



GUERNSEY
FINANCIAL
SERVICES
COMMISSION

**GUIDELINES TO BANKS AND THEIR AUDITORS
ISSUED UNDER s1(b)(ii) OF THE BANKING
SUPERVISION (ACCOUNTS) RULES, 1994**

ABC Bank (Guernsey) Limited

Abridged financial statements

31 December 19XX

ABC Bank (Guernsey) Limited
and its subsidiary companies

Directors:

Secretary:

Auditors:

Chartered Accountants

Registered office:

Guernsey

ABC Bank (Guernsey) Limited is a wholly owned subsidiary of
which is incorporated in The ultimate holding
company is which is incorporated in
.....

Copies of the accounts of are available on request.

Auditors' report to the directors of ABC Bank (Guernsey) Limited

We have examined the abridged financial statements on pages 4 to 14 together with the audited financial statements of ABC Bank (Guernsey) Limited for the year ended 31 December 199X. The scope of our work for the purpose of this report was limited to confirming whether the abridged financial statements have been properly prepared from the audited financial statements and have been drawn up in a manner authorised by the Guernsey Financial Services Commission.

In our opinion the abridged financial statements have been extracted from the audited financial statements and have been drawn up in accordance with the provisions of The Banking Supervision (Bailiwick of Guernsey) Law, 1994 in a manner authorised by the Guernsey Financial Services Commission.

On xx month 199Y we reported, as auditors of ABC Bank (Guernsey) Limited, to the Members on the audited financial statements as follows:

"We have audited the financial statements on pages to .

Respective responsibilities of directors and auditors

As described on page the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 199X and of the group's profit for the year then ended and have been properly prepared in accordance with The Protection of Investors (Bailiwick of Guernsey) Law, 1987, The Banking Supervision (Bailiwick of Guernsey) Law, 1994 and The Companies (Guernsey) Law 1994.

Furthermore, we have examined the Statement of Financial Resources set out on page x and in our opinion the Financial Resources requirement specified in Rule 4.02 of The Collective Investment Schemes (Designated Persons) Rules 1988 has been satisfied."

(Note: The audit report reproduced should be verbatim to that shown in the detailed financial statements).

Auditors' report to the directors of ABC Bank (Guernsey) Limited (continued)

The statement of directors' responsibilities referred to in our audit report on the full financial statements, reproduced above, was as follows:

"The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period and are in accordance with applicable laws. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law 1994. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities."

Chartered Accountants
xx month 199Y.

ABC Bank (Guernsey) Limited and its subsidiary companies

Consolidated profit and loss account for the year ended 31 December 199X

	199X £	199W £
Net interest income	x	x
Other income	x	x
Total income	<u>x</u>	<u>x</u>
Expenses including taxation	(x)	(x)
Profit for the financial year	<u>x</u>	<u>x</u>
Dividends	(x)	(x)
Retained profit for the financial year	<u>x</u>	<u>x</u>
Retained profit brought forward	x	x
Retained profit carried forward	<u>£ x</u>	<u>£ x</u>

ABC Bank (Guernsey) Limited and its subsidiary companies

Consolidated balance sheet at 31 December 199X

	<i>Notes</i>	199X £	199W £
Assets			
Cash, current accounts with banks, money at call			
Loans and advances to banks	2 & 4		
Loans and advances to customers	4		
Investments	5		
Debtors and other accounts			
Fixed assets		_____	_____
		£ _____	£ _____
		=====	=====
Liabilities and shareholders' funds			
Share capital	6		
Reserves	7		
		_____	_____
Equity shareholders' funds			
Subordinated loan	8		
Deposits by banks	2		
Customer accounts	2		
Creditors and other accounts including taxation			
Proposed dividend			
		_____	_____
		£ _____	£ _____
		=====	=====

The abridged financial statements on pages xx to xx were approved by the Board of Directors on xxth 199Y and are signed on its behalf by:

Directors

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the group and the company:-

Basis of preparation

The financial statements have been prepared, under the historical cost convention, modified to include the revaluation of certain assets [specify] and in accordance with UK applicable accounting standards.

Consolidation

The consolidated financial statements of the company incorporate the financial statements of the company and of its subsidiaries.

Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling based on the rates of exchange ruling at 31st December 199X. Foreign currency transactions during the year are translated at the rates of exchange ruling at the date of the transactions. Foreign exchange gains and losses are included in the profit and loss account.

Loans

Loans are included at the principal amount outstanding, net of unearned income and less a general provision. Unearned income on discounted loans is included in the profit and loss account on an accruals basis apportioned over the life of the loans.

Fixed assets

The freehold/leasehold property has been revalued. The surplus on revaluation is shown under revaluation reserve.

Other fixed assets are stated at cost less depreciation.

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of fixed assets over their anticipated useful lives.

Taxation

Taxation provided is that chargeable on profits for the year.

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

Investments

Debt securities are held for long term investment and included at cost adjusted for amortisation of premium and accretion of discounts. Other investments held for the long term are included at cost. Other instruments are included in the balance sheet at market value with any resultant profits and losses included in the profit and loss account

Forward foreign exchange contracts and other derivatives

Interest rate derivatives held to hedge assets, liabilities or positions measured on the accruals basis are classified as non-trading and accounted for in the same manner as the underlying items hedged. Profits and losses on instruments hedging interest-rate exposure are recognised over the life of the contract as an adjustment to interest receivable or payable.

Other derivatives, including swaps, futures and forward contracts, options and similar contracts are carried at their fair values. Fair values are based on quoted market prices when available.

Fiduciary activities

The assets and liabilities of trusts and companies under administration are not included in these financial statements.

2 Review of the Bank's risk profile [Example wording which must be tailored for the specific activities of the bank]

The Bank's financial instruments, other than derivatives, comprise deposits, money market assets and liabilities, some cash and liquid resources, and other various items that arise directly from its operations.

The Bank also enters into derivatives transactions (principally interest rate swaps and forward foreign currency contracts). The purpose of such transactions is to manage the interest rate and currency risks arising from the Bank's operations and other financial instruments.

The main risks arising from the Bank's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 199W.

Credit risk

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into with a member of the Group. The Group manages its credit risk centrally to optimise the use of credit availability and to avoid excessive risk concentration. The Group's Board of Directors receive regular reports on credit exposures at both Group and subsidiary levels. These include information on large credit exposures, asset concentration, industry exposures, levels of bad debt provisioning and country exposure limits.

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements (continued)

2 Review of the Bank's risk profile [Example wording which must be tailored for the specific activities of the bank] (continued)

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet commitments. The Bank monitors expected cash outflow for each of the next ten working days. Its policy throughout the year has been to ensure liquidity by maintaining at all times sufficient high quality liquid assets to cover the expected net cash outflow over the next five business days. The maturity analysis of the assets and liabilities are disclosed in the respective notes disclosed below.

The customer deposit base represents a stable source of funding due to the number and diversity of depositors. Liquidity is further managed through dealings in the money markets. At 31 December 199X xx% of the Bank's deposits and money market liabilities were due to mature in more than five years.

Interest rate risk

Exposure to interest rate risk is the risk that arises when there is an imbalance between rate- and non rate-sensitive assets, liabilities and off balance sheet items. The Bank's policy is to maintain the interest rate risk at a minimal level except that management may invest the shareholders' funds in fixed or floating rate instruments in response to market conditions. Interest rate swaps are used to manage the interest rate exposure.

The table in Note 3 shows management's estimate of the interest rate sensitivity gap as at 31 December 199X. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank's foreign exchange exposure arises from providing services to customers. The Bank's policy is to hedge against foreign exchange risks by engaging in forward currency transactions and currency swaps. The Group's Board of Directors receive regular reports on foreign currency exposures at both Group and subsidiary levels.

The table in note 8 shows the Bank's exposure to major currencies as at 31 December 199X.

[If the full narrative (as noted above) and numerical disclosures (as noted in notes 3, 8 and 12) in respect of the bank's risk profile as per the full accounts is not to be disclosed verbatim in the abridged accounts but included on a separate paper available to the public then the following paragraph should be inserted and notes 3, 8 and 12 can be omitted from the abridged accounts.

"In accordance with Financial Reporting Standard No 13 the directors have considered the use of financial instruments to manage its risks and have prepared a paper, which outlines the approach to and management of certain risks faced by the bank. This paper is available on request."]

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements (continued)

3 Interest rate sensitivity gap analysis

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The table below summarises these repricing mismatches on the Bank's non-trading book as at 31 December 199X and is representative of the whole year. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date, taking into account the effects of derivatives whose effect is to alter the interest basis of an asset or liability.

	Within 3 months £	After 3 months but within 6 months £	After 6 months but within 1 year £	After 1 year but within 5 years £	After 5 years £	Non- interest bearing funds £	Total £
Assets:							
Loans and advances to banks	x	x	x	x	x	x	x
Loans and advances to customers	x	x	x	x	x	x	x
Treasury and other eligible bills	x	x	x	x	x	x	x
Debt and equity securities	x	x	x	x	x	x	x
Other assets	x	x	x	x	x	x	x
Total assets	x	x	x	x	x	x	x
Liabilities:							
Deposits by banks	x	x	x	x	x	x	x
Customer accounts	x	x	x	x	x	x	x
Debt securities in issue	x	x	x	x	x	x	x
Subordinated liabilities	x	x	x	x	x	x	x
Other liabilities	x	x	x	x	x	x	x
Shareholders' fund	x	x	x	x	x	x	x
Total liabilities	x	x	x	x	x	x	x
Off balance sheet items	x	x	x	x	x	x	x
Interest rate sensitivity gap	x	x	x	x	x	x	x
Cumulative interest rate sensitivity gap at 31 December 199X	x	x	x	x	x	x	x
Cumulative interest rate sensitivity gap at 31 December 199W	x	x	x	x	x	x	x

This table does not take into account the effect of interest rate options used by the Bank to hedge interest rate risk. [Explanation of any significant variances from previous years must be disclosed].

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements (continued)

4 Maturities of certain assets and liabilities

Loans and advances to banks

	199X	199W
	£	£
Repayable:		
Up to one month	x	x
From one month to three months	x	x
From three months to one year	x	x
More than one year	x	x
	<u> </u>	<u> </u>
	£ x	£ x
	<u> </u>	<u> </u>

Deposits by banks and customer accounts

	199X	199W
	£	£
Repayable:		
Up to one month	x	x
From one month to three months	x	x
From three months to one year	x	x
More than one year	x	x
	<u> </u>	<u> </u>
	£ x	£ x
	<u> </u>	<u> </u>

5 Related party assets and liabilities

The following is a summary of assets and liabilities in respect of related parties:

	199X	199W
Assets	£	£
Cash, current accounts with banks, money at call	x	x
Loans and advances to banks	x	x
Loans and advances to customers	x	x
Investments	x	x
Debtors and other accounts	x	x
	<u> </u>	<u> </u>
	£ x	£ x
	<u> </u>	<u> </u>

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements (continued)

5 Related party assets and liabilities (continued)

	199X £	199W £
Liabilities		
Subordinated loan	x	x
Deposits by banks	x	x
Customer accounts	x	x
Creditors and other accounts including taxation	x	x
Proposed dividend	x	x
	<u>£ x</u>	<u>£ x</u>

6 Loans and advances

Loans and advances are stated after provisions for loan losses of £ (199W £). Interest on these loans has not been included in the financial statements.

7 Investments

Investments are stated at cost as it is the intention of the group to hold these investments as long term assets. The market values are £ (199W £) which is equivalent to their fair value.

8 Currency exposure

The currency exposure as at 31 December 199X is stated in the sterling equivalent.

	£	%	US\$	%	Euro	%	Other major currencies	%	Others	%	Total
Assets	x		x		x		x		x		x
Off-balance sheet assets	x		x		x		x		x		x
Liabilities including											
shareholders funds	(x)		(x)		(x)		(x)		(x)		(x)
Off-balance sheet liabilities	(x)		(x)		(x)		(x)		(x)		(x)
Net position at 31.12.9X	<u>x</u>		<u>x</u>		<u>x</u>		<u>x</u>		<u>x</u>		<u>x</u>
Net position at 31.12.9W	<u>x</u>		<u>x</u>		<u>x</u>		<u>x</u>		<u>x</u>		<u>x</u>

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements (continued)

9 Share capital

	199X	199W
	£	£
<i>Authorised:</i>		
Shares of each	£ x	£ x
	<u> </u>	<u> </u>
<i>Share capital allotted, called up and fully paid:</i>		
Shares of each	£ x	£ x
	<u> </u>	<u> </u>

10 Reserves

	Share Premium £	Revaluation £	Profit and Loss £	Total £
Balance at 1 January				
199X	x	x	x	x
Movement for the year	x	x		x
Retained profit for the year			x	x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December				
199X	<u> </u> x	<u> </u> x	<u> </u> x	<u> </u> x

11 Subordinated loan

The subordinated loan is due to . It is subordinate to all other liabilities of the company and is repayable in 20XX or earlier at the option of the company, with the agreement of the Guernsey Financial Services Commission, and bears interest at market rates.

12 Memorandum items, foreign exchange and interest rate contracts

In the normal course of business there are various outstanding commitments and contingent liabilities that are not reflected in the consolidated financial statements.

	Group 199X £	Company 199X £	Group 199W £	Company 199W £
<i>Contingent liabilities</i>				
Guarantees secured	x	x	x	x
Guarantees unsecured	x	x	x	x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u> £ x	<u> </u> £ x	<u> </u> £ x	<u> </u> £ x

ABC Bank (Guernsey) Limited and its subsidiary companies

Notes to the financial statements (continued)

12 Memorandum items, foreign exchange and interest rate contracts (continued)

	Group 199X	Company 199X	Group 199W	Company 199W
	£	£	£	£
<i>Commitments</i>				
Undrawn credit facilities				
over one year	x	x	x	x
one year or less	x	x	x	x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	£ x	£ x	£ x	£ x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The contractual amounts of contingent liabilities and commitments, which are credit related instruments, represent the amounts at risk should the contract be fully drawn upon and the client default.

Guarantees

The company has written guarantees of £x in respect of XYZ Bank Limited, a 100% subsidiary. XYZ Bank Limited had net assets of £x at 31 December 199X.

Exchange rate and interest rate contracts

Group and company	199X		199W	
	Contract amount	Replacement cost	Contract amount	Replacement cost
	£	£	£	£
Exchange rate contracts				
related parties	x	x	x	x
others	x	x	x	x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	£ x	£ x	£ x	£ x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Interest rate contracts				
related parties	x	x	x	x
others	x	x	x	x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	£ x	£ x	£ x	£ x
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The contractual amounts of the exchange rate and interest rate contracts indicate the volume of transactions outstanding at the balance sheet date: they do not represent amounts at risk. Replacement cost of contracts represents the mark to market assets on all contracts with a positive value (ie assets of the group/company). Replacement cost is therefore an approximation to the credit risk for these contracts as at the balance sheet date.

Included in the above table are interest rate contracts used for hedging purposes with a contract amount of £ . The carrying value of these contracts is £ and the fair value based on market rates is £ . [Where the unrecognised gains and losses on hedging contracts are significant FRS 13 requires further disclosure].

ABC Bank (Guernsey) Limited
and its subsidiary companies

Notes to the financial statements (continued)

13 Subsidiaries

Name	Percentage Holding %	Country of incorporation	Activity
DEF Limited			