Central Bank of Samoa

Annual Report

FOR THE FINANCIAL YEAR
JULY 2009 - JUNE 2010

GOVERNMENT OF SAMOA

OFFICE OF THE MINISTER OF FINANCE

Ministry of Finance, Central Bank of Samoa, Development Bank of Samoa, Samoa National Provident Fund, Samoa Life Assurance, Samoa Housing Corporation, Tenders Board, Samoa International Finance Authority, Cabinet Development Committee

16 March 2011

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 2010, together with the audited accounts for that period and the report of the Auditors on those accounts.

(Papali'itele Niko Lee Hang)
MINISTER OF FINANCE

(Papali'itele Niko Lee Hang)
MINISTER OF FINANCE

CENTRAL BANK OF SAMOA

PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR

16 March 2011

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 2009 to 30 June 2010. 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 2010 and the auditors' report.

Yours faithfully

Leasi

(Leasi Papali'i T. Scanlan)
GOVERNOR


BOARD OF DIRECTORS
Leasi Papali'i T.D. Scanlan
Governor/Chairman of the Board
CENTRAL BANK OF
Lealiie'e Rudy Ott
Director
Lemalu Sina Lima
Director
Alofipo Daniel Meredith
Director
Tupaimatuna Iulai Lavea
Director
Ministry of Finance

MANAGEMENT

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

Iosefo Bourne
Deputy Governor

Magele Filipo Magele Penn
Deputy Governor

Malaeoali'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

THE ANNUAL REPORT

The Annual Report discloses the role, strategies and policy actions taken by the Central Bank in pursuit of its key objectives of maintaining price stability, international reserves viability and financial system stability in the financial year under review. It also reports on the impact of those actions on the Bank's financial position.

The Report is divided into nine Sections. Sections I and II describe the Bank's legal mandate, functions and the manner in which it is governed. In Section III, the Governor presents an overview of the activities undertaken by the Bank in the financial year under review. Section IV discusses in detail the Bank's monetary policy and Samoa's economic performance in the financial year under review, as well as the outlook for the financial year ahead. 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 that occurred in the year under review.

CONTENTS

I. THE CENTRAL BANK'S LEGAL MANDATE AND FUNCTIONS

The Central Bank of Samoa is the country's Reserve Bank and, as such, it acts as banker to the Government and the commercial banks. 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 and under normal circumstances, the Central Bank has defined price stability as an inflation rate consistent with those of Samoa's main trading partners.

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. 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.

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 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. 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.

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. 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.

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.

The Central Bank 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.

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.

Fr. Spatz Silva, Mr Keith Leonard (ADB), Mr Juan Jose Daboub (WB) and PM Tuilaepa Aiono Fatialofa Sailele Malielegaoi at the official opening of the office WB/ADB Joint Samoan Liason Office on 2 November 2009.

The Central Bank is also responsible for the registration and prudential supervision of commercial banks. The Financial Institutions Act 1996 appointed the Central Bank as the Authority that issues licenses 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 suspecting money laundering taking place.

The Insurance Act 2007 appoints the Governor as the Insurance Commissioner, and therefore empowers the Central Bank to license insurance entities and supervise the insurance industry.

During the financial year under review, work began on amending the Central Bank Act with a view to widening the transmission mechanism for implementing monetary policy, harmonize the bookkeeping sections of the Act with the accounting standard that was currently adopted by the local accounting society and to extend the Bank's mandate to cover financial inclusion.

In the event, the Board approved in January 2010 the engagement of Bank staff and resources in activities related to Financial Inclusion. Responsibility for Financial Inclusion was allocated to the Financial Markets Department, assisted by a Financial Inclusion Team comprised of staff selected from the other departments of the Bank.

Financial Inclusion refers to the extension of financial services to reach those that are classified as the "unbanked". These people are so poor that they cannot get access to basic financial services. Financial inclusion activities include micro credit schemes and mobile phone banking.

The Mobile Banking Workshop, conducted by Mr Tillman Bruett and Mr Michael McCaffrey of the UNCDF Pacific Financial Inclusion Program, kicked started the Bank's Engagement in Financial Inclusion.

II. CENTRAL BANK LEGAL STRUCTURE AND GOVERNANCE

This section provides an overview of developments in the key elements that make up the Bank's organizational 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. The other Board Members are Lealiiee Rudy Ott, Lemalu Sina Retzlaff- Lima and Alofipo Tanielu Meredith to complete five members of the Board.

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

The Board met on ten occasions during the twelve months to the end of June 2010.

2. Management and staff

The Bank's Organizational Structure remained the same as in the previous year as provided in Subsection 4. Six Departments based on their operations and functions are being allocated under the two functional groups under the leadership of two Deputy Governors. 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 2010.

Staff changes and developments are being elaborated on, under the Section "Corporate Services and Administration" of this Report.

3. Governance

Management 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.

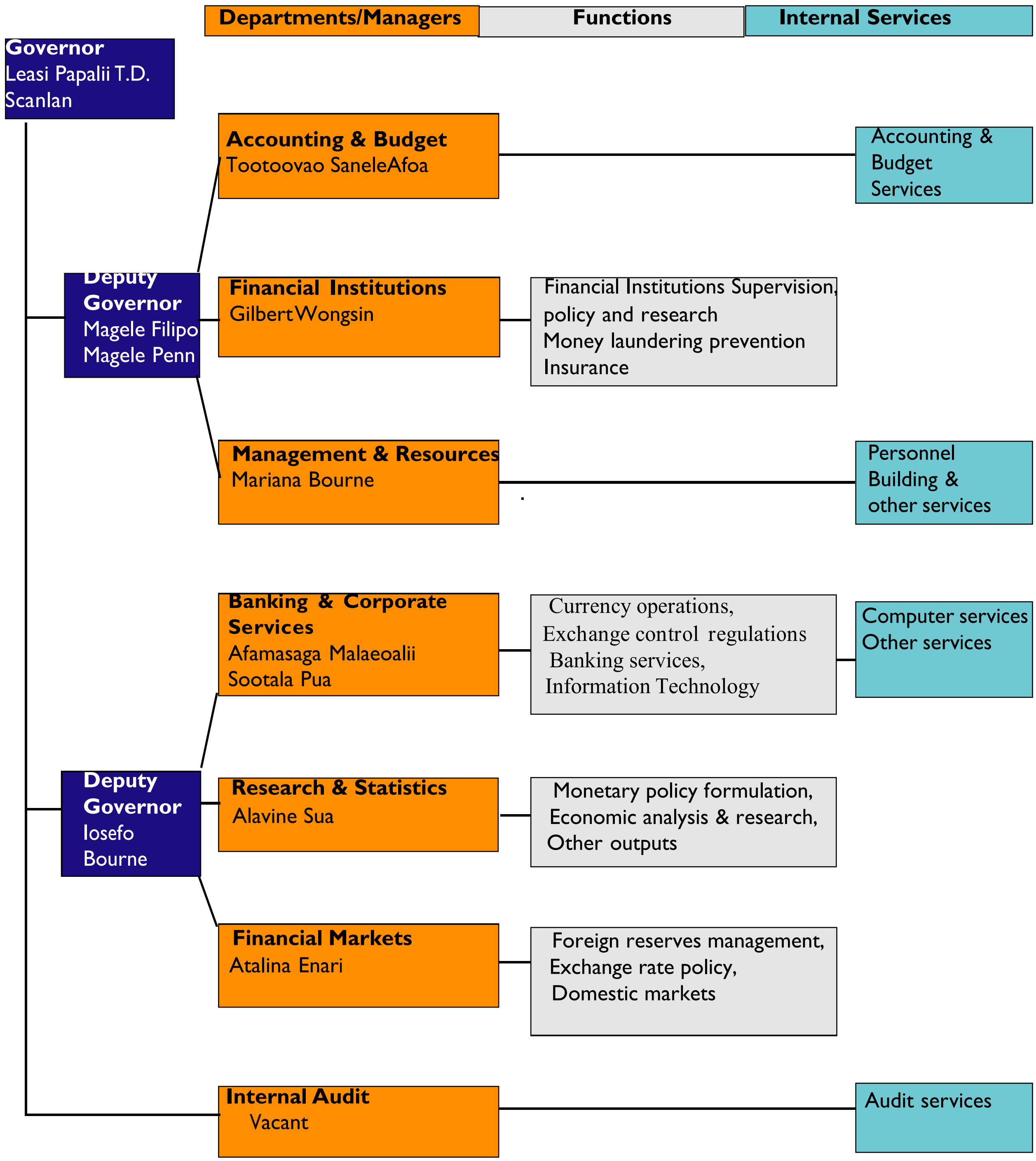
A close monitoring of the Output budget is undertaken regularly. The focus is mainly on delivering results and implementing preventive actions, rather than simply uncovering problems after the fact.

In addition, during the twelve months to end June 2010, 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



III. GOVERNOR'S STATEMENT

Talofa and welcome to the 27th Annual Report of the Central Bank of Samoa for the financial year ending on the 30th of June 2010.

Monetary policy, the economy and financial stability in 2009/10.

Following the sharp downturn in the global economy, authorities around the world embarked on unprecedented expansionary fiscal and monetary policies to revive flagging confidence and stimulate a swift recovery. The US Federal funds rate was left unchanged at its target range of 0.0-0.25 percent at end June 2010. Likewise, the European Central Bank (ECB) and the Bank of Japan (BOJ) held their official interest rates at 1.0 percent and 0.1 percent respectively.

Sure enough, the economic measures saw the world economy recover 2.0 percent in the 2009/10 fiscal year. Consumer demand, however, remained weak, reducing global inflation to 0.8 percent from 1.8 percent in the previous fiscal year. The US, Euro area and Japan registered growth rates of 3.1 percent, 1.2 percent and 2.1 percent respectively, and the Emerging and Developing economies recorded a 4.7 percent growth rate led by robust growths of 10.1 percent and 8.9 percent respectively for the Chinese and Indian economies.

In Samoa, expansionary monetary and fiscal policies were continued, in order to revive the economy from the adverse impact of the global recession and the devastating magnitude 8.2 earthquake and subsequent tsunami of 29 September 2009. Central Bank open market operations, combined with a sharp inflow of official loans and grants, expanded liquidity to record levels in 2009/10. Consequently, market interest rates fell from month to month throughout the financial year.

The Official Ceremory to farewell the victims of the 29 September 2009 Earthquake and Tsunami, held on 8th October 2009.

In addition to the continued easing of monetary policy, the Bank also began to inject funds directly into the financial system by entering into an agreement with the Development Bank of Samoa to lend $5 million to rebuild the beach resorts and tourism facilities that were destroyed or severely damaged by the earthquake and tsunami, at the concessional interest rate of 8 percent. The Bank also agreed to manage the NZAID Post-Tsunami Concessional Finance Scheme for rebuilding the up-market tourism resorts that were devastated by the earthquake and tsunami.

Hon Minister of Finance, Niko Lee Hang, launches the first CBS Credit Line to DBS, for Tsunami Beach Resorts Reconstruction.

The improvement in the global economy, foreign assistance and the domestic policies taken so far has enabled the Samoan economy to see light at the end of the dark tunnel of recession in 2009/10. In fact, after declining 5.1 percent in real terms in 2008/09, the latest available estimates point to the Samoan economy recovering by up to 1 percent in real gross domestic product (GDP) in 2009/10.

On the external sector, the balance of payments posted a record overall surplus of $151.4 million, boosting the foreign reserves cover to 7.6 months in 2009/10. Headline and underlying inflation rates, which started the year at very high levels, dropped significantly to lows of -0.2 percent and 1.2 percent respectively at end June 2010.

The outlook for the 2010/11 financial year is encouraging, with the economy expected to build on its rebound in 2009/10. Driven mostly by an approved overall deficit of 9 percent of GDP in the Government Budget for the financial year ending June 2011, the economy is projected to grow by 3 percent in fiscal year 2010/11. The Budget incorporates Government's economic stimulus response in the form of a salary hike for low income public servants, large investments in construction activities such as buildings, road infrastructure upgrades and tsunami reconstruction projects as well as private projects such as hotels and businesses. Special focus is also placed on reviving the flagging tourism sector with increased funds for marketing.

Whilst the balance of payments is again expected to register a modest overall surplus in light of significant Government loans disbursements, the headline inflation rate is forecast to rise but would still remain within the benchmark target of 3.0 percent in 2010/11. In the event, the Bank has decided to continue easing monetary policy in order to further drive down interest rates to boost business confidence and consumer demand.

On the health of the financial system, it is worth noting that the quality of banking system's assets improved substantially, backed by a very strong capital base. In a nutshell, it is fair to say that the financial system remained on a sound footing in 2010/11.

Significant corporate issues of 2009/10.

International interest rates, which dropped to near zero levels in 2008/09, continued to fall in 2009/10, picking up marginally towards the end of the financial year. Consequently, interest rates received by the Bank on its foreign reserves holdings fell, further reducing the Bank's income in 2009/10. As a result, the Bank recorded a lower overall net profit.

The introduction of new and more secure currency notes in 2008/09 significantly improved the quality of banknotes in circulation in 2009/10. The new banknotes, combined with a vigorous banknote media campaign, saw the value of counterfeit notes halved in 2009/10.

During the year, work began on reviewing and amending the Central Bank Act in order to bring it up to date with the latest developments in central banking, widen the channel for implementing monetary policy and extend the Bank's mandate to cover Financial Inclusion. External technical assistance was sought but the process for securing it meant that the review and amendment of the law will not meet the urgency required by the Bank. Consequently, Bank staff and the Attorney General's Office combined to undertake this enormous task. And, I am pleased to report here that the amendments were approved by Parliament in December 2010.

The Bank continued to send staff to attend various specialized courses and seminars overseas as part of its ongoing capacity building program. On behalf of the Board and Management of the Central Bank, I wish to again acknowledge our great appreciation of the invaluable training and technical assistance received by the Bank from many international and regional institutions.

As part of our 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.

Looking back, I can say that the double impact of the global recession and the tsunami made 2009/10 one of the toughest and busiest financial years for the Central Bank of Samoa. And, for that, I would again like to take this opportunity to express the Board and my own Management's sincere appreciation of the continued diligent contribution of the Bank's hard working Staff.

Soifua

Leasi Papali'i Tommy D. Scanlan
Governor

IV. MONETARY POLICY FORMULATION AND THE ECONOMY

The Central Bank continued to ease monetary policy to complement fiscal policy in stimulating the economy, to recover from the combined adverse impact of the global recession and the magnitude 8.2 earthquake and tsunami of 29 September 2009. This, combined with a strong net inflow of funds from abroad increased domestic liquidity considerably, further reducing market interest rates.

1. The World Economy

After a year-long exposure to extremely expansionary monetary policies, a fledgling recovery was finally underway for the world economy, with International Monetary Fund estimates showing that growth in world output was a mere 2.0 percent in 2009/10. Inflation retreated further to 0.8 percent for the Advanced economies and 5.75 percent for the Emerging and Developing economies, while unemployment slowly drifted lower from the historic highs seen in 2008/09.

The IMF Article IV Mission Team shares a lighter moment with the CBS Team, during the March 2010 consultations.

As the sluggish recovery in the Advanced economies continued, the leading economies of Developing Asia, China and India, resumed their resilient expansions. Real growth in the US over 2009/10 was a pitiful 0.5 percent, whereas the Euro area and Japan contracted respectively by 1.6 and 1.4 percent. In the same period, China grew 9.8 percent while India reported growth of 7.6 percent.

The frailty of the economic recoveries around the world led authorities of most major Reserve Banks to retain their extraordinarily loose monetary policies, with official interest rates remaining at near-zero levels. By the end of 2009/10, official interest rates in the US, the Euro area and Japan, stood unchanged at 0.25 percent, 1.0 percent and 0.1 percent respectively. Some of the major Central Banks whose economies encountered severe slowdowns also continued to employ quantitative easing measures to stimulate growth. Towards the end of 2009/10 some Central Banks had voiced plans of gradually removing stimulus from the economy amid potential buildup in price pressures.

For Samoa's three major trading partners:

* The latest releases showed that the US economy grew 2.4 percent in the June quarter 2010. The economy's pace of expansion had slowed from the previous quarter's growth of 3.7 percent as renewed financial turmoil emanating from the Euro area's debt crisis added further drag on growth. Price pressures were likewise subdued as inflation fell from 2.6 percent to 1.1 percent at end June 2010. Unemployment, also came off its double digit high of 10 percent in late 2009, and settled at 9.5 percent by end June 2010. While increasing signs of growth deprived the Greenback of its haven support, the frailty of the recovery as indicated by weak economic data released from time to time, often stoked up haven demand.

* According to the latest figures, the New Zealand economy grew 0.6 percent in the March quarter of 2010. The major contributors to growth were increased activity in the primary industries (fishing, forestry and mining) and the manufacturing industries, while the services industries remained flat. Retail sales and housing sector activity continued on a soft recovery, while business and consumer confidence slumped over the June quarter 2010. Exports, on the contrary, remained strong for a second quarter in June as external demand for dairy and timber exports rose. As the pace of growth slowed, inflation in

the year to June 2010 retreated to 1.8 percent while the unemployment rate unexpectedly jumped to 6.8 percent.

* The Australian economy maintained buoyancy throughout the year, having registered real growth of 1.2 percent over the June quarter 2010 and 3.3 percent in the year to June quarter 2010. The largest contributor to growth was increased household spending and net exports. Construction, mining and professional, scientific and technical services activity also contributed positively to growth, albeit on a smaller scale. Consumer prices in Australia rose 0.6 percent in the June quarter 2010 to be 3.1 percent higher in annual terms. Unemployment, on the other hand, fell from 5.8 percent in June 2009 to 5.2 percent in June 2010.

The global economic recovery is expected to continue into 2010/11. In the July 2010 World Economic Outlook (WEO) updates from the IMF, world economic growth is projected to be 4.5 percent in 2010/11, with continued upward pressure on inflation. Growth in the Advanced economies is projected at 2.5 percent in 2010/11, while for the Emerging and Developing countries; growth is expected to be 6.6 percent. In the same period, growth in China and India is forecasted at 10.1 and 8.9 percent respectively. In the US, the Euro area and Japan, growth has been estimated to be 3.1 percent, 1.2 percent and 2.1 percent respectively. The fragile state of the recovery amid downgraded outlooks will continue to see expansionary monetary policy settings remain over 2010/11 until a solid pace of recovery becomes prominent.

With the pace of recovery expected to pick up in the US over 2010/11, an inflation forecast of 1.9 percent is expected while the unemployment rate is anticipated will trek down to 8.9 percent. On the currency front, the Greenback is expected to continue losing support from its low interest rate status. Moreover, as signs of growth materialize and strengthen further, the loss of appeal in the US' haven status will further undermine the currency. Nevertheless, the general state of recovery remains fragile and any foreboding economic data that threatens a derailment of growth should boost haven support.

For the Australasian economies, growth in the New Zealand economy is projected at 3.1 percent, while for the Australian economy, growth is forecasted at 3.3 percent over 2010/11. The rebound will inevitably lead to price pressures and as such, inflation rates anticipated for the New Zealand and Australian economies over the 2010/11 period are 2.3 and 2.4 percent respectively. With conditions still somewhat bleak in New Zealand, unemployment is expected to rise to 6.7 percent in 2010/11 whereas in Australia, the jobless rate is projected at 5.2 percent. Both economies have embarked on slight tightening monetary policy stances and are expected to continue phasing out stimulus at a very gradual pace over 2010/11.

2. The Domestic Economy

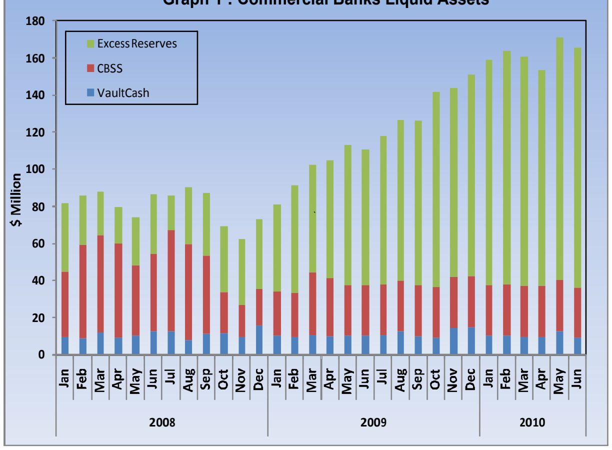
Expansionary fiscal policy continued in 2009/10 with another large budget deficit, as part of Government's efforts to boost and sustain economic growth through the implementation of large development projects. Large disbursements of Government loans for tsunami reconstruction saw the net inflow of funds from abroad boost total liquidity to record levels in 2009/10. On the monetary side, open market operations focused on flooding the banking system with liquidity in order to maintain downward pressure on interest rates. Consequently, excess reserves of the commercial banks expanded to record levels from month to month, reducing interest rates on Central bank securities as well as those on deposits and lending rates.

A typical view of homes destroyed by the 29 September 2009 Earthquake and Tsunami.

2.1 Monetary Conditions

Commercial bank liquidity shot up to an average monthly level of $148.4 million in 2009/10 from an average of $89.4 million in 2008/09. Total liquidity reached its highest point of $171.1 million in May 2010, before sliding to $165.5 million at the end of June 2010. At this level, total liquidity at the end of the financial year under review was about eleven times higher than the banks' comfort level of $15 million. (See Graph 1.)

Graph 1 : Commercial Banks Liquid Assets



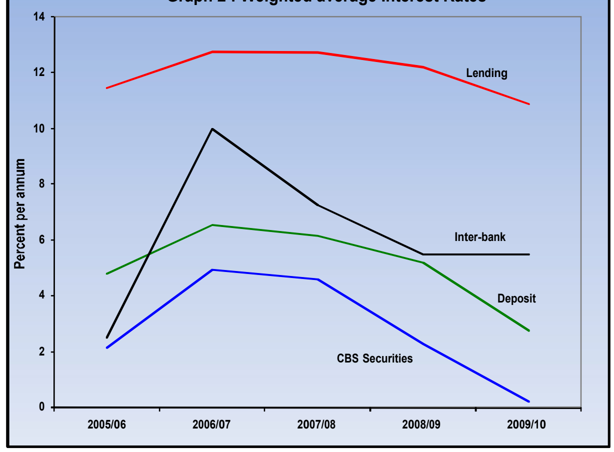
Given the aim of injecting more funds into the economy, the outstanding level of Central Bank securities was restricted to around $28 million in 2009/10. Consequently, the interest rates on securities continued to fall, reducing the overall weighted average official interest rate from month to month. As a consequence, the weighted average yield of CBS securities declined to 0.22 percent at end June 2010 from 2.28 percent at end June 2009. Likewise, the commercial banks interest rates followed suit, with their weighted average lending and deposit rates decreasing to 10.88 percent and 2.77 percent respectively in the financial year under review from 12.21 percent and 5.19 percent in that order in the previous financial year. (See Table 1 and Graph 2.)

Table 1.
Interest Rates
(Percent per annum)

End of Period	2007/08	2008/09	2009/10
Com mercial Banks			
Weighted average lending rate	12.74	12.21	10.88
Weighted average deposit rate	6.15	5.19	2.77
Central Bank of Samoa Securities			
Overall weighted average yield	4.62	2.28	0.22

Source : Central Bank of Samoa

Graph 2 : Weighted average Interest Rates



Despite the downward trend in interest rates, the annual average growth in bank credit to the private sector and public institutions continued to decelerate from 9.1 percent at end June 2009 to 4.1 percent at end June 2010 as demand for credit slowed down, consequent to the cautious lending attitude by commercial banks and the weak business and consumer confidence following the onset of global financial crisis, the ensuing recession and the tsunami. At $731.17 million, the combined level of credit to the private sector and public institutions at end June 2010 was $45.8 million higher than at end June 2009. The 'Other activities' sector absorbed much of the rise in credit (up $26.0 million) followed by 'Professional and business services' (up $16.9 million) and 'Manufacturing' (up $9.7 million). 'Trade' and 'Transportation, sto rage and communications' went up by $4.2 million and $1.9 million respectively in 2009/10. (See Table 2.)

Table 2.
Commercial Banks' Loans to Private Sector and Public Institutions
(Amounts in Tala Million)

End of Period	2007/08	2008/09	2009/10
Agriculture, forestry and fisheries	11.58	12.53	12.93
Manufacturing	22.30	26.18	35.87
Building, construction and installation	297.71	295.47	293.38
Electricity, gas and water	9.71	26.33	15.04
Trade	99.31	104.09	108.31
Transportation, storage and communication	70.71	66.64	68.59
Professional and business services	58.11	62.13	79.04
Other activities	78.95	91.99	118.01
Total	**648.38**	**685.36**	**731.17**
Annual average change	10.8%	9.1%	4.1%

Source : Central Bank of Samoa

Net foreign assets increased by $122.6 million in the year under review following a $20.4 million improvement in 2008/09. And, together with the expansion in credit, total money supply (M2) rose $79.9 million to $734.2 million in 2009/10. Government's net position soared by $100 million in 2009/10 reflecting the large disbursements of Government external loans. In the event, the annual growth rate of money supply in 2009/10 accelerated to 9 percent from 8 percent in the previous fiscal year. (See Table 3.)

Table 3.
Monetary Survey
(Amounts in Tala Million)

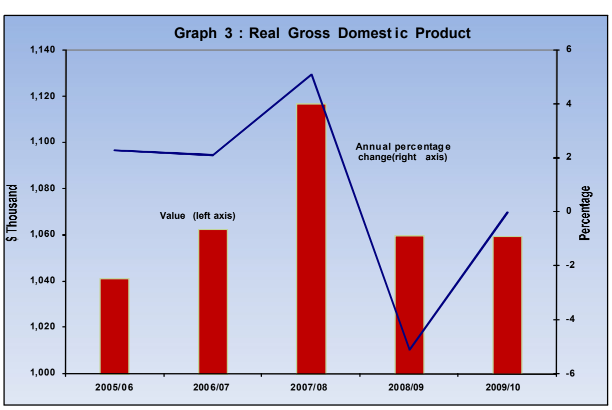
End of Period	2007/08	2008/09	2009/10
1. Net Foreign Assets	227.72	242.91	364.53
2. Net domestic Assets	380.60	411.35	399.67
(a) Domestic Credit	563.07	607.54	557.94
(i) Governm ent, net	-88.60	-81.12	-181.32
Ministry of Finance	-52.12	-51.25	-82.65
Central Bank of Samoa	-34.91	-38.51	-103.15
Com mercial Banks	-1.57	8.64	4.47
(ii) Private Sector and Public Institutions	651.67	688.66	739.28
(b) Other items, net	-182.47	-196.19	-188.28
3. Toatl Assets = Total Money Supply (M2)	608.32	654.28	734.19
Money (M1)	153.61	154.60	204.64
Quasi-money	454.71	499.66	529.56
4. M2 Annual average growth rate	11.1%	8.0%	9.4%

Source : Central Bank of Samoa

2.2 Real Sector

The completion of a major construction project, the Courts of Samoa and Ministry of Justice Building, which was officially opened on 25 January 201 0.

The latest national accounts figures and estimates indicate that the economy consolidated and recovered by up to 1.0 percent in real terms in 2009/10, after declining 5.1 percent in 2008/09. (See Graph 3.)



The main reason for the estimated rebound in GDP is the significant Budget spending as Government expedited its economic stimulus package and tsunami recovery projects. This pushed up 'Public Administration' by 6.9 percent with 'Construction' and 'Transport and communications' increasing by 1.7 percent and 2.7 percent respectively. 'Finance and business service' expanded 3.8 percent while 'Agriculture' improved by 1.3 percent. 'Other manufacturing', which recorded a large decline in 2008/09, is estimated to rebound by 0.5 percent in 2009/10, largely reflecting a slow recovery in Yazaki production.

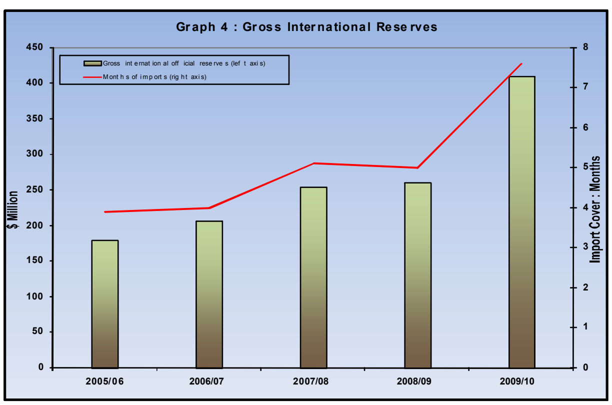
Governor Scanlan and his Panel of Judges at the Savaia Lefaga Talomua in January 2010.

On the other hand, the 'Commerce' sector remained suppressed, going down by 0.5 percent in light of the weakened tourism sector, reduced private remittances and weak consumer demand. The 'Hotels and restaurants' output is estimated to drop by 11.1 percent reflecting the adverse impact of the destruction of tourist accommodations and facilities by the tsunami as well as the drop in tourist arrivals. The output of the 'Fishing' sector is estimated to decline 2.2 percent reflecting the current decline is fish catch in 2009/10 while 'Food and beverage manufacturing' is expected to drop by 2.6 percent in light of reduced sales and demand for beer and coconut oil, the two main industries in this category.

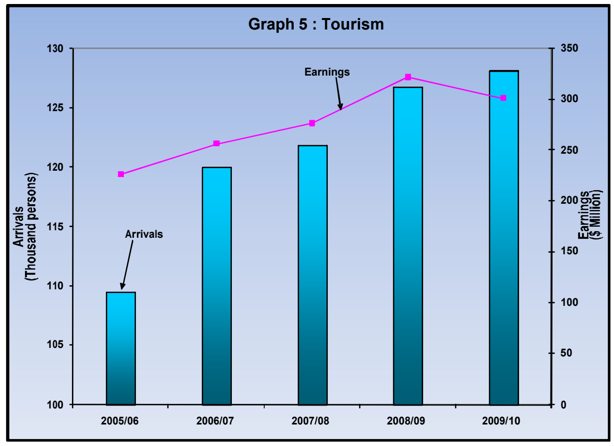
The destruction of the newly renovated major Hotel in Apia on 16 September 2009.

2.3 Balance of Payments

As a result of substantial inflow of Government loan disbursements for tsunami reconstruction, additional allocation of IMF's SDRs and moderate improvement in exports, the balance of payments registered an overall surplus of $151.4 million, compared to last year's overall surplus of $7.06 million As a result, the level of international reserves in 2009/10 leapt to $410.7 million or equivalent to 7.6 months of import cover, well above the target cover of 4 months. (See Graph 4.)



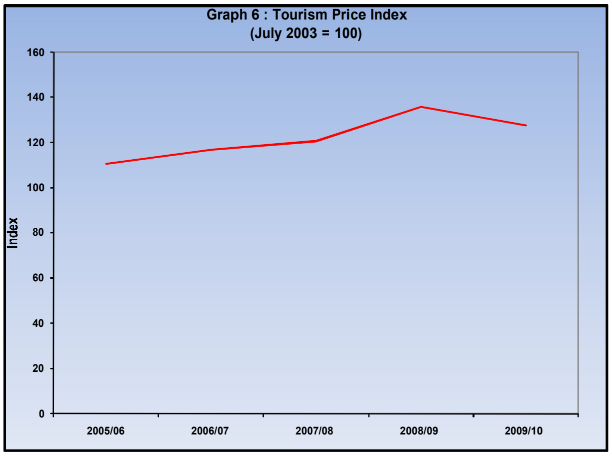
Promotions and discounting saw tourist arrivals rise in 2009/10. However, earnings fell 6 percent ($17 million) as a result of the average tourist expenditure falling 9 percent while tourist arrivals rose 4 percent. The reduction in average spending largely reflected the discounted rates for accommodation, which were part of the tourism sectors efforts to encourage visitors to Samoa in the face of global recession and unemployment. Visitors from American Samoa, Australia, and the US picked up during the year while other major tourist destinations recorded lower numbers. (See Graph 5.)



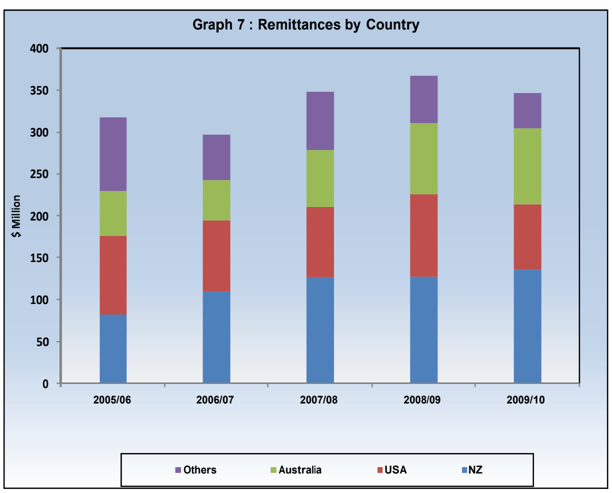
The majority of visitors in 2009/10 were those 'Visiting friends and relatives' with a 38 percent share, the same as last year, followed closely by those on 'Holiday' with 35 percent (down from 42 percent in 2008/09). New Zealand remained the largest major source market with 44 percent, followed by American Samoa and Australia with 18 percent and 19 percent respectively.

The Minister of Finance, Hon. Niko Lee Hang, Governor Scanlan and the Board of SIFA with the IRB 2010 Sevens Circuit Champion, a good promotion for toursim.

Average spending per tourist fell 9 percent in the course of the year reflecting a 6 percent decline in Tourism Price Index (TPI), which stemmed from decreases in accommodation services as well as meals and drinks. Car rentals increased 20 percent while other forms of transportation, family obligations and miscellaneous items all remained constant in 2009/10. (See Graph 6.)



Export processing services decreased 25 percent in 2009/10 to $156.3 million while telecommunications services increased by $9.7 million. Private remittances fell 5 percent to $346.8 million due to a 41 percent or $20 million decline in remittances for Churches despite a 1 percent or $2 million increase in funds for Households. Family remittances remained as the main recipients of funds with a share of 90 percent followed by Churches with 8 percent. The main sources of household remittances were New Zealand, USA and Australia with shares of 41 percent, 20 percent and 28 percent respectively. (See Graph 7.)



The total value of exports climbed 8 percent to $30.4 million in 2009/10 on the back of increases in spring water, nonu fruit, copra meal, coconut oil, virgin oil and banana exports. (See Table 4.)

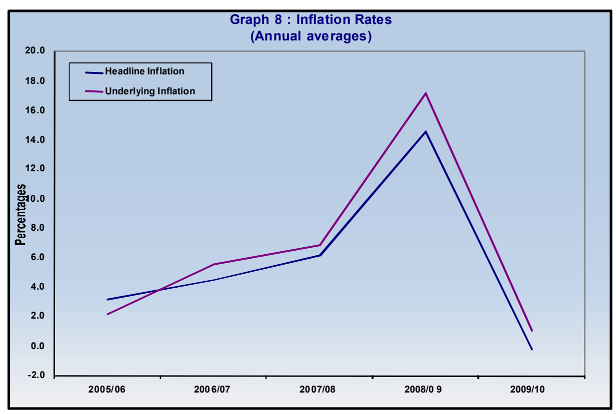
Table 4.
Exports by Commodity
(Value in Tala Million)

	2007/08	2008/09	2009/10
Domestic Exports	**27.87**	**24.57**	**27.31**
Fish	16.76	15.17	14.88
Nonu Products	3.84	3.08	2.04
(Nonu Juice)	(3.42)	(2.94)	(1.74)
(Nonu Fruits)	(0.42)	(0.14)	(0.30)
Beer	3.10	1.96	1.97
Coconut cream	2.19	1.77	1.43
Taro	0.60	0.99	0.99
Coconuts	0.44	0.44	0.42
Soft drinks	0.23	0.25	0.20
Coconut oil	0.11	0.28	3.42
Others	0.60	0.63	1.96
Re-exports	4.11	3.54	3.06
Total	**31.98**	**28.10**	**30.37**

Total import payments rose 3 percent (or $24 million) to $650 million in 2009/10. The main cause of this increase was a 10 percent or $46 million recovery in non petroleum private sector imports. Government imports, on the other hand, fell by 20 percent or $6 million. In addition, petroleum imports fell 12 percent or $17 million.

2.4 Prices

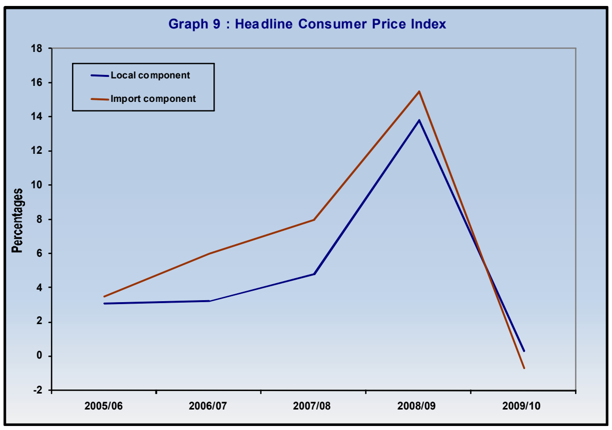
Sharp reductions in both the imported and domestic components of the CPI saw the annual headline annual inflation rate drop substantially in 2009/10 to -0.2 percent in June 2010 after peaking at 14.6 percent in June 2009. (See Graph 8.)



The contraction in the world economy, coupled with weak consumer demand saw global commodity prices fall, particularly those of food products such as grains (wheat and rice), sugar, copra as well as raw materials such as timber and steel. The global price of crude oil rose by 9 percent to US $74.74 per barrel in 2009/10. However, the appreciation of the Tala against the US dollar saw local petrol prices drop by 11 percent in the financial year under review. This saw imported inflation decrease to -2.0 percent from 17.1 percent in 2008/09.

A typical picture of devastation suffered by the beach resorts during the 29 September 2009 Tsunami.

Falling consumer spending and the weak the Samoan economy saw prices at the Fugalei Produce Market and Savalalo Fish Market drop dramatically in 2009/10, dragging down domestic inflation to 1.5 percent from 12.5 percent last year. (See Graph 9.)



And, when the prices of items susceptible to natural shocks and those subject to official price regulations were excluded, the underlying inflation rate decelerated to a record low of 1.1 percent in 2009/10 from 17.2 percent in the previous fiscal year. Largely responsible for this downward trend in the period under review were significant decreases in food prices with domestic food inflation falling to 2.8 percent at end June 2010 from 21.2 percent at end June 2009 while imported food inflation fell to 0.6 percent from 20.2 percent in the same period. (See Table 5.)

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

Fiscal year to end June	2007/08	2008/09	2009/10
		A. Headline Inflation *12 months average percent change*	
Description			
All Groups	6.2	14.6	-0.2
Food	7.1	20.6	-0.7
Clothing and Footwear	-1.4	5.5	3.7
Housing and Household Operations	6.9	9.6	-1.3
Transport and Communication	4.7	12.1	-0.2
Alcohol and Tobacco	6.7	5.9	1.6
Miscellaneous	4.0	5.9	2.5
Import Component	8.0	15.5	-0.7
Local Component	4.8	13.8	0.3
		B. Underlying Inflation (1) *12 months average percent change*	
Description			
All Groups	6.9	17.2	1.1
Food	7.9	20.5	1.2
Clothing and Footwear	-1.4	5.5	3.7
Housing & Household Operations	4.7	5.3	-0.1
Transport and Communication	15.6	13.0	4.1
Miscellaneous	2.9	5.7	0.8
Import Component	6.8	17.3	0.6
Local Component	7.1	16.8	2.7

Source: Samoa Bureau of Statistics.
(1) The historical series for this new index started in August 2003.

3. Outlook for 2010/11

A continued recovery in the Samoan economy is expected in 2010/11, with a 3.0 percent growth in real terms. The expected recovery is driven mostly by the large overall Budget deficit, combined with gains in the production of the 'Other Manufacturing', 'Construction', 'Transport and communications' and 'Finance and business' sectors. Exports, however, are anticipated to decline while imports are expected to expand in line with the expected recovery in the economy. In addition, significant net disbursements of external loans in 2010/11 should see the balance of payments record an overall surplus, leaving the relative level of international reserves unchanged at 7.6 months of imports.

Inflation, on the other hand, is expected to pick up as aggregate demand recovers. However, the annual rate of headline inflation is expected to stay within the benchmark target of 3.0 percent.

The main concern for 2010/11 is economic recovery. In the event, expansionary monetary policy will continue with the main emphasis placed on supporting private sector investment demand. In this regard, a high level of liquidity will be maintained throughout the year in order to encourage further reductions in interest rates.

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 interbank 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. As foreign funds flowed into the country, commercial banks' overall ESA liquidity continued to accumulate.

The ongoing increase in the overall level of ESA liquidity ensured stable demand for open market operations. In 2009/10 the number of Central bank of Samoa securities auctions rose to 52 issues, from 43 in the previous year. The total amount floated, however, fell to $227 million from $284.5 million in 2008/09 as the Central bank continued with its efforts to revive the credit market and pressure interest rates lower by limiting the level of outstanding securities to $27.5 million, which consequently limits the total amount floated. (See Table 6.)

Table 6.
Central Bank Securities
(Tala Million)

	2007/08	2008/09	2009/10
Number of Floats	$39.00	$43.00	$52.00
Amount Floated	$321.0	$284.5	$227
Amount Tendered	$364.0	$396.5	$469.5
Amount Allotted	$280.5	$253.0	$227.0
Amount Matured	$247.0	$269.0	$227.0
Amount Outstanding	$45.0	$27.5	$27.5

Source : Central Bank of Samoa

The steady rise in liquidity over 2009/10 led to total auctions being oversubscribed by 106.8 percent, a significant jump from an oversubscription of 39 percent in the previous year. The amount tendered by bidders rose 18 percent to $469.5 million in 2009/10 from the $396.5 million tendered in 2008/09. On the other hand, the amount floated fell 20 percent from $284.5 million in 2008/09 to $227 million in the year under review as a result of the fixed level of outstanding securities targeted over the entire year. Despite the 10 percent drop in the amount allotted in 2009/10 from the previous year, the $227 million that was floated was fully allotted. At end June 2010, the face value of securities outstanding amounted to $27.5 million, unchanged from the previous year's $27.5 million target level. Of the $27.5 million face value of securities outstanding, 6 percent was held in 14-day papers, 16 percent was held in 28-day papers, 31 percent was held in 56-day papers and 47 percent was held in 91-day papers.

The Repurchase and Rediscount facilities were again idle in 2009/10 as the threat of liquidity shortfalls became a thing of the past for the commercial banks, whose excess reserve accounts rapidly accumulated. The steady growth in the commercial banks' excess reserves have been a result of the huge inflow of foreign funds, combined with the banks' cautious approach to lending following the global financial crisis.

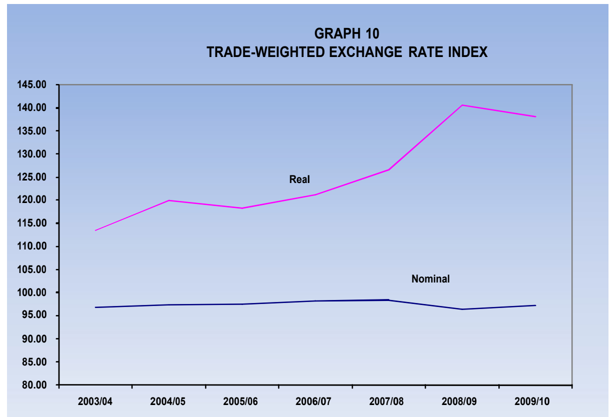
As reported in Section IV (2.2), the overall weighted average interest rate on CBS securities continued to decline in 2009/10 with interest rates on all types of maturities steadily declining as liquidity accumulated. The gap between the yields on CBS securities and the weighted average interest rate on commercial banks' deposits of comparable maturities have continued to narrow as the deposit rates of comparable maturities resumed declining as well. The substantially low interest rates on the CBS securities and the fixed level of outstanding CBS securities at $27.5 million over 2009/10 led to a further drop in the interest cost of the Central Bank's open market operations, from $1.5 million in 2008/09 to $0.33 million in 2009/10.

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.

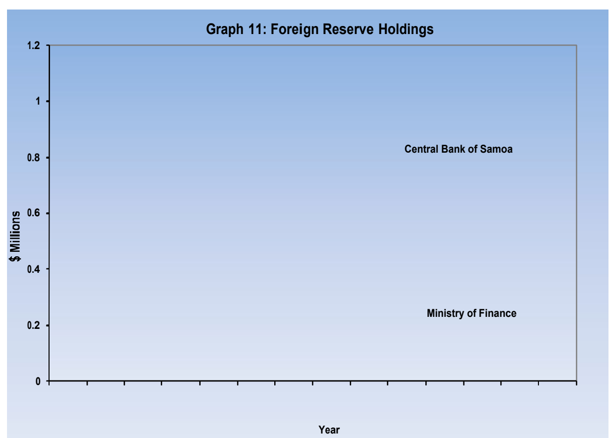
The exchange rate of the Tala is determined on the basis of a trade-weighted basket of currencies. This currency basket is reviewed annually to reflect changes in trade and payment patterns between Samoa and its major trading partners. Following the review in March 2010, new weights were allocated to the currencies in the basket. The basket still comprises the currencies of NZ, USA, Australia and the European Union.

The following chart (Graph 10) 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 2009/10, the Tala appreciated by 0.80 percent in nominal terms and depreciated by 1.72 percent in real terms against the currencies in the basket. The real depreciation during the period under review was attributed to inflation in Samoa being lower than inflation abroad.



3. Foreign reserves management

After recording a 4.3 percent increase in 2008/09, gross official international reserves[1] increased significantly to register a 54.9 percent increase to $410.72 million in 2009/10. There were considerable increases in the foreign exchange reserves held by the Central Bank (a rise of 57.9 percent) and the Ministry of Finance (up 43.5 percent). At end June 2010, the Central Bank held 79.2 percent of the official reserves while the Ministry of Finance held the remaining 20.8 percent. (See Graph 11.)



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

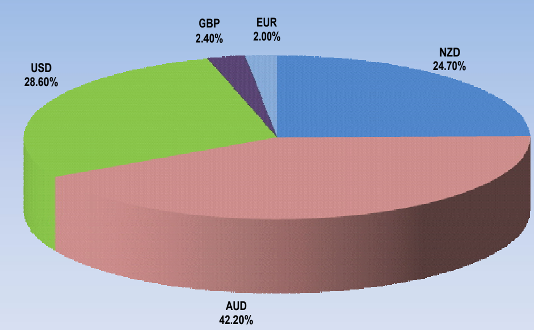
The Central Bank's foreign exchange holdings were continually invested in line with reserve management objectives of liquidity, security, capital preservation and profitability. To that end, the Bank's preferred investment instruments were liquid short-term financial instruments consisting of term deposits, bank bills, certificates of deposit, repurchase agreements and interest bearing call accounts in Reserve Banks and in foreign financial institutions with AA minimum credit ratings.

The Investment Committee which discusses and endorses investment recommendations submitted by the Financial Markets Department continued to meet on a regular basis in the period under review. The committee comprises of the Governor, Deputy Governor Financial Policies and Operations, Deputy Governor Financial Research and Markets Development, and other Management officials. The Committee's decisions were guided by the Bank's reserve management objectives and portfolio diversification benchmarks.

Net interest income from the investment of the Central Bank's foreign exchange holdings in 2009/10 amounted to $6.9 million - a decrease of 25.0 percent from the previous fiscal year. The drop in net interest income was a result of extremely low international interest rates, reflecting the concerted attempts by the overseas reserve banks to revive their stagnant economies. Despite this, the Bank's foreign exchange holdings increased from $206.2 million at the end of June 2009 to $325.5 million at the end of June 2010.

Of the Central Bank's total foreign exchange portfolio at the end of June 2009, 24.8 percent was invested in New Zealand dollars, 42.2 percent in Australian dollars, 28.6 percent in US dollars, 2.4 percent in British Pounds and 2.0 percent in Euros. Compared to the previous fiscal period, British Pound and Euro holdings registered decreases of 11.8 and 15.0 percent respectively. On the other hand, increases were recorded for the US dollar, New Zealand dollar and Australian dollar holdings of 82.3 percent, 1.2 percent and 121.4 percent. The significant jump in Australian dollar reserves was a deliberate move to capitalize on the favourable yield in the Australian economy as it was the highest on offer of all of our investment currencies. (See Graph 12.)

Graph 12
Currency Composition of Central Bank Foreign Reserves as at 30 June 2010

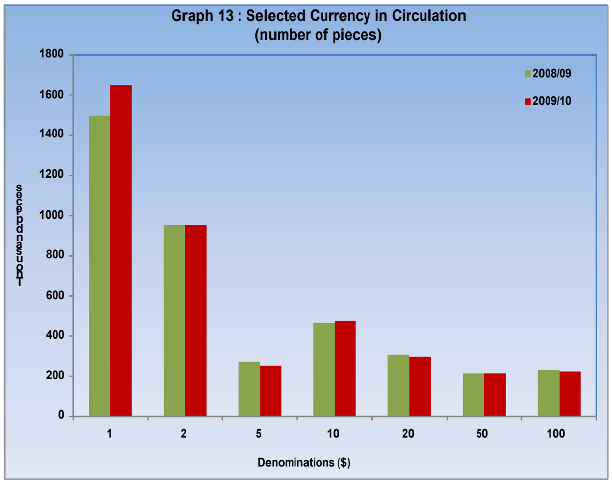


4. Currency Issue

By law, the Central Bank is the sole issuer and destroyer of local currency banknotes and coins. It is an offence to deface any local currency note or coin. Any deliberate actions 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 in 2009/10 remained steady at the previous financial year's level, much in line with the consolidation of the local economy. At end June 2010, the value of currency (notes and coins) that circulated in the economy remained at $52 million. However, reflecting the improved quality of notes in circulation, following the substantial release of new notes into the system in 2008/09, new currency notes issued in 2009/10 fell to $17 million, from $55 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 2010 increasing 15 percent to 1,652,000 pieces. (See Graph 13.) The $2 banknote remained the second most popular unit although the number of pieces in circulation remained at 953,000 pieces in 2009/10. The popularity of the Automatic Teller Machines (ATMs) saw the $10 and $20 banknotes retain their third and fourth placings respectively, pushing the $5 note to fifth place. Whilst the number of pieces for the $10 banknote increased in 2009/10, those of the $5, $20 and $100 banknotes fell.



5. Foreign Exchange Control

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

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

5.1 Money Transfer Operators and Foreign Exchange Dealers

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

In 2009/10, two (2) new MTO licenses were issued bringing the total number of MTO licenses issued since 1999 to 29. However, 2 MTOs ceased operations during the financial year under review bringing the total number of MTOs that have ceased operations to 12, leaving 17 active MTOs at end June 2010. Two (2) FEDs also ceased operations during the year under review, bringing the total number that have ceased operations to 4, leaving 7 FEDs that remained active at end June 2010.

MTOs continued to play a key role in facilitating the inflow of private remittances to Samoa, with the portion coming through the commercial banks continuing to decline. This trend reflected the increased convenience and price competitiveness of MTOs. MTOs have increased competition in this important international financial service, 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 investment, borrowing, capital repatriation and profit dividend payments by the private sector in line with the prevailing regulations. Prior approvals are required from the Central Bank for offshore investments and offshore borrowings and these depend on whether there are clear net benefits to the domestic economy. For offshore borrowing, the cost of the loan and ability of the borrower to meet the scheduled repayments are also important factors. Prior approval is also required for capital repatriation and dividend remittances with bone fide requests normally granted.

In 2009/10, there were 5 offshore borrowing applications approved totaling $10.86 million, in contrast to 6 approvals in 2008/09 valued at $20.6 million. On the other hand, the Bank continued to discourage offshore investments as a measure to protect the country's foreign reserves given the adverse impact of the global recession and the tsunami on the Samoan economy. With regard to offshore borrowing, four of the approvals were issued to the "export" and "microfinance" sectors.

The combined offshore borrowing by the private sector, public enterprises and non bank financial institutions increased 61 percent to $54.8 million in the financial year under review. This represented 7.0 percent of bank credit to this group of borrowers at the end of June 2010, up from 5.0 percent at end June 2009. Although the level of offshore borrowing has increased, it is 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, 43 new FCDs were approved compared to 72 in 2008/09. Forty one (41) of the approvals were for residents, comprising 3 for tourism operators and 38 for a mixture of international income and service providers. At end June 2010, FCDs held by residents amounted to $21.0 million which was 13 percent higher than at end June 2009. At that level, FCDs held by residents at end June 2010 remained at 2.9 percent of total money supply (M2). The level of FCDs is being monitored closely with a view to ensuring that monetary policy instruments remain effective in regulating money supply.

VI. FINANCIAL SYSTEM SUPERVISION

Sustainable real economic growth requires a sound and efficient domestic financial system. Therefore, in addition to being the Authority for monetary policy formulation and implementation, the Central Bank is responsible for maintaining financial stability.

In discharging its financial stability responsibilities, the Bank 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.

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

Notwithstanding the above, the ultimate responsibility for the affairs and performance of supervised financial institutions operating in Samoa rests mainly with their boards of directors and management. The Central Bank can neither guarantee the soundness of a financial institution nor can it provide complete protection for its depositors, creditors and other claims on it. However, by ensuring that supervised financial institutions follow prudent management practices, the Central Bank is able to promote public confidence in these institutions and to help maintain a sound financial system.

1.1 Financial Position of the Banking System for the twelve months ending June 2010

For the twelve months under review, the banking system experienced a relatively moderate growth in the overall level of assets despite a strong build up in surplus liquidity during the period. Capital adequacy ratio remained strong as banks achieved sound profitability performance which, in turn, provided a sound buffer to counter the various financial and operational risks, in particular, the risk of problem loans.

Whilst the economy is on track of recovery from the impact of the global financial crisis over the previous year banks, however, appeared to have taken a rather conservative approach in managing their balance sheets, especially their loan books, which experienced a gradual growth despite the high level of surplus liquidity available in the market.

In June 2010, the banking system recorded an increase in total assets of 8.7 percent ($82.6 million) to reach $1.028 billion against total liabilities of $853.7 million which grew by 10.9 percent ($83.6 million) respectively.

Much of the growth in assets was attributed to increases in loans and leases by 5.3 percent ($38.1 million) to $762.8 million, total liquid assets improved markedly by 49.3 percent ($54.6 million) to $165.3 million, while fixed assets rose by 6.6 percent ($3.7 million) to $56.8 million over the previous year respectively. Total loans and leases to deposits ratio stood at 97.7 percent, down from 102.4 recorded a year earlier.

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.

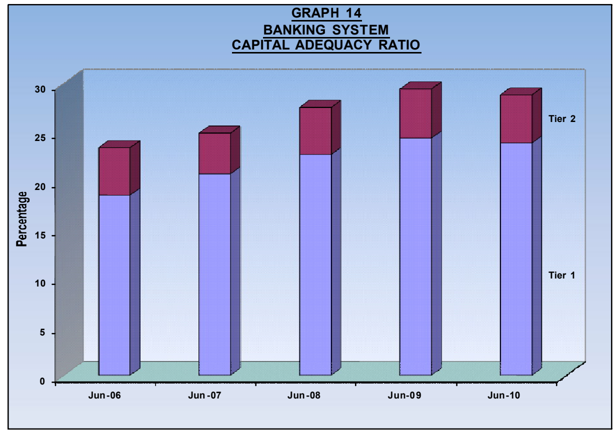
1.2 Capital Adequacy Ratio

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 28.8 percent, down marginally by 0.6 percent from the previous year with Tier one capital at 23.9 percent. As such levels, the banking system recorded surplus capital of $86.4 million at the end of June 2010.

These ratios are well above the Central Bank's minimum capital requirements of 15.0 percent and 7.5 percent and thus provided potential capacity for the banking system to move forward in meeting future business prospects. (See Graph 14.)

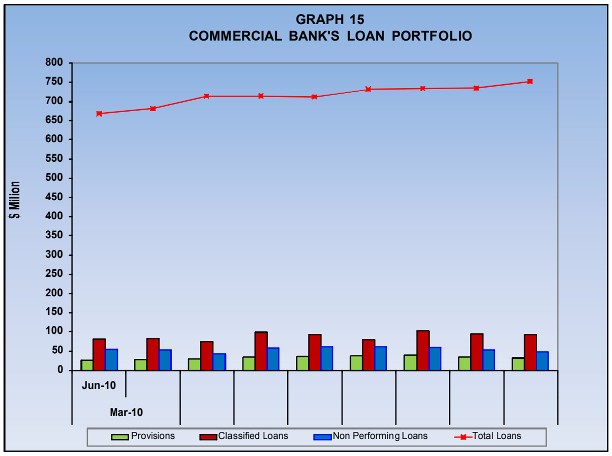


The relatively strong capital ratio largely reflects the banks profitable operations, coupled with some capital injections by banks shareholders during the year. On the other hand, the overall level of risk weighted assets rose by 2.4 percent to reach $625.3 million.

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

In the twelve months to end June 2010, total loans and leases increased by 5.3 percent ($38.1 million) to $762.8 million. Meanwhile, total non-performing loans showed a marked drop of 24.2 percent ($14.8 million) to $46.5 million. At this level, it represents 6.1 percent of total loans and leases. In the meantime, provision for bad and doubtful loans amounted to $30.9 million, equivalent to 57.2 percent of total non-performing loans. At this level, it represents 4.1 percent of total loans and leases to date. (See Graph 15.)



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.

Generally, banks have dealt with their large transactions or customers within the Bank's maximum single exposure requirement throughout the year. And, in situation where a bank is likely to exceed its maximum prudential limit, prior consultation and endorsement of the Central Bank must be obtained.

1.4 Liquidity Management

The holding by individual banks of an adequate stock of highly liquid assets for meeting day to day liquidity needs is fundamental to sound and prudent liquidity management and to engendering public confidence in banks. It minimizes risks for banks, such as the risk of being constrained to sell assets at a substantial loss or to acquire funds at interest rates higher than banks' continuous operation may be able to sustain.

Since the Central Bank phased out the Liquid Assets Requirement (LAR) in May 1999, the onus has been imposed on the commercial banks to manage their day to day liquidity, as well as for handling any unexpected strain on their cash flows. As such, banks are expected to have in place effective systems for managing their liquidity positions.

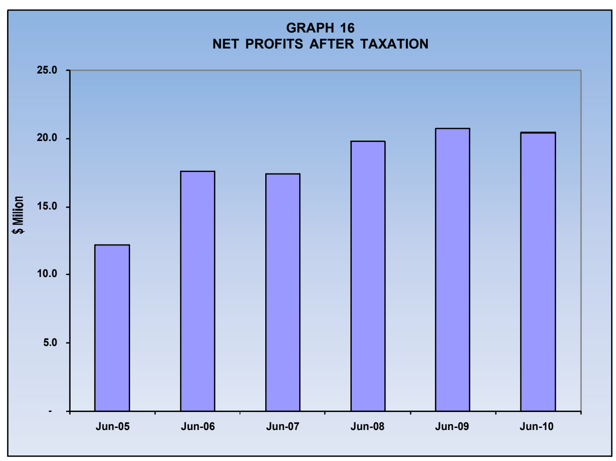
At the end of June 2010, total liquid assets amounted to $165.3 million, equivalent to 23.2 percent of total domestic deposit liabilities. At this level, it showed a strong increase of 49.3 percent ($54.6 million) when compared to the same time a year earlier.

At this stage, the level of CBS Securities amounted to $27.4 million, more or less the same as the previous year's level.

1.5 Profitability

Based on the banks different accounting periods, the banking system combined profit figure before extraordinary items and taxation amounted to $27.4 million, a marginal increase of 1.0 percent over a year earlier.

Both total operating income and total operating expenses registered decreases of 12.7 percent and 19.5 percent respectively. As such the efficiency ratio of the banking system showed an improvement of 61.8 percent as compared to 67.0 percent a year earlier. (See Graph 16.)



The major contributing factors to this performance highlighted a slight increase in net interest income by 1.9 percent ($0.7 million) to $36.3 million which was partially offset by a net loss in non-interest activities of ($8.9 million).

Return on average assets and net worth was reduced to 2.1 percent and 11.6 percent from 2.3 percent and 12.7 percent in the previous year respectively.

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 2010 stood at $101.6 million, up by 7.3 percent ($6.9 million), whilst total foreign liabilities of $96.4 million increased by 8.2 percent ($7.3 million) over the previous year. As such, it reflected a net long open position of $5.3 million, equivalent to 3.0 percent of the banking system's total capital.

2. Non-Bank Financial Institutions

The Central Bank continued to undertake financial 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 these institutions.

As of January 2010, all insurance companies, insurance brokers and insurance agents were required to be licensed under the Insurance Act 2007. As such, a total of (4) Life Insurers, (5) General Insurers, (2) Insurance Brokers, and (15) Insurance Agents have been issued insurance business licenses having satisfied stipulated requirements under the insurance legislation.

For the period under review, the major highlight reflected the aftermath of the September 2009 tsunami and how it impacted on the insurance industry. The Bank engaged in a consultative approach with the insurance industry to ensure clientele satisfaction when processing claims as well as, compliance with key licensing requirements, regular submission of financial reports and adhering with the specific requirements of the Insurance Act 2007.

The other major non-bank financial institutions such as the Samoa National Provident Fund (SNPF) and the Development Bank of Samoa (DBS) also 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 MLPA and is actively involved in building technical expertise and resource 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 analyze suspicious transaction reports and share its findings with relevant domestic and overseas law enforcement and anti money laundering agencies as may be appropriate.

During the year, the Central Bank finalized and distributed the revised AML/CFT Regulations and Guidelines to all relevant financial institutions to reflect the provisions of the new Money Laundering Prevention Act 2007.

Moreover, the Money Laundering Prevention Authority issued information brochures to various institutions stipulating AML/CFT obligations in its efforts to further strengthen compliance with international anti money laundering requirements and standards mandated by the Financial Action Task Force (FATF) and the Asia Pacific Group on Money Laundering (APG). These institutions include; real estates, lawyers, accountants, foreign exchange dealers, money remitters, trust companies and commercial banks

In essence, close consultation and cooperation between the MLP Authority and all related parties and stakeholders is vital in the fight against money laundering activities. The 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 regularly to discuss and share information on money laundering related issues.

4. Financial Intelligence Unit

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

During the year, the FIU dealt with several types of information and reports it received from the financial institutions and members of the public. Such information included, suspicious transaction reports, scam letters and email messages, report on counterfeited notes, UN lists of individual and entities associated with the Al-Qaida and the Taliban and enquiries from other law enforcement agencies both domestic and abroad.

The FIU is currently working towards establishing international relations (through the signing of Memorandum of Understanding (MOUs) with other Financial Intelligence Units (FIUs) in the region and is also in the process of obtaining membership with an international organization of FIUs namely, the EGMONT GROUP. As such, it will formalize and facilitate the exchange and sharing of relevant information that assist in the effective investigation and prosecution of money laundering and terrorist financing offences committed not only in Samoa but in the international arena as well.

For the year under review, a total of eleven (11) suspicious reports compared to twenty five (25) 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 shareholders 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 Program on Drugs Control and Crime Prevention (UNODCCP), the Asia Pacific Group on Money Laundering (APG), the Pacific Financial Technical Centre(PFTAC), the Australian FIU (AUSTRAC), the New Zealand FIU, the Anti-Money Laundering Assistance and

Training of Australia (AMLAT), the Pacific Anti-Money Laundering Project (PALP) of the US and the ADB/OECD Initiative on Anti-Corruption which greatly helped in our 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 statutory duties in this area. Moreover, it shall continue to build coordinated efforts with other relevant law enforcement agencies in Samoa in the fight against money laundering and the prevention and suppression of terrorism.

VII. CORPORATE SERVICES AND ADMINISTRATION

The Central Bank undertakes a myriad of corporate services and administrative tasks in order to support the implementation of its core functions. These include the provision of corporate banking services to the Government and financial institutions, staff support services, premises and personnel security, supplies and transportation services, office facilities and cleaning services and numerous other miscellaneous services. The Bank sees all of these services and activities as being equally important as its core activities. Highlighted below is a selection of significant topics in so far as corporate services and administration was concerned in 2007/08.

1. Currency Operations

1.1 Replacement of Circulating Coins

During the financial year under review, Government approved the Central Bank proposal for the replacement and redesigning of circulating coins in Samoa. In this regard, the Central Bank consulted the overseas minting companies and central banks, discussing the latest trends in coin designs and metal composition. These consultations revealed that the plated coins have become more and more popular than the original solid alloy designs that are used in the existing coins. The adoption of the latest designs have reduced the manufacturing costs of coins as the plated version require less of the high cost metal that is being used in the solid alloy design. The lower cost of manufacturing plated coins will help keep the full cost of a circulating coin below its face value.

At the moment, the minting cost of a coin in our existing denomination of coins cost much more than its face value. One of the main reasons for this is that the existing coins in Samoa are larger and heavier when compared to the new types of coins circulating in other countries. Consequently our coins cost more to produce than those of other countries of the same value.

Following approval by Cabinet, the Central Bank is now in the process of designing the country's new family of circulating coins with the aim of having these issued in 2011.

1.2 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 in an acceptable level 2008/09.

There were no changes to the currency handling arrangements between the Central Bank and the commercial banks in 2008/09. 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 $51 million worth of unissuable currency notes were withdrawn from circulation and destroyed in 2008/09 compared to $26 million in 2007/08.

This reflects the commitment by the Central Bank to ensure that only quality banknotes are issued to the general public and businesses through commercial banks and authorized dealers.

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.

1.3 Counterfeit Currency Notes

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 vigilant and alert in detecting counterfeit money.

An expert from the United States Secret Service conducting training on detecting currency counterfeits.

The Central Bank remained cautious and promoted public awareness of counterfeit banknotes in 2009/10, launching a year long media campaign, including a TV commercial and media releases. This, together with the introduction of the new family of banknotes in 2009/10, resulted in a sharp 57 percent reduction in the value of counterfeit notes discovered and presented to the Central Bank by the commercial banks, retailers and members of the general public compared to the previous year. And, in comparison with other countries in the region, the value of counterfeit notes in Samoa was low, presenting a minimal threat to the general public and local financial system.

1.4 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.

After rising significantly in 2008/09, reflecting the shipment of a backlog of orders following the adoption of new arrangements for shipping currency orders, the quantity and value of currency sold to collectors fell to more normal levels in 2009/10. The quantity of currency notes fell 15 percent to 29,153 pieces, reducing the face value of notes sold by 58 percent to $164,937. Likewise, 5,330 pieces of coins worth $1,959.20 were sold to collectors – a reduction of 79 percent each in quantity and value.

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 2009/10, 53 auctions were conducted, a rise from 43 in 2008/09 due to the substantial recovery of liquidity in the financial system. A total of 348 securities were issued in 2009/10, a significant increase from 180 in the previous year.

In 2009/2010 the Central Bank approved the implementation of the CS-SAS, an electronic auction system developed by the Commonwealth Secretariat to administer the auctions and registration of CBS securities and Government Bonds.

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 every morning to complete the settlement of the previous day's transactions. These exchanges are then settled 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.

In 2009/10, the Payment System Review Committee continued to review the payment and settlement system with the aim of identifying areas that need to be modified and improved to ensure that the system remained efficient and cost effective.

During the year, the Committee met with World Bank officials to look closer at the payment system and the areas to focus on.

The Central Bank continued to promote cooperation and assist local banks in using SWIFT (Society for Worldwide Inter-bank Financial Telecommunication), by Chairing the Samoa SWIFT User Group. The User group continued to provide a valuable forum for local banks to discuss and review matters related to SWIFT and the National Payment system.

4. Information Technology (IT)

Information technology plays a vital role in the Central Bank's management strategies and operations. An IT Committee Chaired by the Deputy Governor for the Financial Research and Markets Development Area was established in 2008 to ensure that the Bank's IT system remains relevant and cost effective. The Committee has been responsible for screening and compiling the Bank's Annual IT Budget.

At the end of June 2010, the Bank's IT infrastructure comprised of 17 systems and applications software packages and 108 units of personal and lap-top computers, printers and photocopiers and other periphery electronic devices, interconnected to each other through four (4) servers. The whole IT system has been managed by a team of -two (2) full time professional IT staff. During the year, the Bank invested $0.08 million to replace some of its obsolete IT machinery and equipment and to install some completely new technologies.

Four (4) Information Technology projects were implemented in the twelve months to the end of June 2010. First was the installation of a new firewall to protect CBS network and mail server. The second project was the replacement of the Bank's accounting servers and the third project involved customization to allow designated CBS staff access to the email server around the clock from outside the Bank. The fourth and final project was the upgrade of the Bank's network to enable wireless access.

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. To ensure internet cost and staff access is managed carefully the IT committee has put together some IT policies to govern and regulate the Bank's internet, email and computer systems.

5. Staff

5.1 Staff Training and Development

Staff Training and Development continues to be a very significant and continuous task of the Central Bank. This is evident with the various overseas trainings, seminars and workshops attended by the staff. The Bank fully supports its employees on part time and full time courses undertaken at prominent local tertiary institutions such as the National University of Samoa and the University of the South Pacific. Moreover, the Bank takes advantage of any valuable opportunity to develop and improve staff capabilities in their relevant fields of work.

5.2 Local training hosted by the Bank

There were only a few trainings hosted by the Bank this financial year. The SWIFT Training held in March 2010 drew several participants from around the Pacific region including Australia and New Zealand. This workshop was aimed at explaining new enhancement in the SWIFT systems currently in place as well addressing the issues on money laundering risks.

The second training hosted by the Bank was the Pacific Financial Literacy Train The Trianers Regional Workshop in June 2010. The main aim for this training is to facilitate and equip the rural communities in handling money wisely. Participants to this workshop came from around the region as well as many from the various local ministries and community based organizations.

Governo r Scanlan and the participants of the Pacific Financial Literacy Train The Trainers Workshop in June 2010.

Both trainings were very successful and it is reflected in more training forecasted for the next financial year. The Bank fully supports these on-going exercises to further develop not only its staff but the Bank's multi-lateral association with local organizations and overseas partners.

5.3 Long-Term Training

The Bank continues to support staff on long term trainings despite the fact there was no one who took up the challenge in this financial year 2009/2010. Staff are required to register their interest and to secure funding from outside sources prior to commencing leave of absence for the full duration of studies.

5.4 Part-Time Educational Courses

While the Bank encourages staff to take extra courses in areas of Commerce, Accounting and Management, only four studied on a part-time basis; three at the National University of Samoa (NUS), and one at the University of the South Pacific (USP), Alafua.

Ms. Mary Fidow has completed her Degree in Bachelor of Commerce from USP Alafua, majoring in Management & Public Administration and Industrial Relations. Fidow is expected to graduate in December 2010. Three other staff are currently attending part-time courses in the field of Commerce with the National University of Samoa.

5.5 Work Experience and Study Visits

There were four Samoa Polytech students on work experience with the Bank during the months of October and November 2009. This work experience program is opened every year to students at both college and tertiary level with the main aim of assisting and preparing graduating students for real life employment.

Likewise, the Bank is very supportive of educational study visits in the area of economics and accounting as requested by the various secondary schools. The Bank hosted a visit from Tuasivi College towards the end of 2009.

5.6 Staff Recruitment, New Appointments and Promotions

The Bank recruited four new staff, of which all were replacements. The appointment of Faanuualii Isara to the position of Assistant Manager for Management and Resources Department [MRD] was the only managerial position recruited during the year. Mrs Alavine Sua, Manager for Research and Statistics Department was the only staff who resigned during the year. Three other staff were promoted within their own respective Departments.

5.7 Composition of Staff

Staff turnover has never been a problem with the Bank for many years. At the end of the financial year 2009/10, the Bank maintained the same number of staff of 87 comprised of 83 full-time staff and 4 part-timers, similar to the previous year. Those who left the Bank were either to migrate overseas or establish a business of their own.

6. Overseas representations and liaison

The Governor and a number of Management staff represented the Central Bank in various high level meetings, conferences and forums held overseas. 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.

Highlights of the year were the following in which the Governor attended. These include:

- Annual Meetings of the World Bank and International Monetary Fund in Turkey,
- Annual Meeting of the Asian Development Bank in Uzbekistan,
- Annual Meeting of Pacific Central Bank Governors in the Solomon Islands,
- OECD Global Forum on offshore finance centres in Mexico, and the Samoa International Finance offshore promotion in China.
- The Coombes Declaration of the Working Party in New Zealand and the Regional Finance Ministers meeting in Fiji.

Other equally important fora that were attended by Management included:

- Annual Meeting of Pacific Finance Supervisor in Fiji, ADB/OECD Anti Corruption Thematic Seminar in the Philippines,
- IMF Seminars on Central Bank Financial Safe Guards and Remittances in Singapore,
- First Global Forum by the Alliance for Financial Inclusion in Kenya,
- Alliance for Financial Inclusion Meeting in Vanuatu and the Philippines,
- Asia Pacific Group on Money Laundering Annual Meeting in Australia
- Managers Training Program at the Reserve Bank of Australia,
- SWIFT Chairperson Annual Meeting in Hong Kong,
- Egmont Group of Financial Intelligence Units Seminar in Malaysia,
- Board of Directors for the Isle of Man Small Countries Financial Management Training Program in England,
- The International Trade finance and Banking Seminar in Vanuatu.

Staff of the CBS sharing information about the CBS and the Samoan Economy at the NUS Open Day on the 14th August 2009.

7. Communication and Publications

The Governor continued to maintain a busy public speaking schedule in the year under review, presenting and discussing topical issues on the domestic and the global economies.

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.

8. Building and Other Services

The Bank continued to maintain a 100 percent occupancy rate, with 60 percent of its office space rented out to two Government Ministries and two private companies. The departure of the Office of the Chief Auditor and Comptroller in November 2009 left the top floor 7 unoccupied for a short while. This was taken up by the Office of the Unit Trust of Samoa (Management) Company. Despite these changes to its occupancy, income generated from rent of office space contributed to 11.0 percent of the Bank's total revenues with a comfortable rate of return of 5.4 percent, which is well above the targeted of 3.0 percent.

The building is manned by a 24 hour security service and a computerized security surveillance system to ensure safety and security of the Bank's premises, staff and tenants. Regular building maintenance are carried out to ensure a high standard of building condition is maintained at all times.

The strong earthquake and the resultant powerful tsunami that occurred in September 2009 did not affect or posed any structural damages to the Central Bank building as confirmed by a comprehensive survey report carried out by a team of structural engineers from New Zealand. Also similar surveys were carried out to ensure the integrity and safety of the electrical, plumbing and fire hose systems.

As part of its continuing support for the community, the Bank continued to maintain the Children's playground located behind the building. In addition, the staff of the Bank participated in the regular national cleaning up and beautification of the town area for the Independence celebrations and the Teuila festival.

VIII. CENTRAL BANK FINANCIAL PERFORMANCE

The global financial crisis continued to have adverse implications on the financial operations of the Central Bank as reflected in its audited accounts for the 2009/10 financial year (FY2009/10).

1. Audited Accounts

Appearing at the end of this Annual Report are the audited accounts of the Bank for the 2009/2010 financial year.

At the close of the financial year under reference, the CBS balance sheet total assets and liabilities increased $124.7 million or 49 percent. On the assets side of the balance sheet, increases were achieved in foreign currency assets of $119.2 million and local currency assets of $5.5 million. On the liabilities side, increases were registered in foreign currency liabilities of $61.2 million, local currency liabilities of $63.3 million, and capital and reserves of $0.2 million.

Although the Central Bank achieved a net operating profit of $0.4 million in FY2009/10, this was significantly lower than the $1.3 million net profit recorded in the previous year. As a result, a smaller amount of $0.2 million was transferred to Government as required under Section 8(1) of the Central Bank of Samoa Act 1984 which stipulates that 50 percent of profits shall be transferred to Government while the other 50 percent shall be transferred to the Bank's General Reserve Account.

The decline in net profit was caused mainly by the drop in income earned from the Bank's foreign exchange investments overseas which accounted for 78 percent of the Bank's total income. International interest rates which continued to decline except in the second half of the year, led to the significant drop of $2.2 million or 25 percent in investment income. As a result, total income declined by $2.3 million or 21 percent, which was cushioned partly by a decline of $1.0 million or 11 percent in total expense to achieve a net profit of $0.47 million. The decrease in total expenses was due to the decreases in currency issue costs of $0.9 million, other administrative expenses of $0.2 million, and depreciation cost of $0.1 million. These were partly offset by an increase in finance costs of $0.2 million.

As in the previous financial year, there was no statutory transfer to Treasury from the Foreign Exchange Revaluation Account in accordance with the Central Bank Act 1984 which stipulates that 20 percent of the credit balance of the Foreign Exchange Revaluation Account shall be transferred to the Treasury. This is because of the deficiency in the Foreign Exchange Revaluation Account as a result of the foreign exchange volatile movements resulting from the global financial crisis in 2008/09. The Foreign Exchange Revaluation Account swung into deficit -$1.37 million for the first time in September 2008 and peaked at -$16.75 million in January 2009 before dropping to -$11.36 million at the closing of the financial year in June 2010.

As in the FY2008/09 financial accounts, the treatment of the deficiency in Foreign Exchange Revaluation Account was again taken up by the Government as Receivables from Government in the Central Bank's accounts in anticipation that the Foreign Exchange Revaluation Account would correct and reverse itself and for the deficit to eventually disappear in the months ahead.

The current practice is that both realized and unrealized gains and losses from foreign exchange revaluation are not treated as part of the Central Bank's profits. The Central Bank Amendment Bill 2010 recently passed by Parliament will correct and enhance the treatment of gains and losses in the Foreign Exchange Revaluation Account which should comply with acceptable international accounting standards, currently the IFRS.

IX. CHRONOLOGY OF IMPORTANT MONETARY, PRUDENTIAL AND RELATED EVENTS IN 2009/10

2009

July:

Central Bank macro-economic forecasts and monetary policy stance for 2009/10 were considered and approved by the Board. The approved Government Budget deficit of 11 percent of GDP was aimed at stimulating economy from the adverse impacts of the global economic recession. To boost private sector growth, the Board approved the continuation of eased monetary policy to lower the cost of borrowing and stimulate credit demand.

September:

Around 7 am of the 29th , a major earthquake measuring 8.2 on the Richter Scale shook Samoa. Immediately following the earthquake, a devastating tsunami swamped the south coast of the country, taking 143 lives and destroying homes and most of the tourism resorts, and severely damaging the physical infrastructure in that area of the country.

October:

The Central Bank's Monetary Policy Statement for the financial year 2009/2010 was published.

December:

The Minister of Finance launched on behalf of Government a new Central Bank lending facility or credit line for the Development Bank of Samoa. The credit line was specifically for the reconstruction and rehabilitation of key tourism resorts and beach fales that were destroyed and adversely affected by the tsunami on 29 September 2009. The CBS loan to DBS is for a term of five years, at an interest rate of 3.0 percent per annum and with a principal and interest grace period of twelve months. For its part, the DBS will on-lend these funds to the tourism operators that were affected by the tsunami, at an interest of 8.0 percent per annum.

2010

January:

The Board approved the expansion of the Bank's mandate to cover Financial Inclusion. Financial Inclusion refers to the extension of financial services to reach the low income sector of the population. This initiative was launched with a workshop on mobile money and banking, conducted by the Pacific Financial Inclusion Program of the United Nations Capital Development Fund (UNCDF).

February:

Central Bank macro-economic forecasts for 2009/10 were updated and considered by the Board. The Board approved for monetary policy to remain eased, to drive down market interest rates.

March:

On the 29th, the exchange rate basket, which was reviewed and approved by the Board on the 26th, became effective. The basket still comprises the currencies of NZ, USA, Australia and the European Union.

April:

On the 8th, the Westpac branch at Vaitele was attacked by armed robbers. This is believed to be the first case of an armed bank robbery in Samoa.

May:

The 2010/2011 Government Budget was tabled in Parliament, with an overall budget deficit equivalent to 9 percent of GDP in GFS format, incorporating measures to stimulate the economy following the global recession and the September 2009 tsunami.

I L

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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 the balance sheet as of 30th June 2010 and the statement of comprehensive income, 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 (IFRS) and the Central Bank of Samoa Act 1984 and amendments. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial statement presentation.

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 of 30th June 2010 and of its statement of comprehensive income, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of Samoa Act 1984 and amendments.

Isitolo Leota
Public Accountant

10 November 2010
Apia, Samoa

CENTRAL BANK OF SAMOA
BALANCE SHEET
AS AT 30 JUNE 2010

ASSETS	Notes	30 June 2010 SAT$000	30 June 2009 SAT$000
Foreign Currency Assets			
Cash balances	3	98,762	52,664
Fixed deposits	3	196,568	136,169
Bank Bills	3	28,101	16,012
Accrued interest	3	2,017	1,334
Total Foreign Currency Assets		**325,448**	**206,179**
Local Currency Assets			
Cash balances	4	2,981	2,956
Fixed deposits	4	1,011	940
Accrued interest	4	13	25
Currency stock on hand	5	8,010	8,270
Receivables and prepayments	6	3,542	7,057
Receivables from the Government of Samoa	7	11,356	8,686
Credit line facility	8	5,000	-
Secured borrowing	9	2,300	-
Property, plant and equipment	10	17,845	18,638
Total Local Currency Assets		**52,058**	**46,572**
TOTAL ASSETS		**377,506**	**252,751**
LIABILITIES			
Foreign Currency Liabilities			
Demand deposits	11	90,563	24,302
World Bank deposits	12	1,020	1,041
Other liabilities	13	21	16
Total Foreign Currency Liabilities		**91,604**	**25,359**
Local Currency Liabilities			
Demand deposits	11	143,784	88,152
Currency in circulation	14	51,785	51,710
Statutory reserve deposits	15	33,321	30,324
Payable to the Government of Samoa	16	235	883
Central Bank Securities	17	27,483	27,347
Creditors and accruals	18	583	445
Provisions	19	452	507
Total Local Currency Liabilities		**257,643**	**199,368**
TOTAL LIABILITIES		**349,247**	**224,727**
CAPITAL & RESERVES			
Paid up capital	20	10,000	10,000
Retained profits		-	-
General reserve	21	18,259	18,024
Revaluation Reserve	21	-	-
TOTAL CAPITAL AND RESERVES		**28,259**	**28,024**
TOTAL LIABILITIES AND EQUITY		**377,506**	**252,751**

The relevant notes on pages vi to xix form part of this balance sheet.

Chairman of the
Board of Directors
Chairman of the
Board of Directors

Director
Director

CENTRAL BANK OF SAMOA
STATEMENT OF COMPREHENSIVE INCOME
TWELVE MONTHS ENDED 30 JUNE 2010

	Notes	30 June 2010 SAT$000	30 June 2009 SAT$000
INCOME			
Interest income	**22**	6,942	9,224
Rents		1,086	1,162
Other income	**23**	852	857
		8,880	**11,243**
EXPENSES			
Audit fees		25	25
Board expenses		18	15
Communication costs		370	411
Staff costs		3,361	3,497
Currency issue costs		1,114	2,065
Depreciation	**10**	1,262	1,355
Directors' fees		47	45
Finance costs		933	733
Occupancy costs		425	404
Other administrative expenses		851	926
Withholding tax/levies on overseas investments		4	-
		8,410	**9,476**
COMPREHENSIVE INCOME NET OF TAX		**470**	**1,767**
APPROPRIATIONS			
Transfer to general reserve as per Section 8(1) of the Central Bank of Samoa Act 1984 and amendments.		(235)	(883)
Transfer to Government of Samoa as per Section 8 (1) (b)	**16**	(235)	(883)
		$NIL	**$NIL**

The relevant notes on pages vi to xix form part of this statement of comprehensive income.

CENTRAL BANK OF SAMOA
STATEMENT OF CHANGES IN EQUITY
TWELVE MONTHS ENDED 30 JUNE 2010

	Note	Paid Up Capital SAT$000	Retained Profits SAT$000	General Reserve SAT$000	Revaluation Reserve SAT$000	Total SAT$000
Balance at 1 July 2008		**10,000**	**-**	**17,141**	**7,126**	**34,267**
Total Comprehensive Income for the year						
Profit or loss		-	883	883	-	1,766
Other Comprehensive Income						
Net losses arising from translation of foreign currency balances to Samoan currency		-	-	-	(15,812)	(15,812)
Total other comprehensive income		-	-	-	(15,812)	(15,812)
Total comprehensive income for the year		-	883	883	(15,812)	(14,046)
Transactions with Owners, recorded directly to equity						
Receivable/(Payable) to the Government of Samoa.	**16/7**	-	(883)		8,686	7,803
Balance at 30 June 2009		**10,000**	**-**	**18,024**	**-**	**28,024**
Total Comprehensive for the year						
Profit or loss		-	235	235	-	470
Other Comprehensive Income						
Net losses arising from translation of foreign currency balances to Samoan currency	**7**	-	-	-	(2,670)	(2,670)
Total other comprehensive income		-	-	-	(2,670)	(2,670)
Total comprehensive income for the year		-	235	235	(2,670)	(2,200)
Transactions with Owners, recorded directly to equity						
Receivable/(Payable) to the Government of Samoa	**16/7**	-	(235)	-	2,670	2,435
Balance at 30 June 2010		**10,000**	**-**	**18,259**	**-**	**28,259**

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

CENTRAL BANK OF SAMOA
STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED 30 JUNE 2010

INCREASE (DECREASE) IN CASH EQUIVALENTS:

		30 June 2010	30 June 2009
CASH FLOWS FROM OPERATING ACTIVITIES:	**Notes**	**SAT$000**	**SAT$000**
Cash received from investments		7,117	12,550
Cash received from rent		1,051	1,316
Cash paid for services		(20)	(11,272)
Cash paid to employees		(2,289)	(2,624)
Interest paid on deposits		(1,000)	(897)
Net (loss) on revaluation reserve		(2,670)	(15,812)
Net cash flows from /(used by) operating activities		**2,189**	**(16,739)**
CASH USED BY INVESTING ACTIVITIES:			
Proceeds from sale of property, plant & equipment		46	3
Purchases of property, plant & equipment	**10**	(489)	(1,363)
Credit line facility granted to Development Bank of Samoa		(5,000)	-
Secured borrowing to National Bank of Samoa		(2,300)	-
Interest received on secured borrowing		34	-
Net cash used by investing activities		**(7,709)**	**(1,360)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net movement in notes and coins in circulation		75	(1,883)
Net movement in demand deposits		124,869	50,760
Net movement in securities		136	(17,238)
Net movement in external liabilities		5	(1,944)
Payment to the Government of Samoa	**16**	(883)	(4,053)
Net Cash flows from financing activities		**124,202**	**25,642**
NET INCREASE IN CASH		118,682	7,543
Cash and cash equivalent at beginning of the period		208,741	201,198
CASH AND CASH EQUIVALENT AT END OF YEAR	**24**	**327,423**	**208,741**

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

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

The significant accounting policies as set out below have been applied consistently and except where there is a change in accounting policy are consistent with those of the previous year.

(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 (IASB) except as detailed in note (c) below.

(b) Basis of presentation

The financial statements have been prepared on the basis of historial costs. All amounts are expressed in Samoan tala unless otherwise specified. In addition, the financial statements have been prepared in accordance with the Central Bank of Samoa Act 1984 and amendments.

(c) Foreign currencies translation

Transactions involving foreign currencies have been recorded in Tala using the rates of exchange ruling on the date of the transactions. Assets and liabilities in foreign currencies have been translated into Tala at the rates of exchange prevailing at year end.

In accordance with the provisions of Section 28 of the Central Bank of Samoa Act 1984 exchange gains and losses are credited or charged directly to the Revaluation Reserve Account and are not included in the computation of annual profits or losses of the Bank.

This policy is a departure from International Financial Reporting Standard IAS 21 Effects of Changes in Foreign Exchange Rates which requires that exchange gains and losses be credited or charged to the statement of comprehensive income.

In the opinion of the Directors, the accounting treatment adopted is appropriate in view of the requirement of Section 28 of the Central Bank of Samoa Act 1984 and amendments. Had the Bank complied with IAS 21 there would have been a net loss of $2.20m, a decrease of $2.67m, being the exchange loss for the year.

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

	30.06.2010	30.06.2009	30.06.2008
United States dollar	0.38450	0.37210	0.39850
New Zealand dollar	0.56163	0.57619	0.52349
Australian dollar	0.45713	0.46120	0.41569
GBP	0.25729	0.22598	0.20010
Euro	0.31467	0.26499	0.25309

(d) Currency stock on hand

The stock of currency purchased for circulation is valued at cost. Currency issue costs are taken to profit or loss based on the cost of notes that are issued for circulation. Costs of minting and delivery of coins are amortised over a period of five years .

2. SUMMARYOF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial Assets and Liabilities
The Bank presents financial assets, liabilities and the associated income and expenses, by distinguishing between foreign currency and local currency activities.

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

The Bank's foreign currency financial assets are denominated in USD, NZD, AUD, GBP, 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 at face value. Demand deposits are carried at their face value less amounts repaid. The Bank issues securities for monetary policy implementation purposes. These CBS securities are recognised at face value.

(f) Property, plant and equipment

i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Purchase software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

ii) Depreciation
Items of capital expenditure are depreciated on a straight line basis over the following estimated useful lives (in years):

	Years
Furniture and fittings	10
Plant and equipment	5
Motor vehicles	5
Computer network	5
Buildings	10 and 40 to 50

Depreciation on the building is at the rates ranging from 10 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.

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

Assets are dereciated from the date of acquisition. Expenditure on repairs and maintenance of property, plant and equipment incurred which does not add to future economic benefits expected from the assets is recognised as an expense when incurred.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) Demand deposits
Demand deposits representing funds placed with the Bank by financial institutions and central banks are brought to account on a cost basis. These deposits are at call.

(j) Statutory reserve deposits

i) Domestic banks
Under Section 34 of the Central Bank Act 1984 and amendments, the Central Bank may specify the reserves required by each financial institutions, to be maintained against deposits and other similar liabilities.

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 percent to 4.5 percent of their total domestic deposit liabilities to be maintained with the Central Bank. The recent review of the Bank's monetary policy highlighted the marked improvement of the commercial banks liquidity position.

ii) Insurance Companies
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.

		SAT$000
i.	Insurance company ("insure")	100
ii.	Insurance broker ("broker")	50
iii.	Insurance agent ("agent")	50

The Insurance Act 2007 repeals the Insurance Act 1976 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.

(k) Impairment losses

The carrying amounts of the Bank's assets are reviewed at balance sheet date to determine whether there is any indication of impairement. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

(l) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and fixed deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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.

(n) Loans and advances
Loans are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for an allowance for bad and doubtful debts. A specific allowance for bad and doubtful debts is made based on the appraisal carried out at year end. Movement in the allowance is charged to the statement of comprehensive income.

All known bad debts are written off against the allowances in the year in which they are recognised. Bad debts, in respect of which no specific allowances have been established, are charged directly to the statement of comprehensive income.

(o) Employee entitlements
i) Short-term employee benefits
Short-term employee benefits comprising of annual leave are measured on an undiscounted basis and are expenses as the related service is provided.

ii) Other long-tem employee benefits
The Bank's net obligation in respect of long-term benefits is the amount of future benefit that employees have earned in return for their service in the current and prior period, that benefit is measured on an undiscounted basis and is charged to the statement of comprehensive income.

(p) 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.

(q) Currency in circulation
The exclusive rights of national currency issue are vested with the Bank. Currency in circulation comprises bank notes and coins issued by the Bank and represent a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value.

(r) Income tax
The Bank is exempt from income tax in accordance with Section 48 of the Central Bank of Samoa Act 1984 and amendments.

(s) Comparative amounts
Where necessary, comparative figure have been changed to conform to changes in presentation in the current year.

(r) Rounding
Amounts in the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

		30 June 2010	30 June 2009
3	**FOREIGN CURRENCY FINANCIAL ASSETS**		
	CASH BALANCES	**SAT$000**	**SAT$000**
	Federal Reserve Bank NYC	93,162	51,098
	Reserve Bank of Australia	4,874	360
	Bank of England	195	140
	Sub-total cash balances with other central banks	98,231	51,598
	Cash balances with commercial banks	531	1,066
		98,762	**52,664**

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

	FIXED DEPOSITS		
	Deposits in NZD with commercial banks	78,967	74,455
	Deposits in AUD with commercial banks	103,472	45,317
	Deposits in EURO with other central banks	6,356	7,547
	Deposits in STERLING with other central banks	7,773	8,850
		196,568	**136,169**
	BANK BILLS		
	Discount securities in AUD issue by central banks	28,101	16,012
		28,101	**16,012**
	ACCRUED INTEREST		
	Balances with other Central Banks	15	12
	Deposits with commercial banks	1,860	1,198
	Amortised discount	142	124
		2,017	**1,334**
4	**LOCAL CURRENCY FINANCIAL ASSETS**		
	CASH BALANCES		
	Petty cash floats	5	5
	Cash balances with commercial banks	2,976	2,951
		2,981	**2,956**
	FIXED DEPOSITS		
	Deposits with commercial banks	1,011	940
		1,011	**940**
	ACCRUED INTEREST		
	Deposits with commercial banks	13	25
		13	**25**
5	**CURRENCY STOCK ON HAND**		
	Currency notes	6,812	7,612
	Coins	1,198	658
		8,010	**8,270**

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

6	**RECEIVABLES AND PREPAYMENTS**		
	Interest receivable - domestic	82	122
	Prepaid expenses	531	3,786
		613	3,908
	Other receivables - current	403	436
	- long term	2,620	2,846
		3,023	3,282
	Less: Allowance for loans impairment (Refer note 25)	94	133
		2,929	3,149
	Total receivables and prepayments	**3,542**	**7,057**

Prepaid expenses relate mainly to advances on insurances on building, outstanding deals between overseas Banks on overseas investments 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 RECEIVABLE FROM THE GOVERNMENT OF SAMOA	30 June 2010 SAT$000	30 June 2009 SAT$000
Balance at 1 July 2009	8,686	-
Add: Net losses/(gains) from foreign currencies translation for the year	2,670	8,686
Less: Government securities issued to offset losses in foreign currencies translation	-	-
Balance at 30 June 2010	**11,356**	**8,686**

Receivable from Government of Samoa as per section 28(2) of the Central Bank of Samoa Act 1984 and amendments.

8 CREDIT LINE FACILITY

An emergency Credit Line Facility has been established between the Central Bank of Samoa and the Development Bank of Samoa to restore confidence of the tourism operators and businesses that were adversely affected by the tsunami, to rebuild and redevelop their devastated properties.

Total credit granted on 17 December 2009 to the Development Bank of Samoa - Five (SAT$5.0) million. Interest rate 3% pa. The facility is on a grace period of 12 months on both interest and principal. Repayment of interest and principal will commence in December 2010. The term of the facility shall be at the maximum maturity of five (5) years.

9 SECURED BORROWING

The Central Bank of Samoa has approved a secured borrowing of SAT$2.3 million granted to the National Bank of Samoa on 17 March 2010 on the following terms.

Interest rate: 2.54%
Term: 182 days
Security: NBS Statutory Reserve Deposits

10 PROPERTY, PLANT & EQUIPMENT

Cost	Buildings SAT$000	Plant and equipment SAT$000	Computer network SAT$000	Motor vehicles SAT$000	Furniture and fittings SAT$000	Total SAT$000
Balance at 1 July 2009	27,937	3,492	288	366	1,004	33,087
Additions	-	211	13	249	16	489
Disposals	-	57	24	139	-	220
Balance at 30 June 2010	**27,937**	**3,646**	**277**	**476**	**1,020**	**33,356**
Accumulated depreciation						
Balance at 1 July 2009	11,097	1,979	225	312	836	14,449
Depreciation	660	491	16	63	32	1,262
Disposals	-	51	16	133	-	200
Balance at 30 June 2010	**11,757**	**2,419**	**225**	**242**	**868**	**15,511**
Carrying amount						
30 June 2009	**16,840**	**1,513**	**63**	**54**	**168**	**18,638**
30 June 2010	**16,180**	**1,227**	**52**	**234**	**152**	**17,845**

11 DEMAND DEPOSITS

Foreign currency deposits		
Government of Samoa deposits	90,563	24,302
	90,563	**24,302**
Local currency deposits		
Government of Samoa deposits	14,640	14,904
Demand deposits due to banks	129,144	73,248
	143,784	**88,152**

The Bank acts as banker, agent and depository to the 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$890,711 (2009: SAT$677,691)

		30 June 2010	30 June 2009
		SAT$000	SAT$000
12	**WORLD BANK DEPOSITS**		
	World Bank deposits	1,020	1,041
		1,020	**1,041**

The Bank acts as banker, agent and depository to the World Bank. World Bank funds deposited at the Central Bank are not remunerated.

13	**OTHER LIABILITIES**		
	Inland Revnue Department (New Zealand) - Levy	21	16
		21	**16**

Represents amount of 2% levy owing to the Govenment of New Zealand on investments income not matured at year end.

14	**CURRENCY IN CIRCULATION**		
	Notes	47,446	47,761
	Coins	4,339	3,949
		51,785	**51,710**

The exclusive rights of national currency issue are vested with the Bank Currency in circulation comprise bank notes and coins issued by the Central Bank of Samoa.

15	**STATUTORY RESERVE DEPOSITS**		
	Domestic banks	32,381	29,384
	Insurance companies	940	940
		33,321	**30,324**
16	**PAYABLE TO THE GOVERNMENT OF SAMOA**		
	Balance at 1 July 2009	883	4,053
	Paid during the year	(883)	(4,053)
	Transfer as per Section 28(3) of the Central Bank of Samoa Act 1984 and amendments.	-	-
	Transfer as per Section 8(1)(b) of the Central Bank of Samoa Act 1984 and amendments	235	883
		235	**883**
17	**CENTRAL BANK SECURITIES**		
	Central Bank Securities	27,483	27,347
		27,483	**27,347**

Unsecured notes issued to the public as negotiable instruments, all maturing within 12 months with weighted average interest rates ranging from 0.10% to 4.30% per annum.

18	**CREDITORS AND ACCRUALS**		
	Accrued interest payable	20	86
	Other accrued expenses	563	359
		583	**445**
19	**PROVISION**		
	Annual, long service and sick leave	**452**	**507**
	Provision is reconciled as follows:		
	Balance at 1 July 2009	507	496
	Additional provisions charged to statement of comprehensive income	315	172
	Utilised during the year	(370)	(161)
	Balance at 30 June 2010	**452**	**507**

20 CAPITAL

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

	31 June 2010	30 June 2009
	SAT$000	SAT$000
Authorised, issued and paid up capital	10,000	10,000
	10,000	**10,000**

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 authorised capital.

21 RESERVES

Reserves are maintained to cover the broad range of risk to which the Bank is exposed.

General Reserve

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 authorized capital; in the case it exceeds this level, 50% of annual net profits are allocated to the General Reserve.

Revaluation Reserve

Exchange gains and losses arising from revaluation of foreign currencies are transferred to the Revaluation reserve account, refer note 2(c).

22 INTEREST FROM OVERSEAS DEPOSITS AND INVESTMENTS

Interest on cash accounts	954	1,951
Income from discount securities	811	1,395
Interest on deposits	5,178	5,878
	6,943	**9,224**

Discount securities are classified as held-to-maturity financial assets and recorded at amortized costs. Amortized 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.

23. OTHER INCOME

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

24. CASH AND CASH EQUIVALENT

Cash on hand - local currency	3,992	3,896
Cash and cash equivalent - foreign currency	323,431	204,845
	327,423	**208,741**

25 ALLOWANCE FOR LOANS IMPAIRMENT

Balance at 1 July 2009	133	115
Charge/(reversal) to statement of comprehensive income	(39)	18
Balance at 30 June 2010	**94**	**133**

26 GOVERNMENT GRANTS

In fulfilling in 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 $269,251 (2009: SAT1,364,279) . Without the effect of this government grants the outcome of the financial year 2009/2010 would have been $201,489 instead of $470,740.

27 FINANCIAL RISK MANAGEMENT

The Bank identifies risks and implements controls in its operation and management of foreign reserves holdings. The main financial risks that the Bank faces are as follows:

a) liquidity risk
b) market risk
c) credit risk
d) operational risk

Policies for managing the above risks are outlined below. Like most central banks, the nature of the Bank's operations creates exposures to a range of operational and reputational risks. Bank management seeks to ensure that strong and effective risk management and controls systems are in place for assessing, monitoring and managing risk exposures. The Bank is subject to an annual external audit.

27 FINANCIAL RISK MANAGEMENT (Contnued)

(a) Liquidity risk management

Liquidity risk relates to the difficulty in raising funds at short notice to meet commitments associated with financial instruments.

To limit the liquidity risk, the Bank maintains an adequate level of reserves and taking into consideration the transaction demand on foreign exchange, ensures that an acceptable amount is maintained in current accounts at all times. The Bank invests in high quality instruments, including commercial paper, all of which are easily converted to cash (refer to maturity analysis on liquidity below).

Maturity Analysis as at 30 June 2010

The maturity profile of assets and liabilities is based on contractual terms and analysed as follows:

	0 - 3 months SAT$000	3 - 12 months SAT$000	1 - 5 years SAT$000	Over 5 years SAT$000	No specific maturity SAT$000	Total SAT$000
Foreign Currency Assets						
Cash balances	98,762					98,762
Fixed deposits	19,785	176,783				196,568
Bank bills	11,236	16,865				28,101
Accrued interest	2,017					2,017
	131,800	193,648	-	-	-	325,448
Local Currency Assets						
Cash balances	2,981					2,981
Fixed deposits		1,011				1,011
Accrued interest		13				13
Currency stock on hand			1,198		6,812	8,010
Receivables and prepayments		999	79	2,464		3,542
Receivables from the Government of Samoa	11,356					11,356
Credit line facility			5,000			5,000
Securred borrowing		2,300				2,300
Property, plant and equipment					17,845	17,845
	14,337	4,323	6,277	2,464	24,657	52,058
Total Assets	**146,137**	**197,971**	**6,277**	**2,464**	**24,657**	**377,506**
Foreign Currency Liabilities						
Demand deposits	90,563					90,563
World Bank deposits					1,020	1,020
Other Liabilities	21					21
	90,584	-	-	-	1,020	91,604
Local Currency Liabilities						
Demand deposits	143,784					143,784
Currency in circulation					51,785	51,785
Statutory reserve deposits					33,321	33,321
Payable to the Government of Samoa	235					235
Central Bank Securities	27,483					27,483
Creditors and accruals	421	162				583
Provisions					452	452
	171,923	162	-	-	85,558	257,643
Total Liabilities	**262,507**	**162**	**-**	**-**	**86,578**	**349,247**
Net Assets						**28,259**

27 FINANCIAL RISK MANAGEMENT (Continued)

(a) Liquidity risk management (Continued)

Maturity Analysis as at 30 June 2009

The maturity profile of assets and liabilities is based on contractural terms and analysed as follows:

	0 - 3 months SAT$000	3 - 12 months SAT$000	1 - 5 years SAT$000	Over 5 years SAT$000	No specific maturity SAT$000	Total SAT$000
Foreign Currency Assets						
Cash balances	52,664					52,664
Fixed deposits	13,699	122,470				136,169
Bank bills	6,402	9,610				16,012
Accrued interest	1,334					1,334
	74,099	132,080	-	-	-	206,179
Local Currency Assets						
Cash balances	2,956					2,956
Fixed deposits		940				940
Accrued interest		25				25
Currency stock on hand			658		7,612	8,270
Receivables and prepayments		436	3,882	2,739		7,057
Receivables from the Government of Samoa	8,686					8,686
Property, plant and equipment					18,638	18,638
	11,642	1,401	4,540	2,739	26,250	46,572
Total Assets	**85,741**	**133,481**	**4,540**	**2,739**	**26,250**	**252,751**
Foreign Currency Liabilities						
Demand deposits	24,302					24,302
World Bank deposits					1,041	1,041
Other Liabilities	16					16
	24,318	-	-	-	1,041	25,359
Local Currency Liabilities						
Demand deposits	88,152					88,152
Currency in circulation					51,710	51,710
Statutory reserve deposits					30,324	30,324
Payable to the Government of Samoa	883					883
Central Bank Securities	27,347					27,347
Creditors and accruals	349	96				445
Provisions					507	507
	116,731	96	-	-	82,541	199,368
Total Liabilities	**141,049**	**96**	**-**	**-**	**83,582**	**224,727**
Net Assets						**28,024**

(b) Market risk

Market risk is the risk that the changes in market prices such as interest rates and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

(i) Foreign exchange rate risk

Exchange rate risk relates to the risk of loss of foreign reserves arising from changes in the exchange rates against the Samoan Tala. The Bank has adopted a currency risk management policy, which maintains the Samoan Tala value of the foreign reserves and manages the fluctuation in the revaluation reserve account.

27 FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (Continued)

i) Foreign exchange rate risk (Continued)

Foreign exchange risk is the risk that the value of 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 Bank	0.83	-	4.87	-	0.20	**5.9**
Cash balances with banks	-	0.53	-	-	-	**0.5**
Fixed deposits	-	79.97	104.20	7.77	6.37	**198.3**
Bank bills	-	-	28.10	-	-	**28.1**
Repurchase agreements	92.33	-	-	-	-	**92.3**
Total	**93.16**	**80.50**	**137.17**	**7.77**	**6.57**	**325.3**

Concentration of foreign exchange

Foreign Assets	USD	NZD	AUD	GBP	EUR	TOTAL
Cash balances with Central Bank	0.3%	-	1.5%	-	0.1%	**1.8%**
Cash balances with Banks	-	0.2%	-	-	-	**0.2%**
Fixed deposits	-	24.6%	32.0%	2.4%	2.0%	**61.0%**
Bank bills	-	-	8.6%	-	-	**8.6%**
Repurchase agreements	28.4%	-	-	-	-	**28.4%**
Total	**28.6%**	**24.7%**	**42.2%**	**2.4%**	**2.1%**	**100.0%**

Sensitivity to foreign 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 but is subject to the weightings of each currency, which will ultimately determines the gain or loss in foreign currency translation at any given point in time.

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.

27 FINANCIAL RISK MANAGEMENT (Continued)

(b) Market risk (Continued)
ii) Interest rate risk (Continued)

Interest rate risk as at 30 June 2010				
	Balance Sheet Total	Repricing period $M		
Foreign Exchange	$M	1-90 days	91-180days	181-365 days
Cash balances with Central Banks	5.9	-	-	-
Cash balances with Banks	0.5	-	-	-
Fixed deposits	198.3	15.5	140.7	42.1
Bank bills	28.1	11.1	17.0	-
Repurchase agreements	92.3	92.3	-	-
TOTAL	**325.3**			

(c) Credit risk

Credit risk relates to the risk of loss to the Bank from the failure of a counter-party to a transaction to meet its contractual obligations and arises principally from the Bank's investments and loans and advances to customers and other banks.

For risk management purpose, the Bank prescribes minimum credit ratings acceptable for investment and specifies the maximum permissible credit exposure to individual banks and countries. In addition, the number of commercial banks, with whom the Central Bank may deal with in foreign exchange, is limited by credit ratings and these banks must have minimum credit rating of AA and with other central banks. The Bank has a concentration of investments with a highly rated banks in New Zealand and Australia.

The Bank uses Standard and Poor's, Moody's and Fitch credit ratings for assessing the credit risk of foreign counterparties. The credit ratings of counterparties are on "watch" all the time and updated as new market information is available. Foreign exchange limits per bank are imposed for all currency dealings.

Credit Ratings (Standard and Poors)

Foreign Investments	Risk rating of security issuer	Risk rating of counterparties	% of total assets as at 30 June 2010
Securities held under repurchase			
Agreements with Central Banks	AAA		28.4
Deposits with Central Banks	AAA		4.4
Cash with other Central Banks			1.8
Bank Bills with Central Banks			-
Subtotal balances with Central Banks			**34.6**
BNP		AA	7.2
NAP		AA	1.5
Bank Bills			**8.7**
ANZ		AA	32.8
BNZ		AA	2.8
WBC		AA	8.2
RAB		AAA	12.7
Deposits with commercial banks			**56.5**
ANZ		AA	0.1
BNZ		AA	0
WBC		AA	0.1
Other (cash)			**0.2**
Subtotal balances with commercial Banks			**65.4**
TOTAL			**100.00**

27 FINANCIAL RISK MANAGEMENT (Continued)

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than liquidity, credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank's operations. Managing operational risk in the Bank is an integral part of day-to-day operations and oversight. This includes adherence to Bank wide corporate policies.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Bank. This responsibility is supported by the development of the overall and specific risk is and will be effectively minimised and managed.

28 RELATED PARTY DISCLOSURES

The main shareholder of the Bank is the Government of Samoa (100%).

All transactions with related parties are conducted on commercial terms and conditions. Except for Government deposits which are on concessional terms and conditions.

(i) Key management personnel

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). This compromised the governor, deputy governors, members of the management team and non-executive directors. At 30 June 2010, the number of key management personnel was 14 (2009: 15).

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

	30 June 2010 SAT$000	30 June 2009 SAT$000
Salaries and short-term employment benefits	830	910
Other long-term benefits	34	231
	864	**1,141**
(ii) Other major transactions with related parties		
Directors Fees	47	45
Board Expenses	18	15

As at 30 June 2010, the following balances were receivable from or payable to related parties.

Balance due to related parties	**105,733**	**40,448**
Balance due from related parties	**12,220**	**9,866**

29 LEASE RECEIVABLE

Receivable not later than one year	1,300	1,300
Receivable later than one year but not later than five years	2,600	2,600
	3,900	**3,900**

The Bank leases out several floors of the building. The operating lease rentals receivables are shown above:

Operating leases relate to the CBS building leased out for a term of 3 years, with an option to extend for a further 3 years.

The building rental income earned during the year amounts to SAT$1,086,302 (2009: SAT$1,161,605). Direct operating expenses in relation to building floors leased out amounted to SAT$607, 412. (2009: SAT$426,420).

30 CAPITAL COMMITMENTS

The Directors are not aware of any capital commitments of the bank at year end (2009: SAT$Nil).

31 CONTINGENT LIABILITIES

(i) Operating lease

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.

ii) Collectors' currency

The Bank has a contingent liability for the face value of collectors' currency issued, however it is more unlikely that the amounts of collectors' currency will be returned for redemption at face value. The face value of all collectors' currency issued by the Bank for the period under review is SAT$210,775. (2009: SAT$406,782).

iii) Other contingent liabilities

The Directors are not aware of any other contingent liabilities of the bank at yend end. (2009: SAT$Nil)

32 EVENTS AFTER REPORTING PERIOD

i) Central Bank of Samoa Amendment Bill 2010

Since the end of the financial year, an amendment bill 'Central Bank of Samoa Amendment Bill 2010' has been forwarded to Parliament for their approval before it becomes law. The proposed amendment is expected to be approved before the end of the new financial year 2010/2011.

The proposed amendments includes:

a) To expand the statutory functions of the Central Bank to supervise and regulate credit institutions.
b) To redefine profit distribution rules in accordances to International Financial Reporting Standards (IFRS).
c) To empower the Central Bank to regulate fees and charges of financial and credit institutions to ensure that they are not excessively and unreasonably high.
d) To help promote financial inclusion and financial literacy.

The anticipated implications of the above amendments will have both a direct and indirect effect on the financial statements, in particularly part b) above, which stipulates that future gains and losses arising from translation of foreign exchange will be credited or charged directly to the statement of comprehensive income instead of transferring to the revaluation reserve account.

ii) Other subsequent events after reporting period

The directors are not aware of any other matter or circumstance not otherwise dealt with in the report or financial statements that will significantly or may significantly affect the operations of the Bank, the results of those operations or state of affairs of the Bank in subsequent financial years.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on 10 November 2010.