MODEL FINANCIAL STATEMENTS

Overview

The model statements have been compiled based on research of financial reports prepared by IFRS compliant central banks from around the world. They are intended to assist central banks in preparing their own financial statements and in discussions with their auditors. They are not intended to be comprehensive as each central bank will have its own unique circumstances that need to be considered. They are not intended to override any legal, regulatory or other requirements. The model statements were developed only as an indicative sample; they will need to be adapted to suit the specific situation of each central bank.

The statements include references to governance structures, including directors and internal committees. These are included for illustrative purposes and are not intended to be definitive or recommendations as to the appropriate structures.

The financial statements have been prepared with the intention of being representative of the various activities, assets, liabilities, income and expenditure of central banks. It is unlikely that any central bank will have all the items included and may have other material items and activities that are not presented here.

As noted earlier, the number of digits presented in the main financial statements should be guided by materiality. The presentation should enhance the readers ability to understand the key functions of the central bank and its financial ability to fulfill its mandate. The financial statements included herein are presented in thousands of Utopian local currency to depict a broad range of conditions that a typical central bank may encounter. In practice, given the size of Utopia's balance sheet, it would have been recommended that these statements be presented in millions of Utopian local currency. Smaller central banks would choose to present the statements in thousands of local currency. The note disclosures would continue to include greater precision.

Statement of Financial Position *As at December 31 (in thousands of Utopian local currency)*

	Note	2019	2018
ASSETS			
Foreign currency financial assets			
Cash and cash equivalents	3.1	19,671,825	19,067,867
Deposits with banks	3.2	49,738,005	42,154,364
Securities	3.2	9,605,555	12,855,888
Monetary gold	6	108,000	94,000
IMF related assets	5	2,537,070	2,337,041
Derivatives	3.2	120,000	84,000
Equity investments	7.a	8,100	8,000
Other receivables	11	100,273	270,044
Total foreign currency financial assets		**81,888,828**	**76,871,204**
Local currency financial assets			
Cash and cash equivalents	3.1	657,756	518,053
Loans due from financial institutions	3.3 (a,b)	500,000	550,000
Securities	3.4 (a)	349,000	450,000
Loans to staff	11	31,882	36,188
Advance to government	3.4 (b)	1,234,500	1,100,000
Other receivables	11	59,521	44,125
Total local currency financial assets		**2,832,659**	**2,698,366**
Non-financial assets			
Non-monetary gold	11	16,672	4,437
Inventories	8	41,319	92,116
Property, plant and equipment	9	134,565	90,032
Intangible assets	9	15,000	12,000
Investment properties	9	14,000	15,000
Other assets	11	155,604	126,142
Total non-financial assets		**377,160**	**339,727**
TOTAL ASSETS		**85,098,647**	**79,909,298**
LIABILITIES			
Foreign currency financial liabilities			
Balances of commercial banks	3.3 (f)	23,000	19,000
Balances of government	3.4 (c)	7,206,767	7,164,579
IMF related liabilities	5	2,096,913	1,933,723
Derivatives	3.2	8,100	8,000
Due to financial institutions	7.b	7,662	25,944
Due to foreign central banks	3.5	10,845,460	3,872,190
Other liabilities	11	71,086	30,655
Total foreign currency financial liabilities		**20,258,988**	**13,054,092**
Local currency financial liabilities			
Currency in circulation	10	14,467,118	13,928,764
Balances of commercial banks	3.3 (f)	23,666,760	27,950,888
Balances of government	3.4 (c)	348,351	1,835,649
Certificates of deposits from Bank of Utopia	3.3 (e)	5,000,944	3,507,159
Due to financial institutions	3.3 (c)	557	557
Other liabilities	11, 15.2	270,700	1,618,982
Total local currency financial liabilities		**43,754,431**	**48,841,999**
TOTAL LIABILITIES		**64,013,419**	**61,896,091**
Equity			
Capital and general reserves	12.1; 20	4,385,242	3,898,932
Revaluation reserves	12.2	16,699,986	14,114,275
Total equity		**21,085,228**	**18,013,207**
TOTAL EQUITY AND LIABILITIES		**85,098,647**	**79,909,298**

User Guidance - Statement of Financial Position

The purpose of the Statement of Financial Position (commonly known as the balance sheet) is to disclose the economic position of an entity at a particular date, showing the assets, liabilities, and net equity.

Most central banks adopt the format allowed under International Accounting Standard 1 (IAS 1), under which assets and liabilities are presented in order of liquidity. Furthermore, many further subdivide (segregate) the balance sheet between foreign currency denominated and domestic currency denominated assets. This subdivision may also be applied to liabilities if there are sufficient foreign currency liabilities to make it worthwhile. Most central banks hold a large portfolio of foreign currency assets, being the foreign reserves of the jurisdiction. Significant foreign currency liabilities are less common, in part, because foreign currency borrowing is more commonly made by the government itself, rather than the central bank.

This segregation into foreign currency and domestic currency on the face of the balance sheet rather than in the notes enables the reader to obtain a clearer view of the net foreign currency exposure of the central bank, which is one of the most significant items in the central bank's financial position. It also reflects the fact that most central banks have effectively two separate activities, (i) holding and investing the foreign currency reserves of the nation, and (ii) undertaking monetary policy and other official operations in domestic currency. The balance between these two activities varies between central banks. There may also be some overlap, as some central banks undertake some monetary policy-related operations in foreign currencies. It is also common to present the foreign currency items before the domestic ones.

This subdivision of the balance sheet is not specifically authorized by IAS 1 (but not explicitly prohibited) and some auditors new to central banks do not like it. However, it has become a widely accepted practice.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31 (in thousands of Utopian local currency)

	Note	2019	2018
Foreign currency interest income and expenses	13		
Interest income on foreign currency financial assets		2,286,951	2,138,512
Interest expense on foreign currency financial liabilities		(519,706)	(539,127)
Net foreign currency income		**1,767,245**	**1,599,385**
Local currency interest income and expenses	13		
Interest income on local currency financial assets		12,552	7,224
Interest expense on local currency financial liabilities		(250,000)	(260,000)
Net local currency income		**(237,448)**	**(252,776)**
Net interest income		**1,529,797**	**1,346,609**
Other income			
Gain or loss on sale of foreign currencies		53,494	71,453
Gain or loss on sale of securities		(5,323)	(5,244)
Gain or loss on fair value revaluation of financial assets at FVPL		987	(822)
Fee and commission income	14	8,840	5,540
Foreign exchange revaluation		2,905,581	(2,735,115)
Other income		22,016	9,200
Less: Fee and commission expense		(16,752)	(10,928)
Net other income		**2,968,842**	**(2,665,917)**
Net impairment on financial instruments	4.3 (b)	335	212
Total net operating income		**4,498,974**	**(1,319,096)**
Expenses			
Currency production cost	16	(75,987)	(83,325)
Personnel expenses	15	(178,044)	(156,662)
Administrative expenses	17	(78,347)	(77,923)
Total operating expenses		**(332,377)**	**(317,909)**
NET PROFIT FOR YEAR		**4,166,597**	**(1,637,005)**
Other comprehensive income			
Items that are or may be subsequently reclassified to profit or loss			
Monetary gold revaluation		2,000	(500)
Revaluation of securities at FVOCI		453	730
ECL recognition effect of FVOCI financial instruments	4.3 (b)	804	170
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Actuarial gain on staff gratuity fund	15.2	600	300
Revaluation of equity instruments at FVOCI	12	500	100
Revaluation reserve on PPE and intangible assets		–	–
Total other comprehensive income		**4,357**	**800**
TOTAL COMPREHENSIVE INCOME		**4,170,954**	**(1,636,205)**
Profit for distribution			
Net profit/(loss) as above		4,166,596	(1,637,005)
Transferred to revaluation reserve		(2,906,568)	2,735,937
Previous unrealised gains/losses recognised in year		325,214	–
Net profit (loss) or the year	20	**1,585,242**	**1,098,932**

User Guidance: Statement of Other Comprehensive Income

The purpose of the Statement of Other Comprehensive Income (OCI) is to disclose the economic results of an entity, increasing the level of disclosure of the results beyond the concept of accounting profit or loss, which is usually disclosed through the Income Statement (Central Bank of Brazil [BCB]) [IAS 1.7].

The purpose of the Statement of Profit or Loss, otherwise known as the Income Statement, is to disclose the financial performance of central banks in the form of items generating an increase or decrease in net assets—other than from the injection of capital. It may be presented combined with other comprehensive income as a single statement or as two separate statements.

Although a central bank does not have financial performance as a key objective, it still needs to present this information as part of its accountability to stakeholders for the resources with which it has been entrusted. In particular, the income statement forms the basis for distribution of profits to the Ministry of Finance.

For central banks that hold the country's foreign exchange reserves, the effects of exchange rate revaluations are a major component of the income statement. Under IFRS, the majority of exchange rate revaluations must pass through the income statement. This is a major issue for central banks, since such effects are not necessarily part of the performance of the central bank, but a consequence of the basic responsibilities of the central bank. Furthermore, many of these gains and losses will be unrealized, so they should not be distributed. But the inclusion of these items in the income statement means that they will need to be taken into account in the distribution arrangements, unless local law or other arrangements exist to prevent this.

With regard to the income statement:

IAS 1 allows commercial banks to present the income statement in a form that differs from most entities. The income statement starts with interest income and expenses, rather than sales and cost of sales. Then fees, commissions, and other trading income. After arriving at net revenue, expenses, such as personnel, administrative, and amortization are deducted.

Most central banks adopt this format but differ in the extent of the detail displayed on the face of the income statement as against in the notes. One major aspect is whether to show income from foreign assets and from domestic assets separately on the face of the income statement, thus matching the presentation adopted for the balance sheet and as adopted in this model. This is a matter of choice for the central bank and many show the split in the notes, but as a general rule, having fewer items on the actual income statement makes it easier for a reader. The split of income and expense by currency is generally less significant for the reader than is the case for the position as shown in the statement of financial position.

Amongst expenses, many central banks show the costs of currency (banknote) operations as a separate line item in addition to the normal personnel, administrative, and amortization costs. This practice has arisen because: (a) it is a rather specific activity largely unique to central banks and (b) it can vary significantly from year to year due to the logistics of note operations—for example, the need to print a lot of notes one year prior to a new issue. Showing such currency issue costs separately allows the reader to understand the impact.

With regard to the OCI statement:

There are two options for presenting other comprehensive income items [IAS 1.81 A]:

- as one of the sections of the single Statement of Comprehensive income
- as the separate Statement of Comprehensive income

In the Statement (or Section) of Other Comprehensive Income, a central bank shall present all items of OCI for respective assets/liabilities in two groups* [IAS 1.82 A]:

- those that will not be reclassified to profit or loss
- those that will be reclassified to profit or loss

If a central bank is required to pay income tax, it also shall disclose the amount of income tax relating to each item of other comprehensive income—including reclassification adjustments—either in the statement of profit or loss and other comprehensive income or in the notes [IAS 1.90].

*Examples for each category are included in the Statement of Profit or Loss and OCI on page 8.

Statement of Changes in Equity

For the year ended December 31 (in thousands of Utopian local currency)

2018	Capital	General reserve	Revaluation reserve	Retained earnings	OCI reserve	Gold revaluation	Total
Balance as at Jan 1, 2018	**800,000**	**2,000,000**	**16,286,969**	**880,843**	**553,943**	**8,500**	**20,530,255**
Distribution of profit to government	–	–	–	(880,843)	–	–	(880,843)
Total comprehensive income	–	–	(2,735,937)	1,098,932	1,300	(500.00)	(1,636,205)
Balance as at December 31, 2018	**800,000**	**2,000,000**	**13,551,032**	**1,098,932**	**555,243**	**8,000**	**18,013,207**

2019	Capital	General reserve	Revaluation reserve	Retained earnings	OCI reserve	Gold revaluation	Total
Balance as at Jan 1, 2019	**800,000**	**2,000,000**	**13,551,032**	**1,098,932**	**555,243**	**8,000**	**18,013,207**
Distribution of profit to government	–	–	–	(1,098,932)	–	–	(1,098,932)
Total comprehensive income	–	–	2,906,567	1,260,029	2,357	2,000	4,170,953
Realisation of previously unrealised gains	–	–	(325,214)	325,214	–	–	–
Balance as at December 31, 2019	**800,000**	**2,000,000**	**16,132,386**	**1,585,242**	**557,600**	**10,000**	**21,085,228**

■ *User Guidance: Statement of Changes in Equity*

The statutory capital of central banks is defined in the respective laws and such legal frameworks should be mentioned in the financial statements. Along with that, central banks should refer to the profit distribution policy as described in the law as well as the types of reserves which can be created either by legal requirement or on the discretion of the central bank's Council.

Typically, the equity accounts of a central bank include:

1) Authorized and paid-in capital—stipulated in the law and which includes foundation (paid-up, share) capital.
2) General reserves—which are created according to the local law as a buffer against future losses. The source for these is realized distributable profit. Some central banks calculate it as a percentage of reserve money (also referred to as monetary liabilities) and some as a factor of authorized capital. It is established by allocations from the realized profit for the year.
3) Other specialized reserves—which are supplementary realized reserves, in addition to a general reserve (for example, capital injection of grant related monies, amounts retained in offset of negative [debit balances] of revaluation reserves, and so on).
4) Foreign currency revaluation reserves—the central bank transfers here the net unrealized gains or losses from foreign currency revaluation.
5) Other Fair Value (FV) revaluation reserves—which include net unrealized gains or losses arising from changes of the Fair Value through Profit or Loss (FVPL) financial instrument market prices (if permitted by legislation).
6) Revaluation reserves—which represent accumulated revaluations attributable to revaluation of assets/liabilities that IFRS require to be recognized in OCI.
7) Other Comprehensive Income reserves—which include items required by IFRS to be included in OCI. This may include financial instruments at Fair Value through Other Comprehensive Income (FVOCI), and actuarial gains and losses on post-retirement benefits.

There is a requirement of IFRS [IAS 1.134] to disclose information on the objectives, policies, and processes for managing capital. Although a central bank's policy regarding capital management is not the same as commercial entities, they still should provide some information to be compliant with the standard. Typically, they provide a description of the capital position and profit distribution policy. This approach has been accepted also by auditors, given the central banks' specific operations.

IFRS does not contain any detailed requirements for classification or disaggregation of equity into line items. IAS 1 only contains a statement that an entity shall present separately each material class of similar items [IAS 1.29]. An entity shall disclose, either in the statement of financial position or in the notes, further sub classifications of the line items presented, classified in a manner appropriate to the entity's operations [IAS 1.77]. The detail provided in sub-classifications depends on the requirements of IFRS and on the size, nature, and function of the amounts involved. An example of such a subclassification is equity. Capital and reserves are disaggregated into various classes, such as paid-in capital, share premium, and reserves. [IAS 1.78 (e)].

Regarding statutory capital, different central banks use different terms—particularly authorized and paid-up share capital (Bank of Tunisia [BOT]), share capital (BCB; Central Bank of Bosnia and Herzegovina [CBBH]), initial capital (South African Reserve Bank [SARB]; capital (Bank of England [BOE]), statutory capital (National Bank of Ukraine [NBU]), and foundation capital. Sometimes all of them are the same substance, sometimes not.

For the purpose of simplification and increasing understandability, similar types of equity can be grouped. These groups are presented as columns in the Statement of Changes in Equity (SOCE) and in the Statement of Financial Position.

As an International Monetary Fund (IMF)-preferred disclosure, for the purposes of this document, such items are grouped and presented as follows:

1) Statutory capital
   - i) authorized and paid-in capital—which presents owners' contributions.
   - ii) general reserves—created through realized profit distribution procedure based on the respective legal framework. While general reserve is the more common terminology for central banks, it may also be referred to as retained earnings.
   - iii) special reserve—represents supplementary realized reserves, in addition to general reserve, created in specific cases, such as injection of grants related monies and so on.

2) Revaluation reserves:
   - i) revaluation reserves required by accounting policy or legal framework–are "deferred" unrealized revaluation reserves such as foreign exchange rate revaluations or financial instruments designated at FVPL, which are recognized in profit or loss due to IFRS, but are forbidden for distribution according to the central bank's legal framework (unless realized);
   - ii) revaluation reserves required by IFRS – accumulated capital which includes revaluation reserves representing accumulated OCI that IFRS forbids to recognize as profit or loss, such as equity instruments designated at FVOCI, property, plant and equipment and intangible assets revaluations etc.

More detailed subclassifications for each group of equity are presented in the respective notes. It may be one single note or separate notes for each group of equity (it considered as more appropriate).

The SOCE will need to reflect the differing legal provisions between jurisdictions on capital and profit distribution. One example is the allocation of comprehensive income. Some will initially show the comprehensive income initially allocated to one category and then reallocated out amongst the various reserves. Others may show the allocation of the comprehensive income directly to the various reserves, as in the example.

Statement of Cash Flows

For the year ended December 31 (in thousands of Utopian local currency)

	2019	2018
Cash flows from operating activities		
Interest received	2,453,878	2,167,559
Interest paid	(769,706)	(799,127)
Fees and commissions received	8,840	5,540
Fees and commissions paid	(16,752)	(10,928)
Net gain/(loss) on sale of securities	(5,323)	(5,244)
Net realized gain from dealing in foreign currency	53,494	71,453
Other income received	22,016	9,200
Personnel expenses paid	(178,044)	(156,662)
Currency production cost	(75,987)	(83,325)
Administrative expenses paid	(58,249)	(64,799)
Net cash flow from operating activities before changes in operating assets and liabilities	**1,434,168**	**1,133,667**
Net (increase)/decrease in operating assets		
Due from resident financial institutions	50,000	(550,000)
Deposits with banks	(5,983,306)	804,589
Advances to government	(134,500)	254,000
Increase in balance with IMF	(200,029)	150,141
Net increase in derivatives	(35,900)	-
Non monetary gold	(12,236)	9,296
Loans to staff	4,306	(3,016)
Inventories	50,797	26,433
Other assets	(29,461)	(7,868)
Net increase/(decrease) in operating liabilities		
Balances of commercial banks	(4,280,128)	1,212,703
Due to government in foreign currency	247,187	4,740,020
Due to the government in domestic currency	(1,487,298)	466,342
Due to financial institutions	(18,282)	(380)
Central bank bills	1,493,786	(270,000)
Other liabilities	(1,307,851)	(55,627)
Total	**(11,642,914)**	**6,776,633**
Net cash flow from operating activities	**(10,208,747)**	**7,910,300**
Cash flows from investing activities		
Net purchase of property, investment property and intangibles	(66,632)	(36,085)
Net sale/(purchase) of securities	3,603,590	(12,855,888)
Net purchase of monetary gold	(12,000)	
Net purchase of equity investment		
Net cash flow from investing activities	**3,524,958**	**(12,891,973)**
Cash flows from financing activities		
Currency in circulation	538,354	4,257,842
Increase In IMF liability	163,190	(124,939)
Due to foreign central banks	6,973,270	(6,934,588)
Distribution	(1,098,932)	(886,586)
Net cash flow from financing activities	**6,575,882**	**(3,688,271)**
Net cash flow	(107,906)	(8,669,944)
ECL effect of cash and cash equivalents		
Effect of exchange rate fluctuation on cash and cash equivalents	851,568	(1,219,854)
Net increase/decrease in cash equivalents	**743,662**	**(9,889,798)**
Cash equivalents at beginning of year	**19,585,920**	**29,475,718**
Cash equivalents at end of year	**20,329,581**	**19,585,920**

User Guidance: Statement of Cash Flows

The purpose of the Statement of Cash Flows is to disclose the cash flows generated and used by the entity. The nature of central banks' activities involves making cash flows on behalf of their customers and undertaking regular policy operations whose size is determined by the needs of the financial markets, rather than those of the central bank.

The cash flows made by the central bank for its own purposes, such as expenditures, are normally much smaller than the official policy ones. In addition, the central bank can literally create money in its own currency. As a consequence of these factors, the cash flow statement for a central bank is not usually regarded as being of great significance. Nevertheless, central banks which are compliant with IFRS framework are required to prepare and present the cash flow statement based on IAS 1 and IAS 7 requirements.

In addition, the definition of cash and cash equivalents does not always coincide with the way in which central banks manage their portfolios, particularly monetary policy instruments.

Some central banks do find the cash flow statement to be of assistance in explaining how the profit or loss for the year reconciles with the movement in net assets.

According to IAS 7.10 "the statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities".

IAS 7.18 provides two methods for the cash flow from operating activities reporting:

- The direct method — whereby major classes of gross cash receipts and gross cash payments are disclosed;
- The indirect method — whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The standard encourages entities to report under the direct method because it provides information which may be useful in estimating future cash flows and which is not available under the indirect method [IAS 7.19]. However, a large number of central banks report the cash flows from operating activities based on the indirect method. Of the sample of central bank financial statements used in compiling this note, 10 out of 19 central banks report under the direct method and nine under the indirect method. Some of these expand parts of the statement, such as the operating profit. Every central bank can choose the method which best presents the effects of the transactions it performs in the cash flows of the institution.