SUPERVISION GUIDELINE NO. 10

ISSUED UNDER THE AUTHORITY OF THE
FINANCIAL INSTITUTIONS ACT 1995
(ACT NO. 1 of 1995)

PUBLIC DISCLOSURE OF INFORMATION

Bank of Guyana
June 18, 2010

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Public Disclosure of Information

1.0 Introduction

All references to institution(s)/financial institution(s) in this Guideline relate to licensed financial institution(s).

1.1 This Guideline is based on the premise that the reporting of comprehensive, meaningful and accurate qualitative and quantitative information in a timely manner provides strong market discipline on financial institutions to manage their activities and risk exposures prudently and consistently with their stated objectives.

1.2 Adequate, timely and on-going disclosure helps prevent the occurrence of problems in financial institutions as it allows the mechanisms of market discipline to work earlier and more effectively so strengthening the incentives for the financial institutions to behave in a prudent and efficient manner thereby reducing the severity of market disturbances.

1.3 However, financial institutions that are prone to hide or significantly delay disclosure of problems are likely to be more exposed to market overreactions than financial institutions that have a track record of prompt and balanced disclosures.

1.4 A sound and well-managed financial institution is able to attain better terms and conditions in transactions with informed and rationally-behaving market counterparties while the market will require a higher return from funds invested in or placed with a financial institution that is perceived as having more risks.

1.5 The extent and level of disclosure is of fundamental importance to market participants in making accurate assessment of an institution's financial position, financial performance, business activities, risk profile and risk management practices, corporate governance and accounting policies. Improved public disclosure also strengthens market participants' ability to encourage safer and sound banking practices.

1.6 Although the prime focus of this Guideline is on the annual report of a financial institution, it is recognized that public disclosure of financial information may also occur and, indeed be necessary at other times.

1.7 This Guideline shall come into effect on June 18, 2010.

2.0 Preparation of financial statements

2.1 The Companies Act 1991 requires that companies prepare their financial statements in accordance with the International Accounting Standards. The disclosures envisaged in this guideline deal with only the most relevant and significant information from financial institutions that would be of interest to market participants. They are by no means designed to cover or summarize the requirements of all the different International Accounting Standards that have application to financial institutions. It is, therefore, expected that the institutions will provide additional information or disclosures on their own in order to fully comply with the Standards.

2.2 The institution should include in the notes to the financial statements information that is not presented elsewhere but is relevant to an understanding of these statements.

2.3 A financial institution that is locally incorporated is required to present group accounts (where applicable) in addition to the accounts of the institution itself.

3.0 Quarterly financial statements

3.1 In view of the dynamic nature of financial markets, potentially causing rapid changes in the risk profiles of financial institutions, the release of quarterly statements in the public media is helpful in disseminating updated, relevant information to the investing public and other interested parties. The quarterly statements should therefore at a minimum provide essential financial information on the institution's operations in a summary format.

3.1.1 The quarterly statements should be released within 30 days from the end of the quarter.

4.0 Disclosure Policy

4.1 Formal disclosure policy

4.1.1 Each financial institution shall have a formal disclosure policy to promote market discipline. The policy shall be approved by and be periodically reviewed by its board of directors. The policy shall describe the institution's objectives and strategy for public disclosure of information on its financial position and performance. The management shall report to the board of directors on the processes for assessing the appropriateness of its disclosure, including the frequency of disclosure.

5.0 Financial Review

5.1 Performance against objectives

5.1.1 The performance against objectives should be disclosed to the market. The areas of performance should include revenue growth, expense growth (operating expense growth compared to operating revenue growth), productivity (ratio of non-interest expenses to net interest income plus other income), return on equity, return on assets, portfolio quality (ratio of specific provision for credit losses to average loans; ratio of impaired loans to total loans), and capital management (Tier 1 and total qualifying capital ratios).

5.1.2 The narrative accompanying the data should discuss factors accounting for any growth or lack thereof, variability of profits over time, and provide other relevant information to assist market participants in appreciating the institution's performance. In assessing the sustainability of profits, it is important that the impact of any acquisitions or discontinuance of a line of business during the year be disclosed.

6.0 Revenue growth

6.1 The market should be provided with comparative trends for net interest margin i.e. the ratio of net interest income to total average interest earning assets, and net interest income to total average assets. In support of these ratios, a breakdown of interest income, interest expense, related assets, and related liabilities, by major categories should be given. Also comparative data for core revenue (net interest income plus core non-interest revenue) should be provided. Core data means data after elimination of the effects of any unusual, non-operational items. The narrative in support of the ratios should describe reasons for any significant fluctuations or trends.

7.0 Cost control

7.1 Core non-interest expenses represent, by and large, the principal costs of running a financial institution. Such expenses deal with the costs relating to human resources, occupancy, equipment, communications, professional fees, amortization of goodwill and other intangibles, and other miscellaneous items. The financial institution should provide comparative data on major individual non-interest expenses, explaining any significant movements from year to year as well as any changes in the productivity ratio (non-interest expenses as a percentage of net interest income plus other income).

7.2 Comparative figures in a tabular form for the principal components of non-interest revenue explaining any significant changes in their relative importance and overall performance should be disclosed.

8.0 Risk Management policies and controls

8.1 The risks to which a financial institution is exposed and the policies and techniques used to measure and control the risks are important factors that market participants employ in the assessment of the financial institution.

8.2 Each financial institution should identify and describe the risks that are significant to its business. These include but are not limited to credit risk, interest rate risk, foreign exchange risk, liquidity risk, operational risk and country risk. The financial institution should describe the way in which it monitors and controls such risks. It should provide sufficient qualitative and quantitative data (position data) to help market participants understand the nature and extent of the institution's exposures.

8.3 The financial institution should discuss the extent of any significant exposures to areas where there recently has been, or there is the potential for, significant loss due to sector specific factors or general industry recession and outline the steps it has taken to contain the risks. Similarly, the institution should identify its major lines of business and describe the controls it has in place to quantify and contain the risks to the institution from exposure to those lines of business.

8.4 The financial institution should describe its management structure for controlling risks. It should disclose the role of its board of directors in approving and periodically reviewing risk management policies, ensuring employment of competent and qualified persons to control and manage risks, and reviewing reports from management to ensure the adequacy of the institution's risk management process.

8.5 Consequently, the Board of Directors of the licensed financial institution shall establish a risk management committee preferably under the chairmanship of the Chief Executive Officer and consisting of appropriate senior executives with risk management responsibilities. The committee shall develop and review policies and strategies for the function, monitor the institution's risk profile, provide strategic guidance to the staff, and submit timely reports to the board of directors.

9.0 Credit exposure and credit risk

9.1. Credit risk

9.1.1 This risk can relate to on-balance sheet assets as well as off-balance sheet assets, such as guarantees, letters of credit and commitments.

9.1.2 The financial institution should disclose its credit risk management policies, including the role of the board of directors and management in the development, review, approval and implementation of credit risk management policies, and the procedures in place for the loan review function, related internal controls, and monitoring.

9.1.3 Disclosure on the credit risk management policies should include information on the methods used to identify existing and potential risks inherent in the credit portfolio. More specifically, the financial institution should disclose the methods for assessing credit risk on an individual counterparty basis and economic sector basis, credit concentration limits, and loan monitoring and follow-up. The financial institution should also describe the mechanisms used to mitigate credit risk exposure, such as collateral, guarantees, and netting arrangements, and how it periodically evaluates their continuing validity and value.

9.1.4 The financial institution should further disclose information on the techniques and methods employed to monitor and manage past due and non-performing assets.

9.2 Credit exposure

9.2.1. The financial institution should provide credit data by economic sector indicating both domestic and international exposures including exposures from lending, trading, investment and off-balance sheet activities. The institution should also provide information on its credit concentration and the relation to its capital base to the extent that it does not disclose any confidential information. The credit concentration information should be on the five most significant individual concentration cases (in respect of one customer) or a group of related customers.

9.2.2 The financial institution should provide data on non-performing loans, related parties non-performing loans, and provision for credit losses by economic sector. It should indicate the percentages of non-performing related parties loans to total related parties loans; provision for credit losses to related parties non-performing loans and provision as a proportion of total gross loans.

9.2.3 The financial institution should disclose information on credits that have been restructured during the year, giving the balance of the restructured loans, the basic nature of concessions granted, the impact of restructured credit arrangements on allowance for credit losses and on present and future earnings.

9.2.4 The financial institution should provide information on provision for credit losses at beginning of year (giving separately the amounts of specific and general allowances), provision for credit losses for the year, loans written off, recoveries, and provision at end of year. In addition, provision for credit losses for off-balance sheet items should be disclosed.

10.0 Capital structure

10.1 A brief outline of the regulatory requirements for the maintenance of capital as contained in Supervision Guideline 4 - Capital Adequacy Ratio - is useful public information. The financial institution should show in a tabular form the components of Tier 1 and Tier 2 capital of the financial institution.

10.2 The financial institution should discuss the significance of any movements in the capital structure.

10.3 The financial institution should indicate any potential sources of capital should the need arise.

11.0 Interest rate risk

11.1 The financial institution should set out its objectives and associated business strategies in managing interest rate risk. It should describe the role of the board of directors and management in the development, review, approval and implementation of interest rate risk policy, and the management programme for effectively monitoring and controlling the risk.

11.2 The financial institution should identify and describe the analytical techniques used, such as gap analysis, duration analysis, or simulation model, to measure and monitor the interest rate risk.

11.3 The financial institution should explain any risk mitigation methods, such as hedging instruments, used to manage interest rate risk and provide quantitative information on the extent to which such instruments have been used.

12.0 Foreign exchange risk

12.1 The financial institution should disclose its foreign exchange risk management policy, including the role of the board of directors and management in the development, review, approval and implementation of such policy, and the procedures in place to effectively monitor and control the risk function.

12.2 Financial institutions should identify the analytical techniques used to measure the risk, the limits imposed and the frequency of measurement. They should also describe the methodology used in measuring foreign exchange trading gains or losses.

13.0 Liquidity risk

13.1 The financial institution should briefly outline the process for the formulation of its liquidity policy and the board's and management's responsibility for the establishment, review and implementation of the policy. The institution should include, in particular, a description of policies, performance and procedures in place with respect to:

- controlling the cash flow mismatches between on- and off-balance sheet assets and liabilities;
- maintaining stable and diversified sources of funding;
- accessing alternative sources of funds, if required;
- controlling undrawn or unrealized commitments given; and
- stress testing

14.0 Operational risk

14.1 Each financial institution should have operational risk management policies and practices approved by the board of directors. An appropriate disclosure should be made of such policies and practices, including those relating to:

- identification and assessment on a continuing basis of the operational risks faced by different lines of business of the institution;
- implementation of risk mitigation practices, including an appropriate system of internal control, trained and competent staff, well-defined operating policies, and contingency planning; and
- regular enterprise-wide audits by the internal audit department of the institution to ensure that the risk mitigation practices are being followed throughout the organization.

15.0 Related party transactions policies and practices

15.1 The financial institution should discuss its own policies with respect to related party transactions, including the role of the board, the compliance review committee, or other committees, and management in the development, implementation, and monitoring of its internal policies on related exposure.

15.2 The financial institution should provide aggregated data on its on- and off-balance sheet credit exposure to related parties relative to the institution's exposure to all customers, stating also the proportions. The institution should indicate the proportion of credit exposure to related parties that has become non-performing.

15.3 The institution should further disclose the total amount of exposure to the five related parties with highest exposures, giving also the percentage of such exposure to the institution's capital base.

16.0 Statement of corporate governance practices

16.1 The Guideline on Corporate Governance requires each financial institution to disclose on an annual basis its approach to corporate governance. The disclosure should be prepared in the context of and by reference to the Guideline.

The discussion of the subject should be concise and deal with the following points:

- mandate of the board of directors, its duties and objectives
- composition of the board of directors, identifying 'executive directors', 'non-executive directors', and the proportion of 'non-executive directors' that are 'independent directors'
- description of the board committees, their mandates, and their activities
- description of decisions requiring prior approval of the board
- senior management structure, outlining their responsibilities, reporting lines, qualifications, and experience
- board's expectations of management and the latter's performance in meeting them
- incentive structure of the bank, remuneration policies, executive compensation
- the nature and extent of transactions with affiliates and related parties

16.2 The financial institution should outline the processes in place for receiving shareholders' feedback on its activities and how the shareholders' concerns are dealt with.

17.0 Auditor's report of XYZ financial institution

17.1 The disclosures envisaged in this guideline deal with only the most relevant and significant information pertaining to financial institutions that is of interest to market participants. Financial statements consist of the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Shareholders' Equity which provide largely point in time information based on historical data. The notes to the financial statements deal with accounting policies, comparative data to permit trend analysis, maturity schedules to enhance appreciation of an institution's financial condition, and information on contingent liabilities. In line with the normal auditing practice, the concept of 'materiality' will apply in assessing whether the financial statements give a true and fair view of the financial position of the financial institution.

17.1.1 Recommended Format **or** as Adapted by the Institute of Chartered Accountants:

We have audited the financial statements of ……………., which comprise the Statement of Financial Position as at ………; the Statement of Comprehensive Income, Statement of Changes in Shareholders' Equity and Statement of Cash Flows of the group (where applicable) and of the institution for the year then ended, and Related Notes to the financial statements.

The directors are responsible for ensuring that proper accounting records which disclose with reasonable accuracy at any time, the financial position of the group and of the financial institution and for ensuring that the financial statements comply with the provisions of the Financial Institutions Act 1995 and of the Companies Act 1991. The directors are also responsible for safeguarding the assets of the group and of the financial institution and hence for taking steps for the prevention and detection of fraud and other irregularities. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

We have conducted our audit in accordance with the International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free from any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by directors in the preparation of financial statements, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have no relationship with, or any interests in, the financial institution or any of its subsidiaries other than in our capacity as auditors, except ………………….

In our opinion,

(a) proper accounting records have been kept by the group (where applicable) and the financial institution as far as it appears from an examination of those records; and

(b) the financial statements present fairly, in all material respects, the financial position of the (group, where applicable, and) the financial institution as at …………………… and of the results of (their) its operations and (their) its cash flows for the year then ended and are properly drawn up in accordance with the International Accounting

Standards and International Financial Reporting Standards, including the requirements of the Bank of Guyana, and comply with the provisions of the Financial Institutions Act 1995, the Companies Act 1991 (and the Securities Industry Act 1998, where applicable), as well as the regulations and guidelines of the Bank of Guyana.

Date: **Auditors:**

Address:

18.0 Notes to the financial statements

18.1 Significant accounting policies

This note should contain a clear statement that:

- financial statements have been prepared in accordance with the accounting standards established by the International Accounting Standards Committee;
- comparative amounts have been reclassified, as necessary, to conform to the current year's presentation; and
- any material effects of a change in accounting policy, including tax effects, have been disclosed.
- subsidiaries are being consolidated in the financial statements.

18.2 Description of accounting policies

All significant accounting policies should be described including basis of consolidation (if applicable)

The description should deal with the:

- method used for the consolidation of subsidiaries;
- method used for measuring goodwill on the acquisition of the subsidiary in terms of the difference between the cost of investment in the subsidiary and the fair value of assets acquired;
- frequency of impairment review of the recorded goodwill and the method used for such review;
- method used (equity, or cost in exceptional cases) to account for investment in associated companies in which the bank has significant influence but not control;
  - specific accounts where the bank is reporting
  - its investment in associated companies (e.g. investment securities);
  - its share of earnings of associated companies (e.g. other income); and
  - gains or losses from disposal of investment in associated companies (e.g. other income).

18.3 Translation of foreign currencies

This note should state that assets, liabilities, income and expense items denominated in other currencies are translated into Guyana dollars in accordance with IAS 21.

The note should include a brief description of the methodology used in the translation of the following:

- assets other than fixed and intangible assets, and liabilities;
- fixed and intangible assets;
- revenues and expenses;
- depreciation charge;
- the results of overseas branches, subsidiaries and associated companies; and
- trading transactions.

18.4 Investments

Describe the method of recording investment and trading securities, income generated from such securities, and gains and losses from their disposal.

Show securities available for sale, held to maturity and held at fair value through profit and loss.

18.5 Loans, provision, and allowance for credit losses

Describe the principal features of the treatment of loans, provision for credit losses and allowance for credit losses. State whether the bank follows the Bank of Guyana's Supervision Guideline No. 5 (describe briefly the principal elements of the Guideline). Either by way of a description of the Guideline or additionally, outline such items as:

- criteria used for the designation of a loan as 'non-performing' and the consequences of such designation;
- classifications of 'non-performing' loans and how the specific provision, on a loan-by-loan basis, is determined;
- establishment of a provision for off-balance sheet items, including acceptances, letters of credit, guarantees, and derivative instruments;
- consideration of collateral in determining the provision for credit losses and procedures for periodic appraisal of the collateral;
- treatment of restructured loans;
- suspension of interest accrual on 'non-performing' loans and reversal of previously accrued interest;

- criteria for the return of 'non-performing' loans to the 'performing' status and the treatment of any amounts written off and any interest in arrears;
- treatment of losses in respect of credit card loans;
- establishment of a general provision for losses, which a prudent assessment of the bank's past experience indicates have been incurred but which cannot be determined on a loan-by-loan basis; requirements of the Supervision Guideline No. 5.
- maintenance of a provision for credit losses account at a level that management of the bank considers adequate to absorb credit-related losses, normally the sum of general and specific provisions;
- statement of the provision in the balance sheet (e.g. showing the allowance for credit losses against on-balance sheet items as a deduction from the related asset category, and provision against off-balance sheet items; and
- loan write-off policy of the financial institution and the accounting treatment of write-offs.

18.6 Premises and equipment

(a) Describe the accounting for buildings and equipment in that they are stated at cost or revalued amount, as applicable, less accumulated depreciation. Outline the methodology for calculating depreciation, including rates used for different categories of assets. Indicate where gains or losses on disposal of assets are shown in the income statement (e.g. other income).

(b) Show separately for each – land and buildings; computer and other equipment; and other fixed assets – balance at beginning of year; exchange adjustment; additions; disposals; revaluation adjustment; balance at end of year; net book value. Show also for each category the accumulated depreciation – indicating balance at beginning of year; disposal adjustment; depreciation for the year; and balance at end of year.

(c) For reporting other fixed assets, identify principal assets covered.

18.7 Acceptances

Outline how the institution's potential liability on acceptances and the recourse against the customer in case of a call on the commitment are reported in the financial statements. Also indicate how the fees earned are reported.

18.8 Employees' pension and other benefits

Outline briefly any pension plan for employees, indicating the method used for the valuation of assets of the plan, computation of pension expense, and the treatment in the Statement of Financial Position of any difference between the present value of funded obligations and any other relevant liabilities, and the plan's assets. Also, describe any other significant employee benefit plans, indicating the methodology for determining any related expense and liability.

18.9 Securities, placements and other investments

(a) Remaining term to maturity

(i) investment securities
(ii) trading securities
(iii) placements

Show breakdown by remaining maturities e.g. Within 3 months; 3 – 6 months; 6 – 12 months; 1 – 5 years; over 5 years; no specific maturity.

(b) Investments in subsidiaries and associates

Show name of subsidiary or associate; country of incorporation; percentage holding as well as quoted and unquoted shares.

18.10 Loans

(a) Show remaining term to maturity (classification is by remaining term to maturity, not original term) - within 3 months; over 3 to 6 months; over 6 to 12 months; over 1 to 5 years; over 5 years.

(b) Credit concentration of risk by economic sectors

Show total credit facilities including guarantees, acceptances and other similar commitments extended by the bank to any one customer or group of closely-related customers for amounts aggregating more than 10% of its capital base, classified by economic sectors – Agriculture, Mining and Quarrying, Manufacturing, Services, Households, Real Estate Mortgages, non-residents, Government, and Financial Institutions.

(c) Provision for credit losses

Show separately specific provision and general provision. Indicate balance at beginning of year; provision made for the year; loans written off, and balance at end of the year.

(d) Provision for credit losses by economic sectors

Show provision for loan losses by economic sectors. Indicate for each economic sector gross amount of loans per sector; non-performing loans; specific provision and general provision.

(e) Credit facilities to related parties

For each category below, show balance at beginning of year; loans during the year; repayments and balance at end of the year:

(i) loans to directors
(ii) loans to other related parties

(f) Credit facilities outside Guyana

Show balances to banks; Governments; and other entities

18.11 Intangible assets

Items under this heading are to be disclosed in accordance with appropriate accounting standards and other legal requirements.

18.12 Other assets

(a) Show for other assets, balances due in clearing (net); accrued interest receivable; non-banking assets acquired in satisfaction of debts and others which must be specified.

(b) For balances due in clearing (net), if negative, show under 'other liabilities'.

18.13 Deposits

(a) Show separately demand, savings and time deposits. For time deposits, show the remaining term to maturity – within 3 months; over 3 and up to 6 months; over 1 and up to 5 years; over 5 years.

(b) Personal, commercial and governments
Show separately demand, savings and time deposits. For time deposits, show the remaining term to maturity – within 3 months; over 3 and up to 6 months; over 1 and up to 5 years; over 5 years.

18.14 Subordinated loans

(a) These loans are unsecured obligations of the bank and are subordinate to the claims of the bank's depositors and other creditors.

(b) For subordinated loans show maturity date; interest rate (%) and terms. The aggregate maturities of the subordinated loans should be shown as – less than

(c) 1 year; from 1 to 2 years; over 2 to 3 years; over 3 to 4 years; over 4 to 5 years; over 5 years.

18.15 Other liabilities

Show accounts payable; accrued interest payable and other accrued expenses.

18.16 Capital

Show separately authorised capital; issued capital; and paid-up capital. For each category state also the number of shares and the par value. Where necessary, items which can be combined may be show under one heading - for instance "subscribed and issued and paid-up capital".

18.17 Contingent liabilities

(a) Instruments
Show customers' liabilities under – acceptances; guarantees; letters of credit and other obligations. Show also spot foreign exchange contracts and other contingent accounts.

(b) Commitments
Show separately undrawn credit facilities; undisbursed commitments in debt securities and equities; underwriting commitments in debt securities and equities.

(c) Assets pledged
Show the aggregate carrying amount of assets that have been pledged to secure the liabilities of the bank – deposits with other banks; securities issued by Government of Guyana; Bank of Guyana; Government bodies; other assets pledged.

(d) Contingent liabilities arising out of lawsuit against the bank
Show all such liabilities.

(e) Others (to be specified)

18.18 Interest income from securities

Show separately interest income from investment securities and trading securities.

18.19 Provision and adjustments to income for credit losses

Show provision for credit losses for the year by showing separately general provision; specific provision; provision released during the year. Show separately also bad debts written off for which no provisions were made, and recoveries of credit facilities written off.

18.20 Fee income and commission

Show separately fee income and commission earned from credit cards; guarantees; service charges; letters of credit and acceptances. Specify and show fee income and commission against any other sources.

18.21 Provision for income taxes

(a) Income taxes
(b) Deferred taxes

To be disclosed in accordance with appropriate accounting standards and other legal requirements.

18.22 Capital commitments at end of year

Show approved and contracted as well as approved and not contracted.

18.23 Cash and cash equivalent

(a) Assets - Show cash and balance with Bank of Guyana; balances with banks and interbank loans; balances with other financial institutions.

(b) Liabilities – show borrowings from the Bank of Guyana; banks and interbank borrowings; other financial institutions, and other persons.

18.24 List of subsidiaries and associates

Provide information required by Sections 164, 165, 166 and 168 of the Companies Act.

18.25 Compensation of directors and former directors

Provide information required by Section 163 of the Companies Act .
