Central Bank of Samoa

Annual Report

FOR THE FINANCIAL YEAR
JULY 2006 - JUNE 2007

28 May 2008

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 2007, together with the audited accounts for that period and the report of the Auditors on those accounts.

(Niko Lee Hang)
MINISTER OF FINANCE

28 May 2008

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 2006 to 30 June 2007. The Report provides:

(a) a review of economic performance and the formulation and implementation of monetary policy;

(b) a review of the financial performance and condition of the financial system in the country;

(c) a report on the Bank's operations; and

(d) the Bank's annual accounts for the twelve months ended June 2007 and the auditors' report.

Yours faithfully

(Leasi Papali'i T. Scanlan)
GOVERNOR

BOARD OF DIRECTORS

Leasi Papali'i T. D. Scanlan
Governor/Chairman of the Board

Lealiie'e Rudy Ott
Director

Hinauri Petana
Director
Ministry of Finance

Alofipo Daniel Meredith
Director

Klaus Stunzner Jnr
Director

MANAGEMENT


Leasi Papali'i T.D. Scanlan
Governor/ Chief Executive Officer
Magele Filipo Magele Penn
Deputy Governor
To'oto'ovao Afoa Sanele Afoa
Manager
Accounts & Budget
Malaeoli'i So'o Pua
Manager
Banking & Corporate Services
Gilbert Wongsin
Manager
Financial Institutions
Atalina Enari
Manager
Financial Markets
Taveuveu Asora Simanu
Manager
Management Resources
Iosefo Bourne
Manager
Research and Statistics

C O N T E N T S

I. CENTRAL BANK LEGAL MANDATE AND FUNCTIONS

The Central Bank of Samoa is the country'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, Money Laundering Prevention Act 2007 and the Insurance Act 2007, the Central Bank has the following main functions:

(i) regulating the issue, supply, availability and international exchange of money;
(ii) advising the Government on banking and monetary matters;
(iii) promoting internal and external monetary stability;
(iv) promoting a sound financial structure;
(v) promoting credit and exchange conditions conducive to the orderly and balanced economic development of Samoa;
(vi) supervising and regulating banking business and the extension of credit;
(vii) implementing counter measures against money laundering such as to deter, detect and criminalize money laundering activities, and
(viii) supervising and regulating insurance business.

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 administers foreign exchange control measures.

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

The design and 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 the non-bank public and maintains a registry service, rediscount and repurchase 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 deposit reserves.

The Financial Institutions Act 1996 appointed the Central Bank as the Authority that issues licences to financial institutions and undertakes 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, Development Bank of Samoa, and insurance companies.

The Money Laundering Prevention Act 2007, which repealed the 2000 Act, 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 Insurance Act 2007 appoints the Governor as the Insurance Commissioner, and therefore empowers the Central Bank to license insurance entities and supervise the insurance industry.

II. GOVERNOR'S STATEMENT

Apart from being a legal requirement, the Annual Report provides the opportunity for the Bank to explain its key operations in the past financial year, in relation to its objectives and what may lie ahead. Prior to the implementation of financial liberalisation as part of Government's economic reform program, the Annual Report was the foremost transparency and accountability vehicle for the Central Bank. With the reform program, and in addition to the Annual Report, the other key monetary policy information vehicles used by the Central Bank now include its Annual Monetary Policy Statements, semi annual monetary policy press releases, economic updates for the Minister of Finance and the Cabinet Development Committee, the Governor and senior staff appearances before Parliamentary Committees, annual presentations to the Chamber of Commerce and ad-hoc presentations to international visitors, academia, special interest groups and the general public through the media.

This is the 24th Annual Report of the Central Bank since it was established in May 1984 under the Central Bank of Samoa Act 1984: to succeed and replace the Monetary Board of 1974 as the agency in-charge of the formulation and implementation of monetary policy. This Annual Report marks the second major change in the format of the Central Bank's Annual Reports. The first change started with the 2000 Annual Report, which included photos and was structured along departmental lines. This current Annual Report is structured along major functional lines and introduces a Statement by the Governor to cover policy as well as administrative issues. This format change is in line with that adopted by other central banks.

The main objective of the Central Bank is to promote sustainable real economic growth by maintaining price stability, international reserves viability and a sound financial system. For practical purposes, the Central Bank has defined price stability as an inflation rate consistent with those of Samoa's main trading partners. The rates of inflation for Samoa's main trading partners currently average around 3.0 percent per annum, and this is the target that the Central Bank normally aims to achieve in the long term. Aiming to be consistent with inflationary trends of trading partner countries reflects the need to maintain the international competitiveness of Samoa's industries, particularly tourism and export oriented industries. 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. During such periods, attention is focused more on the underlying or core inflation rate. However, the underlying CPI was only recently introduced, with a time series compiled and published starting three years ago.

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 and recover from large unforeseeable economic shocks. Historical events and trends support targeting a level of gross official international reserves equivalent to around 4.0 months of imports of goods, as adequate cover for maintaining the country's long-term international reserves viability.

Over the years, the financial and economic environment of Samoa has gone through significant changes. To effectively adapt to those changes, amendments and adjustments were made to the Central Bank Act as well as in the strategies, structure and techniques that the Bank adopted in implementing its required responsibilities. Ten years ago in 1998, the financial system was liberalized as part of the Government's Economic Reform Program. In line with that reform program, the ceilings on credit and controls on interest rates were lifted and the market forces of supply and demand were allowed to determine the allocation and use of financial resources in the economy. Under this new monetary policy framework, the commercial banks are allowed to determine whatever amount of loans they wish to grant to the general public and to set the level of interest rates on their loans and deposits commensurate with the costs and risks involved.

Under the new monetary policy framework, monetary policy decisions are implemented via open market operations through the issuance and trading of Central Bank Securities. By and large, monetary policy decisions are channeled through the commercial banks since they play a dominant role in the financial system. Commercial banks are the only institutions authorized to accept deposits. In addition, they now account for the largest share (over 60 percent) of financial institutions' loans to the private sector. However, given that the Samoan economy is small, the lopsided structure of the financial system with one bank dominating the deposits and the lending market, and the relatively large size of the public sector, open market type of monetary policy instruments in Samoa need to be supplemented with moral suasion to make monetary policy more effective.

As an open economy, the exchange rate between the Samoan Tala and other currencies play a vital role in the facilitation of international trade. However, the exchange rate is a double-edged sword, having contrasting impacts on exports and inflation. When it depreciates, exports become cheaper and more attractive to foreigners while imports become more expensive, increasing domestic inflation. On the other hand, when the exchange rate appreciates, exports become dearer and less attractive to foreigners while imports become cheaper, lowering domestic inflation. Because of its contrasting impacts on exports and domestic inflation, the exchange rate needs to be managed cautiously. Managing the exchange rate of the Tala is one of the key functions of the Central Bank. The main objective of the Central Bank's exchange rate policy is to ensure that export oriented industries remain competitive in overseas markets whilst at the same time minimizing imported inflation.

Economic stability can not be sustained without maintaining the stability of the financial system. The financial system plays a key function in an economy – that of financial intermediation. To ensure that the financial intermediation process works efficiently, effectively and securely, the financial system needs to be regulated and monitored closely. This is another one of the key functions of the Central Bank. In this regard, and in addition to other legal requirements, the Central Bank has put in place a set of internationally accepted prudential standards that the financial institutions should meet. Some of these include regulatory standards and procedures on capital adequacy, asset quality, liquidity management, foreign exchange positions, anti-money laundering and anti-terrorist financing. Despite the prudential policing role of the Central Bank, the ultimate responsibility for the performance and soundness of a financial institution lies with its Board of Directors and Management.

Let me now comment on monetary policy, the economy and financial stability in 2006/07.

In 2006/07, the Government Budget's focus was mainly on completing Samoa's preparations to host the 13th South Pacific Games. In the event, an overall Government Budget deficit of $16.1 million was approved by Parliament in May 2006. At this level, the overall budget deficit was 1.2 percent of nominal GDP, which was well within the good governance benchmark of 3.0 percent. The overall deficit was largely financed with external borrowings.

To ease the potential adverse impact of the Government Budget deficit on inflation and international reserves, monetary policy remained tightened in the financial year under review. Commercial bank liquidity was one of the major concerns for the Central Bank in 2006/07. The continuing strong competition amongst the financial institutions and record growth in credit to the public and private sectors saw total commercial bank liquidity squeezed to very low levels in the first half of 2006/07. In order to ease the pressure on the financial system, the Central Bank lowered the Statutory Reserve Deposits (SRD) ratio from 4.8 percent to 3.5 percent in October 2006. In addition, in order to steer monetary conditions in the preferred direction, the commercial banks were advised to raise their interest rates to attract more liquidity and to slow down the growth in credit. In the March quarter of 2007, therefore, market interest rates went up. The inter-bank borrowing rate, which had been rising throughout the financial year under review, reached 10 percent at the end of June 2007. Similarly, the commercial banks' deposit and lending rates increased by up to 150 basis points. Almost immediately, and combined with an inflow of funds from abroad, these increases in base interest rates resulted in an improvement in the banking system's liquidity position and a slow down in growth of credit in the second half of 2006/07.

As expected, the Samoan economy grew strongly in 2006/07, as the community geared up to host the 13th South Pacific Games. Led by strong growths in the "construction", "commerce", "other manufacturing", "transport and communication" "fishing" and "finance and business" sectors, real GDP expanded 4.5 percent in 2006/07 compared to only 1.0 percent in the previous financial year. In addition, capital investment in the telecommunications sector by mobile phone company Digicel combined with increased exports and tourism earnings to push the balance of payments into an overall surplus position of $28 million. This was in stark contrast to an overall deficit of $49 million in 2005/06. Despite a record increase in imports, international reserves improved to a level equivalent to 4.1 months of import cover in 2006/07 from 3.9 months in 2005/06.

As anticipated, the strong economic growth came at the cost of increased inflation, with the underlying inflation rate rising to 5.6 percent in the twelve months to end June 2007 from 2.2 percent in 2005/06 while the annual headline rate rose to 4.9 percent from 3.2 percent. In addition to strong aggregate demand, consumer price increases also reflected the approved increase in the VAGST by 2.5 percentage points to 15.0 percent, the rise (by 10 percentage points) of the excise tax on alcohol and cigarettes, an additional surcharge of 15 percent on electricity rates and the continued rise in oil prices. The adverse impact of these increases was partly softened by a 0.8 percent appreciation in the overall nominal value of the Tala, which eased some of the pressure on imported inflation during the year.

The impact of the above inflationary factors is envisaged to continue onto 2007/08, with inflation expected to rise above the long term target rate (of 3.0 percent) to around 6.0 percent. The economy, on the other hand, is expected to continue to grow further. The balance of payments is anticipated to record a further overall surplus, which should push up international reserves to 5.1 months imports of goods. Given the unfavourable outlook for inflation, monetary policy will remain tightened in 2007/08 to safeguard and maintain the international competitiveness of Samoa's industries, particularly import substitution industries and export oriented industries such as commodity exports and tourism.

With regards to financial stability, the strong growth of the economy and increased competition amongst the financial institutions saw commercial bank loans and advances grow strongly in 2006/07, pushing up the loans to deposits ratio to 104.9 percent at the end of June 2007 from 101.7 percent in June 2006. Nevertheless, the banking system remained strongly capitalized in 2006/07 with an aggregate tier one capital ratio of 24.8 percent, up from 20.7 percent in the previous year. And, I am pleased to report that the capital ratio for 2006/07 was well above the Central Bank's minimum prudential standards. This placed the banking system in a good position to provide cover for the ominous increase in problem loans and to meet future business prospects. In terms of profitability, 2006/07 was again a good year for the commercial banks, being able to maintain the same level of profits as in the previous fiscal year.

In the year under review, Samoa's contribution to international efforts to combat money laundering and terrorist financing reached another milestone, with Parliament enacting three key legislations in February 2007. These are the Money Laundering Prevention Act 2007 (which repealed and replaced the Money Laundering Prevention Act 2000), the Proceeds of Crime Act 2007 and the Mutual Assistance in Criminal Matters Act 2007.

Let me now highlight some significant corporate issues of 2006/07.

Although it is not an objective, I am pleased to report that the Central Bank recorded a slight increase in net profit to $3,209,230. The improved financial performance in the period under review reflected a strong recovery in the level of external assets, a general rise in international interest rates and the close monitoring of expenditures. The moderate growth in expenditures reflected the increase in the VAGST, the upgrading of the Bank's information technology infrastructure, the second installment of the general increase in salaries and wages for the public service and the general increase in prices.

As required under section 8(1) of the Central Bank of Samoa Act 1984, 50 percent of the Bank's profit (equivalent to $1,604,615) was transferred to the Government while the other 50 percent was transferred to the General Reserve Account. In addition, under section 8(3) of the Central Bank of Samoa Act, twenty percent of the credit balance of the Central Bank's Revaluation Reserve Account, an amount of $2,282,953, was transferred to the Government for FY2006/07. This was 6 times higher than the amount transferred in the previous financial year.

In August 2006, the composition of the Central Bank Board changed with Alofipo Tanielu Meredith replacing Muliagatele Leki Macdonald. Mr Meredith is mainly involved with commodity exports and therefore brings to the Board a wealth of expertise and experience in that very important sector of the economy. Earlier, in June 2006, Mr Norman Wetzel was replaced by Mr Klaus Stunzner Jr. who is involved mainly in the hardware and motor vehicle spare parts business.

The Central Bank's mandate expanded further in March 2007, when Parliament enacted the Insurance Act 2007, passing responsibility for the management and regulation of insurance businesses in the country to the Central Bank. The added responsibility will require more resources, particularly investment in recruiting more staff and providing more specialized training.

Also in March 2007, the Central Bank hosted the 2nd Course on Central Banking in the Pacific Islands in response to a request by the region's central banks for a specialized training on central banking. The first course was held in Wellington New Zealand in March 2006. The one week course in Apia was conducted by the Bank of England's Centre for Central Banking Studies (CCBS) in London and the International Monetary Fund/Pacific Financial Technical Assistance Centre (IMF/PFTAC) in Fiji, with financial support from the Asian Development Bank (ADB).

The course, which covered a wide spectrum of topics, was attended by Deputy Governors and other senior staff from the central banks of Papua New Guinea, Solomon Islands, Vanuatu, New Zealand, Fiji, Tonga and Samoa. To take advantage of this rare training opportunity, representatives from the local banks were also invited to attend the course.

During the year, staff attended various specialized courses and seminars conducted and sponsored by the IMF, PFTAC, IMF Singapore Training Institute (IMF-STI), World Bank, Australia Prudential Regulatory Authority (APRA), AUSTAC, Anti Money Laundering Assistance and Training Program (AMLAT) of the Australian Office of the Attorney General, Asia Pacific Group on Money Laundering (APG), the US/Pacific Island Forum Pacific Anti Money Laundering Program (PALP) and the South East Asian Central Banks Research and Training Centre (SEACEN). These training opportunities provide a cost effective way to up skill staff in challenging areas such as insurance, anti-money laundering, money and capital market instruments developments, monetary policy and statistics. On behalf of the Board and Management of the Central Bank, I wish to acknowledge our great appreciation of the invaluable assistance provided by the IMF, PFTAC, IMF-STI, ADB, AUSTRAC, AMLAT, APRA, APG, PALP, SEACEN, CCBS and other organizations through their Technical Assistance Programs and training opportunities for Bank staff. I am also grateful for the ongoing cooperation between the Central Bank of Samoa and other central banks in the Oceania Region.

During the year, senior Management staff and I attended and participated in several international meetings and conferences that were of significant importance to Samoa's own economic development as well as to discuss and negotiate Samoa's obligations to cooperate in world affairs. In the process, the Central Bank was able to establish and maintain strong working relationships with regional and global institutions.

With its wide range of expertise, the Central Bank plays an important role in supporting and protecting the Samoa International Finance Authority (SIFA), an agency whose activities provide substantial contributions to Government budgetary revenues and sponsorship for sports and other community projects. As a service provider, SIFA's continued success relies heavily on its institutional integrity and the reputation of its key personnel. I, as Chairman of the SIFA Board, accord significant importance to the Authority's Offshore Centre Promotions in South East Asia every year. In addition, we have allocated three Management staff of the Bank to be partly involved in the day to day operations of the Authority. Offshore Centre business in small island states such as Samoa, particularly tax competing activities, is currently been subjected to heavy anti-competitive attacks by the big advanced countries. To counter those attacks, I have been appointed by offshore finance jurisdictions from non-OECD countries to Co-Chair with Japan the Global Forum and Subgroup on a level playing field with regard to information exchange on tax matters. I am pleased to report that so far, we have been able to stand our ground, being able to keep the attacks at bay by loudly voicing our concerns in the international arena and continuing to review and update our legislations and regulations.

In addition to SIFA, senior staff and I represent the Central Bank in various other important committees such as the Investment Committee (which reviews and advices Cabinet on incentives for worthwhile business proposals), the Project Steering Committee for the ADB Small Business Development Program, Cabinet Development Committee (CDC), Government Export Guarantee Scheme (GEGS) Committee as well as the Renewable Energy and Energy Efficiency Program Committee. Although Central Bank reports are circulated widely in the community, the CDC meetings provide the Bank with a face to face opportunity to update, discuss and advice the Prime Minister and Cabinet Ministers, Associate Ministers and Chief Executive Officers of other Government Ministries and Corporations on the current state of the economy and policy actions that need to be considered.

The Central Bank's mandate is expected to continue to expand in the future as the international and domestic financial systems continue to evolve. To remain effective, the Bank will need to continually adapt its operations, strategies and structure to meet its increasing responsibilities and the evolving business landscape. Since 9/11, the Central Bank's role has expanded to cover terrorist financing as well as money laundering. The expanded mandate required amendments to the Bank's operations to ensure that it is well resourced and structured to continue to handle each new activity efficiently and effectively without compromising its primary responsibilities of monetary policy formulation and financial system supervision.

Late in the financial year under review, the Bank mourned the sudden passing away in April 2007 of one of its Management staff, Mr Taveuveu Asora Simanu, Manager of the Management Resources Department. Mr Simanu's valuable contribution to the Bank is acknowledged with great appreciation by the Board, Management and staff.

During the year, the Bank provided financial support to a multitude of community projects, particularly school development projects and a number of charity fundraising activities. In a small island country like Samoa, the Government budget can not support each and every community project. Therefore, the Bank, as a responsible corporate citizen, tries to assist whenever it can.

On relations with other banks, 2006/07 was the second year of the Inter-Bank Sports Competition (IBSC). In addition to its health benefits to staff, the IBSC aims to establish and foster the spirit of cooperation among all bank staff with a view to extending that cooperation to improving the efficiency of business inter-linkages amongst the banks. The Central Bank retained the IBSC Golf Trophy for the second consecutive year as well as winning for the first time the Touch Rugby Trophy.

Overall, 2006/07 has been another good year for the Central Bank of Samoa. And, for that, I would like to take this opportunity to express for the record the Board and Management's sincere appreciation of the diligent contribution of its hard working staff.

Soifua

Leasi Papalii Tommy D. Scanlan
Governor

III. CENTRAL BANK STRUCTURE AND GOVERNANCE

This section provides an overview of developments in the key elements that make up the Bank's organisational structure and how it is managed and governed. These elements combine to drive the Bank to achieve its various objectives efficiently and effectively.

1. 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.

As reported in the Central Bank's Annual Report for 2005/06, the composition of the Board changed in June 2006 and August 2006 with the new President of the Samoa Chamber of Commerce, Klaus Stunzner Jr. replacing Norman Wetzell and Alofipo Tanielu Meredith replacing Muliagatele Leki Macdonald. For 2006/07, therefore, the Board comprised of the Governor, Leasi Papalii Tommy Scanlan, the Chief Executive Officer of the Ministry of Finance (Ms Hinauri Petana) and independent members of the public: Lealiiee Rudy Ott, Klaus Stunzner Jr and Alofipo Tanielu Meredith.

The Board, as a whole, met on nine occasions during the twelve months to the end of June 2007.

2. Management and staff

The number of staff employed by the Central Bank increased to 84 at the end of June 2007 from 80 at the end of June 2006. The Bank's organizational structure as at the end of June 2007 is provided later in subsection 4 and is divided into six main Departments based on their policy and operational functions. There were no major changes to the structure of the Bank in 2006/07.

The positions of the Secretary to the Bank and the Internal Auditor have remained vacant since February and August 2002 respectively. In the meantime, the duties of the Secretary to the Bank are 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 further review.

Staff changes and developments are being elaborated on, under the Section “CORPORATE SERVICES AND ADMINISTRATION” of this Report.

3. 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 well equiped, and safe from unnecessary risk.

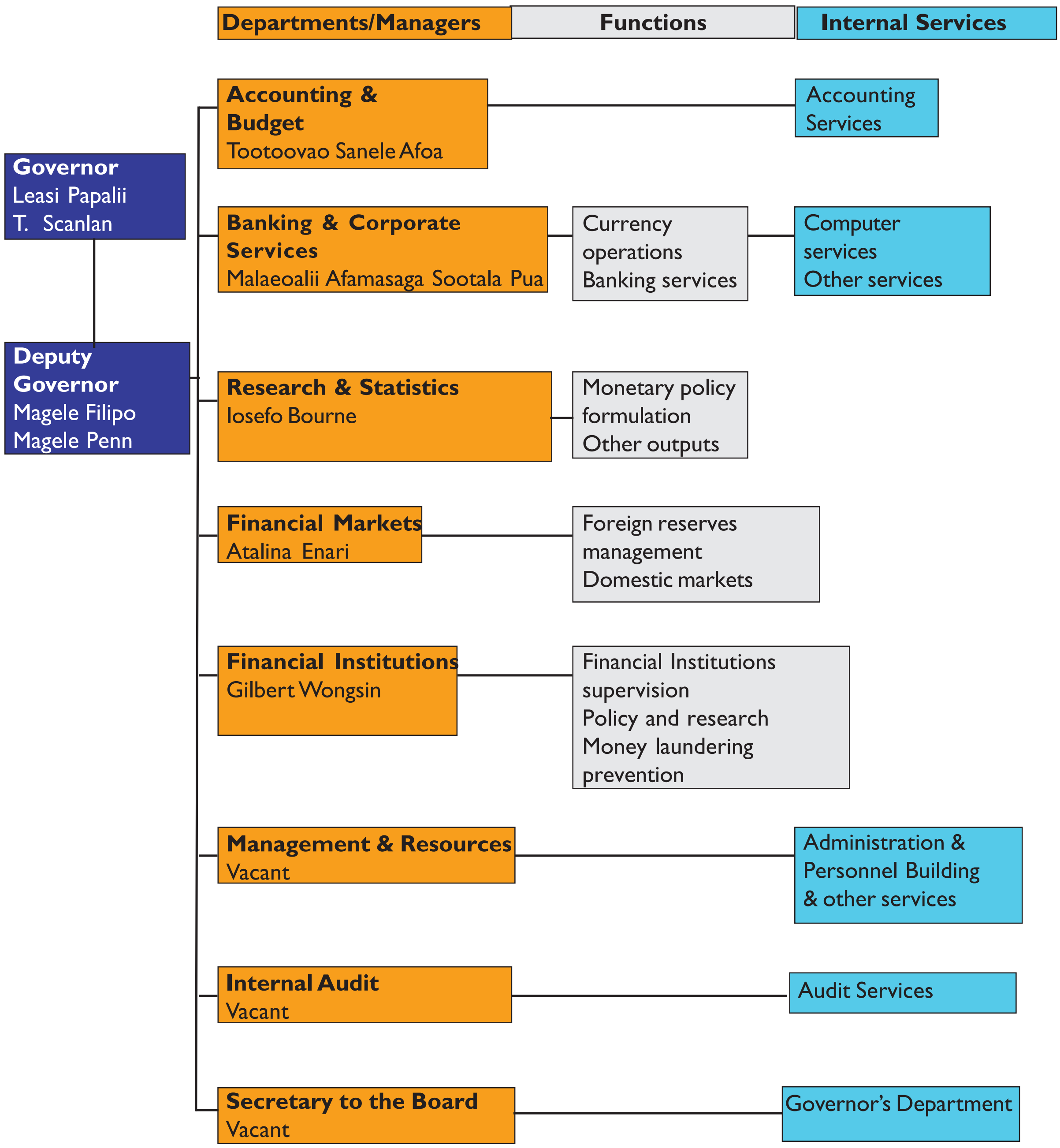
A close monitoring of both the Corporate Plan and the Output budget is undertaken regularly. The focus is mainly on delivering results and implementing preventive actions, rather than simply uncovering problems after the fact.

In addition, during the twelve months to end June 2007, 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:

(i) Reliability and integrity of information
(ii) Compliance with policies, plans, procedures, laws, and regulations
(iii) Safeguarding of assets, and
(iv) 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 efficient Central Bank.

4. Central Bank Structure



IV. MONETARY POLICY FORMULATION AND THE ECONOMY

Monetary policy was formulated against the backdrop of a strong international economy in 2006/07. Inflationary pressures started to appear due to rising demand and the continued surge in oil and commodity prices globally. In Samoa, commercial bank liquidity trended downwards to reach new lows, warranting an increase in market interest rates to attract more deposits and to slow down the growth of credit. This was assisted by a reduction in the Statutory Reserve Deposit Ratio, releasing more funds to boost the liquidity position of the banking system.

1. The World Economy

In 2006/07, most of the major economies around the world operated under contractionary macroeconomic policies to ward off a build up of inflationary pressures. Despite the continuing rise in international oil prices, total world output grew 5.2 percent in real terms while the global inflation rate registered at 2.1 percent. Real growth was led by the booming giant economies of China and India as well as moderate economic expansions in the Euro-area, USA and Japan. The US economy grew 1.9 percent with an inflation rate of 2.7 percent in 2006/07. The housing sector was hit hard following a sharp fall in housing investment. In addition to this, other business indicators were generally weak with downside risks exacerbated by rising oil prices and weakening consumer sentiment.

Closer to home, the New Zealand economy grew 2.2 percent with an inflation rate of 2.0 percent in 2006/07. Resource pressure within the economy remained tight, following ongoing labour shortages which placed upward pressure on wage inflation. Despite this, major support for the economy came from strong global demand for New Zealand goods and rising commodity prices particularly for dairy products, helping to boost the country's terms of trade. The Australian economy grew 4.4 percent with an inflation rate of 2.1 percent. Business profitability remained strong and business conditions and confidence remained high. The household sector benefited immensely as the economy created jobs at a rapid pace with unemployment down to around its lowest levels in 32 years. The boom in demand and prices of commodities also contributed substantially to Australia's economy.

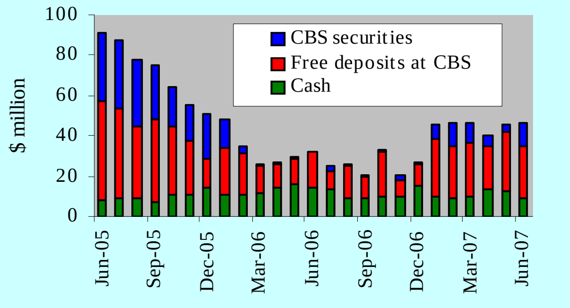
2. The Domestic Economy

For the Samoan economy, tight monetary conditions, which began in 2005/06 continued well into 2006/07. Consequently, with fiscal policy continuing on an expansionary path as Government gave priority to Samoa's preparations for hosting the 2007 South Pacific Games, monetary policy remained tightened throughout 2006/07. The liquidity of the commercial banks was one of the major concerns for the Central Bank in 2006/07. Strong competition, particularly in the banking system, combined with record growth in credit to the public and private sectors saw total commercial bank liquidity squeezed to an unprecedented low level. As expected, the economy grew strongly, stimulated by increased construction activities and tourism developments as the public and private sectors hammered down some of the finishing touches to the country's infrastructural preparations for hosting the Games.

2.1 Liquidity Conditions

From over $90 million at the end of fiscal year 2004/05, total commercial bank liquidity subsided steadily reaching a low of $26 million in March 2006 and improving to $30 million at the end of 2005/06. In the first six months of 2006/07, commercial bank liquidity declined to an average level of $25 million, falling to as low as $20 million each in September and November 2006, before recovering to an average of $45 million in the six months to end June 2007. (See Graph 1.)

Graph 1. Commercial Banks' Liquid Assets



Despite the very strong demand for credit which gave rise to record credit growth, intense competition to maintain market shares saw interest rates rising only marginally particularly in the first half of 2006/07. The marginal rises in the overall weighted average deposit and lending rates, which reflected the acceptance of deposits and granting of loans at the higher ends of the prevailing interest rate spectrum, was insufficient to attract and sustain a high enough level of deposits or to dampen the demand for credit. And, with each bank unwilling to yield its prevailing market share, base interest rates remained unchanged, prolonging the tight liquidity situation. In the event, the commercial banks' liquidity position deteriorated in the first half of 2006/07. Consequently, in October 2006, the Bank was compelled to lower temporarily the Statutory Reserve Deposits (SRD) ratio from 4.8 percent to 3.5 percent in order to alleviate the liquidity pressure on the financial system. This interim measure, which freed up $6 million of commercial bank deposits with the Central Bank during the effective month, was not sufficient to counter the mounting pressure on liquidity. As a result, to manage and steer monetary conditions in the preferred direction, the Central Bank applied "moral suasion" and raised the level of public transparency in order to get across the message that deposits needed to rise while credit growth should slow down. With open market operations becoming ineffective in restraining the growth of credit, consultations with the banks, media publications and public presentations became more regular and bolder.

2.2 Interest Rates

Liquidity pressure and moral suasion eventually succeeded in driving the commercial banks to increase their base interest rates, starting with Westpac in January 2007, ANZ and National Bank of Samoa in February and Samoa Commercial Bank in March. The base interest rates on deposits were raised between 50 and 100 basis points while those on loans were increased between 100 and 300 basis points. (See Table 1.)

Table 1.

Commercial Banks' Base Interest Rates

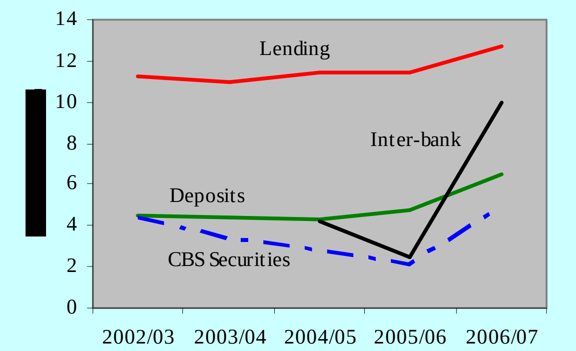
(Percent per annum)

DEPOSIT RATES				
	WESTPAC (1)	**ANZ (2)**	**NBS (3)**	**SCB (4)**
Old				
1-2 mths	3.75	3.25	3.75	4.00
3-5 mths	5.25	5.10	5.25	5.25
6-11 mths	5.75	6.50	6.00	7.00
12 mths & over	6.25	7.50	7.00	7.50
New				
1-2 mths	4.25	3.25	4.00	4.50
3-5 mths	5.75	5.75	5.75	6.00
6-11 mths	7.00	7.25	7.00	7.50
12 mths & over	7.50	7.75	7.50	8.00
LENDING RATES				
WESTPAC (1)				
	Prime Lending	General Finance	Housing Loan	Consumer Finance
Old	10.75	12.50	12.75	15.50
New	11.75	13.50	13.75	16.50
ANZ (2)			**NBS (3)**	
Old	10.75		Old	10.00
New	11.75		New	12.00
SCB (4)				
	Motor Vehicle	General Finance	Housing Loan	Small Loans
Old	12.00	12.00	12.00	12.00
New	14.00	13.50	13.50	15.00

(1) New rates became effective on 22 January 2007.
(2) New rates became effective on the 1st week of February 2007.
(3) New rates became effective on 26 February 2007.
(4) New rates became effective on 1st March 2007.

Almost immediately, and combined with an inflow of funds from abroad, these increases in base interest rates resulted in improving the banking system's liquidity position substantially. The rise in base interest rates saw the weighted average interest rates on deposits rise from 4.8 percent at end June 2006 to 6.5 percent at end June 2007 while that on lending went up from 11.5 percent to 12.8 percent. Similarly, the weighted average interest rate on CBS securities surged from 1.9 percent to 5.3 percent over the period under review. (See Graph 2.)

Graph 2: Weighted Average Interest Rates



Reflecting the rise in interest rates, the growth of combined credit to the private sector and public institutions slowed down in the second half of 2006/07 from a peak of 29 percent in November 2006 to 24 percent at end June 2007. Nevertheless, at $600.6 million, the combined level of credit to the private sector and public institutions at the end of June 2007 was $83.9 million higher than at end June 2005. Much of the increase in credit went to the 'Building, construction and installations' sector (up $32.2 million), 'Trade' (up $21.9 million) and the 'Other Activities' sector (up $18.7 million). Smaller rises were recorded for all other sectors. (See Table 2.)

Table 2.

Commercial Banks' Loans to Private Sector and Public Institutions

(Amounts in Tala million)

End of Period	2004/05	2005/06	2006/07
Agriculture, forestry and fisheries	7.93	9.33	10.51
Manufacturing	21.01	22.86	23.21
Building, construction and installation	164.36	241.37	273.53
Electricity, gas and water	4.71	4.66	5.56
Trade	72.88	89.42	111.32
Transportation, storage and communication	25.15	35.05	38.36
Professional and business services	62.84	35.56	40.88
Other activities	31.90	78.48	97.21
Total	390.78	516.73	600.58
Annual average change	5.7%	32.2%	16.2%
Source : Central Bank of Samoa			

The substantial growth in credit combined with significant inflows of net foreign assets to push up money supply by $43.2 million to $541.8 million at end June 2007. Net foreign assets rose $14.5 million. After declining in 2005/06, Government's net position with the monetary system improved $11.3 million to reach $100.6 million in 2006/07. In the event, money supply in 2006/07 expanded 13.1 percent on an annual average basis, slightly down from the growth rate for 2005/06. (See Table 3.)

Table 3.

Monetary Survey

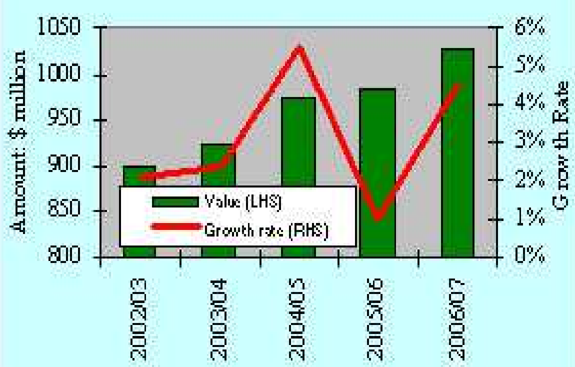
(Amounts in Tala Million)

End of Period	2004/05	2005/06	2006/07
1. Net Foreign Assets	231.29	184.64	199.12
2. Net Domestic Assets	209.93	313.91	342.66
(a) Domestic Credit	293.07	430.11	502.96
(i) Government , net	-100.28	-89.32	-100.62
Ministry of finance	-44.41	-45.49	-46.37
Central Bank of Samoa	-37.25	-43.17	-40.69
Commercial Banks	-18.62	-0.66	-13.56
(ii) Private Sector & public institutions	393.35	519.43	603.58
(b) Other items , net	-83.14	-116.20	-160.30
3. Total Assets = Total Money Supply (M2)	441.22	498.55	541.78
Money (M1)	132.79	145.20	151.00
Quasi-money	308.43	353.35	390.78
4. M2 Annual average growth rate	10.8%	14.0%	13.1%
Source : Central Bank of Samoa			

2.3 Real Sector

The latest national accounts figures showed that after a small positive growth of 1.0 percent ($9.6 million) in 2005/06, real GDP expanded 4.5 percent or $44.2 million to reach $1.03 billion in 2006/07. (See Graph 3.)

Graph 3. Real Gross Domestic Product



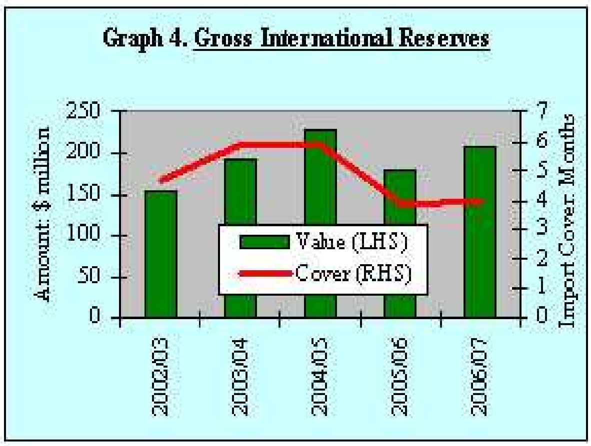
The key factors that drove the economy in 2006/07 were the expansionary fiscal policy, which was largely focused on the completion of sporting facilities for the 2007 South Pacific Games, the continuation of Government's infrastructural developments, the completion of the DBS Headquarter, construction of other public sector buildings and further strengthening in tourism activities.

Her Highness, The Masiofo, Filifilia Tamasese, cuts the ribbon to officially open one of the largest construction projects in the country - the Development Bank of Samoa Headquarter.

The "Construction" sector, which is the third largest sector of the economy in terms of its contribution to GDP, recorded the largest increase in value-added of $11.8 million or 13.7 percent in 2006/07. This was followed by the "Commerce" sector, which is the largest sector, growing $9.4 million or 4.8 percent. The "Other manufacturing" sector, which is largely comprised of the production and export of automotive wire harnesses by Yasaki, rose by $8.8 million or 9.8 percent. Significant value-added increases were also registered for the "transport and communication" sector (up $6.1 million or 4.7 percent), "fishing" sector (up $4.1 million or 8.6 percent) and "finance and business" sector (up $3.8 million or 3.9 percent).

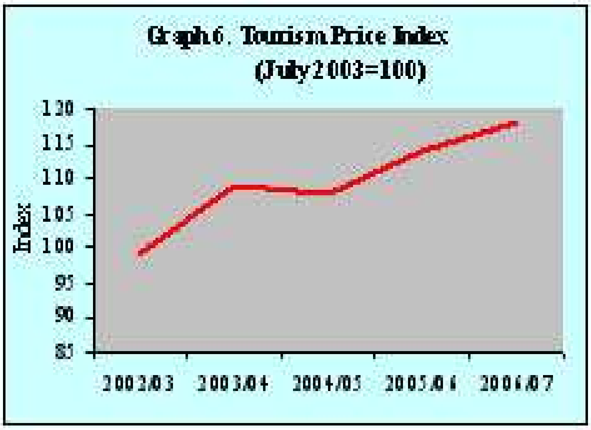
2.4 Balance of Payments

Despite strong domestic demand throughout the year, which pushed total imports to a record high level, the balance of payments registered an overall surplus of $28 million, a stark contrast to an overall deficit of $49 million in 2005/06. This overall surplus reflected capital investment in the telecommunications sector, combined with increased tourism earnings and improved export revenues. Consequently, the overall balance of payments surplus pushed up the level of international reserves in 2006/07 to the equivalent of 4.0 months of imports from 3.9 months in 2005/06. (See Graph 4.)



As expected, tourism activities grew strongly in 2006/07 with earnings rising 18 percent ($41 million), compliments of a 10 percent growth in tourist arrivals and a 7 percent increase in average tourist expenditure. (See Graph 5.)

Many of the increased tourist arrivals were holiday makers and those visiting friends and relatives. There were also many who were here for the numerous regional sporting activities such as the international and regional championships for weightlifting, archery, athletics and amateur boxing. The increase was facilitated by increased number of flights to the country, a reduction in airfares, diversion of tourists from troubled neighbouring countries and success of overseas tourism promotions in attracting tourists to the country. The rise in average tourist expenditure, as shown by the surge in the Tourism Price Index (TPI), largely reflected the increases in the prices of products and services consumed by tourists such as hotel accommodation, car rentals and transportation, consequent to the increase in the VAGST and excise taxes in 2006/07. (See Graph 6.)



There was a slight increase in earnings from the export of automotive wire harnesses. On the other hand, private remittances fell 11 percent ($31 million) to $250 million in 2006/07 reflecting lower receipts by Churches (down 39 percent or $30 million) and households (down 1 percent or $1 million). Nevertheless, family remittances continued to account for the bulk of private remittances (69 percent) followed by remittances received by Churches (14 percent). Most of the private remittances came from NZ (34 percent), followed by USA (23 percent) and Australia (18 percent). A large portion of private remittances are still being received in the form of foreign banknotes (13 percent).

Miss Samoa & 2007 Hong Kong 7s Champions - Manu Samoa. A great promotion for Samoa tourism.

The total value of exports recovered to $31 million in 2006/07, on account of a 33 percent rebound in fish export revenues (particularly in the latter half of the fiscal year under review), combined with increased earnings from soft drinks (up 56 percent) and re-exports (up from a negligible level to $2.9 million). (See Table 4.)

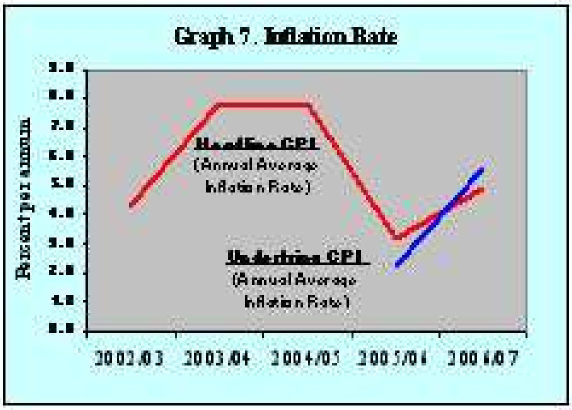
Table 4.
Exports by Commodity
(Value in Tala Million)

	2004/05	2005/06	2006/07
Domestic Exports	**34.99**	**29.53**	**28.39**
Fish	13.65	12.68	16.88
Nonu Products	7.90	8.19	4.07
(Nonu Juice)	(6.08)	(7.25)	(3.18)
(Nonu Fruits)	(1.82)	(0.94)	(0.89)
Beer	4.60	4.34	3.18
Coconut cream	2.53	2.26	2.16
Taro	1.27	0.67	0.66
Coconuts	0.53	0.31	0.38
Soft drinks	0.24	0.22	0.34
Coconut oil	1.20		0.10
Others	3.07	0.86	0.62
Re-exports	0.20	0.09	2.86
Total	**35.19**	**29.62**	**31.25**

On the other hand, the strong growth of the economy saw total imports rise 12 percent (or $67 million) to $617 million in 2006/07, with increases recorded for all major categories of imports. Non petroleum private sector imports went up 6 percent (up $28 million) due to a 5 percent increase in volume and a 1 percent rise in average import prices. Similarly, a rise of $21 million was registered for Government imports which was largely due to an increase in the volume of imports. In addition, a 17 percent increase in petroleum imports (up $18 million) was entirely accounted for by an expansion in the volume. In US dollar terms, the international price of oil rose 2.1 percent in 2006/07 but was offset by a 2.1 percent appreciation of the Tala against the US dollar leaving the imported price of oil unchanged in Tala terms.

2.5 Prices

On prices, the annual headline rate of inflation rose steadily in 2006/07, reaching 4.9 percent at end June 2007 from 3.2 percent at end June 2006. (See Graph 7.)



The acceleration of the inflation rate in the period under review reflected average increases in all groups of the headline CPI (except the "Clothing and Footwear" and the "Transport and communication" sectors, with the latter reflecting falling international oil prices, which dipped to USD$57.22 per barrel on 12 October 2006). Contributing mainly to the increase in the twelve months of 2006/2007 were expansions of 430 points and 990 points respectively in the "Food" and "Alcohol and Tobacco" sub-indices. This saw the overall local and import components of the CPI rise 3.9 percent and 6.0 percent respectively in the period under review. (See Table 5.)

Plentiful supply of vegetables at the Fugalei Market in 2006/07.

Table 5.
Consumer Price Index
(March 2004 = 100)

Fiscal year to end June	2004/05	2005/06	2006/07
	A. Headline Inflation		
Description	*12 months average percent change*		
All Groups	7.8	3.2	4.9
Food	10.9	3.1	6.4
Clothing and Footwear	-6.3	-7.3	-3.3
Housing and Household Operations	3.9	6.2	2.6
Transport and Communication	3.8	10.0	-1.1
Alcohol and Tobacco	-0.1	1.2	11.1
Miscellaneous	0.7	0.4	3.2
Import Component	3.6	3.5	6.0
Local Component	10.1	3.1	3.9
	B. Underlying Inflation (1)		
	Year on year end percent change	*12 months average percent change*	
Description			
All Groups	-0.4	2.2	5.6
Food	-0.7	3.0	6.5
Clothing and Footwear	-8.1	-7.3	-3.3
Housing & Household Operations	3.1	1.5	0.5
Transport and Communication	0.9	1.4	7.1
Miscellaneous	1.3	0.9	6.6
Import Component	-1.5	1.9	5.8
Local Component	3.1	3.0	4.9

Source: Statistical Services Division, Ministry of Finance
(1) The historical series for this new index started in August 2003.

Consumer prices in the year to end June 2007 were subjected to strong demand pressures associated with the growing domestic economy, the continuous surge in international oil prices, the appreciation of exchange rates for the New Zealand and Australian currencies, an additional surcharge of 15 percent on electricity rates as well as Government tax revenue measures which saw the VAGST rising (by 2.5 percent) to 15.0 percent and the excise tax on alcohol and cigarettes increase by 10 percent. And, excluding the prices of items susceptible to natural shocks and those subject to official price regulations, the underlying inflation rate trended up much faster than the headline inflation to 5.6 percent at end June 2007 from 2.2 percent at end June 2006.

3. Outlook for 2007/08

For the financial year 2007/08, the latest IMF World Economic Outlook forecasts the world economy to moderate its expansion at a rate of 4.5 percent with world inflation to hover around 2.0 percent. Much of the world growth is to be supported by China and India with projected growth rates of 10.7 and 8.7 percent respectively for the 2007/08 period. The economies of the key players of the world economy, the United States, Euro area and Japan, are expected to grow although at lower rates of 1.9, 2.1 and 1.7 percent respectively.

Housing and business woes are expected to continue in the US. The resultant slowdown of the world's largest economy will see the Fed funds rate (at the least) remain on hold for 2007/08, with inflation forecast to reach 1.9 percent. On the exchange rate front, the US dollar is expected to be generally weighed down against most of the major currencies in 2007/08 as yield differentials continue to disadvantage the American currency.

Growth rates for the New Zealand and Australian economies are expected at 2.3 percent and 4.1 percent respectively while their CPI inflation rates are expected at 3.1 percent and 2.9 percent in that order. In light of these inflation forecasts, both countries have been forced to adopt tight monetary policy stances to last until or into 2009, in a bid to combat inflationary pressures stemming from ongoing resource constraints. Despite this, a continuation in strong global demand for commodities would sustain favourable terms of trade for both countries in the year ahead.

The local economy, on the other hand, is expected to continue to grow further, in light of substantial projects and events, particularly the 13th South Pacific Games in August / September 2007. The balance of payments is anticipated to record an overall surplus, pushing up gross international reserves to 5.1 months imports of goods. On the other hand, inflation is expected to rise above the long term target rate (of 3.0 percent) to around 6.0 percent. Given the unfavourable outlook for inflation, monetary policy will remain tightened in 2007/08 to safeguard and maintain the international competitiveness of Samoa's industries, particularly import substitution industries and export oriented industries such as commodity exports and tourism.

Preparing to host the largest event in the Pacific in 2007/08 - the South Pacific Games. The Hon. Prime Minister and the SPG Choir at the Official Launching of the Games' Theme Song - "Live The Dream";

.....the SPG Touch Relay led by Manu Samoa legend Brian Lima and the 2007 Hong Kong 7s Champions; and

.....the Launching of the Games Uniform for Team Samoa.

V. MONETARY POLICY IMPLEMENTATION AND EXCHANGE CONTROL

Since January 1998, the Central Bank has been implementing monetary policy by issuing its own securities using market based techniques – commonly known as open market operations, complimented by its currency issue and exchange rate functions, Statutory Reserve Deposit prudential requirement (Section VI (1.4)), foreign exchange control and moral suasion.

1. Open Market Operations

The predominant monetary policy instrument is the Central Bank of Samoa security, which is issued via the Central Bank's Open Market Operations, to influence the amount of liquidity in the financial system. To increase the marketability of the securities, six different terms to maturity are available to investors. They are the 14-days, 28-days, 56-days, 91-days, 182-days and 365-days maturities.

The intermediate target for open market operations is reserve money, particularly the commercial banks' free liquidity component, which is measured by the overall balance of the commercial banks' exchange settlement accounts (ESA) with the Central Bank. Free liquidity provides the commercial banks with funds that are immediately available for lending. The higher the amount of free liquidity available, the higher the potential for banks to lend and vice-versa.

Free liquidity also affects the inter-bank borrowing rate (the interest rate at which the commercial banks borrow short term funds from each other) and ultimately the level of all other interest rates in the financial market. In 2006/07, the inter-bank rate surged to 10.0 percent from 2.5 percent in 2005/06 due to tight liquidity conditions.

The previous year's subdued open market conditions continued in 2006/07, despite concerned expectations for a speedy pick-up in the banking system liquidity. The number of floats or auctions of CBS securities increased to 24 from 19 in the previous year with the total amount floated rising to $104 million from $95.5 million. (See Table 6.)

Table 6.
Central Bank Securities
(Amounts in Tala Million)

	2004/05	2005/06	2006/07
Number of Floats	48	19	24
Amount Floated	$359.50	$95.50	$104
Amount Tendered	$488.80	$173.00	$70.50
Amount Allotted	$333.40	$89.00	$53.50
Amount Matured	$342.20	$118.30	$41
Amount Outstanding	$34.83	$0	$12.50

Reflecting the tight liquidity conditions in 2006/07, the auctions were undersubscribed by 32 percent of the amount floated and the amount tendered by bidders dropped dramatically to $70.5 million; a 76 percent reduction from the $173 million tendered in 2005/06. Consequently, the amount allotted also fell from $89.0 million to $53.5 million in 2006/07. As liquidity tightened, investor preference shifted more to shorter term securities, which are the 14 and the 28 days securities. At end June 2007, the face value of securities outstanding amounted to $12.5 million compared to none the previous year.

The Repurchase Facility remained unused in 2006/07 with the commercial banks preferring to use the Rediscount Facility as a source of instant liquidity. Total rediscounted securities dropped to $1.0 million in 2006/07 from $6.2 million in the previous year reflecting the reduction in securities issued as well as an eventual improvement in the commercial banks liquidity management towards the end of the financial year under review.

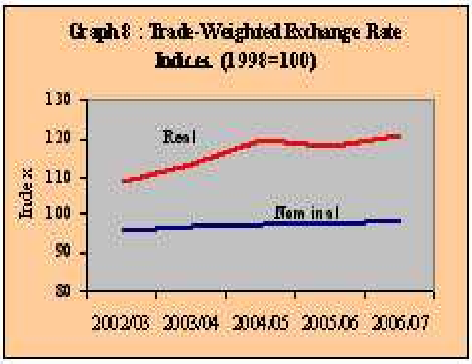
As reported in Section IV (2.2), the overall weighted average interest on CBS securities rose in 2006/07 with interest rates on all types of maturities increasing as liquidity remained tight, in line with the Central Bank's monetary policy stance. As a result, the gap between the yields on CBS securities and interest rates on commercial banks' deposits of comparable maturities narrowed. Despite the increase in interest rates, the substantial decline in securities issued led to a 73 percent drop in the interest cost of open market operations from $0.56 million in 2005/06 to $0.19 million in 2006/07.

2. Exchange Rates

The main objective of the Central Bank's exchange rate policy is to ensure that exports remain competitive in overseas markets while 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. The basket is based on Samoa's distribution of merchandise trade, private remittances and travel earnings. This currency basket is reviewed annually to reflect changes in trade and payment patterns between Samoa and its major trading partners. Following this year's review, the currencies inside the basket were allocated with new weights on 23 April 2007. The basket still comprises of the currencies of NZ, USA, Australia, European Union 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 2006/07, the Tala appreciated by 0.80 percent in nominal terms and 2.12 percent in real terms against the currencies in the basket. The real appreciation during the period under review was attributed to price increases in Samoa being higher than price increases abroad, coupled with the nominal appreciation of the Tala.



3. Foreign Reserves Management

Gross official international reserves recorded a 15.9 percent recovery to $207.5 million at end June 2007 from the end June 2006 figure of $179.1 million[1]. The bulk of this increase was absorbed by the Central Bank (with its foreign exchange holdings going up 21.0 percent) and the Ministry of Finance (with its foreign exchange holdings including SDR holdings rising 2.0 percent). At the end of June 2007, therefore, the Central Bank held 76.1 percent of total international reserves while the Ministry of Finance held the remaining 23.9 percent.

Liquid short-term financial instruments, namely term deposits, bank bills, certificates of deposit, repurchase agreements and interest bearing call accounts in financial institutions with AA minimum credit ratings remained the Bank's preferred investment instruments. In investing in these financial instruments, the Bank continued to adhere to its reserves management objectives of liquidity, security, capital preservation and profitability.

In the period under review, the Investment Committee, which is made up of the Governor, Deputy Governor and other Management officials, continued to meet on a regular basis to discuss and endorse investment recommendations submitted by the Financial Markets Department (FMD). In approving the investment recommendations by the FMD, the Committee's decisions are guided by the Bank's reserves management objectives and portfolio diversification benchmarks.

Net interest income from the investment of the Central Bank's foreign exchange holdings in 2006/07 amounted to $9.7 million. This represented an increase of 7.8 percent from the previous fiscal year owing largely to rising interest rates in the global financial markets and an increase in the Bank's foreign exchange holdings from $130.7 million at

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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.*

the end of June 2006 to $158.2 million at the end of June 2007.

Of the Central Bank's total foreign exchange portfolio at the end of June 2007, 47.5 percent was invested in New Zealand dollars, 27.4 percent in Australian dollars, 24.3 percent in US dollars, and the rest in British Pounds and Euros. During the year, the Bank's reserves portfolio was further diversified by shifting some investments from US, NZ and Australian dollar denominated assets to British pounds and Euros. As a result, British Pounds and Euro financial assets increased 112.5 percent and 1,100 percent respectively in 2006/07. On the other hand, the New Zealand dollar holdings declined 6 percent and the Australian dollar holdings dropped 18.1 percent.

4. Currency Issue

By law, the Central Bank is the sole issuer and destroyer of local currency banknotes and coins. It is an offence to deface any local currency note or coin. Any deliberate action such as writing, stamping, erasure etc that changes the features of a local currency unit is subject to severe legal penalties.

The demand for currency continued to increase in response to the growth of the economy. At 30 June 2007, the value of currency (notes and coins) that circulated in the economy amounted to $52 million, up 2 percent from the end of the previous year. New currency notes accounted for over half of currency in circulation, totaling $36 million compared to $34 million the year before.

Leaving aside small denomination coins, the $1.00 coin remained the most widely circulated currency unit in the country although the number of pieces circulating at end June 2007 slipped 3 percent to 1,354,000 pieces. (See Graph 9.) The second most popular unit was the $2.00 banknote with 836,000 pieces, down 13 percent from end June 2006. Not surprisingly, the $10.00 and $20.00 banknotes followed in third and fourth places respectively due to the increased popularity of Automatic Teller Machines (ATMs), pushing the $5.00 note to fifth place.

The number of pieces for the $1 coin, $2, $5, $10 and $20 banknotes that circulated in 2006/07 fell but was more than offset by the public's increased preference for the $100 note which rose 14 percent to 223,000 pieces. In the event, there was a slight increase in the total value of currency in circulation in the fiscal year under review.

During the year, new designs for currency notes were prepared with the aim of updating the look, feel and security features of currency circulating in the country. The new designs are expected to be launched in 2007/08.

5. Foreign Exchange Control

Foreign Exchange Control play a complimentary role to monetary policy and financial system supervision, ensuring that the country's foreign exchange reserves are used for legitimate purposes and maintained at a sustainable level.

As foreign reserves reached comfortable levels and in line with the spirit of Government's economic reforms, the Central Bank continued to relax its foreign exchange control regulations with a view to letting competition determine the variety and quality of international financial services needed by the market as well as the appropriate level of prices for those services. In line with this philosophy, the Central Bank gradually opened up the international financial services market to more competition.

5.1 *Money Transfer Operators and Foreign Exchange Dealers*

In line with the implementation of financial liberalization, Exchange Control Regulations were amended to allow for the establishment of licensed money transfer operators (in 1999) and foreign exchange dealers (in 2000) to expand and increase competition in foreign exchange services in the country. For monitoring purposes, the money transfer operators (MTOs) and foreign exchange dealers (FEDs) are required to submit periodic statistical reports to the Central Bank.

In 2006/07, one (1) new money transfer business licence was issued bringing the total of licences issued since 1999 to 21. On the other hand, there were no new licences issued for foreign exchange dealing thus leaving the number of licensed dealers at 7 at end June 2007.

MTOs now play a key role in facilitating the inflow of private remittances to Samoa. In the past five years, the MTOs accounted for the largest and growing proportion of private remittances coming to Samoa, with a declining portion coming through the commercial banks. This trend reflected the increased convenience and price competitiveness of MTOs. In 2006/07, MTOs accounted for 60 percent of non-church related private remittances to Samoa, up from 56 percent in 2005/06. The growth in the number of MTOs has increased competition in this important international financial service, thus lowering the fees and increasing the number of outlets for the convenience of recipients.

5.2 *Offshore Borrowing and Remittance of Capital*

The Central Bank continued to administer offshore borrowing, capital repatriation and profit dividend payments by the private sector in 2006/07 in line with the existing regulations. Prior approval is required from the Central Bank for offshore borrowing and this depends on whether there is a clear net benefit to the domestic economy, the cost of the loan and ability of the borrower to meet the scheduled repayments. Prior approval is also required for capital repatriation and dividend remittances with bone fide requests normally granted.

In 2006/07, two (2) offshore borrowing applications were approved totaling $12.7 million. One (1) of the approvals was issued to the financial services sector and the other went to the telecommunications sector. At the end of June 2007, a total of $18.9 million was outstanding in offshore borrowing by the private sector, a slight 4 percent rise from the end of June 2006. At this level, the amount of private sector offshore borrowing at end June 2007 was still relatively small when compared with external borrowing by the public sector. However, since they are contracted on commercial terms, private sector offshore borrowing is more expensive than the public sector's external borrowing which are drawn on concessional terms.

5.3 *Foreign Currency Deposit Accounts*

To encourage the repatriation of foreign exchange earnings to Samoa, resident individuals or firms who are significant earners of foreign exchange have been allowed since 1994 to open foreign currency deposit accounts (FCDs) with the local commercial banks. These accounts are for the settlement of overseas commitments pertaining to the foreign exchange earners' lines of business. Apart from residents, non-residents such as the diplomatic missions and official international organisations are also allowed to hold FCDs.

In the financial year under review, 51 new foreign currency deposit accounts were approved compared to 47 in 2005/06. Thirty six (36) of the approvals granted were for residents, comprising 11 for commodity exporters, 4 for tourism operators and 21 for a mixture of international income and service providers. On the other hand, the outstanding balance of FCDs at end June 2007 fell 41 percent to $18.7 million from the level at end June 2006, reflecting a 51 percent reduction in FCDs held by residents and a 24 percent fall in FCDs of non-residents.

VI. FINANCIAL SYSTEM SUPERVISION

Sustainable real economic growth requires a sound and efficient domestic financial system. Therefore, in addition to being the Authority for monetary policy formulation and implementation, the Central Bank is responsible for maintaining financial stability. In discharging its financial stability responsibilities, the Bank licence, regulate and supervise all financial institutions in the country. The Bank is also the country's Anti- Money Laundering Authority, a function that further protects the integrity of the domestic financial system and Samoa's international reputation.

1. Commercial Banks

Commercial banks play a central role in any economy. Hence, the stability of the banking system is recognized as a very important matter of public interest. Therefore, in the interest of promoting their financial soundness, banks are subject to the Central Bank's prudential supervision. Prudential supervision concentrates primarily on detecting early signs of weaknesses of financial institutions. This is carried out through regular reviews and analysis of financial information and reports provided by the financial institutions. In order to highlight any significant changes in the financial institutions financial position, their latest financial statements are compared against the prevailing prudential standards and legal requirements as well as their performances in previous periods.

Continuing consultations and discussions were held with the banks on their performances based on prudential issues during the year under review. This included the maintenance of the capital adequacy ratio, undue concentration of credit to single borrowers, the maintenance of realistic provisions against unexpected losses and the adequacy of systems to monitor and control risks.

Notwithstanding the above, the ultimate responsibility for the affairs and performance of supervised financial institutions operating in Samoa rests mainly 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.

1.1 Financial Position of the Banking System for the twelve months ending June 2007

For the twelve months under review, the banking system recorded an increase in total assets by 12.0 percent ($82.8 million) to $773.3 million against total liabilities of $637.3 million which grew by 10.2 percent ($58.8 million) respectively. Much of the growth of assets was attributed to the increase in lending by 13.8 percent ($74.4 million), total liquid assets recorded an increase of 44.1 percent ($14.2 million) to $46.4 million over the year. These increases were partially offset by a decline in other assets. Total loans to deposits ratio stood at 104.9 percent, edged up from 101.7 percent recorded in June 2006.

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

1.2 Capital Adequacy Ratio

A risk-based capital adequacy ratio is required for all the banks, to be maintained at all times in relation to the size and nature of their businesses.

The Central Bank adopts a Two Tier system whereby all the banks are required to maintain at all times a minimum capital adequacy ratio of 15 percent in relation to the level of their risk weighted exposure. Within this level, Tier one capital or "core capital" shall be no less than 7.5 percent of total risk weighted exposure, while Tier two capital or Supplemental capital shall not exceed 100 percent of core capital.

For the period under review, the banking system remained strongly capitalized with an aggregate ratio of 24.8 percent, up by 1.4 percentage points from the previous year with Tier one capital at 20.7 percent. As such level, the banking system recorded surplus capital of $54.9 million at the end of the period. 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. (See Graph 10.)

The relatively strong capital ratio largely reflects the banks profitable operations, coupled with some capital injections by banks during the year.

1.3 Asset Quality

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

In the twelve months to end June 2007, total loans and advances (excluding non-loan claims) rose 13.8 percent ($74.4 million) to $614.5 million over the previous year. At this level, non-performing loans reached $38.6 million, representing 6.2 percent of total loans. This indicates an increase of $15.8 million (69.5 percent) over the same time a year earlier. In the meantime, provision for bad and doubtful loans reached $22.5 million thus providing a 58.3 percent cover of total non-performing loans. At this level, it represents 3.7 percent of total loans and advances to date. (See Graph 11.)

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. By sectoral distribution, the building and construction sector continued to dominate bank lending activities reaching 44.6 percent of total loans while trade and other activities accounted for 18.1 percent. Other sectors such as transport and communication and professional business services absorbed 6.3 percent and 6.5 percent respectively of total loans.

The maximum amount of credit which a bank can extend to a single customer is twenty five percent (25 percent) of total capital (i.e. Total capital refers to the sum of Tier One plus Tier Two capital).

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

1.4 Liquidity Management

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

For the period under review, the banking system experienced a liquidity squeeze in the latter half of 2006 through to the beginning of 2007, due mainly to an exceptionally strong growth in lending by the banks to the private and public sectors. Significant lending to large construction projects, including Government projects, in preparation for the South Pacific Games scheduled in August/September 2007, had a severe impact on the banks' tight liquidity situation during this period.

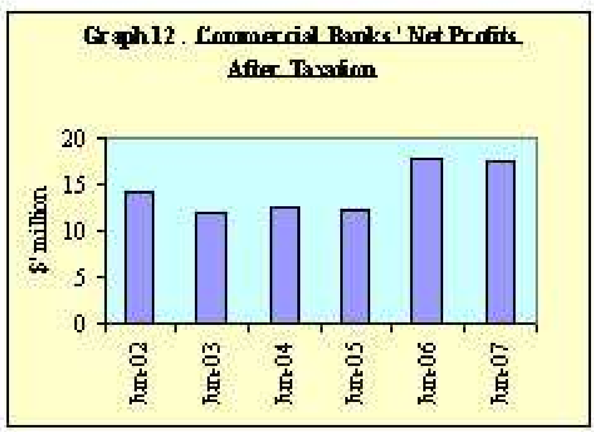
The Central Bank, in turn, kept a close monitoring of the banks liquidity position through constant dialogue and banks were required to report their liquidity positions on a daily basis. Further, the banks were, urged to provide liquidity forecasts clearly stating their potential future commitments, and indicating management's plan of action in dealing with any liquidity shortfall. In the meantime, the Central Bank's Board approved, on a temporary basis, the reduction of the Statutory Reserve Deposit Requirement (SRD) of the commercial banks from 4.8 percent to 3.5 percent for a period of six months as from September 2006.

In the interim, the move aimed to ease pressure on the banks liquidity situation on the back of improved conditions anticipated in the future. This temporary measure was further extended in April 2007 for another six months until September 2007 in view of the high liquidity demand during the South Pacific Games in August 2007.

At the end of June 2007, total liquid assets amounted to $46.4 million, equivalent to 8.6 percent of total domestic deposit liabilities. At this level, it showed a marked improvement of 44.1 percent ($14.2 million) when compared to the same time a year earlier. Furthermore, the level of CBS Securities progressed steadily reaching $11.4 million at the end of June 2007.

1.5 Profitability

Based on the banks different accounting periods, the banking system combined profit figure before extraordinary items and taxation amounted to $23.7 million, more or less similar to the level achieved a year earlier. Both total operating income and total operating expenses registered increases of 18.6 percent and 33.9 percent respectively. (See Graph 12.)



The major contributing factors to this performance highlighted increases in the banks interest income, interest expenses, management fees, salaries and other benefits and bad debts. There is a noticeable upward trend of write-offs by banks of their bad loans against profits which reached $5.5 million, up from $3.6 million when compared to the previous corresponding twelve months. Return on assets and net worth stood at 2.2 percent and 13.2 percent respectively, compared to 2.7 percent and 16.9 percent in the previous year.

1.6 *Foreign exchange net open position*

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

The emphasis is on the Board of Directors and Management of each bank to have a clear understanding and knowledge of their bank's capacity in undertaking foreign activities in relation to its financial capacity which, among others, must have regard to the volume and size of foreign transaction deals of customers on a daily basis, the size of its capital and the ability of customers (both local and abroad) to settle their foreign transactions as they fall due.

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

The combined foreign assets of the commercial banks at the end of June 2007 stood at $77.1 million, recording an increase of 22.8 percent ($14.3 million), whereas total foreign liabilities of $76.5 million increased by 30.8 percent ($18.0 million) over the year. As such, it reflected a long net open position of $2.9 million, equivalent to 2.1 percent of the banking system's total capital.

2. Non-Bank Financial Institutions

The Central Bank continued to undertake regular analysis of financial information it receives from the selected non-bank financial institutions in accordance with the required prudential standards and measures broadly aimed to promote financial soundness amongst the institutions.

For the period under review, one of the major highlights reflected the enactment of the new Insurance Act in March 2007. The Act repeals the outdated Insurance Act 1976 and gave effect to the transfer of the licensing and supervisory functions from the Ministry of Finance to the Central Bank of Samoa. Section 4 of the Insurance Act 2007 appoints the Governor of the Bank as Commissioner of Insurance.

The latter is an important achievement in terms of the necessary legislative framework that is needed to properly supervise insurance business operating within Samoa's financial sector. Furthermore, the broad principles of the Act are consistent with internationally recognized standards for insurance activities as adopted by the International Association of Insurance Supervisors (IAIS).

In the interim, work has progressed to effect, as appropriate, the transfer of the insurance regulatory role from the Ministry of Finance to the Bank. A meeting was also held between the Bank and the key stakeholders of the insurance industry to further explain such change, including the key requirements on licensing, regular submission of financial returns and complying with certain prudential standards relating to insurance business, agents and brokers.

The other major non-bank financial institutions such as the Samoa National Provident Fund (SNPF) and the Development Bank of Samoa (DBS) continued to provide financial returns during the year for ongoing review and analysis in determining the quality of key areas of their operations for financial soundness.

3. Money Laundering Prevention

The vulnerability of the Samoan financial system, like all other financial systems, to money laundering and terrorist financing is highly recognized. The threat that money laundering and terrorist financing could pose to national stability and credibility highlights the need for Samoa to implement appropriate legislations to combat such criminal activities. Furthermore, it demonstrates to the international community Samoa's commitment to support global anti-money laundering and countering terrorist financing efforts.

In February 2007, Parliament endorsed and enacted three key legislations in support of Samoa's efforts against money laundering and terrorist financing offences. These are the Money Laundering Prevention Act 2007 (which repealed and replaced the Money Laundering Prevention Act 2000); the Proceeds of Crime Act 2007 and the Mutual Assistance in Criminal Matters Act 2007.

The above legislations have significantly achieved a more comprehensive and consolidated legislative framework for Samoa to effectively combat criminal activities in a wider spectrum, including the offence of money laundering and terrorist financing.

Equally important, such commitment has further enhanced Samoa's capacity in compliance with internationally recognized standards as promulgated by the Financial Action Task Force (FATF) Forty plus Nine Recommendations, as well as, satisfying most of the recommendations made by the joint Mission of the Asia Pacific Group on Money Laundering/Offshore Group of Banking Supervisors (APG/OGBS) that undertook the second mutual evaluation of Samoa's financial sector in February 2006.

The Money Laundering Prevention Act 2007 provides explicit provisions with respect to the establishment of the Financial Intelligence Unit (FIU) within the Money Laundering Prevention Authority and empowers it to collect, investigate and analyse suspicious transaction reports and share its findings with appropriate domestic and overseas law enforcement and anti-money laundering agencies.

Another important development relates to the establishment of the Money Laundering Prevention Task Force which consists of the key law enforcement agencies and authorities in Samoa. The Governor of the Bank, as Chairman of the Task Force, chaired the unit's first meeting in June 2006 during which, members discussed the Task Force Terms of Reference as a guide towards achieving its broad objectives under the Act.

The Department is currently in the process of reviewing and revising existing AML/CFT regulations and guidelines to reflect the provisions of the new legislation.

4. Financial Intelligence Unit

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

Pursuant to the Money Laundering Prevention Act 2007, all financial institutions are required to report to the Money Laundering Prevention Authority or the FIU any transaction that is suspected to involve money laundering or the financing of terrorist activities.

For the year under review, the FIU continued to liaise and consult with key stakeholders of the financial system on a number of important issues. In particular, their statutory obligations in keeping and maintaining customer and transaction records, the need for enhanced due diligence of particular customers, as well as, the ongoing monitoring of customers accounts and transactions alleged to be suspicious in nature.

The FIU dealt with several types of information and reports it received from the financial institutions and members of the public during the year. Such information include, suspicious transaction reports, scam letters and e-mail messages, reports on counterfeited notes, UN lists on individuals and entities associated with the Al-Qaida and the Taliban and enquiries from other relevant law enforcement agencies both domestic and abroad.

In short, the FIU adopted both an advisory and consultative approach in communicating and making further enquiries with the interested stakeholders on such issues given its specific powers under existing laws. Furthermore, assistance was received by the FIU from the Australian FIU (AUSTRAC) through its regional project which provided a standard computer database system (FIU in the Box) to record and analyze suspicious financial information. Staff also attended a number of meetings and training opportunities during the year in the efforts to enhance knowledge and the necessary skills for the effective and efficient operation of the FIU.

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 Drugs Control and Crime Prevention (UNODCCP), the Asia Pacific Group on Money Laundering (APG), the Pacific Financial Technical Assistance Centre (PFTAC), the Australian FIU (AUSTRAC), and the New Zealand FIU which greatly helped its efforts to develop and strengthen the capacity of the Samoa Money Laundering Prevention Authority in dealing with its statutory functions.

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

VII. CORPORATE SERVICES AND ADMINISTRATION

The Central Bank undertakes a myriad of corporate services and administrative tasks in order to support the implementation of its core functions. These include the provision of corporate banking services to the Government and financial institutions, staff support services, premises and personnel security, supplies and transportation services, office facilities and cleaning services and numerous other miscellaneous services. The Bank sees all of these services and activities as being equally important as its core activities. Highlighted below is a selection of significant topics in so far as corporate services and administration was concerned in 2006/07.

1. Currency Operations

1.1 Currency handling arrangements

The Central Bank acts as a retail distributor of local currency in the banking system. In making their daily deposits of banknotes and coins with the Central Bank, the commercial banks are required to have them sorted into issuable and unissuable quality. The quality of banknotes which, to a great extent, is affected by the manner in which members of the general public handle and care for the currency notes, was maintained at a very good level in 2006/07.

There were no changes to the currency handling arrangements between the Central Bank and the commercial banks in 2006/07. The commercial banks continued to follow the established cash operators procedures specified in the Central Bank's Internal Control of the Cash and Vault Operations during the year.

A total of $27 million worth of unissuable currency notes were withdrawn from circulation and destroyed in 2006/07 compared to $37 million in 2005/06.

The Central Bank continued to liaise closely with the commercial banks during the year to ensure that good quality notes and coins were issued to the public and soiled banknotes collected and returned to the Central Bank for destruction.

1.2 Counterfeit Currency Notes

In 2006/07, there was a drop in counterfeit notes discovered and presented to the Central Bank by the commercial banks, retailers and members of the general public. The new security features that were recently added to the banknotes may have hampered the production of counterfeits. Counterfeit money is not reimbursed or compensated by the Central Bank. Therefore, the onus is always on the banks and members of the public to be more vigilant and alert in detecting counterfeit money.

1.3 Currency notes and Coins for Collectors

Apart from being used to make payments, currency notes and coins are themselves valuable works of art and are well sought after by currency collectors all over the world. As with paintings and other works of art, the more unique and older a banknote or coin becomes, the more valuable it tends to be. In 2006/07, 2,218 pieces of currency notes with a total face value of $6,989 and 14,385 pieces of coins worth $5,040 were sold to 19 requests from currency collectors overseas. These figures, however, have fallen below the levels for 2005/06 due to the existing postal carrier's reluctance to deliver any more parcels with currency in them because of their potential exposure to theft and mail fraud risks. To address this constraint, the Bank has since been exploring different options for continuing this valuable service to the international community.

2. Registry

A registry service is maintained for the trading of Central Bank securities with records kept on the issuance of securities, redemption, rediscounting and payment of interest.

The issuance of Central Bank securities is auction-based, with registered bidders submitting tenders based on the invitations for tender. Details of each auction and the results are announced in the local media and published on the Central Bank's website. In 2006/07, 24 auctions were held compared to 19 in 2005/06. A total of 49 certificates were issued in 2006/07 compared to 86 in the previous year. The most popular maturities were the 14 days, 28 days, 56 days and 91 days. There were no 182 days or 364 days CBS securities issued since liquidity was tight.

3. Inter-bank Settlement

As the overseer of the financial system, one of the Central Bank's key function, in so far as the inter-bank settlement system is concerned, is to facilitate the efficient and effective exchange of payments amongst the commercial banks. It does this by providing office facilities where the commercial banks meet to exchange cheques at the end of each business day and to settle the exchanges through the commercial banks' Exchange Settlement Accounts (ESAs) at the Central Bank. In addition to settling domestic inter-bank payments, the ESAs are also used to settle foreign exchange deals, currency operations with the Central Bank and transactions in CBS securities. The commercial banks are required to keep their ESAs in credit at all times.

4. Information Technology (IT)

As with most other information based institutions in the world, information technology plays a critical role in the Central Bank's management strategies and operations. During the year, the Bank invested $0.12 million to replace some of its obsolete IT machinery and equipment and to install some completely new technologies.

Three (3) Information Technology projects were implemented in the twelve months to the end of June 2007. First, the SWIFT (Society for Worldwide Inter-bank Financial Telecommunication) servers were upgraded to comply with phase one of the SWIFTNet planned upgrade. The transfer of funds through the SWIFT network began in 1999, replacing the outdated telex messaging communications technology. SWIFT transfers are more expensive but the Bank had no option but to adopt it since the telex messaging technology was being phased out worldwide. The second project was the set up a new data server for storage of the Central Bank's network operating system, programs and data to be shared. The third and final project was the installation of an intranet server to enable Central Bank users to electronically communicate and transfer files internally.

At the end of June 2007, the Bank's IT infrastructure comprised of 17 systems and applications software packages and 97 units of personal and lap-top computers, printers and photocopiers and other periphery electronic devices, interconnected to each other through eight (8) servers. The whole IT system has been managed by a team of four (4) staff including two (2) full time professional IT staff.

The Bank's website is earmarked for a major overhaul in 2007/08, to bring it up to par with the quality, content and efficiency of other central banks' websites.

Over the years, the internet has become an increasingly important tool for the Central Bank, enabling staff to gain instant access and be apprised of the latest financial, economic and statistical information. However, to keep internet costs under control, staff access to the internet is carefully managed.

Information technology is a rapidly changing field, requiring investment in the latest relevant technologies and constant up-skilling of staff. In 2006/07, IT staff attended a specialized training course with the SWIFT office in Vanuatu and Australia to enhance their technical knowledge of this fast changing technology.

5. Staff

5.1 Training - Local and Overseas

The Central Bank continued to place great emphasis on staff training and development with the firm belief that these are the keys to improved and better staff performance. Securing training opportunities, provision of training incentives (both local and overseas), internal movement of staff through promotions and direct transfers and on-the-job training had been (and still are) the principal mechanisms for motivating and improving staff productivity.

In March 2007, the Central Bank hosted the second course on Central Banking for the Pacific Islands. The Course was conducted by the Bank of England's Centre for Central Banking Studies (CCBS) in London and the International Monetary Fund/Pacific Financial Technical Assistance Centre (IMF/PFTAC) in Fiji with financial support from the Asian Development Bank (ADB). The Bank of England kindly assisted in providing the services of Ms Gill Hammond and Mr Simon Gray as resource personnel for the course while Dr. Susan J. Adams, the Coordinator or Head of PFTAC provided complementary presentations.

The one week course in Apia was aimed at the senior management level of central bank officials from the Pacific region. It was attended by Deputy Governors and senior management of the central banks from Papua New Guinea, Solomon Islands, Vanuatu, New Zealand, Fiji, Tonga and Samoa. Representatives from the local banks also attended.

The Course focused on issues that are of significant importance to the Pacific Islands central banks, with the objective of sharing ideas and experiences on problems, issues and challenges facing small island central banks in implementing monetary policy and promoting sound financial systems. The Course program covered a wide spectrum of topics on monetary policy, liquidity management and forecasting, inflation forecasting, exchange rate regimes (including currency unions), international reserves management, foreign exchange controls, financial and monetary stability, and central bank governance.

Overseas training courses, seminars and workshops offered and sponsored by the IMF, PFTAC, Singapore Training Institute (STI), World Bank, Australia Prudential Regulatory Authority (APRA), AUSTRAC, Anti Money Laundering Assistance and Training Program (AMLAT) of the Australian Office of the Attorney General, Asia Pacific Group on Money Laundering (APG), and the US/Pacific Island Forum Pacific Anti Money Laundering Program (PALP) were attended by several senior staff members of the Bank. The Bank will continue to take advantage of these training opportunities in the future in order to enhance staff capacity in challenging new areas such as insurance, money laundering, money and capital market instruments developments.

The Bank also continued to conduct in-house training for its staff in the area of customer services to further improve its services to the public. Staff also participated in short- term training and seminars organized under the auspices of various Government Organizations and Departments.

5.2 Long-Term Training

The Bank, through its long-term training policy encourages aspiring staff who have secured funding from external sources to pursue higher qualifications relevant to their areas of work. One management staff, Mrs Lea Collins took advantage of the opportunity to undertake a one year Postgraduate Diploma in the area of Information Technology with the University Of Technology (UNITECH) in Auckland, New Zealand.

5.3 Part-Time Educational Courses

For the twelve months to end June 2007, seven CBS staff were pursuing part-time courses; three at the National University of Samoa (NUS), and four at the Alafua Campus of the University of the South Pacific (USP). Of the three studying at the NUS, Mr Alofaifo Seleni of the Financial Institutions Department graduated with a Bachelor of Commerce Degree while the other two are still continuing towards the completion of their courses in Commerce and Accounting. Likewise, Ms. Lanna Lome of the Financial Markets Department completed her Master in Business Administration with the USP while the other three USP part-timers have more units to complete their degrees in Law and Sociology.

5.4 *Work Experience Program and Study Visits*

The Central Bank continued to provide vocational working opportunities for third year students on overseas scholarship and final year students from the Samoa Polytechnic and National University of Samoa. In addition, the Bank also entertained a number of school visits for their research projects. And, for public awareness programs, Bank staff made several presentations on selected topics identified by the host institutions. The Bank, being aware of the reciprocating benefits for providing this service, will continue to pursue this initiative in the years ahead.

5.5 *Staff Promotions and New Appointments*

There were six promotions, including four direct transfers, made during the year. As usual, this strategy not only recognizes the potentials of the individual staff and where these potentials could be best utilized, but also in order to retain a pool of human resources with the highest possible level of integrity and professionalism.

New recruits from outside the Bank are based on established merits for recruitment, and applies only when no one from within the Bank is interested or qualified for the advertised position. There were four new appointments made during the year, all of whom were replacements for vacant positions.

6. Overseas Representations and Liaison

The Governor and some Management staff represented the Central Bank in a number of high level meetings and conferences overseas. The Central Bank's attendance at these high level meetings was been made possible by the support of several international multilateral institutions. These types of meetings have enabled the Central Bank to establish and maintain strong, cooperative relationship with the regional and international institutions concerned.

Some of these Meetings include, the Pacific Central Bank Governors Annual Meeting in Wellington, New Zealand; OECD Harmful Tax Initiative in London; IMF/World Bank Annual Meetings in Singapore; Annual Meeting of the Asian Development Bank in Kyoto, Japan; Ninth Annual General Meeting of the Asian Pacific Group in Manila, Philippines; and the Samoa International Finance Authority Offshore Centre Promotion in South East Asia.

7. Communication and Publications

The Governor maintained a busy public speaking schedule in 2006/07, to present and discuss topical issues on the domestic and the global economies. This includes his presentations on the economy at the very important Cabinet Development Committee (CDC) Meetings held once every six weeks.

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

In addition to its Annual Report, the Central Bank produces a variety of other formal publications relating to monetary policy, economic and financial issues. These include the Monetary Policy Statement (which is published at the beginning of each financial year), the Bulletin (which is published every quarter), the Review of Price Developments Report (which is published every two months), the Selected Economic Indicators Report, Monetary Survey Report, Fugalei Market Survey Report and Foreign Trade and Tourism Report (which are published every month) and specially compiled economic update reports for the Minister of Finance and Cabinet Development Committee.

The Bank also continued to provide information on the economy of Samoa to assist students in their studies. Tours of the Bank and technical discussion sessions were held on the functions of the Central Bank for visiting colleges.

VIII. CENTRAL BANK FINANCIAL PERFORMANCE

The Bank's financial performance remained on a firm footing in 2006/07, with the audited accounts showing a slightly higher net operating profit for the financial year. Total assets grew substantially, compliments of increased foreign exchange assets. Performance budgeting played an important role in ensuring that expenditures were well controlled.

1. Audited Accounts

Appearing at the end of this Annual Report are the audited accounts of the Central Bank for the financial year from 1st July 2006 to 30th June 2007.

In FY2006/07, total assets and liabilities went up $24.3 million or 15 percent. On the liabilities side, there were increases in securities deposits of $11.4 million, total capital and reserves of $9.2 million, demand deposits due to banks of $7.4 million, distribution payable to the Government of $2 million, notes and coins in circulation of $0.8 million, and other liabilities of $0.3 million. These were partly offset by decreases in statutory deposits of banks of $4 million, and Government deposits of $2.8 million. On the assets side, external assets increased $27.2 million. This was partly offset by decreases in money at call of $2 million and other assets of $0.9 million.

The Central Bank made a net operating profit of $3,209,230 in the 2006/07 financial year compared to a net operating profit of $3,191,761 in FY2005/06. As required under section 8(1) of the Central Bank of Samoa Act 1984, 50 percent of the profit (equivalent to $1,604,615) was transferred to the Government while the other 50 percent was transferred to the Bank's General Reserve Account.

The increase in profitability of the Central Bank in 2006/07 was a result of an increase in total income of $582,804 which was partly offset by an increase in total expenses of $565,335. The main item that contributed to the increase in total income was the higher interest income received from foreign reserves investments of $712,347. The increase in total expenses was mainly due to increases in "other administrative expenses" of $372,530 and finance costs of $163,343.

Under section 8(3) of the Central Bank of Samoa Act, twenty percent of the credit balance of the Central Bank's Revaluation Reserve Account is payable to the Government. Accordingly, a further amount of $2,282,953 was transferred to the Government for FY2006/07, compared with $388,830 transferred in the previous year.

2. Performance Budget

The Central Bank of Samoa, as part of its general accountability to the Government, and the public at large, need to have adequate control over its annual expenditures. The budget process can also be utilized to explain to external parties how the Central Bank could effectively manage the resources entrusted to the Bank. The budget process is therefore a tool to improve the Central Bank efficiency and effectiveness in aligning costs to the Bank's priorities and main outputs and services.

The Budget Committee continued to play a vital and active role in developing the budget programme so that the annual budget for each Department of the Bank can be coordinated and aggregated into the total Central Bank budget for Board approval before the commencement of the next financial year. Subsequently, the Accounting and Budget Department continued to update, review, monitor and control the internal budget process as well as the ongoing detail analysis of income and expenditures, and identify any major variances that could arise from time to time and give out the appropriate advice to Management and Board through the Budget Committee.

Overall, satisfactory and favorable results were achieved in FY2006/07. This was largely due to strict control and close monitoring of the Bank's budget which required monthly review of income and expenditures and profitability performance and report thereon for the information and feedback of Management.

IX. CHRONOLOGY OF IMPORTANT MONETARY, PRUDENTIAL AND RELATED EVENTS IN 2006/07

2006

July: Central Bank macro-economic forecasts and monetary policy stance for the financial year 2006/07 was approved by the Board.

September: The Central Bank's Monetary Policy Statement for the financial year 2006/2007 was published.

October. (i) Reduce the Statutory Reserve Deposit (SRD) ratio from 4.8 percent to 3.5 percent, effective as from the banking data for September 2006 for the next six months.

(ii) VAGST increased by 2.5 percent from 12.5 percent to 15.0 percent as announced in the 2006/07 Budget.

2007

January: Income Tax and Company Tax Reductions as announced in the 2006/07 Government Budget came into effect. For individuals, the tax free threshold was increased from $10,000 to $12,000. The top personal tax rate and the company tax rate was reduced from 29 percent to 27 percent. The last major adjustment of company tax was in 2000, when it was reduced from 35 percent to 29 percent while the individual income tax rates and thresholds were last adjusted in 1999.

February: (i) Three new pieces of legislations became effective: Money Laundering Prevention Act 2007, Proceeds of Crime Act 2007, and the Mutual Assistance in Criminal Matters Act 2007.

(ii) IMF Offshore Financial Centre Assessment Mission.

March: (i) The 2nd Course on Central Banking for the Pacific Islands was held in Apia, hosted by the Central Bank of Samoa. The Course was organized and conducted by the Bank of England's Centre for Central Banking Studies (CCBS) in London and the International Monetary Fund/Pacific Financial Technical Assistance Centre in Fiji with financial support from the Asian Development Bank.

(ii) Government and IMF Article IV Consultations.

(iii) Enacted the new Insurance Act 2007.

April: The Board approved the continuation of the reduced Statutory Reserve Deposits (3.5 percent) for another six months to September 2007.

New weights for the exchange rate of the Tala became effective. The trade-weighted basket still comprised of the currencies of NZ, USA, Australia, European Union and Fiji.

May: The 2007/2008 Government Budget projected a cash surplus of $0.9 million and an overall deficit of $16.1 million in GFS format, equivalent to about 1.2 percent of nominal GDP.

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

Report on the financial statements
I have audited the accompanying financial statements of the Central Bank of Samoa which comprise of balance sheet as at 30 June 2007 and the statement of profit and loss, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements
The Board of Directors of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In my opinion, the financial statements give a true and fair view of the balance sheet of the Central Bank of Samoa as at 30 June 2007, and of its statement of profit and loss, statement of changes in equity and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and the Central Bank of Samoa Act 1984 and amendments.

Isitolo Leota
Public Accountant

Apia, Samoa
31 October 2007

CENTRAL BANK OF SAMOA
BALANCE SHEET
30 JUNE 2007

ASSETS	Note	30 June 2007 SAT$	30 June 2006 SAT$
Foreign Currency Financial Assets			
Cash balances	3	39,877,524	23,291,419
Short term deposits	3	81,327,639	37,125,293
Bank Bills	3	33,973,397	68,242,895
Accrued interest	3	2,797,375	2,068,685
		$ 157,975,935	**$ 130,728,292**
Local Currency Financial Assets			
Money at call		882,740	2,889,386
Other Assets			
Notes and coins	4	4,425,909	5,551,014
Receivables and prepayments	7	3,603,133	3,244,034
Property, plant and equipment	5	19,438,535	19,568,402
		27,467,577	**28,363,450**
TOTAL ASSETS		**186,326,252**	**161,981,128**
LIABILITIES			
Local Currency Financial Liabilities			
Notes and coins in circulation		51,693,013	50,940,994
Government deposits	6	38,407,436	41,188,799
Distribution payable to the Government	14	3,887,568	1,984,710
Demand deposits due to baanks	9	25,638,801	18,193,414
Statutory deposits of banks	10	18,660,000	22,666,000
Securities	11	11,431,493	-
		149,718,311	**134,973,917**
Foreign Currency Financial Liabilities	12	**1,734,638**	**1,648,919**
Other Liabilities			
Creditors and accruals	15	488,839	409,329
Provision	16	383,040	128,647
TOTAL LIABILITIES		**152,324,828**	**137,160,812**
CAPITAL & RESERVES			
Paid up capital	17	10,000,000	10,000,000
General reserve		14,869,612	13,264,997
Revaluation reserve		9,131,812	1,555,319
TOTAL CAPITAL AND RESERVES		**34,001,424**	**24,820,316**
TOTAL LIABILITIES AND EQUITY		**186,326,252**	**161,981,128**

The relevant notes on pages vi to xvi 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 2007

	Note	30 June 2007 SAT$	30 June 2006 SAT$
INCOME			
Interest from overseas deposits and investments	13	9,746,243	9,033,896
Rents		1,144,599	1,170,430
Other income	19	264,361	369,463
		11,155,203	**10,573,789**
EXPENSES			
Audit fees - current period		22,560	22,560
- prior year's under accrual		-	209
Board expenses		15,782	17,396
Communication costs		344,344	290,473
Currency issue costs		1,339,955	1,242,616
Depreciation	5	1,050,476	952,942
Directors' fees		55,369	57,498
Finance costs		1,031,580	868,237
Occupancy costs		461,469	671,028
Other administrative expenses		3,613,012	3,241,868
		7,934,547	**7,364,827**
NET PROFIT BEFORE INCOME TAX		3,220,656	3,208,962
Withholding tax/levies on overseas investment income		(11,426)	(17,197)
		3,209,230	3,191,765
NET PROFIT FOR THE PERIOD		**3,209,230**	**3,191,765**
APPROPRIATIONS			
Transfer to general reserve in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		(1,604,615)	(1,595,881)
Transfer to Government of Samoa in terms of Section 8 (1) (b)		(1,604,615)	(1,595,880)
		$NIL	**$NIL**

The relevant notes on pages vi to xvi form part of this statement of profit and loss.

CENTRAL BANK OF SAMOA
STATEMENT OF CHANGES IN EQUITY
TWELVE MONTHS ENDED 30 JUNE 2007

	Notes	30 June 2007 SAT$	30 June 2006 SAT$
Paid Up Capital			
Opening and Closing Balance	17	10,000,000	10,000,000
General Reserve			
Opening Balance		13,264,997	11,669,116
Transfer from statement of profit and loss in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		3,209,230	3,191,761
Government of Samoa allocation in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.	14	(1,604,615)	(1,595,880)
Closing Balance		14,869,612	13,264,997
Revaluation Reserve			
Opening Balance		1,555,319	7,913,291
Gains/Losses for the period in terms of Section 28(1) of the Central Bank of Samoa Act 1984 and amendments.		9,859,446	(5,969,142)
Government of Samoa allocation in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments.	14	(2,282,953)	(388,830)
Closing Balance		9,131,812	1,555,319
Total Equity		**$34,001,424**	**$24,820,316**

The relevant notes on pages vi to xvi form part of this statement of changes in equity.

CENTRAL BANK OF SAMOA
STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED 30 JUNE 2007

INCREASE (DECREASE) IN CASH EQUIVALENT:

	30 June 2007 SAT$	30 June 2006 SAT$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash income received from investments	9,246,973	9,111,563
Cash received from rent	1,127,811	1,345,596
Net gain/ (loss) on revaluation reserve	9,859,446	(5,969,142)
Cash paid for services	(2,754,471)	(4,134,741)
Cash paid to employees	(1,711,111)	(1,859,863)
Interest paid on deposits	(1,009,257)	(1,011,038)
Cash paid/transferred to Government on revaluation reserve and net profits	(3,887,568)	(1,984,710)
Net cash flows from operating activities	**10,871,823**	**(4,502,335)**
CASH USED BY INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	27,542	56,683
Purchases of fixed assets	(974,240)	(492,065)
Net cash used by investing activities	**(946,698)**	**(435,382)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in other receivables	(242,931)	(169,875)
Increase in notes and coins in circulation	752,019	12,520,370
(Decrease)/Increase in deposits by domestic Government	(878,505)	4,282,062
Increase/(Decrease) in securities	11,431,493	(34,564,337)
Increase in external liabilities	85,719	1,560,650
Increase/(Decrease) in deposits due to banks	3,439,387	(27,989,739)
Net cash flows from financing activities	**14,587,182**	**(44,360,869)**
NET (INCREASE)/DECREASE IN CASH	24,512,307	(49,298,586)
Cash and cash equivalent at beginning of the period	131,548,993	180,847,579
CASH AND CASH EQUIVALENT AT END OF PERIOD	**156,061,300**	**131,548,993**
CASH AND CASH EQUIVALENTS:		
Foreign Currency Financial Assets:-		
Cash balances	39,877,524	23,291,419
Short term deposits	81,327,639	37,125,293
Bank bills	33,973,397	68,242,895
Local Currency Financial Assets:-		
Money at call	882,740	2,889,386
	156,061,300	**131,548,993**

The relevant notes on pages vi to xvi form part of this statement of cash flows.

CENTRAL BANK OF SAMOA
NOTES TO FINANCIAL STATEMENTS
30 JUNE 2007

1. GENERAL INFORMATION

The Central Bank of Samoa is operated under the Central Bank of Samoa Act 1984 and Amendments. The address of its main office and principal place of business is the Central Bank of Samoa building, Apia. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB) and the laws of Samoa, in particular the Central Bank of Samoa Act 1984 and amendments. The Bank does not comply with IAS 21 "The Effects of Changes in Foreign Exchange Rates" as Section 28 of the Act requires to transfer unrealized and realized gains and losses stemming from any valuation changes as result of changes in the foreign exchange rates directly to a revaluation reserve account. IAS 21, however, requires such gains and losses to be reported as profit and loss.

The accounts have been prepared on the basis of historial costs, modified by the revaluation of certain assets and liabilities as outlined below.

Set out below is the 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.

The bank applies IFRS 7 “Financing Instruments Disclosure” and the additional capital disclosure requirements of IAS I “Presentation of Financial Statements”, paragraphs 124A-124C, which are effective for annual periods beginning on or after January 1, 2007 for which early adoption is encouraged already for the financial year (2005/2006).

All amounts are expressed in Samoan tala unless otherwise specified.

(b) Comparative amounts

To ensure consistency with the current year, comparative figures have been restated where appropriate. Certain presentational changes have been made in the Financial Statements.

(c) Foreign currencies translation

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.

The following tala exchange rates for major currencies are used to convert foreign currency assets and liabilities to Samoan talas for reporting purposes.

	30.06.2007	30.06.2006
United States dollar	0.38760	0.35310
New Zealand dollar	0.50544	0.57912
Australian dollar	0.45884	0.47510
GBP	0.19338	0.19059
Euro	0.28703	0.27590

(d) Valuation of foreign currency assets and liabilities

The gains or losses arising from an appreciation or depreciation of the Bank's foreign currency assets and liabilities due to movement 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) Financial Assets and Liabilities

The Bank presents financial assets, liabilities and the associated income and expenses, by distinguishing between foreign currency and local currency activities.

Foreign currency activities mainly arise from the Bank's Foreign Reserves management function, dealings in foreign currency for monetary policy implementation purposes and foreign currency payments on behalf of the Government, including debt servicing.

The Bank's foreign currency financial assets are denominated in USD, NZD, AUD, GBP and EUR and composed of cash balances with other central banks, deposits with and discount securities issued by highly rated foreign commercial banks. Deposits are classified as "loans and receivables", discount securities as "held-to-maturity" and are carried at amortized costs.

The Bank maintains working balance in tala with domestic banks.

Currency in circulation is reported as face value. Demand deposits are carried at their face value less amounts repaid. The Bank issues securities for monetary policy implementation purposes. These CBS securities are recognised at face value.

(f) Banknotes and coins

The stock of unissued currency is valued at cost. 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.

(g) Property, Plant and Equipment

All property, including investment property, is stated at cost less depreciation.

Depreciation is provided on all property, plant and equipment so as to write off the assets over their estimated economic lives. Depreciation on the building is at the rates ranging from 40 years to 50 years. This was based on the estimated useful lives of various components 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 property, plant and equipment and their respective estimated economic lives are:

	Years
Furniture and Fittings	10
Plant and Equipment	5
Motor Vehicles	5
Computer Network	5
Buildings	40 to 50

Gains and losses on disposal of property and equipment are recognised in the income statement.

(h) Impaired losses

At each balance date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both specific asset or collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Bank uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economnic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Assets that are individually assessed for impairment and for which an impairement loss is or continues to be recognised are not included in a collective assessment of impairement.

Impairment losses on assets carried at amortised cost are measured as the diffirence between the carrying amount of financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in the provision for loan impairment.

When subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(i) Income and expenditure

Income and expenditure have been accounted for on the accrual basis. The Government reimburses the Bank the interest expenses associated with the issuance of CBS securities for monetary policy purposes. IAS 20 permits to either report the associated income as a separate income item or to deduct it from the associated expenses. The Bank has opted to net the respective income and expenses.

(j) Leasing

Leases of the Central Bank building are under operating leases. Rental income from operating leases is recognised in income on a straight line basis over the term of relevant lease.

(k) Collectors' currency

The face value of collector's currency is accounted as income at the date of sale. It is not probable that amounts of collectors' currency, will be returned for redemption. The total value of collectors' currency is

(l) Post employment benefits

CBS does not provide for post employment benefits

(m) Provision

Employees' entitlements

The Bank's obligation to employees in respect of salaries and wages payable, annual leave, long service and portion of sick leave

3. FOREIGN CURRENCY FINANCIAL ASSETS

	30 June 2007	30 June 2006
CASH BALANCES	SAT$	SAT$
Federal Reserve Bank NYC	38,358,838	22,196,911
Reserve Bank of Australia	5,986	211,205
Bank of England	1,262,473	432,213
Sub total cash balances with other central banks	39,627,297	22,840,329
Cash balances with commercial banks	250,227	451,090
	39,877,524	23,291,419

Cash held with the Federal Reserve Bank NYC is in form of overnight repos.

SHORT-TERM DEPOSITS		
Deposits in NZD with commercial banks	72,610,003	37,125,293
Deposits in AUD with commercial banks	8,717,636	-
	81,327,639	37,125,293

BANK BILLS		
Discount securities in AUD issue by central banks	33,979,397	42,514,203
Discount securities in AUD issue by commercial banks	-	25,728,692
	33,979,397	68,242,895

ACCRUED INTEREST		
Balance with other Central Banks	4,478	745
Deposits with commercial banks	2,311,438	1,702,056
Amortised discount	481,459	365,884
	2,797,375	2,068,685

4. NOTES AND COINS

	30 June 2007	30 June 2006
	SAT$	SAT$
Currency notes	3,118,180	4,138,439
Coins	1,307,729	1,412,575
	4,425,909	5,551,014

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

5. PROPERTY, PLANT & EQUIPMENT

30 June 2007	Furniture and fittings	Plant and equipment	Computer Network	Motor Vehicles	Buildings	Total
On 1 July 2006	**SAT$**	**SAT$**	**SAT$**	**SAT$**	**SAT$**	**SAT$**
Cost	937,628	1,899,186	269,088	372,529	27,577,720	31,056,151
Accumulated depreciation	734,097	1,277,599	225,900	108,650	9,141,503	11,487,749
Net Book Value	**203,531**	**621,587**	**43,188**	**263,879**	**18,436,217**	**19,568,402**
Year ended 30 June 2007						
Opening net book value	203,531	621,587	43,188	263,879	18,436,217	19,568,402
Additions	22,500	887,286	-	64,454	-	974,240
Less Write offs	-	-	-	-	-	-
Less depreciation	35,635	272,633	16,673	74,767	650,768	1,050,476
Less disposal at net book value	84	649	-	52,898	-	53,631
Less disposal at net book value	190,312	1,235,591	26,515	200,668	17,785,449	19,438,535
As at 30 June 2007						
Cost	956,695	2,652,846	269,088	365,684	27,577,720	31,822,033
Accumulated Depreciation	766,383	1,417,255	242,573	165,016	9,792,271	12,383,498
Net Book Value	190,312	1,235,591	26,515	200,668	17,785,449	19,438,535

38% of the office building of the CBS is occupied by the Bank and 72% are leased, mainly to other government agencies and institutions.

IAS 40 required for investment property that is accounted for using the cost model to disclose the fair value of this property unless it is not reliably determinable on a continuing basis.

There are no or extremely rare transactions with regard to office buildings in Samoa. The only other office building of comparable size is the Government's office and Development Bank of Samoa buildings. Furthermore, the Central Bank building is built on a leasehold land. The land belongs to the Government of Samoa. Terms and conditions of the lease have yet to be finalized. Hence, the future cash flow streams cannot be reliably estimated.

6. GOVERNMENT DEPOSITS

The Bank acts as banker, agent and depository to the Government of Samoa. Government funds deposited at the CBS are remunerated at 2.375% p.a. Interest expenses with regard to this liability were SAT$1,031,580 (2006: SAT$868,237)

7. RECEIVABLES AND PREPAYMENTS

	30 June 2007 SAT$	30 June 2006 SAT$
Interest receivable - domestic	103,267	42,239
Prepaid expenses	503,420	494,730
	606,687	536,969
Other receivables - current	389,511	345,893
- long term	2,700,698	2,501,385
	3,090,209	2,847,278
Less Provision for loan impairment (Refer note 8)	93,763	140,213
	2,996,446	2,707,065
Total receivables and prepayments	3,603,133	3,244,034

Prepaid expenses relate mainly to advances on insurance on building and other items and management staff allowances.

Other receivables are composed secured loans to employees for the purchase, construction or repair of a single owner occupied residence and other secured advances.

8. PROVISION FOR LOAN IMPAIRMENT

Balance at beginning of year	140,213	124,045
Charge/(reversal) to statement of profit and loss	(46,450)	16,168
Balance at end of the year	93,763	140,213

9. DEMAND DEPOSITS DUE TO BANKS

These are deposits by commercial banks in excess of statutory deposits are not numerated.

10. STATUTORY DEPOSITS OF BANKS

The commercial banks doing business in Samoa are required to maintain a statutory reserve of 4.8% of deposits (2006: 4.8%) with the Bank. However, the Central Bank's Board of Directors approved the reduction of the SDR requirement to 3.5% on a temporary basis, to expire by the end of September 2007. This policy change aimed at easing the pressure on the tight liquidity conditions as currently experienced by the banks.

11. SECURITIES

Unsecured notes issued to the public as negotiable instruments, all maturing within 12 months with weighted average interest rates ranging from 2.90% to 7.50%

12. FOREIGN CURRENCY FINANCIAL LIABILITIES

	30 June 2007 SAT$	30 June 2006 SAT$
(1) European Development Fund (EDF)	1,690,417	1,618,845
(2) Inland Revenue Department - (New Zealand) - Levy	44,221	30,074
	1,734.638	1,648,919

(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.

13. INTEREST FROM OVERSEAS DEPOSITS AND INVESTMENT

Interest on cash accounts	2,324,534	1,713,626
Income from discount securities	2,201,936	2,131,467
Interest on deposits	5,219,773	5,188,803
	9,746,243	9,033,896

Discount securities are classified as held-to-maturity financial assets and recorded at amortized costs. Amortised discounts as well as gains, i.e. the difference between the purchase value and the received face value at maturity, are recorded as interest income.

14. GOVERNMENT ALLOCATIONS OF NET PROFIT AND REVALUATION RESERVE

Balance at 1 July 2006	1,984,710	3,555,920
Paid during the year	(1,984,710)	(3,555,920)
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	2,282,953	388,830
Transfer of net profit in terms of Section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments	1,604,615	1,595,880
Balance at 30 June 2007	3,887,568	1,984,710

15. CREDITORS AND ACCRUALS

Accrued interest payable	45,171	22,849
Other accrued expenses	443,668	386,480
	488,839	409,329

16. PROVISIONS

Annual, long service and sick leave	383,040	128,647

Provision for leaves is reconciled as follows

Balance at beginning of the year	128,647	89,026
Additional provisions charged to statement of profit and loss	298,899	103,432
Utilised during the year	(44,506)	(63,811)
Balance at end of the year	383,040	128,647

17. CAPITAL

The Central Bank of Samoa maintains capital to assist it perform the functions specified in the Act. This law provides the sole requirements for the bank's capital.

The level of authorised capital is reviewed from time to time and increased by an amount proposed by the Board and approved by the Minister in accordance with Section 6 of the Act. Authorised capital has been increased from originally $1,000,000 to its current level of $10,000,000. The General Reserve may accumulate to a maximum value of two times of authorized capital. The General Reserve is established through the retention of all net profits if its level at the end of the financial year amounts to 50% (percent) or less of the authorised capital; in the case it exceeds this level, 50 percent of annual net profits are allocated to the General Reserve.

18. GOVERNMENT GRANTS

In fulfilling its monetary objectives the Bank issues interest bearing securities "CBS securities". The legal issuer is CBS. The Government reimburses the interest expense and the total interest income and expense were $243,674 (2006: SAT$373,242). Without the effect of this government grants the outcome of the financial year 2006/2007 would have been $2,965,556 instead of $3,209,230.

19. OTHER INCOME

Other income is mainly composed of interest earned on staff loans, income from collectors and other receipts domestics.

20. 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.

21. FINANCIAL RISK MANAGEMENT

(a) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in exchange rates.

- Foreign Assets (SAT ($M)

Foreign Assets	USD	NZD	AUD	GBP	EUR	**TOTAL**
Cash Balances with Central Banks	38.4	-	-	1.1	0.2	**39.7**
Money at Call	-	0.3	-	-	-	**0.3**
Deposits	-	74.8	8.7	-	-	**83.5**
Bank bills	-	0.0	34.4	-	-	**34.4**
Total	**38.4**	**75.1**	**43.1**	**1.1**	**0.2**	**157.9**

21. FINANCIAL RISK MANAGEMENT (Cont'd)
(a) Foreign exchange risk (Cont'd)

- Concentration of foreign exchange

Foreign Assets	USD	NZD	AUD	GBP	EUR	TOTAL
Cash Balances with Central Banks	24.3%	0.0%	0.0%	0.7%	0.1%	25.1%
Money at Call	-	0.2%	-	-	-	0.2%
Deposits	-	47.3%	5.4%	-	-	52.7%
Bank bills	-	-	21.9%	-	-	21.9%
Total	24.3%	47.5%	27.3%	0.7%	0.1	100.0%

- Sensitivity to foreign exchange risk

Sensitivity to foreign risk is the sensitivity of the face value of the Central Bank of Samoa's financial assets to fluctuations in the exchange rate.

The tala is weighted against a basket of currencies and thus the sensitivity to foreign exchange risk is expected to be minimal as the movements of these currencies is the basket tend to off each other.

The weight allocated to each currency in the basket is determined on the basis of Samoa's distribution of trade, private remittances and travel transactions with our major trading partners: New Zealand, United States, Australia, Euro and Fiji. The currency basket does not necessarily reflect the investment currencies.

Except for the Fiji Dollar, the foreign reserves are composed of currencies basked, albeit at different weightings. Hence, the sensitivity to foreign exchange risk is contained as the movements revaluation losses in one reserve currency will partially be offset against revaluation gains in another reserve currency.

In addition, the Revaluation Reserve Account established under Section 28 of the Central Bank of Samoa Act 1984 provides an additional buffer for any foreign exchange losses. In case the Bank incurs revaluation losses in excess of any available balance on this account the Government is obliged to transfer ownership of Government securities to the Bank to address any such deficiencies.

21. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.
Due to the short maturities, interest rate risk is low.

Interest rate risk as at 30 June 2007	Balance Sheet Total $M	Repricing period $M 1-90 days	91-180days	181-365 days
Foreign Exchange				
Cash Balances with Central Banks	39.7	-	-	-
Money at call	0.3	-		-
Deposits	83.5	-	1.2	82.3
Bank bills	34.4	-	19.8	14.6
TOTAL	158.0			

(c) Credit risk

Credit risk in relation to a financial instrument is the risk that a customer, bank or other counterparty will not meet its obligations (or not be permitted to meet them) in accordance with agreed terms.

The CBS invest only with banks with a minimum credit rating of AA and with other central banks. The Banks has a concentration of investments with a few highly rated banks in New Zealand and Australia.

Credit Ratings (Standard and Poors)

Foreign Investments	Risk rating of security issuer	Risk rating of counterparties	% of total assets as at 30 June 2007
Securities held under repurchase agreements with Central Banks	AAA		24.7
Cash with other Central Banks			0.8
Subtotal balances with Central Banks			25.5
Bank bills		AA	22.0
Deposits with commercial banks		AA	52.5
Other (cash)		AA	0.0
Subtotal balances with commercial banks			74.5
TOTAL			100.0

22. OPERATING LEASE ARRANGEMENTS

Operating leases relate to the CBS building leased out for term of 3 years, with an option to extend for a further 3 years. The lessee does not have an option to purchase the property at the expiry of the lease period. The building rental income earned during the year amounts to $1,144,599 (2006: $1,170,430). Direct operating expenses in relation to building floors leased out amounted to $543,059 (2006: $665,850).

23. RELATED PARTY DISCLOSURES

Compensation of key management personnel	30 June 2007 SAT$	30 June 2006 SAT$
Short-tem employee benefits	108,985	84,851
Long service leave	47,835	33,848
Directors fees	55,369	57,498

The remuneration of directors and chief executive officer is determined by Cabinet and the board of directors.

24. CAPITAL COMMITMENTS

The Board of Directors is not aware of any capital commitments, relating to the Bank as of 30 June 2007 (2006: SAT$238,637).

25. LEASE COMMITMENTS

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

26. 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 $12,033 (2006: SAT$73,675).

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on 31 October 2007.