CENTRAL BANK OF SAMOA

PRUDENTIAL SUPERVISION OF BANKS

PRUDENTIAL STATEMENTS

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WESTERN SAMOA

CENTRAL BANK OF SAMOA
PRUDENTIAL SUPERVISION OF BANKS

This booklet comprises public statements which the Central Bank of Samoa has issued on aspects of its prudential supervision of banks. Future statements will be issued as press releases.

The Central Bank of Samoa exercises the powers delegated to it under PART IV, Section 9(2) of the Central Bank of Samoa Act 1984.

Copies of this booklet can be purchased from the Central Bank of Samoa.

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CENTRAL BANK OF SAMOA

Prudential Statement No. 1

Supervision of banks

This note outlines the Central Bank of Samoa's overall approach to the supervision of banks.

The need for supervision

1. Banks play a vital role in the economic welfare and development of Western Samoa. They serve as major depositories and intermediaries of funds entrusted to them by the public and are able to channel these funds to the different sectors of the economy. Banks also provide both domestic and international payment services. Given this important role and the strong public interest in them, the Central Bank of Samoa has responsibilities relative to the supervision and regulation of banking institutions (under the Central Bank of Samoa Act 1984) that are aimed both at promoting public confidence in banks and at maintaining the health and stability of the financial system in general.

The Central Bank's approach to supervision

2. **The Bank's approach to supervision encompasses:**

    a. licensing to ensure that a licence is issued not only on the basis that it will be to the economic advantage of Western Samoa, but also on the basis that the bank seeking a licence will be viable and that the applicants, substantial shareholders and management are qualified to operate a bank; and

    b. requiring banks to adhere to prudential standards to reduce the likelihood of solvency and liquidity problems by limiting their risk-taking to prudent levels and by enhancing their capacity to absorb any adverse developments that may occur.

3. The ultimate responsibility for the affairs of a bank resides solely in the board of directors and management of the bank itself. The Central Bank's focus is towards satisfying itself that individual banks follow prudent management practices and that prudential standards are kept under review to take account of changing circumstances.

4. The Central Bank continuously assesses the performance of each bank through its off-site surveillance activities. Particular attention is given to capital and liquidity adequacy; asset concentration and risk exposure; asset quality and adequacy of provisions for losses and interest suspension; and in-house ("insider" or "connected") lending and activities unrelated to banking. To this end, the Bank collects and evaluates periodic reports from individual banks and discusses with them their operations from a prudential viewpoint.

5. The Bank prefers to develop, in close consultation with banks, prudential standards that will serve as triggers for discussions with banks on particular aspects of their operations. The objective is to develop a consensus because prudential standards can constrain banks' commercial judgments concerning the volume and quality of assets that they may hold and this can affect banks' profitability. However, the Bank will, if it becomes necessary, assume the role of final arbiter.

6. The Central Bank envisages an increased involvement by banks' external auditors. Annual external audits are intended to ascertain the reliability of financial information, i.e. if they reflect the "true and fair" financial condition of a bank. The purpose of having an increased involvement by banks' external auditors is to provide additional assurance to the Bank that prudential standards and other requirements are being observed; that banks' asset quality, provisions for loses, competence of management and the accounting and internal control systems are satisfactory; and that matters of serious concern noted by the external auditors are immediately brought to the attention of the Bank.

7. Supervision that embraces both off-site surveillance and on-site examination has been found to be more effective than off-site surveillance only and many countries now give increased emphasis to on-site examination to complement their off-site reviews and external audits. On-site examination provides a useful view of the true financial position of a bank. The focus is to ascertain or confirm a bank's capital adequacy, its asset quality, liquidity, compliance with laws and regulations and the quality of management. The frequency, scope and techniques that will be used in on-site examinations will vary depending on the overall condition and the level of sophistication of the bank.

8. The Bank's approach to supervision has the advantage of flexibility in administration and can be adapted quickly if necessary to meet changing conditions. The Bank is also provided with some discretion which can be desirable when handling special situations.

CENTRAL BANK OF SAMOA

Prudential Statement No.2

Licensing, ownership and management of banks

This note outlines the Central Bank of Samoa's position towards licensing, ownership and management of banks.

1. Given the important role of banks in the country's economic welfare and development and the strong public interest in them, the Bank has responsibilities relating to the supervision of banks that are aimed at promoting public confidence in them and at maintaining the health and stability of the financial system in general. Towards this end, it is only logical that the supervision process starts from the licensing of banking institutions.

2. The Central Bank's approach to the licensing of banks is to ensure that where a licence is issued, it is issued not only on the basis that it will be to the economic advantage of Western Samoa, but also on the basis that the bank will be viable and that the applicants, substantial shareholders and management are qualified to operate a bank.

   Where an application is received from a foreign bank, the Bank will wish to communicate with the regulatory and supervisory authorities of the country where the foreign bank's head office is located to seek assurances that adequate supervision is carried out by the authorities; that the authorities are satisfied with respect to the prudential management and overall financial soundness of the foreign bank; and that the authorities have no objection to the foreign bank's establishment in Western Samoa.

3. The Bank has taken the view that no single shareholder (or group of associated shareholders) of a bank should be in a position to exercise control or influence over the policies or operations of a bank. The objective is to ensure that banks pay due regard to the interests of their depositors.

   Banks usually have a very high gearing of outside creditors (mostly depositors) to shareholders' funds. This is an essential feature of banking and requires that depositors have confidence in banks. Consequently, the responsibilities on the owners and management of banks in relation to depositors are of more than ordinary significance. And it is in the interests of depositors for a bank to have a broad range of its shareholders (represented by directors) involved in the formulation and implementation of the bank's policies and operations. The likelihood of banks getting into difficulties stemming from major errors in judgment, imprudence, dishonesty or other possible irregularities are less likely to occur if decisions are made collectively.

That being said, the Bank expects that no person (or group of associated persons), whether local or foreign, may own more than twenty percent (20%) of the voting shares of bank, that a bank should have at least five (5) directors and that director representation from a broad range of shareholders. The restrictions on ownership (20% ceiling) and on the number of directors (minimum of 5) may not apply to an application by a foreign bank but the ownership spread of the foreign bank (or its holding company) in its country of incorporation will be taken into consideration.

4. A person who is, or is to be a director or principal officer of a bank must be a fit and proper person. The relevant considerations in determining what constitutes a fit and proper person include whether the person in question has sufficient skills, knowledge, soundness of judgment and diligence to undertake and fulfil the duties and responsibilities of a particular position.

The standards required of persons in these respects will vary depending on the position held by the person concerned. In assessing whether a person has the relevant competence, soundness of judgment and diligence, the Bank considers whether the person has had previous experience of similar responsibilities, his record in fulfilling them and, where appropriate, his qualifications and training.

Another very important consideration is probity; whether the interests of depositors or potential depositors are, or are likely to be, in any way threatened by the person holding the position of bank director or officer.

The integrity of any person tasked with the responsibility of managing deposits of the public must be beyond reproach.
Unlike the fit and proper criterion on competence, the level of probity required should be the same whatever position is held. In this regard, the Bank, more generally, takes into account the director's or officer's reputation and character. Specifically, it considers, among other things, whether the director or officer has a criminal record; convictions for fraud or other dishonesty are obviously relevant to the probity of the director or officer. The Bank gives particular weight to whether or not a director or officer ahs contravened any provision of any banking, insurance, investment or other legislation designed to protect members of the public against financial loss due to dishonesty, incompetence or malpractice. It also considers whether the person has been involved in any business practices appearing to the Bank to e deceitful or oppressive or other wise improper or which otherwise reflect discredit on his method of conducting business.

Once a bank has been licensed, the Bank will have a continuing regard to the performance of directors or officers in the exercise of their duties. Imprudence in the conduct of a bank's business, or actions which have threatened (without necessarily having damaged) the interests of depositors will reflect adversely on the competence and soundness of judgment of those responsible. Similarly, failure of a bank to conduct its business with integrity and professional skills will reflect adversely on the probity and/or competence and/or soundness of judgment of those responsible. This applies whether the matters of concern have arisen from the way the directors or officers have acted or from the failure to act in an appropriate manner. The Bank takes a cumulative approach in assessing the significance of such actions or omissions - that is, it may determine that a director or officer does not fulfil the fit and proper criterion on the basis of several instances of such conduct which, if taken individually, may not lead to that conclusion.

6. The Bank views with concern any event that will result in the transfer of control of a bank (i.e. any significant transfer of ownership or power exercisable over the voting stock of a bank) because it usually results in a change of management. Since a bank's substantial shareholders and management must meet certain criteria, any transfer that will result in a single shareholder (or group of associated shareholders) owning or exercising power over twenty percent (20%) of the voting stock of a bank shall require the prior approval of the Central Bank. The purpose of this is to ensure that the quality of ownership and management of any bank in Western Samoa is maintained. This is essential in maintaining public confidence in banks.

CENTRAL BANK OF SAMOA

Prudential Statement No.3

Supervision of the capital adequacy of banks

This paper outlines the Central Bank of Samoa's framework for the supervision of the capital adequacy of banks.

1. The Central Bank attaches great importance to ensuring that individual banks maintain adequate capital in relation to the size and nature of their business. Capital represents a bank's own funds and provide the bank with its core of resources for operations and for its fixed assets. More importantly, capital primarily serves as a cushion against unexpected losses. Thus, it provides protection to depositors and other creditors of a bank. And since it provides protection against losses, it helps to promote public confidence in individual banks and in the banking system in general.

2. Having a minimum capital standard and compliance with that standard does not ensure that a bank maintains an appropriate amount of capital. The amount of capital that is appropriate for a bank depends on the level of the various risks it assumes, the quality of the management of those risks, the extent and nature of their concentration, the projected increase in risk assets and other factors. Moreover, capital adequacy is not the only measure of the overall strength of a bank. Prudential assessments also need to consider, among other things, asset quality, adequacy of liquidity, quality of management and earning performance.

3. The Central Bank's approach to the assessment of the capital adequacy of banks centers on a risk-based capital ratio that expresses capital as a percentage of risk-weighted assets and off-balance sheet exposures. This is the preferred method for assessing capital adequacy because it recognises the importance of the quality of capital elements and the different levels of relative riskiness of both on and off-balance sheet exposures of banks.

   The following are the basic elements involved in the computation of the risk-based capital ratio:

   a. The capital of banks has been defined to include among other things, paid-up capital, disclosed reserves and retained earnings, asset revaluation reserves and hybrid capital, term subordinated and other similar instruments. Also, the capital elements have been classified into two (2) distinct categories with the first tier of capital, also referred to as "core" capital, incorporating the highest quality elements, i.e. permanently and freely accessible funds available to absorb unexpected losses. The second tier of capital, also known as "secondary" or "supplemental" capital incorporates elements that have the capacity to absorb unexpected losses but that are less permanent in nature.

b. The computation of the risk-based capital ratio focuses primarily on the level of credit risk (i.e. the risk of counterparty default which is the major risk facing most banks) whether arising from on-balance sheet or off-balance sheet activities. It takes account of the varying levels of risk by categorising and assigning risk weights to every on and off-balance sheet exposure based on the type of obligor, the strength of the underlying collateral, the existence of government guarantees and the maturity of the item. It also takes account of the likelihood that the off-balance sheet items will result in credit exposures.

c. When assessing capital adequacy, the Central Bank must be satisfied that specific reserves have been established by the individual banks for known or foreseeable losses. If specific provisions for losses are inadequate, the amount of capital is overstated. Only when specific reserves are maintained at acceptable levels can compliance with the minimum capital standard be assessed. And in this regard, it is expected that banks have the capability to assess all risks but more importantly the ability to perform a detailed credit analysis of their loan portfolio and to determine the appropriate level of reserves for specific assets or classes of assets.

4. The Bank will establish procedures with individual banks which will define the circumstances in which banks will be expected to discuss their capital position with the Central Bank. In general, these procedures will begin with formal notification to the bank that its current level of capital seems inadequate to support an increase in risk assets. The bank's management will then be required to develop a plan acceptable to the Central Bank designed to achieve an adequate level of capital. The Bank may require that the plan include measures such as reducing or eliminating dividends, reducing the level of risk in the bank, infusing fresh capital or undertaking institutional strengthening to improve the quality of management and management practices. The procedures will also include a series of enforcement proceedings in the event that the bank's management fails to develop an acceptable plan or to adhere to an approve plan.

5. The appropriateness of particular capital ratios and the prudential arrangements for the supervision of banks' capital generally, will be kept under review.

These guidelines are accompanied by an attachment that specifies the minimum capital ratio and outlines the method for computing the risk-based capital ratio of banks.

CENTRAL BANK OF SAMOA

Attachment to Prudential Statement No.3

Supervision of capital adequacy of banks

This attachment sets out the minimum capital standards and outlines the method of computing the risk based capital adequacy ratio of banks operating in Western Samoa. This attachment is accompanied by a worksheet for the computation of the capital adequacy ratio.

<u>Minimum Capital Ratio</u>

1. Every bank operating in Western Samoa must maintain at all times a level of capital which is prudent in relation to the size and nature of its business and, in any event:
    a. **Total capital** as a minimum percentage of the bank's risk-weighted exposures shall be no less than fifteen percent (15%).
    b. **Tier one capital** or **"core" capital** as a minimum percentage of the bank's risk weighted exposures shall be no less than even and a half percent (7.5%).
    c. **Tier two capital** or **supplemental capital** shall not exceed hundred percent (100%) of core capital.

<u>Capital</u>

2. **Total capital**, for the purposes of these requirements is defined as the sum of tier one capital and tier two capital.

3. **Tier one capital** is made up of the most important elements of capital. It includes issued share capital and other net worth items which meet all of the following requirements:

    a. In the case of a capital instrument, it must be issued and fully paid-up; it must be permanently and freely available to absorb unexpected losses i.e. there should be no specified redemption or repayment date, not repayable or redeemable at the option of the holder; it must not be encumbered in any way or earmarked to particular assets or to particular categories of banking activities;
    b. It should not impose a fixed charge on the bank's earnings i.e. interest obligations must be allowed to be waived if the financial condition of the bank would not support payment and interest obligations so waived must not cumulate;

c. In a winding-up, must constitute a residual interest such that no distributions may e made to shareholders unless and until all actual and contingent obligations to all creditors of the bank have been discharged.

Based on the foregoing, tier one capital includes:

a. Permanent shareholders' equity in the form of:

   1) issued and fully paid-up ordinary share capital; and

   2) irredeemable non-cumulative preference shares;

b. Disclosed reserves in the form of:

   1) <u>non-repayable</u> share premium arising from the issuance of tier one capital instruments;

   2) general reserves created by appropriation of earnings; and

   3) prior years' audited retained profit, <u>net of any appropriations such as tax payable, dividens, transfers to other reserves or provisions</u>.

4. **<u>Deductions from tier one capital:</u>**

The following items must be deducted from **tier one capital**:

a. Current year's losses

b. Good will and other intangible assets such as organization expenses and amounts paid for franchises to operate the bank

c. All future income tax benefits not deducted elsewhere (e.g. under Item 5c below) net of deferred tax liabilities (i.e. the amount of tax obligation on the current year's and the previous year's income). This means that these future income tax benefits should be deducted only to the extent that the amount exceeds the amount of tax obligation on the current year's and the previous year's income. If the current year's assessable income is negative, the full amount of the future income tax benefits should be deducted.

5. **Tier two capital** consists of equity and other net worth items that can also serve as a cushion for unexpected losses but do not meet the requirements stated in item 3 above. Tier two capital includes:

a. Unaudited retained profit, <u>net of any appropriations such as tax payable, dividends, transfers to other reserves or provisions</u>

b. Asset revaluation reserves arising from a formal revaluation of tangible fixed assets where the revaluations have been subject to audit or review by the bank's auditors.

c. General provisions for bad and doubtful debts net of any associated future income tax benefits provided that the net amount to be included in tier two capital should not exceed 1.25% of the bank's total risk-weighted exposures

d. Hybrid capital instruments i.e. hybrid forms of debt and preference shares (and associated share premium) such as perpetual cumulative preference shares, mandatory cumulative convertible debt and perpetual subordinated debt which meet the following requirements:

   1) they are <u>unsecured</u>, <u>subordinated</u> and <u>fully paid-up;</u>
   2) they are <u>not redeemable</u> at the option of the issuer or without the prior consent of the Central Bank;
   3) they are <u>available to participate in losses</u> without the bank being obliged to cease trading;
   4) <u>interest obligations should be allowed to be deferred</u> whether the profitability of the bank would not support payment.

e. Term subordinated debt and similar instruments (e.g. cumulative redeemable preference shares) which meet the following requirements:

   1) the claims of holders in respect of payment of both principal and interest are fully subordinated to those of all unsubordinated creditors; and
   2) the debt instruments have a minimum original fixed term to maturity of over five years and will be subject to a straight line amortisation in the last five (5) years of its life so that no more than twenty percent (20%) of the original amount issued shall be included in capital in the final year before redemption is possible.

Any proposed issue of hybrid capital and term subordinated debt or similar instruments (described above) must be structured so that they meet in substance as well as in form the requirements of the particular category of capital where they are proposed to be included as stated in the Basle capital measurement framework. Any bank which proposes to issue these instruments must therefore satisfy the Bank that these requirements have been met prior to making the issue.

<u>Risk Weighting</u>

6. The following is a summary of risk-weighting categories, (weighted on the basis of the relative degree of riskiness) that will apply to a bank's on and off-balance sheet exposures:

   0%
   a. Cash (including foreign cash)
   b. Claims on the Central Bank of Samoa
   c. Claims on the Central Bank of Samoa
   d. Claims on central governments and central banks denominated in national currency and funded in that currency

e. Loans which are explicitly, irrevocably and unconditionally guaranteed by the Government of Western Samoa or the Central Bank of Samoa except that in the case of claims covered by partial guarantees, only that part which is fully covered by the guarantee will have a 0% risk weight.

f. Securities issued by Government-owned or controlled institutions the repayment of which is explicitly and unconditionally guaranteed by the Government of Western Samoa

g. Loans which are fully and formally collateralised by: (1) cash deposited with the lending bank or, (2) securities issued by the Government of Western Samoa or by the Central Bank of Samoa or, (3) securities issued by Government-owned or controlled institutions the repayment of which is explicitly and unconditionally guaranteed by the Government of Western Samoa

20% h. Claims on banks which are registered or licensed in the country of domicile by the appropriate banking supervisory authorities (includes cash items in process of collection)

100% i. All holdings of equity investments

j. Investment in fixed assets e.g. premises, sites, equipment and other fixed assets less associated accumulated depreciation

k. All other exposures/assets not in any of the foregoing categories except that any asset item already deducted from capital (Items 5b and 5c above) will not be subject to any risk weight

<u>Off-Balance Sheet Items</u>

7. The following is a list of credit conversion factors that will be applied to take account of the credit risk on the different types of off-balance sheet exposures. The credit conversion factor will be multiplied by the risk weight applicable to the nature of the counterparty for on-balance sheet transactions (Item 6 above).

100% Direct credit substitutes, i.e. general guarantees of indebtedness where the bank undertakes to carry out the financial obligations of a counterparty which fails to do so (i.e. general guarantees of indebtedness where the bank undertakes to carry out the financial obligations of a counterparty which fails to do so (e.g. loan guarantees and standby letters of credit serving as financial guarantees for loans or securities)

50% Transaction-related contingent items, e.g. performance bonds, bid bonds, warranties and performance-related standby letters of credit which fulfil the same function as a performance bond

20% Trade-related contingent items, e.g. documentary letters of credit (where the bank guarantees payment in favor of an exporter against the presentation of shipping documents) and other trade financing transactions e.g. shipping guarantees or bill of lading bonds (which are secured against underlying shipments of goods).

____________(Bank Name)__________________

WORKSHEET FOR THE COMPUTATION OF CAPITAL ADEQUACY RATIO

As of __________________

(Amount in Tala Thousand)

A. **MEASUREMENT OF CAPITAL**

Tier One Capital

1.	Paid-up ordinary share capital	$ ____________________
2.	Irredeemable non cumulative preference shares	____________________
3.	Non-repayable share premium reserves	____________________
4.	General reserves	____________________
5.	Prior years' audited retained profit, net of appropriations (e.g. tax payable, dividends, transfers to other reserves or provisions)	____________________
Less:		
6.	Current year's losses	(____________________)
7.	Goodwill and other intangible assets	(____________________)
8.	All future income tax benefits not deducted elsewhere (e.g. Item 11 below) net of deferred tax liabilities	(____________________) [a/]
	Sub-total - Tier One Capital	$____________________(A1)

Tier Two Capital

9.	Unaudited retained profit, net of appropriations (e.g. tax payable, dividends, transfers to other reserves or provisions)	$____________________
10.	Revaluation reserves	____________________
11.	General provision for doubtful debts net of associated future income tax benefits (net amount should not exceed 1.25% of total risk-weighted exposures)	____________________
12.	Hybrid capital instruments	____________________
13.	Term subordinated debt and similar instruments	____________________
	Sub-total - Tier Two Capital (shall not exceed 100% of Tier One Capital)	$____________________
	Total Capital	$____________________ (A)

[a/] Deductible only if future income tax benefits is greater than the deferred tax liabilities; see Attachment, Item 5c

B. **<u>RISK-WEIGHTED BALANCE SHEET EXPOSURES</u>**

Total Assets		$ ______________
Less		
<u>Provisions/other deductions</u>:		
1. Specific provision for doubtful debts		(________________)
2. Provision for depreciation		(________________)
3. Others - Asset items deducted from capital (e.g. Goodwill, Intangible Assets and Future Income Tax Benefits)		(________________)
<u>Risk-adjusted balance sheet exposures</u>:		
0% Risk-weighted assets		
4. Cash (including foreign cash)	$______________	
5. Claims on the government of Western Samoa	_______________	
6. Claims on the Central Bank of Samoa	_______________	
7. Claims on central governments and central banks denominated in national currency and funded in that currency	________________	
8. Loans guaranteed by the Government of Western Samoa or by the Central Bank of Samoa	________________	
9. Securities issued by government-owned or controlled institutions the repayment of which is guaranteed by the Government of Western Samoa	________________	
10. Loans fully collateralised by:		
a. Cash deposits with the Bank	________________	
b. Securities issued by the Government of Western Samoa or by the Central Bank of Samoa	________________	
c. Securities issued by government-owned or controlled institutions the repayment of which is guaranteed by the Government of Western Samoa or by the Central Bank of Samoa	________________	
Sub-total x 100%	________________	(_____________)
20% Risk-weighted assets		
11. Claims on banks (including cash items in process of collection	_______________	
Sub-total x 80%	_______________	(_____________)
Total Risk-Weighted Balance Sheet Exposures		$________________ (B)

C. RISK-WEIGHTED OFF-BALANCE SHEET EXPOSURES

		Principal Amount	Credit Conversion Factor	Risk Adjusted Value [b/]
Direct credit substitutes			100%	
1.	Amount subject to 0% risk weight	_______		
	Amount subject to 100% risk weight	_______		$_______
Transaction-related contingent items			50%	
2.	Amount subject to 0% risk weight	_______		
	Amount subject to 100% risk weight	_______		_________
Trade-related items			20%	
3.	Amount subject to 0% risk weight	_______		
	Amount subject to 100% risk weight	_______		_________

Total Risk-weighted off-balance sheet exposures $________(C)

D. CALCULATION OF TOTAL RISK-WEIGHTED EXPOSURES

7. Total risk-weighted balance sheet exposures (B) ____________
8. Total risk-weighted off-balance sheet exposures (C) ____________

Total Risk-weighted exposures $

(D)

E. CALCULATION OF THE CAPITAL RATIOS

9. Total Capital/Total Risk-Weighted Exposures
   (A/D) x 100 ____________ %
10. Tier One Capital/Total Risk-Weighted Exposures
    (A1/D) x 100 ____________ %

[b/] Risk adjusted value = Principal Amount x Credit Conversion Factor x Risk Weight

CENTRAL BANK OF SAMOA

Prudential Statement No.4

Standards on asset concentration and risk exposure of banks

This note outlines the Central Bank of Samoa's standards relating to the concentration of credit exposures of banks.

1. Diversification of risks is one of the fundamentals of prudent banking. Excessive concentration of risk exposure to one customer, industry, economic sector or activity jeopardises the soundness of bank assets and has been the cause of bank losses and even failures.

2. The business of banking involves exposure to various types of risks. The Central Bank of Samoa expects that every bank is aware of such risk exposures. Every bank is also expected to have adequate and effective internal systems in place which clearly spell out its policies and procedures on the measurement, control, approval and monitoring of every type of risk exposure.

3. Credit comprises the bulk of the assets of banks. The Central Bank's approach to the regulation of risk concentration is therefore focused on credit concentration by prescribing a credit exposure limit to a single customer that is expressed as a percentage of a bank's capital funds as defined under Prudential Statement No.3. In enforcing the limit, the following concepts will apply:

   a. A group of closely related borrowers is to be regarded as a single customer.
      This is to ensure that the restriction is effective even when a bank has exposures to several borrowers belonging to one group. This is important because borrowers may be related in such a way that the financial problems of one could affect the financial soundness of the other borrowers in the group.
   b. The credit exposure limit will encompass all credit facilities to the customer, direct and indirect obligations including holdings of commercial paper and off-balance sheet items in the form of direct credit substitutes.
   c. Loan collateral will not affect the limit except for the following:

      (i) loans which explicitly, irrevocably and unconditionally guaranteed by the Government of Western Samoa or the Central Bank of Samoa: and

(ii) loans which are fully and formally collateralised by cash deposited with the lending bank.

(iii) transactions between banks or relating to purchase of telegraphic transfers or bills of exchange payable outside Western Samoa.

4. The imposition of a prudential credit limit is not intended to constrain credit to the market as a whole, but to limit the exposure of a bank to a single borrower. This enhances depositor confidence in banks because banks provide an avenue for diversified investments which is not available to most individual savers. Restricting credit to large borrowers also makes credit available to a broader range of borrowers.

The Bank's guidelines on the credit exposure limit to a single customer **(single borrower limit)** are shown in the attachment.

CENTRAL BANK OF SAMOA

Attachment to Prudential Statement No.4

Asset concentration and risk exposure

This attachment sets out the guidelines on the imposition of a credit exposure limit to a single customer.

1. **Limits**. The maximum amount of credit which a bank can extend to a single customer as defined in paragraph 5 is twenty-five percent (25%) of total capital (as defined in Prudential Statement No.3).

2. **Total capital**. Total capital refers to the sum of Tier One and Tier Two capital as defined in Prudential Statement No.3.

3. **Coverage of credit exposure**. Credit exposure to a single customer includes all credit facilities extended to that customer such as loans, overdrafts, advances, direct and indirect obligations, holdings of commercial paper such as equity investments (which have been referred to the Central Bank under Prudential Statement No.6), as well as off-balance sheet commitments that partake the nature of direct credit substitutes i.e. general guarantees of indebtedness where the bank undertakes to carry out the obligations of the customer in case he fails to do so (e.g. loan guarantees and stand-by letters of credit serving as guarantees for loans or securities).

4. **Exclusions.** The credit exposure limit does not apply to:

   a. loans which are explicitly, irrevocably and unconditionally guaranteed by the government of Western Samoa or the Central Bank of Samoa; and
   b. loans which are fully and formally collateralised by cash deposited with the lending bank.
   c. transactions between banks, or relating to purchase of telegraphic transfers or bills of exchange payable outside Western Samoa.

5. **Definition of single customer**. Single customer means any single person (whether comprising a legal or natural person) that is a borrower. A group of closely related borrowers (legal, natural or both) is also to be regarded as a single customer. This means that a bank's exposure to each borrower which belongs to a group will be combined and the combined

exposure will be deemed to be in respect of a single customer. The general test to be applied is whether the combined exposure represents a single risk to the lending bank, i.e. the borrowers are so interconnected that if one borrower experiences financial difficulties, the other borrower or borrowers are also likely to encounter payment difficulties. Indications (and examples) of such interconnections or group relations which are generally classified as a single risk are as follows:

a. Companies with common ownership or cross ownership (e.g. a parent or holding company and its subsidiaries);

b. Borrowers linked by guarantees or cross-guarantees or which share the same collateral.

6. **Transitory clause**. There will be no violation of the credit exposure limits if at the time of the effective date of the imposition of the limits, a customer's existing aggregate credit exposures exceed the prescribed limits. If a bank has accounts which are in breach of this Prudential Statement it should advise the Central Bank.

CENTRAL BANK OF SAMOA

Prudential Statement No.5

Supervision of the adequacy of liquidity of banks

This note outlines the Central Bank of Samoa’s approach to the supervision of the liquidity of banks.

1. Every bank is expected to manage its day-to-day liquidity and so ensure that it has at all times adequate funds to cover, among other things, withdrawals of deposits, demands for loans (including utilisation of overdraft/credit lines), timing differences in the maturity pattern of assets and liabilities, shortfalls in projected cash inflows and unplanned expenditures.

   Banks can use a number of strategies in managing their liquidity. These include holding adequate cash and readily liquefiable assets; developing and maintaining a stable core of deposits and taking into account the concentration of deposits; maintaining a suitably matched maturity structure of assets and liabilities; and developing their capacity for asset and liability management.

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

3. Every bank is also expected to hold high quality liquefiable assets for the management of sudden unexpected liquidity fluctuations over and above the amount held for day-to-day liquidity. These assets should be of a kind that can also be quickly turned into cash in an extreme situation.

4. The prime responsibility for the prudent management of a bank’s liquidity and for determining the appropriate level of liquid assets that must be held for meeting day-to-day liquidity and for unexpected liquidity fluctuations rests with the bank itself. Every bank is expected to have written policies, systems and procedures in place for monitoring and assessing at any time the appropriate level of liquid assets it must hold. The policies must take into consideration, among other things, the stability (or volatility) of its deposits, the maturity structure of its assets vis-à-vis the maturity structure of its deposits, and the projected growth of its loan accounts.

The policies must recognise that banks are operating in a developing market where their ability to raise funds may be limited. Banks cannot rely on the generation of additional deposits to meet sudden, unexpected cash shortfalls.

CENTRAL BANK OF SAMOA

Prudential Statement No.6

"Connected" lending and direct ownership interests

This note outlines the Central Bank of Samoa's approach to the matter of "connected" lending and equity associations of banking institutions.

Connected lending

1. For the stability of the banking system, it is important that banks' prudent management is not compromised by the pursuit of commercial objectives unrelated and potentially prejudicial to the well-being of the bank.

2. Such a threat could come from "connected" lending, i.e. when credit is extended to individuals and to parties which are connected through ownership or control such as a bank director, officer or shareholder (who may have authority to exercise power over, say 10%, or even more, of the bank's voting stock) who uses his ability to control or influence the bank's policies to provide loans for himself or for his related interests on other than "arm's length" terms. Common examples of "connected" lending include lending to shareholders, parent companies, subsidiaries and affiliated companies and to directors, principal officers, their interests and members of their immediate families.

   Attached are guidelines on the matter of "connected" exposures.

3. A bank should not be used as a funding vehicle or "front" for the operations of "connected" borrowers or any of its associates. It should not give a general guarantee of the repayment of any liability of a "connected" borrower or an associate and should ensure that a "connected" borrower or an associate does not, in an attempt to up-grade the status of its liabilities, seek to give an impression that the bank's financial resources stand generally behind, or could be called upon to stand behind, its operations.

4. Bank's financial dealings with any "connected" or with an associate should be based on normal banking principles, i.e. bank would be expected to subject the financial position of a "connected" borrower or an associate to as close a scrutiny as it would in the case of an unrelated customer. Any explicit financial commitment by a bank to a "connected" borrower or to an associate should be limited as to amount, i.e. it should not be open-ended.

5. A bank should be capable of providing the Central Bank (if and when it so requires) with data in respect to its financial exposure by way of equity, loans, standby guarantees, etc. with its "connected" borrowers and its associates.

Direct ownership interests

6. The well-being of a bank can also be put at risk where the bank itself has extensive direct ownership interests. The aggregate value of such interests shall not exceed 10% of the sum of the bank's paid up capital and unimpaired reserves i.e. Tier one (1) capital.

7. Banks must essentially be in the business of accepting deposits, lending money and providing other financial services. A bank's direct ownership in other institutions should normally be in the field of financial intermediation; involvements in non-financial areas should be of substantial relevance to banking operations.

8. A bank should finance new or additional direct ownership interests in other institutions from its shareholders' funds, having close regard to the principle that, over a reasonable period of time, such investments should not contribute to a deterioration in its capital gearing position.

CENTRAL BANK OF SAMOA

Attachment to Prudential Statement No.6

This attachment sets out the guidelines on the matter of "connected" lending of banking institutions.

1. **General policy** Dealings of a bank with any "connected" individual or entity should be in the regular course of business; credit should be granted based on the same credit worthiness and under substantially the same terms and conditions as is normally required by the bank of its other borrowers.

2. **"Connected" lending** refers to all forms of direct and indirect risk exposures of a bank to individuals or to parties which are connected to that bank through ownership or control. In the context of direct exposure, it includes a bank's exposure where a director, officer or shareholder of the bank is liable jointly or severally or as a guarantor. It also includes a bank's exposure to any company where it has an equity interest.

   "Connected" lending in the context of indirect exposure includes exposures to any immediate family member of any director, officer or shareholder and to any company, partnership, association or group of individuals whether incorporated or not, wherein any director, officer or shareholder of the bank has an interest or is a director, partner, manager, member, shareholder, agent or otherwise.

   Exclusion. "Connected" lending excludes loans that provide financial assistance to bank officers which are part of a bank's fringe benefit programme.

   Officer includes a bank's President, Chief Operating or Chief Executive Officer, Vice Presidents, Managers, Secretary and others who are generally known to be officers of the bank (or any of its branches or offices).

   Shareholder refers to a shareholder who owns or who has authority to exercise power over ten percent (10%) or more of the bank's voting stock.

3. **Procedural requirements**. Any proposed "connected" exposure should be approved by a majority of the members of the board of directors of the bank excluding any interested director.

It is the duty of every bank director and officer who has an interest in any proposal for the extension of credit or any type of exposure to declare his relationship or interest in that proposal. The declaration should be recorded and should form part of the documents relating to the proposal. A director or officer who has made a declaration should not take part in any way in any evaluation, deliberations or decisions relating to that application.

CENTRAL BANK OF SAMOA

Prudential Statement No. 7

Asset quality, provision for losses and suspension of interest

This note outlines the Central Bank of Samoa's approach to the classification of asset quality, provisions for losses and suspension of interest of banks operating in Western Samoa.

The Central Bank of Samoa recognises that in the case of banks operating in Western Samoa who are subsidiaries and affiliates of major recognised international banks, policies, procedures and approaches to the management of asset quality, provisions and interest suspension will be in accord with the parent bank and minor differences to the CBS guidelines will be acceptable. Banks operating in Western Samoa who do not have available through a bank managing agent or administration agreement the recognised practices of a major international bank(s) will comply in all respect with these guidelines as stated.

1. A realistic valuation of assets and the prudent recognition of income and expenses are critical factors in evaluating the financial condition and performance of banking institutions. Since bank assets consist mainly of loans and advances, the process of assessing the quality of credit and its impact on the bank's financial condition is critical. Failure of banks to identify problem assets can result in balance sheets not reflecting their true financial condition (especially in respect of solvency and capital adequacy) and income statements showing overstated profits upon which dividends are paid. This overstatement stems from the failure to establish realistic provisions for potential losses, write-offs or to fully provide for actual losses or suspend interest on non-performing assets.

2. **Portfolio review system**. The Central Bank expects every bank to have an established portfolio review system that is aimed at evaluating credit policies and identifying and monitoring existing or potential problem loans. The system should help ensure that timely and adequate management action is taken to maintain the quality of the loan portfolio and that adequate provisions for losses are set-up and maintained. Banks must recognise that maintaining loss provisions is a stabilising factor and that failure to make adequate provisions may result in misrepresentation of a bank's financial condition.

3. **Asset classification**. The portfolio review system should include a grading scheme by which loans which have been reviewed are graded based on established criteria taking into account the loan repayment performance and the reviewer's assessment of all pertinent credit factors (based on credit files, analyses of financial statements, other credit information and the protection afforded by the collateral, if any). A typical grading scheme that may be used contains four grades of asset quality: "standard" or "current", "substandard", "doubtful" and "loss". The first category includes assets which are not considered to have problems. Assets falling into the latter three categories possess various degrees of well-defined weaknesses and are collectively referred to as "classified" assets.

4. **Collateral.** Credit decisions should be based mainly on a detailed analysis of a borrower's ability to pay. The source of repayment is typically the cash flow of the borrower taking into account the nature of the business and the purpose of the credit. Over-reliance on collateral is an unsound lending practice which should be avoided because it is often illiquid, difficult to value, costly to acquire (whether through foreclosure or other legal means) and in the case of real property, involves costs to maintain and market for sale. Collateral should be used only as protection against loss. It should not replace a careful assessment of the borrower's ability to repay.

   As a general rule, assets must be graded based on the evaluation of the primary sources of repayment. Collateral support is to be considered only when determining the severity of the classification, i.e. whether a loan in process of collection should be classified "substandard" because it is well secured, or whether it should be classified as "doubtful" or "loss" because the collateral is not sufficient to protect the bank from loss.

5. **Provisions for loans losses.** Ideally, the loss potential of specific credits is determined on a case by case basis after all credit and collateral factors are evaluated. While there is considerable merit in estimating loss potential on a case by case basis, particularly for large borrowers, it is more practical to suggest minimum levels of provisions, based on each classification category that the Bank feels should be maintained to meet loan losses. The Bank considers that such minimum provisions should be as follows: 20% of "substandard" loans, 50% of "doubtful", 100% of "loss" and 1% of the remaining portfolio.

6. **Interest suspension**. Another important consideration in evaluating asset quality is the policy on suspending interest on problem loans. Most banks operate on an accrual basis, i.e. interest on loans is taken into income when it is earned. However, it is inappropriate for banks

to recognise as income uncollected interest on loans which are seriously delinquent or where the repayment of the loan is in serious doubt. Where uncollected interest on non-performing assets is taken into income, bank profits are overstated which leads to overpayment of taxes and dividends.

The Bank's general guidelines on asset classification, provision for loan losses and interest suspension are attached to this note.

CENTRAL BANK OF SAMOA

Attachment to Prudential Statement No.7

This attachment sets out the guidelines for banks regarding asset classification, provision for loan losses and interest suspension.

The Central Bank of Samoa recognises that in the case of banks operating in Western Samoa who are subsidiaries and affiliates of major recognised international banks, policies, procedures and approaches to the management of asset quality, provisions and interest suspension will be in accord with the parent bank and minor differences to the CBS guidelines will be acceptable. Banks operating in Western Samoa who do not have available through a bank managing agent or administration agreement the recognised practices of a major international bank(s) will comply in all respects with these guidelines as stated.

Objectives

1. These guidelines are intended to enable banks and the Central Ban to establish a prudent basis for:

    a. the classification of asset quality;
    b. the determination of an adequate level of loan loss and other valuation reserves; and
    c. the accounting treatment of accrued, but uncollected interest on non-performing loans.

Asset classification

2. In general, classifications apply to all direct and indirect extensions of credit including loans and advances, accounts receivable, property acquired in settlement of loans, equity investments, contingent items in the nature of direct credit substitutes and miscellaneous asset accounts.

3. Assets will be classified in the following categories:

    a. *"Standard"* Assets in this category are not subject to criticism. In general, performing loans, loans and other assets which are fully and formally collateralised, both as to principal and interest, by cash or by deposits with the lending bank or by securities issued by the Government or by the Central Bank, are exempted from classification regardless of arrears or other adverse credit factors.

b. *"Substandard"* "Substandard" assets are not protected by the current financial soundness and paying capacity of the obligor. In essence, "substandard" assets are those whose primary sources of repayment are insufficient to service the debt and the bank is constrained to look to secondary sources (e.g. collateral, sale of fixed assets, refinancing or fresh capital) for the repayment of loan. "Substandard" assets display well-defined credit weaknesses that jeopardise the full settlement of the debt.

"Substandard" assets may also include assets which carry more than a normal degree of risk due to the absence of current and satisfactory financial information or inadequate collateral documentation. *"Non-performing"* assets which have been "past due" for at least 90 days should be, at a minimum, classified as being "substandard".

c. *"Doubtful"* *"Doubtful"* assets exhibit all the weaknesses inherent in assets classified as "substandard" with added characteristics that the assets are not "well-secured". These weaknesses make collection in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is high, but because of certain important and reasonably specific factors which may strengthen the asset, its classification as an estimated loss is deferred until a more precise status is obtained. "Non-performing" assets which have been "past due" for more than 180 days are usually classified as "doubtful" unless.

d. *"Loss"*. Assets classified as *"loss"* are considered uncollectible and such little value that their continued inclusion in the bank's books as bankable assets is not warranted. This classification does not mean that the asset has no recovery or salvage value. Rather, that it is neither practical nor desirable to defer writing off the asset even though it is possible that partial recovery may be effected in the future. Banks should not retain assets on the books while attempting long-term recoveries. Losses should be taken into account in the period in which they are identified as uncollectible. *"Non-performing"* assets which have been *"past due"* for at least one year are also classified "loss" unless such assets are "well-secured", legal action has actually commenced and timely realisation of the collateral or successful enforcement of the guarantees can be expected.

Nothing contained above prevents banks from making a more conservative classification if such is warranted based upon the bank's own analysis of the borrower's financial condition, ability and willingness to repay.

Provisions for loan losses

4. The Central Bank considers that the minimum provisions banks should make are 1% of the outstanding balance for "standard" assets; 20% for "substandard" assets; 50% for "doubtful" assets; and 100% for "loss" assets.

   Nothing contained above prevents a bank from maintaining larger provisions or additional provisions for loan losses if it feels this is warranted based on the condition of the bank's portfolio, changes in lending practices, economic trends and loss experience.

Interest suspension

5. The Central Bank considers that all "non-performing", "doubtful" and "loss" assets are to be placed on a non-accrual basis. All previously accrued but uncollected interest should be reversed from income by debiting the profit and loss account and crediting the interest in suspense account established for each asset placed on a non-accrual basis. "Non-performing" assets should only be restored to an accrual basis upon the full settlement of all delinquent principal and interest. Funds for the repayment of delinquent principal and interest should not be obtained through the creation of new loans from the same bank.

Renegotiated or restructured loans

6. Restructured loans or renegotiated loans which, because of weaknesses in the borrower's financial condition or ability to pay, have been refinanced, rescheduled, roll-over or other wise modified at favourable terms and conditions for the borrower. The modification may include lengthening of repayment schedules and/or lowering interest rates to meet the borrower's debt service abilities.

7. Banks will have full discretion in the restructuring or renegotiation of loans in order to provide flexibility in arranging the repayment of loans without impairing or endangering the lending bank's financial interests. However, the restructuring of loans to "connected borrowers" (as envisaged in Prudential Statement No.6) should be upon terms not less favourable to the bank than those offered to other clients. While loan restructuring should be considered as a management tool to maintain or improve asset quality or the soundness of lending operations, it should e arranged mainly to assist borrowers settle their loan obligations taking into account their capacity to pay.

8. In general, delinquent interest should be brought up-to-date by the borrower from payments made with his own funds before a loan is renegotiated or restructured. Also, renegotiated or restructured loans should normally be classified as "substandard" until a sustained satisfactory record of repayment performance (for a period of say, at least six months) under a realistic repayment program has been achieved.

Definitions

9. For purposes of these guidelines, the following definitions apply:

"Past due": Loans are considered to be "past due" when, without prior arrangement, principal or interest or an amortisation (where loan is payable by instalment) is unpaid 90 days past its due repayment date or when, in the case of overdrafts, the account has been inoperative or stagnant or has expired for 90 days or more or the account has remained unpaid 90 days or more after the expiry date of the line. The principal balance outstanding (and not the amount of delinquent payments) is used in calculating the aggregate amount of "past due" obligations.

The initial recognition of credits as "past due" does not, in itself, provide sufficient cause for classification, loan loss provision, or suspension of interest unless such credits also exhibit well-defined credit weaknesses. "Past due" status does not signal the need for bank management to institute actions to strengthen or collect the credits so affected. To the extent that management is not successful in its collection efforts and the credits become "non-performing", there is a presumption that well-defined credit weaknesses exist which should trigger classification and might cause a loan loss provision and interest suspension.

"Non-performing" means a loan (or a supposedly earning asset) is not generating income. A loan is considered to be "non-performing" when it has been "past due" for 90 days or more. The principal balance outstanding (and not the amount of delinquent payments) is used in calculating the aggregate amount of "non-performing" obligations.

"*Well-secured*" assets mean that collateral is sufficient to protect the bank from loss of principal or interest through its timely disposition under a forced liquidation scenario. Sufficiency implies the existence of proper legal documentation, a net realisable market value which is adequate to cover the amount of principal and interest outstanding, as well as costs of collection, and the absence of prior liens on the collateral which could diminish its value or otherwise prevent the bank from acquiring clear title.

Collateral such as specialised manufacturing facilities and equipment for ongoing operations would not normally be considered “well-secured” because of the difficulties of actual foreclosure or of disposing of the collateral in a timely manner at values sufficient to protect the bank from loss.

CENTRAL BANK OF SAMOA

Prudential Statement No.8

Accounting and internal control systems

This note outlines the Central Bank of Samoa's position on the accounting and internal control systems of banks operating in Western Samoa.

1. As part of the prudential management of banks, it is important that every bank has an adequate and effective accounting and internal control system in place for the orderly conduct of its banking operations. Basically, the system should be able to provide management, including its board of directors, and those overseeing banks (e.g. auditors and supervisory authorities) the assurances and information they need regarding the true financial position of the bank and whether the bank's affairs are being conducted prudently.

2. A bank's accounting and internal control systems should be commensurate with the nature, scope and particular needs of the business vis-à-vis the prevailing circumstances so that its affairs can be conducted prudently. In other words, it should take into consideration the size of the bank, the nature, volume and complexity of its transactions, and the way in which the business is structured, organised and managed. The system should apply to all aspects of the bank's business, whether on or off balance sheet, and whether undertaken as a principal or agent.

3. The accounting and internal control systems will not be considered adequate unless they enable the business of the bank to be prudently managed and the bank to comply with statutory and regulatory requirements. In other words, the system should enable the bank to comply with the Central Bank's prudential requirements and to identify possible threats to the interests of depositors.

4. The systems should also enable the bank to comply with the reporting and notification requirements of the Central Bank. Delays in providing information or inaccuracies in the information provided raises questions as to the adequacy of the banks' systems.

   Banks' systems should provide financial information that is based on generally accepted accounting principles. financial statements generated by banks' systems for public disclosure purposes should follow he requirements and guidance provided by International Accounting. Standard 30 and should be able to provide in the prescribed manner any information that is required under any applicable legislation.

5. Where a bank has established or intends to establish banking operations through another office such as a branch or agency, its systems should have adequate mechanisms for the production of any data and information which may be relevant for the purposes of supervision on a consolidated basis.

CENTRAL BANK OF SAMOA

Prudential Statement No.9

Foreign Currency Exposures

This note outlines the Central Bank of Samoa's approach in formalising the basis on which it will measure, monitor and discuss the foreign currency exposures of commercial banks. These arrangements will form part of the regular process of supervision and be included within the scope of prudential discussions.

In managing foreign currency risk exposures, the following principles will apply.

1. For single currency exposures, each bank shall at the close of business each trading day maintain its foreign exchange risk position for each currency within internal limits agreed with the Central Bank of Samoa.

2. In addition, intra-day foreign currency risk positions in any single currency will be kept within prudent boundaries approved by the Board of individual banks.

3. An internal limit on the net open position of all currencies agreed with Central Bank of Samoa which will be observed at the close of each business day.

4. Banks will maintain an intra-day net overall foreign currency position at prudent levels approved by the Board of individual banks.

The emphasis of this return is on internal limits for intra-day and end of day trading set by the management of individual banks, internal monitoring procedures and how bank management control such exposures including the relationship to a bank's capital. The Central Bank has not proposed explicit capital requirements for such risks but it reserves the right to do so. However, banks are expected to manage the daily position in any currency and for all currencies at prudent levels. Banks must discuss any proposed changes to limits approved by Head Offices or Boards of Directors and any other material issues with the Central Bank prior to implementation.

The net overall open position in foreign currency is the sum of either short or long positions in each foreign currency whichever is the larger. Positions are not combined. The open position arises from the daily or 'normal' banking operations and foreign exchange dealing positions and is separate from any longer-term structural positions such as fixed and long term assets and liabilities. The Central Bank should be consulted on whether any part of a currency position should be treated as structural.

Adopting widely accepted terminology, a ‘spot’ transaction is defined as one originally contracted for receipt or delivery up to and including two business days. Consequently the report form captures gross figures of all outstanding spot contracts or “undelivered” spots.

1. transactions are for spot date not the value date to capture very short (1-2 day) exposures. In other words, positions are based on traded not settled (accounting) positions.

2. no under valuation shall take place; all assets are to be marked-to-market for exchange rate changes and the trading portfolio for interest rate changes.

3. in transits, accrued interest on foreign assets and liabilities and accrued expenses receivable or payable in foreign currency must be included wherever practicable.

4. balance sheet and off balance sheet exposures are reported separately but added together to determine the net overall exposure.

Figures are to be reported gross e.g. all outstanding spot contracts include undelivered ‘spot’ legs of swaps; outstanding forward contracts include undelivered ‘forward’ legs of swaps.

Any transitional arrangements which are necessary because of internal management systems will be handled flexibly but subject to the approval of Central Bank of Samoa.

Banks must notify the Central Bank in any circumstances where agreed internal foreign currency limits are exceeded continuously for more than three effective trading days.

The weekly return must be completed at the close of business each Wednesday and lodged with the Central Bank within two business days.

This statement will be reviewed after six months experience.

Central Bank of Samoa
13 September 1999