SUPERVISION GUIDELINE NO. 10

(Revised)

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

PUBLIC DISCLOSURE OF INFORMATION

Bank of Guyana
April 1, 2013

TABLE OF CONTENTS

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1.1 Supervision Guideline No. 10 that took effect on June 18, 2010 was recalled and has been replaced by Revised Supervision Guideline No. 10 that takes effect on April 1, 2013.

1.2 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.

1.3 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.

1.4 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.

1.5 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.

1.6 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.

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

1.8 The disclosure requirements specified at sections 4.1 to section 17.0 must be disclosed in the most appropriate sections in the annual report as determined by management. Disclosure in the quarterly publication is optional. Where an institution does not prepare an annual report the disclosure requirements should be published on the institution's website and transmitted along with the audited financial statements to the Bank of Guyana.

1.9 The quarterly publications should at a minimum show a condensed; - Statement of Financial Position, Statement of Cash Flows, Statement of Comprehensive Income, Statement of Changes in Equity and selected explanatory notes.

2.0 Preparation of financial statements

2.1 Notwithstanding the prudential requirements contained in this Guideline, all licensed financial institutions must, where required, conform with the International Financial Reporting Standards (IFRS), the Companies Act 1991, the Securities Industry Act 1998, the Financial Institutions Act 1995 and any other relevant Acts or Codes pertinent to financial institutions. The disclosure requirements contained in this Guideline are by no means designed to cover or summarize the requirements of the International Financial Reporting Standards.

2.2 A financial institution that is locally incorporated and has controlling interest in other financial institutions is required to present group financial statements in addition to the financial statements of the institution itself.

2.3 As part of its public disclosure, each financial institution shall declare that the appointed auditor has no financial interest in the institution or any of its subsidiaries other than as a depositor.

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 condensed financial statements in a newspaper of general circulation in Guyana and/or on the institution's website is helpful in disseminating updated, relevant financial information to the investing public and other interested parties.

3.2 The financial statements for the four calendar quarters should be released within thirty days from the end of the quarter and forwarded to the Bank of Guyana.

3.3 A generic format for the quarterly publication would not be prescribed under this Guideline.

3.4 The publication of the audited financial statements remains as required in the Financial Institutions Act 1995.

4.0 Disclosure Policy

4.1 Formal disclosure policy

4.1.1 Each financial institution shall have a formal disclosure policy to promote transparency and foster market discipline. The policy shall be approved by and be periodically reviewed by the institution's 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 Performance against objectives

5.1. The performance against objectives should be discussed in the annual report and should indicate factors accounting for any growth or lack thereof and should include 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.

5.2. The requirements under this section could be made in the reports of the Chairman and/or the Chief Executive Officer/Managing Director.

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.

6.2 Comparative data should be presented in a tabular form and should cover a two-year period - the current and previous years.

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 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 for the principal components of non-interest expenses explaining any significant changes in their relative importance and overall performance should be disclosed.

7.3 Comparative data should be presented in a tabular form and should cover a two-year period.

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 risk and credit exposure

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, in a concise way, disclose its credit risk management policies, including the role of the Board of Directors and senior 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. Refer to Supervision Guideline No. 5 for definitions for past due and non-performing assets.

9.2 Loans and provision for credit losses

Description of the principal features of the treatment of loans, provision for credit losses and allowance for credit losses. 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 renegotiated 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 financial institution's past experience indicates has been incurred but which cannot be determined on a loan-by-loan basis.
- maintenance of a provision for credit losses account 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.

9.3 Credit exposure

9.3.1. 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 financial 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.)

9.3.2. The financial institution should disclose information on credits that have been renegotiated during the year, giving the balance of the renegotiated loans, the basic nature of concessions granted, the impact of renegotiated credit arrangements on allowance for credit losses and on present and future earnings. Refer to Supervision Guideline No. 5 for explanation of renegotiated loans.

9.3.3. 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.

9.3.4. The financial institution should show provision for loan losses by economic sectors.[1] Indicate for each economic sector, the gross amount of loans per sector; non-performing loans; specific provision and general provision.

10.0 Capital structure

10.1 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.

[1] See Appendix 1

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 senior 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 senior management in the development, review, approval and implementation of such policy, and the procedures in place to effectively monitor and control the risk.

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

13.2 **Maturity profile**

Show separately breakdown of loans and investments by 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.

13.3 **Deposits**

Show separately demand, savings and time deposits for the categories - personal, commercial and government. For time deposits, show the remaining term to maturity – within 3 months; over 3 and up to 6 months; 6 months to I year, over 1 and up to 5 years; over 5 years.

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 For compliance with this section, reference should be made to International Accounting Standard 24 - Related Party Disclosures and to the prudential description for related party at section 14 of the Financial Institutions Act 1995.

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

15.3 The financial institution should provide aggregated data on its on- and off-balance sheet credit exposures 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.

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

15.5 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

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 and to any national Code on Corporate Governance and could be disclosed in the reports of the Chairman and/or the Chief Executive Officer/Managing Director. However, where any of the areas requires a specific IFRS approach, the institution must adhere to the IFRS requirement in the form and manner specified in the relevant standard.

16.2 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, key management compensation
- the nature and extent of transactions with affiliates and related parties

16.3 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 Credit concentration by economic sectors

Show total credit facilities including guarantees, acceptances and other similar commitments extended by the institution to any one customer or group of closely-related customers for amounts aggregating more than 10% of its capital base, classified by economic sectors as shown in Appendix 1.

Appendix 1

ECONOMIC SECTORS
General Government
Financial Institutions
Trade Credit Instruments
Public Non-Financial Institutions
Private Non-Financial Enterprises (Business Enterprises)
Agriculture
Mining and Quarry
Manufacture
Services
Households
Real Estate Mortgages
Non-Residents