Reserve Bank of Fiji Disclosure Statement

This pamphlet explains the Reserve Bank of Fiji's disclosure requirements for banks and credit institutions and some of the key terms used in their disclosure statements.

Definitions.

References to a bank in this brochure refer to a bank licensed by the Reserve Bank of Fiji under the Banking Act 1995. All references to banks in the brochure also apply to credit institutions unless specified otherwise.

All banks operating in Fiji must disclose their financial condition.

For all financial years ending on or after 31 December 1999, all banks operating in Fiji are required to publish disclosure statements annually. The disclosure policy has been developed by the Reserve Bank in its capacity as supervisor of the banking system, after consultations with banks and having regard to developments around the world in the area of bank disclosures.

Why should you take an interest in the financial condition of your bank?

It is important to remember that neither the Government nor the Reserve Bank of Fiji guarantees the performance of individual banks. Rather, the Reserve Bank's role, as supervisor of the banking system, is to ensure that the banking system as a whole remains healthy. It does not seek to assure depositors and the general public that a bank will not get into difficulty or fail.

It is important, therefore, that bank customers take an interest in the financial condition of their bank. Banks' disclosure statements are intended to assist bank customers understand the financial condition of their banks in the context of their operations in Fiji.

What is the role of the Reserve Bank of Fiji in promoting disclosures by banks?

The Reserve Bank of Fiji, as with other central banks around the world, has an interest in promoting public disclosure by banks of financial and other prudential information to foster market discipline and strengthen financial system stability.

The development of these disclosure requirements is a step taken by the Reserve Bank of Fiji in working towards a sound market-based financial system, which is one of its statutory functions.

Why are banks required to publish disclosure statements?

Banks are required to publish disclosure statements for two main reasons:

1. To promote sound banking practices
   The disclosure statement standardises the various forms of disclosure, in use currently, and will make more transparent the financial condition and risk profile of banks. The market, as a result, will be better placed to monitor a bank’s financial performance and risk management, and allows an investor to compare one bank’s performance with another. This sharpens market disciplines on banks, given that they will have a strong incentive to manage their affairs in a way to avoid the need to disclose adverse developments.

2. To strengthen the role of bank directors
   A bank’s directors are required to sign its disclosure statements to certify that the information contained in the statements is not false or misleading. This reinforces the role of directors in overseeing, and taking ultimate responsibility for the prudent management of their bank.

What is a bank's disclosure statement?

A disclosure statement contains a wide range of financial and other information on a bank and is generally in two parts:

- a brief Key Disclosure Statement; and
- a more detailed General Disclosure Statement.

Key Disclosure Statement. This contains key financial information relating to a bank and is designed to provide a brief overview of the institution's financial condition.
General Disclosure Statement. This contains more detailed information, and is aimed at those who wish to obtain more comprehensive information on a bank.

How frequently will disclosure statements be published?

Disclosure statements must be published annually, within four months of the end of a bank's financial year.

Where can you obtain a copy of a bank's disclosure statements?

A bank's Key Disclosure Statement is published in the Fiji Republic Gazette and is displayed at each of its branches and offices. Each bank will also publish in any of the local newspapers, a summary of its Key Disclosure Statement.

A bank's General Disclosure Statement is not required to be published but is available for inspection at any of that bank's branches or offices upon request. Copies can be made available upon request.

What kind of information are banks required to disclose?

Each bank's disclosure statement contains a wide range of financial and other information, generally both in relation to the bank itself and its parent or other "associated persons". "Associated persons" are those who own or control, or in which the bank owns or controls, at least 20 percent of the total shares.

Why is the performance of the parent or any "associated person" important?

The performance of the parent or any associated person has the potential to spread to the bank itself. It is therefore important to understand the financial condition of both the bank itself and its parent or any associated person.

Disclosures by foreign incorporated banks operating in Fiji as branches.

A bank which is incorporated overseas and operates in Fiji as a branch of the foreign incorporated bank (rather than as a separate company) is required to disclose information both for the Fiji branch and for their global operations.

Because the Fiji branch of a foreign incorporated bank is inseparable from the parent, depositors and other creditors of the branch in Fiji are creditors of the foreign incorporated bank as a whole. Accordingly, in assessing the financial condition of such a bank, it is generally more relevant to look at the financial information for the foreign incorporated bank. However, it is useful to look at the financial condition of the Fiji branch, given that in some countries foreign creditors (such as depositors in Fiji) might not be treated the same as creditors in the bank's home country, in the event of the winding up of the parent. In this regard, depositors and creditors in Fiji are protected under our banking laws to have first claim on a branch's assets in Fiji.

No information on particular investment products.

The disclosure statement does not contain information on the terms and conditions of a bank's deposits and other investment products. This kind of information is contained in other material, which is normally available at each bank on enquiry.

Are banks' disclosure statements audited?

A bank's disclosure statement is subject to audit. The audit and review must be conducted by a chartered accountant in public practice.

What specific information can be found in a bank's Key Disclosure Statement?

Some of the more important information included in a bank's Key Disclosure Statement are outlined below.

Capital Adequacy

Each bank is required to disclose the capital position of its operations in Fiji and its global operations, in the form of tier one and total capital ratios.

What is capital?

In broad terms, capital is a measure of how much a bank's assets exceeds the amount it owes depositors and other ordinary creditors. It is divided into two categories, called "tier one capital", which is normally the core or permanent capital, and "tier two capital", which is made up of other items referred to as capital surrogates. Total capital is the sum of tier one and tier two capital.

Tier one capital.

Tier one capital represents the shareholders' stake in a bank - i.e. their share of the bank's assets after all debts have been repaid. It is an important item of disclosure, because it indicates how much money the bank has to absorb losses, while still allowing the bank to continue to do business.

Tier two capital.

Tier two capital is generally a lower level of capital, and includes a mix of capital items and capital surrogates. One of the more common of these is "subordinated debt" (i.e. money the bank owes to creditors, but which can only be repaid after the bank has repaid all it owes to depositors).

How is capital measured?

Capital is expressed as a percentage of a bank's total credit exposures. This is normally referred to as the capital ratio. This is one of the measures used to compare banks' performance. Put simply, credit exposures represent the amount of money, which might not be repaid to the bank, if its customers get into financial difficulty. It includes all balance sheet assets, as well as "off-balance sheet" exposures. Off-balance sheet exposures are credit exposures, which do not appear as assets on the balance sheet. Examples of off-balance sheet exposures include commitments of the bank to lend money to customers (e.g. unused overdraft limits) and underwriting facilities.

Credit exposures are measured on a "risk-weighted" basis. The lower the risk of loss, the lower the risk weighting applied to the credit exposure - and hence, the less capital a bank is required to hold in relation to the credit exposure.

For example, if a bank has invested in long-term government securities, this exposure is given a low weighting - it is valued at only 10 percent of the actual amount owed. This is because the risk of Government not paying the amount owed to the bank is very low. Accordingly, a bank is only required to hold capital against 10 percent of its holdings of such government securities.

On the other hand, a bank's loans to businesses are assigned a higher risk-weighting (i.e. 100 percent of the value of the loans), reflecting the greater risk that the bank might not recover all it is owed by businesses. Accordingly, a bank must hold a 100 percent capital against the whole amount of its lending to businesses.

Minimum capital requirements.

Because of the importance of capital, the Reserve Bank of Fiji requires licensed financial institutions operating in Fiji to have total capital locally of at least 12 percent for commercial banks and 15 percent for credit institutions of the licensed financial institutions exposure, on a risk-weighted basis. For the purpose of calculating the capital ratio, a bank's eligible tier two capital shall not exceed the total of tier one capital.

Impaired Assets

Every bank is required to disclose the amount of its impaired assets and the level of provisioning against impaired assets in Fiji and for its global operations.

What are impaired assets?

Impaired assets are typically loans which have a risk of not being fully repaid or where interest on the loans may not be fully recovered from the borrower. They include bad or "non-performing" loans and other assets where the bank stands to lose some of the value of the asset or interest due.

Banks must disclose the level of their impaired assets, both as a dollar amount and as a percentage of total assets.

What is a provision for impaired assets?

A bank usually creates a provision in its financial statements where it is likely to lose money on an asset. The creation of a provision reduces a bank's profit and sets aside some of its resources to absorb the expected loss on impaired assets.

Why is the disclosure of impaired assets important?

Information on impaired assets provide a useful indication of the quality of a bank's assets. This information, together with information on a bank's provisioning, gives an indication of the extent to which a bank's impaired assets reduces the bank's capital and profitability. The information can also indicate the extent to which impaired assets could reduce a bank's capital position and profitability in future.

Profitability, Total Assets and Asset Growth

Every bank is required to disclose its profitability in Fiji and its global operations. The bank’s profits (before and after tax and extraordinary items) are reported. Profit indicators expressing a bank's profit as a percentage of average total assets for each period, are also reported.

A bank is also required to disclose its total assets positions and growth as well as other additional information. A summary of the Balance Sheet and Income Statements are also reported.

Key Disclosure Statement of Credit Institutions

The KDS of credit institutions is similar to that of banks except that it has been expanded to include disclosure of the names of directors and other indicators of concentration risk, namely, credit exposure concentrations and connected persons credit exposures.

(a) Directors

Credit institutions are required to disclose the names of their directors. This information reflects the importance which a credit institution’s directorship can play in determining its financial soundness.

(b) Exposure concentration

The KDS is required to contain information on a credit institution’s large loan concentrations to individual customers and their related parties. This provides important information on the extent to which a credit institution has diversified its credit risk.

(c) Connected person exposures

Credit institutions are required to disclose the peak end-of-day amount of the credit institution’s credit exposure to “connected persons” over the financial year. A “connected person” is any entity capable of controlling, or influencing significantly, the credit institution, and includes the subsidiaries and associates of such entities.

Information on exposures to connected persons is important, given the potential for a connected person to direct or coerce a credit institution into lending to it or another connected party on non-commercial terms or in unfavourable circumstances, to the possible detriment of the credit institution. The limit on the amount of credit exposure a credit institution may have to its connected persons, as well as to other individual or related customers is 25 percent of the credit institution’s total capital in Fiji as defined under the Reserve Bank’s capital adequacy guidelines.

More information is available in a bank’s General Disclosure Statement

If you want to obtain more information on a bank's financial condition, the bank's General Disclosure Statement provides a wide range of detailed information. This includes:

- the name and a description of its business activities;
- comprehensive information on the balance sheet, profit and loss statement and other financial matters;

- information on the bank's systems for managing its business risks;
- information on the bank's involvement in unit trust, managed fund and superannuation activities, where applicable; and
- information on the bank's concentration of lending to, and borrowing from, different geographical regions and industries.

Important statements from a bank's directors to be included in the General Disclosure Statement

A bank's General Disclosure Statement shall contain other statements, where applicable, that may have implications on the quality of the bank's management and which shall be signed by two directors of the bank. These include statements:

- as to whether the bank has systems in place to monitor and adequately control the bank's risks and whether those systems are being properly applied; and
- that the information contained in the disclosure statement is not false or misleading.

These statements are important, because they strengthen the incentives for directors to oversee, and take ultimate responsibility for the sound management of their bank.

You may wish to seek advice before deciding where to invest your money.

Deciding where to invest your money is an important decision. It involves a careful assessment of the risks and returns concerned, and the terms and conditions, of various investment options. The information needed to make this assessment is not always easy to understand. A bank's Key Disclosure Statement and General Disclosure Statement provide useful information on a bank's financial condition. However, it does not necessarily present the full picture of what may be and needs to be interpreted with care. Therefore, investors might find it helpful to obtain professional advice when deciding where to deposit or invest their money.

The Reserve Bank does not give investment advice.

The Reserve Bank's role as supervisor of the banking system does not include giving personal advice to depositors or other investors on the financial condition of any particular bank. Accordingly, if you have a question about a bank's disclosure statement, you should direct the question to that bank or to a professional investment adviser.

Further enquiries:

Bank-specific enquiries. Enquiries about a particular bank's disclosure statement should be made with that bank.

General enquiries. If you wish to obtain further information on the disclosure requirements for banks in general, contact:

The Chief Manager
Financial Institutions Group
Reserve Bank of Fiji
Private Mail Bag
Suva, Fiji
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