



CENTRAL BANK OF SAMOA

# CONSOLIDATED ANNUAL REPORT

July 2012 - June 2017





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**Government of Samoa**

**OFFICE OF THE MINISTER OF FINANCE**

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31 October 2018

The Honourable Speaker,  
Legislative Assembly of Samoa  
**MULINUU**

Pursuant to section 67 of the Central Bank of Samoa Act 2015, I have the honour to submit the Consolidated Annual Report of the Central Bank of Samoa on its operations for the five (5) financial years ending June 2017.

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

Sili Epa Tuioti  
**Minister of Finance**



PLEASE ADDRESS CORRESPONDENCE  
TO THE GOVERNOR

**CENTRAL BANK OF SAMOA**

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31<sup>st</sup> October 2018

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

Lau Afioga,

I have the honour of submitting the first consolidated and the 30<sup>th</sup> Annual Report of the Central Bank of Samoa for the five financial year periods ending June 2017. 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) a summary of the Bank's annual accounts for the five financial years ending June 2017, including the Auditor's Opinions/Reports to these accounts.

Yours faithfully,

Maiava Atalina AINU'U-ENARI  
**GOVERNOR**

## Our Purpose

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

## Our Vision

Leading Samoa to economic prosperity

## Our Mission

The Central Bank of Samoa is committed to excellence:

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

## **Our mandate**

### **Central Bank of Samoa Act 2015**

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

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

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

### **Financial Institutions Act 1996**

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

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

### **Money Laundering Prevention Act 2007**

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

### **Insurance Act 2007**

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

### **The National Payments System 2014**

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

# LEADERSHIP AND ORGANISATIONAL 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.

## 1. Board of Directors

The Board of Directors of the Central Bank is responsible with supervising the implementation of policies, administration and operations of the Bank.

Under the Central Bank of Samoa Act (2015), the Board of Directors comprises of five members, with the Governor as Chairperson and four independent members from the private sector who are citizens of Samoa with industrial, commercial or agricultural expertise.

As at the end of June 2017, the Board comprised of:

1. Maiava Atalina AINU'U-ENARI – Governor/Chairperson;
2. Mataia Alofipo Tanielu Meredith - Director
3. Namulauulu Sami Leota - Director
4. Tuala Falani Chan Tung - Director
5. Tuala Patrick Leota<sup>1</sup> - Director

## 2. 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, formed in March 2013, provides auditing oversight over the operations of the Bank. The Committee serves as an independent advisory body mandated to review the functioning of the CBS oversight system; internal and external audit matters; and financial management, accounting and reporting practices. They also ensure the Governor and management team conduct their daily operations in line with best practice and good governance. The Internal Auditor provides administrative and secretarial support to the Audit Committee. As such, the Internal Auditor reports administratively to the Governor and functionally to the Audit Committee.

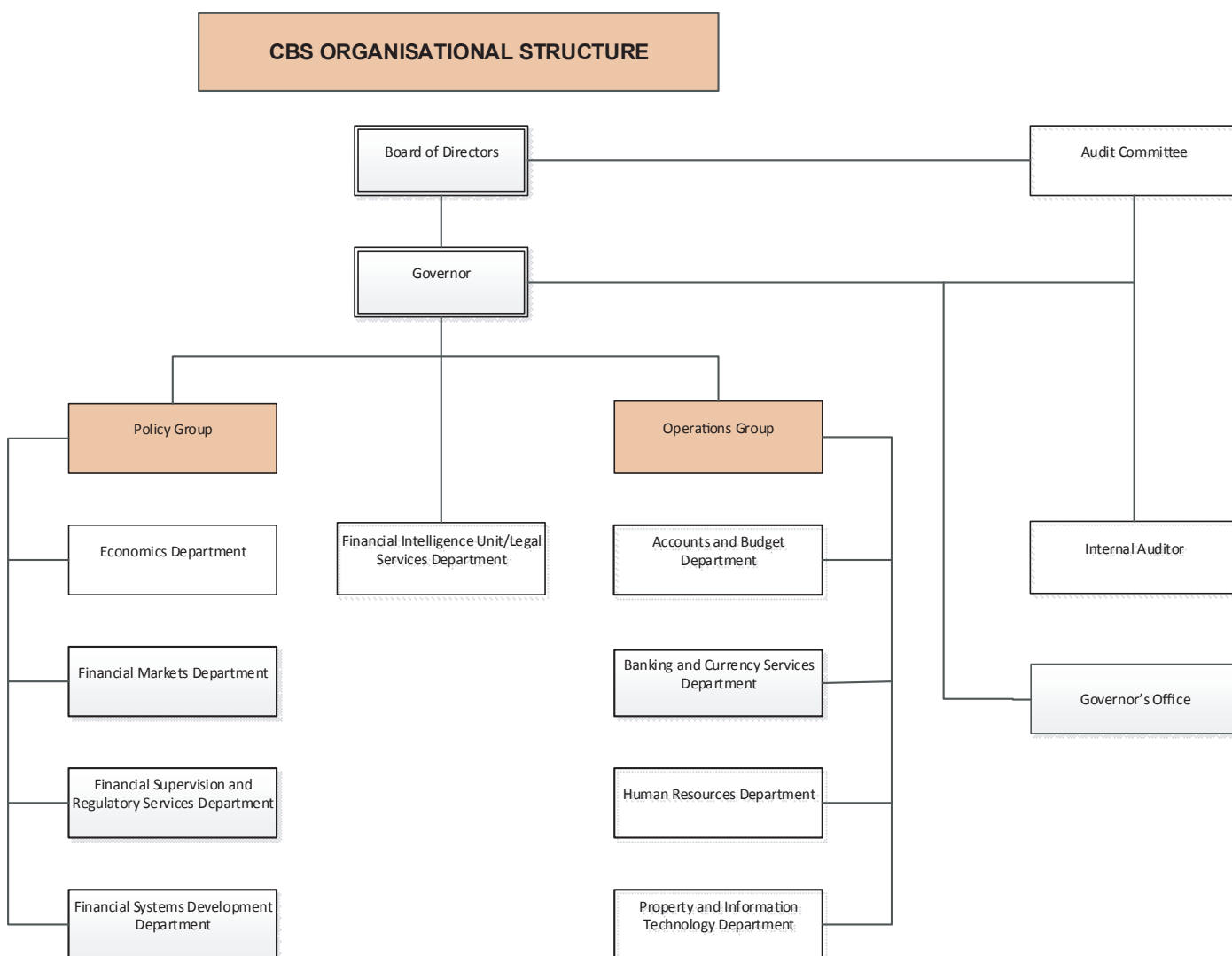
<sup>1</sup> This Director membership was previously held by the Chief Executive Officer of the Ministry of Finance

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.





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# I. Governor's Foreword

**T**he Samoan economy and financial system remained resilient in the five years from 2012/2013 to 2016/2017, despite the challenges from extreme climatic events and global developments.

On the economic front, the Central Bank of Samoa (CBS) continued with its accommodative monetary policy stance. This ensured low market interest rates to assist the recovery efforts following the aftermath of Tropical Cyclone Evan in December 2012. Along with the Government's fiscal policy actions and other factors, this paved the way for robust economic activities over the period, culminating in an annual economic growth rate of 7.2 percent in FY2015/2016, the highest since the global financial crisis ten years ago.

Apart from the Bank's core monetary policy functions, the Central Bank also continued to keep abreast of the ever changing international standards relating to the prudential supervision and anti-money laundering requirements on financial institutions in Samoa's financial system. Overall, I am pleased to advise that Samoa's financial system remained sound and stable in the reviewed period, with efforts to strengthen Samoa's anti-money laundering framework and countering of terrorist financing activities an ongoing priority for the Bank.

Furthermore, with the increasing focus and responsibility worldwide on central banks to promote financial inclusion as another avenue for greater economic growth, CBS had identified and undertook initiatives to develop Samoa's financial system and infrastructure environment. Part of this included a shift towards a modernized National Payments System and promoting financial literacy in Samoa. This is a new and evolving responsibility for the Bank, with the necessary allocation of staff resources and adequate capacity development a necessity.

*The major developments as outlined in this first consolidated and 30th Annual Report for the Central Bank is summarized below:*

The five years up to FY2016/2017 represented a period of steady growth in the world economy supported by continued accommodative monetary policies. With an average expansion of 3.32 percent, the global economy's growth reflected subdued inflationary pressures following low international commodity prices, particularly those for fuel and food. Labour market conditions also improved across the major advanced economies, namely the Eurozone, United States of America and New Zealand. Notwithstanding these performances were challeng-

es to some of the advanced economies during this period. The most significant of these was the United Kingdom's unexpected referendum decision in June 2016 to exit the European Union, causing uncertainty and denting business and consumer confidence in the region. Increased geopolitical tensions as well as the frequency and intensity of natural disasters were other major downside risks that were prominent in the last five fiscal years.

As a small open developing economy, major developments in the global markets as well as external factors beyond our control have had major influence on Samoa's economic performance.

- Samoa's economy registered a

negative 1.9 percent growth in FY2012/13 due to adverse effects of the devastating Cyclone Evan that hit Samoa in December 2012 and the second round effects of the Global Financial Crisis. In FY2013/2014, a 1.2 percent real growth was recorded, reflecting to some extent the post-Cyclone Evan reconstruction work, preparations for the UN Small Island Developing States (SIDS) Conference and a few major private sector hotel developments such as the construction of the Return to Paradise Resort, Taumeasina Island Resort, Sheraton Samoa Aggie Greys Resort and Sheraton Samoa Aggie Greys Hotel and Bungalows in Apia.

- Further growth momentum was recorded in FY2014/15, with a 1.7 percent expansion driven by the ongoing recovery activities from Cyclone Evan and preparation towards the hosting of the UN SIDS Conference, which saw considerable growth in the tourism, commerce, transport, communication, electricity and water sectors. Other contributing factors included preparations towards the hosting of the Commonwealth Youth Games, the historical All Blacks versus Manu Samoa match as well as the Samoa Agriculture Competitiveness Enhancement Project (SACEP) under the Ministry of Agriculture and Fisheries.
- FY2015/16 recorded the strongest economic growth rate so far of 7.2 percent, notably due to a sharp improvement in the fishing industry reflecting the entrance of the newly established Apia Deepsea Fishing Limited, which contributed largely to the increase in fish exports. The opening of two major tourism developments (namely Sheraton Samoa Aggie Grey's Hotel and Taumeasina Island Resort) during this period, also contributed to this exceptional growth. Another contributing factor to the sharp growth was the significant increase in tax compliance, which saw tax returns increase considerably pushing up the Commerce sector output. Ongoing government projects such as the airport terminal, enhancing and upgrading of roads, ports infrastructure to name a few also played a part towards this positive growth rate.
- In FY2016/17, the economy returned to normal levels with a

2.7 percent real growth following the completion of some of the major developments in the previous year. As a result, the fishing, accommodation and restaurants and construction industries recorded moderate slowdown, which was partially offset by other ongoing activities and government projects.

Furthermore, we share the challenges associated with global inflationary pressures stemming mainly from international oil and food prices as well as the adverse impacts of natural calamities. The Central Bank aims to achieve low inflation rates of below 3 percent, consistent with its main trading partners. Over the past five years, CPI inflation has declined from 6.2 percent in June 2012 to 1.5 percent in June 2017, mainly reflecting the low international commodity prices and weakness in domestic food prices over the reviewed period.

Pegged against a currency basket, the Samoa Tala has largely remained stable in the reviewed period since its 1.8 percent nominal appreciation in FY2012/2013. The real value of the Tala, on the other hand, has recorded notable depreciations against the currency basket. The weakening of the real value of the Tala against the basket of its major currencies reflected Samoa's lower inflation rates compared to those of its main trading partners.

In the five years under review, the Central Bank has extended four different credit line facilities (CLF) as part of its monetary policy operations. The first of these was a \$44.0 million Cyclone Evan Credit Line Facility extended only to the businesses and individuals whose

buildings were severely damaged by the Tropical Cyclone. The other three different CLFs were extended for Economic Stimulus purposes to support the country's economic recovery and long term stability efforts. In particular, \$30.0 million was introduced in 2013/2014 (which also assisted with preparations towards the hosting of the United Nation's Small Island Developing States (SIDS) Conference in September 2014 and the Commonwealth Youth Games in September 2015). The third stimulus package was introduced in FY2014/2015, valued at \$10.0 million. The final CLF worth \$15.0 million was introduced in FY2015/2016 to assist tourism and mainly small medium enterprises within the agriculture and manufacturing sectors.

The de-risking and de-banking of money transfer operators' since 2013 in Australia and New Zealand presented challenges and risks to the Samoan economy over the reviewed period. This has been an international concern, also affecting other regions particularly the Caribbean, with severe implications on small island developing states that depend largely on remittances. The Central Bank has undertaken several measures and efforts to address this issue at various regional and international forums, as well as improving its anti-money laundering and countering terrorist financing (AML/CFT) regime. Nevertheless, this issue remains unresolved given its multi-pronged causes, which also include business decisions by international correspondent banks given the diseconomies of scale in small-sized economies.

The banking system remained well capitalized in the five-year period to

FY2016/2017, despite the challenges imposed by Tropical Cyclone Evan. The only significant change in the banking system during the reviewed period was the changeover in ownership to one of the foreign banks that has long served Samoa. The decision by the Westpac Pacific Corporation to sell its operations in the Pacific Region (with the exception of Fiji and Papua New Guinea) to the Bank South Pacific Limited Group, led to the operation of Bank South Pacific (Samoa) Limited in July 2015.

The Central Bank also took part in the first Financial Sector Assessment Program for Samoa undertaken by the International Monetary Fund and the World Bank Group in late 2014. This provided an opportunity to assess and identify any systematic risks and development challenges to Samoa's financial system.

The general insurance industry continued to provide a steady solvency performance, indicating the insurers' ability to manage their underwriting risks.

As the Money Laundering Prevention Authority, the Central Bank continued to comply with international standards and undertook a National Risk Assessment by the international community. Following the completion of the Asia Pacific Group on Money Laundering (APG) third mutual evaluation assessment of Samoa in 2014/2015, the report from that mission was officially adopted at the APG

plenary meeting in early 2015/2016 with Samoa's status' subsequently promoted to an enhanced (expedited) follow-up category. Furthermore, Samoa's AML/CFT National Strategy 2016-2020, a National Policy on AML/CFT and an AML/CFT Policy Paper for 2016-2020 were developed and implemented in FY2016/2017.

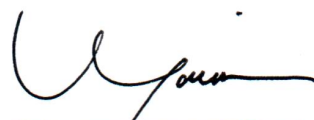
Financial inclusion initiatives continued to be pursued through public awareness and public participation. During the five-year period, the National Financial Inclusion Taskforce was established with the aim to coordinate and implement the National Financial Inclusion Strategy 2017-2020 that was endorsed and launched in FY2016/2017.

On operational matters, capacity development remains an important aspect for the sustainability of the Bank. During this period, staff training continued to be provided locally and overseas, with the majority on the latter and mainly for the core functional areas especially AML and financial inclusion. Further, for the first time in 2015, a job analysis exercise was undertaken across the Bank, resulting in the evaluation of all the established positions within the Bank's structure. The need to recruit, retain and train staff is crucial in view of the continuous challenges and changes to global central banking functions particularly from the rapid pace of technological developments on the global financial system.

The different monetary policy actions by most major central banks worldwide presented a major challenge on the management of foreign reserves in the five year period. In particular, the historically low interest rates in Samoa's major trading partner countries meant that the interest income from our foreign reserve holdings, which is the primary source of revenue for the Bank, declined significantly. While the Bank's operational budget position in the five years was influenced by these global developments, the efforts and commitment to maintaining monetary and financial stability for the Samoan economy was and continues to be a priority.

I take this opportunity to thank the former Board Director, Mr. Lavea Tupaimatuna Iulai Lavea, for his years of dedicated service and contribution in the Bank's governance structure.

Finally, I extend my gratitude and appreciation to the current Board of Directors for their support and guidance, as well as the management and staff of the Central Bank of Samoa for their team work, dedication and commitment towards achieving the Bank's objectives in the past five years.



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Maiava Atalina Ainuu-Enari  
Governor

## II. Monetary policy formulation and the economy

The Samoan economy improved significantly over the five years to FY2016/2017, with the continued relaxation of monetary conditions. Despite intermittent periods of tightening of liquidity conditions, market interest rates continued to drop to historical lows, with the commercial banks' average lending rates at 8.65 percent.

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

The five years from FY2012/2013 to FY2016/2017 represented a period of steady growth in the world economy. According to the International Monetary Fund's World Economic Outlook releases over this period, the global recovery was firm with an average expansion of 3.32 percent, supported by accommodative monetary policies across the globe. Of Samoa's major trading partners, the New Zealand and Australian economies performed well over most of the period under review. During this period, low international commodity prices particularly for fuel and food led to subdued inflationary pressures while improving labour market conditions for most of the major advanced economies (including New Zealand, the United States of America and the Eurozone) resulted in decreasing unemployment rates. (Refer to Table 1).

Aside from these economic outturns were challenges faced by some of the world's major economies during this period. The most significant of these was the United Kingdom's unexpected referendum decision in June 2016 to exit the European Union, causing uncertainty and denting business and consumer confidence in the region. Of the emerging and developing economies, China's transition towards a more balanced economic framework saw the world's second largest economy slow down from 7.5 percent in 2012/2013 to 6.9 percent in 2016/2017.

Downside risks to the global recovery were elevated in the latter part of the reviewed period, with increasing uncertainty stemming from government policies that potentially may have an adverse impact on global trade, geopolitical tensions, tightening of global finan-

cial conditions and natural disasters to name a few.

Overall, aside from the USA who started to normalize its monetary policy conditions in 2015, most of the major economies maintained highly accommodative monetary policy stances over the five years to FY 2016/2017. (Refer to Table 2).

In particular:

- The Reserve Bank of Australia (RBA) reduced its Cash Rate five times by a total of 2.00 basis points, from 3.50 percent in 2011/2012 to a historic low of 1.50 percent in 2016/2017, amid moderate economic growth and lower than expected inflationary pressures;
- The Reserve Bank of New Zealand (RBNZ) increased its Overnight Cash Rate (OCR) from 2.50 percent in 2011/2012, to 3.25 percent in 2013/2014 re-

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	CPI Inflation Rate	Unemployment Rate	Real GDP Growth	CPI Inflation Rate	Unemployment Rate	Real GDP Growth	CPI Inflation Rate	Unemployment Rate	Real GDP growth	CPI Inflation rate	Unemployment Rate
<i>Year on Year Change (%)</i>												
2010/2011	1.1	5.3	6.0	2.2	3.5	4.9	1.7	3.6	9.1	3.9	4.5	5.7
2011/2012	2.8	1.0	6.3	3.8	1.2	5.2	2.4	1.7	8.2	4.4	3.4	5.6
2012/2013	2.3	0.7	6.0	2.1	2.4	5.7	1.0	1.8	7.5	3.0	3.4	5.6
2013/2014	3.0	1.6	5.3	2.8	3.0	6.1	2.7	2.1	6.2	3.4	3.5	5.5
2014/2015	3.8	0.4	5.5	3.1	1.5	6.1	3.3	0.1	5.4	3.4	3.0	5.5
2015/2016	4.4	0.4	5.1	3.3	1.0	5.8	1.2	1.0	4.9	3.3	2.5	5.5
2016/2017	2.8	1.7	4.8	1.9	1.9	5.6	2.2	1.6	4.4	3.5	2.7	5.6

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

<sup>1</sup> Financial years referenced in the text refer to Samoa's financial year period, starting from July to June.

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

Fiscal year to end June	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
<b>Official international interest rates</b>		<b>Percentage (%)</b>				
US Federal Reserve	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	0.25 - 0.50	1.00 - 1.25
Reserve Bank of Australia	3.50	2.75	2.50	2.00	1.75	1.50
Reserve Bank of New Zealand	2.50	2.50	3.25	3.00	2.25	1.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.25
European Central Bank	1.00	0.50	0.15	0.05	0.00	0.00

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

flecting 3 hikes equivalent to a total of 75 basis points following strong domestic growth and to anchor inflation expectations during the year. However, following uncertainty over economic growth in 2014/15, low inflation and weak dairy prices in the latter two financial years, the OCR was lowered six times by a total of 1.50 basis point to a low of 1.75 percent by end 2016/2017;

- Modest growth in the United Kingdom and their decision to leave the European Union in June 2016, led to the Bank of England (BOE) cutting its benchmark interest rate by 0.25 basis points, from 0.50 percent in 2011/2012 to 0.25 percent in 2016/2017;
- Weak economic conditions in the Eurozone saw the European Central Bank (ECB) reduce its policy rate several times from 1.00 percent in 2011/2012 to 0.50 percent in 2012/2013, to 0.15 percent in 2013/2014, to 0.05 percent in 2014/2015 and its lowest recorded level of 0.0 percent since 2015/2016;
- On the other hand, the US Federal Reserve Bank (US FRB) raised its Fund Rate four times by a total of 1.00 basis points from a target range of 0.00 percent to 0.25 percent

in 2011/2012 to a range of 1.00 percent and 1.25 percent in 2016/2017. These interest rate hikes reflected improving labour market conditions and overall economic activities in the country during this period and efforts by the US FRB to normalize its monetary policy since the global financial crises.

## 2. The Domestic Economy

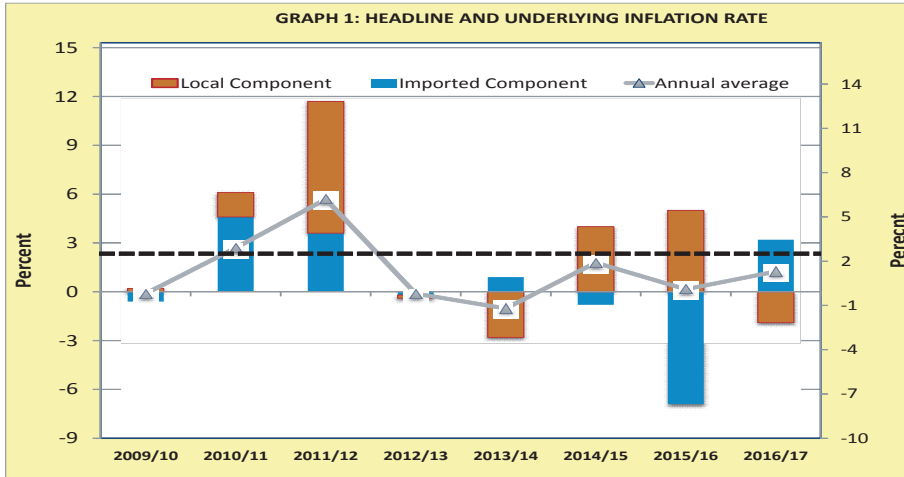
Monetary policy has been largely accommodative and loosened in order to support economic growth and in line with the Government budget priorities, especially following Tropical Cyclone Evan in FY2012/13. In order to ease monetary policy, the Central Bank of Samoa actively encouraged commercial banks to bring down and keep their interest rates low and affordable through open market operations and moral suasion. As a result, lending rates trended downwards over the past 5 years, allowing the private sector businesses to borrow from the commercial banks for recovery efforts and increase production activities. As such, the annual growth rate of commercial banks' credit to the private sector has increased significantly by 2016/17.

With the strong growth in commercial bank (domestic) credit as well as

a pickup in external inflows, broad money supply has risen steadily over the past five years in line with consumer demand. Despite the expansion of broad money in the past five years, inflationary pressures have been very mild.

Headline inflation remained well below its medium term target of 3.0 percent, increasing gradually over the past 5 years to 1.3 percent in 2016/17. Although domestic inflation was positive and rising from 2013 to 2015, imported inflation was largely deflationary. Similarly, the underlying inflation rate (which excludes all prices for commodities that are subject to extreme volatility and price regulations) gradually increased in line with the hike in imported inflation. (Refer to Graph 1).

On the external front, private remittances inflows in the past five years fluctuated, rising in FY2014/15 and FY2016/17 while dropping in 2013/14 and 2015/16. The drop in 2013/14 was due to a return in normal levels after the inflow of funds for cyclone relief in the previous year. Visitor earnings were generally positive in the past 5 years, following major events hosted by the country, such as the United Nations Small Island Developing States (UN SIDS) Meeting in FY2014/15 and the Commonwealth Youth Games in FY2015/2016. Overall, the official gross foreign reserves were ample and sufficient to meet the country's overseas obligations, namely demands for the imports of goods and services, debt servicing and foreign investment opportunities for both the private sector and Government. There were large outflows of foreign reserves in FY2014/15 and



FY2015/16 given large capital and foreign investment payments. Nevertheless, by FY2016/17, an overall surplus of \$27.9 million was recorded, equivalent to an import cover of 4.8 months. (Refer to Graph 2).

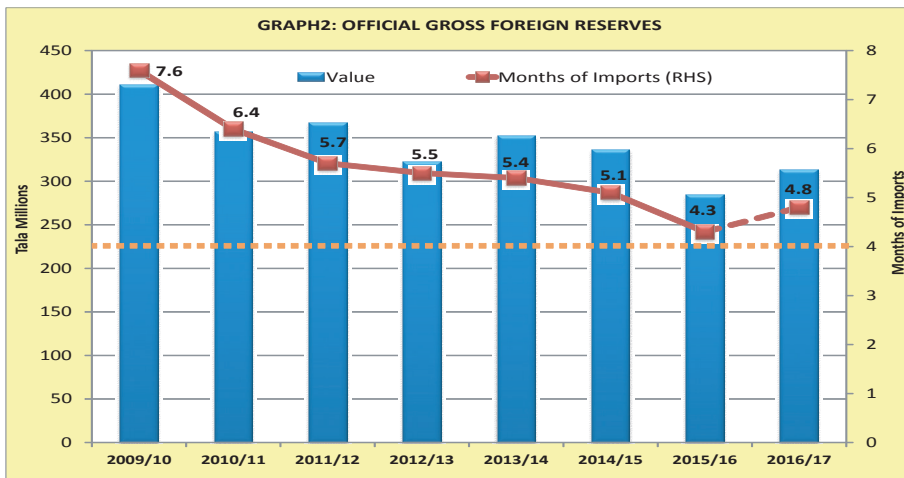
reserves and sustainable economic growth.

In FY2012/13, economic growth was expected to expand slightly in real terms on the back of a rebound

Lamana hotel project and other private sector developments around the country. On the external front, the balance of payments was projected to be favorable with an expected overall surplus of \$11.8 million to reflect the estimated large disbursement of Government loans and grants as well as the positive outlook for exports, tourism earnings and remittances. As a result, the level of official international reserves was expected to rise to an equivalent of around 6.0 months from 5.7 months cover in the previous financial year.

For 2013/14, the economy was expected to improve further with a real GDP growth rate of 1.5 percent. This was mostly based on the expected growth in sectors such as 'Other manufacturing', 'Construction', 'Commerce' and 'Finance & Business', in view of the projected positive spinoffs associated with the preparatory activities for the UN SIDS meeting and the implementation of other private sector projects (such as the new SISDAC headquarters and the renovation of the John Williams Building). On the external front, the balance of payments was expected to record a surplus of \$15.3 million for 2013/14 given estimated improvements in private remittances and tourism earnings respectively. However, due to an anticipated stronger increase in import payments, the resulting level of international reserves was expected to decline to around 5.3 months.

The economic growth outlook for 2014/15 was for a 2.2 percent increase in real terms, mostly from expected growth in sectors such



### 3. Monetary Policy Outlook and Targets

The Central Bank' monetary policy stance in the past five years (FY2012/13 to FY2016/17) was based on the macroeconomic outlook over each of the financial years, with specific focus on the monetary policy objectives of price stability, ample foreign exchange

in the 'Construction', 'Public Administration' and 'Electricity & Water' and 'Transport & Communications' sectors. This favourable outlook accounted for the various government projects that were undertaken at the time such as ongoing constructions of the NHS headquarters, new Nurses building and hospital laboratory, road widening project, new Fugalei Market, the start of the

as 'Commerce', 'Agriculture', 'Construction' and 'Transport & Communications' reflecting the business activities during the hosting of the UN SIDS meeting in September 2014 and project works in preparations towards the Commonwealth Youth Games in September 2015. On the external front, the balance of payments was expected to record another surplus of \$18.1 million for 2014/15 given the positive outlook for total exports of goods, visitor earnings and private remittances. However, the level of international reserves was to improve marginally to 5.6 months from the previous financial year.

For 2015/16, the source of the forecast growth of 3.3 percent was expected to come from growth in sectors such as 'Construction', 'Communications', 'Commerce' and 'Public administration'. Other factors included the projected strong business activities during the Commonwealth Youth Games and the initial stages of the Tui-Sāmoa Submarine cable project. On the external front, the balance of payments was expected to record another surplus of \$10.1 million for 2015/16 given expected improvements in visitor earnings, exports (of goods), and private remittances. However, gross foreign reserves was to drop to 5.2 months of imports given an expected strong pickup in total import payments for the year.

The outlook for economic growth in 2016/17 was for a slowdown in growth momentum to around 1.8 percent in real terms due to the impending closure of Yazaki Samoa as well as the return to normal levels from the high growth of 7.1 percent in 2015/16. Nevertheless, there

were expected growth in other sectors such as 'Construction' and 'Transport' and 'Communications' in line the new submarine cable, new investments in solar farms and the construction of both the Vaisigano and Leone bridges. On the external front, the balance of payments was expected to register a surplus of \$15.0 million given expected improvements in exports of goods, visitor earnings and private remittances. Likewise, the resulting level of international reserves was expected to rise to around 4.3 months of imports.

#### **4. Monetary Policy Outcomes**

##### **FY2012/2013**

Actual inflation was lower than forecast at -0.2 percent given weak domestic inflationary pressure despite the impact of Cyclone Evan in December 2012. The subdued local food prices resulted from the adequate volume of agricultural food that was still available after the cyclone, reflecting the resilience of the local farmers necessitated by Government's program for the replanting of traditional crops. On the official foreign reserves, the overall balance of payments recorded a large deficit reflecting the significant one-off outflows for various import and capital payments during the year. As a result, foreign reserves cover fell to around 5.5 months but was well above its minimum comfortable level of 4.0 months.

##### **FY2013/14**

Inflationary pressure was much lower than expected in FY2013/14 mainly due to the further weak-

ness in domestic inflation in line with continued strong agricultural production. As a result, the actual annual average inflation rate was much lower at -1.2 percent. On the official foreign reserves, the overall balance of payments recorded a higher than expected surplus of \$29.4 million, underpinned by an increase in tourism earnings and large one-off Government budget grant inflows that were disbursed during the year. As a result, the official foreign reserves cover rose to 5.4 months compared to its forecast of 5.3 months and well above its minimum comfortable level of 4.0 months.

##### **FY2014/2015**

Due to lower than expected inflationary pressures as a result decreased imported inflation, actual annual average inflation rate was much lower at 1.9 percent compared to its forecast of 2.4 percent. On the official foreign reserves, the overall balance of payments recorded a deficit of \$16.6 million in contrast to a forecast surplus of \$18.1 million. This was underpinned by large and unexpected one off foreign capital and investment payments made abroad, despite strong increases recorded from the export of goods, tourism earnings and remittances. As a result, the imports cover fell to 5.1 months compared to its forecast of 5.6 months and last year's level of 5.4 months.

Overall, real GDP growth increased by 1.7 percent in 2014/15 on the back of strong increases in sectors such as 'Transport', 'Communications', 'Fishing', 'Personal services' and 'Commerce'. This overall growth was slightly lower than



its original forecast of 2.2 percent growth mainly because of lower than expected increases for both the 'Commerce' and 'Agriculture' sectors.

### FY2015/2016

Inflation was much lower at 0.1 percent than initially expected mainly due to the continued reduction in imported inflation on the back of low fuel prices. On the official foreign reserves, the overall balance of payments registered a deficit of \$50.9 million for the whole year 2015/16 in contrast to a forecast surplus of \$10.1 million. This large divergence was mainly due to large and unexpected one off foreign capital and investment payments made abroad coupled, as well as the drop in private remittances. This is despite strong increases recorded from the export of goods and tourism earnings compared to their initial forecast growth. As a result, the import cover fell to 4.3 months compared to its forecast of 5.2 months, also underpinned by the increase in total imports.

Real GDP growth for 2015/16 registered at 7.2 percent, well above its original forecast of 3.3 percent growth. This was mainly because of an exceptional increase in the 'Commerce' sector, which was mainly attributed to increased tax compliance during the year, as well as the increase in economic production. In

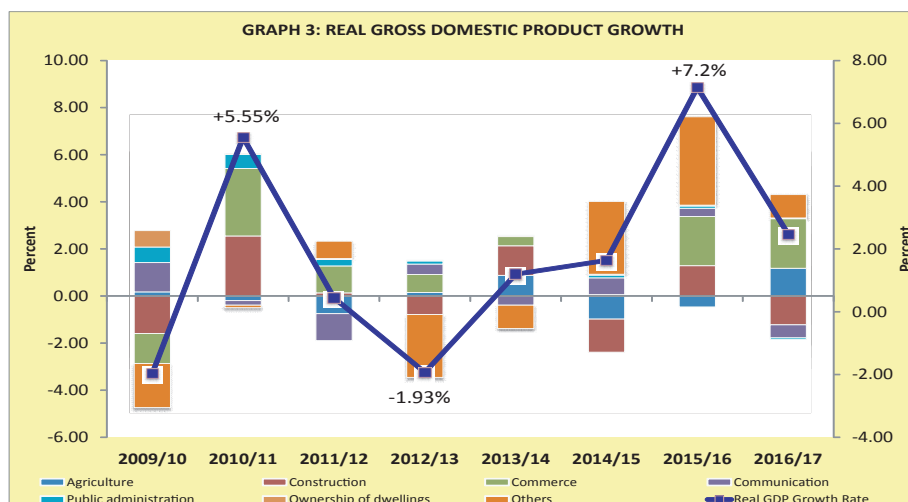
addition, there was strong growth in the 'Fishing' sector, which was underpinned by the emergence of a new export fishing company, together with modest growth in other sectors like 'Transport', 'Accommodations and restaurants' and 'personal & other services' sectors amongst many others.

### FY2016/2017

Inflation was slightly lower at 1.3 percent than initially expected mainly due to subdued domestic inflationary pressures as the drop in

ment funds, private remittances and tourism earnings. As a result, the import cover edged slightly up to 4.8 months.

Overall, real GDP growth increased by 2.7 percent in 2016/17, higher than the 1.8 percent initially expected but well below the 7.2 percent expansion in 2015/16. This stronger growth compared to its forecast was on the back of strong performances in the 'Commerce', 'Agriculture' and 'Personal & other services' sectors. (Refer to Graph 3).



agricultural food prices was greater than initially envisaged. On the official foreign reserves, the overall balance of payments registered a higher surplus of \$27.9 million compared to a forecast surplus of \$15.0 million. This was underpinned by large inflows of Govern-

### III. Monetary policy implementation and exchange control

Since January 1998, the Central Bank has been implementing monetary policy by issuing its own securities using market based techniques – commonly known as open market operations - complemented by its currency issue and exchange rate functions, Statutory Reserve Deposit prudential requirement (Section VI (1.4)), foreign exchange control and moral suasion.

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

The extent of open market operation activities in the last five financial years since 2012/2013 reflected the level of the total banking system liquidity. The fewer CBS Securities floated in the year 2016/2017 reflected tight excess liquidity conditions in the banking system. For the most part, the tenders of CBS Securities were under-subscribed over the five-year period, with no outstanding CBS Securities at the end of 2016/2017. (Please refer to Table 3).

CBS securities yields. Reflecting the lower number of floats over the years, the interest costs of the Central Bank’s open market operations decreased from SAT\$25,200 in 2012/2013 to SAT\$4,754.15 in 2016/2017.

The Repurchase facility remained unused by the commercial banks during the five-year period under review. On the other hand, the Rediscount facility was utilized twice since 2012/2013 with a total \$5.0 million worth of CBS Securities re-discounted.

#### 2. Exchange rates<sup>2</sup>

Following its annual reviews during the five years to 2016/2017, the Samoan Tala currency basket still comprises of the currencies of the United States of America, the European Union, Australia and New Zealand. The reviews were based on Samoa’s distribution of merchandise trade and tourism earnings for the calendar years from 2012 to 2016.

In 2012/2013, the Tala appreciated 1.8 percent against the currency basket in nominal terms reflecting the strengthening of the Tala against the US dollar at the time. Since then, the nominal value of the Tala has stabilised up to 2016/2017. The real value of the Tala, on the other hand, recorded notable depreciations against the currency basket, largely reflecting Samoa’s lower inflation rates compared to those of its main trading partners. This indicated a modest improvement in Samoa’s international competitiveness. (See Graph 4.)

TABLE 3: CENTRAL BANK OF SAMOA SECURITIES

(Tala Million)

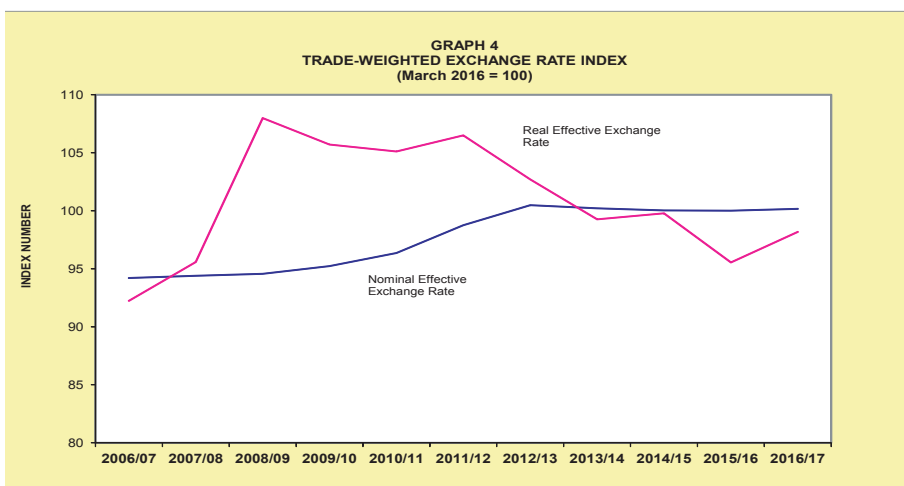
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Number of Floats	42	50	49	50	48	32
Amount Floated	\$190.75	\$190.25	\$161.00	\$201.00	\$178.00	\$64.50
Amount Tendered	\$221.25	\$81.25	\$102.00	\$220.00	\$156.50	\$52.00
Amount Allotted	\$145.75	\$71.75	\$77.50	\$154.00	\$152.50	\$51.50
Amount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

Source: Central Bank of Samoa

The overall weighted average interest rate on the Central Bank of Samoa Securities remained at near-zero levels in the five years to 2016/2017, with 0.14 percent by end June 2017, slightly lower than 0.16 percent at end 2012/2013. Interest rates on commercial bank deposits of comparable term maturities have decreased, thus narrowing the gap between the commercial bank deposit rates and

The inter-bank market for lending was also active in the five years to 2016/2017, albeit intermittently. Overall, lending activity between the commercial banks were largely for short terms, with the inter-bank borrowing rate increasing from 3.0 percent in 2012/2013 to 5.55 percent at end 2016/2017.

<sup>2</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.



### 3. Credit Lines to Selected Financial Institutions<sup>3</sup>

In the five years under review, the Central Bank extended four different credit line facilities (CLF) as part of its monetary policy operations.

In 2012/2013, due to the devastation caused by Cyclone Evan in mid-December 2012 which crippled businesses and affected many families and individuals particularly in the Apia area, the Central Bank established its third credit line facility in February 2013. This facility is known as the Cyclone Evan Credit Line Facility, and eligible only for the businesses and individuals whose buildings were damaged by the cyclone. Access to these CLF funds were through the Development Bank of Samoa (DBS) and the Samoa Housing Corporation (SHC). An initial \$24.0 million was endorsed by the Board of Directors and approved by the Government in February 2013. An additional \$20.0 million was approved in early June 2013, which brought the total

amount extended under this facility to \$44.0 million in the financial year 2012/13.

In 2013/14, a separate assistance known as the Economic Stimulus CLF with the total value of \$30.0 million was devised and extended to DBS, in support of the country's national economic recovery and long term stability efforts. This particular CLF, eligible to selected sectors such as tourism, agriculture, manufacturing and housing, also assisted with the Government's preparations ahead of hosting the UN SIDS conference in September 2014 and the Commonwealth Youth Games in September 2015. An additional \$10.0 million funds were extended in 2014/2015 as the second phase of the Economic Stimulus CLF towards the country's economic recovery efforts.

In 2015/2016, another \$15.0 million CLF was extended to DBS for targeted sectors such as tourism as well as the small medium enterprises within the agriculture and

manufacturing sectors. Following the gradual improvement in the Samoan economy and its recovery from previous natural disasters, no further funds were injected into the domestic economy through the CBS CLFs in 2016/2017.

Overall, the injection of these funds into the financial system contributed to the funding of economic activities that has stimulated the Samoan economy and reduced the overall average lending rates by the commercial banks. The total approved credit line facility by CBS up to end 2016/2017 was SAT\$125.0 million, which has now been fully disbursed to DBS and the Samoa Housing Corporation (SHC). The outstanding CLF balance at the Central Bank as at end 2016/2017 was recorded at SAT\$99.0 million.

Both SHC and DBS have made regular and timely repayments to the Central Bank, consistent with the agreed repayment schedules set in the MOU for these CLFs.

### 4. Foreign Reserves Management

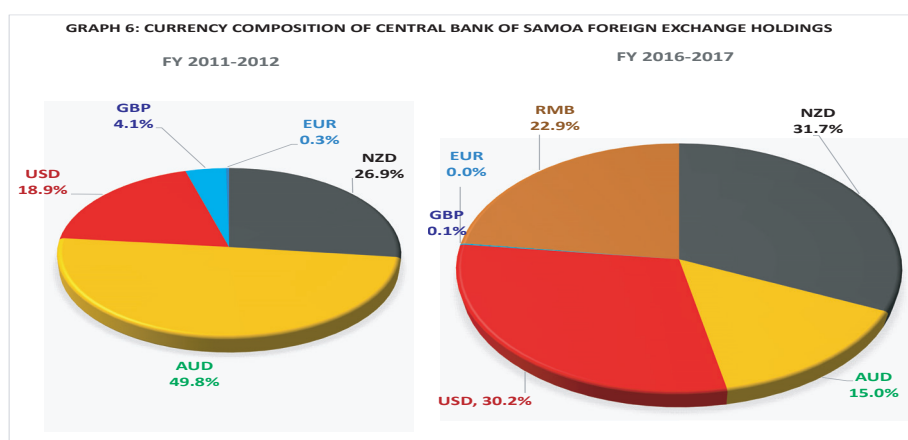
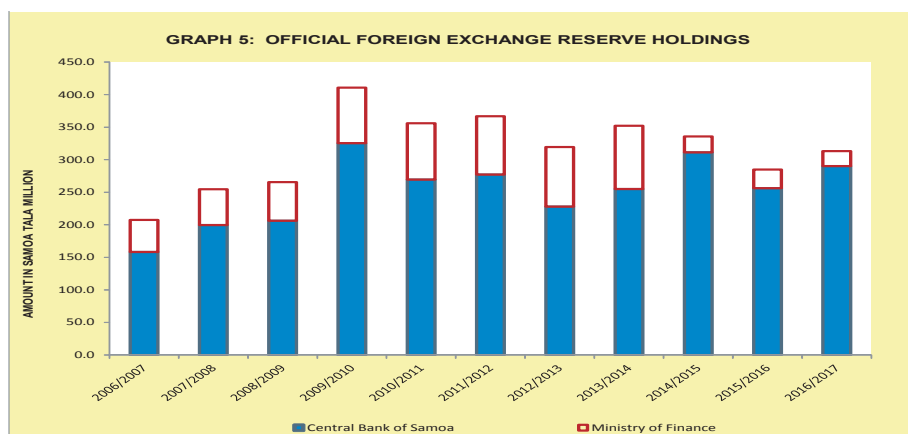
The CBS Act (2015) provides the Central Bank with the custody and authority to manage the country's foreign reserves. The Ministry of Finance (MOF) holds the other portion of the country's official foreign reserves in its custody. In 2014/2015, the country's foreign reserves in the form of the International Monetary Funds' Special Drawing Rights (SDR) and Accounts were transferred from the custodian of MOF to the Central Bank.

<sup>3</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.

Gross official international reserves<sup>4</sup> at end 2016/2017 was \$313.22 million compared to \$366.76 million in 2011/2012. Following the change in custodian for the IMF reserves, MOF now manages less than 10 percent of the country's total official foreign reserves while the rest is under the management of CBS. (See Graph 5.)

The Central Bank's foreign exchange holdings were continually invested in line with reserve management objectives of liquidity, security and profitability. To that end, 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<sup>5</sup> credit ratings.

In view of the country's projected overseas payments obligations in various foreign currencies as well as the prevailing and expected global yield environment, the composition of the Central Bank's foreign exchange holdings was adjusted accordingly. This was incorporated in the CBS Foreign Exchange Investment Policy and Guideline for the management of foreign reserves that was endorsed by the CBS Board in April 2017. Consistent with the country's expected foreign exchange inflows and outflow patterns, the composition of CBS foreign exchange reserves now also includes holdings of Chinese dollar-denominated reserves. The inclusion of the Chinese dollar (or



Renminbi, RMB) in Samoa's foreign exchange reserves also the Central Bank's recognition of the internationalization efforts of the RMB and its reserve currency status following its inclusion in the IMF's SDR currency basket in October 2016.

As a result, at end June 2017, the composition of CBS foreign exchange reserves showed a 22.9 percent holding of RMB reserves. The NZD and AUD holdings accounted for 31.7 percent and 15.0 percent respectively of total foreign exchange reserves, while the USD holdings increased to 30.2 percent. (See Graph 6.)

As shown in Table 2 under Section IV for the World Economy, the major central banks in the world whom CBS maintains foreign reserve holdings in their currency denominations undertook several changes (mainly reductions) to their policy interest rates over the five years to 2016/2017. This had an impact on the interest income received by the Central Bank from its foreign reserves investments during the reviewed period. In particular, the reduced interest rates by the RBA and RBNZ led to the inevitable decline in interest returns on Australian and New Zealand dollars-denominated investments. There continued to be no holdings in Euro investments

<sup>4</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>5</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.

due to negative interest rates by the European Central Bank, as a result of the ongoing regional debt crises and weak economic activities in the region. On the other hand, the increase in holdings of US dollar reserves coupled with the increases in the US interest rates, helped partially offset the lower returns from the Australian and New Zealand dollar investments. As a result, total interest income from these foreign investments registered at SAT\$5.31 million in 2016/17, decreasing from SAT\$8.95 million in 2011/2012.

## 5. Currency Issue

By law, the Central Bank is the sole issuer and destroyer of local currency banknotes and coins. It is an offence to deface any local currency note or coin. Any deliberate actions such as writing, stamping, erasure that changes the features of a local currency unit is subject to severe legal penalties.

The demand for currency (banknotes and coins) for the last five years grew by 19.7 percent from \$74.9 million in 2012/2013 to \$89.6 million in 2016/2017. This growth reflected an increase in the issuance of new banknotes, from \$37.6 million in 2012/2013 to \$49.0 million in 2016/2017. Similarly, coins circulated in the country grew from \$3.44 million in 2012/2013 to \$5.30 million in 2016/2017.

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 2017, increasing by 99

percent to 1,575,109 from 790,000 in 2012/13. The circulation of the \$2 coin increased by 75 percent to 1,054,092 pieces in 2016/17 compared to 600,000 pieces in 2012/2013. Overall, the number of pieces for all the denominations increased by 4,959,611 in 2016/17.

## 6. Foreign Exchange Control<sup>6</sup>

Exchange Control policies were continuously reviewed on ongoing efforts to monitor their consistency against prevailing economic and liquidity conditions in Samoa. These reviews included the easing of some restrictions on foreign exchange flows where necessary. At the same time, the monitoring of capital outflows was strengthened to preserve and maintain an adequate level of the country's foreign exchange reserves to meet all its international commitments.

For the most part, current account transactions continue to be delegated to the commercial banks and money transfer operators, subject to the submission of relevant supporting documents. Foreign capital payments, on the other hand, continue to require prior CBS approval along with a few selected payments as detailed below.

The reviews of exchange control policies and procedures took place as follows:

- 2012/2013 - further relaxation of exchange control policies where delegated limits on advanced import payments were removed from money transfer operators (MTOs). Furthermore, the maximum amount

imposed on commercial banks and MTOs for overseas travel was raised from SAT\$7,000.00 per person per trip to SAT\$20,000.00 per person per trip. These changes took effect on 1<sup>st</sup> October 2012;

- 2013/2014 – applications for the overseas payment of management fees and insurance premiums were referred to the Central Bank for prior approval, while a reminder was issued for the repatriation of foreign airline ticket sales in excess of SAT\$1.0 million to obtain an initial CBS approval. These took effect on 3<sup>rd</sup> March 2014;
- 2014/2015 – there were no policy changes, however a strengthening of procedures was issued. These changes included ensuring a consistency in practice for foreign currency deposit account applications by any Government body or corporation with the Public Finance Management Act as well as clarity in the nature and use of potential borrowed funds through foreign currency loans at local commercial banks or offshore borrowings by residents. These took effect on 3<sup>rd</sup> August 2015;
- 2015/2016 – while there were no policy changes implemented, a procedural amendment to foreign currency deposit accounts (FCDA) was allowed. This enabled only hotels and money changers/money transfer operators to deposit foreign currency banknotes into their FCDAs with the local commercial banks, while all other types of FCDA resident holders con-

<sup>6</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.

tinued not to be allowed. This took effect on 1<sup>st</sup> August 2016;

- 2016/2017 – the processing of foreign currency lending for commercial banks' trade finance facilities to local resident business entities was delegated to commercial banks but subject to selected conditions. Furthermore, the payment of insurance and re-insurance premiums overseas by individuals, private businesses, organizations and Government ministries, authorities and corporations were delegated to both the commercial banks and MTOs to process. These policy amendments took effect on 1<sup>st</sup> August 2017.

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 required to remit their export proceeds back to the country within a specified timeframe.
- **Foreign Currency Deposit Accounts (FCDAs)**<sup>7</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 a foreign cur-

rency deposit accounts with the local commercial banks. In the reviewed period, a total of 177 new FCDAs were opened with the local commercial banks, 35 percent of which were for individuals and the rest for businesses such as exporters, hotels, consultancy services (law and accountancy firms), a few money transfer operators and construction companies.

<sup>7</sup> Apart from residents, non-residents such as the diplomatic missions and official international organizations are also allowed 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 doing the following:

- Registering banks and supervising their activities with broadly accepted prudential standards and examination techniques;
- Developing prudential supervision of insurance business and other non-bank financial institutions to further strengthen stability of the financial sector and limit financial distress;
- Providing liquidity to the system as required to minimize short run disturbances; and
- Registering and licensing of foreign exchange service provider; money transfer operators and money changers.

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

### 1. Commercial Banks

The stability and soundness of the banking system is recognized as important for any small economy. Therefore, in the interest of promoting their financial soundness, commercial banks are subject to the Central Bank's prudential supervision which concentrates primarily on detecting early signs of weaknesses.

Over the five-year period, Samoa's banking system continued to comprise of four commercial banks, namely two foreign banks and two locally-owned banks. During FY2014/15, Westpac Banking Corporation sold its banking business operations in most South Pacific Island countries (excluding Fiji and Papua New Guinea) to the Bank South Pacific Limited, a regional bank with headquarters in Papua New Guinea. As part of the regulatory approval for the regional sale, CBS issued a banking license to the Bank South Pacific (Samoa) Limited in April 2015, while internal procedures were undertaken to finalise the sale. On 10 July 2015, the

Westpac Bank (Samoa) Limited's banking license was revoked in accordance to Section 7(1)(iv) Financial Institutions Act 1996. Immediately, thereafter, the Bank South Pacific (Samoa) Limited came into effect, with a smooth transition in the bank's operations and services to the general public.

As at the end of FY2016/17, the four commercial banks in Samoa were the ANZ Bank (Samoa) Limited, Bank South Pacific (Samoa) Limited, National Bank of Samoa Limited and the Samoa Commercial Bank Limited.

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

In addition to offsite surveillance,

the Central Bank also conducts on-site examination. Supervision that embraces both off-site surveillance and on-site examination has been found to be more effective than off-site surveillance only. Onsite examination provides a useful view of the true financial position of a bank. The frequency, scope and techniques that is used in on-site examinations varies depending on the overall condition and the level of sophistication of the bank.

During the review period, the Financial Supervision and Regulatory Services Department of the Central Bank carried out 1 full scope on-site examination of a locally incorporated commercial bank. In June 2017, the Central Bank in collaboration with the Australian Prudential Regulation Authority ('APRA') conducted a two weeks' inspection of a foreign owned bank. The focus is to ascertain or confirm the bank's compliance with their own policies and procedures as well as relevant standards, laws and regulations.

Continuing consultations and discussions were held with the banks

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

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

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

### **1.1 Financial Position of the Banking System**

In the reviewed period, the banking system recorded strong growth in the overall level of assets, with a 47.2 percent (\$483.2 million) expansion to \$1.5 billion at end FY2016/2017 from \$1.0 billion at end FY2011/2012. The growth in total assets were attributed to the remarkable increase in lending by 40.1 percent (\$311.7 million), as well as currency and deposit reserves with the Central Bank by 52.4 percent (\$105.2 million). This more than offset the drop in the

level of reserve funds by 27.4 percent (\$58.2 million), nonfinancial assets (by \$72.0 million) and debt securities by 62.2 percent (\$8.1 million) in that order. Total loans and leases to deposits ratio decreased from 102.5 percent in FY2011/2012 to 100.4 percent to date. By comparison, the banking system recorded total liabilities of \$1.3 billion, an expansion of 52.5 percent (\$436.7 million) from end FY2011/12.

Further, the capital adequacy ratio remained relatively steady and supported by banks' sound profitability performance over the period. While the quality of banks assets indicated an upward trend in non-performing loans, the provisions for bad and doubtful debts were sustained at more or less adequate level at the end of the period.

### **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.

Total Tier one capital in the banking system amounted to \$178.9 million, an increase of 8.4 percent (\$13.9 million) from \$164.9 million

in FY2011/12, due mainly to increases in prior year's audited retained profits, paid-up capital and reserves. Tier two capital grew by 36.4 percent (\$10.8 million) caused mainly by the increase in the revaluation reserves, bringing total capital (Tier one plus Tier two) to \$219.3 million at the end of the reviewed period, from \$194.6 million in FY2011/2012.

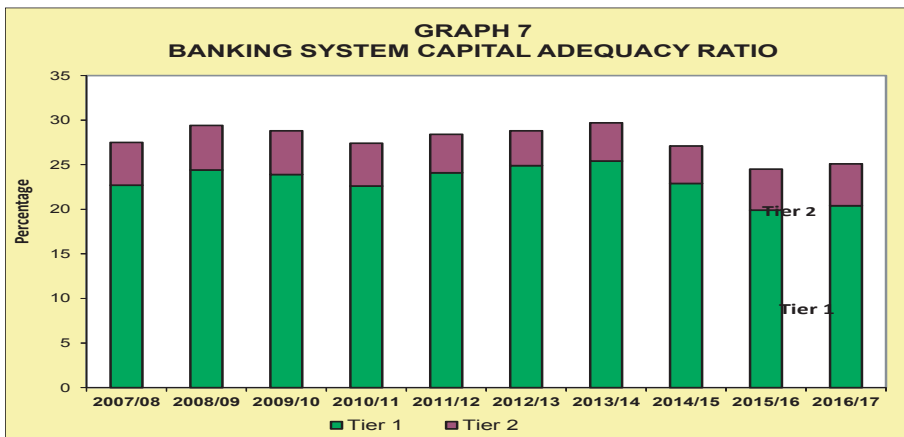
At these levels, the banking system's Tier 1 capital ratio was recorded at 20.4 percent, declining from 24.1 percent in FY2011/2012; but still well above the Central Bank's minimum capital requirement of 7.5 percent for Tier 1 capital. The overall banking system remains strongly capitalized with an aggregate ratio of 25.1 percent in FY2016/2017, while lower than the 28.4 percent capital adequacy ratio in FY2011/2012, still remains well above the Central Bank's minimum capital requirement of 15.0 percent. These ratios reflect potential capacity available in the banking system to meet the demand on financial services and future business prospects. (See Graph 7).

Overall, the banking system recorded a surplus capital of \$88.1 million in FY2016/2017 compared to \$92.0 million in FY2011/2012.

### **1.3 Asset Quality**

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

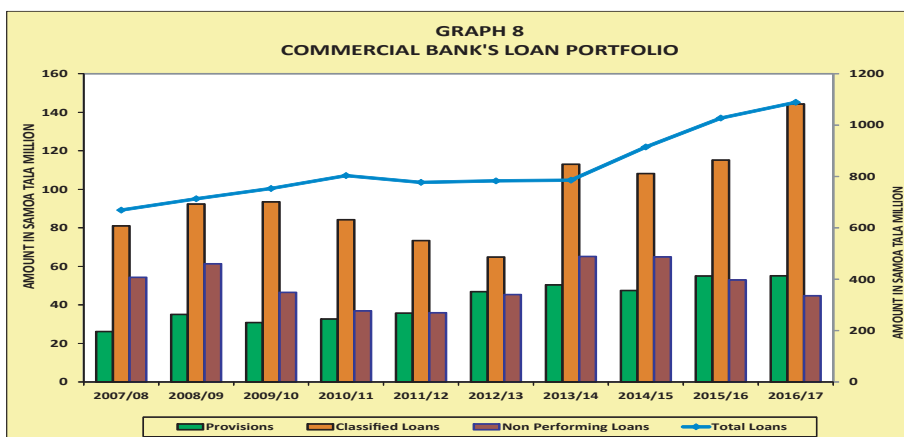




adequate provisions are maintained to cover for potential or identified losses.

In the financial year ending June 2017, total loans and leases grew to \$1.089 billion, increasing 40.1 percent (\$311.8 million) from \$0.777 billion in the financial year ending June 2012. At this level, total non-performing loans (NPL) was recorded at \$44.8 million (equivalent to 4.1 percent of total loans and leases) compared to \$35.8 million

households suffering direct damages and their subsequent inability to service their prevailing debt obligations following the cyclone. Despite NPLs increasing to a high of \$65.2 million in FY2013/2014, it has since declined to \$44.8 million at end FY2016/2017. In the meantime, provision for bad and doubtful loans stood at \$55.1 million (5.1 percent of total loans and leases to date) in FY2016/2017, providing adequate cover for total non-performing loans. (See Graph 8.)



(4.6 percent of total loans and leases) in FY2011/2012. The increase in total NPL over the five-year period reflected one of the financial impacts of Cyclone Evan's devastation on the Samoan economy, with several businesses and individual

### 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 ex-

posure 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 was mainly unchanged for most of the reviewed period, until FY2016/2017 when the exposure to domestic currency loans declined from around 99.3 percent to 95.7 percent. This shift reflected a rise in foreign currency-denominated loans from near zero levels in previous years to 4.3 percent in FY2016/2017. Overall, the bulk of the banking system's lending remains largely directed to 'building, constructions and purchasing of lands' activities. The second main credit exposure was to "other activities", followed by the "professional services", "trade", "transportation" and "manufacturing" industries. (Refer Table 4)

Furthermore, by sectors, lending to businesses represented 55.9 percent of total loans at end FY2016/17, with household loans constituting 36.0 percent of the bank's total loan portfolio. The remaining 8.1 percent reflects credit exposure to the Government sector, including non-financial public enterprises and non-monetary financial institutions.

## 1.4 Liquidity Management

The primary responsibility for the prudent management of a bank's liquidity and for determining the appropriate level of liquid assets rests with the bank itself. Hence, the onus has been imposed on the commercial banks to manage their day to day liquidity, as well as for

**TABLE 4: Distribution of credit exposures by industry (as a percentage of total credit exposure)**

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Domestic currency loans	99.9	99.9	99.9	99.9	95.7
Agriculture	1	0.8	0.5	0.2	0.6
Fisheies	0.4	0.4	0.3	0.2	0.3
Manufacturing	4.6	5.4	4.3	3.5	2.8
Building, Construction & Land	35.2	35.3	29.8	20.1	26.9
Electricity, Gas and Water	2.2	1.3	1	0.7	1
Trade	14.5	17.4	17.2	6.4	7.2
Transportation	8.4	7.4	6.2	27.2	19.7
Professional Services	16.2	18.7	28.1	27.2	19.7
Others	17.4	13.2	12.5	29.5	25.7
Foreign currency loans	0.1	0.1	0.1	0.1	4.3
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>

handling any unexpected strain on their cash flows.

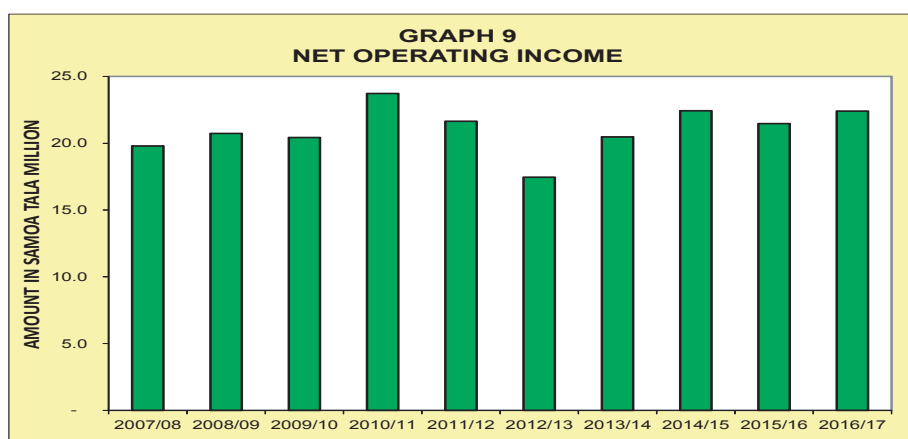
In essence, the holding of an adequate stock of highly liquid assets for meeting day to day liquidity needs is fundamental to sound and prudent liquidity management and to foster public confidence in banks. As such, banks are expected to have in place effective systems for managing their liquidity positions.

At the end FY2016/2017, total liquid assets amounted to \$145.8 million, equivalent to 14.6 percent of total domestic deposit liabilities. At this level, it showed an unfavorable reduction of 41.8 percent (\$104.7 million) when compared to FY2011/2012. In addition, there was no investment in CBS Securities recorded at end June 2017, compared to \$9.0 million registered at end June 2012.

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 \$389.5 million as compared to short term deposit liabilities of \$572.3 million. In the

extraordinary items and taxation) amounted to \$30.7 million, indicating an increase of 3.5 percent (\$1.0 million) over the five-year period. Following the deduction of tax, the net profit for the commercial banks in 2016/17 improved to \$22.4 million compared to \$21.6 million in FY2011/12. (See Graph 9.)

Total operating income went up by 17.2 percent (\$12.7 million) while total operating expenses and provisions increased by 26.4 percent (\$11.6 million) compared to June



3 months and over category, long term loans stood at \$944.3 million against long term deposits of \$400.8 million, revealing a significant mismatch in the residual maturity of funds in FY2016/17. This trend is, however, closely monitored in consultation with the banks given the volatile nature of deposit funds in the market in order to ensure banks are able to meet their liquidity obligations at all times.

### 1.5 Profitability

Based on the banks different accounting periods, the banking system combined profit figure (before

2012 respectively. As such, the efficiency ratio of the banking system went up to 64.7 percent as compared to 59.7 percent over the past five years.

Increases were recorded in the return on average net worth (25.9 percent from 11.6 percent) and average total assets (4.2 percent from 2.1 percent) in 2011/2012. This significant change reflected the adoption of the International Monetary Fund's methodology for the calculation of financial soundness indicators in March 2016. This resulted in the annualizing of the operating profits before extraordinary items

and taxation, instead of net profit.

### **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 regard to the volume and size of foreign transaction deals of customers on a daily basis, the size of its capital and the ability of customers (both local and abroad) to settle their foreign transactions as they fall due.

Using their own internal management limits, 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 FY2016/2017 stood at \$279.8 million, a significant increase from \$117.7 million in FY2011/2012. Similarly, total foreign liabilities of \$250.6 million was more than

doubled the \$108.4 million level in FY2011/2012. At these latest levels, it reflected a net long open position of \$62.3 million, equivalent to 28.4 percent of the banking system's total capital, which is notably higher than those in FY2011/2012.

## **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 policyholders' interests and foster a competitive and innovative market place. More specifically, the aim is to ensure that insurance companies meet contractual commitments made to the insured and are at all times in a sound financial position by maintaining sound solvency standards.

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

## **2.2 Licensing and Insurance Market Structure**

Section 9 of the Act requires all insurers and intermediaries conducting insurance business in Samoa to be licensed by the Commissioner. The Commissioner continued to receive and assess applications for renewal of 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**

As of June 2017, a total of twenty-seven (27) insurers and intermediaries were licensed under the Act as follows:

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

## **2.3 Supervision**

As of June 2017, the Bank continued to undertake its supervision activities through offsite monitoring. To ensure that licensed insurers comply with the Act, offsite monitoring is conducted which includes the assessment of periodic prudential returns submitted to the Commissioner.

## **2.4 Overview of the Insurance Industry Performance**

### **2.4.1 Balance Sheet**

#### **2.4.1.1 Assets**

The combined life and general in-

insurance sector recorded total assets of \$106.1 million, a 9.5 percent (\$9.2 million) increase from \$96.8 million in FY2011/2012. This reflected a growth in assets by both the life (by 23.6 percent or \$8.7 million) and general insurance sectors (by 0.9 percent or \$0.5 million) respectively. The general insurance sector continued to dominate at 57.2 percent (\$60.6 million) although it decreased slightly when compared to a share of 62.1 percent (or \$60.1 million) in FY2011/2012.

#### **2.4.1.2 Liabilities**

In contrast, the consolidated total liabilities dropped by 38.5 percent (\$19.3 million) to \$30.8 million over the reviewed period. The general insurance sector represents 91.7 percent (\$28.2 million) of total liabilities.

#### **2.4.1.3 Shareholders' Funds**

The combined shareholders' fund for the domestic insurance industry increased by 60.9 percent (\$28.5 million) to \$75.3 million from FY2011/2012, reflecting increases in paid up capital and retained earnings by \$8.0 million to \$14.0 million and \$9.2 million to \$11.7 million respectively for the general insurance sector. The life insurance sector dominates 56.9 percent (\$42.9 million).

#### **2.4.2 Gross Premiums**

As at end FY2016/2017, the life and general insurance sectors' combined gross premium income stood at \$31.9 million, up by 15.6 percent (\$4.3 million) when compared to

FY2011/2012. Of the total, the general insurance sector covered 75.9 percent (\$24.2 million) while the remaining 24.1 percent (\$7.7 million) was represented by the life insurance sector.

#### **2.4.3 Claims**

The combined life and general insurance sectors' net policy and claims payments aggregated at \$8.6 million, reflecting a decrease of 16.6 percent (\$1.7 million) over the past six years. The life insurance sector dominated 60.4 percent (\$5.2 million).

#### **2.4.4 Profitability Performance**

For the period under review, the insurance industry registered a reduction in profitability, with a combined profit of \$2.0 million at end of FY2016/2017 compared to \$5.6 million profit after tax recorded in the same time six years earlier.

*Please refer to the Central Bank's Supplementary Annual Report for the Domestic Insurance Industry for further details.*

### **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 to extend its prudential supervision to non-bank financial institutions

The major non-bank financial institutions under the Central Bank's

prudential framework 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 are established under their own legislation.

The Central Bank recognizes the non-bank financial institutions significant role in stimulating economic growth as well as the potential risks they could incur on the financial system. As such, priority has been focused in strengthening and developing guidelines and reporting requirements of these institutions. The Bank finalized the Prudential Standards for the UTOS and was issued in early 2015 following CBS' Board approval.

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 these institutions are furnished during the year for ongoing review and analysis in determining the quality of key areas of their operations for financial soundness.

#### **3.2 Overview of the Non-Bank Financial Institutions Financial Performance**

##### **3.2.1. Balance Sheet**

###### **3.2.1.1 Total Assets**

At end of June 2017, total assets of the four (4) non-banks grew by 37.9 percent (\$379.2 million) to \$1.0 bil-

lion when compared to June 2012<sup>8</sup>. Of the total, 68.1 percent (\$681.7 million) relates to loans and advances (net), 13.6 percent (\$136.2 million) to fixed assets (net), investments covered 8.8 percent (\$88.5 million), bank deposits accounted for 8.7 percent (\$87.3 million) and other assets represented 0.8 percent (\$7.5 million) respectively.

### 3.2.1.2 Total Liabilities

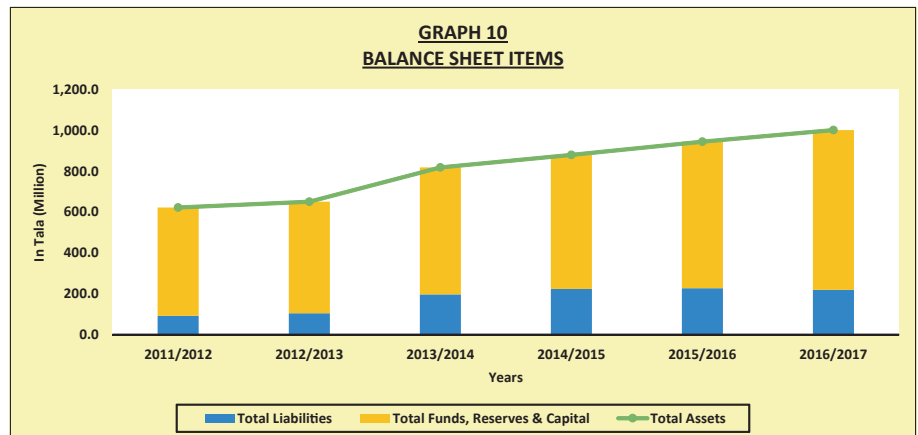
Similarly, total liabilities aggregated at \$219.3 million, growing 57.7 percent (\$126.5 million) over the past five years. The composition of liabilities includes borrowings, which totaled \$141.5 million (64.5 percent), as well as convertible notes and other liabilities of \$77.8 million (35.5 percent) in that order.

### 3.2.1.3 Total Funds, Reserves and Capital

As of FY2016/2017, the combined total Funds, Reserves and Capital stood at \$781.9 million, up by 32.3 percent (\$252.7 million) when compared to FY2011/2012. Such total is made up of contributions and general reserves of \$634.6 million (81.2 percent), assets revaluation and paid up capital aggregated at \$85.4 million (10.9 percent), and cumulative profits and other accounts totaled \$61.8 million (7.9 percent) respectively. (Refer Graph 10)

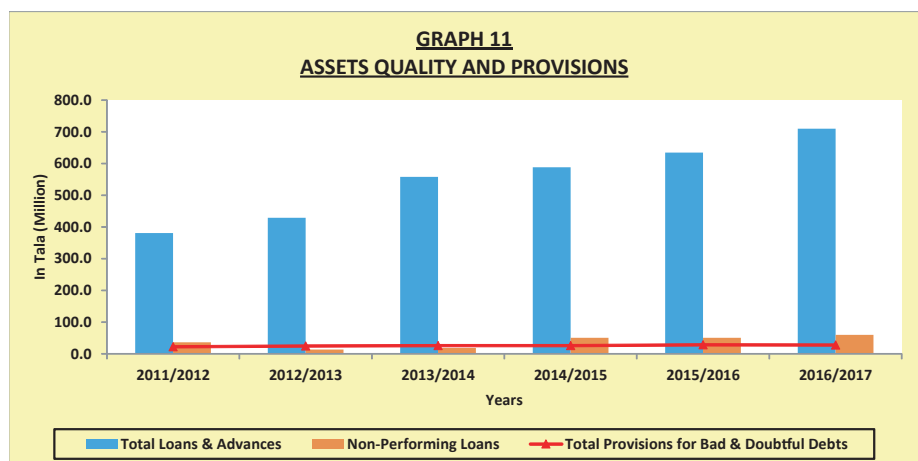
### 3.2.2 Total Loans and Advances

At end of June 2017, the non-bank financial institutions recorded total loans and advances of \$709.7 million, reflecting a significant increase of 46.4 percent (\$329.0 million) compared to \$380.7 million re-



corded in the FY2011/2012. Distribution of loans by industry groups revealed that Professional and Business Services represented 24.4 percent (\$173.5 million); the Building,

million, equivalent to 8.4 percent of total loans and advances. Total provisions against the current level of NPLs stood at \$27.9 million. (Refer Graph 11)



Construction and Installation sector accounted for 13.0 percent (\$92.0 million), Agriculture, Fisheries, Manufacturing, Trade and Transport combined represented 8.1 percent (\$57.4 million) while other activities represented 54.5 percent (\$386.8 million).

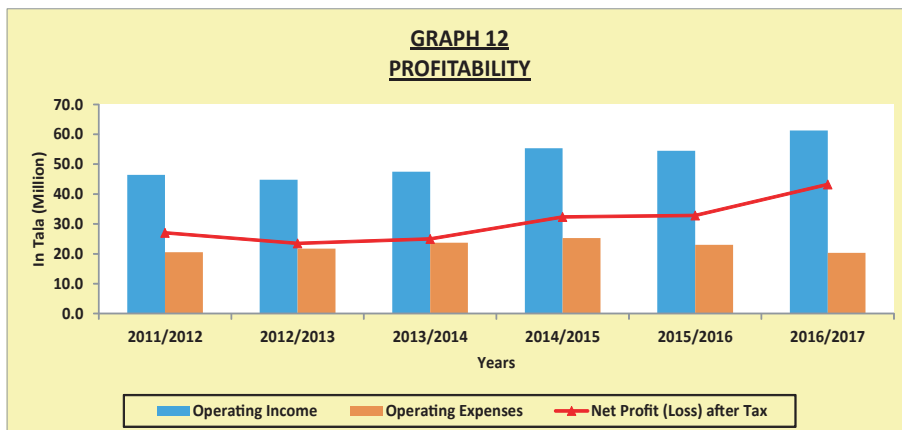
### 3.2.3 Assets Quality and Provisions

At end of June 2017, the three non-banks (namely, SNPF, UTOS and DBS) registered total non-performing loans (NPLs) balance of \$60.0

### 3.2.4 Profitability

As of FY2016/2017, the four non-banks recorded a combined unaudited profit after tax of \$43.3 million compared to a \$27.0 million profit reported in FY2011/2012. This reflected total operating income and other income of \$61.3 million against total operating expenses of \$20.4 million. (Refer Graph 12).

<sup>8</sup> Kindly note that the June 2012 figures used in this report only comprised of the three non-banks, namely SNPF, DBS & SHC. The Unit Trust of Samoa (UTOS) started reporting data to the CBS in December 2013.



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

Also governed under the regulatory framework of the Bank are the Foreign Exchange Service providers, namely the Money Transfer Operators (MTO) and Money Changers (MC)<sup>9</sup>.

The Bank is currently reviewing its licensing requirements for these institutions to improve operational standards and to bring it in line with international requirements, in particular, the Anti-money Laundering and Counter Terrorist Financing requirements.

As required, MTOs and MC must renew their licenses at the beginning of every year. In January 2017, the Bank issued renewal licenses to the following institutions and intermediaries:

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

<sup>9</sup> In line with the implementation of financial liberalization, Exchange Control Regulations were amended to allow for the establishment of licensed money transfer operators (in 1999) and foreign exchange dealers (in 2000) to expand and increase competition in foreign exchange services in the country. For monitoring purposes, the money transfer operators (MTOs) and foreign exchange dealers (FEDs) are required to submit periodic statistical reports to the Central Bank.

# V. Financial System Development

The Central Bank's new mandated functions to promote financial inclusion and oversee the country's National Payment System led to the establishment of the Financial System Development Department. Their main objectives are to:

- achieve greater shared economic prosperity through financial inclusion,
- assist in developing deep and dynamic financial markets, and
- assist 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 landscape

Financial service access points servicing Sāmoa by the four commercial banks as at end FY2016/2017 consisted of 25 local commercial bank branches, 561 Automatic Teller Machines (ATMs), 496 Electronic Funds Transfer at Point of Sale (EFT-POS) outlets and 79 cash-in and cash-out agents. This compared to 23 commercial bank branches, 38 ATMs and 647 EFTPOS outlets and 79 cash-in and cash-out agents in FY2012/2013.

With the help of innovative technological and institutional solutions, banking and payment services have expanded to the community. Over the five-year period, the four commercial banks continued to make significant investments for developments to increase the access and convenience of their financial services, through internet banking, mobile phone platforms and through card-based instruments.

Only one non-bank provider of financial services offers a mobile money wallet service in the country. Since 2012/2013, there has been a 17 percent increase in the number of registered customers and a 58 percent growth in the value of e-money in circulation or held by customers. This was despite a significant drop in the number of agents over the five-year period, from 67 in FY2012/13 to 11 at end FY2016/17.

### 1.2 National Payment System

The National Payment System (NPS) Act 2014 was effective on 7th April 2014 following collaborative efforts between the Central Bank and the World Bank. The NPS Act provides CBS with oversight powers and responsibilities of the National Payment Systems of the country.

Further assistance from the World Bank included the review and finalization of secondary legislative pieces and the procurement of an Automated Transfer System (ATS+) and Central Securities Depository (CSD) software package. Both initia-

tives are yet to be completed.

### 1.3 Financial Inclusion and measurement

On 1 April 2015, with the assistance of a grant from the Alliance for Financial Inclusion (AFI) and the Pacific Financial Inclusion Programme (PFIP), the CBS in close collaboration with the Samoa Bureau of Statistics (SBS), successfully completed the Financial Services Access and Usage Demand-side Survey (DSS). The results of this important work and the Financial Services Sector Assessment (FSSA) that was conducted in October 2015, enabled a clearer understanding of the financial inclusion situation in Samoa.

The national financial inclusion strategy (NFIS) workshop in November 2015 was the culmination of these studies. The outcome of the workshop was a draft NFIS and a proposed implementation model to drive the strategy. The NFIS 2017 – 2020 document was officially launched on 27<sup>th</sup> January 2017.

The DSS findings also helped to

complete and inform Samoa's Financial Inclusion Measurement Framework, which was missing demand side information and indicators.

#### **1.4 Credit Bureau**

With assistance received from the International Finance Centre arm of the World Bank, the Data Bureau of Samoa was set up based on the regional model approach with Fiji Data Bureau Limited by December 2015. However, legislative developments out of Fiji in 2016 saw the regional model fall through and the Data Bureau of Samoa was disestablished.

From this experience, the CBS is now of the clear view to seek assistance for the establishment of a Credit Data Bureau to be housed, owned and operated in Samoa.

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

#### **2.1 National Financial Competence Project**

The final phase of the Financial Competence Project was completed in November 2012 with a national workshop on the results of the survey to discuss the preparation of a National Financial Literacy Strategy (NFLS). The workshop was well attended by a wide cross section of representatives from the economy. While a NFLS was not finalized, its key components were adapted into the Bank's broader financial inclusion work over the years and later incorporated into the NFIS 2017-2020.

#### **2.2 CBS Financial Literacy Brochures**

In early 2015, four bilingual financial literacy brochures were published in the areas of Saving Money, Spending Money, Borrowing Money, and Managing Money. The aim of the brochures was to disseminate general information and advice on personal money management, to be applicable and relevant to a wide cross section of the population. The content put into the brochures is not to dictate people of their financial decisions, but rather guide them on what they can do. The brochures are readily available to the public from the CBS office and for download from the CBS website.

#### **2.3 Global Money Week Events**

The Central Bank has participated in the Global Money Week initiative since 2014. The Global Money Week celebration is an annual event coordinated by Child & Youth Finance International and is as an annual worldwide celebration in March throughout one week with activities aimed to encourage children to engage in learning on how money works, including saving, creating livelihoods, gaining employment and entrepreneurship as well as living financially smart lives. As part of its contribution to this global event, the Central Bank prepares competitions for the children and youth. In the past five years, this has included the "Be Money WISE Poster Competition", the Money Smart Comic Competition, the "Money Talk" financial literacy workshop and Speak Money Speech Competition

#### **2.4 Fiji Financial Education (FinED) Study Visit and Scoping Mission**

In April 2015, a seven-member study visit team from Samoa, consisting of representatives from the Ministry of Education, Sports and Culture, the National University of Samoa and the Central Bank of Samoa, visited the Fiji FinED Project to gain insight and how it could be conducted for Samoa.

The Fiji study visit provided the opportunity to interact with key stakeholders as well as to observe the teaching and learning in the classroom, whilst facilitating an in-depth learning opportunity for the Samoa delegates. Later in October 2015, with financial assistance again from the PFIP, a scoping mission was conducted by the Young Enterprises Trust on how best to place financial education in the Samoa School curriculum.

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

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

The NFIT was identified from the national financial inclusion strategy workshop in November 2015 to drive the implementation of the national strategy and ensure coordination among stakeholders to achieve the overall goals and strategic objectives laid out in the national strategy. The first NFIT meeting was convened on 27<sup>th</sup> May 2016 in which consensus was reached by the members to seek cabinet endorsement for the taskforce to solidify commitments from its members. Cabinet endorsement was



received on the 29<sup>th</sup> June 2016.

### **3.2 Alliance for Financial Inclusion (AFI)**

The CBS continues to be an active member of the AFI network. At the regional level it continued to work closely with other central banks of the Pacific region in the Pacific Island Regional Initiative (PIRI). Within the network, CBS is also a member of four AFI working groups such as the Financial Inclusion Data Working Group (FIDWG), SME Finance Working Group (SMEFWG) and the Consumer Empowerment and Market Conduct (CEMC) Working Group, Financial Inclusion Strategies Peer Learning Group (FISPLG) to further progress work on financial inclusion in Samoa.

### **3.3 Pacific Financial Inclusion Program (PFIP)**

The Pacific Financial Inclusion Programme (PFIP) is a joint program of the United Nations Capital Development Fund (UNCDF) and United Nations Development Programme (UNDP). The purpose of the PFIP is to increase access to sustainable, appropriate and affordable financial services by low-income and rural people in the Pacific Island Countries. In 2015, PFIP's presence was established in Samoa with Mr. Amit Kumar posted as PFIP's Financial Inclusion Specialist in Samoa.

*Please refer to the Central Bank's Supplementary Annual Report on Financial System Development for further details.*

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

**S**imilar to all other financial systems, the vulnerability of Samoa's financial system to money laundering and terrorist financing is highly recognized.

The threat that money laundering and terrorist financing could pose to national stability and credibility highlights the need for Samoa to implement appropriate legislations to combat such criminal activities.

Furthermore, it demonstrates to the international community, Samoa's commitment to support global anti-money laundering and countering terrorist financial (AML/CFT) efforts.

## 1. The Money Laundering Prevention Authority

### 1.1 Legislative Framework

CBS is appointed to carry out the functions of the Money Laundering Prevention Authority (MLPA) as stipulated under the Money Laundering Prevention Act 2007. As such, the CBS Governor is appointed by the Minister of Finance as the Head of the Money Laundering Prevention Authority.

Moreover, the Anti-Money Laundering (AML) legislation provides explicit provisions with respect to the establishment of the Samoa Financial Intelligence Unit (SFIU) within the MLPA. In doing so, the Bank's new department, known as the Anti-Money Laundering and Financial Intelligence Unit Department is empowered to collect, investigate and analyze suspicious transaction reports and share its findings with relevant domestic and overseas law enforcement and anti-money laundering agencies as may be appropriate.

### 1.2 International Commitments

The MLPA works to comply with the international 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 must ensure the local financial institutions satisfy regulatory and money laundering prevention requirements under the MLP Act 2007.

In July 2013, Samoa agreed to undergo its third Mutual Evaluation (ME) in 2014. The subsequent release of Samoa's Mutual Evaluation Report (MER) was adopted in the APG plenary in July 2015. Aside from the usual AML matters discussed at these meetings, the issue on de-risking of remittance businesses and the loss of correspondent banking relationships particularly in small island developing countries, including Samoa, was also a discussion topic in annual APG plenary meetings during the reviewed period.

The APG visited Samoa in February 2014 and re-emphasized the need for Samoa to strengthen its compliance with AML and CFT standards, particularly for the passage and enactment of the Counter Terrorism Bill. Furthermore, an on-site visit for the third Samoa Mutual Evaluation took place from 3 to 14 November 2014, under the revised FATF Stan-

dards and 2013 Assessment Methodology. The assessment team was led by the APG Secretariat and included experts from Fiji, Cook Islands, New Zealand, Thailand, Palau and Philippines.

Samoa has made good progress in addressing some of the technical compliance deficiencies identified during the MER 2015. Progress reports were submitted by Samoa to the APG in May 2013, January 2014, January 2016 and January 2017, reflecting developments made on its AML/CFT regime to rectify deficiencies that were identified during the Mutual Evaluations in 2006 and 2014 respectively.

### 1.3 Domestic stakeholder engagements

In March 2014, the MLP Authority co-hosted with the New Zealand Police Financial Intelligence Unit (NZFIU), the Pacific Island Forum Secretariat (PIFS) and the New Zealand Internal Affairs, a National Risk Assessment (NRA) workshop. Risk assessment is one of the requirements as stipulated under the Revised Financial Action Task Force (FATF) 40 Recommendations 2012.

In August 2014, the MLP Authority, in collaboration with the APG Sec-

retariat, hosted a one-week workshop for Samoa MLP Task Force members. The main objective of the workshop was to prepare Samoa for the APG's third mutual evaluation of Samoa's Anti-Money Laundering and Countering the Financing of Terrorist Activities (AML/CFT) regime that was scheduled for November 2014.

In May 2017, the MLP Authority hosted a representative from the APG Secretariat for two days, to discuss with MLP Task Force members, the progress made and to be implemented by Samoa to achieve recommendations set by the ME assessment team.

In October 2016, the MLP Authority and MLP Taskforce compiled and finalized the AML/CFT National Policy, National Strategy and the Policy Paper in October 2016.

The MLP Authority is also the administrator of the Confiscated Assets Fund (CAF), which records all the proceeds of crimes after successful prosecution and the obtaining of forfeiture orders by the Attorney General's Office. The MLP Authority continues to liaise closely with the Ministry of Police, Ministry for Revenue's Customs Division and the Attorney General's Office in the transferring, storage and safe keeping of these assets.

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

### **2.1 Onsite Inspections**

The SFIU conducted AML/CFT risk-based onsite inspections to exam-

ine if the financial institutions are technically complying with its AML/CFT obligations, and how effectively they implemented and applied AML/CFT requirements. During the reviewed period, the SFIU carried out onsite inspections of the four commercial banks in FY2013/2014 and the thirteen money transfer operators in FY2014/2015.

### **2.2 Other activities**

In 2015, the SFIU, together with the Police and the Office of the Attorney General successfully prosecuted and convicted two individuals on charges of false accounting and obtaining by deception under the Crimes Act 2013. The case involved an alleged overseas pyramid scheme, which affected some countries in Asia. The Thailand FIU and the Royal Thai Police assisted with the case, with one of its senior police testifying in Samoa's Supreme Court against the defendants. The judgment was delivered by His Honour, the Chief Justice on 24 December 2015 and the sentencing was handed in February 2016.

The SFIU also commenced a process of engagement with the Casino sector, which was identified in the National Risk Assessment ("NRA") report as high-risk. This engagement started with an outreach/training day held on 28 January 2016, where the Whitesands Casino Samoa was expected to report any suspicious transaction reports (STRs) to the Central Bank.

### **2.3 Financial Information Received by the SFIU**

One of the key functions of the SFIU

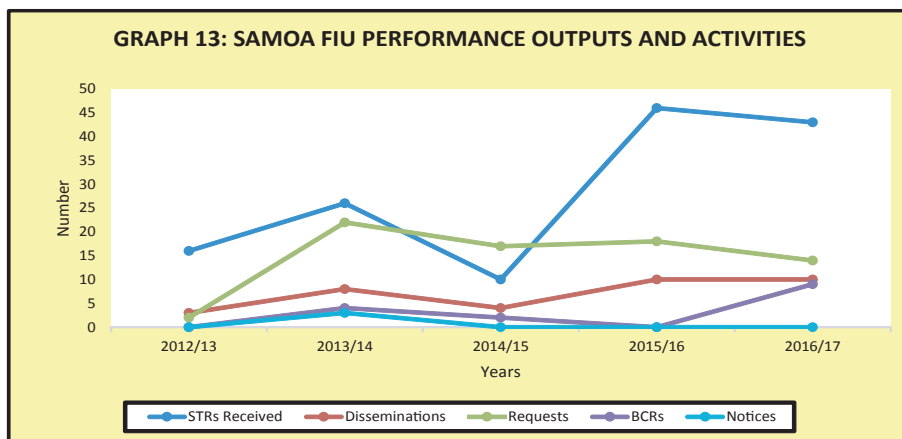
is to analyse reports. These reports consist of:

- Suspicious Transaction Reports (STRs) filed by financial institutions consistent with their obligations under the MLP (2007) and MLP Regulations (2009);
- Border Currency Reports (BCRs) received from border control authorities;
- Requests from government agencies for due diligence and mutual assistance matters as well as to financial institutions and regulatory agencies for information on any enquiries received;
- Dissemination of intelligence reports to law enforcement agencies for information and/or investigations; and
- Notices issued to financial institutions to raise awareness on ML/TF matters.

Over the reviewed period, there has been a steady increase in the volume of various reports handled by the SFIU. This reflects the increasing engagement and awareness of various AML/CFT areas responsibilities the supervision of the SFIU. (Please refer to table 5 and Graph 13).



TABLE 5: SFIU PERFORMANCE OUTPUTS AND ACTIVITIES					
	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
STRs Received	16	26	10	46	43
Disseminations	3	8	4	10	10
Requests	2	22	17	18	14
BCRs	0	4	2	0	9
Notices	0	3	0	0	0



Please refer to the Central Bank's Samoa Financial Intelligence Unit, for Supplementary Annual Report for the further details.

## VII. Corporate Services and Administration

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

### 1. Currency Operations

#### 1.1 Currency handling arrangement

The Central Bank acts as a retail distributor of local currency in the banking system. In making their daily deposits of banknotes and coins with the Central Bank, the commercial banks are required to have them sorted into fit and unfit quality. The quality of banknotes which, to a great extent, is affected by the manner in which members of the general public handle and care for the currency notes, was maintained in an acceptable level over the five years to FY2016/2017.

There were no changes to the currency handling arrangements between the Central Bank and the commercial banks. 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.

A total of 38 million banknotes were processed over the five year period with 30 million banknotes reissued and 8 million unfit banknotes worth \$186.4 million withdrawn from circulation and destroyed during the five years from 2013 to 2017. (Refer to Table 6).

	2012/2013		2013/2014		2014/2015		2015/2016		2016/2017	
	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)	Value (Millions)	Pieces (Millions)
Notes saved for reissue	238.4	7.2	248.8	7.4	169.1	4.7	211.8	6	175.8	5.2
Notes Destroyed	44	1.9	29.4	1.59	30	1	39	1.8	44	1.4
Total Processed	282.4	9.1	278.2	8.99	199.1	5.7	250.8	7.8	219.8	6.6

The Central Bank continued to liaise closely with the commercial banks during the year to ensure that good quality notes and coins were issued to the public and soiled banknotes were collected and returned to the Central Bank for destruction. The withdrawal of damaged and soiled notes reflects the commitment by the Central Bank to ensure that only good quality banknotes are issued to the general public and businesses through the commercial banks.

#### 1.2 Replacement of Damaged Banknotes

The Central Bank provides services to replace banknotes which have been accidentally damaged or are unfit for circulation. In the last five years, replaced notes decreased significantly. The most common types of damage to banknotes are limpness, tearing or accidental burning.

#### 1.3 Counterfeit Currency Notes

Counterfeit money is not reim-

bursed or compensated by the Central Bank. Therefore, the onus is always on the banks and members of the public to be vigilant and alert in detecting counterfeit money.

The Central Bank remained cautious and actively promoted public awareness of counterfeit banknotes over the five year period, launching another year long media campaign in 2016/17, including media releases in the TV, radio and print media to combat the increase in counterfeit notes received. (Refer to Table 7).

The total number of counterfeit notes discovered and presented to the Central Bank by the commercial banks, retailers and members of the general public fluctuated over the last five years. It was noted, however, that there was a significant drop of counterfeit in 2016/2017 compared to the previous year, reflecting a successful outcome from the counterfeit awareness programs.

Denomination	2012-2013		2013-2014		2014-2015		2015-2016		2016-2017	
	Value (\$)	Pieces	Value (\$)	Pieces	Value (\$)	Pieces	Value (\$)	Pieces	Value (\$)	Pieces
\$5	\$0.00	0	\$0.00	0	\$5.00	1	\$0.00	0	\$0.00	0
\$10	\$70.00	7	\$70.00	7	\$0.00	0	\$10.00	1	\$30.00	3
\$20	\$0.00	0	\$880.00	44	\$20.00	1	\$100.00	5	\$40.00	2
\$50	\$1,450.00	29	\$1,100.00	22	\$150.00	3	\$600.00	12	\$0.00	0
\$100	\$700.00	7	\$100.00	1	\$100.00	1	\$2,700.00	27	\$200.00	2
<b>Total</b>	<b>\$2,220.00</b>	<b>43</b>	<b>\$2,150.00</b>	<b>74</b>	<b>\$275.00</b>	<b>6</b>	<b>\$3,410.00</b>	<b>45</b>	<b>\$270.00</b>	<b>7</b>

This number indicated a decreasing trend over previous years, when compared to other countries in the region, with the value of counterfeit notes in Samoa low, presenting a minimal threat to the general public and local financial system. Nevertheless, the Central Bank continues to be cautious and will work closely with the Ministry of Police to assist in counterfeit detection techniques and support with counterfeit analysis.

#### 1.4 Numismatics: Currency notes and Coins for Collectors

Apart from being used to make payments, currency notes and coins are themselves valuable works of art and are well sought after by currency collectors all over the world. As with paintings and other works of art, the more unique and older a banknote or coin becomes, the more valuable it tends to be.

In comparison of the last five years, income from collectors increased significantly due to the reprint of our new banknotes and the sale of uncut sheets to collectors. The Bank also signed a number of agreements with partner mints for a variety of new coin programs.

## 2 Banking Operations

### 2.1 Interbank Settlement

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 their payments exchanges through their Exchange Settlement Accounts (ESAs) held at the Central Bank. In addition to settling domestic inter-bank payments, the ESAs are also used to settle foreign exchange deals, currency operations with the Central Bank and transactions in CBS securities. The commercial banks are required to keep their ESAs in credit at all times.

### 2.2 National Payment and Settlement System

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

irrevocable clearing and settlement of financial transactions between the Central Bank and commercial banks (participants) in an efficient and reliable manner. The new system will replace the current inter-bank settlement.

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

## 3. Internal Audit<sup>10</sup>

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

## 4. Human Resources

### 4.1 Policy development, reviews and monitoring

In the period of the report, the Human Resource Department reviewed several existing policies and guidelines within the Bank. To ensure the revised policies are practical and serve the best interests of

<sup>10</sup> The Internal Audit Department was re-established in March 2014 in response to a Safeguard Recommendation by the IMF's FSAP Mission that year.

the Bank, monitoring reports are provided on a bi-annual to annual basis to capture implementation issues. Staff engagement is also critical in ensuring a successful transition from any old to new policy. Regular awareness workshops were conducted to clarify the changes and strengthen a general understanding of the policies.

#### 4.2 Staff

The Central Bank of Samoa undertook major organizational changes over the 5-year period.

Initially undertaken in FY2012/2013, the first major review of the organization structure was to streamline policy and operation roles, incorporate new functions under central banking jurisdiction and realign roles and priorities with the existing legislation. The Bank structure was re-organised under three main groups namely the Monetary Stability Group, Financial Stability Group and Corporate Services Group. Each group was headed by an Assistant Governor. Four<sup>11</sup> new departments were established to perform new roles and functions and several existing units<sup>12</sup> were relocated within current departments to streamline policy and operation roles.

The second change introduced was contractual employment for management positions of the Bank. This was the trend in the Samoa public sector at the time to drive agency and individual performance. Employment contracts were for a three-year term and it was timely for the Bank to adopt this practice. At the end of June 2013, the Bank

employed a total of 88 staff. The increase of 5 staff from the previous FY 2011/2012 accounted for the gradual recruitment of positions under the restructure namely in areas of prudential supervision, prevention and combating of money laundering practices, risk management and financial inclusion.

In FY 2013/2014, the resourcing of staff for the new departments under the restructure continued, resulting in the total number of staff at the end of June 2014 to 108.

The impact of the restructure and contracting of management positions continued well into FY 2014/2015. The restructure defined some core functions and the Bank was successful in maintaining the number of employees to conduct its core business.

From June to September 2015, the Human Resource Department (HRD) undertook a Job Analysis Project. It reviewed (to some extent) and clearly set out position accountabilities. A few changes were made as a result of this undertaking:

1. Non-core functions:
  - a. Records Management and Library function transferred to Human Resource Department.
2. Core functions:
  - a. CBS organizational structure divided into Policy and Operation Groups.
  - b. Policy Group retained Monetary Stability (MSG) and Financial Soundness (FSG) Depart-

ments with the exception of the Anti-Money Laundering Unit and Financial Intelligence Unit that transferred to the Legal Department.

- c. The Operation Group retained the Corporate Service (CSG) Departments.

At the end of June 2015, the Central Bank employed a total of one hundred and four (104) staff.

In late 2015 and early 2016, most of the employment contracts effective since 2012 and 2013 respectively completed their three year terms. The recruitment process was initiated and the majority were reappointed on merit except two positions that recruited new personnel. One of the Assistant Governors at the time served his contract until it expired and completed his service with the Bank, after a career of 31 years. At the end of June 2016, the Central Bank employed a total of ninety-five (95) staff, compared to one hundred and four (104) in June 2015. The reduction reflected the high numbers of staff retirees and resignations compared to previous years.

The restructure and contractual employment had been in place for two years and the Bank recruited several graduates to drive some of its recent priorities in financial inclusion, supervision role, anti-money laundering and areas of financial markets. To control staff costs and maintain the Bank's ability to continue its operations, the Bank in FY2016/2017 introduced a sinking lid policy, where hiring additional staff was restricted but opportuni-

<sup>11</sup> Financial System Development, Legal, Internal Audit and Property and IT.

<sup>12</sup> Move exchange control to Financial Market, communications and publication to Legal, IT to PITD, Library to Economics and Records to Governor's office.

ty was given to current staff to fill vacant positions on merit. As a result, the Bank employed a total of eighty-nine (89) staff in June 2017, compared to ninety-five (95) in June 2016. The sinking lid policy decreased staff costs by 18 percent. (Please refer to Graph 14.)

#### 4.2.1 Recruitment and new appointments

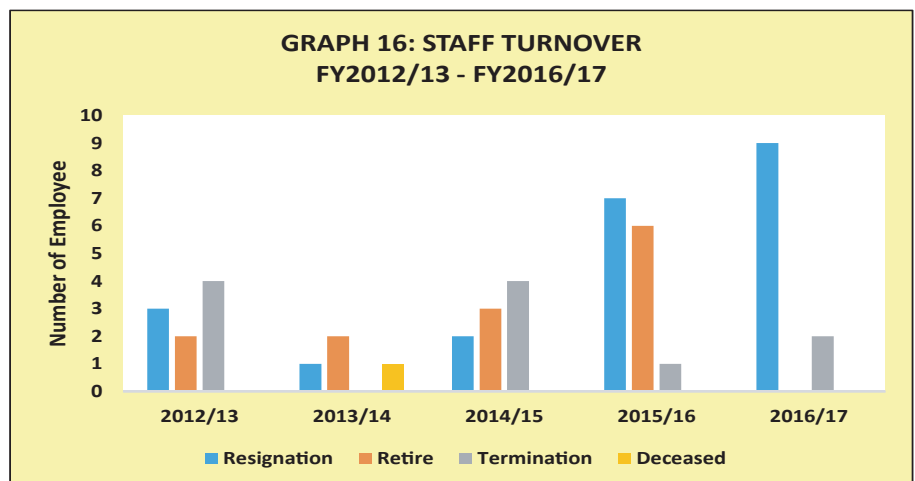
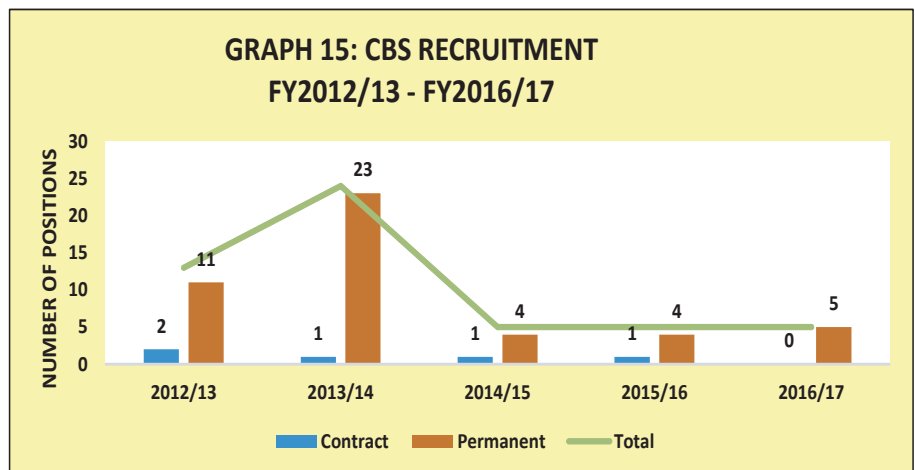
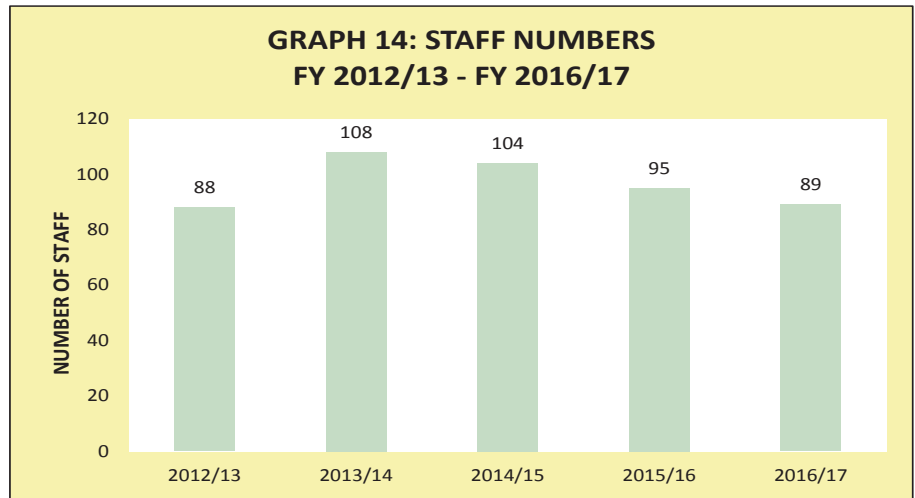
The Central Bank increased its recruitment, particularly in FY2012/13 and FY2013/14 due to additional positions under the revised organizational structure. Graph 12 below outlines the trend in the past five years. The number of new recruitments remained constant in the next three years, with the Bank's policy to recruit internally in FY2016/2017, providing a cost saving measure. (Please refer to Graph 15)

#### 4.2.2 Cessation of Service

The Bank experienced a gradual increase in staff turnover in the past five (5) years, mostly reflecting resignations due to permanent migration abroad. Retirement was another prominent factor in the last five-year period followed by staff terminations on breaches of conduct. The Bank records one deceased staff during the report period. (Please refer to Graphs 16.)

#### 4.2.3 Service Recognition

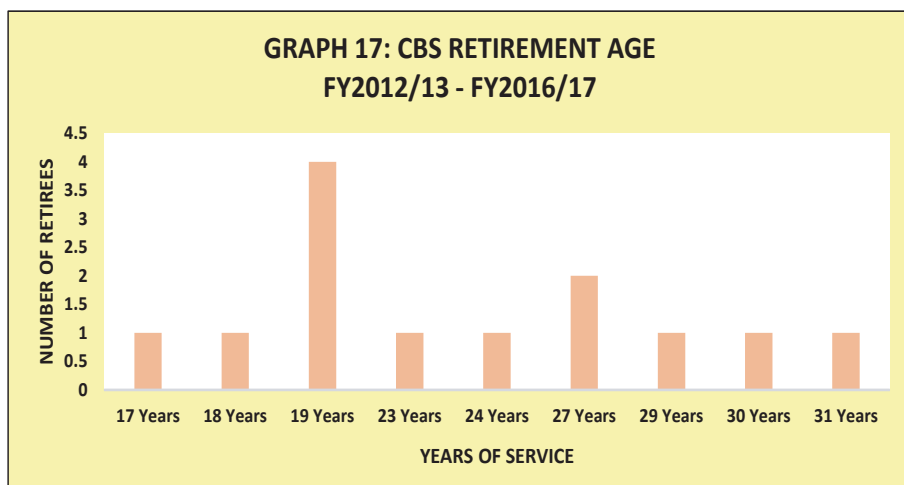
The Bank has farewelled a number of long serving and dedicated staff. Two staff had served just over 30 years with the Bank, while the majority served between 20 to 30 years of service. A few departing



staff had been with the Bank between 15 to 20 years. (Please refer to Graph 17.)

The Bank sincerely acknowledges the dedication and commendable service and commitment of these long serving members to the Cen-





tral Bank of Samoa over the past years.

### 4.3 Staff Trainings & Development

The Bank places high importance on staff development and trainings to strengthen staff capacity as well as build an experienced and highly qualified workforce. The Bank also provides staff the opportunity to pursue higher education through its staff education program. It aims to enhance staff knowledge and skills in respective areas of work while also improving long-term career prospects with the Bank.

#### 4.3.1 Local Training

The Bank in the past five years hosted and attended a range of training courses and workshops provided locally by the Asian Development Bank (ADB), Ministry of Foreign Affairs & Trade, Ministry of Education Sports and Culture (MESC), PFTAC Small Business Enterprise Centre (SBEC), Samoa Bureau of Statistics, Samoa Institute of Accountants, Samoa Public Commission (PSC), World Bank, and non-bank financial institutions such as the Develop-

ment Bank of Samoa and the National Provident Fund.

In addition, the Bank conducts an induction programme bi-annually for new recruits.

#### 4.3.2 Overseas Trainings (short-term training, workshops, and seminars)

Staff participation in overseas trainings or workshops enabled an update of knowledge into specific areas and functions of the Bank, ensuring a consistency in the application of the latest international standards in various areas of the Bank's core functions. Furthermore, during this period, a few staff also had the opportunity to undertake work attachments at the Reserve Bank of New Zealand and the Reserve Bank of Fiji.

#### 4.3.3 Overseas Meetings and Conferences (Representation and Liaisons)

The Bank's representation in international meetings and conferences also continued in the report period. In particular, the Bank provided

representation as part of the Government's delegation to the Annual Meetings for the ADB, IMF/World Bank, Forum Economic Ministers' Meeting and the PFTAC Steering Committee Meeting. Similarly, CBS continued to participate in the annual meetings specific to its central banking functions, namely those with AFI, APG, the Association of Financial Supervisors of Pacific Countries (AFSPC) as well as the South Pacific Central Bank Governors' Meetings.

#### 4.3.4 Donor support

The Central Bank's attendance in high level meetings have been made possible under the auspices of several international and multilateral institutions. The Central Bank wishes to acknowledge the valued and unwavering assistance of various institutions for their continued support through financial sponsorship and in providing training opportunities for its staff. These are namely the African, Caribbean and Pacific Group and European Commission; Alliance for Financial Inclusion (AFI) Foundation; Asian Infrastructure Investment Bank; Asian Development Bank; Asia Pacific Group on Money Laundering (APG); Association of Financial Supervisors of the Pacific Countries (AFSPC); Australian International Volunteer Program; Australian Prudential Regulation Authority (APRA); Australian Transaction Reports and Analysis Centre (AUSTRAC); Bank of China; Bank of England; Central Bank of Solomon Islands; Chinese Government; Commonwealth Secretariat; De La Rue; Financial Supervisory Commission of the Cook Islands; Government

of Isle of Man; International Monetary Fund; Korea Financial Intelligence Unit (KoFIU); Organization for Economic Co-operation and Development (OECD); Organization of American States; Pacific Islands Forum; Pacific Financial Technical Assistance Centre (PFTAC); Pacific Financial Inclusion Program/European Union (PFIP/EU); Reserve Bank of Australia; Reserve Bank of Fiji; Reserve Bank of Malaysia; Reserve Bank of New Zealand; SCOPE Global Consultants; Secretariat of the Pacific Community; Singapore Training Institute; Society for Worldwide Interbank Financial Telecommunication (SWIFT); United Nations Development Programme and United Nations Office on Drugs and Crime (UNODC).

#### 4.4 Long and short term educational courses

Staff seeking to improve their formal qualifications is supported through the Bank's education program, which allows part-time attendance to undertake undergraduate or post-graduate studies in relevant disciplines at a recognized tertiary institution. This is the most popular mode of study given the convenience and minimal disruption to their work at the Bank. Staff is encouraged to use this opportunity to obtain relevant higher qualifications.

Staff may also opt to take full-time studies overseas subject to conditions set out in the Bank's long term study policy.

In the last five years, the Bank's staff attained the following qualifications and professional achievements:

#### 4.5 Work experience programme, Volunteers and study visits

The Bank also provides a work-experience program, which aims to help students from local tertiary institutions and local secondary schools. Students are selected based on their chosen fields of study, such as management, economics and accounting, to prepare them for employment after graduation. During the period of this report, the Bank hosted students from Laumua o Punaoa Technical College in the areas of computing and data entry, as well as, students from the National University of Samoa Institute of Technology in areas of office administration.

The Bank also entertains educational study visits from secondary schools and tertiary institutions for research purposes and assignments. The Economics Department hosts these visits and provides the information required. This service is also extended to educational institutions outside of Samoa where the Bank hosted visits from Nu'uuli Polytechnic of American Samoa in

November 2014 and the US Linfield University of the United States of America in January 2015.

In February 2015, the Bank secured the services of two Australian international volunteers for the duration of six months and one year respectively. The first volunteer was an IT System Advisor who assisted in the review of the network and IT system architecture, IT Policies and provided an IT road map for the Bank to follow for the next 3-4 years. He was also responsible for establishing live connection to the updated version of the Great Plain Accounting Management Information system and securing assistance from the vendor. The second volunteer was a Communications Officer who was involved with building and enhancing staff capacity and training on areas such as media communication, internal communication and report writing as well as developing a work plan for media communication procedures and processes based on best practice. The volunteers were hosted under the Legal and Services Department, the Property and Information Technol-

Number of staff	Qualification	Tertiary Institution
2	Bachelor of Commerce	National University of Samoa
1	Bachelor of Commerce – Accounting & Management	National University of Samoa
1	Bachelor of Commerce – Economics & Management	University of the South Pacific
1	Bachelor of Science – Information Systems	National University of Samoa
1	Bachelor of Business – Human Resources	Central Queensland University
1	Master of Commerce majoring in Economics	University of Auckland
2	Chartered Accountant (CA)	Samoa Institute of Accountants
1	Postgraduate Certificate in Public Sector Management	University of the South Pacific
1	Postgraduate Diploma in Commerce in Banking & Finance	National University of Samoa
2	Postgraduate Diploma in Economics	University of the South Pacific, Alafua
1	Diploma in Computing	National University of Samoa
1	Professional Diploma in Legal Practice	College of Law Te Whare Kura Ture o Aotearoa
2	Apprenticeship in Electrical Trade (part time)	Australia-Pacific Technical College (APTC), Apia

ogy Department, and the Accounts and Budget Department.

## 5. Property and Information Technology

### 5.1 Occupancy

The Bank continued to maintain a 100 percent occupancy rate with 60 percent of its office space rented out to Government Ministries and International organizations.

### 5.2 Security

The CBS Building is guarded 24 hours by security officers working on three shifts each day and supported by a CCTV security surveillance system to ensure the safety and security of all CBS staff and tenants.

Other Building services such as Uninterrupted Power Supply (UPS) and generator, Water Supply, Air Conditioning system, Alarm/Emergency and Lighting system are closely monitored to ensure safety, security and efficiency of all services required.

### 5.3 Maintenance

The CBS Building is continuously assessed and monitored for renovations and improvements in office space where necessary to enhance the quality and efficient allocation of office space to meet tenant's needs as well as ensure the security of the building structure.

Some major developments that took place during the reviewed period included:

1. Major Upgrade to Level Sev-

en to accommodate the setup of the offices, meeting rooms and information technology (IT) server rooms for the Offices of the ADB and World Bank in Samoa;

2. Overhaul of the two Lifts for the Building
3. Major installation and upgrade of the UPS system;
4. Revamp of Level Six with renovated office area for the Minister of Finance;
5. Transforming the CBS library area in Level five to accommodate the Legal and Executive Services staff;
6. Constructing a covered car park in the staff parking area for office vehicles;
7. Replacement of all old cameras in the CCTV surveillance system to new digital cameras;
8. Replacement of old and worn out units within the main air-condition systems (coils and fan motors) to ensure a professional and friendly working environment;
9. Construction of IT back up office at the Bank's Ululoloa site;

### 5.4 Information Technology

Information technology plays a vital role in the Central Bank's management strategies and operations.

The Bank focused mainly on improving and upgrading its core systems and enhanced backup and replication of data. Some of the prominent upgrades and IT establishment in the last few years include:

- Major upgrade of the SWIFT system to accommodate mandatory updates and backups
- Upgrade of Great Plains Accounting system
- SmoothPay Gold Payroll System

- Upgrade of CCTV Security Surveillance Systems
- Installation of the Bloomberg Software for FMD
- Annual review and renewal of software licenses and upgrades

Information Technology is a rapidly changing field, requiring investment in the latest relevant technologies and up-skilling of staff. In 2015/16, IT staff attended a specialized training course with SWIFT Bootcamp in Singapore.

## VIII. Financial performance

**T**he financial outcomes of the five financial years from 2012/13 to 2016/17 were significantly affected by external factors beyond the control of the Bank. This largely reflected adverse exchange rate developments and world economic activities that affected the level of foreign interest income, the main source of income for the Bank.

*A summary of the financial statements in the five year reviewed is presented in Tables 9 and 10, for ease of reference.*

After a net loss of \$11.2 million in FY2011/2012, the Bank reduced its net losses to \$3.6 million in FY2012/2013 following a net loss from foreign currency revaluation of monetary assets and liabilities that more than offset an increase in income earned from note collectors and royalties from the sale of the Bank's numismatic coins. There was continued improvement in the following year, with a \$16.4 million net profit recorded in FY2013/2014, largely due to the recognition of \$18.8 million in seignorage income from the demonetization of old banknotes that were no longer legal tender. This reflected currencies that were no longer redeemable, consistent with CBS legislation and following the issuance of new banknotes that featured enhanced security features over the years since 2008. In accordance with the Bank's legislative obligation and following its net profit position, the Bank declared a dividend of \$6.4 million in FY2013/2014, which was paid to the Government.

Due to adverse exchange rate movements and subsequent impact on the revaluation of foreign exchange on the Bank's monetary assets and liabilities, a net loss of \$20.3 million was recorded in FY2014/2015, which included an operational loss of \$2.0 million from the imple-

mentation and performance of the Bank's statutory mandatory operations. In FY2015/2016, net losses from foreign exchange revaluation narrowed, which also reduced the total net loss to \$11.6 million. However, with the improvement in global economic and financial conditions and subsequently favourable exchange rate developments during FY2016/2017, a net gain on foreign exchange revaluation was recorded. Combined with a gradual expansion in foreign exchange holdings and a steady rise in global interest rates during the financial year, total interest income from the Bank's foreign exchange investments improved. As a result, total net profit of \$6.0 million was recorded in FY2016/2017, which was transferred to General Reserves, as stipulated in the CBS Act 2015.

Of the Bank's balance sheet, there was a 53.1 percent (\$180.4 million) increase in total assets (to \$519.9 million) over the reviewed period from FY2011/2012. This was mainly due to a notable growth in total local currency assets, partially reflecting the increased extension of credit line facilities by the Bank to eligible non-monetary financial institutions since FY2013/2014. (Refer to further details on these facilities in section 3 of Part V of this annual report). Total foreign currency assets

also recorded a strong position, with a 22.8 percent increase over the five year period under review. This reflected an improved official foreign exchange reserve holding, as well as the transfer of the management of the IMF Accounts to the Central Bank (from the Ministry of Finance) starting in FY2014/2015.

By comparison, total liabilities increased 61.6 percent (\$191.9 million) to \$503.6 million over the five years to FY2016/2017.

The Bank's net assets were recorded at \$16.4 million as at end FY2016/2017, compared to \$27.9 million at end FY2011/2012. Total Paid-up Capital was \$20.0 million while total reserves decreased markedly in the five years to FY2016/2017, due to the adverse impact of the movements in exchange rates in addition to a net loss from running the Bank's operations, given its increased mandatory responsibilities.

Table 9

<b>Central Bank of Samoa</b>						
<b>Statement of Financial Performance</b>						
<b>For the financial years ending June</b>						
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>
<b>Incomes</b>						
Interest income on cash and investments	8,986	6,857	5,917	5,636	4,877	5,347
Interest income on lending	556	758	632	892	1,356	1,768
Rental income	1,133	1,146	1,141	1,140	1,149	1,277
Grant income	-	-	-	125	-	-
Demonitised currency	-	-	18,808	-	-	-
Other income	650	4,598	509	674	679	2,643
<b>Total income</b>	<b>11,325</b>	<b>13,359</b>	<b>27,007</b>	<b>8,467</b>	<b>8,061</b>	<b>11,035</b>
<b>Expenses</b>						
Administrative Expenses	1154	1354	1959	1300	1,637	1,657
Board Expenses	16	20	18	16	13	14
Communication costs	390	298	240	278	299	307
Currency issue costs	4121	1624	2295	1280	1,585	2,383
Depreciation	1227	1246	1189	1186	1,158	1,148
Directors Fee	36	33	42	48	59	70
External audit costs	26	31	26	35	35	35
Finance costs	1292	1627	1785	248	495	595
Grant costs	-	-	-	125	-	-
Occupancy costs	525	720	806	597	594	686
Staff costs	3709	5930	5629	5260	5,535	4,541
Withholding tax on interest income	46	38	56	66	55	41
<b>TOTAL EXPENSES</b>	<b>12,542</b>	<b>12,921</b>	<b>14,045</b>	<b>10,439</b>	<b>11,465</b>	<b>11,477</b>
<b>Loss before foreign translation</b>	<b>(1,217)</b>	<b>438</b>	<b>12,962</b>	<b>(1,972)</b>	<b>(3,404)</b>	<b>(442)</b>
Net gains/(losses) on translation of foreign currency monetary assets and liabilities	(9,983)	(4,035)	3,410	(18,355)	(8,173)	6,491
<b>Net Profit/(Loss) for the year</b>	<b>(11,200)</b>	<b>(3,597)</b>	<b>16,372</b>	<b>(20,327)</b>	<b>(11,577)</b>	<b>6,049</b>

Table 10

<b>Central Bank of Samoa Statement of Financial Position As of 30 June</b>						
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>	<b>\$('000)</b>
<b>ASSETS</b>						
Foreign Currency Assets						
Cash and fixed deposit balances	239,552	161,376	208,986	260,704	195,991	251,749
Bank Bills	36,012	65,624	44,820	3,713	-	-
International Monetary Fund	-	-	-	85,359	92,481	86,517
Accrued interest	1,619	1,033	1,065	721	975	1,999
<b>Total Foreign Currency Assets</b>	<b>277,183</b>	<b>228,033</b>	<b>254,871</b>	<b>350,497</b>	<b>289,447</b>	<b>340,265</b>
Local Currency Assets						
Cash and fixed deposit balances	2,953	2,976	2,626	19,278	30,205	40,494
Accrued interest	13	14	19	11	12	12
Currency inventory	13,003	14,168	13,571	12,335	10,758	15,490
Receivables and prepayments	3,756	3,638	7,228	8,508	11,150	6,800
Credit line facility	22,789	33,814	78,080	95,439	100,510	99,054
Secured Lending	2,500	2,700	-	-	-	-
Preproperty, plant and equipment	17,406	16,435	20,110	19,129	18,230	17,884
<b>Total Local Currency Assets</b>	<b>62,420</b>	<b>73,745</b>	<b>121,634</b>	<b>154,700</b>	<b>170,865</b>	<b>179,734</b>
<b>TOTAL ASSETS</b>	<b>339,603</b>	<b>301,778</b>	<b>376,505</b>	<b>505,197</b>	<b>460,312</b>	<b>519,999</b>
<b>LIABILITIES</b>						
Foreign Currency Liabilities						
<b>Deposits</b>	57,532	50,885	55,900	66,134	60,896	67,026
IMF facilities	21,522	39,345	40,634	39,744	35,128	30,354
International Monetary Fund	-	-	-	79,376	90,704	88,828
Other liabilities	6	9	13	9	16	16
<b>Total Foreign Currency Liabilities</b>	<b>79,060</b>	<b>90,239</b>	<b>96,547</b>	<b>185,263</b>	<b>186,744</b>	<b>186,224</b>
<b>Local Currency Liabilities</b>						
Deposits	146,686	105,528	170,230	191,897	151,958	199,498
Currency in circulation	75,711	75,002	64,143	76,109	77,900	89,609
Central Bank Securities	8,994	4,997	9,995	11,999	499	-
Deferred income on grant	-	-	-	37	30	30
Deferred income on grant assets	-	-	-	37	-	-
Payables and accruals	752	783	645	17,222	32,499	27,821
Provision for employee entitlements	536	962	787	728	354	441
<b>Total Local Currency Liabilities</b>	<b>232,679</b>	<b>187,272</b>	<b>245,800</b>	<b>298,029</b>	<b>263,240</b>	<b>317,399</b>
<b>TOTAL LIABILITIES</b>	<b>311,739</b>	<b>277,511</b>	<b>342,347</b>	<b>483,292</b>	<b>449,984</b>	<b>503,623</b>
<b>CAPITAL AND RESERVES</b>						
Capital	20,000	20,000	20,000	20,000	20,000	20,000
General reserve	1,028	1,466	7,947	14,049	10,645	10,202
Unrealised foreign exchange revaluation reserve	6,836	2,801	6,211	(12,144)	(20,317)	(13,826)
<b>TOTAL CAPITAL AND RESERVES</b>	<b>27,864</b>	<b>24,267</b>	<b>34,158</b>	<b>21,905</b>	<b>10,328</b>	<b>16,376</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>	<b>339,603</b>	<b>301,778</b>	<b>376,505</b>	<b>505,197</b>	<b>460,312</b>	<b>519,999</b>

Please refer to Annex 1 for the set of Audit Opinions related to the individual financial accounts of the five financial year periods ending June 2017.

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

## FY2012/2013 – FY2016/2017

**T**his section provides an overview of the major events and developments relating to the Central Bank's operations and functions in the reviewed period.

### FY2012/2013

#### July 2012

- i. Central Bank macro-economic forecasts and monetary policy stance for 2012/2013 were considered by the Board of Directors. The Board approved the continuation of the accommodative monetary policy to stimulate economic growth.

#### February 2013

- i. Update of Central Bank macro-economic forecasts and monetary policy stance for 2012/2013 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.

#### March 2013

- i. CBS Audit Committee Board was established to provide an auditing oversight over the operations of the Bank.
- ii. On the 13<sup>th</sup> to 22<sup>nd</sup>, the IMF conducted a Staff visit to Samoa. This included an assessment of a request by Samoa for access to the IMF's Rapid Credit Facility following Tropical Cyclone Evan's devastation in December 2012.

#### May 2013

- i. Samoa submitted its progress report regarding recommendations made in the development of its Anti-Money Laundering

and Countering the Financing of Terrorist Activities (AML/CFT) Regime.

#### June 2013

- i. On the 10<sup>th</sup>, the Tala exchange rate basket, which was reviewed and approved by the Board of Directors on the 4<sup>th</sup>, became effective. The Tala basket still comprises of the currencies of New Zealand, United States of America, Australia and European Euro.

### FY2013/2014

#### July 2013

- i. Central Bank macro-economic forecasts and monetary policy stance for 2013/2014 were considered by the Board of Directors. The Board approved the continuation of the accommodative monetary policy to stimulate economic growth.

#### January 2014

- i. Update of Central Bank macro-economic forecasts and monetary policy stance for 2013/2014 based on the first six months' review. The Board approved the continuation of the accommodative monetary policy to stimulate economic growth for the remaining six month of the year.

#### February 2014

- i. From the 2<sup>nd</sup> to 8<sup>th</sup>, the CBS management team undertook a Strategic Corporate Plan Work-

shop to develop a Strategic Plan for the Bank.

- ii. A high level mission of the Asia Pacific Group on Money Laundering (APG) visited Samoa to assess Samoa's AML regime.
- iii. On the 24<sup>th</sup>, the Tala exchange rate basket, which was reviewed and approved by the Board of Directors on the 21<sup>st</sup>, became effective. The Tala basket continued to comprise of the currencies of New Zealand, United States of America, Australia and European Euro.

#### March 2014

- i. On the 3<sup>rd</sup>, the recommended changes to Exchange Control Policies and Procedures took effect, with the publication and dissemination of the first Exchange Control Manual to the commercial banks and money transfer operators. At the same time, the first Exchange Control Information Booklet was published and made available on the CBS website. One of the changes to exchange control policies included the need for prior CBS approval on management fees.
- ii. The Counter Terrorism Act was passed by Parliament; resulting in Samoa's exit from the APG's enhanced follow-up process and shifted towards a regular follow-up process
- iii. From March 31<sup>st</sup> to April 24<sup>th</sup>, the IMF conducted a Staff visit to Samoa to review the recovery process from Tropical Cyclone Evan.

#### April 2014

- i. On the 7<sup>th</sup>, the National Payment System Act 2014 was enacted following collaborative efforts between the Central Bank and the World Bank.

#### June 2014

- i. The Central Bank of Samoa's Strategic Plan 2014 – 2018 was officially published.
- ii. The first National Risk Assessment Report (i.e. 2012 NRA) was finalized.

### FY2014/2015

#### July 2014

- i. Central Bank macro-economic forecasts and monetary policy stance for 2014/2015 were considered by the Board of Directors. The Board approved the continuation of the accommodative monetary policy to stimulate economic growth.

#### October 2014

- i. Starting from October 20<sup>th</sup> to November 3<sup>rd</sup>, Samoa underwent its' first Financial Sector Assessment Program conducted by International Monetary Fund and World Bank staff. The assessment was to identify key sources of systemic risk in the financial sector as well as the main developmental challenges and aspirations, for the implementation of relevant policies.

#### November 2014

- i. On 3<sup>rd</sup> to 14<sup>th</sup>, Samoa's third Mutual Evaluation (ME) onsite visit took place under the revised FATF Standards and 2013 Assessment Methodology.

#### February 2015

- i. On the 5<sup>th</sup>, the Tala exchange rate basket, which was reviewed and approved by the Board of Directors on the 4<sup>th</sup>, became effective. The Tala basket again still comprise of the currencies of New Zealand, United States of America, Australia and European Euro.
- ii. On the 23<sup>rd</sup> to 6<sup>th</sup> March, the IMF conducted its Article IV Consultation of Samoa.

#### March 2015

- i. On the 24<sup>th</sup>, the CBS Board of Directors approved the Recommendations from the Review of the Foreign Investment Policy and Guidelines for 2015. This included the change in the minimum credit rating for acceptable investment banks as well as the opportunity to invest in internationally issued Government Bonds.
- ii. The Board also approved the continuation of the accommodative monetary policy to stimulate economic growth for the remaining six months of 2014/2015 based on the update of Central Bank macro-economic forecasts and monetary policy stance.

#### April 2015

- i. On 13<sup>th</sup> to 17<sup>th</sup>, a high-level 7-member team from Samoa (which included members from the Ministry of Education, Sports and Culture; the National University of Samoa, and the Central Bank of Samoa) undertook a Study Visit of Fiji to assess the integration of financial education in Fiji's education curriculum.

- ii. On the 17<sup>th</sup>, the Bank South Pacific (Samoa) Limited was issued a banking license to operate in Samoa. This followed the regional sale of Westpac Banking Corporation's Pacific operations to Bank South Pacific (BSP) Limited, which included Samoa, Tonga, Solomon Islands and Vanuatu (excluding Fiji and Papua New Guinea).
- iii. On the 13<sup>th</sup> April to 29<sup>th</sup> May, CBS conducted AML onsite inspections of 13 licensed money transfer operators.

### FY2015/2016

#### July 2015

- i. Central Bank macro-economic forecasts and monetary policy stance for 2015/2016 were considered by the Board of Directors. The Board approved the continuation of the accommodative monetary policy to provide further stimulus to the economic recovery.
- ii. On the 10<sup>th</sup>, the Westpac Banking Corporation voluntarily revoked its banking license in Samoa as part of the final settlement of its' regional sale to the Bank South Pacific (BSP) Group. On the same day, BSP (Samoa) Limited commenced operations in Samoa.
- iii. Samoa's third Mutual Evaluation report was adopted at the APG Plenary Meeting in Auckland. As a result, Samoa was placed on an enhanced (expedited) follow-up category.

#### August 2015

- i. On the 3<sup>rd</sup>, the 2015 Exchange Control Manual was effective,



mainly reflecting the clarification and strengthening of procedural requirements.

- ii. On the 24<sup>th</sup> to 4<sup>th</sup> September, the Central Bank received a Technical Assistance from the IMF-Statistics Department to update and improve the coverage and methodology of compiling monetary and financial statistics in Sāmoa.

#### **September 2015**

- i. On the 15<sup>th</sup>, the CBS Act 2015 was effective.

#### **November 2015**

- i. On 3<sup>rd</sup> to 4<sup>th</sup>, a National Financial Inclusion Strategy (NFIS) Workshop was conducted, with nearly 100 stakeholders from public and private sector institutions to identify and develop a roadmap for a greater financial inclusion in Samoa.
- ii. Launch of the Demand Side Survey Report on Access and Usage of Financial Inclusion in Samoa.

#### **January 2016**

- i. On the 31<sup>st</sup>, Samoa finalized its second National Risk Assessment Report (i.e. the 2014 NRA) and submitted its first Follow-Up Report (FUR) to the APG, highlighting some of the progress implemented by Samoa since the completion of its Mutual Evaluation Assessment in 2014.

#### **February 2016**

- i. On the 1<sup>st</sup>, the Tala exchange rate basket, which was reviewed and approved by the Board of Directors on the 29<sup>th</sup> January, became effective. The

Tala basket still comprises of the currencies of New Zealand, United States of America, Australia and European Euro.

#### **March 2016**

- i. On the 23<sup>rd</sup>, Cabinet endorsed the 2012 and 2014 National Risk Assessment (NRA) Reports for implementation by members of the Money Laundering Prevention Task Force.

#### **April 2016**

- i. On the 22<sup>nd</sup>, the CBS Board of Directors approved the recommendations from the Review of the CBS' Foreign Investment Policy and Guidelines for 2016.
- ii. Update of Central Bank macro-economic forecasts and monetary policy stance for 2015/2016 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.

#### **May 2016**

- i. On the 16<sup>th</sup> to 20<sup>th</sup>, the IMF undertook a Staff Visit to Samoa, which also included an initial survey of the impact of de-risking in Samoa.
- ii. On the 27<sup>th</sup>, the first National Financial Inclusion Taskforce (NFIT) Meeting took place, to drive the implementation of the National Strategy and ensure an efficient coordination by stakeholders to achieve the goals and objectives of the National Financial Inclusion Strategy (NFIS).

#### **June 2016**

- i. On the 29<sup>th</sup>, Cabinet endorsed the formation and terms of reference for the National Financial Inclusion Taskforce.

#### **FY2016/2017**

#### **July 2016**

- i. Central Bank macro-economic forecasts and monetary policy stance for 2016/2017 were considered by the Board of Directors. The Board approved for monetary policy to remain accommodative to support economic activities.

#### **August 2016**

- i. On the 1<sup>st</sup>, the 2016 Exchange Control Manual was effective. There were only minor changes to procedures as well as the approval granted only to hotels and money changers to deposit foreign currency banknotes into their foreign currency deposit accounts with the domestic banking system.

#### **September 2016**

- i. On the 23<sup>rd</sup>, CBS undertook surprise inspections of retail operations who were seen to be conducting unlicensed foreign exchange activities.

#### **October 2016**

- i. The Samoa Money Laundering Prevention Taskforce and Money Laundering Prevention Authority finalized the AML/CFT National Policy, National Strategy and Policy Paper; an indication of Samoa's commitment to strengthen its AML/CFT regime.

#### December 2016

- i. On the 22<sup>nd</sup>, as part of its AML framework, CBS conducted a routine onsite inspection of Whitesand Casino.

#### January 2017

- i. On the 27<sup>th</sup>, the National Financial Inclusion Strategy 2017 – 2020 was launched.
- ii. On the 31<sup>st</sup>, Samoa submitted its second follow up report to the APG, requesting the re-rating of certain recommendations given progress undertaken on technical compliance as well as the implementation of its AML/CFT National Strategy 2016-2020 and production of its National Policy on AML/CFT and AML/CFT Policy Paper for 2016-2020.

#### February 2017

- 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 8<sup>th</sup> to 20<sup>th</sup>, the IMF undertook an Article IV Mission to assess Samoa's economy.
- iii. Samoa signed up to be part of the IMF's Enhanced General Data Dissemination Systems (eGDDS), which included a Mission to Samoa on the 13<sup>th</sup> to 17<sup>th</sup> to assist local data providers in updating their national data summary page.
- iv. On the 17<sup>th</sup>, an updated version of the 2014 National Risk Assessment Report (on AML/CFT regime) was distributed to all

financial institutions.

#### March 2017

- i. On the 2<sup>nd</sup> to 14<sup>th</sup>, the IMF fielded a Technical Assistance Mission on Financial Stability Analysis to assist the authorities in enhancing financial stability analysis and reporting.
- ii. On the 29<sup>th</sup> March to 11<sup>th</sup> April, CBS conducted an AML onsite inspection of the National Bank of Samoa as part of its annual work plan.

#### April 2017

- i. On the 12<sup>th</sup>, the CBS Board of Directors approved the recommendations from the Review of the CBS' Foreign Investment Policy and Guidelines for 2017.
- ii. On the 13<sup>th</sup>, Sāmoa launched its National Summary Data Page (NSDP) at the IMF Headquarter in Washington DC, making Sāmoa the first country in the Asia and Pacific Region to implement the Enhanced-General Data Dissemination System (EGDDS).
- iii. On the 20<sup>th</sup>, Central Bank published its first sets of monetary financial statistics (MFS), external sector statistics (BOP) and financial soundness indicators(FSI) on IMF-EGDDS page in SDMX files.
- iv. Update of Central Bank macro-economic forecasts and monetary policy stance for 2016/2017 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.

#### June 2017

- i. On the 19<sup>th</sup> to 23<sup>rd</sup>, the IMF undertook a Mission to Samoa to assess the impact of de-risking, and identify the challenges and possible solutions to its remittance channels from this issue, including the loss of correspondent banking relationships in affected countries.
- ii. On the 19<sup>th</sup> to 30<sup>th</sup>, CBS in collaboration with the Australian Prudential Regulation Authority (APRA) conducted a full scope prudential onsite examination of the Bank South Pacific (Samoa) Limited.
- iii. On the 26<sup>th</sup> to 30<sup>th</sup>, an AML onsite inspection of BSP (Samoa) was conducted in conjunction with the prudential onsite examination.

\*\*\*\*\*

# X. Annex 1 - Audit Opinions

Financial Year 2012/2013

a. Betham & Co



## Independent Auditors' Report to the Board of Directors of Central Bank of Samoa

We have audited the accompanying financial report of the Central Bank of Samoa, which comprises the statement of financial position as at 30 June 2013, the statements of financial performance, cash flows and changes in capital and reserves for the year then ended, a summary of significant accounting policies and other explanatory notes.

### The Responsibility of the Board of Directors for the Financial Report

The Board of Directors are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial report.

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

### Auditor's Opinion

In our opinion, the financial report of the Central Bank of Samoa is in accordance with the Central Bank Act 1984 and Amendments, including:

- a) giving a true and fair view of the financial position of the Central Bank of Samoa as at 30 June 2013, and of its performance for the year ended on that date; and
- b) complying with International Financial Reporting Standards as disclosed in Note 2.

  
**BETHAM & Co.**  
Chartered Accountants

Apia  
22 April, 2014

Financial Year 2013/2014

a. Betham & Co

**Betham&co**  
chartered accountants and business advisors

**Independent audit report  
To the Auditor General and Controller  
on Central Bank of Samoa**

We have audited the accompanying financial report of the Central Bank of Samoa, which comprises the statement of financial position as at 30 June 2014, the statements of financial performance, cash flows and changes in capital and reserves for the year then ended, a summary of significant accounting policies and other explanatory notes.

**The Responsibility of the Board of Directors for the Financial Report**

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**Auditor's Responsibility**

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

**Auditor's Opinion**

In our opinion, the financial report of the Central Bank of Samoa is in accordance with the Central Bank Act 1984 and Amendments, including:

- a) giving a true and fair view of the financial position of the Central Bank of Samoa as at 30 June 2014, and of its financial performance, changes in equity and cash flows for the year ended on that date; and
- b) complying with International Financial Reporting Standards as disclosed in Note 2.

*Betham & Co*  
BETHAM & CO.

Chartered Accountants

Apia

Dated *29 October 2014*



A member of AGN International Ltd., a worldwide association of separate and independent accounting and consulting firms.  
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[www.bethamco.com](http://www.bethamco.com)      [www.agn.org](http://www.agn.org)

Financial Year 2013/2014

**b. Audit Office**

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Website: [www.audit.gov.ws](http://www.audit.gov.ws)

*Please address all correspondences  
to the Controller & Auditor-General.*



P.O. Box 13  
APIA, SAMOA

## AUDIT OFFICE

### CENTRAL BANK OF SAMOA

We have audited the accompanying Financial Report of the Central Bank of Samoa which comprises the Statement of Financial Position as at 30 June 2014 and the Statements of Financial Performance, Cash Flows and Changes in Capital and Reserves for the year then ended, a summary of significant accounting policies and other explanatory notes. The Accounting Firm of Betham & Co, Chartered Accountants and Business Advisors, assisted in this audit.

### Responsibility for the Financial Report

The Board of Directors is responsible for the preparation and fair presentation of the Financial Report in accordance with International Financial Reporting Standards. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Financial Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

### Unqualified Audit Opinion

In our opinion, the Financial Report of the Central Bank of Samoa is in accordance with the Central Bank Act 1984 and Amendments, including:

1. Giving a true and fair view of the financial position of the Central Bank of Samoa as at 30 June 2014, and of its financial performance and cash flows for the year then ended; and
2. Complying with International Financial Reporting Standards.

Our audit was completed on the 29<sup>th</sup> October 2014 and our opinion is expressed as at that date.

Apia, Samoa  
31 October 2014

*C. Afele*  
Fuimaono Pāpali'i C.G. Afele  
**CONTROLLER AND AUDITOR-GENERAL**



**Independent audit report  
To the Auditor General and Controller  
on Central Bank of Samoa**

We have audited the accompanying financial report of the Central Bank of Samoa, which comprises the statement of financial position as at 30 June 2015, the statements of financial performance, cash flows and changes in capital and reserves for the year then ended, a summary of significant accounting policies and other explanatory notes.

**The Responsibility of the Board of Directors for the Financial Report**

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**Auditor's Responsibility**

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

**Auditor's Opinion**

In our opinion, the financial report of the Central Bank of Samoa is in accordance with the Central Bank Act 1984 and Amendments, including:

- a) giving a true and fair view of the financial position of the Central Bank of Samoa as at 30 June 2015, and of its performance for the year ended on that date; and
- b) complying with International Financial Reporting Standards as disclosed in Note 2.

**BETHAM & Co.**  
Chartered Accountants

Apia  
Date *October 29, 2015*

Financial Year 2014/2015  
b. Audit Office

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Website: [www.audit.gov.ws](http://www.audit.gov.ws)

*Please address all correspondences  
to the Controller & Auditor-General*



P.O. Box 13  
APIA, SAMOA

## AUDIT OFFICE

### CENTRAL BANK OF SAMOA

We have audited the accompanying Financial Report of the Central Bank of Samoa which comprises the Statement of Financial Position as at 30 June 2015 and the Statements of Financial Performance, Cash Flows and Changes in Capital and Reserves for the year then ended, a summary of significant accounting policies and other explanatory notes. The Accounting Firm of Betham & Co. Chartered Accountants and Business Advisors, assisted in this audit.

### Responsibility for the Financial Report

The Board of Directors is responsible for the preparation and fair presentation of the Financial Report in accordance with International Financial Reporting Standards. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Financial Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

### Unqualified Audit Opinion

In our opinion, the Financial Report of the Central Bank of Samoa is in accordance with the Central Bank Act 1984 and Amendments, including:

1. Giving a true and fair view of the financial position of the Central Bank of Samoa as at 30 June 2015, and of its financial performance and cash flows for the year then ended; and
2. Complying with International Financial Reporting Standards as disclosed in Note 2.

Apia, Samoa  
29 October 2015

*C. G. Afele*  
Fuimaono Papali'i C.G. Afele  
**CONTROLLER AND AUDITOR-GENERAL**



**Independent audit report  
To the Controller and Auditor General  
on Central Bank of Samoa**

We have audited the accompanying financial report of the Central Bank of Samoa, which comprises the statement of financial position as at 30 June 2016, the statements of financial performance, cash flows and changes in capital and reserves for the year then ended, a summary of significant accounting policies and other explanatory notes.

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**Auditor's Responsibility**

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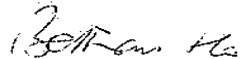
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- b) complying with International Financial Reporting Standards as disclosed in Note 2.



**BETHAM & Co.**  
Chartered Accountants

Apia

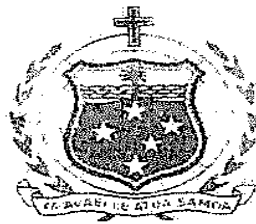
Date *October 31, 2016*



Financial Year 2015/2016  
b. Audit Office

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Please address all correspondences  
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AUDIT OFFICE

P.O Box 13  
APIA, SAMOA

## REPORT OF THE AUDIT OFFICE

### CENTRAL BANK OF SAMOA

We have audited the accompanying Financial Report of the Central Bank of Samoa, which comprises the Statement of Financial Position as at 30 June 2016, the Statements of Financial Performance, Cash Flows and Changes in Capital and Reserves for the year then ended, a summary of significant accounting policies and other explanatory notes. The Accounting Firm of Betham & Co, Chartered Accountants and Business Advisors, assisted in this audit.

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1. Giving a true and fair view of the financial position of the Central Bank of Samoa as at 30 June 2016, and of its financial performance, and cash flows for the year then ended; and
2. Complying with International Financial Reporting Standards as disclosed in Note 2.

Apia, Samoa  
31 October 2016

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



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## INDEPENDENT AUDITOR'S REPORT To the Controller and Auditor General on Central Bank of Samoa

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Central Bank of Samoa, which comprises:

- the statement of financial position as at June 30, 2017;
- the statement of financial performance, statement of changes in equity, and statement of cash flows for the year then ended; 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 as at June 30, 2017, and its financial performance and its 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 the Financial Statements* section of our report. We are independent of the Secretariat 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.

#### 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 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 Secretariat or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 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 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 Central Bank of Samoa'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 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 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.

**BDO**  
Chartered Accountants



Taimalie Ernest Betham  
Partner

Apia  
Samoa  
31 October 2017

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## AUDIT OFFICE

### REPORT OF THE AUDIT OFFICE

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

##### Audit Opinion

We have audited the accompanying Financial Statements of the Central Bank of Samoa which comprise the Statement of Financial Position as at 30 June 2017, the Statements of Financial Performance, 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 2017, and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

##### Basis for Opinion

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

##### Responsibilities of Those Charged with Governance for the Financial Statements

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

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

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

##### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Financial Year 2016/2017  
b. Audit Office

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**AUDIT OFFICE**

- 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 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.

Our audit was completed on the 31<sup>st</sup> October 2017 and our opinion is expressed as at that date.

Apia, Samoa  
31 October 2017

Fa'amatuainu Dennis Margraff  
ACTING CONTROLLER AND AUDITOR GENERAL