilateral body established with broad activities to combat money laundering. Also, a commitment was made by Government to the United Nations Office for Drug Control and Crime Prevention (UNODCCP) to adhere to certain minimum performance standards and Samoa has expressed its agreement with the goals of the UN Global Programme against money laundering.



Meeting with IMF Mission in September 2003 - reviewing financial services standards.

Further to its mutual evaluation by the APG in February 2001, Samoa undertook an assessment conducted by the IMF in September 2002 which again reviewed Samoa's regulatory and supervisory arrangements for the domestic and offshore banking sector in accordance with the internationally accepted standards. The IMF mission also assessed the compliance of Samoa's legal, institutional and supervisory frameworks with international standards regarding anti-money laundering and combating of financing of terrorism. Several recommendations were made by the IMF in order to further improve Samoa's position in keeping with best international practices and standards.

In October 2002, Cabinet approved for Samoa to gain access and ratify the United Nations Convention Against Illicit Traffic in Narcotic Drugs

and Psychotropic Substances done at Vienna in 1988. In this connection, the Attorney General is currently preparing the appropriate legislation to give effect to this decision.

5.2.2 Further Review and Amendments of Relevant Legislation

To ensure a sound and effective legislative framework is in place for Samoa's banking 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 Money Laundering Prevention Act 2000 and the Financial Institutions Act 1996. 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.

It is proposed for the relevant legislation to be submitted for approval of Parliament at its next Sitting at the end of 2003.

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 2000, 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, nine (9) suspicious reports have been submitted 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.

The Bank is grateful for the technical assistance received over the past under the International Monetary Fund (IMF) and the Asian Development Bank (ADB) Projects which greatly helped its efforts to develop and strengthen the capacity of the FIU in dealing with its statutory functions.

In the meantime, the Bank shall continue to explore and coordinate training opportunities for developing its staff capacities for the effective undertaking of its 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.

5.4 SIX MONTHS OVERVIEW

5.4.1 Six Months Performance to end June 2003

The banking system recorded a steady increase in total assets to \$477.0 million, up by 2.5 percent (\$11.5 million) in the first six months against total liabilities of \$391.0 million which grew by 2.1 percent (\$8.2 million). On an annual basis, it indicates an overall growth in total assets and liabilities by 4.4 percent (\$20.1 million) and 3.5 percent (\$13.5 million) respectively.

For the period under review, much of the growth was attributed to the steady rise in loans and advances by 5.4 percent (\$17.2 million) to \$334.2 million against a relatively slow growth in deposits (which amounted to \$370.4 million), which rose minimally by 1.0 percent (\$3.6 million) over the period. The total loans to deposits ratio stood at 90.2 percent (80.0 percent in June 2002).

Whilst the above trend may reflect a typical performance in banking business, there are however indications of undue pressure emerging. This is mainly as a result of the rise in non-performing loans which reached \$10.2 million (equivalent to 3.0 percent of total loans and advances) coupled with a down-

ward trend in liquid assets which dropped markedly by 30.5 percent (\$15.3 million) during the six months period. To date, total liquid assets represents 10.8 percent of total domestic deposit liabilities. Banks have, however, constantly reviewed their level of provisions for problem loans in view of performance of their loan portfolios. As indicated, total provisions of \$11.8 million, equivalent to 3.6 percent of total loans and advances was recorded.

The banking system nevertheless, remained strongly capitalized, recording a capital ratio of 28.1 percent at end June 2003, up slightly from 27.0 percent when compared to the same period in 2002. On average, total capital level was maintained at around 25.0 to 26.0 percent during the six months period which adequately conformed with the Central Bank's minimum capital requirement of 15.0 percent.

5.4.2 Establishment of the Fourth Commercial Bank in Samoa

The Central Bank issued on 7 April 2003 a bank licence for the establishment of the fourth commercial bank in Samoa, namely, Samoa Commercial Bank Limited (SCB Ltd).

The issuance of the fourth banking licence was based on the country's strong economic and financial performance, in particular, the scope of positive developments that are ongoing within the financial system. Among others, the entry of the additional bank should further provide customers and the general public with more opportunities to get access to the various banking services and products available. Furthermore, it should further promote competition and contribute to the efficiency of the banking system in general.

Expressions of interest were received from a number of interested applicants for the Central Bank to review and determine in accordance with its requirements and guidelines for establishing a bank. Generally, in considering an application, the Central Bank has regard to the economic advantage to Samoa, the need for and the viability of the financial institution proposed, its financial capacity, history and qualifications of the promoters and substantial shareholders and management, their character and experience, accounting and internal controls in managing the various risks involved in banking, including money laundering prevention and

countering terrorist financing, the adequacy and the structure of its capital and the business activities it intends to undertake.

The third bank licence was issued by the Central Bank to establish the National Bank of Samoa Limited (NBS) in December 1995. And, in the interest of the financial system, the depositors and the public in general, the Bank undertook a prudent approach to ensure that no new bank licence was issued, until such time as the banking system has developed sufficiently to allow the opportunity for the NBS to secure its establishment in the market.

The new bank (SCB Ltd) is a locally owned entity shared by credible and trustworthy individuals within the country's business community and the general public.

5.4.3 On-Site Examination of Banks

The Central Bank conducted in April 2003, its program of on-site examination of banks operation for the three commercial banks, namely; ANZ Bank Samoa Ltd, Westpac Bank Samoa Ltd and National Bank of Samoa Ltd. The examination was conducted with technical assistance from the Asian Development Bank.

The Bank's on-site examination approach is more strategically focused on the key areas of banks operation where the level of risks involved are relatively high. Hence, the scope of the examination targeted banks credit management risk and anti-money laundering systems to determine and identify any weaknesses of the banks' systems.

Overall, the exercise was a success in terms of the positive responses from management and staff of each bank regarding a number of issues addressed during the visit. On the other hand, the exposure has greatly contributed in developing supervisors hands on experience and knowledge on banks different risk management systems and controls in place for their respective operations.

In any case, the ultimate responsibility for the affairs and performance of financial institutions operating in Samoa resides solely with the boards of directors and management of those institutions. The Central Bank can neither guarantee their soundness nor can it provide complete protection for their

depositors, creditors and others with claims on them. However, by ensuring that financial institutions follow prudent management practices, the Central Bank can promote public confidence in these institutions and help to maintain a sound financial system.

6. BANKING AND CORPORATE SERVICES

The Banking and Corporate Services Department is responsible for securing adequate supply and maintaining the quality of currency issued to the public and provides banking services to the Government and commercial banks. The department also oversees exchange control, registry, services and interbank settlement, communication, information technology and publication.



Banking and Corporate Services Department - reviewing a public awareness program on banknote quality.

6.1 EXCHANGE CONTROL

The Central Bank continued to relax exchange controls imposed on the sale of foreign currency by restricted foreign exchange dealers. The Banking and Corporate Services administers the Exchange Control Regulations 1999 which focus mainly on promoting and maintaining a sustainable level of the country's foreign exchange reserves through monitoring restricted foreign exchange dealers, money transfer businesses, offshore borrowing and remittance of capital, exports and foreign currency deposit accounts.

6.1.1 Restricted Foreign Exchange Dealers

The Central Bank under the Exchange Control Regulations 1999 authorises the licensing of foreign exchange dealers in accordance with the stipulated

operating procedures and guidelines. Dealers are required to submit monthly statistical reports to the Central Bank specifying full details of all individual foreign currency transactions for monitoring purposes. The Central Bank has granted a total of three licences since the establishment of restricted foreign exchange licencing in 2000. Further relaxation of exchange controls imposed on restricted foreign exchange dealers was reflected in the increase in the sale of foreign currency from \$5,000 to \$10,000 equivalent per applicant. Dealers offer the public alternative foreign exchange dealing services.

6.1.2 Money Transfer Business

The Central Bank granted approval for the operation of one new money transfer business in 2002-2003, increasing the number of approved money transfer businesses to eight. These businesses offer competitive services in money transfer under specified limits and are required to provide periodic statistical reports to the Central Bank. With the healthy level of foreign exchange reserves, the Central Bank continued to relax exchange controls imposed on money transfer business including a further increase in the delegated authority for import payments which was increased from \$50,000 to \$80,000 per consignment.

6.1.3 Offshore Borrowing and Remittance of Capital

Prior Central Bank approval is required 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.



Banking and Corporate Services Department

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 eighteen months, the Central Bank processed an average of 200-export shipment forms per month from individual exporters for every consignment with export value of more than \$250.

The Central Bank continues to monitor the flow of capital, but more emphasis is placed on the repatriation of all export proceeds back 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. These accounts may be credited only with payments in foreign currency made by non-residents for settlement of a trade transaction, for fees and services rendered and for such other receipts as approved by the Central Bank and any interest accrued thereon. Foreign currency accounts must comply with the prevailing exchange control regulations and may be debited only with payments to non-residents for imports of goods and services and foreign exchange requirements for overseas travel as well as other overseas payments covered under the discretionary authority delegated to the commercial banks. In 2002, the number of foreign currency deposit account approvals decreased to 54 from 56 in 2001. In the first six months of 2003, the number of foreign currency deposit account approvals recorded to 33.

6.2 Banking

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

6.2.1 Customer Banking Services

Specialized 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.

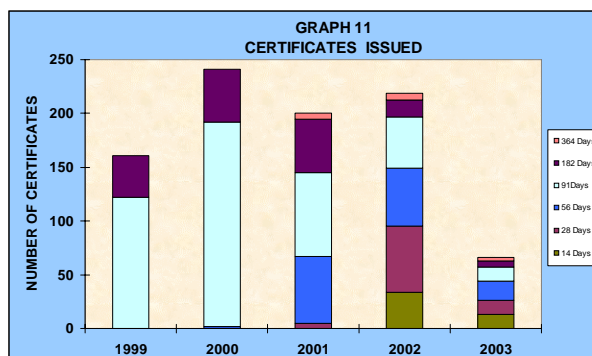


A commercial bank staff lodging a tender for the auction of Central Bank Securities

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 published in the local media and the Central Bank's website.

In 2002, 43 tenders were held compared to 29 in 2001. A total of 219 certificates were issued in 2002 compared to 200 in 2001, with durations of 14 days, 28 days, 56 days, 91 days, 182 days and 364 days. The 14 days Security was introduced in 2002 and has become a very popular investment as seen in Table 3. During the first half of 2003, 20 tenders were held and 66 certificates were issued. Please see Table 3 and Graph 11.

TERM	1999	2000	2001	2002	2003
14 Days	Nil	Nil	Nil	34	13
28 Days	Nil	Nil	5	61	13
56 Days	Nil	2	62	54	18
91 Days	122	190	78	48	13
182 Days	39	49	50	16	6
364 Days	Nil	Nil	5	6	3
TOTAL	161	241	200	219	66



During the year 2002, the Central Bank issued CBS Securities with a face value of \$145,400,000 while \$64,216,000 was issued in the first half of 2003.

Under the terms of the Financial Sector Program Loan between the Government and the Asian Development Bank (ADB), the realized interest cost of these Securities, amounting to \$1,569,021.39 for 2002 and \$614,716.43 for the first half of 2003 was met by the ADB. Accordingly, this amount is excluded from both the income and the expenses of the Central Bank's accounts.

6.2.3 Interbank Settlement



Daily settlement of cheques amongst the banks

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

One of the Central Bank target is to disseminate timely and quality information to the public and the stakeholders as part of its effort to be transparent in its work and accountable for its decisions. In line with this, the Bank continued to update and publish economic and financial information through the Central Bank's publications, press releases and other informations are available on its website. During the last eighteen months, the Central Bank continued disseminating information and explaining monetary and banking policies.

In the beginning of 2003, the Central Bank of Samoa continued its public awareness program on damaged banknotes. This included the printing of public notices in the local newspapers and press releases were sent to all local radio stations and television specials aired. Posters were distributed to local businesses illustrating the degree of acceptability of used banknote; this was reinforced by TV ads.



A float depicting themes of Samoan culture and tradition at the Teuila Festival September 2002

The Governor maintained a busy public speaking schedule in the last eighteen 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), the Inter Departmental Committee (IDC), the Exporter of the Year Awards Committee, Commercial Fisheries

Management Advisory Committee (CF-MAC) and Samoa Seafood Standards Council (SSSC). He is also the chairman of the Government Export Guarantee Scheme (GEGS) Committee.



GEGS Meeting chaired by the Governor

The Bank also provided information on the domestic economy to assist research students from the local schools. As well as conducting tours and sessions on the functions of the Central Bank for visiting colleges.

The popularity of the Central Bank's web site has continued to grow since it was launched in December 2000. With an average of 60 visitors per day resulting in several emails received requesting information on the economy, banking system and bank note collection. The website received a fresh new look in 2003 with the total redesign of the entire site, enhancing the information available and offering more services than before. 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
June issue
September issue
December issue

Include commentary on economic and financial conditions and statistical tables.

Monthly: Selected Economic Indicators
Monetary Survey
Fugalei Market Survey

Monetary Policy Statement 2002-2003 issued in September 2002.

Corporate Plan for Financial Year 2003-05 issued in June 2003.



CBS Stall at the DTCl Export Promotion, Tooa Salamasina

6.3.3 Information Technology

The Central Bank has placed strong emphasis on Information Technology over the last eighteen months. Major IT projects were the redesign of the CBS website, the upgrade of the SWIFT system and the Accounting system. Swift has commenced a global upgrade to migrate to SWIFTNet. In anticipation the Central Bank continued to liaise with Swift and its local vendor and IT Consultant to ensure smooth migration to SWIFTNet early next year. The Bank ended 2002 with a visit from the IMF to review the Book Entry System installed in 2001 and evaluate the Bank's information Technology requirements.

7. CURRENCY

The Central Bank of Samoa Act 1984 gives the Central Bank the sole right to issue legal tender banknotes and coins in Samoa. The designs and the compositions of the currency requires the approval of the Minister. Therefore, as the sole right of issuing currency in Samoa, 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 needs of the public.

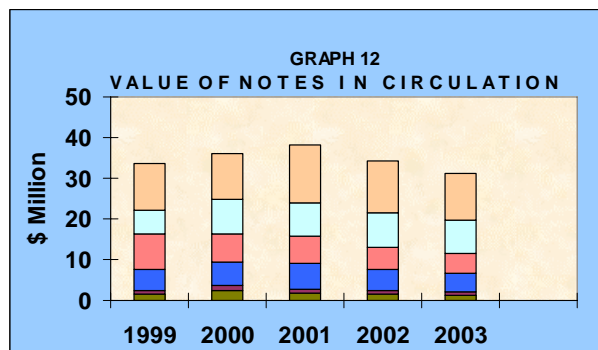
No other person is allowed to print or issue currency. And, it is an offence to deface any currency by means of writing, stamping, erasure or any other actions that would change the features of the currency.

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. The commercial banks cash operations are done in conformity with the procedural arrangements specified in the Internal Control of the cash and vault operations.

7.2 Currency in Circulation

As at 31 December 2002, the value of currency (notes and coins) in circulation amounted to \$46 million compared to \$41 million in 2001. New currency notes issued had a face value of \$37 million compared to \$23 million in 2001. However, during the first half of 2003 currency in circulation was \$32 million and new currency notes issued was \$13 million. Please see Graph 12.



Banking and Corporate Services Department - control of banknotes quality

7.3 Counting and Sorting of banknotes

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 2002-2003 increased due to writings, crumpling, tearing, removal of watermark and other damaging actions taken by some members of the public. This means more money is required to pay for the printing of new notes.

To improve the quality of banknotes in circulation, the Bank promoted TV ads to illustrate willfully damaged banknotes that were no longer acceptable, such as torn, written on and burnt notes. Posters were distributed to commercial banks and local businesses and press releases were placed in local newspapers to help build awareness among the public. Since the above publicity program, we have seen increase public awareness on the proper handling and care of banknote, which was not evident before.

Although the poor quality bank notes are removed from circulation through the use of a sorting machine, the bulk of it is sorted manually. Unissuable (soiled) notes are destroyed once a month by shredding. A total of \$37 million worth of unissuable currency notes were withdrawn from circulation and destroyed in 2002, compared to \$17 million in 2001, while \$13 million was destroyed in the first half of 2003.



Banking and Corporate Services Department - replacement of damaged banknotes from the public

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

7.4 Counterfeit Currency Notes

The year 2002-03 saw a drop in counterfeit notes presented to the Central Bank by the commercial banks, retailers and the public, following the prosecution of a counterfeiter in early 2003. The person convicted was caught by the Police with the assistance of some members of the public.

7.5 Printing of bank notes & minting of coins

There were \$31,500,000 worth of banknotes in 2Tala, 5Tala, 10Tala and 20Tala denominations printed during the year 2002-2003. The paper note denominations (5Tala, 10Tala, 20Tala, 50Tala and 100Tala) were printed by De La Rue, while the polymer note (2Tala) was printed by Note Printing Australia. There were \$772,830 worth of coins (5sene, 10sene, 20sene, 50sene, \$1Tala) which were minted by Singapore Mint.

7.6 Currency Notes and Coins for Collectors

From time to time, coins and currency notes are provided to overseas collectors. In 2002, the Bank issued about 1,342 pieces (worth \$6,561) of currency notes and about 26,886 pieces (worth \$1,851) of currency coins to 34 requests from interested overseas note and coin collectors. In the first six months of 2003, 1,385 pieces (worth \$44,744) of currency notes and 1,627 pieces (worth \$489) of coins were issued to 21 requests from interested collectors.

8. STAFF DEVELOPMENT

The Management Resources Department (MRD) is one of the two Resources Departments; the other one is the Accounting and Budget. The MRD



Management Resources Department - Reception and Records

is responsible for the Bank's building, tenants and security. But, its major task is the management of staff resources.

The Central Bank continued to provide training for its staff to further enhance both their work performance and career development. Securing training opportunities, provision of training incentives (both local and overseas), internal movement of staff through promotions and direct transfers and on-the-job training have been the main mechanisms used to achieve this goal. Staff were also encouraged to take part-time courses relevant to their line of work with local universities and other training institutions.



Management Training by an ADB Expert

Overseas training attended by staff

Except for short-term attachments, courses and seminars offered by the International Monetary Fund (IMF) and the Pacific Financial and Technical Assistance Corporation (PFTAC) were fully funded by these organizations. A total of 9 staff attended the following overseas trainings held at different venues.

- Workshop on Central Bank Accounting - IMF Singapore Training Institute
- Treasury Management Program for Central Banks - USA
- Balance of Payments Statistics - IMF Singapore Training Institute
- APG 2002 Workshop - Vancouver, Canada
- Banking Supervision Attachment with the Reserve Bank of Fiji
- IMF course for Senior Bank Supervisors from Emerging Market Economies - USA
- PFTAC Regional workshop on Regulation and Supervision of Banks/Financial Institutions - Suva, Fiji
- IMF Seminar on Legislative Drafting for Anti-money Laundering - Suva, Fiji

Local Trainings attended by staff

A total of thirty one (31) staff participated in the Management Training course organized by the Central Bank with financial assistance from the Asian Development Bank in August 2002. The course aimed to support and give greater momentum to the ongoing organizational reform process through targeted skills development for managers, assistant managers and senior staff. Topics covered included change management, leadership, operational management, negotiation skills and performance management.



Presentation of Management Training Certificates

Eight (8) staff attended short-term courses organized under the auspices of the various Government Organisations and Departments as well as those offered by the private sector.

Part-time Educational Courses

The Central Bank encourages staff to undertake further studies in their respective fields of work with either the National University of Samoa or the University of the South Pacific at the Alafua Campus. It is pleasing to note that one of the staff members graduated during the year with a Bachelor of Commerce degree with the National University of Samoa.

Staff Promotions and New Appointments

There were seven (7) promotions made during the year, which included one at the management level. As usual, this strategy not only recognizes the potential of the individual staff, and where this potential could be best utilized, but also in order to

retain a pool of human resources with the highest possible level of integrity and professionalism.

Staff Number

The Central Bank employed a total of eighty six (86) staff as at 30 June 2003.

Seven (7) new staff were recruited during the year, four (4) of whom were replacements for those who had resigned from their services with the Central Bank.

The Bank accepted five (5) scholarship students for part-time employment around the Christmas holiday period.

Work-experience Programs and visits by Secondary students

As in the past, the Bank continued to provide short-term vocational working opportunities for students



CBS information booth at the DTICI Export Promotion, Tooa Salamasina Hall

from Samoa Polytechnic Institute, the National University of Samoa and other colleges. The Bank also assisted other students who called into the Bank for research materials.

Overseas Meetings and Conferences

On several occasions, the Bank was represented by the Governor at high-level meetings, conferences and forums held overseas.



Management Resources Department

Acknowledgement

The Central Bank acknowledges with appreciation, the assistance of the following institutions in providing training opportunities for its staff;

- International Monetary Fund (IMF)
- The Pacific Financial Technical Assistance Centre (PFTAC), Fiji
- Commonwealth Secretariat
- Asian Development Bank (ADB)
- Reserve Bank of New Zealand
- Reserve Bank of Australia,
- Reserve Bank of Fiji.

Special thanks to the IMF and the ADB for their continuous support of the Bank's staff training program through the services of the following experts under their Technical Assistance Program:

- Mr. Bill Davies (ADB) - Prudential Guidelines for non-banks and review of the Bank's First Corporate Plan;
- Mr. Ernest Antoine - (ADB) Resource Person for the Management Training course;
- Mr. David Prees (ADB) - On-site Inspection of Financial Institutions;
- Mr. Pat O'Sullivan (IMF) - Money Laundering Prevention;
- Mr. Steve Austin (IMF) - Review of Insurance Legislation & Financial Institutions Act;
- Mr. Ferdie van de Walle (IMF) - Liquidity forecasting and repurchase facility; and
- Ms. Rosemarie Olaso (PFTAC/IMF) - Review of Insurance Legislation & Financial Institutions Act.

The Bank also acknowledges with sincere gratitude all other training institutions or organizations who are not mentioned in this Report but have contributed to its staff training programme during the period under review.

9. FINANCIAL PERFORMANCE

The audited accounts of the Central Bank for the period January to June 2002 and the full fiscal financial year July 2002 to June 2003 appear at the end of this Section. The first set of accounts covers the first six months of 2002 which enables the subsequent adoption, for the first time, of the fiscal year time frame (July to June) as a basis of reporting the Central Bank's financial operations since the necessary legislative amendments were made to the Central Bank Act 1984 in 2001.

According to the July 2002-June 2003 financial accounts, total assets and liabilities of the Central Bank declined \$17.8 million. On the liabilities side, there were decreases in the Non Government deposits of \$16.4 million and Government deposits of \$4.2 million. These were partly offset by increases in total reserves of \$2.6 million, and other liabilities



Accounts and Banking Department reconciling accounts of the banks

of \$0.2 million. On the assets side, a decrease was noted in external assets of \$19.6 million. This was partly offset by increases in other assets of \$1.4 million and money at call of \$0.4 million.

The Central Bank made a net profit of \$32,042 in the financial year 2002-2003. As required under Section 8(1) of the Central Bank of Samoa Act 1984, 50 percent of the profits (equivalent to \$16,021)

was transferred to the Government and the other 50 percent was transferred to the General Reserve.

Twenty percent of the credit balance of the Central Bank's Revaluation Reserve Account was payable to the Government under Section 28(3) of the Act. Accordingly, the Central Bank transferred \$2,051,480 to the Government for the 2002-2003 financial year.

9.1 Performance Budget

Under the Corporate Plan for 2001-02, the Accounting and Budget Department continued to develop and fine tune the internal budget process to improve efficiency and effectiveness of daily operations. Annual budgets are important cornerstones in the Bank's operating and policy framework and are reviewed vigorously to bring out clear linkages between each department's strategies and outputs and the Bank's vision and mission statements, particularly under the new Corporate Plan 2003-05.



Accounts and Banking Department

AUDITORS' REPORT TO THE READERS OF THE FINANCIAL STATEMENTS OF THE CENTRAL BANK OF SAMOA

We have audited the financial statements on pages 31 to 37. The financial statements provide information about the past performance and cash flows of the Central Bank of Samoa for the six months ended 30 June 2002, and the financial position on that date. The information is stated in accordance with the accounting policies set out on pages 31 to 37.

Governor's and Board of Directors' responsibilities

The Governor and the Board of Directors are responsible for the preparation and presentation of the financial statements, which give a true and fair view of the financial position of the Central Bank of Samoa for the six months ended 30 June 2002 and the financial performance and cash flows for the year ended on that date.

Auditors' responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Governor and the Board of Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It includes assessing:

- (a) the significant estimates and judgements made by the Governor and the Board of Directors in the preparation of the financial statements, and
- (b) whether the accounting policies are appropriate to the circumstances of the Central Bank of Samoa consistently applied and adequately disclosed.

We conducted our audit in accordance with International Standards on Auditing. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Central Bank of Samoa as far as it appears from our examination of those records, and
- (b) the financial statements on pages 31 to 37
 - (i) comply with generally accepted accounting policies in Samoa and
 - (ii) give a true and fair view of the financial position of the Central Bank of Samoa for the six months ended 30 June 2002 and the financial performance and cash flows for the year ended on that date.

Our Audit was completed on 29 August 2002 and our unqualified opinion is expressed as at that date.

**CENTRAL BANK OF SAMOA
BALANCE SHEET
30 JUNE 2002**

	Note	Six months to 30 June 2002 SAT\$	Twelve months to 31 December 2001 SAT\$
CAPITAL AND RESERVES			
Authorised capital	2	<u>\$10,000,000</u>	<u>\$10,000,000</u>
Paid up capital	2	10,000,000	10,000,000
General reserve	3	9,920,574	10,378,321
Revaluation reserve	4	<u>5,584,892</u>	<u>6,241,025</u>
		<u>\$25,505,466</u>	<u>\$26,619,346</u>
Represented by :			
ASSETS :			
EXTERNAL			
Money at call		54,858,044	41,667,307
Short term deposits		18,404,712	27,282,856
Bank bills		27,264,191	13,797,770
Negotiable certificates of deposits		<u>20,657,639</u>	<u>12,793,512</u>
		<u>121,184,586</u>	<u>95,541,445</u>
NON GOVERNMENT			
Money at call		171,987	289,678
OTHER ASSETS			
Notes and coins		1,979,388	2,578,087
Receivables and prepayments	8	4,172,910	5,668,316
Fixed assets	9	<u>22,052,494</u>	<u>22,544,263</u>
		<u>28,204,792</u>	<u>30,790,666</u>
TOTAL ASSETS		<u>149,561,365</u>	<u>126,621,789</u>
Less - LIABILITIES :			
DOMESTIC GOVERNMENT			
Demand deposits		28,298,604	27,769,619
Government allocation of net profit and revaluation reserve	5	<u>1,396,223</u>	<u>1,994,322</u>
		<u>29,694,827</u>	<u>29,763,941</u>
NON GOVERNMENT			
Notes and coins in circulation		32,213,861	40,591,474
Demand deposits due to banks		8,596,304	7,330,598
Statutory deposits of banks		13,827,000	13,105,000
Securities	6	<u>38,682,749</u>	<u>8,585,180</u>
		<u>93,319,914</u>	<u>69,612,252</u>
EXTERNAL LIABILITIES	7	401,437	180,914
OTHER LIABILITIES			
Creditors and accruals		<u>639,721</u>	<u>445,336</u>
TOTAL LIABILITIES		<u>124,055,899</u>	<u>100,002,443</u>
		<u>\$25,505,466</u>	<u>\$26,619,346</u>

The relevant notes on pages 33 to 36 form part of this balance sheet.

Chairman of the Board of Directors

Director

CENTRAL BANK OF SAMOA
STATEMENT OF PROFIT AND LOSS
SIX MONTHS ENDED 30 JUNE 2002

	Note	Six months to 30 June 2002	Twelve months to 31 December 2001
		SAT\$	SAT\$
INCOME			
Interest from overseas deposits and investments		1,852,870	4,675,923
Rents		573,231	1,138,027
Other income		59,618	562,753
		<u>2,485,719</u>	<u>6,376,703</u>
EXPENSES			
Audit fees		13,747	25,411
Board expenses		2,958	41,306
Communication costs		78,088	127,392
Currency issue costs		598,698	1,111,122
Depreciation	9	555,667	1,096,787
Governors' fees		4,430	7,835
Finance costs		311,338	377,580
Occupancy costs		222,353	426,156
Other administrative expenses		1,155,359	2,292,036
		<u>2,942,638</u>	<u>5,505,625</u>
NET PROFIT BEFORE INCOME TAX		(456,919)	871,078
Withholding tax/levies on overseas investment income		(828)	2,946
		<u>(457,747)</u>	<u>868,132</u>
NET (LOSS)/PROFIT FOR THE PERIOD		(457,747)	868,132
APPROPRIATIONS			
Transfer to general reserve in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		457,747	(434,066)
Transfer to Government of Samoa in terms of Section 8 (1) (b)		-	(434,066)
		<u>\$NIL</u>	<u>\$NIL</u>

The relevant notes on pages 33 to 36 form part of this profit and loss.

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 the 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 2002

	Six months to 30 June 2002 SAT\$	Twelve months to 31 December 2001 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 January 2002	10,378,321	9,944,255
Transfer from profit and loss in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.	(457,747)	868,132
Government of Samoa allocation in terms of section 8(1) (b) of the Central Bank of Samoa Act 1984 and amendments.	-	(434,066)
Balance at 30 June 2002	<u>\$9,920,574</u>	<u>\$10,378,321</u>
4. REVALUATION RESERVE		
Balance at 1 January 2002	6,241,025	5,931,137
Gains for the period in terms of Section 28(1) of the Central Bank of Samoa Act 1984 and amendments.	740,090	1,870,144
Government of Samoa allocation in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments.	(1,396,223)	(1,560,256)
Balance at 30 June 2002	<u>\$5,584,892</u>	<u>\$6,241,025</u>
5. GOVERNMENT ALLOCATIONS OF NET PROFIT AND REVALUATION RESERVE		
Balance at 1 January 2002	1,994,322	2,072,406
Payment during the year	(1,994,322)	(2,072,406)
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	1,396,223	1,560,256
Transfer of net profit in terms of section 8(1) (b) of the Central Bank of Samoa Act 1984 and amendments	-	434,066
Balance at 30 June 2002	<u>\$1,396,223</u>	<u>\$1,994,322</u>
6. SECURITIES		

Unsecured notes issued to the public as negotiable instruments, all maturing within 12 months with weighted average interest rates ranging from 4.70% to 7.25%.

CENTRAL BANK OF SAMOA
 NOTES TO THE FINANCIAL STATEMENTS
 30 JUNE 2002

	Six months to 30 June 2002 SAT\$	Twelve months to 31 December 2001 SAT\$
7. EXTERNAL LIABILITIES		
(1) European Development Fund (EDF)	395,437	174,712
(2) Inland Revenue Department - (New Zealand) -Levy	6,000	6,202
	<u>\$401,437</u>	<u>\$180,914</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	990,790	1,034,947
Prepaid expenses	1,083,979	2,521,588
Other receivables - (secured) current	149,219	307,125
- (secured) long terms	1,948,922	1,804,656
	<u>\$4,172,910</u>	<u>\$5,668,316</u>

9. FIXED ASSETS

Six months to 30 June 2002	Cost SAT\$	Accumulated Depreciation SAT\$	Net book Value SAT\$	Charge for year SAT\$
Furniture and fittings	781,682	586,034	195,648	35,469
Plant and equipment	1,677,987	1,101,965	576,022	114,755
Motor vehicles	423,827	319,680	104,147	24,159
Building	27,577,720	6,536,646	21,041,074	359,174
Computer network	242,455	106,852	135,603	22,110
	<u>\$30,703,671</u>	<u>\$8,651,177</u>	<u>\$22,052,494</u>	<u>\$555,667</u>

Twelve months to 31 December 2001

Furniture and fittings	766,333	550,565	215,768	71,063
Plant and equipment	1,630,727	987,210	643,517	232,006
Motor vehicles	423,827	295,521	128,306	48,531
Building	27,577,720	6,177,472	21,400,248	700,638
Computer network	241,166	84,742	156,424	44,549
	<u>\$30,639,773</u>	<u>\$8,095,510</u>	<u>\$22,544,263</u>	<u>\$1,096,787</u>

CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2002

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\$121,184,586 for the six months ended 30 June 2002 (December 2001: SAT\$95,541,445). 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 six months ended 30 June 2002 are SAT\$401,437 (December 2001: SAT\$180,914)

12. CHANGE IN BALANCE DATE

The legislative amendments made in August 2001 to the Central Bank of Samoa Act 1984 and amendments 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. As a start to adopting this new time frame the accounts have been prepared for the transitional period of six months (January - June 2002) prior to the use of the first full financial year (July 2002 to June 2003).

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 2002. (December 2001: Nil). The Bank has a contingent liability for the face value 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\$7,593.

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
SIX MONTHS ENDED 30 JUNE 2002

	Six months to 30 June 2002	Twelve months to 31 December 2001
	SAT\$	SAT\$
CASH FLOWS FROM/ (TO) OPERATING ACTIVITIES:		
Cash income received from investments	1,956,646	5,805,259
Cash received from rent	669,506	1,039,379
Net gain on revaluation reserve	740,090	1,870,144
Cash received/ (paid) from/for services	592,964	(4,156,690)
Cash paid to employees	(687,526)	(1,390,631)
Interest paid on deposits	(145,180)	(475,509)
Cash paid/transferred to Government on revaluation reserve and net profits	<u>(1,396,223)</u>	<u>(1,994,322)</u>
Net cash provided by operating activities	<u>1,730,277</u>	<u>697,630</u>
CASH FLOWS FROM/ (TO) INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	-	42,539
Purchases of fixed assets	<u>(63,898)</u>	<u>(311,229)</u>
Net cash used in investing activities	<u>(63,898)</u>	<u>(268,690)</u>
CASH FLOWS FROM/ (TO) FINANCING ACTIVITIES:		
(Decrease) /Increase in notes and coins in circulation	(8,377,613)	2,651,277
(Decrease) /Increase in deposits by domestic Government	(69,114)	14,753,542
Increase/ (Decrease) in securities	30,097,569	(9,433,052)
Increase/ (Decrease) in external liabilities	220,523	(1,475,283)
Increase/ (Decrease) in deposits due to banks	<u>1,987,706</u>	<u>(6,141,076)</u>
Net cash provided by financing activities	<u>23,859,071</u>	<u>355,408</u>
NET INCREASE IN CASH	25,525,450	784,348
Cash and cash equivalent at beginning of the period	<u>95,831,123</u>	<u>95,046,775</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$121,356,573</u>	<u>\$95,831,123</u>
CASH AND CASH EQUIVALENTS:		
Money at call - external	54,858,044	41,667,307
- domestic non government	171,987	289,678
Short term deposits - external	18,404,712	27,282,856
Bank bills	27,264,191	13,797,770
Negotiable Certificates of Deposits	<u>20,657,639</u>	<u>12,793,512</u>
	<u>\$121,356,573</u>	<u>\$95,831,123</u>

The relevant notes on pages 33 to 36 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. The Office performs extremely well and funds its own budget every year. 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.



Offshore Finance Centre - updating and reconciling registration records of international business companies.

I. 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 1988
- * Segregated Fund International Companies Act 2000

The Office is managed by the Registrar who is assisted by an Advisor, an Assistant Registrar, an Assistant Accounts Manager and support staff. It employs a total of 10 staff.

Following the commitment by the Samoan Government in April 2002 to the Organisation for

Economic Cooperation and Development (OECD) initiative on Harmful Tax Competition, the Samoa Offshore Finance Centre has been involved in consultations with the OECD and other committed jurisdictions in developing the framework for implementation of the commitment and ensuring a "level playing field" for all OECD and non-OECD countries..

The Centre also underwent a Module 2 Assessment from the International Monetary Fund (IMF) as part of its global assessment of all offshore finance centres and their regulation and supervision of financial services. This project stems from the Financial Stability Forum (FSF) initiative on improving supervisory standards towards internationally accepted standards of best practice.

2. INCORPORATIONS

Despite the number of initiatives from international organisations such as OECD, IMF and FATF (Financial Action Task Force) who focus attention on the operations of smaller offshore centres, the number of companies we incorporated in the past 18 months (1 January 2002 to 30 June 2003) continued to increase. This increase is a positive indication of investors confidence with our Centre especially from our central market, Hong Kong.

In the past 18 months, the number of new incorporated companies reached 4,265 (including 2,571 companies incorporated in 2002 compared to 2,116 companies incorporated in 2001). We also registered 14 new long term companies and 9 new trusts.

Entities on the register as at 30 June 2003 include 9,082 international companies, 137 long term companies, 166 international trusts, 8 offshore banks, 3 insurance companies, 3 segregated funds and 5 trustee companies.

Since the establishment of the Offshore Finance Centre in October 1988, the total number of entities that have been registered were 13,753 international companies, 192 long term companies, 328 international trusts, 25 offshore banks, 19 insurance companies, 3 segregated funds and 7 trustee companies.

3. REVENUE

The increase in new incorporations and renewals is reflected in higher levels of revenue and profits made during the past 18 months. Total Revenue reached \$11,669,430.00 which earned a net profit \$10,207,092.00. The change in financial year from the calendar year to the Government's fiscal year (1 July to 30 June) makes it difficult to compare our reported 18 month performance against our past performance in 2001 which was done on a 12 month period. However, our overall financial performance is much higher than ever in the past.

The main source of income for the Office comes from offshore business. The only other source of income comes from interest earned on term deposits that are placed locally with domestic banks. Total interest earned in the past 18 months was \$1,545,786.00.



Offshore Finance Centre

4. STAFF ACTIVITIES

Training for development of staff has always been a priority and through attachments and participation in various regional and international conferences, senior staff have been able to rapidly enhance their knowledges and performances. As such, staff attended:-

- the meeting of the Offshore Group of Insurance Supervisors in Turks & Caicos
- the meeting of the Offshore Group of Banking Supervisors and the International Conference of Banking Supervisors in South Africa

- the meetings of the International Trade and Investment Organisation and the Organisation for Economic Cooperation and Development in Grand Cayman Islands
- the International Tax and Investment Organisation Workshop in London
- the 20th Cambridge International Symposium on Economic Crime in England
- the Regional Workshop on the Regulation and Supervision of Banks and Financial Institutions in Fiji
- an attachment with the Australian Securities and Investments Commission and the Australian Tax Office
- an attachment with the New Zealand Registry of Companies in Auckland

5. PROMOTION

In March 2003, the Hon. Deputy Prime Minister and Minister of Finance led a Government delegation comprising the Parliamentary Under Secretary of the Ministry of Finance, the Governor of the Central Bank of Samoa, and the Registrar of the International Companies Office on a planned promotional visit to Bangkok, Shanghai and Hong Kong. It was a necessary reactivation of our promotional efforts as the last time we went on a similar visit to support campaigns of our trustee companies was back in 1999. With assistance from our trustee companies, we capitalised on this opportunity to maintain our clients confidence by assuring them of the continuous commitment of our Government towards a well managed and credible offshore jurisdiction and by detailing the responsible manner which our jurisdiction is dealing with all topical issues such as combating money laundering and financing of terrorism, know your customer, harmful tax practices, and international standards of best practice.

Because of the outbreak of Severe Acute Respiratory Syndrome (SARS) in Asia, the promotional tour to Shanghai and Hong Kong was postponed.

6. DEVELOPMENTS

Important developments in the past 18 months :-

- The International Banking Bill 2003 will be tabled in Parliament in late 2003 to ensure that our offshore banking legislation addresses requirements of the Basel Core Principles for

Effective Banking Supervision following the International Monetary Fund Module 2 Assessment of Samoa's offshore banking sector.

- Amendments to the International Companies Act 1987 will also be enacted to deal with the issue of bearer shares to implement the FATF, OECD and IMF recommendations.
- The International Monetary Fund also provided technical assistance in training to help the offshore industry combat money laundering. Workshops on anti money laundering procedures were done for all trustee companies and an on-site inspection manual was compiled for the Centre to guide inspection work. Exploratory discussions on the possibility of further diversifying our product base in the near future to include Mutual Funds were also promising.
- The Asia Pacific Corporate Registers Forum reinforces the importance of having a reliable computerised system to support a continuous growth of business and to remain competitive. As the Centre gets more and more business every year we are contemplating setting up an on-line system in the future.
- At the Inaugural Meeting of the Joint Ad Hoc Group on Accounts in the Cayman Islands, Samoa earned the distinction of being elected the leader of the Informal Contact Group for the Asia-Pacific region.

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 this year.
