



CENTRAL BANK OF SAMOA

ANNUAL REPORT

July 2017 / June 2018



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Government of Samoa

OFFICE OF THE MINISTER OF FINANCE

31 October 2018

The Honourable Speaker,
Legislative Assembly of Samoa
MULINUU

Pursuant to section 67 of the Central Bank of Samoa Act 2015, I have the honour to submit the Annual Report of the Central Bank of Samoa on its operations for the financial year ending June 2018.

A handwritten signature in black ink, appearing to be 'Sili Epa Tuioti'.

Sili Epa Tuioti
Minister of Finance



PLEASE ADDRESS CORRESPONDENCE
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31st October 2018

Honourable Sili Epa Tuioti,
Minister of Finance,
Matafele,
APIA

Lau Afioga,

I have the honour of submitting the 31st Annual Report of the Central Bank of Samoa for the financial year ending June 2018. This Report provides:

- (a) a review of economic performance, the formulation and implementation of monetary policy
- (b) a review of the financial performance, conditions and developments in the domestic financial system;
- (c) a report on the Bank's operation, and
- (d) the Bank's annual accounts for the 12 months ending June 2018 and its related Audit Report/Opinion.

Yours faithfully,



Maiava Atalina AINU'U-ENARI
GOVERNOR

Our Purpose

The primary purpose of the Bank is the promotion of monetary, credit and exchange conditions most favourable to the development of the economy of Samoa

Our Vision

Leading Samoa to economic prosperity

Our Mission

The Central Bank of Samoa is committed to excellence:

- In ensuring monetary and financial system stability,
- In fostering a sound and progressive financial sector,
- In conducting monetary policy to achieve sustained economic growth for the benefit of Samoa

Our Mandate

Central Bank of Samoa Act 2015

The Central Bank of Samoa is a body corporate established under the Central Bank of Samoa Act 1984, which continues to operate pursuant to the Central Bank of Samoa Act 2015.

The mandated objectives of the Bank (CBS Act 2015), in order of priority are:

- i. To formulate and implement monetary policy aimed towards achieving and maintaining domestic price stability.
- ii. To foster and maintain a stable financial system, subject to achieving price stability in the economy.
- iii. To support the general economic policies of the Government whilst ensuring the achievement of price stability and a stable financial system.

Financial Institutions Act 1996

The Central Bank also administers the Financial Institutions Act which provides for the licensing and supervision of financial institutions in Samoa.

The primary objective of the Central Bank is to maintain confidence in, and promote the soundness and stability of the financial system.

Money Laundering Prevention Act 2007

The Act mandates the Central Bank to make provisions for the prevention of money laundering.

Insurance Act 2007

This Act empowers the Central Bank to license insurance entities and supervise the insurance industry.

The National Payments System 2014

This Act provides the Central Bank with powers to regulate and oversee the National Payments System including licensing payment services providers and operators.

Leadership and Organizational Structure

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.

a) Board of Directors



Board of Directors 2017/2018

Sitting: Matai'a Alofipo Tanielu Meredith (Member), Maiava Atalina Ainuu-Enari (Chairperson), Tuala Falani Chan Tung (Member)
Standing: Tuala Patrick Isitolo Leota (Member), Namulauulu Sami Leota (Member)

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 2015; 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 five (5) Members of the Board comprises the Governor, Mrs. Maiava Atalina Ainuu-Enari who is the Chairperson, and four independent Board members who are citizens of Samoa with industrial, commercial or agricultural experience. The independent Board Members are Mr. Mataia Alofipo Tanielu Meredith, Tuala Falani Chan Tung; Namulauulu Sami Leota and Tuala Patrick Isitolo Leota.

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 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 six (6) occasions during the twelve months to the end of June 2018.

b) Governance

There are a number of internal committees within the Bank to provide advice to the Governor in various areas:

- Reserve Money Program Committee, which meets monthly to discuss the latest economic, monetary and financial developments that would impact on liquidity levels within the banking system;
- Investment Committee, which meets every two months to discuss the Bank's management of foreign reserves;
- Budget Committee, which meets twice a year to discuss issues with regards to the preparation and operations of the Bank's Budget.

Additionally, there are two specially formed committees:

- National Payments System Committee, which meets regularly to discuss issues relating to the establishment and effective operation of the National Payments System in the country;
- Offsite Project Committee that was established to discuss and coordinate procedural responsibilities in the establishment of the Bank's Backup or Offsite building in the event of natural disasters, times of crisis or emergency.

A non-executive Board Audit Committee, provides auditing oversight over the operations of the Bank. The Committee serves as an independent advisory body mandated to review the functioning of the CBS oversight system; internal and external audit matters; and financial management, accounting and reporting practices. They also ensure the Governor and management team conduct their daily operations in line with best practice and good governance. The Internal Auditor provides administrative and secretarial support to the Audit Committee. As such, the Internal Auditor reports administratively to the Governor and functionally to the Audit Committee.

Management continued to perform periodic reviews and surveys of the most critical areas of the Bank to ensure that risks were controlled and mitigated. Comprehensive reviews were undertaken on internal control systems to ensure that the Bank is efficiently run, operationally sound, technologically well equipped, and risks are mitigated. A close monitoring of the Output budget is undertaken regularly. The focus is mainly on delivering results and implementing preventative actions.

Management also continued to provide a wide assessment of the risks, as well as appropriate compliance review, to provide 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 advice to address key governance issues which are fundamental to achieving and maintaining an effective and efficient Central Bank.

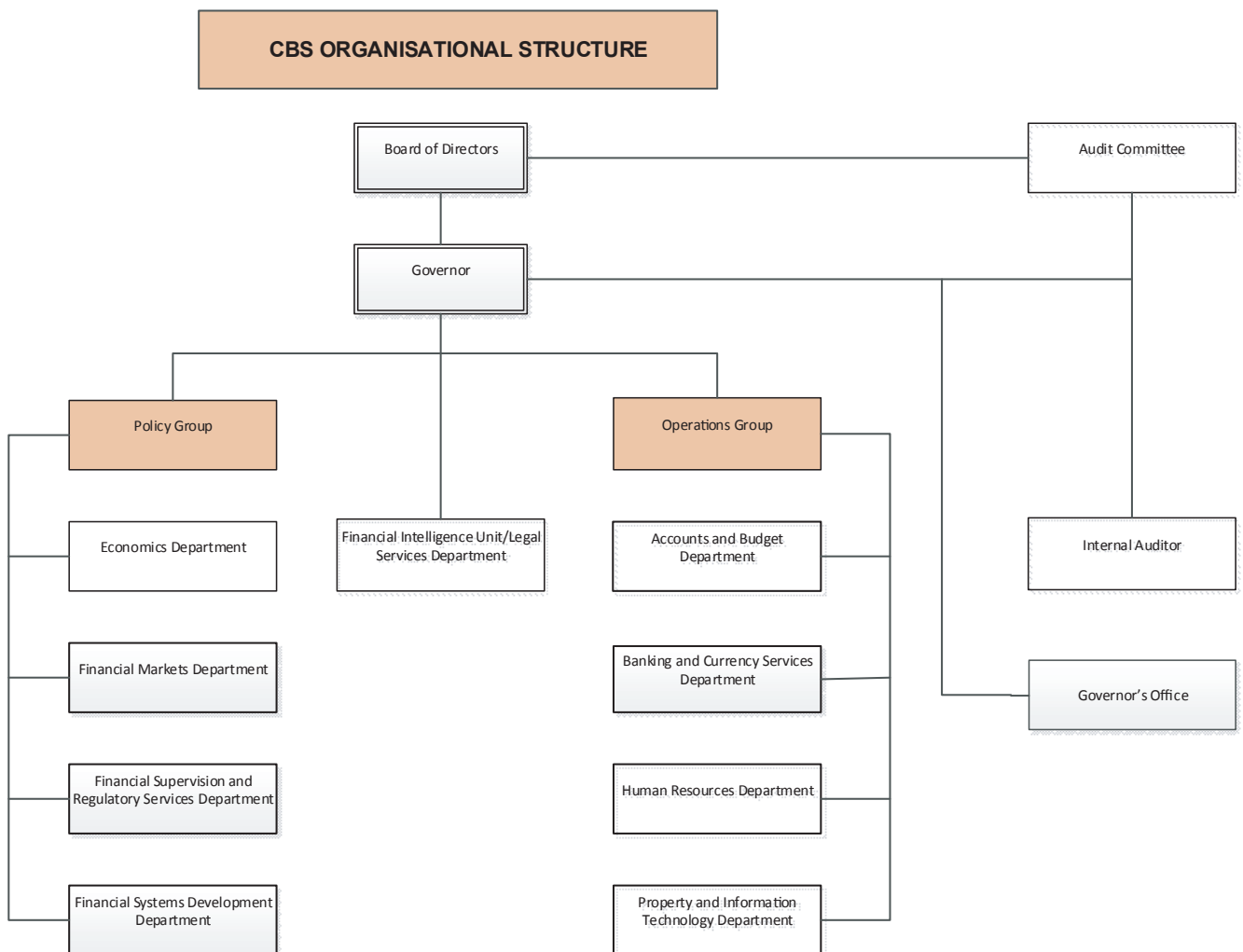
c) Management and Staff

The Central Bank employed a total of ninety eight (98) staff at the end of June 2018.

The Bank reviewed and developed several staff policies during the year to improve human resource management and monitoring of staff training.

The Bank's Organizational Structure remained the same as in the previous financial year with twelve (12)¹ Departments based on operations and functions allocated under two functional groups (Policy and Operation) under the leadership of two Assistant Governors.

Central Bank of Samoa Organizational Structure FY 2017/2018



¹ Legal and Financial Intelligence Unit are counted as 1 Department under the Structure, rather than two (2).

Table of Contents

I.	Governor's foreword	1
II.	Monetary policy formulation and the economy	3
III.	Monetary policy implementation and exchange control	6
IV.	Financial System Supervision	10
V.	Financial System Development	17
VI.	Money Laundering Prevention and Countering of Terrorist Financing Activities	19
VII.	Corporate Services and Administration	22
VIII.	Central bank financial performance	27
IX.	Chronology of important monetary, prudential and related events	28

I. Governor's Foreword

The major events of the financial year 2017/2018 brought to the fore the vulnerability of small open island economies like Samoa to international developments and natural disasters.

At a global scale, the world economy's growth momentum, while continuing gradually, has come up against risks that are more on the downside. Ten years on since the start of the global financial crisis, global economic growth has steadily recovered with a 3.7 percent growth estimated for 2017/2018 by the International Monetary Fund (IMF). While this was slightly higher than the 3.5 percent growth in 2016/2017, it was nonetheless lower than earlier expectations following a string of mounting headwinds which has weighed heavily on the global economy since the start of 2018. These included the rise of US trade protectionist measures flaring up tensions with some of the top global economic powers, increasing oil prices and political uncertainties in the advanced economies amongst other factors.

Domestically, the major challenges to the Samoan economy in 2017/2018 included the complete closure in August 2017 of the largest private sector manufacturing company in the country, Yazaki EDS (Samoa) Limited. This was due to the closure of the car (Ford) manufacturing industry in Australia, which was the main market for Yazaki's wire-harnessing products. Furthermore, with the current frequency of natural calamities around the globe, Samoa also endured its share of these adverse climatic conditions, with Tropical Cyclone Gita hitting the country in February 2018.

Due to rising oil prices, global inflation trended higher to an estimated 3.3 percent in 2017/2018, from 2.7 percent in the previous year. Samoa was not immune to this development, which together with the weight

of increased local food prices after TC Gita exerted greater inflationary pressure in the economy. As a result, the headline inflation rate accelerated to 3.7 percent at the end of the financial year 2017/2018 from 1.3 percent in 2016/2017. The short term outlook for inflation however, is expected to trend back to within the Central Bank's price stability target of below 3.0 percent, as inflationary pressures following a natural disaster are always a temporary trend. Against this backdrop, the Central Bank continued its easing monetary policy stance to assist fiscal policy efforts to stimulate further activities in the Samoan economy.

Overall, the larger than expected reduction in overall manufacturing activities in the economy, following the closure of the Yazaki manufacturing plant, as well as the drop in output from the agricultural, fishing and transportation sectors contributed to the slowdown in real economic growth to 0.7 percent at end June 2018 from 2.7 percent in the previous year. Nevertheless, Samoa's external sector remained positive with an overall balance of payment surplus of SAT\$109.8 million, reflecting amongst others, the strong improvements in visitors' earnings, private remittances and large inflow of grant budgets support funds received during the year. As a result, Samoa's official gross foreign reserve levels remained comfortably high at an equivalent of 6.1 months of imports in 2017/2018, compared to 4.8 months in 2016/2017.

Outside its traditional monetary policy channels, the Bank also approved a new credit line facility (CLF) valued at SAT\$10.0 million that was made avail-

able through the Development Bank of Samoa (DBS) to support and provide economic stimulus following the impact of TC Gita earlier in the year. This new CLF is for eligible clients within the small and medium enterprises category only in the agricultural, manufacturing and other business sectors.

With our prudential responsibility, I am pleased to report that Samoa's financial system remained stable and sound in 2017/2018. The banking system achieved a comprehensive profitability performance and a steady capital adequacy ratio of 27.3 percent, comfortably ahead of the Central Bank's minimum capital requirement of 15.0 percent. Similarly, the insurance industry performed well, sustaining steady growth in profitability of SAT\$6.5 million, despite a strong increase on claims paid by general insurance to claimants as a result of TC Gita.

As part of our efforts as the lead agency to combat money laundering and counter terrorist financing activities in Samoa, amendments to the Anti-Money Laundering Prevention Act 2007 were undertaken and endorsed by Parliament in June 2018. This ensured that Samoa's anti-money laundering framework was strengthened and consistent with international standards as set by the Financial Action Task Force (FATF).

This year also saw the increasing global phenomenon that is cryptocurrency. While this technological development has its benefits, there are also risks that central banks and regulators worldwide have had to quickly address, particularly where fraudu-

lent activities were identified. In view of this, the Bank in the latter half of this financial year issued various public awareness programs to inform the general public of the risks of one such cryptocurrency program known as One Coin, which has reached our shores. We will continue to undertake similar public awareness programs on any other identified area of concern, to ensure Samoa's financial system is safe and robust against any money laundering and/or terrorist financing activities.

The Bank also continued with its commitment to foster a sound and progressive financial sector. As part of our efforts to modernize Samoa's national payment system, we continued to work closely with the World Bank/International Finance Corporation to finalise the procurement of the Automated Transfer System (ATS+) and Central Securities Depository (CSD) software package. Works to have these in place for the financial system, as soon as practicable, are ongoing. With the current infrastructure, we note there has been further improvement in financial services provided by our financial sector. As at 30 June 2018, access points servicing Samoa consisted of 24 commercial bank branches, 65 Automatic Teller Machines (ATMs), 548 Electronic Funds Transfer at Point of Sale (EFT-POS) outlets and 81 cash-in & cash-

out bank agents (merchant stores). During the year, the Bank had the pleasure to co-host two regional events in Apia, which brought a number of participants from around the Pacific Region as well as representatives from international organizations and companies. These events were the:

- De La Rue Pacific workshop, held in November 2017 in partnership with De La Rue, a United Kingdom company that prints banknotes for most of the central banks in the region, including Samoa.
- 4th Pacific Island Regional Initiative Annual Meeting in June 2018, in collaboration with the Alliance on Financial Inclusion (AFI).

These two events are only some of the many opportunities that the Bank is involved in to provide capacity development and knowledge enhancement for its staff, particularly in the wake of ongoing technological changes that also presents challenges to our central banking functions. The Bank will continue to provide capacity development programs and support for the staff, not only for its sustainability but also in its commitment to ensuring Samoa's monetary and financial system is sound and stable.

In view of its operations, the Bank's budget position continues to be influenced by global developments,

particularly the volatile exchange rate movements and that of the ongoing low interest rate environment worldwide which subsequently impacts on the Bank's primary source of revenue, its interest income on foreign reserves holdings. As such, the Bank recorded a total net profit of SAT\$3.0 million in 2017/2018 compared to SAT\$6.0 million in the previous year.

With the events, developments and challenges of 2017/2018, I wish to extend my gratitude and appreciation to the Board of Directors for their support and guidance. I also acknowledge with thanks the management and staff of the Central Bank of Samoa, for without your team work, passion and commitment, our journey throughout the year would not have been successfully completed.



Maiava Atalina Ainu'u-Enari
GOVERNOR

II. Monetary policy formulation and the economy

The Samoan economy slowed down significantly in FY2017/2018, given weak economic activities and despite the continued relaxation of monetary conditions. With a marked improvement in the banking system's liquidity levels, market interest rates continued to be at historical lows, particularly those for average lending rates which remained below 9.0 percent.

1. The World Economy²

According to the IMF's October 2018 World Economic Outlook (WEO), global growth is estimated to be 3.7 percent in 2017/18, slightly up from 3.5 percent in 2016/17. This reflected a 2.4 percent growth in advanced economies (compared to 2.0 percent in the previous year) and a 4.7 percent expansion in emerging market and developing economies (compared to 4.6 percent in FY2016/2017). The major contributors to global growth were the United States, European Union, Canada and Australia to name a few, reflecting strong economic activities in the six months to December 2017. Improvements in Russia, Brazil and India supported the growth of the emerging markets. However, the latter half of the year indicates an uneven growth momentum, amidst increasing downside risks stemming from trade tensions in recent months as well as increasing oil prices and diverging yields in the global financial markets.

For FY2018/2019, the latest IMF WEO points to the global economy maintaining growth at 3.7 percent, as expansions for emerging market and developing economies are expected to remain at 4.7 percent, while the advanced economies decline to 2.3 percent. The latter is on the back of downward growth revisions for 2018 in some of the advanced economies (namely the Euro area, Japan and the United Kingdom after unexpected weak economic activities earlier in the year). The United States, on the other hand, continues to record favourable economic data, underpinning its approach to gradually tighten its monetary conditions. If trade tensions between the US and its major trading partners (particularly, China, the European Union and Canada) escalate further, this amongst other risks (such as natural disasters and political unrests in the European Union) would undermine the global growth outlook in the short term.

On the inflationary front, although pressures continued to pick up gradually for most of Samoa's major trad-

ing partners, their inflation rates still remained lower than their average annual targets of around 3.0 percent. The exception was New Zealand whose inflation rate fell below its annual mid-point target of 2.0 percent, but is expected to trend upwards in the near future on the rebound in international fuel prices. On the other hand, labour market conditions continued to improve worldwide, with decreased unemployment rates for Samoa's major source markets for tourism revenue and private remittances, namely New Zealand, Australia and the USA. (Refer to Table 1).

With the steady improvements in global economic conditions, intensifying risks and ongoing volatility in FY2017/2018, most major economies maintained highly accommodative monetary policy stances, except for the US which has continued with its gradual tightening approach.

Overall, the following monetary policy actions were undertaken by the major reserve banks in FY 2017/2018:

- The US Federal Reserve Bank of

Financial year (end June)	Samoa's main trading partners									World Economic Performance		
	New Zealand			Australia			United States of America			Real GDP growth rate	CPI Inflation rate	Unemployment Rate
	Real GDP Growth	CPI Inflation Rate	Unemployment Rate	Real GDP Growth	CPI Inflation Rate	Unemployment Rate	Real GDP Growth	CPI Inflation Rate	Unemployment Rate			
<i>Year on Year Change (%)</i>												
2010/2011	1.1	5.3	6.0	2.2	3.5	4.9	1.7	3.6	9.1	3.9	4.5	5.7
2011/2012	2.8	1.0	6.3	3.8	1.2	5.2	2.4	1.7	8.2	4.4	3.4	5.6
2012/2013	2.3	0.7	6.0	2.1	2.4	5.7	1.0	1.8	7.5	3.0	3.4	5.6
2013/2014	3.0	1.6	5.3	2.8	3.0	6.1	2.7	2.1	6.2	3.4	3.5	5.5
2014/2015	3.8	0.4	5.5	3.1	1.5	6.1	3.3	0.1	5.4	3.4	3.0	5.5
2015/2016	4.4	0.4	5.1	3.3	1.0	5.8	1.2	1.0	4.9	3.3	2.5	5.5
2016/2017	2.8	1.7	4.8	1.9	1.9	5.6	2.2	1.6	4.4	3.5	2.7	5.6
2017/2018	2.8	1.5	4.5	3.4	2.1	5.4	2.9	2.9	4.0	3.8 (est)	3.1 (est)	5.6 (est)

Source: IMF July 2018 Updated WEO, ILO (for World Unemployment rate), Bloomberg, TradingEconomics, WPC Australia & NZ Weekly Updates and specific country's statistics authorities

² Sources: IMF World Economic Outlook, Bloomberg, Westpac Market Outlook

New York (FRBNY), as expected, raised its policy rate three times by a total of 75 basis points from a target range of 1.00 percent to 1.25 percent at end FY2016/2017 to 1.75 percent to 2.00 percent; its highest level since the 2008 Global Financial Crisis.

- The Reserve Bank of Australia (RBA) maintained its cash rate at a low of 1.50 percent following moderate economic growth and expectations for lower unemployment rates and a gradual pickup in inflation during the year.
- The Reserve Bank of New Zealand (RBNZ) maintained its official cash rate at 1.75 percent as it aimed to maximise sustainable employment and maintain low inflation in the country.
- The Bank of England raised their policy rate by 25 basis point to 0.50 percent in November 2017, reversing the 25 basis point cut in August 2016. This policy decision followed expectations for medium term inflation to trend towards its target level as well as the release of positive indicators on the UK economy despite the uncertainty surrounding the country's exit from the European Union.
- The People's Bank of China maintained its official policy rate at 4.35 percent, as the authorities continue to pursue a prudent and neutral monetary policy to address financial leverage and assist in economic reform efforts. (Refer to Table 2).

2. Domestic Economy

2.1 Monetary Policy Outlook and Targets

For 2017/18, the CBS Board ap-

Fiscal year to end June	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/17	2017/18
Official international interest rates								
US Federal Reserve	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	0.25 - 0.50	1.00 - 1.25	1.75 - 2.00
Reserve Bank of Australia	4.75	4.50	2.75	2.50	2.00	1.75	1.50	1.50
Reserve Bank of New Zealand	2.50	2.50	2.50	3.25	3.00	2.25	1.75	1.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.25	0.50
European Central Bank	1.25	1.00	0.50	0.15	0.05	0.00	0.00	0.00
People's Bank of China	6.31	6.31	6.00	6.00	4.85	4.35	4.35	4.35

Source: IMF and reserve banks' publications and information releases.

proved in July 2017 for the continuation of the Bank's easing monetary policy stance in view of a projected slowdown in economic growth while headline inflation was expected to rise moderately to 1.7 percent at end June 2018 due to expected increases in both domestic and external factors.

The forecast slowdown in real GDP to 1.9 percent³ at end June 2018 from 2.7 percent in 2016/17 was expected to come from the complete closure of the Yazaki Samoa operations, which would reduce the 'Other Manufacturing' output as well as much slower growth expected in the 'Commerce' sector after a sharp increase in the past 2 years. Similarly, lower growth were expected for sectors such as 'Finance', 'Fishing', 'Business' and 'Electricity and water'.

On the external front, the balance of payments was expected to record another surplus of around \$18.0 million for 2017/18 given anticipated improvements in visitor earnings, exports (of goods), and private remittances of 3.7 percent, 6.8 percent and 3.6 percent respectively. As a result, gross official foreign reserves were expected to rise to 4.8 months of imports from 4.4 months in the previous year.

On monetary conditions, commercial bank lending to the private sector and public institutions were forecast to slow down to around 2.4 percent

in 2017/18 based on the conscious efforts by all four banks to consolidate their asset quality from the high lending growth in the past two years as well as moving past the large one-off lending to the corporate sector in 2016. Similarly, the annual average growth rate of money supply (M2) was also expected to decelerate to around 1.3 percent in 2017/18.

2.2 Monetary Policy Outcomes

In contrast to our original forecasts in July 2017, actual headline inflation was much higher at 3.7 percent at end June 2018. This was mainly due to the adverse impact of Tropical Cyclone Gita in February 2018, on local agricultural produce, which saw domestic inflation increase to 1.9 percent in 2017/18, compared to a forecast of -0.3 percent. The continued increase in international commodity prices exerted further upward pressure with the pickup in fuel prices and selected food commodities pushing up imported inflation to 5.2 percent at end June 2018. (See Graph 1 below.)

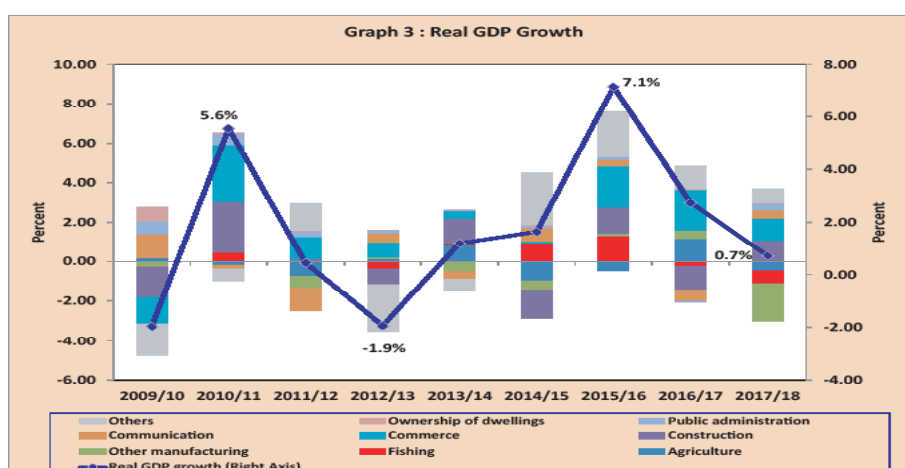
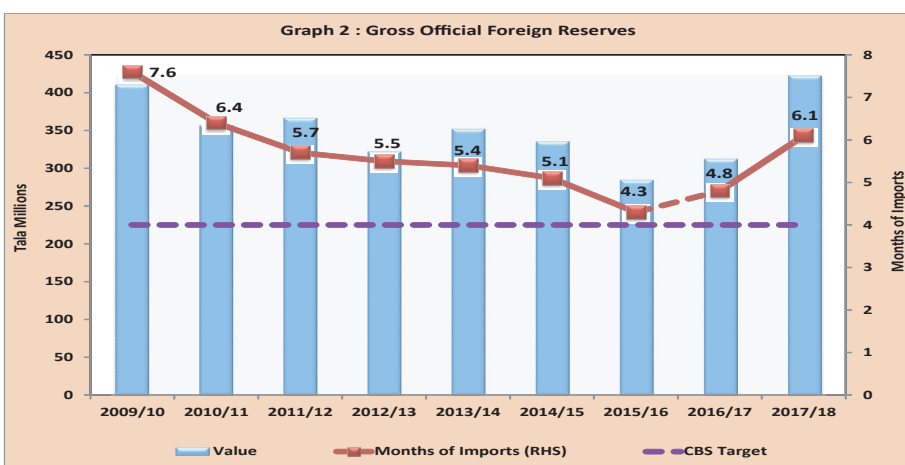
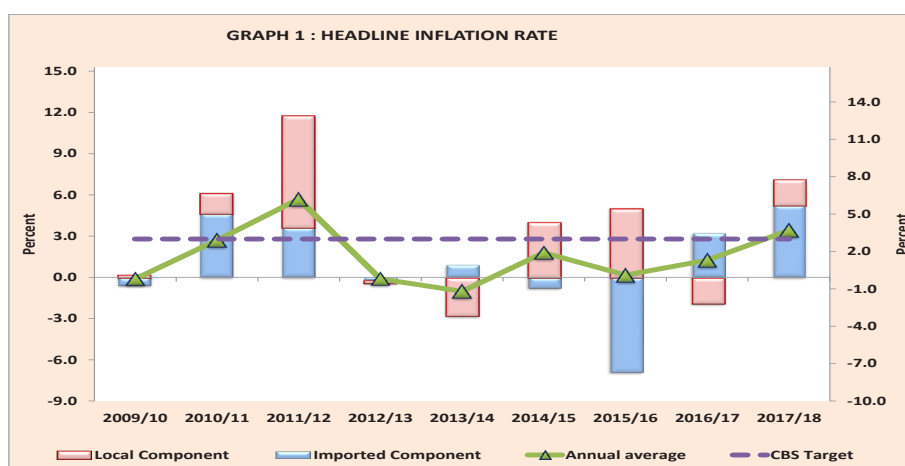
For the official foreign reserves, the overall balance of payments registered a record surplus of \$109.8 million in FY 2017/18, in contrast to a forecast surplus of \$18.1 million. This large divergence mainly reflected the stronger than expected improvements in visitor earnings (up 11.6 percent), private remittances (24.3 percent) as well as the larger inflow

³ Revised RGDP growth

of grant budget support funds during the year. Total exports of goods, on the other hand, dropped by 5.2 percent in contrast to a 6.8 percent growth forecast due mainly to the reduction in fish exports and coconut oil. Overall, the import cover rose to 6.1 months compared to 4.8 months last year, given the sharp hike in foreign reserves, which outweighed a 5.9 percent increase in total imports of goods in 2017/18. (See Graph 2 below.)

Liquidity conditions continued to improve during the year, with total banking system liquidity rising to \$218.90 million at end June 2018 from \$145.85 million at end June 2017. This reflected the large inflows of foreign funds especially those for the Government budget as well as earnings from visitor arrivals and private remittances. The CBS maintained its low official interest rates at around 0.17 percent at end June 2018, while the commercial banks' weighted average deposit rates remained at 2.70 percent from last year. The weighted average lending rates, on the other hand, rose to around 8.98 percent at end June 2018. Total commercial bank credit growth slowed to 3.5 percent in 2017/18 from 12.1 percent last year, in line with CBS forecasts. Given the sharp increase in net foreign inflows, the growth of broad money accelerated to 12.1 percent at end June 2018 from 6.6 percent at end June 2017.

Overall, economic activities slowed down as expected, albeit much faster. Real GDP growth in FY2017/2018 was recorded at 0.7 percent at end June 2018, well below the 2.7 percent growth rate in FY2016/2017. This faster than projected slowdown reflected the larger impact on the 'other manufacturing' sector from the closure of the Yazaki manufac-



turing plant in August 2017 as well as the significant drop in the 'Fishing' industry on the back of a decline in fish exports during the year. Nevertheless, the gains recorded from the 'Commerce', 'Construction', 'Business Services', 'Accommodation and Restaurants' and 'Communication'

industries, indicates a broad-based positive performance for the Samoan economy. (See Graph 3.)

III. 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, complemented 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 Operation (OMO)

The level of liquidity in the banking system improved significantly throughout the financial year, with SAT\$218.9 million recorded at end June 2018 compared to SAT\$145.8 million in the previous year. Reflecting this marked improvement and given the demand from the banking sector, the volume of open market operations during FY2017/2018 recovered strongly as follows:

- SAT\$182.0 million worth of CBS Securities were floated compared to SAT\$64.5 million in the previous year.
- These floated amounts were oversubscribed by 56.9 percent compared to an undersubscription of 19.4 percent in 2016/17.
- Given the high demand and ample liquidity over the period, CBS allotted \$199.0 million worth of Securities during the year.
- Total CBS Securities worth SAT\$175.5 million matured during the year, with \$23.5 million worth of CBS Securities were outstanding at the end of the year. (See Table 3.)

Of the SAT\$23.5.0 million face value of Securities outstanding at end FY2017/18:

- 17 percent were held in 14-days securities;
- 40 percent were held in 28-days securities;
- 38 percent were held in 56-days

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Number of Floats	42	50	49	50	48	32	41
Amount Floated	\$190.75	\$190.25	\$161.00	\$201.00	\$178.00	\$64.50	\$182.00
Amount Tendered	\$221.25	\$81.25	\$102.00	\$220.00	\$156.50	\$52.00	\$285.50
Amount Allotted	\$145.75	\$71.75	\$77.50	\$154.00	\$152.50	\$51.50	\$199.00
Amount Matured	\$156.75	\$74.75	\$72.50	\$152.00	\$150.50	\$51.90	\$175.50
Amount Outstanding	\$9.00	\$5.00	\$10.00	\$12.00	\$0.50	\$0.00	\$23.50

Source: Central Bank of Samoa

- securities; and
- 4 percent were held in 91-days securities.

As reported in Section IV (2.2), the overall weighted average interest rate on Central Bank of Samoa Securities remained at near-zero levels in the year 2017/18, with 0.15 percent by end June 2018, slightly up from 0.13 percent at end June 2017. Reflecting the higher number of allotments during the year, the interest cost of the Central Bank's open market operations increased from SAT\$4,754.15 in the previous year to SAT\$28,942.22 in FY2017/2018.

Given the healthy levels in total banking liquidity, the commercial banks did not require the use of our Repurchase and Rediscount facilities in 2017/18.

Despite the significantly high total banking system liquidity compared to previous years, the inter-bank loans market was utilised during the reviewed period. From these trans-

actions, the inter-bank borrowing rate edged down from 5.55 percent in FY2016/17 to 3.60 percent in FY2017/18.

2. Exchange rates⁴

The Samoan Tala currency basket still comprises of the currencies of the United States of America, the European Union, Australia and New Zealand, following the annual review of the basket. The outcome of the review was presented and endorsed by the Board of Directors in its January 2018 Meeting, with the new weights allocated to these currencies effective on 1st February 2018. The review was based on Samoa's distribution of merchandise trade and tourism earnings for the 2017 calendar year.

In the fiscal year 2017/18, the Tala depreciated 0.15 percent in nominal terms against the currencies in the basket, reflecting the weakening of the Tala against the USD, AUD, NZD and EURO over the year. On the other hand, reflecting Samoa's higher

⁴ 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. This currency basket is reviewed annually to reflect changes in trade and payment patterns between Samoa and its major trading partners.

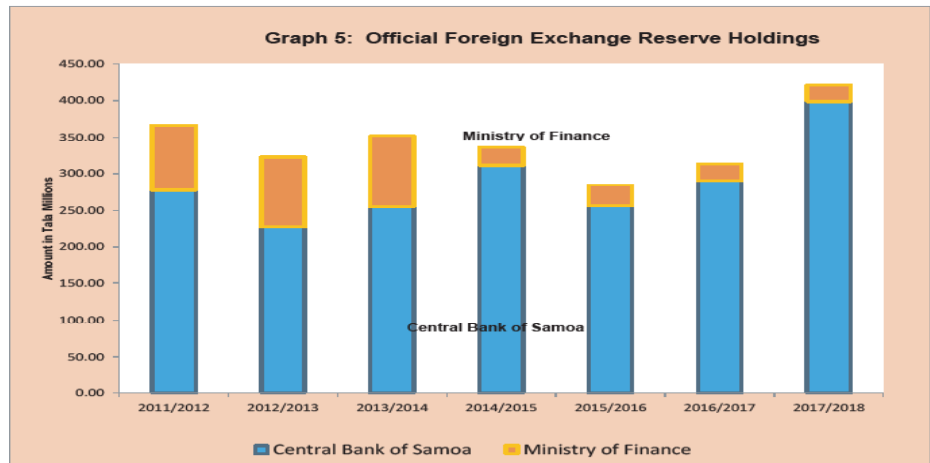
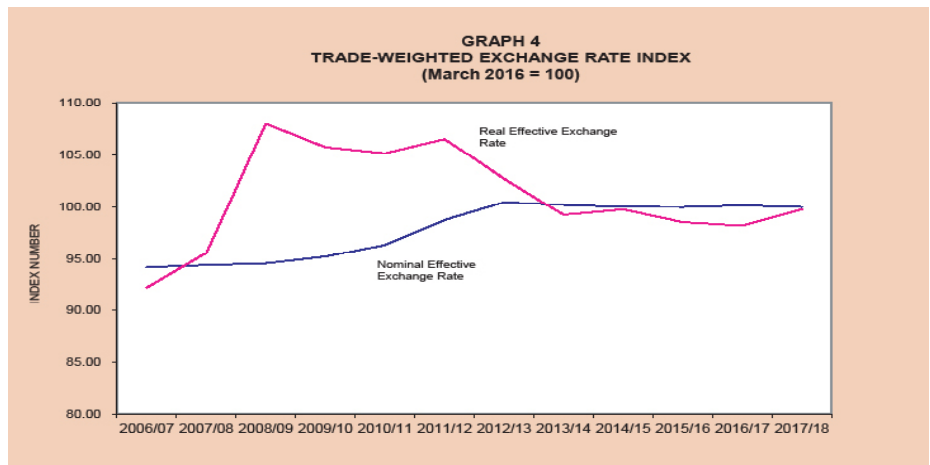
inflation rate compared to those of its main trading partners, the real effective exchange rate up to June 2018 appreciated by 1.64 percent over the year. (See Graph 4.)

3. Credit Lines to Selected Financial Institutions⁵

With the downturn in the Samoan economy during the first half of FY2017/2018 and Tropical Cyclone Gita's impact in February 2018, the Central Bank assessed and approved the injection of new funds to provide economic stability for the country. As a result, a new credit line facility (CLF) valued at \$10.0 million was made available through the Development Bank of Samoa (DBS). This new CLF are for eligible clients within the small and medium enterprises category only in the agricultural, manufacturing and 'other business' services sectors. By the end of this financial year, only \$5.0 million of the new CLF has been disbursed.

Overall, the total approved credit line facility by CBS over the years (including this new CLF) amounts to SAT\$135.0 million. As at end FY2017/2018, however, the outstanding CLF balance at the Central Bank was recorded at SAT\$95.2 million.

Both Samoa Housing Corporation (SHC) and Development Bank of Samoa (DBS) have made regular and timely repayments to the Central Bank, consistent with the agreed repayment schedules set out in the



Memorandum of Understanding (MOU) for the various CLFs.

4. Foreign Reserves Management⁶

The CBS Act (2015) provides the Central Bank of Samoa with the custody and authority to manage the country's foreign reserves.

Gross official international reserves at end June 2018 grew 35.1 percent to \$422.46 million from SAT\$312.79 million in the previous financial

year. This reflected a notable expansion of 37.5 percent in the Central Bank's foreign exchange holdings⁷ to SAT\$398.9 million, from SAT\$290.17 million. Furthermore, foreign exchange holdings by the Ministry of Finance rose 4.0 percent to SAT\$22.59 million, from SAT\$23.05 million in FY2016/2017. (See Graph 5.)

The Central Bank's foreign exchange holdings were continually invested in line with reserve management objectives of liquidity, security and profit-

⁵The Central Bank of Samoa has extended five separate Credit Line Facilities (CLF) since 2009. These credit lines were extended for specific purposes, mainly with the intent to boost growth in the economy. The first one is known as the Tsunami CLF, which was introduced to assist tsunami affected businesses. The second CLF was a long term CLF that was introduced as part of the Bank's monetary policy transmission mechanism to stimulate growth in selected priority sectors of the economy. The third was the Cyclone Evan CLF mainly extended to assist those households and businesses particularly hotel accommodations that were significantly affected by the cyclone. The fourth CLF was extended to stimulate the economy and assist with the hosting of the SIDS and Commonwealth Youth Games. The fifth CLF was to inject further stimulus to selected priority sector in the economy.

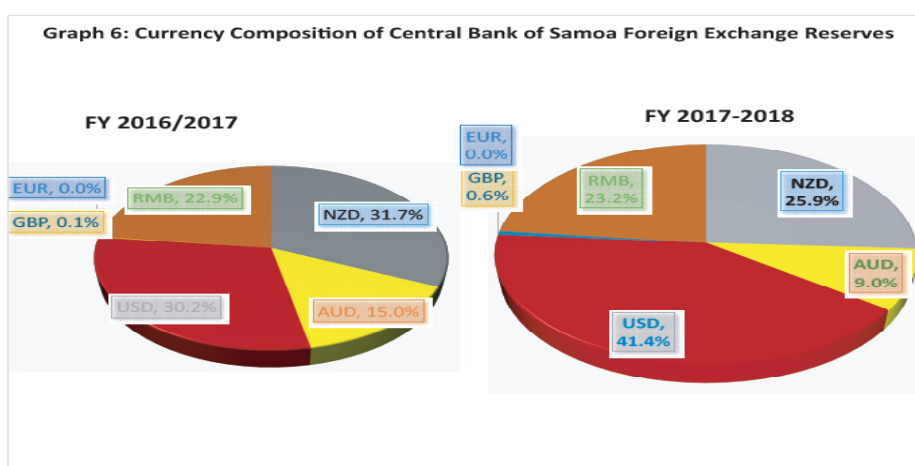
⁶ With the adoption of the Fifth Edition of the International Monetary Fund's Balance of Payments Manual, Foreign Reserves have been re-named to Official International Reserves, which includes only the holdings of the Ministry of Finance and the Central Bank of Samoa.

⁷Since 2014/2015, CBS foreign exchange holdings now includes the holdings of the Special Drawing Rights (SDR) and IMF accounts that were previously held by the Ministry of Finance.

ability. As such, the Bank's preferred investment instruments were liquid short- to medium-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 a minimum of A-2⁸ credit ratings.

Reflecting the country's projected overseas payments obligations in various foreign currencies as well as the prevailing and expected global yield environment, the composition of the Central Bank's foreign exchange holdings was reviewed and adjusted accordingly. This was incorporated in the CBS Foreign Exchange Investment Policy and Guideline for the management of foreign reserves that was endorsed by the CBS Board in March 2018. Consistent with the country's expected foreign exchange inflows and outflow patterns, the composition of CBS foreign exchange reserves continues to include holdings of Chinese dollar-denominated foreign reserves. The inclusion of the Chinese dollar (or Renminbi, RMB) in Samoa's foreign exchange reserves also reflects the internationalization efforts of the RMB and its reserve currency status from its inclusion in the IMF's Special Drawing Right (SDR) currency basket in October 2016. While the Euro currency remains an eligible and acceptable foreign reserve currency to have as part of Samoa's foreign exchange reserves holding, the Central Bank has not maintained any holdings given its current negative interest rates.

At end June 2018, there were no major changes to the composition of CBS foreign exchange reserves com-



pared to the previous year. Holdings of USD-denominated investments increased to 41.4 percent, followed by a 25.9 percent share in NZD-holdings. RMB investments accounted for 23.2 percent of total foreign exchange reserves while AUD holdings fell to 9.0 percent. Investments in the GBP were minimal. (See Graph 6.)

The management of foreign reserves remain challenging given the current low yield environment in most major economies in the year under review. As shown in Section IV, Part (1), the US Federal Reserve Bank was the only central bank that raised its policy interest rate three times by a total 75 basis points over the year, aside from a one 25 basis point hike by the Bank of England in November 2017. The Reserve Bank of Australia, the Reserve Bank of New Zealand and the People's Bank of China, on the other hand, maintained their policy interest rates from FY2016/2017 levels. Overall, the increase in holdings of US dollar reserves coupled with the increases in the US interest rates, as well as continued higher RMB yields, helped offset the lower returns from the Australian and New Zealand dollar investments. As a result, total interest in-

come from these foreign investments in 2017/2018 increased by 27 percent to SAT\$6.75 million from SAT\$5.31 million in the previous financial year.

5. Foreign Exchange Control⁹

In 2017/18, Exchange Control policies were reviewed to reflect changes necessitated by the Bank's role to strengthen the monitoring of the country's foreign exchange reserves to ensure its preservation and adequacy. Based on prevailing economic conditions and positive economic outlook in the medium term, the Central Bank decided to further relax the exchange controls on certain payments. This included new and increased delegation of authorities granted to the authorized commercial banks and money transfer operators.

The 2017/18 review of the Exchange Control policies and procedures were compiled in the Exchange Control Manual 2018, which takes effect on 1st August 2018. These include:

⁸ Short term credit rating using Standard and Poor's Credit Rating Index. The new minimum credit rating was endorsed by the CBS Board of Directors at its April 2017 meeting, the result of a change from the previous minimum credit rating of A-1.

⁹ Foreign Exchange Control plays a complementary 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.

Type of Foreign Exchange Payment	Current	Starting 1 st August 2018
1. Remittance of funds abroad from the closure of a foreign currency deposit account and/or Samoa Tala deposit account in any of the local banks.	No delegation	Delegation for amounts up to SAT\$50,000.00 Any amount in excess of SAT\$50,000.00 is referred to CBS
2. Transfer abroad of any investment funds withdrawn by individuals from local non-banking financial institutions (namely, investments with the Unit Trust of Samoa and/or contribution funds with the Samoa National Provident Fund; as part of migration overseas etc..)	No delegation	Delegation for amounts up to SAT\$30,000.00 Any amount in excess of SAT\$30,000.00 is referred to CBS
3. Regular repayment of overseas debts by resident individuals (namely, overseas student loans and other pre-existing debts while resident in other countries). <i>Excluding the following which requires prior CBS approval: -</i> <i>a) payment for the full settlement of an overseas loan;</i> <i>b) any refinancing of an overseas debt or mortgage;</i> <i>c) repayment of foreign currency loans with local banks and/or;</i> <i>d) new external loans while resident of Sāmoa.</i>	No delegation	Wholly delegated to authorized commercial banks and money transfer operators (with the exception of other types of loan repayments as listed).
4. Family Maintenance/Support (payments that relate to support for daily living expenses of family overseas)	Delegation for amounts up to SAT\$20,000.00 per person, per year	Delegation for amounts up to SAT\$50,000.00 per person, per year.

Foreign capital payments and a few selected current account payments continue to be referred to the CBS for prior approval, while all other foreign payments remain delegated to the commercial banks and money transfer operators, subject to the submission of relevant supporting documents.

In addition to the assessment of capital payment applications, the Central Bank also monitors:

- **Export procedures** whereby all exporters must register with the

Bank and are required to remit their export receipts into the country within a specified time-frame.

- **Foreign Currency Deposit Accounts¹⁰** - 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. In the financial year under review, thirty-four (34) new Foreign Currency Deposit

Accounts (FCDAs) were approved compared to thirty-six (36) in 2016/17. Seven (7) of the approvals were for individuals who work abroad in international organizations or agencies, while thirty (30) were for businesses, which includes hotels, construction companies, money transfer operators and other business sectors.

¹⁰ Apart from residents, non-residents such as the diplomatic missions and official international organizations are also able to hold FCDAs.

IV. 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 and;
- providing liquidity to the system as required to minimize short run disturbances;
- registering and licensing of foreign exchange service provider; money transfer operators and money changers.

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 any other financial system stress.

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 or vulnerabilities.

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.

In addition to offsite surveillance, the Central Bank also conducts on-site examination. Supervision that embraces both off-site surveillance and on-site examination has been found to be more effective than off-site surveillance only. Onsite examination provides a useful view of the true financial position of a bank. The

frequency, scope and techniques that is used in on-site examinations varies depending on the overall condition and the level of sophistication of the bank.

During the review period, the Supervision Department of the Central Bank carried out two full scope on-site examinations for the two locally incorporated commercial banks. The first visit was to a locally owned bank and was held in September 2017. In June 2018, the Central Bank in collaboration with the Australian Prudential Regulation Authority ('APRA') conducted a second visit to a foreign owned bank. Each inspection was lasted for two weeks. The focus is to ascertain or confirm each bank's compliance with their own policies and procedures as well as relevant standards, laws and regulations.

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 for these institutions and to help maintain a sound financial system.

1.1. Financial Position of the Banking System for the twelve months ending June 2018

For the twelve months under review, the banking system experienced strong growth in the overall level of assets. Capital adequacy ratio remained relatively steady and supported by banks' sound profitability

performance over the past twelve months. However, the quality of banks assets unfortunately indicated an upward trend in non-performing loans whilst provisions for bad and doubtful debts were sustained at more or less adequate level at the end of the period.

In June 2018, the banking system recorded an increase in total assets of 5.2 percent (\$78.9 million) to \$1.586 billion against total liabilities of \$1.321 billion which went up by 4.1 percent (\$52.5 million) respectively.

Much of the growth in assets was attributed mainly to the remarkable increases in currency and deposits held with the CBS and commercial banks of 17.6 percent (\$53.8 million), debt securities by (\$30.3 million) and nonfinancial assets by 12.3 percent (\$12.9 million). This was partly offset by the drop in the level of lending by 1.9 percent (\$20.4 million). Total loans and advances to deposits ratio stood at 87.8 percent at the end of the period (100.4 percent a year earlier).

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 100.0 percent of core capital.

Tier one capital combined amounted to \$201.2 million, increased by 12.5 percent (\$22.4 million) from \$178.9 million a year earlier due mainly to the increases in prior year’s audited retained profits and paid-up capital respectively. Tier two capital of \$40.4 million showed a drop by 0.2 percent (\$0.1 million) caused mainly by the decrease in the unaudited retained profits, bringing total capital (Tier one plus Tier two) to \$241.6 million at the end of the period.

Hence, the banking system remained strongly capitalized with an aggregate ratio of 27.3 percent, rose by 2.2 percent from the previous year. Meanwhile, Tier one capital was recorded at 22.7 percent. The banking system recorded a surplus capital of \$108.9 million at the end of June 2018.

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 7)

1.3. Asset Quality

The Central Bank places greater emphasis on a bank’s internal management system to monitor and provide

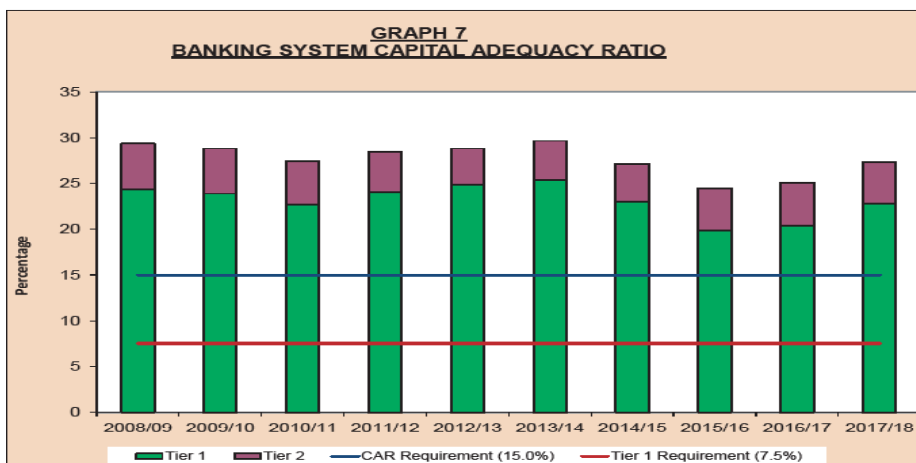
adequate controls on credit to reduce the risk of possible losses. And, in the event of default or identified losses as a result of non-performing loans and other types of impaired assets, the bank must ensure that there is adequate provision.

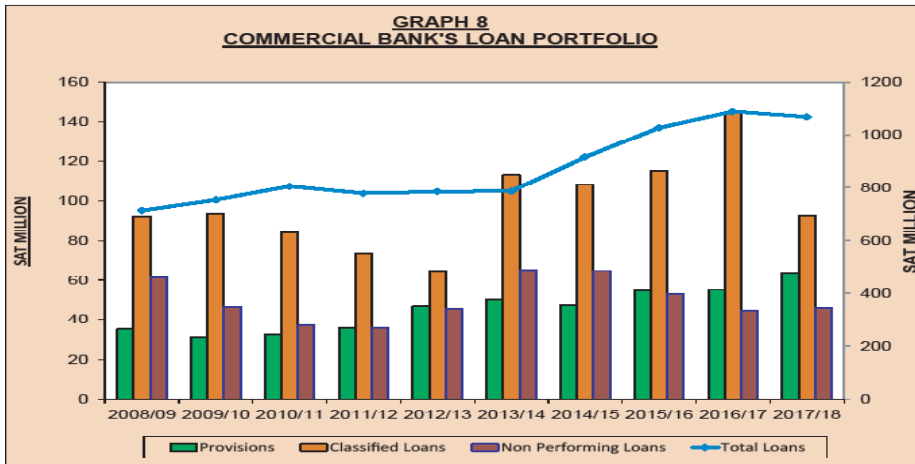
In the twelve months to end June 2018, total loans and advances dropped by 1.9 percent (\$20.4 million) to \$1.068 billion. At this level, total non-performing loans grew by 2.8 percent (\$1.2 million) to \$46.0 million representing 4.3 percent of total loans and advances.

In the meantime, provision for bad and doubtful loans amounted to \$63.7 million (6.0 percent of total loans and advances) which provides an adequate cover for total non-performing loans. (See Graph 8).

1.3.1. Credit concentration risk: Sector 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 the 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 with buildings, constructions and purchasing of land be the largest industry exposure at 35.8 percent (\$382.6 million), which increased by 30.5 percent (\$89.4 million). Other industries such as professional services accounted for 17.0 percent (\$181.3 million), transportation at 11.7 percent (\$124.6 million), manufacturing at 2.8 percent (\$30.3 million) and other activities at 24.3 percent (\$260.7 million) in that order. (Refer Table 7)

ingly. Credit exposure to the Government sector, including non-financial public enterprises and non-monetary financial institutions increased by 56.3 percent (\$23.2 million).

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,

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 2018, total liquid assets amounted to \$218.9 million, equivalent to 18.9 percent of total domestic deposit liabilities. At this level, it showed a favorable improvement of 50.1 percent (\$73.0 million) when compared to the same time a year earlier. In addition, investments in CBS Securities recorded at end June 2018 stood at \$23.5 million.

In the matching of loans and deposits by residual maturity, total short term loans (up to 3 months maturity) plus liquid reserve funds amounted to \$635.0 million as compared to short term deposit liabilities of \$723.5 million. In the 3 months and over category, long term loans stood at \$869.6 million against long term deposits of \$434.7 million, revealing a significant mismatch in the residual maturity of funds. 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 \$24.9 million, indicating a drop of 19.0 percent (\$5.8 million) over a year earlier. Following the deduction of tax, the net profit for the commercial banks in 2017/18 stood at \$18.1 million compared to \$22.4 million registered in the previous year. (See Graph 9)

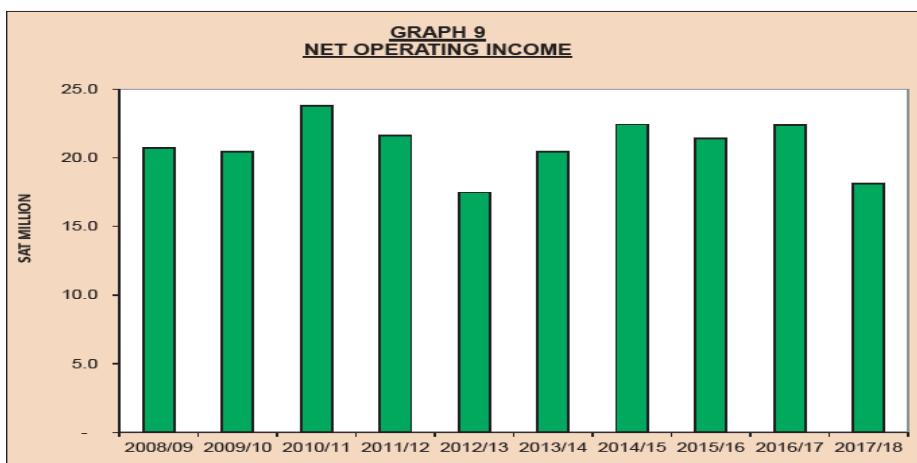
**Table 7
Distribution of credit exposures by industry
(as a percentage of total credit exposure)**

	2017	2018
Agriculture	0.6	0.7
Fisheries	0.3	0.0
Manufacturing	2.8	2.8
Building, Construction & Land	26.9	35.3
Electricity, Gas & Water	1.0	1.0
Trade	11.5	11.7
Transportation	7.2	6.5
Professional Services	19.7	17.0
Others	25.7	24.3
Foreign	4.3	0.2
TOTAL	100.0	100.0

In terms of loans by sectors, the business sector which contributes 52.7 percent went down by 7.5 percent (\$45.9 million) while household loans which made up 41.2 percent of total loan portfolio registered a growth of 12.1 percent (\$47.4 million) accord-

as well as 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



Total operating income went down by 8.9 percent (\$7.7 million) while total operating expenses and provisions decreased by 3.3 percent (\$1.8 million) on an annual basis respectively. As such, the efficiency ratio of the banking system was reflected at 66.0 percent as compared to 64.7 percent a year earlier.

On the income side, the major contributing factor highlighted the decrease in banks' interest income of 16.9 percent (\$10.5 million) to \$51.8 million despite the increases in other income factors.

The overall drop in total operating expenses by 7.1 percent (\$4.0 million) revealed the noticeable decreases at interest expense by 38.5 percent (\$9.6 million) and some of the non-interest expenses such as management fees by 3.3 percent (\$0.2 million) and depreciation/amortization by 4.9 percent (\$0.2 million), despite the increases in other expense factors.

Return on average net worth revealed a drop over the year to 18.9 percent, while the return on average total assets of 3.1 percent showed a drop as compared to the level recorded at end June 2017.

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 2018 stood at \$163.2 million, decreased by 41.7 percent (\$116.6 million) while total foreign liabilities of \$135.1 million decreased by 46.1 percent (\$115.6 million) over the same time a year earlier. At these levels, it reflected a net long open position of \$60.6 million, equivalent to 25.1 percent of the banking system's total capital (28.4 percent a year earlier).

2. Domestic Insurance Industry

2.1. Regulation and Supervision

2.1.1. Administration of the Insurance Act 2007

The Governor of the Central Bank of Samoa (the "Bank") is the Insurance Commissioner (the "Commissioner") appointed under section 4 of the Insurance Act 2007 (the "Act"), to carry out the functions and powers as stipulated under sections 5 and 6 of the Act.

There is broad acceptance internationally that insurance supervision should be exercised over insurance companies to protect policyholder interests and foster a competitive and innovative market place. More specifically, the aim is to ensure that insurance companies meet contractual commitments made to the insured and are at all times in a sound financial position by maintaining sound solvency standards.

The Bank has responsibilities under the Financial Institutions Act 1996 and the Insurance Act 2007 to supervise insurance companies in conjunction with the Bank's broader responsibilities aimed at promoting the health and stability of the financial system in general.

2.2. Licensing and Insurance Market Structure

Section 9 of the Act requires all insurers and intermediaries conducting insurance business in Samoa to be licensed by the Commissioner. The Commissioner continued to receive and assess applications for renewal of licences by insurers, insurance agents and insurance brokers. Licences are renewed upon the payment of their licence renewal fees by the end of December of each year.

2.2.1. Licensed Insurance Companies and Subsidiaries

At the end of January 2018, a total of twenty seven (27) insurers and intermediaries were licensed under the Act and are listed as follows:

- i. Six (6) insurance businesses (2 life and 4 general);
- ii. Four (4) insurance brokers; and
- iii. Seventeen (17) insurance agents.

2.3. Supervision

As of June 2018, the Bank continued to undertake its supervision activities through offsite monitoring. To ensure that licensed insurers comply with the Act, offsite monitoring is conducted which includes the assessment of periodic prudential returns submitted to the Commissioner.

2.4. Overview of the Insurance Industry Performance

2.4.1. Balance Sheet

2.4.1.1. Assets

As of June 2018, the combined life and general insurance sector recorded total assets of \$137.4 million, up by 29.6 percent (\$31.4 million) as

compared to the same period a year earlier. This reflected a growth in assets by both the life (by 5.2 percent or \$2.3 million) and general insurance sectors (by 47.9 percent or \$29.0 million) respectively. The general insurance sector continued to dominate at 65.3 percent (\$89.7 million).

2.4.1.2. Liabilities

Similarly, the consolidated total liabilities grew by 98.6 percent (\$30.4 million) to \$61.1 million over the preceding year. This was due to the increase in general insurers' liabilities by \$30.0 million to \$58.2 million, accounting for 95.3 percent of total liabilities.

2.4.1.3. Shareholders' Funds and Reserves

The combined shareholders' fund for the domestic insurance industry rose by 1.4 percent (\$1.0 million) to \$76.3 million over the same quarter last year. The life insurance sector dominates 58.8 percent (\$44.9 million).

2.4.2. Gross Premiums

As of June 2018, the life and general insurance sectors' combined gross premium income stood at \$34.1 million, up by 7.0 percent (\$2.2 million) as compared to June 2017. Of total, the general insurance sector covered 76.0 percent (\$26.0 million) while the remaining 24.0 percent (\$8.2 million) was represented by the life insurance sector.

2.4.3. Claims

The combined life and general insurance sectors' net policy and claims payments aggregated at \$12.9 million grew by 50.2 percent (\$4.3 million) over the past twelve months.

Such increase was due to claims paid by general insurers to claimants as a result of cyclone Gita. The general insurance sector dominated 56.8 percent (\$7.3 million) of claims paid.

2.4.4. Profitability Performance

The insurance industry registered a growth in profitability of combined profit of \$6.5 million at end of June 2018 as compared to a \$2.0 million profit recorded in the same time a year ago. The general insurance sector represents 58.5 percent (\$3.8 million) of total profit.

3. Other Major Non-Bank financial institutions

3.1. Prudential Supervision to Non-Bank Financial Institutions

Part 4A of the Financial Institutions Act 1996 allows the Central Bank of Samoa (the 'Bank') to extend its prudential supervision to non-bank financial institutions ('non-banks').

The major non-banks include the Samoa National Provident Fund (SNPF), the Development Bank of Samoa (DBS), the Samoa Housing Corporation (SHC) and the Unit Trust of Samoa (UTOS). These non-banks were established under their own legislation.

The ultimate responsibility for the affairs of each non-bank rests solely with Board and senior management. The Central Bank focus is towards satisfying itself that non-banks follow sound management practices and internal controls consistent with developmental financial institutions and that prudent standards are kept under review to take account of changing circumstances.

The Bank continuously assesses the performance of each non-bank through its off-site surveillance activities as well as onsite examination.

Regular financial returns from non-banks are furnished on a monthly and quarterly basis for ongoing review and analysis in determining the quality of key areas of their operations for financial soundness.

3.2. Overview of the Non-Bank Financial Institutions Financial Performance

3.2.1. Balance Sheet

3.2.1.1. Total Assets

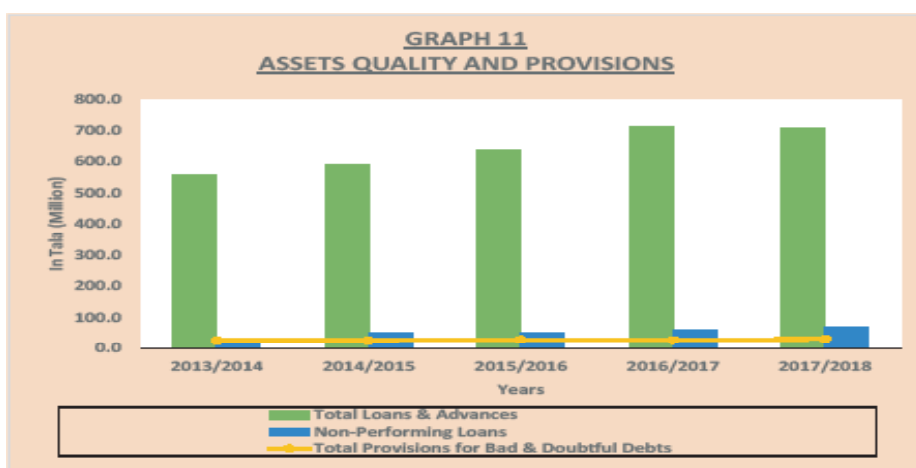
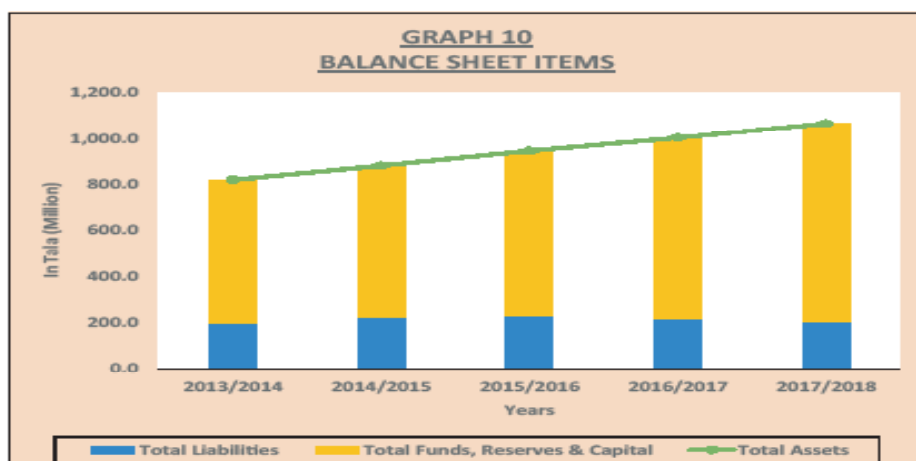
At end of June 2018, total assets of the four (4) non-banks stood at \$1.06 billion, up by 6.4 percent (\$63.6 million) as compared to June 2017. The major assets components include loans and advances (net) aggregated at \$675.4 million (63.4 percent), fixed assets (net) totaled \$140.6 million (13.2 percent), investments of \$112.7 million (10.6 percent), bank deposits amounted to \$127.6 million (12.0 percent) and other assets of \$8.5 million (0.8 percent) respectively.

3.2.1.2. Total Liabilities

Total liabilities on the other hand dropped by 5.7 percent (\$12.4 million) to \$206.8 million over June 2017. Of total, borrowings represent 66.3 percent (\$137.2 million), convertible notes accounted for 22.5 percent (\$46.5 million) and other liabilities covered the remaining 11.2 percent (\$23.1 million) in that order.

3.2.1.3. Total Funds, Reserves and Capital

Total Funds, Reserves and Capital of the four non-banks as of June 2018



stood at \$857.2 million, up by 9.6 percent (\$75.3 million) as compared to the preceding year. Such total is made up of contributions, pension pool and other accounts of \$725.2 million (84.6 percent), general reserves and assets revaluation of \$68.8 million (8.0 percent), and cumulative profits and paid-up capital aggregated at \$63.2 million (7.4 percent) respectively. (Refer Graph 10)

3.2.2. Total Loans and Advances

The total loan portfolio (gross) of the non-banks by the end of June 2018 dropped to \$706.3 million by 0.5 percent (\$3.4 million) over the same time a year earlier. Distribution of loans by industry groups revealed that Professional and Business Services represent 27.9 percent (\$197.1

million), Building, Construction and Installation by 13.6 percent (\$96.0 million), Agriculture, Fisheries, Manufacturing, Trade and Transport accounted for 5.3 percent (\$37.3 million) and other activities represent 53.2 percent (\$375.9 million) correspondingly.

3.2.3. Assets Quality and Provisions

At end of June 2018, the three (3) non-banks (i.e. SNPF, UTOS and DBS) registered a combined non-performing loans (NPLs) balance of \$69.6 million, equivalent to 9.8 percent of total loans and advances (gross). Total provisions against the current level of NPLs stood at \$30.9 million respectively. (Refer Graph 11)

3.2.4. Profitability

As of June 2018, the non-banks recorded a combined unaudited profit after tax of \$49.4 million compared to a \$43.3 million profit reported in June 2017. Such result derived from total operating income and other income aggregated at \$68.8 million against total operating expenses of \$21.9 million respectively. (Refer Graph 12)

3.2.5. Onsite Examinations

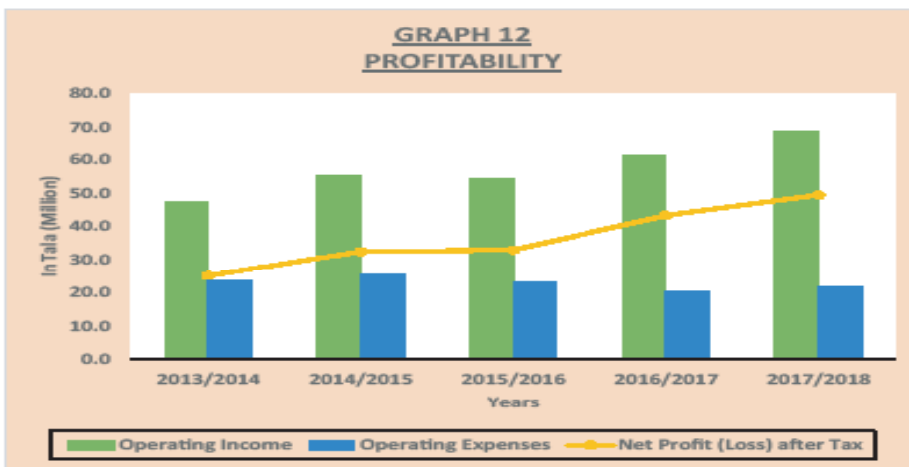
In April 2018, a full scope onsite examination was conducted for the Development Bank of Samoa ('DBS'). Similar to banks, the main focus was to confirm DBS compliance with their own policies and procedures as well as relevant standards, laws and regulations already put in place to govern DBS performance.

3.3. Money Transfer Operators (MTOs) and Money Changer

Also governed under the regulatory framework of the Bank are the Money Transfer Operators (MTO) and Money Changer (MC).

As required, MTOs and MC must renew their licenses at the beginning of every year. In January 2018, the Bank issued renewal licenses to the following institutions and intermediaries:

- i. Twelve (12) MTO licenses;
- ii. One (1) MC license;
- iii. Twenty seven (27) MTO branches licenses; and
- iv. Twenty one (21) MTO agents' licenses.



V. Financial System Development

The department is responsible for the development of the financial system through various initiatives with the objectives of:

- achieving greater shared economic prosperity through financial inclusion
- assisting to develop deep and dynamic financial markets
- assisting to safeguard the integrity, stability and soundness of the financial system.

In the pursuit of these objectives, the work of the department is in the three areas of:

- Financial Infrastructure Development
- Financial Consumer Affairs and Market Conduct
- Stakeholder coordination and liaison with international partners

1. Financial Infrastructure Development

1.1. Financial service (banks) landscape

Financial service access points servicing Samoa as at 30th June 2018 consisted of 24 commercial bank branches, 65 Automatic Teller Machines (ATMs), 548 Electronic Funds Transfer at Point of Sale (EFTPOS) outlets and 81 cash-in & cash-out bank agents (merchant stores). For the period under review, there was an increase in all access points except for the number of bank branches.

1.1.2 Non-Bank financial service providers

Only one non-bank financial service provider continued to offer a mobile money wallet for the period under review. Although the agent network was reduced to five, but when compared to the previous year, the number of mobile money wallets registered and e-money balances continued to grow.

1.1.3 Financial Inclusion Measurement

At end June 2018, the noticeable change in the financial inclusion measurement stemmed from the increase in EFTPOS terminals which helped to

improve the access indicator. However there were no significant changes when looking at access points by location or region, with the Apia Urban Area dominating all other regions in number of access points per 10,000 adults.

1.1.4 National Payment System

The procurement of the Automated Transfer System (ATS+) and Central Securities Depository (CSD) software package was conducted through the processes of the World Bank/IFC. This began in October 2017, however was not completed within the period under review.

On the regulatory side, stakeholder consultations for the NPS Oversight Regulation were conducted and the review continued for the NPS Guidelines for Agents, NPS Guidelines for Retail Payment instruments, Directives for Electronic Funds Transfer.

1.1.5 Credit Data Bureau

With lessons learnt from the previous attempts to establish a credit data bureau, the CBS reached out to the Asian Development Bank (ADB) for assistance in setting up a Credit Data Bureau, housed, owned and operated in Samoa. Two missions were conducted within the financial year in review, to ascertain a way forward

with these parameters. By the end of the financial year, a firm assistance package had not been finalised.

1.1.6 Inclusive Insurance

The Central Bank of Samoa hosted the Inclusive Insurance Information Session in September 2017, to present the analysed results of the 2015 Inclusive Insurance survey for Samoa, to achieve a better understanding of the inclusive insurance landscape in Samoa. The session also introduced the work stream of the National Financial Inclusion Strategy 2017-2020, provided a platform for insurance industry interaction with the CBS and PFIP, and raised awareness about PFIP work in the insurance space including ways to access their technical assistance facility

1.1.7 Government to People/People to Government (G2P/P2G) Payments.

The Central Bank of Sāmoa (CBS) and the PFIP conducted the 'Government to People/Persons to Government (G2P/P2G) payments workshop' in October 2017. The workshop aimed to introduce the concept of digitalizing government payments within Government departments and line ministries that handle (receive and make) payments. The outcome of the workshop was a series of recom-

mended action plans as discussed by the participants.

1.2 Financial Consumer Affairs and Market Conduct

1.2.1 Global Money Week Events

The Global Money Week celebration is an annual event coordinated by Child & Youth Finance International that targets children and youth, to learn about how money works, to raise financial awareness, to gain social and livelihood skills, and develop entrepreneur skills.

The Central Bank of Samoa (CBS) participated again this year with the Be Money Wiše (BMW) Poster Competition, Piggy Bank/Money Box Competition, Visits to Financial Institutions and daily publications of the GMW 2017 Speech Competitions in the newspaper. A total of 294 students from 15 schools participated in the Global Money Week events.

1.2.2 Financial Literacy collaboration with other stakeholders.

The CBS assisted the Development Bank of Samoa's (DBS) Inclusive Development Credit Facility Programme which focussed on Savaii by conducting the financial literacy training component, for the 406 successful applicants (319 females, 87 males). The goal of the facility is to enable access to financing for women and youth who are unemployed nor have any steady source of income, to develop economic and sustainable means of livelihood.

1.3 Stakeholder coordination and liaison with international partners.

1.3.1 National Financial Inclusion Taskforce (NFIT)

The National Financial Inclusion Task-

force (NFIT), the driver of the National Financial Inclusion Strategy (NFIS) 2017-2020 continued its quarterly meeting throughout the year sharing initiatives and progresses in promoting financial inclusion and financial literacy in the country.

1.3.2 Small Business Enterprise Centre (SBEC) Roadshow for Upolu

The aim of the SBEC roadshow was to promote the roles of SBEC and its partners in the development of Micro, Small and Medium Enterprises (MSME) sector in Samoa. Only two districts were the focus for Upolu. The roadshow was attended by 137 entrepreneurs and business owners from the Samatau & Falelatai and Falealili districts

For the roadshow, the CBS presented on its function of promoting financial inclusion and financial literacy and how these are important for entrepreneurs and the overall development of the financial system. Other partners that were present included; the Development Bank of Sāmoa, Sāmoa Commercial Bank, the Ministry of Commerce, Industry and Labour, the Ministry of Women, Community and Social Development and the Ministry for Revenue.

1.3.3 Community Economic Empowerment Development Sub-Sector Committee

The CBS is also a member of the Community Economic Development Sub-Sector Committee which was established to pursue the Outcome 3 of the Community Sector Plan 2016 – 2021, targeting the economic empowerment of vulnerable individuals, families and villages. The committee meets quarterly and also provides a platform for CBS to update the committee on financial inclusion and financial literacy initiatives.

1.3.4 Alliance for Financial Inclusion (AFI)

The CBS continued to be an active member of the AFI network, with its participation in the four thematic working groups. At the regional level it continued to work closely with other central banks in the Pacific in the Pacific Island Regional Initiative (PIRI).

1.3.4.1 4th Pacific Islands Regional Initiative (PIRI) Meeting 2018

The Central Bank of Samoa and AFI co-hosted the 4th PIRI Meeting at the Taumeasina Island Resort on 5th – 8th June 2018. The event brought together regulators, financial service providers, government agencies, and financial technology providers from the Pacific region to discuss the issues, solutions and opportunities of leveraging digital financial services and financial technology for financial inclusion goals. The overall theme of the event was "Fintech for Financial Inclusion".

1.3.5 Pacific Financial Inclusion Program (PFIP)

The Pacific Financial Inclusion Programme (PFIP) is a joint program of the United Nations Capital Development Fund (UNCDF) and United Nations Development Programme (UNDP). Its aim is to increase access to sustainable, appropriate and affordable financial services by low-income and rural people in the Pacific Island Countries.

With the assistance of Mr Amit Kumar, PFIP's Financial Inclusion Specialist in Samoa, the CBS continued its strong collaboration with PFIP to progress financial inclusion and financial literacy in Samoa.

VI. Money Laundering Prevention and Countering of Terrorist Financing Activities

1. Summary of Activities of the MLP Authority

The MLP Authority (“the Authority”) works to comply with the internationally recognized standards as promoted by the Financial Action Task Force (FATF) and the Asia Pacific Group (APG) on Money Laundering, of which Samoa is a member. The Authority also sets the strategic tone for anti-money laundering measures in Samoa, and this is implemented by its Financial Intelligence Unit. The FATF is an international organization that sets the global standards for anti-money laundering. They divide their groups into regions, and Samoa is a member of the APG.

1.1. APG Plenary Meeting (July 2017)

Samoa has made progress on technical compliance with national co-operation and co-ordination, having developed and implemented an AML/CFT National Strategy 2016-2020, a National Policy on AML/CFT and AML/CFT Policy Paper for 2016-2020. These two papers provide a strategic plan and direction for Samoa in terms of anti-money laundering and combatting terrorist financing from 2016 – 2020. In essence, a review team was set up by APG to review Samoa’s progress in this area, and concluded that Samoa should progress to largely compliant, a very high rating for this particular standard. At the APG Plenary in July 2017, it was agreed for Samoa to remain on enhanced follow-up (expedited), and to provide its next follow up report (or update report to the APG) by 31 January 2018.

1.2. APG High Level Mission and Visits

In February 2018, MLPA hosted a scoping visit from the APG Secretariat who visited Samoa for two days to meet with relevant stakeholders (such as government officials, law enforcement agencies, supervisors, private sector, etc.) to assess where Samoa’s needs are in terms of anti-money laundering and how they could provide funding for technical assistance.

The AML/CFT technical assistance & training is one of APG’s functions to provide practical support and training on AML/CFT matters. Such training will assist with the appropriate implementation of AML/CFT controls and measures in our own ministries and agencies.

1.3. Follow-up Report

Samoa submitted its third Follow up Report to the APG on 31 January 2018 in accordance with the APG Third Round Mutual Evaluation Procedures 2016. Samoa is committed to address some of the shortcomings identified in its Mutual Evaluation Report¹¹ of 2015 by 2020. Samoa has to report to the APG its Follow up Reports every 12 months to ensure that it has made significant progress in implementing the anti-money laundering standards.

1.4. Confiscated Assets Fund (“CAF”)

The Governor is currently the Administrator of property forfeited or restrained under the Proceeds of Crime Act 2007 (“POCA”). Her appointment was made by the Attorney

General under section 82 of POCA. As the Administrator of the Confiscated Assets Fund (“CAF”), the Authority continues to liaise closely and work together with the Police, Customs and the Attorney General’s Office in transferring, storage and safe keeping of these assets.

During this period, \$40,000.00 was reinvested as a term deposit for twelve months.

1.5 Amendment of the MLP Act

The MLP Amendment Bill took two years in the making as there were a lot of groundworks undertaken. There were trainings conducted for the law enforcement agencies in Samoa, thorough consultations with all the relevant stakeholders, both during the policy development stage and the draft Bill stage. The Act was passed by Parliament and assented to by the Head of State on Friday 22 June 2018. The purpose of these amendments is to strengthen Samoa’s anti-money laundering frameworks based on international standards that have been set by the Financial Action Task Force (FATF), and implemented by its regional branches such as the Asia Pacific Group (APG), of which Samoa is a member.

The amendment was also submitted to the APG which also provided comments on the amendment. The new amendments also means Samoa can now apply to the APG for an improved rating of its framework. An improved rating framework will further enhance Samoa’s reputation and ensure we are not blacklisted for money laundering.

¹¹ A full assessment of Samoa’s anti-money laundering system by a team of specialist assessors.

1.6 Standard Operating Procedures

SFIU developed a standard operating procedures (SOP) for border currency reporting (BCR) and seizure, detention, retention and release of undeclared excess/declared suspicious cash or negotiable bearer instrument (NBI). The draft SOP was distributed to the Samoa Airport Authority (SAA) and Customs for comments before the document is final. Anti-money laundering training was also conducted for the Samoa Airport Authority personnel at the Faleolo International Border (Arrival and Departure).

1.7 Quarterly Meetings

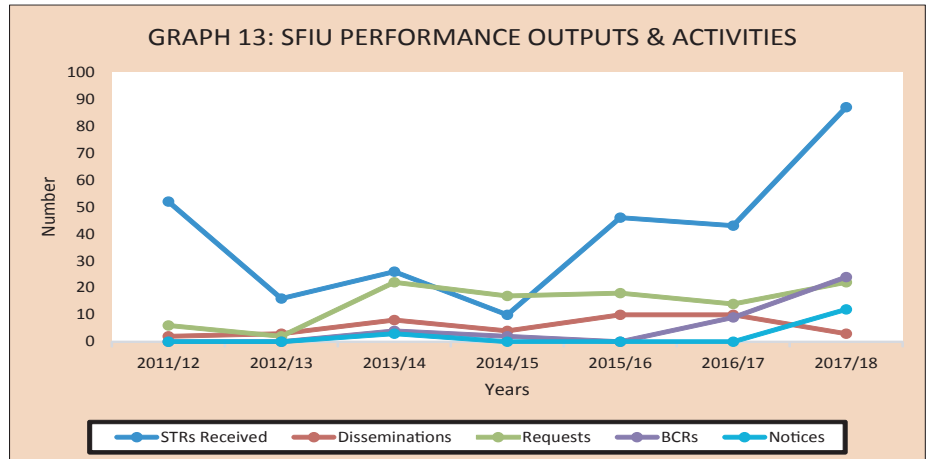
The SFIU continued to host Quarterly meetings with the AML Task Force members and Financial Institutions (FIs) compliance officers to discuss AML/CFT matters (issues, challenges and way forward).

As part of its supervisory roles, the SFIU will conduct trainings for financial institutions and Task Force members regarding their AML/CFT statutory functions and responsibilities in order to strengthen awareness and remain vigilant in detecting, deterring, disrupting and preventing ML/TF activities.

2. Summary of Activities of the Samoa Financial Intelligence Unit (SFIU)

2.1 Memorandum of Understanding (MOU)

In July 2018, a memorandum of understanding is expected to be signed between the SFIU and the Financial Analysis and Supervision Unit of PNG. These are normal bilateral agreements between two FIUs in order to exchange information in an efficient



manner. These are not binding, but provide a platform for communication between different jurisdictions in terms of money laundering.

2.2 Onsite Inspections

SFIU carried out onsite inspections for Commercial Banks in June to December 2017 and Money Transfer Operators in April to May 2018. The purpose of the visit is to measure the Financial Institutions ("FIs") level of compliance with its statutory obligations as stipulated under the MLPA 2007 and Money Laundering Prevention Regulation 2009 ('MLPR') as well as in accordance with the international standards.

2.3 CAMS Examination

Four (4) SFIU staff passed the CAMS examination in 2017 and became Certified AML Specialists. The Certified Anti-Money Laundering Specialist (CAMS) credential is the gold standard in AML certification, and recognised worldwide by financial institutions, government and regulators as a serious commitment to protecting financial system against money laundering. The knowledge and experience from CAMS would be an asset to the development of the SFIU in promoting AML compliance

in terms of regulating the financial institutions, embedded effective AML program to combat ML/TF activities, and the provision of ongoing training on detection and prevention of ML/TF.

2.4 Financial Information

One of the key functions of the SFIU is to analyse reports. These reports consisted of Suspicious Transaction Reports ("STRs"), Border Currency Reports ("BCRs"), Requests received and made, and dissemination of reports to other Law Enforcement Agencies. We also send and receive foreign requests for information on investigations on money laundering. We also have notices circulated through media and financial institutions on issues pertaining to anti-money laundering.

It is also important to note that as a result of the recent Money Laundering prevention amendments a new form of reporting will also be included called Cash transaction reports where any transaction made in a financial institution over 20,000 SAT must be reported to the SFIU. This is part of the FATF standards.

2.5 Due Diligence

Another function of the SFIU is to conduct due diligence checks for requests from financial institutions, competent authorities and internal departments of the CBS. The purpose of the due diligence/background checks is to screen the legitimacy of a company/individual and also to see if there's a match/hits that a particular

company/individual has in relation to criminal or illegal activities such as money laundering/terrorist financing or any other criminal matters.

2.6 Ongoing Awareness and Trainings

The SFIU completed trainings for its stakeholders such as the financial institutions, Law Enforcement Agents

(LEAs) and competent authorities to raise awareness on AML/CFT requirements and obligations. The main purpose of the awareness trainings is for all FIs, Law Enforcement Agents (LEAs) and competent authorities to remain vigilant in detecting, deterring, disrupting and preventing ML/TF activities.

VII. Corporate Services and Administration

1. Currency Operations

1.1 Currency handling arrangements

The Central Bank is the sole issuer of local currency banknotes and coins as stipulated under the Central Bank of Samoa Act 2015.

The quality of banknotes was maintained in an acceptable level during 2017/18. To keep currency in circulation at a high standard, the Central Bank would withdraw and destroy soiled and damaged banknotes, replacing them with new banknotes.

The commercial banks continued to follow the established cash operational procedures specified in the Central Bank's Internal Control of the Cash and Vault Operations during the year.

During 2017/18 a total of 9.76 million pieces of banknotes were processed, with 7.16 million banknotes reissued and 2.6 million unfit banknotes worth \$60.3 million withdrawn from circulation and destroyed during 2017/18.

1.2 Currency Issue

The demand for currency (banknotes and coins) in 2017/18 grew by 13 percent to \$101.6 million from \$89.6 million the year before. The growth was mainly due to an increase of re-issued notes during the period while new notes issued dropped slightly. As a result the total cost of currency issued decreased from \$2 million in 2016/17 to \$1.7 million in the financial year ending 30 June 2018.

Leaving aside small denomination coins, the \$1 coin remained the most widely circulated currency unit in the country with the number of pieces circulating by the end of June 2018 increasing by 13.0 percent to

	2013/14		2014/15		2015/16		2016/17		2017/18	
	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)
Notes saved for reissue	248.8	7.4	169.1	4.7	211.8	6	175.8	5.2	253	7.16
Notes Destroyed	29.4	1.59	30	1	39	1.8	44	1.4	60.3	2.6
Total Processed	278.2	8.99	199.1	5.7	250.8	7.8	219.8	6.6	313.3	9.76

1,760,828. While the \$2 coin increased by 12.0 percent to 1,182,855 pieces in 2017/18. Overall, the number of pieces for all the denominations rose by 1,560,912 in the year under review.

1.3 Replacement of Damaged Banknotes

The Central Bank provides services to replace banknotes which have been accidentally damaged or are unfit for circulation. In 2017/18 replaced notes increased to \$101,870 from \$88,800 in 2016/17. The most common types of damage to banknotes are limpness, tearing or accidental burning.

and actively promoted public awareness of counterfeit banknotes in 2017/18, launching another year long media campaign, including media releases in the TV, radio and print media to combat the increase in counterfeit notes received. (Refer Table 7).

The total number of counterfeit notes discovered and presented to the Central Bank by the commercial banks, retailers and members of the general public increased significantly with forty seven (47) presented in comparison to seven (7) in the previous year.

The Central Bank continues to work closely with the Police Department to

Denomination	2014-2015		2015-2016		2016-2017		2017-2018	
	Value (\$)	Pieces (\$)	Value (\$)	Pieces (\$)	Value (\$)	Pieces (\$)	Value (\$)	Pieces (\$)
5	\$5.00	1	\$0.00	0	\$0.00	0	\$15.00	3
10	\$0.00	0	\$10.00	1	\$30.00	3	\$60.00	6
20	\$20.00	1	\$100.00	5	\$40.00	2	\$280.00	14
50	\$150.00	3	\$600.00	12	\$0.00	0	\$1,050.00	21
100	\$100.00	1	\$2,700.00	27	\$200.00	2	\$300.00	3
Total	\$275.00	6	\$3,410.00	45	\$270.00	7	\$1,705.00	47

1.4 Counterfeit Currency Notes

Counterfeit money is not reimbursed nor compensated by the Central Bank. Therefore, the onus is on the banks and members of the public to be vigilant and alert in detecting counterfeit money.

The Central Bank remained cautious

assist police in counterfeit detection techniques and support with counterfeit analysis.

1.5 Numismatics

Apart from being used to make payments, currency banknotes 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.

Income from Numismatic or collector sales for the financial year ending 2017/18 was \$0.58 million. The Bank signed a number of agreements with partner mints for a variety of new coin programs during this financial year ending 30 June 2018.

2. Banking Operations

2.1 Interbank Settlement

As the overseer of the financial system, one of the Central Bank's key function in so far as the inter-bank settlement system is concerned, is to facilitate the efficient and effective exchange of payments amongst the commercial banks. It does this by providing office facilities where the commercial banks meet to settle the exchanges through their 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.

2.2 National Payment and Settlement System.

In its duty to promote and oversee the safety and efficiency of the National Payment System, the Central Bank is at its last stage of establishing an Automated Transfer System with the assistance of the World Bank. This system will provide an irrevocable clearing and settlement of financial transactions between Central Banks

and commercial banks (participants) in an efficient and reliable manner. The new system will replace the current inter-bank settlement.

To promote cooperation and assist local banks using the SWIFT system for payments, the Central Bank chairs the Samoa SWIFT user group. This group provides a forum for local banks to discuss and review matters related to SWIFT and payments. The user group also provides a single point of contact between Samoa and SWIFT ensuring timely dissemination of locally sensitive issues to and from SWIFT.

3. Internal Audit

The Internal Audit Department is primarily charged with the task of providing an independent and objective advice to the Central Bank's Audit Committee, Governor and Management on risk management, internal controls and governance. This is undertaken by measuring and evaluating the effectiveness of the internal controls and systems that are in place to achieve the Bank's objectives.

4. Human Resources

4.1 Policy developments, reviews and monitoring

The Bank reviewed and developed several staff policies during the FY 2017/2018 to improve human resource management and monitoring of staff training. The Human Resource Department is part of several policy review Committees within the Bank.

4.2 Composition of staff

The Central Bank experienced an increase in staff numbers in the FY 2017/2018. This was contrary to staff numbers in FY 2016/2017 in which a

sinking lid approach was implemented to control staff costs. The sinking lid was lifted in early FY 2017/2018 to recruit technical capacity that could not be sourced internally. At the end of June 2018, the Central Bank employed a total of ninety eight (98) staff, compared to the eighty nine (89) in June 2017.

In terms of gender composition, male make up the majority of permanent staff (non-contract) in FY 2017/2018. This trend is similar to the previous financial years (FY 15/16 and FY 16/17). However, the trend differs in management positions (contract) where female make up the majority in FY 2017/2018. This trend is similar to the previous financial years (FY 15/16 and FY 16/17). This indicates gender equity in Central Bank policies specifically in recruitment and retention of staff.

Twenty (20) appointments were approved in FY 2017/2018. Among these were four (4) contract appointments and sixteen (16) permanent appointments. Of the four (4) contract appointments:

- Two (2) contract officers were re-appointed for another three year term;
- One (1) contract officer was transferred on merit to fill a new contract position; and
- One (1) contract officer was appointed (from outside) to fill another contract vacancy.

Of the sixteen (16) permanent appointments, four (4) were internal movements or promotions and twelve (12) were recruitments from outside the Bank.

4.2.2 Staff Cessation of service

Staff turnover was reportedly low in

FY 2017/2018 compared to the two previous financial years. A total of four (4) staff resigned of which two (2) migrated overseas, one (1) took up a promotion with another Government agency and one (1) was for family reasons.

There is no recorded termination or death during the FY 2017/2018. In terms of retirement, one (1) employee extended retirement for another 12 month (annual) period.

4.2.3 Service Recognition

A few staff were recognized for long service during the FY 2017/2018. One (1) achieved 10 years of service; another achieved 15 years of service and another 20 years of service.

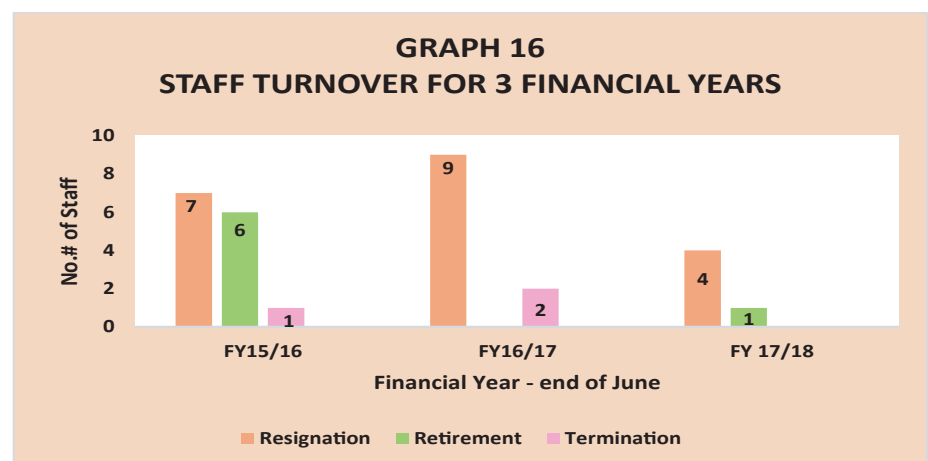
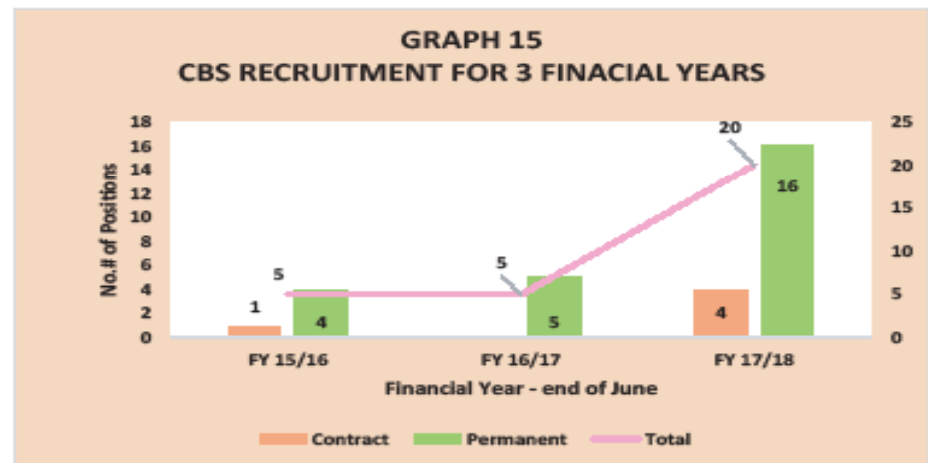
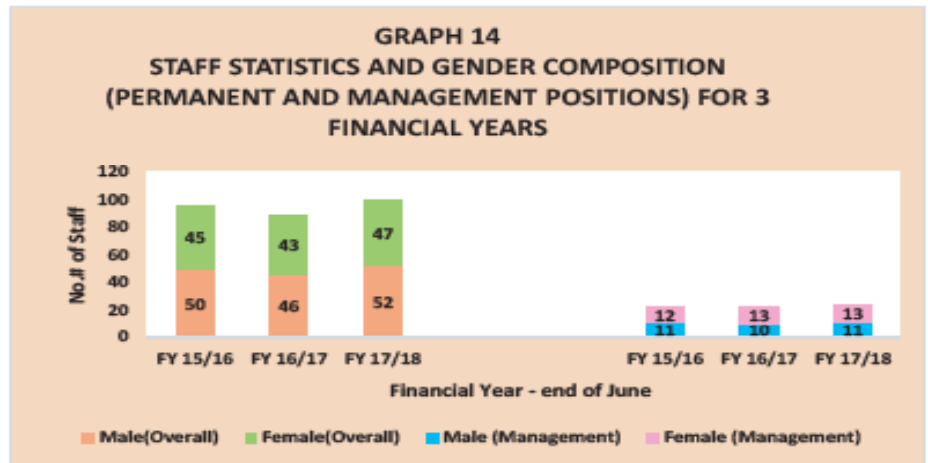
The Bank acknowledges with gratitude the dedication and commendable service of these long serving members to the Central Bank of Samoa.

4.2.4 Staff Social activities

Many activities involved staff outside the professional realm of work. These activities associate with staff welfare and build morale. One of the prominent activities during the FY 2017/2018 is the fitness transformation programme that continued for a consecutive period of 10 months. Other sporting activities were office tournaments in which staff represented the Bank in touch rugby, netball, soccer and volleyball.

4.3 Staff Trainings and Developments

The Bank places value on staff development and training and provides an enabling environment to strengthen, build staff capacity and caliber through its staff education program.



Staff are encouraged to pursue higher education especially in core areas of the Bank. In addition to this formal program, the Bank continuously trains staff locally and overseas through specific training workshops, meetings and work attachments.

4.3.1 Local Training and Meetings

The Bank facilitated internal trainings on Communications, Effective Teamwork, Time Management, Intellect and Judgment and Research and Analytical Skills. A training on Microsoft Office programs and tools

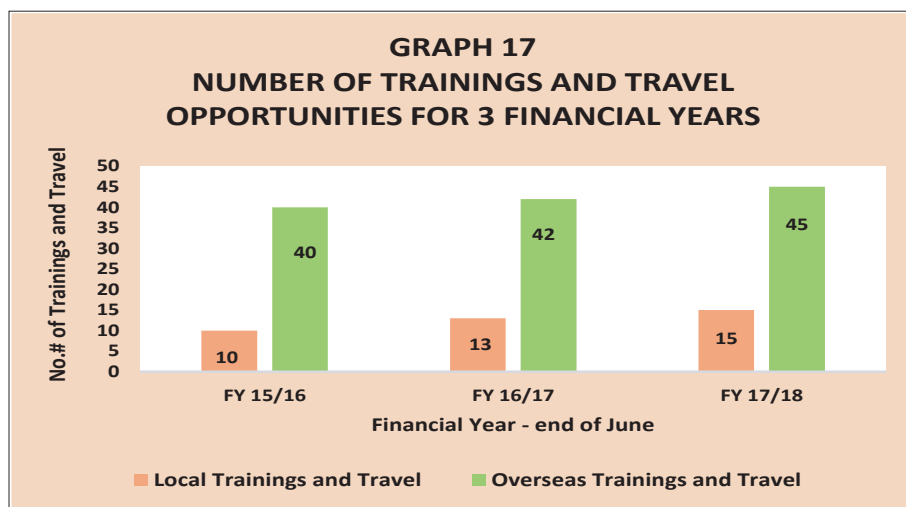
for data analysis was conducted and addressed training needs identified by staff in FY 2017/2018. The Bank continues bi-annual induction programme for new recruits and regular awareness of revised policies.

Bank staff attend local meetings and trainings offered by the Samoa Public Commission (PSC), Ministry of Foreign Affairs & Trade, Ministry of Revenue, Ministry of Prime Minister and Cabinet, Ministry of Education Sports and Culture (MESC), Small Business Enterprise Centre (SBEC), Samoa Bureau of Statistics, Samoa Stationery and Books, World Bank, Pacific Financial Technical Assistance Center, Asia Development Bank, Samoa Institute of Accountants and non-bank financial institutions such as the Development Bank of Samoa and the Samoa National Provident Fund.

4.3.2 Overseas Meetings and Trainings

The Bank's representation to international meetings and conferences continued in the report period. Bank management staff attended several annual meetings particular to the Bank's nature of work. These are mostly self-funded. The Bank continues to represent Samoa in numerous conferences, seminars, trainings and donors have been generous in funding (either fully or partially) participation of the Bank's technical / policy staff.

The Bank continues to train its support/operation staff and in FY 2017/2018, it funded five (5) staff for a work attachment at the Reserve Bank of Fiji for a week, understudying areas of human resource, banking and payments, occupational safety and health and security procedures and policies.



The Bank hosted two (2) international meetings and workshops in this financial year. In November 2017, it co-hosted with De La Rue the De La Rue Pacific Workshop in Apia. In June 2018, the Bank co-hosted with the Alliance on Financial Inclusion the 4th Pacific Island Regional Initiative in Apia.

4.3.3 Donor Support

Donor support has facilitated attendance to most international meetings and trainings namely the Alliance for Financial Inclusion; Asia Pacific Group on Money Laundering; Asian Infrastructure Investment Bank; Australian Prudential Regulatory Authority; Australian Transaction Reports and Analysis Centre; Bank Negara Malaysia; De La Rue; Financial Action Task Force (FATF) Training and Research Institute (TREIN); International Criminal Police Organization; International Monetary Fund Singapore Regional Training Institute; Pacific Financial Technical Assistance Center; Royal Australian Mint; Society for Worldwide Interbank of Financial Telecommunication and World Bank.

4.4 Formal Education

In FY 2017/2018, six staff graduated

with tertiary qualifications:

1. One (1) in Master of Financial Analysis from the University of New South Wales;
2. Two (2) in Bachelor of Commerce and Science from the National University of Samoa;
3. One (1) in a Diploma Office Management from the National University of Samoa and;
4. Two (2) in Certificate IV in Leadership and Management from the Australian Pacific Technical Centre.

Five (5) staff continue part time tertiary studies in:

1. Bachelor of Law at the University of the South Pacific;
2. Professional Diploma in Legal Drafting at the University of the South Pacific.
3. Bachelor of Commerce at the National University of Samoa.

4.5 Work Experience programme, volunteers and study visits.

The Bank continued to accommodate students for work experience and observation from local tertiary and vocational institutions. The Bank hosted two students in FY 2017/2018 from the Laumua o Punaoa College

and the National University of Samoa Institute of Technology. The students observed in areas of office administration under the Human Resource Department and data entry under the Economics Department.

5. Property and Information Technology

5.1 Occupancy

Sixty five percent (65%) of the Building's office space is rented out to Government Ministries, International and Private Organizations. The other thirty five percent (35%) is occupied by the Central Bank of Samoa.

5.2 Offsite Development

Development of the site at Ululoloa started with clearing of the land, erecting the rock-wall fence and constructing a temporary back-up facility for Security and IT resources. Construction of the main building is projected to occur within the next financial year.

5.3 Security & Maintenance

CCTV security surveillance system assists Security Officers on a 24 hour basis to ensure safety and security of

assets housed within the premises. Renovations and maintenance of the Building is consistently carried out and monitored to ensure safety and security.

5.4 Information Technology (IT)

During the year, the Bank commenced work on improving and providing services that are accessible and secured. The SWIFT and Accounting systems were upgraded to gain greater control over financials, inventory, operations and Security. An upgrade links to the Bank's Disaster and Recovery Site from wireless to Fibre for a faster and secure backup channel. In addition, the IT staff attended and undertook online cyber security courses to further enhance knowledge on preventing cyber-attacks.

VIII. Central Bank Financial Performance

FINANCIAL PERFORMANCE AND AUDITED ACCOUNTS

The final section of this Annual Report consists of the audited accounts of the Bank for (FY2017/18) ending 30 June 2018.

At year end June 2018, the Bank had total assets of \$630.3 million made up of \$451.4 million in foreign assets, and \$178.9 million in local assets.

On the other hand, the Bank recorded total liabilities of \$610.9 million consisted of foreign liabilities totaling at \$199.0 million and \$411.8 million in local currency.

The Bank's net assets amounted to \$19.5 million, a marked increase from \$16.3 million recorded a year earlier. Total reserves increased mainly due to unrealized gains from the revaluation of foreign currency assets during the year.

Total net profit achieved by the Bank at year end was \$3.0 million, as compared to a profit of \$6.0 million recorded a year earlier.

The Board has decided to transfer the profit of \$3.0 million achieved at year end 30 June 2018 to Reserves.

IX. Chronology of Important Monetary, Prudential and Related events

July 2017

- i. Central Bank macro-economic forecasts and monetary policy stance for 2017/2018 were considered by the Board of Directors. The Board approved for monetary policy to remain accommodative to stimulate further growth in the domestic economy.
- i. On the 24th to 27th the World Bank Group conducted a Case-Study Mission on De-risking to Samoa.
- ii. On the 31st July to 8th August, CBS conducted an AML onsite inspection of the Samoa Commercial Bank, as part of its annual work plan.

August 2017

- i. On the 1st, the revised Exchange Control Manual for 2017 took effect. There were only minor changes to procedures as well as the delegation of authority to the commercial banks and money transfer operators to process foreign exchange payments for overseas insurance/re-insurance premiums for all economic sectors (excluding licensed insurance companies and commercial banks).

October 2017

- i. On the 16th to 27th, the Central Bank (through the Financial Supervisory and Regulatory Services Department) conducted a Prudential Onsite Inspection of the Samoa Commercial Bank Limited.
- ii. On the 23rd and 24th, the Reserve Bank of Australia offered a Technical Assistance (TA) Mission to assist the Central Bank with the review of its monetary policy operations.

January 2018

- i. Update of Central Bank macro-economic forecasts and monetary policy stance for 2017/2018 based on the first six months' review. The Board approved the continuation of the accommodative monetary policy to stimulate economic growth for the remaining six month of the year.

February 2018

- i. On the 1st, the Tala exchange rate basket, which was reviewed and approved by the Board of Directors on the 31st January, became effective. The Tala basket still comprise of the currencies of New Zealand, United States of America, Australia and European Euro.
- ii. On the 13th and 14th, the APG undertook a scoping mission to identify priority needs for Samoa's AML/CFT regime for subsequent technical assistance by the organization.
- iii. On the 21st to 5th March, the IMF conducted its Article IV Mission assessment of the Samoan economy. This was the first Mission undertaken in the new cycle, which will require annual assessments of Samoa's economy by the Fund.

March 2018


- i. On the 1st, the commercial banks and MTOs were no longer required to use the CBS balance of payment (BOP) 2 form (pink form) to report any foreign exchange payment transaction. Instead, these financial institutions now use their own respective telegraphic transfer (TT) forms which should have a CBS declaration statement. This followed a CBS review of the exchange con-

trol reporting framework, which previously required the manual submission of completed BOP2 forms (or pink forms) to the Central Bank every month.


- ii. On the 9th, the CBS Board of Directors approved the recommendations on the Review of the Foreign Investment Policy and Guidelines for 2018.
- iii. On the 26th to 6th April, CBS conducted a full scope onsite examination of the Development Bank of Samoa.

June 2018

- i. On the 4th to 15th, CBS in collaboration with the Australian Prudential Regulatory Authority (APRA) carried out a full scope onsite examination of ANZ Bank (Samoa) Limited.



CENTRAL BANK OF SĀMOA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018



Central Bank of Samoa
Financial Statements
For the year ended 30 June 2018
CONTENTS

	Page
Management's Statement	3
Directors' Statement	4
Audit office audit opinion	5-6
Statement of Financial Performance	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to Accounts	11 – 32
Independent Audit Report	33 - 35

Central Bank of Samoa
Management's Statement
For the year ended 30 June 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to International Financial Reporting Standards and include amounts based on management's best estimates and judgments.

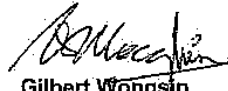
Management has established and maintains accounting and internal control systems that include written policies and procedures. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The Board of Directors oversees management's responsibilities for financial reporting. The financial statements have been reviewed and approved by the Board of Directors on recommendation from management.

Our independent auditors (BDO Samoa, Chartered Accountants), having been appointed by the Board of Directors, have audited our financial statements. The accompanying independent auditors' report outlines the scope of their examination and their opinion.



Maiava Atalina Ainuu-Enari
Governor



Gilbert Wongsin
Assistant Governor - Corporate
Services Group



Peniamina Tauati
Manager Accounts & Budget

Dated: 26/10/2018

Dated: 26/10/2018

Central Bank of Samoa
Directors' Statement
For the year ended 30 June 2018

The Directors present their report together with the financial statements of the Central Bank of Samoa ("the Bank") for the year ended 30 June 2018 as set out on the accompanying pages and the auditors' report thereon in accordance with the requirements of the Central Bank of Samoa Act 2015.

Directors

The Directors of the Bank at the date of this report are:

Chairperson & Governor	Maiava Atalina Ainuu-Enari
Member	Matai'a Alofipo Daniel Meredith
Member	Namulauulu Sami Leota
Member	Tuala Falani Chan Tung
Member	Tuala Pat Leota

Principal Activity

The principal activity of the Bank is the implementation of monetary and financial policies of the Government and for the promotion of conditions conducive to an orderly and balanced economy development in Samoa.

State of Affairs

In the opinion of the directors:

- (i) the accompanying Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows are drawn up so as to give a true and fair view of the operations and results of the Bank for the year ended 30 June 2018.
- (ii) the accompanying Statement of Financial Position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 30 June 2018.

Operating Results

The result for the year is a net profit of \$3.0 million tala (2017 net profit of \$6.0 million tala)

Reserves

The Directors recommend that a net profit of \$3.0 million tala be transferred to reserves.

Dividends

In accordance with the requirements of the Central Bank of Samoa Act 2015, the Directors recommend no dividend to be paid to the Government of Samoa.

Dated at Apia: 26th October, 2018

Signed in accordance with a resolution of the Board of Directors.



DIRECTOR



DIRECTOR



AUDIT OFFICE

Please address all correspondences
to the Controller and Auditor General

REPORT OF THE AUDIT OFFICE

TO THE GOVERNING BODY IN CHARGE OF GOVERNANCE – CENTRAL BANK OF SAMOA

Audit Opinion

We have audited the accompanying Financial Statements of the Central Bank of Samoa which comprise the Statement of Financial Position as at 30 June 2018, the Statements of Comprehensive Income, Changes in Equity and Cash Flows and for the year then ended, a Summary of Significant Accounting Policies and Other Explanatory Notes. The Accounting Firm of BDO, Chartered Accountants, assisted in the audit. The Engagement Partner on the audit resulting in this Independent Auditor's Report is Taimalie Ernest Betham.

In our opinion, the financial statements give a true and fair view of the financial position of the Central Bank of Samoa as at 30 June 2018, and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Central Bank of Samoa in accordance with the ethical requirements that are relevant to our audit of financial statements in Samoa, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Responsibilities of Those Charged with Governance for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Central Bank of Samoa's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Central Bank of Samoa or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Central Bank of Samoa's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with these International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Telephone: 27751
Fax: 24167
Email: info@audit.gov.ws
Website: www.audit.gov.ws

P.O Box 13
APIA, SAMOA



AUDIT OFFICE

Please address all correspondences
to the Controller and Auditor General

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Central Bank of Samoa's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Central Bank of Samoa's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Central Bank of Samoa to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors and Management regarding, among other matters, the significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements of the Bank have been prepared in accordance with and complies with the requirements of:

- i. Public Bodies (Performances and Accountability) Act 2001, and the
- ii. Public Finance Management Act 2001.

We also confirm that:

- a. we have been given all information, explanations and assistance necessary for the conduct of the audit; and
- b. the Bank has kept financial records sufficient to enable the financial statements to be prepared and audited.

Our audit was completed on the 26th October 2018 and our opinion is expressed as at that date.

Apia, Samoa
30 October 2018

C. Afele
Fuimaono Mata'afā Papali'i C.G. Afele
CONTROLLER AND AUDITOR GENERAL



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BDO Samoa
Vaitele St Lalovaea.
POBox 859
Apia Samoa

INDEPENDENT AUDITOR'S REPORT

To the Controller and Auditor General

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of Samoa (the Bank), which comprise:

- the statement of financial position as at June 30, 2018;
- the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended 30 June 2018; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of Samoa (the Bank), as at June 30, 2018, and (of) its financial performance and its cash flows for the year ended 30 June 2018 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Central Bank of Samoa in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Samoa, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the director's report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Banks ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Banks financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banks internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banks ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been prepared in accordance with and complies with the requirements of:

- i. Public Bodies (Performance and Accountability) Act 2001, and the
- ii. Public Finance Management Act 2001.

We also confirm that:

- a. we have been given all information, explanations and assistance necessary for the conduct of the audit; and
- b. the Bank has kept financial records sufficient to enable the financial statements to be prepared and audited.

BDO

**BDO
CHARTERED ACCOUNTANTS**

A handwritten signature in blue ink, appearing to read 'Ernest Betham'.

**Ernest Betham
Engagement Partner**

Samoa
26th October 2018

Central Bank of Samoa
Statement of Financial Performance
For the year ended 30 June 2018

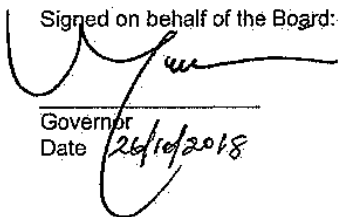
	Notes	2018 \$('000)	2017 \$('000)
Income			
Interest income on cash and investments	22	8,293	5,347
Interest income on lending		1,846	1,768
Rental income		1,307	1,277
Other income	23	903	2,643
Total income		12,349	11,035
Expenses			
Administrative expenses		2,128	1,657
Board expenses	24 (ii)	20	14
Communication costs		349	307
Currency issue costs		1,986	2,383
Depreciation	11	1,153	1,148
Directors fees	24(ii)	82	70
External audit costs		44	35
Finance costs		1,025	595
Occupancy costs		747	686
Staff costs		4,722	4,541
Withholding tax on interest income		44	41
Total expenses		12,300	11,477
Profit before foreign currency translation		49	(442)
Net gains on translation of foreign currency monetary assets and liabilities		3,041	6,491
Net Profit for the year	21	3,090	6,049

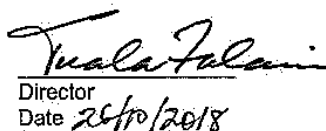
The accompanying notes form an integral part of the above financial statement

Central Bank of Samoa
Statement of Financial Position
As at 30 June 2018

ASSETS	Notes	2018 \$('000)	2017 \$('000)
Foreign Currency Assets			
Cash and fixed deposit balances	4	362,274	251,749
International Monetary Fund	6	86,224	86,517
Accrued interest	7	2,918	1,999
Total Foreign Currency Assets		451,416	340,265
Local Currency Assets			
Cash and fixed deposit balances	5	43,016	40,494
Accrued interest		13	12
Currency inventory	8	13,514	15,490
Receivables and prepayments	9	7,187	6,302
Credit line facilities	10	96,651	99,054
Property, plant and equipment	11	18,573	18,382
Total Local Currency Assets		178,954	179,734
TOTAL ASSETS		630,370	519,999
LIABILITIES			
Foreign Currency Liabilities			
Deposits	12	78,613	67,026
IMF facilities	13	27,516	30,354
International Monetary Fund	6	92,908	88,828
Other liabilities		20	16
Total Foreign Currency Liabilities		199,057	186,224
Local Currency Liabilities			
Deposits	12	253,599	199,498
Currency in circulation	14	101,624	89,609
Central Bank Securities	15	23,495	-
Deferred liability	16	-	30
Payables and accruals		32,564	27,821
Provision for employee entitlements	17	565	441
Total Local Currency Liabilities		411,847	317,399
TOTAL LIABILITIES		610,904	503,623
CAPITAL AND RESERVES			
Capital	19	20,000	20,000
General reserve	20	10,251	10,202
Unrealised foreign exchange revaluation reserve	21	(10,785)	(13,826)
TOTAL CAPITAL AND RESERVES		19,466	16,376
TOTAL LIABILITIES, CAPITAL AND RESERVES		630,370	519,999

Signed on behalf of the Board:


Governor
Date 26/10/2018


Director
Date 26/10/2018

The accompanying notes form an integral part of the above financial statement

Central Bank of Samoa
Statement of Changes in Equity
For the year ended 30 June 2018

	Note	Paid up capital \$'000	Unrealised (loss)/profits reserve \$'000	General reserve \$'000	Total \$'000
Balance at 30 June 2016		20,000	(20,317)	10,645	10,327
Net profit/ (loss) for the year			6,491	(442)	6,049
Balance at 30 June 2017		20,000	(13,826)	10,202	16,376
Net profit for the year	21		3,041	49	3,090
Balance at 30 June 2018		20,000	(10,785)	10,251	19,466

The accompanying notes form an integral part of the above financial statement

Central Bank of Samoa
Statement of Cash Flows
For the year ended 30 June 2018

This statement meets the requirements of *IAS7 – Statement of Cash Flow*. In the Central Bank's view, due to the nature of central banking activities, this statement does not shed additional light on the Central Bank's financial results. For the purpose of this statement, cash includes the notes and coins held at the Reserve Bank and overnight settlements balances due from other banks.

	Note	2018 \$'000	2017 \$'000
CASH FLOWS (USED BY)/FROM OPERATING ACTIVITIES:			
Cash received from investments		8,293	5,347
Cash received from rent		1,307	1,277
Cash paid for services and goods		(5,373)	(3,882)
Other income		890	2,643
Cash paid to employees		(3,735)	(3,440)
Interest paid on deposits		(1,025)	(595)
Net cash flows from operating activities		357	1,350
CASH FLOWS (USED BY)/FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment		1	1
Purchase of property, plant and equipment	11	(440)	(801)
Credit line facilities granted during the year		(5,000)	(3,500)
Credit line facility repayments received during the year		7,403	4,955
Interest received on credit line facility		1,846	1,768
Net movement in term deposits and bank bills more than 90 days		22,214	1,404
Net cash from investing activities		26,024	3,827
CASH FLOWS FROM/(USED BY) FINANCING ACTIVITIES:			
Net movement in notes and coins in circulation		12,015	11,709
Currency issue costs		(1,986)	(2,383)
Net movement in demand deposits		36,975	53,670
Net movement in securities		23,495	(499)
Net movement in external liabilities		12,833	(6,650)
Net cash flows from financing activities		83,332	55,847
NET INCREASE IN CASH			
Cash and cash equivalent at beginning of the period		378,760	311,245
Net unrealised profits on translation of foreign currency monetary assets and liabilities		3,041	6,491
CASH AND CASH EQUIVALENTS AT END OF YEAR		491,514	378,760

The accompanying notes form an integral part of the above financial statement

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

1. General information

The Central Bank of Samoa ("Bank") is a body corporate created under the Central Bank of Samoa Act 2015. The Central Bank of Samoa is responsible for the implementation of monetary and financial policies of the Government of Samoa and for the promotion of conditions conducive to orderly and balanced economic development in Samoa.

These financial statements are prepared in accordance with part 8 of the Central Bank of Samoa Act 2015 and comply with International Financial Reporting Standards.

The Bank's office is located on the 5th, 6th and ground floor of the Central Bank of Samoa Building, Apia. The postal address is CBS Private Bag, Samoa.

These financial statements were authorised for issue by the Governor and the Board of Directors on 26 October, 2018.

2. Statement of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

The financial statements of the Central Bank of Samoa ("Bank") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities. The financial statements are prepared in Samoan Tala and all values are rounded to the nearest thousand (\$'000) except where otherwise indicated.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Certain interpretations and amendments to existing standards have been published that became effective during the current financial period. The Bank has assessed the relevance of all such new interpretations and amendments, and has adopted the following, which are relevant to its operations.

Change in accounting policies

New standards, interpretations and amendments effective from 1 July 2018

There were no new standards or interpretations effective for the first time for periods beginning on or after 1st July 2018 that had a significant effect on the Bank's financial statements.

New and amended standards adopted by the Bank.

There are no IFRSs or IFIC interpretations that are effective for the first time for the financial year beginning on or after 1st July 2017 that have a material impact on the Bank.

New standards, amendments, annual improvements and interpretation that have been issued but are not mandatorily effective as at 30th June 2018.

Certain new standards, amendments, annual improvements and interpretation which are not yet mandatorily effective and have not been adopted early in these financial statements, will or may have an effect on the Bank's future financial statements. The Bank intends to adopt these standards, amendments, annual improvements and interpretation if applicable, when they become effective:

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

2. Statement of significant accounting policies (cont'd)

Change in accounting policies (cont'd)

- Annual Improvements to IFRSs 2015 -2017 Cycle.
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatment.
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration.

- New Standards which are applicable for periods beginning on or after 1st January 2018. The Bank determines the following with reference to the new standards from 1 July 2018:
 - IFRS 9: Financial Instruments
 - IFRS 15: Revenue from Contracts with Customers
 - IFRS 16: Leases

b. Foreign currency transactions

Transactions in foreign currencies are translated to functional currency at exchange rates ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency (i.e.: Sāmoan Tala) at the exchange rate ruling at that date.

Foreign exchange gains and losses resulting from settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities in foreign currency are recognized in the profit and loss account.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rates ruling at the dates the fair value was determined.

c. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash held at bank, short-term bank deposits, bank bills with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value and are used by the Bank in the management of its short-term commitments.

d. Property, plant and equipment

Land is carried at market value, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimates of useful lives of property, plant and equipment over which depreciation is charged are as follows:

• Land	Not Depreciated
• Buildings	10 years and 40 to 50 years
• Office equipment, furniture and fittings	5 to 10 years
• Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Expenditure on the repairs and maintenance of property, plant and equipment which does not add to the future economic benefits expected from the assets is recognized as an expense when incurred. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

The cost of major renovations is included in the carrying amount of the asset when it is probable that the future economic benefits will exceed the originally assessed standard of performance of the existing asset and will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

2. Statement of significant accounting policies (cont'd)

e. Inventory of currency

Inventories of currency on hand are recognized in the Statement of Financial Position at cost. Cost includes the costs of bringing inventories to their present location and condition.

When currency is issued, the value of inventory is reduced and an expense is recorded for currency issue costs. Currency issue costs are determined on a first-in, first-out (FIFO) basis.

f. Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Central Bank of Samoa's financial instruments are its credit line facilities, secured lending, foreign currency working accounts, cash and cash equivalents, central bank securities, notes on issue and deposit liabilities.

Financial assets

Foreign exchange

Assets and liabilities denominated in foreign currency are converted to Samoan tala equivalents at the relevant exchange rate ruling on balance date. Realised and unrealized gains or losses on foreign currency are taken to profit, but only realized gains and losses are available for distribution in accordance with the *Central Bank of Samoa Act 2015*. Interest revenue and expenses on foreign currency assets and liabilities are converted to Samoan tala using the relevant market exchange rate on the date they are accrued or recognised.

Local and Foreign deposits

The Central Bank of Samoa holds call and term (or fixed) deposits with highly rated commercial banks locally and overseas and also maintains working accounts in foreign currencies. Deposits are classified as 'loans and receivables' and recorded at their face value which is equivalent to their amortized cost using the effective interest method. Interest is accrued over the term of deposits and is received periodically or at maturity. Interest accrued but not received is included in Accrued Interest.

Australian dollar bank bills

In the course of its financial market operations the Central Bank of Samoa engages in repurchase agreements involving Australian dollar discount securities. These discount securities purchased and contracted for sale under buy repurchase agreements are classified as 'held to maturity' and valued at amortised cost. Interest earned on the discount securities is the difference between the purchase cost and the face value of the security at maturity and is amortised over the term of the security.

Secured lending and credit line facilities

The Central Bank of Samoa provides advances to commercial banks and other financial or lending institutions through secured lending and credit line facilities. Secured lending and credit line facilities are classified as 'loans and receivables' and recorded at their face value which is equivalent to their amortized cost using the effective interest method. Interest income is recorded over the term of advance or credit facility as it accrues.

Financial liabilities

Sell repurchase agreements (Central Bank Securities)

Central Bank securities sold and contracted for repurchase are held for purposes of conducting monetary policy and may be repurchased, typically for short terms, under repurchase agreements. The counterpart obligation to repurchase the securities is reported in liabilities at amortised cost. The difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Demand deposits

Demand deposits representing funds placed with the Bank by financial institutions and other organizations are brought to account on an amortised cost basis, which is equivalent to their face value. These deposits are at call. Interest is paid on demand deposits of Government of Samoa held with the Bank.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

2. Statement of significant accounting policies (cont'd)

f. Financial instruments (cont'd)

Financial liabilities (cont'd)

Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value in the statement of financial position.

Demonetised currency

In accordance with the provisions of the Central Bank of Samoa Act 2015, the Bank no longer has any liability for currency that has been demonitised and remains in circulation. Therefore, currency in circulation that has been demonitised and ceases to be legal tender from the date as specified by the Bank is recognized in income.

Collectors' currency

Collectors' currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for collectors' currency is recorded at face value in the statement of financial position. Prior to 1 July 2011 the value of collectors' currency is reflected as a contingent liability.

g. Receivables

Receivables primarily consist of staff advances and are recognised initially at fair value and subsequently measured at cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

h. Accounts payable

Accounts payables and other accounts payable are recognised when the Bank becomes obliged to make future payments resulting from the purchase of goods and services. Accounts payables are recognised at cost which is the fair value of the consideration to be paid in the future for goods and services received. Given the short term nature of most payables, the carrying amounts approximate fair value.

i. Capital and Reserves

The capital of the Central Bank is established by the Central Bank of Samoa Act 2015 ("Act"). Any increase to capital proposed by the Board of Directors is approved by the Finance Minister in accordance with Section 32 of the Act.

The General Reserve also forms part of equity and this records all net profits and net losses incurred by the Bank.

Unrealised gains and losses on foreign exchange, foreign securities and Sāmoan tala securities are recognised in profit. However, until such gains or losses are realized, they are not available for distribution to the Sāmoan Government. Such unrealized gains are reflected in the Unrealised Profits Reserve. Unrealised losses that exceed the balance held in the Unrealised Profits Reserve are initially charged against distributable profits (or income) and then covered from the general reserve. This is in accordance with the requirement of the Act.

j. Revenue recognition

The Bank's main source of income is from the interest earned from various investment with overseas Bank accounts. Interest income is recognized when both matured.

k. Operating lease income

The Bank earns rental income from operating leases of its building property. Rental income is recognized on a straight-line basis over the term of the lease.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

2. Statement of significant accounting policies (cont'd)

i. Statutory reserve deposit

Under section 53 of the Central Bank of Samoa Act 2015, the Bank may specify the reserves required by each financial institution to be maintained against deposits and other similar liabilities.

Under Part IV of the Insurance Act 1987, insurance companies, brokers and agents are required to deposit with the Bank, specified deposit amounts in accordance with the requirements of the Insurance Act 1987.

m. Employee benefits

The Bank contributes towards the Samoa National Provident Fund, a defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of contribution. Obligations for contributions to the defined contribution plan are recognised immediately in profit or loss.

Liabilities for annual leave are accrued and recognised in the balance sheet. Annual leave are recorded at the undiscounted amount expected to be paid for the entitlement earned.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

n. Value Added Goods and Services Tax

VAGST collected on its building rental income and VAGST paid on expenses directly related to the management of its building property are included in the bi-monthly VAGST returns. No VAGST is incurred on its financial transactions.

o. Income tax

Section 73 of the Central Bank of Samoa Act 2015 exempts the Bank from income tax. Accordingly no provisions are raised for current or deferred income tax.

p. Comparatives

Where necessary previous periods comparatives have been changed to conform with the presentation of financial information for the current year.

3. Critical accounting estimates and judgments

Preparing financial statements to conform with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgments about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the Bank's accounting policies, management has made the following judgments, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

Impairment of property, plant and equipment

The carrying amounts of the Bank's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised immediately in the profit or loss.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

3. Critical accounting estimates and judgments (cont'd)

Impairment of property, plant and equipment (cont'd)

Recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e.: cash generating units).

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Bank on terms that the Bank would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Bank, economic conditions that correlate with defaults or the disappearance of an active market for a security.

4. Foreign currency cash balances and term deposit balances

	2018 \$'000	2017 \$'000
Cash balances	126,803	80,720
Fixed deposit balances	235,471	171,029
Total foreign currency cash and term deposit balances	362,274	251,749

Foreign currency cash balances comprise of balances held with the Reserve Bank of Australia, Reserve Bank of New Zealand, Bank of England, Bank of China and the Federal Reserve Bank of New York which is in the form of overnight repurchases.

The foreign currency term deposits range in maturing from 91 days to 365 days. The weighted average interest rate on the term deposits is 2.5% per annum.

The composition of foreign currency cash balances and term deposit balances are as follows:

	2018 \$'000		2017 \$'000	
	Cash balances	Term Deposits	Cash balances	Term Deposits
\$US dollar denominated deposits	118,468	32,744	76,600	-
\$NZ dollar denominated deposits	3,448	90,487	1,766	77,912
\$AU dollar denominated deposits	2,853	29,172	1,897	57,088
\$CNH dollar denominated deposits	3	83,068	77	36,029
\$GBP dollar denominated deposits	2,031	-	380	-
Total	126,803	235,471	80,720	171,029

5. Local currency cash balances and term deposit balances

	2018 \$'000	2017 \$'000
Petty cash	5	5
Cash at bank	12,524	12,836
Fixed deposit balances	30,487	27,653
Total local currency cash and term deposit balances	43,016	40,494

The local currency term deposits range in maturing from 91 days to 365 days. The weighted average interest rate on the term deposits is 2.5% per annum.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

6. International Monetary Fund

The Government of Samoa membership to the International Monetary Fund (IMF) was obtained prior to the establishment of the Central Bank of Samoa, as a result the Ministry of Finance (MOF) acted as the fiscal and depository for the IMF accounts. After the establishment of an MOU between CBS and MOF on the transfer of Government accounts in 2014, the Bank was designated the official depository of IMF accounts on the 1 July 2014.

Samoa's claims on the IMF include Special Drawing Rights (SDR) Holdings and Quota with the IMF. The SDR holding is an interest-bearing international reserve asset created by the IMF to supplement existing reserve assets and used in transactions between the IMF and its members. The quota represents the subscriptions paid in full by Samoa to the IMF when it became a member. Samoa's quota is secured by the Samoan government promissory note issued to the IMF and is recorded as an asset denominated in SDR.

Samoa's liabilities to the IMF consist of SDR allocations and Currency holdings. The SDR allocation was initially made available by the IMF to all its members who are participants of the IMF SDR department and these allocations are subject to charges. Currency holdings represent IMF holdings of the member's currency and CBS is now the designated depository.

IMF related assets and liabilities at 30th June 2018:

	2018 \$'000 SAT	2017 \$'000 SAT
Foreign Currency Assets		
Currency Subscription - Quota	59,119	56,522
Special Drawing Right Holdings	27,105	29,995
Total foreign currency assets	86,224	86,517
Foreign Currency Liabilities		
Special Drawing Right Allocations	40,474	38,697
Currency Holding	52,434	50,131
Total foreign currency liabilities	92,908	88,828

7. Foreign currency accrued interest balances

	2018 \$'000	2017 \$'000
Balances with other Central Banks	71	209
Deposits with commercial banks	2,847	1,790
Total foreign currency accrued interest	2,918	1,999

8. Currency inventory

	2018 \$'000	2017 \$'000
Currency notes	3,667	3,946
Coins	9,847	11,544
Total currency inventory	13,514	15,490

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

9. Receivables and prepayments

	2018 \$'000	2017 \$'000
Prepayments	2,071	395
Other debtors	107	487
Interest receivable on staff loans	674	538
Staff loans principal balance	4,455	4,995
Less allowance for impairment on staff loans	(120)	(111)
Net staff loans	4,335	4,883
Total receivables and prepayments	7,187	6,302
<i>Movement in allowance for impairment on staff loans</i>		
Opening balance at 1 July	111	108
Additional/(Reduction) allowance for impairment charged to income and expense	9	3
Closing balance at 30 June	120	111

10. Credit line facilities

	2018 \$'000	2017 \$'000
(a). Tsunami (Credit Line Facility)	8,237	10,231
(b). Cyclone Evan (Credit Line Facility)	35,651	38,294
(c). Economic Stimulus (Credit Line Facility)	24,964	26,569
(d). Additional Economic Stimulus (Credit Line Facility)	8,734	9,307
(e). Second Additional Economic Stimulus (Credit Line Facility)	14,065	14,653
(f). First Small Medium Enterprises Finance (CLF)	5,000	-
Total credit line facilities	96,651	99,054

(a). Tsunami (CLF)

An Emergency Credit Line Facility was extended to the Development Bank of Samoa and the Samoa Housing Corporation to restore confidence of the tourism operators and businesses that were adversely affected by the tsunami to rebuild and redevelop their devastated properties. The outstanding balances as at year end are specified as follows:

	2018 \$'000	2017 \$'000
Development Bank of Samoa	3,745	4,736
Samoa Housing Corporation	4,492	5,495
Balance at year end	8,237	10,231

The term of the credit line facilities are for 5 and 10 years and interest is charged at the rate of 3% per annum.

Repayment terms:

Development Bank of Samoa	-Monthly Repayments	-\$193,000
	-Securities	-Government Guarantee
Samoa Housing Corporation	-Monthly Repayment	-\$96,000
	-Securities	-Government Guarantee

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

10. Credit line facilities (cont'd)

(b). Cyclone Evan (CLF)

Another Credit Line Facility was extended to the Development Bank of Sāmoa and the Sāmoa Housing Corporation to rebuild and redevelop the damaged properties of the tourist accommodation operators and other businesses that were adversely affected by the cyclone in order to restore lost confidence and the livelihood of households. The funds were drawn down in February 2013 and the balances at year end are specified as follows:

	2018 \$'000	2017 \$'000
Development Bank of Samoa	32,046	34,368
Sāmoa Housing Corporation	3,605	3,926
Balance at year end	35,651	38,294

	<u>DBS</u>	<u>SHC</u>
Credit Line Loan Amount Approved:	\$39 million	\$5 million
Loan Duration:	15 Years	15 Years
Grace Period:	12 months	12 months
Interest Rate:	1% per annum	1% per annum
Loan Repayment:	Monthly repayments due after grace period	Monthly repayments due after grace period
Securities:	Government Guarantee	Government Guarantee

(c). Economic Stimulus (CLF)

An additional Credit Line Facility was extended to the Development Bank of Sāmoa to meet the increased demand for borrowings for hosting the Small Island Development States Forum and Commonwealth Youth Games. The funds were disbursed in January 2014 and the balance at year end is specified as follows:

	2018 \$'000	2017 \$'000
Development Bank of Samoa	24,964	26,569
Balance at year end	24,964	26,569

Credit Line Loan Amount Approved:	\$30 million
Loan Duration:	15 Years
Grace Period:	12 months
Interest Rate:	2% per annum
Loan Repayment:	Monthly repayments due after grace period
Securities:	Government Guarantee

(d). Additional Economic Stimulus (CLF)

An additional Credit Line Facility was extended to the Development Bank of Sāmoa to meet the increased demand for borrowings for hosting the Small Island Development States Forum and Commonwealth Youth Games. The funds were disbursed in March 2015 and the balance at year end is specified as follows:

	2018 \$'000	2017 \$'000
Development Bank of Samoa	8,734	9,307
Total additional credit line facility	8,734	9,307

Credit Line Loan Amount Approved:	\$10 million
Loan Duration:	15 Years
Grace Period:	12 months
Interest Rate:	3% per annum
Loan Repayment:	Monthly repayments due after grace period
Securities:	Government Guarantee

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

10. Credit line facilities (cont'd)

(e). Second Additional Economic Stimulus (CLF)

A second additional Credit Line Facility was extended to the Development Bank of Samoa to meet the increased demand for borrowings for agricultural and tourism sectors. The funds were disbursed in November 2015 and the balance at year end is specified as follows:

	2018	2017
	\$'000	\$'000
Development Bank of Samoa	14,065	14,653
Total additional credit line facility	14,065	14,653

Credit Line Loan Amount	\$15.0 million	
Approved:		
Loan Duration:	15 Years	
Grace Period:	12 months	
Interest Rate:	3% per annum	
Loan Repayment:	Monthly repayments due after grace period	
Securities:	Government Guarantee	

(f). First Small Medium Enterprises (CLF)

A first additional Credit Line Facility issued to the Development Bank of Samoa for the small medium Enterprises within the agriculture manufacturing and other business sectors that will provide Productive contribution towards Samoa's economic development.

	2018	2017
	\$'000	\$'000
Development Bank of Samoa	5,000	-
Balance at year end	5,000	-

Credit Line Loan Amount	\$5.0 million	
Approved:		
Loan Duration:	15 Years	
Grace Period:	12 months	
Interest Rate:	3% per annum	
Loan Repayment:	Monthly repayments due after grace period	
Securities:	Government Guarantee	

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

11. Property, plant and equipment

	Land \$'000	Buildings \$'000	Ululoloa W/P \$'000	Plant & equipment \$'000	Motor vehicles \$'000	IT equipment \$'000	Furniture & fittings \$'000	Total \$'000
At Cost -								
At 30 June 2016	3,637	28,769	-	5,230	492	619	1,171	39,918
Additions	-	689	497	70	-	3	39	1,298
Disposals	-	-	-	(13)	-	-	(12)	(25)
At 30 June 2017	3,637	29,458	497	5,287	492	622	1,198	41,190
Additions	-	279	907	102	-	23	36	1,347
Disposals	-	(22)	-	(109)	-	-	(5)	(136)
At 30 June 2018	3,637	29,715	1,404	5,280	492	645	1,229	42,401
Depreciation -								
At 30 June 2016	-	(5,857)	-	(4,250)	(126)	(428)	(1,027)	(21,688)
Charge for the year	-	(711)	-	(251)	(98)	(59)	(28)	(1,147)
Disposals	-	-	-	13	-	-	12	25
At 30 June 2017	-	(16,568)	-	(4,488)	(224)	(487)	(1,043)	(22,810)
Charge for the year	-	(720)	-	(246)	(98)	(62)	(28)	(1,154)
Disposals	-	22	-	108	-	-	5	135
At 30 June 2018	-	(17,266)	-	(4,626)	(321)	(550)	(1,065)	(23,828)
Net Book Value -								
At 30 June 2017	3,637	12,889	497	799	268	135	155	18,382
At 30 June 2018	3,637	12,448	1,404	654	171	95	164	18,573

12. Deposits

	2018 \$'000	2017 \$'000
Foreign currency deposits		
Government of Sāmoa foreign currency deposits	78,613	67,026
Total foreign currency deposits	78,613	67,026
Local currency deposits		
Demand deposits due to banks	168,991	123,273
Government of Sāmoa local currency deposits	33,874	31,545
The World Bank deposits	107	132
	209,972	154,950
Statutory reserve deposits		
Domestic banks	49,687	43,658
Insurance companies	940	890
	50,627	44,548
Total local currency deposits	253,599	199,498

The Central Bank acts as banker, agent and depository of the Government of Sāmoa. Governments funds deposited at the Central Bank are remunerated at a prevailing market rate. Interest expense for the year was \$1.0m tala (2017: \$0.6m tala)

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

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

13. International Monetary Fund – Facilities

	2018 \$'000	2017 \$'000
(a). Exogenous Shock Facility	6,350	10,118
(b). Rapid Credit Facility	21,166	20,236
Balance at year end	27,516	30,354

(a). Exogenous Shock Facility

An agreement was signed with the International Monetary Fund (IMF) on December 2009 for funds to be lent to the Government of Samoa for the purpose of supporting Samoa's reserves and balance of payments. In the previous financial year the loan was classified as part of Government's foreign currency deposits in the Central Bank of Samoa's statement of financial position. In September 2011, it was agreed between the Government and the Central Bank that the loan will be transferred to the Central Bank and therefore it is now classified separately in the Central Bank's statement of financial position.

As at 30 June 2018 the balance of the loan in Samoan tala reduced to \$6,350 million which is equivalent to \$1.74 million SDR's (Special Drawing Rights) after taking into account repayments already made. Special drawing rights is an interest bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the IMF.

The loan principal is payable in 10 equal installments on an annual basis beginning 5 ½ years after the loan is drawn. The first repayment commenced on June 2015. Interest on the loan is 0.25% payable semi annually after 30 June and 31 December each year. Interest payments for these concessional loans introduced on January 7, 2010 were waived for review.

(b). Rapid Credit Facility

The International Monetary Fund (IMF) approved a disbursement of another facility for the amount equivalent to SDR \$5.8 million (about US\$8.6 millions). This Facility is called the Rapid Credit Facility (RCF) for the purpose of helping Samoa to manage the economic impact of Cyclone Evan.

The RCF provides rapid financial assistance with limited conditionality to low income countries with an urgent balance of payments need.

The RCF carries zero interest (until the end of 2014), has a grace period of 5 ½ years and a final maturity of 10 years. Funds were received in May 2013 and repayments will begin on 23 November 2018 until May 2023.

14. Currency in circulation

	2018 \$'000	2017 \$'000
Currency in circulation	101,624	89,609
Balance at year end	101,624	89,609

15. Central Bank Securities.

	2018 \$'000	2017 \$'000
Central Bank Securities	23,495	-
Balance at year end	23,495	-

Central Bank securities issued to the public are primarily purchased by the local commercial banks. The securities are short term ranging in maturity from 14 days to 91 days. The weighted average interest rate of the securities is 0.22 % per annum.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

16. Grant

A Grant of \$199,202 was received from the United Nations Capital Development Fund (UNCDF) through the Pacific Financial Inclusion Programme (PFIP) to assist CBS in developing an electronic survey instrument that is used to conduct financial inclusion service demand side surveys and datasets which is compatible to global financial inclusion indicators set out by the Alliance for Financial Inclusion (AFI) and the G20 forum.

At year ended 30th June 2018, a total balance of \$30,100 from this fund has been paid back to the Pacific Financial Inclusion Programme.

	2018 \$'000	2017 \$'000
Grant deferred liability	-	30
Closing balance at 30 June	-	30

17. Provision for employee entitlements

Provision for employee entitlements comprise retirement, annual leave, sick leave and long service leave.

	2018 \$'000	2017 \$'000
Opening balance at 1 July	441	354
Additional provisions charged to income during the year	246	341
Entitlements utilized during the year	(122)	(254)
Closing balance at 30 June	565	441

18. Distributable profits

Section 35 of the Central Bank of Samoa Act 2015 ("Act") specifies that profits available for distribution by the Bank must be computed from net profit by:

- a) Deducting the amount of all unrealized gains included in the net profit and allocating an equivalent amount to the Unrealized Revaluation Reserve Account.
- b) Deducting from the Unrealized Revaluation Reserve Account the amount of all unrealized revaluation losses included in the net profit until such time as the balance of that account is equal to zero and adding an equivalent amount to the distributable profit; and
- c) Such other purpose proposed by the Board and approved by the Minister.

19. Capital

	2018 \$'000	2017 \$'000
Authorised, issued and paid up capital	20,000	20,000

The level of capital is monitored on a regular basis to ensure that it complies with the requirements of the Central Bank of Samoa Act 2015. Any increases to capital proposed by the Board of Directors is approved by the Finance Minister in accordance with Section 32 of the Act.

Management of the Bank's Capital

The Bank's capital management framework focuses on the Bank's total equity in its financial statements. The main drivers of reported equity are reported financial results and the dividend to the Government. The Bank's primary capital management objective is to have sufficient capital to carry out effectively its statutory responsibilities. In determining whether the Bank has sufficient capital for those purposes, it assesses the extent of financial risk and the resulting potential for losses arising from its operations.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

20. General reserves

Section 33 of the Central Bank of Samoa Act 2015 specifies that the general reserve is established for the purpose of:

- (a) (i) covering losses sustained by the Bank; or
- (ii) increase the paid-up capital of the Bank; and
- (b) an Unrealized Revaluation Reserve Account which accounts for unrealized gains and losses owing to its positions with foreign currencies, gold, financial instruments and other assets.

In July 2014, the Bank signed a MOU with the Ministry of Finance (MOF) for the transfer of all Government accounts, domestic and foreign under the custodian of the Bank. In particular, the Government held more assets than its liabilities with the IMF. As at 30 June 2015, the Bank accounted and transferred the surplus to its General reserves.

21. Unrealised profits/(losses) reserve

Consistent with the Central Bank of Samoa Act 2015 the unrealized profits reserve account records the unrealized profits from foreign exchange gains from the Bank's holdings of foreign currency monetary assets and liabilities. Unrealized losses are initially offset against unrealized gains with any excess charged to income. The movement in the balance of the unrealized profits reserve account is as follows:

	2018 \$'000	2017 \$'000
<i>Profit distribution</i>		
Unrealised profit transferred to unrealized profits reserve	3,041	6,491
Net profit/(loss) transferred to general reserves	49	(442)
Net profit	3,090	6,049
<i>Movement in Unrealised profits/(losses) reserve</i>		
Opening balance at 1 July	(13,826)	(20,317)
Unrealized Profits for the year	3,041	6,491
Closing balance at 30 June	(10,785)	(13,826)

22. Interest income

	2018 \$'000	2017 \$'000
Interest on cash accounts	1,615	1,225
Interest on term deposits	6,678	4,122
Total interest income	8,293	5,347

23. Other Income

	2018 \$'000	2017 \$'000
Interest on staff loans	179	247
Income from collectors & other income	724	2,396
Total other income	903	2,643

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

24. Related party disclosures

The Government of Samoa is the sole shareholder of the Bank.

All transactions with related parties are conducted on commercial terms and conditions except for Government deposits which are on concessional terms and conditions and Bank employee lending schemes which are charged below market rates of interest.

(i) Key management personnel

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). This comprised the governor, assistant governors, members of the management team and executive directors. At 30 June 2018, the number of key management personnel was 23 (2017: 23).

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

	2018	2017
	\$'000	\$'000
Salaries and short-term employment benefits	1,312	1,312
Other long-term benefits	128	121
Total key management personnel remuneration	1,440	1,433

(ii) Directors fees and board expenses

Directors appointed from Government Corporations and Ministries do not receive a director's fees or sitting allowances. Government regulations specify that director's fees are \$18,000 gross per annum and sitting allowance ceased since 1st July 2015.

	2018	2017
	\$'000	\$'000
Directors fees	82	70
Board expenses	20	14
Total directors and board expenses	102	84

(iii) Due from and due to related parties

As at 30 June 2018, the following balances were receivable from or payable to related parties:

	2018	2017
	\$'000	\$'000
Balances due to related parties	112,486	(98,571)
Balances due from related parties	1,840	2,012

Balances due to related parties comprise of government demand deposits which are currently placed at CBS. Balances due from related parties comprise of principle loan balances given to executives of CBS including the Governor, assistant governors and the managers.

25. Operating lease receivable

The total future minimum lease receivables under operating leases are as follows:

	2018	2017
	\$'000	\$'000
Not later than one year	1,300	1,300
Later than one year but not later than five years	2,600	2,600
Total operating lease receivable	3,900	3,900

Operating leases relate to the CBS building leased out for a term of 3 years, with an option to extend for a further 3 years. The building rental income earned during the year amounts to SAT\$1,307,340 (2017: SAT\$1,276,867).

Direct operating expenses in relation to building floors leased out amounted to SAT\$983,004 (2017: SAT\$936,539). These amounts do not include the Bank's own internal payments for the floor space that the Bank occupies for its own operations and activities.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

26. Financial risk management

Introduction and overview

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

- a) Liquidity risk
- b) Market risk
- c) Credit risk
- d) Operational risk

As is common with the majority of central banks, the nature of the Bank's operations creates exposures to a range of operational and reputational risks. Overall responsibility for the establishment and oversight of the Bank's risk management framework rests with the Board of Directors. The Bank's management seeks to ensure that strong and effective risk management and controls systems are in place for assessing, monitoring and managing risk exposures.

The majority of the Bank's financial risks arise from the management of foreign and domestic reserves. The foreign markets and financial institutions department is responsible for monitoring and reporting compliance with various risk limits and policies.

The Bank is subject to an annual external audit and is in the process of establishing an internal audit department. The Board of Directors and the Governors oversee the external audit arrangements.

(a) Liquidity risk

Liquidity risk relates to the difficulty in raising funds at short notice to meet commitments associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

26. Financial risk management (cont'd)

(a) Liquidity risk (cont'd)

Maturity analysis as at 30 June 2018

	0 - 3 months \$000	3 - 12 months \$000	1 - 5 years \$000	Over 5 years \$000	No specific maturity \$000	Total \$000
Foreign Currency Assets						
Cash balances	126,803	-	-	-	-	126,803
Fixed deposits	43,509	60,677	131,284	-	-	235,470
International Monetary Fund	-	-	-	-	86,224	86,224
Accrued interest	1,343	496	1,080	-	-	2,919
	171,655	61,173	132,364	-	86,224	451,416
Local Currency Assets						
Cash balances	12,529	-	-	-	-	12,529
Fixed deposits	-	30,487	-	-	-	30,487
Accrued interest	-	13	-	-	-	13
Currency stock on hand	-	-	-	-	13,514	13,514
Receivables and prepayments	-	2,148	2,071	4,361	11	8,591
Credit line facility	-	-	-	96,651	-	96,651
Property, plant and equipment	-	-	920	16,249	-	17,169
	12,529	32,648	2,991	117,261	13,525	178,954
Total Assets	184,184	93,821	135,355	117,261	99,749	630,370
Foreign Currency Liabilities						
Demand deposits	78,613	-	-	-	-	78,613
IMF Facilities	-	-	-	27,516	-	27,516
International Monetary Fund	-	-	-	-	92,908	92,908
Other liabilities	20	-	-	-	-	20
	78,633	-	-	27,516	92,908	199,057
Local Currency Liabilities						
Demand deposits	253,599	-	-	-	-	253,599
Currency in circulation	-	-	-	-	101,624	101,624
Central Bank Securities	4,000	19,495	-	-	-	23,495
Deferred Liabilities	-	-	-	-	-	0
Creditors and accruals	3,015	29,503	45	-	1	32,564
Provisions	-	-	-	565	-	565
	260,614	48,998	45	565	101,625	411,847
Total Liabilities	339,247	48,998	45	28,081	194,533	610,903
Net Assets	(155,063)	44,823	135,310	89,180	(94,784)	19,466

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

26. Financial risk management (cont'd)

(a) Liquidity risk (cont'd)

Maturity analysis as at 30 June 2017

	0 - 3 months \$000	3 - 12 months \$000	1 - 5 years \$000	Over 5 years \$000	No specific maturity \$000	Total \$000
Foreign Currency Assets						
Cash balances	80,720	-	-	-	-	80,720
Fixed deposits	1,282	169,747	-	-	-	171,029
Bank bills	-	-	-	-	-	-
International Monetary Fund	-	-	-	-	86,517	86,517
Accrued interest	139	1,860	-	-	-	1,999
	82,141	171,607	-	-	86,517	340,265
Local Currency Assets						
Cash balances	12,841	-	-	-	-	12,841
Fixed deposits	-	27,653	-	-	-	27,653
Accrued interest	-	12	-	-	-	12
Currency stock on hand	-	-	-	-	15,490	15,490
Receivables and prepayments	-	926	803	4,908	163	6,800
Credit line facility	-	-	-	99,054	-	99,054
Property, plant and equipment	-	-	1,201	16,683	-	17,884
	12,841	28,591	2,004	120,645	15,653	179,734
Total Assets	94,982	200,198	2,004	120,645	102,170	519,999
Foreign Currency Liabilities						
Demand deposits	67,026	-	-	-	-	67,026
IMF Facilities	-	-	-	30,354	-	30,354
International Monetary Fund	-	-	-	-	88,828	88,828
Other liabilities	16	-	-	-	-	16
	67,042	-	-	30,354	88,828	186,224
Local Currency Liabilities						
Demand deposits	199,498	-	-	-	-	199,498
Currency in circulation	-	-	-	-	89,609	89,609
Central Bank Securities	-	-	-	-	-	0
Deferred Liabilities	-	-	-	-	30	30
Creditors and accruals	1,056	26,734	30	-	1	27,821
Provisions	-	-	-	441	-	441
	200,554	26,734	30	441	89,640	317,399
Total Liabilities	267,596	26,734	30	30,795	178,468	503,623
Net Assets	(172,614)	173,464	1,974	89,850	(76,298)	16,376

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

26. Financial risk management (cont'd)

(b) Market risk

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

(i) Foreign exchange risk

Exchange rate risk relates to the risk of loss of foreign reserves arising from changes in the exchange rates against the Sāmoan Tala. The Bank has adopted a currency risk management policy, which maintains the Sāmoan Tala value of the foreign reserves and manages the fluctuations in the revaluation reserve account. Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in exchange rates.

The Bank's exposure to foreign exchange risk based on notional amounts was as follows:

<i>Foreign Assets SAT (\$M)</i>	USD	NZD	AUD	GBP	CNY	TOTAL
Cash balances with Central Banks	0.80	0.30	2.85	2.03	0.002	5.98
Cash balances with banks	-	2.70	0.45	-	0.001	3.15
Fixed deposits	32.74	90.49	29.17	-	83.07	235.47
Repurchase agreements	117.67	-	-	-	-	117.67
Total	151.21	93.49	32.47	2.03	83.07	362.27

Concentration of foreign currency balances

	USD	NZD	AUD	GBP	CNY	TOTAL
Cash balances with Central Banks	0.2%	0.1%	0.8%	0.6%	-	1.7%
Cash balances with Banks	-	0.7%	0.1%	-	-	0.9%
Fixed deposits	9.0	25.0%	8.1%	-	22.9%	65.0%
Repurchase agreements	32.5%	-	-	-	-	32.5%
Total	41.7%	25.8%	9.0%	0.6%	22.9%	100.0%

The following significant exchange rates were used at year end to convert foreign currency transactions to the Sāmoan tala equivalent:

	30 June 2018	30 June 2017
USD	0.38498	0.39879
NZD	0.57035	0.54677
AUD	0.52396	0.51902
GBP	0.29454	0.30687
EURO	0.33316	0.34868
SDR	0.27402	0.28661
CNY	2.55130	2.70657
CNH	2.55559	2.71102

Sensitivity to foreign exchange risk

Sensitivity to foreign exchange risk is the sensitivity of the face value of the Central Bank of Sāmoa's financial assets to fluctuations exchange rate. The Tala is weighted against a basket of currencies and thus the sensitivity to foreign exchange risk is expected to be minimal as the movements of these currencies in the basket tend to offset each other. The weighted allocated to each currency in the basket is determined on the basis of Sāmoa's distribution of trade and travel transactions with our major trading partners: New Zealand, United States, Australia and the Euro-area.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

26. Financial risk management (cont'd)

(b) Market risk (cont'd)

(i) Foreign exchange risk (cont'd)

Sensitivity analysis

A 10% weakening of the Sāmoan tala against the above currencies at 30 June 2018 would have increased net income by the amounts shown below:

	2018 \$'000	2017 \$'000
USD	15,510	7,706
NZD	9,137	8,345
AUD	3,212	3,686
GBP	205	212
EURO	(18)	95
CNH	8,905	5,646
SDR	8,496	8,986
TOTAL	45,447	34,676

A 10% strengthening of the Sāmoan tala against the above currencies at 30 June 2018 would have an equal but opposite effect i.e.: decreased net income.

(ii) Interest rate risk

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

Interest rate risk as at 30 June 2017:

Foreign Exchange	Balance	Repricing period		
	Sheet	\$M		
	Total \$M	0-3 months	3-6 months	6-12 months
Cash balances with Central Banks	6.0	-	-	-
Cash balances with Banks	3.1	-	-	-
Fixed deposits	235.5	43.5	60.7	131.3
Bank bills	-	-	-	-
Repurchase agreements	<u>117.7</u>	117.7	-	-
TOTAL	<u>362.3</u>			

(c) Credit risk

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

The Central Bank of Sāmoa invests only with banks with a minimum Standard & Poor's credit rating of A-1 (Short term) and A (long term); and with other central banks. The Bank has a concentration of investments with a few highly rated banks in New Zealand and Australia.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

26. Financial risk management (cont'd)

(c) Credit risk (cont'd)

Credit Ratings (Standard and Poors)	Risk rating of security issuer	Risk rating of counterparties	% of total assets as at 30 June 2018
Foreign Investments			
Securities held under repurchase agreements with Central Banks	AAA		32.5
Deposits with Central Banks	AAA		8.6
Cash with other Central Banks			1.7
Subtotal balances with Central Banks			42.8
Negotiable Certificate of Deposit			1.5
BOTMU		AA-	0.9
RABO		AA-	0.6
Deposits with commercial bank			54.8
ANZ		AA-	4.3
BNZ		AA-	0.0
BOC		A	25.8
DBS		AA-	5.8
ICBC		A	10.9
RABO		A	0.0
WBC		AA-	8.1
Other (CASH)			0.9
ANZ		AA-	0.1
BNZ		AA-	0.1
BOC		A	0.2
WBC		AA-	0.4
Subtotal balances with commercial Banks			57.2
TOTAL			100.0

(d) Operational risk

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the Bank. This responsibility is supported by the development of overall and specific policies and procedures. The proposed internal and existing external audit functions also ensure that operational risk is and will be effectively minimised and managed.

27. Fair values of financial assets and liabilities

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The valuation of the Bank's financial assets and liabilities are discussed below:

Cash balance and Fixed Deposits

The carrying value of short-term deposits is considered to approximate their fair value as they are denominated in cash and payable on demand.

Central Bank of Samoa
Notes to the Financial Statements
For the year ended 30 June 2018

27. Fair values of financial assets and liabilities (cont'd)

Statutory reserve deposits

The carrying value of statutory reserve deposits are considered to approximate their fair value as they are denominated in cash.

Demand deposits

The carrying value of deposits are considered to approximate their fair value as they are payable on demand.

Currency in circulation

The carrying value of currency in circulation is considered to be its fair value as reported in the financial statements.

Other financial assets and liabilities

The reported values or carrying value of other financial assets and liabilities are considered to be its fair value.

The Bank does not have any financial assets or financial liabilities where their values are determined by quoted market prices or other observable inputs either directly or indirectly.

28. Commitments for expenditure

The Directors are aware of the Bank's commitment at 30th June 2018 as follows:

- (i) Building of an offsite office for disaster recovery purposes at its Ululoloa property. The project is estimated at around \$28 million tala. The Board award the contract to Shanghai Construction as per Management Internal Evaluation Committee recommendation. Ground breaking is scheduled for August 2018. Cost already incurred at 30th June 2018 of \$1.4 million tala is classified as Work in Progress under the heading of Property Plants and Equipment.

29. Contingent liabilities

(i) Lease on property not finalised

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

(ii) Collectors' currency

The Bank has a contingent liability for the face value of collectors' currency issued. However, it is more unlikely that the amounts of collectors' currency will be returned for redemption at face value. The face value of all collectors' currency issued by the Bank for the period under review is SAT\$588,802. (2017: SAT\$2,099,096).