

IAS 30 — Disclosures in the Financial Statements of Banks and Similar Financial Institutions

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IFRS 7 — Financial Instruments Disclosures

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Objectives



IAS 30 — Disclosures in the Financial Statements of Banks and Similar Financial Institutions

Objective



The objective of IAS 30 is to prescribe appropriate presentation and disclosure standards for banks and similar financial institutions

The intention is to provide users with appropriate information to assist them in evaluating the financial position and performance of banks, and to enable them to obtain a better understanding of the special characteristics of the operations of banks and similar institutions





Presentation and disclosure

Income Statement



A bank's income statement should group income and expenses by nature.

Contents of Bank Income statement



A bank's income statement or notes should report the following specific amounts

- interest income
- interest expense
- dividend income
- fee and commission income

- fee and commission expense
- net gains/losses from securities dealing
- net gains/losses from investment securities
- net gains/losses from foreign currency dealing
- other operating income loan losses general administrative expenses
- other operating expenses.



Statement of Financial Position



A bank's balance sheet should group assets and liabilities by nature and list them in liquidity sequence.

A bank must disclose the fair values of each class of its financial assets and financial liabilities as required by IFRS 7 and IFRS 9

Disclosures



Disclosures are also required about:

- ❖ specific contingencies and commitments (including off-balance sheet items) requiring disclosure
- ❖ specified disclosures for the maturity of assets and liabilities

- ❖ concentrations of assets, liabilities and off-balance sheet items
- ❖ losses on loans and advances
- ❖ general banking risks
- ❖ assets pledged as security



Revenue	Notes
- Interest on Loans & advances	1
- Other interest income	2
Total Interest Income	
Interest Expense	5
Net interest income	
Other operating income	7
Total Income	
<u>Expenses</u>	
Staff expenses	14

Administration expenses

Other operating expenses

-Financial expenses

- Provision on doubtful loans

-Directors Expenses

-Members Expenses

-Depreciation and Amortisation

-Marketing Expenses

Total Expenses



Gross operating surplus
Income tax expense
Net surplus



Table 3.1 Statement Of Financial Position(\$Thousands)

<u>ASSETS</u>	<u>DEC. 31, 2000</u>	<u>DEC. 31,</u>
<u>1999</u>		
Cash assets	\$ 9,039	\$ 10,522
Interest bearing bank balances	0	1,000
Federal funds sold	10,500	1,500
securities	54,082	44,848
Municipal securities	32,78	34,616



All other securities	0	0	
Net loans and leases	90,101		81,857
Real estate loans	50,393		38,975
Commercial loans	9,615		11,381
Individual loans	8,824	10,640	
Agricultural loans	20,680		19,654
Other loans and leases-domestic	3,684		4,025
Gross loans and leases	93,196		84,675
Less: unearned income reserves		89	282
Reserve for loan and lease losses		3,006	2,356

Premises, fixed assets, and capitalized leases		2,229		2,398
Other real estate	2,282		3,012	
Other assets	4,951		4,014	
Total assets	\$205,973		\$183,767	

LIABILITIES & CAPITAL	DEC. 31, 2000	DEC. 31, 2001
Demand deposits	\$ 23,063	\$ 22,528
All NOW and ATS accounts	6,021	5,322
MMDA accounts	41,402	49,797
Other savings deposits	3,097	2,992
Time deposits<\$100K	31,707	28,954
Time deposits>\$100K	83,009	57,665
Total deposits	188,299	167,258



Fed funds purchase and resale

0

Other borrowings

0

Bankers' acceptance and other liabilities

3,546

3,101

Total liabilities

191,845

170,359

Subordinated notes and debentures

0

0

All common and preferred equity

14,128

13,408

Total liabilities and capital

\$205,973

\$183,767

Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.



1. Credit Risk.
2. Liquidity Risk.
3. Market Risk.
4. Operating Risk.
5. Reputation Risk.
6. Legal Risk.

Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.



Credit Risk

Credit risk is the potential variation in net income and market value of equity resulting from nonpayment or delay of borrowers of the principal and interest.

Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.



Credit risk is evaluated basically by asking three basic questions:

1. What is the historical loss rate and investments?
2. What are expected losses in the future?
3. How is the bank prepared to weather the losses?

Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.



Net charge-off is the difference between gross charge-offs and recoveries.

Some ratios are used to examine the expected future losses. These ratios include:

1. Loans past due to total asset ratio.
2. Non-accrual to total asset ratio.
3. Total non-current loans to total asset ratio.
4. Classified loans to total asset ratio.

Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.

Liquidity Risk

it is the current and potential risk to earnings and the market value of stockholders' equity that a bank cannot meet payment or clearing obligations in timely and cost-effective manner.



Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.

Funding liquidity risk is the inability to liquidate assets or obtain adequate funding from new borrowing.

Market liquidity risk is the inability of the bank to easily unwind or offset specific exposures without significant losses from inadequate market depth or market disturbances.



Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.

Risk measures indicate both the bank's ability to borrow funds and its liquid assets near maturity or available-for-sale.

The equity asset ratio and volatile (net non-core) **liability asset ratio** represent the bank's equity base and borrowing capacity in the money market.

Core deposits are stable deposits that are not highly interest rate-sensitive, but more sensitive to fees charges services rendered, and location of the bank.

Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.

Market Risk

It is a current and anticipated risk earnings and stockholders' equity resulting from undesirable movements in the market rates or prices.

These risks are in terms of:

1. Interest rate or reinvestment rate risk.
2. Security price risk.
3. Foreign exchange risk.



Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.



Interest risk analysis compares the sensitivity of interest income to change in asset yield with sensitivity of interest expense to change in interest costs of liabilities.

This analysis will determine how much net interest income will vary with movements in the market interest rates.

Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.

Operating Risk

It refers to the possibility that operating expenses might vary sharply from what is anticipated, which cause a decline in the net income.



Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.

Legal and Reputation Risk

It is the risk that unenforceable contracts, lawsuits, or adverse judgments could disrupt or negatively effect the operations, profitability, condition or solvency of the institution.

It is difficult to measure.



Bank Risks and Returns: The Profitability, Liquidity, and Solvency Trade-off.

Capital or Solvency Risk

It is not separated from all previous risks. All above risk affect the bank's capital.

Capital risk refers to the potential decrease in the market value of assets below the market value of liabilities indicating economic net worth is zero or less.



IFRS 7

Financial Instruments Disclosures

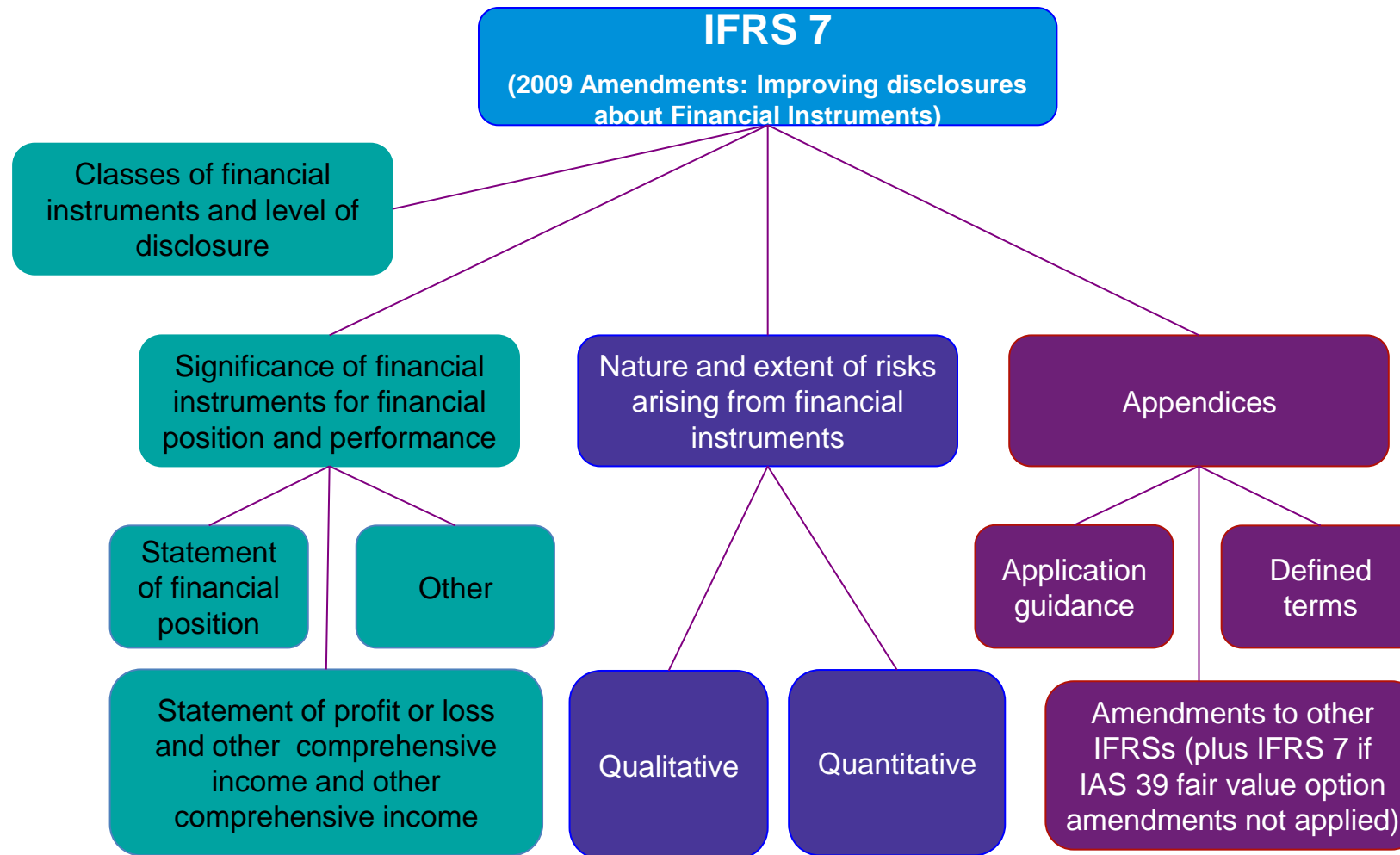
Credibility.

Professionalism.

AccountAbility

Quantitative disclosures	Qualitative disclosures
Reconciliation of opening to closing amounts of loss allowances showing key drivers of change	Inputs, assumptions and estimation techniques for estimating ECL
Reconciliation of opening to closing amounts of GCAs showing key drivers of change	Inputs, assumptions and estimation techniques to determine significant increases in credit risk and default
Gross Carrying Amounts by credit risk grade	Inputs, assumptions and techniques to determine credit-impaired assets
Write offs, recoveries and modifications	Write off policies, modification policies and collateral

IFRS 7 overview



IFRS 7 overview



- Shall be applied by all entities to all risks arising from all financial instruments (some exceptions apply)
- Applicable to:
 - recognised and unrecognised financial instruments even when outside the scope of IAS 39 (e.g. loan commitments)
 - contracts to buy or sell a non-financial item that are within the scope of IAS 39

- IFRS 7 to be applied by all entities and to all types of financial instruments except:
 - Interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10, IFRS 11, IAS 27 and IAS 28
 - Employers' rights and obligations arising from employee benefit plans under IAS 19
 - Insurance contracts as defined in IFRS 4
 - Financial Instruments, contracts and obligations under share-based payment transactions to which IFRS 2 applies

Classes of Financial Instruments and Level of Disclosure



- Entity to determine classes of financial instruments
- Must be appropriate to nature of information disclosed
- Take into account characteristics of financial instruments
- Reconcile to statement of financial position

Significance of Financial Instruments



■ Statement of financial position

- Carrying value of each category of financial assets and financial liabilities
- Loans or receivables designated at fair value through profit or loss
 - Maximum exposure to credit risk and amount mitigated by related credit derivatives
 - Change in fair value attributable to changes in credit risk
- Financial liability designated at fair value through profit or loss
 - Change in fair value attributable to changes in credit risk

- Statement of financial position (continued)
 - Amount and reason for reclassification from fair value to cost or amortised cost or vice versa
 - Information about transferred financial assets that don't qualify for derecognition
 - Information about collateral pledged and collateral held

- Statement of financial position (continued)
 - Reconciliation of changes in allowance accounts and credit losses, for each class of financial asset
 - Features of compound financial instruments with multiple embedded derivatives
 - Information about defaults and breaches of loans payable

- Statement of profit or loss and other comprehensive income
 - Net gains or net losses on each category of financial assets and financial liabilities
 - Total interest income and expense
 - Fee income and expense
 - Interest income on impaired financial assets
 - Amount of impairment losses for each class of financial asset

Significance of Financial Instruments



- Other disclosures
 - Accounting policies
 - Measurement basis (or bases) used in preparing financial statements; and
 - Other accounting policies used that are relevant to an understanding of the financial statements

Fair Value Hierarchy



Level 1

- Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2

- Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3

- Fair values measured using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs)

Nature and Extent of Risks



- Qualitative disclosures

- For each type of risk (e.g., credit, liquidity and market) arising from financial instruments, disclose:
 - The exposures to risk and how they arise
 - Objectives, policies and processes for managing the risk and methods used to measure the risk
 - Any changes to the above from the previous period

Nature and Extent of Risks Arising



- Quantitative disclosures
 - For each type of risk arising from financial instruments, disclose:
 - Summary quantitative data about the risk exposure as provided to key management personnel
 - Detailed disclosures to the extent not disclosed already from the point above
 - Concentrations of risk if not included above

■ Quantitative disclosures (continued)

— Credit risk

by class of financial instruments:

- Maximum credit exposure (without collateral or other credit enhancements)
- Information about credit quality of financial assets that are neither past due nor impaired
- Carrying amount of renegotiated financial assets
- Analysis of financial assets past due or impaired

- Quantitative disclosures (continued)
 - Liquidity risk (continued)
 - How liquidity risk is managed
 - How the data in the liquidity risk disclosures are determined
 - Maturity analysis of financial assets
 - *if* held as part of managing liquidity risk

- Quantitative disclosures (continued)
 - Market risk (including interest rate risk, currency risk, other price risk)
 - Sensitivity analysis for each type of market risk.
 - Effect on profit or loss and equity
 - Methods and assumptions used in sensitivity analysis.
 - Changes in methods and assumptions used from the previous period



Questions & comments



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End



GOD BLESS YOU ALL