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Part I GENERAL GUIDELINES

1.00 INTRODUCTION

A licensed bank's annual report and audited financial statements are the primary means of communicating to the public about the bank. In the business of banking, where the maintenance of public confidence is crucial, it is imperative that the operations of a bank are reported and understood. It is in this regard that Section 21(2) of the New Financial Institutions Act, 1999 (FIA) makes it mandatory that the report of the Board of Directors and the audited financial statements of a bank be presented at the annual meeting of its shareholders, copies of same be submitted to the Central Bank of Liberia (CBL) and the abridged financial statements be published in a form as determined by the Central Bank.

Similarly, under Section 24(3) of the FIA, every financial institution is required to keep its business records and books in accordance with international accepted accounting principles and practices as well as the requirements of the legal provisions in accounting in Liberia, and in a manner which is suitable for effective internal control as may be prescribed by the Central Bank. Indeed, under the Associations Law Title 5 of the Liberian Code of Laws Revised., 1976 Cap 8, Section 1 there is a requirement for Liberian corporations to keep proper books of accounts, minutes and records of shareholders.

In addition to the statutory requirements, public disclosure of information is expected to ensure effective market discipline and banking supervision. The public should have access to timely, accurate, reliable, relevant and sufficient information based on sound, acceptable and uniform standards of principles and policies. This will enable the public to reasonably assess a licensed bank's condition, performance, risk profile and business activities as well as corporate governance practices. Also, adequate disclosure enhances the credibility of the information, reduces market uncertainty and reinforces corporate governance as the process becomes more transparent.

It has been observed that there is no standard format of presentation of financial statements and accounting treatments of items in the statements. The purpose of the guidelines is to clearly define the obligations of banks under the statutory requirements to keep correct and complete books and records of accounts in accordance with internationally accepted accounting standards and disclose comprehensive, relevant, reliable and timely information to the public. The guidelines are prepared for issue by the Central Bank of Liberia under the powers conferred on it by Sections 21(2) and 39 (i) of the FIA, 1999.

To ensure adequate transparency of the bank's financial statements, banks will be required to disclose minimum level of information, in their annual reports and audited financial statements, on the following:

- a) accounting policies;
- b) financial performance (e.g. income statements);
- c) financial condition (e.g. the balance sheet, cash flow statements);
- d) risk exposures (e.g. balance disclosures of credit risk, liquidity risk, etc); and

- e) basic business activities, organizational and management structure, and corporate governance practices.

The guidelines set out the minimum standards that shall be followed by banks. Licensed banks are advised to disclose additional information if this is necessary to present a true and fair view of their state of affairs and promote more transparent reporting of their condition, performance and risk exposures.

The guidelines cover a number of issues. Under Part 1, in addition to the introduction, the adoption of International Accounting Standards (IAS), currency of reporting and the effective date for implementing the guidelines are highlighted. Part II provides the required formats of financial statements, while Part III details the explanatory notes on the accounting policies, treatment and disclosure requirements for the financial statements. Finally, Part IV lists the major issues to be addressed in the directors and annual report on the operations of the bank.

2.00 International Accounting Standards (IAS)

In absence of locally issued accounting standards, the guidelines have been prepared based on the International Accounting Standards (IAS) or acceptable best practice. Where the accounting treatments are essentially covered by an IAS, reference is made to that after the section heading with the number indicating the relevant IAS. Where there is no reference to an IAS, the guidelines follow best practice. From a forward-looking perspective the accounting policies and other disclosure requirements do cover some topics, which may not yet be in general use in Liberia.

The IAS are issued by the International Accounting Standards Committee (IASC). Professional accountancy bodies in many countries, including Liberia are supposed to be members of the IASC. The IASC's primary objectives are to ensure the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements and also to promote worldwide acceptance of the international accounting standards.

3.00 Currency of Accounting and Financial Reporting

In accordance with the provisions of Section 19(1) of the Central Bank of Liberia Act, (CBL) 1999, banks are required to use the Liberian Dollar for their accounting and financial reporting. Accordingly, all financial statements shall be reported in Liberian Dollar. However, the currency of the United States of America shall remain a legal tender as provided in Section 19(2) of the CBL Act.

4.00 Implementation Date

All licensed banks are required to comply with the guidelines with effect from their audited financial statements for the period ending 2000.

Part II FORMATS OF FINANCIAL STATEMENTS

In order to comply with the requirements of IAS 30 on the disclosure of information in the financial statements of banks, the audited financial statements of each licensed bank shall contain, at minimum, the following statements:

- a) Balance Sheet,
- b) Income Statement,
- c) Statement of Cash Flows and
- d) Notes to the Financial Statements listed in (a) to (c).

The following pro-forma financial statements provide specimen of the necessary disclosure and presentation of the financial statements of banks. The format may be varied with the prior consent of the Central Bank of Liberia to better suit individual situations provided the minimum disclosure requirements are satisfied.

5.00 PRO-FORMA FINANCIAL STATEMENTS (BANK ONLY)

5.10 Balance Sheet

BALANCE SHEETS (Bank only)

| <u>AS AT</u> | Notes | Current Year L\$'000 | Previous Year L\$'000 |
|--------------------------------|-------|-------------------------|--------------------------|
| Assets | | | |
| Cash and short term funds | 4 | | |
| Investments | 3 | | |
| Loans and Advances (Net) | 5-7 | _____ | _____ |
| Investments in subsidiaries | 8 | | |
| Associated corporations | 9 | | |
| Trade investments | 10 | | |
| Other Assets | 11 | | |
| Fixed assets | 12 | _____ | _____ |
| Total Assets | | ===== | ===== |
| Liabilities | | | |
| Deposits Accounts | 13 | | |
| Due to banks | 14 | | |
| Tax Payable | 15 | | |
| Deferred Taxation | 16 | | |
| Other Liabilities and Accruals | 17 | _____ | _____ |
| Long term loans | 18 | | |

| | | | |
|---|----|-------|-------|
| Total Liabilities | | _____ | _____ |
| Shareholders' Equity | | | |
| Share Capital | 19 | | |
| Capital Surplus | 20 | | |
| Reserves | 21 | _____ | _____ |
| Total Shareholders' Equity | | ===== | ===== |
| Total Liabilities and Shareholders' Equity | | ===== | ===== |

The Board of Directors approved the financial statements set out on pages x to x on [.....].

Directors' Signatures. [The printed signatures of the directors authorized by the Board to sign the financial statements should be reproduced].

The accounting policies and notes on pages to form part of the financial statements.

5.20 Income Statement

INCOME STATEMENTS (Bank only)

YEARS ENDED and

| | Notes | Current Year L\$'000 | Previous Year L\$'000 |
|------------------------------------|-------|-------------------------|--------------------------|
| Interest income | 22 | () | () |
| Interest expense | 23 | () | () |
| Net Interest Income | | | |
| Fees, Commissions& Exchange Income | 24 | | |
| Other operating income | 25 | _____ | _____ |
| Total Income | | ===== | ===== |
| Provisions for loan Losses | | () | () |
| Increase in interest suspense | | () | () |
| Operating expenses | 26 | (_____) | (_____) |
| Total Expenses | | ===== | ===== |
| Net Income before taxation | | | |
| Taxation | 27 | () | () |

| | | | |
|--|----|-------|-------|
| Net Income after taxation | | _____ | _____ |
| Net Income before Extraordinary items | | | |
| Extraordinary items | 28 | _____ | _____ |
| Net Income after Extraordinary items | | | |
| Dividend at L\$[3 per share (Previous Year) L\$ [] per share) | | () | () |
| Transfer to Statutory Reserve Fund | 21 | () | () |
| Transfer to Retained Earnings | | | |

The accounting policies and notes on pages to form part of the financial statements.

5.30 Statement of Cash Flows

| | Current Year L\$'000 | Previous Year L\$'000 |
|--|-------------------------|--------------------------|
| <u>Cash Flow from Operating Activities</u> | | |
| Net Income | | |
| Adjustments to reconcile the net income to net cash used / from operating activities: | | |
| Provisions for loans Losses & Depreciation | | |
| Prior Period Adjustment | | |
| Incr./ (Deer) Deposits and Current Accounts | | |
| Incr./ (Deer.) Other Liabilities | | |
| Incr./ (Deer.) in Short-Term Borrowing (net) | | |
| (Incr)/Decr. Other Assets | | |
| (Incr)/Decr. Loans and Advances | | |
| Total Adjustment | _____ | _____ |
| Net Cash Flow from Operating Activities | _____ | _____ |
| <u>Cash Flow from Investing Activities</u> | | |
| Purchase of Fixed Assets | | |
| Proceeds form Sale of Fixed Assets | | |
| Investments in Associated Companies and Trade Investments | | |
| Net Cash Used/ From Investing Activities | _____ | _____ |
| <u>Cash Flow From/Used Financing Activities</u> | | |
| Proceeds from Issue of Shares | | |
| Purchase of own shares | | |

Cancellation of shares
 Deer./(Incr.) In Long Term Borrowing (net) _____
Net Cash From/Used Financing Activities

Effect of Exchange Rates on Cash and Cash Equivalent
Net Increase in Cash and Cash Equivalents
Cash and Cash Equivalents at beginning of Year _____
Cash and Cash Equivalent at end of the year =====

The accounting policies and notes on pagestoform part of the financial statements.

6.00 PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

6.10 CONSOLIDATED BALANCE SHEETS
AS AT

| | Notes | Current Year L\$'000 | Previous Year L\$'000 |
|--------------------------------|-------|-------------------------|--------------------------|
| Assets | | | |
| Cash and short term funds | 4 | | |
| Investments | 3 | | |
| Loans and Advances (Net) | 5-7 | _____ | _____ |
| Investments in subsidiaries | 8 | | |
| Associated corporations | 9 | | |
| Trade investments | 10 | | |
| Other Assets | 11 | | |
| Fixed assets | 12 | _____ | _____ |
| Total Assets | | ===== | ===== |
| Liabilities | | | |
| Deposits Accounts | 13 | | |
| Due to banks | 14 | | |
| Tax Payable | 15 | | |
| Deferred Taxation | 16 | | |
| Other Liabilities and Accruals | 17 | _____ | _____ |
| Long term loans | 18 | | |
| Total Liabilities | | _____ | _____ |

Shareholders' Equity

| | | | |
|---|----|-------|-------|
| Share Capital | 19 | | |
| Capital Surplus | 20 | | |
| Reserves | 21 | _____ | _____ |
| Total Shareholders' Equity | | ===== | ===== |
| Total Liabilities and Shareholders' Equity | | ===== | ===== |

6.20 Consolidated Income Statements

CONSOLIDATED INCOME STATEMENTS YEARS ENDED AND

| | Notes | Current Year L\$'000 | Previous Year L\$'000 |
|---|-------|-------------------------|--------------------------|
| Interest income | 22 | () | () |
| Interest expense | 23 | () | () |
| Net Interest Income | | | |
| Fees, Commissions & Exchange Income | 24 | | |
| Other operating income | 25 | _____ | _____ |
| Total Income | | ===== | ===== |
| Provisions for loan Losses | | () | () |
| Increase in interest suspense | | () | () |
| Operating expenses | 26 | (_____) | (_____) |
| Total Expenses | | ===== | ===== |
| Net Income before taxation | | | |
| Taxation | 27 | () | () |
| Net Income after taxation | | _____ | _____ |
| Net Income before Extraordinary items | | | |
| Extraordinary items | 28 | _____ | _____ |
| Net Income after Extraordinary items | | | |
| Dividend at L\$[] per share (Previous Year) L\$ [] (per share) | | () | () |
| Transfer to Statutory Reserve Fund | 21 | () | () |
| Transfer to Retained Earnings | | | |

The accounting policies and notes on pages..... to form part of the financial statements.

6.30 PRO-FORMA CONSOLIDATED CASH FLOW STATEMENT

| | Current Year 1\$'000 | Previous Year L\$'000 |
|--|-------------------------|--------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| RETAINED PROFIT | | |
| Adjustments to reconcile Profit to Net Cash used from Operating Activities: | | |
| Provisions for loan losses & Depreciation | | |
| Incr./ (Decr) Deposits and Current Accounts | | |
| Incr./ (Decr.) Other Liabilities | | |
| Incr./ (Decr.) in Short-Term Borrowing (net) | | |
| (Incr.)/Decr. Other Assets | | |
| (Incr.)/Decr. Advances | | |
| TOTAL ADJUSTMENTS | ----- | ----- |
| | ----- | ----- |
| NET CASH USED/FROM OPERATING ACTIVITIES | ----- | ----- |
| <u>CASH FLOW FROM INVESTING ACTIVITIES</u> | | |
| Purchased of Fixed Assets | | |
| Proceeds form Sale of Fixed Assets | | |
| Investments in Associated Companies and Trade Investments | | |
| NET CASH USED/FROM INVESTING ACTIVITIES | ----- | ----- |
| <u>CASH FLOWS FROM FINANCING ACTS</u> | | |
| Decr./ (Incr.) In Long Term Borrowing (net) | | |
| Shares Issued | | |
| Minority Interest | | |
| NET CASH FLOW FROM/USED FIN. ACTIVITIES | ----- | ----- |
| | ----- | ----- |
| NET INCR. IN CASH & CASH EQUIV. CASH & CASH EQUIV. BEG. OF YR. | ----- | ----- |
| | ----- | ----- |
| CASH & CASH EQUIV. END OF YR. | | |

7.00 NOTES TO THE FINANCIAL STATEMENTS

Notes

1. *Basis of Presentation*

These financial statements have been prepared under the historical cost convention and conforms to generally accepted accounting principles and the prevailing industry practice in Liberia.

2. **Significant Accounting Policies**

(a) *Consolidation*

The Consolidated financial statements of the Group include the financial statements of the Bank and subsidiaries, made up to(year end) each year.

The Group accounts for its subsidiaries by consolidating fully their assets, liabilities and results for the year and by showing separately the interests of minority shareholders therein.

Goodwill arising on acquisitions of subsidiaries, being the excess of cost over the fair value of the Group's shares of the net tangible assets acquired, is written off against reserves in the year of acquisition.

(b) *Foreign Currency Translations*

Assets and liabilities denominated in foreign currencies, are translated to Liberian Dollars at exchange rates ruling at the bank's year end. Gains and losses resulting from the translation of the opening net assets of overseas branches and subsidiaries are taken directly to reserves. All other gains and losses resulting from foreign currency translation or exchange are included in the profit for the year.

(c) *Interest and discount income*

Interest income is recognized in the income statement on an accrual basis. The recognition of interest income ceases when the payment of interest or principal is in doubt, and does so automatically if principal or interest payments are 90 or more days past -due. Any interest previously accrued but not received on a loan placed on a non-accrual basis is reversed. Interest is included in income thereafter only when it is received. Loans are returned to the accruals basis only when the outstanding arrears of interest and principal are received.

(d) *Fee income*

Loans fees are credited to income over the life of the applicable loan.

(e) *Investments*

Investments are held for purposes of both trading and investment. Trading investments are included in the balance sheet at year-end market value. Realized gains and losses and unrealized valuation adjustments are included in other operating income.

Other investments are included in the balance sheet at the lower of cost and market value. Unquoted equity held for investment are stated at cost and provision is made for permanent diminution in the value where considered appropriate. Gains and losses on the sales of investment securities are shown separately in other operating income or expenses.

Bills discounted and securities with a fixed redemption date which are purchased with the intention of being held to maturing are stated at the amortized cost. The premium or discount is amortized over the period to redemption and disclosed separately in interest income.

(f) *Loans and Advances*

Loans and Advances are stated in the balance sheet at the amount of principal and interests outstanding less any provisions for loans losses and interest held in suspense.

Advances are analyzed between the total amount outstanding and provisions in a note to the financial statements.

(g) *Provisions for loan Losses*

Provisions for loan losses are made, having regard to both specific and general risks.

The specific element of the provisions relates to those loans that have been individually reviewed and specifically identified as non-performing. The general element of the provisions relates to those existing losses that, although not yet specifically identified, are known to be inherently present in the bank's lending portfolio at balance sheet date. In determining the level of the provisions required, management considers the Prudential Regulation on assets classification issued by the Central Bank of Liberia and other factors including, but not limited to

domestic economic conditions, the composition of the loan portfolio and prior loan losses experience.

Provisions made during the year (less amounts released and recoveries of loans previously written off) are charged as a separate amount in the profit and loss account. Loans are written off when the extent of any loss has been confirmed against the related provisions.

(h) *Investments in associated corporations and trade investments*

Investments in associated corporations are accounted for by the equity method. They are included in the consolidated balance sheet at the Group's share of the book value of the associates' net worth.

Trade investments are stated at cost less amounts written off.

(i) *Fixed assets*

Land is included at cost and is not depreciated. Other fixed assets are stated at cost less accumulated depreciation. Depreciation is computed so as to write off the cost over the estimated useful lives of the asset concerned as follows:

| | Rate | Method |
|-------------------------|------|-----------------------|
| Building | [] | straight line |
| Computers | [] | straight line |
| Furniture and equipment | [] | straight line |
| Motor vehicles | [] | reducing - balance |

Maintenance and repairs are charged to the profit and loss account when incurred and improvements are capitalized. Gains and losses, if any, on the disposal of fixed assets are reflected in the current operating results.

(j) *Taxation*

The bank (group) provides for income taxes at the current rates on its taxable profits and of its subsidiaries.

The group accounts for certain items of income and expenditure in different periods for financial reporting purposes and for income tax purposes. TO provision for deferred taxation is made to reflect such timing differences.

(k) *Pension contribution*

Contributions are paid to the Pension Scheme for the provision of non-contributory pensions for all staff. Provision is made in respect of existing staff for pension related to projected retirement: salaries.

(l) *End of service awards*

Under the terms of agreement, staff are entitled at the termination of their employment with the bank other than for any reason giving cause for dismissal, to a gratuity calculated at a graduated rate based on the number of years service at the basic pay rate applicable at the date of such termination.

| Current Year | Previous Year |
|--------------|---------------|
| L\$'000 | L\$'000 |

3. **Cash and Short Term Funds**

Cash on hand

Balances with Central Bank of Liberia

Balances with other banks (including

Items in course of collection,

money at call and placements)

| | |
|-------|-------|
| _____ | _____ |
| ===== | ===== |

Balances with banks include current accounts with banks and loans to banks, at call or maturing on the next banking day.

4. **Investments**

[The valuation of listed investments is at mid-market prices and that of unlisted investments is based on a realistic estimate of net worth].

| Current Year | Previous Year |
|--------------|---------------|
| L\$'000 | L\$'000 |

Book Value

Government securities

Listed securities

Unlisted securities

| | |
|-------|-------|
| _____ | _____ |
|-------|-------|

Bills discounted

| | |
|-------|-------|
| _____ | _____ |
| ===== | ===== |

Valuation of securities

Government securities
Listed securities
Unlisted securities

| | Current Year L\$'000 | Previous Year L\$'000 |
|--|-------------------------|--------------------------|
|--|-------------------------|--------------------------|

5. Loans and Advances

(i) Analysis by Type of Loans & Advances:

Loan
Overdraft
Bills discounted

| | | |
|--|-------|-------|
| | _____ | _____ |
|--|-------|-------|

Provisions for Loan Losses and
interest in suspense

| | | |
|--|-------|-------|
| | ===== | ===== |
|--|-------|-------|

(ii) Analysis by Maturity:

Due on demand or within 1 month
Due after 1 month but within 3 months
Due after 3 months but within 6 months
Due after 6 months but within 12 months
Due after 12 months suspense

(iii) Analysis by Performance:

Performing
Non- Performing
Provisions for loan losses and interest in suspense

(iv) Analysis by Security:
Secure against Real Estate
Otherwise Secured
Unsecured

| | | |
|--|-------|-------|
| | _____ | _____ |
|--|-------|-------|

Provisions for Loan Losses and
interest in suspense

| | | |
|--|-------|-------|
| | ===== | ===== |
|--|-------|-------|

(v) Analysis by type of Customer:
Individuals
Private Corporations & Businesses
Financial Corporations

Non- Financial Public Corporations
Central and other levels of Government
Staff

Provisions for Loan Losses and
interest in suspense

- (vi) Analysis by Sector:
Agriculture, forestry and fishing
Mining and quarrying
Manufacturing
Tertiary
Provisions for Loan Losses and
interest in suspense

Current Year Previous Year
L\$'000 L\$'000

6. Provisions for Loan Losses

Provision at beginning of year
Amounts written off against the provisions
Recoveries of amounts previously Written off
Increase in provisions

Provisions at end of year

7. Interest -in- Suspense

Balance at beginning of year
Interest recovered
Increase in provisions

Balance at end of year

8. Investments in Subsidiaries

Shares Loans
The principle subsidiaries are:

| Name | Nature of business | Country of incorporation | Percentage interest |
|------|-----------------------|-----------------------------|------------------------|
|------|-----------------------|-----------------------------|------------------------|

Current Year Previous Year
L\$'000 L\$'000

9. Investments in Associated Corporations

Book Value Listed
Unlisted
Valuation

Listed
Unlisted

[The valuation of listed investments is at mid market prices and that of unlisted investments is based on a realistic estimate of net worth].

Dividends received and receivable from associated corporations amounted to L\$[] for current year (previous) []).

Included in loans is L\$[] (previous L\$) due from associated corporations. Deposits include [] due to associated corporations.

The principal associated corporations are:

| Name | Nature of business | Country of incorporation | Percentage interest |
|------|--------------------|--------------------------|---------------------|
|------|--------------------|--------------------------|---------------------|

Current Year Previous Year
L\$'000 L\$'000

10. Trade Investments

Book value
Listed Unlisted

Valuation

Listed
Unlisted

[The valuation of listed investments is at mid-market prices and that of unlisted investments is based on a realistic estimate of net worth].

Current Year Previous Year
L\$'000 L\$'000

11. **Other Assets**

Interest and Fees Receivables
Accounts Receivables
Sundry Debtors
Prepayments
Deferred Expenses
Pre-operational Expenses
Others

_____ _____
===== =====

12. **Fixed Assets**

| Land & buildings | Leasehold Improvement | Information Technology (Computers) | Furniture, Fixtures & Equipment | Motor vehicles | Total |
|------------------|-----------------------|------------------------------------|---------------------------------|----------------|-------|
|------------------|-----------------------|------------------------------------|---------------------------------|----------------|-------|

Cost or valuation

At beginning of year
Surplus on Revaluation
Additions
Disposals

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

At the end of year

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

Depreciation

At beginning of year
Charge for the year
Adjustment on Revaluation
Disposals

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

At the end of year

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

Net Book Value

At the end of year

===== ===== ===== ===== ===== =====
 At beginning
 of year

Land and buildings were revalued on the basis of an open market valuation for existing use at [] by [], Qualified Surveyors.

| | | Current Year | Previous Year |
|-----|---|--------------|---------------|
| | | L\$'000 | L\$'000 |
| 13 | Deposits Accounts | | |
| | (i) Analysis by Type of Deposits: | | |
| | Demand (Checking) Accounts | | |
| | Savings Accounts | | |
| | Time Deposits | | |
| | Certificates of Deposit | _____ | _____ |
| | | ===== | ===== |
| | (ii) Analysis by Maturity: | | |
| | Due on demand or within 1 month | | |
| | Due after 1 month but within 3 months | | |
| | Due after 3 months but within 6 months | | |
| | Due after 6 months but within 12 months | | |
| | Due after 12 months | ===== | ===== |
| | (iii) Analysis by Type of Depositor: | | |
| | Individuals | | |
| | Private Corporations & Businesses | | |
| | Non- Financial Public Corporations | | |
| | Central and other levels of Government | | |
| | Staff | _____ | _____ |
| | | ===== | ===== |
| 14. | <u>Due to Banks</u> | | |
| | Central Bank of Liberia | | |
| | Other Banks | | |
| | Other Financial Corporations | _____ | _____ |
| | | ===== | ===== |
| 15. | Tax Payable | | |

| | | | |
|-----|---|--------------|---------------|
| | Income Tax | | |
| | Withholding Tax | _____ | _____ |
| | | ===== | ===== |
| 16. | Deferred Taxation | | |
| | Balance at beginning of year | | |
| | Transfer (to) / from Income Statement | | |
| | Balance at the end of year | _____ | _____ |
| | | ===== | ===== |
| | The deferred taxation is in respect of the following: | | |
| | Give classifications of major types of timing differences | | |
| | | _____ | _____ |
| | | ===== | ===== |
| 17. | Other Liabilities and Accruals | | |
| | Accrued interest not yet credited | | |
| | Items in the course of collection | | |
| | Accounts Payable | | |
| | Inter corporation Payable | | |
| | Remittances Awaiting Disposal | | |
| | End of service awards | | |
| | Other creditors and accruals | _____ | _____ |
| | | ===== | ===== |
| | | | |
| | | Current Year | Previous Year |
| | | L\$'000 | L\$'000 |
| 18. | Long Term Loans | | |
| | (i) Analysis by Type: | | |
| | Central Bank Special Assistance Loan | | |
| | Other local currency loans | _____ | _____ |
| | | | |
| | Foreign currency loans | _____ | _____ |
| | | | |
| | (ii) Analysis by Maturity: | | |
| | Due within one year | | |
| | Due between one and two years | | |
| | Due between two and five years | | |
| | Due in more than five years | _____ | _____ |

Examples of possible additional disclosure:

The Central Bank Special Assistance loan is non-interest bearing and is subordinated to all debts of the bank. In the event of liquidation the loan has priority over all equity shares of the bank.

Interest is payable on the other local currency and foreign currency loans at rates varying between x% and y%.

The foreign currency loans are secured by fixed charge over the land and buildings of the bank. All other loans are unsecured.

| | | Current Year L\$'000 | Previous Year L\$'000 |
|------------------------------|--------|-------------------------------|--------------------------------------|
| 19. Share Capital | | | |
| Authorized: | | | |
| Number of ordinary shares of | | | |
| ____ par value | | ===== | ===== |
| | Number | Current Year L\$'000 | Previous Year L\$'000 |
| Issued and fully paid: | | | |
| Issued for cash | | | |
| Consideration | | | |
| Issued for consideration | | | |
| Other than cash | | | |
| Capitalization issues | | | |
| 20 Capital Surplus | | | |
| | | Capital Surplus L\$'000 | Share Deals Account L\$'000 |
| | | | Total L\$'000 |
| At beginning, of year | | | |
| Movement during year | | | |
| At end of year | _____ | _____ | _____ |
| | ===== | ===== | ===== |

21. Reserves

| | Retained Earnings L\$'000 | Statutory Reserve Fund L\$'000 | Other Reserves L\$'000 | Total L\$'000 |
|----------------------------------|---------------------------------|---|------------------------------|------------------|
| At beginning of year | | | | |
| Net profit for the year | | | | |
| Transfer to statutory reserve | | | | |
| At end of year | _____ | _____ | _____ | _____ |
| | ===== | ===== | ===== | ===== |

The statutory reserves fund is maintained in accordance with the provisions of the New Financial Institutions Act of 1999 as amended and are not distributable as cash dividends.

| | Current Year L\$'000 | Previous Year L\$'000 |
|--|-------------------------|--------------------------|
| 22. Interest Income | | |
| Interest on Loans | | |
| Interest on Balances held with banks & placements | | |
| Investments | | |
| Other | _____ | _____ |
| | ===== | ===== |
| 23. Interest Expense | | |
| Savings accounts | | |
| Time deposits | | |
| Certificates of deposit | | |
| Balances due to banks | | |
| Other Borrowed funds | _____ | _____ |
| | ===== | ===== |
| 24. Fees, Commissions & Exchange Income | | |
| Service Charges on Deposits | | |
| Funds transfers | | |

| | | | |
|-----|---|--------------|---------------|
| | Guarantees Ss Bonds | | |
| | Other Commissions & Fees | | |
| | Profit / (Loss) on Foreign Exchange Transactions | _____ | _____ |
| | | ===== | ===== |
| 25. | Other Income | | |
| | Dividends from investments | | |
| | Gains from dealing assets | | |
| | Profit on disposal of properties | | |
| | Other | _____ | _____ |
| | | ===== | ===== |
| | | Current Year | Previous Year |
| | | L\$'000 | L\$'000 |
| 26. | Operating Expenses | | |
| | Personnel Expenses | | |
| | Salaries, allowances and bonuses | | |
| | Social Security Fund contributions | | |
| | Provident Scheme contributions | | |
| | Pension Scheme contributions | | |
| | End of service awards | | |
| | Other employee costs | _____ | _____ |
| | Depreciation | | |
| | Hire of equipment | | |
| | Occupancy Expenses | | |
| | Administrative Expenses | | |
| | Losses on sale of investments | | |
| | Losses on dealing assets | | |
| | Losses in exchange (net) | | |
| | Audit fees & expenses | | |
| | Donations | | |
| | Other Expenses | _____ | _____ |
| | | ===== | ===== |
| | Included in the above staff costs is directors' remuneration of L\$ [| |] previous |
| | year [| | |

| Current Year | Previous Year |
|--------------|---------------|
| L\$'000 | L\$'000 |

27. **Taxation**

The Bank and its subsidiaries:

Income tax

Adjustment to tax charged in prior years

Deferred taxation

Associated corporations

| | |
|-------|-------|
| _____ | _____ |
| ===== | ===== |

The income tax -charge for the year is based on average tax rate of []%.

| Current Year | Previous Year |
|--------------|---------------|
| L\$'000 | L\$'000 |

28. **Extraordinary Items**

Extraordinary income Extraordinary expense

Taxation on the above

Income tax

Deferred tax

Total

| | |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
| ===== | ===== |

Extraordinary income and expenses should be detailed and any items relating to associated corporations should be clearly identified as such.

29. **Contingencies and Commitments**

The bank (group) enters into various commitments in the normal course of banking business, which are not reflected in the accompanying balance sheets.

| | Current Year | Previous Year |
|---|--------------|---------------|
| | L\$'000 | L\$'000 |
| Letters of credit | | |
| Guarantees and indemnities | | |
| Acceptances | | |
| Other Obligations | _____ | _____ |
| | ===== | ===== |
| Commitments for capital expenditure | | |
| Amounts not provided in the financial statements: | | |
| Authorized and under contract | | |
| Authorized but not contracted for | _____ | _____ |
| | _____ | _____ |
| Pension Scheme | | |

The bank (group) operates defined benefits Pension Scheme for which all employees are eligible. A full independent actuarial valuation is carried out every three years. The last full actuarial valuation was carried out at []. Contributions are made on the basis of these actuarial valuations and are [%] for employees and [%] for the Bank. The actuarial valuation at [L\$] showed a surplus of L\$[] of the market value of the schemes assets on the basis of L\$ [] over the actuarial value of the Scheme's liabilities .

| Current Year | Previous Year |
|--------------|---------------|
| L\$'000 | L\$'000 |

30. **Related Party Transactions**

Loans & Advances included the following amounts lent to related parties:

Firms in which directors & principal shareholder are interested

Directors

Principal Shareholders

Officers

Employees

| | |
|-------|-------|
| _____ | _____ |
| ===== | ===== |

8.00 **ABRIDGED FINANCIAL STATEMENTS**

The following pro-forma financial statements provide the format of the abridged financial statements banks shall issue for publication as required by the provisions of Section 21(2) of the New Financial Institutions Act of 1999. Full disclosure financial statements as described Section 7.00 above should still be published.

8.10 **Abridged Balance Sheet As At**

| | Current Year | Previous Year |
|-----------------------------------|--------------|---------------|
| | L\$'000 | L\$'000 |
| Assets | | |
| Cash and short term funds | | |
| Investments | | |
| Loans and Advances (Net) | _____ | _____ |
| Investments in subsidiaries | | |
| Associated corporations | | |
| Trade investments | | |
| Other Assets | | |
| Fixed assets | _____ | _____ |
| Total Assets | ===== | ===== |
| Liabilities | | |
| Deposits Accounts | | |
| Due to banks | | |
| Tax Payable | | |
| Deferred Taxation | | |
| Other Liabilities and Accruals | _____ | _____ |
| Long term loans | | |
| Total Liabilities | _____ | _____ |
| Shareholders' Equity | | |
| Share Capital | | |
| Capital Surplus | | |
| Reserves | _____ | _____ |
| Total Shareholders' Equity | ===== | ===== |

Total Liabilities and Shareholder's Equity = _____

8.20 Abridged Income Statement for the Years ended and

| | Current Year L\$'000 | Previous Year L\$'000 |
|--|-------------------------|--------------------------|
| Interest income | | |
| Interest expense | () | () |
| Net Interest Income | | |
| Fees, Commissions and Exchange Income | | |
| Other operating income | _____ | _____ |
| Total Income | ===== | ===== |
| Provisions for Loan Losses | () | () |
| Increase in interest suspense | () | () |
| Operating expenses | (_____) | (_____) |
| Total Expenses | ===== | ===== |
| Net Income before taxation | | |
| Taxation | | |
| Net Income after taxation | () | () |
| Net Income before Extraordinary items | _____ | _____ |
| Extraordinary items | _____ | _____ |
| Net Income after Extraordinary items | | |
| Dividend at L\$[]per share | | |
| (Previous Year) L\$ [] per share) | () | () |
| Transfer to Statutory Reserve | | |
| Fund | () | () |
| Transfer to Retained Earnings | ===== | ===== |

The abridged Balance Sheet and Income Statement should be published along with the External (Independent) Auditors Report containing the audit opinion and details of penalties imposed by the Central Bank of Liberia and paid by the bank. The names of at least two directors and the audit firm(s)'s name should also be published.

Part III EXPLANATORY NOTES ON ACCOUNTING POLICIES,
ACCOUNTING TREATMENT AND DISCLOSURE REQUIREMENTS

9.00 SELECTION OF ACCOUNTING POLICIES

9.01 Accounting policies encompass the principles, bases, conventions, rules and procedures adopted by management in preparing and presenting financial statements. There are many different accounting policies in use even in relation to the same subject; judgment is required in selecting and applying those which, in the circumstances of the enterprise, are best suited to present properly its financial position and the result of its operations.

9.02 Three considerations should govern the selection and application by management of the appropriate accounting policies and the preparation of financial statements:

(a) Prudence

Uncertainties inevitably surround many transactions. This should be recognized by exercising prudence in preparing financial statements. In practice, this means revenue and profits are not anticipated, but are recognized only realized in the form of either cash or of other assets the ultimate cash realization of which can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amounts of these are known with certainty or it's a best estimate in the light of the information available.

Prudence does not, however, justify the creation of secret or hidden reserves.

(b) Substance over Form

Transactions and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.

(c) Materiality

Financial statements should disclose all items which are material enough to affect operational results, evaluations or decisions. In normal circumstances, with respect to financial statements prepared for general purpose use, matters which individually or in the aggregate would have an effect of **altering profit before taxation or shareholders' funds by less than 1 percent might be presumed to be immaterial and by more than 1 percent, to be material.**

This illustration is intended as initial guide and under no circumstances should it be used without considering as a rule of thumb. All surrounding circumstances must always be taken into account.

9.10 DISCLOSURE OF ACCOUNTING POLICIES (IASI)

- 9.11 Financial Statements should include clear and concise disclosure of all significant accounting policies which have been used.
- 9.12 The disclosure of significant accounting policies used should be an integral part of the financial statements. The policies should normally be disclosed in one place.
- 9.13 Incorrect or inappropriate treatment of items in balance sheets, profit and loss accounts or other statements is not rectified either by disclosure of accounting policies used or by notes or explanatory material.
- 9.14 Financial statements should show corresponding figures for the proceeding period.
- 9.15 A change in an accounting policy, accounting estimate, in reporting entity, or correction of errors that has a material effect in the current period or may have material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified beginning with the current period.

9.20 CONSOLIDATED FINANCIAL STATEMENTS (IASI)

- 9.21 Certain parties with interests in the parent corporation of a group, such as present and potential shareholders, employees, customers and in some circumstances creditors, are concerned with the fortunes of the entire group. Consequently, they need to be informed about the results of operations and the financial position of the group as a whole.
- 9.22 This need is served by consolidated financial statements, which present financial information concerning the group as that of a single enterprise without regard for the legal boundaries of the separate legal entities. The consolidated financial statements normally include the parent corporation and all its subsidiaries.

10.0 ACCOUNTING POLICIES TREATMENT AND DISCLOSURE REQUIREMENTS FOR INCOME STATEMENTS

10.10 Interest Income

- 10.11 This include income earned on:

- (a) Cash and short term funds.
- (b) Investment securities.
- (c) Bills discounted (including Treasury bills). (d) Advances.

10.12 Interest should be credited to income on at least, a monthly basis.

10.13 The discount receivable or premium payable on bills should be credited or charged to income on at least, a monthly basis.

10.14 Any other discount received or premium paid on the purchase of securities should be amortized on a straight-line basis over the period to redemption. Amortization should be calculated up to the date of sale.

10.15 Where interest on a loan that extends beyond an accounting year is added to the principal at the inception of the loan and equal repayments are made (eg. in the case of installment loans) the interest should be accounted for on the sum of the digits method . Under this method more income is taken to profit at the start of the loan when the cost of funding the advance is highest.

10.16 For loans on which interest is included in the face amount of the loans (discounted loans), unearned discount should be recognized as income over the life of the loans, using the interest method. Use of the sum- of- months digits is acceptable ONLY, provided the results are not materially different from those obtained by using the interest method.

10.17 Interest income should be disclosed in the following categories:

- (a) Short term funds,
- (b) Investments (dealing and others), and
- (c) Loans & Advances.

10.20 Interest Expense

10.21 This include interest payable on:

- (a) Demand and Savings accounts (where applicable);
- (b) Time deposits (including those from financial institutions);
- (c) Certificates of deposits; and
- (d) Borrowings.

10.12 Interest expense should be charged to the profit and loss account on at least a monthly basis.

10.13 Interest expense should be disclosed in the categories in Section 10.21 above.

10.30 Commissions and Fees

- 10.31 Commissions should be credited to income when services are rendered.
- 10.32 Commitment fees should be spread over the period of the advance to which they relate, even though the payment will usually be received at the start of the period. The balance. Of the commitment fee should be classified in sundry creditors as deferred income.
- 10.33 These include charges on services rendered on guarantees and indemnities, and travelers' Checks. Fees earned over a period of time or in stages (and which are not contingent upon the occurrence of a future event) should be recognized when the related service is performed or on completion of the contracted stages.
- 10.34 If commitment fees are immaterial they maybe credited to income at the time of receipt.

10.40 Credit Related Fee Income

- 10.41 Credit-related fee income, where material and its collectibility not in doubt, should be deferred and amortized over the life of the related credit. The fees include loan arrangement fees (legal and other up-front fees) and commitment fees. Commitment fees refer to fees chargeable for undrawn portion of loans and for bearing any obligation to provide funds to customers other than in acceptances, underwriting or guarantees. Fee income is considered material where in aggregate, they constitute at least 10% of the projected average annual yield over the life of the facility to which they relate. The balance of unamortized fees should be reported in other liabilities as deferred income. If the fee income is not material, it should be recognized as earned as the time of receipt.

10.50 Profits/loss on Foreign Exchange Transactions

- 10.51 Exchange profits (net) represent the profits less losses arising from the purchase or sale of foreign currency and should be credited to income at the time the transaction takes place. The exchange gains arising from the translations of the bank's foreign currency balances at period end rates should also be included in this category. Gains on customers' accounts should be held in reserve for the credit of the customers. Fees and commissions should also be included if they can be identified separately, otherwise they be included with commissions and fees.

10.60 Other Operating Income

- 10.61 Other operating income should include income which arises in the normal course of business and consequently can be expected to re-occur from one accounting period to the next. Income which is unlikely to re-occur., is outside

the normal course of business or is exceptional in nature should be included in other income.

10.62 Other operating income will include:

- (a) Dividends from investments,
- (b) Rents receivable,
- (c) Profits from sale of investments, and
- (d) Gains on dealing assets.

10.63 Dividends from investments, including trade investments, should be credited to income when realizable and / earned.

10.64 Rents receivable should be spread over the period to which thereat relates. Adjustments should be made through accruals or prepayments as necessary.

10.64 Profits from the sale of investments should be credited to income on the contract date.

10.65 Net gains on dealing assets arise as these assets should be stated at Fair Value (market value) in the balance sheet. Unrealized holdings gains and losses are included in current period's earnings. Dealing assets are those securities purchased with the original intention of reselling them at a profit in the short term.

10.66 Other operating income should be disclosed in the categories in Section 10.62 above..

10.70 Provisions for Loans Losses

10.71 The income statement should be charged with provisions for loans and advances as incurred during each accounting period. The charge will consist of both general and specific provisions in accordance with the prudential regulations on assets classifications issued by the Central Bank of Liberia. Banks are expected to review the level of provision at least quarterly, notwithstanding this, provision should be made against any debt as soon as the potential for full or partial loss is identified.

10.80 Operating Expenses

10.81 Operating expenses should include expenses which arise in the normal course of business and consequently can be expected to re-occur from one accounting period to the next. Expenses which are unlikely to reoccur are outside the normal course of business or are exceptional in nature should be included in other expenses.

10.82 Operating expenses will include:

- (a) Personnel costs (including directors' emoluments); (b) Depreciation; and
- (c) Hire of equipment.
- (d) Occupancy costs,
- (e) Administration and marketing costs,
- (f) Losses on sale of investments,
- (g) Losses on dealing assets,
- (h) Exchange losses,
- (i) Audit fees, and
- (k) Legal and Other Professional fees.

10.83 Personnel costs

The following costs should be classified and disclosed as personnel costs:

- (i) Salaries and bonuses,
- (ii) Staff allowances (e.g. rent, clothing, transport),
- (iii) Social Security Fund contributions,
- (iv) Provident Fund contributions,
- (v) Pension Scheme contributions,
- (vi) Increase in end of service award provision,
- (vii) Staff benefits (e.g. medical and welfare),
- (viii) Temporary staff costs,
- (ix) Recruitment costs,
- (x) Staff training, and (xi) Redundancy.

Categories (vii) to (xi) may be disclosed together under the heading "other employee costs".

Social Security Fund mid Provident Fund contributions will represent the employers' contribution.

- 10.84 The total amount of salaries, bonuses and allowances payable to Directors should be disclosed as Directors' remuneration as required information for shareholders.
- 10.85 Hire of equipment includes all rentals payable on equipment used in the business.
- 10.86 Occupancy costs include all rents, rates, insurance of building, lighting, heating, maintenance and repair costs.
- 10.87 Losses less profits from the sale of investments should be charged to operating expenses on the contract date.
- 10.88 Net losses on dealing assets arise as these assets should be stated at fair value (market value) in the balance sheet. The decrease in value during an accounting period should be included in other operating expenses.

10.89 Exchange losses (net) represents the losses less profits arising from the purchase or sale of foreign currency and should be debited to expenses at the time the transaction takes place. Translation of foreign currency statements will result in translation adjustment. This adjustment arising from the translation of foreign currency balances is reported in other comprehensive Income - as a component of equity. It should not be included in the determination of net income unless and until there is a sale or liquidation of the investment, or the translation rate is determined to be a permanent nature.

10.90 Other Income and Expenses

10.901 Other income and other expenses should be disclosed separately. They represent income/expenses which:

- (a) are unlikely to re-occur; or
- (b) arise outside the normal course of business; or
- (c) are exceptional in nature.

10.902 Examples of other income and expenses include:-

- (a) Gains/losses on disposal of properties. These should be calculated by taking the net book value of the property from the sale proceeds. The profit/loss should be credited/charged at the date the contract is signed. On disposal of a revalued asset the related revaluation reserve should be transferred from unrealized to realized reserves.
- (b) Gains/losses on sale of investments/dealing assets if they meet the criteria in Section 10.901 above.

10.91 Taxation

10.911 The taxation charge should be disclosed in the following categories:

- (a) Income tax on the results for the year;
- (b) Adjustments to tax charged in prior years,
- (c) Deferred taxation, and
- (d) Share of associated corporations' taxation.

10.912 The notes to the financial statements should disclose:

- (a) the average tax rate from the year upon which the income tax charge is based;
- (b) details of any special circumstances that affect any liability to taxation, whether for the current financial year or for future years.

10.92 Extraordinary and exceptional items

- 10.921 Extraordinary items are material items which derive from events or transactions that fall outside the ordinary activities of the corporation and which are therefore expected not to recur frequently or regularly.
- 10.922 Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the corporation.
- 10.923 In order to present fairly the results from the ordinary activities of the business, extraordinary items are required to be shown in the profit and loss account following the ordinary results. Extraordinary items are shown before deducting any appropriations such as dividends paid or payable and, in the case of consolidated accounts, after the figure for minority interests.
- 10.924 The tax on extraordinary profit or loss should be shown separately. The tax on extraordinary profit or loss should be determined by computing the tax on the profit or loss on ordinary activities as if the extraordinary items did not exist, and comparing this notional tax charge with the tax charge on the profit or loss for the financial year (after extraordinary items). Any additional tax charge or credit (including deferred tax) arising should be attributed to the extraordinary items.
- 10.925 Exceptional items are part of the profit or loss on ordinary activities, however because of their size they require separate disclosure.
- 10.926 The classification of an item as extraordinary or exceptional is important and will depend on the particular circumstances of the bank. The following examples of what may constitute exceptional and extraordinary items are given as guidance only. They are not intended to be exhaustive.
- 10.927 Examples of items which may be exceptional where they are material include:
- (a) Redundancy costs relating to continuing business segments,
 - (b) Re-organization costs unrelated to the discontinuance of a business segment,
 - (c) Amounts transferred to employee benefit or pension schemes.
- 10.928 Examples of items which may be extraordinary where they are material include:
- (a) The discontinuance of a business segment, either through termination or disposal,
 - (c) The sale of an investment not acquired with the intention of resale, such as investments in subsidiary and associated corporations,

- (c) Provision made for the permanent diminution in value of a fixed asset because of extraordinary events during the period,
- (d) the expropriation of assets,
- (e) a change in the basis of taxation, or a significant change in Government fiscal policy,
- (f) Gains on Re-restructuring of Payables, and
- (g) Most gains or losses on the extinguishment of debt.

10.929 A material surplus or deficit on disposal of a fixed asset, including properly, should be disclosed as either exceptional or extraordinary, according to the nature of the event which gave rise to the disposal.

10.930 Examples of items that share the characteristics of extraordinary items but are **NOT** to be reported as extraordinary items include the following:

- (a) Write-off of receivables, inventories, equipment leased to others, deferred research and development costs or other intangible assets, (b) Gains/Losses from sale or abandonment of fixed assets used in the business,
- (c) Gains/Losses exchange or translation of foreign currencies, including major revaluation, and
- (d) Effects of Strikes.

10.94 Dividends

10.941 The dividend per share should be disclosed.

11.00 ACCOUNTING POLICIES. TREATMENT AND DISCLOSURE REQUIREMENTS FOR BALANCE SHEET (ASSETS)

11.10 Cash and Short Term Funds

11.11 This includes:

- (a) Cash on hand,
- (b) Balances with Central Bank of Liberia, and
- (c) Balances with other banks (including Items in course of collection, money at call and placements)

11.12 All items classified as short-term funds should be readily convertible into cash without loss.

11.13 Cash and short-term funds should not be revalued unless there is doubt about their realisability.

11.14 Any balances in foreign currency should be translated at the exchange rate ruling at the reporting date.

- 11.15 Interest bearing loans should include the amount of interest up to the reporting date.
- 11.16 Items in the course of collection should represent the net amount to be settled with each bank. Any net credit positions with banks should be included under creditors and accruals.

11.20 Investments

11.21 These include:

- (a) Bills discounted (including Treasury bills),
- (b) Government securities,
- (c) Equity holdings in corporations,
- (d) Preference shares,
- (e) Corporation loan stocks.

They do not include trade investments or investments in associated corporations and subsidiaries.

- 11.22 The valuation of these investments securities depends on the purpose for which they are held, namely, whether or not they are held as dealing assets.
- 11.23 Dealing assets should be stated in the balance sheet at market value.
- 11.24 Bills discounted should be included at nominal value less any unamortized discount. On purchase of a bill the nominal value of the bill should be debited to bills discounted and the amount of discount credited to discount receivable. The discount should be amortized over the period to maturity. During the accounting period the amount of discount earned should be transferred to profit and loss. At the balance sheet date the balance on the discounts receivable account should be carried forward and deducted from the bills discounted account.
- 11.25 Securities with fixed redemption dates which are purchased with the intention of being held to maturity should be stated in the balance sheet at amortized cost. The premium or discount arising on the purchase of such securities should be amortized over the period to redemption.
- 11.26 All calculations of amortization should be based on the cost of the security adjusted for amounts of interest accrued included in the purchase price.
- 11.27 The balance sheet valuation is therefore the actual cost less the adjustment for accrued interest and plus (or minus) the total amortization of the discount (or premium) in respect of that investment to date.

- 11.28 Securities without fixed redemption dates which are purchased with the intention of being held to maturity should be valued at the lower of cost and market value. If there is a recognized market in that security the middle market price should be taken. If there is no recognized market then a directors' valuation should be used.
- 11.29 The notes to the balance sheet should disclose the following information:
- (a) Book value and valuation of investments analyzed between Government securities, listed securities and unlisted securities.
 - (b) The amount of dealing assets included in the above categories.
 - (c) The book value and valuation of securities redeemable at fixed dates.
 - (d) The book value of bills discounted.
- 11.30 Loans and Advances
- 11.31 Included in this category will be all loans and overdrafts to both customers and staff.
- 11.32 These balances should be accounted for at their net recoverable value. This comprises the principal sum plus interest charged less repayment received. Provisions should be made for any amounts for which the recovery is uncertain in accordance with the prudential regulations on assets classification issued by the Central *Bank* of Liberia..
- 11.33 in order to establish the realizable value of the advances and hence the provision required it is necessary to evaluate the recoverability of the debt. This evaluation involves a review of the customer's financial condition and future ability to repay. This evaluation is required to be undertaken quarterly for completion of prudential returns QBR 300 & 400.
- 11.34 Advances should be classified in the following five categories which will help determine the level of provisions required:
- (a) Current,
 - (b) Other loans especially mentioned (OLEM) (c) Substandard,
 - (d) Doubtful, or (e) Loss.
- 11.35 Refer to the prudential regulations on assets classifications, provisions for loan losses and suspension of interest on non-performing loans, as amended, issued by the Central Bank of Liberia for details on criterion for classifying the various groups of loans, treatment of security for loans, percentages of provisions and treatment of interest on non-performing loans.
- 11.36 Disclosure

The gross amount of advances should be disclosed by type of customer and sector:

- (i) Analysis by Type of Loans & Advances:
 - Loan
 - Overdraft
 - Bills discounted
- (ii) Analysis by Maturity:
 - Due on demand or within 1 month
 - Due after 7 month but within 3 months
 - Due after 3 months but within 6 months
 - Due after 6 months but within 12 months
 - Due after 12 months
- (iii) Analysis by performance:
 - Performing
 - Non-Performing
- (iv) Analysis by Security:
 - Secure against Real Estate
 - Otherwise Secured
 - Unsecured
- (v) Analysis by type of Customer:
 - Individuals
 - Private Corporations & Businesses
 - Financial Corporations
 - Non-Financial Public Corporations
 - Central and other levels of Government
 - Staff
- (vi) Analysis by Sector:
 - Agriculture, forestry and fishing
 - Mining and quarrying
 - Manufacturing
 - Tertiary

The provisions for loan losses should be deducted from this balance to give the net amount disclosed in the balance sheet.

An analysis of the movement on the provision for loan losses account should also be provided showing

- (a) provision at beginning and end of period;
- (b) amounts written off against the provision;

- (c) recoveries of amounts previously written off, and
- (d) increase in provisions.

An analysis of the movement in interest in suspense account should be provided showing:

- (a) Balance at beginning of year,
- (b) Interest recovered,
- (c) Increase in provisions, and
- (d) Balance at end of year.

11.40 Other Assets Accounts

11.41 This category may include:

- (a) Accrued interest not yet applied to advances accounts;
- (b) Prepayments; and
- (c) Sundry debtors.

11.42 All prepayments should be calculated up to the period end.

11.50 Investments in Subsidiaries (IAS3)

11.51 An investment should be treated as a subsidiary if the investor corporation (the parent corporation) can exercise control over the investee corporation (the subsidiary) by ownership, (directly or indirectly), or more than one half of the voting power of a corporation.

11.52 A corporation in which a group does not have control, but in which a group:

- (a) owns more than half the equity capital, but less than half the voting power, or
- (b) has the power to control, by statute or agreement, the financial and operating policies of the management of the corporation, with or without more than one half of the equity interest,

may be treated as a subsidiary and consolidated in the consolidated financial statements. In such circumstances, the reasons for consolidating the corporation should be disclosed.

11.53 A holding in a subsidiary corporation should be recorded in the parent corporation's books at cost less any provisions for diminution in value.

11.54 For a period reporting purposes a bank which is a parent corporation should issue consolidated financial statements, except that it need not do so if it is itself a wholly owned subsidiary of a bank incorporated in Liberia.

- 11.55 In the consolidated financial statements, the accounts of the parent corporation and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, revenue and expenses. The following are eliminated on consolidation:
- (a) Inter-corporation balances and inter-corporation transactions, including inter-corporation interest, inter-corporation charges and inter-corporation dividends.
 - (b) The cost to the parent of its investments in each subsidiary and the parent corporation's portion of share capital, pre-acquisition reserves, and pre-acquisition profits and losses of each subsidiary.
- 11.56 A subsidiary should be excluded from consolidation if.
- (a) Control is to be temporary, or
 - (b) The subsidiary operates under conditions in which severe long term restrictions on the transfer of funds impair control by the parent corporation over the subsidiary's assets and operations.
- 11.57 A subsidiary may be excluded from consolidation if its activities are so dissimilar from those of the other corporations in the group that better information for the parent corporation shareholders and other users of the statements would be provided by presenting separate financial statements in respect of such subsidiary with the consolidated financial statements. This treatment will require the prior written approval of the Central Bank of Liberia.
- 11.58 Uniform accounting policies should preferably be followed by corporations in the consolidated financial statements. There should be disclosure of different accounting policies used, and of the proportion of assets and liabilities to which different accounting policies have applied if they are included in a single balance sheet classification.
- 11.59 The parent corporation and its subsidiaries should have a common financial reporting period. If financial statements with different reporting dates are consolidated, significant transactions or events which have occurred in the intervening period should be recognized through adjustments or disclosure. If a difference exists, the dates to which the financial statements of the subsidiaries have been prepared should be disclosed.
- 11.60 The minority interest is that part of the net results of operations, or of the net assets, of a subsidiary attributable to shares owned other than by the parent corporation or another subsidiary.

11.61 The minority interest in the equity of consolidated corporations should be classified in the consolidated balance sheet as a separate item and should not be shown as shareholders' equity. A debit balance should only be recognized if there is a binding obligation on minority shareholders to make good losses incurred which they are able to meet. The minority interest in the profits or losses of such corporations should be shown separately in the consolidated income statement.

11.62 Acquisition of a subsidiary

On acquisition, the consolidated should be allocated to the net tangible and intangible assets acquired (excluding goodwill) on the basis of fair value to the acquiring corporation.

Any difference between consideration and the fair value of the net assets represents goodwill (or capital reserves / negative goodwill) and should be treated in accordance with Section 11.63.

The results of the subsidiary' for the reporting period in which the subsidiary is acquired are included in the consolidated profit and loss account only from the date of its acquisition.

11.63 Goodwill

No amount should be attributed to non-purchased goodwill in the balance sheet of corporations or groups.

The amount to be attributed to purchased goodwill should be the difference between the fair value of the consideration given and the aggregate of the fair values of the separable net assets acquired.

The amount attributed to purchased goodwill should not include any value for separable intangibles. The amount of these, if material, should be included under the appropriate heading within intangible fixed assets in the balance sheet.

Purchased goodwill should be carried in the balance sheet of a corporation or group as a permanent item.

Purchased goodwill (other than negative goodwill) should be eliminated from the accounts immediately on acquisition against capital reserves.

Any excess of the aggregate of the fair values of the separable net assets acquired over the fair value of the consideration given (negative goodwill) should be credited directly to the capital reserve, until such time as the assets are realized when the goodwill can be transferred to distributable reserves.

11.64 Disposal of a subsidiary

The profit and loss account should reflect the subsidiary's results up to the date of disposal. The gain or loss on a sale should be the difference between the sale proceeds and the carrying amount in the consolidated financial statements.

11.65 Disclosure

The disclosure of accounting policies should include a description of the bases on which subsidiaries and associated corporations have been dealt with. The following disclosures should be made in the consolidated financial statements:

- (a) An appropriate listing and description of significant subsidiaries and, in respect of such corporations, differences in reporting dates from that of the parent corporation, unless disclosed in statements accompanying the consolidated financial statements.
- (b) The reasons for not consolidating a subsidiary.
- (c) The nature of the relationship between the parent corporation and a corporation that is not a subsidiary but is treated as a subsidiary in consolidation.
- (d) The amounts relating to any significant unadjusted transactions occurring between the dates of investors' and investees' financial statements.
- (e) An analysis of the amounts under each significant balance sheet and income statement heading if necessary to provide a fair disclosure of the exposure to exceptional risks of operating in other countries, including the risk of foreign currency exchange rate fluctuations.
- (f) The extent to which there are statutory or contractual restrictions on the distribution of the accumulated retained income of the group.

When a subsidiary is excluded from consolidation, separate financial statements in respect of that subsidiary should supplement the consolidated financial statements. The supplementary statements may be presented in condensed form provided they give adequate disclosure, including particulars of intra-group balances and the nature of transactions with the remainder of the group. There should be a reconciliation of the amount at which the results of operations of the excluded subsidiary are stated in the supplementary financial statements and the amount included in the consolidated income statement in respect of that subsidiary. For the purposes of this supplementary disclosure, the financial statements of two or more subsidiaries with similar operations may be combined.

If a subsidiary is excluded from consolidation because of restrictions in control, the following disclosures should be made with respect to such investment:

- (a) the name of the investee and the group's share in the net assets of the investee,
- (b) the carrying value of the investment in the consolidated financial statements,
- (c) the dividends received by the group during the period,
- (d) the profits or losses for the period, with unusual items separately stated, and
- (a) the amounts of any write downs or adjustments to consolidated net income in the current period.

1.1.66 Investment in Associated Corporations (IAS3)

11.661 An associated corporation is a corporation not being a subsidiary of the investor group or corporation but one in which the investor generally holds 20% but less than 50% of the voting rights and is able to exercise significant influence. The investment should be for the long term.

11.662 Significant influence is participation in the financial operating policy decisions of the investee but not control of those policies. An investor may exercise significant influence in several ways, usually by representation on the board of directors but also by participation in policy making processes, material inter-corporation transactions, interchange or managerial personnel, or dependency on technical information. If the investor holds less than 20% of the voting power of the investee, it should be presented that the investor doesn't have the power to exercise significant influence, unless such power can be clearly demonstrated.

11.664 Investment in associates should be included in the consolidated financial statements under the equity method of accounting. Under this method, the investments-associated are stated in the consolidated balance sheet at the investor's share of their net assets.

11.665 The investor's share of the results of the associated corporations is included in the consolidated profit and loss account.

11.666 The following disclosures should be made in the financial statements:

- (a) An appropriate listing and description of significant associated corporations and differences in reporting dates from that of the parent corporation.
- (b) The book value and valuation of investment in associates divided between listed and unlisted investments (best practice).
- (c) The amount of dividends receivable from the associated corporations (IAS5).

- (d) The amount of loans to, and deposits from, associated corporations (IAS5 and IAS3).

11.70 **Trade Investments**

11.71 Trade investments are shares or other interests in corporations or other bodies which have been acquired to further a trading relationship and as such are relatively long term investments, but where the corporation is not an associated corporation i.e investments in corporations which are less than 20% owned and corporations over which the investor corporation is not able to exercise significant influence.

11.72 Trade investments are stated in aggregate in the balance sheets at cost less amounts written off. Provision is made against the book value where in aggregate this exceeds current valuation.

1.1.73 In assessing current valuation, regard should be made to'

- (a) the net worth of the investment by reference to the latest accounts of the corporation; and/or
- (b) the dividend record of the investment.

11.74 In the absence of any recent financial information or dividend payment, a provision should be made against the investment.

11.75 The notes to the balance sheet should disclose the book value and valuation of trade investments divided between listed and unlisted investments.

11.80 **Fixed Assets** (IAS4 and IAS16)

11.81 Assets which have a continuing use to the business should be capitalized and depreciated over the period of their useful life.

11.82 The amounts capitalized under the various classifications of assets should relate to the cost of the assets. The cost of a fixed asset item comprises the purchase price, including import duties and non-refundable purchase taxes, and the directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts or rebates receivable should be deducted in arriving at the purchase price. Examples of directly attributable costs are:

- (a) site preparation cost,
- (b) initial delivery and handling cost,
- (c) installation cost, such as special foundations for plant, and
- (d) professional fees (architects, engineers, etc).

Frequently, it is difficult to determine whether subsequent expenditure related to a fixed asset represent improvements that ought to be added to the cost of the asset concerned or repairs that should be charged to profit and loss account. Any expenditure that *increases* the **future benefits from** the existing asset beyond its previous assessed standard of performance should be capitalized. Examples of these future benefits include:

- (a) an extension in the asset's estimated useful life,
- (b) an increase in capacity, and
- (c) a substantial improvement in the quantity of output or a reduction in previously assessed costs.

11.83 Depreciation

Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life.

Depreciable assets are assets which:

- (a) are expected to be used during more than one accounting period, and
- (b) have a limited useful life.

Useful life is the period over which a depreciable asset is expected to be used by the enterprise and may be pre-determined (such as a lease) or dependent on usage or age. The depreciable amount of an asset is its cost less the estimated residual value.

Depreciation should be calculated either on a straight line or reducing balance basis as appropriate.

- 11.84 Where there is a revision of the estimated useful life of an asset, the unamortized cost should be charged over the remaining useful life.

11.85 Revaluations

The only asset which can be revalued is bank-owned property (bank premises). When property is revalued the charged for depreciation should be based on the revalued amount. Accumulated depreciation should not be credited to income on a revaluation.

Any increase in the net book value should be credited directly to a non-distributable revaluation reserve. The prior approval of the Central Bank of Liberia should be obtained before reporting the surplus in the financial statements.

All revaluations must be carried out by suitably professionally qualified persons. Revaluations cannot be performed by directors. Revaluation is only allowed after ten (10) years from the date of the last valuation exercise.

11.86 If there is a permanent diminution in the value of an asset and the net book value is considered not to be recoverable in full (perhaps as a result of obsolescence), the net book value should be written down immediately to the estimated recoverable amount.

Any permanent diminution in value should be charged to profit and loss unless the asset has been the subject of previous revaluation, in which case it can be charged against the revaluation reserve to the extent of the previous revaluation.

11.87 Disclosure

Assets should be classified into the following categories:

- (a) Land and buildings.
- (b) Information Technology Equipment(Computers).
- (c) Furniture, fixtures and equipment.
- (d) Motor vehicles.

This should be seen as minimum disclosure and further classification could be adopted.

For each class of asset the following should be disclosed:

- (a) The depreciation methods used.
- (b) The useful lives or the depreciation rates used.
- (c) Total depreciation allocated for the period.
- (d) The gross amount of depreciable assets and the related accumulated depreciation,
- (e) The cost of additions and disposals.

If there had been a revaluation during the period, the names of the persons that performed the revaluation and the method used should be disclosed together with the effect, if material.

When there is a change from one method of depreciation to another, the unamortized cost of the asset should be written off over the remaining useful life on the new basis commencing with the period in which the change is made. The effect should be disclosed in the year of change, if material.

12.0 ACCOUNTING POLICIES. TREATMENT AND DISCLOSURE REQUIREMENTS FOR BALANCE SHEET (LIABILITIES)

12.10 Deposits and current accounts

12.11 These balances should include all demand (checking) accounts, savings accounts and term deposits. They should be stated at the principal amount deposited plus interest credited to the account. Interest accrued but not yet credited to the accounts should be included in sundry creditors and accruals. Interest accruals should be determined monthly.

12.12 The balances should be disclosed in the following categories.

- (i) Type of deposit:
 - (a) Demand (checking) accounts.
 - (b) Savings accounts.
 - (c) Time deposits.
 - (d) Certificates of deposit.

- (ii) Type of depositor:
 - (a) Individuals
 - (b) Private Corporations & Businesses.
 - (c) Non- Financial Public Corporations.
 - (d) Central and other levels of Government.
 - (e) Staff.

- (iii) Analysis by Maturity:
 - (a) Due on demand or within 1 month.
 - (b) Due after 1 month but within 3 months.
 - (c) Due after 3 months but within 6 months.
 - (d) Due after 6 months but within 12 months.
 - (e) Due after 12 months.

12.20 Other Liabilities and Accruals

12.21 This category may include:

- (a) Accrued interest not yet credited.
- (b) Items in the course of collection.
- (c) Accounts Payable

- (d) Inter corporation Payable.
- (e) Remittances Awaiting Disposal.

- (f) End of service awards.
 - (g) Other creditors and accruals.
- 12.22 Full provision should be made for end of service awards which are payable in addition to the pensions payable from the Pension Scheme. The provision should be based on the expected amounts payable based on current salary levels.
- 12.23 Normally no accrual is made for holiday pay where employees are taking their holidays on a regular basis. However, where certain employees have a number of year's holiday entitlement outstanding, provisions should be made for this entitlement.
- 12.24 All accruals should be calculated up to the period end.
- 12.25 Provisions should only be made for liabilities which are expected to become payable. General provisions or reserves for future possible contingencies should not be created but the estimated amount should be disclosed in the notes to the accounts (see Section 12.60 below).

12.30 Deferred Taxes

- 12.31 Deferred tax is the tax attributable to timing differences. Timing differences are differences which arise between profits and losses as computed for tax purposes and results as stated in financial statements, which may arise from the inclusions of items of income and expenditure in tax computations in periods different from those in which they are included in financial statements. Timing differences originate in one period and are capable of reversal in one or more subsequent periods.
- 12.32 The different basis of arriving at profits for tax purposes derives from two main sources. Firstly, certain types of income maybe tax-free and certain types of expenditure maybe dis-allowable, giving rise to "permanent differences" between taxable and accounting profits. Permanent differences also arise where there are tax allowances or charges with no corresponding amount in the financial statements. Secondly, there maybe items which are included in the financial statements of a period different from that in which they are dealt with for tax purposes, giving rise to "timing differences"; thus revenue, gains, expenditure and losses may be included in financial statements either earlier or later than they enter into a computation of profit for tax. purposes.
- 12.33 The financial statements should recognize the tax effects, whether current or deferred, of all transactions occurring in that period and therefore full provision should be made for deferred tax.

12.34 Provision should be made at the rate at which it is estimated the tax will be paid when the timing differences reverse.

12.35 Disclosure

The deferred tax charge or credit relating to the ordinary activities of the bank should be shown as part of the tax charge in the profit and loss account.

The deferred tax balance in the balance sheet should be analyzed into its

12.24 All accruals should be calculated up to the period end.

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12.35 **Disclosure**

The deferred tax charge or credit relating to the ordinary activities of the bank should be shown as part of the tax charge in the profit and loss account.

The deferred tax balance in the balance sheet should be analyzed into its major components.

12.40 Long Term Loans

12.41 This category should include all types of loan capital, such as debentures, subordinated loans, other long term capital, such as debentures, subordinated loans, other long term loans and short term loans.

12.42 The loans should be stated at their issue value.

12.43 If issued at a premium or discount, the premium or discount should be amortized over the period to redemption and credited/charged to the profit and loss account in equal installments.

12.44 The loans should be disclosed in the following categories:

- (a) Due within one year.
- (b) Due between one and two years.
- (c) Due between two and five years.
- (d) Due in more than five years.

For each type of loan, the following details should be disclosed:

- (a) Interest rate, (an. average rate or range may be given)
- (b) Whether secured or unsecured
- (c) Period or repayment.

If any loan capital is issued during the year, the reasons for the issue should be disclosed.

12.50 Shareholders' Funds

12.51 Shareholders' funds comprise stated capital and reserves.

12.52 The disclosure requirements for stated capital are:

- (a) number and type of authorized shares;
- (b) number and type of issued shares;
- (c) details of any movements during the period; and
- (d) reasons for any share issue.

12.53 The types of reserves which a bank may have are:

- (a) Income Surplus (reserves) and
- (b) Capital Surplus.

There may be occasions when a bank may have another type of reserve but these will be rare.

12.54 The Income Surplus should include:

- (a) Retained earnings,
- (b) Statutory Reserve Fund, and
- (c) Other reserves.

12.55 The retained earnings are available for distribution.

12.56 The Statutory Reserve Fund should be established in accordance with Sections 14(2)(a) and 15(1)(6) of the New Financial Institutions Act, 1999.

12.57 The Capital Surplus should include:

- (a) Revaluation reserve, and
- (b) Share Deals Account.

12.58 The revaluation reserve should be credited with the difference between the revalued amount of fixed asset and its net book value. The revaluation reserve is a non-distributable reserve. On disposal of a revalued asset, the related revaluation should be transferred from unrealized to realized reserves.

12.59 The Share Deals Account should be established in accordance with standard accounting practice.

12.60 The opening and closing balances together with the movements during the period should be disclosed for each reserve.

12.70 Contingencies and Commitments

12.71 A bank enters into various commitments in the normal course of banking business, which are not reflected in its balance sheet. These include, for example.

- (a) letters of credit,
- (b) guarantees and indemnities; and
- (c) acceptances.

12.72 If it is probable that a loss will occur then a provision should be made for these off balance sheet items. Any provision should be included in creditors and

accruals. Where no provisions has been made, the value of the off balance sheet items should be disclosed as a contingency or commitment.

12.73 The amount of contingent liabilities should be disclosed. Contingent liabilities are those whose crystallization is dependent on the occurrence or non-occurrence of some future event.

12.74 Commitments for future capital expenditure should be disclosed. These should be analyzed between amounts contracted for and amounts authorized but not yet contracted for.

12.75 Details of the pension Scheme should be disclosed including:

- (a) Nature of the scheme,
- (b) The accounting policy,
- (c) Dates of the latest actuarial valuation (if appropriate),
- (d) Frequency of actuarial valuations (if appropriate),
- (e) Details of the latest actuarial valuation including the actuarial method used, the market value of scheme assets, and comments on any material surplus or deficiency,
- (f) Categories of employees eligible for the scheme, and
- (g) Contribution rates by employer and employee.

12.76 Consolidated financial statements should include the contingencies and commitments of the whole group, including their share of associates contingencies and commitments.

12.80 Related Party Transaction

12.81 Transaction between a bank and its related parties must be disclosed. Refer to the prudential regulations on related persons transaction issued by the Central Bank of Liberia for the minimum standards.

12.82 No disclosure of transactions is required:

- (a) in consolidated financial statements in respect of intra-group transactions,
- (b) in parent financial statements when they are published with the consolidated financial statements, and
- (c) in financial statements of a wholly-owned subsidiary if its parent is incorporated in Liberia and provides consolidated financial statements in Liberia.

12.83 Disclosure is required of the total amount lent to each of the following:

- (a) firms in which directors have an interest,
- (b) directors,

- (c) officers, and
- (d) employees

12.84 Any lending to connected persons of the above must be included in the amount disclosed. A connected person is

- (a) the wife or husband or son or daughter of that person;
- (b) any corporation of which that person is a director;
- (c) any person who is an employee or partner of that person;

Also refer to the prudential regulations on related persons and the FIA of 1999 for the definition of connected person(s).

Part IV FORMAT OF DIRECTORS & ANNUAL REPORT

Improved public disclosure strengthens the market participants' ability to encourage safe and sound banking practices thereby reinforcing the efforts of the bank supervisors. However, market participants must have access to timely, reliable and comprehensive information which will enable them to assess a bank's activities and its risk profile.

In order to improve bank transparency and promote high-quality public disclosure of information, banks should, in addition to the published financial statements, disclose their basic businesses, risk-management practices, management and corporate governance information, in this regard, bank should at minimum disclose the following information:

- a) Organizational structure (lines of business and legal entity structure).
- b) Board Structure (size of the board, membership, their interests, board committees, etc.
- c) Senior Management Structure.
- d) Overview of the activities of Lie previous year and plans for the years ahead.
- e) General information to assist market participants and bank supervisors to have broad understanding of the reporting bank's culture and philosophy.

CENTRAL BANK OF LIBERIA July 25, 2000

**BY ORDER OF THE PRESIDENT
Monie R. Captan
MINISTER. OF FOREIGN AFFAIRS**

MINISTRY OF FOREIGN AFFAIRS MONROVIA, LIBERIA DECEMBER 5, 2000