

BANKING NOTICES

BANKING NOTICE 1: MANAGEMENT OF CREDIT RISK BY CREDIT INSTITUTIONS AUTHORISED UNDER THE BANKING ACT 1994

Banking Notice (BN/01) on the *Management of Credit Risk by Credit Institutions Authorised under the Banking Act 1994*, provides best practice guidelines to credit institutions in setting up and implementing effective management of credit risk. The Notice is modelled on the main requisites of the document entitled *Principles for the Management of Credit Risk* issued by the Basle Committee on Banking Supervision in September 2000. This Notice replaces Banking Notice (BN/01) on *Provisions on Loans and Advances* issued in 1994 and should be read as complementary to the *Credit and Country Risk Provisioning* Banking Directive (BD/09) and the *Large Exposures* Banking Directive (BD/02).

This Notice stresses the need for credit institutions to establish an appropriate credit risk environment highlighting the role of the board of directors and senior management on the identifications and analysis of existing and potential risks inherent in any product or activity undertaken by the institution. The Notice further gives guidance on the criteria that should be applied for a sound credit granting process and the importance of maintaining an appropriate credit administration measurement and monitoring process. The Notice finally highlights the importance of ensuring adequate controls over credit risk through an independent assessment of the credit risk management process.

The Annex to the Notice considers the main principles for the assessment of the management of credit risk by credit institutions as established by the Basle Committee document of September 2000.

BANKING NOTICE 2: NOTICE ON THE LEGAL AND REGULATORY PROVISIONS OF REPRESENTATIVE OFFICES OF FOREIGN BANKS IN MALTA AUTHORISED UNDER THE BANKING ACT 1994.

The Notice was issued in terms of Section 4 of Legal Notice 113 of 1998 that regulates the activities of representative offices. Since it constitutes a guideline, it can be considered as being complementary to the Legal Notice itself.

Banking Notice BN/02 provides the necessary practical information to prospective applicants on the policy adopted by the Competent Authority regarding the establishment of a representative office in Malta. While listing the statutory obligations applicable to such offices in terms of the Act, the Notice lists the permitted activities as being:

- The provision upon request of factual information relating to the products and services of the bank it represents;
- The conduct of research work into the economy of Malta to inform Head Office;
- Liaison with Maltese customers of the bank it represents;
- Undertaking of credit assessments on reports on Maltese entities for any business of the bank it represents.

The Notice also refers to prohibited transactions. Basically these include business of banking as defined in the Act, soliciting or advertising for deposits and activities that are ancillary to the business of banking.

BANKING NOTICE 3: NOTICE ON INTERNAL CONTROL SYSTEMS IN CREDIT INSTITUTIONS AUTHORISED UNDER THE BANKING ACT 1994

A system of effective internal controls decreases the risk of unexpected losses or impairment to its reputation. In providing best practice guidelines on how to maintain effective internal control systems, the Notice, which is based on the recommendations of the Basle Committee on Banking Supervision, briefly outlines the major sources of internal control deficiencies that may lead to significant losses to credit institutions.

Internal Control must be a continuous process within credit institutions and the Notice outlines the main objectives of such process:

- Performance Objectives;
- Information Objectives; and
- Compliance Objectives.

The following elements of the internal control process must function effectively so as to achieve the above stated objectives:

- Management Oversight;
- Control Culture;
- Risk recognition and assessment;
- Control activities;
- Segregation of duties;
- Information and communication; and
- Monitoring activities and correcting deficiencies.

Through this Notice the Competent Authority also requires credit institutions to establish and maintain strong independent internal audit functions together with an effective liaison with the External Auditors.

BANKING NOTICE 4: NOTICE ON INTEREST RATE RISK MANAGEMENT BY CREDIT INSTITUTIONS AUTHORISED UNDER THE BANKING ACT 1994.

The Notice provides views on Interest Rate Risk Management as a guidance to all credit institutions licensed under the Act. It also supplies a best practice guideline on how to maintain interest rate risk exposure within certain limits. The Notice mirrors the recommendations of the Basle Committee on Banking Supervision in this regard.

The Competent Authority considers that a sound interest rate risk management process must involve the application of the following key elements:

- Board and Senior Management oversight;
- Adequate risk management policies and procedures;
- Risk measurement, monitoring and control functions; and
- Comprehensive internal controls including independent audits.

The Notice also outlines brief descriptions of various measurement techniques, which are normally used by credit institutions to measure the exposures of earning and economic value to changes in interest rates.

BANKING NOTICE 5: NOTICE ON ADVERTISING FOR DEPOSITS BY CREDIT INSTITUTIONS AUTHORISED UNDER THE BANKING ACT 1994.

The Notice contains the norms to be followed when advertising for deposits as defined in the Banking Act 1994 (the Act). This Notice should be considered as a best practice guideline on the advertising standards to be adopted when advertising for the taking of deposits. However it should not be interpreted that credit institutions are under an obligation to seek prior vetting of the advert from the Competent Authority. The areas addressed in this Notice are:

- The objectives to be kept in view when advertising for deposits;
- Ethical and practical considerations to avoid misleading representations;
- Criteria applicable for compliance with the Act;
- Requirements for advertising for deposits; and
- Miscellaneous provisions.

Observing these best practice guidelines does not exonerate a credit institution from any other responsibilities or obligations under other statutory or prudential requirements applicable in Malta (e.g. consumer protection or investment services).