DISCLOSURE IN FINANCIAL STATEMENTS- NOTES TO ACCOUNTS

The financial statements are required to provide the information about the financial position and performance of the bank in making economic decisions by the users. They are interested in the bank's liquidity and solvency and the risks related to the assets and liabilities recognized on its balance sheet and to it's off balance sheet items. This useful information can be provided by way of 'Notes' to the financial statements, being supplementary information for market discipline. Market discipline has been given due importance under Basel II framework on capital adequacy by recognizing it as one of its three Pillars.

Disclosure Requirement

In this direction, RBI has, over the years, developed a set of disclosure requirements which allow the market participants to assess key pieces of information on capital adequacy, risk exposures, risk assessment processes and key business parameters which provide a consistent and understandable disclosure framework that enhances comparability. Banks are also required to comply with the Accounting Standard – 1 (AS -1) on disclosure issued by ICAI. This can be achieved through revision of Balance Sheet and P & L Account of banks and enlarging the scope of disclosures in "Notes to Accounts".

Additional/Supplementary Information

"Notes to Accounts" may contain the supplementary information such as:-

a) Capital (Current & Previous year) with breakup including CRAR – Tier I/II capital (%), % of share holding of GOI, amount of subordinated debt raised as Tier II capital, etc.

b) Investments including details of Repo transactions, Non-SLR investment Portfolio, and Sales & transfers to/from HTM category.

c) Derivatives with breakup of Forward Rate Agreement/Interest Rate Swap, Exchange Traded Interest Rate Derivatives, and Disclosures on risk exposure in derivatives.

d) Asset Quality with details such as Non-Performing Assets, Particulars of Accounts Restructured, Details of financial assets sold to Securitization / Reconstruction Company for Assets Reconstruction, Details of Non-Performing financial assets purchased, Details of Non-Performing Assets sold, and Provisions on Standard Assets, etc

e) Business Ratios giving Interest Income as a % to Working Funds, Non-interest income as a % to working funds, Operating Profit as a % to working funds, etc.

f) Asset Liability Management giving the maturity pattern of certain items of assets and liabilities such as deposits, advances, investments, borrowings, foreign current assets, and foreign currency liabilities.

g) Exposures giving the segment wise breakup on Exposure to Real Estate Sector, Exposure to Capital Market, Risk Category wise Country Exposure, Details of Single Borrower Limit (SGL)/Group Borrower Limit (GBL) exceeded by the bank, and Unsecured Advances.

h) Miscellaneous relating to Amount of Provisions made for Income Tax during the year, and Disclosure of Penalties imposed by RBI, etc.

<u>Disclosure Requirements as per Accounting Standards where RBI has issued guidelines in respect of disclosure items for "Notes to Accounts"</u>

a) <u>AS-5</u> – relating to Net Profit or Loss for the period, prior period items and changes in accounting policies.

b) <u>AS -9</u> – Revenue Recognition giving the reasons for postponement of revenue recognition.

c) <u>AS – 15</u> – Employee Benefits

d) <u>AS – 17</u> – Segment Reporting such as Treasury, Corporate/wholesale Banking, Retails Banking, 'Other Banking Operations' and Domestic and International segments, etc.

e) <u>AS – 18</u> – Related Party Disclosures

f) <u>AS – 21</u> – Consolidated Financial Statements (CFS)

g) <u>AS – 22</u> – Accounting for Tax & Income – Adoption of AS – 22 entails creation of Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) which have a bearing on the computation of capital adequacy ratio and banks' ability to declare dividends. DTA represents unabsorbed depreciation and carry forward losses which can set-off against Assets future taxable income which is considered as timing difference. DTA has an effect of decreasing future income tax payments which indicates that they are prepaid income taxes and meet the definition of assets. It is created by credit to opening balance of Revenue Reserves on the first day of application of AS – 22 or P & L Account for the current year. DTA should be deducted from Tier I capital.

   Deferred Tax Liability (DTL) is created by debit to opening balance of Revenue Reserves on the first day of application of AS-22 or P & L Account for the current year and will not be eligible for inclusion in Tier I and Tier II capital for capital adequacy purpose. DTL have an effect of increasing the future year's income tax payments which indicates that they are accrued taxes and meet the definition of liabilities.

h) <u>AS – 23</u> – Accounting for investments in Associates in Consolidated Financial Statements. It relates to the effects of the investments in associates on the financial position and operating results of a group

i) AS – 24 – Discontinuing Operations – resulted in shedding of liability and realization of the assets by the bank, etc.

j) AS – 25 – Interim Financial Reporting – Half yearly reporting.

k) Other Accounting Standards: Banks are required to comply with the disclosure norms stipulated under the various Accounting Standards issued by ICAI.

Additional Disclosures

a) Provisions and contingencies – Banks are required to disclose in the "Notes to Accounts" the information on all Provisions and Contingencies giving Provision for depreciation on Investment, Provision towards NPA, Provision towards Standard Assets, Provision made towards Income Tax, and Other Provision and contingencies.

b) Floating Provisions - comprehensive disclosures on floating provisions.

c) Draw Down from Reserves - Details of draw down of reserves are to be disclosed.

d) Complaints - Brief details on Customer Complaints and Awards passed by the Banking Ombudsman.

e) Letters of Comfort (LOC) issued by banks - Details of all the Letters of Comfort (LoCs) issued during the year, including their assessed financial impact, etc.

f) Provision Coverage Ratio (PCR) - ratio of provisioning to gross non-performing assets

g) Bancassurance Business - Details of fees/remuneration received, etc.

Concentration of Deposits, Advances, Exposures, and NPAs

a) Concentration of deposits – Total deposits of 20 large depositors and percentage of the deposits to total deposits of the bank.

b) Concentration of Advances - Total advances to 20 largest borrowers and percentage of the advance to total advances of the bank.

c) Concentration of Exposures - Total Exposure to 20 largest borrowers/customers and percentage of the exposures to total exposure of the bank on borrowers/customers.

d) Concentration of NPAs - Total exposure to top 4 NPA accounts.

01. **Sector-wise NPAs** - Details of sector-wise NPAs such as Agriculture & Allied Activities, Industry (Micro & Small, Medium and Large), Services, and Personal Loans.

02. **Movement of NPAs** - Additions, Recoveries, Upgradation, Write-offs, etc. from Gross NPAs and the final position as on the date of the Financial Statement.

03 **Overseas Assets, NPAs, and Revenue** -Giving the Total assets, Total NPAs, and Total Revenue.

e) **Off-balance sheet SPVs sponsored** - (consolidated) giving Domestic and Overseas SPVs sponsored.

f) **Unamortised Pension and Gratuity Liabilities -** Appropriate disclosures of the accounting policy followed in regard to amortization of pension and gratuity expenditure may be made in the Notes to Accounts to the financial statements.

g) **Disclosure of Remuneration** – Composition & mandate of Remuneration Committee, meetings, details of staff received variable remuneration awards, etc.

h) **Disclosures relating to Securitisation** – Giving the total outstanding amount of securitised assets as per books of the SPVs sponsored by the bank and total amount of exposures retained by the bank as on the date of balance sheet to comply with the Minimum Retention Requirements (MRR), etc.

i) **Credit Default Swaps (CDS)** - Banks using a proprietary model for pricing CDS, shall disclose both the proprietary model price and the standard model price in terms of extant guidelines in the Notes to the Accounts and should also include an explanation of the rationale behind using a particular model over another.

The prescribed formats in respect of certain disclosures are given in RBI Circular.

(Source: RBI M.Circular)

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