PART A OVERVIEW

1. Introduction

1.1 The Guidelines on Financial Reporting for Development Financial Institutions (the Guidelines) addresses requirements on the application of financial reporting standards and information to be disclosed in the financial statements of development financial institutions (DFIs).

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 For statistical reporting under the Development Financial Institutions Statistical System (DFISS), DFIs shall refer to the statistical reporting guidance notes issued by the Bank.

2. Applicability

2.1 The Guidelines is applicable to all DFIs prescribed under the Development Financial Institutions Act 2002 (DFIA) in the preparation of an institution's own and consolidated financial statements.

3. Legal Provision

3.1 The Guidelines is issued pursuant to sections 2(2), 73, 74, 76, 78 and 126 of the DFIA.

4. Effective Date and Transition

4.1 The Guidelines is effective for financial year beginning on and after 1 January 2013.

4.2 The requirements specified for disclosures related to Shariah matters (Paragraph 9 of Guidelines) is effective for the financial year beginning on or after 1 January 2014. However, DFIs may early adopt the requirements.

4.3 For Part C on Specific Disclosure Requirements, the following effective date applies:

(a) disclosure on developmental/ mandate achievements
– on and after 1 January 2014

(b) disclosure on Government funds
– on and after 1 January 2013

(c) disclosure on future outlook on strategic sectors
– on and after 1 January 2014 (earlier adoption is encouraged)

4.4 Notwithstanding the restatement or adjustment to the opening balances at the beginning of the financial year in which the Guidelines and/or applicable financial reporting standards is first applied, retrospective restatement of the statutory reserves maintained in compliance with section 39 of the DFIA is not required.

4.5 DFIs are not allowed to early apply MFRS 9 Financial Instruments for financial years beginning before 1 January 2015.

5. Relationship with existing policies

5.1 This policy document shall be read together with the respective documents but not limited to the following:

(a) statistical reporting guidance notes issued for reporting made under the Development Financial Institutions Statistical System (DFISS); and

(b) Shariah Governance Framework (BNM/RH/GL 012-3).

PART B REGULATORY REQUIREMENTS

6. Compliance with Financial Reporting Standards

6.1 DFIs shall ensure that financial statements are prepared in accordance with the financial reporting standards approved by MASB[1] subject to any accounting requirements specified in the 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 effects of such transactions.

The Shariah Advisory Council of Bank Negara Malaysia (SAC) has resolved[2] 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:

(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 the event of inconsistency between "substance" and "form", the Shariah places greater importance on "substance" rather than "form"[3].

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[1] 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.

[2] 16th SAC meeting (11 November 2000), 57th SAC meeting (30 March 2006) and 71st SAC meeting (26-27 October 2007).

[3] 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.

(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.

6.2 The board of directors is responsible to ensure that the financial statements are drawn up so as to give a true and fair view of the state of affairs and of the results of the DFIs. This is consistent with the fiduciary and statutory duties placed on the board as persons responsible for managing the affairs of the DFI. Hence, the board shall be satisfied that a sound financial reporting structure is in place to ensure the integrity and credibility of financial statements.

6.3 Where a specific accounting requirement is prescribed in the Guidelines or **other Guidelines** for prudential reasons, DFIs shall comply with the prescribed requirement and disclose a statement to that effect.

7. Specific Accounting Requirements

7.1 For the financial statements and financial reports referred to under Part D and Part E of the 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 7.1 of Capital Framework for DFIs shall apply.

7.3 DFIs that are member institutions of Perbadanan Insurans Deposit Malaysia (PIDM) shall also comply with 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*[4] if the financial instrument is either classified 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 fair value option.

8.2 DFIs 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 DFI's risk management and controls framework.

8.3 DFIs should ensure that the effect of 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, DFIs 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:

(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 DFIs measures and manages risk;

(c) the circumstances and conditions under which the fair value option is exercised by the DFIs 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;

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

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

(f) 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

(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 DFIs' 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 DFIs 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 DFIs should also 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, DFIs 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 DFIs' 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 DFIs' 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 DFIs 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 DFIs 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 financial reporting, this should be properly documented and deliberated by the board or audit committee.

8.9 DFIs 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, DFIs 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 DFIs. 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, DFIs 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 DFIs' 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. DFIs 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 DFIs 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 DFIs to obtain an independent validation from an external auditor on the institution's compliance with the expectations under the 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 the expectations under the Guidelines have not been fully or satisfactorily met.

9. Minimum Disclosure Requirements

9.1 The requirements under this section refer specifically to disclosures which form part of the **financial statements** and do not deal with other disclosures provided by DFIs as part of the Annual Report (e.g. Director's Report, Statement on Corporate Governance).

9.2 DFIs shall make disclosures in the financial statements in accordance with the requirements of the financial reporting standards, and include information specified under paragraphs 9.4 to 9.6 of the Guidelines.

9.3 DFIs shall comply with the following key principles on disclosure of information:

(a) information should be timely 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, meaningful[5] 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, a discussion on the assumptions and the probabilities of the occurrence of various scenarios; and

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

9.4 DFIs 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.

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

9.5 The explanatory notes to be disclosed in the annual financial statements of DFIs shall include the following information:

(a) deposits from customers with a breakdown by:

(i) types of deposits (e.g. demand, savings, term);

(ii) types of customers (e.g. Government, business enterprises); and

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

(b) loans, advances and financing with a breakdown by:

(i) measurement basis (e.g. amortised cost, fair value);

- for fair value through profit or loss, show separately those designated as fair value upon initial recognition, and those classified as held-for-trading.

(ii) types of loans/financing (e.g. overdrafts, term loans/financing, revolving credit, hire-purchase, housing loans/financing);

(iii) geographical distribution;

(iv) interest rate/profit rate sensitivity (e.g. fixed rate, variable rate);

(v) sector or economic purpose; and

(vi) residual contractual maturity (e.g. up to 1 year, 1-5 years, > 5 years).

(c) a movement schedule of impairment provisions segregated between individual impairment and collective impairment and showing separately the amount charged and the amount utilised to write-off impaired loans/ financing during the year.

(d) loans, advances and financing classified as impaired (irrespective of whether provisions are made) with separate disclosures of:

(i) 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

[6] Including investment deposits and negotiable instruments of deposits.

(ii) a breakdown of impaired loans, financing and advances by geographical area and by sector or economic purposes

(e) interest income and interest expenses[7] with a breakdown by categories of financial assets or liabilities. Interest income recognised for impaired loans, advances and financing[8] should be disclosed separately.

(f) non-interest income and other operating expenses with a breakdown of major items of income or expense.

(g) CEO and Directors' remuneration with a breakdown of types of remunerations[9] (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.

(h) capital

(i) capital structure[10]

- 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; and
  - amounts deducted from Tier 1 capital.

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[7] For Islamic banking activities, it refers to profit income and profit distributable

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

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

[10] The definition should be similar to that prescribed under the guidelines on *Capital Framework for DFIs issued in February 2008.*

- the amount of Tier 2 capital, with the following breakdown:
  - – government grants;
  - – subordinated term debt/sukuk;
  - – eligible reserves; and
  - – amounts deducted from Tier 2 capital.

- total capital base

(ii) capital adequacy

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

(i) reserves with a breakdown by type (e.g. statutory reserves[11]) and purpose of reserves maintained. A movement schedule shall also be disclosed.

(j) liquidity risk information[12] incorporating an analysis of assets and liabilities in the relevant maturity tenures based on remaining contractual maturities. DFIs may also provide the analysis of assets and liabilities in the relevant maturity tenures based on their behavioural profile.

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

[11] Statutory reserves maintained in compliance with section 39 of the DFIA.
[12] Disclosures should be in line with Principle 13 of the *Principles for Sound Liquidity Risk Management and Supervision, Basel Committee on Banking Supervision, September 2008.*

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

(a) deposits from customers;

(b) loans, advances and financing;

(c) a movement schedule of impairment provisions;

(d) loans, advances and financing classified as impaired;

(e) interest income and interest expenses;

(f) capital; and

(g) commitments and contingencies.

The breakdown for the above explanatory notes shall be consistent with that specified for annual financial statements (refer to paragraph 9.5).

10. Minimum Disclosure Requirements for Islamic Banking Business

10.1 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 10.4, 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).

10.2 DFIs shall make disclosures in the financial statements in accordance with the requirements of the MFRS, and include information specified under paragraphs 10.3 to 10.23 of the Guidelines.

10.3 DFIs 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.

10.4 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, DFIs 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 principles** in respect of the;

(i) compliance of contracts and related documentation used;

(ii) appropriateness of Shariah basis of allocation of profit 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, ruling 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.*

10.5 The explanatory notes to be included in the annual financial statements of DFIs shall include the following information prescribed in 10.6 to 10.23.

10.6 DFIs 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) DFIs 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 6.1, where DFIs 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 DFIs have departed;
- nature and reason of the departure; and

(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) DFI's obligation on zakat, which may alternatively be disclosed under the Director's Report. DFIs that do not pay zakat must also disclose to that effect. DFIs 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, orphanage, etc.

(c) income derived from Shariah non-compliant activities, which may alternatively be disclosed under the Director's Report of Shariah Committee's Report. DFIs 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 prohibited income.

10.7 DFIs 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 breakdown by main Shariah contracts in table format (refer to Illustration 1 in Appendix 3):

(i) reporting institutions shall disclose the significant[13] 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).

10.8 DFIs 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.

10.9 DFIs shall disclose financing, receivables and other loans classified as impaired (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.

10.10 DFIs 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).

10.11 DFIs shall disclose for transactions that reflect acquisition 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).

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

10.12 DFIs 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).

10.13 DFIs shall disclose 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, Murabahah and hybrid[14]). 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 2);

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

(d) maturity structures of term deposits15 (e.g. < 6 months, 6-12 months, 1-3 years).

10.14 DFIs 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 loans[16] shall be disclosed separately.

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

10.16 Reporting institutions shall disclose CEO and Directors' remuneration with a breakdown of types of remunerations[17] (e.g. salary, fees, bonus, benefits-in-kind, retirement benefits), disclosed separately for the CEO and each

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

15 Including investment accounts and negotiable instruments of deposits

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

17 Alternatively, to disclosure under the Corporate Governance section.

individual director, distinguishing between executive and non-executive directors.

10.17 Reporting institutions shall disclose capital:

(a) capital structure[18]

- 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; and
  - amounts deducted from Tier 1 capital.

- the amount of Tier 2 capital, with the following breakdown:
  - government grants;
  - subordinated term debt/sukuk;
  - eligible reserves; and
  - amounts deducted from Tier 2 capital.

- total capital base

(b) capital adequacy

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

10.18 DFIs shall disclose reserves with a breakdown by type (e.g. statutory reserves[19]) and purpose of reserves maintained. A movement schedule shall also be disclosed.

10.19 DFIs shall disclose liquidity risk information[20] incorporating an analysis of assets and liabilities in the relevant maturity tenures based on remaining contractual maturities.

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[18] The definition should be similar to that prescribed under Capital Framework for DFIs

[19] Statutory reserves maintained in compliance with section 39 of DFIA

(a) In addition, reporting institutions may provide the analysis of assets and liabilities in the relevant maturity tenures based on their behavioural profile.

10.20 DFIs shall disclose commitments and contingencies with a breakdown by types and amount distinguishing between contingent liabilities, commitments and derivative financial instruments.

10.21 DFIs shall disclose sources (e.g. gharamah amount, Shariah non-compliance income, shareholder's funds) and uses of donations/charities fund.

10.22 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 impaired;
(e) income and profit distributed;
(f) capital; and
(g) commitments and contingencies.

10.23 The breakdown for the above explanatory notes shall be consistent with that specified for annual financial statements (refer to paragraph 10.5).

[20] Disclosures should be in line with Principle 13 of Principles for Sound Liquidity Risk Management and Supervision, Basel Committee on Banking Supervision, September 2008.

PART C SPECIFIC DISCLOSURE REQUIREMENTS

11. Specific Disclosure on Developmental/ Mandate Achievements

11.1 DFIs shall also disclose in a dedicated/ specific segment of the annual report, a high-level impact analysis of its mandated activities performed. Disclosures to be made shall include the DFIs strategic objectives, methodology used for its performance measurement e.g. Balanced Scorecard (BSC) and its Key Performance Indicators (KPIs) identified with disclosures on the strategic actions, target set and the actual achievements for the financial year.

11.2 As performance measurement is crucial in assessing DFIs' achievement in performing its mandated roles, the performance indicators shall reflect both the financial and non-financial indicators to be achieved by DFIs. The indicators identified should be specific, measurable, achievable/ attainable, relevant and time-bound (SMART principles). For reporting purposes, disclosure on DFIs performance measurement shall focus on three (3) areas as follows:

- 11.2.1 development outcome – impact of DFIs overall operation to the targeted sector (high level impact analysis)
- 11.2.2 mandated sector output – DFIs contribution to the development of strategic sector (institutional achievements)
- 11.2.3 organisational soundness – DFIs capacity and capability to support developmental activities (institutional fundamental requisites e.g. financial sustainability).

11.3 In highlighting the impact analysis above, DFIs should separately distinguish its three (3) performance measurement areas into relevant time frame between short term (< 1 year), medium term (between 1 to 5 years) and long term (> 5 years) accordingly.

11.4 For guidance on the disclosure of developmental/ mandate achievements above, DFIs may refer to Appendix 4 of this Guidelines.

12. Specific Disclosure on Government Funds

12.1 DFIs should also disclose in the annual report the government funds received/ allocations made for a specific purpose, where at minimum it should cover:

(i) the fund objectives and purposes;

(ii) the sources, type and tenure of fund received (e.g. funding received from Ministry of Finance in a form of soft loan for 5 years);

(iii) specify the DFIs' role either as a financier (DFI bear the credit risk) or as an agent for the Government (the risks are borne by the Government); and

(iv) performance of the government funds which includes allocation received, outstanding loan/financing, fund available and the outreach achieved (i.e. no of borrowers assisted).

13. Future Outlook on Strategic Sectors

13.1 DFIs are required to provide outlook of their strategic sectors for the subsequent year, the expectations and opportunities, as well as the strategy and direction of the DFIs based on the business environment predicted. This may also include:

(i) Strategic goals and objectives on the respective sector served by the DFIs; and

(ii) Summary on challenges, proposed resource allocation and targets set.

PART D SUBMISSION REQUIREMENTS

14. Annual Financial Statements

14.1 Pursuant to section 73 of the DFIA, DFIs shall submit audited financial statements to Jabatan Penyeliaan Perbankan, Bank Negara Malaysia, as applicable, within 3 months after the close of each financial year. Pursuant to section 73(3) of DFIA, the audited financial statements laid before the general meeting or submitted to the Registrar-General of Co-operative Societies shall be in the form as specified by the Bank.

14.2 DFIs 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 any subsidiaries which are major contributors to the group's profits;

(c) analysis, both in tabular and narrative form, of the overall assessment of the group's financial performance. The analysis of performance, for the current and preceding year, of each institution within the group 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

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

14.3 DFIs shall include a statement in the Directors' Report on compliance with the Bank's expectations on financial reporting, including those applicable under the Guidelines.

15. Interim Financial Reports

15.1 For interim financial reports prepared on a quarterly basis (applicable for first and third quarter reporting), DFIs are required to submit the financial reports to Jabatan Penyeliaan Perbankan, Bank Negara Malaysia, as applicable, not later than 4 weeks after the end of each interim period. Unless notified by the Bank, DFIs 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.

15.2 For interim financial reports prepared on a half-yearly basis (applicable for first half-year reporting), DFIs are required to submit the financial reports to 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, DFIs shall not disclose the interim financial reports in their respective websites.

15.3 Where there is a proposed interim dividend, DFIs shall not disclose the interim financial reports in their respective websites unless the proposed dividend has been approved by the Bank.

15.4 In the submission of the interim financial reports, DFIs 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 DFIs 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 DFIs; and

(ii) a statement by the board certifying the DFIs' compliance with the Bank's expectations on financial reporting, including those applicable under the Guidelines;

(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 institution within the group 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

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

PART E PUBLICATION REQUIREMENTS

16. Annual Financial Statements

16.1 Pursuant to section 78 of the DFIA, DFIs shall publish a complete set of the financial statements (both the institution's and consolidated financial statements) within 14 days after the laying of the financial statements at its general meeting, in at least two local daily newspapers.

16.2 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

16.3 DFIs 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 on the respective DFI's website. DFIs 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.

16.4 The abridged format of the financial statements (both the institution's and consolidated financial statements) to be published in the newspapers shall, at a minimum, consist of the following[21]:

(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 on:
(i) securities[22] portfolio;

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[21] For Islamic banking businees, DFIs are required to publish the similar abridged format as appended below.

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

(ii) loans, financing and advances including movements in the impaired loans and impairment provision accounts;

(iii) commitments and contingencies; and

(iv) capital.

16.5 For the purpose of complying with the requirement to exhibit the audited financial statements under section 78 of the DFIA, DFIs may exhibit the abridged format of the financial statements at every office of the DFIs.

17. Interim Financial Reports

17.1 DFIs shall disclose in the websites the interim financial reports (both the institution's and consolidated financial statements) prepared on a quarterly (applicable for first and third quarter reporting) and half-yearly basis, not later than 8 weeks after the close of the interim period.

17.2 Where the audited financial statements for the preceding financial year has yet to be published by the end of the eighth week after the close of the interim period, DFIs 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.

PART F APPENDIX

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.

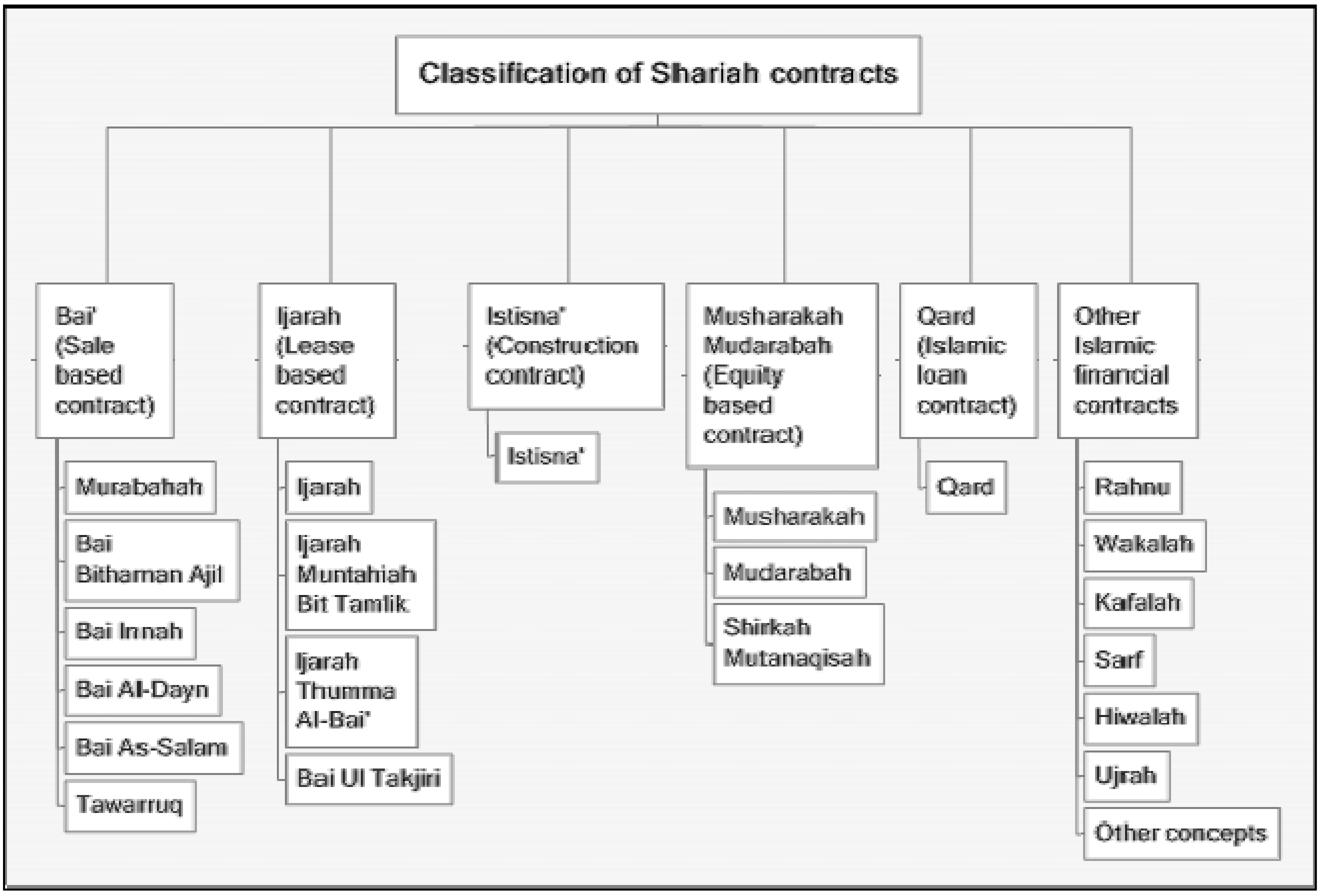
Ijarah

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 acceptace 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

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*

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.

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*

5. Deposits from customers

Deposits from customers	*20XX*
	RM'000
Savings deposit	
Wadiah	*xxx*
Qard	*xxx*
Mudarabah	*xxx*
Hybrid (Wadiah and Mudarabah)	*xxx*
Demand deposit	
Wadiah	*xxx*
Qard	*xxx*
Mudarabah	*xxx*
Hybrid (Qard and 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

Appendix 4 Illustration of disclosure on developmental/ mandate achievements

Disclosure on strategic goals, objectives, respective KPIs & achievements made:

- DFIs to adopt the outcome-driven approach by outlining the strategic objectives, methodology used, its respective KPIs & achievements.
- Performance are measured based on three (3) focus areas as follows:
    - Development outcomes;
    - Mandated sector output; and
    - Organisational soundness.
- Disclosure made to be segregated between short term (less than 1 year), medium term (between 1-5 years) and long term goals (more than 5 years).

<table>
<tr><td rowspan="11">SHORT/ MEDIUM/LONG TERM</td><td colspan="4">Development outcomes</td></tr>
<tr><td>Objective</td><td>Strategic actions</td><td>Performance target</td><td>Actual Performance</td></tr>
<tr><td colspan="4">High level impact analysis on DFIs achievement</td></tr>
<tr><td>Example
• contribution to the development of targeted sectors</td><td>Nurturing & development initiatives undertaken</td><td>• No. of successful businesses nurtured
• No. of SMEs graduated to larger enterprise</td><td>• Indication of actual performance
• Include relevant comments (if did not achieve target set)</td></tr>
<tr><td colspan="4">Mandated sector output</td></tr>
<tr><td colspan="4">Institutional achievements in supporting the needs of targeted sectors</td></tr>
<tr><td>Example
• Provision of means for savings to rural community</td><td>Initiatives undertaken to inculcate savings & education on financial literacy</td><td>• No. of programmes organised
• Deposit growth from rural areas</td><td rowspan="3">• Indication of actual performance
• Include relevant comments (if did not achieve target set)</td></tr>
<tr><td>• Provision of financing on mandated sectors served</td><td>Initiatives in managing and strengthening quality of assets</td><td>• Loan portfolio growth</td></tr>
<tr><td>• Implementation of Government specific initiatives</td><td>Initiatives to enhance public awareness

Efforts in managing Government initiatives effectively</td><td>• Roadshows/ marketing initiatives
• Lending growth
• Collection & recoveries target</td></tr>
<tr><td>• Provision of advisory and consultancy services</td><td>Initiatives to provide value-added services in developing & nurturing SMEs</td><td>• No. of business supported/ assisted</td><td>• Indication of actual performance
• Include relevant comments (if did not achieve target set)</td></tr>
</table>

	Organisational Soundness			
	Objective	**Strategic actions**	**Performance target**	**Actual Performance**
	Institutional requisites to facilitate DFIs in achieving mandated activities			
	Example: • *Achieve financial sustainability* • *Reduce dependency on Government's assistance*	*Initiatives undertaken to maintain safe and sound operating conditions*	• *Operational self sufficiency (e.g. earnings, cost to income ratio, fee and interest income)* • *Financial self dependency*	• *Indication of actual performance* • *Include relevant comments (if did not achieve target set)*