

# **CENTRAL BANK OF SAMOA**

## **ANNUAL REPORT FOR THE FINANCIAL YEAR JULY 2007 - JUNE 2008**



12 December 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 2008, together with the audited accounts for that period and the report of the Auditors on those accounts.

(Niko Lee Hang)  
**MINISTER OF FINANCE**

12 December 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 2007 to 30 June 2008. 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 2008 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



**Hinauni Petana**  
Director  
Ministry of Finance



**Alofipo Daniel Meredith**  
Director



**Klaus Stunzner Jnr**  
Director

# MANAGEMENT



**Leasi Papali'i T.D. Scanlan**  
**Governor/ Chief Executive Officer**



**Iosefo Bourne**  
**Deputy Governor**



**Magele Filipo Magele Penn**  
**Deputy Governor**



**Malacoali'i So'o Pua**  
**Manager**  
**Banking & Corporate Services**



**Gilbert Wongsin**  
**Manager**  
**Financial Institutions**



**To'oto'ovao Afoa Sanele Afoa**  
**Manager**  
**Accounts & Budget**



**Atalina Enari**  
**Manager**  
**Financial Markets**



**Alavine Su'a**  
**Manager**  
**Research and Statistics**



**Mariana Bourne**  
**Manager**  
**Management Resources**

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## I. CENTRAL BANK LEGAL MANDATE AND FUNCTIONS

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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 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 new 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

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The Annual Report discloses the role of the Central Bank with respect to price stability, international reserves viability and financial system stability in the financial year under review.

This is the Central Bank's 25th Annual Report since its inception in 1984. This Report is divided into 9 Sections. Sections I and III describe the Bank's legal mandate, functions and the manner in which it is governed. In Section II, which is this section, I present an overview of the activities undertaken by the Bank in the financial year 2007/08. Section IV discusses monetary policy and Samoa's economic performance in 2007/08, as well as the outlook for the financial year ahead while Section V explains the implementation of monetary policy, exchange rates, foreign reserves management and exchange control. One of the key functions of the Bank – the oversight of the financial system – is discussed in Section VI. Sections VII and VIII highlight the main corporate issues and the financial performance of the Bank respectively. The last section, Section IX, provides a list of the key events for the year under review.

Section I provided a description of the Bank's legal framework and a listing of its various functions. Here, in the following italicised paragraphs, I want to expand a bit more on some of those key functions and highlight how they are being pursued in practice.

*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.*

*As a small open economy, Samoa needs to maintain sufficient international reserves to withstand and recover from large unforeseeable economic shocks in the future. On the basis of historical events and trends, the Bank has adopted 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.*



*Leader of the New Zealand National Party, now Prime Minister, Hon. John Key, meets with the Central Bank Governor and representatives of Samoa's Ministry of Finance.*



*Following the liberalization of the financial system in 1998, monetary policy decisions have been 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. However, given the nature of the Samoan economy, the lopsided structure of the financial system with one bank dominating the deposits and lending market, and the relatively large size of the public sector, open market types of monetary policy instruments are often 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. **This is clearly demonstrated by the adverse impact of the current financial crisis on the global economy.** 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 2007/08.**

The global economy continued to grow strongly in 2007/08 led by exceptional growths for China and India, and reasonably strong growths for the advanced economies of USA, Euro Zone and Japan. This, in turn, drove international commodity prices up, particularly those of oil and food. The average international spot price of crude oil surged 50 percent to USD\$94.35 per barrel in 2007/08 with predictions at the time pointing to it doubling in 2008/09. In the event, and as the production of bio-fuels started to expand, inflationary pressures mounted, slowly but surely driving up world inflation in the financial year under review.

In Samoa, monetary policy remained tightened in 2007/08 in view of ongoing inflationary pressures. The tight monetary policy stance took into account the approved Government Budget for the fiscal year under review, with an overall deficit of 1.1 percent of GDP being financed by concessional external borrowings.

For the fiscal year as a whole, the available figures showed that real GDP grew by a further 4.1 percent in 2007/08, following a growth of 4.0 percent in the previous financial year. Much of this favourable outcome occurred in the first half of the financial year

under review as the country played host to the 13th South Pacific Games. Almost all categories of the production rose in 2007/08.



*Deputy Leader of the NZ National Party now Deputy Prime Minister, Hon. Bill English, checks out a popular tourist spot in Savaii with Governor Leasi.*

The tight monetary policy stance saw market interest rates virtually steady at their 2006/07 levels with liquidity expanding substantially. And, as expected, commercial credit demand softened in 2007/08, with the growth rate of bank credit to the private sector slowing down to less than half that of the previous fiscal year. This, combined with reduced imports of motor vehicles, consequently reduced import payments, thus narrowing the merchandise trade deficit. On the other hand, exports improved slightly and the tourism sector recorded a gain in visitor numbers which helped increase tourism revenues. With moderate economic growths in the main source countries, private remittances registered a large inflow in 2007/08. In the event, the balance of payments turned out even more favourable than expected with an overall surplus of close to \$50 million. This pushed up the level of international reserves to the equivalent of 5.2 months of imports at end June 2008 from 4.0 months at end June 2007. Macro-economic indicators for 2007/08 reinforced the message that Samoa's small and open economy is well linked to the global economic environment. As anticipated, Samoa was surely adversely affected by the surging international commodity prices in 2007/08 and the strong currencies of the countries that Samoa mainly imports from – New Zealand and Australia. As a result, the import

component of the domestic Consumer Price Index surged by almost double the rate of increase of the local component. The import component of the headline CPI rose 8.0 percent on an annual average basis whereas the local component increased by 4.8 percent. Consequently, the headline inflation rate rose to 6.2 percent in 2007/08 from 4.5 percent in 2006/07. Similarly, the underlying rate of inflation increased to 6.9 percent from 5.6 percent the previous year.

### **So what is the outlook for 2008/09?**

The International Monetary Fund (IMF) world economic growth forecasts issued in April 2008 were shaved down in its July 2008 World Economic Outlook update. However, international financial conditions deteriorated rapidly in the following three months. So much so that the outlook for the world economy is quite bleak with the US economy now expected to ground to a halt for the rest of 2008 and remaining flat or may even decline in 2009. This outlook has come despite the US Congress approving a record \$700 billion bailout plan to revive the ailing financial markets, similar but smaller bailout plans in Europe and concerted short term official interest rate cuts of up to 50 basis points by the US Fed and major central banks around the world. With the slowing global economy, world inflationary pressures are anticipated to ease off as oil prices and commodity prices trend downwards.

Growth rates for the New Zealand and Australian economies are expected to slow down to under 2.0 percent each with inflationary pressures powering down to around the 3 percent benchmark. In light of these growth and inflation outlook, both countries are content to ease monetary policy stances going in 2008/2009.

Domestically, on the other hand, the economy is expected to continue to grow, albeit at a slower pace than in 2007/08 as the intensity of business activity slows down from the SPG led expansion in the last two financial years and as the world economy unwinds. Large budgeted inflows of official external loans is expected to contribute to another overall surplus in the balance of payments, comfortably

maintaining gross international reserves at around 5 months imports of goods. On the other hand, despite the anticipated reduction in international oil prices, local fuel prices are still expected to hover at levels higher than in the previous years as the US dollar maintains its safe haven status. With food commodity prices also expected to remain a problem for the immediate future, despite easing slightly in recent months, inflation in Samoa is expected to remain high in 2008/09, peaking around February / March 2009 before subsiding to around 7.0 percent at end June 2009.

Despite the anticipated high inflation rate, the Bank's Board of Directors decided in August 2008 to ease monetary policy in 2008/09 to stimulate private sector activity which appeared to have faltered in 2007/08. The same stance has now been adopted by most countries in the world in recent months as they struggle to restore investor and consumer confidence and to stem the onset of a global recession. In hindsight, it appears that we have taken the correct monetary policy stance.

On financial supervision, Samoa's financial system strengthened further in 2007/08, with liquidity recovering strongly from a very low level in 2006/07, driving down the loans to deposits ratio to 101.3 percent at the end of June 2008 from 104.9 percent in June 2007. Again, it is pleasing to report that the banking system remained strongly capitalized with the total capital ratio increasing to 27.5 percent in 2007/08. Although the aggregate tier one capital ratio slipped to 22.7 percent in 2007/08, it far exceeded the 7.5 percent prudential benchmark. Their strengthened capital position, which reflected the banks profitable operations (up 8.1 percent from the previous year) and capital injection by shareholders, has kept the banking system in a good position to provide cover for a potential increase in problem loans and to meet future business prospects.

With the enactment of three key pieces of anti-money laundering legislations in 2006/07 - Money Laundering Prevention Act 2007, Proceeds of Crime Act 2007 and Mutual Assistance in Criminal Matters

Act 2007 - efforts in 2007/08 were focused on bringing Non Profit Organisations (NPO's) within the internationally accepted Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) supervisory regime. Signifying our commitment to the prevention of money laundering and other related crimes, the Central Bank, through the Samoa Financial Intelligence Unit which is established within the Bank, signed Memoranda of Understanding with individual members of the Samoa Money Laundering Prevention Task Force in June 2008 to formalize cooperation in exchanging and sharing relevant information that would assist in the effective investigation and prosecution of money laundering and terrorist financing offences, as well as any other serious offences committed in Samoa.

### **Significant corporate issues of 2007/08.**

On the back of a satisfactory financial result last year, I am very pleased to report that the Central Bank capped off the 2007/08 financial year with a substantial growth in net operating profit to \$4.5 million. This remarkable result was due partly to increased international interest rates combined with the proper management of international reserves held by the Bank. For more details, please refer to Section VIII. By law, fifty (50) percent of the profit was transferred to Government while the other half was retained in the Bank's General Reserve Account. In addition, twenty (20) percent of the credit balance of the Central Bank's Revaluation Reserve Account for FY2007/08, an amount of \$1.8 million, was transferred to the Government.

During the year, the Bank finalized the new designs of Samoa's currency notes for launching in the 2008/09 financial year. The new currency designs incorporate some key features of Samoa's natural environment, economy and history. They were also designed with additional security features to minimize (or discourage) the production of counterfeit currency notes.

Following its successful hosting of a regional course on central banking in 2006/07, the Bank again hosted the Regional Seminar on the Revised Core

Principles for Effective Banking Supervision and Problem Bank Situations and the Annual General Meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC) in October 2007. This brought together resource personnel from the Financial Stability Institute (FSI), the Australian Prudential Regulatory Authority (APRA), the International Advisory Group, Canada and the International Finance Corporation. The Seminar was attended by Deputy Governors and senior staff of Pacific central banks.

As part of its ongoing capacity building program, the Bank continued to send staff to attend various specialized courses and seminars overseas. 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- Singapore Training Institute (STI), the Australian Office of the Attorney General, the ADB/OECD Secretariat 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.

Also as part its work program, 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 2007/08, the Bank joined other key institutions to form what is called the National Export Strategy Committee (NESC). NESC was appointed by Government to review the performance of the export sector and to formulate a strategy and action plan to reinvigorate and enable it to make a bigger contribution to Samoa's economy. In addition to the NESC, senior staff and I also continued to represent the Central Bank in various steering and working committees such as the Investment Committee (which reviews and advises 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.

With regard to Bank Management, the Board of Directors gave due recognition to the substantial growth in the Central Bank's mandate and approved the re-establishment of a second position of Deputy Governor in 2007/08. As more and more responsibilities are added to its primary responsibilities of monetary policy formulation and financial system supervision, the Bank needs to ensure that it is well resourced and structured to continue to handle each new activity efficiently and effectively. Therefore, in October 2007, the Bank was reorganized into two broad areas of activities, with each one overseen by a Deputy Governor. Policies and activities relating to the licensing and supervision of financial institutions, insurance companies, offshore centre, financial and operational management of the Central Bank were classified under the Financial Policies and Operations Area headed by Deputy Governor Magele Filipino Magele Penn. On the other side, monetary policy formulation and implementation, exchange rate policy, domestic and international reserves management, foreign exchange regulation and information systems management were classified under the Financial Research and Markets Development Area headed by Deputy Governor Iosefo Bourne. Each of the two areas is highly specialized and requires close scrutiny to ensure efficiency and effectiveness.

During the year, the Bank continued to provide financial assistance to a variety of small but important community projects, ranging from school development projects to sports and charity fundraising activities. One of the important projects that came to our attention was the public playground for children at the Eleele Fou behind the Central Bank Building. For long periods of time, the park was left untended putting young children at risk of injuries. Because of its usefulness to children, the Central Bank combined forces with the other banks to upgrade, clean up and maintain the playground

on a regular basis. As I said in the previous year's Annual report, 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.

Let me conclude by saying that 2007/08 has also been a 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

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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 composition of the Board remained unchanged during the financial year under review. The Board comprises the Governor, who is the Chairman, the Chief Executive Officer of the Ministry of Finance and three other independent Board members who are citizens of Samoa with industrial, commercial or agricultural experience – a total of five.

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 2006/07, the Board comprised of Governor Leasi Papalii Tommy Scanlan, the Chief Executive Officer of the Ministry of Finance (Ms Hinauri Petana) and independent members of the public: Lealiiiee Rudy Ott, Klaus Stunzner Jr and Alofipo Tanielu Meredith.

The Board, as a whole, met on ten occasions during the twelve months to the end of June 2008.

#### 2. Management and staff

With the increasing workload of the Bank and the introduction of new legislations especially in relation to Money Laundering Prevention and Insurance matters, a new Management Structure was put in place which reverted to re establishing the post of second Deputy Governor. As a consequence, responsibilities have been split and divided into two functional areas each to be looked after by a Deputy

Governor. Mr Iosefo Bourne who has been appointed to the new Deputy Governor post, is responsible for the Financial Research and Market Development area which includes three Departments namely, Financial Markets Department, Research and Statistics Department and Banking and Corporate Services Department. Magele Filipino Magele Penn, the other Deputy Governor, has been re designated as responsible for Financial Policies and Operations area with three remaining Departments namely Financial Institutions Department, Accounts & Budget Department, and Management and Resources Department under his guidance.

The Bank's Organizational Structure which is provided in subsection 4 includes the aforementioned changes. Six Departments based on their operations and functions are being allocated under the two functional groups mentioned above. The position of Internal Auditor remained vacant and a decision on this post has been put on hold for further review.

The Central Bank employed a total of 87 staff at the end of June 2008.

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 equipped, and safe from unnecessary risks.

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.

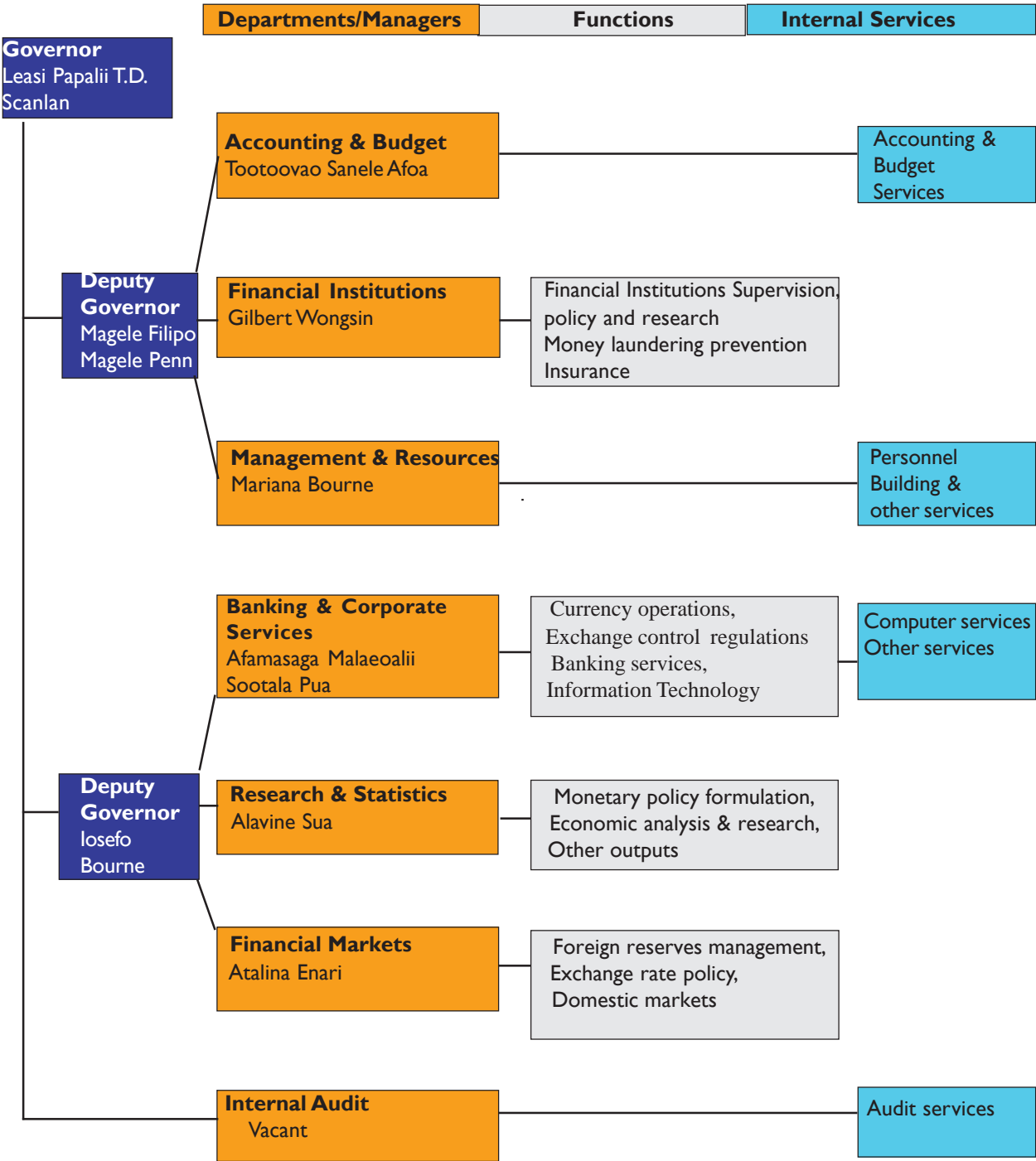
In addition, during the twelve months to end June 2008, Management continued to provide a wide assessment of the risks as well as appropriate compliance review to provide a mechanism for further process improvement in the system of internal control. These include:

- (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

Internationally, monetary policy settings were mixed as the authorities tried to strike a balance between inciting growth and looming inflationary pressures. In Samoa, the tightened monetary policy stance facilitated the recovery of commercial bank liquidity, pushing up the level of excess reserves to a substantial and more comfortable position. Inflation soared as world oil and food prices fed through the domestic pricing mechanism.

### 1. The World Economy

The world economy grew at a healthy 4.5 percent and noted an inflation rate of 2.8 percent for 2007/08, despite losing speed from the previous years, and the US sub prime crisis that rocked financial markets around the globe. While China and India chipped in mostly to this growth (as both were largely insulated from the effects of the US sub prime collapse) the economies of the Euro area, the US and Japan recorded modest economic expansions. In spite of the economic growth noted around the world, monetary policy setting was generally mixed. In the US, the Fed funds rate was aggressively cut as the Fed focused on combating the financial strains brought on by the US sub-prime crash. The Euro area and Japan, on the other hand, held their policy rates steady.

#### \* USA

The US economy grew 1.7 percent with a CPI of 3.5 percent in the 2007/08 period. The growth came on the back of exports boosted by the low dollar and also the temporary effect of tax cheques. Activity in the housing sector was especially weak, labour market conditions generally soft and increases in food and energy prices contributed to the significant rise in consumer price inflation.

#### \* New Zealand

The New Zealand economy grew 2.0 percent in real terms in 2007/08 with the CPI increasing 3.3 percent owing to the significant rises in food and energy prices. Over the fiscal year, the economy was vulnerable with a high current account deficit, weak household savings, high indebtedness, poor productivity growth, capacity constraints and domestic inflationary pressures. Despite these,

support to the economy came from high commodity prices and infrastructure spending.

#### \* Australia

The Australian economy grew 3.3 percent with a CPI of 3.5 percent in 2007/08. Pressures on available productive capacity in combination with rising food and energy prices resulted in the significant rise in inflation. Domestic demand softened under the weight of high interest rates and high oil prices. With the resulting subdued household spending, retail spending and consumer sentiment were hit hard over this period.

### 2. The Domestic Economy

The latest released figures indicated that fiscal policy was exceptionally expansionary in 2007/08 largely to complete the remaining infrastructure and games venue and ancillary facilities for hosting the 13th South Pacific Games in August/September 2007.



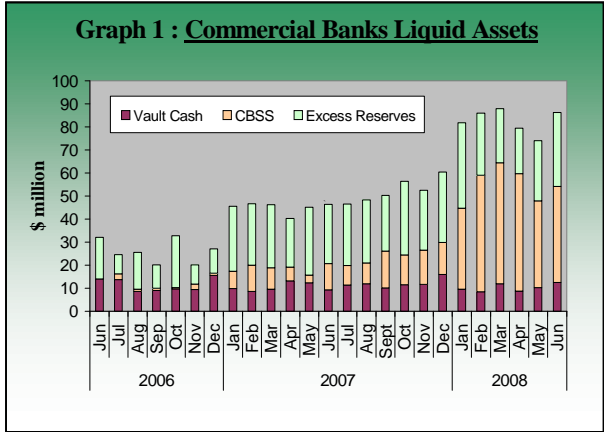
*His Highness, Head of State, Tui Atua Tupua Tamasese Efi, delivering the keynote address to open the 13th South Pacific Games 2007.*



On the other hand, growing inflationary pressures from rising international oil and food prices, and the anticipated strong domestic demand warranted a continuation of tight monetary policy stance by the Central Bank for the financial year 2007/08. This policy stance, together with a large net inflow of funds from abroad, boosted liquidity to well above the 2006/07 level. In particular, excess reserves of the commercial banks rebounded substantially from the record low levels in the previous fiscal year, and the amount of CBS securities issued rose to notably high levels. And, as expected, the economy grew strongly in 2007/08, in line with the financial windfall from the ‘best ever’ South Pacific Games.

**2.1 Liquidity Conditions**

Total commercial bank liquidity recovered strongly to an average monthly level of \$68 million in 2007/08, almost doubled the comparable figure for 2006/07. The first six months of 2007/08 saw a sustained increase in commercial bank liquidity reflecting largely the completion of most of the major Government construction projects especially the venues and facilities for the South Pacific Games. From \$46 million at end June 2007, liquidity climbed to as high as \$88 million in March 2008 before settling at \$86 million at end June 2008. (See Graph 1.)



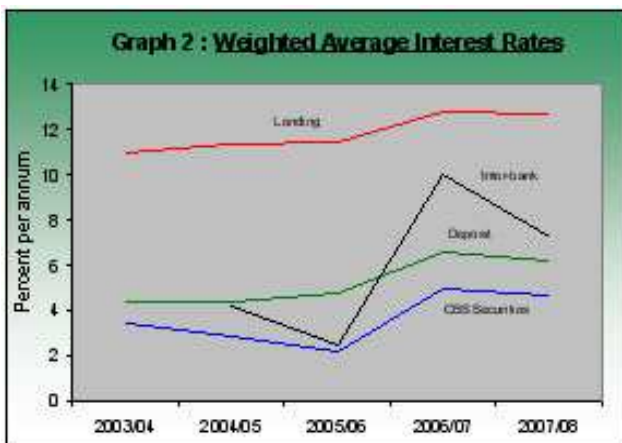
The improvement in liquidity from its low levels in 2006/07 partly reflected the positive impact of the tight monetary policy stance that was pursued in 2007/08 and the use of moral suasion and regular

dialogue with the commercial banks. Following the continued build up of liquidity to comfortably high levels, especially in the first half of 2007/08, the Statutory Reserve Deposit Ratio, which was lowered to 3.5 percent in October 2006, was reverted back up to 4.5 percent effective in March 2008. The healthy liquidity position saw a substantial increase in the amounts of the various CBS securities issued including a resumption in the issuance of the benchmark 91 day maturity. At end June 2008, total securities outstanding amounted to \$45.0 million, of which \$23.5 million were for short term bills and \$21.5 million were for the 91-day security. In contrast, there were only \$11.5 million securities outstanding at end June 2007, of which \$10.5 million were for short term securities and only \$1 million were for the 91-day paper. While commercial banks’ continued to be the major player in the CBS securities market, fiscal year 2007/08 saw the first ever issuance of securities to the largest non-bank financial institution in the country - the Samoa National Provident Fund (SNPF) - with a \$3.0 million investment in 91-day securities at the end of the fiscal year under review.

**2.2 Interest Rates**

With the increased level of liquidity, the weighted average yield on Central Bank securities declined to 4.62 percent in 2007/08 from 4.94 percent in 2006/07. Corresponding to the downward trend in the official rates, the commercial banks’ interest rates followed suit, albeit at different magnitudes, with the weighted average lending rate slipping to 12.74 percent from 12.76 percent and that for deposits falling to 6.15 percent from 6.54 percent. (See Graph 2.)

In spite of the marginal decline in lending interest rates, demand for credit slowed down with the annual average growth in bank credit to the private sector and public institutions combined decelerating significantly from 24 percent at end June 2007 to only 11 percent at end June 2008. Nevertheless, at \$648.4 million, total commercial bank loans granted to the private sector and public institutions in 2007/08 was \$48 million higher than in 2006/07. The



'Transport and communications' sector absorbed most of the increased credit (up \$32.4 million) followed by 'Building, construction and installation' (up \$24.2 million) and 'Professional and business services' (up \$17.2 million). Smaller increases were registered for 'Electricity' (up \$4.2 million) and 'Agriculture' (up \$1.1 million). On the other hand, large reductions were recorded for the 'Other activities' (down \$18.3 million) and 'Trade' (down \$12.0 million), with a \$0.9 million slip for the 'Manufacturing' industry. (See Table 1.)

End of Period	2005/06	2006/07	2007/08
Agriculture, forestry and fisheries	9.33	10.51	11.58
Manufacturing	23.86	23.21	22.3
Building, construction and installation	241.37	273.53	297.71
Electricity, gas and water	4.66	5.56	9.71
Trade	89.42	111.32	99.31
Transportation, storage and communication	35.05	38.36	70.71
Professional and business services	35.56	40.88	58.11
Other activities	78.48	97.21	78.95
<b>Total</b>	<b>516.73</b>	<b>600.58</b>	<b>648.38</b>
Annual average change	32.2%	16.2%	10.8%

Source: Central Bank of Samoa.

The absolute increase in credit, together with a \$28.7 million expansion in net foreign assets, propelled money supply (M2) up by \$66 million to \$608 million at end 2007/08. However, on an annual average basis, the significant reduction in the growth rate of bank credit over the year combined with Government recording a cash deficit in its net position with the monetary system (down \$11.9 million to \$88.7 million) in 2007/08, to push down

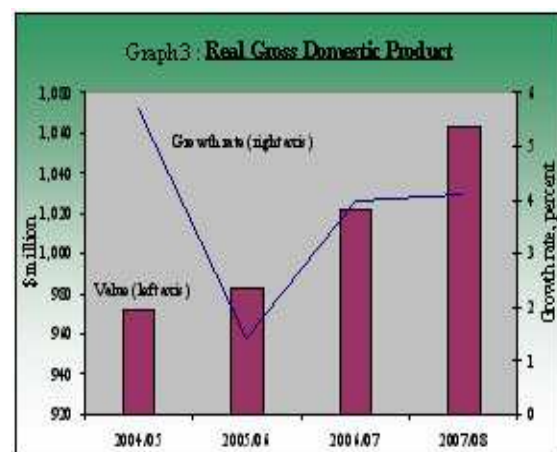
further the annual growth rate of money supply in the fiscal year under review to 11 percent from 13 percent in 2006/07. (See Table 2.)

End of Period	2005/06	2006/07	2007/08
1. Net Foreign Assets	184.64	199.12	227.82
2. Net domestic Assets	313.91	342.66	380.50
(a) Domestic Credit	430.11	502.96	662.97
(i) Government, net	-89.32	-100.62	-88.70
Ministry of Finance	-46.49	-46.37	-52.22
Central Bank of Samoa	-43.17	-40.69	-34.91
Commercial Banks	-0.66	-13.56	-1.57
(ii) Private Sector and Public Institutions	519.43	603.58	651.67
(b) Other items, net	-116.20	-160.30	-182.47
3. Total Assets = Total Money Supply (M2)	<b>498.55</b>	<b>541.78</b>	<b>608.32</b>
Money (M1)	146.20	151.00	153.61
Quasi-money	353.35	390.78	454.71
4. M2 Annual average growth rate	14.0%	13.1%	11.2%

Source: Central Bank of Samoa.

### 2.3 Real Sector

The recently released national account figures for the June 2008 quarter showed a further decline in real GDP by 2.0 percent. However, for the financial year 2007/08 as a whole, the economy grew in real terms by 4.1 percent. This growth was on top of an overall real economic expansion of 4.0 percent in 2006/07. (See Graph 3.)



The strong growth in 2007/08 was largely underpinned by the expansionary fiscal policy, which focused on the completion of the remaining SPG venues and sporting facilities as well as the operational expenditures associated with hosting the

Games. In addition to SPG expenditure, other large fiscal expenditures included the third and final installment of the approved public sector salaries and wages, priority spending on major sectors such as Education and Health as well as the ongoing infrastructural improvements and maintenance.

Except for the “food and beverages manufacturing”, “construction” and “personal and other services” sectors, most industries posted significant growths, led by the “hotels and restaurants”, “other manufacturing” “fishing” and “agriculture” sectors. Much of the growth in 2007/08 occurred in the first half (July to December 2007) which was obviously driven by the significant impact of the South Pacific Games.



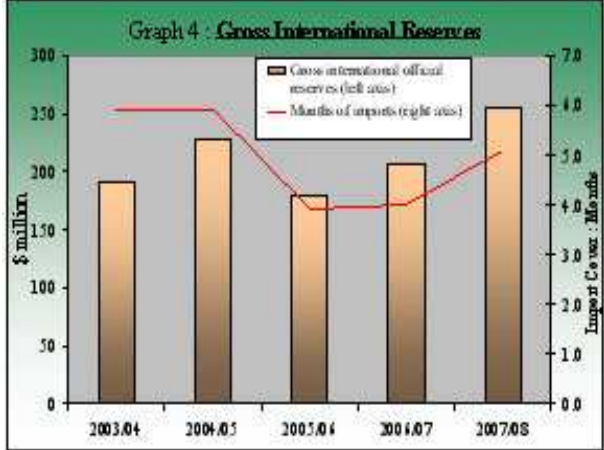
*The Hon. Prime Minister, Tuilaepa Lupesoliai Sailele Malielegaoi, leading by example, accepting his medal in Archery at the 2007 South Pacific Games.*

Following modest growths in recent years, the “Hotels and restaurant” industry grew exceptionally strong in 2007/08, particularly in the first half. Boosted by hosting the best ever South Pacific Games in August/September 2007, the “Hotels and restaurants” sector registered the largest growth of 23.9 percent in the first half of 2007/08 and 27.1 percent for the year as a whole. Assisted by the strengthened Australian dollar, earnings from the export of automotive wire harnesses to Australia improved significantly, driving the output for the “other manufacturing” sector up by 11.5 percent in the financial year under review. The “Fishing” industry continued to recover in 2007/08, posting a notable

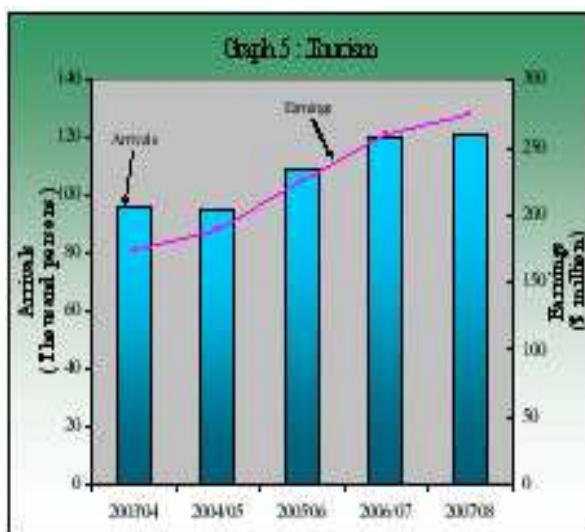
8.8 percent increase in real output, as the catch per unit effort (c.p.u.e) for long line fishery increased due to favourable oceanic conditions that resulted in high productivity and the availability of tuna in the Exclusive Economic Zone of Samoa. The “agriculture” sector rebounded by a substantial 6.7 percent reflecting the push for replanting through the revival of traditional agricultural initiatives such as the village driven Talomua program. An increase of 3.7 percent was registered for “finance and business services” and 3.6 percent and 3.5 percent for “public administration” and “transport and communication” respectively, reflecting largely the impact of the South Pacific Games. Also associated with the Games were the higher real output recorded for “commerce” (up 3.4 percent) and “electricity and water” (up 2.7 percent).

**2.4 Balance of Payments**

The balance of payments registered a large overall surplus of \$48 million in 2007/08, almost double the surplus of \$28 million from the previous year. This surplus reflected the reduction in total imports in 2007/08 (following the completion of SPG related construction and consumption related activities in the first half) as well as the large inflow of funds in the financial account, increased revenue from tourism activities and inflow of private remittances. In the event, the large overall balance of payments surplus elevated the level of international reserves to the equivalent of 5.1 months of imports in 2007/08, up from 4.0 months in 2006/07. (See Graph 4.)



As expected, tourism activity improved in 2007/08, with earnings increasing 6 percent (\$16 million), compliments of a 5 percent growth in average tourist expenditure and a 1 percent rise in tourist arrivals. Arrivals for the first half of 2007/08 were well above those for the comparable period in 2006/07, following the huge influx of athletes and sports officials to the 13th South Pacific Games in August/September 2007. However, subsequent declines from November 2007 to April 2008 saw total arrivals for the financial year increase by only 1 percent above the 2006/07 level. (See Graph 5.)



Visitors from New Zealand (up 8 percent) and ‘other countries’ (up 25 percent) which included most of the athletes and the Games officials from the participating Pacific Island nations were entirely responsible for this positive result, with earnings from these two sectors surging 14 percent and 27 percent respectively. Arrivals from these two destinations more than offset the decline in arrivals from American Samoa, Australia, Europe and the USA.

Average tourist spending rose 5 percent in the course of the year reflecting a 7 percent increase in Tourism Price Index (TPI), which stemmed from price increases for most goods and services consumed by tourists, particularly hotel accommodation, meals and drinks, car rentals and transportation services. The higher TPI in 2007/08 reflected strong domestic demand conditions and rising fuel prices, which pushed the cost of transportation, electricity and

other related services upwards from 2006/07. The TPI increase outweighed a seasonal reduction in average expenditure of about 2 percent. (See Graph 6.)



Export processing services, which reflect the cost of assembling automotive wire harnesses, increased 23 percent in 2007/08 to \$17.9 million while receipts from telecommunication services increased by \$15.6 million. Private remittances rose 16 percent to \$292 million due to a 13 percent (or \$26 million) hike in household remittances and a 28 percent (or \$13 million) increase in funds for churches and charitable organisations. Of the total private remittances in 2007/08, a greater part continued to be family remittances (with a 70 percent share), followed further behind by remittances for churches which accounted for 17 percent. The bulk of private remittances for households were from New Zealand and Australia with shares of 37 percent and 19 percent each respectively while the main source countries of church remittances were the USA (22 percent) and Fiji (11 percent). The figures for Fiji also include US sourced remittances for one of the churches that normally channel their funding through their Pacific regional office in Fiji.

The total value of exports improved in 2007/08 by a modest 2 percent to \$32 million driven largely by a rebound in nonu juice, coconut cream and coconut oil exports. The improvement in the latter export commodity reflected shipments by the organization known as Samoa Women in Business Inc (WBDI)

following the establishment of business relations with an internationally acclaimed skincare company (The Body Shop) in the UK; and a consignment by the Samoa Gold Oil Company Ltd following the signing of its major contract with Oil Seed Products Ltd of New Zealand to supply coconut oil for refinement into cooking oil. These ground breaking deals are positive steps forward for the struggling coconut oil industry in Samoa, which has made its come back in the wake of strong global demand for organic products. Re-exports also grew substantially due to the improved recording of trade with the Tokelau Islands and higher exports of scrap metals destined for recycling in New Zealand, Australia, Korea and Taiwan. Smaller gains were also recorded for cigarettes, drinking nuts and snacks. (See Table 3.)

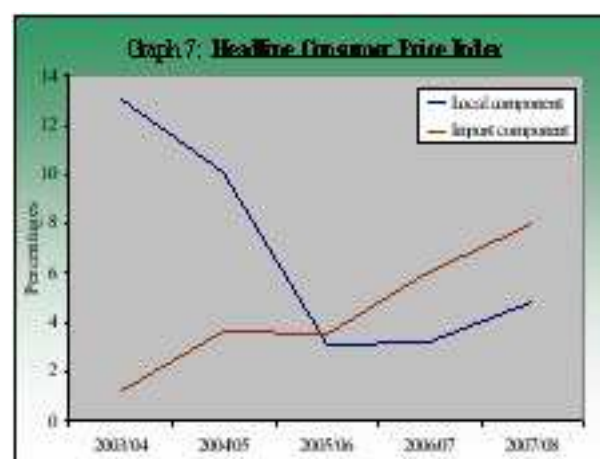
	2006/08	2008/07	2007/08
Domestic Exports	28.63	28.38	27.87
Fish	12.68	16.88	16.76
Nonu Products (Nonu Juice)	8.19	4.07	3.84
(Nonu Fruit)	(0.94)	(0.89)	(0.42)
Beer	4.34	3.18	3.10
Coconut cream	2.26	2.16	2.19
Taro	0.67	0.66	0.60
Coconuts	0.31	0.38	0.44
Soft drinks	0.22	0.34	0.23
Coconut oil		0.10	0.11
Others	0.86	0.62	0.60
Re-exports	0.09	2.96	4.11
<b>Total</b>	<b>28.82</b>	<b>31.26</b>	<b>31.88</b>

On the other hand, total import payments fell 4 percent (or \$23 million) to \$594 million in 2007/08 following notable declines in Government imports and non-petroleum imports of the private sector. While Government imports decreased 27 percent (or \$8 million), non petroleum private sector imports weakened 6 percent (or \$28 million) due to an 8 percent drop in volume offsetting a 2 percent rise in the unit price. Lower vehicle and construction materials imports were largely to blame for the drop in non petroleum private sector imports, with the announcement of a switch to right hand drive vehicles, plunging the total value of imported motor vehicles by the private sector by 50 percent in 2007/08. And, reflecting the completion of infrastructural projects for the South Pacific Games, construction

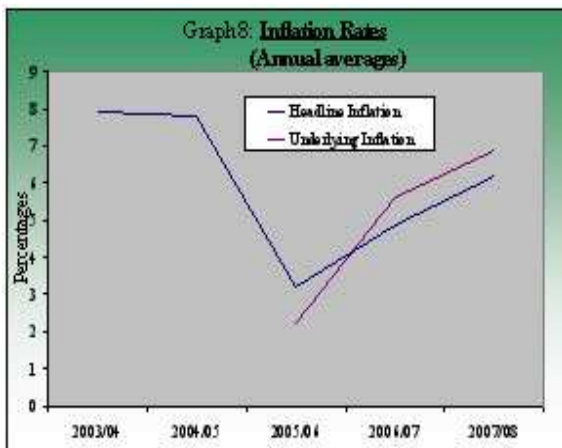
materials were also substantially lower, particularly in the second half of the financial year after strong growths in previous years. On the other hand, petroleum imports increased 10 percent (or \$12 million) reflecting the sharp rise in oil prices in 2007/08, which leapt 48 percent to an average spot price of USD\$92.64 per barrel but was offset by a 7 percent appreciation of the Tala against the US dollar resulting in a net increase of 38 percent in the imported unit price of petroleum.

## 2.5 Prices

In 2007/08, a mixture of domestic factors and, to a larger extent, unfavourable global developments exerted tremendous pressure on inflation, which accelerated the headline rate to 6.2 percent at end June 2008 from 4.5 percent at end June 2007. (See Graph 7.)



International prices for a wide range of commodities, especially oil and food, increased particularly stronger in the second half of 2007/08, reaching unprecedented highs from month to month. These surges in international commodity prices along with the appreciating New Zealand and Australian dollars over the year pushed imported inflation further to record an 8 percent increase at end June 2008 from 6 percent at end June 2007. The local component of the headline CPI, on the other hand, posted an annual increase of 4.8 percent at end June 2008 which was above 3.2 percent at end June 2007. (See Graph 8.)



The major contributing factors were the high fuel costs reflecting the acceleration of international oil prices, which neared the USD\$140 per barrel mark in June 2008. Unleaded petrol prices surged 24 percent to \$3.15 per litre in June 2008 when compared with what it was in June 2007, an annual average increase of 14 percent. Diesel prices rose 47 percent to \$3.56 per litre at end June 2008, for an annual average increase of 17 percent. Kerosene prices, similarly, trended upwards with a huge 43 percent increase to \$3.27 per litre on a point to point basis, for an annual average increase of 16 percent. These high fuel price rises spilled over to affect the prices of other goods and services in the CPI basket. In particular, energy costs went up considerably in 2007/08 following two separate additional fuel surcharges (which totaled 10.8 percent) that were added to the base tariff rate for electricity, increasing the unit cost of electricity by 10 percent to \$0.87 per kilowatt at end June 2008 from \$0.79 per kilowatt in June 2007. Likewise, local food items were somewhat affected as the higher cost of delivering goods to the Fugalei Market were incorporated by farmers into the selling price of their agricultural produce.

Fish prices also saw the impact of fuel costs even though not all fishermen use engine boats to fish. In 2007/08, a pound of string fish was sold at an average \$3.60, 5 percent higher than in 2006/07. Fish pieces, on the other hand, recorded the largest increase of 10 percent, selling at an average \$4.65 per pound in 2007/08. Large fish rose 0.4 percent to an average of \$6.01 per pound in the same period. Bread was another commodity that was



*Newly completed plant for producing biodiesel from coconut oil - in response to the surging price of petroleum products worldwide.*

indirectly affected by the rising cost of fuel. Through the higher electricity cost, and the rise in the price of imported flour, a request by local bakers to the Price Board saw bread prices increase approximately 15 percent in March 2008. This resulted in a 13 percent increase in bread prices to an average \$1.29 per loaf in fiscal year 2007/2008. Aside from the effects of higher fuel prices, significant increases were also registered in student registration fees at the National University of Samoa which became effective in January 2008. These inflationary pressures, which were beyond the Central Bank's control, were reflected in substantial increases recorded in the "Food" (up 71 points), "Transport and communications" (up 802 points), "Housing and household operations" (up 432 points), "Clothing and Footwear" (up 192 points) and "Miscellaneous" (up 80 points) sub-indices. (See Table 4.)

Fiscal year (end June)	2005/06	2006/07	2007/08
<b>A. Headline Inflation</b>			
12 month average percent change			
All Groups	3.2	4.9	6.2
Food	2.1	6.4	7.1
Clothing and Footwear	-7.5	-5.3	-1.4
Housing and Household Operations	6.2	2.6	6.9
Transport and Communication	10.0	-1.1	4.7
Alcohol and Tobacco	1.2	11.1	6.7
Miscellaneous	0.4	3.2	4.0
Import Component	3.5	6.0	8.0
Local Component	3.1	5.9	4.8
<b>B. Underlying Inflation (1)</b>			
12 month average percent change			
All Groups	2.2	5.6	6.9
Food	3.0	6.5	7.0
Clothing and Footwear	-7.5	-5.3	-1.4
Housing & Household Operations	1.5	0.8	4.7
Transport and Communication	1.4	7.1	15.6
Miscellaneous	0.9	6.6	2.9
Import Component	1.9	5.8	6.8
Local Component	3.0	4.9	7.1

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

And, when the prices of items susceptible to natural shocks and those subject to official price regulations were excluded, the underlying inflation rate trended upwards to reach 6.9 percent in 2007/08 from 5.6 percent in the previous fiscal year. The increase in underlying inflation also partly reflected the strong growth in demand associated with the real expansion of the economy.

### 3. Outlook for 2008/09

As of July 2008, the prevailing world forecasts pointed to overseas inflation picking up momentum in 2008/09 with food prices continuing to rise and oil prices remaining high. Consequently, inflationary pressures in the Samoan economy are envisaged to continue in 2008/09. In the event, headline and underlying inflation are expected to rise well above the long term target rate (of 3.0 percent), to reach about 10 percent in 2008/09

Although inflation is expected to remain high in 2008/09, a continuation of tight monetary policy to restrain it after two consecutive years of the same dosage would devastate the investment resolve of the private sector as evidenced by the marked reduction in that sector's demand for credit in 2007/08. As discussed earlier, the main factors driving inflation in Samoa are largely overseas sourced, with very little that domestic monetary policy could do to stem its rise. Monetary policy is an aggregate demand management tool and its tightened stance last year, combined with uncertainty surrounding the implementation of the switch to right hand drive vehicles, has restrained private sector investment demand in the past fiscal year, leaving it to the public sector to drive much of the economic growth recorded in 2007/08. Any further tightening of monetary policy would therefore be devastating to private sector development. Consequently, in August 2008, the Central Bank decided to ease monetary policy in the fiscal year 2008/09. On the other hand, using exchange rate policy to ease inflationary pressures by revaluing the Tala would be catastrophic to the already struggling export sector and the vibrancy of Samoa's leading industry – the tourism sector.



*Deputy Prime Minister, Hon. Misa Telefoni and Ele Opeloge - Sportswoman of the Year, Champion Weightlifter at the South Pacific Games 2007.*

Other than inflation, the Samoan economy is expected to continue to grow further, compliments of the substantial expansionary Government Budget approved by Parliament in July 2008. The economy is anticipated to grow by up to 3.0 percent in 2008/09, with heavy government investment in infrastructural developments playing the leading role. Meanwhile, the balance of payments is anticipated to breakeven, which should sustain international reserves at a level around the 5.0 months of imports mark.

## 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 2007/08, the inter-bank rate declined from 10.0 percent in 2006/07 to 7.25 percent as liquidity conditions improved significantly.

Open market operations picked up in 2007/08 as banking system liquidity steadily recovered over the period. The number of floats or auctions of CBS securities rose further to 39 from 24 in the previous year and the total amount floated rose to \$321 million from \$104 million. (See Table 5.)

The immense recovery of liquidity seen in 2007/08 led to total auctions being oversubscribed by 13.4 percent of the amount floated and the amount tendered by bidders rose substantially to \$364 million, a spectacular improvement of 416 percent

	2005-2006	2006-2007	2007-2008
Number of Floats	19	24	39
Amount Floated	\$95.50	\$104	\$321.00
Amount Tendered	\$1.75.00	\$70.50	\$364.00
Amount Allotted	\$53.00	\$13.50	\$280.50
Amount Maturing	\$115.00	\$41	\$147.00
Amount Outstanding	\$0	\$12.50	\$45.00

from the \$70.5 million tendered in 2006/07. Consequently, the amount allotted surged from \$53.5 million to \$280.5 million in 2007/08. As liquidity continued to pour in, investors became increasingly interested in the longer term securities such as the 56 and 91 days papers, which offered higher yields than the short term papers. At end June 2008, the face value of securities outstanding amounted to \$45 million compared to \$12.5 million in the previous year.

The Repurchase Facility was again idle in 2007/08. Similarly, the Rediscount Facility was unused; the result of a major improvement in liquidity reserves as well as liquidity management within the commercial banks. An inoperative Rediscount Facility in 2007/08 was a fine improvement from 2006/07, which saw the rediscounting of \$1.0 million of CBS securities.

As reported in Section IV (2.2), the overall weighted average interest on CBS securities fell in 2007/08 with interest rates on all types of maturities slowly declining as liquidity continued on its path to recovery. The gap between the yields on CBS securities and interest rates on commercial banks' deposits of comparable maturities is only marginally narrower, compared to the previous financial year. Since 2006/07, interest rates have somewhat eased but the remarkable turnaround in securities issued



led to a jump in the interest cost of the Central Bank's open market operations from \$0.2 million in 2006/07 to \$1.3 million in 2007/08.

## 2. Exchange rates

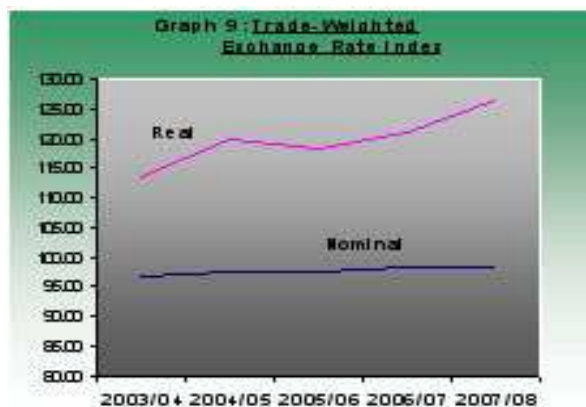
The main objective of the Central Bank's exchange rate policy is to ensure that exports remain competitive in overseas markets while at the same time minimizing imported inflation.

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 the more recent changes in trade and payment patterns between Samoa and its major trading partners. In 2007/08 the methodology for determining the exchange rate basket was further refined with a view to favoring exports development. In addition, the Fijian dollar, which is also fixed to a basket of currencies, was removed from the currency basket and new weights were allocated to the remaining currencies in the basket effective 28 April 2008. The basket now comprises the currencies of NZ, USA, Australia and the European Union.

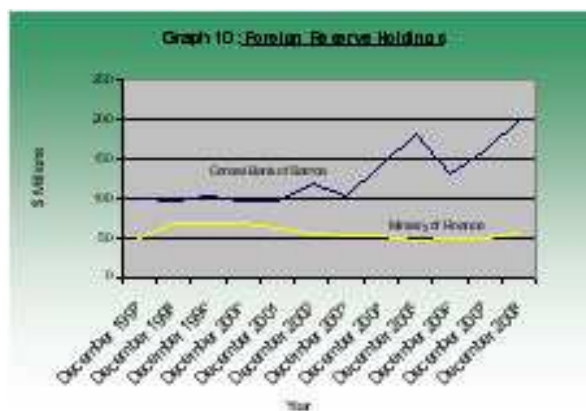
The following chart (Graph 9) shows the movements of the Tala in terms of its Nominal Effective Exchange Rate Index (NEER) and its Real Effective Exchange Rate Index (REER), which is adjusted for changes in prices. In the fiscal year 2007/08, the Tala appreciated by 0.2 percent in nominal terms and 4.54 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 22.7 percent recovery to \$254.6 million at end June 2008 from the end June 2007 figure of \$207.5 million<sup>1</sup>. This improvement came about due to increases in both the Central Bank's foreign exchange holdings



of 26.2 percent and the Ministry of Finance's foreign exchange holdings (inclusive of SDR holdings) of 11.5 percent. Of the \$254.6 million, the Central Bank held 78.4 percent, while the Ministry of Finance held the residual 21.6 percent. (See Graph 10.)



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 offshore. In investing in the

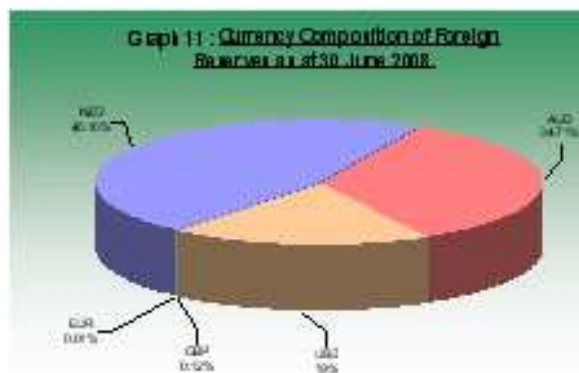
<sup>1</sup> With the adoption of the Fifth Edition of the International Monetary Fund's Balance of Payments Manual, Foreign Reserves have been renamed to Official International Reserves, which includes only the holdings of the Ministry of Finance and the Central Bank of Samoa.

aforementioned financial instruments, the Bank continued to strictly adhere to the objectives of reserve management of liquidity, security, capital preservation, and profitability.

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

Net interest income from the investment of the Central Bank's foreign exchange holdings in 2007/08 amounted to \$11.7 million. This was an increase of 20.6 percent from the previous fiscal year owing largely to rising interest rates in the global economy, and an increase in the Bank's foreign exchange holdings from \$158.2 million at the end of June 2007 to \$199.6 million at the end of June 2008.

Of the Central Bank's total foreign exchange portfolio at the end of June 2008 of \$199.6 million, 46.16 percent was invested in New Zealand dollars, 34.7 percent in Australian dollars, 19.0 percent in US dollars, and the remaining portion in British Pounds and in Euros. Compared to the previous fiscal year, only the New Zealand dollar and Australian dollar holdings registered increases of 22.8 percent and 60.0 percent respectively. The US dollar, British Pound and Euro holdings declined 1.1 percent, 76.8 percent and 92.3 percent respectively. The various Government payments effected from the British Pound and Euro holdings resulted in the significant decreases in these holdings. (See Graph 11.)



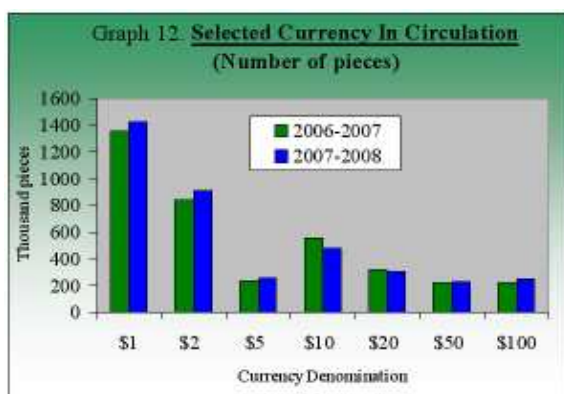
#### 4. Currency Issue

By law, the Central Bank is the sole issuer 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 2008, the value of currency (notes and coins) that circulated in the economy amounted to \$54 million, up 3.85 percent from the end of the previous year. New currency notes accounted for over half of currency in circulation, totaling \$40 million compared to \$36 million the year before.

Leaving aside small denomination coins, the \$1.00 coin remained the most widely circulated currency unit in the country with the number of pieces circulating at end June 2008 increasing 5 percent to 1,423,000 pieces. (See Graph 12.) The second most popular unit was the \$2 banknote with 909,000 pieces, up 9 percent from end June 2007. Not surprisingly, the \$10 and \$20 banknotes followed in third and fourth places respectively due to the increased popularity of Automatic Teller Machines (ATMs), pushing the \$5 note to fifth place.

The number of pieces for the \$10 and \$20 banknotes that circulated in 2007/08 fell. The \$10 was especially low due to low stock levels and the delayed arrival of currency note shipments.



However, the \$2, \$5, and \$50 rose with the \$100 note showing the highest increase of 9 percent to 244,000 pieces, illustrating the public’s continued preference for the convenience of the higher denomination notes. In the event, there was an increase in the total value of currency in circulation in the fiscal year under review.

During the year, new designs for currency notes were finalized to update the look, feel and security features of currency circulating in the country. The new designs were launched in the first quarter of 2008/09.

## 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.



*Aunese Curreen, Sportsman of the Year, Champion of middle distance running at the 2007 South Pacific Games.*

In 2007/08, four (4) new money transfer business licences were issued bringing the total licences issued since 1999 to 25. 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 2008.

MTOs now play a key role in facilitating the inflow of 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. 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 2007/08 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 2007/08, four (4) offshore borrowing applications were approved totaling \$8.1 million. One (1) of the approvals was issued to the financial services sector and the others went to the Transport and Tourism sectors. In the financial year under review, the combined offshore borrowing by the private sector, public enterprises and non bank financial institutions rose 90 percent to \$46.11 million. This represented 7.1 percent of bank credit to this group of borrowers at the end of June 2008, up from 3.3 percent at end June 2007. At this level, the amount of private sector offshore borrowing at end June 2008 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, 46 new foreign currency deposit accounts were approved compared to 53 in 2006/07. Thirty six (36) of the approvals granted were for residents, comprising 5 for commodity exporters, 2 for tourism operators and 22 for a mixture of international income and service providers. In the event, the outstanding balance of FCDs at end June 2008 rose 60 percent to \$29.9 million from the level at end June 2007, reflecting a 115 percent increase in FCDs held by residents and a 1 percent rise in FCDs of non-residents. At \$20.8 million, FCDs held by residents at end June 2008 represented 3.4 percent of total money supply (M2), which was substantially up from 1.8 percent at the end of June 2007. The expanding ratio of FCDs to money supply is being monitored closely with a view to ensuring that monetary policy instruments remain effective in regulating money supply.

## VI. FINANCIAL SYSTEM SUPERVISION

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**S**ustainable 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 licenses, regulates and supervises all commercial banks, insurance businesses and selected non-bank financial institutions in the country.

The Bank is also the country's Anti-Money Laundering Authority, a function that further protects and promotes the integrity of Samoa's financial system and its 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 on-site examinations and 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.

Continued 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 2008

For the twelve months under review, the banking system recorded an increase in total assets of 13.7 percent (\$106.0 million) to \$879.3 million against total liabilities of \$730.1 million which grew by 14.6 percent (\$92.7 million) respectively.

Much of the growth of assets was attributed to the steady increase in lending and finance leases by 10.8 percent (\$66.4 million) to \$680.9 million, total liquid assets recorded a much improved position, up markedly by 85.1 percent (\$39.7 million) to \$86.4 million, while fixed assets grew by 8.4 percent (\$4.0 million) to \$52.9 million over the previous year respectively. Total loans to deposits ratio stood at 101.3 percent, edged down from 104.9 percent recorded in June 2007.

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.

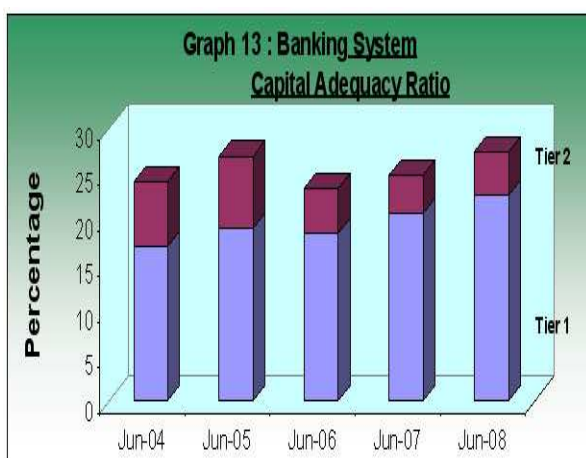
#### 1.2 Capital Adequacy Ratio

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 15.0 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 27.5 percent, up by 2.7 percentage points from the previous year with Tier one capital at 22.7 percent. As such level, the banking system recorded surplus capital of \$68.7 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 13.)



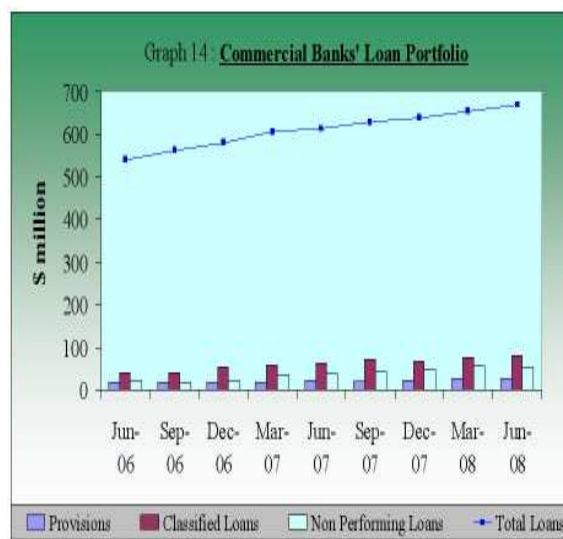
The relatively strong capital ratio largely reflects the banks profitable operations, coupled with some capital injections by banks shareholders during the year.

### 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 types of 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 tend to increase.

In the twelve months to end June 2008, total loans and advances and finance leases rose 10.8 percent (\$66.4 million) to \$680.9 million. As such, non-performing loans reached \$54.3 million, representing 8.0 percent of total loans. This indicates an unfavourable rise of \$15.7 million (40.7 percent) over the same time a year earlier. In the meantime, provision for bad and doubtful loans reached \$26.2 million thus providing a 48.2 percent cover of total non-performing loans. At this level, it represents 3.8 percent of total loans and leases to date. (See Graph 14.)



Diversification of risks is one of the fundamentals of prudent banking. Excessive concentration of risk exposure to one customer, industry, economic sector or activity jeopardizes the soundness of bank assets and has been one of the major causes of bank losses. The maximum amount of credit which a bank can extend to a single customer is twenty five percent (25 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. And, in situations where a bank is likely to exceed its maximum prudential limit, prior consultation and endorsement of the Central Bank must be obtained.



*Samoa Mix Touch Rugby Team, champion of the South Pacific Games 2007.*

#### 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' ongoing operations 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 financial year under review, the system continued to experience liquidity tightness in the first half of the year as expected. In turn the Central Bank extended its temporary measure to assist with the system's liquidity situation by reducing the banks Statutory Reserve Deposit Requirement (SRD) from 4.8 percent to 3.5 percent up to end September 2007. The Central Bank kept a close monitoring of

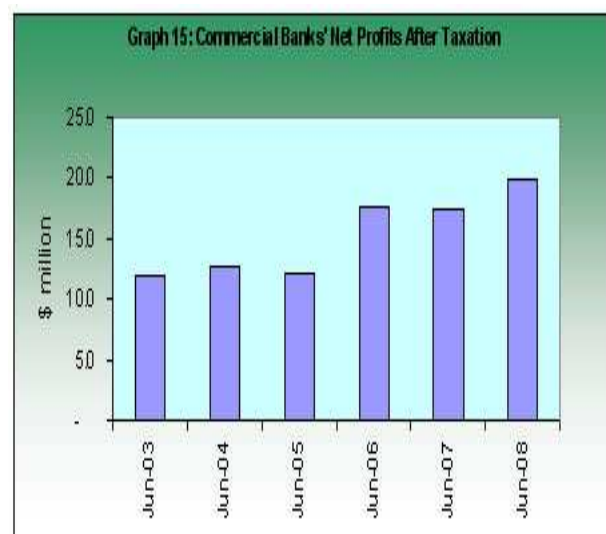
the banks liquidity position through constant dialogue and regular reporting by banks of their liquidity positions.

As a result of liquidity improving towards the end of the year, the Central Bank's Board approved the reinstatement of the Statutory Reserve Deposit Requirement (SRD) of the commercial banks from 3.5 percent to 4.5 percent.

At the end of June 2008, total liquid assets amounted to \$86.4 million, equivalent to 14.5 percent of total domestic deposit liabilities. At this level, it showed a marked improvement of 85.1 percent (\$39.7 million) when compared to the same time a year earlier. Additionally, the level of CBS Securities showed a steady growth, reaching \$41.6 million at the end of June 2008.

#### 1.5 Profitability

Based on the banks different accounting periods, the banking system combined profit figure before extraordinary items and taxation amounted to \$25.6 million, and reflected an increase of 8.1 percent (\$1.9 million) as compared to the level achieved a year earlier. Both total operating income and total operating expenses registered increases of 10.7 percent and 11.9 percent respectively. (See Graph 15.)



The major contributing factors to this performance highlighted increases in the banks interest income, bank commissions, charges and fees which were largely offset by the strong growth in interest expenses, bad debts and other operating expenses. Return on assets and net worth improved to 2.4 percent and 14.0 percent respectively from 2.2 percent and 13.2 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 2008 stood at \$104.7 million, recording an increase of 35.8 percent (\$27.6 million), whereas total foreign liabilities of \$98.6 million increased by 28.9 percent (\$22.1 million) over the year. As such, it reflected a net long open position of \$7.1 million, equivalent to 4.5 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 insurance companies and 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, the major highlights reflected the enactment of the new Insurance Act 2007 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.

As of January 2008, all insurance companies, insurance brokers and insurance agents were required to be licensed under the new Insurance Act 2007. As such, a total of (5) General Insurers, (4) Life Insurers, and (11) Insurance Agents have been issued insurance business licenses having satisfied stipulated requirements under the new insurance legislation.

The Bank adopted a consultative approach with the insurance industry to ensure compliance with key licensing requirements, regular submission of financial reports and complying with certain prudential standards and guidelines.

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 the current setting, the Central Bank of Samoa is appointed to carry out the functions of the Money Laundering Prevention Authority (MLPA) as stipulated under the Money Laundering Prevention Act 2007. The Financial Institutions Department of the Central Bank plays a key role in the implementation of the functions of the MLPA and is actively involved in building capacity necessary for such tasks.

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.



*Regional Seminar held in October 2007 on the Revised Core Principles for Effective Banking Supervision.*

In this connection, all financial institutions as defined under the Money Laundering Prevention Act 2007 are subject to particular obligations that require them to develop and improve their capacity to identify and report to the MLP Authority any business transaction which they may suspect to involve money laundering.

During the year, efforts have been focused to bring Non Profit Organisations (NPO's) within the AML/CFT supervisory regime to meet and satisfy supervisory and money laundering prevention requirements mandated by the Financial Action Task Force (FATF) and the Asia Pacific Group on Money Laundering (APG) of which Samoa is a member. In this case, the Central Bank liaises closely together with the Registrar of Non Profit Organisations to ensure effective coordination and implementation of this process.

In essence, close consultation and cooperation between the MLP Authority and all related parties is vital in the fight against money laundering activities. The Samoa Money Laundering Prevention Task Force, chaired by the Governor and consisting of the key law enforcement agencies, ministries and authorities in Samoa, continued to meet on a quarterly basis to discuss and share information on money laundering related issues.

At its meeting in June 2008, the Samoa Financial Intelligence Unit (FIU) finalized and signed Memorandum of Understanding with members of the Samoa Money Laundering Prevention Task Force to formalize and facilitate the exchange and sharing of relevant information that would assist in the effective investigation and prosecution of money laundering and terrorist financing offences, as well as any other serious offences committed in Samoa.

The Central Bank is currently in the process of reviewing and revising its 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 FIU any transaction that is suspected to involve money laundering or the financing of terrorist activities.

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.

For the year under review, seven (7) suspicious reports (compared to 15 reports received in the previous year) were filed by the financial institutions in accordance with their obligations under the Act and Regulations on anti-money laundering. The FIU continued to liaise and consult with the 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 Central Bank is grateful for the technical assistance and training opportunities received over the past years from the International Monetary Fund (IMF), the Asian Development Bank (ADB), the United Nations Global Programme on 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 law enforcement agencies in Samoa in the fight against money laundering and financing of terrorism.

## VII. CORPORATE SERVICES AND ADMINISTRATION

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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 2007/08.

### 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 2007/08.

There were no changes to the currency handling arrangements between the Central Bank and the commercial banks in 2007/08. 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 \$26 million worth of unissuable currency notes were withdrawn from circulation and destroyed in 2007/08 compared to \$27 million in 2006/07.

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 2007/08 there was an increase in counterfeit notes discovered and presented to the Central Bank by the commercial banks, retailers and members

of the general public. The Bank worked closely with the Police Department and media to educate the public and work towards apprehending those responsible. 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 2007/08, 4,481 pieces of currency notes with a total face value of \$35,722 and 152,358 pieces of coins worth \$24,872 were sold to 52 overseas currency collectors. These figures showed a remarkable increase from the previous year's numbers, a total increase of 400 percent. This increase reflected the successful resolution of security issues associated with the shipment and postage of currency orders to currency note collectors worldwide.

### 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 2007/08, 39 auctions were conducted, a significant rise from 24 in 2006/07 due to the substantial recovery of liquidity in the financial system. A total of 160 securities were issued in 2007/08, way up from 49 in the previous year. The most popular maturities were the 14 days, 28 days, and 56 days. The 91 days maturity was the least popular of the securities issued while there were no 182 days or 364 days CBS securities issued.

### 3. Inter-bank Settlement

As the overseer of the financial system, one of the Central Bank's key functions, 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.



*Sherry Elekana-Miss Samoa, Aunese Cureen-Sportsman of the year; Ele Opeloge-Sportswoman of the year 2007.*

In 2007/08 a work group comprised of senior staff was appointed to begin reviewing the existing payment and settlement system with the view to identify any areas that need to be modified and

improved to ensure that the system continues to be efficient and cost effective.

To promote cooperation and assist local banks using the SWIFT (Society for Worldwide Inter-bank Financial Telecommunication) system for payments, the Central Bank initiated the formation of the Samoa SWIFT User Group. This group provides a forum for local banks to discuss and review matters related to SWIFT. The user group also provides a single point of contact between Samoa and SWIFT ensuring timely dissemination of locally sensitive issues to and from SWIFT.

### 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. To ensure that the IT system remains relevant and cost effective, an IT Committee Chaired by the Deputy Governor for the Financial Research and Markets Development Area was established in the second half of the financial year. The Committee is responsible for screening and compiling the Bank's Annual IT Budget.

There was no extra equipment added to the existing IT infrastructure of the Bank. Therefore, at the end of June 2008, 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 three (3) servers. The whole IT system has been managed by a team of four (4) staff including two (2) full time professional IT staff. During the year, the Bank invested \$0.13 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 2008. First, the SWIFT servers were upgraded to comply with phase two of the SWIFTNet planned upgrade. The transfer of funds through the SWIFT network began in 1999, replacing the outdated telex

messaging communications technology. The second project was the set up of an IT Committee to set IT policies and oversee the Central Bank's IT budget. The third and final project was the upgrade of the Bank's Server Room, which houses the Bank's main servers in a secure, environmentally controlled room.

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 2007/08, IT staff attended a specialized training course with SWIFT which was conducted locally.

## 5. Staff

### 5.1 Training – Local and Overseas

The Central Bank continued to invest its resources in staff training and development with the ultimate goal of improving staff performance towards the achievement of the Bank's objectives and functions. To this end, the Bank continued to take advantage of training opportunities provided by both local and overseas training institutions to further enhance staff knowledge and understanding in their respective areas of work. Further staff development is achieved through promotions and transfers and on-the-job training within the Bank.

In October 2007, the Central Bank hosted both the Regional Seminar on the Revised Core Principles for Effective Banking Supervision and Problem Bank Situations and the Annual General Meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC). The seminar was conducted by the Financial Stability Institute (FSI) and the AFSPC in collaboration with the IMF Pacific Technical Assistance Centre (PFTAC) based in Fiji. Resource persons included Ms. Elizabeth Roberts, a Director of the Financial Stability Institute (FSI) in

Basel, Switzerland, Messrs Graham Johnson and Chris Gaskell from the Australian Prudential Regulatory Authority (APRA), Mr. Kim Norris, a Director of the International Advisory Group, Canada as well as other experts from the International Finance Corporation (IFC).

The one week seminar in Apia targeted senior management level of central bank officials from the Pacific region. Deputy Governors and senior management of the central banks from Papua New Guinea, Solomon Islands, Vanuatu, Fiji, Tonga and Samoa as well as representatives from the local banking community attended this important seminar.

The Seminar provided a great opportunity for Pacific Islands central banks staff to learn and share issues of common interest in particular those which could adversely affect public confidence in the banking and financial systems. It also aimed at strengthening the participants' understanding and capability as supervisors in the development of economic and financial systems to ensure stability and financial soundness of these financial institutions.

As part of its meeting agenda, the Annual General Meeting of AFSPC appointed the Central Bank of Samoa Deputy Governor, Magele Filipo Magele Penn, as Chairman of the Association for the next two years.

Other relevant short-term training and seminars held locally and organized by various local Government Organizations and Departments were attended by several senior staff.

As had been in the past, short-term courses, seminars and workshops offered and sponsored by various overseas training institutions such as the IMF, PFTAC, Singapore Training Institute (STI), the Australian Office of the Attorney General, and ADB/OECD Secretariat were attended by several Bank staff during the year. Topics covered included bank supervision, anti-money laundering initiatives, reserve management and regulation of non-profit organizations. The Bank will continue to capitalize on these training opportunities in the future in order to enhance staff capacity to enable them face up to

the challenges which lie ahead in their respective areas of work.

## 5.2 Long-Term Training

Staff seeking to improve their formal qualifications are supported through this Program which allows them to undertake full-time undergraduate or post-graduate studies in relevant disciplines in any recognized overseas university. The program requires aspiring staff to register their interest and to secure funding from outside sources prior to commencing leave of absence for the full duration of studies. One management staff, Ms. Lea Collins, took advantage of this opportunity and graduated with a Postgraduate Diploma in the area of Information Technology with the University of Technology (UNITECH) in Auckland, New Zealand.

## 5.3 Part-Time Educational Courses

Staff are also encouraged to seek further studies with the local tertiary institutions to obtain relevant qualifications in the area of Commerce, Accounting and Management. At 30 June 2008, six CBS staff were studying on a part-time basis; three at the National University of Samoa (NUS), and three at the University of the South Pacific (USP), Alafua. One staff, Ms. Mary Fidow graduated with a Diploma in Management Studies with the USP, Alafua while others still have several more units to complete their studies.



*Samoa Boxing Team, Champions of the South Pacific Games 2007.*

## 5.4 Work Experience Program and Study Visits

The Central Bank has always been accommodating of requests for work-experience for final year students from the National University of Samoa and those on overseas Government scholarships. In addition, the Bank also entertained a number of school visits for their research projects, and made several presentations on selected topics when requested by local Institutions and Organisations. 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 Recruitment, New Appointments and Promotions

In recruiting, the Central Bank adopts a policy whereby mainstream positions are to be advertised both internally and externally. This policy provides a wider selection of applicants and allows existing and qualified Bank staff the opportunity to apply thus ensuring the Bank recruits the best candidate for the job. Other vacant positions are filled internally through staff promotion, a strategy that 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.

The Bank recruited two new staff as replacements for vacant positions within the Governor's office. With the increasing volume of work in the Vault operations, four part-time cash counters were also recruited.

Three managerial appointments were made during the year which comprised of one in the senior management level and two as Managers. The appointments were made following the usual staff recruitment procedures where applications for all three posts were advertised in the local media. Mr. Iosefo Bourne was appointed to the position of Deputy Governor for the Financial Research and Market Developments Area, responsible for

overseeing the Research and Statistics Department, Financial Markets Department and Banking and Corporate Services Department. At the same time, Mrs. Alavine Sua and Mrs. Mariana Bourne were appointed as Managers for the Research & Statistics Department and Management & Resources Department respectively.

There were two promotions made within the supporting staff level during the year. These promotions were also made in accordance with the Bank's staff recruitment regulations.

### 5.6 Composition of Staff

In the past five years, staff numbers remained stable in the eighties which is an indication that staff turnover has not been a concern for the Bank over the years. As at 30 June 2008, the Central Bank employed a total of 87 staff which comprised of 83 full-time staff and 4 part-timers.

## 6. Overseas representations and liaison

The Governor and some Management staff represented the Central Bank in a number of high level meetings and conferences and forums held overseas which included the following:

- OECD Sub Group meetings in London
- ADB Annual meeting in Madrid, Spain
- South Pacific Central Bank Governors' meeting in Tonga
- Commonwealth Finance Ministers' meeting in Guyana
- IMF/World Bank Annual General meetings in Washington
- PFTAC meeting in Fiji

Attendance in these high level meetings was made possible under the auspices of several multilateral institutions which the Bank has established and maintained a strong liaison relationship with.

In addition, the Governor being Chairman of the Board of Directors of the Samoa International Finance Authority (SIFA), continued to be actively involved in representing SIFA in high level

international meetings and promotions for the offshore finance industry. The Governor's participation in those overseas meetings and promotions is very important given SIFA's significant contribution to Samoa's economy through the balance of payments, employment, community developments and the Government Budget.

## 7. Communication and Publications

The Governor maintained a busy public speaking schedule in 2007/08, 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 the 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 on the functions of the Central Bank were held for visiting colleges.

## VIII. CENTRAL BANK FINANCIAL PERFORMANCE

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The Bank continued to improve its financial performance in 2007/08 financial year. The audited accounts showed a forty one percent increase in net profit compared to the previous financial year. Total assets grew substantially by twenty five percent, compliments of the twenty six percent increase in foreign currency financial assets. As in the previous years, the management of the Bank's budget underpinned prudent control of expenses with a focus on ensuring reasonable income stream from its investments.

### 1. Audited Accounts

Appearing at the end of this Annual Report are the audited accounts of the Central Bank for the financial year 2007/2008 (July 2007 to June 2008).

In FY 2007/08, total assets and liabilities went up \$46.5 million or 25 percent. On the liabilities side, increases were noted in securities deposits of \$33.1 million, statutory deposits of banks and insurance companies of \$9.1 million, demand deposits due to banks of \$6.5 million, notes and coins in circulation of \$1.9 million, and other liabilities of \$0.5 million. Also included was the distribution to Government from net profit and revaluation reserve, foreign currency financial liabilities, and total capital and reserves of \$0.2 million each. These were partly offset by a decrease in Government Deposits of \$5.2 million. On the assets side, there were increases in foreign currency financial assets of \$41.6 million, local currency financial assets of \$3.4 million, and other assets of \$1.5 million.

The Bank made a net operating profit of \$4,542,946 in the 2007/08 financial year, compared to a net operating profit of \$3,209,230 in FY 2006/07. As required under Section 8(1) of the Central Bank of Samoa Act 1984, 50 percent of the profit (equivalent to \$2,271,473) 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 2007/08 of \$1,333,716 was a result of an increase in total income of \$1,992,299 which was partly offset by an increase in total expenses of \$658,583. The main item that contributed to the increase in total income was the higher interest income received from foreign reserves investments of \$1,943,605. The increase in total expenses was mainly due to

increases in other administrative expenses of \$579,995 and occupancy costs of \$484,803 which were partly offset by a decline in finance costs of \$331,576.

Under Section 8(3) of the Central Bank of Samoa Act, 20 percent of the credit balance of the Central Bank's Revaluation Reserve Account is payable to the Government. Accordingly, an amount of \$1,781,435 was transferred to the Government for FY 2007/08, compared with \$2,282,953 transferred in the previous year.

### 2. Performance Budget

The favourable results of expected outcomes of the budget for FY 2007/08 was the basis for the significantly higher profit recorded in the period under review. It was also a manifestation of Management's efficiency and effectiveness in screening and controlling expenditures and ensuring a steady stream of revenue by prudently investing its foreign assets.

Some over expenditure was unavoidable during the year particularly with regard to capital items. Unexpected breakdown of some plant and equipment because of age necessitated immediate replacement. In addition, higher than expected inflation rate during the year required appropriate adjustments to the costs of some items. Overall, other budget parameters were within budget.

As in the previous years, the preparation and screening of the Bank's annual budget required the active participation of the Management team to ensure necessary resources were available to help the Bank carry out its statutory functions. Through monthly reports, the Board was briefed on the monthly performance of the budget and any significant deviations were explicitly explained.



**IX. CHRONOLOGY OF IMPORTANT MONETARY, PRUDENTIAL AND RELATED EVENTS IN 2007/08**

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**(2007)**

*July:*

Central Bank macro-economic forecasts for 2007/08 were considered and discussed by the Board. In view of a build-up of inflationary pressures, the board approved for monetary policy to remain tightened in the financial year 2007/08.

*September:*

The Central Bank’s Monetary Policy Statement for the financial year 2007/2008 was published, with the cover displaying spectacular images of the Opening of 2008 South Pacific Games.

*October:*

The Central Bank hosted (1) the Regional Seminar on the Revised Core Principles for Effective Banking Supervision and Problem Bank Situations and (2) the Annual General Meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC).

**(2008)**

*January:*

The Central Bank formally assumed the role of Commissioner of the insurance industry following the enactment of the new Insurance Act 2007. Previously, this role was carried out by the Ministry of Finance.

*March:*

The Statutory Reserve Deposits Ratio, which was reduced to 3.5 percent in April 2007 was reverted back up to 4.5 percent.

*April:*

The 2007/08 exchange rate basket review saw the Fijian dollar removed from the currency basket and the weights reallocated to the four remaining currencies. The new weights became effective on the 28th of the month. The basket now comprises the currencies of NZ, USA, Australia and the European Union.

*May:*

The 2008/2009 Government Budget projected an overall budget deficit equivalent to 6 percent of GDP in GFS format.

The launching of the 2008 - 2012 Strategy For The Development of Samoa.

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## **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 Central Bank of Samoa, which comprise of balance sheet as at 30 June 2008 and the statement of profit or 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 2008, and of its statement of profit or loss 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  
10 October 2008

**CENTRAL BANK OF SAMOA  
BALANCE SHEET  
30 JUNE 2008**

<b>ASSETS</b>	<b>Note</b>	<b>30 June 2008 SAT\$</b>	<b>30 June 2007 SAT\$</b>
<b>Foreign Currency Financial Assets</b>			
Cash balances	3	39,465,117	39,877,524
Short term deposits	3	121,541,888	81,327,639
Bank Bills	3	35,927,525	33,973,397
Accrued interest	3	<u>2,642,396</u>	<u>2,797,375</u>
		<b><u>199,576,926</u></b>	<b><u>157,975,935</u></b>
<b>Local Currency Financial Assets</b>			
Cash balances	4	1,473,567	882,740
Fixed deposits	4	2,790,000	-
Accrued interest	4	<u>27,722</u>	<u>-</u>
		<b><u>4,291,289</u></b>	<b><u>882,740</u></b>
<b>Other Assets</b>			
Notes and coins	5	5,463,412	4,425,909
Receivables and prepayments	6	4,939,969	3,603,133
Property, plant and equipment	7	<u>18,652,312</u>	<u>19,438,535</u>
		<b><u>29,055,693</u></b>	<b><u>27,467,577</u></b>
<b>TOTAL ASSETS</b>		<b><u>232,923,908</u></b>	<b><u>186,326,252</u></b>
<b>LIABILITIES:</b>			
<b>Local Currency Financial Liabilities</b>			
Notes and coins in circulation		53,593,237	51,693,013
Government deposits	8	33,127,096	38,407,436
Distribution payable to the Government	9	4,052,908	3,887,568
Demand deposits due to banks	10	32,180,852	25,638,801
Statutory deposits of banks and insurance companies	11	27,750,999	18,660,000
Securities	12	<u>44,584,727</u>	<u>11,431,493</u>
		<b><u>195,289,819</u></b>	<b><u>149,718,311</u></b>
<b>Foreign Currency Financial Liabilities</b>	13	<b>1,959,083</b>	<b>1,734,638</b>
<b>OTHER LIABILITIES</b>			
Creditors and accruals	14	912,073	488,839
Provision	15	<u>496,107</u>	<u>383,040</u>
		<b><u>1,408,180</u></b>	<b><u>871,879</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>198,657,082</u></b>	<b><u>152,324,828</u></b>
<b>CAPITAL &amp; RESERVES</b>			
Paid up capital	16	10,000,000	10,000,000
General reserve		17,141,085	14,869,612
Revaluation reserve		<u>7,125,741</u>	<u>9,131,812</u>
<b>TOTAL CAPITAL AND RESERVES</b>		<b><u>34,266,826</u></b>	<b><u>34,001,424</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>232,923,908</u></b>	<b><u>186,326,252</u></b>

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 OR LOSS  
TWELVE MONTHS ENDED 30 JUNE 2008**

	Note	30 June 2008 SAT\$	30 June 2007 SAT\$
<b>INCOME</b>			
Interest from overseas deposits and investments	17	11,689,848	9,746,243
Rents	2(i)	1,105,097	1,144,599
Other income	19	352,557	264,361
		<u>13,147,502</u>	<u>11,155,203</u>
<b>EXPENSES</b>			
Audit fees - current period		22,560	22,560
Board expenses		15,438	15,782
Communication costs		333,946	344,344
Currency issue costs		1,347,541	1,339,955
Depreciation	7	950,581	1,050,476
Directors' fees		97,109	55,369
Finance costs		700,004	1,031,580
Occupancy costs		946,272	461,469
Other administrative expenses		4,193,007	3,613,012
		<u>8,606,458</u>	<u>7,934,547</u>
<b>NET PROFIT BEFORE INCOME TAX</b>		4,541,044	3,220,656
Withholding tax/levies on overseas investment income		1,902	(11,426)
		<u>4,542,946</u>	<u>3,209,230</u>
<b>NET PROFIT FOR THE PERIOD</b>		<b>4,542,946</b>	<b>3,209,230</b>
<b>APPROPRIATIONS</b>			
Transfer to general reserve in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		(2,271,473)	(1,604,615)
Transfer to Government of Samoa in terms of Section 8 (1) (b)	9	(2,271,473)	(1,604,615)
		<u>\$NIL</u>	<u>\$NIL</u>

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 2008**

	Notes	30 June 2008 SAT\$	30 June 2007 SAT\$
<b>Paid Up Capital</b>			
Opening and Closing Balance	16	<u>10,000,000</u>	<u>10,000,000</u>
<b>General Reserve</b>			
Opening Balance		14,869,612	13,264,997
Transfer from statement of profit or loss in terms of Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		4,542,946	3,209,230
Government of Samoa allocation in terms of section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments.	9	<u>(2,271,473)</u>	<u>(1,604,615)</u>
Closing Balance		<u>17,141,085</u>	<u>14,869,612</u>
<b>Revaluation Reserve</b>			
Opening Balance		9,131,812	1,555,319
Gains/Losses for the period in terms of Section 28(1) of the Central Bank of Samoa Act 1984 and amendments.		(224,636)	9,859,446
Government of Samoa allocation in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments.	9	<u>(1,781,435)</u>	<u>(2,282,953)</u>
Closing Balance		<u>7,125,741</u>	<u>9,131,812</u>
<b>Total Equity</b>		<u><u>34,266,826</u></u>	<u><u>34,001,424</u></u>

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 2008**

**INCREASE (DECREASE) IN CASH EQUIVALENT:**

		<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>Notes</b>	<b>SAT\$</b>	<b>SAT\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash income received from investments		11,049,552	9,246,973
Cash received from rent		1,043,957	1,127,811
Cash paid for services		(5,386,673)	(2,997,402)
Cash paid to employees		(2,430,636)	(1,711,111)
Interest paid on deposits		(494,165)	(1,009,257)
Net gain/(loss) on revaluation reserve		(224,636)	9,859,446
<b>Net cash flows from operating activities</b>		<b>3,557,399</b>	<b>14,516,460</b>
<b>CASH USED BY INVESTING ACTIVITIES:</b>			
Proceeds from sale of property, plant & equipment		4,685	27,542
Purchases of property, plant & equipment	7	(168,333)	(974,240)
<b>Net cash used by investing activities</b>		<b>(163,648)</b>	<b>(946,698)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase in notes and coins in circulation		1,900,224	752,019
Decrease in deposits by domestic Government		(5,280,340)	(2,781,363)
Increase in securities		33,153,234	11,431,493
Increase in external liabilities		224,445	85,719
Increase in deposits due to banks		14,743,051	3,439,387
Increase in deposits due to insurance companies		890,000	-
Paid to Government of share of net profits and revaluation reserve	9	(3,887,568)	(1,984,710)
<b>Net cash flows from financing activities</b>		<b>41,743,046</b>	<b>10,942,545</b>
<b>NET INCREASE IN CASH</b>		<b>45,136,797</b>	<b>24,512,307</b>
Cash and cash equivalent at beginning of the period		156,061,300	131,548,993
<b>CASH AND CASH EQUIVALENT AT END OF PERIOD</b>		<b>201,198,097</b>	<b>156,061,300</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
<i>Foreign Currency Financial Assets:-</i>			
Cash balances	3	39,465,117	39,877,524
Short term deposits	3	121,541,888	81,327,639
Bank bills	3	35,927,525	33,973,397
<i>Local Currency Financial Assets:-</i>			
Cash balances	4	1,473,567	882,740
Fixed deposits	4	2,790,000	-
		<b>201,198,097</b>	<b>156,061,300</b>

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 2008**

**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) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB).

Also, the financial statements have been prepared in accordance to the Central Bank of Samoa Act 1984 and amendments.

**(b) Basis of presentation**

The financial statements have been prepared on the basis of historical costs. All amounts are expressed in Samoan tala unless otherwise specified.

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

The Bank does not comply with IAS21 “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, required such gains and losses to be reported as profit or loss.

**(c) 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.

**(d) 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.

	30.06.2008	30.06.2007
United States dollar	0.39850	0.38760
New Zealand dollar	0.52349	0.50544
Australian dollar	0.41569	0.45884
GBP	0.20010	0.19338
Euro	0.25309	0.28703

**CENTRAL BANK OF SAMOA**  
**NOTES TO FINANCIAL STATEMENTS**  
**30 JUNE 2008**

**(e) 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.

**(f) 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, EUR and composed of cash balances and deposits with other central banks, 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.

**(g) Banknotes and coins**

The stock of unissued currency is valued at cost. Currency issue costs are taken to profit or 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.

**(h) Property, Plant and Equipment**

All property, plant and equipment 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, plant and equipment are recognised in the income statement of profit or loss.



**CENTRAL BANK OF SAMOA**  
**NOTES TO FINANCIAL STATEMENTS**  
**30 JUNE 2008**

**(i) 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.

**(j) Impairment 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 a 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 economic 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 impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Impairment losses on assets carried at amortised cost are measured as the difference 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 a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

**(k) 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.

**(l) Collectors' currency**

The face value of collectors' 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 therefore disclosed as a contingent liability in accordance with IAS 37.

**(m) Provisions**

A provision is recognized in the statement of financial position when the Bank has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(n) Employees' entitlements**

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

**CENTRAL BANK OF SAMOA  
NOTES TO FINANCIAL STATEMENTS  
30 JUNE 2008**

<b>3 FOREIGN CURRENCY FINANCIAL ASSETS</b>	<b>30 June 2008</b>	<b>30 June 2007</b>
<b>CASHBALANCES</b>	<b>SAT\$</b>	<b>SAT\$</b>
Federal Reserve Bank NYC	37,922,331	38,358,838
Reserve Bank of Australia	350,365	5,986
Bank of England	263,382	1,262,473
Sub total cash balances with other central banks	<u>38,536,078</u>	<u>39,627,297</u>
Cash balances with commercial banks	<u>929,039</u>	<u>250,227</u>
	<b><u>39,465,117</u></b>	<b><u>39,877,524</u></b>
Cash held with the Federal Reserve Bank NYC is in form of overnight repos.		
<b>SHORT-TERM DEPOSITS</b>		
Deposits in NZD with commercial banks	89,212,215	72,610,003
Deposits in AUD with commercial banks	<u>32,329,673</u>	<u>8,717,636</u>
	<b><u>121,541,888</u></b>	<b><u>81,327,639</u></b>
<b>BANK BILLS</b>		
Discount securities in AUD issue by central banks	<u>35,927,525</u>	<u>33,973,397</u>
	<b><u>35,927,525</u></b>	<b><u>33,973,397</u></b>
<b>ACCRUED INTEREST</b>		
Balances with other Central Banks	441	4,478
Deposits with commercial banks	2,282,752	2,311,438
Amortised discount	<u>359,203</u>	<u>481,459</u>
	<b><u>2,642,396</u></b>	<b><u>2,797,375</u></b>
<b>4 LOCAL CURRENCY FINANCIAL ASSETS</b>		
<b>CASHBALANCES</b>		
Petty cash floats	5,300	5,300
Cash balances with commercial banks	<u>1,468,267</u>	<u>877,440</u>
	<b><u>1,473,567</u></b>	<b><u>882,740</u></b>
<b>FIXED DEPOSITS</b>		
Deposits with commercial banks	<u>2,790,000</u>	-
	<b><u>2,790,000</u></b>	<b><u>-</u></b>
<b>ACCRUED INTEREST</b>		
Deposits with commercial banks	<u>27,722</u>	-
	<b><u>27,722</u></b>	<b><u>-</u></b>
<b>5 NOTES AND COINS</b>		
Currency notes	4,520,801	3,118,180
Coins	<u>942,611</u>	<u>1,307,729</u>
	<b><u>5,463,412</u></b>	<b><u>4,425,909</u></b>

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

**CENTRAL BANK OF SAMOA  
NOTES TO FINANCIAL STATEMENTS  
30 JUNE 2008**

**6 RECEIVABLES AND PREPAYMENTS**

	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>SAT\$</b>	<b>SAT\$</b>
Interest receivable - domestic	1,229,819	103,267
Prepaid expenses	555,386	503,420
	<u>1,785,205</u>	<u>606,687</u>
Other receivables - current	421,232	389,511
- long term	2,848,475	2,700,698
	<u>3,269,707</u>	<u>3,090,209</u>
Less Provision for loan impairment (Refer note 18)	114,943	93,763
	<u>3,154,764</u>	<u>2,996,446</u>
Total receivables and prepayments	<u><b>4,939,969</b></u>	<u><b>3,603,133</b></u>

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.

**7 PROPERTY, PLANT & EQUIPMENT**

	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Computer network</b>	<b>Motor vehicles</b>	<b>Furniture and Fittings</b>	<b>Total</b>
<b>Cost</b>	<b>SAT\$</b>	<b>SAT\$</b>	<b>SAT\$</b>	<b>SAT\$</b>	<b>SAT\$</b>	<b>SAT\$</b>
Balance at 1 July 2007	27,577,720	2,652,846	269,088	365,684	956,695	31,822,033
Additions	-	145,748	-	-	22,585	168,333
Disposals	-	16,705	-	-	-	16,705
Balance at 30 June 2008	27,577,720	2,781,889	269,088	365,684	979,280	31,973,661
<b>Accumulated depreciation</b>						
Balance at 1 July 2007	9,792,271	1,417,255	242,573	165,016	766,383	12,383,498
Depreciation	652,551	177,353	12,264	73,337	35,076	950,581
Disposals	-	12,730	-	-	-	12,730
Balance at 30 June 2008	10,444,822	1,581,878	254,837	238,353	801,459	13,321,349
<b>Carrying amount</b>						
<b>30 June 2007</b>	<u>17,785,449</u>	<u>1,235,591</u>	<u>26,515</u>	<u>200,668</u>	<u>190,312</u>	<u>19,438,535</u>
<b>30 June 2008</b>	<u>17,132,898</u>	<u>1,200,011</u>	<u>14,251</u>	<u>127,331</u>	<u>177,821</u>	<u>18,652,312</u>

40% of the office building of the CBS is occupied by the Bank and 60% are leased, mainly to other government agencies and institutions.

IAS 40 requires 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.

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**8 GOVERNMENT DEPOSITS**

The Bank acts as banker, agent and depository Government of Samoa. Government funds deposited at the Central Bank are remunerated at 2.375% per annum. Interest expenses with regard to this liability were SAT\$677,364 (2007: SAT\$1,031,580).

**9 GOVERNMENT ALLOCATIONS OF NET PROFIT AND REVALUATION RESERVE**

	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>SAT\$</b>	<b>SAT\$</b>
Balance at 1 July 2007	3,887,568	1,984,710
Paid during the year	(3,887,568)	(1,984,710)
Transfer of portion of accumulated gains arising from valuation of overseas assets and liabilities in terms of Section 28(3) of the Central Bank of Samoa Act 1984 and amendments	1,781,435	2,282,953
Transfer of net profit in terms of Section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments	<u>2,271,473</u>	<u>1,604,615</u>
Balance at 30 June 2008	<u><b>4,052,908</b></u>	<u><b>3,887,568</b></u>

**10 DEMAND DEPOSITS DUE TO BANKS**

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

**11 STATUTORY DEPOSITS OF BANKS AND INSURANCE COMPANIES**

Effective at the end of March 2008, the Central Bank's Board of Directors approved an increase of the commercial banks required Statutory Reserve Deposit (SRD) ratio from 3.5 per cent to 4.5 per cent of their total domestic deposit liabilities to be maintained with the Central Bank. This followed the Bank's review of its monetary policy in the second half of fiscal year 2007/08 which highlighted the marked improvement of the commercial banks liquidity position.

In terms of insurance companies, brokers and agents, the following required statutory deposits should be maintained with the Central Bank, in pursuant to Part IV of the Insurance Act 2007:-

- i. Insurance company ("insurer") - SAT 100,000
- ii. Insurance broker ("broker") - SAT 50,000
- iii. Insurance agent ("agent") - SAT 50,000

The Insurance Act 2007 repeals the Insurance Act 1996 previously administered by the Ministry of Finance, and appoints the Governor of the Central Bank as the Insurance Commissioner who is responsible for the licensing and supervision of all insurance activities in Samoa.

**12 SECURITIES**

Unsecured notes issued to the public as negotiable instruments, all maturing within 12 months with weighted average interest rates ranging from 3.95% to 6.00% per annum

**13 FOREIGN CURRENCY FINANCIAL LIABILITIES**

	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>SAT\$</b>	<b>SAT\$</b>
(1) European Development Fund (EDF)	1,917,107	1,690,417
(2) Inland Revenue Department - (New Zealand) - Levy	41,976	44,221
	<u><b>1,959,083</b></u>	<u><b>1,734,638</b></u>

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

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

**14 CREDITORS AND ACCRUALS**

Accrued interest payable	251,010	45,171
Other accrued expenses	661,063	443,668
	<u><b>912,073</b></u>	<u><b>488,839</b></u>

**15 PROVISIONS**

Annual, long service and sick leave	<u><b>496,107</b></u>	<u><b>383,040</b></u>
Provision for leaves is reconciled as follows:		
Balance at beginning of the year	383,040	128,647
Additional provisions charged to statement of profit or loss	239,994	298,899
Utilised during the year	(126,927)	(44,506)
Balance at end of the year	<u><b>496,107</b></u>	<u><b>383,040</b></u>

**16 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% or less of the authorised capital; in the case it exceeds this level, 50% of annual net profits are allocated to the General Reserve.

**17 INTEREST FROM OVERSEAS DEPOSITS AND INVESTMENT**

Interest on cash accounts	3,161,060	2,324,534
Income from discount securities	2,074,886	2,201,936
Interest on deposits	6,453,902	5,219,773
	<u><b>11,689,848</b></u>	<u><b>9,746,243</b></u>

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.

## 18 PROVISION FOR LOAN IMPAIRMENT

Balance at beginning of year	93,763	140,213
Charge/(reversal) to statement of profit or loss	21,180	(46,450)
Balance at end of the year	<u>114,943</u>	<u>93,763</u>

## 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 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 \$1,432,241 (2007: SAT\$243,674). Without the effect of this government grants the outcome of the financial year 2007/2008 would have been \$3,110,705 instead of \$4,542,946.

## 22 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	37.9	-	0.4	0.2	-	38.5
Money at Call	-	0.9	-	-	-	0.9
Deposits	-	91.2	39.6	-	-	130.8
Bank bills	-	-	29.3	-	-	29.3
Total	37.9	92.1	69.3	0.2	0.0	199.5

#### · Concentration of foreign Exchange

Foreign Assets	USD	NZD	AUD	GBP	EUR	TOTAL
Cash Balances with Central Banks	19.0%	-	0.2%	0.1%	-	19.3%
Money at Call	-	0.5%	-	-	-	0.5%
Deposits	-	45.7%	19.9%	-	-	65.6%
Bank bills	-	-	14.6%	-	-	14.6%
Total	19.0%	46.2%	34.7%	0.1%	0.0%	100.00%

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**22 FINANCIAL RISK MANAGEMENT (cont'd)**

· *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 in the basket tend to offset 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, and Europe.

The foreign reserves are composed of currencies basket, albeit at different weightings. Hence, the sensitivity to foreign exchange risk is contained as the movements in 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.

**(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 2008				
	Balance Sheet Total \$M	Repricing Period \$M		
		1-90 days	91-180 days	181-365 days
<b>Foreign Exchange</b>				
Cash Balances with Central Banks	38.5	-	-	-
Money at call	0.9	-	-	-
Deposits	130.8	20.2	29.6	81.0
Bank bills	29.3	2.8	12.6	13.9
<b>TOTAL</b>	<b>199.5</b>			

## 22 FINANCIAL RISK MANAGEMENT (cont'd)

### (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 Bank 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 2008
Securities held under repurchase agreements with Central Banks	AAA		19.0
Cash with other Central Banks			0.3
<b>Subtotal balances with Central Banks</b>			<b>19.3</b>
Bank bills			
ANZ		AA	11.3
WBC		AA	4.7
NAB		AA	2.2
Deposits with commercial banks			
ANZ		AA	19.2
BNZ		AA	12.6
WBC		AA	11.4
RAB		AAA	18.8
Other (cash)			
ANZ		AA	0.1
WBC		AA	0.2
BNZ		AA	0.2
<b>Subtotal balances with commercial Banks</b>			<b>80.7</b>
<b>TOTAL</b>			<b>100.0</b>



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**23 RELATED PARTY DISCLOSURES**

The main shareholder of the Bank is the Government of Samoa (100%).  
All transactions with related parties are conducted on normal commercial terms and conditions.

**(i) Key management personnel costs**

The remuneration of key members and management during the year was as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
	<b>SAT\$</b>	<b>SAT\$</b>
Salaries and short-term employment benefits	114,907	108,985
Other long-term benefits	45,731	47,835
	<u><b>\$160,638</b></u>	<u><b>\$156,820</b></u>

**(ii) Major Transactions with related parties**

Directors Fees	<u>91,820</u>	<u>55,369</u>
Board Expenses	<u>15,438</u>	<u>15,782</u>
As at 30 June 2008, the following balances were receivable from or payable to related parties.		
Balance due from related parties	<u>37,284,367</u>	<u>42,388,117</u>
Balance due from related parties	<u>-</u>	<u>-</u>

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

**24 CAPITAL COMMITMENTS**

**(i) OPERATING 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.

Operating leases relate to the CBS building leased out from a 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 SAT\$1,105,097 (2007: SAT\$1,144,599). Direct operating expenses in relation to building floors leased out amounted to SAT\$734,570 (2007: SAT\$543,059).

**(ii) OTHER CAPITAL COMMITMENTS**

The Bank has a capital commitment to purchase new generator plus other items which will involve a cash outlay approximately \$998,872.(2007:SAT\$Nil).

**25 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 \$60,849 (2007: SAT\$12,033).

**26 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors and authorised for issue on 10 October 2008.