

BANKING INSTITUTIONS ACT

CIRCULAR - BIA 10/98

TO: ALL BANKING INSTITUTIONS

DATE: 20 OCTOBER 1998

PROCEDURE WHEN RESPONDING TO THE EXAMINATION REPORT

1. BACKGROUND

Since the enactment of the Banking Institutions Act, 1998 (Act No. 2 of 1998), the Bank (BON) is required, by section 52 of the said Act, to conduct examinations in order to determine whether a banking institution is in a sound financial condition and whether the provisions of the said Act or any other legal requirements pertaining to banking business have been, and are being, complied with by the banking institution. After the completion of the examination conducted under section 52 of the Banking Institutions Act of 1998, the Bank is required to issue the report relating to the examination conducted.

Based on the above, this circular is issued to inform the banking institutions of the procedures pertaining to their responses after the examination report has been issued to the respective financial institutions.

2. EXAMINATION REPORT

Generally, a full scope examination report will contain the observations, evaluations and comments of the examiners based on their findings in respect of capital adequacy, asset quality, management quality, earnings performance, liquidity and internal controls of the banking institutions, as well as recommendations and proposals for remedial action to be taken by the management to overcome the weaknesses, lapses and shortcomings that are noted during the course of the examination.

3. PROCEDURES

3.1 The report should be distributed at least a week in advance to all members of

the Board and be tabled for discussion at the next Board of Directors' meeting. The report can be responded to by the Audit Committee but such response by the Audit Committee should be ultimately tabled at the Board meeting for sanctioning.

- 3.2 The Board is required to respond to the issues raised in the report by addressing measures, programmes and action plans to be taken on all the issues discussed in the examination report and not only on the executive summary section of the report.
- 3.3 The response to the examination report shall reach the Bank not later than two weeks after the Board meeting and shall be signed by the chairperson of the Board of Directors.

4. ACKNOWLEDGEMENT OF RECEIPT

Two additional copies of this Circular are enclosed for the use of your institution's external auditors. The attached acknowledgement of receipt duly completed and co-signed by the said auditors, should be returned to this Office at your earliest convenience.

S MÜLLER (MS)
ACTING SENIOR MANAGER
BANK SUPERVISION DEPARTMENT