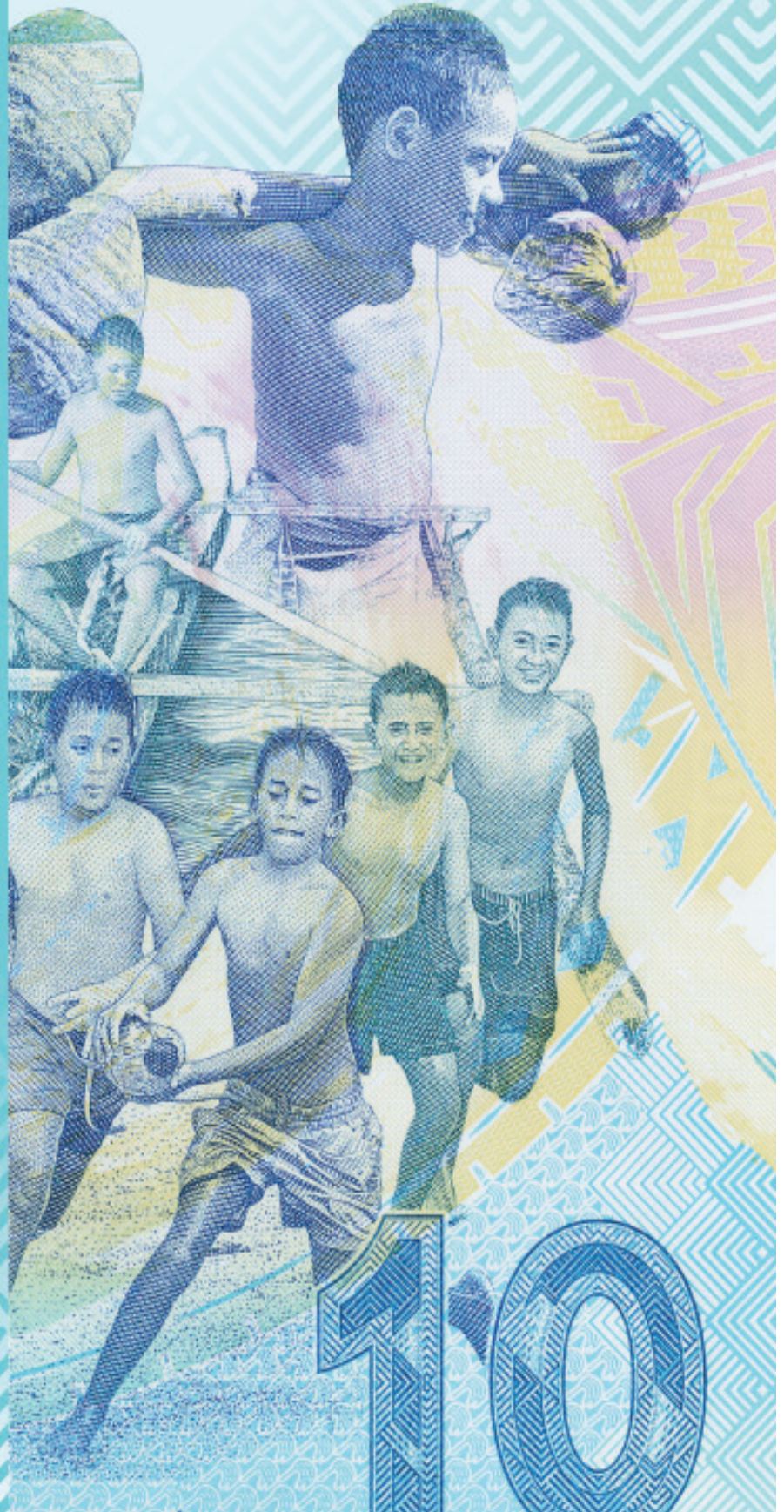


# ANNUAL REPORT

July 2018-June 2019





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**Government of Samoa**

**OFFICE OF THE MINISTER OF FINANCE**

(Ministry of Finance, Central Bank of Samoa, Development Bank of Samoa, Samoa International Finance Authority, Samoa Life Assurance Corporation, Samoa National Provident Fund, National Energy Coordination Committee, National Tenders Board, Unit Trust of Samoa)

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31<sup>st</sup> October 2019

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 2019.

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

(Sili Epa Tuioti)  
**Minister of Finance**

PLEASE ADDRESS CORRESPONDENCE  
TO THE GOVERNOR



PO Box Private Bag, Apia, Samoa Ph: 685-34100 | Fax: 685-20293/24058 E-mail: [centralbank@cbs.gov.ws](mailto:centralbank@cbs.gov.ws) Web: [www.cbs.gov.ws](http://www.cbs.gov.ws)

31<sup>st</sup> October 2019

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

Lau Afioaga,

I have the honour of submitting the 32<sup>nd</sup> Annual Report of the Central Bank of Samoa for the financial year ending June 2019. 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 2019 and its related Audit Report/Opinion.

Yours faithfully,



(Mojava Atalina AINU'U-ENARI)  
**GOVERNOR**

## **Our Purpose**

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

## **Our Vision**

A dynamic and efficient central bank contributing to the economic sustainability and prosperity of Samoa.

## **Our Mission**

Fostering a sound and vibrant financial system for Samoa's economic development.

## **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 provide 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 2018/2019**

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 Chair, 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.

Mr. Namulauulu Sami Leota ceased Directorship nearing the end of the financial year when he was elected as a Member of Parliament. The Governor and Board of Directors acknowledge his service and persistent commitment and wish him well in his new role. A replacement is not finalized.

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 2019.

## **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. 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**

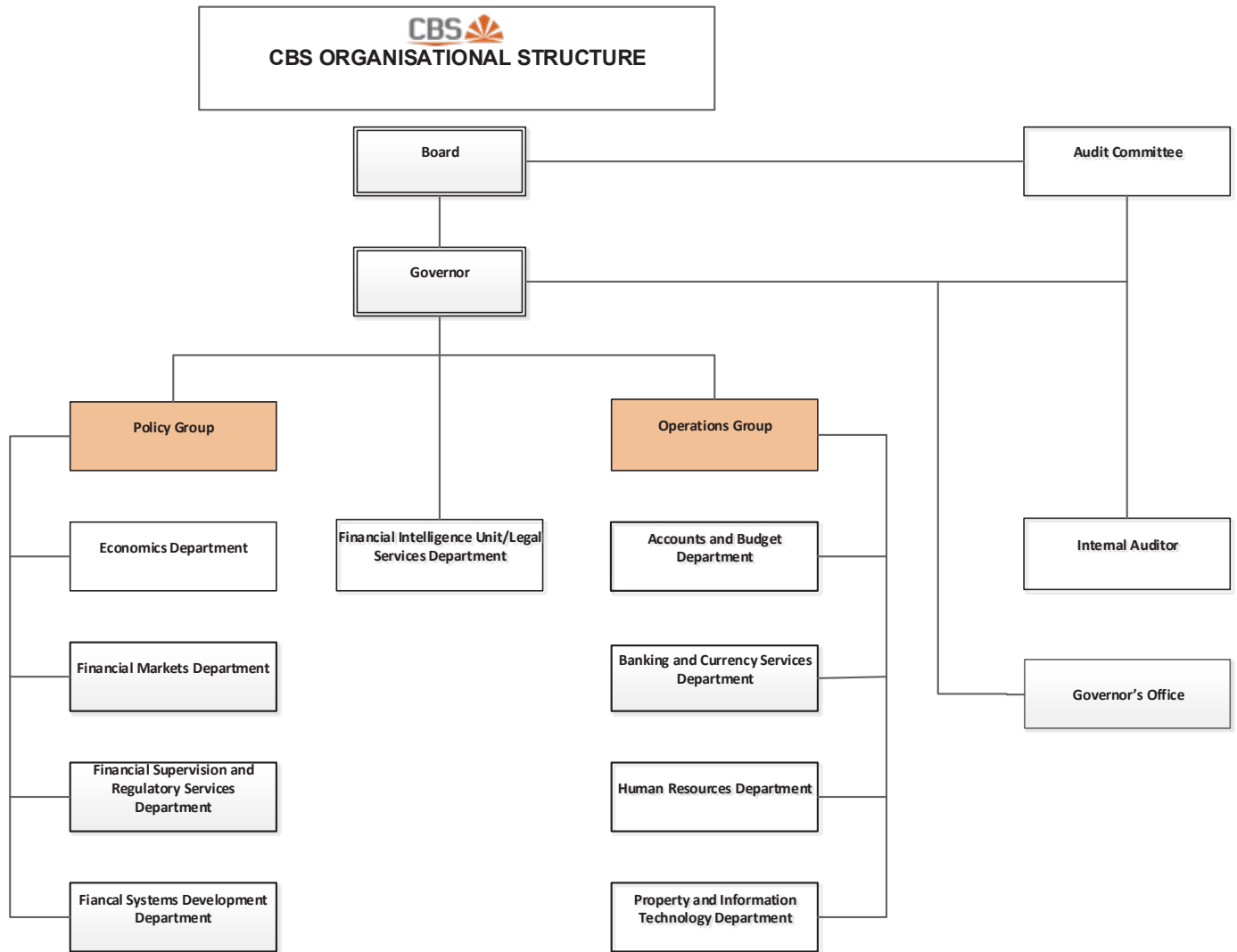
The Central Bank employed a total of one hundred and one (101) staff at the end of June 2019.

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)<sup>1</sup> Departments allocated under two functional groups (Policy and Operation) under the leadership of two Assistant Governors.

Central Bank of Samoa Organizational Structure FY 2018/2019



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

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# I. Governor's Foreword

**S**amoa's economy recorded positive outturns in 2018/2019 as it recovered to 3.5 percent real growth after a 2.2 percent contraction in 2017/2018. This positive performance reflected robust economic activities and favorable domestic conditions supported by continued low interest rates and ample liquidity in the banking system.

I am pleased to inform that the Bank during the financial year released its new Strategic Plan 2019/2020 to 2023/2024. This document outlines our strategic focus where we intend to be "a dynamic and efficient central bank contributing to the economic sustainability and prosperity of Sāmoa". In taking stock of the current challenges to the global economic and financial environment and noting the swift pace of ongoing technological enhancements to date, we have prioritized four strategic areas which centers around our commitment to meet our mandated responsibilities. In general, we are committed to ensuring macroeconomic stability, a sound and progressive financial system, issuing quality legal tender for the country's currency needs, and ensuring effective and sustainable corporate governance.

To safeguard the stability of Samoa's monetary system and in view of the mounting external risks and challenges that took its toll on the world economy during the financial year, the Central Bank continued its accommodative monetary policy stance and assisted fiscal policy efforts to drive further activities in the Samoan economy. Consequently, aside from the recovery in the domestic economy, inflationary pressures eased as forecasted throughout the financial year, with the headline inflation rate declining to 2.2 percent at end June 2019 compared to a 3.7 percent in the previous year. Furthermore, the country's official foreign reserves remained at adequate levels, equivalent to 6.7 months of imports of goods, well above the minimum of 4.0 months of import cover and 6.1

months of import cover in 2017/2018.

Moreover, Samoa's financial system remained stable and sound in 2018/2019. The banking system recorded favorable improvements in the quality of its assets and continued to be well-capitalized at levels above the Bank's minimum requirements. The insurance industry also performed well, recording an overall strong solvency position despite a reduction in profitability during the year. As part of our aim to strengthen and ensure our regulatory framework is consistent with international standards and latest global developments, the Bank in collaboration with the International Monetary Fund (IMF's) Pacific Financial Technical Assistance Centre (PFTAC), reviewed and modernized the Prudential Guidelines for the commercial banks during the year. We expect to finalize and enforce these new requirements in 2019/2020. Similarly, and for the first time, the Central Bank has developed eight prudential standards for the insurance industry, in line with international principles and best practices while accounting for the size and complexity of our small domestic insurance market. These prudential standards took effect in February 2019.

As the lead agency to combat money laundering and counter terrorist financing activities in the country, I have the pleasure to inform that Sāmoa has improved its technical compliance on anti-money laundering (AML) framework and was subsequently placed on enhanced follow-up status following the 2018 Annual Meeting for the Asia Pacific

Group (APG) on Money Laundering in July last year. This notable progress on international requirements follows the amendments made to the Money Laundering Prevention Act 2007 as endorsed by Parliament in June 2018.

We also remain on track to modernize Samoa's national payment system in the near future. This project, with the assistance of the World Bank/International Finance Corporation, will implement the Automated Transfer System (ATS+) and Central Securities Depository (CSD) system, providing real-time settlement and efficiency to the financial services of the country. With the current infrastructure, we are pleased to report that the financial services landscape continues to progress along with modern technological developments as new mobile phone apps and digital platforms were introduced to the public in 2018/2019.

As part of the Bank's commitment to assist national efforts towards a sustainable environment, I have the pleasure to report that Sāmoa, in collaboration with De La Rue, printed the first polymer banknote produced through carbon neutral processes. The limited edition \$10 Tala polymer banknote issued in June 2019 was also to commemorate Samoa's hosting of the XVI Pacific Games in July.

During the financial year, the Bank had the opportunity to co-host two regional events in Sāmoa, bringing a wide range of participants from around the world and the Pacific to discuss topical issues relating to the financial sector. These events were

the:

- Regional Seminar on FinTech and Financial Inclusion in the Pacific Island Countries, held on 13<sup>th</sup> November 2018 in partnership with the IMF and the Asian Development Bank.
- 33<sup>rd</sup> Pacific Central Bank Governors Meeting, held from 14<sup>th</sup> to 16th November 2018. This was the second time the Central Bank had hosted this annual forum for the region's central bank governors. This meeting produced for the first time an outcome statement (Sāmoa Commitment for the Pacific Islands), which prioritized the strengthening of collaboration on financial system matters across the Pacific region.

These events, alongside the various technical assistance missions received from our international partners during the year, provided the opportunity for our staff to enhance their expertise and capacity in achieving the Bank's mandates and functions.

Due to adverse global developments, the Bank's budget position continued to be undermined as volatile exchange rate movements and the low interest rate environment impacted negatively on the Bank's primary source of revenue, its interest income on foreign reserves holdings. As such, the Bank recorded a total net loss of SAT\$3.5 million in 2018/2019 compared to a net profit of SAT\$3.0 million in the previous year.

On the whole, I wish to note my gratitude and appreciation to the Board of Directors for their support and guidance in 2018/2019. I also acknowledge the ongoing commitment, passion and teamwork from the management and staff of the Central Bank of Samoa, who have ensured our journey over the last twelve months was successful, despite the many challenges encountered and risks that we continue to face head-on.



Maiava Atalina AINU'U-ENARI  
GOVERNOR

## II. Monetary policy formulation and the economy

Contrary to a slowdown in most economies worldwide in FY2018/2019, the Samoan economy performed well reflecting robust economic activities amidst 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 when average lending rates continue to remain below 9.0 percent.

### 1. The World Economy<sup>2</sup>

The International Monetary Fund's July 2019 World Economic Outlook (WEO) Update points to a **slowdown in the global economy**, with a 3.4 percent growth rate in FY 2018/2019 compared to 3.7 percent in FY2017/2018. This was a further downward revision from a 3.5 percent expansion in the April 2019 WEO, reflecting slower growth rates of 2.0 percent in advanced economies and 4.3 percent in the emerging market and developing economies, compared to higher growth rates of 2.3 percent and 4.7 percent respectively in FY2017/2018.

Mounting headwinds in the last twelve months has weighed heavily on global economic growth as increased trade protectionism by the United States posed the greatest threat. The softening economic dy-

namics in China as the authorities implement required regulatory measures to address shadow banking in addition to escalating trade tensions with the US, loss of growth momentum in the Euro area economy due to weakening consumer and business confidence, continued uncertainty in prolonged Brexit negotiations, political and policy uncertainty as well as natural disasters were the major risks that saw the global economy dip after strong growth in past years. These confluence of factors, albeit waning, will continue to have a lingering impact in the short term, with the ongoing US-China trade dispute being the key downside and decisive risk to the global economy's recovery path.

**Inflationary pressures picked up marginally** to an estimated 3.3 percent in FY2018/2019 from 3.2 percent in the previous year. According to the IMF, this mainly reflected the high inflation rates in emerging market and

developing economies (around 4.8 percent in FY2018/2019 compared to 4.5 percent in FY2017/2018) due, to some extent, to the pass through of currency depreciations to higher domestic prices. By comparison, inflation rates in advanced economies have been fairly subdued, averaging at 1.8 percent over the period reflecting the drop in commodity prices (including fuel) and moderate wage growth pressures in these countries. Of Samoa's major trading partners, their inflation rates continued to decline below their average annual targets of around 3.0 percent.

On the other hand, labour market conditions continued to improve worldwide, with decreased unemployment rates in Samoa's major source markets for tourism revenue and private remittances, namely New Zealand, Australia and the USA. (Refer to Table 1).

TABLE 1: SELECTED GLOBAL ECONOMIC INDICATORS

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>												
2009/2010	2.7	1.7	6.5	2.7	3.1	5.2	2.7	1.1	9.6	4.8	3.3	5.5
2010/2011	1.1	5.3	6.0	2.5	3.5	4.9	1.7	3.6	9.1	3.9	4.4	5.4
2011/2012	2.8	1.0	6.3	4.4	1.2	5.2	2.4	1.7	8.2	4.4	4.6	5.3
2012/2013	2.3	0.7	6.0	1.9	2.4	5.7	1.0	1.8	7.5	3.0	3.9	5.4
2013/2014	3.0	1.6	5.3	2.9	3.0	6.1	2.7	2.1	6.2	3.4	3.5	5.3
2014/2015	3.8	0.4	5.5	2.1	1.5	6.1	3.3	0.1	5.4	3.4	3.0	5.2
2015/2016	3.9	0.4	5.1	3.3	1.0	5.8	1.3	1.0	4.9	3.3	2.8	5.2
2016/2017	3.1	1.7	4.8	2.2	1.9	5.6	2.1	1.6	4.4	3.5	3.0	5.1
2017/2018	3.2	1.5	4.4	3.1	2.1	5.4	3.2	2.9	4.0	3.7	3.2	5.0
2018/2019	2.1	1.7	3.9	1.4	1.6	5.2	2.3	1.6	3.7	3.4 (est)	3.3 (est)	NA

Source: IMF July 2019 WEO, ILO (for World Unemployment rate), Bloomberg, TradingEconomics, WPC Australia & NZ Weekly Updates and specific country's statistics authorities

<sup>2</sup> Sources: IMF World Economic Outlook, Bloomberg, Westpac Market Outlook

Overall, **monetary policies** in most economies **were largely accommodative in 2018/2019**, except for the United States which continued its tightening stance during the year. The following monetary policy actions were undertaken by the major reserve banks worldwide in light of the global macroeconomic developments during FY 2018/2019:

- The US Federal Reserve Bank, as expected, raised its Fund rate twice by a total of 50 basis points, from a target range of 1.75 percent to 2.00 percent at end FY2017/2018 to 2.25 percent to 2.50 percent at end FY2018/2019. The two Fed hikes were in the first six months of FY2018/2019, with the US Federal Reserve pausing their tightening path in 2019 in response to rising global risks at the start of the year.
- Similarly, the Bank of England raised their policy rate by 25 basis point to 0.75 percent in August 2018 on expectations for medium term inflation to trend towards its target level despite the uncertainty surrounding the country's exit from the European Union.
- The Reserve Bank of Australia (RBA) surprisingly cut its cash rate at a low of 1.25 percent in the latter months of the financial year, following slow economic growth and low inflation expectations during the year.
- The Reserve Bank of New Zealand (RBNZ) also lowered its official cash rate by 25 basis points to 1.50 percent as it aimed to maintain inflation in line with its policies and to maximise sustainable employment.
- The People's Bank of China main-

tained 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).

On the external front, balance of payments was expected to record another surplus of \$13.6 million for 2018/2019, from its huge surplus of \$109.3 million in FY2017/2018. This level accounted for the expected continuous improvements from

**TABLE 2: WORLD MONETARY POLICY INTEREST RATES**

Fiscal year to end June	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
<b>Official international interest rates</b>	<b>Percent (%)</b>								
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	2.25 - 2.50
Reserve Bank of Australia	4.75	4.50	2.75	2.50	2.00	1.75	1.50	1.50	1.25
Reserve Bank of New Zealand	2.50	2.50	2.50	3.25	3.00	2.25	1.75	1.75	1.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.25	0.50	0.75
European Central Bank	1.25	1.00	0.50	0.15	0.05	0.00	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	4.35

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

## 2. Domestic Economy

### 2.1 Monetary Policy Outlook and Targets

The CBS Board of Directors approved the continuation of the easing monetary policy stance in August 2018, in the view of the expected recovery of economic growth for 2018/2019, as inflation is projected to rise to 3.5 percent at end June 2019 due to increases in both domestic and external factors.

The real GDP<sup>3</sup> is expected to reach 3.7 percent in 2018/2019 in its original forecast from -2.2 percent growth in 2017/2018. The main driver for this growth was mainly based on three main factors, the potential impact of the Pacific Games preparations including renovations and constructions of sporting facilities; other public sector developments that will impact other sectors such as 'Constructions', 'Commerce', 'Accommodations' and other related sectors; as well as large private sector investment developments such as the construction of hotels and church buildings.

tourism and visitor earnings as well as gains anticipated from export proceeds. Overall, the country's official foreign reserves level is to stand at 6.1 months of imports in 2018/2019, similar to that of 2017/2018.

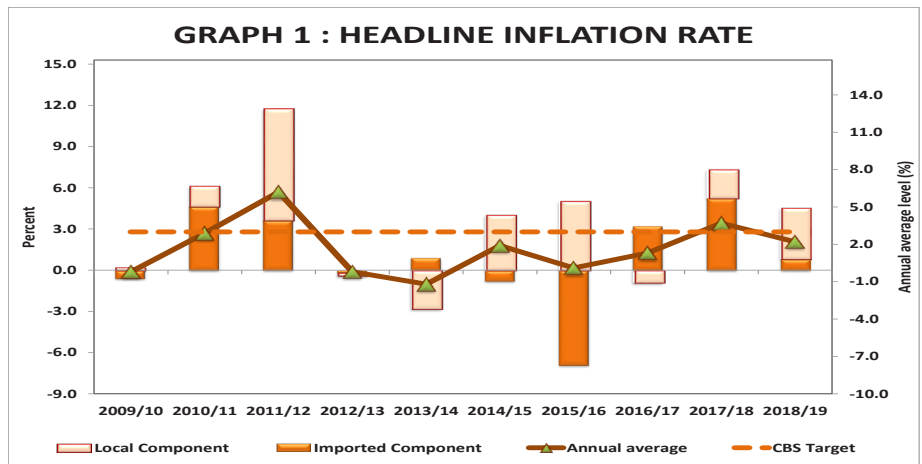
On monetary conditions, total banking system lending to the private sector and public institutions was expected to increase by 4.1 percent by end June 2019, rising from its lower level of 2.6 percent growth in the past year. This anticipated level highlighted the expected developments and economic activities of the private sector towards preparations for Pacific Games and partial impacts of lower cost of borrowing charged by the banking system. Likewise, the annual growth of money supply (M2) is expected to accelerate to 13.4 percent in 2018/2019, given the expected growth in external position and the pickup in domestic lending.

### 2.2 Monetary Policy Outcomes

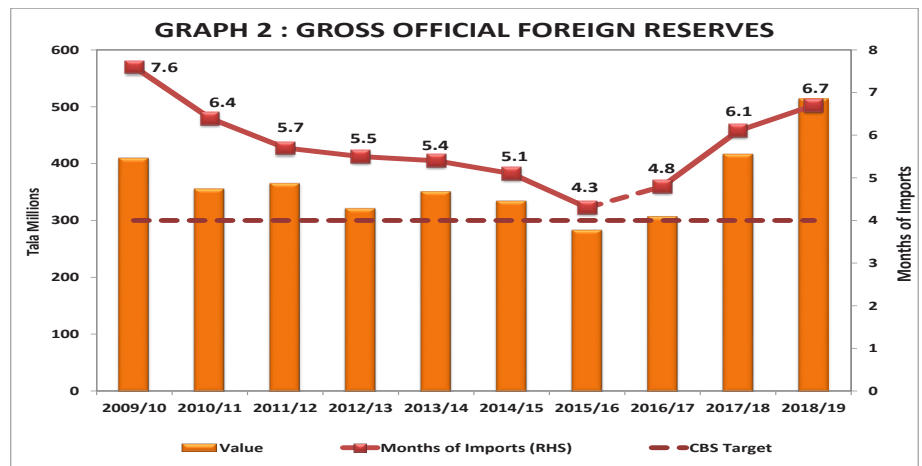
The Headline Consumer Price Index (CPI) annual inflation registered at 2.2 percent at end June 2019, compared to its original forecast of 3.5 percent

<sup>3</sup> This original forecast for real GDP was based on the 2009 base year period. Effective December 2018, the Samoa Bureau of Statistics (SBS) has rebased its national accounts data with a new base year of 2013, which consist of several major changes. The historical figures have been revised to reflect the new base year.

and its actual level of 3.7 percent in June 2018. The current level, which was below the 3.0 percent Central Bank target, was driven by the downward trend in imported inflation to 0.8 percent from 5.2 percent last year, stemming from the drop in prices of imported selected food commodities and fuel prices. On the other hand, the upward pressures from local agricultural produce fuelled the increase in domestic inflation of 3.7 percent from 2.1 percent in June 2018 (See Graph 1).



Gross official international reserves expanded by \$96.6 million (or a surplus in overall balance of payments) to a record high of \$514.5 million in the FY2018/2019, in contrast to its original forecast surplus of \$13.6 million. This notable deviation was due mainly to much higher than expected inflows of budget support funds for government and gains from tourism earnings (up 13.2 percent) and remittances (up 11.4 percent) over the year. Similarly, export proceeds jumped by 42.4 percent in the reviewed period, compared to its 4.5 percent drop in the previous year. This significant improvement in exports highlighted notable increases in earnings from nonu juice, fresh fish and coconut oil. The marked improvements in exports for nonu juice and coconut oil reflected a higher number of exporters catering for the demand from the North America and Asian countries while fish was due to increased shipments to American Samoa. Overall, the higher official international reserves in FY2018/2019 was equivalent to a cover of 6.7 months of imports, higher than 6.1 months in FY2017/2018 (See Graph 2).

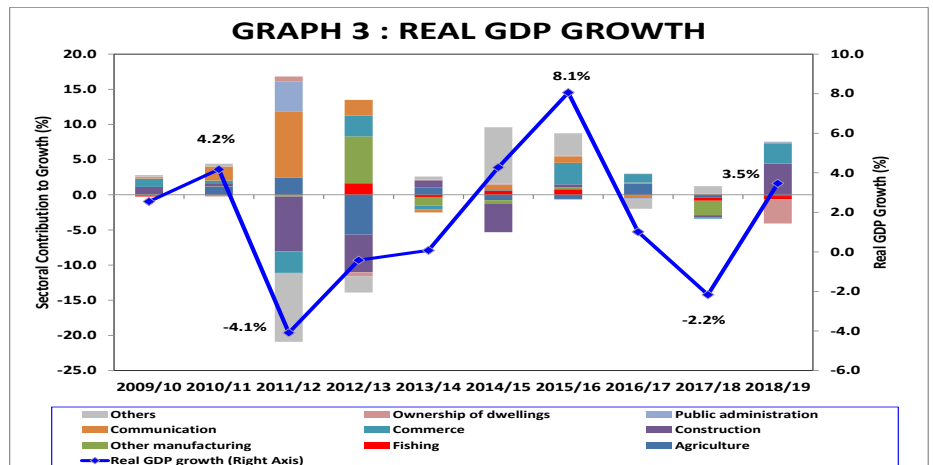


ment inflows of funds and increases in receipts from tourism, remittances as well as great improvement in export receipts during the year. On interest rates, the overall weighted average yield on CBS securities edged up 0.19 percent; two basis points higher than its rate in June 2018, while the commercial banks' weighted average deposit rates also increased by 15 basis points to 2.85 percent in FY2018/2019. On the other hand, the weighted average lending rate edged down one basis point to 8.97 percent from last year. As a result, the annual average growth of bank lending accelerated to 5.2 percent from 3.5 percent in 2017/2018, which is higher than the 4.1 percent growth in its original forecast. All in all, of highs in external flows and expansion in total bank lending, the annual average of money supply increased to

13.2 percent for FY2018/2019 accelerated from 12.8 percent growth in FY2017/2018.

Overall, the performance of economic activities saw a recovery as expected at end FY2018/2019. Real GDP grew faster at 3.5 percent at end FY2018/19 compared to -2.2 percent in FY2017/2018. This expansion was due entirely to improvements in the 'commerce' sector which accounted for positive results from tourism earnings and remittances. Also contributing positively to economic annual growth was increased activities in the 'constructions' and 'electricity and water' sectors highlighting the completion of Airport extension and the Tanumalala Prison complex and ongoing government-led projects such as the Apia Waterfront Development, Samoa's Art and Cultural

Center, road widening and Vaisigano and Maliolio bridges. Other positive performances were increases in 'accommodation and restaurants', 'financial services', 'food and beverages', 'transportation', 'communication' and 'public administration' sectors. (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 exchange rate and currency issue functions, Statutory Reserve Deposit prudential requirement, foreign exchange control and moral suasion.

#### 1. Open Market Operation (OMO)

The level of excess liquidity in the banking system improved significantly throughout the financial year, with SAT\$227.72 million recorded at end June 2019 compared to SAT\$168.99 million in the previous year. This marked improvement in liquidity conditions as well as the demand from the banking sector resulted in a more active open market operations in FY2018/2019 as follows:

- SAT\$231.0 million worth of CBS Securities were floated compared to SAT\$182.0 million in the previous year.
- These floated amounts were oversubscribed by 67.7 percent compared to an oversubscription of 56.9 percent in 2017/18.
- Given the high demand and ample liquidity over the period, CBS allotted \$273.10 million worth of Securities during the year.
- Total CBS Securities worth SAT\$289.65 million matured during the year, with \$20.0 million worth of CBS Securities remaining outstanding at the end of the financial year. (See Table 3.)

Of the SAT\$20.0 million face value of Securities outstanding at end FY2018/2019:

- 25 percent were held in 14-days securities;
- 15 percent were held in 28-days securities;

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Number of Floats	42	50	49	50	48	32	41	37
Amount Floated	\$190.75	\$190.25	\$161.00	\$201.00	\$178.00	\$64.50	\$182.00	\$231.00
Amount Tendered	\$221.25	\$81.25	\$102.00	\$220.00	\$156.50	\$52.00	\$285.50	\$387.50
Amount Allotted	\$145.75	\$71.75	\$77.50	\$154.00	\$152.50	\$51.50	\$199.00	\$273.10
Amount Matured	\$156.75	\$74.75	\$72.50	\$152.00	\$150.50	\$51.90	\$175.50	\$289.65
Amount Outstanding	\$9.00	\$5.00	\$10.00	\$12.00	\$0.50	\$0.00	\$23.50	\$20.00

Source: Central Bank of Samoa

- 40 percent were held in 56-days securities; and
- 20 percent were held in 91-days securities.

The overall weighted average interest rate on Central Bank of Samoa Securities remained at near-zero levels in 2018/2019. Reflecting the higher number of allotments during the year, the interest cost to the Central Bank's open market operations increased from SAT\$25,601.79 in the previous year to SAT\$55,200.92 in FY2018/2019.

Given the high level of total banking liquidity, the commercial banks did not require the use of our Repurchase and Rediscount facilities in 2018/2019. Similarly, the inter-bank loans market was not utilised during the reviewed period, with the inter-bank borrowing rate remaining at 3.50 percent from end FY2017/2018.

#### 2. Credit Lines to Selected Financial Institutions<sup>4</sup>

There was no need for any new credit line facility (CLF) in FY2018/2019 as the domestic economy recovered well and no major natural disaster hit the country. The last CLF introduced was in FY2017/2018 following the devastation caused by Tropical Cyclone Gita. The remaining funds (of \$5.0 million) from this CLF was disbursed in June 2019.

Overall, the total CBS CLF approved and disbursed to the general public has amounted to \$135.0 million. As at end FY2018/2019, the total outstanding CLF balance at the Central Bank was recorded at SAT\$95.73 million.

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

<sup>4</sup> The 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.

dum of Understanding (MOU) for the various CLFs.

### 3. Exchange rates<sup>5</sup>

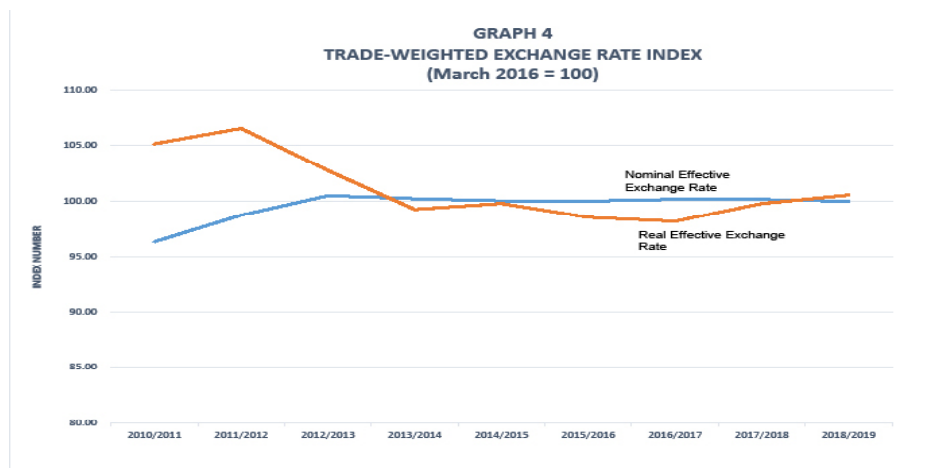
The Samoan Tala currency basket still comprises of the currencies of the United States of America, the European Union, Australia and New Zealand, following the annual review of the basket. The outcome of the review was presented and endorsed by the Board of Directors on its January 2019 Meeting, with the new weights allocated to these currencies effective on 1st February 2019. The review was based on Samoa's distribution of merchandise trade and tourism earnings for the 2017 calendar year.

In the fiscal year 2018/2019, the major driving factor in the volatility of the global financial markets has been the ongoing US-China trade dispute which has seen a general weakness in most major currencies versus the US dollar. In contrast to market expectations in June 2018 for the New Zealand dollar (NZD), Australian dollar (AUD) and the European EURO to strengthen against the US dollar, these major currencies have all depreciated considerably against the greenback. As a result, the Sāmoa Tala, on a bilateral basis, depreciated 3.8 percent against the US dollar but appreciated against the NZD (by 2.5 percent), AUD (by 4.3 percent) and the Euro (by 0.7 percent). For currencies outside of the Sāmoa Tala basket, the Chinese currency (CNY) also strengthened significantly against the USD, particular-

ly since July 2018 when the first US tariffs were imposed against selected Chinese goods.

Overall, the nominal value of the Sāmoa Tala depreciated modestly by 0.15 percent from June 2018 against the Tala basket. The real effective exchange rate appreciated 0.74 percent in the year to June 2019, lower than the 1.6 percent real appreciation in FY2017/2018 (See Graph 4.) This strengthening of the Tala in real

at end June 2019 grew by 23.1 percent to \$514.47 million from SAT\$417.93 million in the previous financial year. This reflected a 23.0 percent expansion in the Central Bank's foreign exchange holdings<sup>7</sup> to SAT\$490.71 million, from SAT\$399.06 million in FY2017/2018. Similarly, foreign exchange holdings by the Ministry of Finance increased 25.9 percent to SAT\$23.76 million, from SAT\$18.87 million in FY2017/2018 (See Graph 5).



terms reflected the higher CPI inflation in Samoa compared to its major trading partners (of Australia, New Zealand and the USA).

### 4. Foreign Reserves Management

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<sup>6</sup>

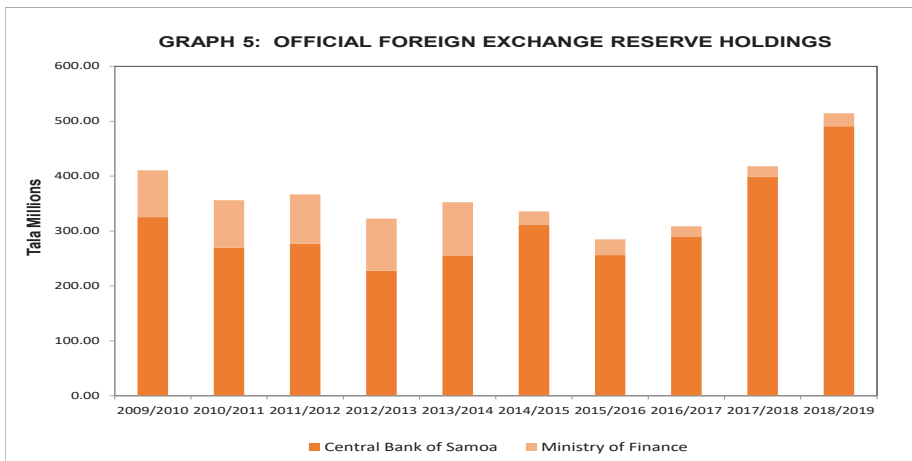
The Central Bank's foreign exchange holdings were continually invested in line with reserve management objectives of liquidity, security and profitability. As such, the Bank's preferred investment instruments were liquid, short- to medium-term financial instruments consisting of term deposits, bank bills, certificates of deposit, repurchase agreements and interest bearing call accounts in Reserve Banks and financial institutions with a minimum of A-2 credit ratings<sup>8</sup>.

<sup>5</sup>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.

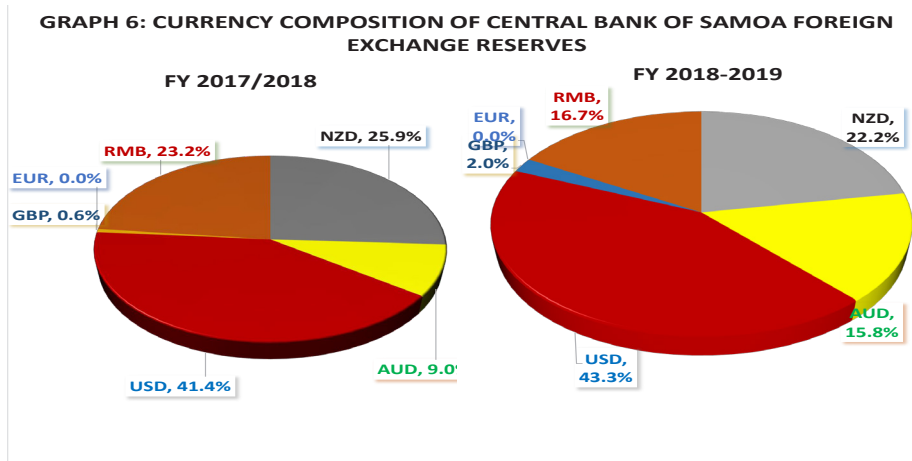
<sup>6</sup>With the adoption of the Fifth Edition of the International Monetary Fund's Balance of Payments Manual, Foreign Reserves have been renamed to Official International Reserves, which includes only the holdings of the Ministry of Finance and the Central Bank of Samoa

<sup>7</sup>Since 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. The movement in CBS foreign exchange holdings reflects the inflows of Government's budget support funds as received through CBS' foreign bank accounts, overseas payment obligations for the Government and the net position of CBS foreign exchange operations with the commercial banks (where the latter reflects the receipt and settlement of private sector foreign exchange commitments).

<sup>8</sup> 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.



At end June 2019, there were moderate changes to the composition of CBS foreign exchange reserves compared to the previous year. Holdings of USD-denominated investments increased to 43.3 percent, followed by a 22.2 percent share in NZD-holdings. RMB investments accounted for 16.7 percent of total foreign exchange reserves while AUD holdings expanded to 15.8 percent compared to last year. Investments in the GBP accounted for the remaining 2.0 percent in total foreign exchange reserves (See Graph 6). This composition has adequately supported the servicing of international commitments of the country including public external debt repayment obligations as they fall due. As at end March 2019, external debt servicing accounted for 15.3 percent of the country's official international reserves.



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 continues to be reviewed annually and adjusted accordingly. The latest composition of Samoa's official foreign exchange reserves reflected those incorporated in the CBS 2018 Foreign Exchange Investment Policy and Guidelines for the management of foreign reserves, endorsed by the CBS Board in March 2018 and enforced immediately thereafter. Following the global financial markets developments and foreign exchange transaction trends between Samoa and its trading partners in FY2018/2019, the outcome

of the 2019 review of these policies were endorsed by the CBS Board in June 2019 and will be effective during FY2019/2020. 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. The inclusion of Chinese dollar-denominated foreign reserves reflects the international transaction trends between Samoa and China. This is also consistent with global investment trends amongst central banks, particularly since the Chinese Yuan became a major reserve currency following its addition to the IMF's Special Drawing Right (SDR) currency basket in October 2016.

The current low yield environment in most major economies, the intense downside risks in the global economy and volatile foreign exchange markets in the year under review have added further challenges in the management of foreign reserves. As shown in Section IV, Part (1), the US Federal Reserve Bank was the only central bank that raised its policy interest rate two times by a total 50 basis points over the year, aside from a one-off 25 basis point hike by the Bank of England in August 2018. The Reserve Bank of Australia and the Reserve Bank of New Zealand both surprisingly reduced their policy rates in the last half of the year. While the People's Bank of China has not changed their policy interest rates from FY2017/2018 level, the market's reaction to the ongoing trade tensions between China and the US saw a reduction in their deposit rates in the last half of the financial year.

## 5. Foreign Exchange Control<sup>9</sup>

The annual review of Exchange Control policies in June 2018 resulted in a further relaxation of exchange controls given the favourable outlook of the Samoan economy, particularly for foreign exchange reserves. These changes, which came into effect on 1st August 2018 included new and increased delegations to the commercial banks and money transfer operators (MTOs), and were largely aimed at improving operational efficiency.

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.

During the year, the Bank conducted regular onsite-inspections of the commercial banks and the MTOs

to ensure compliance with the regulations, particularly following the electronic reporting of all foreign exchange payments on a monthly basis, which started in April 2019.

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 timeframe.

- **Foreign Currency Deposit Accounts<sup>10</sup>** - 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 (30) new Foreign Currency Deposit Accounts (FCDAs) were approved compared to thirty-four (34) in 2017/2018. Five

(5) of the approvals were for individuals who worked domestically and are paid in foreign currencies, while twenty five (25) were for businesses, including exporters, construction companies, trustee companies and other business sectors who provide services to overseas clients and/or engage regularly in foreign transactions. The following were recorded as at end FY2018/2019:

- \* There are now 342 active FCDAs across the domestic banking system, with a total value of SAT\$65.68 million as at end June 2019 compared to SAT\$70.70 million as at end June 2018;

- \* FCDAs were available in 8 foreign currency denominations, namely the Australian dollar, New Zealand dollar, US dollar, Papua New Guinea Kina, Fijian dollar, European Euro, Great Britain Pound and Japanese Yen.

<sup>9</sup>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.

<sup>10</sup>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:

- Licensing 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;
- 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 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.

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 through their operations and for the banking system as a whole.

During the year, the Bank worked collaboratively with the Pacific Financial Technical Assistance Centre (PFTAC) and International Monetary Fund (IMF) to review and modernize the Financial Institutions Act 1996 and the Prudential Guidelines to bring it in line with new international requirements and taking into consideration recent developments in the banking

arena.

Continuing consultations and discussions were held with the banks on key areas of their operations which include, among others, the maintenance of the required capital adequacy ratio, undue concentration of credit to single borrowers, liquidity management, profitability performance, the maintenance of realistic provisions against unexpected losses and the adequacy of systems to monitor and control risks.

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

The Central Bank can neither guarantee the soundness of a financial institution nor can it provide complete protection for its depositors, creditors and other claims on it. However, by ensuring that supervised financial institutions follow prudent management practices, the Central Bank is able to promote public confidence in these institutions and to help maintain a sound financial system.

### 1.1. Financial Position of the Banking System for the twelve months ending June 2019

For the last twelve months, the banking system experienced strong growth in the overall level of assets. Capital adequacy ratio remained relatively strong and supported by banks' sound profitability performance over the past twelve months. The quality of the banks' assets indicated a reduction in non-performing loans whilst provisions for bad and doubtful debts were sustained at an adequate level at the end of June 2019.

In June 2019, the banking system recorded an increase in total assets of 6.3 percent (\$99.4 million) to \$1.685 billion against total liabilities of \$1.411 billion which went up by 6.8 percent (\$90.0 million) respectively.

Much of the growth in assets was attributed mainly to the remarkable increases in cash and deposits with the CBS by 26.5 percent (\$64.9 million), lending by 4.6 percent (\$49.4 million) and nonfinancial assets by 10.5 percent (\$12.4 million) in that order. This was partly offset by the drop in the level of debt securities by 21.5 percent (\$11.1 million), deposits with

banks by 13.5 percent (\$15.5 million) and other assets by 6.5 percent (\$1.8 million). Total loans and advances to deposits ratio went down from 87.8 percent a year earlier to 85.4 percent to date.

### 1.2 Capital Adequacy Ratio

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

The Central Bank adopts a Two Tier system whereby all the banks are required to maintain at all times a minimum capital adequacy ratio of 15.0 percent in relation to the level of their risk weighted exposure. As such, Tier one capital or “core capital” shall be no less than 7.5 percent of total risk weighted exposure, while Tier two capital or Supplemental capital shall not exceed 100.0 percent of core capital.

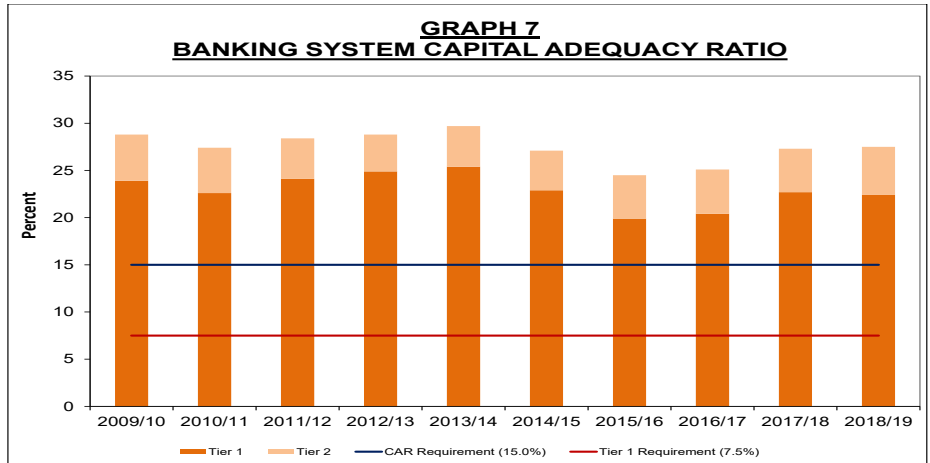
Tier one capital combined amounted to \$206.4 million, increased by 2.6 percent (\$5.2 million) from \$201.2 million a year earlier due mainly to the increases in prior year’s audited retained profits. Tier two capital of \$47.2 million showed an increase of 16.7 percent (\$6.7 million) caused mainly by the increase in the unaudited retained profits, bringing total capital (Tier one plus Tier two) to \$253.6 million at the end of the period.

Hence, the banking system remained strongly capitalized with an aggregate ratio of 27.5 percent, rose by 0.2 percent from the previous year. Meanwhile, Tier one capital was recorded at 22.4 percent. At such levels, the banking system recorded a surplus capital of \$115.1 million at the end of June 2019.

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).

are maintained to cover for potential or identified losses.

In the twelve months to end June 2019, total loans and advances went up by 4.6 percent (\$49.4 million) to \$1.118 billion. At this level, total non-performing loans revealed a

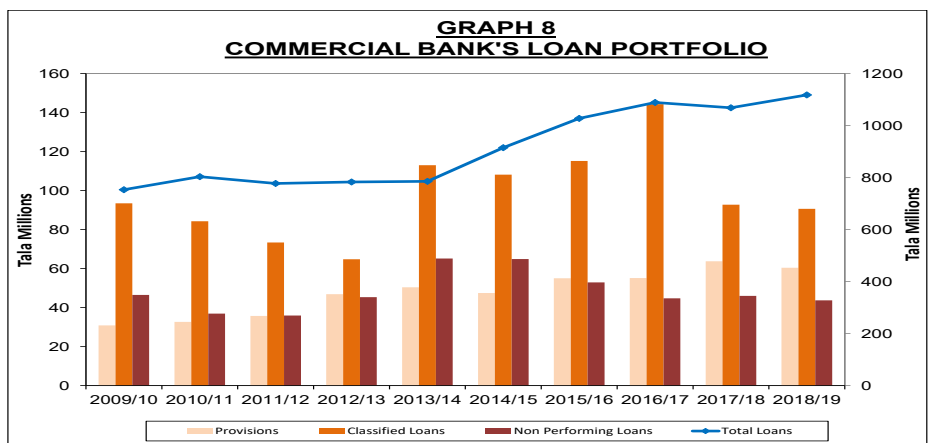


### 1.3. Asset Quality

The Central Bank places greater emphasis on a bank’s internal management system to monitor and provide adequate controls on credit to reduce possible losses. And, in the event of default or identified losses as a result of non-performing loans and other types of impaired assets, the bank must ensure that adequate provisions

drop by 5.0 percent (\$2.3 million) to \$43.7 million representing 3.9 percent of total loans and advances.

At this level, provision for bad and doubtful loans amounted to \$60.4 million (5.4 percent of total loans and advances to date) which provides an adequate cover for total non-performing loans (See Graph 8).



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

Diversification of risks is one of the fundamentals of prudent banking. Excessive concentration of risk exposure to one customer, industry, economic sector or activity jeopardizes the soundness of banks' assets and has been one of the major causes of bank losses.

The composition of loans by industries revealed that over the past twelve months; building, constructions and purchasing of land continued to be the largest industry exposure at 35.3 percent (\$395.1 million), also increased by 3.3 percent (\$12.5 million). Other industries such as professional services accounted for 17.1 percent (\$191.1 million), trade at 11.0 percent (\$123.0 million), transportation at 6.3 percent (\$70.7 million), manufacturing at 3.0 percent (\$33.4 million) and other activities at 25.2 percent (\$281.2 million) in that order (Refer Table 4).

	<b>2018</b>	<b>2019</b>
Agriculture	0.7	0.2
Fisheries	0.0	0.2
Manufacturing	2.8	3.0
Building, Construction & Land	35.8	35.3
Electricity, Gas & Water	1.0	0.9
Trade	11.7	11.0
Transportation	6.5	6.3
Professional Services	17.0	17.1
Others	24.3	25.9
Foreign	0.2	0.1
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

In terms of loans by sectors, the business sector which contributed 53.7 percent significantly increased by 6.8 percent (\$38.0 million) while household loans which made up 40.9 percent of total loan portfolio registered a growth of 4.0 percent (\$17.5 million) accordingly. Credit exposure

to the Government sector, including non-financial public enterprises and non-monetary financial institutions dropped by 8.4 percent (\$5.4 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, 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 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 2019, total liquid assets amounted to \$274.0 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 \$702.9 million as compared to short term deposit liabilities of \$820.5 million. In the 3 months and over category, long term loans stood at \$964.6 million against long term deposits of \$409.2 million, revealing a significant mismatch in the residual maturity of funds for the period under review. This trend is however closely monitored in consultation with the banks given the volatile nature of deposit funds in the market in order to ensure that banks are able to meet their liquidity obligations at all times.

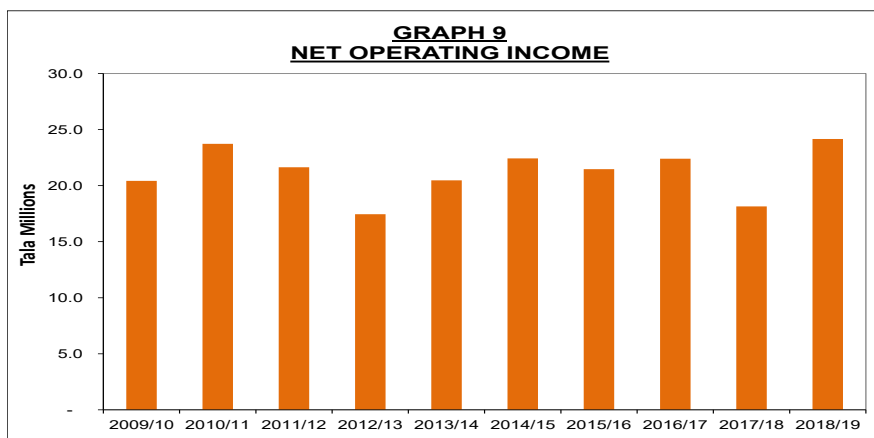
### 1.5. Profitability

Based on the banks different accounting periods, the banking system combined profit figure (before extraordinary items and taxation) amounted to \$33.1 million, indicating an increase of 33.2 percent (\$8.2 million) over a year earlier. Following the deduction of tax, the net profit for the commercial banks in 2018/19 stood at \$24.2 million compared to \$18.1 million in the previous year (See Graph 9).

Total operating income went up by 6.4 percent (\$5.1 million) while total operating expenses and provisions decreased by 5.9 percent (\$3.2 million) on an annual basis respectively. As such, the efficiency ratio of the banking system stood at 59.4 percent, an improvement from 66.0 percent registered a year earlier.

On the income side, the major contributing factor highlighted in the increase in banks' interest income of 3.3 percent (\$1.7 million) to \$53.5 million on an annual basis.

equivalent to 22.0 percent of total domestic deposit liabilities. At this level, it showed a favorable improvement of 25.2 percent (\$55.1 million) when compared to the same time a year earlier. In addition, investments in CBS Securities recorded at end June 2019 stood at \$20.0 million.



The overall drop in total operating expenses by 4.2 percent (\$2.2 million) revealed the noticeable decreases mainly at some of the non-interest expenses such as taxes and licenses by 99.4 percent (\$4.8 million), management fees by 15.7 percent (\$0.9 million) and depreciation/amortization by 7.1 percent (\$0.2 million).

Return on average net worth of 23.9 percent and return on average total assets of 3.9 percent both increased as compared to the levels recorded at June 2018.

### 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 the 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 re-

gard 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 2019 stood at \$141.6 million, decreased by 13.2 percent (\$21.6 million) while total foreign liabilities of \$102.6 million decreased by 24.1 percent (\$32.5 million) over the same time a year earlier. At these levels, it reflected a net long open position of \$49.1 million, equivalent to 19.4 percent of the banking system's total capital (25.1 percent a year earlier).

### Non-Bank Financial Institutions

#### 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.

##### 2.1.2. Insurance Supervision Prudential Standards ('ISPS')

The Bank's approach to supervision is to develop a number of prudential standards that insurance companies must adhere to, reduce the likelihood of insolvency and operational problems by limiting risks to prudent levels, and enhance the capacity of insurance companies to absorb any adverse developments that may occur.

In February 2019, the Bank issued eight (8) prudential standards for both life and general insurance companies in accordance with section 5 (b) of the Insurance Act 2007.



The standards were developed broadly in line with the requirements of the Insurance Act 2007, the International Association of Insurance Supervisors ('IAIS') Core Principles and international best practice consistent with the size and complexity of the domestic insurance market.

This is the first set of standards issued by the Bank for the insurance sector since the Act was enacted and enforced in 2007.

## **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 licenses by insurers, insurance agents and insurance brokers. Licenses are renewed upon the payment of their license renewal fees by the end of December of each year.

### **2.2.1. Licensed Insurance Companies and Intermediaries**

At the end of January 2019, a total of twenty seven (27) insurers and intermediaries were licensed under the Act and are listed as follows:

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

## **2.3. Supervision**

The Bank has an integrated, risk-based system of supervision that uses both off-site monitoring and on-site inspections, to examine the business of each insurer, evaluate its condition, quality, effectiveness and compliance with legislation and supervisory requirements.

Early this year, trainings and bilateral dialogue were held with the industry to clarify new reporting format and classification which currently reflect aggregate figures of business in Samoa only.

In May 2019, the Bank conducted its first full scope onsite inspection with one of the general insurers. Visits to other insurance companies are scheduled for the second half of 2019 and the beginning of 2020 respectively.

The Bank continued to monitor insurers' compliance with the Act and prudential standards through offsite monitoring 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**

The consolidated total assets of the insurance sector (life and general) stood at \$102.3 million, up by 4.4 percent (\$4.3 million) as compared to FY2017/2018. The general insurance sector continued to dominate total assets at 52.6 percent (\$53.9 million).

#### **2.4.1.2. Liabilities**

On the liabilities side, it was also increased by 0.4 percent (\$0.2 million) to \$63.5 million over the past twelve months. Of total, life insurance accounted for 64.5 percent (\$41.0 million) whilst general insurers represent 35.5 percent (\$22.5 million) respectively.

### **2.4.1.3. Shareholders' Funds and Reserves**

The combined shareholders' fund for the domestic insurance industry grew by 11.8 percent (\$4.1 million) to \$38.8 million over the same time last year. The general insurers dominates this sector at 80.7 percent (\$31.3 million).

### **2.4.1.4 Solvency Position**

For the period under review, the insurance industry achieved a combined solvency surplus of \$13.3 million, revealing an increase of 2.5 percent (\$0.3 million) as compared to last year's balance of \$13.0 million. Such surplus was derived from adjusted net assets of \$19.5 million less solvency margin of \$6.1 million. The general insurers dominated 60.9 percent (\$8.1 million) of surplus.

### **2.4.1.5 Liquidity Position**

For FY2018/2019, the combined liquid assets of the domestic insurance industry stood at \$25.5 million, showing a 33.0 percent (\$6.3 million) growth as compared to the last twelve months. Such movement was mainly caused by the increase on cash on hand by \$7.4 million to \$9.6 million, which was offset by the reduction in bank deposits by \$1.1 million to \$15.9 million respectively. Total liquid assets provide adequate coverage for short term liabilities of \$6.9 million.

### **2.4.1.6 Gross Premiums**

As of June 2019, the life and general insurance sectors' combined gross premium income stood at \$23.0 million, compared to \$20.7 million reported in June 2018 and revealed an increase of 11.3 percent (\$2.3 million). Of total, the general insurance

sector covered 65.1 percent (\$15.0 million) while the remaining 34.9 percent (\$8.0 million) was represented by the life insurance sector.

#### 2.4.1.7 Claims

The combined life and general insurance sectors' gross policy and claims payments aggregated at \$10.2 million grew by 10.2 percent (\$0.9 million) over the past twelve months. The life insurance sector dominated 79.4 percent (\$8.1 million) of claims paid.

#### 2.4.1.8 Profitability Performance

The insurance industry registered a reduction in combined profit of \$3.1 million at end of June 2019 as compared to a profit of \$5.9 million recorded in the same time a year ago. The general insurance sector represents 95.2 percent (\$3.0 million) of total profit.

### 3. Other Major Non-Bank Financial Institutions

#### 3.1. Prudential Supervision of 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's 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 into account the 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 2019, total assets of the four (4) non-banks stood at \$1.1 billion, up by 6.1 percent (\$69.3 million) as compared to June 2018. The major assets components include loans and advances (net) aggregated at \$736.6 million (65.0 percent), fixed assets (net) totaled \$149.7 million (13.2 percent), investments of \$158.0

million (13.9 percent) and other assets of \$89.8 million (7.9 percent) respectively.

#### 3.2.1.2. Total Liabilities

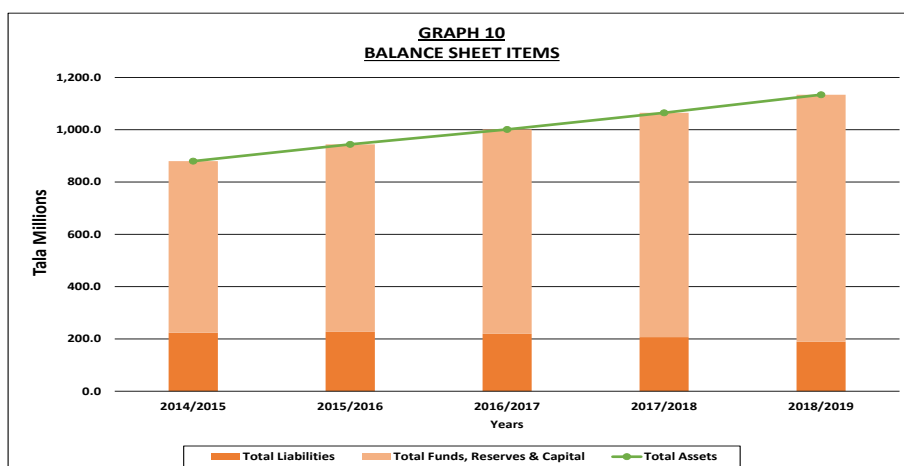
In contrast, total liabilities of \$189.3 million dropped by 9.3 percent (\$17.5 million) over the last twelve months. Of total, borrowings dominated 71.0 percent (\$134.5 million), followed by convertible notes and other liabilities at 15.1 percent (\$28.5 million) and 13.9 percent (\$26.3 million) in that order.

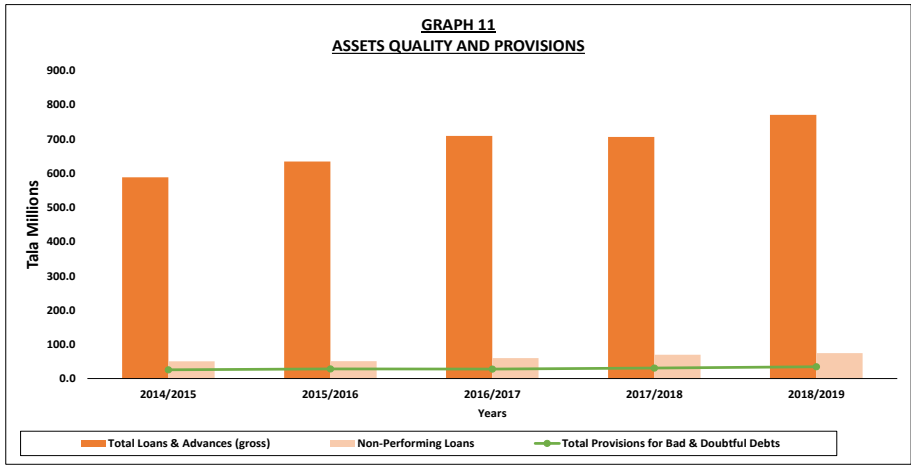
#### 3.2.1.3. Total Funds, Reserves and Capital

Total Funds, Reserves and Capital of the four non-banks as of June 2019 stood at \$944.8 million, up by 9.3 percent (\$87.7 million) as compared to the preceding year. This total is made up of contributions, pension pool and other accounts of \$831.4 million (88.0 percent), general reserves and assets revaluation of \$47.9 million (5.1 percent), and cumulative profits and paid-up capital aggregated at \$65.5 million (6.9 percent) respectively.

#### 3.2.2. Total Loans and Advances

The total loan portfolio (gross) of the non-banks by the end of June 2019 grew to \$771.1 million by 8.4 percent





(\$64.8 million) over the same time a year earlier. Distribution of loans by industry groups revealed that Professional and Business Services represents 26.0 percent (\$200.3 million), Building, Construction and Installation by 22.6 percent (\$173.9 million), Agriculture, Fisheries, Manufacturing, Trade and Transport accounted for 5.9 percent (\$46.0 million) and other activities represent 45.5 percent (\$350.9 million) correspondingly.

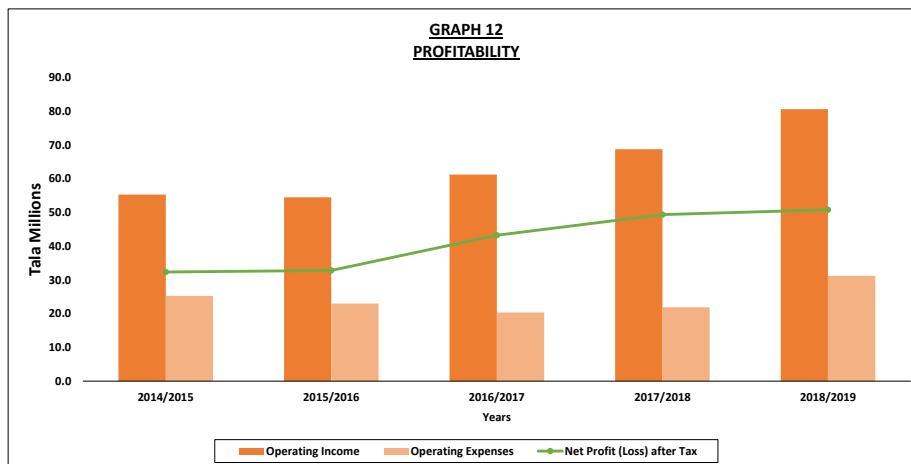
### 3.2.3. Assets Quality and Provisions

At the end of June 2019, the non-banks registered a combined non-performing loans (NPLs) balance of \$74.3 million compared to \$69.6 million reported in June 2018, show-

ing an increase of 6.3 percent (\$4.7 million). Total NPLs is equivalent to 9.6 percent of total loans and advances. At this level, total provisions stood at \$34.5 million (\$30.9 million last year), accounting for 46.4 percent of total NPLs and 4.5 percent of total loan portfolio respectively.

### 3.2.4. Profitability

As of June 2019, the non-banks recorded a combined unaudited profit after tax of \$50.8 million compared to a \$49.4 million profit reported in June 2018. This result was derived from total operating income of \$80.6 million against total operating expenses of \$31.2 million respectively.



### 3.2.5. Onsite Examinations

In October 2018, a full scope onsite examination was conducted for the Unit Trust of Samoa. Similar to other inspections, the main focus was to confirm UTOS' compliance with their own policies and procedures as well as relevant standards, law and regulations already put in place to govern its performance.

### 4. Money Transfer Operators (MTOs) and Money Changer (MC)

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 2019, the Bank issued renewal licenses to the following institutions:

- i. Twelve (12) MTO licenses;
- ii. One (1) MC license;
- iii. Twenty eight (28) MTO branches licenses; and
- iv. Seven (7) 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 Sāmoa increased as at 30<sup>th</sup> June 2019 which consisted of 25 commercial bank branches, 69 Automatic Teller Machines (ATMs), 645 Electronic Funds Transfer at Point of Sale (EFTPOS) outlets and 82 cash-in & cash-out bank agents (merchant stores).

The four commercial banks continued to offer financial services through various instruments. In the period under review the National Bank of Samoa (NBS) launched its mobile phone app in May 2019.

### 1.2 Non-Bank financial service providers

In February 2019, Bluesky Samoa launched its mobile money platform called M-Tala. This new service enables Bluesky customers to process or make and receive payments via mobile phone. This addition is the second mobile money wallet product available in Samoa, after Digicel's Mobile Money which was launched in 2011.

### 1.3 Financial Inclusion Measurement

At end June 2019, the noticeable change in the financial inclusion measurement stemmed from the removal of the 'cash in (cash deposit)' function from all ATMs previously reported to have both cash in and cash out functions. Whilst this caused a decrease in total number of 'cash in and cash out' access points, there was however a significant increase in EFTPOS terminals which helped to improve the access indicator. 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.

### 1.4 National Payment System

The procurement of the Automated Transfer System (ATS+) and Central Securities Depository (CSD) software package conducted through the processes of the World Bank/IFC was completed by end 2018, and the project kick off for Samoa began in March 2019 with the chosen vendor, Montran. By the end of the financial year, the project inception phase was near completion.

On the regulatory side, work continued to finalize the NPS Oversight, NPS Guidelines for Agents, NPS Guidelines

for Retail Payment instruments, and Directives for Electronic Funds Transfer.

### 1.5 Credit Data Bureau

The previous missions with the assistance of the Asian Development Bank (ADB) resulted in a Diagnostic Assessment report for the options available to set up a Credit Bureau in Samoa. ADB has committed to further provide the follow up assistance to realize the best credit bureau model for the context of Samoa.

### 1.6 Micro Small Medium Enterprises

Facilitating the access to finance of Micro Small and Medium Enterprises (MSME) is one of the key objectives of financial inclusion and inclusive growth as it is an avenue for employment and income generation especially for low-income households. After various attempts to secure technical assistance in this area, the PFIP in collaboration with UNESCAP have firming assistance to the CBS by way of a MSME Access to Finance Study to be conducted in the second half of 2019. This will complement the SME National Policy work that is driven by Ministry of Commerce Industry and Labour.

## **2. Financial Consumer Affairs and Market Conduct**

### **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 entrepreneurial skills.

The Central Bank of Samoa (CBS) participated again in March 2019 with the Be Money Wi\$e (BMW) Poster Competition for students from years 3-10, Understanding Insurance Workshop for students in years 11-12, Youth Financial Wellness Debate for students in year 13 and a Women in Finance session in collaboration with WinLA<sup>11</sup> for tertiary students. A total of 469 students from 29 schools participated in the Global Money Week events.

### **3. Stakeholder coordination and liaison with international partners.**

#### **3.1 National Financial Inclusion Taskforce (NFIT)**

The National Financial Inclusion Taskforce (NFIT), the driver of the Nation-

al Financial Inclusion Strategy (NFIS) 2017-2020 continued its quarterly meeting throughout the year sharing initiatives and progress in promoting financial inclusion and financial literacy in the country. A key activity conducted in the period under review was the midterm review of the NFIS. The report had yet to be finalized and published by end of the financial year under review.

#### **3.2 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.

#### **3.3 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 on financial inclusion data, small medium enterprises

finance, consumer empowerment and market conduct and on financial inclusion strategies. At the regional level it continued to work closely with other central banks in the Pacific in the Pacific Island Regional Initiative (PIRI).

#### **3.4 Pacific Financial Inclusion Programme (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 PFIP's Financial Inclusion Coordinator in Samoa, the CBS continued its strong collaboration with PFIP to progress financial inclusion and financial literacy in Samoa

<sup>11</sup> Women in Leadership Advocacy group

# VI. Money Laundering Prevention and Countering of Terrorist Financing Activities

## 1. Summary of activities of the MLP Authority

The Money Laundering Prevention 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 (“FIU”). The FATF is an international organization that sets the global standards for anti-money laundering (“AML”). They divide their groups into regions, and Samoa is a member of the APG.

### 1.1 APG Plenary Meeting (July 2018)

Overall, Samoa has made progress in addressing the technical compliance deficiencies identified in its Mutual Evaluation process (MER) and has been re-rated on three Recommendations. The Money Laundering Prevention (MLP) Amendment Act amended a number of pieces of legislation which has improved Samoa’s technical compliance with Recommendations 3, 5 and 10. At the 2018 APG Annual Meeting members adopted the Samoa Follow Up Report (FUR) and decided to place Samoa on enhanced follow-up from enhanced follow-up (Expedited). As a result of this meeting Samoa has improved its technical compliance on the AML framework. Samoa now only reports to APG every 12 months instead of the usual 6 months.

### 1.2 Enhanced Follow-up Report

Samoa submitted its first Enhanced Follow up Report to the APG on 31 January 2019 as required under the APG Third Round Mutual Evaluation Procedures 2018. In light of the progress made since the last follow-up report, Samoa did not seek for any technical compliance re-ratings for this year 2019. Samoa will continue to focus more on amending its laws to address the shortcoming as identified in its MER 2015 and to work more on the effectiveness of the law as previously amended.

### 1.3 Confiscated Assets Fund (“CAF”)

The Governor is 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.

The CAF term deposit account with the Samoa Commercial Bank (“SCB”) was opened with \$40,000. The amount as at June 2019 is at \$45,324.68.

### 1.4 Standard Operating Procedures

The Samoa FIU developed procedures for reporting and filing of suspicious transaction reports and cash transaction reports. The procedures provide guidance to financial institutions (FIs) on how to complete and file the reports to the FIU.

The unit also developed internal op-

erating procedures for FIU staff. The procedures provide guidance to FIU staff on how to conduct and complete the end-to-end process (i.e. receive, analyze and disseminate) of reports received by the unit.

Public notices in frequently asked questions format for cash transaction reports (CTRs) were distributed to all FIs. The poster assist FIs and Customers regarding the purpose of the report.

### 1.5 Quarterly Meetings

The FIU continue to host Quarterly meetings with the AML Task Force members and FIs compliance officers to discuss AML/CFT<sup>12</sup> matters (issues, challenges and way forward).

As part of its supervisory roles, the FIU 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 money laundering/terrorism finance (ML/TF) activities.

## 2. Summary of Activities of the Samoa FIU

### 2.1. Certified Anti-Money Laundering Specialist (CAMS) Examination

One (1) FIU staff passed the CAMS examination in 2018 and became a Certified AML Specialist. The Certified Anti-Money Laundering Specialist (CAMS) credential is the gold standard in AML certification and recognized worldwide. The knowledge and experience from CAMS would be an asset to the development of the SFIU in promoting AML compliance

<sup>12</sup> CFT – Countering the Financing of Terrorism.

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.

## 2.2. Know-Your-Customer (KYC) Utility Project

The Asian Development Bank (“ADB”) in collaboration with the US based company, the Everest Organization is developing a technology based platform to support customer identification, KYC, AML and other financial transactions. The purpose of the KYC utility project is to address the de-risking issues for Money Transfer Operators (MTOs) in which the ADB, International Monetary Fund (IMF) and CBS are working together to resolve.

It is an online system with built-in identity platform. It means that any transaction on the platform inherently has knowledge of the individuals who are transacting. The KYC utility system links the MTO financial information to CBS database. The project is fully funded by ADB.

## 2.3. FIU ICT Database System

One of the key priorities in our implementation plan submitted to the APG for technical assistance needs, is to have a system in place to assist with FIU operations and AML requirements. The system will improve the FIU quality of work in terms of reporting and analysis capability and capacity, and to increase detection of ML/TF. This project is fully funded by APG.

## 2.4. Financial Information

The FIU serves as a national center for receipt, analyze and disseminate

reports required under the money laundering legislation and regulation. These reports consisted of suspicious transaction reports (STRs), border cash reports (BCRs) and cash transaction reports (CTRs).

The FIU also received and made requests associated with AML/CFT matters and disseminate where appropriate. The FIU outreach pertaining to the exchanging of information for AML/CFT matters do not limit to national agencies but also to overseas counterparts.

The FIU shares and circulates all AML/CFT matters to its relevant counterparts to raise awareness with the focus to implement relevant measures and controls for disruption and prevention purposes. Public notices are circulated through the media and awareness emails are distributed to MLP Task Force members and Compliance officers of financial institutions.

### 2.4.1. Suspicious Transaction Report (“STRs”):

The reporting of STRs is an obligation of financial institutions and supervisory authorities and auditors under section 23 and 24 of the MLP Act 2007. The FIU receive, analyze and disseminate the reports to relevant AML/CFT counterparts for information and investigations where appropriate.

The following table summarizes reports received and disseminated during this period.

STRs Received	76
STRs Disseminations	27

### 2.4.2. Cash Transaction Report (“CTRs”):

Cash Transaction Report is a new report required under Section 23(a) of the MLP Amendment Act 2018. The Financial Institutions are required to report all cash transactions equivalent to SAT\$20,000 or more to the FIU on a weekly basis.

The reporting of CTRs is on trial since October 2018. The FIU is developing an ICT System which is funded by the APG under the Technical Assistance & Training program. It is expected for the initial testing to run in late August to early September 2019.

The following table summarizes cash transactions reported by financial institutions from October 2018 to June 2019.

FINANCIAL INSTITUTIONS	TOTAL AMOUNT	TOTAL NUMBER
Commercial Banks	\$2,025,858,051.37	15,402
Money Transfer Operators	\$77,491,468.81	901
TOTAL	\$2,103,349,520.18	16,303

### 2.4.3. Border Cash Report (BCRs’):

It is a requirement in the MLP Act 2007 under section 13 for any person who leaves or enters Samoa to declare if they are carrying physical cash or negotiable bearer instruments equivalent to SAT\$20,000 or more and complete the border cash report. These reports must be filed to the FIU by any authorized officer who is on duty at the border.

During this period, the FIU received 67 reports from the Customs in relation to cash declaration at the border, which summarizes in the following table.

FINANCIAL INSTITUTIONS AND INDIVIDUALS	NUMBER OF BCRS
Reports for individual passengers	47
Reports relates to Cash Repatriation from FEXCO in American Samoa	20
<b>TOTAL REPORTS</b>	<b>67</b>

#### 2.4.4. Approval of Currency Repatriation

The FIU is accountable for issuing approvals of currencies repatriation for financial institutions and individuals who are hand-carrying cash equivalent to SAT\$20,000 or more outside of Samoa.

A table below summarizes approval issued by the FIU during this period.

FINANCIAL INSTITUTIONS AND INDIVIDUALS	SAMOAN TALA (SAT)	OTHER CURRENCIES
Commercial Banks	62	57
Money Transfer Operators	6	31
Individuals	0	5
<b>TOTAL</b>	<b>68</b>	<b>93</b>

#### 2.4.5. EGMONT

Samoa FIU is a member of the Egmont group of FIUs which is a network group of FIUs (containing 159 members) that was created to provide a forum for the exchange of information confidentially to combat money laundering and Counter terrorism financing. This is an important tool for gathering information and disseminating intelligence between FIUs.

Below is a brief summary of request the FIU received and made via Egmont during the period under review.

Requests Received	9
Requests Made	2

#### 2.4.6. Due Diligence and Background Checks

The FIU received requests from financial institutions, competent authorities and internal departments of the CBS to conduct due diligence checks and screening of customers and payments on FIU databases. The purpose of due diligence and background checks is to screen the legitimacy of entities and their associates (compa-

nies and individuals), and to establish if there are matches and hits in relation to sanctions or criminal activities such as money laundering and terrorist financing.

Due Diligence	17
Background Checks	155

#### 2.4.7. Ongoing Awareness and Trainings

The FIU continues to offer AML/CFT training to financial institutions, competent authorities and other government agencies. The main purpose is to raise awareness and to re-emphasize the importance of their roles 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 2018/19. 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 2018/19 a total of 7.5 million pieces of banknotes were processed, with 5.9 million banknotes reissued and 1.6 million unfit banknotes worth \$38 million withdrawn from circulation and destroyed during 2018/19.

### 1.2 Currency Issue

The demand for currency (banknotes and coins) in 2018/19 grew by 22 percent to \$124.3 million from \$101.6 million the year before. This growth was mainly due to an increase in a high volume of notes in circulation from 95.6 million in 2017/18 to 117.4 million in the year under review and partially due to an increase in coins in circulation from \$6.0 million in 2017/18 to \$6.85 million in 2018/19. New notes issued increased significantly from \$44 million in 2017/18 to \$59 million in 2018/19. As a result the total cost of currency issued increased from \$1.9 million in 2017/18 to \$2.3 million in the financial year ending 30 June 2019.

	2014/2015		2015/2016		2016/2017		2017/2018		2018/2019	
	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)
Notes saved for reissue	\$169.1	4.7	\$211.8	6	\$175.8	5.2	\$252	7.16	\$242	5.9
Notes Destroyed	\$30	1	\$39	1.8	\$44	1.4	\$60.3	2.6	\$38	1.6
*Total Processed	\$199.1	5.7	\$250.8	7.8	\$219.8	6.6	\$312.3	9.76	\$280	7.5

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 2019 increasing by 14.0 percent to 2,006,827. The \$2 coin also increased by 14.0 percent to 1,353,854 pieces in 2018/19. Overall, the number of pieces for all the denominations rose by 1,733,134 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 2018/19 replaced notes increased to \$118,365 from \$101,870 in 2017/18. The most common types of damage to banknotes are limpness, tearing or accidental burning.

### 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 and actively promoted public awareness of counterfeit banknotes in 2018/19, 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 6).

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

The Central Bank continues to work closely with the Police Department to assist police in counterfeit detection techniques and support with counterfeit analysis.

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

Denomination	2015-2016		2016-2017		2017-2018		2018-2019	
	Value (\$)	Pieces (\$)	Value (\$)	Pieces (\$)	Value (\$)	Pieces (\$)	Value (\$)	Pieces (\$)
5	\$0.00	0	\$0.00	0	\$15.00	3	\$0.00	0
10	\$10.00	1	\$30.00	3	\$60.00	6	\$40.00	4
20	\$100.00	5	\$40.00	2	\$280.00	14	\$20.00	1
50	\$600.00	12	\$0.00	0	\$1,050.00	21	\$50.00	1
100	\$2,700.00	27	\$200.00	2	\$300.00	3	\$100.00	1
<b>Total</b>	<b>\$3,410.00</b>	<b>45</b>	<b>\$270.00</b>	<b>7</b>	<b>\$1,705.00</b>	<b>47</b>	<b>\$210.00</b>	<b>7</b>

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.

To commemorate the XVI Pacific Games held in Samoa in 2019, the Central Bank of Samoa issued into circulation on the 24th June a new limited edition \$10 Tala Polymer Banknotes. The release of the \$10 Tala was a historic event as it marked the first time Samoa has used polymer since 1990. It is also the first polymer banknote to be carbon neutral reflecting our commitment to reduce the impact on the environment.

Income from Numismatic or collector sales for the financial year ending 2018/19 was \$0.47 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 2019.

## 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 Banking Services to Government

The Central Bank of Samoa acts as a banker, agent and depository to Government. In this capacity CBS acts as banker and fiscal agent of Government and any international financial institutions Samoa is a member.

## 3. Human Resources

### 3.1 Policy developments, review, monitoring and awareness

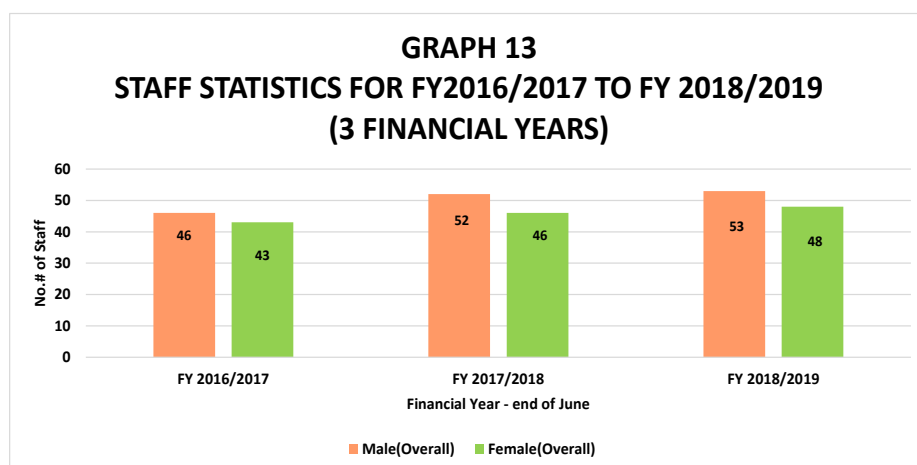
The Bank reviewed a few staff policies in the report period and conducted several policy awareness to improve staff knowledge and understanding. The Bank further reviewed the CBS Strategic Plan for 2014/2018 and completed a new CBS Strategic Plan for 2019/2024.

The CBS Strategic Plan 2019/2024 set out thirteen (13) strategic objectives to achieve four (4) broad strategic impacts or outcomes. The impacts or outcomes focused on core priorities of macroeconomic stability, financial system soundness, quality currency needs and sustainable corporate governance. The vision, mission and values were revised to appreciate CBS capabilities in service delivery through its people (human resources), policies and legal mandate.

The development of the CBS Strategic Plan 2019/2024 recognized capacities and evolving infrastructures and the financial environment that could impact on the role of CBS now and in the next five (5) years.

### 3.2 Composition of staff

The Central Bank experienced a slight increase in staff numbers in the FY 2018/2019 (refer to Graph 13). This follows the lift on the 'sinking lid' approach in FY 2017/2018 allowing recruitment of technical capacity from outside CBS. At the end of June 2019, the Central Bank employed a total of one hundred and one (101) staff, compared to the ninety eight (98) in June 2018.



In terms of gender composition (refer to Graph 14), male make up the majority of permanent staff (non-contract) in FY 2018/2019, similar to the previous financial years (FY 16/17 and FY 17/18). However, the trend differs in management positions (contract) where female make up the majority in FY 2018/2019 as in previous financial years (FY 16/17 and FY 17/18). This indicates gender equity in CBS staff policies.

### 3.2.1 Staff Recruitment – promotion and new appointments

There is a marked increase in appointments in the FY 2018/2019 compared to the FY 2017/2018 as a result of promotions and reappointments to several contract positions (refer to Graph 15). A total of thirty six (36) appointments are recorded for FY 2018/2019 compared to twenty (20) in FY 2017/2018.

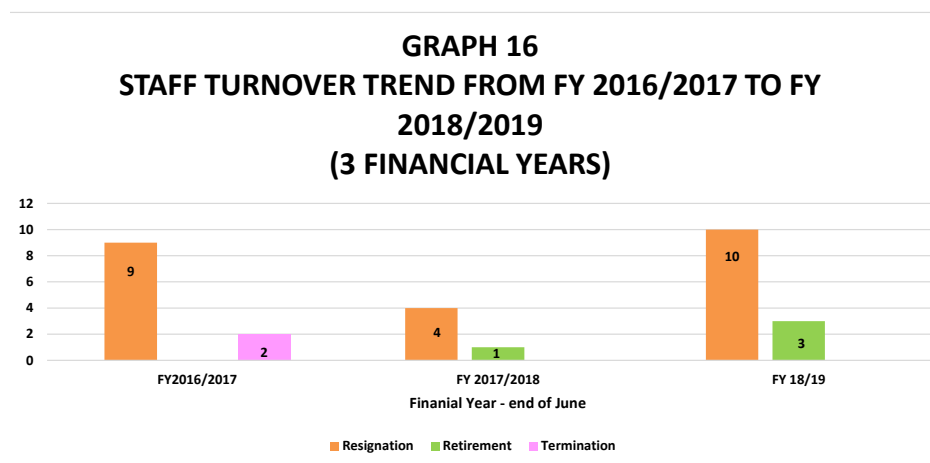
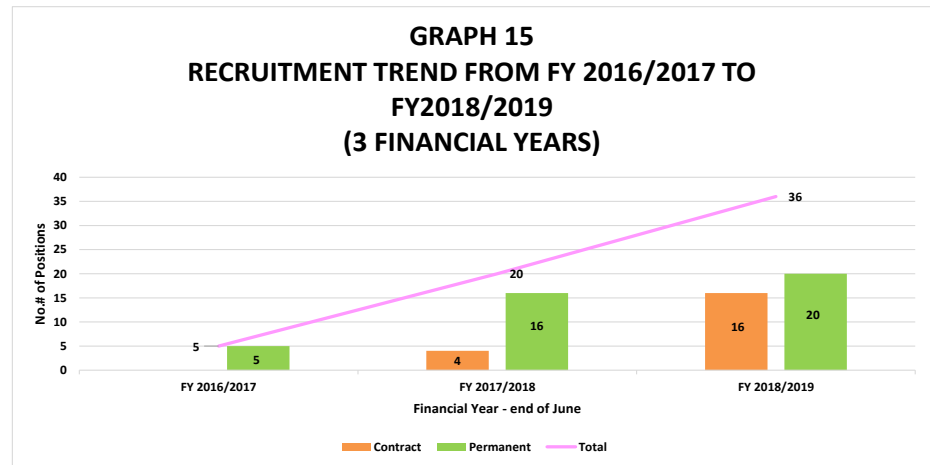
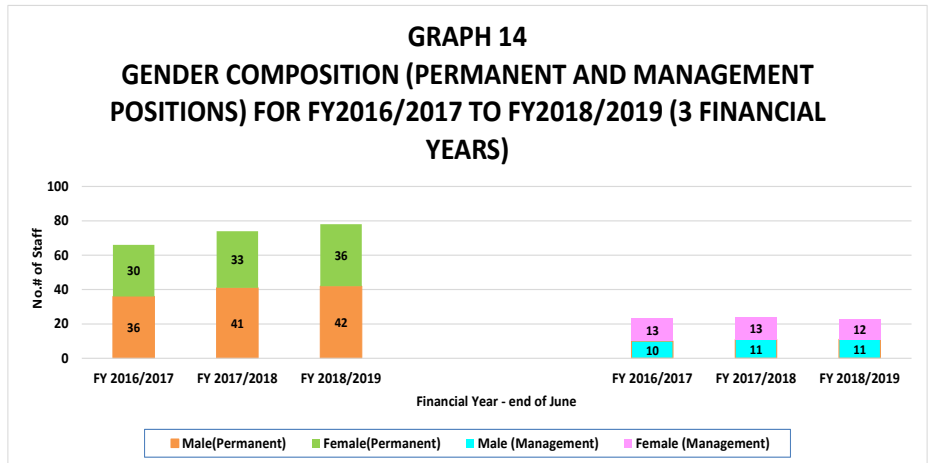
Of these appointments, thirteen (13) are recruitments from outside the Bank.

### 3.2.2 Staff Cessation of service

Staff turnover (refer to Graph 16) is reportedly high in FY 2018/2019 compared to the two previous financial years. A total of thirteen (13) staff turnover is recorded. Of the thirteen (13), ten (10) staff resigned with:

- Three (3) migrating overseas under the seasonal worker scheme (2) and the quota scheme (1);
- Four (4) are locally promoted in Government Ministries, Corporation and a Company;
- Three (3) are for family reasons.

Three (3) employees reached retirement age and continue to be employed under extended retirement conditions for another 12 month (annual) period.



There is no recorded termination or death during the FY 2018/2019.

service.

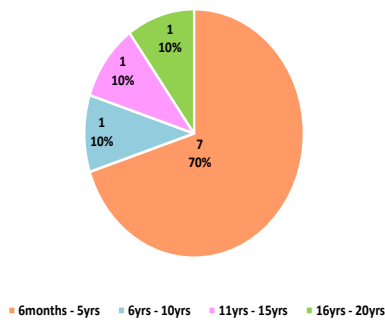
### 3.2.3 Service Recognition

Majority of staff leaving the CBS through resignation (refer to Graph 17) have served from 6 months to five (5) years with the Bank. The high turnover rate sit in this category of

A few staff were recognized for long service during the FY 2018/2019.

- Five (5) achieved 10 years of service;

**GRAPH 17**  
**YEARS OF SERVICE FOR RESIGNED EMPLOYEES FY**  
**2018/2019**



- Two (2) achieved 15 years of service;
- One (1) achieved 25 years of service;
- One (1) achieved 30 years of service.

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

### 3.2.4 Staff Social activities

A few activities involved staff outside the professional realm of work. These activities associate with staff welfare and building morale. One prominent activity during the FY 2018/2019 is the fitness transformation programme involving gym physical exercises and hiking programmes.

One staff was also selected as a Technical Official for Touch Rugby leading up to and during the Pacific Games in July 2019. This is a recognition of other skills and talent of CBS staff.

### 3.3 Staff Trainings and Developments

The Bank places value on staff development and training and provides an enabling environment to strength-

en, build staff capacity and caliber through its staff education program. CBS policies encourage staff to pursue higher education especially in core areas of the Bank.

#### 3.3.1 Local Training and Meetings

The Bank continues to support local and internal (within CBS) trainings on soft skills (customer service, team-

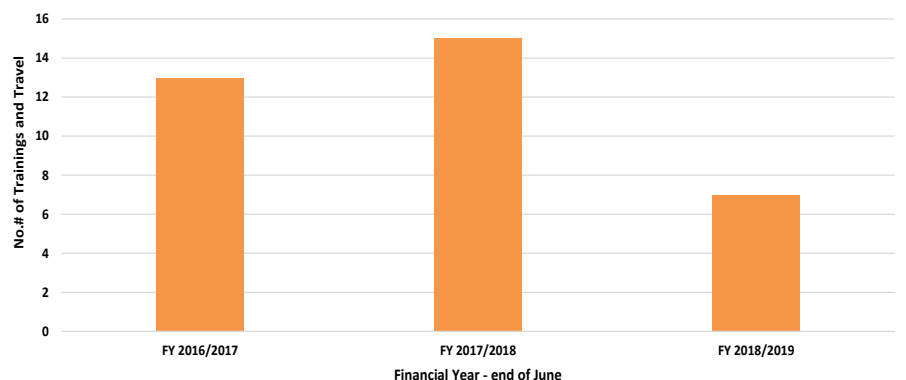
vised policies.

Other local trainings by other training providers focused on areas of marketing, financial literacy, trade, records management, human resource management, sector planning, cash management and cash flow.

Local training providers that assisted in CBS training in this financial year are the Samoa Public Service Commission (PSC), Samoa Stationery and Books, Samoa Business Network, World Trade Organization, Singapore Public Service, Pacific Financial Technical Assistance Center (PFTAC), International Monetary Fund (IMF) and Ministry of Women Community and Social Development.

In the past three (3) financial years, number of local trainings fluctuated depending on Department needs and training availability (refer to Graph 18).

**GRAPH 18**  
**LOCAL TRAININGS AND TRAVEL FOR 3 FINANCIAL YEARS.**



work, leadership and management, time management and communication), awareness for panel members and a refresher on the recruitment process. The Bank continues bi-annual induction programme for new recruits and regular awareness of re-

The Bank also participates in on-line courses and in FY 2018/2019, six (6) employees enrolled in online courses for Macroeconomic Management, Basics for Macroeconomic Statistics and Digital Money.

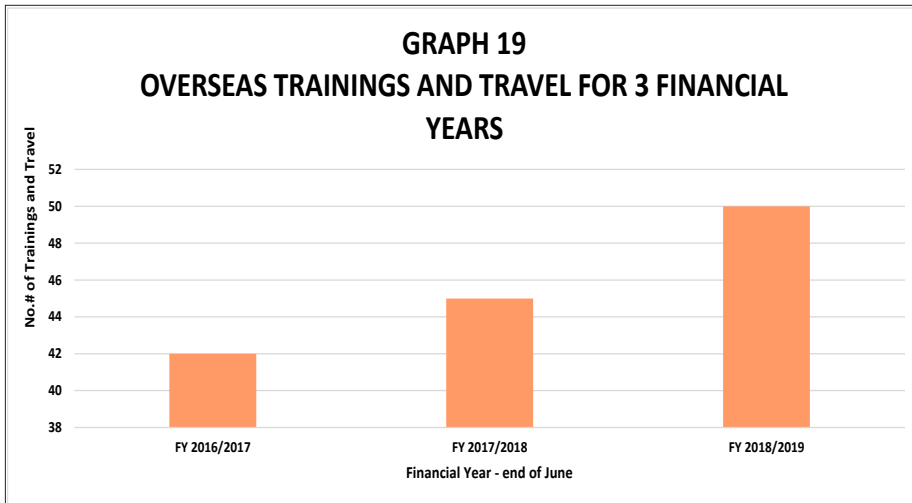
### 3.3.2 Overseas Trainings and Travel

The Bank's representation to international meetings and conferences continued in the report period. There is a slight increase in overseas training and travel in the FY 2018/2019 (refer to Graph 19) compared to FY 2017/2018. More opportunities are available for overseas training and meetings in areas specific to the role of CBS. Donors continue to fund capacity building opportunities (either fully or partially) to facilitate CBS participation.

Financial Inclusion; Asia Pacific Group on Money Laundering; Australian Department of Home Affairs; International Monetary Fund (IMF); Government of New Zealand; Government of the People's Republic of China; IMF Singapore Regional Training Institute; Pacific Financial Technical Assistance Center (PFTAC); Pacific Financial Inclusion Program (PFIP); Society for Worldwide Interbank of Financial Telecommunication (SWIFT); Small Countries Financial Management Centre; United Nations Capital Development Fund (UNCDF) and United

2. Bachelor of Commerce at the National University of Samoa (7);
3. Chartered Accountant Programme under the Samoa Institute of Accountants (2);
4. Certified Information System Company (CISCO) at the National University of Samoa (1).

In FY 2018/2019, two (2) contract staff completed professional capacity building in Fraud Examination (a Certificate of Fraud Examiner) and a Certificate in the Association of Certified Anti-Money Laundering Specialists.



The Bank also continues to train its support (operation) staff and funded a work attachment for two (2) staff to the Reserve Bank of Fiji in areas of human resource and administration.

The Bank further hosted two (2) regional events in this financial year, namely the 33<sup>rd</sup> South Pacific Central Bank Governor's Meeting and the Seminar on FinTech and Financial Inclusion (co-hosted with IMF and ADB) in November 2018.

### 3.3.3 Donor Support

Donor support has facilitated attendance to most international meetings and trainings namely the Alliance for

Nations Department of Economic and Social Affairs (UNDESA), World Bank.

### 3.4 Formal Education and Professional affiliations

In FY 2018/2019, two (2) staff graduated with tertiary qualifications in Bachelor of Commerce. These are new employees that joined the Bank after completion of the Bachelor programme at the National University of Samoa.

Eleven (11) staff continue part time tertiary and professional studies in areas of:

1. Bachelor of Law at the University of the South Pacific (1);

### 3.5 Work Experience programme, volunteers and study visits.

The Bank continued to accommodate part time work experience and observation requests. In the report period, it recruited eight (8) students on a part time basis from November 2018 to January 2019.

The Bank continues to assist students with research activities particularly in the area of Economics.

## 4. Property and Information Technology

### Occupancy

Long term tenants continued to be the Office of the Ombudsman, Ministry of Public Enterprises, World Bank/ADB and the Ministry of Finance (MoF). Sixty percent of the total building space is being rented out while the Central Bank of Samoa occupies the remaining forty percent.

### Maintenance

Maintenance of the building is carried out regularly to ensure safety and to maintain its high standard. Support services for air-conditioning, electrical, plumbing, elevators, con-

struction/carpentry, telephone and related areas are outsourced to ensure excellent provision of service to occupants and its valued stakeholders.

### **Security**

The safety of the Bank is extremely important. Security is around the clock to keep the two properties secured: the main Office in Apia and the Offsite at Ululoloa. In addition, both locations are monitored by a CCTV security camera surveillance system with back up standby generators and Uninterrupted Power Supply (UPS).

### **Offsite Ululoloa**

Work has already began on the Bank's Disaster Resumption (DR) site at Ululoloa. An IT server room with live back-up is currently up and running. Fence work is near completion while procurement of the design and build is currently in progress. Tendering of this project is anticipated to start later on in this financial year.

### **Occupational Safety and Health (OSH)**

Following approval of the 2018 OSH policy, this area has now seen growth and movement to address safety and health within the workplace. Health programs were conducted to keep staff morale on the positive and ensure productivity and efficiency.

### **Information Technology**

The Information Technology unit during FY 2018/19 continue to provide technical support and advice on all IT matters for the Bank.

These matters include monitoring of the ten (10) core systems and six (6) supporting systems that run daily operations of the Bank, updating of the Bank's website and also monitoring of licenses renewal and updates of computer systems, firewall, web & email filter and anti-virus.

In addition, backup activities and replication of data to the network-at-

tached storage at the offsite facility were implemented to eliminate risks associated with physical disasters, ransomware, theft and other threats.

There are five (5) other new systems in their early initiation and implementation phases which is expected to intensify within the next financial year. The IT unit was heavily involved in the first inception phase of the National Payment System especially assessment of the private network and integration with the Bank's financial system.

During Financial Year 2018/19, Senior IT Officer had the opportunity to attend the Cyber security workshop held in Vanuatu and the Payment System Inception Phase held in Solomon Islands.

With only three (3) staff, the IT unit continue to provide timely support and advice throughout the year.

## VII. 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 FY 2018/2019 ending 30 June 2019.

At year end 30 June 2019, the Bank had total assets of \$719.0 million made up of \$543.2 million in foreign assets, and \$175.7 million in local assets.

On the other hand, the Bank recorded total liabilities of \$703.1 million consisted of foreign liabilities of \$198.5 million and \$504.6 million in local currency.

The Bank's net assets amounted to \$15.8 million, a marked decrease from \$19.5 million recorded a year earlier. Total reserves decreased mainly due to net unrealised losses from the revaluation of foreign currency assets and liabilities during the year.

Total net loss incurred by the Bank at year end was \$3.5 million, as compared to a profit of \$3.0 million recorded a year earlier.

The Board has decided to transfer the loss of \$3.5 million incurred at year end 30 June 2019 to Reserves.

# IX. Chronology of Important Monetary, Prudential and Related events

## July 2018

- i. Sāmoa was placed on 'enhanced follow-up' status following the adoption of the Sāmoa Follow up Report at the annual meeting of the Asia Pacific Group on Money Laundering from 21-27 July 2018 in Kathmandu Nepal.

## August 2018

- i. On the 1<sup>st</sup>, the revised Exchange Control Manual for 2018 took effect. These reflected new and increased delegation of authorities to the commercial banks and money transfer operators.

## September 2018

- i. Released Monetary Policy Statement for the Financial Year 2018/19.

## November 2018

- i. From the 13<sup>th</sup>, CBS co-hosted with the International Monetary Fund and the Asian Development Bank a "Regional Seminar on FinTech and Financial Inclusion in the Pacific Island Countries".
- ii. From the 14<sup>th</sup> to 16<sup>th</sup>, CBS hosted the 33rd Pacific Central Bank Governors Meeting. This gathering of the region's central bank governors produced for the first time an outcome statement known as the "Sāmoa Commitment for the Pacific Islands", strengthening collaboration in the region's financial systems to promote the prosperity and economic welfare of the region.
- iii. CBS hosted an International Monetary Fund External Sector Statistics Technical Assistance (IMF-ESS-TA) Mission from 19<sup>th</sup> to 30<sup>th</sup>

## January 2019

- i. Update of Central Bank macro-economic forecasts and monetary policy stance for 2018/2019 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.
- ii. CBS discontinued the use of exports figures from CBS Exchange Control License data and switched to use export data from Samoa Bureau of Statistics, which is sourced from Ministry of Customs and Revenue's database.

## February 2019

- i. On the 1<sup>st</sup>, the Tala exchange rate basket, which was reviewed and approved by the Board of Directors on the 31<sup>st</sup> 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 20<sup>th</sup> to 4<sup>th</sup> March, the IMF conducted its Article IV Mission annual assessment of the Samoan economy.
- iii. Released and published ESS-IMF-TA Mission report on IMF Website.
- iv. Eight (8) Insurance Supervision Prudential Standards (ISPS) were issued by CBS for ongoing monitoring and supervision of the domestic insurance industry.

## March 2019

- i. On the 4<sup>th</sup>, commencement of Automatic Transfer System (ATS) and Central Securities Depository (CSD) implementation project.

## June 2019

- i. On the 24<sup>th</sup> and 25<sup>th</sup> CBS launched a limited edition \$10 Tala polymer banknote to commemorate the XVI Pacific Games to be hosted by Sāmoa in July 2019. This is the first carbon neutral banknote in the world, produced by CBS in partnership with De La Rue.
- ii. On the 28<sup>th</sup>, Macro-economic Forecasts and Monetary Policy for 2019/20 was approved by the Board of Directors, the continuation of accommodative Monetary Policy Stance.
- iii. On the 30<sup>th</sup>, the CBS Strategic Plan 2019 – 2024 was endorsed by the Board of Directors.



# Financial Statements

Central Bank of Samoa  
For the year ended 30 June 2019

**Central Bank of Samoa  
Financial Statements  
For the year ended 30 June 2019**

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Central Bank of Samoa  
Management's Statement  
For the year ended 30 June 2019

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**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.

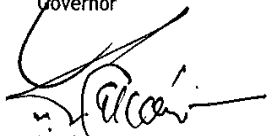
Management has established and maintains accounting and internal control systems that include written policies and procedures. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial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

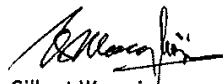
Our independent auditors, BDO, have been appointed by the Controller and Auditor General, have audited our financial statements. The Samoa Audit Office has also reviewed the work of the appointed auditors. The accompanying independent auditors' report of the Samoa Audit Office outlines the scope of their examination and their opinion.



Ma'ava Atalina Ainuu-Enari  
Governor



Peniamina Tauati  
Manager Accounts & Budget



Gilbert Wongsin  
Assistant Governor - Corporate Services Group

Dated: 28/10/2019

Dated: 28/10/2019

**Central Bank of Samoa  
Directors' Statement  
For the year ended 30 June 2019**

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The directors present their report together with the financial statements of the central bank of Samoa ("the bank") for the year ended 30 June 2019 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	Namutauulu 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 2019.
- (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 2019.

**Operating**

The result for the year is a net loss of \$3.5 million tala (2018 net profit of \$3.0 million tala).

**Reserves**

The Directors recommend that a net loss of \$3.5 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: 28<sup>th</sup> October, 2019

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

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**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 of the Statement of Financial Position as at 30 June 2019, 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 2019, 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.

**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 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.

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*

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.
- 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 28<sup>th</sup> October 2019 and our opinion is expressed as at that date.

Apia, Samoa  
28 October 2019

Jaslyn T. Mariner-Leota  
**ASSISTANT CONTROLLER AND AUDITOR GENERAL**

**Central Bank of Samoa**  
**Statement of Financial Performance**  
**For the year ended 30 June 2019**

	Note	2019 \$('000)	2018 \$('000)
<b>Income</b>			
Interest income on cash and investments	22	11,024	8,293
Interest income on lending		1,083	1,846
Rental income		1,274	1,307
Other income	23	776	903
<b>Total Income</b>		<b>14,157</b>	<b>12,349</b>
<b>Expenses</b>			
Administrative expenses		1,910	2,128
Board expenses	24 (ii)	13	20
Communication costs		360	349
Currency issue costs		2,312	1,986
Depreciation	12	1,138	1,153
Directors fees	24 (ii)	82	82
External audit costs		44	44
Finance costs		1,531	1,025
Occupancy costs		688	747
Staff costs		5,215	4,722
Withholding tax on interest income		51	44
<b>Total Expenses</b>		<b>13,344</b>	<b>12,300</b>
<b>Profit before foreign currency translation</b>		<b>813</b>	<b>49</b>
Foreign exchange gains/(losses)		(4,401)	3,041
<b>Net (loss)/profit for the year</b>	21	<b>(3,588)</b>	<b>3,090</b>

The accompanying notes form part of these financial statement.

**Central Bank of Samoa  
Statement of Financial Position  
As at 30 June 2019**

	Note	2019 \$('000)	2018 \$('000)
<b>ASSETS</b>			
<b>Foreign currency assets</b>			
Cash and fixed deposit balances	5	463,350	362,274
International monetary fund	7	77,819	86,224
Accrued interest	8	2,055	2,918
<b>Total foreign currency assets</b>		<b>543,224</b>	<b>451,416</b>
<b>Local currency assets</b>			
Cash and fixed deposit balances	6	38,394	43,016
Accrued interest		13	13
Currency inventory	9	14,880	13,514
Receivables and prepayments	10	8,638	7,187
Credit line facilities	11	95,733	96,651
Property, plant and equipment	12	18,137	18,573
<b>Total local currency assets</b>		<b>175,795</b>	<b>178,954</b>
<b>Total assets</b>		<b>719,019</b>	<b>630,370</b>
<b>LIABILITIES</b>			
<b>Foreign currency liabilities</b>			
Deposits	13	86,284	78,613
IMF facilities	14	19,091	27,516
International monetary fund	7	93,110	92,908
Other liabilities		15	20
<b>Total foreign currency liabilities</b>		<b>198,500</b>	<b>199,057</b>
<b>Local currency liabilities</b>			
Deposits	13	317,120	253,599
Currency in circulation	15	124,254	101,624
Central bank securities	16	19,993	23,495
Payables and accruals		42,826	32,564
Provision for employee entitlements	17	447	565
<b>Total local currency liabilities</b>		<b>504,640</b>	<b>411,847</b>
<b>Total liabilities</b>		<b>703,140</b>	<b>610,903</b>
<b>Net assets</b>		<b>15,879</b>	<b>19,466</b>
<b>EQUITY</b>			
Capital	19	20,000	20,000
General reserve	20	11,064	10,251
Unrealised foreign exchange revaluation reserve	21	(15,185)	(10,785)
<b>Total equity</b>		<b>15,879</b>	<b>19,466</b>

The accompanying notes form part of these Financial Statements

Signed on behalf of the Board:

Governor

Date 28/10/2019

Director

Date 28/10/2019



**Central Bank of Samoa  
Statement of Changes in Equity  
For the year ended 30 June 2019**

	Note	Paid up capital \$('000)	Unrealised (loss)/profit reserve \$('000)	General reserve \$('000)	Total \$('000)
<b>Balance at 30 June 2017</b>		20,000	(13,826)	10,202	16,376
Net profit/(loss) for the year			3,041	49	3,090
<b>Balance at 30 June 2018</b>		20,000	(10,785)	10,251	19,466
Net profit/(loss) for the year	21		(4,401)	813	(3,588)
<b>Balance at 30 June 2019</b>		20,000	(15,185)	11,064	15,879

The accompanying notes form part of these Financial Statements

**Central Bank of Samoa**  
**Statement of cash flows**  
**For the year ended 30 June 2019**

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	2019 \$('000)	2018 \$('000)
<b>Cash flows from operating activities</b>			
Cash received from investments		11,024	8,293
Cash received from rent		1,274	1,307
Other income		776	890
Cash paid for services and goods		(5,815)	(5,373)
Cash paid to employees		5,183	(3,735)
Interest paid on deposits		(1,531)	(1,025)
<b>Net cash from / (used in) operating activities</b>		<b>10,911</b>	<b>357</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		2	1
Credit line facility repayments received during the year		5,919	7,403
Interest received on credit line facility		1,083	1,846
Purchase of property, plant and equipment	12	(932)	(440)
Credit line facilities granted during the year		(5,000)	(5,000)
Net movement in term deposits more than 90 days		(25,387)	22,214
<b>Net cash from / (used in) investing activities</b>		<b>(24,315)</b>	<b>26,024</b>
<b>Cash flows from financing activities</b>			
Net movement in notes and coins in circulation		22,630	12,015
Net movement in demand deposits		88,649	36,975
Currency issue costs		(1,366)	(1,986)
Net movement in securities		(3,502)	23,495
Net movement in external liabilities		(557)	12,833
<b>Net cash from / (used in) financing activities</b>		<b>105,854</b>	<b>83,332</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>92,450</b>	<b>109,713</b>
Cash and cash equivalents at the beginning of the year		491,514	378,760
Net unrealised (losses)/profits on translation of foreign currency monetary assets and liabilities		(4,401)	3,041
<b>Cash and cash equivalents at end of year</b>		<b>579,563</b>	<b>491,514</b>

The accompanying notes form part of these Financial Statements

Central Bank of Samoa  
Notes forming part of the financial statements  
For the year ended 30 June 2019

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**1. General**

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 ~~29~~ 28 October, 2019.

**2. Adoption of new and revised Standards**

**New standards adopted as at 1<sup>st</sup> January 2018**

*IFRS 15 'Revenue from Contracts with Customers'*

In 2018 the Bank has adopted new guidance for the recognition of revenue from contracts with customers. This guidance was applied using a modified retrospective ('cumulative catch-up') approach under which changes having a material effect on the statement of financial position as at 1 January 2018 are presented together as a single adjustment to the opening balance of retained earnings. Accordingly, the Bank is not required to present a third statement of financial position as at that date.

There has been no change on the date of initial application, 1 January 2018, in the classification and measurement of the Bank's revenues.

*IFRS 9 'Financial Instruments'*

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. When adopting IFRS 9, the Bank has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

Central Bank of Samoa  
Notes forming part of the financial statements  
For the year ended 30 June 2019

On the date of initial application, 1 January 2018, the financial instruments of the Bank were reclassified as follows:

	<u>Measurement category</u>		<u>Carrying amount</u>		
	<u>Original IAS 39 category</u>	<u>New IFRS 9 category</u>	<u>Closing balance 30 June 2018</u>	<u>Adoption of IFRS 9</u>	<u>Opening balance 30 June 2019</u>
			<u>IAS 39</u>		<u>IFRS 9</u>
			<u>'000</u>	<u>'000</u>	<u>'000</u>
			<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Assets</b>					
Cash and fixed deposit balances (foreign and local)	Loans and receivables	Amortised cost	405,290		405,290
Staff loan receivables	Loans and receivables	Amortised cost	4,335		4,335
Credit line facilities	Loans and receivables	Amortised cost	96,651		96,651
			<b>506,276</b>		<b>506,276</b>
<b>Liabilities</b>					
Deposits (foreign and local)	Amortised cost	Amortised cost	332,212		332,212
Currency in circulation	Amortised cost	Amortised cost	101,624		101,624
Central Bank securities	Amortised cost	Amortised cost	23,495		23,495
Payables	Amortised cost	Amortised cost	32,564		32,564
<b>Total financial asset balances</b>			<b>489,895</b>		<b>489,895</b>

**Standards, amendments and interpretations not yet effective and not early adopted by the Bank**

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Bank.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Bank's financial statements.

**IFRS 16 'Leases'**

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Bank has decided not to early adopt.

Management is in the process of assessing the full impact of the Standard. So far, the Bank believes that the most significant impact will be that the Bank will need to recognise a right of use asset and a lease liability for the office space currently treated as operating leases. The Bank has no formal lease arrangement with the Government for its premises however the fair value of the lease arrangement will need to be recognised on adoption of IFRS 16. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense.

Central Bank of Samoa  
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**3. 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.

**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.: Samoan 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
• Leasehold Improvement	25 years

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**3. Statement of significant accounting policies (continued)**

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 Bank. Major renovations are depreciated over the remaining useful life of the related asset.

**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**

**Recognition and derecognition**

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**Classification and measurement of financial assets**

Classification and initial measurement

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets of the Bank, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

*Financial assets at amortised cost*

Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'interest income' using the effective interest rate method. This category includes cash balances and staff loan receivables.

Central Bank of Samoa  
Notes forming part of the financial statements  
For the year ended 30 June 2019

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**3. Statement of significant accounting policies (continued)**

*Financial assets at fair value through profit and loss (FVTPL)*

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. This category includes the UTOS convertible notes. Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

**Specific classification and measurement of financial assets**

**Local and foreign currency 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 'amortised cost' 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 'amortised' 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 'amortised cost' 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.

**Impairment of financial assets**

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses - the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included investments and securities measured at amortised cost.

Recognition of credit losses is no longer dependent on the Bank first identifying a credit loss event. Instead the Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach under the general model, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

The Bank utilizes an expected credit loss model following the Probability of Default approach and measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

**Staff loan receivables**

The Bank has elected to use of a simplified approach in accounting for staff loan receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Bank uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Bank assesses impairment of staff loan receivables on a collective basis as they possess shared credit risk characteristics, they have been grouped based on the days past due.

Central Bank of Samoa  
Notes forming part of the financial statements  
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**3. Statement of significant accounting policies (continued)**

**Classification and measurement of financial liabilities**

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Bank's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Bank's financial liabilities include deposits held, balances due to third parties, borrowings, trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**Specific classification and measurement of 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.

**g. Foreign currency gains available for distribution**

Assets and liabilities denominated in foreign currency are converted to Samoan tala equivalents at the relevant exchange rate ruling on balance date. Realized 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.

**h. Currency**

***Currency in circulation***

Currency issued by the Bank represents a claim on the Bank in favor 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 demonetised and remains in circulation. Therefore, currency in circulation that has been demonetised 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 favor 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.



**Central Bank of Samoa**  
**Notes forming part of the financial statements**  
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**3. Statement of significant accounting policies (continued)**

**i. Reserve Tranche and balances with the International Monetary Fund (IMF)**

Reserve Tranche and balances with the International Monetary Fund (IMF) - The Reserve Tranche represents the difference between the assigned quota and the IMF currency holdings. The Reserve Tranche can be accessed at any time without fees or economic reform conditions. The remainder of the quota is held in Special Drawing Rights (SDR) which is a supplementary international reserve asset.

The SDR interest rate provides the basis for calculating the interest charged and the interest paid to members of the IMF for the use of their resources for regular (non-concessional) IMF loans. It is also the interest paid to members on their SDR holdings and charged on their SDR allocation. The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term debt instruments in the money markets of the SDR basket currencies.

**j. 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 Samoan tala securities are recognised in profit. However, until such gains or losses are realized, they are not available for distribution to the Samoan 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.

**k. Interest income and expense**

Interest income and expense for all interest-bearing financial instruments are recognised in the statement of profit or loss at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

**l. 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.

**m. 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.

Central Bank of Samoa  
Notes forming part of the financial statements  
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**3. Statement of significant accounting policies (continued)**

**n. 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.

**o. 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.

**p. 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.

**q. Comparatives**

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

**4. Critical accounting estimates and judgements**

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.

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

**Central Bank of Samoa**  
**Notes forming part of the financial statements**  
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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.

**5. Foreign currency cash balances and term deposit balances**

	2019 \$'000	2018 \$'000
Cash balances	172,752	126,803
Fixed deposit balances	290,598	235,471
<b>Total foreign currency cash and term deposit balances</b>	<b>463,350</b>	<b>362,274</b>

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 2.8% per annum.

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

	2019 \$'000		2018 \$'000	
	Cash balances	Term deposits	Cash balances	Term deposits
\$US dollar denominated deposits	144,424	56,959	118,468	32,744
\$NZ dollar denominated deposits	5,228	97,623	3,448	90,487
\$AU dollar denominated deposits	13,731	59,140	2,853	29,172
\$CNH dollar denominated deposits	5	76,876	3	83,068
\$GBP dollar denominated deposits	9,364	-	2,031	-
<b>Total</b>	<b>172,752</b>	<b>290,598</b>	<b>126,803</b>	<b>235,471</b>

**6. Local currency cash balances and term deposit balances**

	2019 \$'000	2018 \$'000
Petty cash	5	5
Cash at bank	5,725	12,524
Fixed deposit balances	32,664	30,487
<b>Total local currency cash balances and term deposit balances</b>	<b>38,394</b>	<b>43,016</b>

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.

**7. International Monetary Fund - Reserve Tranche and SDR Allocations**

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.

Central Bank of Samoa  
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IMF related assets and liabilities at 30 <sup>th</sup> June 2019:		
	2019 \$'000 SAT	2018 \$'000 SAT
<b>Reserve Tranche</b>		
<b>Foreign currency assets</b>		
Currency subscription - quota	59,247	59,119
Special drawing right holdings	18,572	27,105
<b>Total foreign currency assets</b>	<b>77,819</b>	<b>86,224</b>
<b>SDR Allocations</b>		
<b>Foreign currency liabilities</b>		
Special drawing right allocations	40,562	40,474
Currency holding	52,548	52,434
<b>Total foreign currency assets</b>	<b>93,110</b>	<b>92,908</b>
<b>8. Foreign currency accrued interest balances</b>		
	2019 \$'000	2018 \$'000
Balances with other Central Banks	260	71
Deposits with commercial banks	1,795	2,847
<b>Total foreign currency accrued interest</b>	<b>2,055</b>	<b>2,918</b>
<b>9. Currency Inventory</b>		
	2019 \$'000	2018 \$'000
Currency notes	10,860	3,667
Coins	4,020	9,847
<b>Total currency inventory</b>	<b>14,880</b>	<b>13,514</b>
<b>10. Receivables and prepayments</b>		
	2019 \$'000	2018 \$'000
Prepayments	3,875	2,071
Other debtors	187	107
Interest receivable on staff loans	605	674
Staff loans principal balance	4,083	4,455
Less allowance for impairment on staff loans	(112)	(120)
Net staff loans	3,971	4,335
<b>Total receivables and prepayments</b>	<b>8,638</b>	<b>7,187</b>
<i>Movement in allowance for impairment on staff loans</i>		
Opening balance at 1 July	120	111
Additional/(Reduction) allowance for impairment charged to income and expense	(8)	9
<b>Closing balance at 30 June</b>	<b>112</b>	<b>120</b>

**Central Bank of Samoa**  
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**11. Credit line facilities**

	2019	2018
	\$'000	\$'000
a) Tsunami (Credit line facility)	6,362	8,237
b) Cyclone Evan (Credit line facility)	33,865	35,651
c) Economic Stimulus (Credit line facility)	23,769	24,964
d) Additional Economic Stimulus (Credit line facility)	8,146	8,734
e) Second Additional Economic Stimulus (Credit line facility)	13,635	14,065
f) First Small Medium Enterprises Finance (CLF)	9,956	5,000
<b>Total credit line facilities</b>	<b>95,733</b>	<b>96,651</b>

**(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:

	2019	2018
	\$'000	\$'000
Development Bank of Samoa	2,725	3,745
Samoa Housing Corporation	3,637	4,492
<b>Balance at year end</b>	<b>6,362</b>	<b>8,237</b>

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

**(b). Cyclone Evan (CLF)**

Another Credit Line Facility was extended to the Development Bank of Samoa and the Samoa 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:

	2019	2018
	\$'000	\$'000
Development Bank of Samoa	30,533	32,046
Samoa Housing Corporation	3,332	3,605
<b>Balance at year end</b>	<b>33,865</b>	<b>35,651</b>

	<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

Central Bank of Samoa  
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11. Credit line facilities (continued)

(c). Economic Stimulus (CLF)

An additional Credit Line Facility was extended to the Development Bank of Samoa 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:

	2019 \$'000	2018 \$'000
Development Bank of Samoa	23,769	24,964
<b>Balance at year end</b>	<b>23,769</b>	<b>24,964</b>

Credit Line Loan Amount	\$30 million
Approved:	
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 Samoa 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:

	2019 \$'000	2018 \$'000
Development Bank of Samoa	8,146	8,734
<b>Total additional credit line facility</b>	<b>8,146</b>	<b>8,734</b>

Credit Line Loan Amount	\$10 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

(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:

	2019 \$'000	2018 \$'000
Development Bank of Samoa	13,635	14,065
<b>Total additional credit line facility</b>	<b>13,635</b>	<b>14,065</b>

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

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11. Credit line facilities (continued)

(f). First Small Medium Enterprises (CLF)

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.

	2019 \$'000	2018 \$'000
Development Bank of Samoa	9,956	5,000
<b>Balance at year end</b>	<b>9,956</b>	<b>5,000</b>

Credit Line Loan Amount	\$10.0 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

12. Property, plant and equipment

	Land & buildings \$'000	Motor vehicles \$'000	Plant & equipment \$'000	Equipment & furniture \$'000	Total \$'000
<b>Cost</b>					
Balance as at 30/06/17	33,592	492	5,287	1,820	41,190
Additions	1,186	-	102	59	1,347
Disposals	(22)	-	(109)	(5)	(136)
<b>Balance as at 30/06/18</b>	<b>34,756</b>	<b>492</b>	<b>5,280</b>	<b>1,874</b>	<b>42,401</b>
Additions	694	-	179	59	932
Disposals	(228)	-	(37)	-	(265)
<b>Balance as at 30/06/19</b>	<b>35,222</b>	<b>492</b>	<b>5,422</b>	<b>1,933</b>	<b>43,068</b>
<b>Accumulated Depreciation</b>					
Balance as at 30/06/17	(16,568)	(224)	(4,488)	(1,530)	(22,810)
Charge for the year	(720)	(98)	(246)	(90)	(1,153)
Disposals	22	-	108	5	135
<b>Balance as at 30/06/18</b>	<b>(17,266)</b>	<b>(321)</b>	<b>(4,626)</b>	<b>(1,615)</b>	<b>(23,828)</b>
Charge for the year	(724)	(97)	(217)	(100)	(1,138)
Disposals	-	-	35	-	35
<b>Balance as at 30/06/19</b>	<b>(17,990)</b>	<b>(418)</b>	<b>(4,808)</b>	<b>(1,715)</b>	<b>(24,931)</b>
<b>Written down value: As at 30/06/18</b>	<b>17,489</b>	<b>171</b>	<b>654</b>	<b>259</b>	<b>18,573</b>
<b>As at 30/06/19</b>	<b>17,232</b>	<b>74</b>	<b>614</b>	<b>218</b>	<b>18,137</b>

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13. Deposits	2019 \$'000	2018 \$'000
<b>Foreign currency deposits</b>		
Government of Samoa foreign currency deposits	86,284	78,613
<b>Total foreign currency deposits</b>	<b>86,284</b>	<b>78,613</b>
<b>Local currency deposits</b>		
Demand deposits due to banks	227,718	168,991
Government of Samoa local currency deposits	32,786	33,874
The World Bank deposits	95	107
	<b>260,599</b>	<b>202,972</b>
<b>Statutory reserve deposits</b>		
Domestic banks	55,581	49,687
Insurance companies	940	940
	<b>56,521</b>	<b>50,627</b>
<b>Total local currency deposits</b>	<b>317,120</b>	<b>253,599</b>

The Central Bank acts as banker, agent and depository of the Government of Samoa. Governments funds are deposited at the Central Bank are remunerated at a prevailing market rate. Interest expense for the year was \$1.4m tala (2018: \$1.0m tala)

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

14. International Monetary Fund - Facilities	2019 \$'000	2018 \$'000
(a). Exogenous Shock Facility	2,121	6,350
(b). Rapid Credit Facility	16,970	21,166
<b>Balance at year end</b>	<b>19,091</b>	<b>27,516</b>

**(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 2019 the balance of the loan in Samoan tala reduced to \$2,121 million which is equivalent to \$0.58 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 instalments 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.



**Central Bank of Samoa**  
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**14. International Monetary Fund - Facilities (continued)**

**(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.

**15. Currency in circulation**

	2019	2018
	\$'000	\$'000
Currency in circulation	124,254	101,624
<b>Balance at year end</b>	<b>124,254</b>	<b>101,624</b>

**16. Central Bank securities**

	2019	2018
	\$'000	\$'000
Central Bank Securities	19,993	23,495
<b>Balance at year end</b>	<b>19,993</b>	<b>23,495</b>

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.

**17. Provision for employee entitlements**

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

	2019	2018
	\$'000	\$'000
Opening balance at 1 July	565	441
Additional provisions charged to income during the year	482	246
Entitlements utilised during the year	(600)	(122)
<b>Closing balance at 30 June</b>	<b>447</b>	<b>565</b>

**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.

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**19. Capital**

	2019 \$'000	2018 \$'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.

**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:

	2019 \$'000	2018 \$'000
<b><i>Profit distribution</i></b>		
Unrealised profit transferred to unrealised profits reserve	(4,401)	3,041
Net profit/(loss) transferred to general reserves	813	49
<b>Net loss</b>	<b>(3,588)</b>	<b>3,090</b>
	2019 \$'000	2018 \$'000
<b><i>Movement in Unrealised profits/(losses) reserve</i></b>		
Opening balance at 1 July	(10,785)	(13,826)
Unrealised profits for the year	(4,401)	3,041
<b>Closing balance at 30 June</b>	<b>(15,185)</b>	<b>(10,785)</b>

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**22. Interest income**

	2019	2018
	\$'000	\$'000
Interest on cash accounts	3,147	1,615
Interest on term deposits	7,877	6,678
<b>Total interest income</b>	<b>11,024</b>	<b>8,293</b>

**23. Other income**

	2019	2018
	\$'000	\$'000
Interest on staff loans	150	179
Income from collectors and other income	626	724
<b>Total other income</b>	<b>776</b>	<b>903</b>

**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 2019, the number of key management personnel was 23 (2018: 23).

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

	2019	2018
	\$'000	\$'000
Salaries and short-term employment benefits	1,346	1,312
Other long-term benefits	120	128
<b>Total key management personnel remuneration</b>	<b>1,466</b>	<b>1,440</b>

*(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.

	2019	2018
	\$'000	\$'000
Directors fees	82	82
Board expenses	13	20
<b>Total directors and board expenses</b>	<b>95</b>	<b>102</b>

*(iii) Due from and due to related parties*

As at 30 June 2019, the following balances were receivable from or payable to related parties.

	2019	2018
	\$'000	\$'000
Balances due to related parties	119,070	112,486
Balances due from related parties	1,611	1,840

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.

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**25. Operating lease receivable**

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

	2019	2018
	\$'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
	3,900	3,900
<b>Total interest income</b>	<b>3,900</b>	<b>3,900</b>

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\$1,273,861 (2018: SAT\$1,307,340).

Direct operating expenses in relation to building floors leased out amounted to SAT\$946,701 (2018: SAT\$983,004). 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.

**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)

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26. Financial risk management (continued)

Maturity analysis as at 30 June 2019

	0 - 3 months \$000	3 - 12 months \$000	1 - 5 years \$000	Over 5 years \$000	No specific maturity \$000	Total \$000
<b>Foreign Currency Assets</b>						
Cash balances	172,752	-	-	-	-	172,752
Fixed deposits	14,566	178,418	97,614	-	-	290,598
International Monetary Fund	-	-	-	-	77,819	77,819
Accrued interest	696	884	475	-	-	2,055
	188,014	179,302	98,089	-	77,819	543,224
<b>Local Currency Assets</b>						
Cash balances	5,725	-	-	-	-	5,725
Fixed deposits	-	32,669	-	-	-	32,669
Accrued interest	-	13	-	-	-	13
Currency stock on hand	-	-	-	-	14,880	14,880
Receivables and prepayments	-	767	3,875	3,996	0	8,638
Credit line facility	-	-	-	95,733	-	95,733
Property, plant and equipment	-	-	150	17,987	-	18,137
	5,725	33,449	4,025	117,716	14,880	175,795
<b>Total Assets</b>	<b>193,739</b>	<b>212,751</b>	<b>102,114</b>	<b>117,716</b>	<b>92,699</b>	<b>719,019</b>
<b>Foreign Currency Liabilities</b>						
Demand deposits	86,284	-	-	-	-	86,284
IMF Facilities	-	-	-	19,091	-	19,091
International Monetary Fund	-	-	-	-	93,110	93,110
Other liabilities	15	-	-	-	-	15
	86,299	-	-	19,091	93,110	198,500
<b>Local Currency Liabilities</b>						
Demand deposits	317,120	-	-	-	-	317,120
Currency in circulation	-	-	-	-	124,254	124,254
Central Bank Securities	19,993	-	-	-	-	19,993
Creditors and accruals	11,102	31,658	66	-	1	42,826
Provisions	-	-	-	447	-	447
	348,215	31,658	66	447	124,254	504,640
<b>Total Liabilities</b>	<b>434,514</b>	<b>31,658</b>	<b>66</b>	<b>19,538</b>	<b>217,364</b>	<b>703,140</b>
<b>Net Assets</b>	<b>(240,775)</b>	<b>181,093</b>	<b>102,048</b>	<b>98,178</b>	<b>(124,665)</b>	<b>15,879</b>

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26. Financial risk management (continued)

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
<b>Foreign Currency Assets</b>						
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
<b>Local Currency Assets</b>						
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
<b>Total Assets</b>	<b>184,184</b>	<b>93,821</b>	<b>135,355</b>	<b>117,261</b>	<b>99,749</b>	<b>630,370</b>
<b>Foreign Currency Liabilities</b>						
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
<b>Local Currency Liabilities</b>						
Demand deposits	253,599	-	-	-	-	253,599
Currency in circulation	-	-	-	-	101,624	101,624
Central Bank Securities	4,000	19,495	-	-	-	23,495
Creditors and accruals	3,015	29,503	45	-	1	32,564
Provisions	-	-	-	565	-	565
	260,614	48,998	45	565	101,625	411,847
<b>Total Liabilities</b>	<b>339,247</b>	<b>48,998</b>	<b>45</b>	<b>28,081</b>	<b>194,533</b>	<b>610,903</b>
<b>Net Assets</b>	<b>(155,063)</b>	<b>44,823</b>	<b>135,310</b>	<b>89,180</b>	<b>(94,784)</b>	<b>19,466</b>

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26. Financial risk management (continued)

(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 Samoan Tala. The Bank has adopted a currency risk management policy, which maintains the Samoan 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	0.79	2.98	13.73	9.36	0.002	26.87
Cash balances with banks	-	1.89	0.35	-	0.003	2.25
Fixed deposits	56.96	97.62	59.14	-	76.88	290.60
Repurchase agreements	143.64	-	-	-	-	143.64
<b>Total</b>	<b>201.38</b>	<b>102.50</b>	<b>73.22</b>	<b>9.36</b>	<b>76.89</b>	<b>463.35</b>

*Concentration of foreign currency balances*

	USD	NZD	AUD	GBP	CNY	TOTAL
Cash balances with Central Banks	0.2%	0.6%	3.0%	2.0%	-	5.8%
Cash balances with Banks	-	0.4%	0.1%	-	-	0.5%
Fixed deposits	12.3%	21.1%	12.8%	-	16.6%	62.7%
Repurchase agreements	31.0%	-	-	-	-	31.0%
<b>Total</b>	<b>43.5%</b>	<b>22.1%</b>	<b>15.8%</b>	<b>2.0%</b>	<b>16.6%</b>	<b>100.0%</b>

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

	30 June 2019	30 June 2018
USD	0.38013	0.38498
NZD	0.56749	0.57035
AUD	0.54289	0.52396
GBP	0.30008	0.29454
EURO	0.33439	0.33316
SDR	0.27340	0.27402
CNY	2.61421	2.55130
CNH	2.61246	2.55559

*Sensitivity to foreign exchange risk*

Sensitivity to foreign exchange risk is the sensitivity of the face value of the Central Bank of Samoa'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 Samoa's distribution of trade and travel transactions with our major trading partners: New Zealand, United States, Australia and the Euro-area.

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26. Financial risk management (continued)

*Sensitivity analysis*

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

	Income effect	Income effect	General	General
	2019	2018	reserves effect	reserves effect
	\$'000	\$'000	2019	2018
			\$'000	\$'000
USD	20,210	15,510	14,442	15,121
NZD	10,209	9,137	10,250	9,124
AUD	6,114	3,212	7,322	3,472
GBP	208	205	938	203
EURO	5	(18)	-	-
CNH	7,764	8,905	7,688	8,307
SDR	7,372	8,496	7,782	8,622
<b>TOTAL</b>	<b>51,882</b>	<b>45,447</b>	<b>48,422</b>	<b>44,849</b>

A 10% strengthening of the Samoan tala against the above currencies at 30 June 2019 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 2019:

Foreign Exchange	Balance	Repricing period		
	Sheet	\$M		
	Total \$M	0-3 months	3-6 months	6-12 months
Cash balances with Central Banks	26.9	-	-	-
Cash balances with Banks	2.2	-	-	-
Fixed deposits	290.6	13.2	102.4	175.0
Repurchase agreements	<u>143.6</u>	143.6	-	-
<b>TOTAL</b>	<b><u>463.4</u></b>			

(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 Bank's exposure to credit risk includes staff loans. Staff loans are no longer allowed under Government Cabinet directive for all state-owned enterprises. The current staff loan balances will continue to be reduced from direct repayments from salaries of existing staff. On leaving employment with the Bank ex-staff who have loans are required to pay the full amount of the outstanding balance at the time of leaving. The inability to repay the amount in full at the time of termination results in a loss that is fully provided for. Because all loan repayments are deducted from employee wages the ageing analysis for staff loans are always current. The Bank has used the simplified model for calculating lifetime expected credit losses and has applied the probability of default (PD) to those balances that are current as follows:

	PD	Gross carrying amount	Loss allowance	Credit impaired
30 June 2019				
Current (not overdue)	2.5%	3,960	101	
Staff loans assessed individually		123	11	
		<u>4,083</u>	<u>112</u>	



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**26. Financial risk management (continued)**

Balances which are not current are assessed individually for impairment. The movement in the loss allowance for staff loan receivables is disclosed in Note 6.

The Central Bank of Samoa 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.

**Credit Ratings (Standard and Poor)**

Foreign Investments	Risk rating of security issuer	Risk rating of counterparties	% of total assets as at 30 June 2019
Securities held under repurchase agreements with Central Banks	AAA		31.0
Deposits with Central Banks	AAA		6.9
Cash with other Central Banks			5.8
<b>Subtotal balances with Central Banks</b>			<b>43.7</b>
Negotiable Certificate of Deposit			5.4
ME		AA-	3.3
P & N		AA-	2.1
<b>Deposits with commercial bank</b>			<b>50.4</b>
ANZ		AA-	3.7
BNZ		AA-	0.0
BOC		A	23.4
DBS		AA-	5.1
ICBC		A	15.6
RABO		A	0.8
WBC		AA-	1.7
<b>Other (CASH)</b>			<b>0.5</b>
ANZ		AA-	0.1
BNZ		AA-	0.1
BOC		A	0.2
WBC		AA-	0.1
<b>Subtotal balances with commercial Banks</b>			<b>56.3</b>
<b>TOTAL</b>			<b>100.0</b>

**(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.

**Central Bank of Samoa**  
**Notes forming part of the financial statements**  
**For the year ended 30 June 2019**

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**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.

*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 expenditures**

The Directors are aware of the Bank's commitment at 30<sup>th</sup> June 2019 as follows:

*Alternative site for disaster recovery purposes at the CBS Ululoloa compound.*

The project was estimated to cost \$28 million tala. The Board original awarded the contract to Shanghai Construction which was premised on the recommendation of the Evaluation Committee consisting 9 panelists (spanning from different experts-accounts, legal, policy, carpentry, economics and civil and structural engineers. The 2 independent panelists consisted of 2 external experts in structural and civil engineering). The cost already incurred on this as at 30 June 2019 is \$1.4m, which is classified as Work in Progress.

However, due to climate change and the shifting of the different levels with the current CBS Building and its critical structural weaknesses, which is based on an engineer's assessment the Board decided to re-adjust the entire design at Ululoloa Property in order to address these issues. This is to ensure that the current staff at Apia Main CBS building can be relocated to Ululoloa for its operations. Given these unforeseen circumstances, the entire project and the procurement processes will be re-adjusted. In the meantime, discussions and potential negotiations are taking place in order to finalize the figures and processes for the way forward.

**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 Samoa. Terms and conditions of the lease are yet to be finalised.

*(ii) Collectors' currency*

The Bank has a contingent liability for the face value of collectors' currency issued. However, it is more unlikely that the amounts of collectors' currency will be returned for redemption at face value. The face value of all collectors' currency issued by the Bank for the period under review is SAT\$472,626. (2018: SAT\$588,802).

**30. Approval of the financial statements**

The Financial Statements were approved by the Board on the date that they were signed by the Board of Directors.



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## 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, 2019;
- the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year ended 30 June 2019; 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, 2019, and (of) its financial performance and its cash flows for the year ended 30 June 2019 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 (the Bank) 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 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 Bank'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 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 Bank's 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**

*Ernest Betham*

**Ernest Betham**

**Engagement Partner**

Samoa