

CENTRAL BANK OF SAMOA

**ANNUAL REPORT
FOR THE FINANCIAL YEAR
1 JULY 2004 - 30 JUNE 2005**



5 April 2006

The Honourable Speaker
Legislative Assembly of Samoa

Pursuant to section 47 of the Central Bank of Samoa Act 1984, I have the honour to submit the report of the Central Bank of Samoa on its operations for the twelve months ended 30 June 2005, together with the audited accounts for that period and the report of the Auditors on those accounts.

(Misa Telefoni)
DEPUTY PRIME MINISTER and
MINISTER OF FINANCE

5 April 2006

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

Dear Deputy Prime Minister and Minister of Finance

I have the honour of submitting the Annual Report of the Central Bank of Samoa, for the financial year 1 July 2004 to 30 June 2005:

- (a) a review of economic performance and policies during the twelve months to end June 2005;
- (b) a report on the Bank's operations during the same period; and
- (c) the Bank's annual accounts for the twelve months ended June 2005 and the auditors' report.

Yours faithfully

(Leasi Papali'i T. Scanlan)
GOVERNOR

CENTRAL BANK BOARD

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



Standing : L-R. Muliagatele Leki MacDonald, Lealiie'e Rudy Ott, Leasi Papalii T. Scanlan
Sitting : Ms. Hinauri Petana, Norman Wetzell

MANAGEMENT



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

Sitting: L-R Magele Filipo Magele Penn - *Deputy Governor*, Alosamoa Erna Vaai - *Registrar Samoa International Finance Authority*, Atalina Enari - *Manager Financial Markets*, Leasi Papalii Tommy Scanlan - *Governor*.

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I. OVERVIEW

1. A SNAPSHOT:

This Annual Report covers the operations and activities of the Central Bank for the financial year July 2004 to June 2005. It is the second such Annual Report to cover the full fiscal year (July-June) following a legislative change to the financial year of the Central Bank from the calendar year (January-December) to the fiscal year (July-June) under the Central Bank of Samoa Amendment Act 2001.

Following financial policy changes in recent years, this Annual Report for the financial year 2004-05 is focused more on explaining the operations and activities of the Central Bank during the twelve months to June 2005 and less emphasis on the detailed economic analysis. More detailed information on the country's economic performance and developments are covered in other publications of the Central Bank, most of which are compiled and published on a monthly basis.

As in the past years, activities in the Samoan economy during the financial year 2004-05 were influenced by both external and domestic factors.



Deputy Prime Minister & Minister of Finance, Hon. Misa Telefoni delivering keynote address at the National Stakeholders' Summit on the Strategy for the Development of Samoa 2005-07, Tooa Salamasina Hall, October 2004.

2. THE WORLD ECONOMY:

The world economy performed exceptionally well in 2004-05 overshooting the forecasts for economic growth and world inflation. World economic growth grew at an impressive 4.7 percent versus the forecast

of 3.3 percent with world inflation of 1.9 percent also surpassing the forecast of 1.4 percent.

Macroeconomic policy setting around the world was generally contractionary as inflationary pressures became more prevalent. On the exchange rate front, most of the major currencies were generally stronger against the US dollar as it continued to be pressured by the massive US current account deficit.

Driving the global expansion into surpassing the forecast figures, was a combined effort from China and the US economy. Both have been leading the front on economic expansion and are also expected to continue the lead, to end 2005-06 at 4.3 percent. Risks to this outlook remain in the form of US dollar weakness, continued high oil prices and heightened geo-political uncertainty. The world inflation rate, on the other hand, is expected to remain at a moderate level of 2.1 percent for 2005-2006.

For the US economy, real GDP increased by 0.8 percent in the June quarter, to be 3.6 percent higher over the year. This was attributed to the improvement in various economic settings such as firm labour market conditions, further increases in household wealth, a recovery in consumer confidence, and an increase in consumption and investment. Consumer Prices as of June, on an annualised basis, was 2.5 percent with the unemployment rate steady at 5 percent, while retail sales registered a big upward move of 9.8 percent. The Fed funds rate was tightened 25 basis points at every policy meeting since mid 2004 and at end June 2005 stood at 3.25 percent.

The Australian economy remained steady in 2004-05. At end June 2005, real GDP growth was only 0.7 percent for an annualised rate of 2.3 percent. The result comes about due to an easing in domestic demand with households appearing to have entered a period of balance-sheet consolidation. Consumer price inflation remained stable at around 2.5 percent over the year to the June quarter and capacity utilisation for the June quarter remained close to its highest level in more than a decade. The Reserve Bank of Australia at end June 2005 held its official target rate at 5.5 percent.

The New Zealand economy performed brilliantly in 2004 with a growth rate of 5.0 percent. It then tapered off and by the June 2005 quarter was a mere 1.1 percent pace for an annualised figure of 3.1 percent. This result has come about as economic prospects have been curtailed on the supply side by capacity constraints and on the demand side by tighter monetary conditions. More specifically: ongoing strength in the housing market, rapid credit growth, potential pass-through effects to inflation from higher petrol prices, and the risk of higher inflation expectations became imbedded. The Reserve Bank of New Zealand's Official Cash Rate as at end June 2005 stood at 6.75 percent.

The Japanese economy after encountering a mild recession last year, bounced back smartly in 2005. Following its earlier achievement in the March quarter of 1.2 percent growth, June 2005 real GDP growth registered a 0.8 percent increase for an annualised rate of 2.3 percent. This was supported largely by robust private consumption and a strengthening labour market. Furthermore, a weaker Japanese Yen helped to boost profits while net exports, on the other hand, contributed little to growth. For the same period, business confidence increased with firms revising upward their investment plans. The Bank of Japan at end June 2005 maintained its near-zero interest rate policy.



LDS Temple, Pesega

In the Euro area, growth remained subdued with a 0.3 percent growth in the June 2005 quarter that translated into only 1.1 percent in the year to end June. Weighing on the Euro area's growth prospects were: a strong Euro, low consumer confidence, soft

labour conditions and subdued household spending. The European Central Bank at end June 2005 held its interest rate at 2 percent.



Complete Phase I of the Aggie Grey's Lagoon Beach Resort and Spa, Mulifanua

3. DOMESTIC MONETARY POLICY AND CONDITIONS IN 2004-2005

In the financial year 2004-05, domestic fiscal and monetary policies were focused more on facilitating an expeditious recovery from Cyclone Heta, which struck the country in January 2004, and to boost real economic growth. Accordingly, the Central Bank of Samoa continued to focus on driving down official interest rates throughout the year. On the other hand, fiscal policy was tighter than expected, with the Government Budget for the financial year 2004-05 closing with an overall surplus.



Pumpkins at the Fugalei Market

Growth was expected to be led by the booming construction sector, large inflows of foreign aid, private remittances and further expansion in the tourism sector. With the expected recovery in the

world economy, the balance of payments was forecast to generate an overall surplus despite the



Cabbages at the Fugalei Market

anticipated sharp rise in imports of goods and services. Headline inflation was expected to continue to feel the aftermath of Cyclone Heta, rising to 16.3 percent in December 2004 before eventually declining to 7.8 percent at the end of the financial year, with the underlying rate of inflation forecast to register at around 2 percent.



New Aquatic Centre at the Tuanaimato Sports Complex.

In the event, monetary policy was focused on supporting fiscal policy in boosting real economic growth in 2004-05. In pursuing that monetary policy stance, interest rates were encouraged to remain or fall further from their prevailing levels. This, as a result, was expected to increase bank credit to the private sector and money supply in 2004-05.

Actual figures showed that Government's financial operations closed the financial year 2004-2005 with an overall budget surplus of \$3 million compared to a deficit of \$9 million in the approved budget estimates. Despite this positive outcome in the budget, there were outstanding Government commitments on procurement of goods and services during the year which were due for payment. Nevertheless, the budget surplus soaked up some of the surplus liquidity in the financial system.



A front view of Gym No. 1

On the monetary side, an overall surplus in the balance of payments in 2004-05 saw the level of net foreign assets (NFA) rise 35 percent (\$59 million) on a point-to-point basis, much higher than expected. On the other hand, net domestic assets (NDA) declined 0.8 percent (\$1.5 million), 2 percent (\$5.0 million) lower than projected. With rehabilitation activities following Cyclone Heta, coupled with construction activities relating to tourism, education and sports development, private sector credit



New Buildings for the NUS

expanded 7 percent (or \$24.5 million). This growth was slightly lower than anticipated for the same period. In the event, M2 grew by a significant 15 percent (or \$57.6 million) in contrast to a 7 percent (\$28.6 million) growth projected for end June 2005 (on a year on year basis).

In effect, the commercial banks level of excess liquidity rose steadily from \$23.6 million in June 2004 to close the fiscal year in June 2005 at \$49.2 million. This resulted in reducing the level of official interest rates and thus exerting downward pressure on the commercial banks' lending and deposit rates. The overall weighted average interest rate on CBS securities dropped to 3.52 percent in June 2005 from 3.97 percent in June 2004. At the same time, the commercial banks' weighted average interest rates for lending remained at 11.29 percent at end June 2005 while that of deposits fell to 4.39 percent from 4.48 percent at end June 2004.



New buildings for the National University of Samoa, Le Papaigalagala.

On an annual average basis, therefore, excess liquidity in the financial system during 2004-05 was at a level of about \$30 million, as Government's net deposits with the monetary system improved 9 percent. This saw private sector credit surge at an annual average rate of 12 percent due to the high demand from the construction industry. With NFA expanding substantially during the year, money supply (M2) rose significantly by 11 percent in the period under review.

In nominal terms, the Tala appreciated 0.36 percent in the year to end June 2005, easing somewhat the pressure on imported inflation. And, there were no changes to the Central Bank's Exchange Control Regulations during the fiscal year under review.

4. MACRO-ECONOMIC PERFORMANCE IN 2004-05

Available figures show that the economy performed extremely well in 2004-05. Real GDP grew much stronger than expected, led by strong public and private sector construction activities and further growth in tourism earnings, private remittances and grants from abroad. On the external sector, the balance of payments recorded an overall surplus despite a sharp increase in imports of goods and services, pushing up the level of international reserves above the minimum target level of 4 months imports. Headline inflation remained high, but declined steadily throughout the year, reflecting the pass through impact of Cyclone Heta and international oil prices. However, leaving aside the unavoidable impact of Heta and internationally induced oil price rises, the underlying rate of inflation subsided continuously.



Fishing boats moored near the Fish Market.

4.1 Real sector

Gross domestic product for 2004-05 increased 5.6 percent in real terms reflecting strong growths in the "Construction", "Transport and communication", "Agriculture, finance and business services" and "Commerce" sectors, with some improvements in "Fishing", "Public administration" and "Hotels and restaurants".



Cabbages at the Fugalei Market.

During the year, the agriculture sector rebounded 15 percent reversing the declining trend over the past eight years. This reflected the increases in the production of most agricultural commodities particularly taro, banana and taamu following the



Taamu on sale at the Fugalei Market.

intensive replanting and rehabilitation efforts to recover from Cyclone Heta as well as notable improvements in the production of export commodities such as nonu and coconut products. The fishing industry slipped 3 percent in the year



Local fish catch at the Fish Market.

under review. The construction sector recorded a major boost in 2004-05 reflecting large projects such as the SamoaTel Headquarters, Aggie Grey's Faleolo Resort, Aqua centre, Taumeasina Hotel, the LDS Temple and Church, the NUS/Polytechnic joint campus buildings and other major private sector works. Likewise, the transport sector, which is closely associated with the construction sector, also recorded a 9 percent improvement. "Communication services" also expanded with the opening of the new SamoaTel Headquarters. Additionally, the "Finance and business service" sector increased 8 percent while the "Commerce" sector rose 6 percent following on from strong growth in previous years. to higher numbers of visitors to the country. "Electricity and water" grew 2 percent reflecting the completion of new water pipes around the rural areas while "Personal and other services" and "Ownership of dwellings" each rose 2 percent.

4.2 Balance of payments

The balance of payments in 2004-05 registered an overall surplus of \$36 million, marginally down from the overall surplus of \$37 million in the previous year.

The overall surplus in 2004-05 was due to substantial capital inflows, which managed to offset hefty increases in the current account deficit and financial outflows.



Oil tanker unloading at the Apia Port.

The current account deficit widened significantly due to a 23 percent increase in the merchandise trade deficit, a 16 percent drop in net earnings from services and a large jump in net outflow of income. Total imports for the year as a whole rose 19 percent

to \$465 million due to increases in all categories of imports with non-petroleum private sector imports up 16 percent, petroleum imports up 31 percent and Government imports leaping to \$4 million. Total exports, however, fell 14 percent to \$35 million due mainly to lower proceeds from garments and coconut cream.

Tourism earnings amounted to \$192 million, 8 percent higher than in 2003-04 as a result of strong average tourist expenditure in 2004-05 despite a slight drop in arrivals. The decline in total arrivals was due to a 21 percent fall in visitors from American Samoa, which offset gains in arrivals from New Zealand, Australia and the USA. "Other services" recorded a net outflow of \$78 million reflecting large



Aggie Grey's Lagoon Beach Resort

payments for services such as transportation (freight and airfares), technical services (TA's) and telecommunication services while earnings from export processing rose 12 percent to \$29 million in the year under review.



New buildings for the National University of Samoa, Le Papaigalagala.

There was a hefty net outflow of \$22 million in the Income Account in 2004-05 compared to a net outflow of only \$1 million in 2003-04 as a result of large dividend payments by the ANZ Bank, WESTPAC Bank, British American Tobacco Company and other foreign owned companies.

Current inward transfers expanded 28 percent or \$60 million to \$280 million reflecting a 14 percent rise in private remittances to \$241 million and a huge increase in current official transfers from \$8 million in 2003-04 to \$39 million in 2004-05. The hike in private remittances was due to a 35 percent jump in funds for 'charitable organisations', compliments of the large Latter Day Saints Church projects at Pesega (Temple and Church buildings). The bulk of



LDS Temple at Pesega.

the increase in private remittances during the year under review came from the US, New Zealand, Australia and American Samoa.

The capital account surplus surged to \$154 million in view of substantial project grants received by Government for the construction of the South Pacific Games 2007 sports facilities, renovation of various Government schools, the start of the NUS/ Polytechnic joint campus and other extensions and projects. On private capital transactions, a \$10 million inflow was recorded partly reflecting the commencement of the Taumesina Hotel project.



New Gym No. 1 at the Tuanaimato Sports Complex.

4.3 Prices

With both domestic and external pressure affecting the economy in 2004, the subsequent inflationary trend was unfavourable in the first half of the 2004-05 fiscal year before it eventually slowed down in the latter half as a recovery in the agricultural and fisheries sectors started to exert downward pressure on prices.

Following the devastation of Cyclone Heta in early January 2004 on agricultural production, the consequent rise in local food prices was unrelenting throughout the year, with the first half of the fiscal year under review recording a 32 percent increase in the overall price level for the Fugalei Market. However, with the recovery in supplies of agricultural



Tomatoes on sale at the Fugalei Market.

produce back to their pre-cyclone levels, as well as the steady improvement in fish catches from lingering El-Nino effects, overall consumer prices subsided in the second half of 2004-05. These domestic factors partially outweighed the pass-through effects of volatile international oil prices (reaching a new record high of USD \$70 per barrel following the onslaught of Hurricane Katrina in the US) and the increased electricity rates and natural gas prices in May 2005.



Prime Minister, Hon. Tuilaepa Sailele Malielegaoi and Officials inspecting Petroleum Tank Storage at Salelologa.

In the event, the annual rate of headline inflation accelerated from 0.8 percent in January 2004 to peak at 16.3 percent in December 2004 before decreasing steadily to 7.8 percent in June 2005.

5. **MACRO-ECONOMIC FORECAST FOR 2005-06**

As expected, the macro-economic results for 2004-05 were remarkable. The economy grew in real terms by 5.6 percent, headline inflation continued to decline reaching 7.8 percent at the end of June 2005 and the level of official international reserves grew by a substantial \$37 million to \$228 million.

In fiscal year 2005-06, assuming that monetary policy settings were to remain relaxed, the economy would continue heading upwards with real GDP likely to grow above 5.0 percent, boosted by a continued upswing in construction activities, tourism and private remittances. Unfortunately, the expected strong growth in the economy would come at a time

when large overseas payments are due to be made following the merger between Polynesian Airlines and Virgin Blue and increased public sector salaries and wages. This, as a result, will see the balance of payments record a very large overall deficit of some \$50 million and inflation to exceed the target of 3.0 percent. Whilst inflation is not so much of a worry, the anticipated substantial overall deficit in the balance of payments is expected to reduce the level of official reserves to just above 4 months of imports.



Visiting yachts in the Apia Harbour.

To safeguard the country's foreign exchange reserves position and to ensure that the macro-economic environment remain on a stable and sustainable footing, the growth in aggregate demand needs to be softened by implementing some gradual tightening in monetary policy in 2005-06. A tightening in monetary policy will see real GDP growth slowing down to around 4.0 percent in 2005-06 instead of over 5.0 percent (if monetary policy was to continue being relaxed). The slower economic growth rate would help contain the demand for imports, thus reducing the expected overall balance of payments deficit from \$50 million to about \$30 million. In addition, inflation would also fall from over 3 percent to the preferred target rate of less than 3.0 percent.

Tightening monetary policy will see the growth of private sector credit decline from around 14 percent to around 12 percent. As a result, money supply (M2) growth rate would slow down from 12 percent to 10 percent.

6. LOOKING AHEAD:

The world economy is forecast by the latest IMF World Economic Outlook (WEO) to continue to expand in 2005-06, albeit at a subdued pace of 4.3 percent, driven mainly by strong growth in China and to a lesser extent, the United States. Inflation, on the other hand, remains moderate with IMF forecast pointing to 1.90 percent in 2005-06. Growth in the economies of Samoa's closest trading partners - Australia and New Zealand - are also expected to slow down with forecasts for 2005-06 of 2.9 percent (from 3.2 percent in 2004-05) and 2.7 percent (from 5.0 percent in 2004-05) respectively.



Teuila Festival September 2004

Worldwide, interest rates look set to trend upwards with the official rate in the US expected to reach 4.5 percent by the end of the year while the US dollar is expected to recover against most of the other major world currencies. Crude oil prices are expected to remain high and volatile, but the IMF says that fears of this resulting in a hike in world inflation and a disruption to the world economic expansion remain low. Recently, oil prices rose above the USD \$70 per barrel mark, but the IMF WEO forecasts crude oil prices to average around USD \$54 per barrel for the remainder of 2005 before falling back somewhat in 2006.

As far as the Samoan economy is concerned, Central Bank forecasts indicate that the stability of the macro-economic environment would be at risk if monetary policy remained eased in 2005-06. With real GDP expected to continue to grow strong in 2005-06, aggregate demand is anticipated to grow

a little too fast for comfort, risking a sharp reduction in international reserves and a rate of inflation that would exceed the preferred target rate of 3.0 percent. To ease the pressure on the foreign reserves and inflation, real GDP, which on current trends, would continue to grow almost as strong as in the last financial year, needs to be slowed down a bit in 2005-06. Given an expansionary Government fiscal Budget for 2005-06, softer growth in private sector investment and consumption is required which therefore calls for some tightening in monetary policy in the period ahead.

The Central Bank has defined price stability as an inflation rate consistent with those of Samoa's main trading partners. The annual rates of inflation for Samoa's main trading partners currently average around 3.0 percent and this is the target that the Central Bank normally aims to achieve and maintain each year. However, there are times when changes to prices are beyond the realms of monetary policy, indeed beyond the control of the Central Bank. This was the case in the past two to three financial years where the sharp and continually increasing international price of crude oil combined with the adverse effects of Cyclone Heta in January 2004 to drive up the prices of petroleum products and local food.

Given that Samoa is a very small open economy with total merchandise trade alone representing around 60 percent of nominal GDP, it is therefore very important that Samoa maintains a sufficient level of international reserves to withstand large unforeseeable economic shocks. The Central Bank considers a level of gross official international reserves, equivalent to no less than 4.5 months of imports of goods, as adequate for maintaining the country's long-term international viability.

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 2004-05 as it maintained a capital ratio of 24 percent at the end of June 2005, which is well

above the Central Bank's minimum requirement of 15 percent. Total assets and liabilities grew 9 percent and 11 percent respectively, and were attributed to the increase in loans and advances by 6 percent (or \$21 million) to \$393 million, coupled with the marked increase in liquid assets by 33 percent (or \$23 million) to \$93 million. Loans to deposits ratio stood at 84 percent down from 89.6 percent at the end of June 2004. Compared to the preceding year, non-performing loans increased markedly by \$3 million (or 17 percent) to \$20 million (equivalent to 5 percent of total loans and advances). Provision for bad and doubtful debts was \$15 million thus providing a 74 percent coverage for total non-performing loans. Although this provision was 3.8 percent of total loans and advances, which is above the Central Bank's minimum requirement of 2 percent, the level of non-performing loans was still considered high and the banks have been reminded to be more responsible in implementing remedial measures to address this issue.

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



Aggie Grey's Lagoon Beach Resort and Spa, Mulifanua

In addition, the SamoaTel building complex has been completed. Together with other ongoing related capital works, including the issue of a third license for the provision of digital cellular telephone services in early 2006, this will certainly improve telecommunication services which are essential for the tourism industry. Preparatory work have already commenced on other large road and water infrastructure projects with assistance from the World Bank.

Samoa will host the next South Pacific Games in 2007 and the construction of substantial new sporting facilities are quite advance. Also, the construction of the new five storey Headquarters for the Development Bank has started and is expected to complete in 18 months time. These construction projects will continue to provide increased employment as well as other development activities for the domestic economy.



Development Bank Headquarters under construction.

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 were approved by the Central Bank Board in June 2003, the licensing and supervision of the insurance sector by the Central Bank will be covered under a proposed new Insurance legislation.



Foundation for the new Gym No. 2 at the Tuanaimato Sports Complex.

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, the drafting of an insurance bill, the proceeds of crime bill and mutual legal assistance in criminal matters bill. In addition, Samoa has taken substantial steps towards adopting the Financial Action Task Force (FATF) Revised 40+9 Recommendations on the Prevention of Money Laundering and the Suppression of Terrorism Financing. In early 2006, Samoa is scheduled to undergo a second mutual evaluation by the Asia Pacific Group on Money Laundering and the Offshore Group of Banking Supervisors to determine Samoa's compliance with these international standards.

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



New building at the National University of Samoa

During the period under review, the Central Bank worked hard to improve its services to the general public. The quality of currency notes in circulation has greatly improved as a result of the Central Bank's public awareness campaign in the past four years. To deter and prevent the counterfeiting of banknotes, new issues of banknotes with modern security features were released into circulation in April 2005.

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 1996, the Bank's supervisory role has been extended to non bank financial institutions such as the Samoa National Provident Fund and the Development Bank of Samoa.

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

At the end of June 2005, the Central Bank employed a total of 96 staff. The Bank's organization structure is provided later in this Report and is divided into six main Departments based on their operational functions.

III. CENTRAL BANK STRUCTURE

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

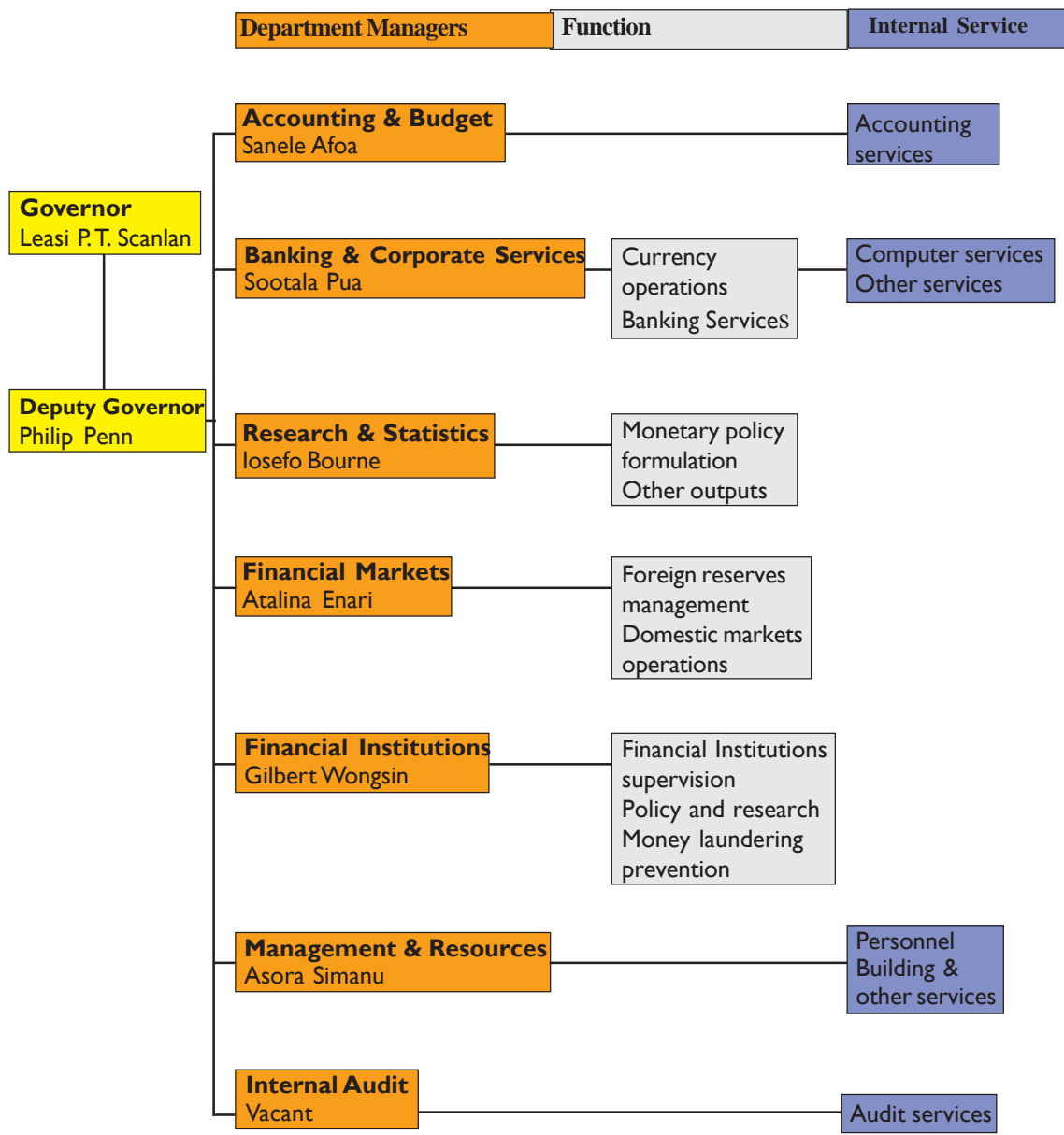
The following Chart “Central Bank Structure” gives the organizational structure of the Central Bank at the end of June 2005.

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

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

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

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



IV. BOARD OF DIRECTORS

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

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

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

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

The Board, as a whole, met on eight occasions during the twelve months to the end of June 2005.

V. GOVERNANCE

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

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

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

In addition, during the twelve months to end June 2005, Management continued to provide a wide assessment of the risks as well as appropriate compliance review to provide a mechanism for further process improvement in the system of internal control. These include:

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

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

VI. CHRONOLOGY

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

1998:

January: Liberalization of the financial system commenced with the elimination of direct controls on credit ceilings and interest rates of the commercial banks. Auction of Central Bank Securities was adopted as an indirect monetary instrument. Minimum liquid assets requirement was redefined to be equivalent to 20 percent of private sector deposits.

February: The minimum liquid assets requirement for the commercial banks was reduced by 1 percentage point per month until completely eliminated.

May: The 1998/1999 Government Budget projected a cash surplus of \$1.9 million and an overall deficit of \$11.4 million, equivalent to less than 1 percent of GDP.

June: Allowed commercial banks to engage in forward contracts with clients in the buying and selling of foreign exchange.

September: The Central Bank published the first series of commercial banks' interest rates, fees and charges.

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

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.

June: Technical adjustment to the commercial banks' statutory reserve ratio, reducing it to 4.8 percent from 5.0 percent.

August: Exchange Control Regulations 1999 became effective which, among other things, allowed the licensing of foreign exchange dealers.

September: Issued guidelines for foreign currency exposures of the commercial banks.

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

2000:

February: The Bank's Accounting computer software system became operational.

May: (a) Government launched its third Statement of Economic Strategy for 2000 and 2001.
(b) The 2000/2001 Government Budget projected a cash surplus of \$0.5 million and an overall deficit of \$40.4 million, equivalent to 3.6 percent of GDP.

June: Enacted the Money Laundering Prevention Act 2000.

July: Further relaxation of the remaining exchange control requirements on current payments.

October: (a) The Central Bank hosted the Pacific Regional Central Bank Seminar on "Central Bank Balance Sheet in a Liberalised Financial System".

(b) The Central Bank conducted a Seminar on Money Laundering for all the interested stakeholders of the financial system.

November:	Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.	year (July-June) of Government; (ii) re designate the titles of the Members of the Board as Board of Directors; (iii) re designate the title of the Chief Executive of the Bank as Governor; and (iv) appoint the Governor as Chairman of the Board.
December:	(a) Celebrated the 25th Anniversary of the Central Bank as the monetary authority. (b) Launched the Central Bank 25th Anniversary Book (c) Launched the Central Bank Corporate Plan 2001-2002. (d) Launched the Central Bank website cbs.gov.ws (e) The 2000/2001 First Supplementary budget projected a cash surplus of \$0.4 million and an overall deficit of \$44.5 million.	(b) Relaxed the limits on the sale of foreign exchange (up to \$7,000) and the remittance of foreign exchange (up to \$80,000) specifically for the payment of imports by authorized foreign exchange dealers.
		September In view of the after effects of the terrorist attacks on the US on the global economy, the Central Bank's accommodative monetary policy stance was maintained so as to support economic growth and export capacity.

2001

January	The Financial Institutions Act 1996 was amended to enable the prudential supervision of non bank financial institutions.	December Launching of the first Central Bank Monetary Policy Statement for the financial year 2001/2002.
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2002

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.	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.
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.	August : Public Awareness TV Programs on Damaged Currency Notes and Counterfeit Currency Notes.
		September: (a) IMF Assessment of the Regulation and Supervision of Financial Services.

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	(b) Public Awareness TV Program on the Government Export Guarantee Scheme.
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	(c) Issued the second Central Bank Monetary Policy Statement for the financial year 2002/2003.		the Development Bank of Samoa became effective.
November:	Annual Exporters of the Year Awards in which the Central Bank was again one of the major sponsors.	August:	On site examination of all seven Money Transfers and Foreign Exchange Dealers to ensure compliance with anti-money laundering and terrorist financing, and exchange control statutory requirements.
2003			
March:	Government/IMF Article IV Consultations.	September:	Issued the fourth Central Bank Monetary Policy Statement for the financial year 2004/2005.
Mar-Apr:	Onsite inspections of the commercial banks were carried out for the first time.	2005	
April:	Samoa Commercial Bank Limited, the fourth commercial bank, commenced operation.	March:	Government/IMF Article IV Consultations.
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.	April:	New banknotes with added security features were issued into circulation.
June:	Published the second Corporate Plan for 2003-2005.	May:	(i) Public Awareness Notices on the printed media and TV on Damaged Currency Notes and Counterfeit Currency Notes. (ii) The 2005/2006 Government Budget projected a cash surplus of \$0.05 million and an overall deficit of \$59.3 million, equivalent to about 4.2 percent of GDP.
September:	Issued the third Central Bank Monetary Policy Statement for the financial year 2003/2004.		
2004			
January:	(i) Cyclone Heta struck Samoa. (ii) Eased monetary policy by increasing commercial banks' levels of available funds for lending.	June:	Change the capital adequacy formula for banks in which the risk weighted category for housing loans was reduced from 100.0 percent to 50.0 percent, whereby the loan is fully secured by mortgage against the residential property.
May:	(i) Relaxed foreign exchange controls governing lending to non residents. (ii) The 2004/2005 Government Budget projected a cash surplus of \$0.04 million and an overall deficit of \$22.4 million, equivalent to 1 percent of GDP. (iii) Central Bank Prudential Guidelines for the National Provident Fund and		

VII. THE YEAR IN REVIEW

1. MONETARY POLICY FORMULATION

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



Research and Statistics Department

1.1 Monetary Policy in 2004/05

In the financial year 2004/05, monetary policy continued to support fiscal policy in boosting real economic growth. Despite the increasing trend in



Chief Executive Officer, Ministry of Finance, Ms. Hinauri Petana speaking at the National Stakeholders' Summit on the Strategy for the Development of Samoa, Tooa Salamasina Hall, October 2004.

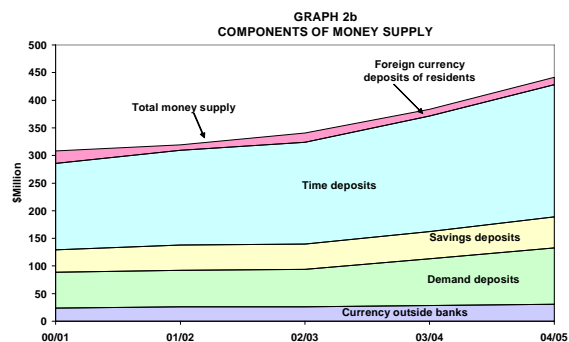
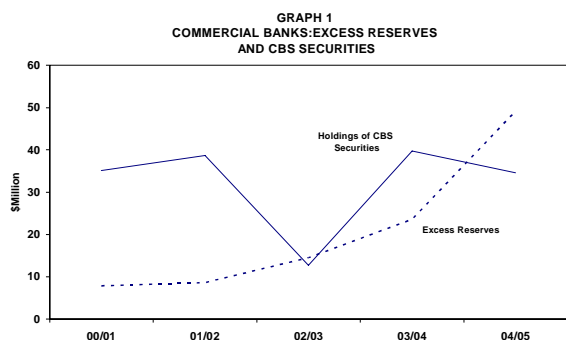
the annual inflation rate following cyclone Heta in January 2004, monetary policy maintained its accommodative stance that saw the level of official interest rates decline. As anticipated, bank credit to the private sector continued to increase and with the expected global economic recovery during the year, international reserves remained at a comfortable level above the minimum requirement of 4 months imports.

The Government operated a slightly larger budget deficit of about 2 percent of nominal GDP in 2004/05 than in the previous fiscal year, with emphasis placed on education, agriculture and fisheries, health and the rehabilitation and reconstruction of infrastructure damaged by Cyclone Heta. Actual figures showed that Government's financial operations closed the financial year 2004-2005 with an overall budget surplus of \$3 million compared to a deficit of \$9 million in the approved budget estimates. Despite this positive outcome in the budget, there were outstanding Government commitments on procurement of goods and services during the year which were due for payment. Nevertheless, the budget surplus soaked up some of the surplus liquidity in the financial system.



New buildings for the National University of Samoa, Le Papaigalagala.

In line with the Bank's relaxed monetary policy stance, the commercial banks level of excess liquidity rose steadily from \$23.6 million in July 2004 to close the fiscal year in June 2005 at \$49.2 million. This resulted in reducing the level of official interest rates, exerting downward pressure on the commercial banks lending and deposits rates. In particular, the overall weighted annual average interest rate on CBS

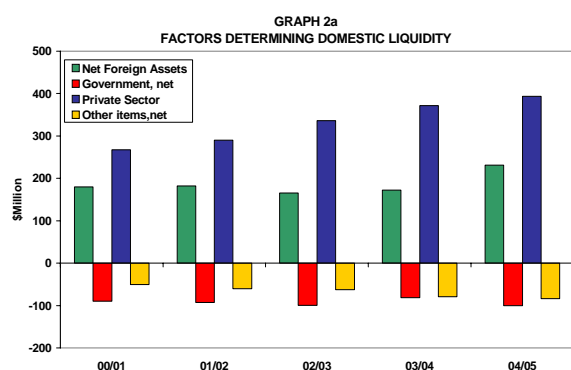


securities dropped to 3.52 percent in June 2005 from 3.97 percent in June 2004. At the same time, the commercial banks' weighted average interest rates for lending remained at 11.29 percent at end June 2005 while that of deposits fell to 4.39 percent from 4.48 percent at end June 2004. Despite this decline in interest rates, the interest rate spread of commercial banks rose at an annual average of 1 percent during the fiscal year under review.

As economic recovery advanced, assisted by the reduction in interest rates, commercial bank credit to the private sector increased at a faster average rate of 12 percent than the 11 percent in the previous fiscal year. Much of the increase in bank credit was absorbed by construction activities relating to tourism, education and sports. This, together with the larger than expected net inflow of funds from abroad resulted in total money supply (M2) expanding 11 percent, the same growth rate as was in 2003/04.

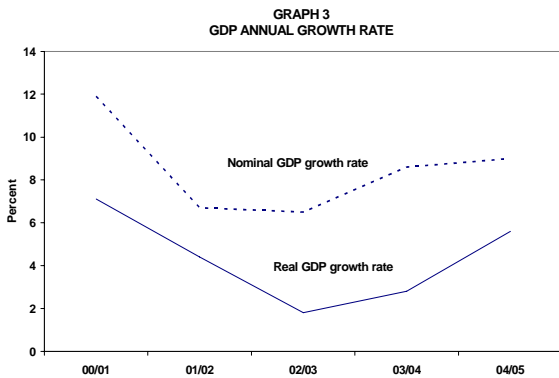
Selected Economic Indicators					
Fiscal Year to end June	00/01	01/02	02/03	03/04	04/05
(Tala Million; end period)					
Monetary Aggregates					
Net Foreign Assets	179.93	182.19	165.46	172.13	231.29
Government, net	-89.54	-93.02	-99.21	-81.60	-100.28
Private sector (1)	267.76	289.98	336.32	371.95	393.35
Other items, net	-49.88	-59.93	-62.14	-78.89	-83.14
Money Supply (M2)	308.27	319.22	340.43	383.59	441.22
Currency (2)	23.34	26.05	26.21	28.43	30.74
Demand deposits	65.33	66.24	67.62	84.20	102.05
Savings deposits	40.37	45.46	45.51	49.38	55.82
Time deposits	156.56	171.37	184.76	209.35	239.48
Foreign currency deposits (3)	22.67	10.10	16.33	12.23	13.13
Commercial Banks					
Excess Reserves	7.85	8.60	14.50	23.58	49.17
Holdings of CBS Securities	35.15	38.69	12.73	39.72	34.58
Annual rate of inflation (percent)	1.9	7.4	4.3	7.9	7.8
(During period)					
Gross Domestic Product					
Nominal (Tala million)	804.1	858.1	914.2	992.6	1082.0
Real (Tala million)	847.4	884.3	900.3	925.4	976.8
Average GDP deflator (2002 =100)	94.9	97.1	101.6	107.3	110.8
Nominal Annual growth rate (percent)	11.9	6.7	6.5	8.6	9.0
Real Annual growth rate (percent)	7.1	4.4	1.8	2.8	5.6
Balance of Payments (4)					
(Tala Million; during period)					
Exports (f.o.b)	49.9	49.7	41.3	40.8	35.0
Imports (f.o.b) (4)	-370.7	-442.6	-402.5	-391.8	-465.0
Travel, net	135.0	137.6	144.6	165.6	173.6
Private remittances, net	153.8	175.5	184.4	211.2	240.6
Government transfers, net	68.0	77.0	71.2	52.9	143.6
All other items, net	-40.7	-16.5	-75.7	-43.1	-91.6
Official Reserve Assets	-4.7	19.3	-36.7	36.6	36.2
Gross Official Reserves					
(End period)					
Months of imports of goods	5.2	4.9	4.2	5.5	5.9

(1) Includes non-monetary financial institutions and non-financial public enterprises.
(2) Currency outside banks.
(3) Foreign currency deposits of residents.
(4) The balance of payments figures have been compiled and published for the first time on the basis of the Fifth Edition of the International Monetary Fund's Balance of Payments Manual. The overall balance is defined as the change in official international reserves.

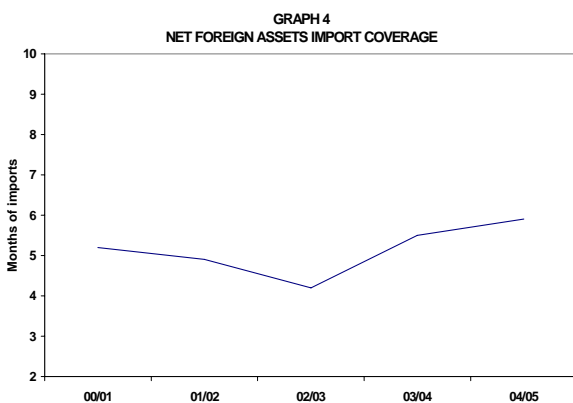


Processing of nonu products for exports

Available national accounts figures showed that the economy performed a lot better in 2004/05 than in the previous fiscal year. Real GDP grew at a much stronger 5.6 percent than expected, led by strong

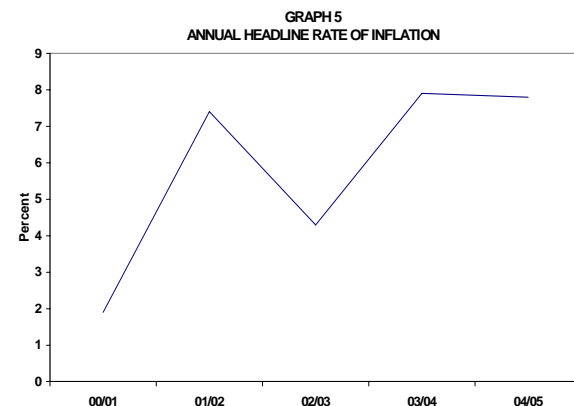


public and private sector construction activities, and further growth in tourism earnings, private remittances and grants from abroad. On the external sector, the balance of payments recorded an overall surplus of \$36.2 million, despite a sharp increase in imports of goods and services. The surplus was largely due to substantial capital inflows reflecting a notable increase in construction projects by the Government as well as the private sector. The level of net foreign assets therefore rose to \$231.3 million, maintaining the strength of international reserves at 5.9 months imports of goods.



Taro supply at the Fugalei Market

Headline inflation continued to feel the aftermath of Cyclone Heta in the first half of 2004/05, rising from 0.1 percent in December 2003 to peak at 16.3 percent in December 2004, before declining steadily to 7.8 percent in June 2005. The recovery in the agriculture and fisheries sector, in particular the resurgence in the supply of agricultural produce back to their pre-cyclone levels and the steady improvement in fish catches from the lingering El Nino effects saw consumer prices subsided in the second half of 2004/05, despite the rising international oil prices and the increased rates for electricity and natural gas. Excluding the prices of items susceptible to natural shocks and those subject to official price regulations, the underlying CPI, on a point to point basis, was 0.4 percent lower in June 2005 than in June 2004.





Pumpkins at the Fugalei Market.

For the financial year 2005/06, the macroeconomic outlook is less favourable. With the strong domestic demand associated with high economic activity, the balance of payments is expected to record a substantial deficit (\$30 million) which would lower the level of official reserves to about 4.2 months. Similarly, the headline inflation is anticipated to increase to more than the 3 percent target at end June 2006. In order to maintain high economic growth (4 percent) while at the same time sustaining low inflation and external viability, monetary policy will be tightened slightly in 2005/06. This stance should see private sector credit grow around the same rate (12 percent) as in the 2003/04 fiscal year, and total money supply (M2) to eventually slow down 10 percent at end June 2006.



Tamu on sale at the Fugalei Market.

2.0 MONETARY POLICY IMPLEMENTATION

The Central Bank implements monetary policy using market based techniques. The Bank conducts open market operations by issuing its own securities to influence the amount of liquidity in the financial system, with the intermediate target being the balance of the commercial banks exchange settlement accounts with the Central Bank. The ultimate aim was to influence the level of money market interest rates.

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

	2002-2003	2003-2004	2004-2005
Number of Floats	40	44	48
Amount Floated	\$181.0	\$264.0	\$359.0
Amount Tendered	\$199.6	\$279.2	\$488.8
Amount Allotted	\$134.4	\$215.9	\$333.4
Amount Matured	\$113.9	\$169.9	\$342.2
Amount Outstanding	\$13.1	\$40.0	\$34.83

In response to the increased number of open market operations, securities allotted rose substantially to \$333.4 million in 2004-2005 from \$215.9 million in 2003-2004. The total value of securities floated rose 36.2 percent to \$359.5 million, from \$264.0 million in 2003-2004. The total worth of bids received amounted to \$488.8 million, well in excess of the value of the Central Bank Securities floated which was an indication of the excess liquidity position in the banking system. At end 30 June 2005, \$34.83 million worth of securities had yet to mature. Total rediscounted bank bills for the period amounted to \$0.67 million, a significant improvement when compared to the previous period of \$5.49 million.



Posting results of Central Bank Security auctions

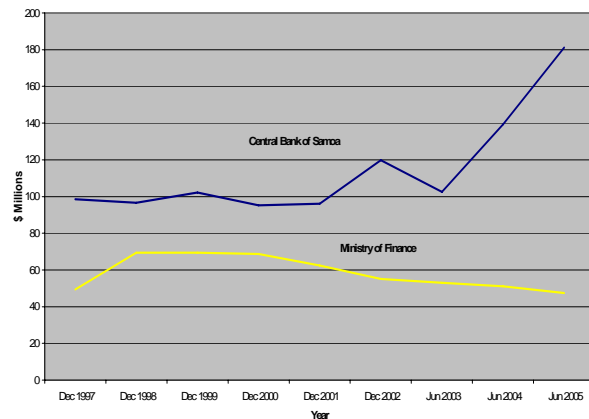
Interest rates on all the Central Bank Securities for 2004-05 declined from the previous period and by the end June 2005, were lower than the interest rates paid on commercial banks deposit of comparable maturities. However, the interest cost of conducting monetary policy increased by around 38.4 percent to \$1.8 million in 2004-05 from \$1.3 million in 2003-04. This was mainly due to the issuance of more short-term securities, in line with the easing monetary policy stance implemented during the period under review.

The repurchase facility was not utilized in 2004-05 while rediscounts were drastically reduced, implying a strengthening in the banks liquidity management.

3. FOREIGN RESERVE MANAGEMENT

At end June 2005, gross official international reserves recorded a 20.1 percent increase to \$228.6 million from \$190.3 million in the previous fiscal year¹. This increase came about due to a 30.1 percent increase to the Central Bank's foreign exchange holdings while the Ministry of Finance (inclusive of SDR holdings) recorded a 7 percent decline in its foreign exchange holdings. Of the \$228.6 million, the Central Bank held the most with 79.3 percent, with the residual 21.9 percent with the Ministry of Finance. Please see Graph 6.

GRAPH 6
Foreign Reserve Holdings



In 2004-05, the Bank continued to manage its investments within the parameters of safety and capital preservation, liquidity and profitability. Therefore, funds were continually invested in liquid short-term instruments, namely term deposits, bank bills, certificates of deposit, repurchase agreements and interest bearing call accounts with those institutions with a minimum AA credit rating, mostly other Reserve Banks.

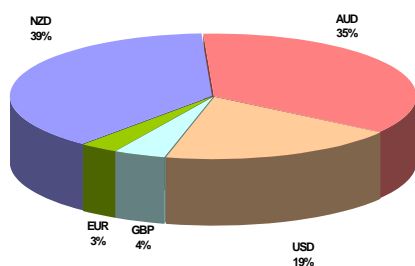
As with the past year, the Central Bank's Investment Committee, which is made up of the Governor, Deputy Governor and several senior bank officials, continued to meet on a regular basis. These meetings took place to discuss and endorse investment recommendations submitted by the Financial Markets Department.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

Net interest income from the investment of Central Bank foreign reserves in 2004-05 amounted to \$8.2 million. This was an increase of 63 percent from 2003-04 owing largely to rising interest rates in the global economy as well as the increase in foreign exchange holdings from \$139.2 million in June 2004 to \$182.44 million at end June 2005.

¹ With the adoption of the Fifth Edition of the International Monetary Fund's Balance of Payments Manual, Foreign Reserves has been renamed Official International Reserves, which include only the holdings of the Ministry of Finance and the Central Bank, exclusive of commercial banks' gross foreign reserves.

At end June 2005, the Central Bank's total foreign exchange portfolio increased from \$139.9 million in June 2004 to \$179.7 million, of which 39 percent was invested in New Zealand Dollars, 35 percent in Australian Dollars, 19 percent in US Dollars, 4 percent in British Pounds and 3 percent in Euros. Compared to the previous fiscal period, both the New Zealand Dollar and Euro holdings decreased (18.7 percent and 54.3 percent respectively), while the Australian Dollar, US Dollar and British Pound holdings increased (18.3 percent, 37.9 percent and 33.3 percent respectively).

Graph 7
Currency Composition of Foreign Reserves as at 30 June 2005.



Sapphire Princess cruise ship at Apia Harbour

4. EXCHANGE RATES

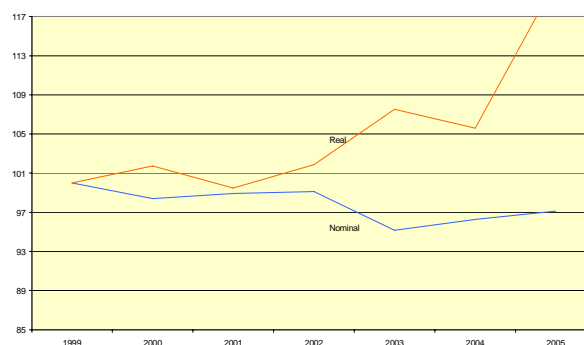
The Central Bank's main objective in managing the exchange rate of the Tala is to ensure that the value of the Tala is such that local exports remain competitive in overseas markets whilst at the same time minimizing imported inflation.

The exchange rate of the Tala is determined on the basis of a trade-weighted basket of currencies,

based on Samoa's distribution of trade, private remittances and travel transactions. This currency basket is reviewed annually to reflect changes in trade and payment patterns between Samoa and its major trading partners. On 30 May 2005, a revised exchange rate basket came into effect, with the 5 currencies inside the basket allocated with new weights. The basket comprises of the currencies of NZ, US, Australia, Euro and Fiji.

The following chart (Graph 8) 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 the fiscal year 2004-05, the Tala appreciated by 0.64 per cent in nominal terms against the currencies in the basket and also appreciated in real terms by 5.74 per cent. This movement in real terms was mainly attributed to the higher increases in prices in Samoa which contrasted with lower price increases abroad during the period under review. The high domestic rate of inflation was mainly due to the soaring increase in local food prices, following Cyclone Heta in January 2004.

GRAPH 8
TRADE-WEIGHTED EXCHANGE RATE INDEX



Container ships at the Apia Wharf

5. BANK SUPERVISION

The regulation and supervision of the commercial banks and selected non-bank financial institutions is one of the Central Bank's most important statutory responsibilities.

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



Financial Institution Department

5.1 PRUDENTIAL SUPERVISION

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

Continuing consultations and discussions were held with the banks on their performances based on prudential issues. This included the maintenance of the capital adequacy ratio, undue concentration of credit to single borrowers, the maintenance of

realistic provisions against unexpected losses and the adequacy of systems to monitor and control risks.

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

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

5.1.1 Financial Position of the Banking System for the twelve months (July 2004 - June 2005)

At end June 2005, the banking system recorded an increase in total assets by 9.4 percent (\$51.0 million) to \$591.6 million against total liabilities of \$495.2 million which grew by 11.2 percent (\$49.8 million) respectively. Much of the growth of assets was attributed to the increase in lending by 5.5 percent (\$20.5 million), coupled with the marked increase in liquid assets by 32.8 percent (\$23.0 million) to \$93.0 million over the year. Total loans to deposits ratio stood at 84.0 percent, down from 89.6 percent recorded in June 2004.

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

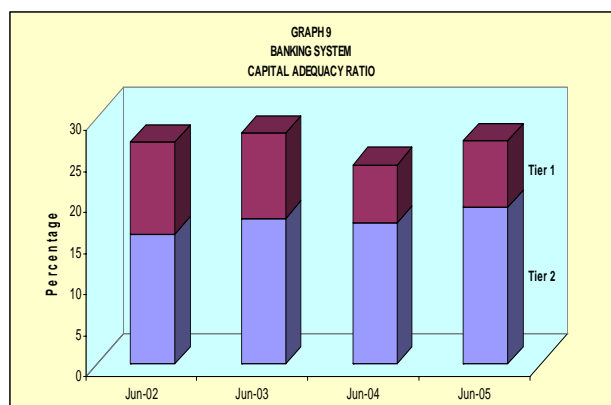
(a) Capital Adequacy Ratio

A risk-based capital adequacy ratio is required for all the banks to be maintained at all times in relation to the size and nature of their businesses. The Central Bank adopts a two tier system whereby all the banks are required to maintain at all times a minimum capital adequacy ratio of 15.0 percent in relation to

the level of their risk weighted assets. Within this level, tier one capital or “core capital” shall be no less than 7.5 percent while tier two capital or supplemental capital shall not exceed 100.0 percent of core capital.

For the period under review, the banking system remained strongly capitalized with an aggregate ratio of 27.1 percent, up by 2.9 percent from the previous year with tier one capital at 19.1 percent. These ratios are well above the Central Bank's minimum capital requirements thus providing potential capacity for the banking system to move forward in meeting future business prospects.

During the period, the Central Bank undertook a review of its capital adequacy formula in view of recent financial changes and developments influencing the financial system both locally and abroad. As a result, the Central Bank Board approved the review and change in the risk weighted category for housing loans from 100.0 percent to 50.0 percent, whereby the loan is fully secured by mortgage against the residential property. This policy change became effective on 1st June 2005.



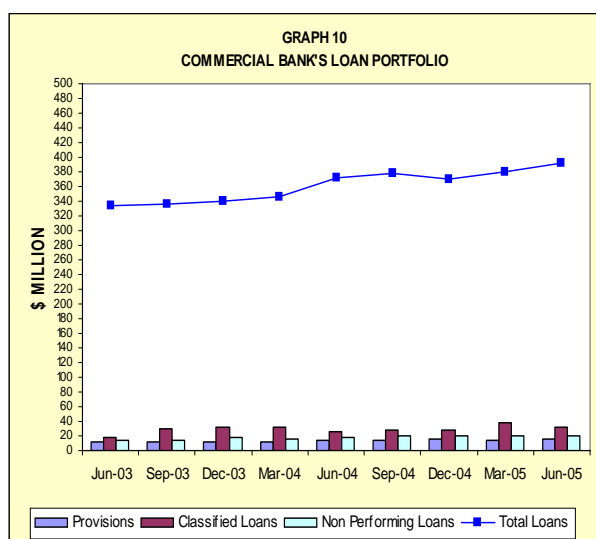
Also, banks underwent a process of capital consolidation given their own business focus and strategies, as well as recognizing the level of competition that exists within the market. Hence, there were capital injections by some banks primarily to maintain a comfortable buffer in relation to the expansion of their operations during the year. The steady rise in the level of excess liquidity in the financial system throughout the period where banks seemed to reinvest most of these funds with the

Central Bank also contributed to banks achieving higher levels of surplus capital to date.

(b) Asset Quality

The Central Bank places greater emphasis on a bank's 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, the bank must ensure that adequate provisions are maintained to cover losses on impaired assets. As loans increased in size, the risk and complexity of loans conditions also increased.

For the year under review, banks participated strongly in their lending activities. However, the quality of loan assets appeared to be weakening as reflected from the overall rise in the level of non-performing loans at the end of the review period.



In the twelve months to end June 2005, total loans and advances rose by 5.5 percent (\$20.5 million) to \$392.8 million over the previous year. At this level, non-performing loans reached \$20.3 million, representing 5.2 percent of total loans. This indicates a marked increase of \$3.0 million (17.4 percent) over the same time a year earlier. In the meantime, provision for bad and doubtful loans reached \$15.0 million thus providing a 74.1 percent coverage of total non-performing loans. At this level, it represents 3.8 percent of total loans and advances to date.

Diversification of risks is one of the fundamentals of prudent banking. Excessive concentration of risk exposure to one customer, industry, economic sector or activity jeopardizes the soundness of bank assets and has been one of the major causes of bank losses. The maximum amount of credit which a bank can extend to a single customer is twenty five percent (25.0 percent) of total capital (i.e. Total capital refers to the sum of Tier One plus Tier Two capital).

Generally, banks have dealt with their large transactions or customers within the Bank's maximum single exposure requirement throughout the year.

(c) Liquidity Management

The holding by individual banks of an adequate stock of highly liquid assets for meeting day to day liquidity needs is fundamental to sound and prudent liquidity management and to engendering public confidence in banks. It minimizes risks for banks, such as the risk of being constrained to sell assets at a substantial loss or to acquire funds at interest rates higher than banks continuous operation may be able to sustain. Since the Central Bank phased out the Liquid Assets Requirement (LAR) in May 1999, the onus has been imposed on the commercial banks to manage their day to day liquidity, as well as for handling any unexpected strain on their cash flows. As such, banks are expected to have in place effective systems for managing their liquidity positions.

Total liquid assets amounted to \$93.0 million, equivalent to 22.1 percent of total domestic deposit liabilities at the end of June 2005. At this level, it showed a significant increase of 32.8 percent (\$23.0 million) when compared to the same time a year earlier.

Evidently, there was strong growth in both savings and time deposits during the year which, among others, provided support for banks lending activities as well as other short term liquidity investment instruments, such as Central Bank of Samoa Securities (CBSS).

The commercial banks are the main subscribers of CBSS since they were auctioned by the Central Bank in January 1998. At the end of June 2005, CBS Securities totaled \$34.5 million, representing 37.0 percent of total liquid assets.

(d) Profitability

Based on banks different accounting periods, the banking system combined profit figure before extraordinary items and taxation amounted to \$16.5 million, a decrease of \$1.2 million from the previous year's level. Total operating income dropped 1.9 percent against a steady increase in total operating expenses which rose 0.9 percent.

The major contributing factors to this performance highlighted a reduction in the banks earning on commissions, charges and fees coupled with a decrease in other operating income. Further, there is a noticeable trend of write-offs by banks of their bad loans against profits which reached \$2.4 million, up slightly from \$2.3 million a year earlier. As such, the efficiency performance of the banking system has slipped slightly from 64.7 percent to 66.5 percent in the review period.

From an investment standpoint, the banking system's return on assets and net worth stood at 12.8 percent and 2.1 percent respectively, compared to 13.9 percent and 2.4 percent in the previous year.

(e) Foreign exchange net open position

The foreign exchange activities of the banks are largely trade related. The Central Bank closely monitors banks foreign exchange activities throughout the year to ensure that banks are not exposed to any major foreign exchange risks detrimental to their financial viability. Among others, this refers mainly to banks foreign exchange open overnight position by a single currency, as well as the combination of different currencies.

The emphasis is on the Board of Directors and Management of each bank to have a clear understanding and knowledge of the bank's capacity in undertaking foreign activities in relation to its

financial capacity which, among others, must have regard to the volume and size of foreign transaction deals of customers on a daily basis, the size of its capital and the ability of customers (both local and abroad) to settle their foreign transactions as they fall due.

Using their own internal management limits as previously assessed and recognized by the Central Bank as acceptable in accordance with minimum international standards, banks have operated more or less within their set approved limits from time to time.

The combined foreign assets of banks at the end of the period stood at \$63.4 million against total foreign liabilities of \$51.4 million, showing marked increases over the year by 21.9 percent (\$11.4 million) and 10.6 percent (\$4.9 million) respectively. As such, it reflected a long net open position of \$12.0 million, equivalent to 12.0 percent of the banking system's total capital.

The Central Bank encourages banks to disclose relevant financial information to improve public awareness and understanding, in particular on issues affecting customers ability to make sound financial decisions in dealing with banks.

Other useful information such as anti- money laundering issues and standards, commercial banks interest rates, and commonly used fees and charges are being regularly monitored and consulted accordingly with banks from time to time.

5.1.2 Supervision of the non-bank financial institutions

As approved by the Minister of Finance, the following non-bank financial institutions have been included in the Central Bank's supervisory framework:

- Development Bank of Samoa
- National Provident Fund
- The Colonial Insurance Company Limited
- The National Pacific Insurance Company Limited
- The Samoa Life Assurance Company Limited

- The Progressive Insurance Company Limited

The Central Bank undertakes regular analysis of financial information it receives from these institutions and make assessment in accordance with certain prudential standards to ensure financial soundness amongst the institutions.

The Bank has issued prudential standards to cover the operations of the Samoa National Provident Fund (SNPF) and the Development Bank of Samoa (DBS). Similar to the commercial banks, the standards cover the main areas of operations which, among others, include capital adequacy, asset quality in terms of asset concentration and risk exposure, provisions for losses, accounting and internal control systems.

With regards to the prudential supervision of insurance activities, a new insurance bill has been drafted and discussed with the industry. The proposed bill shall repeal and replace the existing Insurance Act 1976 and give effect to the transfer of the licensing and supervisory functions from the Ministry of Finance to the Central Bank of Samoa.

Furthermore, the proposed insurance legislation aims to achieve compliance with the Insurance Core Principles adopted by the International Association of Insurance Supervisors.

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 concerned thus ensuring that timely and corrective measures are taken as appropriate.

5.2 MONEYLAUNDERING PREVENTION

The vulnerability of the Samoan financial system, like

all other financial systems, to money laundering and terrorist financing is highly recognized. The threat that money laundering and terrorist financing could pose to national stability and credibility highlights the need for Samoa to implement appropriate legislations to combat money laundering activities and terrorist financing. 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 Central Bank plays a pivotal role in this area and has continued to develop its capacity in carrying out the functions of the Money Laundering Prevention Authority. For the effective coordination and implementation of the provisions of the Act, the Bank recognizes the important role of the Attorney General's Office, the Police and Customs Department to investigate and prosecute any person(s) involved in money laundering.

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

During the year, the Bank conducted on-site inspections on all licensed Money Transfers and Foreign Exchange Dealers established within the Samoan financial system. The main purpose of the visits were:

- To establish the capability of licensed institutions in implementing anti-money laundering and terrorist financing statutory requirements and guidelines; and
- To undertake an awareness program with licensed institutions regarding update information and current international requirements against the offence of money laundering and terrorist financing and what is expected of licensed financial

institutions in dealing with suspicious or unusual transactions in accordance with the Money Laundering Prevention Act 2000 and Regulations and Guidelines 2002.

5.3 FINANCIAL INTELLIGENCE UNIT (FIU)

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

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

For the year under review, eight (8) suspicious reports (compared to thirty nine (39) reports received in the year before) have been filed by financial institutions in accordance with their obligations under the Act and Regulations on anti-money laundering. Accordingly, further enquiries have been made by the FIU in gathering more information in order to determine further actions by the Authority.

The Central Bank is grateful for the technical assistance and training opportunities received over the past from the International Monetary Fund (IMF), the Asian Development Bank (ADB), the United Nations Global Programme for Drug Control and Crime Prevention (UNODCCP), the Asia Pacific Group on Money Laundering (APG), the Pacific Financial Technical Assistance Centre (PFTAC), the Australian FIU (AUSTRAC) and the New Zealand FIU which greatly helped its efforts to develop and strengthen the capacity of the Samoa Money Laundering Prevention Authority 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.

6. BANKING AND CORPORATE SERVICES

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



Banking and Corporate Services Department

6.1 EXCHANGE CONTROL

The Banking and Corporate Services Department administers the Exchange Control Regulations 1999 which focus mainly on promoting and maintaining a sustainable level of foreign exchange reserves conducive for the country's financial and economic stability.

6.1.1 Restricted Foreign Exchange Dealers

The Central Bank, under the Exchange Control Regulations 1999, is responsible for the licensing of foreign exchange dealers in accordance with the stipulated operating procedures and guidelines. For monitoring purposes, dealers are required to submit monthly statistical reports specifying full details of all individual foreign currency transactions to the Central Bank.

Dealers offer the public competitive foreign exchange services. Since the enactment of the Restricted Foreign Exchange License in 2000, the Central Bank has granted a total of five licenses; with two of these granted last year compared to none the previous year.

6.1.2 Money Transfer Business

The Central Bank granted approval for the operation of four new money transfer businesses in the financial year 2004-05, compared to one license the year before, increasing the number of approved money transfer businesses to thirteen. These businesses offer competitive services in money transfer under specified limits authorized by the Central Bank, and are required to provide monthly statistical reports specifying full details of individual transactions for monitoring purposes.

6.1.3 Offshore Borrowing and Remittance of Capital

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



Part of the fishing fleet

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



Nonu plant

repatriated to the domestic economy. Last year, the Central Bank processed an average of 125 export shipment forms per month from exporters compared to 155 export forms per month in the previous year.



Containers of nonu products for exports

The Central Bank continues to monitor the flow of capital with more emphasis 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. Commercial banks are allowed to open foreign currency accounts for non-residents who decide to reside in Samoa for a period of up to twelve months. The use of these accounts is for the settlement of overseas commitments pertaining to their lines of business. In the twelve months to end June 2005,

the number of foreign currency deposit account approvals granted was 56 compared with 59 approvals in the previous year. In total, there are 515 foreign currency deposit accounts which have been approved since the beginning of this facility in 1994 but only 215 are active as at the end of June 2005.



Providing customer services

6.2 BANKING

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

6.2.1 Customer Banking Services

The Central Bank continued to offer specialized banking services to the Government and a number of overseas official institutions (e.g. the European Union, Asia Development Bank and the World Bank).

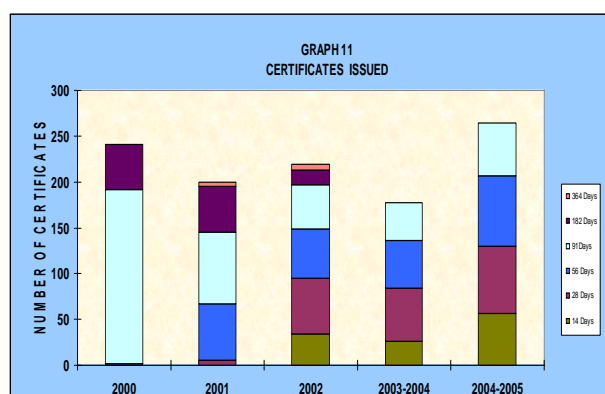
6.2.2 Registry

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

The issuance of Central Bank Securities is tender-based, with registered bidders submitting tenders based upon the invitations for tender. Details of each tender and the results are published in the local media.

In the twelve months to end June 2005, there were 48 auctions held compared to 44 in the preceding year. A total of 264 certificates were issued in 2004–05 compared to 177 in the year before, with durations of 14 days, 28 days, 56 days and 91 days issued. There were no 182 day or 364 day CBS Securities issued in 2004-05. Please see Table 3 and Graph 11.

TERM	2000	2001	2002	2003-2004	2004-2005
14 Days	Nil	Nil	34	26	56
28 Days	Nil	5	61	58	74
56 Days	2	62	54	52	77
91 Days	190	78	48	41	57
182 Days	49	50	16	Nil	Nil
364 Days	Nil	5	6	Nil	Nil
TOTAL	241	200	219	177	264



In the year under review, CBS Securities issued totaled \$333.4 million compared to \$215.9 million in the previous year.

The interest cost of these Securities, totaling \$1.8 million for 2004-05, was paid for under the terms of the Financial Sector Program Loan between the Government and the Asian Development Bank (ADB). Accordingly, this amount is excluded from both the income and expenses accounts of the Central Bank. With the closure of the ADB Loan, however, the interest cost of Securities is now provided for under the Government Budget for the FY2005-06.

6.2.3 Inter bank Settlement

The Central Bank's role, in so far as the interbank settlement system is concerned, is to be a facilitator

in ensuring the smooth exchange of payments amongst the commercial banks. It does this by providing office facilities where the commercial banks exchange cheques at the end of each business day and maintaining commercial banks' Exchange Settlement Accounts (ESAs) through which the necessary transactions are effected. In addition, these ESAs are used to settle foreign exchange and currency transactions with the Central Bank as well as dealings in CBS Securities. ESAs are required to be in credit at all times.

6.3 CORPORATE SERVICES

6.3.1 Communication

During the year under review, the Central Bank continued with the dissemination of information, and explanation of monetary and banking policies. This is an important part of the Central Bank's efforts in providing transparency in its work and accountability for its decisions.

The Governor maintained a busy public speaking schedule in the last twelve months. He was invited to speak in 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). He is also the Chairman of the Samoa International Finance Authority (SIFA), the Government Export Guarantee Scheme (GEGS) Committee as well as Chairman of the Renewable Energy and Energy Efficiency Program.

The Bank also continued to provide research information on the domestic economy to assist school students in their studies and research projects, and conducting presentations on the function of the Central Bank for visiting colleges.

The Central Bank's web site continues to grow with an average of 60 visits or hits per day, including emails requesting information on the economy, currency information, banking system and banknote and coin collection. The Central Bank's web site is <http://www.cbs.gov.ws>.

6.3.2 Publications

Annual Report and Financial Statements 2004-05.

Monetary Policy Statement 2004-2005.

Quarterly Bulletins: March issue
June issue
September issue
December issue

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

6.3.2 Information Technology(IT)

The major IT projects implemented in 2004-05 were the upgrade of the Accounts Server and the implementation of the SWIFTNet.

A new account server was installed to ensure continuity of the Central Bank's computer accounts system. This was a major project undertaken in the first half of 2005.

The Central Bank was also able to successfully implement the upgraded SWIFTNet and comply with SWIFT current standards. In addition, IT staff were sent on training held by SWIFT in Fiji for the Pacific region thus ensuring the Central Bank has trained operators and back up staff to run and maintain the SWIFT system.



A section of IT services.

7. CURRENCY

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

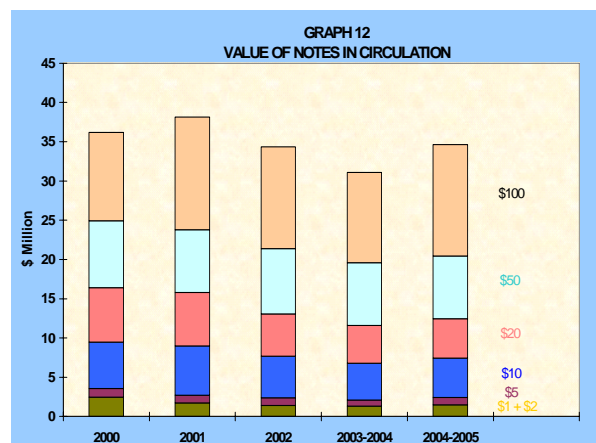
Under prevailing legislation, it is an offence to deface any currency by means of writing, stamping, erasure or any other actions that would change the features of the currency.

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, on the other hand, the commercial banks receive fewer cash deposits from their customers than the amount required for their daily operations, they make withdrawals from the Central Bank.

7.2 Currency in Circulation

As at 30 June 2005, the value of currency (notes and coins) in circulation amounted to \$38 million compared to \$35 million in the same time in the previous year. New currency notes issued totaled \$27 million (face value) compared to \$24 million in the previous year. Please see Graph 12.



7.3 Counting and Sorting of bank notes

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

The poor quality bank notes are manually sorted and removed from circulation. Unissuable (soiled) notes are destroyed once a month by shredding. A total of \$23 million (face value) of unissuable currency notes were withdrawn from circulation and destroyed in 2004-05, compared to \$18 million in 2003-04.

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

7.4 Counterfeit Currency Notes

The year 2004-05 saw an increase in counterfeit notes presented to the Central Bank by the commercial banks, retailers and the public. A total of 30 counterfeit banknotes of different denominations were found in 2004-05 compared to 12 counterfeits found in 2003-04. These counterfeits were mainly of the 100Tala and 50Tala denominations. To deter this criminal offence and to make the public more aware of this concern, the Bank continued to promote public awareness on TV Programs namely, the “Le Lali” and “E te Silafia” programs focusing on counterfeits. In addition, the Bank issued several public notices in the printed media and also distributed information posters and brochures to major business establishments as well as schools. With regards to currency notes, the Central Bank upgraded security features beginning with the new consignment issued in April 2005 which not only improved durability but also made the Tala banknote more difficult to counterfeit.

7.5 New Paper Banknotes

As mentioned earlier, a consignment of paper banknotes with new security features was received from De La Rue; these new banknotes (in denominations of \$5, \$10, \$20, \$50, and \$100)

were issued in April 2005. The decision to upgrade the quality of banknotes is in line with the Central Bank’s efforts to stop the illegal practice of printing counterfeit notes as well as to improve the quality and durability of currency notes in circulation. The main additional features of the new currency notes include the windowed clear text security thread, E type watermark highlight, cornerstone feature and platinum coating. The new security thread is clearly visible as dashes of a silver line across the front right side of the notes. Viewed from the back of the notes, the thread appears as a dark continuous line. The thread contains the text ‘CBS’ printed repeatedly along its length. When viewed against light consists of the Central Bank’s initials ‘CBS’ which shows as a light area in contrast to the dark tonality of the Head of State’s portrait in the watermark area on the front left side of the notes. The four corners of all notes have been strengthened to make them less prone to folding. A thin film of platinum which covers the note will help slow down the soiling process from regular usage, and therefore prolong the life of the notes.

All other less visible security features in the old banknotes are maintained in the new banknotes.

7.6 Currency Notes and Coins for Collectors

From time to time, coins and currency notes are sold to overseas collectors. In 2004-05, we issued about 8,773 pieces (worth \$53,987) of currency notes and about 132,075 pieces (worth \$31,645.90) of currency coins compared to 1,342 pieces (worth \$6,561) of currency note and 26,886 pieces (worth \$1,851.85) of currency coins in the previous financial year. Fifty nine requests were received from overseas note and coin collectors compared to 34 requests in 2003-04. The increase is mainly attributed to the success of the Central Bank website in promoting awareness and marketing of our currency to collectors worldwide.

8. STAFF DEVELOPMENT

The ongoing successful performance of the Bank continues to be attributed to the commitment, competence and professionalism of its staff. It is against this backdrop that the Bank is always firm its stance over staff development as the stronghold for improved and better staff performance.

While training (both long term and short term) has been accorded high priority, the Bank is also very mindful of the merits from acknowledging hard work by way of placement transfers and/or direct promotions. This approach is also in line with the Bank's current training programme which provide aspiring staff with part-time training opportunities for higher qualifications relevant to their areas of work. Many staff took advantage of these opportunities under the Bank's training policy.



Accounts & Budget Department

8.1 Part-Time Educational Courses.

For the twelve months ending 30 June 2005, six CBS staff were pursued part-time courses, three at the National University of Samoa, and three at the University of the South Pacific, Alafua. Of the three studying at the National University, one graduated with a Diploma in Banking while the other two are still continuing towards the completion of their courses in Commerce and Accounting. Likewise, one of the three staff taking part-time courses at the USP, Alafua graduated with a Certificate in Management Studies and the other two have several more units in order to complete their degrees in Law and Sociology.



Induction training for new staff.

8.2 Work Experience Program and Study Visits

As in the previous years, the Central Bank continued to provide vocational working opportunities for third year students on overseas scholarship and final year students from the Samoa Polytechnic and National University of Samoa. In addition, the Bank also entertained a number of school visits for their research projects, and for public awareness programs, staff also made several presentations on topics selected by the host institutions. The Bank will continue to provide this educational service as well as other public relations exercises in the years ahead.

8.3 Staff Promotions and New Appointments.

Staff turnover has not been a concern in the Bank and there are several contributing factors. One major factor is giving the staff due recognition by way of promotions and/or placements where their ability and discernment in assuming higher responsibilities would best fit. Availability of overseas training and attachments as well as attractive staff benefit are incentives which also help retain staff. There were eleven (11) new appointments made during the year ending 30th June 2005. Two (2) were for newly created positions and nine (9) as replacements. Four promotions were made, one at the Management level and three at the lower level.

At year end, the Bank had a total staff of ninety six (96).

8.4 Overseas Representations and Liaison

The Governor and other Management staff represented the Central Bank in a number of high level overseas meetings and conferences. The Governor attended the South Pacific Central Bank Governors' Annual Meeting hosted by the Reserve Bank of Australia, as well as the Annual Meetings of the Asian Development Bank, and the IMF/World Bank. The Governor also represented Samoa as Co-chair of the Sub-group meetings of the OECD Harmful Tax Practices Initiative. The Deputy Governor was a member of five anti money laundering experts which undertook the mutual evaluation of the Nepalese jurisdiction in February 2005.

The Central Bank attendance in these high level meetings was made possible under the auspices of several international multilateral institutions. Sponsoring institutions like IMF, PFTAC and the IMF/Singapore Training Institute continued to provide short term overseas training for the Bank staff. The Central Bank has established and maintained a strong liaison relationship with the above institutions and others.



CBS Guard Room

9. FINANCIAL PERFORMANCE

Appearing at the end of this Section are the audited accounts of the Central Bank for financial year July 2004 to June 2005.

In the financial year 2004-2005, total assets and liabilities of the Central Bank increased markedly by \$40.6 million. On the liabilities side, there were

growths in demand deposits due to banks of \$25.5 million, Government deposits of \$14.8 million, notes and coins in circulation of \$3.2 million, total reserves of \$2.7 million and statutory deposits of banks of \$2.5 million. These were partly offset by decreases in securities deposits of \$5.1 million, external liabilities of \$2.6 million, and other liabilities of \$0.4 million. On the assets side, increases were noted in external assets of \$39.8 million, and other assets of \$1.7 million, partly offset by a decrease in money at call of \$0.9 million.

The Central Bank of Samoa made a net operating profit of \$3,155,193 in the 2004-05 financial year compared to a net operating profit of \$309,850 in 2003-04. As required under Section 8(1) of the Central Bank of Samoa Act 1984, 50 percent of the profit (equivalent to \$1,577,596) was transferred to Government and the other 50 percent was transferred to the General Reserve Account.

The increase in the profitability of the Central Bank of \$2,845,343 in 2004-05 was mainly from a rise in total income of \$3,341,951 which was partly offset by an increase in total expenses of \$496,608. The main items that contributed to the rise in total income was the increase in interest received from overseas investments of \$3,174,435. The main items which contributed to the increase in total expenses were upward movements in finance costs of \$221,805 and other administrative expenses of \$255,351.

Twenty percent of the credit balance of the Central Bank's Revaluation Reserve Account is payable to the Government under Section 8(3) of the Central Bank of Samoa Act 1984. Accordingly, an amount of \$1,978,323 was transferred to Government for 2004-05 compared with \$1,696,241 in the previous year.

9.1 Performance Budget

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

AUDITORS' REPORT TO THE MEMBERS OF CENTRAL BANK OF SAMOA

SCOPE

We have audited the financial statements of the Central Bank of Samoa for the year ended 30 June 2005, consisting of the balance sheet, statement of profit and loss, statement of cash flows and accompanying notes. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Bank.

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

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

Opinion

In our opinion:

- (a) proper books of account have been kept by the Bank, so far as appears from our examination of those books.
- (b) the accompanying financial statements are properly drawn up so as to give a true and fair view of the state of affairs of the Bank as at 30 June 2005 and of the results and cash flows of the Bank for the financial period then ended; and
- (c) the accompanying financial statements are properly drawn up to give in the prescribed manner the information required by the Central Bank of Samoa Act 1984.

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

Our audit was completed on 19 October 2005 and our opinion is expressed as at that date.

Apia, Samoa

Certified Public Accountants

**CENTRAL BANK OF SAMOA
BALANCE SHEET
30 JUNE 2005**

	Note	30 June 2005 SAT\$	30 June 2004 SAT\$
CAPITAL AND RESERVES			
Authorised capital	2	\$ 10,000,000	\$ 10,000,000
Paid up capital	2	10,000,000	10,000,000
General reserve	3	11,669,116	10,091,520
Revaluation reserve	4	7,913,291	6,784,964
		<u>\$ 29,582,407</u>	<u>\$ 26,876,484</u>
Represented by :			
ASSETS :			
EXTERNAL			
Money at call		49,108,058	36,309,585
Short term deposits		26,283,942	25,721,842
Bank bills		67,273,431	52,883,458
Negotiable certificates of deposits		37,038,906	24,998,398
		<u>179,704,337</u>	<u>139,913,283</u>
NON GOVERNMENT			
Money at call		1,143,242	2,014,555
OTHER ASSETS			
Notes and coins		5,037,637	3,601,275
Receivables and prepayments	8	5,144,821	4,433,754
Fixed assets	9	20,037,168	20,459,027
		<u>30,219,626</u>	<u>28,494,056</u>
TOTAL ASSETS		<u>211,067,205</u>	<u>170,421,894</u>
Less - LIABILITIES :			
DOMESTIC GOVERNMENT			
Demand deposits		35,335,527	22,170,497
Government allocation of net profit and revaluation reserve	5	3,555,920	1,851,166
		<u>38,891,447</u>	<u>24,021,663</u>
NON GOVERNMENT			
Notes and coins in circulation		38,420,624	35,233,815
Demand deposits due to banks		49,163,153	23,573,424
Statutory deposits of banks		19,686,000	17,169,000
Securities	6	34,564,337	39,717,262
		<u>141,834,114</u>	<u>115,693,501</u>
EXTERNAL LIABILITIES	7	88,269	2,735,851
OTHER LIABILITIES			
Creditors and accruals		670,968	1,094,395
TOTAL LIABILITIES		<u>181,484,798</u>	<u>143,545,410</u>
		<u>\$ 29,582,407</u>	<u>\$ 26,876,484</u>

The relevant notes on pages 40 to 43 form part of this balance sheet.

Chairman of the Board of Directors _____

Director _____

**CENTRAL BANK OF SAMOA
STATEMENT OF PROFIT AND LOSS
TWELVE MONTHS ENDED 30 JUNE 2005**

	Note	30 June 2005 SAT\$	30 June 2004 SAT\$
INCOME			
Interest from overseas deposits and investments		8,239,950	5,065,515
Rents		1,164,678	1,157,917
Other income		443,830	283,075
		<u>9,848,458</u>	<u>6,506,507</u>
EXPENSES			
Audit fees		25,404	25,870
Board expenses		15,634	23,557
Communication costs		270,286	164,862
Currency issue costs		1,255,738	1,418,878
Depreciation	9	1,011,647	1,032,594
Directors' fees		28,239	27,805
Finance costs		650,048	428,243
Occupancy costs		566,959	465,786
Other administrative expenses		2,839,152	2,583,801
		<u>6,663,107</u>	<u>6,171,396</u>
NET PROFIT BEFORE INCOME TAX		3,185,351	335,111
Withholding tax/levies on overseas investment income		<u>(30,158)</u>	<u>(25,261)</u>
		<u>3,155,193</u>	<u>309,850</u>
NET PROFIT FOR THE PERIOD		3,155,193	309,850
APPROPRIATIONS			
Transfer to general reserve in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		(1,577,596)	(154,925)
Transfer to Government of Samoa in terms of Section 8 (1) (b)		<u>(1,577,597)</u>	<u>(154,925)</u>
		<u>\$NIL</u>	<u>\$NIL</u>

The relevant notes on pages 40 to 43 form part of this statement of profit and loss.

CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2005

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 transactions. Assets and liabilities in foreign currencies have been translated into tala at the rates of exchange prevailing at period end.

(d) Valuation of overseas assets and liabilities

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

(e) Currency issue costs

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

(f) Collectors' currency

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

CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2005

	30 June 2005 SAT\$	30 June 2004 SAT\$
2. CAPITAL		
Authorised capital	<u><u>\$10,000,000</u></u>	<u><u>\$10,000,000</u></u>
Paid up capital	<u><u>\$10,000,000</u></u>	<u><u>\$10,000,000</u></u>
3. GENERAL RESERVE		
Balance at 1 July 2004	10,091,520	9,936,595
Transfer from profit and loss in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.	3,155,193	309,850
Government of Samoa allocation in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.	(1,577,597)	(154,925)
Balance at 30 June 2005	<u><u>\$11,669,116</u></u>	<u><u>\$10,091,520</u></u>
4. REVALUATION RESERVE		
Balance at 1 July 2004	6,784,964	8,205,920
Gains for the period in terms of Section 28(1) of the Central Bank of Samoa Act 1984 and amendments.	3,106,650	275,285
Government of Samoa allocation in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments.	(1,978,323)	(1,696,241)
Balance at 30 June 2005	<u><u>\$7,913,291</u></u>	<u><u>\$6,784,964</u></u>
5. GOVERNMENT ALLOCATIONS OF NET PROFIT AND REVALUATION RESERVE		
Balance at 1 July 2004	1,851,166	2,067,501
Payment during the year	(1,851,166)	(2,067,501)
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.	1,978,323	1,696,241
Transfer of net profit in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.	1,577,597	154,925
Balance at 30 June 2005	<u><u>\$3,555,920</u></u>	<u><u>\$1,851,166</u></u>
6. SECURITIES		
Unsecured notes issued to the public as negotiable instruments, all maturing within 12 months with weighted average interest rates ranging from 1.56% to 4.77%.		

CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2005

	30 June 2005	30 June 2004
	SAT\$	SAT\$
7. EXTERNAL LIABILITIES		
(1) European Development Fund (EDF)	73,950	2,726,200
(2) Inland Revenue Department - (New Zealand)-Levy	14,319	9,651
	<u>\$88,269</u>	<u>\$2,735,851</u>

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

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

8. RECEIVABLES AND PREPAYMENTS

Interest receivable	1,855,004	1,211,858
Prepaid expenses	736,460	784,807
Other receivables - (secured) current	321,317	310,389
- (secured) long terms	2,232,040	2,126,700
	<u>\$5,144,821</u>	<u>\$4,433,754</u>

9. FIXED ASSETS

30 June 2005	Cost	Accumulated	Net book	Charge
	SAT\$	Depreciation	Value	for year
		SAT\$	SAT\$	SAT\$
Furniture and fittings	915,650	701,947	213,703	30,850
Plant and equipment	1,968,750	1,494,730	474,020	202,066
Motor vehicles	390,520	171,697	218,823	72,432
Building	27,577,720	8,490,734	19,086,986	650,768
Computer network	305,431	261,795	43,636	55,531
	<u>\$31,158,071</u>	<u>\$11,120,903</u>	<u>\$20,037,168</u>	<u>\$1,011,647</u>

30 June 2004

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

CENTRAL BANK OF SAMOA
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2005

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\$179,704,337 for the twelve months ended 30 June 2005 (2004: SAT\$139,913,283). These are spread over the major overseas trading partner of Samoa and other recognised financial centres of the world. Liabilities in foreign currencies for the twelve months ended 30 June 2005 are SAT\$88,269 (2004 : SAT\$2,735,851)

12. CHANGE IN BALANCE DATE

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

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Board of Directors is not aware of any capital commitments, relating to the Bank as of 30 June 2005. (2004: Nil). The Bank has a contingent liability for the face value of collectors' currency issued, however it is more unlikely that the amounts of collectors' currency will be returned for redemption at face value. The face value of all collectors' currency issued by the Bank for the period under review is SAT\$97,864.

14. LEASE COMMITMENTS

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

15. NATURE OF BUSINESS

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

**CENTRAL BANK OF SAMOA
STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED 30 JUNE 2005**

	30 June 2005	30 June 2004
	SAT\$	SAT\$
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES:		
Cash income received from investments	8,035,326	4,953,219
Cash received from rent	1,067,893	1,161,085
Net gain on revaluation reserve	3,106,650	275,285
Cash paid for services	(5,433,593)	(2,463,324)
Cash paid to employees	(1,456,034)	(1,379,490)
Interest paid on deposits	(622,916)	(476,307)
Cash paid/transferred to Government on revaluation reserve and net profits	(3,555,920)	(1,851,166)
	<u>1,141,406</u>	<u>219,302</u>
CASH FLOWS FROM/(TO) INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	103,425	-
Purchases of fixed assets	(687,905)	(142,287)
Net cash used in investing activities	<u>(584,480)</u>	<u>(142,287)</u>
CASH FLOWS FROM/(TO) FINANCING ACTIVITIES:		
Increase in notes and coins in circulation	3,186,809	1,197,382
Increase/(Decrease) in deposits by domestic Government	14,869,784	(1,465,668)
(Decrease)/Increase in securities	(5,152,925)	26,978,645
(Decrease)/Increase in external liabilities	(2,647,582)	2,301,887
Increase in deposits due to banks	28,106,729	10,724,566
Net cash provided from financing activities	<u>38,362,815</u>	<u>39,736,812</u>
NET INCREASE IN CASH	38,919,741	39,813,827
Cash and cash equivalent at beginning of the period	<u>141,927,838</u>	<u>102,114,011</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$180,847,579</u>	<u>\$141,927,838</u>
CASH AND CASH EQUIVALENTS:		
Money at call - external	49,108,058	36,309,585
- domestic non government	1,143,242	2,014,555
Short term deposits - external	26,283,942	25,721,842
Bank bills	67,273,431	52,883,458
Negotiable Certificates of Deposits	37,038,906	24,998,398
	<u>\$180,847,579</u>	<u>\$141,927,838</u>

The relevant notes on pages 40 to 43 form part of this statement of cash flows.

IX. THE SAMOA INTERNATIONAL FINANCE AUTHORITY

(Previously known as the International Companies Office or the Office of the Registrar of International and Foreign Companies)

The Samoa International Finance Authority Act 2005, which came into force on 25th May 2005, is an important milestone in the development of Samoa's Offshore Finance Centre. This is because the Act officially establishes an independent Authority to administer and regulate activities of the Centre and replaces the Office of the Registrar, a unit of the Central Bank of Samoa.



Samoa International Finance Authority (SIFA)

1. FUNCTIONS

The main functions of the Authority pursuant to the Samoa International Finance Authority Act 2005 in summary are to:

- administer the international financial services legislation and collect all fees, charges and other revenue due thereunder;
- monitor and supervise the conduct of international financial services licensed or registered under the international financial services legislation;
- protect and maintain the good repute of Samoa as a centre for international financial services;
- develop national objectives, policies and priorities for the orderly administration of international financial services in Samoa; and
- advise and make recommendations to the Government generally on any matter relating to international financial services.

2. BOARD OF DIRECTORS

The Authority is administered by seven members of the Board of Directors who were appointed by the Head of State on the advice of Cabinet. The members of the Board are Leasi Papali'i Tommy Scanlan (Governor of the Central Bank of Samoa) who is also the Chairman, Ms Hinauri Petana (Chief Executive Officer of the Ministry of Finance), Mrs Brenda Heather Latu (Attorney General), Ms Erna Va'ai (Chief Executive Officer of the Authority), and three other members selected from the private sector: Reverend Misiafa Tyrell (Treasurer of the Methodist Church), Ms Fatima Strickland (General Manager of Le Vai Limited) and Tuatagaloa Alfred Schwalger (Former General Manager of the Development Bank of Samoa).

3. INTERNATIONAL FINANCIAL SERVICES LEGISLATION

There are several enabling pillars of Samoa's International Finance Centre which are:

- * The Samoa International Finance Authority Act 2005
- * The International Companies Act 1987
- * The International Banking Act 2005 which repealed and replaced the Offshore Banking Act - 1987
- * The International Trusts Act 1987
- * The Trustee Companies Act 1987
- * The International Insurance Act 1988
- * The International Partnership and Limited Partnership Act 1998
- * The Segregated Fund International Companies Act 2000

To ensure the continued smooth administration of the above legislations, all the fourteen former employees of the Centre were reemployed by the Authority.

4. INCORPORATIONS

Samoa's ongoing commitment to its offshore finance centre has meant the Authority's continued vigilant participation in global forums which have implications



SIFA customer services

on the operations of the offshore centre. These fora include the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), and the Financial Action Task Force (FATF) on money laundering which are influential in setting international standards of best practice.

The main objectives of the Authority are to ensure the financial centre's compliance with the newly emerging global consensus against money laundering, combating the financing of terrorism and OECD tax issues. At the same time, the Samoa jurisdiction has used its best endeavours to assert its sovereign right to determine its own path towards economic development and sustainability.

In the past twelve months, we incorporated 4,204 new companies compared to 3,658 in 2004. We also registered 8 new long term companies and 7 new trusts.

Entities on the register as at 30 June 2005 include 14,915 international companies, 156 long term companies, 167 international trusts, 9 international banks, 3 insurance companies, 5 segregated funds and 7 trustee companies.

Since establishment in October 1988, the total number of entities that have been registered were 21,615 international companies, 232 long term companies, 345 international trusts, 27 international

banks, 19 insurance companies, 5 segregated funds and 9 trustee companies.

5. REVENUE

The International Companies Act 1987 continues to be the most successful product of the Centre being reviewed several times with tailor made refinements to attract overseas investors. Total Revenue earned in the past twelve months reached SAT12,759,391.00 which resulted in another record Net Profit of SAT11,086,653.00 compared to Total Revenue of SAT10,609,422.00 and Net Profit of SAT9,409,591.00 the year before. Interest income earned from term deposits placed with local banks in the past 12 months reached SAT1,862,925.00. This is the only other source of income, besides fees collected by the Authority, and accounts for 15 percent of total revenue.

6. STAFF ACTIVITIES

One of the statutory powers of the newly established Authority is to provide training schemes for its employees. To this end, Management of the Authority during the year attended various international seminars as part of our commitment to adopt international best practices which are aimed at eliminating economic crimes such as money laundering and terrorist financing. Senior staff members also participated in various international trainings and attachments to ensure that they keep abreast with developments in the supervision of financial institutions and best practices of international Registries.

As such, members of the Authority attended:

- Sub-Group meetings on the "Level Playing Field" issues as a result of the Organisation for Economic Cooperation and Development (OECD) Harmful Tax Initiative;
- seminars on the "Information Framework Initiative" by the International Monetary Fund;
- courses on "Money Laundering Prevention" by the International Monetary Fund;

- symposium on “ Know Your Customer and Asset Recovery” by the Offshore Alert;
 - regional seminar on “Banking Supervision” by the Pacific Financial Technical Assistance Centre;
 - general and annual meetings of the Offshore Group of Banking Supervisors and the annual conference of International Banking Supervisors;
 - training attachments with Registry of Companies in Singapore, New Zealand and Hong Kong; and
 - training attachment with the Reserve Bank of Fiji.
- Pacific Financial Technical Assistance Centre (PFTAC) training for supervisory staff on On-Site Inspections of international banks
 - New Coda-Filing System for the Registry to ensure greater efficiency and security of corporate data.
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7. PROMOTION

The promotional efforts of the Centre were revived in March 2005 following a 6 year hiatus. To this end, a high level Government delegation headed by the Deputy Prime Minister and Minister of Finance and included Chairman and the Governor of the Central Bank of Samoa, the Chief Executive Officer of the Ministry of Finance, the Attorney General and the Chief Executive Officer of the Authority visited Hong Kong and Singapore. The number of people attending these promotional seminars was much higher than past years seminars despite similar promotions in Asia (at the same time) by other offshore jurisdictions. The timing of the promotional visit was very crucial as we needed to inform our potential investors of our new enactments and amendments anticipated with our international financial services legislation such as the International Banking Act 2005.

8. DEVELOPMENTS

Important developments in the past 12 months:-

- Enactment of the new International Banking Act 2005 to further facilitate implementation of the Basel Core Principles for Effective Banking Supervision