OVERVIEW

1 Introduction

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 In August 2008, the Malaysian Accounting Standards Board (MASB) announced the convergence policy with International Financial Reporting Standards (IFRS) in 2012. Convergence with IFRS would entail full compliance with IFRS as a basis for financial reporting in Malaysia for interim and annual financial statements beginning on and after 1 January 2012, both in content and timing of implementation. 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:

(i) **PART A** emphasises the regulatory requirements for compliance with FRS approved by the Malaysian Accounting Standards Board (MASB), minimum and additional disclosure requirements arising from the Shariah contracts applied in Islamic banking transactions, specific treatment arising from new and revised FRS, and requirements on the use of fair value option;

(ii) **PART B** provides the revised requirements for the submission of annual and interim financial reports and financial statements; and

(iii) **PART C** provides the revised requirements for the publication of annual and interim financial reports and financial statements.

1.4 For statistical reporting under the Financial Institutions Statistical System (FISS), IBIs shall refer to the Guidelines on Submission of FISS Reports.

2 Applicability

2.1 The Guidelines shall be applicable to:

(i) Islamic banks licensed under the Islamic Banking Act 1983 (IBA);

(ii) Banks approved under section 124 of the Banking and Financial Institutions Act 1989 (BAFIA) to carry on Islamic banking business[1]; and

(iii) Banks approved under section 129 the Development Financial Institutions Act 2002 (DFIA)[2] to carry on Islamic banking business

(All the institutions thereafter referred to as 'reporting institutions').

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, BAFIA institutions participating in Islamic Banking Scheme are subject to the disclosures specified in these guidelines.

2 Included for the purpose of the industry consultation only. Final guidelines will be issued to DFIA's institutions separately.

3 Legal Provision

3.1 The Guidelines is issued pursuant to section 18, section 19(1) and section 53A of the IBA, section 41, section 42 and section 126 of the BAFIA and section 73, section 77 and section 126 of the DFIA.

4 Effective Date and Transition

4.1 The Guidelines is effective for the financial year beginning on or after 1 January 2013 and shall supersede all circulars and guidelines with respect to financial reporting issued prior to 31 December 2012. A list of the circulars and guidelines superseded is attached in Part D.

4.2 Notwithstanding the restatement or adjustment to the opening balances at the beginning of the financial year in which this circular and/or applicable financial reporting standards are first applied, retrospective restatement of the statutory reserves maintained in compliance with section 15 of the IBA is not required.

4.3 Reporting institutions are not allowed to early apply MFRS 9 Financial Instruments for financial year beginning before 1 January 2015.

PART A: REGULATORY REQUIREMENTS

5 Compliance with Accounting Standards

5.1 Reporting institutions shall ensure that their financial statements are prepared in accordance with the financial reporting standards approved by MASB to the extent that the standards are consistent with Shariah principles[3] and subject to any general or specific direction or other prescription contained in these guidelines.

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 elements and the economic effect.

The Shariah Advisory Council of Bank Negara Malaysia (SAC) has resolved[4] the applicability of the following accounting principles to be adopted in the financial reporting standards as being consistent with the broader view of Shariah principles:

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[3] Refer to *Statement of Principles (SOP) i-1: Financial Reporting from an Islamic Perspective* issued by the MASB. Paragraph 6 of SOP i-1 provides that "Shariah compliant transactions and events shall be accounted for in accordance with MASB approved accounting standards, unless there is a Shariah prohibition". In line with the MASB's consultative approach, reporting institutions to refer to the MASB when there are divergent 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.

[4] 16th SAC meeting (11 November 2000), 57th SAC meeting (30 March 2006) and 71st SAC meeting (26-27 October 2007).

(i) 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.

(ii) "Substance over form", where the "form" and "substance" of the transaction must be consistent and shall not contradict one another. In the event of inconsistency between "substance" and "form", the Shariah places greater importance on "substance" rather than "form"[5].

(iii) 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.

(iv) 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 debt- based 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.

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[5] For example, in a sell and buyback agreement (SBBA), due to the substance of the transaction is for financing rather than sales transaction, the financial reporting will record the overall effect of all contracts involved in the transaction as financing. The financial assets sold under the SBBA will not be derecognised from the books.

5.2 The board of directors is responsible to ensure that the financial statements provide a true and fair view of the state of affairs and of the results of the 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.

5.3 Where a specific accounting treatment is prescribed in the Guidelines for prudential reasons, reporting institutions shall comply with the prescribed treatment and disclose a statement to that effect.

5.4 Reporting institutions shall comply with the following key principles on disclosure of information:

(i) 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;

(ii) the scope and content of information disclosed and the level of disaggregation and detail should be sufficient to provide comprehensive, meaningful[6] and relevant information;

(iii) 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

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[6] 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.

(iv) disclosures should allow comparisons over time and between institutions.

6 Minimum Disclosure Requirements

6.1 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 6.4, 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).

6.2 Reporting institutions shall make disclosures in the financial statements in accordance with the requirements of the MFRS, and include information specified under paragraphs 6.5 to 6.7 of these Guidelines.

6.3 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.

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

(i) opening or introductory paragraph;

(a) identification of the purpose of the Shariah Committee's engagement; and

(b) a clear statement of management's responsibility in ensuring compliance with Shariah principles;

(ii) scope paragraph describing the nature of the work performed;

(a) confirmation that the Shariah Committee has performed appropriate tests, procedures and review work as appropriate;

(iii) paragraph expressing the Shariah Committee's opinion on the reporting institution's compliance with Shariah principles;

(a) the compliance of contracts and related documentation used with Shariah principles;

(b) the appropriateness of Shariah basis of allocation of profit between shareholders and investment account holders; and where appropriate

(c) the disposal of any earnings from prohibited sources/means to charitable causes;

(d) the compliance of zakat computation with Shariah; and

(e) any known violations of fatwas, ruling and guidelines by the management of the reporting institutions and action taken to remedy the violations.

6.5 The explanatory notes to be included in the annual financial statements of reporting institutions shall include the following information:

(i) disclosure of accounting policies on the following:

(a) each Shariah contract or main class of Shariah contract e.g. *Murabahah, Ijarah, Mudarabah, Istisna'*[7];

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[7] 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, *Murabahah* placement.

(b) reporting institution obligation on zakat e.g. responsibility towards zakat payment either on the business, and/or behalf of the shareholders.

(c) zakat disclosure on the following:
- method applied in the determination of zakat base;
- beneficiaries of zakat fund; and
- basis of distributing zakat fund to various beneficiaries.

Reporting institutions that do not pay zakat must also disclose to that effect.

(d) nature of income derived from Shariah non-compliant activities, including its amount, method of disposal and control measure to avoid recurrence of such prohibited income.

(ii) financing, receivables and other loans with a breakdown by:

(a) measurement basis (e.g. amortised cost, fair value):
- 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 breakdown by main Shariah contracts and their subclasses in table format (refer to Illustration 1 in Appendix):
- the main Shariah contracts shall at minimum consist of *Murabahah, Ijarah, Salam, Musyarakah*, *Istisna* and *Qard*;

Question 1:
• What would be the estimated additional costs incurred by the reporting institution arising from the disclosure requirement in 6.5(ii)(b)?
• BNM views that such disclosure requirement will benefit the stakeholders. Please explain the benefits that can exceed the additional costs incurred from such disclosure.

> Question 2: Since each main Shariah contract has a variety of subclasses, what would be the appropriate minimum disclosure requirement to improve the efficiency and usefulness of the discloure?

(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).

(iii) 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.

(iv) financing, receivables and other loans classified as impaired[8] (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.

(v) 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);

(vi) for transactions **other** than financing, receivables and other loans, for example transaction that reflect acquisition of ownership prior to its subsequent sale such as murabahah:

(a) a disclosure of carrying amount in reporting institution's inventories held for the purpose of murabahah (cost plus sale) transactions which can be transacted at spot or deferred basis (refer to Illustration 3 in Appendix).

(vii) for operating lease as in the case of ijarah, the transactions should be disclosed in the following manner:

(a) a disclosure of carrying amount in reporting institution's property and equipment or its investment properties held for the purpose of ijarah (leasing) transactions; and

(b) disclosure of the 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).

(viii) a disclosure of rahnu assets by types e.g. gold, jewellery.

(ix) deposits from customers with a breakdown by:

(a) types of deposits (e.g. savings, demand, Islamic negotiable instruments and short term deposits) and further breakdown by contracts (e.g. wadiah, qard and murabahah) (refer to Illustration 5 in Appendix);

(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);

(c) types of customers (e.g. government, business enterprises); and

(d) maturity structures of term deposits[9] (e.g. < 6 months, 6-12 months, 1-3 years).

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

[9] Including investment accounts and negotiable instruments of deposits.

(x) income and expenses with a breakdown by categories of financial assets or liabilities. Finance income recognised for impaired financing, receivables and other loans[10] should be disclosed separately;

(xi) other income and operating expenses with a breakdown of major item of income and expense;

(xii) CEO and Directors' remuneration with a breakdown of types of remunerations[11] (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;

(xiii) capital

(a) capital structure[12]

- eligible Tier 1 capital, with the following breakdown:
  - paid-up share capital
  - reserves, including retained earnings
  - minority interests in subsidiaries
  - innovative instruments
  - non-innovative instruments
  - other capital instruments
  - amounts deducted from Tier 1 capital
- the amount of Tier 2 capital, with the following breakdown:
  - subordinated term debt/sukuk
  - eligible reserves
  - amounts deducted from Tier 2 capital
- total capital base

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[10] Accrued in accordance with paragraph AG93 of *MFRS 139 Financial Instruments: Recognition and Measurement.*

[11] Alternatively, to disclose under the Corporate Governance section.

[12] The definition should be similar to that prescribed under the *Guidelines on Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components).*

(b) capital adequacy

- total risk weighted capital ratio and Tier 1 capital ratio shown separately before and after payment of dividends

(xiv) reserves with a breakdown by type (e.g. statutory reserves[13]) and purpose of reserves maintained. A movement schedule shall also be disclosed;

(xv) liquidity risk information[14] incorporating an analysis of assets and liabilities in the relevant maturity tenures based on remaining contractual maturities. Reporting institutions may also provide the analysis of assets and liabilities in the relevant maturity tenures based on their behavioural profile; and

(xvi) commitments and contingencies with a breakdown by types and amount distinguishing between contingent liabilities, commitments and derivative financial instruments.

6.6 The explanatory notes to be disclosed in the interim financial reports shall include the following information:

(i) deposits from customers;

(ii) financing, receivables and other loans;

(iii) a movement schedule of impairment provisions;

(iv) financing, receivables and other loans classified as impaired[15];

(v) income and profit distributed;

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[13] Statutory reserves maintained in compliance with section 15 of IBA.

[14] 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.*

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

(vi) capital; and

(vii) commitments and contingencies.

6.7 The breakdown for the above explanatory notes shall be consistent with that specified for annual financial statements (refer to paragraph 6.5).

7 Specific Accounting Treatments

7.1 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.

7.2 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.

7.3 Reporting institutions that are member institutions of Perbadanan Insurans Deposit Malaysia (PIDM) shall also comply with the disclosure requirements specified by PIDM.

8 Requirements on the Use of Fair Value Option for Financial Instruments

8.1 MFRS 139 specifies that a financial instrument shall be classified as *financial asset or financial liability at fair value through profit or loss*[16] 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

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

referred as 'fair value option'). The requirements in this section refer to financial instruments designated at fair value under the fair value option.

8.2 Reporting institutions applying the fair value option for portfolios of financial assets and liabilities and individual financial asset 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.

8.3 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.

8.4 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:

(i) 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;

(ii) the use of the fair value option is consistent with the way the reporting institution measures and manages risk;

(iii) 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;

(iv) appropriate valuation methods are being used;

(v) fair values are reliable for instruments in the fair value option category;

(vi) risk management and control policies, as approved by the board, relating to the use of the fair value option and related valuation methodologies are consistently applied and complied with; and

(vii) 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.

8.5 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.

8.6 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.

8.7 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.

8.8 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.

8.9 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.

8.10 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.

8.11 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.

8.12 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).

8.13 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.

8.14 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.

8.15 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 B: SUBMISSION REQUIREMENTS

9 Annual Financial Statements

9.1 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.

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

(i) management letter prepared by the external auditors;

(ii) the (draft) annual financial statements of the subsidiaries that are major contributors to the group's profits, if applicable;

(iii) 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:

(a) total assets (in RM and % of group);
(b) profit/(loss) before tax (in RM and % of group);
(c) profit/(loss) after tax (in RM and % of group);
(d) dividends (if any);
(e) ratio of profit/(loss) before tax to average shareholders' funds; and
(f) ratio of profit/(loss) before tax to average total assets; and

(iv) any other supplementary information as the Bank may specify.

9.3 Reporting institution 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*.

10 Interim Financial Reports

10.1 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.

10.2 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.

10.3 Where there is a proposed special or interim dividend, reporting institutions shall not disclose (and/or submit to Bursa Malaysia, in the case of a listed institution) the interim financial reports in their respective websites unless the proposed dividend has been approved by the Bank.

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

(i) interim financial reports of principal subsidiaries;

(ii) 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;

(iii) where an interim dividend is proposed:

(a) a certification by the external auditor of the reporting institution;

(b) 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*;

(iv) 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:

(a) total assets (in RM and % of group);
(b) profit/(loss) before tax (in RM and % of group);
(c) profit/(loss) after tax (in RM and % of group);
(d) dividends (if any);
(e) ratio of profit/(loss) before tax to average shareholders' funds; and
(f) ratio of profit/(loss) before tax to average total assets; and

(v) any other supplementary information as the Bank may specify.

PART C: PUBLICATION REQUIREMENTS

11 Annual Financial Reports

11.1 Reporting institutions are required, pursuant to Section 18 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.

11.2 The two approved local daily newspapers, one of which shall be in the national language and the other in English, are:

(i) Berita Harian or Utusan Malaysia; and

(ii) The New Straits Times or The Star.

11.3 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 are 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 website[17].

11.4 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:

(i) a statement of financial position;

(ii) a statement of comprehensive income;

(iii) a statement of changes in equity;

(iv) a statement of cash flows;

(v) Auditors' Report;

(vi) Shariah Committee Report; and

(vii) explanatory notes:

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[17] 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.

(a) securities[18] portfolio;

(b) financing, receivables and other loans including movements in the impaired financing, receivables and other loans and, impairment provision accounts;

(c) commitments and contingencies; and

(d) capital[19].

11.5 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.

12 Interim Financial Reports

12.1 Reporting institutions shall disclose in the websites the interim financial reports (both the institution's 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 period[20].

12.2 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.

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

19 Capital structure as prescribed under the *Guidelines on Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components)*.

20 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.

PART D: CIRCULARS AND GUIDELINES SUPERSEDED

With the issuance of the Guidelines, the following circulars and guidelines are withdrawn:

Circulars/ Guidelines Number	**Title**	**Date Issued**
BNM/RH/GL/002-2	Guidelines on Financial Reporting for Licensed Islamic Banks (BNM/GP8-i)	1 July 2005
BNM/RH/CIR/002-8	Circular on the Application of FRS and Revised Financial Reporting Requirements for Islamic Banks	8 February 2010

APPENDIX: Disclosure requirement by Shariah contracts

Illustration 1: Financing by types and Shariah contracts in table format

Contract / Type	Murabahah				Ijarah		Istisna'	Bai' Salam	Musharakah		Qard	Others	Total financing, advances and other receivables
	Murabahah Purchase Order	Bai' Inah*	Bai' Dayn	Tawarruq	Ijarah Muntahia Bittamleek	Ijarah Thumma Al-Bai'			Musharakah	Musharakah Mutanaqisah			
Cash Line	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Term Financing	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
House Financing	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Syndicated Financing	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Hire purchase receivables	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Lease Receivables	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other term financing	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Bills receivable	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Trust receipts	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Claims on customers under acceptace credits	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Staff financing of which RMXXX (20XX: RMXXX) are to Directors	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Credit/Charge cards	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Revolving credit	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Others	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Total financing, advances and other receivables	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX

* included in Bai' Inah is Bai' Bithaman Ajil.

Illustration 2: Purpose and source of fund for *Qard* financing

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

Illustration 3 – *Murabahah* Inventories

Inventories	*20XX* *RM'000*
Automobiles (cost)	*xxx*
Machines and equipment (cost)	*xxx*
Properties for resale (net realisable value)	*xxx*
Total inventories at lower of cost and net realisable value	*xxx*

All inventories are held for the purpose of Murabahah (cost plus sale) transactions which can be transacted at spot or on deferred basis.

Illustration 4 – *Ijarah* Assets

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

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

Illustration 5: Deposits from customer

Deposits from customer	*20XX*
	RM'000
Savings deposit	
Wadiah	*xxx*
Qard	*xxx*
Mudarabah	*xxx*
Demand deposit	
Wadiah	*xxx*
Qard	*xxx*
Mudarabah	*xxx*
Term deposit	
Commodity Murabahah	*xxx*
Negotiable Islamic Debt Certificate (NIDC)	*xxx*
Unrestricted investment account	
Mudarabah	*xxx*
Wakalah	*xxx*
Restricted investment account	
Mudarabah	*xxx*
Wakalah	*xxx*
	xxx

Question 3: What would be the appropriate presentation and disclosure for investment account if the financial instrument presents such characteristics as not being guaranteed by the reporting institution and having effective risk and reward transfer?

Question 4: How would the determination of profit sharing ratio under *Mudarabah* contract and performance incentive fee under *Wakalah* affect the presentation and disclosure?

Question 5: How would the investment mandate of unrestricted and restricted investment account affect the presentation and disclosure?