



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Guidelines on Financial Reporting for Islamic Banking Institutions (GP8-i)

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BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions
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Table of Contents

PART A	OVERVIEW OF THE STANDARD.....	3
1.	Objective	3
2.	Legal provisions	4
3.	Applicability	4
4.	Effective date and transition	4
5.	Relationship with existing policies.....	5
6.	Policies superseded	5
PART B	REGULATORY REQUIREMENTS	6
7.	Compliance with accounting standards.....	6
8.	Minimum disclosure requirements	8
9.	Specific accounting treatments.....	16
10.	Requirements on the use of Fair Value option for financial instruments.....	16
PART C	SUBMISSION REQUIREMENTS.....	21
11.	Annual financial statements.....	21
12.	Interim financial reports	22
PART D	PUBLICATION REQUIREMENTS.....	24
13.	Annual financial reports	24
14.	Interim financial reports	25
Appendices.....		26
Appendix 1	Guidance on accounting policy of Shariah contracts.....	26
Appendix 2	Guidance on classification of Shariah contracts.....	27
Appendix 3	Illustration of disclosure requirements by Shariah contracts	28

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 3/31
---------------------	---	---	--------------

PART A OVERVIEW OF THE STANDARD

1. Objective

- 1.1 The objective of the Guidelines on Financial Reporting for Islamic Banking Institutions is to provide the basis for presentation and disclosure of reports and financial statements of Islamic banking institutions (IBIs) to facilitate users in their evaluation and assessment of the financial position and performance of the IBIs, the Shariah compatibility of the Islamic banking and finance activities and compliance with Malaysian Financial Reporting Standards (MFRS).
- 1.2 The Bank has engaged in constructive dialogue with MASB on the application of financial reporting standards to financial institutions, and the most suitable approaches to meet the financial reporting objectives under financial reporting standards and the objectives of prudential supervision which focus on financial institutions' financial soundness and the overall stability of the financial system. Where the objectives diverge, adjustments to accounting information or policies for prudential purposes may be needed, with appropriate disclosures to the market.
- 1.3 The requirements in the Guidelines comprise of three major parts namely:
- (a) PART B emphasises the regulatory requirements for compliance with MFRS approved by the MASB, minimum and additional disclosure requirements arising from the Shariah contracts applied in Islamic banking transactions, specific treatment arising from new and revised MFRS, and requirements on the use of fair value option;
 - (b) PART C provides the revised requirements for the submission of annual and interim financial reports and financial statements; and
 - (c) PART D provides the revised requirements for the publication of annual and interim financial reports and financial statements.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 4/31
---------------------	---	---	--------------

2. Legal provisions

- 2.1 The Guidelines are issued pursuant to section 18, subsection 19(1) and section 53A of the Islamic Banking Act 1983 (IBA) and sections 41, 42 and 126 of the Banking and Financial Institutions Act 1989 (BAFIA).

3. Applicability

- 3.1 These Guidelines are applicable to:
- (a) Islamic banks licensed under section 3(4) of the IBA; and
 - (b) Banks licensed under BAFIA and approved to carry on Islamic banking business under section 124 of the BAFIA¹.

The institutions are hereinafter referred to as 'reporting institutions'.

4. Effective date and transition

- 4.1 The Guidelines are effective for the financial year beginning on or after **1 January 2014**. However, reporting institutions may early adopt the Guidelines.
- 4.2 For initial implementation, reporting institutions shall provide sufficient comparative figures for the disclosures required. Where comparative figures are unavailable, a disclosure of that effect shall be made stating the reasons for the unavailability of such figures.
- 4.3 Reporting institutions are not allowed to early apply MFRS 9 Financial Instruments for financial year beginning before 1 January 2015.

¹ In addition to the requirement for **separate disclosure** of financial statements for Islamic banking operations (i.e. statement of financial position, statement of comprehensive income) as specified under the Guidelines on Financial Reporting for Banking Institutions (GP8), BAFIA institutions participating in Islamic Banking Scheme are subject to the disclosures specified in these guidelines.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 5/31
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5. Relationship with existing policies

5.1 This policy document shall be read together with the respective documents but not limited to such guidelines, as follows:

- (a) Guidelines on Submission of FISS Reports;
- (b) Classification and Impairment Provisions for Loans/Financing (BNM/RH/GL 007-17);
- (c) Shariah Governance Framework (BNM/RH/GL 012-3); and
- (d) Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3) (BNM/RH/GL 007-18)

6. Policies superseded

6.1 The following circulars and guidelines are withdrawn effective from 1 January 2014:

- (a) Guidelines on Financial Reporting for Licensed Islamic Banks (BNM/GP8-i) (BNM/RH/GL/002-2) issued on 1 July 2005; and
- (b) Circular on the Application of FRS and Revised Financial Reporting Requirements for Islamic Banks (BNM/RH/CIR/002-8) issued on 8 February 2010.

PART B REGULATORY REQUIREMENTS

7. Compliance with accounting standards

7.1 Reporting institutions shall ensure that their financial statements are prepared in accordance with the Malaysian financial reporting standards (MFRS) approved by MASB².

Accounting principles vis-à-vis Shariah principles

Differences in Islamic banking transactions vis-à-vis conventional banking transactions may arise from the application of the Shariah contracts that involve trade-related transactions, partnership-related transactions and profit and loss sharing transactions. It warrants therefore that, the accounting of each Islamic transaction be viewed closely to determine the most appropriate treatment taking into consideration both the Shariah and the economic effects of such transactions.

The Shariah Advisory Council of Bank Negara Malaysia (SAC) has resolved³ the applicability of the following accounting principles adopted in the financial reporting standards as being consistent with the broader view of Shariah principles:

- (a) Accrual basis, where the effect of a transaction and other events is recognised when it occurs (and not as cash or its equivalent is received or paid) and is recorded in the accounting records and reported in the financial statements of the periods to which it relates.
- (b) “Substance over form”, where the “form” and “substance” of the transaction must be consistent and shall not contradict one another. In

² In line with the MASB’s consultative approach, reporting institutions are to refer to MASB when there is divergence in practices regarding the accounting for a particular Shariah compliant transaction or event, or when there is doubt about the appropriate accounting treatment and the reporting institutions believe it is important that a standard treatment be established.

³ 16th SAC meeting (11 November 2000), 57th SAC meeting (30 March 2006) and 71st SAC meeting (26-27 October 2007).

the event of inconsistency between “substance” and “form”, the Shariah places greater importance on “substance” rather than “form”⁴.

- (c) Probability, where the degree of uncertainty that the future economic benefits associated with the transaction will flow to or from the reporting institution is considered in reference to the recognition criteria.
- (d) Time value of money, where a transaction involving time deferment, the asset (liability) is carried at the present discounted value of the future net cash inflow (outflow) that the transaction is expected to generate in the normal course of business. The application of time value of money is permissible only for exchange contracts that involve deferred payment and is strictly prohibited in loan transactions (*Qard*).

The application of the above accounting principles allows the reporting institution to adopt largely the financial reporting standards. Notwithstanding, the reporting institution is required to ensure that it takes into consideration the underlying Shariah contracts in applying the most appropriate accounting treatment (recognition, measurement, presentation and disclosure) on each Islamic banking transaction.

7.2 The board of directors shall ensure that the financial statements provide a true and fair view of the state of affairs and of the results of reporting institutions. This is consistent with the fiduciary and statutory duties placed on the board as persons responsible for managing the affairs of the reporting institution. Hence, the board must be satisfied that a sound financial reporting structure is in place to ensure the integrity and credibility of the financial statements.

⁴ For example, in a sell and buyback agreement (SBBA), due to the substance of the transaction being financing rather than a sale transaction, the overall effect of all the contracts involved in the transaction will be recorded as financing under MFRS. The financial assets sold under the SBBA will not be derecognised from the books.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 8/31
---------------------	---	---	--------------

- 7.3 Where a specific financial reporting requirement is prescribed in the Guidelines or **other guidelines** issued by the Bank for prudential reasons, reporting institutions shall comply with the prescribed requirement and disclose a statement to that effect.
- 7.4 Reporting institutions shall comply with the following key principles on disclosure of information:
- (a) information should be timely, relevant and up-to-date, to avoid undue delays in disclosure which may affect the relevance of the information being disclosed;
 - (b) the scope and content of information disclosed and the level of disaggregation and detail should be sufficient to provide comprehensive, meaningful⁵ and relevant information;
 - (c) adequate disclosures should be provided on areas of uncertainty, in particular information on key estimates, and if sensitivity analysis is used, the assumptions and the probabilities of the occurrence of various scenarios should be highlighted; and
 - (d) disclosures should allow comparisons over time and between institutions.

8. Minimum disclosure requirements

- 8.1 The requirements under this section refer specifically to disclosures which form part of the **financial statements**. Except for the minimum disclosure for Shariah Committee Report required under paragraph 8.4, the Guidelines do not deal with other disclosures provided by reporting institutions as part of the Annual Report (e.g. Director's Report, Statement on Corporate Governance).

⁵ For example, given the heterogeneity of users of financial reporting, background information on the wider economic environment a reporting institution operates in is necessary to provide sufficient information to understand the context for specific disclosures. Information should also be useful to support decision-making by users.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 9/31
---------------------	---	---	--------------

8.2 Reporting institutions shall make disclosures in the financial statements in accordance with the requirements of the MFRS, and include information specified under paragraphs 8.3 to 8.23 of these Guidelines.

8.3 Reporting institutions shall present a statement of financial position that groups assets and liabilities by nature, listed in an order that reflects the relative liquidity of the groups of assets and liabilities. Similarly, a statement of comprehensive income should reflect income and expenses grouped by nature, quantifying the principal types of income and expenses.

8.4 In meeting the requirement in paragraph 2.9 of the *Shariah Governance Framework for Islamic Financial Institutions* with respect to the state of compliance with Shariah principles, reporting institutions shall disclose the Shariah Committee's Report as part of the Annual Report and signed by not less than **two** Shariah Committee members. The Shariah Committee's Report shall contain the following information:

- (a) opening or introductory paragraph;
 - (i) identification of the purpose of the Shariah Committee's engagement; and
 - (ii) a clear statement of management's responsibility in ensuring compliance with Shariah principles;
- (b) scope paragraph describing the nature of the work performed;
 - (i) confirmation that the Shariah Committee has performed appropriate tests, procedures and review work as appropriate;
- (c) paragraph expressing the Shariah Committee's opinion on the reporting institution's **compliance with Shariah** in respect of;
 - (i) compliance of contracts and related documentation used;
 - (ii) appropriateness of Shariah basis of allocation of profit

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 10/31
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between shareholders and investment account holders;
and where appropriate

- (iii) disposal of any earnings from prohibited sources/means to charitable causes;
- (iv) compliance of zakat computation with Shariah; and
- (v) any known violations of fatwas, rulings and guidelines by the management of reporting institutions and action taken to remedy the violations.

Reporting institutions may refer to illustration provided in the *Shariah Governance Framework for Islamic Financial Institutions*.

8.5 The explanatory notes to be included in the annual financial statements of reporting institutions shall include the following information prescribed in 8.6 to 8.23.

8.6 Reporting institutions shall disclose the recognition and measurement accounting policies on the following:

- (a) each Shariah contract or main class of Shariah contract e.g. *Murabahah, Ijarah, Mudarabah, Istisna'*;
 - (i) Reporting institutions have the option of listing the accounting policy for each Shariah contract or group the Shariah contracts based on mutual accounting policy according to nature of transaction i.e. *Murabahah* financing, *Ijarah* financing, *Murabahah* placement (refer to guidance in Appendix 1).
 - (ii) In respect of paragraph 7.1, where reporting institutions have departed from a particular MFRS requirement due to Shariah prohibition **and** to achieve a fair presentation, the following shall be disclosed:
 - title of the MFRS from which reporting institutions have departed;
 - nature and reason of the departure; and

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 11/31
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- (iii) financial effect of the departure on each item in the financial statements that would have been reported in complying with the MFRS requirement.
 - (b) reporting institution's obligation on zakat, which may alternatively be disclosed under the Director's Report. Reporting institutions that **do not** pay zakat must also disclose to that effect. Reporting institutions that pay zakat shall disclose additional information regarding:
 - (i) responsibility towards zakat payment either on the business, and/or behalf of the shareholders;
 - (ii) method applied in the determination of zakat base e.g. growth method, working capital method; and
 - (iii) beneficiaries of zakat fund e.g. Baitul Mal, the poor, etc.
 - (c) income derived from Shariah non-compliant activities, which may alternatively be disclosed under the Director's Report or Shariah Committee's Report. Reporting institution shall disclose additional information regarding:
 - (i) nature of Shariah non-compliant activities;
 - (ii) amount of Shariah non-compliant income;
 - (iii) number of non- Shariah compliant events occurring during the year; and
 - (iv) rectification process and control measures to avoid recurrence of such Shariah non-compliant activities.
- 8.7 Reporting institutions shall disclose financing, receivables and other loans with a breakdown by:
- (a) measurement basis (e.g. amortised cost, fair value):
 - (i) for fair value through profit or loss, to disclose separately those designated as fair value upon initial recognition, and those classified as held-for-trading;
 - (b) types of financing (e.g. overdrafts, term financing, revolving credit, hire purchase, mortgage financing) and further

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 12/31
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breakdown by main Shariah contracts in table format (refer to Illustration 1 in Appendix 3):

- (i) reporting institutions shall disclose the significant ⁶ subclass(es) of the main contracts; and
 - (ii) the classification of main Shariah contracts and their subclasses shall at minimum follow the guidance set out in Appendix 2;
- (c) geographical distribution;
 - (d) profit rate sensitivity (e.g. fixed rate, variable rate);
 - (e) sector or economic purpose; and
 - (f) residual contractual maturity (e.g. up to 1 year, 1-5 years, > 5 years).
- 8.8 Reporting institutions shall disclose a movement schedule of impairment provisions segregated between individual impairment and collective impairment, showing separately the amount charged and the amount utilised to write-off impaired financing during the year.
- 8.9 Reporting institutions shall disclose financing, receivables and other loans classified as impaired⁷ (irrespective of whether provisions are made) with separate disclosures of:
- (a) a movement schedule showing separately the amount classified during the year as impaired, amount reclassified as non-impaired, amount recovered and amount written off; and
 - (b) a breakdown of impaired financing, receivables and other loans by geographical area and by sector or economic purposes.

⁶ Reporting institutions shall follow own internal policies and procedures in determining significant subclass of main Shariah contracts.

⁷ Refer to paragraph 11.1 of the *Guidelines on Classification and Impairment Provisions for Loans/Financing*.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 13/31
---------------------	---	---	---------------

- 8.10 Reporting institutions shall disclose a movement schedule of the *Qard* loan/financing which includes opening and closing balances, sources and uses of the fund (refer to Illustration 2 in Appendix 3).
- 8.11 Reporting institutions shall disclose for transactions that reflect acquisition or transfer of ownership prior to its subsequent sale, the carrying amount held for the purpose of *Murabahah* (cost plus sale) which can be transacted at spot or deferred basis (refer to Illustration 3 in Appendix 3).
- 8.12 Reporting institutions shall disclose for *Ijarah* (leasing that does not lead to transfer of ownership at the end of the leasing period), in the following manner:
- (a) carrying amount of assets held for the purpose of *Ijarah*; and
 - (b) extent of the transfer of usufruct (in percentage terms) from the *Ijarah* asset to the lessee over the *Ijarah* period under the terms of the *Ijarah* contract (refer to Illustration 4 in Appendix 3).
- 8.13 Reporting institutions shall disclose deposits from customers with a breakdown by:
- (a) types of deposits (e.g. savings, demand and term deposits) and further breakdown by contracts (e.g. *Wadiah*, *Qard*, *Murabahah* and hybrid⁸). For hybrid products, to disclose the contracts applicable (refer to Illustration 5 in Appendix 3);
 - (b) types of investment accounts (e.g. restricted investment account and unrestricted investment account) and further breakdown by contracts (e.g. *Mudarabah* and *Wakalah*) (refer to Illustration 5 in Appendix 3);
 - (c) types of customers (e.g. government, business enterprises); and

⁸ Hybrid contracts are identified as those deposit products which combine the application of two or more Shariah contracts.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 14/31
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(d) maturity structures of term deposits and investment accounts (e.g. < 6 months, 6-12 months, 1-3 years).

8.14 Reporting institutions shall disclose income with a breakdown by source of funds e.g. Islamic deposit, investment account, shareholder's funds and by categories of financial assets or liabilities. Finance income recognised for impaired financing, receivables and other loans⁹ shall be disclosed separately.

8.15 Reporting institutions shall disclose expenses with a breakdown by categories of financial assets or liabilities.

8.16 Reporting institutions shall disclose CEO, Directors' and Shariah Committee members' remuneration with a breakdown of types of remuneration¹⁰ (e.g. salary, fees, bonus, benefits-in-kind, retirement benefits), disclosed separately for the CEO, and each individual director, distinguishing between executive and non-executive directors, and Shariah Committee members.

8.17 Reporting institutions shall disclose capital:

(a) capital structure¹¹

- (i) common equity Tier 1 (CET 1) capital;
- (ii) additional Tier 1 capital;
- (iii) Tier 2 capital; and
- (iv) total capital

(b) capital adequacy

- (i) CET 1 capital ratio, Tier 1 capital ratio and Total capital ratio

⁹ Accrued in accordance with paragraph AG93 of MFRS 139 Financial Instruments: Recognition and Measurement.

¹⁰ Alternatively, to disclose under the Corporate Governance section.

¹¹ The definition should be similar to that prescribed under *Capital Adequacy Framework for Islamic Banks (Capital Components)*.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 15/31
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- 8.18 Reporting institutions shall disclose reserves with a breakdown by type (e.g. statutory reserves¹²) and purpose of reserves maintained. A movement schedule shall also be disclosed.
- 8.19 Reporting institutions shall disclose liquidity risk information¹³ incorporating an analysis of assets and liabilities in the relevant maturity tenures based on remaining contractual maturities.
- (a) In addition, reporting institutions may provide the analysis of assets and liabilities in the relevant maturity tenures based on their behavioural profile.
- 8.20 Reporting institutions shall disclose commitments and contingencies with a breakdown by types and amount distinguishing between contingent liabilities, commitments and derivative financial instruments.
- 8.21 Reporting institutions shall disclose sources (e.g. *gharamah* amount, Shariah non-compliance income, shareholder's funds) and uses of donations/charities fund (e.g. distribution to the poor, education fund).
- 8.22 The explanatory notes to be disclosed in the interim financial reports shall include the following information:
- (a) deposits from customers;
- (b) financing, receivables and other loans;
- (c) a movement schedule of impairment provisions;
- (d) financing, receivables and other loans classified as impaired¹⁴;
- (e) income and profit distributed;
- (f) capital; and
- (g) commitments and contingencies.

¹² Statutory reserves maintained in compliance with section 15 of IBA.

¹³ Disclosures should be in line with Principle 13 of the Principles for Sound Liquidity Risk management and Supervisions, Basel Committee on Banking Supervisions, September 2008.

¹⁴ Refer to paragraph 11.1 of the *Guidelines on Classification and Impairment Provisions for Loans/Financing*.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 16/31
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- 8.23 The breakdown for the above explanatory notes shall be consistent with that specified for annual financial statements (refer to paragraph 8.5).

9. Specific accounting treatments

- 9.1 For the financial statements and financial reports referred to under Part C and D of these Guidelines, the presentation currency shall be in Ringgit Malaysia.
- 9.2 For the purpose of disclosures of non-compliance with externally imposed capital requirements, the capital adequacy requirements prescribed under paragraph 5.1 of the *Guidelines on Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components)* shall apply.
- 9.3 Reporting institutions that are member institutions of Perbadanan Insurans Deposit Malaysia (PIDM) shall also comply with the disclosure requirements specified by PIDM.

10. Requirements on the use of Fair Value option for financial instruments

- 10.1 MFRS 139 specifies that a financial instrument shall be classified as *financial asset or financial liability at fair value through profit or loss*¹⁵ if the financial instrument is either classified either as *held-for-trading*, or upon initial recognition it is *designated* as at fair value through profit or loss (thereafter referred as 'fair value option'). The requirements in this section refer to financial instruments designated at fair value under the

¹⁵ Refer to sub-paragraph (b) *Definitions of Four Categories of Financial Instruments* under paragraph 9 of MFRS 139 *Financial Instruments: Recognition and Measurement*.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 17/31
---------------------	---	---	---------------

fair value option.

- 10.2 Reporting institutions applying the fair value option for portfolios of financial assets and liabilities and individual financial asset and liability shall do so in a manner that is consistent with both applicable financial reporting standards and the reporting institution's risk management and controls framework.
- 10.3 Reporting institutions should ensure that the effect on the use of the fair value option is understood by the board and its use is managed, monitored and reported to the senior management and the board in an effective and transparent manner. In this regard, reporting institutions are required to provide a one-time notification to the Bank of the intention to apply the fair value option and the scope of the fair value application on financial instruments as approved by the board, at least 1 month before the option is first applied.
- 10.4 The use of the fair value option must be supported by a sound governance structure, risk management systems and related risk management policies and procedures which ensure that:
- (a) there is an appropriate segregation of duties between those responsible for fair values used in the financial statements and those in the risk-taking functions;
 - (b) the use of the fair value option is consistent with the way the reporting institution measures and manages risk;
 - (c) the circumstances and conditions under which the fair value option is exercised by reporting institution are within the defined parameters and risk limits established and approved by its board for the use of the fair value option;
 - (d) appropriate valuation methods are being used;
 - (e) fair values are reliable for instruments in the fair value option category;
 - (f) risk management and control policies, as approved by the

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 18/31
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board, relating to the use of the fair value option and related valuation methodologies are consistently applied and complied with; and

- (g) appropriate information is provided periodically to the board or the audit committee on the use of the fair value option in particular where the fair value option is applied to illiquid instruments, and its impact on the bank's financial condition and performance. Documented procedures should be in place for the escalation of issues and exceptions to the board or the audit committee.

10.5 Reporting institutions shall not apply the fair value option to instruments where reliable estimates of fair values cannot be made or where the valuation methodology has proven to be unreliable.

10.6 Reporting institutions should establish procedures for approving the use of the fair value option for new items, products or transactions, as well as the related controls. When determining whether to apply the fair value option to a particular new instrument or class of instruments, a reporting institution should ascertain whether reliable fair values can be determined for those instruments. Existing risk management policies, procedures, and controls (including those related to valuation) may need to be revised or expanded to address the characteristics and risks of the new items, products or transactions to which the fair value option will be applied. New approvals must be consistent with the reporting institution's established parameters for using the fair value option.

10.7 Financial assets and liabilities designated at fair value under the fair value option should be captured in the reporting institution's risk measurement systems. The resulting exposure amounts should be included in internal reports that compare actual overall exposure to approved overall risk management limits.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 19/31
---------------------	---	---	---------------

- 10.8 Reporting institutions should ensure sufficient documentation to support the use of the fair value option. In particular, the policies for measurement and management of risk and reliable valuation should be well documented and applied to individual (and portfolios of) financial assets and liabilities designated at fair value through profit and loss. Where reporting institutions use supplementary risk management information that is not based on financial reporting principles (e.g. Value-at-Risk) for internal risk management purposes and significant differences arise between the measurement and management of risk and FRS, this should be properly documented and deliberated by the board or audit committee.
- 10.9 Reporting institutions shall assign specific responsibility for the determination of fair values used in the financial statements to persons outside the risk-taking functions. Financial assets and liabilities designated at fair value under the fair value option should be subject to the same rigorous valuation policies and practices applicable to other financial assets and liabilities measured at fair value. However, when applying the fair value option to illiquid instruments, reporting institutions should employ a more rigorous valuation process than is used for liquid instruments, including documenting the process for estimating fair value and reliability of valuation.
- 10.10 Where models are used (including changes to a valuation model) to value financial assets and liabilities designated at fair value under the fair value option, these should be verified by a qualified function (e.g. Model Verification Group) that is independent of risk-taking activities as part of a regular cycle of model validation. The validation process should include an assessment of the stability of models used in terms of performance over a variety of conditions and back-testing of model outputs. Model validation should be performed at regular intervals (e.g. annually) with regular reporting to senior management and the board.

- 10.11 The use of the fair value option should be monitored by a function (e.g. the finance or control functions) that is independent of the risk-taking activities within the reporting institution. The function should undertake the review of accounting policies and practices to ensure consistency with applicable financial reporting standards. Testing of individual transactions should also be taken to verify compliance with approved policies for the use of the fair value option. An independent process should be in place for approving and monitoring valuation adjustments for consistency and appropriateness. The results of independent reviews performed (including price verification differences and valuation adjustments and any changes to the method of determining such adjustments) should be documented and reported to senior management.
- 10.12 Where fair value is a critical component of financial performance, reporting institutions should establish a process for the review and reporting to senior management on profit or loss and the resulting impact on the overall financial condition at sufficiently frequent intervals during the financial reporting cycles (e.g. daily or weekly).
- 10.13 The appropriateness of a reporting institution's use of the fair value option, including the adequacy of the independent price verification procedures and controls, should be subject to a periodic review by internal audit. Reporting institutions shall promptly address any deficiencies identified in the use of the fair value option by internal and external auditors.
- 10.14 The Bank may require reporting institutions to submit supplemental information (including related risk management and valuation policies and practices) for the purpose of assessing the impact of the use of fair value option on risk, earnings and capital adequacy.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 21/31
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10.15 The Bank may also require any reporting institution to obtain an independent validation from an external auditor on the institution's compliance with the expectations under these guidelines. This may be exercised after taking into consideration the risk management systems, policies and procedures for the estimation of fair values or where the Bank has reason to believe that expectations under these guidelines have not been fully or satisfactorily met.

PART C SUBMISSION REQUIREMENTS

11. Annual financial statements

11.1 Reporting institutions shall submit the audited financial statements to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan, Bank Negara Malaysia, as applicable, within 3 months after the close of each financial year. Unless notified by the Bank in writing, reporting institutions shall not publish or lay the audited financial statements at its annual general meeting.

11.2 Reporting institutions shall submit to the Bank the annual financial statements with the following supporting schedules:

- (a) management letter prepared by the external auditors;
- (b) the (draft) annual financial statements of the subsidiaries that are major contributors to the group's profits, if applicable;
- (c) analysis, both in tabular and narrative form, on the overall assessment of the group's financial performance. The analysis of performance, for the current and preceding year, of each of the institution within the group, if applicable, which are major contributors to the group's profits shall at a minimum, include the following:
 - (i) total assets (in RM and % of group);

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 22/31
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- (ii) profit/(loss) before tax (in RM and % of group);
- (iii) profit/(loss) after tax (in RM and % of group);
- (iv) dividends (if any);
- (v) ratio of profit/(loss) before tax to average shareholders' funds; and
- (vi) ratio of profit/(loss) before tax to average total assets;
- (d) any other supplementary information as the Bank may specify.

11.3 Reporting institutions shall include a statement in the Directors' Report on compliance with the Bank's expectations on financial reporting, including those applicable under these guidelines and the *Guidelines on Classification and Impairment Provisions for Loans/Financing*.

12. Interim financial reports

12.1 For interim financial reports prepared on a quarterly (applicable for first and third quarter reporting) basis, reporting institutions are required to submit the interim financial reports to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan, Bank Negara Malaysia, as applicable, not later than 4 weeks after the end of the interim period. Unless notified by the Bank, reporting institutions shall disclose the interim financial reports in their respective websites not earlier than 5 working days after the final submission of the interim financial reports and relevant schedules to the Bank.

12.2 For interim financial reports prepared on a half-yearly basis (applicable for first half-year reporting), reporting institutions are required to submit the interim financial reports to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan, Bank Negara Malaysia, as applicable, not later than 4 weeks after the end of the interim period. Unless notified by the Bank in writing, reporting institutions shall not disclose (and/or submit to Bursa Malaysia, in the case of listed

reporting institution) the interim financial reports, in their respective websites.

12.3 In the submission of the interim financial reports, reporting institutions shall attach the following supporting schedules:

- (a) interim financial reports of principal subsidiaries;
- (b) certification by the officer primarily responsible for the financial management of the reporting institution that the interim financial reports are prepared in conformity with the financial reporting standards in Malaysia;
- (c) where an interim dividend is proposed:
 - (i) a certification by the external auditor of the reporting institution;
 - (ii) a statement by the board certifying the reporting institution's compliance with the Bank's supervisory expectations on financial reporting, including those applicable under the Guidelines on *Classification and Impairment Provisions for Loans/Financing*;
- (d) analysis, both in tabular and narrative form, of the overall assessment of the group's financial performance. The analysis of performance, for the current interim period and cumulatively for the current financial year to date and comparable interim period (current and year-to-date) of the preceding financial year, of each of the institution within the group, in which are major contributors to the group's profits shall at a minimum, include the following:
 - (i) total assets (in RM and % of group);
 - (ii) profit/(loss) before tax (in RM and % of group);
 - (iii) profit/(loss) after tax (in RM and % of group);
 - (iv) dividends (if any);
 - (v) ratio of profit/(loss) before tax to average shareholders' funds; and
 - (vi) ratio of profit/(loss) before tax to average total assets; and

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 24/31
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- (e) any other supplementary information as the Bank may specify.

PART D PUBLICATION REQUIREMENTS

13. Annual financial reports

- 13.1 Reporting institutions are required, pursuant to Section 18(1)(b) of the IBA, to publish (both own and consolidated financial reports, as applicable) within 14 days after the laying of the financial statements at its general meeting, in at least two local daily newspapers.
- 13.2 The two approved local daily newspapers, one of which shall be in the national language and the other in English, are:
- (a) Berita Harian or Utusan Malaysia; and
 - (b) The New Straits Times or The Star.
- 13.3 Reporting institutions may publish an abridged format of the annual audited financial statements in the newspapers if, and only if, the full text of the annual audited financial statements is made available in the respective reporting institutions' website. Reporting institutions shall include a prominent note stating that the full set of the financial statements is available on the institution's website, together with the address of the website¹⁶.
- 13.4 The abridged format of the financial statements (both the institution's and consolidated financial statements, as applicable) to be published in the newspapers shall, at the minimum, consist of the following:

¹⁶ For reporting institutions which do not have a website, the full set of the financial statements may be made available on the corporate website of the parent company provided that the note accompanying the abridged format of the financial statements states clearly that the full set of the financial statements is available on the parent company's corporate website with details provided on the exact URL that points to the webpage carrying the financial statements of the reporting institution.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 25/31
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- (a) a statement of financial position;
- (b) a statement of comprehensive income;
- (c) a statement of changes in equity;
- (d) a statement of cash flows;
- (e) Auditors' Report;
- (f) Shariah Committee Report; and
- (g) explanatory notes:
- (h) securities¹⁷ portfolio;
- (i) financing, receivables and other loans including movements in the impaired financing, receivables and other loans and, impairment provision accounts;
- (j) commitments and contingencies; and
- (k) capital¹⁸.

13.5 For the purpose of complying with the requirement to exhibit the audited financial statements under section 18(1)(a) of the IBA, reporting institutions may exhibit the abridged format of the financial statements at every office of the reporting institution.

14. Interim financial reports

14.1 Reporting institutions shall disclose in the websites the interim financial reports (both the reporting institutions' and consolidated financial statements, as applicable) prepared on a quarterly (applicable for first and third quarter reporting) and half-yearly basis, in their website, not later than 8 weeks after the close of the interim period¹⁹.

¹⁷ For example, financial instruments carried at fair value through profit or loss, available-for-sale and held-to-maturity.

¹⁸ Capital structure as prescribed under the *Capital Adequacy Framework for Islamic Banks (Capital Components)*.

¹⁹ For reporting institutions which do not have a website, the interim financial reports may be made available in the corporate website of its parent company.

BNM/RH/GL 008-18	Islamic Banking and Takaful Department	Guidelines on Financial Reporting for Islamic Banking Institutions	Page 26/31
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14.2 Where the audited financial statements for the preceding financial year has yet to be published by end of the eighth week after the close of the interim period, reporting institutions may disclose in the websites the first quarter interim financial reports on the same day or not later than 3 days after the publication of the annual audited financial statements.

APPENDICES

Appendix 1 Guidance on accounting policy of Shariah contracts

Example: Mutual accounting policy

Financial assets

1. Financing and receivables

Financing and receivables consist of *Murabahah*, *Ijarah* and *Musharakah* contracts. These contracts are initially recognised at fair value, including direct and incremental transactions costs, and subsequently measured at amortised cost using the effective yield method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

Income recognition

2. Income from financing and receivables

Income from financing and receivables are recognised in the income statement using the effective profit method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset. The calculation of the effective profit rate includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate.

Murabahah

Murabahah income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

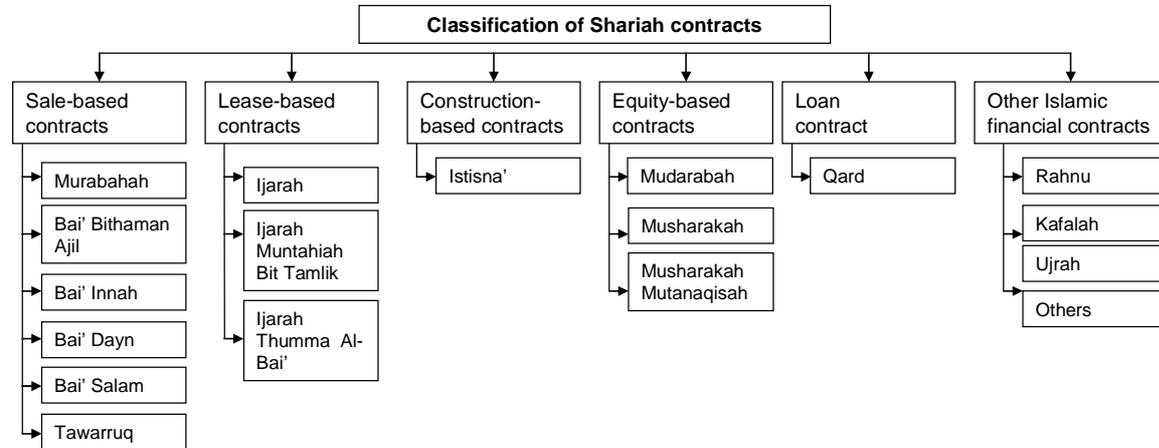
Ijarah

Ijarah income is recognised on effective profit rate basis over the lease term.

Musharakah

Income is accounted for on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield on the asset.

Appendix 2 Guidance on classification of Shariah contracts



Appendix 3 Illustration of disclosure requirements by Shariah contracts

1. Financing by types and Shariah contracts in table format

Type	Bai'	Ijarah	Istisna'	Musharakah	Qard	Others	Total financing, advances and other receivables
Cash Line	XX	XX	XX	XX	XX	XX	XX
Term Financing	XX	XX	XX	XX	XX	XX	XX
House Financing	XX	XX	XX	XX	XX	XX	XX
Syndicated Financing	XX	XX	XX	XX	XX	XX	XX
Hire purchase receivables	XX	XX	XX	XX	XX	XX	XX
Lease Receivables	XX	XX	XX	XX	XX	XX	XX
Other term financing	XX	XX	XX	XX	XX	XX	XX
Bills receivable	XX	XX	XX	XX	XX	XX	XX
Trust receipts	XX	XX	XX	XX	XX	XX	XX
Claims on customers under acceptance credits	XX	XX	XX	XX	XX	XX	XX
Staff financing of which RMXXX (20XX: RMXXX) are to Directors	XX	XX	XX	XX	XX	XX	XX
Credit/Charge cards	XX	XX	XX	XX	XX	XX	XX
Revolving credit	XX	XX	XX	XX	XX	XX	XX
Others	XX	XX	XX	XX	XX	XX	XX
Total financing, advances and other receivables	XX	XX	XX	XX	XX	XX	XX

2. Purpose and source of fund for *Qard* financing

Qard Financing	20XX
	RM'000
<i>As at 1 January 20XX</i>	xxx
<i>Sources of Qard fund:</i>	
<i>Depositors' fund</i>	xxx
<i>Shareholders' fund</i>	xxx
<i>Others</i>	xxx
	xxx
<i>Uses of Qard fund:</i>	
<i>Loans for asset purchase</i>	xxx
<i>Loans for education purposes</i>	xxx
<i>Microfinancing</i>	xxx
	(xxx)
<i>As at 31 December 20XX</i>	xxx

3. *Murabahah* inventories

Inventories	20XX
	RM'000
<i>Automobiles (cost)</i>	xxx
<i>Machines and equipment (cost)</i>	xxx
<i>Properties for resale (net realisable value)</i>	xxx
<i>Total inventories at lower of cost and net realisable value</i>	xxx
<i>All inventories are held for the purpose of Murabahah (cost plus sale) transactions which can be transacted at spot or on deferred basis.</i>	

4. *Ijarah* assets

Investment Properties	<i>Land</i> <i>RM'000</i>	<i>Building</i> <i>RM'000</i>	<i>Total</i> <i>RM'000</i>
<i>Fair value:</i>			
<i>As at 1 January 20XX</i>	xxx	xxx	xxx
<i>Addition</i>	xxx	xxx	xxx
<i>Disposal</i>	(xxx)	(xxx)	(xxx)
<i>Impairment loss</i>	(xxx)	(xxx)	(xxx)
<i>As at 31 December 20XX</i>	xxx	xxx	xxx
<i>Included in the fair value above are assets held for Ijarah:</i>			
		<i>RM'000</i>	<i>Extent of transfer of usufruct (%)</i>
<i>Land</i>		xxx	xxx
<i>Building</i>		xxx	xxx

Property and equipments	<i>Office equipments</i> <i>RM'000</i>	<i>Motor vehicles</i> <i>RM'000</i>	<i>Total</i> <i>RM'000</i>
<i>Cost:</i>			
<i>As at 1 January 20XX</i>	xxx	xxx	xxx
<i>Addition</i>	xxx	xxx	xxx
<i>Disposal</i>	(xxx)	(xxx)	(xxx)
<i>As at 31 December 20XX</i>	xxx	xxx	xxx
<i>Accumulated depreciation:</i>			
<i>As at 1 January 20XX</i>	xxx	xxx	xxx
<i>Addition</i>	xxx	xxx	xxx
<i>Disposal</i>	(xxx)	(xxx)	(xxx)
<i>As at 31 December 20XX</i>	xxx	xxx	xxx
<i>Net book value as at 31 December 20XX</i>	xxx	xxx	xxx
<i>Included in the net book value above are assets held for Ijarah:</i>			
			<i>RM'000</i>
<i>Office equipments</i>			xxx
<i>Motor vehicles</i>			xxx

5. Deposits from customers

Deposits from customers	20XX
	<i>RM'000</i>
<i>Savings deposit</i>	
<i>Wadiah</i>	xxx
<i>Qard</i>	xxx
<i>Mudarabah</i>	xxx
<i>Hybrid (Wadiah and Mudarabah)</i>	xxx
<i>Demand deposit</i>	
<i>Wadiah</i>	xxx
<i>Qard</i>	xxx
<i>Mudarabah</i>	xxx
<i>Hybrid (Qard and Mudarabah)</i>	xxx
<i>Term deposit</i>	
<i>Commodity Murabahah</i>	xxx
<i>Negotiable Islamic Debt Certificate (NIDC)</i>	xxx
<i>Unrestricted investment account</i>	
<i>Mudarabah</i>	xxx
<i>Wakalah</i>	xxx
<i>Restricted investment account</i>	
<i>Mudarabah</i>	xxx
<i>Wakalah</i>	xxx
	xxx
	xxx