

**Statement of  
Financial Accounting Standards  
No. 28**

**Revised on 22 September 2005**

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**Statement of Financial Accounting Standards No.28**

**Disclosures in the Financial Statements of Banks**

**I Introduction**

- (1) This statement establishes standards for disclosures in the financial statements of banks.
- (2) The term “bank” in this statement refers to all financial institutions whose principal activities is to take deposits and borrow with the objective of lending and investing.
- (3) This statement applies to both the separate and the consolidated financial statements of a bank.

**II Explanation**

- (4) Most individuals and organizations make use of banks, and banks play an important role in economic activities, hence there is considerable and widespread interest in the well-being of banks, in particular their solvency and liquidity and the relative degree of risk that attaches to the different types of their business. This statement is established with the above-mentioned characteristics taken into account.
- (5) The users of the financial statements of a bank, in making economic decisions, need not only relevant, reliable and comparable information which assists them in evaluating the financial position and operation results of the bank, but also information regarding to the special characteristics of the operations of a bank.

- (6) Disclosures on the liquidity, solvency and related risks of balance sheet items as well as off balance sheet items of a bank will be helpful to users of bank financial statements. Liquidity refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due. Solvency refers to the excess of assets over liabilities and, hence, to the adequacy of the bank's capital. A bank is exposed to liquidity risk and to risks arising from currency fluctuations, interest rate movements, change in market prices and from counter-party default. These risks may be reflected in the financial statements, but financial statements will be more relevant if management provides a commentary on the way it manages and controls the risks associated with the operations of the bank. This Statement encourages banks disclose in financial statements information related to their liquidity and risk management.
- (7) In order that users can assess its performance, a bank should separately disclose each principal type of revenue (e.g., interest, fees for services, etc.) and each principal type of expense (e.g., interest, losses on loans, charges relating to the reduction in the carrying amount of investments, general and administrative expenses, etc.).
- (8) Interest income and interest expense are disclosed separately in order to give user of financial statements a better understanding of the composition of, and changes in, net interest.
- (9) Except for those specified in paragraph 92 of the Statement of Financial Accounting Standards No. 36, *Financial Instruments: Disclosure and Presentation*, offsetting assets and liabilities will prevent users from assessing the performance of their separate activities of a bank and the return that it obtains on particular classes of assets.
- (10) Current and non-current items are not presented separately because most assets and liabilities of a bank can be realized or settled in the near future and the operation cycle of a bank is usually uncertain. The most useful approach to the classification of the assets and liabilities of a bank is to group them by their nature and list them in the approximate order of their liquidity; this may equate broadly to their maturity.
- (11) In order to have an understanding of a bank's relations with, and dependence on, other banks and the money market, a bank discloses separately balances with other banks and those with other parts of the money market and other depositors.
- (12) A bank generally does not know the holders of its certificates of deposit because they are usually traded on an open market. Hence, a bank shall disclose separately deposits of this kind.
- (13) SFAS No. 9, Contingencies and Subsequent Events is of particular relevance to banks because banks often are engaged in many types of contingent liabilities and commitments, which are frequently significant in amount and substantially larger than those of other commercial enterprises.
- (14) Many banks also enter into transactions that are presently not recognized as assets or liabilities in the balance sheet but which give rise to contingencies and commitments. Such off balance sheet items often represent an important part of the business of a bank and may have a significant bearing on the level of risk to which the bank is exposed. These items may increase or decrease other risks of a bank and affect its liquidity and solvency. Hence the nature and the amount of off balance sheet items are disclosed.
- (15) The matching and controlled mismatching of the maturity and interest rates of assets and liabilities is fundamental to the management of a bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of a bank and its exposure to changes in interest rates and exchange rates. In order to provide information that is relevant for the assessment of its liquidity, a bank discloses, as

a minimum, an analysis of assets and liabilities into relevant maturity groupings.

- (16) Maturity, as mentioned in the paragraph above, could be expressed in the following three terms:
- (a) The remaining period from balance sheet date to the repayment date. This kind of analysis of assets and liabilities helps provide the best basis to evaluate the liquidity of a bank.
  - (b) The period from original date of transaction to the repayment date. This kind of analysis of assets and liabilities helps provide information on funding and business strategy of a bank.
  - (c) The remaining period from balance sheet date to the date at which interest rates may be changed. This kind of analysis of assets and liabilities helps demonstrate a bank's exposure to interest rate risks.

A bank may also provide information about the way it manages and controls interest rate exposures.

- (17) Deposits and loans made with a bank may be withdrawn, repaid or renewed on contractual maturity date. Even if a few deposits and loans made with a bank may be withdrawn or repaid on demand before the contractual maturity date by the bank or its customers, however, this is an exception. Hence, when making maturity analysis, using contractual maturity date as estimated maturity date could better reflect the liquidity of a bank.
- (18) In order to reflect its risk on the liquidity of assets and the source of funds, a bank discloses any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures are made in terms of geographical areas, customer or industry groups or other concentrations of risk.
- (19) In order to reflect its risk of losses arising from changes in exchange

rates, a bank discloses significant net foreign currency exposures.

- (20) Users of the financial statements of a bank need to know the impact that losses on loans and advances have had on the financial position and performance of the bank; this helps them judge the effectiveness with which the bank has employed its resources. Therefore a bank discloses the aggregate amount of the provision for losses on loans and advances at the balance sheet date and the movements in the provision during the period.
- (21) A bank may decide not to accrue interest on a loan or advance, for example when the borrower is more than a particular period in arrears with respect to the payment of interest or principal. A bank discloses the aggregate amount of loans and advances at the balance sheet date on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances. It is also desirable that a bank discloses its accounting policy on whether it recognizes interest income on such loans and advances and the impact which the non-accrual of interest has on its income statement.
- (22) When loans and advances cannot be recovered, they are written off and charged against the provision for losses. In some cases, they are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined. In other cases, they are written off earlier, for example when the borrower has not paid any interest or repaid any principal that was due in a specified period. As the time at which uncollectable loans and advances are written off differs, the gross amount of loans and advances and of the provisions for losses may vary considerably in similar circumstances. As a result, a bank discloses its policy for writing off uncollectable loans and advances.
- (23) Banks may suffer losses on loans, advances and other credit facilities. Losses, including those that can be specifically identified and those that cannot be specifically identified but which experience indicates are present in the portfolio of loans and advances, are charged to income of current period.

- (24) A bank shall not set aside any amounts as loss for general banking risks, e.g. future losses arising from war, strike, natural disaster, economic cycle or other unforeseeable risks. In case local legislation requires a provision for general banking risks, it is separately disclosed as an appropriation of retained earnings. In addition, accounting for contingency in a bank should follow SFAS No. 9, "Contingencies and Subsequent Events". Any additional amount set aside for contingencies as required by law is treated as an appropriation of retained earnings.

The income statement cannot present relevant and reliable information about the performance of a bank if net profit or loss for the period includes the effects of undisclosed amounts set aside for general banking risks or additional contingencies, or undisclosed credits resulting from the reversal of such amounts. Similarly, the balance sheet cannot provide relevant and reliable information about the financial position of a bank if the balance sheet includes overstated liabilities, understated assets or undisclosed accruals and provisions.

- (25) Banks may be required to pledge assets as security to support certain deposits and other liabilities. The amounts involved are often substantial and so may have a significant impact on the assessment of the financial position of a bank. As such, banks should disclose the total amount of secured liabilities as well as the nature and carrying value of assets pledged.
- (26) Banks commonly act as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not assets of the bank and, therefore, are not included in its balance sheet. If the bank fails in its fiduciary duties, it may have potential liability. Therefore when a bank is engaged in significant trust activities, disclosure of that fact and an indication of the extent of those activities are required in its financial statements.
- (27) Certain transactions between related parties may be effected on different terms from those with unrelated parties. Even when

related party transactions arise in the ordinary course of a bank's business, information about such transactions is relevant to the needs of users and its disclosure is required.

### III Accounting standards

#### *Accounting Policy*

- (28) In preparing their financial statements, banks, in addition to complying with SFAS No. 15, "Disclosure of Accounting Policies," should disclose accounting policies regarding the following items.
- (a) the recognition of the principal types of income;
  - (b) the valuation method of financial instruments;
  - (c) the valuation method of collateral;
  - (d) the principles for the recognition and the disclosure of contingencies and commitments;
  - (e) the basis for the determination of losses on loans and advances and for writing off uncollectable loans and advances;
  - (f) the basis for the determination of losses on guarantees; and
  - (g) the basis for the determination of charges, as an appropriation of retained earnings, for general banking risks and the accounting treatment of such charges.

#### *Income Statement*

- (29) A bank should present an income statement that groups income and expenses by nature and discloses the amounts of the principal types of income and expenses.
- (30) The following items of income and expenses shall be disclosed in the

income statement or the notes to the financial statements:

- (a) Interest income;
  - (b) Interest expense;
  - (c) Dividend income;
  - (d) Fee and commission income;
  - (e) Fee and commission expense;
  - (f) Net gains or losses from financial assets at fair value through profit or loss;
  - (g) Net gains or losses from financial assets not at fair value through profit or loss;
  - (h) Net gains or losses from dealing in foreign currencies;
  - (i) Other operating income;
  - (j) Losses on loans and advances;
  - (k) General and administrative expenses; and
  - (l) Other operating expenses.
- (31) Income and expense items should not be offset except for the following:
- (a) Income and expense items mentioned in paragraph 92 of the Statement of Financial Accounting Standards No. 36; and
  - (b) Income and expense items relating to hedges.
- (32) Gains and losses arising from each of the following should normally be reported on a net basis:

- (a) disposals and end-of-period valuation of financial assets at fair value through profit or loss;
  - (b) disposals of financial assets not at fair value through profit or loss; and
  - (c) dealings in foreign currencies and end-of-period valuation of assets and liabilities in foreign currencies.
- (33) It is desirable for banks to provide a commentary about average interest rates, average interest earning assets and average interest-bearing liabilities for the period. If governments provide assistance to banks by making deposits and other credit facilities available at interest rates that are substantially below market rates, banks should disclose the extent of these deposits and facilities and their effect on net income.

*Balance Sheet*

- (34) A bank should present a balance sheet that groups assets and liabilities by nature and lists them in an order that reflects their relative liquidity. A distinction of groupings in current and non-current is not necessary.
- (35) The disclosures in the balance sheet or the notes to the financial statements should at least include the following items:
- (a) Assets
    - (i) Cash;
    - (ii) Balances with the central bank;
    - (iii) Trading financial assets;
    - (iv) Placements with, and loans and advances to, other banks;

- (v) Loans and advances to customers; and,
  - (vi) Long-term equity investments under equity method.
- (b) Liabilities
- (i) Deposits from other banks;
  - (ii) Deposits on demand;
  - (iii) Time deposits;
  - (iv) Transferable Certificates of deposits; and,
  - (v) Other borrowed funds.

(36) Income and expense items should not be offset except for those mentioned in paragraph 92 of the Statement of Financial Accounting Standards No. 36.

(37) A bank should disclose capital adequacy ratios, a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures, and total amount of credit loans which are written-off without recourse.

*Contingent Liabilities and Commitments (off balance sheet items included)*

- (38) A bank should disclose the nature and amount of the following contingent liabilities and commitments:
- (a) credit commitments that are irrevocable or that are revocable but can only be withdrawn at the risk of incurring significant penalty or expense; and
  - (b) contingent liabilities and commitments arising from off balance sheet items:

- (i) direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;
- (ii) certain transaction-related contingent liabilities including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;
- (iii) short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security;; and
- (vi) other commitments, note issuance facilities and revolving underwriting facilities.

*Maturity Analysis of Asset and Liability*

- (39) A bank should adopt appropriate grouping method based upon the nature of the assets and liabilities for maturity analysis. Examples of grouping methods are as follows:
- (a) up to 1 month;
  - (b) from 1 month to 6 months;
  - (c) from 6 months to 1 year;
  - (d) from 1 year to 7 years; and
  - (e) from 7 years and over.

Frequently the periods are combined or sub-divided, for example, in the case of loans and advances, by grouping those under one year and those over one year.

When repayment is spread over a period of time, each installment is allocated to the period in which it is contractually agreed or expected to be paid or received.

- (40) It is essential that the maturity periods adopted by a bank are the same for assets and liabilities. Maturity should be expressed in terms of the remaining period from the balance sheet date to the repayment date. Maturity could also be expressed as a supplement in terms of the remaining period from the original transaction date to the repayment date or from the balance sheet date to the date at which interest rates may be changed.

In addition, a bank may also provide, in its commentary on the financial statements, information about the amount or ratio of potential repayment during the remaining period, interest rate exposure and about the way it manages and controls such exposures.

- (41) A bank should do maturity grouping based on contractual maturity date if its assets and liabilities have a contractual maturity date. A bank should do maturity grouping based on the expected date on which the assets will be realized or the expected date on which the liabilities will be repaid if without a contractual maturity date.

#### *Significant Concentrations of Assets, Liabilities and Off Balance Sheet Items*

- (42) A bank should disclose any significant concentrations of its assets, liabilities and off balance sheet items in terms of geographical areas, customer or industry groups or other concentrations of risk.

A bank should also disclose the amount of significant net foreign currency exposures.

#### *Losses on Loans and Advances*

- (43) A bank should disclose the following information relating to losses on loans and advances:
- (a) the aggregate amount of the provision for losses on loans and advances at the balance sheet date and the changes in the

account during that period. It should disclose separately the amount recognized as an expense in the period for losses on uncollectable loans and advances, the amount written off in the period for uncollectable loans and advances and the amount credited in the period for loans and advances previously written off that have been recovered;

- (b) the interest revenue recognition basis of overdue loans and advances and the effect of unaccrued interest revenue on income statement; and
- (c) the aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances.
- (44) Losses on loans, advances and other credit facilities, if can be specifically identified, should be charged to income of current period. A provision for losses should also be recognized as a valuation account against that particular loans and advances account. In addition, potential losses which experience indicates are present in the portfolio of loans and advances, should also be charged to income of current period. A provision for losses should also be recognized as a valuation account against loans and advances account as a whole. The valuation of potential losses should be based on professional judgment of the bank and be applied consistently.

#### *General Banking Risks*

- (45) According to what is stated in paragraph 24, a bank may set aside some amounts for general banking risks. This provision should be separately disclosed as appropriations of retained earnings. Any credits resulting from the reduction of such amount result in an increase in retained earnings and should not be included in the determination of net profit or loss for the period.

#### *Assets Pledged as Security*

- (46) A bank, if secures its liabilities, should disclose the aggregate amount of secured liabilities and the nature and carrying amount of the assets pledged as security.

*Fiduciary Capacities*

- (47) If a bank is engaged in significant trust activities, disclosure of that fact and an indication of the extent of those activities should be made in its financial statements.

*Related Party Transactions*

- (48) When a bank has entered into transactions with related parties, it is appropriate to disclose the relationship with the related party, the types, terms, and amounts of the transactions, and other relevant information on the transactions necessary for an understanding of the financial statements of the bank. The disclosure should not only conform to SFAS No. 6, "Disclosure of Related Party Transactions" but also include a bank's lending policy to related parties and the amount of the following items:

- (a) the highest balance and ending balance of loans and advances, deposits and acceptances and promissory notes;
- (b) each of the principal types of income, interest expense and commissions paid;
- (c) the amount of the expense recognized in the period for losses on loans and advances and the amount of the provision at the balance sheet date; and
- (d) irrevocable commitments and contingencies and commitments arising from off balance sheet items.

**IV Notes**

- (49) Other Statements promulgated by this Committee may still be applied to banking industry, unless they are stated otherwise.

- (50) This Statement was issued on March 31, 1999. The first revision of this Statement was on September 22, 2005.

The provisions of the first revision of this Statement shall be effective for financial statements for the fiscal year beginning on or after January 1, 2006. Earlier adoption is not permitted.

The provisions of this Statement need not be applied to immaterial items.