



POLICY MEMORANDUM IN THE PERIODIC FILING OF A MANAGEMENT REPORT

I. INTRODUCTION

The developments in the Netherlands Antilles banking sector in the last few years have shown a considerable increase in banking volume and complexity of operations.

In addition, a growing number of international transactions by commercial and international banks and an increased public attention for banking as a particular sector in the economy, has lead us to institutionalize the need for a periodic off-site report by the supervised institutions to the Bank on their business, to complement the (on-site) examination reports of the Bank and the Chart of Accounts reporting system.

Therefore, to enhance the effectiveness of our supervisory relationship with supervised institutions, we have decided to release this policy memorandum on the periodic filing of a Management Report with the Bank.

II. MANAGEMENT REPORT

The Management Report, the contents of which follows in section III, is viewed by the Bank to be a periodic briefing by Management on the performance of the institution and a reflection as to the future direction of the institution. To that extent, the report also serves to inform the Bank on issues affecting the institution between examinations conducted by the Bank.

The Management Report is to be prepared and issued under the responsibility of the institution's management and reflecting management's own qualitative and quantitative assessment of their business, its condition and performance in the markets in which it operates.

Nevertheless, the Bank expects that the Board of Supervisory Directors is adequately informed of the contents of the Management Reports filed with the Bank. It is with this objective in mind, that the Bank advises the reporting institution to stimulate a mid-year discussion with its Board on the contents and implications of the issues mentioned in the report. That discussion will to some extent be of assistance to the Board in providing adequate internal supervision of the activities of the institution.

Finally, the information requested by means of this Management Report is based on article 12, section 1 of the National Ordinance on the Supervision of Banking and Credit Institutions of 1994.

III. Contents of the Management Report

The Management Report should contain at least the following information according to the format specified hereafter.

Section A: General appraisal of business

In this section of the report management provides an evaluation of the general market conditions and the performance of the institution under these conditions. The following issues must be reviewed:

1. Development in the banking industry and the wider economy with impact on the institution;
2. Management's main actions to maintain the stability of the institution in light of the developments;
3. Assessment of the quality of back-office operations of the institution with reference to staffing, level of (computer and telecommunications) technology and adequacy of administrative organization and controls.
4. Major plans for the next period, changes envisaged and other significant expectations that would potentially affect the business, the financial condition or performance of the institution in some substantial fashion.

Section B: Financial position

This section provides Management's overall assessment of the financial organization and financial condition. The section should be organized as follows:

1. Evaluation of the accounting organization in the institution with reference to the financial accounting function, the nature and quality of contacts with external auditors, to follow up on the main recommendations made in the auditors' Management Letter and the frequency and quality of internal reporting by the financial accounting and internal audit functions in the institution. Please describe the management reporting system of the institution.
2. Analysis, including explanations of material deviations and changes, of the financial statements at cut-off date (see paragraph IV) with reference to (last year) prior period figures and current year's budgets. The general financial analysis must be supplemented with a limited substantive review of the key ratio's for solvency, liquidity and earnings for the institution as can be found back in the examination reports of the Bank.
3. Developments in the asset portfolio with reference to funding, the quality of securities and loan portfolio, the development in the level of specific and general provisions, problem loans and changes in credit extension policies.
4. Evaluation of the major financial projections for the next six months with regard to the deposit base, loan volume, net profit, balance sheet size and equity capital

Section C: Regulatory issues and compliance

In this section of the report, management informs how it has performed follow up on the various issues raised by the Bank in its regulatory letters, policy memoranda and supervisory regulations, and on matters requiring its resolution as expressed in examination reports. The review should consist of the following.

Follow up on:

1. non-compliance issues with reference to rules and regulations of the Bank;
2. other matters requiring attention from letters, memoranda and examination reports issued by the Bank.

Section D: Other matters.

Please report, review or comment on all significant other matters that may potentially have a material impact on the solvency and the liquidity of the institution, the way business is conducted or the 'going concern' of the institution. List those items that require specific attention by management and that may reasonable be expected to be of interest to the Bank.

IV. FILING AND PRESENTATION OF THE MANAGEMENT REPORT

The Management Report should contain information and reviews as per June 30 of each year (the cut-off date) and should be filed within 6 weeks after the cut-off date.

The contents of the report as described in paragraph III above must be in compliance with the requirements as stipulated in article 12, section 3, of the National Ordinance on the Supervision of Banking and Credit Institutions of 1994. This entails that the information submitted to the Bank must be accurate, complete, timely and not misleadingly presented.

The Management Report should be signed by all the managing directors of the institution entrusted with its daily management.

V. EXPLANATION OF THE MANAGEMENT REPORT

The management will be invited, once a year, to discuss the submitted management report and its potential implications.

CENTRALE BANK VAN CURACAO EN SINT MAARTEN