CENTRAL BANK OF LIBERIA

GUIDELINES CONCERNING

ACCOUNTING AND FINANCIAL REPORTING FOR BANKS

July 28, 2016

REGULATION & SUPERVISION DEPARTMENT
MONROVIA, LIBERIA

PART I GENERAL GUIDELINES

1.0 INTRODUCTION

1.01 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.

1.02 Under Section 24 (3) of the New Financial Institutions Act (FIA), every financial institution is required to keep its business records and books in accordance with internationally accepted accounting principles and practices as well as the requirements of the legal provisions of 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. Besides, internationally active banks are also required by their counterparties to have an accounting system in accordance with IFRS.

1.03 The International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) is the most representative set of international accounting standards, and it has been adopted/ adapted by most countries in the world. The Central Bank of Liberia (CBL) which is also IFRS compliant, has asked banks in Liberia to adopt IFRS for their financial reporting.

1.04 In addition to the standard requirements of IFRS, public disclosure of information is expected to ensure effective market discipline and banking supervision, in accordance with prudential regulations. 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.

1.05 Banks also need to report to the Central Bank in standard format. The Manual of Accounting Guidelines issued in 2005 had already set the format for the required financial statements. This guideline replaces the Manual of Accounting Guidelines issued in 2005.

1.06 The purpose of the guideline 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 IFRS; and disclose comprehensive, relevant, reliable and timely information to the public. The guidelines are prepared for issuance by the Central Bank of Liberia under the powers conferred on it by Sections 21 (2) and 39 of the FIA, 1999.

1.07 To ensure adequate transparency of the bank's financial statements, banks are required to make all disclosures as required by IFRS. Additionally, banks shall disclose their asset quality and capital adequacy computations as per the prudential standards issued by the CBL as well as the disclosures in section 8.0 below. Banks shall also disclose fines/penalties imposed on them by the CBL.

1.08 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.

1.09 The guidelines cover a number of issues. Under Part 1, in addition to the introduction, the adoption of International Financial Reporting Standards (IFRS), currency of reporting and the effective date for implementing the guidelines are highlighted. Part II provides a summary of the most important standards applied to banks, detailing the accounting policies for financial assets and liabilities and impairment on assets, among other policies. Part III details the main accounts of the statement of financial position and the statement of profit or loss and other comprehensive income. Part IV covers the standards for consolidation of financial statements and disclosure of interests in subsidiaries, associates and joint-ventures. Part V covers interim financial reporting, while Part VI presents the required formats of financial statements for reporting and publication. Finally, Part VII is a list of the current IFRSs, including IASs, valid for the first time adoption of IFRS and subsequent reporting under IFRS.

2.0 International Financial Reporting Standards (IFRS)

2.01 The IFRS are issued by the International Accounting Standards Board (IASB), the independent standard-setting body of the IFRS Foundation, aiming at ensuring the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements and also promoting worldwide acceptance of the international accounting standards.

2.02 The main objectives of the IFRS Foundation and the IASB are:

(a) To develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles. These standards require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the various capital markets of the world and other users of financial information make economic decisions; and

(b) To promote the use and rigorous application of those standards.

2.03 IFRSs include a set of standards and interpretations approved by the Board, and also the International Accounting Standards (IASs) and the Standard Interpretation Committee's (SIC) Interpretations issued under previous constitutions. A list of issued IFRSs and IASs is in part VI. The full documents are available at the website www.iasb.org.

2.04 The guidelines have included a summary of some of the standards applicable to banks, which are valid for the first time adoption of the IFRS and subsequent reporting under IFRS. However, banks shall refer to the full version of the documents to have a complete guidance on the application of the IFRS.

3.0 Currency of Accounting and Financial Reporting

3.01 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.

4.0 Implementation Date

4.01 Notwithstanding that banks adopted IFRS beginning with the financial year ended December 2013, all licensed banks are required to comply with these guidelines and the IFRSs with effect from their interim/quarterly financial statement for the period ending September 30, 2016 and their audited financial statements for the period ending December 31, 2016.

PART II EXPLANATORY NOTES ON ACCOUNTING POLICIES, TREATMENT OF FINANCIAL INSTRUMENTS, IMPAIRMENT AND DISCLOSURE REQUIREMENTS

5.0 SELECTION OF ACCOUNTING POLICIES

5.01 Accounting policies encompass the principles, bases, conventions, rules and procedures adopted by management in preparing and presenting financial statements. The accounting policies to be adopted are those prescribed by the International Financial Reporting Standards issued by the International Accounting Standard Board. When more than one alternative is given by the IASB, these guidelines set the alternative to be adopted.

5.02 This section includes only the substantial part of the standards. When the policies are not set in this document, the institution shall refer to the specific standard. For instance, IAS 34 is related to interim financial reporting. When an institution needs to prepare an interim financial report, it shall follow the prescription of that IAS.

6.0 QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION (conceptual framework)

6.01 If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

6.02 The fundamental qualitative characteristics are *relevance* and *faithful representation*.

Relevance

6.03 Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

6.04 Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.

6.05 Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

6.06 The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, revenue information for the current year, which can be used as the basis for predicting revenues in future years, can also be compared with revenue predictions for the current year, that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

6.07 Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

Faithful Representation

6.08 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.

6.09 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, a complete depiction of a group of assets would include, at a minimum, a description of the nature of the assets in the group, a numerical depiction of all of the assets in the group, and a description of what the numerical depiction represents (for example, original cost, adjusted cost or fair value). For some items, a complete depiction may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.

6.10 Neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.

6.11 Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant financial information is, by definition, capable of making a difference in users' decisions.

6.12 Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

Enhancing Qualitative Characteristics

6.13 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered equally relevant and faithfully represented.

Comparability

6.14 Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

6.15 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

6.16 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

6.17 Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

6.18 Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity.

6.19 Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.

Verifiability

6.20 Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

6.21 Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other techniques and recalculating the outputs using the same methodology. It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

Timeliness

6.22 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

6.23 Classifying, characterising and presenting information clearly and concisely make it understandable. Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore potentially misleading.

6.24 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

7.0 FINANCIAL INSTRUMENTS

INTRODUCTION

7.01 The accounting of financial instruments (financial assets and financial liabilities) must fully comply with the related IFRS. Until 2018, banks have two options as to which standard to follow and still be in compliance with IFRS: (1) IAS 39 *Financial Instruments: Recognition and Measurement* or (2) IFRS 9 *Financial Instruments*. IFRS 9 replaces IAS 39, with mandatory adoption in 2018 and early adoption permitted. In addition, IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* apply both before and after adoption of IFRS 9. Certain changes to other standards (including IAS 1 *Presentation of Financial Statements* and IFRS 7) are also triggered upon adoption of IFRS 9.

7.02 Considering that many changes have been, or will be, introduced with the adoption of IFRS 9, a summary of both standards is presented below. However, banks shall always refer to the original documents as the final word on the subject.

DEFINITIONS: IAS 39 AND IFRS 9

7.03 A *financial asset* is any asset that is:

(a) Cash;

(b) An equity instrument of another entity;

(c) A contractual right:

(i) To receive cash or another financial asset from another entity; or

(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the bank; or

(d) A contract that will or may be settled in the bank's own equity instruments and is:

(i) A non-derivative for which the bank is or may be obliged to receive a variable number of the bank's own equity instruments; or

(ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the bank's own equity instruments.

7.04 A financial liability is any liability that is:

(a) a contractual obligation:

(i) To deliver cash or another financial asset to another entity; or

(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the bank; or

(c) A contract that will or may be settled in the bank's own equity instruments and is:

(i) A non-derivative for which the bank is or may be obliged to deliver a variable number of the bank's own equity instruments; or

(ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the bank's own equity instruments.

7.05 An equity instrument is any contract that evidences a residual interest in the assets of a bank after deducting all of its liabilities.

7.06 Fair value is the price that would be received when an asset is sold or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS 13).

INITIAL RECOGNITION AND DERECOGNITION – IAS 39 AND IFRS 9

7.07 A bank shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the bank becomes party to the contractual provisions of the instrument.

7.08 When a bank first recognises a financial asset or a financial liability, it shall classify it and measure it in accordance with the applicable standard.

7.09 A bank shall derecognise a financial asset when, and only when:

(a) The contractual rights to the cash flows from the financial asset expire, or

(b) It transfers the financial asset and the transfer qualifies for de-recognition in accordance with the following criteria:

7.10 A bank transfers a financial asset if, and only if, it either:

(a) Transfers the contractual rights to receive the cash flows of the financial asset, or

(b) Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

7.11 When a bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), the bank treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

(a) The bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the bank with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition;

(b) The bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and

(c) The bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay and is not entitled to reinvest such cash flows except for investments in cash or cash equivalents (as defined in IAS 7) during the short settlement period, and interest earned on such investments is passed to the eventual recipients.

7.12 When a bank transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

(a) If the bank transfers substantially all the risks and rewards of ownership of the financial asset, the bank shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

(b) If the bank retains substantially all the risks and rewards of ownership of the financial asset, the bank shall continue to recognise the financial asset; and

(c) If the bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the bank shall determine whether it has retained control of the financial asset.

7.13 In the case referred in the previous paragraph:

(i) If the bank has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; but

(ii) If the bank has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

7.14 If a bank transfers a financial asset in a transfer that qualifies for de-recognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the bank adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

7.15 On de-recognition of a financial asset in its entirety, the difference between:

(a) The carrying amount (measured at the date of de-recognition) and

(b) The consideration received (including any new asset obtained less any new liability assumed) shall be recognised in profit or loss.

7.16 If a transfer does not result in de-recognition because the bank has retained substantially all the risks and rewards of ownership of the transferred asset, the bank shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the bank shall recognise any income on the transferred asset and any expense incurred on the financial liability. Example: securities sold under repurchase agreements where the repurchase price is a fixed price or the sale price plus a lender's return.

7.17 If a transferred asset continues to be recognised, the asset and the associated liability shall not be offset. Similarly, the bank shall not offset any income arising from the transferred asset with any expense incurred on the associated liability.

7.18 A bank shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

7.19 An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. However, the bank shall not provide a new loan for the settlement of a past due loan unless in compliance with the Regulations of the Central Bank of Liberia.

7.20 The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

INITIAL MEASUREMENT – IAS 39 AND IFRS 9

7.21 At initial recognition, a bank shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

7.22 However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, the difference at initial recognition shall be recorded as a gain or a loss.

SUBSEQUENT MEASUREMENT – IAS 39

7.23 At initial recognition, a bank shall classify financial assets into one of four categories and subsequently measure them at either amortised cost or fair value in the statement of financial position, as follows:

(a) Financial Assets at Fair Value through Profit or Loss, measured at fair value in the statement of financial position, with changes in fair value recognised in profit or loss. This category includes:

1) Mandatory: derivatives and financial assets held for trading, as defined in IAS 39, and
2) Optional: if certain criteria are met (see IAS 39), the bank can elect to designate financial assets as at fair value through profit or loss under the "fair value option";

(b) Financial Assets Available for Sale, measured at fair value in the statement of financial position, with changes in fair value (with certain impairment exceptions) recognised in other comprehensive income. Interest income for debt instruments in this category is recognised using the effective interest method.

(c) Held to Maturity, measured at amortised cost in the statement of financial position, with interest income recognised using the effective interest method; or

(d) Loans and Receivables, which is a defined term in IAS 39, measured at amortised cost in the statement of financial position, with interest income recognised using the effective interest method.

7.24 A bank shall classify all financial liabilities and subsequently measure them at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities (including derivatives that are liabilities, liabilities held for trading, and liabilities designated as at fair value through profit or loss under the "fair value option"), shall be subsequently measured at fair value, with changes in fair value recognised in profit or loss.

7.25 Financial guarantee contracts, such as letters of credit and guarantees, recorded in off-balance sheet items. After initial recognition, the bank, as an issuer of such a contract, shall subsequently measure it at the higher of:

(a) The best estimate of the amount required to settle the obligation as determined by IAS 37; and

(b) The amount initially recognised less, when appropriate, cumulative amortisation.

7.26 Commitments to provide a loan at a below-market interest rate: after initial recognition, an issuer of such a commitment shall subsequently measure it at the higher of:

(i) The present value of the expenditures required to settle the obligation at the market interest rate in accordance with IAS 37; and

(ii) (ii) The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

7.27 A bank shall apply the impairment requirements of IAS 39 to financial assets classified as available-for-sale, held to maturity, or loans and receivables.

7.28 A bank shall apply the hedge accounting requirements of IAS 39 to the hedging instrument and the hedged item.

SUBSEQUENT MEASUREMENT – IFRS 9

Investments in debt instruments

7.29 A bank shall classify investments in debt instruments (e.g., loans, bonds, etc.) and subsequently measure them at either amortised cost or fair value on the basis of both:

(e) The bank's business model for managing the financial assets:

i. Hold to collect contractual cash flows;
ii. Hold to collect contractual cash flows and to sell; or
iii. Other (e.g. held for trading), and

(f) The contractual cash flow characteristics of the financial asset.

7.30 A financial asset may be measured at amortised cost only if both of the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows ("the business model test"); and

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("the cash flows characteristics test").

7.31 For the purpose of applying the above, interest is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. If any part of the contractual cash flows does not represent payments of principal or interest, as defined, the debt instrument does not meet condition (b) in the preceding paragraph.

7.32 If both of the conditions are met to allow the debt instrument to be measured at amortised cost, a bank may still elect instead to measure the asset at fair value if doing so eliminates or reduces an accounting mismatch.

7.33 A debt instrument shall be measured at fair value unless it is measured at amortised cost in accordance with the previous paragraphs.

7.34 The fair value shall be determined in accordance with IFRS 13, Fair Value Measurement.

7.35 If the "cash flows characteristics test" is met, but the "business model test" for amortised cost is not met, the debt instrument is measured at fair value, with:

a. Changes in fair value recognised in other comprehensive income if the business model is to hold to collect contractual cash flows and to sell, or

b. Changes in fair value recognised in profit or loss if the business model is "other" (e.g., held for trading).

7.36 Reclassifications, if any, of debt instruments after initial recognition shall be compliant with Section 5.6 of IFRS 9.

7.37 At initial recognition, a bank shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

7.38 However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, the difference at initial recognition shall be recorded as a gain or a loss.

7.39 The bank shall apply the impairment requirements of IFRS 9 to financial assets measured at amortised cost or at fair value through other comprehensive income.

7.40 A bank shall apply the hedge accounting requirements of IFRS 9 to the hedging instrument and the hedged item.

Investments in equity instruments

7.41 All investments in equity instruments (other than those that represent significant influence or control over the investee) must be measured at fair value, with changes in fair value generally recognised in profit or loss.

7.42 However, at initial recognition, a bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

7.43 When making the election, the bank shall recognise in profit or loss dividends from that investment when the bank's right to receive payment of the dividend is established in accordance with IAS 18 of IFRS 15. Upon derecognition of the equity investment, the cumulative gains or losses recognised through other comprehensive income are not reclassified to profit or loss.

7.44 IFRS 9 does not contain an exemption to measure unquoted equity investments at cost.

Financial Liabilities, Guarantees, and Commitments

7.45 A bank shall classify all financial liabilities and subsequently measure them at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

7.46 After initial recognition, an issuer of a financial guarantee contract shall subsequently measure it at the higher of:

i. the amount of the loss allowance determined in accordance with Section 5.5 of IFRS 9 and

ii. the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IAS 18 (or IFRS 15, when adopted).

7.47 An issuer of a commitment to provide a loan at a below-market interest rate shall initially recognise a liability at its fair value and subsequently measure it at the higher of:

i. the amount of the loss allowance determined in accordance with Section 5.5 of IFRS 9 and

ii. the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IAS 18 (or IFRS 15, when adopted).

RELATED DEFINITIONS AND THE EFFECTIVE INTEREST METHOD – IAS 39 AND IFRS 9

7.48 Amortised Cost of a Financial Asset or Liability

a) IAS 39: The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability.

b) IFRS 9: The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets adjusted for any loss allowance.

7.49 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

7.50 Effective interest rate:

a) IAS 39: The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the bank shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

b) IFRS 9: The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

7.51 Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the bank had not acquired, issued or disposed of the financial instrument.

7.52 When applying the effective interest method, a bank generally amortises any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is re-priced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such re-pricing date. For example, if a premium or discount on a floating rate instrument reflects interest that has accrued on the instrument since interest was last paid, or changes in market rates since the floating interest rate was reset to market rates, it will be amortised to the next date when the floating interest is reset to market rates.

7.53 This is because the premium or discount relates to the period to the next interest reset date because, at that date, the variable to which the premium or discount relates (i.e. interest rates) is reset to market rates. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortised over the expected life of the instrument.

7.54 For floating rate financial assets and floating rate financial liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

7.55 If a bank revises its estimates of payments or receipts, the bank shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate. The adjustment is recognised in profit or loss as income or expense.

Gain or loss on a financial instrument measured at fair value

7.56 A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

(a) Under IAS 39:

i. It is part of certain hedging relationships (IAS 39); or

ii. It is a financial asset classified as available for sale, and the change in fair value does not measure an impairment loss or reversal of impairment loss.

(b) Under IFRS 9:

i. It is part of certain hedging relationships (IFRS 9);

ii. It is an investment in an equity instrument and the bank has elected to present gains and losses on that investment in other comprehensive income;

iii. It is an investment in a debt instrument that is measured at fair value through other comprehensive income; or

iv. It is a financial liability measured at fair value using the “fair value option”, in which case the changes in fair value attributable to the bank’s own credit risk are recognised in other comprehensive income, while the changes in fair value attributable to other factors are recognised in profit or loss.

7.57 A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised or impaired, and through the amortisation process. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

7.58 A gain or loss on financial assets or financial liabilities that are hedged items shall be recognised in accordance with paragraphs 89–102 of IAS 39 or Chapter 6 of IFRS 9.

IMPAIRMENT OF FINANCIAL ASSETS – IAS 39

7.59 A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or

(ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

7.60 The disappearance of an active market because a bank's financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

7.61 A decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment (for example, a decline in the fair value of an investment in a debt instrument that results from an increase in the risk-free interest rate).

7.62 In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. For example, this may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, a bank uses its experienced judgement to estimate the amount of any impairment loss. Similarly a bank uses its experienced judgement to adjust observable data for a group of financial assets to reflect current circumstances. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

7.63 If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

7.64 The value of the assets shall be reduced by the amount of the loss through the use of an allowance account.

7.65 A bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If a bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

7.66 If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account.

7.67 The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

7.68 The amount of the reversal shall be recognised in profit or loss.

7.69 Impairment and un-collectability of financial assets measured at amortised cost: Impairment of a financial asset measured at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost.

7.70 If the terms of a financial asset measured at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. If a financial asset measured at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure impairment of a financial asset measured at amortised cost on the basis of an instrument's fair value using an observable market price.

7.71 The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

7.72 The process for estimating impairment considers all credit exposures, not only those of low credit quality. For example, if a bank uses an internal credit grading system it considers all credit grades, not only those reflecting a severe credit deterioration.

7.73 The process for estimating the amount of an impairment loss may result either in a single amount or in a range of possible amounts. In the latter case, the entity recognises an impairment loss equal to the best estimate within the range taking into account all relevant information available before the financial statements are issued about conditions existing at the end of the reporting period.

7.74 For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. However, loss probabilities and other loss statistics differ at a group level between: (a) assets that have been individually evaluated for impairment and found not to be impaired and (b) assets that have not been individually evaluated for impairment, with the result that a different amount of impairment may be required. If a bank does not have a group of assets with similar risk characteristics, it does not make the additional assessment.

7.75 Impairment losses recognised on a group basis represent an interim step pending the identification of impairment losses on individual assets in the group of financial assets that are collectively assessed for impairment. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group.

7.76 Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Entities that have no entity-specific loss experience or insufficient experience use peer-group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

7.77 Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows should be reviewed regularly to reduce any differences between loss estimates and actual loss experience.

7.78 As an example, a bank may determine, on the basis of historical experience that one of the main causes of default on credit card loans is the death of the borrower. The bank may observe that the death rate is unchanged from one year to the next. Nevertheless, some of the borrowers in the bank's group of credit card loans may have died in that year, indicating that an impairment loss has occurred on those loans, even if, at the year-end, the bank is not yet aware which specific borrowers have died.

7.79 It would be appropriate for an impairment loss to be recognised for these 'incurred but not reported' losses. However, it would not be appropriate to recognise an impairment loss for deaths that are expected to occur in a future period, because the necessary loss event (the death of the borrower) has not yet occurred.

7.80 When using historical loss rates in estimating future cash flows, it is important that information about historical loss rates is applied to groups that are defined in a manner consistent with the groups for which the historical loss rates were observed. Therefore, the method used should enable each group to be associated with information about past loss experience in groups of assets with similar credit risk characteristics and relevant observable data that reflect current conditions.

7.81 Formula-based approaches or statistical methods may be used to determine impairment losses in a group of financial assets (e.g. for smaller balance loans) as long as they are consistent with the requirements in above paragraphs. Any model used would incorporate the effect of the time value of money, consider the cash flows for all of the remaining life of an asset (not only the next year), consider the age of the loans within the portfolio and not give rise to an impairment loss on initial recognition of a financial asset.

Interest income after impairment recognition

7.82 Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

IMPAIRMENT OF FINANCIAL ASSETS – IFRS 9

7.83 A bank shall recognise impairment of financial assets in accordance with Section 5.5 of IFRS 9.

7.84 Terminology:

a. Credit Loss: The difference between all contractual cash flows that are due to a bank in accordance with the contract and all the cash flows that the bank expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. A bank shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the bank shall use the remaining contractual term of the financial instrument.

b. Expected Credit Losses: The weighted average of "credit losses" with respective risks of a default occurring as the weights.

c. Lifetime Expected Credit Losses: The "expected credit losses" that result from all possible default events over the expected life of a financial instrument.

d. 12-Month Expected Credit Losses: The portion of "lifetime expected credit losses" that represent the "expected credit losses" that result from default event on a financial instrument that are possible within the 12 months after the reporting date.

e. Loss Allowance: The allowance for "expected credit losses" on financial assets that are debt instruments measured at amortised cost or measured at fair value through other comprehensive income, as well as lease receivables, loan commitments and financial guarantee contracts.

f. *Example*: Assume a "credit loss" (i.e., the loss given default) for an asset is 100,000. The probability of default over the life of the asset is 4% and the probability of default in the next 12 months is 1%. "Lifetime Expected Credit Loss" is 4% x 100,000 = 4,000. "12-Month Expected Credit Loss" is 1% x 100,000 = 1,000.

7.85 A bank shall recognise an impairment loss in profit or loss and a "loss allowance" for "expected credit losses" on financial assets that are debt instruments measured at amortised cost or measured at fair value through other comprehensive income, as well as lease receivables, loan commitments and financial guarantee contracts. Equity investments are not subject to impairment under IFRS 9.

A "loss allowance" is a contra-asset (i.e. negative) that is generally offset against the asset that is being reduced for expected credit losses. However, for debt instruments measured at fair value through other comprehensive income, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position.

7.86 At initial recognition, a bank shall measure the loss allowance for a financial instrument equal to the 12-month expected credit loss.

7.87 At each subsequent reporting date, a bank shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

7.88 The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

7.89 If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, a bank shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

7.90 For loan commitments and financial guarantee contracts, the date that the bank becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

7.91 If a bank has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the there is no longer a significant increase in credit risk as compared to the credit risk at the time the asset was initially recognised, the bank shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

7.92 A bank shall recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

7.93 At each reporting date, a bank shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, a bank shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, a bank shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

7.94 A bank may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (see paragraphs B5.5.22-B5.5.24 of IFRS 9).

7.95 If reasonable and supportable forward-looking information is available without undue cost or effort, a bank cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, a bank may use past due information to determine whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which a bank assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. A bank can rebut this presumption if the bank has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When a bank determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.

Interest income after impairment recognition

7.96 During the life of a loan or other financial asset that is a debt instrument, the asset is in one of three categories or 'stages'. Interest income in each stage is measured using the effective interest method. However, the application of the effective interest method differs, as summarised below:

Stage	Characteristics	Expected Credit Loss Level	Recognition of Interest Income
1	At initial recognition and subsequently if credit risk does not increase significantly and there is no default event	12-month	Effective interest method. Interest income equals the effective interest rate times beginning of period amortised cost **before** the loss allowance
2	Moved to Stage 2 if there was a significant increase in credit risk since initial recognition but no default event	Lifetime	Effective interest method. Interest income equals the effective interest rate times beginning of period amortised cost **before** the loss allowance
3	Moved to Stage 3 when there is a default event (incurred loss)	Lifetime	Effective interest method. Interest income equals the effective interest rate times beginning of period amortised cost **after** the loss allowance

8.0 ASSET CLASSIFICATION AND PROVISIONS ACCORDING TO REGULATION Nº CBL/RSD/005/2014

8.01 The banks shall continue to classify assets in the categories prescribed in Section 3.00 of the Regulation nº

CBL/RSD/005/2014 and make provisions as determined in section 6.00 of the Regulation.

8.02 If the amount of the allowance for impairment losses on financial assets exceeds the total amount of provision calculated in accordance with the Regulation nº CBL/RSD/005/2014, no complementary action must be taken. The bank should only disclose that impairment losses under IFRS exceed provisions calculated in accordance with the Regulation.

8.03 When the total amount of provision calculated in accordance with Regulation nº CBL/RSD/005/2014 exceeds the amount of the allowance for impairment losses on financial assets, the bank must disclose the difference and its impact on the bank's profit and capital for the period (for example, the profits and capital recorded by the bank are L$100 million and L$900 million respectively; the regulatory provisions exceed IFRS impairment by L$40 million; when adjusted for regulatory provisions, the bank's profits and capital are L$60 million and L$860 million respectively).

8.04 Given 8.03 above, the current practice of using the credit risk reserve as a prudential filter to house the difference between IFRS impairment and provisions calculated using Regulation nº CBL/RSD/005/2014 is no longer necessary/required. The regulatory reports of banks are to be done applying the prudential regulations and the interim and audited accounts of banks are to be prepared using IFRS with the disclosure in 8.03 above. In the example in 8.03 above, the adjusted profits and capital would be the same as the profits and capital that the bank would have reported in its regulatory returns to the CBL.

9.0 IMPAIRMENT OF NON-FINANCIAL ASSETS

9.01 The impairment of non-financial assets must be determined in accordance with IAS 36.

10.0 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

10.01 An entity shall change an accounting policy only if the change:

(a) Is required by a Standard or an Interpretation; or

(b) Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

10.02 When applying changes in accounting policies, the bank must comply with IAS 8.

10.03 When a change in accounting policy is applied retrospectively, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

10.04 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:

(a) impairment of financial assets;

(b) inventory obsolescence;

(c) the fair value of financial assets or financial liabilities;

(d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and

(e) warranty obligations.

10.05 An estimate may need revision. The effect of a change in an accounting estimate shall be recognised prospectively, in the period of the change and future periods.

10.06 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

10.07 An entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

(a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

11.0 EVENTS AFTER THE REPORTING PERIOD

11.01 Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the statement of financial position date); and

(b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the statement of financial position date). Although non-adjusting events do not result in an adjustment of the financial statements, they may result in additional disclosures in accordance with IAS 10.

11.02 Examples of adjusting events after the statement of financial position date:

(a) The settlement after the statement of financial position date of a court case that existed as of the statement of financial position date;

(b) The receipt of information after the statement of financial position date indicating that an asset was impaired at the statement of financial position date;

(c) The determination after the statement of financial position date of the cost of assets purchased, or the proceeds from assets sold, before the statement of financial position date; and

(d) The discovery of fraud or errors.

11.03 Examples of non-adjusting events after the statement of financial position date:

a) Decline in market value of investments between the statement of financial position date and the date when the financial statements are authorised for issue;

b) Dividends declared after the statement of financial position date;

c) Major business combination;

d) Announcing a plan to discontinue an operation; and

e) Changes in tax rates or tax laws; among others.

12.0 FIRST-TIME ADOPTION OF IFRS

12.01 Banks must follow the requirements of IFRS 1 upon first-time adoption of IFRS. A bank's "first IFRS financial statements" are the first annual financial statements in which the bank adopts IFRSs, by an explicit and unreserved statement of compliance with IFRSs. The "date of transition to IFRSs" is the beginning of the earliest period for which the bank presents full comparative information under IFRSs in its "first IFRS financial statements. A bank's "first IFRS financial statements" must include an "opening statement of financial position" as of the "date of transition to IFRSs". For example, if a bank first adopts IFRSs for 2014, the bank's "first IFRS financial statements" are for the year ending 31 December 2014, the bank presents full comparative financial statements for 2013, and the bank presents an "opening statement of financial position" as of the beginning of 2013 (i.e., end of 2012).

12.02 Assuming adoption of IFRS in 2014, banks must apply IFRSs retrospectively, based on IFRSs in effect as of the end subject to certain mandatory exceptions and elective exemptions from full retroactive application, as set forth in IFRS 1 and Appendix D to IFRS 1. Accordingly, subject to the aforementioned exceptions and exemptions, the full financial statements for 2013 must be restated, as well as the opening statement of financial position. In consequence, on the preparation of the opening financial statements, banks are generally required to:

(a) Recognise all assets and liabilities whose recognition is required by IFRSs;

(b) Not recognise items as assets or liabilities if IFRSs do not permit such recognition;

(c) Reclassify items that it recognised under previous accounting standards as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs; and

(d) Apply IFRSs in measuring all recognised assets and liabilities.

12.03 According to IFRS 1, banks are required to disclosure in the financial statements complete explanation (and reconciliations) on how the transition from previous accounting standards to IFRSs affected the entity's reported financial position, financial performance and cash flows.

PART III FINANCIAL STATEMENTS

13.0 FINANCIAL STATEMENTS

13.01 Financial statements are a structured representation of the financial position and financial performance of a bank. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of a bank that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about a bank's:

(a) Assets;
(b) Liabilities;
(c) Equity;
(d) Income and expenses, including gains and losses;
(e) Contributions by and distributions to owners in their capacity as owners; and
(f) Cash flows.

13.02 A complete set of financial statements comprises:

(a) A statement of financial position as at the end of the period;

(b) A statement of profit or loss and other comprehensive income for the period;

(c) A statement of changes in equity for the period;

(d) A statement of cash flows for the period;

(e) Notes, comprising a summary of significant accounting policies and other explanatory information, and comparative information in respect of the preceding period; and

(f) A statement of financial position as at the beginning of the preceding period when a bank applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

13.03 Financial statements shall present fairly the financial position, financial performance and cash flows of a bank. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

13.04 When preparing financial statements, management shall make an assessment of a bank's ability to continue as a going concern. A bank shall prepare financial statements on a going concern basis unless management either intends to liquidate the bank or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the bank's ability to continue as a going concern, the bank shall disclose those uncertainties, together with the basis on which it prepared the financial statements and the reason why the bank is not regarded as a going concern.

13.05 A bank shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

13.06 A bank shall present separately each material class of similar items, in the format presented in Section V.

13.07 A bank shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.

Minimum comparative information

13.08 Except when an IFRS permit or require otherwise, a bank shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. A bank shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

13.09 A bank shall present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two statements of cash flows and two statements of changes in equity, and related notes.

Change in accounting policy, retrospective restatement or reclassification

13.10 A bank shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements above required if:

(a) It applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

(b) The retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

Identification

13.11 A bank shall clearly identify each financial statement and the notes. In addition, a bank shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

(a) The name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;

(b) Whether the financial statements are of an individual entity or a group of entities;

(c) The date of the end of the reporting period or the period covered by the set of financial statements or notes;

(d) The presentation currency, which shall be the Liberian dollar; and

(e) The level of rounding used in presenting amounts in the financial statements.

STATEMENT OF FINANCIAL POSITION

13.12 The statement of financial position is also known as the balance sheet. The statement of financial position shall be presented in accordance with the format presented in Section V, which includes the minimum line items required by the IAS 1. The main assets to be disclosed by the bank are:

- Cash and cash equivalents
- Placements and loans to banks
- Loans, advances and receivables
- Investments in subsidiaries
- Investments (e.g., associates and joint ventures) accounted for using the equity method of accounting
- Other equity investments
- Bonds
- Assets pledged as collateral
- Investment Properties
- Property, plant and equipment
- Intangible assets
- Current income tax assets
- Deferred income tax assets
- Assets held for sale (including assets in a disposal group)
- Other assets

13.13 The liabilities of the bank shall be stated in the following items:

- Owed to Central Bank
- Due to banks
- Securities sold under repurchase agreements

- Due to depositors
- Borrowings
- Retirement benefit obligations
- Subordinated debts
- Provisions
- Current Income tax liabilities
- Deferred income tax liabilities
- Liabilities included in disposal groups classified as held for sale
- Other liabilities
- Issued capital and reserves attributable to owners
- Non-controlling interests, presented within equity

13.14 The bank shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period.

13.15 The disclosure of a summary of the MBR-400 – Maturity Profile of Assets and Liabilities satisfies the above requirement.

13.16 A bank shall disclose in the notes, further sub-classifications of the line items presented in paragraphs 13.12 and 13.13 above, classified in a manner appropriate to the bank's operations.

13.17 A bank shall disclose the following in the notes:

(a) For each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the bank held by the bank or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) A description of the nature and purpose of each reserve within equity.

STATEMENT OF COMPREHENSIVE INCOME

13.18 The statement of comprehensive income, also called statement of profit and loss and other comprehensive income, shall be prepared in accordance with the format presented in Section V and is composed of three sections:

(a) Profit or loss;

(b) Other comprehensive income;

(c) Total comprehensive income for the period, being the total of profit or loss and other comprehensive income.

13.19 A bank shall present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:

(a) Profit or loss for the period attributable to:

(i) Non-controlling interests, and

(ii) Owners of the parent.

(b) Comprehensive income for the period attributable to:

(i) Non-controlling interests, and

(ii) Owners of the parent.

13.20 Prior to adoption of IFRS 9, the profit or loss section shall include line items that present the following amounts for the period:

i. revenue;

ii. finance costs;

iii. share of the profit or loss of associates and joint ventures accounted for using the equity method;

iv. tax expense;

v. a single amount for the total of discontinued operations (see IFRS 5).

13.21 After adoption of IFRS 9, in addition to the items in paragraph 13.20 above, the profit or loss section shall also include the following, if applicable:

i. interest revenue recognized using the effective interest method, presented separately from other revenue;

ii. gains and losses arising from the de-recognition of financial assets measured at amortised cost;

iii. if a financial asset is reclassified out of the amortised cost category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9);

iv. if a financial asset is reclassified out of the fair value through other comprehensive income category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;

v. impairment losses (including reversals) determined in accordance with Section 5.5 of IFRS 9.

13.22 A bank shall not present any items of income or expense as extraordinary items, in the statement presenting profit or loss and other comprehensive income or in the notes.

13.23 The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (showing separately the share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRSs:

(a) Will not be reclassified subsequently to profit or loss; and

(b) Will be reclassified subsequently to profit or loss when specific conditions are met.

A reclassification adjustment must be presented with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss (see paragraph 93 of IAS 1).

A bank shall disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit or loss and other comprehensive income or in the notes.

13.24 The components of other comprehensive income include:

I. Prior to adoption of IFRS 9:

(a) Changes in revaluation surplus (see IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*);

(b) Re-measurements of defined benefit plans (see IAS 19 *Employee Benefits*);

(c) Gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 *The Effects of Changes in Foreign Exchange Rates*);

(d) Deferred gains and losses on a hedge of an investment in a foreign operation (see IAS 39 *Financial Instruments: Recognition and Measurement)*;

(e) Changes in fair value of financial assets classified as available for sale (see IAS 39 *Financial Instruments: Recognition and Measurement); and*

(f) The effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39 *Financial Instruments: Recognition and Measurement*).

II. After adoption of IFRS 9, items reported in other comprehensive income include:

(a) Items listed in paragraph 13.24 Part 1 above, with the exception of item (e). However, items relating to hedge accounting [items (d) and (f)] will refer to IFRS 9 rather than IAS 39;

(b) For particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the reporting bank's credit risk (see paragraph 5.7.7 of IFRS 9);

(c) Changes in fair value for investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9; and

(d) Changes in fair value for investments in debt instruments measured at fair value through other comprehensive income in accordance with IFRS 9.

13.25 A bank shall present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:

(a) Profit or loss for the period attributable to:
   (i) Non-controlling interests, and
   (ii) Owners of the parent.

(b) Comprehensive income for the period attributable to:

   (i) Non-controlling interests, and

   (ii) Owners of the parent.

13.26 Non-controlling interest is equity in a subsidiary not attributable directly or indirectly to a parent entity.

STATEMENT OF CHANGES IN EQUITY

13.27 A bank shall present a statement of changes in equity in accordance with the format presented in Section V.

13.28 The statement of changes in equity includes the following information:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

i. profit or loss;

ii. other comprehensive income; and

iii. transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

13.29 For each component of equity a bank shall present in the notes, an analysis of other comprehensive income by item.

13.30 A bank shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

STATEMENT OF CASH FLOWS

13.31 Cash flow information provides users of financial statements with a basis to assess the ability of the bank to generate cash and cash equivalents and the needs of the bank to utilise those cash flows.

13.32 The IAS 7 sets out requirements for the presentation and disclosure of cash flow information.

13.33 Banks must present the statement of cash flows in the pro-forma in Section V.

NOTES

Structure

13.34 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used;

(b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

13.35 A bank shall, as far as practicable, present notes in a systematic manner. A bank shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

13.36 A bank normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) statement of compliance with IFRSs;

(b) summary of significant accounting policies applied;

(c) supporting information for items presented in the statements of financial position and in the statement of comprehensive income (profit or loss and other comprehensive income), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

(i.) contingent liabilities (IAS 37) and unrecognised contractual commitments, and

(ii.) non-financial disclosures, e.g. the bank's financial risk management objectives and policies (see IFRS 7).

13.37 A bank shall disclose in the summary of significant accounting policies:

(a) The measurement basis (or bases) used in preparing the financial statements, and

(b) The other accounting policies used that are relevant to an understanding of the financial statements.

13.38 A bank shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

13.39 A bank shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) Their nature, and

(b) Their carrying amount as at the end of the reporting period.

13.40 A bank shall disclose information that enables users of its financial statements to evaluate the bank's objectives, policies and processes for managing capital.

13.41 A bank shall disclose in the notes:

(a) The amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and

(b) The amount of any cumulative preference dividends not recognised.

13.42 A bank shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the bank, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the bank's operations and its principal activities; and

(c) the name of the parent and the ultimate parent including ultimate beneficial owner of the group

13.43 Banks must comply with all applicable disclosure requirements included in IFRS 7 *Financial Instruments: Disclosures*, and all other individual standards within IFRSs, whether or not those disclosure requirements are repeated in this manual. Banks must also comply with any additional disclosure requirements contained in this manual.

14.0 ACCOUNTING POLICIES TREATMENT AND DISCLOSURE REQUIREMENTS FOR PROFIT AND LOSS ITEMS

14.01 Interest Income

1. This item includes income earned on:

(a) Cash and short term funds.

(b) Investment securities.

(c) Bills and receivables discounted.

(d) Loans and advances.

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

3. Normally, the measurement of financial assets measured at amortised cost (and debt instruments in the available for sale category under IAS 39), as prescribed in Part II will generate interest.

4. Amortisation under the effective interest method for recognition of interest should be calculated up to the date of sale.

14.02 Interest Expense

1. This item shall include interest expense on:

   (a) Due to Central Bank

   (b) Due to Banks

   (c) Demand and Savings accounts (where applicable);

(d) Time deposits (including those from financial institutions);

(e) Certificates of deposits; and

(f) Borrowings.

2. Interest expense should be charged to the profit and loss account on at least a monthly basis, unless capitalisation of interest is required under IAS 23 *Borrowing Costs*.

14.03 Commissions and Fees:

1. Commissions and fees, that do not compose the price of a financial asset or a financial liability, should be credited to income when services are rendered.

2. If a commitment fee is received for a loan, and the bank does NOT expect to make the loan, the fee should be recognised as income over the commitment period. But if the bank expects to make the loan and does make the loan, the fee should be deferred and amortised to interest income over the life of the loan using the effective interest method.

3. These include charges on services rendered on transfers, guarantees and indemnities, travellers' checks, etc. Fees earned over a period of time or in stages (and which are not contingent upon the occurrence of a future event) should be recognised when the related service is performed or on completion of the contracted stages.

4. If commitment fees are immaterial they may be credited to income at the time of receipt.

14.04 Other Operating Income:

1. 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.

2. Other operating income will include:

(a) Dividends from investments that are not associates or subsidiaries,

(b) Profits from sale of investments and fixed assets, and

(c) Other income.

3. Dividends from investments, including trade investments, should be credited to income when realizable and earned. Dividends arising from investments in associates and joint ventures are accounted for using the equity method prescribed by IAS 28.

4. Examples of other income (and expenses) include: Profit (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.

5. On disposal of a revalued asset the related revaluation surplus should be transferred from revaluation surplus directly to retained earnings (i.e., not reclassified to profit or loss).

6. Profit or loss from the sale of investments should be recognised as income on the contract date.

7. Other operating income should be disclosed in the categories above referred.

14.05 Losses on financial instruments at fair value:

1. Net losses on financial instruments at fair value assets arise when the market value of the instruments change against the bank and the losses shall be recognised in the statement of financial position (balance sheet).

14.06 Gain/Losses (net) on Foreign Exchange Transactions

1. Exchange gain/losses (net) represent the gain/losses arising from the purchase or sale of foreign currency and from translation of the value of monetary assets or liabilities in foreign currencies to Liberian dollars.

14.07 Impairment Loss & Provision Expenses:

1. The bank shall record as impairment loss, losses on financial assets, and as provision expenses the provisions for guarantees and commitments and for present obligations as a result of past events under IAS 37.

14.08 Impairment Loss on Financial Assets

1. The profit and loss statement should be charged with impairment loss on all financial assets incurred during each accounting period. The impairment and the amount of loss must be determined as described in Part II.

2. The value of the assets shall be reduced by the amount of the loss through the use of an allowance account.

3. Banks are expected to review their level of impairment at least quarterly; notwithstanding this, impairment loss shall be made against any financial asset as soon as the impairment and respective loss are determined.

14.09 Provision for guarantees and commitments

1. Banks shall record a provision for contingent risks in financial guarantees contract and commitments to provide a loan, in accordance with Part II. Such expense will be recorded in liabilities as a provision for guarantees and commitments.

2. No other provision for credit risk, including those prescribed in Regulation nº CBL/RSD/005/2014, shall be recorded as expenses or liabilities.

14.10 Provisions for present obligations

1. Provisions for present obligations as result of past events, for which it is probable they will result in an outflow of economic resources, shall be accounted in the pertinent account of expenses or, when no account is identified, other provisions in accordance with IAS 37.

2. Contingent liabilities and contingent assets as defined in IAS 37 shall not be recognised in the statement of financial position and no provision is admitted. However, if appropriate under IAS 37, banks may be required (or permitted, in the case of contingent assets) to make appropriate disclosures in the notes.

14.11 Other Operating Expenses

1. Other operating expenses include expenses related to the core business of the banking industry. 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 the item as other expenses.

2. Operating expenses will include:

    a) Service charges, transaction fees and commissions paid that do not compose the price of a financial asset or liability for which the effective interest method is appropriate, as referred in Part II, and should be recorded to expense when services are rendered;

    b) losses on sale of investments; and

    c) other expenses.

3. Losses from the sale of investments should be charged to operating expenses on the contract date.

4. Other expenses should be disclosed separately. They represent expenses which:

   (a) are unlikely to re-occur; or

   (b) arise outside the normal course of business; or

   (c) are exceptional in nature.

14.12 Overhead Expenses

1. Overhead expenses are the general costs of running the business as rents, and other expenses, which cannot be attributed to the industry products, and includes:

   i. Personnel costs (including directors' emoluments);

   ii. Depreciation;

   iii. Hire of equipment;

   iv. Occupancy costs;

   v. Administration and marketing costs;

   vi. Audit fees; and

   vii. Legal and other professional fees.

Personnel costs

2. 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.

3. Social Security Fund and Provident Fund contributions shall represent the employers' contribution.

4. The total amount of salaries, bonuses and allowances payable to Directors should be disclosed as Directors' remuneration as required information for shareholders.

5. Hire of equipment includes all rentals payable on equipment used in the business.

6. Occupancy costs include all rents, rates, insurance of building, lighting, heating, and maintenance and repair costs.

14.13 Taxation (income tax)

1. 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.

2. The accounting of income tax must be done in compliance with IAS 12.

3. The notes to the financial statements should disclose:

   (a) the major components of the tax expense (income) and all other components as prescribed on the IAS 12;

   (b) the average tax rate for the year upon which the income tax charge is based;

(c) details of any special circumstances that affect any liability to taxation, whether for the current financial year or for future years.

4. The deferred tax balance in the statement of financial position should be analysed into its major components.

15.0 ACCOUNTING POLICIES TREATMENT AND DISCLOSURE REQUIREMENTS FOR THE STATEMENT OF FINANCIAL POSITION ITEMS

ASSETS

15.01 Cash and cash equivalents:

1. IAS 7 defines "cash and cash equivalents" as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. Cash and cash equivalents include: funds available in currency notes and coins with legal course in Liberia or abroad and balances with the Central Bank.

3. Banks must disclose the breakdown of cash in domestic and foreign currency. Balances with the Central Bank shall evidence the compulsory reserves and free reserves.

15.02 Placements and loans to banks:

1. Represent the funds available with banks in deposits and investments.

2. Banks shall disclose:

(i) Analysis by Type of placement:
Demand deposits
Time deposits
Money market
Borrowing
Other

(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 performance:

Performing
Non-Performing

15.03 Liquid securities

1. All liquid securities must be measured at fair value in accordance with IFRS 13.

2. Banks must disclose financial assets measured at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition and (ii) those mandatorily measured at fair value in accordance with IAS 39 or IFRS 9.

3. Information on securities and derivative financial instruments shall be disclosed as follows:

   (i) Analysis by Type of securities:

   Treasury Bills
   Central Bank Notes
   Certificate of Deposits
   Corporate securities

   ii) Breakdown of the consolidated portfolio by issuer:

   Government
   Central Bank
   Banks
   Other corporate companies

   (iii) Classification by category:

   Trading securities
   Other securities

   (iv) Classification by maturity:

   (a) 1 to 30 days

(b) 31 to 90 days.
(c) 91 to 180 days
(d) 181 to 360 days
(e) More than 360 days

15.04 Loans, advances and receivables:

1. The item includes all credit transactions as loans, overdrafts and discounts of receivables to both customers and staff.

2. These balances should be initially accounted at fair value and afterwards measured using the amortised costs method as described in Part II Financial Assets.

3. An allowance for losses on impaired loans must be determined in accordance with Part II Financial Assets - Impairment on financial assets and the recorded impairment must be presented in a separate account, which will reduce the gross amount of "loans, advances and receivables".

4. The balance of "loans, advances and receivables" shall state the net carrying amount of the assets.

5. The bank shall disclose a reconciliation of changes in the account Allowance for Losses on Impaired Loans during the period for each class of financial assets.

6. The gross amount of loans and 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 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 performance:

- Performing assets
- Impaired assets

(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
- Services
- Communication
- Transportation
- Extractive
- Oil & Gas
- Trade
- Personal
- Government of Liberia
- Central Bank of Liberia
- Public Corporations
- Others

(viii) Breakdown of past-due loans according to the past due period:

- From 01 to 30 days
- From 31 to 90 days
- From 91 to 180 days
- From 181 to 360 days
- More than 360 days

(ix) Analysis of the movement on the allowance for loan losses (impairment) in each class of assets, showing:

(a) Allowance at beginning and end of period;
(b) Amounts written off against the allowance;
(c) Recoveries of amounts previously written off, and
(d) Increase in the allowance.

7. The banks shall also disclose the classification of assets in the categories prescribed in Section 3 of the Regulation nº CBL/RSD/005/2014 and state the regulatory provision as determined in paragraphs 6.00 to 6.13 of the Regulation, adopting the accounting procedure defined in Part II Financial Assets, Section 8.0 Asset Classification and Provisions According to Regulation Nº CBL/RSD/005/2014. Such provision is constituted from retained earnings and accounted as reserves.

8. Loans and advances should be classified in the following five categories:
(a) Current,
(b) Other loans especially mentioned (OLEM)
(c) Substandard,
(d) Doubtful, or
(e) Loss.

.

15.05 Investments

1. Investments must be classified as investments in subsidiaries (which should be eliminated upon consolidation) and associates and joint ventures, other equity investments and bonds.

2. Subsidiaries shall be consolidated.

3. Investments in unconsolidated companies, with significant influence over the investee, as defined in IAS 28, (i.e., investments in "associates"), and investments in joint arrangements that meet the definition of "joint ventures" in IFRS 11, shall be measured under the equity method of accounting.

4. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted

thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee.

5. Other equity investments shall be stated at fair value. Other equity 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 "associate" of the bank.

6. A list of the main companies and the unconsolidated companies, as well as other investments, shall be disclosed in notes.

7. Bonds include holdings of securities for investment, which means they are long-term securities and expected to be held to maturity. The bank shall use the amortized cost method for measurement of the asset.

15.06 Property, Plant and Equipment (IAS 16)

1. The title includes all tangible assets (such as buildings, equipment, machinery, etc.) to be or being used during more than one financial year in the supply of services or for administrative purposes.

2. Assets that qualify for recognition as property, plant and equipment shall be initially measured at cost, which is the cash price equivalent at the recognition date.

3. The cost of such 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.).

4. Examples of costs that are not costs of an item of property, plant and equipment are:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) Administration and other general overhead costs.

3. Frequently, it is difficult to determine whether subsequent expenditure related to a fixed asset represent improvements that should be added to the cost of the asset concerned or repairs that should be charged to profit and loss. Any expenditure that *increases* the future benefits from the existing asset beyond its previously 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.

4. The carrying amount of an item of premises and equipment shall be derecognised on disposal or when no future

economic benefits are expected from its use or disposal. The cost of an item of premises and equipment held by the bank as a lessee under a finance lease is determined in accordance with IAS 17.

Depreciation

5. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Depreciation is the allocation of the depreciable amount of an asset over it estimated useful life. The depreciation charge for a period is usually recognised in profit or loss.

6. Depreciable assets are assets which:

   (a) are expected to be used during more than one accounting period; and

   (b) have a limited useful life.

7. Useful life is the period over which a depreciable asset is expected to be used by the bank 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.

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

Revaluations

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

10. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other

comprehensive income and accumulated in equity under the heading of revaluation surplus.

11. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

12. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

13. All revaluations must be carried out by suitably professionally qualified persons in accordance with IFRS 13.

14. Revaluations cannot be performed by directors. Revaluation should be done often enough so that the carrying amount of the asset is not materially different from its fair value.

15. If there is a permanent diminution in the value of an asset because of an impairment in the value of the asset (for example, as a result of obsolescence), the loss must be recognised as impairment. To determine whether an item of property, plant and equipment is impaired, the bank shall apply IAS 36, *Impairment of Assets*. That Standard explains how a bank reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

Disclosure

16. 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.

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

18. 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; and

(e) The cost of additions and disposals.

19. 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.

20. When there is a change from one method of depreciation to another, the remaining depreciable amount 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.

21. The accounting of finance leases shall be done in accordance with IAS 17.

15.07 Intangible Assets

1. An intangible asset is an identifiable non-monetary asset without physical substance that the bank has control over the resource and can obtain future economic benefits, as defined by IAS 38. Examples: goodwill on acquisitions, acquisitions of

banking services rights, computer software, patents, copyrights, customer lists and franchises.

2. An intangible asset shall be measured at cost.

3. The depreciable amount of an intangible asset with a finite useful life shall be amortised on a systematic basis over its useful life. An intangible asset with an indefinite useful life shall not be amortised.

4. Internally generated goodwill shall not be recognised.

5. When expenditure is incurred to provide future economic benefits, but no intangible asset or other asset is acquired or created, the expenditure cannot be recognised as intangible assets. In these cases, the expenditure is recognised as an expense when it is incurred. Examples: (a) expenditure on start-up activities (i.e. start-up costs); (b) expenditure on training activities; (c) expenditure on advertising and promotional activities; and (d) expenditure on relocating or reorganising part or all of an entity.

6. An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

   (a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;

   (b) the amortisation methods used for intangible assets with finite useful lives;

   (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

   (d) the line item(s) of the statement of comprehensive income in which any amortisation of intangible assets is included;

   (e) a reconciliation of the carrying amount at the beginning and end of the period showing:

i. additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;

ii. assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;

iii. impairment losses recognised in profit or loss during the period in accordance with IAS 36 (if any);

iv. impairment losses reversed in profit or loss during the period in accordance with IAS 36 (if any);

v. any amortisation recognised during the period;

vi. net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

vii. other changes in the carrying amount during the period.

15.08 Assets Held for Sale

1. An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be *highly probable*.

2. Properties and other assets received by the bank in reimbursement of loans shall be classified under this category.

3. Assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell.

4. An asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated.

15.09 Other Assets

1. This item includes all other assets not included in other groups, for example, miscellaneous small value items and prepaid expenses. However, if the bank has an asset not included in one of the other line items in the statement of financial position, and the amount is material, the bank should add a separate line item for that asset, and make all required disclosures under IFRS.

LIABILITIES

15.10 Owed to Central Bank

1. This item includes all liabilities to the Central Bank, except responsibilities for securities sold under repurchase agreements.

15.11 Due to banks

1. Includes all liabilities denominated in domestic and foreign currencies to banks and other financial institutions, except responsibilities for securities sold under repurchase agreements. Accounts are used to identify local or foreign banks and parent banks, for branches or subsidiaries, and to identify domestic and foreign currencies, deposits, loans and other transactions.

15.12 Securities sold under repurchase agreements

1. These balances include responsibilities to the Central Bank and other counterparties for funds obtained through the selling of securities under repurchase agreements.

2. Securities sold under repurchase agreements shall be retained in the financial statements where substantially all the risks and rewards of ownership remain with the bank, and the counterparty liability shall be disclosed under this classification.

3. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

4. Securities purchased under agreements to resell, where the bank does not acquire the risks and rewards of ownership, shall be recorded as receivables in liquid assets, loans and advances, or due from other financial institutions, depending on the term of the agreement and the counterparty. The security is not included in the statement of financial position. Interest income is accrued on the underlying loan amount.

15.13 Due to depositors

1. 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 accruals should be determined monthly.

2. The balances should be disclosed in the following categories.
   (i) Type of deposit:
      (a) Demand (checking) accounts,
      (b) Savings accounts,
      (c) Time deposits, and
      (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, and

(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 1 year, and
(e) Due after 1 year.

15.14 Borrowing

1. This item represents long-term loans from other international institutions, corporations and shareholders. Subordinated debts should be recorded under this item.

15.15 Other liabilities

1. The item “Other Liabilities” includes accounts for settlement of transactions, liability provisions (IAS 37), accounts payable and accrual accounts.

2. This category may include:
(a) Items in the course of collection,
(b) Accounts Payable,
(c) Provisions,
(d) Financial guarantees and commitments,
(e) Inter-corporation Payable,
(f) Remittances Awaiting Disposal,
(g) End of service awards, and
(h) Other creditors.

3. A provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

4. The bank cannot recognise provisions for contingent liabilities, which are possible obligations that still must be confirmed or present obligations that do not satisfy the criteria for provisioning, as determined by IAS 37.

5. Financial guarantee contracts and commitments shall be recognised in other liabilities at fair value on the date that the guarantee or commitment has been given / issued; usually the premium received.

6. Prior to adoption of IFRS 9: After initial recognition, an issuer of a *financial guarantee contract* as defined in IAS 39 shall subsequently measure it at the higher of:

    i. the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Asset,* and

    ii. the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18, *Revenue*.

7. After adoption of IFRS 9: After initial recognition, an issuer of a financial guarantee contract shall subsequently measure it at the higher of:

    iii. the amount of the loss allowance determined in accordance with Section 5.5 of IFRS 9 and

    iv. the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IAS 18 (or IFRS 15, when adopted).

8. Prior to adoption of IFRS 9: An issuer of a commitment to provide a loan at a below-market interest rate shall initially recognise a liability at its fair value and subsequently measure it at the higher of:

    i. the amount determined in accordance with IAS 37; and

ii. The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

9. After adoption of IFRS 9: An issuer of a commitment to provide a loan at a below-market interest rate shall initially recognise a liability at its fair value and subsequently measure it at the higher of:

   iii. the amount of the loss allowance determined in accordance with Section 5.5 of IFRS 9 and

   iv. the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IAS 18 (or IFRS 15, when adopted).

10. Responsibilities for any benefit employees payable in addition to the benefits of Social Security shall be recognised in accordance with IAS 19 Employee Benefits.

15.16 Capital and reserves

1. These balances within equity include reserves constituted from the profits, revaluation reserves and capital reserves. It also includes reserves for the cumulative amounts recognised in other comprehensive income.

2. The item capital is representative of the capital of the institution. The value of the capital is defined in the charter of the bank. The capital is recorded according to the type of shares in which it is represented.

3. Capital Surplus represents other capital items as the premium paid to the company by shareholders when subscribing new shares of the bank, gains on the re-selling of its own shares kept in treasury, grants and subsidies.

4. Statutory reserves are those reserves constituted in accordance with Section 14 (2) of the New Financial Institutions Act of 1999.

5. Profit Reserves are reserves constituted from the profits generated by the bank, as the reserves for specific reasons, as expansion or contingencies, and the retained earnings.

6. The reserves constituted under the determination of Regulation nº CBL/RSD/005/2014 shall be recorded as "Credit Risk Reserves". While this reserve forms part of the financial capital of banks, it does not form part of the banks' regulatory capital.

7. The item "Un-appropriated Profits/Losses" registers the profits or losses of the previous financial year until the shareholders have decided the destination of the earnings. It also registers the results of the current financial year when the bank prepares its interim balance sheet.

8. Revaluation Surplus corresponds to the increase of the value attributed to the fixed assets in use for the bank operations, being the revalued amount the fair value of the assets at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. While this reserve forms part of the financial capital of banks, it does not form part of the Tier I regulatory capital of banks. However, in the computation of Tier II capital, not more than 50% of revaluation reserves is allowed.

9. The bank must determine the amount of the equity attributable to owners and the amount of non-controlling interests presented within equity.

15.17 Contingencies and Commitments

1. A bank enters into various commitments in the normal course of banking business, which are not reflected in its statement of financial position. These include, for example:
   (a) Letters of credit;
   (b) Guarantees and indemnities;
   (c) Acceptances; and
   (d) Credit commitments.

2. Those guarantees and commitments must be measured in accordance with IAS 39 (or IFRS 9 when adopted).

3. Banks shall disclose the contingencies and commitments, and any provisions constituted. A reconciliation of the constituted provisions must also be disclosed.

15.18 Related Party Transactions

1. Transactions between a bank and its related parties must be disclosed in accordance with IAS 24. Also refer to the prudential regulations on related persons transaction issued by the Central Bank of Liberia for the minimum standards.

16.0 ACCOUNTING AND DISCLOSURE OF INTERESTS IN SUBSIDIARIES, ASSOCIATES AND JOINT-VENTURES

16.01 CONSOLIDATED FINANCIAL STATEMENTS (IFRS 10)

1. A bank (the parent) that controls one or more other entities (subsidiaries) shall present consolidated financial statements in accordance with IFRS 10, defined as the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

2. An investment should be treated as a subsidiary if the investor corporation (the parent corporation) can exercise control over the investee corporation (the subsidiary).

3. The bank controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

4. Thus, an investor controls an investee if and only if the investor has all the following:

(a) power over the investee;

(b) exposure, or rights, to variable returns from its involvement with the investee; and

(c) the ability to use its power over the investee to affect the amount of the bank's returns.

5. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. Guidance on the assessment of control is presented in IFRS 10, Section B.

6. A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

7. Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

8. A parent shall present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to a parent.

9. If a parent loses control of a subsidiary, the parent:

   (a) Derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.

   (b) Recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IAS 39 or IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(c) Recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

10. 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, equity, income, expenses and cash flows. It shall also:

(a) Offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (IFRS 3 explains how to account for any related goodwill); and

(b) Eliminate in full intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intra-group transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12, *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions.

11. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

12. An entity includes the income and expenses of a subsidiary in the consolidated financial statements from

the date it gains control until the date when the entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of comprehensive income after the acquisition date is based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date.

13. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

14. If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

15. An entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

16. If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the entity shall compute its share of profit or loss after adjusting for the dividends on such

shares, whether or not such dividends have been declared.

17. When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

18. If a parent loses control of a subsidiary, it shall:

(a) Derecognise:

(i) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and

(ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).

(b) Recognise:

(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;

(ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and

(iii) any investment retained in the former subsidiary at its fair value at the date when control is lost.

(c) Reclassify to profit or loss, or transfer directly to retained earnings if required by other IFRSs, the amounts recognised in other comprehensive income in relation to the subsidiary. And

(d) Recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

19. If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

20. A holding in a subsidiary corporation should be carried in the parent corporation's (unconsolidated) books at cost less accumulated impaired losses.

21. On acquisition of a subsidiary, the bank shall use the acquisition method described in IFRS 3 *Business Combinations* to recognise the investment.

16.02 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

1. Investments in associates and joint ventures shall be accounted in accordance with IAS 28.

2. An *associate* is an entity over which the investor has significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

3. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated.

4. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

   (a) representation on the board of directors or equivalent governing body of the investee;

   (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;

   (c) material transactions between the entity and its investee;

   (d) interchange of managerial personnel; or

   (e) provision of essential technical information.

5. An investor in associates and joint ventures shall recognise its interest in the investee as an investment and shall account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard.

6. The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

7. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

8. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss.

9. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income (see IAS 1 *Presentation of Financial Statements*).

10. The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate or a joint venture because the distributions

received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the profit or loss of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets and profit or loss.

11. IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* do not apply to interests in associates and joint ventures that are accounted for using the equity method.

12. An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption.

13. An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale.

14. An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

    (a) If the investment becomes a subsidiary, the entity shall account for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10.

    (b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39 or IFRS 9. The entity shall recognise in profit or loss any difference between:

(i) the fair value of any retained interest and any proceeds from disposing of a part of interest in the associate or joint venture; and

(ii) the carrying amount of the investment at the date the equity method was discontinued.

(c) When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

15. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.

16. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not re-measure the retained interest.

16.03 Equity method procedures

1. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

2. A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holding of the group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

3. Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture.

4. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

5. When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the

investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

6. The contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28 of IAS 28, except when the contribution lacks commercial substance, as that term is described in IAS 16 *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised.

7. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

8. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit or loss the portion of the gain or loss on the non-monetary contribution relating to the monetary or non-monetary assets received.

9. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

   (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

(b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

10. Appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.

11. The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so.

12. When, in accordance with paragraph 33 of IAS 28, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements.

13. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

14. The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

15. If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

16. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.

17. If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.

18. Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an

associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).

19. After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Impairment losses

20. After application of the equity method, including recognising the associate's or joint venture's losses in accordance with paragraph 38 of IAS 28, the entity applies IAS 36 *Impairment of Assets* to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

21. The entity also applies IAS 36 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

22. Because goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets.* Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of IAS 36 indicates that the investment may be impaired.

23. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:

    (a) its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or

    (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

24. Using appropriate assumptions, both methods give the same result.

25. The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

16.04 DISCLOSURE OF INFORMATION OF INVESTMENTS IN SUBSIDIARIES, JOINT ARRANGEMENTS, ASSOCIATES AND UNCONSOLIDATED STRUCTURES ENTITIES (IFRS 12)

1. Banks that have an interest in any of the following: (a) subsidiaries, (b) joint arrangements (i.e. joint operations or joint ventures), (c) associates and (d) unconsolidated structured entities shall disclose information about significant judgements and assumptions it has made (and

changes to those judgements and assumptions) in determining:

(a) that it has control of another entity, i.e. an investee (IFRS 10 *Consolidated Financial Statements)*;

(b) that it has joint control of an arrangement or significant influence over another entity; and

(c) the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

2. Thus, the bank shall disclose, for example, significant judgements and assumptions made in determining that:

(a) It does not control another entity even though it holds more than half of the voting rights of the other entity.

(b) It controls another entity even though it holds less than half of the voting rights of the other entity.

(c) It is an agent or a principal (IFRS 10).

(d) It does not have significant influence even though it holds 20 percent or more of the voting rights of another entity.

(e) It has significant influence even though it holds less than 20 percent of the voting rights of another entity.

Interests in subsidiaries

3. An entity shall disclose information that enables users of its consolidated financial statements

(a) To understand:

(i) the composition of the group; and

(ii) the interest that non-controlling interests have in the group’s activities and cash flows; and

(b) To evaluate:

(i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;

(ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities;

(iii) the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and

(iv) the consequences of losing control of a subsidiary during the reporting period.

4. When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (IFRS 10), the bank shall disclose:

   (a) The date of the end of the reporting period of the financial statements of that subsidiary; and

   (b) The reason for using a different date or period.

The interest that non-controlling interests have in the group’s activities and cash flows

5. An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

    (a) The name of the subsidiary.

    (b) The principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.

    (c) The proportion of ownership interests held by non-controlling interests.

    (d) The proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.

    (e) The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.

    (f) Accumulated non-controlling interests of the subsidiary at the end of the reporting period.

    (g) Summarised financial information about the subsidiary.

Nature of the risks associated with an entity's interests in consolidated structured entities

6. An entity shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g. liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

7. If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation

to do so, provided financial or other support to a consolidated structured entity (e.g. purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

(a) The type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and

(b) The reasons for providing the support.

8. If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.

9. An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control

10. An entity shall present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

Consequences of losing control of a subsidiary during the reporting period

11. An entity shall disclose the gain or loss, if any, calculated in accordance with IFRS 10, and:

(a) The portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(b) The line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

Interests in joint arrangements and associates

12. An entity shall disclose information that enables users of its financial statements to evaluate:

(a) The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and

(b) The nature of, and changes in, the risks associated with its interests in joint ventures and associates.

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

13. An entity shall disclose:

(a) For each joint arrangement and associate that is material to the reporting entity:

(i) The name of the joint arrangement or associate.

(ii) The nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).

(iii) The principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate.

(iv) The proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

(b) For each joint venture and associate that is material to the reporting entity:

(i) Whether the investment in the joint venture or associate is measured using the equity method or at fair value.

(ii) Summarised financial information about the joint venture or associate.

(iii) If the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.

(c) Financial information as above specified about the entity's investments in joint ventures and associates that are not individually material:

(i) In aggregate for all individually immaterial joint ventures and, separately,

(ii) In aggregate for all individually immaterial associates.

14. An entity shall also disclose:

(a) The nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.

(b) When the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:

  (i) The date of the end of the reporting period of the financial statements of that joint venture or associate; and

  (ii) The reason for using a different date or period.

(c) The unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

Risks associated with an entity's interests in joint ventures and associates

15. An entity shall disclose:

(a) Commitments that it has relating to its joint ventures separately from the amount of other commitments.

(b) In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

Interests in unconsolidated structured entities

16. An entity shall disclose information that enables users of its financial statements:

(a) To understand the nature and extent of its interests in unconsolidated structured entities, defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements; and

(b) To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

17. That disclosure includes information about an entity's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (e.g. sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.

Nature of interests

18. An entity shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

19. If an entity has sponsored an unconsolidated structured entity for which it does not provide information required under "Nature of Risk" below (e.g. because it does not have an interest in the entity at the reporting date), the entity shall disclose:

(a) How it has determined which structured entities it has sponsored;

(b) *Income from those structured entities* during the reporting period, including a description of the types of income presented; and

(c) The carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

20. An entity shall present the information requested in (b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories.

Nature of risks

21. An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:

(a) The carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.

(b) The line items in the statement of financial position in which those assets and liabilities are recognised.

(c) The amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.

(d) A comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

22. If during the reporting period an entity has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

(a) The type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and

(b) The reasons for providing the support.

23. An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

PART V INTERIM FINANCIAL REPORTING

17.0 Quarterly Reports in Keeping with CBL Regulation No. CBL/RSD/012/2011

1. In keeping with CBL's Regulations Concerning Audit of Financial Institutions and Publication of Financial Statements, Regulation No. CBL/RSD/012/2011, banks are required to publish unaudited quarterly reports for the first, second, and third quarters of the year.

2. The International Accounting Standards (IAS 34) deals with interim financial reporting, under which the quarterly publications of unaudited accounts of banks fall. IAS 34 defines the minimum content of an interim financial report, including disclosures; and identifies the accounting recognition and measurement principles that should be applied in an interim financial report. A bank's quarterly financial report shall be in compliance with International Financial Reporting Standards, and this fact shall be disclosed. A quarterly financial report shall not be described as complying with IFRSs unless it complies with all the requirements of IFRSs.

3. Banks are to produce a condensed set of financial statements for their quarterly reports. The quarterly financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, its focus should be on new activities, events, and circumstances and it should not duplicate information previously reported.

4. On the presumption that anyone who reads a bank's quarterly report will also have access to its most recent annual report, virtually none of the notes to the annual financial statements are to be repeated or updated in the quarterly report. Instead, the quarterly notes should include primarily an explanation of the events and changes that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

5. The condensed statements (quarterly reports) shall include, at a minimum, each of the headings and subtotals that were included in the bank's most recent annual financial statements. Additional line items or notes shall be included if their omission would make the quarterly financial statements misleading.

6. Banks should apply the same accounting policies in their quarterly financial report as are applied in their annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. The quarterly frequency of a bank's interim reporting should not affect the measurement of its annual results. To achieve this objective, measurements for quarterly reporting purposes are made on a year-to-date basis.

7. Quarterly reports shall include condensed financial statements for periods as follows:

   a) Statement of financial position as at the end of the reporting quarter and a comparative statement of financial position as at the end of the immediately preceding financial year;

   b) Statements of profit or loss and other comprehensive income for the current reporting quarter and cumulatively for the current financial year to date (no year to date figures required for the first quarter), with comparative statements of profit or loss and other comprehensive income for the comparable periods (current and year-to-date) of the immediately preceding financial year. As permitted by IAS 1 (as amended in 2011), an interim report may present for each period a statement or statements of profit or loss and other comprehensive income;

   c) Statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and

d) Statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

PART VI PRO-FORMA FINANCIAL STATEMENTS (Before adoption of IFRS 9)

18.0 PRO-FORMA FINANCIAL STATEMENTS (BANK ONLY)

1. 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 IFRS disclosure requirements are satisfied.

18.01 Balance Sheet

Statement of Financial Position as at..............................	Notes	Current Year L$ 000	Previous Year L$ 000
Assets			
Cash and cash equivalents			
Due from banks			
Loans, advances and receivables (net of impairment /allowances)			
Investments in associates and joint ventures			
Other equity investments			
Bonds			
Assets pledged as collateral			
Investment properties			
Property, plant and equipment			
Intangible assets			
Current income tax assets			
Deferred income tax assets			
Non-current assets held for sale and assets of disposal groups			
Other assets			

Total Assets

Liabilities
Owed to Central Bank
Due to banks
Securities under repurchase agreements
Due to depositors
Borrowings
Retirement benefits obligations
Subordinated debts
Provisions
Current income tax liabilities
Deferred income tax liabilities
Other liabilities

Total Liabilities

Shareholders' Equity
Share capital
Capital surplus
Statutory reserves
Credit risk reserves
Profit reserves (include retained earnings)
Unappropriated profit and loss
Revaluation surplus
Other reserves
Total Shareholders' Equity

Owners' capital and reserves
Non-controlling interests in equity
Total Liabilities and Shareholders' Equity

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

18.02 Income Statement

Statement of Profit or Loss and other Comprehensive Income for the year ended............................	Notes	Current Year L$ 000	Previous Year L$ 000
Interest income			
Interest expense			
Net interest income			
Other operational income			
Fees and commissions			
Fair value revaluation			
Dividends and interest in investments			
Net gain/Loss on foreign exchange			
Bank's share of profit/loss of associates and joint ventures			
Other operating income			
Other operational expense			
Service charges and fees			
Trading and interest expenses on securities			
Other operating expenses			
Gross operational income			
Impairment Losses			
Impairment on loans			
Impairment for other financial assets			
Impairment for other assets			
Overhead expenses			
Salaries and employees benefits			
Rent expense			
Depreciation and amortisation			
Other			
Total Expenses			
Net income before tax			
Taxation			
Changes in revaluation surplus			
Re-measurement of benefit plans			
Subtotal			
Items that may be subsequently reclassified to profit or loss			

Changes in fair value of financial assets classified as available for sale

Gains/losses on translating financial statements

Gains/losses on hedging instruments in a cash flow hedge

Gains/losses on hedging instruments in a hedge of an investment in a foreign operation

Subtotal

Total other comprehensive income (net of tax)

Total Comprehensive Income

	Capital	Capital Reserves	Profit Reserves		Asset valuation adjustments	Treasury shares	Retained Earnings/ Accumulated losses	Total Attributable to Owners	Total Attributable to non-controlling interests	Total
			Statutory	Other						
Balances on December 31, 20____										
Effect of correction of prior period error										
Effect of changes in accounting policies										
Restated balance										
Capital increase in cash										
Capital increase through reserves										
Acquisition of treasury shares										
Profit after taxation										
Unrealised gains recognised directly in equity										
Realised gains transferred to the income statement										
Income tax credit on items recognised directly in equity										

Total comprehensive income											
Allocation – Reserves											
Allocation – Dividends paid											
Asset valuation adjustments											
Transactions with owners											
Balances on December 31, 20____											

18.03 STATEMENT OF CHANGES IN EQUITY

For the Year Ended ____________

18.04 STATEMENT OF CASH FLOWS

Statement of Cash Flows For the year ended............................	Current Year L$ 000	Previous Year L$ 000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before other comprehensive income, taxation and dividends		
Adjustments to Reconcile Profit/(loss) before other comprehensive income, taxation and dividends to Net Cash (Used in)/ Provided by Operating Activities:		
Depreciation and amortization expenses		
Impairment on loans		
Provision for guarantees and commitments		
Provision for other financial assets		
Provision for other assets		
(Gain)/Loss on sale of fixed assets		
Capital distributions (other than dividend declared)		
Proceed derived/(expended) as a result of other comprehensive income		
Income tax paid		
Changes in operating assets and liabilities		
(Increase)/decrease in other assets		
Increase/(decrease) in other liabilities		
Total Adjustments		
Net Cash (Used in)/Provided by Operating Activities		

CASH FLOWS FROM INVESTING ACTIVITIES

(Increase)/decrease in fixed assets

(Increase)/decrease in placements with banks

(Increase)/decrease in own securities

(Increase)/decrease Loans and advances to other customers

(Increase)/decrease in investments securities

Net cash (Used)/Provided by Investing Activities

CASH FLOWS FROM FINANCING ACTIVITIES

Increase/(decrease) in liability to repurchase securities

Increase/(decrease) in due to Central Bank

Increase/(decrease) due to other banks

Increase/(decrease) due to other customers/depositors

Increase/(decrease) in Borrowings

Issuance/(Repurchase) of own securities

Dividend paid

Net cash (used)/provided by Financing Activities

Net Increase/decrease in cash and cash equivalents

Cash and cash equivalents at the beginning of the year

Cash and cash equivalents at the end of the year

Difference

PART VII LIST OF IFRS AND IAS

IFRS

IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 4 Insurance Contracts
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 6 Exploration of and Evaluation of Mineral Resources
IFRS 7 Financial Instruments: Disclosures
IFRS 8 Operating Segments
IFRS 9 Financial Instruments
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
IFRS 14 Regulatory Deferral Accounts
IFRS 15 Revenue from Contracts with Customers

IAS

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 7 Cash Flow Statements
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the Reporting Period
IAS 11 Construction Contracts
IAS 12 Income Taxes
IAS 16 Property, Plant and Equipment
IAS 17 Leases
IAS 18 Revenue
IAS 19 Employee Benefits
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 23 Borrowing Costs
IAS 24 Related Party Disclosures

IAS 26 Accounting and Reporting by Retirement Benefit Plans
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures
IAS 32 Financial Instruments: Presentation
IAS 33 Earnings per Share
IAS 34 Interim Financial Reporting
IAS 36 Impairment of Assets
IAS 37 Provisions, Contingent Liabilities and Contingent Assets
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IAS 40 Investment Property
IAS 41 Agriculture