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CIRCULAR TO ALL BANKS AND THEIR EXTERNAL AUDITORS

DISCLOSURE OF INSIDER- RELATED CREDITS IN FINANCIAL STATEMENTS

Insider-related credits, guarantees and other related-party transactions impact substantially on the risk profile of a bank. However, the information currently disclosed on them is inadequate for assessing the nature and effect of insider-related loans on banks' overall operations.

In order to inform interested stakeholders on this issue, all banks are directed to henceforth disclose full information on all related-party transactions in their financial statements. The information should include the details of borrowers. In addition, Auditors and Audit Committees should include in their report, comments on the information as a basis for their audit opinion.

The disclosure is required to be presented in the financial statements as follows:

1. The aggregate amount of insider-related loans, advances and leases outstanding as at the financial year end should be separately stated in a note to the accounts and the non-performing component further analysed by security, maturity, performance, provision, interest-in suspense and name of borrowers as per the attached prescribed format.
2. Note to the accounts on guarantees, commitments and other contingent liabilities should also give details of those arising from related-party transactions.
3. The External Auditors and Audit Committees should include in their report, their opinion on related-party transactions.

For the avoidance of doubt, insider-related credits include transactions involving shareholders, employees, directors and their related interests; the term director being as defined in section 20(5) of BOFIA 1991 (as amended).

However, the requirements of this circular do not apply to credits extended to employees under their employment scheme of service, or to shareholders whose shareholding and related interests are less than five percent of the bank's paid up capital as at the date of the financial report.

This circular shall be effective from March 1, 2004

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION