CENTRAL BANK OF SAMOA

ANNUAL REPORT

FOR THE FINANCIAL YEAR
JULY 2011- JUNE 2012

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FAAVAE I LE ATUA SAMOA

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 Corporation; Samoa Housing Corporation; Tenders Board; Samoa International Finance Authority; Cabinet Development Committee; Accident Compensation Corporation, Unit Trust of Samoa)

19 March 2013

The Honourable Speaker
Legislative Assembly of Samoa
MULINUU

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 2012, together with the Audited Accounts for that period and the Report of the Auditors on those accounts.

Faumuina Tiatia Faaolatane Liuga
Minister of Finance

CENTRAL BANK OF SAMOA

PLEASE ADDRESS CORRESPONDENCE
TO THE GOVERNOR

19 March 2013

The Hon. Faumuina Tiatia Faaolatane Liuga
Minister 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 2011 to 30 June 2012. The Report provides:

(a) a review of economic performance and the formulation and implemention 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 2012 and the auditors' report.

Yours faithfully

Maiava Atalina Ainu'u-Enari
GOVERNOR

BOARD OF DIRECTORS

Maiava Atalina Enari
Governor/Chairman of the Board

Lealiie'e Rudy Ott
Director

Lemalu Sina Lima
Director

Alofipo Daniel Meredith
Director

Tupaimatuna Iulai Lavea
Director
Ministry of Finance

MANAGEMENT

Maiava Atalina Enari
Governor

Iosefo Bourne
Deputy Governor

Magele Filipo Magele Penn
Deputy Governor

Gilbert Wongsin
Manager
Financial Institutions

Malaeoali'i So'o Pua
Manager
Banking and
Corporate Services

Mariana Bourne
Manager
Management Resources

To'oto'ovao Afoa Sanele Afoa
Manager
Accounts and Budget

Karras Lui
Manager
Research and
Statistics

C O N T E N T S

I. EXECUTIVE SUMMARY

This, the 29th Annual Report of the Central Bank of Samoa, is for the financial year ending on the 30th of June 2012.

During the financial year under review:

* World economic growth continued its modest pace of recovery amid yet another year of expansionary monetary policies. However, unemployment remained elevated in many advanced economies while consumer prices softened given the pace of global recovery.
* Domestically, monetary and fiscal policies remained expansionary to sustain the momentum of economic recovery, supported by a comfortable level of foreign reserves.
* The commercial banks' overall weighted average deposit rate rose to 2.48 percent from 2.31 percent reflecting a reduction in liquidity from the highs of the previous financial year. The weighted average interest rate for lending, on the other hand, declined 10 basis points to 9.82 percent in 2011/12, basically reflecting the weak demand for credit. The interest rate spread narrowed to 7.34 percent.
* The value of the Samoan Tala appreciated by 3.33 percent in nominal terms and 0.59 percent in real terms in 2011/12.
* In the event, the Samoan economy recovered further by 1.3 percent, but was down from 2.0 percent in 2010/11. The headline annual inflation rate accelerated to 6.2 percent at end June 2012, from 2.9 percent at end June 2011 due to a rapid rise in the prices of locally produced goods and services.
* The balance of payments turned around from an overall deficit in 2010/11 to an overall surplus in 2011/12 reflecting improvements in exports, remittances, tourism earnings and large disbursements of Government loans. International reserves therefore rose $10.4 million to $367.2 million.
* For 2012/13, events and figures up to end September 2012 pointed to the economy growing 1.5 percent in real terms.
* A good profitability outturn saw the banking system maintain a strong capital base in 2011/12. Furthermore, non performing loans fell, improving the quality of banks' assets.
* The insurance industry also performed well, managing well the challenges resulting from the global financial crisis and catastrophic impact of the 2009 Tsunami.
* New circulating coins were launched in October 2011. The new coins are smaller and lighter than the old coins, reflecting the Bank's commitment to significantly reduce the cost of minting coins.
* As a result of changes to the Bank's accounting policy in order to comply with International Financial Reporting Standards (IFRS) which requires any gains or losses on the revaluation of foreign assets against the value of the Samoan Tala to be charged to the profit and loss statement, an overall net loss was recorded for the financial year 2011/12 as compared to a net profit a year earlier.

Hon. Prime Minister Tuilaepa Aiono Sailele Malielegaoi at the launching of new coins on 3 October 2011

II. 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) licensing and supervising insurance business;
(ix) licensing and supervising bank and non bank financial institutions; and
(x) promoting financial inclusion and financial literacy.

The Central Bank undertakes the formulation and implementation of monetary policy and related measures, which include open market operations in Central Bank Securities, to influence the level of interest rates and the availability of credit in the financial system. 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.

The Central Bank 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 plays 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 review of the currency culminated with the issuance of a new series of coins in October 2011 following the issuance of a new series of banknotes in August 2008. This change to new coins in over 40 years introduced coins which are smaller in size, relatively cheaper to mint and more convenient for the general public and the business community to use.

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.

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 (FIU) 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 Samoa Financial Intelligence Unit became a member of the Egmont Group of FIUs which is an exclusive association of international FIUs, in July 2011. Samoa's jurisdiction Progress Report with regards to addressing deficiencies in complying with AML/CFT international standards was prepared and submitted by the Central Bank to the Secretariat of the Asia Pacific Group on Money Laundering in January 2012. And in the following month, a National Risk Assessment on AML/CFT was conducted with assistance from the New Zealand Police FIU.

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.

Following the amendment of the Central Bank Act in December 2010, the Central Bank is also responsible for promoting financial inclusion - 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.

Governor's Meeting hosted by the Central Bank of Samoa November 2011

III. 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 5 Members of the Board comprises the Governor, Mrs Maiava Atalina Ainuu-Enari who is the Chair, the Chief Executive Officer of the Ministry of Finance, Mr Tupa'imatuna Lavea Iulai Lavea, and three other independent Board members who are citizens of Samoa with industrial, commercial or agricultural experience. The independent Board Members during the year were Mr Lealiiee Rudy Ott, Mrs Lemalu Sina Retzlaff-Lima and Mr Alofipo Tanielu Meredith. However, as a result of changes in Government Statutory Boards in early 2012, Mr Lealiiee Rudy Ott, after serving over 20 years as a Board Member of the Central Bank, was appointed to the Board of the National Provident Fund in March 2012. Mr Namulauulu Sami Leota being the newly appointed President of the Chamber of Commerce replaced Mrs Lemalu Sina Retzlaff-Lima as a Board Member in February 2012. And by the end of June 2012, there was only one vacancy in the membership of the Board.

Leasi Papali'i Tommy D. Scanlan's term as Governor since 1988 ended in August 2011 when he was succeeded by Mrs Enari-Ainuu. Mr Scanlan was a well respected public servant in the fraternity of Central Bankers not only in the Pacific but in other parts of the world, and is well known as probably the longest serving Governor in any Central Bank. His visionary leadership and endurance in steering the development and reforms of the Central Bank from its embryonic and evolving stage when it was only 4 years old through the many challenges encountered in the past 23 years of dedicated service is an accomplishment very hard to achieve. His invaluable contribution is greatly acknowledged by the Board and Management.

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 or her by the Board.

The Board met on seven occasions during the twelve months to the end of June 2012.

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 84 staff at the end of June 2012.

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.

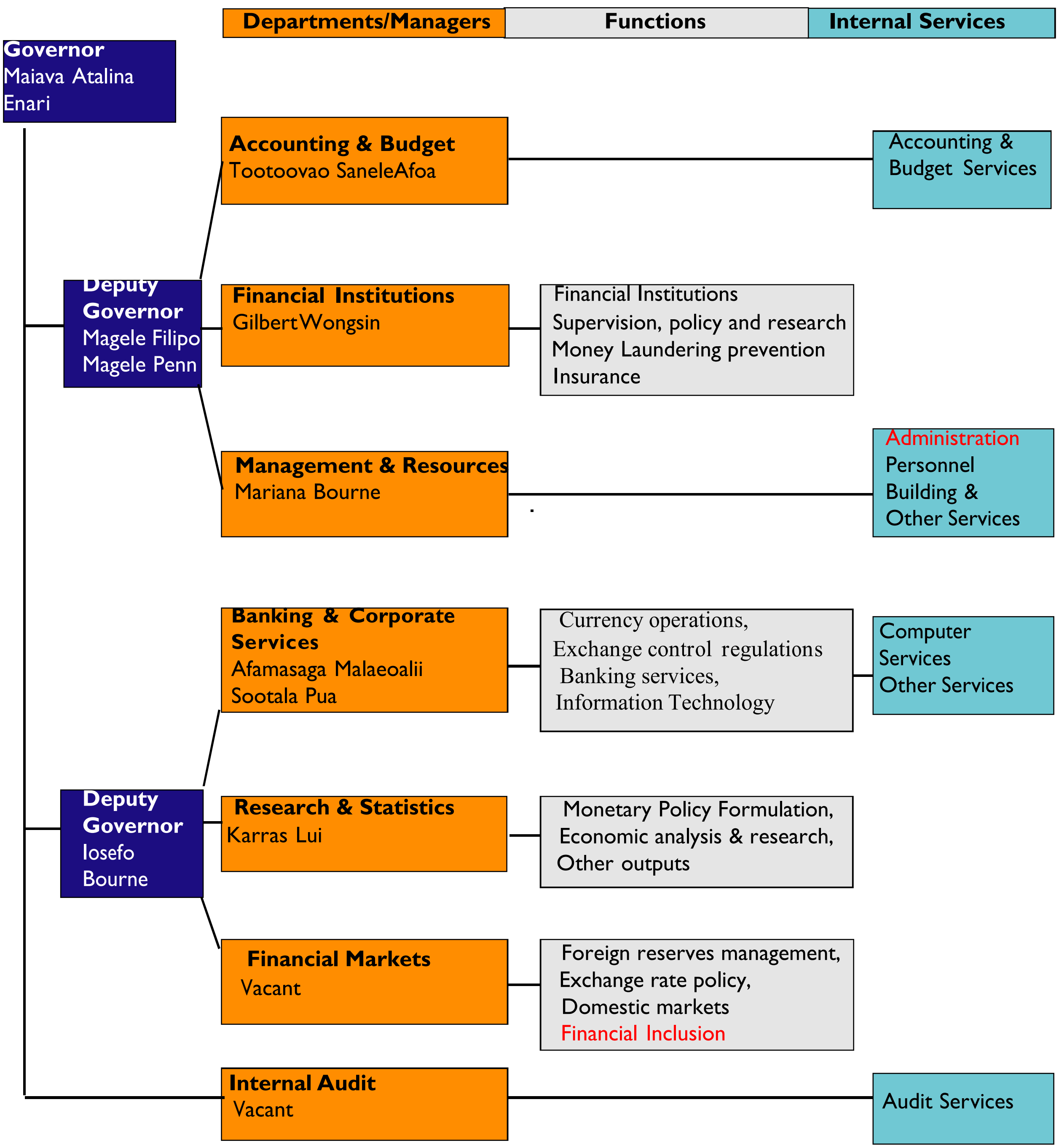
A close monitoring of the Output budget is undertaken regularly. The focus is mainly on delivering results and implementing preventive actions, rather than simply uncovering problems after the fact.

In addition, during the twelve months to end June 2012, 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 Organisational Structure



IV. MONETARY POLICY FORMULATION AND THE ECONOMY

Despite rising inflation, monetary policy remained eased to sustain the momentum of economic recovery, supported by a comfortable level of foreign reserves. The intermediate target was to sustain a low interest rate environment by ensuring the presence of amble liquidity, encouraging credit flow to the struggling private sector.

1. The World Economy

In the financial year 2011/12, world economic growth continued its modest pace of recovery amid yet another year of expansionary monetary policies. Although world growth initially surprised on the upside in the first quarter of 2012 due to easing financial conditions, recovering confidence and rebounding global trade led by strong industrial production growth, statistics released in the last quarter of 2011/12 were heavy on the downside, thus indicating continued weakness in the global economy. The Euro area and its escalating financial market stress triggered by increased political and financial uncertainty in Greece, the banking sector problems in Spain and doubts about governments' ability to deliver on fiscal adjustment and reform, continued to create significant drag on the global economic recovery. An underlying loss of momentum in the United States (US) economy resulted in economic activity being less robust than previously expected. Likewise, the growth pulse slowed in various emerging market economies, notably in Brazil, China and India, which partly reflected the weaker external environment and decelerating domestic demand in response to capacity constraints and policy tightening in the past year. Unemployment remains elevated in many advanced economies while consumer prices have inherently softened amid the weakening pace of global recovery.

Although growth in the Advanced economies were at modest rates, most Emerging and Developing economies grew at comparatively higher rates, with China and India still in the lead. Real growth in the US over 2011/12 was 2.0 percent, while the Euro area rose 0.5 percent and Japan grew 0.7 percent. In the same period, China grew 8.5 percent and India reported growth of 5.9 percent.

The frail path to recovery led most central banks to resume their expansionary monetary policies in 2011/12. In aid of a swift and stronger growth rebound, other reserve banks continued employing quantitative easing measures as in the case of the US Federal Reserve Bank and the Bank of England. By the end of 2011/12, official interest rates in the US, the United Kingdom (UK), Japan, the Euro region and New Zealand (NZ) were still unchanged at zero to 0.25 percent, 0.5 percent, zero to 0.1 percent, 1.0 percent and 2.50 percent respectively. In Australia, the Reserve Bank of Australia (RBA) lowered its cash rate by a total of 125 basis points to 3.50 percent by the end of 2011/12.

For Samoa's three major trading partners, recent data showed real growth in the **US** economy was 1.3 percent in June quarter 2012, down from the previous quarter's growth of 2.0 percent and 4.1 percent growth in December quarter 2011. Although manufacturing activity stabilized through the year, the recovery rate was generally soft. Likewise, activity in the housing sector took on a positive tone as house prices rose consecutively up to June 2012 but on an annual basis, prices were still declining. Consumer sentiment may have improved but consumption spending followed suit without much conviction. Growth in employment numbers was noticeably softer yet it gradually lowered the jobless rate to levels below 9.0 percent in 2012. Weak demand conditions have helped lower inflation in the US from 2.7 percent in the first quarter to 1.7 percent in June quarter 2012. On the currency front, the Greenback continued to find support from its haven appeal amid increased global uncertainty and concern over the debt debacle plaguing the Euro region, which is expected to create further drag on the world economic recovery.

The **New Zealand** economy grew at a moderate pace in 2011/12 despite the boost to activity from favorable weather conditions, strength in export commodity prices and spending associated with the Rugby World cup. In June quarter 2012, the New Zealand economy grew 0.6 percent and in annual terms, it rose 2.0 percent. The main contributors to growth in the quarter were agriculture, construction, transport and manufacturing. Although consumer sentiment was lower in June quarter 2012 compared to the previous three quarters, retail trade continued to grow but at a slower pace than in the first half of 2011/12. Employment growth also continued to weaken over the year and it consequently led to an increase in the unemployment rate from 6.6 percent in September quarter 2011 to 6.8 percent in June quarter 2012. Inflation trekked lower over the year and was recorded at 1.0 percent in June quarter 2012 from 4.6 percent in September quarter 2011.

In the year under review, the **Australian** economy grew more rapidly than anticipated. Growth was around trend in the second half of 2011 and was stronger but unsustainable in the first quarter of 2012. After a strong 1.4 percent growth in the first quarter of 2012, the Australian economy grew a modest 0.8 percent in the June quarter. Recent updates indicated households remain cautious as they focus on reducing debt. Consumer spending rose a modest 0.6 percent in the June quarter, while the household savings rate moved higher and housing credit growth slowed to just over 4.0 percent. The housing sector remains subdued as it continues to feel the impact of past tight monetary policy. Although employment growth was below trend over the year the unemployment rate held steady at 5.2 percent. Inflation eased over the year to 1.2 percent in June quarter 2012 from 3.5 percent in September quarter 2011.

Although the economic recovery is set to continue, the forecast sees only a gradual strengthening of activity from the levels seen in early 2012. The outlook remains subdued, largely because policies in major advanced economies have failed to instill lasting confidence. According to the October 2012 World Economic Outlook (WEO) from the IMF, world output will grow 3.5 percent in 2012/13. Advanced economies are forecasted to grow 1.4 percent while the Emerging market and developing economies are expected to grow 5.5 percent. China and India, which are projected to grow 8.0 and 5.5 percent respectively in the financial year ahead, are expected to lead growth in Developing Asia. In the US and Japan, growth has been estimated to be 2.2 percent and 1.7 percent respectively, while the Euro area is expected to contract by 0.1 percent.

With the pace of recovery expected to remain modest in the US in 2012/13, inflation is projected at 1.9 percent and unemployment is expected to fall to 8.2 percent. On the currency front, the US dollar is expected to lose support from its low interest rate status but its haven appeal will be the key source of support amid any negative economic data that point to further deterioration of the world recovery. On the contrary, the Greenback will face a loss of haven support, if global economic data signal a solid recovery.

For the Australasian economies, growth in the New Zealand economy is projected at 2.7 percent, while the Australian economy is forecasted to grow 3.2 percent over 2012/13. Inflation rates for the New Zealand and Australian economies over the year 2012/13 are forecasted at 2.2 and 2.3 percent respectively. The unemployment rate in New Zealand is expected to fall to 6.2 percent in 2012/13 whereas in Australia, the jobless rate is projected to increase slightly to 5.3 percent. Both the Reserve Bank of New Zealand and the Reserve Bank of Australia are expected to continue their accommodative monetary policy stances in 2012/13 in order to foster their economic growths.

NZ Foreign Affairs Minister Murray McCully

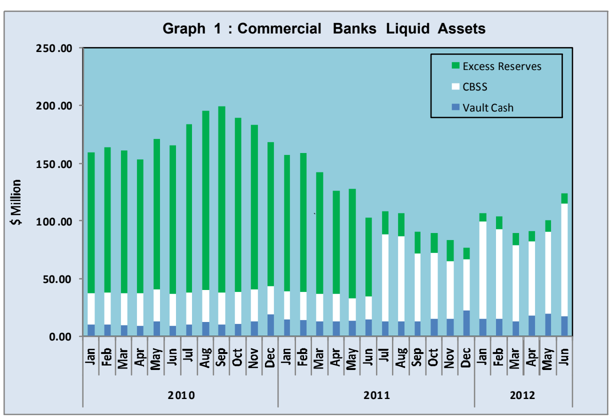
2. The Domestic Economy

Fiscal policy remained expansionary in 2011/12 with another overall Government Budget deficit, to support efforts to boost and sustain growth through the various development projects, particularly road infrastructure and buildings. On the monetary side, with excess reserves of commercial banks remaining at comfortably high levels, monetary policy continued to be eased to encourage commercial bank lending through lower market interest rates.

2.1 Liquidity Conditions

After surging to an average monthly level of $161.2 million in 2010/11, commercial banks' total liquidity shrank to an average of $97.6 million in 2011/12. This mainly reflected a downward trend throughout the first half of the fiscal year under review, going down as low as $76.5 million in December 2011 before picking up gradually to $123.8 million at end June 2012.

During the financial year under review, as part of the Central Bank's monetary policy implementation strategy, the value and volume of interest earning Central Bank Securities were reduced substantially, forcing the commercial banks to hold more and more non-interest bearing reserves – vault cash and exchange settlement deposits at the Central Bank. (See Graph 1.)



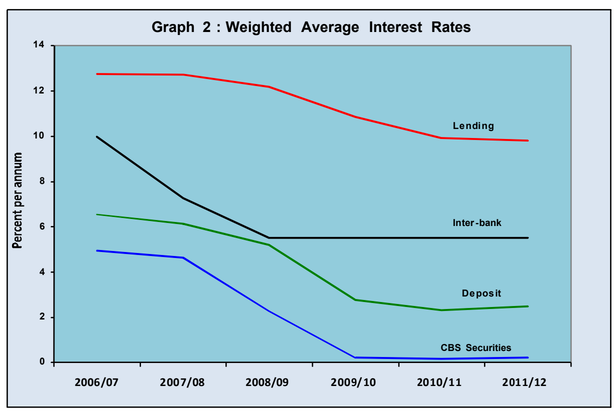
2.2 Interest Rates

The need to inject more funds into the economy saw a further reduction of Central Bank Securities in 2011/12, with the outstanding level reduced to $9.0 million at end June 2012, from $20.0 million at end June 2011. The reduction was aimed at encouraging the commercial banks to lend out their excess reserve funds which otherwise would be earning no interest. Despite the issue yields for CBS securities trending downwards, the bulk of these papers were held in the mid maturity range. This saw the weighted average yield on CBS securities at end June 2012 edge up to 0.21 percent from 0.15 percent at end June 2011. The commercial banks' weighted average deposit rates followed suit, rising to 2.48 percent from 2.31 percent. The rise in the overall average deposit rate largely reflected increased deposit rates by two of the commercial banks as they scampered to boost their liquidity positions. On the opposite end, the weighted average interest rate for lending declined 10 basis points to 9.82 percent in 2011/12, basically reflecting the weak demand for credit. (See Table 1 and Graph 2.)

Table 1.
Interest Rates
(Percent per annum)

End of Period	2008/09	2009/10	2010/11	2011/12
Commercial Banks				
Weighted average lending rate	12.2	10.88	9.92	9.82
Weighted average deposit rate	5.14	2.77	2.31	2.48
Central Bank of Samoa Securities				
Overall weighted average yield	2.28	0.22	0.15	0.21

Source : Central Bank of Samoa



In spite of lower commercial banks' average lending rates, the annual average growth in bank credit to the private sector and public institutions combined shrank to 4.55 percent at end June 2012, from 4.84 percent at end June 2011, due to low demand for credit and a cautionary approach by commercial banks in light of the global recession. This was reflected by a $16.3 million decrease to $761.4 million in the combined level of credit to the private sector and public institutions at end June 2012, from $777.6 million a year ago. The decline over the year was largely underpinned by reduced lending to the 'Building, construction and installation' sector (down $28.1 million) reflecting subdued activities from this industry following the booming reconstruction phase in the last three fiscal years. Smaller declines were recorded for the 'Trade' (down $9.7 million), 'Transportation, storage and communication' (down $6.1 million), 'Agriculture, forestry and fisheries' (down $3.7 million) and 'Electricity, gas and water' (down $2.6 million) sectors in 2011/12. (See Table 2.)

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

End of Period	2008/09	2009/10	2010/11	2011/12
Agriculture, forestry and fisheries	12.53	12.93	17.39	13.66
Manufacturing	26.18	35.87	36.96	43.66
Building, construction and installation	298.54	296.38	296.88	268.8
Electricity, gas and water	26.33	15.04	12.32	9.71
Trade	105.95	108.31	112.59	102.91
Transportation, storage and communication	66.64	68.59	83.4	77.26
Professional and business services	62.13	79.04	107.94	119.36
Other activities	91.96	117.64	110.16	126.01
Total	**690.26**	**733.80**	**777.64**	**761.37**
Annual average change	9.6%	4.1%	4.8%	4.6%

Source : Central Bank of Samoa

Net foreign assets declined significantly by $32.4 million in the year under review, offsetting a $3.1 million expansion in net domestic assets. As a consequence, money supply (M2) decreased by $29.3 million to $705.8 million in 2011/12. Government's net position vis-à-vis the financial system grew by $15.7 million in 2011/12 reflecting the disbursements of Government external loans late in the year. As a result, money supply contracted by 5.5 percent, a stark contrast to the 5.9 percent annual growth rate in 2010/11. (See Table 3.)

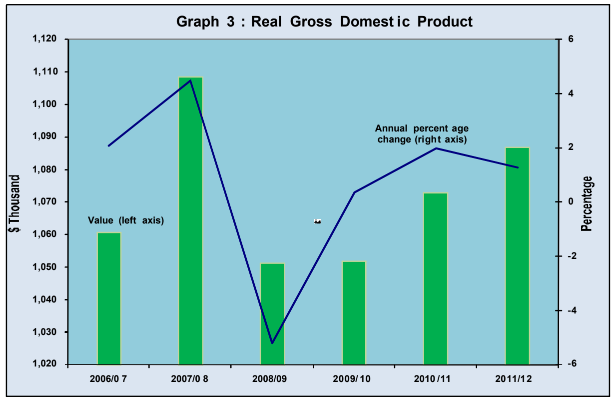
Table 3.
Monetary Survey
(Amounts in Tala Million)

End of Period	2008/09	2009/10	2010/11	2011/12
1. Net Foreign Assets	248.47	364.66	334.07	301.65
2. Net domestic Assets	419.81	376.49	401.02	404.13
(a) Domestic Credit	606.68	560.25	621.65	600.31
(i) Government, net	-86.91	-181.64	-171.40	-187.13
Ministry of Finance	-56.56	-82.65	-84.26	-87.64
Central Bank of Samoa	-38.51	-103.15	-77.62	-73.57
Commercial Banks	8.16	4.15	-9.52	-25.91
(ii) Private Sector and Public Institutions	693.59	741.9	793.06	787.43
(b) Other items, net	-186.87	-183.75	-220.64	-196.18
3. Total Assets = Total Money Supply (M 2)	668.28	741.15	735.09	705.78
Money (M1)	154.61	204.64	220.16	219.33
Quasi-money	513.67	536.51	514.93	486.45
4. M2 Annual average growth rate	*8.9%*	*9.2%*	*5.9%*	*-4.9%*

Source : Central Bank of Samoa

2.3 Real Sector

Real GDP for the fiscal year 2011/2012 grew by 1.3 percent, slowing down from 2.0 percent in 2010/11. (See Graph 3.)



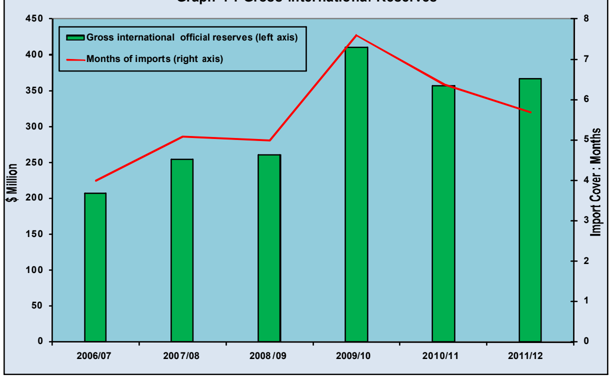
The slowdown in economic growth from the previous year was attributed to the general weakness in the global economy and the impact of adverse weather conditions on certain sectors of the economy. In particular, the 'Other manufacturing' sector contracted 6.0 percent reflecting a decline in overseas demand for automotive wire harnesses. 'Agriculture' output fell 8.8 percent, exacerbated by drought-like conditions in the first half of the year, while the output of the 'Fishing' sector edged down 0.5 percent reflecting the slump in the fish catch during 2011/12. Similarly, the 'Hotels and restaurant' sector slipped 1.2 percent. Stemming some of these downturn was significant Budget spending as Government expedited many of its planned projects leading to the 'Construction' sector gaining 5.5 percent and the 'Public and Finance Administration' rising 3.7 percent.. The 'Food and Beverage Manufacturing' sector expanded by 15.7 percent on increased export sales and demand for beer, one of the main industry in this category. Likewise, the 'Transport and communications' and 'Commerce' sectors grew by 1.2 percent and 2.3 percent respectively while 'Finance and business services' and 'Electricity and water' improved by 3.7 percent and 3.6 percent in that order.

2.4 Balance of Payments

Reflecting improvements in exports, remittances and tourism earnings as well as large disbursements of Government loans, the overall balance of payments in 2011/12 registered a surplus of $10.4 million, compared to the previous financial year's overall deficit of $53.9 million. As a result, the level of gross official international reserves recovered to $367.2

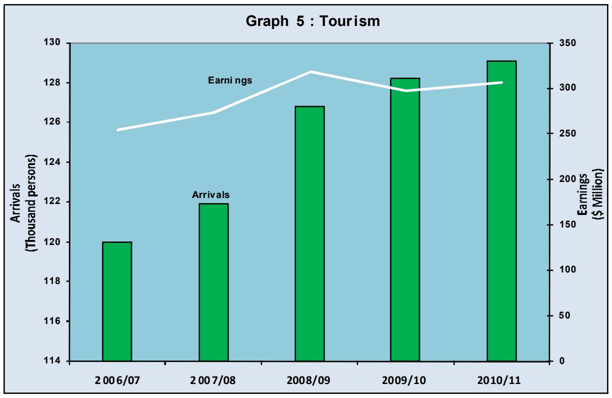
million, from $356.8 million in 2010/11. However, due to a very high level of imports during the year, gross reserves in 2011/12 fell to the equivalent of 5.7 months of imports, from 6.4 months in 2010/11. Nevertheless, it was still above the benchmark target of 4.0 months. (See Graph 4.)

Graph 4 : Gross International Reserves



Tourism activity was robust, particularly in the last two months of 2011/12, with total earnings increasing 9 percent (or $26.0 million) to $332.5 million due to expansions of 4 percent each in tourist arrivals and average tourist spending. Modest increases were noted for visitors from New Zealand, Australia and American S?moa, with a huge influx of visitors, particularly Samoan expatriates, attracted to the celebration of the country's 50th Independence Anniversary in June 2012. Visitors from other countries recorded reduced numbers. (See Graph 5.)

Graph 5 : Tourism

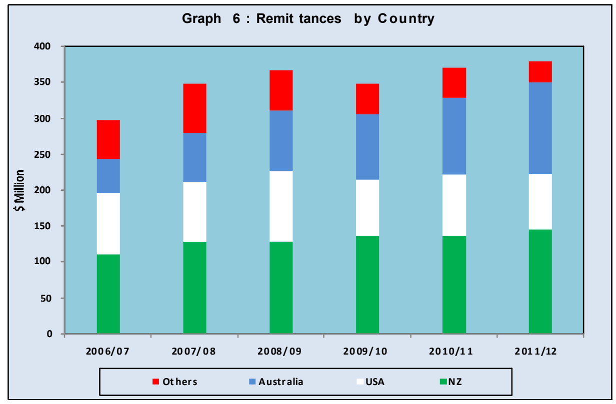


The majority of visitors in 2011/12 were those who were here 'Visiting friends and relatives' at 43 percent, edging up from 42 percent the previous year, followed by those on 'Holiday' with 35 percent (down from 37 percent in 2010/11). New Zealand remained the largest major source market with a 43 percent share, followed by Australia at 20 percent and American Samoa with 19 percent.

Average spending per tourist rebounded by 4 percent in the course of the year, underpinned by a similar increase in Tourism Price Index (TPI). This highlighted large increases in the cost of 'meals and drinks' (up 9.2 percent), and 'other forms of transportation' (up 7.8 percent) as well as 6.2 percent expansions each in costs associated with 'family obligations' and 'miscellaneous' categories. Car rental prices were slightly up by 0.6 percent, whereas 'accommodation' fell 1.8 percent, largely on the back of a weaker US dollar in 2011/12 since most accommodation rates are expressed in US dollar terms.

Export processing services decreased 12 percent in 2011/12 while telecommunication services increased by 12 percent. Private remittances increased a further 6 percent to $392.2 million in 2011/12 (on top of a 6 percent recovery in 2010/11), underpinned by a 29 percent increase in remittances for households as well as a 7 percent (or $2.5 million) growth in funds for Churches. Families remained as the main recipients of funds, with its share edging up 2 percentage points to 75 percent, followed by Churches with a 10 percent share. The main sources of household remittances were New Zealand, Australia and the USA with shares of 37 percent, 32 percent and 20 percent respectively. (See Graph 6.)

Graph 6 : Remittances by Country



The total value of exports surged 23 percent (or $11.6 million) to $62.6 million in 2011/12, largely on account of a $6.5 million jump in earnings from crude coconut oil and a $1.4 million growth in nonu juice exports, compliments of favorable overseas market demand for both these commodities. Modest earnings were also noted for re-exports[1], beer, copra meal, scrap metals, nonu fruit, twisty snacks and drinking coconuts. On the other hand, decreased revenues were recorded for fish, coconut cream, taro and spring water exports. (See Table 4.)

Table 4.
Exports by Comm odity
(Value in Tala Million)

	2008/09	2009/10	2010/11	2011/12
Domestic Exports	**24.56**	**27.44**	**23.45**	**31.96**
Fish	15.17	14.88	11.45	11.20
Nonu Products	3.08	2.04	2.36	2.36
Nonu Juice	*2.94*	*1.74*	*2.17*	*3.57*
Nonu Fruits	*0.14*	*0.30*	*0.19*	*0.21*
Beer	1.96	1.97	1.40	2.53
Coconut cream	1.77	1.43	0.24	0.18
Taro	0.99	0.99	0.91	0.57
Coconuts	0.44	0.42	0.60	0.45
Soft drinks	0.25	0.20	0.14	0.19
Coconut oil	0.28	3.42	4.25	10.79
Scrapm etals	0.00	0.10	0.60	0.90
Others	0.62	2.09	2.10	3.70
Re-exports *	3.54	13.89	26.95	29.76
Total	**28.10**	**41.33**	**50.40**	**61.71**

** Starting from 2010, this includes the re-export of fuel for both aircrafts and ships.*

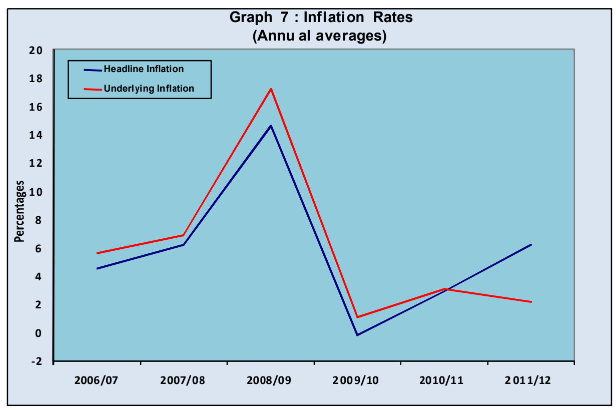
Total import payments grew 16 percent (or $103 million) to $772.8 million in 2011/12, largely underpinned by increased private sector imports. In particular, non-petroleum private sector imports rose sharply by 15 percent (or $72.3 million), mainly on account of a few large one-off items that included a new EPC generator worth $45 million. In addition, petroleum imports grew significantly by 32 percent (or $44.0 million), reflecting increased oil prices during the year as well as strong local demand for fuel. Government imports fell 23 percent (or $12.8 million) over the year.

2.5 Prices

Consumer prices were generally tracking upwards for most of 2011/12, accelerating well beyond the Bank's long term target of 3.0 percent. The prolonged dry spell in the first half of 2011/12 resulted in a sudden spike in local agricultural food prices, pushing the local component of the headline CPI to 8.1 percent, from 1.5 percent at end 2010/11. Other contributing factors included the increase in registration fees by the Land Transport Authority (LTA) and National University of Sāmoa (NUS), increased excise taxes for beer and cigarettes as well as higher prices for some household necessities such as school uniforms and toiletries.

On the import side, weak global demand from the softening of world economic conditions and favorable supplies in some major producing countries during the year saw international prices of food items drop while crude oil prices remained elevated due to ongoing geopolitical concerns and civil conflicts in major oil producing countries especially in the Middle East region. The overall net effect on the rate of imported inflation was a decline to 3.6 percent at end 2011/12, from a 4.6 percent in the previous year.

In the event, the higher local component of the CPI more than offset the slowdown in the import component, accelerating the headline annual inflation rate to 6.2 percent at end June 2012, from 2.9 percent at end June 2011. (See Graph 7.)



And, when the prices of items susceptible to natural shocks and those subject to official price regulations were excluded, the underlying inflation rate slipped to 2.2 percent in 2011/12, from 3.1 percent in the previous fiscal year. (See Table 5.)

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[1]*Re-exports now include the re-fueling of foreign aircrafts and shipping vessels.*

Table 5.
Consumer Price Index
(August 2010 = 100)

Fiscal year to end June	2008/09	2009/10	2010/11	2011/12
	A. Headline Inflation (2)			
	12 months average percent change			
Description				
All Groups	14.6	-0.2	2.9	6.2
Food and Non-Alcoholic Beverages	20.6	-0.9	2.0	9.2
Import Component	15.5	-0.6	4.6	3.6
Local Component	13.8	0.2	1.5	8.1
	B. Underlying Inflation (1)			
	12 months average percent change			
Description				
All Groups	17.2	1.1	3.1	2.2
Food and Non-Alcoholic Beverages	20.5	1.2	4.2	2.6
Import Component	17.3	0.6	3.7	2.4
Local Component	16.8	2.7	1.2	1.5

Source: Samoa Bureau of Statistics.
(1) The historical series for this new index started in August 2003.
(2) CPI figures reflect new weights from the 2008 Household Income and Expenditure Survey.

3. Outlook for 2012/13

The latest forecasts by the IMF point to further weakness in the global economy. Growth rates for the US, Japan and Emerging developing economies have been revised downwards, largely on account of downside risks associated with the European debt crisis and fiscal tightness in the US. World inflation is forecast to remain relatively low as demand softens and commodity prices recede.

With the world economy entering the second stage of the global financial crisis, ***events and information available up to the end of September 2012*** pointed to the Samoan economy recording a modest 1.5 percent growth in real terms in 2012/13, from a 1.3 percent real increase in 2011/12. Although the September 2009 Tsunami destruction has further delayed the recovery of the economy from the GFC, the expected slight improvement is expected to be driven mostly by the large overall deficit in the Government budget as well as moderate gains in the production of most sectors of the economy, particularly the 'Construction', 'Commerce', 'Transport and communication' and 'Finance and business services'. Exports are anticipated to improve but marginally while imports are expected to decline. In addition, significant net disbursements of external loans in 2012/13 should see the balance of payments record an overall surplus pushing the relative level of international reserves up slightly to 6.0 months of imports.

In addition, imported inflation is expected to gradually decline in light of anticipated drop in food prices. Domestic headline inflation rate is also expected to slow down with decreases in local agricultural prices, which will push inflation down to around 1.0 percent in June 2013 from 6.2 percent in June 2012.

On the other hand, there is a concern on the slow growth of private sector investment demand with recent data reflecting the stagnant growth rate in credit to that sector despite recent declines in interest rates. To encourage and stimulate activity in the private sector, monetary policy will continue with its easing stance in 2012/13. The main objective is to support and strengthen the private sector in these trying times. The Central Bank will also continue to promote its Credit Line Facility whereby the Bank lends directly to the Development Bank of Samoa and Samoa Housing Corporation so that funds can be lent to the private sector at low rates, helping to increase local production especially export oriented production and revive consumer demand. Market interest rates are therefore expected to remain low or even decline further in 2012/13, which should encourage productive investments.

This outlook is due for review when all the relevant information up to the end of the first six months of 2012/13 has become available.

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.

During the financial year 2011/12, total liquidity in the banking sector held at healthy levels around $70 to $80 million Tala in the first half of the financial year. By mid-year, increased foreign exchange outflows saw a general decline in commercial banks' excess reserves but a significant depletion of liquidity encountered by one of the major commercial banks dragged total ESA to the year's low of $44 million Tala in December 2011. As foreign reserve inflows improved, total liquidity also returned to comfortable levels around $94 million Tala in the last half of the financial year under review. During the period of decline in excess reserves, the bank that experienced the most liquidity shortfall rediscounted its Central Bank securities but this provided only a temporary fix, and it ultimately led the bank to seek credit in the interbank market. The interbank borrowing rate, as such, decreased to 3.0 percent in December 2011 from the last recorded interbank borrowing rate of 5.50 percent in the financial year 2008/09.

Despite liquidity fluctuations over the year there were adequate excess reserves to sustain open market activity for the year under review. In 2011/12 the number of Central bank of Samoa securities auctions fell to 42 issues, from 47 in the previous year. The total amount floated, also declined to $190.75 million from $235.75 million in 2010/11 as the Central bank continued its efforts to pressure interest rates lower by limiting the level of outstanding securities. The limit on the level of outstanding securities was at $20 million in July 2011 and it was gradually lowered over the year to a targeted outstanding level of $11 million by June 2012. (See Table 6.)

Table 6.
Central Bank Securities
(Tala Million)

	2009/10	2010/11	2011/12
Number of Floats	$52	$47	$42
Amount Floated	$223	$235.75	$190.75
Amount Tendered	$462.5	$483.25	$221.25
Amount Allotted	$223	$226.75	$145.75
Amount Matured	$222.5	$234.25	$156.75
Amount Outstanding	$27.5	$20.0	$9.0

Source : Central Bank of Samoa

Over the year 2011/12, total auctions were oversubscribed by 15.9 percent, an 89.1 percentage point drop from the previous year's oversubscription of the amount floated. The amount floated fell to $190.75 million Tala in 2011/12 from $235.75 million in the previous year. The amount tendered by bidders fell 54.2 percent to $221.25 million in 2011/12, from $483.25 million tendered in 2010/11. Despite total auctions being oversubscribed, the amount floated was not fully allotted, which was the result of some auctions not having received any bids. Consequently, the amount allotted fell short of the amount floated by 23.6 percent. At end June 2012, the face value of securities outstanding totalled at $9.0 million, down from the previous year's $20 million. Of the $9.0 million face value of securities outstanding, none was held in 14-day papers while 11 percent was held in 28-day papers, 33 percent was held in 56-day papers and 56 percent was held in 91-day papers.

The Repurchase facility remained idle in 2011/12 but the Rediscount facility was finally utilized by one of the commercial banks as a result of the significant liquidity shortfall it encountered towards the end of 2011. The employment of this facility led to the rediscounting of $6.0 million Tala in Central Bank of Samoa securities.

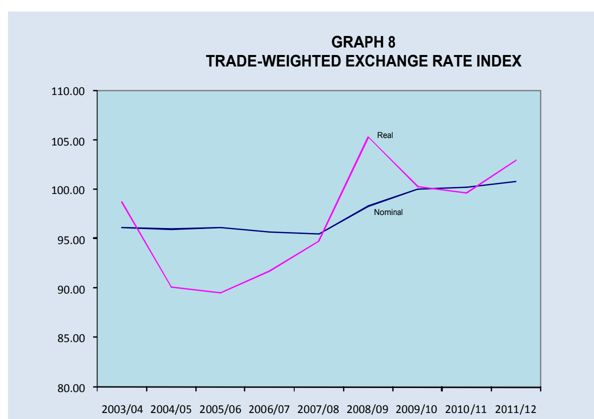
As reported in Section IV (2.2), the overall weighted average interest rate on Central bank securities, while remaining low in 2011/12, increased slightly compared to the previous year. As a result, the gap between the yields on Central Bank securities and the weighted average interest rate on commercial bank deposits of comparable maturities widened but only by a negligible margin because the deposit rates of comparable maturities had also moved slightly higher in 2011/12 compared to the previous year. With the level of interest rates on Central bank securities holding at near-zero levels and the amount of allotted and matured Central bank securities declining over 2011/12, the interest cost of the Central Bank's open market operations, decreased to around $32,000 Tala in 2011/12 from around $63,000 Tala in the previous year. The decline in interest cost was mainly the result of subdued open market activity such as fewer Central bank security auctions and lesser amounts floated and allotted.

2. Exchange rates

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

The exchange rate of the Tala is determined on the basis of a trade-weighted basket of currencies. The basket is based on Samoa's distribution of merchandise trade and tourism earnings and is reviewed annually to reflect changes in trade and payment patterns between Samoa and its major trading partners. Following the review in March 2012, new weights were allocated to the currencies in the basket and the base year applied in the Tala currency calculations was changed from March 2004 to August 2010. The basket still comprises the currencies of the United States of America, New Zealand, Australia and the European Union.

The following chart (Graph 8) shows the movements of the Tala in terms of its Nominal Effective Exchange Rate Index (NEER) and its Real Effective Exchange Rate Index (REER), which is adjusted for changes in prices. In the fiscal year 2011/12, the Tala appreciated by 0.59 percent and 3.33 percent against the currencies in the basket in nominal and real terms respectively. The real appreciation during the period under review was attributed to inflation in Samoa being higher than inflation abroad.



3. Credit Lines to Selected Financial Institutions

The Central Bank of Samoa Amendment Act which was signed into law on 9 December 2010, allowed for the establishment of a Credit Line Facility from the Bank for lending to Government non-bank financial institutions.

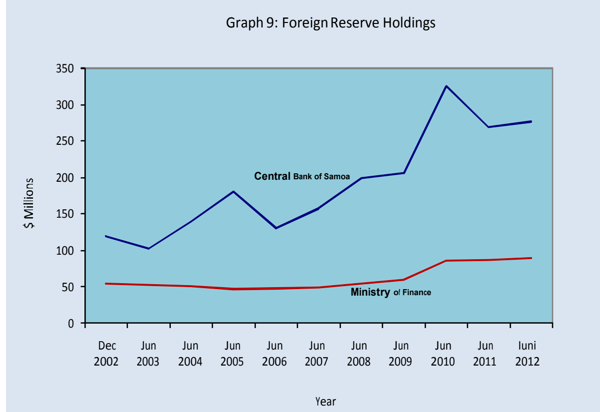
The Credit Line Facility (CLF) is being implemented as part of the Central Bank's monetary policy transmission mechanism. Its main objective is to indirectly influence the conditions in the credit market, particularly interest rates, through the provision of development finance. At the start of the Facility, disbursements were made to selected sectors of the economy such as Tourism, Agriculture and Fisheries, Manufacturing, and Housing. In 2011/12, however, the Facility was opened to all productive sectors.

For the financial year 2011/12, total credit extended under the facility amounted to $9.0 million, with a total disbursement of 77.8 percent to the Housing sector, 3.6 percent to Agriculture and Tourism, and the remaining 18.6 percent to other productive sectors

The facility is available for eligible clients through the Development Bank of Samoa and the Samoa Housing Corporation.

4. Foreign reserves management

Gross official international reserves[2] at end June 2012 increased by 3.0 percent to $366.76 million compared to the same period of the previous financial year, reflecting increases in the Central Bank's foreign exchange holdings of 2.6 percent and the Ministry of Finance's foreign exchange holdings (inclusive of SDR holdings) of 3.3 percent. Of the $366.76 million in reserves, the Central Bank held 75.6 percent while the Ministry of Finance held the remaining 24.4 percent. (See Graph 9.)



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 financial institutions with AA minimum credit ratings.

Interest income from the investment of the Central Bank's foreign exchange holdings in 2011/12 amounted to $8.9 million - a decrease of 33.6 percent from the previous fiscal year. This decrease reflected subdued foreign reserves interest income as gloomy economic conditions for the global economy continued for the period in review. By end June 2012, the Central Banks foreign exchange holdings amounted to $277.18 million.

Of the Central Bank's total foreign exchange portfolio at the end of June 2012, 26.0 percent was invested in New Zealand dollars, 51.6 percent in Australian dollars, 18.1 percent in US dollars, 4.0 percent in British Pounds and 0.3 percent in Euros. Compared to the previous fiscal period, US dollar and British Pound holdings increased while decreases were noted for the New Zealand dollar, Australian dollar and Euro holdings. (See Graph 10.)

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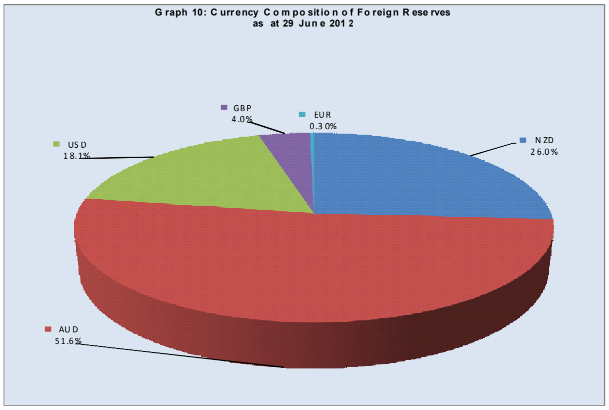
[2]With the adoption of the Fifth Edition of the International Monetary Fund's Balance of Payments Manual, Foreign Reserves have been renamed to Official International Reserves, which includes only the holdings of the Ministry of Finance and the Central Bank of Samoa.



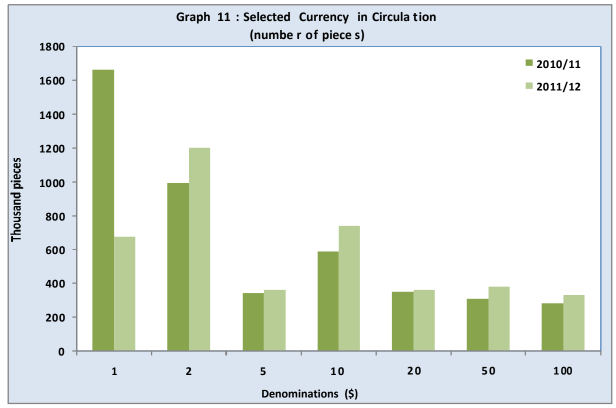
5. Currency Issue

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 2011/12 remained steady at the previous financial year's level, much in line with the consolidation of the local economy. At end June 2012, the value of currency (notes and coins) that circulated in the economy was $73 million. However, reflecting the improved quality of notes in circulation, following the release of new notes into the system in May 2012 prior to the celebration of the 50th Independence Anniversary, new currency notes issued in 2011/12 jumped to $40 million from $35 million the year before.

Leaving aside small denomination coins, the $1.00 coin which was the top denomination in circulation in 2010/11 was replaced by the $2 banknote as the most widely circulated currency unit in the country with the number of pieces circulating at end June 2012 increasing by 17 percent to 1201,653 pieces. The number of $1 coins in circulation, on the other hand, dropped 59 percent to 675,346 pieces. (See Graph 11.) The reduction in the $1.00 coins was due to the mass withdrawal of the old coin from circulation in preparation for the introduction of the new $1 coin. The shortfall in $1 coins in circulation was met by the $2 and smaller denomination coins.

The $10 banknote became the second most popular unit in circulation, increasing to 741,113 pieces in 2011/12 from 589,974 pieces. The $1.00 coin shifted to third placing, while the popularity of the Automatic Teller Machines (ATMs) saw $50 banknotes retain their fourth placing, the $20 took fifth place from the $5. Overall, the number of pieces for all the denominations with the exception of the $1.00 coin increased in 2011/12.



6. 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.

6.1 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 2011/12, three (3) new MTO licenses were issued bringing the total number of MTO licenses issued since 1999 to 33. However, by the end of the financial year under review, 17 MTOs have ceased operations, leaving 16 active MTOs at end June 2012. Similarly, by the end of 2011/12, 3 FEDs have ceased operations, leaving 6 FEDs that remained active at end June 2012.

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.

6.2 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 2011/12, there were 3 offshore borrowing applications approved totaling $0.8 million, in contrast to 7 approvals in 2010/11 valued at $5.7 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, three of the approvals were issued to the "export" and "microfinance" sectors.

For the financial year ended June 2012, the total offshore borrowing of the private sector, non monetary financial institutions and public enterprises with the commercial banks, increased 18 percent to $56.5 million. This represented the 7.4 percent share of total bank credit to this group of borrowers at the end of June 2012, up from 6.0 percent at end of June 2011. 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.

6.3 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, 49 new FCDs were approved compared to 53 in 2010/11. Fourteen (14) of the approvals were for individuals, twenty six (26) were issued to the construction industry, law firms, and insurance companies and the remaining nine (9) approvals were granted to nonresident companies. At end June 2012, FCDs held by residents amounted to $27.3 million which was 8.3 percent lower than at end June 2011. At that level, the share of FCDs of residents of the total money supply (M2) declined to 3.9 percent from 4.1 percent share in June 2011. 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

One of the key objectives and responsibilities of the Central Bank under its mandate is promoting and maintaining financial stability by:

- **registering banks and supervising their activities with broadly accepted prudential standards and examination techniques;**
- **developing prudential supervision of insurance business and other non-bank financial institutions to further strengthen stability of the financial sector and limit financial distress;**
- **providing liquidity to the system as required to minimize short run disturbances; and**
- **administering anti-money laundering legislation and specialized agency to combat the laundering of proceeds of crime and terrorist financing through banks and other financial institutions whether established on-shore or operate through offshore institutions.**

The overriding purposes of these activities are to encourage financial system soundness and efficiency, and to reduce the damage that could arise from a bank failure or other financial system distress.

1. Commercial Banks

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 which concentrates primarily on detecting early signs of weaknesses.

Through regular reviews and analysis of financial information and periodic reports provided by the banks, their current financial performance and conditions are compared against the prevailing prudential standards and legal requirements (including past periods performance) to determine the degree of risks and vulnerabilities inherent by the individual banks and the banking system as a whole.

Continuing consultations and discussions were held with the banks on key areas of their operations which include, among others, the maintenance of the required capital adequacy ratio, undue concentration of credit to single borrowers, liquidity management, profitability performance, 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 2012

For the twelve months under review, the banking system experienced a contraction in the overall level of assets despite a favorable improvement in the level of liquidity during the period. Capital adequacy ratio remained relatively strong as banks achieved sound profitability performance. Furthermore, the quality of banks assets showed some improvement in light of the reduction in the overall level of non-performing loans whilst provision for bad and doubtful debts were sustained at adequate level.

In June 2012, the banking system recorded a drop in total assets of 1.4 percent ($14.3 million) to $1.024 billion against total liabilities of $831.8 million which reduced by 2.9 percent ($24.8 million) respectively.

Much of the reduction in assets was attributed mainly to the decline in loans and advances by 3.3 percent ($26.5 million) to $777.2 million and deposits with banks (mainly deposits with foreign banks) by 23.7 percent ($15.6 million). This was partly offset by the improvement in the level of liquid assets which rose markedly by 20.1 percent ($20.7 million) to $123.7 million over the past twelve months, representing 18.4 percent of total domestic deposits. Furthermore, fixed assets grew by 8.3 percent ($4.8 million) to $62.8 million over the previous year respectively. Total loans and advances and leases to deposits ratio dropped from the high of 103.0 percent a year earlier to 94.7 percent to date.

1.2 Capital Adequacy Ratio

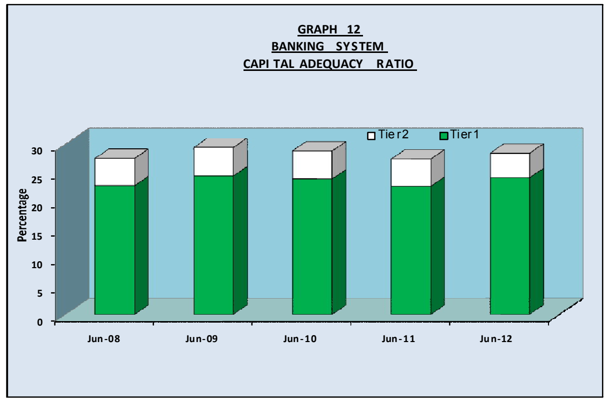
A risk-based capital adequacy ratio is required for all the banks to be maintained at all times in relation to the size and nature of their businesses.

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. As such, 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.

Tier one capital combined amounted to $164.9 million, up 8.6 percent ($12.4 million) from $152.5 million a year earlier due mainly to the strong growth in general reserves and prior year's audited retained profits. This was partly offset by a 6.9 percent decline in Tier two capital as a result of the decrease in unaudited profits, bringing total capital (Tier one plus Tier two) to $194.6 million at the end of the period.

Hence, the banking system remained strongly capitalized with an aggregate ratio of 28.4 percent, up by 1.0 percent from the previous year. Meanwhile, Tier one capital was recorded at 24.1 percent. As such levels, the banking system recorded surplus capital of $92.0 million at the end of June 2012.

These ratios are comfortably above the Central Bank's minimum capital requirements of 15.0 percent and 7.5 percent and indicated potential capacity for the banking system in meeting the demand on financial services and future business prospects. (See Graph 12.)

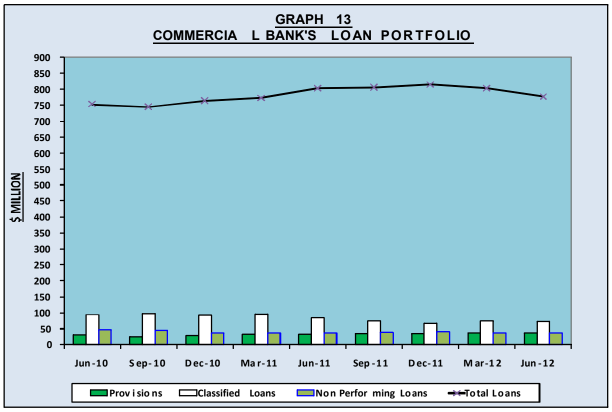


1.3 Asset Quality

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 impaired assets, the bank must ensure that adequate provisions are maintained to cover for potential or identified losses.

In the twelve months to end June 2012, total loans and leases decreased by 3.2 percent ($26.3million) to $787.5 million. Meanwhile, total non-performing loans edged down by 3.1 percent ($1.1 million) to $35.8 million. At this level, it represents 4.6 percent of total loans and leases.

In the meantime, provision for bad and doubtful loans amounted to $35.7 million or equivalent to 99.9 percent of total non-performing loans and reflected 4.6 percent of total loans and leases to date. (See Graph 13.)



1.3.1 Credit concentration risk: Sectoral and Industry distribution of credit exposure:

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 banks' assets and has been one of the major causes of bank losses.

The composition of loans by industries revealed minor changes over the past twelve months although, noticeable movements were highlighted in credit exposure to the building, construction and land industry which declined by $26.0 million from 36.7 percent to 34.6 percent while lending to professional services rose from 13.4 percent to 15.4 percent respectively. Other key industries such as trade and transportation also registered reductions from 14.0 percent to 13.2 percent and 10.4 percent to 10.1 percent in that order. (See Table 7.)

In terms of loans by sectors, the business sector which contributes 51.9 percent showed a relatively strong growth of 7.0 percent ($26.3 million) while household loans which made up 36.7 percent of total loan portfolio registered a decline of 4.2 percent ($12.6 million).

Credit exposure to the Government sector, including non-financial public enterprises and non-monetary financial institutions reduced significantly over the period from 15.0 percent to 10.6 percent (or by approximately $40.0 million).

Table 7
Sectoral distribution of credit exposures
(as a percentage of total credit exposure)

	2011	2012
Agriculture	1.6	1.3
Fisheries	0.5	0.5
Manufacturing	4.6	5.6
Building, Construction & Land	36.7	34.6
Electricity, Gas & Water	1.5	1.2
Trade	14	13.2
Transportation	10.4	10.1
Professional Services	13.4	15.4
Others	16.7	17.4
Foreign	0.6	0.7
TOTAL	**100.0**	**100.0**

1.4 Liquidity Management

The prime responsibility for the prudent management of a bank's liquidity and for determining the appropriate level of liquid assets rests with the bank itself.

Hence, 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.

In essence, the holding 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.

As such, banks are expected to have in place effective systems for managing their liquidity positions.

At the end of June 2012, total liquid assets amounted to $123.7 million, equivalent to 18.4 percent of total domestic deposit liabilities. At this level, it showed an improvement of 20.1 percent ($20.7 million) when compared to the same time a year earlier. In addition, the level of CBS Securities amounted to $9.0 million, showing a marked decrease of 55.0 percent ($11.0 million) as compared to the previous year's level.

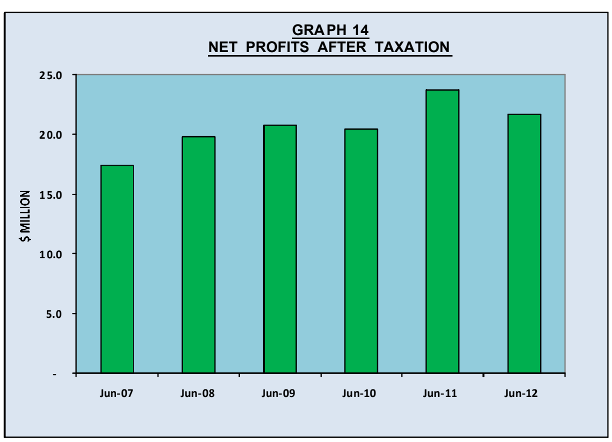
In the matching of loans and deposits by residual maturity, total short term loans (up to 6 months maturity) plus liquid reserve funds amounted to $146.1 million as compared to short term deposit liabilities of $446.1 million.

In the 6 months and over category, long term loans stood at $605.3 million against long term deposits of $245.3 million, revealing a significant mismatch in the residual maturity of funds for the period under review. This trend is however closely monitored in consultation with the banks given the volatile nature of deposit funds in the market in order to ensure banks are able to meet their liquidity obligations at all times.

1.5 Profitability

Based on the banks different accounting periods, the banking system combined profit figure (before extraordinary items and taxation) amounted to $28.9 million, indicating a decrease of 8.7 percent over a year earlier. (See Graph 14.)

Total operating income registered a reduction of 1.3 percent ($1.0 million) while total operating expenses increased by 4.1 percent ($1.8 million) on an annual basis respectively. As such, the efficiency ratio of the banking system showed some impairment with a ratio of 60.7 percent as compared to 57.5 percent a year earlier.



On the income side, the major contributing factors highlighted decreases in interest income and gains on foreign exchange profits by 0.6 percent ($0.3 million) to $46.7 million and 6.3 percent ($1.0 million) which were partially offset by the increase in bank commissions, charges and fees by 2.8 percent ($0.3 million).

In the meantime, the overall growth in total operating expenses by 4.1 percent ($1.8 million) revealed the noticeable rise in management fees by 16.0 percent ($1.1 million) to $8.0 million and 12.3 percent ($1.0 million) increase in other expenses. This was partially offset by decreases in interest expense by 5.4 percent ($0.5 million), salaries and other benefits by 3.0 percent ($0.3 million), bad debts by 9.8 percent ($0.2 million) and rental/occupation costs by 13.8 percent ($0.1 million) respectively.

Return on average assets and net worth decreased to 2.1 percent and 11.6 percent from 2.3 percent and 13.3 percent in the previous year respectively.

1.6 Foreign exchange net open position

The Central Bank closely monitors the 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 2012 stood at $117.7 million, up by $58.9 million, whilst total foreign liabilities of $108.4 million increased by $50.1 million over the same time a year earlier. At these levels, it reflected a net long open position of $9.6 million, equivalent to 4.9 percent of the banking system's total capital (0.3 percent a year earlier).

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.

2.1 Insurance Industry

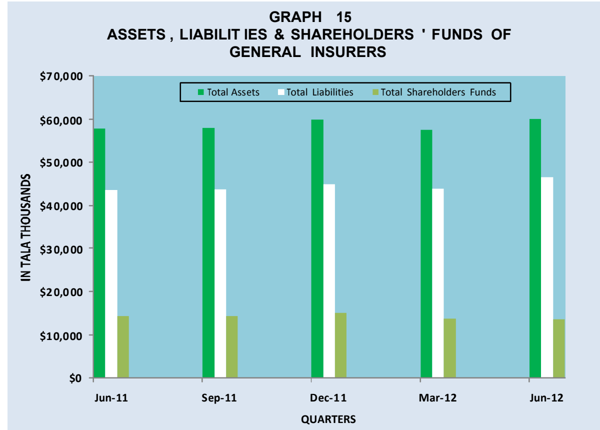
A total of (4) Life Insurers, (4) General Insurers, (4) Insurance Brokers, and (17) Insurance Agents (both corporate and individual) have been issued insurance business licenses having satisfied stipulated requirements under the Insurance Act 2007.

2.1.1 General Insurance

General insurance businesses dominate the insurance market in Samoa. At the end of June 2012, total assets of the general insurance industry amounted to $60.1 million showing a growth of 3.3 percent ($1.9 million) as compared to a year earlier.

The composition of assets comprised mainly of outstanding premiums of $11.3 million (or 18.8 percent); due from reinsurers on outstanding claims amounted to $17.4 million (29.0 percent) and deposits with banks of $20.6 million (34.3 percent) correspondingly.

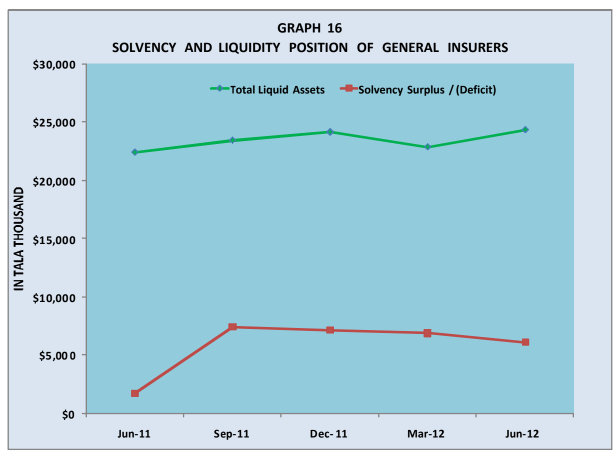
On the other hand, total liabilities stood at $46.6 million, up by 5.8 percent ($2.6 million) annually. The major liabilities comprised of outstanding claims provision of $22.0 million (47.3 percent of total liabilities) and unearned premiums of $15.8 million (34.0 percent) respectively (See Graph 15.)



2.1.2 Insurers' Liquidity and Solvency Position

To date, the industry reported total liquid assets of $24.3 million, the bulk of which are in the form of deposits ($20.6 million) with the commercial banks which provided adequate cover for current liabilities.

In accordance with stipulated requirements under the Insurance Act 2007, the general insurance industry achieved a solvency surplus of $6.1 million, an indication of a steady solvency platform for insurers to manage their underwriting risks (See Graph 16.)



2.1.3 Insurance and Reinsurance Underwriting

As of June 2012, gross premiums written by the industry stood at $21.2 million in contrast to $22.4 million reported in the same time a year earlier. Fire and motor vehicle insurance collected the highest premiums of $7.8 million (36.9 percent) and $6.0 million (28.4 percent) in that order.

Based on each insurer's reinsurance agreement, insurers are allowed to retain a portion of the premiums and reinsured the rest. To date, local insurers retained on average 60.0 percent ($12.7 million) of total premiums and ceded 40.0 percent ($8.5 million) to their reinsurers. Fire remains the most heavily reinsured class of insurance business, representing 60.5 percent ($5.1 million) of total reinsurance outwards.

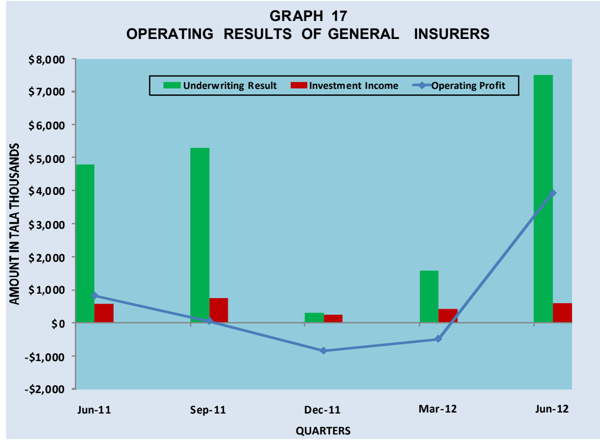
2.1.4 Insurance Claims

Claims lodged to the industry as of June 2012 amounted to $6.5 million ($5.7 million last year). Insurance products with the highest claims were fire and motor vehicles which made up 45.8 percent ($3.0 million) and 21.9 percent ($1.4 million) of total claims correspondingly.

Of total claims, only 17.0 percent ($1.1 million) were met by the reinsurers while local insurers covered 83.0 percent ($5.4 million).

2.1.5 Profitability Performance

Overall, the general insurance industry revealed strong growth with sound profitability performance in 2012 following financial difficulties experienced as a result of the 20907/08 global financial crisis and catastrophic impact of the 2009 Tsunami. As of the end June 2012, the industry reported a combined unaudited net operating profit result of $3.9 million from the low of $0.8 million recorded a year earlier (See Graph 17.)



As such, return on equity and assets rose markedly from 5.8 percent to 29.1 percent and from 1.4 percent to 6.6 percent respectively.

The Central Bank adopted a consultative approach with the insurance industry to ensure compliance with key licensing requirements, regular submission of financial reports and complying with specific requirements of the Insurance legislation.

The other major non-bank financial institutions under the Central Bank's prudential framework includes the Samoa National Provident Fund (SNPF) and the Development Bank of Samoa (DBS). Regular financial returns from these institutions are furnished 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

Similar to all other financial systems, the vulnerability of Samoa's financial system 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 Money Laundering Prevention Act 2007 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.

Continuing efforts have been focused to ensure financial institutions satisfy supervisory and money laundering prevention requirements mandated by the Financial Action Task Force (FATF) and the Asia Pacific Group on Money Laundering (APG) of which Samoa is a member.

In January 2012, Samoa submitted another updated detailed progress report in view of recommendations made in relation to developments of its Anti-Money Laundering and Countering the Financing of Terrorist Activities regime (AML/CFT) since its last report in January 2011 and in conjunction with the mutual evaluation assessment by the APG and OGBS in February 2006.

These reports underwent a comprehensive desk review by an APG review team based on the revised mutual evaluation procedures recently adopted by the APG.

In December 2011, the Money Laundering Prevention Authority co-hosted with AUSTRAC a workshop on Tactical Analysis of Suspicious Transaction Reports (STRs) for all the law enforcement agencies and ministries in Samoa. Also, in June 2012, AUSTRAC assisted in co-hosting an AML/CFT risk assessment workshop for Money Transfer Operators, Commercial Banks, followed by a Know Your AML/CFT Obligations session for Accountants.

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.

The AML/CFT Task Force approved in February 2012 Rules and Procedures for administration of seized assets under the Proceeds of Crime Act 2007. A Confiscated Assets Fund (CAF) account was also established to deposit proceeds of assets confiscated by the Court. At the end of June 2012, the CAF account balance amounted to $5,711 being proceeds of confiscated assets auctioned and sold by the Authority.

4. Financial Intelligence Unit

During the year, the Samoa Financial Intelligence Unit (SFIU) 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 terrorist organisations and enquiries from other law enforcement agencies both domestic and abroad.

For the year under review, a total of twenty (20) suspicious transaction reports (STRs) compared to twenty two (22) reports in the previous year were filed by the financial institutions in accordance with their obligations under the Money Laundering Prevention Act 2007 and Money Laundering Prevention Regulations 2009. Four (4) STRs related to one customer were referred to the TCU and Police for investigation.

The Samoa 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.

Several on-site inspections were carried out on selected financial institutions such as banks, trustee companies and money transfer operators in efforts to assess AML/CFT risks and compliance by these institutions with stipulated requirements of prevailing legislation, as well as, international standards promoted by the FATF.

The Samoa FIU has gained membership to the EGMONT GROUP of FIUs and has signed a Memorandum of Understanding (MOU) with the Indonesia FIU, as well as, a regional MOU signed by eight Pacific countries FIUs. As such, it can now actively engage in sharing and exchanging relevant information that may 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. In moving forward, the SFIU is planning to sign MOUs with other international Financial Intelligence Units in the fight against financial crime, including other serious criminal offences.

The Central Bank is very 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, the Egmont Group of FIUs 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, as well as 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 and partners at both national and international levels in the fight against money laundering and the prevention and suppression of terrorism.

Anti Money Laundering (AM L) workshop 2011

VII. FINANCIAL INCLUSION

Financial Inclusion was formally added to the Central Bank's mandate in December 2010. Its overarching theme is to describe efforts and measures to bring into the formal financial system 'the unbanked' - the low-income population who do not have access to formal financial services.

Measures to empower the unbanked segment of the society to participate fully in the formal financial system, complemented by Financial Literacy which aims to promote and improve people's financial knowledge and awareness, can unlock people's savings and investment potentials and ultimately lead to 'inclusive' economic growth.

The Central Bank continued to partake in the meetings and activities of Pacific Islands Central Bank Financial Inclusion Working Group (PICBFIWG). In line with the agreed focus of the group during the period under review, the Central Bank's work centred around Consumer Empowerment and Market Conduct, and Financial Inclusion Data Measurement.

One of the ways to pursue the Financial Inclusion agenda is the use of innovative and technological channels, namely the use of mobile phones for financial transactions. For the 2011-2012 financial year, only one mobile network operator continued to offer this product. E-money creation increased progressively on a monthly basis that total value of e-money created for the period under review amounted to $0.8 million with a total count of 57 in the provider's agent network.

The period under review also marked the third year running in the Central Bank of Samoa's close collaboration with the MoneyPACIFIC project – a NZ based multi-agency project jointly supported by the Reserve Bank of New Zealand, NZ Ministry of Foreign Affairs, NZ Ministry of Pacific Island Affairs, and AusAID. The MoneyPACIFIC project is dedicated to helping Pacific families manage their money and make the best decisions to achieve their financial goals, while learning to minimise the impact of unexpected bumps along the way. The primary medium for passing these messages has been a colourful, bilingual Pacific wall calendar. The interactive MoneyPACIFIC calendars feature smart financial literacy tips which are extremely relevant to the management of everyday household or personal finances. A table of remittance service providers (RSP) and their service costs also allows the individuals to make comparisons amongst the various RSPs. Remittances contribute significantly to our economy and the work of the MoneyPACIFIC project has been instrumental in reducing the cost of sending remittances and more of it into the beneficiaries' pockets. The Central Bank in key partnership with the Ministry of Women, Community and Social Development has been undertaking the distribution of these calendars with a special focus on communities in rural areas.

Also during the period under review, the third phase of the financial literacy study organized by the Pacific Financial Inclusion Program (PFIP) which began in April 2011 was completed. This included a two week long household survey to measure the level of financial competency against those set of baseline competencies determined in phase one i,e a set of financial competencies which a low income adult will need to knowledgably function in the current money economy in Samoa.

Samoa Financial Competence Survey 12 September 2011

VIII. 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 the financial year under review.

1. Currency Operations

1.1 Replacement of Circulating Coins

In October 2011 the Central Bank launched new circulating coins. The new family of coins is smaller and lighter than the old coins, reflecting the commitment to reducing the cost of minting significantly. The 10, 20 and 50 sene coins are struck in a material known as nickel plated steel, which is a hardy material that is less expensive than that of the original cupro/nickel material. The $2 tala banknote has been replaced with a $2 tala coin struck from a gold colored aluminum/bronze material.

The Central Bank of Sāmoa withdrew all old coins from circulation on the 29th December 2011 and deemed the $2 banknote no longer legal tender on the 29th January 2011.

Governor, Maiava Atalina Enari at the launching of new coins 3 October 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 2011/12.

There were no changes to the currency handling arrangements between the Central Bank and the commercial banks in 2011/12. 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 $30 million worth of unissuable currency notes were withdrawn from circulation and destroyed in 2011/12 compared to $25 million in 2010/11. The withdrawal of damaged and soiled notes 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. The Central Bank remained cautious and promoted public awareness of counterfeit banknotes in 2011/12, launching another year long media campaign, including TV commercial and media releases.

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.

Following the popularity of the new family of banknotes, and the release of the new commemorative $50 tala banknote for the 50th Anniversary of Sāmoa's Independence, the quantity and value of currency sold to collectors increased significantly in 2011/12. The quantity of currency notes increased by 85 percent to 32,557 pieces while the quantity of coins sold to collectors increased significantly from 39,493 to 141,028 pieces.

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 2011/12, 42 auctions were conducted, a drop from 47 in 2010/11. A total of 180 securities were issued in 2011/12, a decrease from 387 in the previous year.

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 2011/12, 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, with the assistance of the World Bank officials, conducted a workshop for CBS on the development of a National Payment System Bill.

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 2012, the Bank's IT infrastructure comprised of 17 systems and applications software packages and 117 units of personal and lap-top computers, printers and photocopiers and other periphery electronic devices, interconnected to each other through five (5) servers, two (2) workstation and three (3) Surveillance 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.

Three (3) Information Technology projects were implemented in the twelve months to the end of June 2012. First was the installation of Kaspersky Business Space Security antivirus for workstations, laptops and file servers protection. The second project was the upgrade of SWIFTNet from release 6.0 which is now in line with SWIFT requirements of release 7.0. The third and final project was the implementation and maintenance of Cobra 4004 machine for sorting, counting and shredding of bank notes.

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

The Central Bank of Samoa continued to place strong emphasis on staff development and career strengthening as had been in previous years. Securing training opportunities, provision of training incentives (both local and overseas), internal movement of staff through promotions and direct transfers and on-the-job training had been (and still are) the principal mechanisms.

The Bank also through its overseas long-term training and local staff education programs provides staff the opportunity to pursue higher education and qualifications with recognized overseas and local tertiary institutions to further enhance their knowledge and skills in their respective areas of work and their long term career with the Bank.

5.2 Overseas Training

During the year, several senior staff had the opportunity to learn from and contribute to short-term trainings, workshops and seminars which were funded by overseas training institutions and government organizations. These training covers a wide spectrum of central bank functions and related activities such as monetary policy, balance of payments and international investment, measuring reserve assets, external debt, macro-economic forecasting, macro-economic management, micro finance, credit risk and financial statement analysis, financial inclusion, disaster risk financing and insurance, on-site insurance supervision, new FATF international standards, money laundering and terrorist finance prevention, AML and Customs international cross border control, and SWIFT. The Central Bank wishes to acknowledge with appreciation the kind donor support of the international community and the venues and hosts of these trainings especially the United Nations, International Monetary Fund/Singapore Training Institute, IMF/Pacific Financial Technical Assistance Centre, Asian Development Bank, Commonwealth Secretariat, Alliance for Financial Inclusion Foundation, APRA, AUSTRAC, PFIP/EU, AFSPC, SPC, De La Rue, Bank of England, Reserve Bank of Malaysia, Reserve of Australia, Reserve Bank of New Zealand, Reserve Bank of Fiji, Reserve Bank of Tonga, and the Financial Supervisory Commission of the Cook Islands.

5.3 Local Training hosted by the Bank

The Bank hosted the following training courses/ workshops during the year with financial assistance from various organizations as mentioned hereunder:

* Samoa National Payment System Workshop - hosted by World Bank and CBS.
* PFTAC/PEMTA Macroeconomics Course – PFTAC and CBS

Pacific Technical Assistance Centre workshop 15 November 2011

5.4 Long term Training

Staff seeking to improve their formal qualifications are supported through this Program which allows them to undertake full-time undergraduate or post-graduate studies in relevant disciplines in any recognized overseas university. The program requires aspiring staff to register their interest and to secure funding from outside sources prior to commencing leave of absence for the full duration of studies. No staff took advantage of this opportunity during the year under review.

5.5 Part Time Educational Courses

Part-time studies with the local tertiary institutions is considered the most popular mode of study for staff in terms of convenience and minimal disruption to their work at the Bank as courses are taught outside normal working hours. Staff is encouraged to utilize this opportunity to obtain relevant higher qualifications in the areas of Commerce, Accounting and Management.

Six staff members are continuing their studies with the National University of Sāmoa, with two at the University of the South Pacific, Alafua campus.

5.6 Work Experience Program and Study Visits

The Work-experience Program aims at assisting students from either the National University of Samoa or Colleges who were selected based on their chosen fields of study such as management, commerce and accounting to prepare them for real life employment before they graduate at year end.

The Bank also entertains educational study visits from secondary schools teachers and students for research studies in the area of economics and accounting. The Research and Statistics Department of the Bank is responsible for taking up these visits either in a group or on an individual basis.

5.7 Staff Recruitment, New Appointments and Promotions

The Bank recruited only one new staff during the year under review.

Two managerial appointments/promotions were made during the year. Two Senior Economists were appointed as Assistant Managers for the Research and Statistics Department.

Two staff resigned during the year to migrate overseas for personal reasons.

Sadly, in August 2011, the Bank lost one of its employees, Mr. Savali Lafaele who passed away while serving as Driver for the Governor's office for a period of over 15 years. His long and dedicated services and contribution to the work of the Bank is acknowledged with sincere appreciation.

5.8 Composition of Staff

Staff turnover has never been a problem with the Bank over the past many years. The Bank continued to retain a reliable and dedicated pool of professional staff since the late nineties. At the end of the financial year to the end of June 2012, the Bank employed a total of 84 staff comprising of 82 full-time staff and 2 part-timers.

5.9 Local Meetings hosted by the Bank

In December 2012, the Bank for the second time hosted the 26th Annual South Pacific Central Banks' Governors Meeting which was attended by Governors, Deputy Governors and Representatives from the Central Banks of the South Pacific Region including Australia and New Zealand.

The meeting was also attended by representatives from various international institutions such as the International Monetary Fund(IMF), the Pacific

Financial Technical Assistance Centre (PFTAC), the Australian Prudential Regulatory Authority (APRA) as well as Heads of the leading commercial banks operating in the Pacific such as the ANZ Bank, Westpac Bank and the Bank of the South Pacific (BSP) of Papua New Guinea.

6. Overseas representations and liaison

The Central Bank of Samoa was represented by the Governor, Management and Senior staff in a number of high level meetings, forums and conferences held overseas as listed hereunder:

* 19th Egmont FIU Group Global Plenary, Yerevan, Armenia;
* APG 14th Annual Meeting & Technical Assistance Forum, Kochi, India;
* Pacific Micro Finance Week, Port Vila, Vanuatu;
* SWIFT Inter Banking Operations Seminar, Toronto, Canada;
* ADB/OECD 16th Steering Group M eeting & 7th Regional Anti-Corruption Conference for Asia and the Pacific, New Delhi, India;
* Commemorative Coins Symposium, Auckland, New Zealand;
* IMF – High Level Conference on Gross Data Dissemination System, Sydney, Australia;
* Financial Inclusion Data Working Group (FIDWG) meeting, Zambia;
* IMF/World Bank Annual Meetings, Washington DC., USA;
* ADB Annual Meeting, Manila, Philippines;
* Sāmoa International Finance Centre Promotion in Asia;
* Delarue Regional Conference (Asia Pacific), Auckland, New Zealand; and
* Alliance for Financial Inclusion (AFI) Associates Policy Champions and Working Group Chairs Meeting and Financial Inclusion Working Group Meeting, Kuala Lumpur, Malaysia.

The Central Bank's attendance in these high level meetings have been made possible under the auspices of several international multilateral institutions as aforementioned.

In addition, the Central Bank wishes to acknowledge with appreciation the invaluable training opportunities, financial support and technical assistance, provided by the international institutions mentioned earlier, which contributed either directly or indirectly to further enhance staff development and capacity building for the Central Bank.

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). A monthly Interest Rates Report was added to the list of publications in 2011/12 providing detailed information on interest rates for the benefit of consumers and financial market participants. Special reports and updates were also compiled 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 its 100 percent occupancy rate with 66 percent of its office space rented out to five tenants on long term lease agreements.

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. In addition, the Uninterrupted Power Supply (UPS) system ensures minimum loss of computer data for both the Bank and its Tenants in the event of any sudden EPC power outages. This is also complemented by a well maintained diesel generator which provides back-up electricity supply whenever the main EPC power shuts down.

Fire and Tsunami Drill exercises are regularly carried out in co-ordination with the Fire Services Authority to ensure all occupants are alert and made aware of safety procedures in the event of a major catastrophe.

Regular repairs and building maintenance are carried out to ensure a high standard of building condition is maintained at all times.

9. Community Services

During the year under review, the Bank made some modest monetary contributions/donations to various charitable organizations/institutions/bodies to assist with various development projects.

In addition, the Bank, as part of its Financial Literacy Program distributed free calendars (which were kindly donated by the MoneyPacific company with funding from the Reserve Bank of New Zealand) to various schools and other institutions for financial education purposes.

The Bank also provides maintenance and upkeep of the children's playground facilities located right behind its building.

IX. CENTRAL BANK FINANCIAL PERFORMANCE

The negatiive effects of the financial crisis in the twelve months to the end of June 2012 were evidently on the Central Bank's financial reports. Total surplus from Foreign Exchange Revaluation decreased from $16.8 million at end of June 2011 to $6.8 million at end of June 2012. This was reflected by the Unrealised profits reserve account and was the major contributing factor behind the Bank's overall loss as classified according to international financial reporting standards.

1. Audited Accounts

Appearing at the end of this Annual Report are the audited accounts of the Bank for the financial year 2011/12 (FY2011/12) ending 30 June 2012.

At the close of FY2011/12, total assets and liabilities of the Bank increased $22.6 million. On the assets side, major increases were noted in both local currency assets and foreign currency assets by $15.6 million and $7.0 million respectively. The increase in local currency assets was mainly due to the increase in currency inventory and credit line facilities issued out to selected financial institutions namely the Development Bank of Samoa (DBS) and the Samoa Housing Corporation (SHC). The increase in foreign currency assets was largely the effect of increased fixed deposits in the Central Bank's foreign investments.

On the liabilities side, an increase was recorded in total foreign currency liabilities of $38.0 million due mainly to the reclassification of the IMF Exogenous Shock Facility fund and increases in total commercial bank deposits held with the Central Bank. The total increase in foreign currency liabilities was partly offset by decreases in total capital and reserves of $11.2 million and local currency liabilities of $4.2 million.

The Central Bank made a net loss for the year of $11.2 million compared to a restated net profit of $9.3 million recorded in FY2010/11, a reduction in profitability of $20.5 million.

The decrease in profitability of the Central Bank of $20.5 million in FY2011/12 was the net result of the decrease in total income of $3.9 million mainly due to drop in interest income on overseas investments, reduction in gains on translation of foreign currency monetary assets and liabilities of $13.9 million, and the increase in total expenses of $2.7 million. Ninety two percent of the total reduction in net gains on translation of foreign currency monetary assets and liabilities was due to the re-classification of net realized gains to net unrealized gains previously included in the computation of FY2010/11 distributable profit.

The decrease in total income (other than revaluation gains/losses) of $3.9 million was mainly related to the decrease of $4.4 million in interest income from overseas investments, partly offset by minor increases in interest income from lending and other income. The increase in total expenses of $2.7 million was mainly due to the increase of $2.7 million in currency issue costs as a result of the revised approach for currency issue costing.

Due to a net loss position declared by the Bank, there was no dividend proposed to be paid to the Government for 2011/12 Financial Year.

X. CHRONOLOGY OF IMPORTANT MONETARY, PRUDENTIAL AND RELATED EVENTS IN 2011/12

2011

August:

Central Bank macro-economic forecasts and monetary policy stance for 2011/12 were considered by the Board. The Board approved the continuation of accommodative monetary policy to stimulate economic growth.

September:

On the 9th, the Board approved raising the paid up capital of the Bank from $10 million to $20 million.

October:

On the 3rd, the new family of circulating coins comprising of the 10, 20 and 50 sene coins and the $1 and $2 coins was launched by the Prime Minister, replacing the old 1, 2, 5, 10, 20, 50 sene and $1 coins and the $2 banknote.

November

The 26th Annual Meeting of the South Pacific Central Bank Governors was held in Apia, hosted by the Central Bank of Samoa.

The Central Bank's Monetary Policy Statement for the financial year 2011/12 went to print.

2012

February:

MoneyPacific Wall Calendars for 2012 were distributed throughout Samoa with the assistance of the Ministry of Women, Community & Social Development. The Calendars provide useful financial literacy tips for individuals and families.

March

The Bank's macro-economic forecasts for 2011/12 were updated and considered by the Board. The Board approved for monetary policy to remain eased.

On the 12th, the exchange rate basket, which was reviewed and approved by the Board on the 9th, became effective. The basket still comprises the currencies of NZ, USA, Australia and the European Euro. Trade and Tourism remained the key components for calculating the currency basket weights.

April:

IMF Article IV Consultations were held from the 10th to the 20th.

May:

The 2012/13 Government Budget was tabled in Parliament, with an overall budget deficit equivalent to 6.1 percent of nominal GDP in GFS format, financed largely by external soft term loans and external grants.

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