CENTRAL BANK OF SAMOA

ANNUAL REPORT
FOR THE FINANCIAL YEAR
JULY 2005 - JUNE 2006

28 May 2007

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 2006, together with the audited accounts for that period and the report of the Auditors on those accounts.

(Niko Lee Hang)
MINISTER OF FINANCE

CENTRAL BANK OF SAMOA

PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR

28 May 2007

The Hon. Niko Lee Hang
Minister of Finance
Ministry of Finance
APIA

Dear Minister of Finance

I have the honour of submitting the Annual Report of the Central Bank of Samoa, for the financial year 1 July 2005 to 30 June 2006:

(a) a review of economic performance and policies during the twelve months to end June 2006;

(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 2006 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
Norman Wetzell	-	Director
Muliagatele Leki Macdonald	-	Director

Standing: L-R Muliagatele Leki Macdonald, Lealiie'e Rudy Ott, Leasi Papali'i T. Scanlan
Sitting: Hinauri Petana, Norman Wetzell

MANAGEMENT

Standing: L-R. Iosefo Bourne - *Manager Research & Statistics*, Malaeoalii Soo Pua - *Manager Banking & Corporate Services*, Tootoovao Sanele Afoa - *Manager Accounts & Budget*, Gilbert Wongsin - *Manager Financial Institutions*.

Sitting: L-R Leasi Papalii Tommy Scanlan - *Governor*, Atalina Enari - *Manager Financial Markets*, Magele Filipo Magele Penn - *Deputy Governor*.

Insert: Taveuveu Asora Simanu - *Manager Management Resources*.

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I. OVERVIEW

1. BACKGROUND

This Annual Report covers the operations and activities of the Central Bank for the financial year July 2005 to end June 2006. It is the third 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 2005/06 is focused more on explaining the operations and activities of the Central Bank during the twelve months to end June 2006 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 like the Monetary Policy Statements which precede the release of the Annual Reports.

By the same token, since the Office of the Registrar of International and Foreign Companies, which was a unit of the Central Bank, has become an independent Statutory Body known as the Samoa International Finance Authority (SIFA) established in May 2005 under the Samoa International Finance Authority Act 2005, its activities will no longer be covered in the Annual Reports of the Central Bank beginning with this Annual Report.

The main objective of the Central Bank's monetary policy stance is to promote sustainable real economic growth by maintaining price stability and international reserves viability.

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 recent years where the sharp and continually increasing international price of crude oil combined with the adverse effects of natural disasters (such as cyclone Heta in January, 2004) to drive up the prices of petroleum products and local food items. During such periods, attention is focused more on the underlying or core inflation rate.

Samoa is a small open economy with total merchandise trade alone representing around 60 percent of nominal GDP. In the event, it is very important that Samoa maintains a sufficient level of international reserves to withstand large unforeseeable economic shocks. Under present circumstances, the Central Bank considers a level of gross official international reserves, equivalent to about 4.0 months of imports of goods, as adequate for maintaining the country's long-term international viability.

On the exchange rate, the main objective of the Central Bank's policy 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. While there is no specific target level for the nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the Tala, a real appreciation is not encouraged as this could have an adverse effect on the international competitiveness of the local export industry.

2. WORLD ECONOMY

After four consecutive years of strong growth, IMF expects that global growth will remain solid in 2006/07, approaching 5 percent following a 4.9 percent growth in 2005/06. World inflation is anticipated to remain close to 2.0 percent after registering at 2.3 percent in 2005/06. With increases in real economic growth noted around the world, the macroeconomic policy setting was generally contractionary as most countries had to combat increased inflationary pressures. On the exchange rate front, the US dollar was again weighed down against most of the major currencies.

The economic expansion is expected to be driven by strong growth in China and India with projected growth rates of 9.3 and 7.2 percent respectively while the key players of the world economy, the

United States, Euro area and Japan are envisaged to contribute also to this global economic expansion with forecast growth rates of 3.4, 2.0 and 2.5 percent respectively.

Prospects for the global economy therefore appeared sound compared to a few months ago. This was due to declining oil prices which have eased both risks to aggregate demand and inflation pressures, though volatility in oil prices remains a concern. The price of a barrel of crude oil has dropped 32 percent since August 2006, signaling that energy prices will be less of a catalyst for inflation. Oil prices, which were closing in on US$80 per barrel, have fallen to US$50 per barrel.

New Apia Park Statium

For the US economy, real GDP increased at an annual rate of 2.2 per cent in the fourth quarter of 2006 after increasing 2.0 percent in the third quarter. The unemployment rate, continued to fall, to a five-year low of 4.5 percent in December 2006 quarter while the trade deficit was steady at 5.9 per cent of GDP. CPI inflation has fallen significantly since the middle of 2006, largely reflecting lower oil prices with core inflation dropped to 2.6 per cent in December.

Growth in the US economy is expected to moderate going into 2007. The outlook for the already cooling housing market would continue to dampen private consumption and residential investment, but corporate investment should be supported by high capacity use and strong profitability. The US Fed funds rate has been on hold since June 2006 and is expected to hold at current levels in the medium term, while the US dollar would again continue its weak run against most of the major currencies. The IMF forecasts the US economy to grow 2.6 percent with an inflation forecast of 2.9 percent by end 2006/07.

The Australian economy continued to grow at a good pace recently, with GDP expanding by around 2.8 per cent over the year to the December 2006 quarter, driven mostly by improved terms of trade. Employment posted strong gains in the December 2006 quarter, and business surveys have continued to report strong trading conditions for the economy overall. Increases in interest rates over recent period led to a slowdown in households' demand for finance. The Reserve Bank of Australia (RBA) continues to hold its interest rate at 6.25 percent since November 2006.

Australian High Commissioner, Phillip Allars and visiting Australian Minister for Foreign Affairs, Alexander Downer at the Central Bank Building, April 2006.

The IMF forecasts the Australian economy to grow 3.5 percent in 2007, with an inflation rate of 2.9 percent. The household sectors' strong demand for finance, coupled with high fuel prices, will have the RBA keeping a keen eye on inflation. With the economy still operating at a high level of capacity utilization, it remains possible that the upward pressure on inflation that was evident for much of last year could re-emerge.

Officials meeting Dr Don Brash, Leader of the New Zealand National Party.

A protracted period of slow growth was envisaged for the New Zealand economy after growth slowed in 2005/06 due to waning domestic demand. Real GDP fell by 0.4 percent in the September 2006 quarter, reducing the annual growth rate to 1.4 percent. The annual inflation rate dropped to 2.6 percent, as expected would be the effect of lower petrol prices in late 2006. However, recent economic indicators show domestic demand strengthening in late 2006 and early 2007, supported by a resurgent housing market and an expansionary fiscal policy.

Officials meeting Dr Don Brash, Leader of the New Zealand National Party.

The IMF forecasts the New Zealand economy to grow 1.7 percent in 2007 with inflation at 3.4 percent.

The Japanese economy registered a real GDP increase of 0.5 percent in the December 2006 quarter to be 2.3 percent higher for the year. The economy as a whole expanded moderately as all regions remained on an expansionary or recovery trend. The corporate sector was buoyant as business fixed investment was on an increasing trend and business sentiment improved in most regions. For the household sector, some sluggishness was noted in private consumption due to unfavorable weather but retail sales were more buoyant compared to the previous year. Housing investment was increasing gradually and against the background of increasing domestic and external demand, production also continued to increase. The employment and income situation also improved. The Bank of Japan (BoJ) increased its overnight call rate to 0.50 percent in February 2007, after previously lifting the rate to 0.25 percent in July 2006.

The IMF estimates the Japanese economy to grow 2.1 percent in 2007 with an inflation forecast of 0.7 percent. The Japanese economy remains favorable, with economic activity expected to continue to expand, driven by steady domestic demand and by the continuous strength of exports against a backdrop of favourable competitiveness conditions. In addition there is a positive sentiment about future employment conditions. With more growth expected, the Bank of Japan is expected to be on the tightening cycle.

Economic activity has strengthened in the Euro area. Real GDP for the year 2006 was 2.6 percent, up from the previous year's 1.4 percent growth. The unemployment rate fell to 7.8 percent, helping to lift aggregate household incomes and consumer sentiment. Inflationary pressures have eased up owing largely to lower fuel prices in late 2006. Headline inflation was at 2.2 percent for the year 2006, unchanged from the previous year.

The Euro economy is expected by the IMF to reach 2.3 percent growth for 2007 and an inflation forecast of 2.2 percent. The European Central Bank views monetary policy to remain accommodative and expects that on the basis of their current assumptions some further tightening will be required.

3. DOMESTIC ECONOMY IN 2005/06

3.1 Policy Developments

A substantial expansionary fiscal policy was pursued in 2005/06 with a Government Budget deficit of $59.3 million approved by Parliament in June 2005. Unfortunately, the 2005/06 Government Budget contained substantial items of expenditures with little matching increase in Government revenue. The large overall Budget deficit was expected to be funded mainly by the issuance of $26.5 million long term Government Bonds (with maturities of between 5 and 15 years) and external soft term loan disbursements of $32 million.

New Gymnasium at the Tuanaimato Sports Complex.

The largest items of expenditures were for the construction of venues and sporting facilities for the 2007 South Pacific Games, the construction of joint campus buildings for the National University of

Road repair works after heavy flooding in February 2006.

Samoa and Samoa Polytechnic, the first of the three tranches of the public sector salaries and wages increase, and payment by Government of contractual obligations of Polynesian Airlines following the national carrier's merger with the Virgin Blue Airline.

Given the expansionary stance of fiscal policy in 2005/06, Central Bank forecasts for the year ending June 2006 showed that the ensuing strong economic growth would put official reserves and inflation under pressure. To maintain macro-economic stability, therefore, monetary policy was tightened in 2005/06. The intention was to slow down real economic growth from 5.0 percent under the base case scenario to around 4 percent under the program scenario and to reduce the expected annual inflation rate from close to 4.0 percent in the base case scenario to the target benchmark of 3.0 percent.

New NUS/Polytech building.

On the monetary side, actual figures for 2005/06 showed that net domestic assets (NDA) rose 49 percent ($104 million), on the back of a drop in Government's net position vis-à-vis the monetary system (down 13 percent or $13 million) and a dramatic rise in credit to the private sector and public institutions combined (up 32 percent or $126 million). Much of this rise in credit flowed out to finance the rapid growth in imports as well as to settle debt obligations for Polynesian Airlines. Consequently, a large overall deficit in the balance of payments was recorded in 2005/06, which saw the level of official foreign reserves decline $49 million.

During the financial year under review, the commercial banks level of excess liquidity (which is largely the basis for further credit growth) declined steadily from $49 million in June 2005 to $12 million at the end of May 2006, twenty percent below the benchmark level of $15 million. A net inflow of foreign exchange in June 2006 saw banks' excess liquidity crawling back up to $18 million. In contrast to the sharply reduced level of excess liquidity, interest rates crept up only marginally during the year, hardly enough to attract more deposits or to stem the excessive demand for credit.

With excess liquidity being so low, no CBS security was issued in the last half of the financial year 2005/06. Consequently, the weighted average level of official interest rates fell from 2.88 percent at end June 2005 to 2.14 percent at end June 2006 and remained at that rate throughout the second half of the fiscal year 2005/06. On the other hand, the commercial banks' weighted average interest rate on loans snailed up from 11.40 percent at end June 2005 to 11.47 percent at the end of June 2006 while the rate for deposits edged up from 4.34 percent to 4.80 percent.

In fiscal year 2005/06, the nominal effective exchange rate (NEER) of the Tala appreciated 0.11 percent on an annual average basis against the currencies in its exchange rate basket. On the other hand, it depreciated 1.51 percent in real effective terms (REER) reflecting the lower inflation rate in Samoa compared to those of our major trading partners.

There were no changes to the Central Bank's Exchange Control Regulations during the 2005/06 fiscal year but a number of new money transfer business licenses were issued, further facilitating the inflow of private remittances.

3.2. Macro-economic performance

As expected, available figures showed that the economy grew strongly in 2005/06 led by strong public and private sector construction activities and further expansion in tourism earnings, private remittances and grants from abroad. Unfortunately, and as anticipated, this strong economic growth was achieved much at the expense of the external sector, with the balance of payments recording one of the largest overall deficits, pushing down the level of international reserves to the minimum target level of 4.0 months imports at end June 2006. In addition, inflation, which declined in the first half of the fiscal year under review, started to crawl back up in the second half reflecting strong demand pressures and the continued rise in international oil prices.

3.2.1 Real sector

Actual national accounts figures for the second half of 2005/06 are not yet available but estimates showed that, on the back of a 5.4 percent growth rate in 2004/05, real gross domestic product grew by a further 4 percent in 2005/2006. Continuing on much the same trend as seen in 2004/05, real economic growth in 2005/06 was driven by growths in the commerce, construction, public administration, finance and business services, agriculture, electricity and water, transport and communication and personal and other services.

Taamu at the Fugalei Produce Market

Agriculture appeared to be returning to prominence again, with output growing for the second year in a row, expanding 5 percent in 2005/06. This reflected the continued success of replanting efforts to restore production following Cyclone Heta in 2004. Most of the stable food items such as taro, banana and taamu as well as vegetables registered strong increases in supplies to the main produce market at Fugalei. There is still very little sign of the fishing industry progressing any further with output of the sector slipping after some improvement in the previous financial year. The industry continued to experience low catch rates as a consequence of prolonged unfavourable weather conditions. The output of the construction sector, the driving force underlying the continued strong growth in the country in recent years, expanded in 2005/06 spearheaded by the construction of the Development Bank of Samoa (DBS) Headquarters, aid funded projects such as the NUS/Polytechnic joint campus at Le Papaigalagala and some large private sector buildings. Feeding off the growth in other sectors of the economy, the commerce sector recorded the largest increase in output, expanding 7 percent in 2005/06. Similarly, the output of the transport and communication sector, which is closely associated with activities in the construction sector, recorded a significant growth. The communications sector also experienced some growth in activity with the diversification of SamoaTel services to include their Home Zone wireless telephone providing coverage for rural areas and development of new telephone cards. Increased tourist arrivals saw hotel and restaurant activities continued to grow strongly and the finance and business service sector expanded notably supported by a very strong growth of credit in the financial system. The value-added by the public administration sector rose strongly in 2005/06 reflecting the expansion in Government expenditure. Also boosted by growth in other major sectors were the increased output of 'electricity and water', 'personal & other services' and 'ownership of dwelling'. The output of food and beverage manufacturing improved, driven by strong demand for beer in the local and overseas markets. On the down side, the output of "Other manufactured" items fell, reflecting a drop in export processing services by Yasaki and uncertainties facing the Pacific Cashmere garment factory following the recent changes to US garment and textile imports regime.

New Headquarters of the Development Bank of Samoa.

New Gymnasium at the Tuanaimato Sports Complex.

3.2.2 Balance of payments

The balance of payments registered a large overall deficit of $49 million in 2005/2006, much in line with projections, and was in stark contrast to the surplus of $36 million in the previous financial year. The overall deficit, which resulted in a dramatic reduction in the level of official international reserves, was largely due to a record merchandise trade deficit, the settlement of substantial external debt obligations for Polynesian Airlines and some overseas dividend repatriations for foreign owned companies.

The stronger than targeted real economic growth and continued rise in oil prices saw the total value of imports for the year as a whole expand 12 percent, with significant increases recorded in all major categories of imports. A 50 percent surge in the average import price of petroleum products saw the volume of petroleum imports fall 19 percent. As a result, the total value of petroleum imports rose 22 percent in 2005/06. Non-petroleum private sector imports went up 15 percent while direct imports by Government leapt 64 percent.

Prime Minister, Hon Tuilaepa Lupesoliai Sailele Malielegaoi and Ministers of Cabinet at the Opening of the new Salelologa Wharf Extension, January 2006.

The total value of exports fell in 2005/06, going down 16 percent to $30 million. The fall was largely due to lower export earnings from fish, coconut cream, taro and nonu fruit. With exports not being able to keep up with the growth in imports, the trade deficit widened 19 percent to reach its highest level ever. Nevertheless, a strong growth in private remittances and tourism earnings saw the current account deficit narrow slightly to $78.7 million.

First container ship to moor near the new Salelologa Wharf Extension, January 2006.

Tourism earnings in 2005/2006 rose 15 percent to $219.6 million due to higher tourists arrivals. More tourists came mainly from Australia, New Zealand, American Samoa and the USA.

Polynesian Blue and Samoa Tourism Authority Summit, Kitano Hotel, March 2006.

Current transfers (official and private) expanded 7 percent (or $18.2 million) to $287.3 million reflecting a 23 percent rise in private transfers, more than offsetting a large drop in current official transfers as foreign aid fell back to historical levels in 2005/06. The hike in private transfers was due to a 38 percent ($56.0 million) jump in household remittances despite a 4 percent drop in remittances for charitable organizations, which reflected the winding down of inflows following the completion of some large construction projects in 2004/05.

After some heavy inflows in 2004/05, a large reduction in project grants saw the capital account surplus fall significantly to $79.3 million from $148.0 million in 2004/05 which was associated with the intensive implementation of major projects for the 2007 South Pacific Games, renovation of various Government schools and the start of the NUS/

Opening of the new Samoa Primary school at Vailele, March 2006.

Polytechnic joint campus. On the financial account, the item that had a dominant impact was the investment by Government in the newly merged airline Polynesian Blue and subsequent settlement of large external debt obligations for Polynesian Airlines.

All in all, the large overall deficit in the balance of payments saw the level of gross official reserves falling to 4.0 months of imports at the end of June 2006 from 5.9 months at the end of June 2005.

3.2.3 Prices

By and large, price movements were tame during the first half of the financial year, gradually rising in the last half. After the devastation caused by Cyclone Heta in January 2004, a recovery in the production of local food items helped ease the pressure on consumer prices, outweighing the inflationary impact of increased transport costs (bus and taxi fares) that came into effect in October 2005.

In the fiscal year under review, the overall price level at the Fugalei Market decreased 13 percent as agricultural produce returned to more normal levels with a 12 percent increase in overall volume. This, together with some improvement in bottom and reef fish catches over the year, contributed to a lower growth rate in local food prices which, on an annual average basis, went up 1.0 percent in the year to end June 2006 compared to a 13.9 percent increase in the year to end June 2005. These domestic factors helped offset the pass-through effects of volatile international oil prices with a new record high of $74 USD per barrel on April 20th 2006. This saw local transport costs (bus and taxi fares) being adjusted up by 25 percent in October 2005 from the levels that were last reviewed in 2002.

In the event, the annual rate of headline inflation, which decreased from 7.8 percent in June 2005 to 1.8 percent in January 2006, rose steadily reaching 3.2 percent in June 2006.

After extracting the influence of extreme movements in the prices of volatile consumer items, the underlying consumer prices also trended upwards in the last five months of 2005/06. With demand pressure much stronger than a year earlier, the annual underlying inflation rate (on an annual average basis) initially dropped from around 2.0 percent at end June 2005 to 1.3 percent at end December 2005 then rose steadily reaching 2.2 percent at end June 2006.

4. MACRO ECONOMIC FORECASTS FOR 2006/07

4.1 Government Budget

The 2006/07 Government Budget is again an expansionary one although the overall deficit is not as large as the 2005/06 Budget. The main areas of focus are the completion of the sporting facilities for the 2007 South Pacific Games, the second installment of the approved increase in public sector salaries and wages as well as the implementation of projects listed in the 2005-2007 Strategy for the Development of Samoa. Total expenditure is therefore set to increase 18 percent from the 2005/06 Budget. To fund the budgeted increase in expenditures, some revenue measures are set to be implemented. The main ones are a 250 basis points increase in the VAGST rate from 12.5 percent to 15.0 percent and an increase in the excise tax on soft drinks, alcoholic beverages and tobacco. Together with the new revenue measures, total domestic revenues is expected to rise 27 percent, further supported by a 37 percent increase in external grants.

Hon Misa Telefoni, Deputy Prime Minister and Minister of Finance giving a speech at the Seminar on Taxation, November 2005.

An overall Budget deficit of $15 million is expected in 2006/07, to be financed entirely from external soft term loans. The deficit is equivalent to around 3 percent of GDP. Given that the liquidity position of the financial system is expected to remain within a tight range in 2006/07, the external borrowing by Government would help ease the pressure on private sector credit.

4.2 Real Sector

The key factors that will influence the real rate of growth in 2006/07 are the expansionary fiscal policy which is largely focused on the completion of sporting facilities for the 2007 South Pacific Games, the continuation of Government's infrastructural developments, the completion the DBS Headquarters, construction of other public sector buildings, the anticipated continued rise in oil prices and the further strengthening in tourism activities and private remittances. Although liquidity is expected to improve, the level of excess funds is likely to hover marginally above the tight conditions of 2005/06. This would mean that interest rates will continue to trend upwards to encourage more financial savings as well as to ease demand and ultimately the growth rate of bank credit in 2006/07.

Chinese Cabbages at the Fugalei Produce Market.

In the event, GDP is expected to grow by about 3 percent in real terms in 2006/07, down from 4 percent in 2005/06. Growth is forecast to be led by activities in the commerce sector, (the largest sector of the economy), transport and communications, construction sector, electricity and water, and hotels and restaurants.

4.3 Balance of payments

Given the expected continuation of the relatively tight liquidity conditions and the consequent reduction in bank credit to the private sector and public institutions, the underlying growth rate of imports is anticipated to slow down from the very high level seen in 2005/06. The price of petroleum products set to rise by 11 percent, the volume of petroleum imports is expected to fall by about 10 percent leaving the total value of petroleum products at slightly below the 2005/06 level. In much the same trend, the volume of private sector imports is expected to slip slightly but an increase of a little over 2 percent in import prices is expected to result in the total value of private sector imports rising 2 percent in 2006/07. The growth rate of direct Government imports is expected to remain negligible in 2006/07. Overall, therefore, the total value of imports is expected to increase slightly in 2006/07.

Tourism is again expected to make a further positive contribution to the balance of payments in 2006/07. Tourist arrivals are forecast to grow further in light of more regional sporting activities that are scheduled to be held in Samoa. Chinese tourists may also start to explore Samoa in line with the Chinese Government's recent offer to boost the number of Chinese visitors to Pacific Island countries. As a result, total tourism earnings is expected to rise 6 percent (about $13 million) to $233 million.

The inflow of current transfers is forecast to rise slightly (by 2 percent) in 2006/07 with household transfers expected to improve by 4 percent in light of the growth of the money transfer and money exchange businesses, the increasing number of emigrants under the NZ quota and continued strong economies of the main source countries NZ, Australia and USA. On the other hand, funds for 'charitable organizations' are expected to slow down following the completion of some very large church projects in 2004/05 and 2005/06.

From the Government's Budget estimate for 2006/07, project grants are expected to rise to $93.5 million together with a loan write-off of $33 million by the Chinese Government. Much of Polynesian

Airlines' debt obligations were settled in 2005/06, with an amount of $4.0 million remaining to be paid in the first half of 2006/07. There are no other major financial transactions expected in 2006/07. Commercial bank foreign exchange holdings are expected to consolidate as Government eases down on the draw down of its commercial bank accounts in 2006/07. Net Government disbursements of foreign loans are expected to amount to $17.8 million.

All in all, therefore, the balance of payments is expected to record an overall surplus of about $7 million in 2006/07, maintaining gross official reserves at the equivalent of 4 months of imports. There are, however, large investments in the telecommunications sector that have not been factored into the forecasts which could drive the balance of payments into deficit in 2006/07. Figures on this project are yet to be confirmed.

4.4 Prices

The import component of the headline CPI is expected to grow 4.5 percent in the twelve months ending June 2007, reflecting both external and local inflationary pressures. A combination of domestic factors (a 2.5 percentage points increase in the VAGST tax rate to 15.0 percent in October 2006 and a real economic growth rate of 3.1 percent stimulating strong local demand pressure) and external factors (inflationary pressures from source countries - New Zealand and Australia – as well as high international commodity prices particularly for oil) are expected to influence prices of imported goods in 2006/07. On an annual average basis, imported inflation is estimated at 3.5 percent at end June 2007, similar to that at end June 2006.

With regards to the local component of the CPI, a 6.9 percent increase is expected with domestic factors mainly responsible for this upward assessment. The payment of the second tranche of the approved increase in public sector salaries and wages in July 2006, increased VAGST rate in October 2006 will combine with a 3.1 percent real growth in the economy to put upward pressure on prices over the financial year under review. Therefore, on an annual average basis, the domestic component of the CPI is envisaged to increase to 3.6 percent at end June 2007 from 3.1 percent at end June 2006, driven mainly by an 8.0 percent increase in local food prices over the year, up from a 1.0 percent rise at end June 2006.

Cabbages at the Fugalei Produce Market.

All in all, the annual headline inflation rate is projected to fluctuate over the first few months of 2006/07 before rising steadily to reach 3.6 percent in June 2007 from 3.2 percent at end June 2006.

And the underlying or core inflation will, on an annual average basis, again forecast to increase by another 2.2 percent in 2006/07.

5. MONETARY POLICY AND OUTLOOK FOR 2006/07

Given the expansionary stance of fiscal policy, expected further expansion in the tourism sector and a higher inflow of private remittances, the domestic economy is forecast to grow 3 percent in real terms. The balance of payments is anticipated to record an overall surplus, maintaining the level of international reserves at around the minimum target level of 4 months imports coverage. Headline inflation is expected to rise to 3.6 percent while the core or underlying inflation is anticipated to register another 2.2 percent increase.

Overall, therefore, the outlook for 2006/07 is likely to be a little bit better than 2005/06 although the expected outcomes will barely stay within the benchmark levels. The main areas of concern are the stagnant export performance as well as the continued increase in international oil prices putting

Presentation on e government, the way for the future.

pressure on domestic inflation and international reserves. The expected surplus in the balance of payments is small, leaving not much room for any relaxation of monetary policy settings. Details on pipeline investments in the telecommunications sector are not yet known but are understood to be substantial, which could easily drive the balance of payments into deficit.

All in all, therefore, monetary policy will remain tightened in 2006/07 to safeguard macro-economic stability whilst at the same time generating positive real economic growth for the financial year. Some improvement is likely in the liquidity position of the financial system, although it is still expected to remain relatively constrained. Market interest rates are forecast to rise in order to attract more liquidity by encouraging more financial savings and to restrain the demand for credit.

In 2006/07, therefore, the annual average growth rate of bank credit to the private sector is targeted to slow down from a record 21 percent in 2005/06 to 12 percent. Together with the approved Government Budget deficit and the expected net inflow of funds from abroad, the annual average growth rate of money supply (M2) is anticipated to slow down from 14 percent in 2005/06, the highest rate of growth since the 2000/01 financial year, to 7 percent in 2006/07.

Samoa will host the next South Pacific Games in 2007 and most of the construction of new sporting facilities are near completion. Also, the new five storey Headquarters for the Development Bank is expected to complete in early 2007 while the

Apia Park Stadium near completion

construction of two new hotel projects and the yacht marina will also commence in early 2007. These construction projects, as well as other ongoing development activities, will continue to provide increased employment for the domestic economy.

Construction of new Beach Volleyball facilities at the Tuanaimato Sports Complex.

With regard to prudential supervision, 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 2005/06 as it maintained a capital ratio of 23.5 percent at the end of June 2006, which is well above the Central Bank's minimum requirement of 15 percent. Total assets and liabilities both grew 16.7 percent and were attributed mainly to the significant increase in loans and advances by 37.5 percent (or $147.3 million) to $540 million, whilst liquid assets dropped markedly by 65.4 percent (or $60.8 million) to $32.2 million. Loans to deposits ratio stood at 101.7 percent, up strongly from 84.0 percent at the end of June 2005. Compared to the preceding year, non-performing loans increased further by $2.5 million (or 12.2 percent) to $22.7 million (equivalent to 4.2 percent of total loans and advances, which is above the Central Bank's minimum target level of 2.0 percent.) The level of non-performing loans is still considered high and the banks have been reminded to be more responsible in implementing remedial measures to address this issue.

The supervision of the non bank financial institutions added more challenges to the work of the Central Bank during 2005/06. Satisfactory progress, however, has been achieved in this direction. The licensing and supervision of the insurance sector by the Central Bank is now covered under the new Insurance Act 2007, and the current Prudential Guidelines for the insurance sector would have to be approved accordingly.

CBS and Government Officials meeting with the APG/ OGBS Evaluation Mission, February 2006.

To comply with strong and unrelenting international initiatives to fight transnational crime, particularly money laundering and the financing of terrorism, Samoa has already put in place the necessary legislative, enforcement and prosecutorial framework in line with international standards set by the Financial Action Task Force (FATF) Revised 40+9 Recommendations. Samoa was assessed and evaluated against compliance with these international standards by the Asia Pacific Group on Money Laundering and Offshore Group of Banking Supervisors (APG/OGBS) in February 2006. The recommendations of resultant 2006 Mutual Evaluation Report by the APG/OGBS have been implemented as practicable. The recent enactment of the new Money Laundering Prevention Act 2007, Proceeds of Crime Act 2007, and Mutual Legal Assistance on Criminal Matters Act 2007 will greatly enhance Samoa's capability in this area.

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. A Money Laundering Task Force under the chairmanship of the Governor and comprising relevant Ministries will be formed under the new Money Laundering Prevention Act 2007. In the meantime, all these additional functions have been absorbed by existing staff of the Central Bank without recourse to recruiting new employees.

Cashier replacing old torn currency banknotes from the public.

During the period under review, the Central Bank has continued to work 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 five years. To deter and prevent the counterfeiting of banknotes, new issues of banknotes with modern security features were released into circulation since April 2005 and hardly any counterfeits have been detected.

II. CENTRAL BANK OF SAMOA - WHAT WE DO

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

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

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

The number of staff employed by the Central Bank decreased to 80 at the end of June 2006 from 96 at the end of June 2005 when the Office of the Registrar of International and Foreign Companies, a unit of the Central Bank of Samoa became an independent statutory body. 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

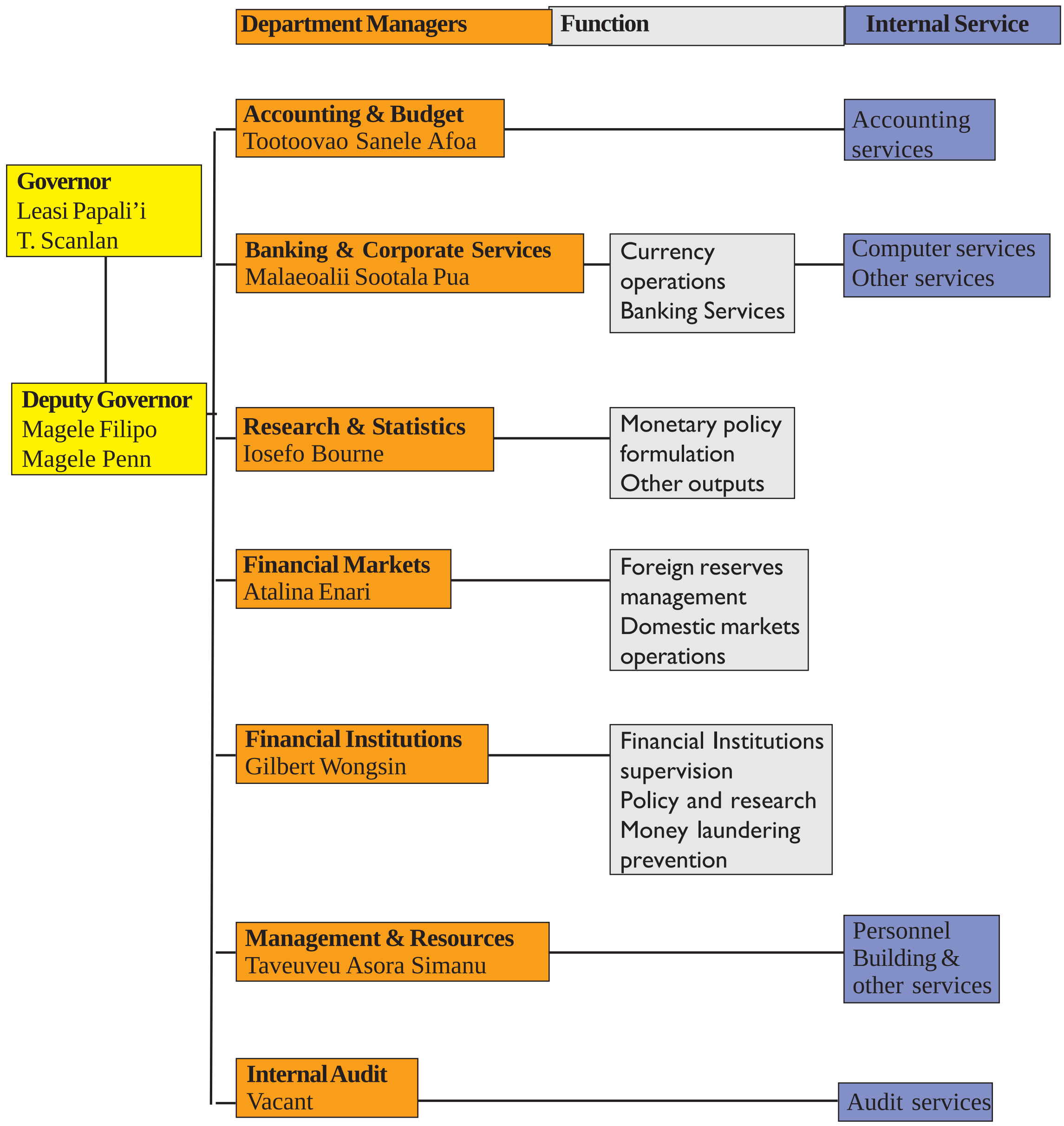
In the period under review, the structure of the Bank follows closely that provided under its second Corporate Plan for the years 2003/05 which stipulates the Bank's functional long-term strategies in attaining the major targets and objectives in 20005.

The following Chart "Central Bank Structure" gives the organizational structure of the Central Bank at the end of June 2006.

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. The Board comprises of the Governor of the Central Bank, who is the Chairman of the Board, the Chief Executive Officer of the Ministry of Finance 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 2005/06. The Governor of the Central Bank, Leasi Papalii Tommy Scanlan, and the Chief Executive Officer of the Ministry of Finance (Ms Hinauri Petana) who together with other independent Members, Lealiiee Rudy Ott, Muliagatele Leki Macdonald and Norman Wetzell complete the membership of the Board.

The Board, as a whole, met on nine occasions during the twelve months to the end of June 2006.

Subsequent changes to Statutory Boards of Government saw the appointment of Klaus Stunzner Jr and Alofipo Tanielu Meredith as new Members of the Central Bank Board in June and August 2006 respectively. They replaced Muliagatele Leki Macdonald and Norman Wetzell.

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 and the Output budget is undertaken every month. The focus is mainly on delivering results and implementing preventive actions, rather than simply uncovering problems after the fact.

In addition, during the twelve months to end June 2006, 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 DEVELOPMENTS AND RELATED EVENTS 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.

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.

2001

January: The Financial Institutions Act 1996 was amended to enable the prudential supervision of non bank financial institutions.

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: (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: (a) The Central Bank of Samoa Act 1984 (principle Act) was amended to (i) change the financial year (calendar year) of the Central Bank to be the same as the fiscal year (July-June) of Government; (ii) re designate the titles of the Members of the Board as Board of Directors; (iii) re designate the title of the Chief Executive of the Bank as Governor; and (iv) appoint the Governor as Chairman of the Board.

(b) Relaxed the limits on the sale of foreign exchange (up to $7,000) and the remittance of foreign exchange (up to $80,000) specifically for the payment of imports by 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.

December: Launching of the first Central Bank Monetary Policy Statement for the financial year 2001/2002.

2002

May: The 2002/2003 Government Budget projected a cash surplus of $0.3 million and an overall deficit of $31.9 million, equivalent to 1.9 percent of GDP.

Augus : Public Awareness TV Programs on Damaged Currency Notes and Counterfeit Currency Notes.

September: (a) IMF Assessment of the Regulation and Supervision of Financial Services.

(b) Public Awareness TV Program on the Government Export Guarantee Scheme.

(c) Issued the second Central Bank Monetary Policy Statement for the financial year 2002/2003.

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

2003

March: Government/IMF Article IV Consultations.

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

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

(ii) Introduced the Repurchase Facility for

Central Bank Securities.

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

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

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

2004

January: (i) Cyclone Heta struck Samoa.
(ii) Eased monetary policy by increasing commercial banks' levels of available funds for lending.

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

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

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.

September: Issued the fourth Central Bank Monetary Policy Statement for the financial year 2004/2005.

2005

March: Government/IMF Article IV Consultations.

April: New banknotes with added security features were issued into circulation.

May: (i) 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.

(ii) Office of the Registrar of International and Foreign Companies, which was a unit of the Central Bank, became an independent Statutory Body known as the Samoa International Finance Authority (SIFA) established under the Samoa International Finance Authority Act 2005.

(iii) Public Awareness Notices on the printed media and TV on Damaged Currency Notes and Counterfeit Currency Notes.

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.

September: Issued the fifth Central Bank Monetary Policy Statement for the financial year 2005/2006.

December: Initial issues of Treasury bonds ($26.5 million) as approved under the National Development Loan Authorization Act 2005.

2006

February: Mutual Evaluation by the Asia Pacific Group on Money Laundering (APG)/ Offshore Group of Banking Supervisors (OGBS).

March: Parliamentary General Elections. Human Rights Protection Party returned to govern.

May: The 2006/2007 Government Budget projected a cash surplus of $0.4 million and an overall deficit of $32.9 million, equivalent to about 3 percent of GDP.

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.

1.1 MONETARY POLICY AND CONDITIONS IN 2005/06

With a substantial expansionary fiscal policy, posting a Government budget deficit of about 4 percent of nominal GDP, a tightened monetary policy stance was pursued in 2005/06. Strong domestic demand associated with high economic activities and rising international oil prices saw the annual inflation rate pick up in the second half of the fiscal year to reach 3.2 percent at end June 2006. Official interest rates fell despite the steady decline in the level of excess liquidity during the year. Interest rates offered by commercial banks, on the other hand, rose marginally as bank credit to the private sector increased much higher than expected while international reserves remained at the minimum required level of 4 months imports.

New Conference Hall for the Christian Congregational Church at Malua.

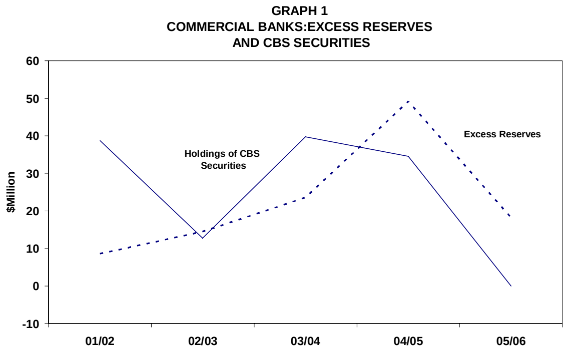
Table 1 Selected Economic Indicators

Fiscal Year to end June	01/02	02/03	03/04	04/05	05/06
Monetary Aggregates			(Tala Million; end period)		
Net Foreign Assets	182.19	165.46	172.13	231.29	184.64
Government, net	-93.02	-99.21	-81.60	-100.28	-89.32
Private sector (1)	289.98	336.32	371.95	393.35	519.43
Other items, net	-59.93	-62.14	-78.89	-83.14	-116.20
Money Supply (M2)	319.22	340.43	383.59	441.22	498.55
Currency (2)	26.05	26.21	28.43	30.74	36.96
Demand deposits	66.24	67.62	84.20	102.05	108.24
Savings deposits	45.46	45.51	49.38	55.82	64.32
Time deposits	171.37	184.76	209.35	239.48	269.36
Foreign currency deposits (3)	10.10	16.33	12.23	13.13	19.67
Commercial Banks					
Excess Reserves	8.60	14.50	23.58	49.17	18.20
Holdings of CBS Securities	38.69	12.73	39.72	34.58	2.48
Annual rate of inflation (percent)	7.4	4.3	7.9	7.8	3.2
Gross Domestic Product			(During period)		
Nominal (Tala million)	858.5	914.2	994.5	1094.6	1168.2
Real (Tala million)	884.3	900.3	929.8	980.4	1025.0
Average GDP deflator (2002 =100)	97.1	101.6	107.3	110.8	110.4
Nominal Annual growth rate (percent)	6.7	6.5	8.6	9.0	6.7
Real Annual growth rate (percent)	4.4	1.8	2.8	5.6	4.6
Balance of Payments (4)			(Tala Million; during period)		
Exports (f.o.b)	49.7	41.3	40.8	35.2	29.6
Imports (f.o.b) (4)	-442.6	-402.5	-391.8	-465.0	-549.5
Travel, net	137.6	144.6	165.6	173.6	200.9
Private remittances, net	175.5	184.4	211.2	230.1	286.9
Government transfers, net	77.0	71.2	52.9	143.6	71.8
All other items, net	-16.5	-75.7	-43.1	-91.6	-9.8
Official Reserve Assets	19.3	-36.7	36.6	36.2	-49.5
Gross Official Reserves			(End period)		
Months of imports of goods	4.9	4.2	5.5	5.9	3.9

(1) Includes non-monetary financial intitutions 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.

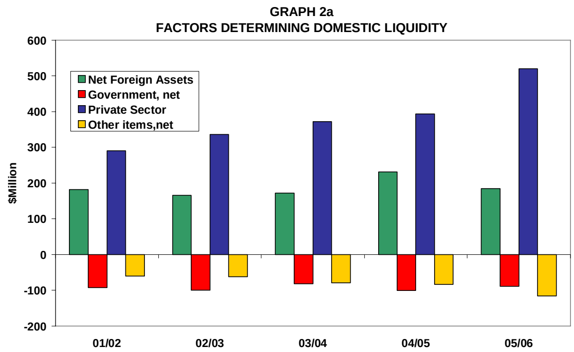
The Government operated a larger budget deficit of $59.3 million in 2005/06, than in the previous fiscal year, with virtually no matching increase in Government revenue. With emphasis placed on infrastructural developments for the 2007 South Pacific Games, public sector salaries and wages increases and payment by Government of contractual obligations of Polynesian Airlines following its merger with the Virgin Blue Airline, this significant overall Budget deficit was to be funded mainly by the issuance of $26.5 million long term Government Bonds and external soft term loan disbursements of $32 million. Actual figures on Government's financial operations in 2005/06 are not yet available but the Government's financial position with the monetary system showed a cash deficit of $11.0 million in the fiscal year under review, in contrast to an $18.7 million surplus in 2004/05.

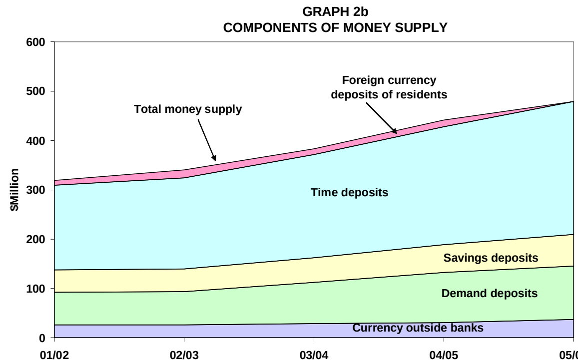
Reflecting the financing by the commercial banks of some major Government projects, the commercial banks' level of excess liquidity declined steadily from $49 million at the end of June 2005 to $12 million at the end of May 2006, which was below the benchmark level of $15 million, before crawling back up to $18 million in June 2006. In contrast to the sharply reduced level of excess liquidity, interest rates crept up only marginally during the year, hardly enough to attract more liquidity or to stem the excessive demand for credit. With excess liquidity being so low, no Central Bank Security was issued in the last half of the financial year 2005/06. The official interest rate fell from 2.88 percent at the end of June 2005 to 2.14 percent at the end of June 2006 and stayed at that level in the remaining six months. On the other hand, the commercial banks' weighted average interest rates on loans snailed up from 11.40 percent at the end of June 2005 to 11.47 percent at the end of June 2006 while the rate for deposits edged up from 4.34 percent to 4.80 percent. The resulting interest rate spread of commercial banks therefore declined during the fiscal year under review.



With interest rates hardly changed in 2005/06, commercial bank credit to the private sector and public institutions combined increased at a faster average rate of 22 percent than the 10 percent in the previous fiscal year. Like in 2004/05, much of the increase in bank credit was directed to construction activities relating to education, tourism and sports developments. This significant growth in credit combined with the cash deficit in the Government's position vis-à-vis the monetary system which more than offset the expected net outflow of funds abroad, resulted in total money supply (M2) expanding 14 percent; higher than the 11 percent growth in 2004/05.

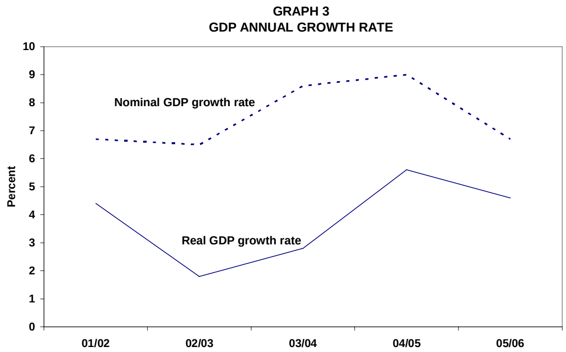
Miss Wallis and Futuna at the Miss South Pacific Float, Apia.

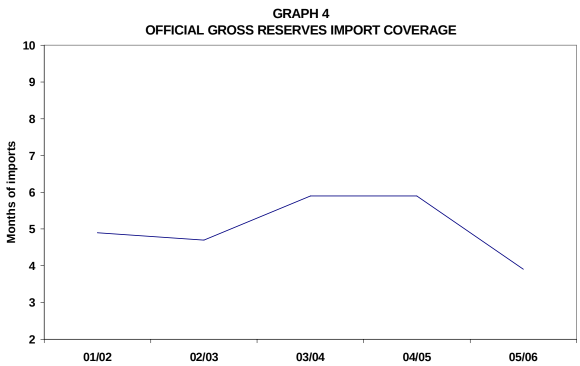




As expected, available national accounts figures from the Ministry of Finance and Central Bank estimates showed that the economy grew strongly in 2005/06, driven largely by growths in the commerce, construction, public administration, finance and business services and agriculture sectors. On the back of a 5.4 percent growth rate in 2004/05, real GDP grew by a further 4 percent in 2005/06. Unfortunately, and as anticipated, this strong growth came about at the expense of the external sector, with the balance of payments recording one of the largest overall deficits ever, pushing down the level of international reserves to the minimum target level of 4 months imports at end June 2006. The overall deficit of $49 million was largely due to a record merchandise trade deficit, the settlement of substantial external debt obligations for Polynesian Airline and some overseas dividend repatriations for foreign owned entities.

New Church building at Lotofaga.



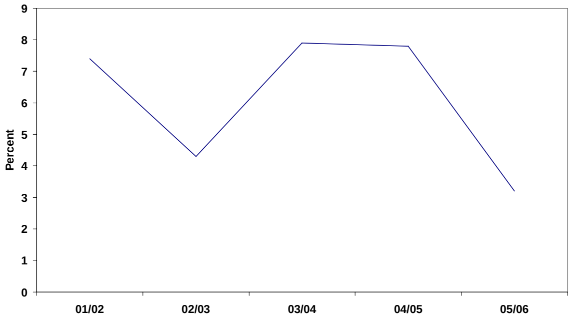


Consumer prices were largely subdued during most of 2005/06, before gradually rising in the last few months. Headline inflation declined from 7.8 percent in June 2005 to a low of 1.8 percent in January 2006 before rising steadily to 3.2 percent in June 2006. The recovery in the production of local food items, particularly agricultural produce and fresh fish, helped ease the pressure on consumer prices and outweighing the inflationary impact of increased transport costs effected in October 2005, triggered by the volatile international oil prices. Excluding the prices of items susceptible to natural shocks and those subject to official price regulations, the underlying CPI also trended upwards in the last five months of the financial year, rising from an annual average of 1.5 percent in January 2006 to 2.2 percent in June 2006.

Taamu and coconuts at the Fugalei Produce Market

For the financial year 2006/07, the macroeconomic outlook is more favourable than in 2005/06, although the expected outcomes barely stay within benchmark levels. The balance of payments is anticipated to record a small overall surplus, maintaining the level of international reserves at around the minimum target level of 4 months import coverage. Headline inflation is expected to be close to 4 percent while the core or the underlying inflation rate is projected to stay below the 3 percent bench mark. Given these parameters therefore, there is not much room for any relaxation of monetary policy settings, in view for a need to safeguard macroeconomic stability whilst at the same time generating some positive real economic growth for the financial year. Accordingly, monetary policy will continue to be tightened in 2006/07 which would see a significant cut back in private sector credit from its record level in 2005/06 and total money supply (M2) to eventually slow down at the end of June 2007.

GRAPH 5
ANNUAL HEADLINE RATE OF INFLATION



CBS meeting with visiting technical Officials from the American Samoa Government.

2. MONETARY POLICY IMPLEMENTATION

The Central Bank implements monetary policy using market based techniques. It 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 is to influence the level of money market interest rates.

No new additions with regards to maturity were made to the current list of six papers, 14-day, 28-day, 56-day, 91-day, 182-day and 365-day.

Table 2: Central Bank Securities (Tala Million)

	2003-2004	2004-2005	2005-2006
Number of Floats	44	48	19
Amounts Floated	$264.0	$359.5	$95.5
Amount Tendered	$279.2	$488.8	$173.0
Amount Allotted	$215.9	$333.4	$89.0
Amount Matured	$169.9	$342.2	$118.3
Amount Outstanding	$40.0	$34.83	$0.0

Unlike the prior financial years showing high degrees of open market activity, the period 2005/2006 registered a significantly lower number of auctions being made. The total value of securities floated declined 73 percent to $95.5 million in 2005/2006 from $359.5 million in 2004/2005. Furthermore, securities allotted fell by 73 percent to $89.0 million in 2005/2006 from $333.4 million in 2004/2005. This downward trend was the result of severe liquidity problems encountered by the commercial banks over the observed period. The total worth of bids received amounted to $173.0 million and while this amount was in excess of the amount floated despite liquidity problems within the banking system, it suggested the commercial banks still had some liquidity to invest in Central Bank Securities. At the end of June 2006, there were no subscribed Securities as all securities had either matured or had been rediscounted. Total rediscounted Securities during the period under review amounted to $6.2 million, compared to $0.67 million recorded in the previous period, reflecting a constraint on bank liquidity.

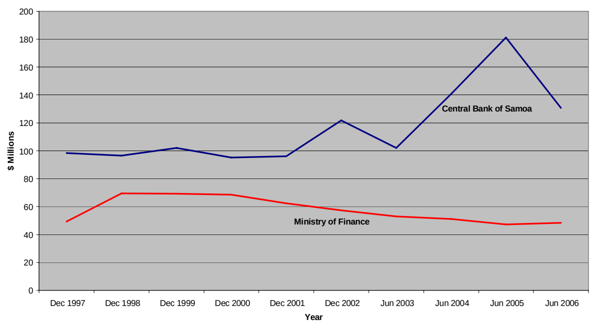
The Repurchase facility was never utilised in 2005/06 and this contrasts with the Rediscount facility, which banks heavily relied on. The commercial banks' frequent recourse to the Rediscount facility implied poor liquidity management within the banks.

Interest rates on all Central Bank Securities continued to decline in 2005/06 from the previous period. The marked decline in Securities allotted and the yields on these Securities led to a 69 percent decline in the interest cost of conducting monetary policy from $1.8 million in 2004/05 to $0.56 million in 2005/006. Despite being much lower than the yields paid on commercial bank deposits of comparable maturities, the interest levels were on a slight recovery by end June 2006.

3. FOREIGN RESERVES MANAGEMENT

Unlike the previous years, gross official international reserves recorded a 21.5 percent decline to $179.1 million at the end of June 2006 from $228.3 million in the previous fiscal year[1]. This decrease came about due to a 27.8 percent reduction in the Central Bank's foreign exchange holdings while the Ministry of Finance (inclusive of SDR holdings) recorded a 2.6 percent increase in its foreign exchange holdings. Of the $179.1 million, the Central Bank held 73.0 percent, while the Ministry of Finance held the residual 27.0 percent. Please see Graph 6.

GRAPH 6
FOREIGN RESERVE HOLDINGS



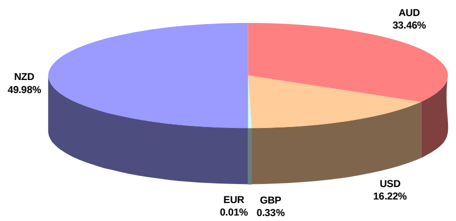
In 2005/06, the Bank continued to invest its foreign exchange holdings in liquid short-term instruments, namely term deposits, bank bills, certificates of deposit, repurchase agreements and interest bearing call accounts in financial institutions with a minimum of AA credit ratings. The Bank, in investing in the aforementioned financial instruments, continued to strictly adhere to the objectives of reserve management of liquidity, security, capital preservation, and profitability.

In the period under review, the Central Bank's Investment Committee continued to meet on a regular basis to discuss and endorse investment recommendations submitted by the Financial Markets Department. The Investment Committee is made up of the Governor, Deputy Governor and several senior bank officials. In approving the investment recommendations, the Committee considered several factors such as the investment bank's credibility, security, investment liquidity and return on investment.

Net interest income from the investment of the Central Bank's foreign exchange holdings in 2005/06 amounted to $9.0 million. This was an increase of 10.1 percent from 2004/05 owing largely to rising interest rates in the global economy, despite the decrease in the Bank's foreign exchange holdings from $181.2 million at the end of June 2005 to $130.7 million at the end of June 2006.

Of the Central Bank's total foreign exchange portfolio at the end of June 2006 of $130.7 million, 50 percent was invested in New Zealand dollars, 33 percent in Australian dollars, 16 percent in US dollars, and the remaining in British Pounds and in Euros. Compared to the previous fiscal period, only the New Zealand dollar registered an increase in holdings of 31 percent. The Australian dollar holdings declined 6 percent, the US dollar holdings were down 16 percent, the British Pound holdings fell 92 percent and the Euro holdings dropped 99.7 percent. Please see graph 7.

GRAPH 7
Currency Composition of Foreign Reserves as at 30 June 2006.



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[1] **With the adoption of the Fifth Edition of the International Monetary Fund's Balance of Payments Manual, Foreign Reserves have been renamed to Official International Reserves, which includes only the holdings of the Ministry of Finance and the Central Bank of Samoa.**

4. EXCHANGE RATES

The main objective of the Central Bank's exchange rate policy is to ensure the value of the Tala was such that local exports remain competitive in overseas markets and 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 27 February 2006, the currencies in the basket were allocated with new weights as part of the annual review. The basket still comprises of the currencies of our major trading partners namely 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 2005/06, the nominal exchange rate of the Tala appreciated by 0.11 per cent on an annual average basis against the currencies in the basket. On the other hand, it depreciated by 1.51 percent in real terms reflecting the lower inflation rate in Samoa compared to those of Samoa's major trading partners.

5. PRUDENTIAL SUPERVISION

The Financial Institutions Department is responsible for the carrying out of the Central Bank's statutory role of regulating, licensing and supervising financial institutions..

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

5.1 Supervision of the Financial System

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, commercial 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 these institutions' financial positions.

Ongoing consultations and discussions were held with the banks on their performances based on prudential issues during the financial year 2005/06. 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.

Not withstanding 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.

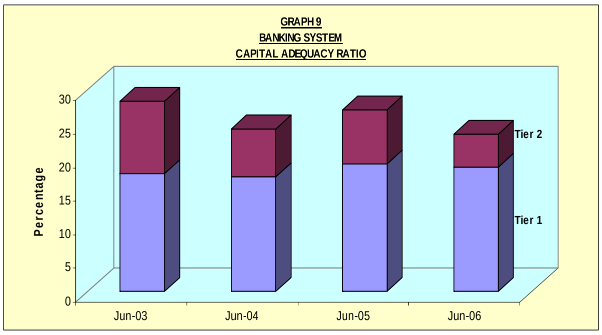
5.1.1 Financial Position of the Banking System for the twelve months to end June 2006.

For the period under review, the banking system recorded a significant growth in total assets by 17 percent ($99 million) to $691 million against total liabilities of $579 million which grew markedly by 17 percent ($83 million) respectively. Much of the growth of assets was attributed to the substantial increase in lending by 38 percent ($147 million) over the year. Total loans to deposits ratio was reflected at 101.7 percent, up significantly from 84.0 percent recorded in June 2005.

(a) Capital Adequacy Ratio

A risk-based capital adequacy ratio is required for all the commercial 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 commercial 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 23.4 percent, a reduction of 3.6 percent from the previous year with Tier one capital recording 18.5 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.

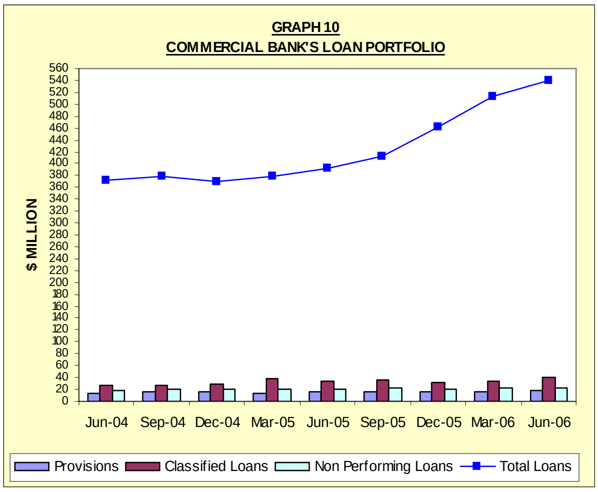


There were also capital injections by some commercial banks primarily to maintain a comfortable buffer in relation to the expansion of their operations during the year under review. Please refer to Graph 9.

(b) Asset Quality

The Central Bank places greater emphasis on a bank's internal management system to monitor and provide adequate controls on credit in order to prevent or reduce possible losses. And, in the event of default or identified losses as a result of non performing loans and other investment assets, the banks must ensure that adequate provisions are maintained to cover losses on impaired assets. As loans increase in size, the risk and complexity of loans conditions also increased.

For the year under review, banks participated strongly in lending activities. In the twelve months to end June 2006, total loans and advances rose substantially by 38 percent ($147 million) to $540.0 million over the previous year. At this level, non-performing loans reached $23 million, representing 4.2 percent of total loans. This indicates an increase of $2.5 million (12.2 percent) over the same time a year earlier. In the meantime, provision for bad and doubtful loans reached $17 million and thus provided a 76 percent coverage for total non-performing loans. At this level, it represents 3.2 percent of total loans and advances to date. Please refer to Graph 10.



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 25.0 percent of total capital. (Total capital refers to the sum of Tier One plus Tier Two capital).

Generally, commercial banks have dealt with their large transactions or customers within the Central 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 what 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 independently manage their day to day liquidity, as well as for handling any unexpected strain on their cash flows. As such, commercial banks are expected to have in place effective systems for managing their liquidity positions.

For the period under review, the banking system experienced a strong rundown on excess liquidity from the high of $93.0 million to $32.2 million at the end of June 2006, a significant decrease of 65.4 percent ($60.8 million) when compared to the same time a year earlier. Such drastic movement highlighted the strong growth in commercial banks lending during the period under review.

At this level, total liquidity stood at 6.6 percent of total domestic deposit liabilities at the end of June 2006. As such, the relatively low excess liquidity in the system provided little incentive for the commercial banks to invest in CBS Securities which recorded a nil balance from a high of $34.5 million in June 2005.

(d) *Profitability*

Based on the commercial banks' different accounting periods, the banking system's combined profit figure before extraordinary items and taxation amounted to $23.8 million in FY2005/06, an increase of $7.3 million from the previous year's level. Both total operating income and total operating expenses registered increases of 21.8 percent and 10.5 percent and thus contributing to a much more efficient performance of 60.3 percent from 66.3 percent achieved a year earlier.

The major contributing factors to this marked performance highlighted increases in the banks interest income, foreign exchange profit and bank commission and fees. Meanwhile, interest expenses, salaries and other benefits, other operating costs and bad debts expenses all registered corresponding increases. There is, however, a noticeable trend of write-offs by banks of their bad loans against profits which reached $3.6 million, up from $2.4 million a year earlier.

From an investment standpoint, the banking system's return on assets and net worth stood at 16.9 percent and 2.7 percent respectively, compared to 12.8 percent and 2.1 percent in the previous year.

(e) *Foreign exchange net open position*

The Central Bank closely monitors commercial 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, commercial banks have operated more or less within their set of approved limits from time to time.

The combined foreign assets of banks at the end of June 2006 stood at $62.8 million, a slight decrease of 1.0 percent ($0.6 million) whereas total foreign liabilities of $58.5 million showed an increase of 13.8 percent ($7.1 million) over the previous year. As such, it reflected a long net open position of $5.1 million which is equivalent to 4.4 percent of the banking system's total capital.

The Central Bank encourages the commercial 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 banking services.

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 the commercial 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 Central 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 Act 2007 was recently enacted in early 2007. The new Act repealed and replaced 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 new insurance legislation aims to achieve compliance with the Insurance Core Principles adopted by the International Association of Insurance Supervisors.

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

5.2 Money Laundering Prevention

The vulnerability of the Samoa 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 and terrorist financing.

In the current setting, the Central Bank of Samoa is appointed to carry out the functions of the Money Laundering Prevention Authority (MLP Authority)

Government Officials meeting with the Mutual Evaluation Mission from the Asian Pacific Group on Money Laundering and Offshore Group of Banking Supervisors, February 2006.

as stipulated under the Money Laundering Prevention Act 2000, which has been superseded by the Money Laundering Prevention Act 2007. The Financial Institutions Department of the Central Bank is central in the implementation of functions of the MLPA and is actively involved in building capacity necessary for such tasks. For the effective coordination and implementation of the provisions of the Act, the Central Bank works closely with the Attorney General's Office, the Police and the Customs Departments to investigate and prosecute any person(s) involved in money laundering.

In this connection, the MLP Authority is developing Memoranda of Understanding (MOU) to facilitate efficient communication in relation to money laundering transactions not only between law enforcement agencies within Samoa but also with agencies in overseas jurisdictions.

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

During the year, the Central Bank conducted on-site inspections on all Financial Institutions including the commercial banks, licensed money transfers and trustee companies established within the Samoan financial system. The main objectives of these inspection visits were:

* To assess the overall performance of each institution in relation to money laundering prevention and anti terrorist financing statutory requirements and guidelines; and

* To update local institutions on 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 Section 12 of the Money Laundering Prevention Act 2000.

On the international scene, Samoa undertook a joint Mutual Evaluation by the Asia Pacific Group on Money Laundering/ Overseas Group of Banking Supervisors (APG/OGBS) in February 2006. A joint Evaluation Team comprised of experts from the various member countries of the (APG/OGBS) carried out the mutual evaluation of Samoa's financial system to assess compliance with current international standards promoted by the Financial Action Task Force (FATF). The evaluation covered a wide range of important areas which included financial, legal and law enforcement.

Undergoing its second round of mutual evaluation, this was a positive step for Samoa towards fulfilling its commitment to further develop and improve its capacity to combat money laundering and countering terrorist financing activities, as well as ensuring compliance with international standards namely the 49 Recommendations of the FATF.

Samoa's Mutual Evaluation Report (MER) was tabled for discussion and approved at the Annual General Meeting of the Asia Pacific Group on Money Laundering (APG) in the Philippines in July 2006. Satisfying the recommendations in the MER will be another challenge in the period ahead for the Central Bank to implement.

5.3 Financial Intelligence Unit (FIU)

The Financial Intelligence Unit (FIU) has been established within the Financial Institutions Department of the Central Bank to carry out the function of monitoring, receiving and dissemination of financial information from, and 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 FIU any transaction that is suspected to involve the offence of money laundering.

For the year under review, 19 suspicious reports (compared to 8 reports in the year before) have been filed by the 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 MLP 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 New Zealand FIU and the Australian FIU (AUSTRAC) which greatly helped its efforts to develop and strengthen the capacity of the Samoa Financial Intelligence Unit in implementing its statutory functions.

In the meantime, the Central Bank will 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) provides banking and corporate services to the Government, commercial banks and the general public. It also oversees exchange controls, registry services, inter bank settlements, communication and publication and information technology. It is also responsible for adequate supply of currency notes and coins and maintaining the quality of currency in circulation.

6.1 Exchange Controls

Since 1998, the Central Bank has progressively relaxed exchange controls imposed on the sale and purchases of foreign currency by restricted foreign exchange dealers while at the same time strengthening its monitoring role in analyzing statistical monthly reports from commercial banks, money transfers and restricted foreign exchange dealers. The Bank also focused on promoting and maintaining a sustainable level of foreign exchange reserves through prudent scheduling of overseas payments.

Foreign Exchange Control operations.

6.1.1 Restricted Foreign Exchange Dealers

The Central Bank's Exchange Control Regulations 1999, authorizes the licencing of foreign exchange dealers in accordance with the stipulated procedures and guidelines. Licensed dealers are required to submit monthly statistical reports to the Central Bank specifying full details of all individual transactions for monitoring purposes. The Central Bank has granted a total of six licences with one of these granted during the FY2005/06 compared to two the previous year. Further relaxation of foreign exchange dealing limits was granted in the sale and purchase of foreign currency from $10,000 to $20,000 equivalent per applicant. The operations of the Foreign Exchange Dealers provide the consumer with alternative options in an environment of competitive financial services.

6.1.2 Money Transfer Business

The Central Bank issued licences for 8 new money transfer businesses in the financial year 2005/06, increasing the number of money transfers to 20. These businesses also offered competitive services in money transfer under specified limits. They are also required to submit periodical reports to the Central Bank as part of the licensing requirement.

6.1.3 Offshore Borrowing and Remittance of Capital

Prior Central Bank approval is required for offshore borrowing as well as the remittance overseas of capital. Approval is normally granted in the case of bona fide offshore borrowing but is based on certain factors such as net benefits to the domestic economy, the cost of the loan and the ability to service repayments. The Central Bank should also be made aware of any large inflows of capital, should the capital be required to be repatriated at a later date. Bona fide requests for the outward remittance of capital are normally granted.

6.1.4 Exports

The Central Bank continued to administer exports through exchange control export procedures using export Form E to ensure exports are sold for their proper value and export proceeds are repatriated to the domestic economy. In the year under review, the Central Bank processed an average of 88 export shipment forms per month compared to 125 export forms per month in the previous year. The Central Bank continued to liaise and emphasised to the exporters the importance of accuracy of export details for statistical purposes.

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. These accounts may be used for the settlement of their overseas commitments pertaining to their lines of business. And, these accounts may be credited only with payments in foreign currency made by non-residents for settlement of trade transactions, fees and services rendered and for such other receipts as approved by the Central Bank. Foreign currency accounts must comply with the prevailing exchange control regulations and may be debited only with payments to non-residents for imports of goods and services and foreign exchange requirements for overseas travel as well as other overseas payments covered under the discretionary authority delegated to the commercial banks. In 2005/06, the number of foreign currency deposit account approvals declined to 47 from 56 in 2004/05.

6.2 Banking Services

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

6.2.1 Customer Banking Services

The Central Bank continued to provide specialized banking services to the Government and other official financial institutions through the transfer of funds through the local commercial banks and international institutions using SWIFT as required from time to time (for example the World Bank, European Union and the ADB).

6.2.2 Registry

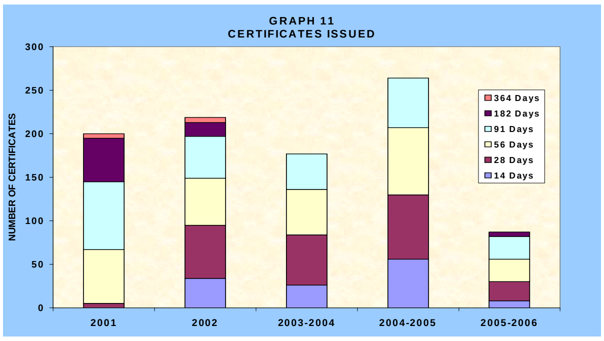
The Central Bank maintains a registry for the trading of Central Bank Securities (CBSS). Records are kept with regard to the issuance of Securities, redemption, rediscounting and payment of interest.

TABLE 3: CERTIFICATES ISSUED

TERM	2001	2002	2003-2004	2004-2005	2005-2006
14 Days	Nil	34	26	56	8
28 Days	5	61	58	74	22
56 Days	62	54	52	77	26
91 Days	78	48	41	57	26
182 Days	50	16	Nil	Nil	5
364 Days	5	6	Nil	Nil	Nil
TOTAL	200	219	177	264	87

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

In the twelve months to the end of June 2006, there were 19 auctions held compared to 48 in 2005. A total of 86 certificates were issued in 2005/06 compared to 264 in the year before, with durations of 14 days, 28 days, 56 days, 91 days and 182 days. There was no 364 day CBS Security issued in 2005/06. In the year under review, CBS Securities issued totaled $95.5 million but $89 million was allotted compared to $359.5 million issued and $333.4 million allotted in the previous year, reflecting the low level of liquidity in the banking system in the period under review.



With the completion of the Financial Sector Program Loan between the Government and the Asian Development Bank (ADB) in 2003, the realized interest costs of these securities (amounting to $0.564 million in FY2005-06) is borne by the Government's budget.

6.2.3 Inter bank settlement

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

6.3 Corporate Services

6.3.1 Communication

One of the Central Bank's tasks is to disseminate timely and quality information to the public and the stakeholders as part of its effort to be transparent in its work and accountable for its decisions. In line with this, the Central Bank continued to provide up to date economic and financial information through its publications, press releases and its website.

The Governor maintained a busy public speaking schedule in the period under review. He was invited to speak on public fora on issues of topical nature including those on the domestic and 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 Central Bank also continued to provide visiting schools and students with presentations and information on the domestic economy.

The Central Bank's website continues to expand since it was launched in December 2000, providing information on the economy, banking system and currency collection. The Central Bank's website is http://www.cbs.gov.ws.

6.3.2 Publications

The Central Bank produces a variety of publications relating to monetary policy, economic and financial issues. The more recent publications are as follows:

Annual Report and Financial Statements 2004/05.
Monetary Policy Statement 2004/2005.
Monetary Policy Statement 2005/2006

Quarterly Bulletins: March issue
June issue
September issue
December issue

Monthly Reports: Selected Economic Indicators
Monetary Survey
Fugalei Market Survey
Foreign Trade report.

6.3.3 Information Technology (IT)

The Central Bank has continued to place strong emphasis on information technology which resulted in three Information Technology projects implemented in the twelve months to the end of June 2006. The internet connection has been switched from a dial up to a much faster ISDN (Intergrated Services Digital Network) connection. The Windows Server Standard Edition has been upgraded to Windows Server 2003 as well as the installation of ISA (Internet Security Acceleration) software to help control and monitor the use of internet by individual staff. A Data Server has also been set up to consolidate the automatic running of all back up files.

Upgraded security system in the Guard Room.

To enhance staff skills in this fast changing technology, two IT staff underwent a one week training on the management and maintenance of the Microsoft Windows Server 2003 which was hosted by one of the local Internet Service Providers, I. Pasefika.

7. Currency

The Central Bank is the sole supplier of Samoa's banknotes and coins. Its main responsibilities include the production, issue, reissue and cancellation of Samoa currency notes. The Central Bank acts as a retail distributor to the commercial banks, and manages the design and manufacturing of the currency.

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

7.1 Cash Operations

Commercial banks are required to make daily deposits of coins and banknotes, already sorted into issuable and unissuable quality with the Central Bank if their cash holdings exceed their maximum requirements. Transactions on cash deposits and withdrawals are effected through their Exchange Settlement Account with the Central Bank. The commercial banks are required to strictly follow established cash operators procedures specified in the Central Bank's Internal Control of the Cash and Vault Operations.

7.2 Currency in Circulation

As at 30 June 2006, the value of currency (notes and coins) in circulation amounted to $51 million compared to $38 million in the previous year. New currency notes issued totaled $34 million compared to $27 million in the year before. The demand for currency has increased due to the growing economy.

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.

Unissuable (soiled) notes are destroyed by shredding after a monthly cash count once a month. A total of $37 million worth of unissuable currency notes were withdrawn from circulation and destroyed in 2005/06, compared to $23 million in 2004/05. Commercial banks reissuable and unissuable deposits need sorting according to quality requirements set by the Central Bank.

The Central Bank liaises closely with the commercial banks during the year to ensure that they issue good quality notes to the public whereas soiled banknotes must be returned to the Central Bank through their normal banking operations.

7.4 Counterfeit Currency Notes

The Central Bank always aims to maintain the high quality of bank notes in circulation in terms of cleanliness and security features. This helps to maintain confidence in Samoa's banknotes as well as making it difficult to counterfeit. Damaged and old soiled banknotes can be replaced at the Central Bank.

The year 2005/06 saw a drop in counterfeit notes presented to the Central Bank by the commercial banks, retailers and members of the general public. New security features added to the banknotes have made it difficult to produce counterfeits and the onus is always on the members of the public to be more vigilant and alert for any unsuspecting counterfeit that they may encounter.

7.5 Printing of Banknotes and Minting of Coins

Note Printing Australia (NPA) prints the $2 polymer note while the $5, $10, $20, $50 and $100 paper notes are printed by De La Rue in the United Kingdom, while all coin denominations are minted by the Singapore Mint.

7.6 Currency notes and Coins for Collectors

From time to time, coins and currency notes are sold to overseas collectors. In 2005/06, the Bank sold 10,913 pieces (worth $67,630) of currency notes and 16,594 pieces (worth $491,645) of currency coins to 21 requests from interested collectors overseas.

8. STAFF DEVELOPMENT

The Central Bank has always placed great emphasis on raising the level of competency and professionalism of its staff. While there are several ways to achieve this, the ones mostly used are training and Managerial judgement.

Training comprises of overseas funded training opportunities as well as the Bank's own training program which includes incentives to encourage staff to undertake further studies relevant to their work.

***Upgrading of the new air condition plants in the CBS building*.**

Managerial judgement, on the other hand, is accorded due recognition for personal academic achievements and work performance where staff are rewarded either by placement transfers or direct promotions.

The Central Bank has acknowledged the reciprocating benefits from this initiative and will continue to pursue it in the years ahead. Total staff numbered 80 at the end of June 2006.

8.1 Part-Time Educational Courses

Four Central Bank staff were taking part-time courses at the University of the South Pacific, Alafua during the twelve months ending 30 June 2006.

One of the four was among the first intake for the Masters in Business Program (MBA) now being conducted at USP, Alafua on a part-time basis. If all goes well, she will complete the program in May 2007.

As for the other three, two are continuing with their studies towards the completion of their Degrees in Sociology and Law, and the other a Diploma in Management.

8.2 Work Experience Program and Study Visits

Educational and public relations exercises are among several important services the Central Bank provides on a continual basis. For the twelve months ending 30 June 2006, the Bank provided vocational working opportunities for four students, two from the Samoa Polytechnic and one each from the University of the South Pacific, Suva and the National University of Samoa.

Meeting with Officials from American Samoa.

In the same period, the Central Bank has noticed a huge increase in the demand for tutorial assistance from schools and individual students on economic and national development issues. The Central Bank has already provided this service free of charge and will continue to do so in the years ahead.

8.3 Staff Promotions and New Appointments

Staff promotion is part of the Central Bank's on-going training process for career development for its staff while new appointments are done only where necessary. It is a long standing tradition for the Central Bank to give the existing staff priority for new appointments. This practice has developed into a win-win situation with reciprocating benefits, and is the main reason why the Central Bank has not faced any serious staff turn over problems for a very long time.

Economic Research and Statistics staff.

During the twelve months ending 30 June 2006, one promotion was made at the senior level and two at the lower level. No new appointments were made during the year.

8.4 Overseas Representation and Liaison

The Central Bank has been fortunate in having strong affiliation with several international multilateral institutions whose continued assistance enabled the CBS Management and staff to attend high level meetings, conferences and training courses. Institutions like the IMF, PFTAC and IMF/ Singapore have been instrumental in providing the CBS staff with several training opportunities during the last twelve months. In the same period, the Governor and other Senior Management Staff represented the Bank in a number of high level meetings and conferences on issues relating to both central banking and offshore banking. For instance, the Offshore Finance Centre meetings in Cayman Islands and London, Commonwealth Finance Ministers meeting in Barbadoes, IMF/World Bank Annual meeting in Washington D.C, OECD Global forum on taxation in Australia, PFTAC Steering Committee Review meeting in Fiji and the Eighth Annual General Meeting of the APG in Cairns, Australia.

9. FINANCIAL PERFORMANCE

Appearing at the end of this section are the audited accounts of the Central Bank for the financial year July 2005 to end June 2006.

In FY2005/06, total assets and liabilities declined $49 million or 23 percent. On the liabilities side, there were decreases in securities deposits of $34.5 million, demand deposits due to banks of $31, total reserves of $4.7 million, and other liabilities of $0.1 million. These were partly offset by increases in banknotes and coins in circulation of $12.5 million, Government deposits of $4.3 million, statutory deposits of banks of $3 million and external liabilities of $1.5 million. On the assets side, external assets dropped by $51 million. This was partly offset by increases in money at call of $1.7 million and other assets of $0.3 million.

The Central Bank made a net operating profit of $3,191,761 in the 2005/06 financial year compared to a net operating profit of $3,155,193 in FY2004/05. As required under Section 8(1) of the Central Bank of Samoa Act 1984, 50 percent of the profit (equivalent to $1,595,881) was transferred to the Government while the other 50 percent was transferred to the General Reserve Account.

The increase in profitability of the Central Bank of $36,568 in 2005/06 was a result of an increase in total income of $738,248 which was partly offset by an increase in total expenses of $701,680. The main item that contributed to the increase in total income was the higher interest income received from foreign exchange reserves investments of $739,746. The increase in total expenses was due to the increases in finance costs of $218,189, occupancy costs of $104,069 and other administrative expenses of $415,637.

Under Section 8(3) of the Central Bank of Samoa Act 1984, twenty percent of the credit balance of the Central Bank's Revaluation Reserve Account is payable to the Government. Accordingly, an amount of $388,836 was transferred from the Revaluation Reserve Account to the Government for FY2005/06 compared with $1,978,323 transferred in the previous year.

9.1 Performance Budget

The performance budgeting system is an effective and useful tool in aligning costs to the Bank's priorities and main outputs and services.

Within the framework of the Corporate Plan, the budget to operate the Bank for the FY2005-06 was prepared by the Budget Review Team (Committee) headed by the Deputy Governor. The budget was subsequently submitted and endorsed by the Board of Directors.

For monitoring control, the Accounting and Budget Department (ABD) continued to identify budget items, update, review, monitor, and control the internal budget processes, as well as formatting report forms and generally develop techniques to improve efficiency in the Bank's financial operations. Furthermore, the ABD continued to advise Management on the outcomes of monthly budget reviews from time to time.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CENTRAL BANK OF SAMOA

I have audited the financial statements of the Central Bank of Samoa for the year ended 30 June 2006, consisting of the balance sheet and related statements of profit and loss, changes in equity, cash flows and accompanying notes.

The Board of Directors of the Bank is responsible for the preparation and presentation of the financial statements which give a true and fair view of the Bank's financial position at 30 June 2006 and of the results of operations and cash flows for the year then ended. My responsibility is to express an independent opinion on these financial statements.

Scope

I conducted my audit in accordance with International Standards on Auditing. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Audit Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Bank as at 30 June 2006 and of the results of its operations and its cash flows for the year then ended.

I have obtained all the information and explanations I have required. In my opinion the Bank has kept proper books of account and its financial statements have been drawn up in accordance with International Accounting Standards and give in the prescribed manner the information required by the Central Bank of Samoa Act 1984 and amendments.

Isitolo Leota
Public Accountant

Apia, Samoa
15 September 2006

CENTRAL BANK OF SAMOA
BALANCE SHEET
30 JUNE 2006

	Note	30 June 2006 SAT$	30 June 2005 SAT$
CAPITAL AND RESERVES			
Authorised capital		$ 10,000,000	$ 10,000,000
Paid up capital		10,000,000	10,000,000
General reserve		13,264,997	11,669,116
Revaluation reserve		1,555,319	7,913,291
		$ 24,820,316	**$ 29,582,407**
Represented by :			
ASSETS :			
EXTERNAL			
Money at call		23,291,419	49,108,058
Short term deposits		22,102,500	26,283,942
Bank bills		68,242,895	67,273,431
Negotiable certificates of deposits		15,022,793	37,038,906
		128,659,607	**179,704,337**
NON GOVERNMENT			
Money at call		**2,884,086**	**1,143,242**
OTHER ASSETS			
Notes and coins	5	5,551,014	5,037,637
Receivables and prepayments	6	5,318,019	5,144,821
Fixed assets	7	19,568,402	20,037,168
		30,437,435	**30,219,626**
TOTAL ASSETS		**161,981,128**	**211,067,205**
Less - LIABILITIES :			
DOMESTIC GOVERNMENT			
Demand deposits		41,188,799	35,335,527
Government allocation of net profit and revaluation reserve	2	1,984,710	3,555,920
		43,173,509	**38,891,447**
NON GOVERNMENT			
Notes and coins in circulation		50,940,994	38,420,624
Demand deposits due to banks		18,193,414	49,163,153
Statutory deposits of banks		22,666,000	19,686,000
Securities	3		34,564,337
		91,800,408	**141,834,114**
EXTERNAL LIABILITIES	4	**1,648,919**	**88,269**
OTHER LIABILITIES			
Creditors and accruals		**537,976**	**670,968**
TOTAL LIABILITIES		**137,160,812**	**181,484,798**
		$ 24,820,316	**$ 29,582,407**

The relevant notes on pages 43 to 46 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 2006

	Note	30 June 2006 SAT$	30 June 2005 SAT$
INCOME			
Interest from overseas deposits and investments		9,033,896	8,239,950
Rents		1,170,430	1,164,678
Other income		382,380	443,830
		10,586,706	**9,848,458**
EXPENSES			
Audit fees - current period		22,560	25,298
- prior year's under accrual		209	106
Board expenses		17,396	15,634
Communication costs		290,473	270,286
Currency issue costs		1,242,616	1,255,738
Depreciation	7	952,942	1,011,647
Directors' fees		57,498	28,239
Finance costs		868,237	650,048
Occupancy costs		671,028	566,959
Other administrative expenses		3,254,789	2,839,152
		7,377,748	**6,663,107**
NET PROFIT BEFORE INCOME TAX		3,208,958	3,185,351
Withholding tax/levies on overseas investment income		(17,197)	(30,158)
		3,191,761	**3,155,193**
NET PROFIT FOR THE PERIOD		**3,191,761**	**3,155,193**
APPROPRIATIONS			
Transfer to general reserve in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		(1,595,881)	(1,577,596)
Transfer to Government of Samoa in terms of Section 8 (1) (b)		(1,595,880)	(1,577,597)
		$NIL	**$NIL**

The relevant notes on pages 43 to 46 form part of this statement of profit and loss.

CENTRAL BANK OF SAMOA
STATEMENT OF CHANGES IN EQUITY
TWELVE MONTHS ENDED 30 JUNE 2006

	Note	30 June 2006 SAT$	30 June 2005 SAT$
Paid Up Capital			
Balance at 1 July 2005		10,000,000	10,000,000
Issued share		-	-
Balance at 30 June 2006		10,000,000	10,000,000
General Reserve			
Balance at 1 July 2005		11,669,116	10,091,520
Transfer from statement of profit and loss in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		3,191,761	3,155,193
Government of Samoa allocation in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.		(1,595,880)	(1,577,597)
Balance at 30 June 2006		13,264,997	11,669,116
Revaluation Reserve			
Balance at 1 July 2005		7,913,291	6,784,964
Gains for the period in terms of Section 28(1) of the Central Bank of Samoa Act 1984 and amendments.		(5,969,142)	3,106,650
Government of Samoa allocation in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments.		(388,830)	(1,978,323)
Balance at 30 June 2006		1,555,319	7,913,291
Total Equity		**$24,820,316**	**$29,582,407**

The relevant notes on pages 43 to 46 form part of this statement of changes in equity.

CENTRAL BANK OF SAMOA
STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED 30 JUNE 2006

INCREASE (DECREASE) IN CASH EQUIVALENT:

	30 June 2006 SAT$	30 June 2005 SAT$
CASH USED BY OPERATING ACTIVITIES:		
Cash income received from investments	9,111,563	8,035,326
Cash received from rent	1,345,596	1,067,893
Net gain/ (loss) on revaluation reserve	(5,969,142)	3,106,650
Cash paid for services	(4,309,916)	(5,433,593)
Cash paid to employees	(1,859,863)	(1,456,034)
Interest paid on deposits	(1,011,038)	(622,916)
Cash paid/transferred to Government on revaluation reserve and net profits	(1,984,710)	(3,555,920)
Net cash used by operating activities	**(4,677,510)**	**1,141,406**
CASH USED BY INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	56,683	103,425
Purchases of fixed assets	(492,065)	(687,905)
Net cash used in investing activities	**(435,382)**	**(584,480)**
CASH USED BY FINANCING ACTIVITIES:		
Increase in notes and coins in circulation	12,520,370	3,186,809
Increase in deposits by domestic Government	4,282,062	14,869,784
(Decrease)/Increase in securities	(34,564,337)	(5,152,925)
Increase/(Decrease) in external liabilities	1,560,650	(2,647,582)
(Decrease)/Increase in deposits due to banks	(27,989,739)	28,106,729
Net cash used by financing activities	**(44,190,994)**	**38,362,815**
NET (DECREASE)/INCREASE IN CASH	(49,303,886)	38,919,741
Cash and cash equivalent at beginning of the period	180,847,579	141,927,838
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$131,543,693**	**$180,847,579**
CASH AND CASH EQUIVALENTS:		
Money at call - external	23,291,419	49,108,058
- domestic non government	2,884,086	1,143,242
Short term deposits - external	22,102,500	26,283,942
Bank bills	68,242,895	67,273,431
Negotiable certificates of deposits	15,022,793	37,038,906
	$131,543,693	**$180,847,579**

The relevant notes on pages 43 to 46 form part of this statement of cash flows.

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 40 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	40 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.

(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. (Refer note 5).

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

		30 June 2006 SAT$	30 June 2005 SAT$
2.	**GOVERNMENT ALLOCATIONS OF NET PROFIT AND REVALUATION RESERVE**		
	Balance at 1 July 2005	3,555,920	1,851,166
	Payment during the year	(3,555,920)	(1,851,166)
	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.	388,830	1,978,323
	Transfer of net profit in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.	1,595,880	1,577,597
	Balance at 30 June 2006	**1,984,710**	**3,555,920**

3. **SECURITIES**

Unsecured notes issued to the public as negotiable instruments, all maturing within 12 months with weighted average interest rates ranging from 0.80% to 4.75%.

4.	**EXTERNAL LIABILITIES**		
	(1) European Development Fund (EDF)	1,618,845	73,950
	(2) Inland Revenue Department - (New Zealand)-Levy	30,074	14,319
		1,648,919	**88,269**

(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.

5.	**NOTES AND COINS**		
	Currency notes	4,138,439	4,442,648
	Coins	1,412,575	594,989
		5,551,014	**5,037,637**

The amount represents the cost of printing and minting of new currency notes and coins not yet expensed.

6.	**RECEIVABLES AND PREPAYMENTS**		
	Interest receivables	2,110,924	1,855,004
	Prepaid expenses	500,030	736,460
	Other receivables - (secured) current	345,893	321,317
	- (secured) long term	2,361,172	2,232,040
		5,318,019	**5,144,821**

7. FIXED ASSETS

30 June 2006	Cost SAT$	Accumulated Depreciation SAT$	Net book Value SAT$	Charge for year SAT$
Furniture and fittings	937,628	734,097	203,531	38,189
Plant and equipment	1,899,186	1,277,599	621,587	168,331
Motor vehicles	372,529	108,650	263,879	76,353
Building	27,577,720	9,141,503	18,436,217	650,769
Computer network	269,088	225,900	43,188	19,300
	$31,056,151	**$11,487,749**	**$19,568,402**	**$952,942**

30 June 2005	Cost SAT$	Accumulated Depreciation SAT$	Net book Value SAT$	Charge for year 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
	$31,158,071	**$11,120,903**	**$20,037,168**	**$1,011,647**

8. 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.

9. FOREIGN CURRENCY EXPOSURE

The Bank holds net foreign cash, deposits, and bank bills amounting to SAT$128,659,607 for the twelve months ended 30 June 2006. (2005: SAT$179,704,337). 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 2006 are SAT$1,648,919. (2005: SAT$88,269)

10. CAPITAL COMMITMENTS

The Bank has a capital commitment to purchase new air conditions for the office building (level 3 & 4) which will involve a cash outlay of approximately $238,637. At balance date a deposit of $47,453 (20%) of the total cost of the project has already been paid to the supplier as per terms of payment. (2005: SAT$nil)

11. LEASE COMMITMENT

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.

12. CONTINGENT LIABILITIES

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 $73,675. (2005: SAT$97,864).

13. 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.