



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **Financial Reporting for Islamic Banking Institutions**

Applicable to:

1. Licensed Islamic banks
2. Licensed banks and licensed investment banks approved to carry on Islamic banking business
3. Financial holding companies

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BNM/RH/PD 033-9

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## **PART A OVERVIEW**

### **1. Introduction**

- 1.1 The Malaysian Financial Reporting Standards (MFRS) which serve as a basis for financial reporting in Malaysia have been fully converged with the International Financial Reporting Standards (IFRS) from 1 January 2012. Ongoing improvements of these standards have contributed to a greater alignment between financial reporting and prudential frameworks. Notwithstanding these positive developments, the increasingly more principle-based financial reporting standards and the substantial degree of judgment required under the financial reporting standards can continue to result in divergent outcomes between the objectives of financial reporting and prudential regulation, which is primarily concerned with promoting financial stability.
- 1.2 Recognising this potential dichotomy, an Islamic financial institution is required under the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA) to prepare its financial statements in accordance with the MFRS, subject to any standards as may be specified by the Bank to reflect specific modifications or exceptions to the MFRS. The Bank envisages that such modification or exceptions will only become necessary in circumstances where alternative prudential measures would not be adequate to promote the financial resilience of the Islamic financial institution or address threats to financial stability. Where such modifications or exceptions are specified by the Bank, this must be accompanied by a disclosure of that fact by the Islamic financial institution.

#### **Policy objective**

- 1.3 This policy document clarifies and sets minimum expectations for the application of the MFRS to an Islamic financial institution. It also aims to ensure adequate disclosures by an Islamic financial institution in the financial statements to improve comparability for users of financial statements and better facilitate the assessment of an Islamic financial institution's financial position, performance and Shariah compliance.

#### **Scope of policy**

- 1.4 This policy document sets out:
- (a) the specific requirements on the application of the MFRS;
  - (b) information to be disclosed in the financial statements including those arising from the Shariah contracts applied in Islamic banking transactions;
  - (c) application requirements for approval of a dividend payment; and
  - (d) requirements on submission and publication of the financial statements.

## 2. Applicability

- 2.1 This policy document is applicable to an Islamic financial institution as defined in paragraph 6.2.

## 3. Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to section 29(1)(b), section 57(1), section 60, section 65(2)(d), section 73, section 74, section 75, section 155(2) and section 277 of the IFSA.

## 4. Effective date

- 4.1 Except for the requirements in paragraph 10.10, this policy document shall apply to financial statements with financial years beginning on or after 1 January 2019.
- 4.2 The requirements in paragraph 10.10 come into effect on 1 October 2019 and shall be applied prospectively.
- 4.3 An Islamic financial institution shall notify the Bank (one-time notification) of its intention to apply the fair value option under MFRS 9 *Financial Instruments* (MFRS 9) and the scope of the fair value application to financial instruments as approved by the board, at least one month before the option is first applied. The notification must be supplemented with relevant extracts of board minutes detailing the list of financial instruments approved by the board to apply the fair value option and the intended date of the application of the fair value option.

## 5. Level of application

- 5.1 An Islamic financial institution is required to comply with the requirements in this policy document in the preparation and publication of its separate financial statements and consolidated financial statements.

## 6. Interpretation

- 6.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and IFSA unless otherwise defined in this policy document.
- 6.2 For the purpose of this policy document:

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement actions;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**Islamic banking institution**” means a licensed person which is:

- (a) a licensed Islamic bank except for licensed international Islamic bank; or
- (b) a licensed bank or licensed investment bank approved by the Bank to carry on Islamic banking business under section 15 of the FSA;

“**Islamic financial institution**” means an Islamic banking institution and a financial holding company approved by the Bank<sup>1</sup>;

“**separate financial statements**” and “**consolidated financial statements**” shall have the same meaning as set out in MFRS 127 *Separate Financial Statements* and MFRS 10 *Consolidated Financial Statements*.

## 7. Related legal instruments and policy documents

- 7.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular–
- (a) *Credit Risk*;
  - (b) *Capital Adequacy Framework for Islamic Banks (Capital Components)*; and
  - (c) *Reference Rate Framework*.

## 8. Policy documents superseded

- 8.1 This policy document supersedes the policy document on *Financial Reporting for Islamic Banking Institutions* issued on 2 February 2018.

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<sup>1</sup> Pursuant to section 124 of the IFSA.

## PART B REGULATORY REQUIREMENTS

### 9. General requirements

- S** 9.1 Pursuant to section 74 of the IFSA, an Islamic financial institution shall ensure that it prepares its financial statements in accordance with the MFRS<sup>2</sup> subject to the requirements specified in paragraph 10 and shall disclose a statement to that effect in the financial statements.
- G** 9.2 The Islamic financial institution should take into account of the differences between Islamic banking transactions and conventional banking transactions which may arise from the application of the Shariah contracts that involve, for example, trade-related transactions, partnership-related transactions and profit and loss sharing transactions. An Islamic financial institution should therefore consider both the Shariah and the economic effects of such transactions to determine the most appropriate accounting treatment.
- S** 9.3 An Islamic financial institution shall comply with the resolutions of the Shariah Advisory Council of Bank Negara Malaysia (SAC)<sup>3</sup> on the applicability of the following accounting principles adopted in the MFRS 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”<sup>4</sup>;
  - (c) probability, where the degree of uncertainty that the future economic benefits associated with the transaction will flow to or from the Islamic financial institution is considered in reference to the recognition criteria; and
  - (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

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<sup>2</sup> In line with the MASB’s consultative approach, an Islamic financial institution is 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 Islamic financial institution believe it is important that a standard treatment be established.

<sup>3</sup> Resolutions achieved at the 16<sup>th</sup> SAC meeting (11 November 2000), 57<sup>th</sup> SAC meeting (30 March 2006) and 71<sup>st</sup> SAC meeting (26-27 October 2007).

<sup>4</sup> 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 the MFRS. The financial assets sold under the SBBA will not be derecognised from the books of the seller.

is permissible only for exchange contracts that involve deferred payment and is strictly prohibited in loan transactions (*qard*).

- S** 9.4 The board is responsible for ensuring 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 business of the Islamic financial institution. This is consistent with the fiduciary and statutory duties placed on the board as persons responsible for managing the affairs of the Islamic financial institution. Hence, the board shall be satisfied that a sound financial reporting structure is in place to ensure the integrity and credibility of the financial statements.
- S** 9.5 For financial instruments that are measured at fair value, an Islamic financial institution shall ensure that sound risk management and control processes<sup>5</sup> around their measurement<sup>6</sup> are in place.
- S** 9.6 An Islamic financial institution shall ensure that sound methodologies for assessing credit risk and measuring the level of loss allowance are in place<sup>7</sup>. The methodologies employed must incorporate sufficient level of prudence and that the aggregate amount of loss allowance must be adequate to absorb the inherent losses in the credit portfolio.

## 10. Specific requirements on the application of the MFRS

- S** 10.1 The financial statements and financial reports referred to under Part C and Part D of this policy document shall be presented in Malaysian ringgit (RM).
- S** 10.2 For the purpose of disclosures of non-compliance with externally imposed capital requirements, the relevant capital adequacy requirements shall refer to the minimum capital adequacy ratios as set out in *Capital Adequacy Framework for Islamic Banks (Capital Components)*.
- S** 10.3 An Islamic banking institution that is a member institution of Perbadanan Insurans Deposit Malaysia (PIDM) shall also comply with the disclosure requirements specified by PIDM.
- S** 10.4 An Islamic financial institution shall not account for the investments in associates and joint ventures using the equity method described in MFRS 128 *Investment in Associates and Joint Ventures* in the preparation of its separate financial statements.

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<sup>5</sup> An Islamic financial institution may refer to the expectations set out in the *Supervisory Guidance for Assessing Banks' Financial Instrument Fair Value Practices*, Basel Committee on Banking Supervision, April 2009 and *Supervisory Guidance on the Use of the Fair Value Option for Financial Instruments by Banks*, Basel Committee on Banking Supervision, June 2006.

<sup>6</sup> Refer to MFRS 13 *Fair Value Measurement*.

<sup>7</sup> A financial institution is encouraged to adopt the principles and guidance set out in the *Guidance on Credit Risk and Accounting for Expected Losses*, Basel Committee on Banking Supervision, December 2015.

- S** 10.5 An Islamic financial institution shall present the carrying amount and income and expenses related to Islamic deposit and investment account in separate line items in its separate financial statements and consolidated financial statements.
- S** 10.6 Where the Islamic banking institution has not recognised the investment account as a financial liability in its separate financial statements and consolidated financial statements, the Islamic banking institution shall present the carrying amount of the off-balance sheet investment account separately from its commitments and contingencies. (Refer to Appendix 1 for illustration).
- S** 10.7 Pursuant to paragraph 10.6, an Islamic banking institution shall also disclose a total carrying amount of the Islamic banking assets in the statement of financial position of its separate financial statement. The total Islamic banking assets shall be calculated as the sum of total assets and financial assets which are funded by the investment account which are recognised off-balance sheet. (Refer to Appendix 1 for illustration).
- S** 10.8 For placement of funds in an investment account with an Islamic banking institution, an Islamic financial institution shall-
- (a) present the placement, as separate line item in the statement of financial position, as either “investment account placement” or “investment account placement – asset description”; and
  - (b) disclose in the explanatory notes the nature of the underlying assets for the investment.
- S** 10.9 In applying the impairment requirements under MFRS 9, an Islamic banking institution must maintain, in aggregate, loss allowance for non-credit-impaired exposures<sup>8</sup> and regulatory reserves of no less than 1% of total credit exposures<sup>9,10</sup>, net of loss allowance for credit-impaired exposures.
- S** 10.10 An Islamic banking institution shall classify a credit facility as credit-impaired–
- (a) where the principal or profit or both<sup>11</sup> of the credit facility is past due for more than 90 days or 3 months;
  - (b) in the case of revolving credit facilities (e.g. overdraft facilities), where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months;
  - (c) where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, and the

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<sup>8</sup> For the avoidance of doubt, these loss allowances are commonly known as Stage 1 and Stage 2 provisions.

<sup>9</sup> Excluding (i) exposures to and exposure with an explicit guarantee from the Government of Malaysia; and (ii) exposures to the Bank, a licensed bank, a licensed investment bank, a licensed Islamic bank and a prescribed development financial institution.

<sup>10</sup> Refers to credit exposures that are subject to impairment requirements under MFRS 9.

<sup>11</sup> In the case of credit card facilities, the amount past due refers to the minimum monthly repayments.

- credit facility exhibits weaknesses in accordance with the Islamic banking institution's credit risk measurement framework; or
- (d) as soon as a default<sup>12</sup> occurs where the principal and/or profit repayments are scheduled on intervals of 3 months or longer.
- S** 10.11 Where a credit-impaired facility is rescheduled and restructured, such facility shall remain classified as credit-impaired. A banking institution shall only reclassify this facility to non-credit-impaired when repayments based on the revised terms have been observed continuously for a period of at least 6 months or a later period as determined by the Islamic banking institution's policy on rescheduled and restructured facilities.
- S** 10.12 For the purpose of ascertaining the period in arrears in paragraph 10.10–
- (a) repayment on each of the instalment amount must be made in full. A partial repayment made on an instalment amount shall be deemed to be still in arrears; and
- (b) where a moratorium on credit facilities is granted in relation to the rescheduling and restructuring exercise as set out in Appendix 1 of *Credit Risk*, the determination of period in arrears shall exclude the moratorium period granted.

## 11. Minimum disclosure requirements

- G** 11.1 The requirements under the following paragraphs refer specifically to disclosures which form part of the financial statements. Except for the minimum disclosure for Shariah Committee Report required under paragraph 11.4, this policy document does not deal with other disclosures provided by an Islamic financial institution as part of the Annual Report (e.g. Director's Report, Statement on Corporate Governance).
- S** 11.2 An Islamic financial institution shall make disclosures in the financial statements in accordance with the requirements of the MFRS, and include information specified under paragraphs 11.4 to 11.24 and additional requirements that may be specified in other policy documents applicable to the Islamic financial institution such as *Guidelines on Late Payment Charges for Islamic Financial Institutions* and policy document on *Investment Account*.
- S** 11.3 An Islamic financial institution shall comply with the following key principles on disclosure of information:
- (a) information should be timely and up-to-date to ensure 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<sup>13</sup> and relevant information to the users;

<sup>12</sup> A default is defined as the inability to meet the contractual repayment terms.

<sup>13</sup> For example, given the heterogeneity of users of financial reporting, background information on the

- (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 among institutions<sup>14</sup>.

**S** 11.4 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, an Islamic banking institution shall disclose the Shariah Committee's Report as part of the Annual Report, 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; and
- (c) paragraph expressing the Shariah Committee's opinion on the Islamic banking institution's compliance with Shariah in respect of;
  - (i) contracts and related documentation used;
  - (ii) appropriateness of Shariah basis for the 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) zakat computation; and
  - (v) any known non-compliance with Shariah and action taken to remedy such non-compliance as reported by the Islamic banking institution as specified in the *Circular on Shariah Non-Compliance Reporting*.

An Islamic banking institution may refer to the illustration provided in the *Shariah Governance Framework for Islamic Financial Institutions*.

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wider economic environment an Islamic financial institution operates in is often necessary to provide sufficient information to understand the context for specific disclosures. Information must also be useful to support decision-making by users.

<sup>14</sup> For example, users shall be informed of the accounting policies employed in the preparation of the financial statements including any changes in those policies and the effects of such changes. This should enable users to identify differences between the accounting policies for like transactions and other events used by the same entity from period to period and by different entities. Compliance with MFRS, including the disclosure of the accounting policies used by the entity, helps to achieve this comparability.

- S** 11.5 The explanatory notes to be disclosed in the *annual* financial statements of an Islamic financial institution shall include the information specified in paragraphs 11.6 to 11.22 of this policy document.
- S** 11.6 An Islamic financial institution 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) an Islamic financial institution has the option of listing the accounting policy for each Shariah contract or group the Shariah contracts based on mutual accounting policy according to the nature of the transactions e.g. *murabahah* financing, *ijarah* financing, *murabahah* deposit (refer to guidance in Appendix 3); and
    - (ii) in respect of paragraph 9.1, where an Islamic financial institution has 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 an Islamic financial institution has departed;
      - nature and reason of the departure; and
      - financial effect of the departure on each item in the financial statements that would have been reported in complying with the MFRS requirement;
  - (b) an Islamic financial institution's obligation on zakat, which may alternatively be disclosed under the Director's Report. An Islamic financial institution that *does not* pay zakat must also disclose a statement to that effect in the financial statements. An Islamic financial institution that pays zakat shall disclose additional information regarding:
    - (i) its 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) the beneficiaries of zakat fund e.g. Baitul Mal, the poor, etc; and
  - (c) in the case of an Islamic banking institution, income derived from Shariah non-compliant activities which may alternatively be disclosed under the Director's Report or Shariah Committee's Report. An Islamic banking institution shall disclose additional information<sup>15</sup> regarding:
    - (i) nature of Shariah non-compliant activities;
    - (ii) amount of Shariah non-compliant income;

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<sup>15</sup> As specified under the *Operational Risk Integrated Online Network (ORION)* for guidance on treatment of Shariah non-compliant items.

- (iii) number of non- Shariah compliant events occurring during the year; and
  - (iv) rectification process and control measures to avoid recurrence of such Shariah non-compliant activities.
  
- S** 11.7 An Islamic financial institution shall disclose financing, receivables and other *qard* loans with a breakdown by -
  - (a) measurement basis (e.g. amortised cost, fair value):
    - (i) for fair value through profit or loss, show separately those designated as fair value upon initial recognition;
  - (b) types of financing (e.g. overdrafts, revolving financing, hire purchase, mortgage financing) and further breakdown by main Shariah contracts in table format (refer to Illustration 1 in Appendix 5):
    - (ii) an Islamic financial institution shall disclose the significant<sup>16</sup> subclasses of the main contracts; and
    - (iii) the classification of main Shariah contracts and their subclasses shall at minimum follow the guidance set out in Appendix 4;
  - (c) geographical distribution;
  - (d) profit rate sensitivity (e.g. fixed rate, variable rate);
  - (e) economic sector; and
  - (f) residual contractual maturity (e.g. up to 1 year, 1-5 years, > 5 years).
  
- S** 11.8 An Islamic financial institution shall disclose a movement schedule of financial instruments classified as credit-impaired with a breakdown by class of financial instrument (e.g. retail loans/financing, debt securities, loan commitments).
  
- S** 11.9 An Islamic financial institution shall disclose a movement schedule of loss allowance with a breakdown by class of financial instrument and showing separately the loss allowance –
  - (a) measured at an amount equal to 12-month expected credit loss;
  - (b) measured at an amount equal to lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired;
  - (c) measured at an amount equal to lifetime expected credit losses for financial instruments that are credit-impaired (but that are not purchased or originated credit-impaired); and
  - (d) for financial instruments that are purchased or originated credit-impaired.
  
- S** 11.10 An Islamic financial institution shall disclose a movement schedule of the *qard* (loan) or financing which includes opening and closing balances, sources and uses of the fund (refer to Illustration 2 in Appendix 5).

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<sup>16</sup> An Islamic financial institution shall follow its own internal policies and procedures in determining significant subclasses of main Shariah contracts.

- S** 11.11 An Islamic financial institution shall disclose for transactions that reflect acquisition or transfer of ownership prior to its subsequent sale, the carrying amount held for the purpose of *murabahah* (cost plus sale) which can be transacted at spot or deferred basis (refer to Illustration 3 in Appendix 5).
- S** 11.12 An Islamic financial institution 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 5).
- S** 11.13 An Islamic financial institution shall disclose the following information:
- (a) Islamic deposits from customers with a breakdown by -
    - (i) types of Islamic deposits (e.g. savings, current and term deposits) and further breakdown by Shariah contracts (e.g. *wadi'ah*, *qard*, *amanah* and *tawarruq*) (refer to Illustration 5 in Appendix 5);
    - (ii) types of customers (e.g. government, business enterprises); and
    - (iii) maturity structures of term deposits<sup>17</sup> (e.g. < 6 months, 6-12 months, 1-3 years);
  - (b) investment accounts of customers with a breakdown by<sup>18</sup>-
    - (i) types of investment account (e.g. unrestricted or restricted investment account) and further breakdown by Shariah contracts (e.g. *wakalah* and *mudarabah*). An Islamic financial institution shall also disclose the carrying amounts of investment accounts which qualify as unlisted capital market products under the Capital Markets and Services Act 2007 (CMSA) by type of product (refer to Illustration 6 in Appendix 5);
    - (ii) types of customers; and
    - (iii) maturity structures of investment account with maturity; and
  - (c) investment account due to designated financial institutions with a breakdown by -
    - (i) types of investment account and further breakdown by Shariah contracts; and
    - (ii) types of counterparty (e.g. licensed Islamic banks, licensed

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<sup>17</sup> Including negotiable instruments of deposits e.g. Negotiable Islamic Debt certificate.

<sup>18</sup> In addition, an IFI is required to also disclose information as specified in paragraph 27.6 of the policy document on *Investment Account*. For the avoidance of doubt, an IFI is required to distinguish the additional disclosure of investment accounts which are recognised on-balance sheet from investment accounts which are recognised off-balance sheet.

banks);  
(Refer to Illustration 7 in Appendix 5).

- S** 11.14 An Islamic financial institution shall disclose income and expenses with a breakdown by source of funds e.g. Islamic deposit, investment account and shareholder's funds and by categories of financial assets or liabilities. Profit income recognised for credit-impaired exposures shall be disclosed separately.
- S** 11.15 An Islamic financial institution shall disclose non-profit income and other operating expenses with a breakdown of major items of income or expense.
- S** 11.16 An Islamic financial institution shall disclose CEO, directors' and Shariah Committee members' remuneration with a breakdown of types of remunerations (e.g. salary, fees, bonus, benefits-in-kind, retirement benefits), disclosed separately for the CEO and each individual director, distinguishing between executive and non-executive directors, and each individual Shariah Committee members.
- S** 11.17 An Islamic financial institution shall disclose capital<sup>19</sup> with a breakdown by -  
(a) capital structure<sup>20</sup>; and  
(b) capital adequacy showing separately Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio, and express as percentage to three decimal places.
- S** 11.18 An Islamic financial institution shall disclose reserves with a breakdown by type and purpose of reserves maintained. A movement schedule shall also be disclosed.
- S** 11.19 An Islamic financial institution shall disclose liquidity risk information<sup>21</sup> incorporating an analysis of assets and liabilities in the relevant maturity tenures based on remaining contractual maturities. An Islamic financial institution may also provide the analysis of assets and liabilities in the relevant maturity tenures based on their behavioural profile.
- S** 11.20 An Islamic financial institution shall disclose commitments and contingencies with a breakdown by types and amount distinguishing between contingent liabilities and commitments.
- S** 11.21 An Islamic financial institution shall disclose sources of donations/charities funds (e.g. *gharamah* amount, Shariah non-compliance income,

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<sup>19</sup> In the case of a financial holding company, to disclose the capital adequacy positions on a consolidated basis

<sup>20</sup> The breakdown shall be consistent with the components of capital as set out in the *Capital Adequacy Framework for Islamic Banks (Capital Components)*

<sup>21</sup> An Islamic financial institution may refer to Principle 13 of the *Principles for Sound Liquidity Risk management and Supervision, Basel Committee on Banking Supervision, September 2008* for guidance on relevant quantitative and qualitative disclosures.

shareholder's funds) and uses of such funds (e.g. distribution to the poor, education fund).

- S** 11.22 An Islamic financial institution shall disclose intercompany charges with a breakdown by type of services received and geographical distribution.
- S** 11.23 The explanatory notes to be disclosed in the interim financial report of an Islamic financial institution shall include the following information, as applicable:
- (a) deposits from customers;
  - (b) investment account of customers and breakdown of the underlying assets funded through investment account;
  - (c) financing, receivables and other *qard* loans;
  - (d) a movement schedule of impairment allowances;
  - (e) financing, receivables and other *qard* loans classified as impaired;
  - (f) income and profit distributed; and
  - (g) capital.
- S** 11.24 The breakdown for the above explanatory notes shall be consistent with that specified for annual financial statements (refer to paragraph 11.5). In addition, an Islamic financial institution shall disclose items that are material to the understanding of the interim financial report in accordance with MFRS 134 *Interim Financial Reporting*.

## PART C REGULATORY PROCESS AND SUBMISSION REQUIREMENTS

### 12. Declaration and payment of dividends

- S** 12.1 Pursuant to section 60(1) of the IFSA, an Islamic financial institution is required to obtain the Bank's written approval prior to declaring or paying any dividend on its shares. For the avoidance of doubt, shares refer to both the ordinary shares and preference shares.
- S** 12.2 Unless otherwise informed by the Bank in writing, approval is given to an Islamic financial institution to declare or pay any dividend on its preference shares where the dividend is non-discretionary<sup>22</sup> and non-cumulative<sup>23</sup>. For the avoidance of doubt, where the Bank has, prior to the effective date of this policy document, imposed a requirement on an Islamic financial institution to obtain the Bank's written approval prior to declaring or paying any dividend on its preference shares, such approval requirement shall continue to apply and subject to the requirements set out in paragraph 12.4 shall be observed by the Islamic financial institution.
- S** 12.3 Where an application has been made under paragraph 12.1, an Islamic financial institution shall not -
- (a) publish in print and/or electronic form<sup>24</sup>
  - (b) lay the annual financial statements at its general meeting; and
  - (c) in the case of a listed Islamic financial institution, submit to the stock exchange,
- the interim financial reports or annual financial statements, as the case may be, unless the proposed dividend has been approved by the Bank under section 60(1) of the IFSA.
- S** 12.4 An application for approval made under paragraph 12.1 by an Islamic financial institution must be supplemented with the following:
- (a) where an interim dividend is proposed-
    - (i) its interim financial report, with a review by the auditor of the profit after tax for the period<sup>25</sup>. The explanatory notes to the interim financial report shall be consistent with that specified for annual financial statements (refer to paragraph 11.5);
    - (ii) the interim financial reports of its principal subsidiaries<sup>26,27</sup>, as applicable;
    - (iii) the limited review report by its auditor;

<sup>22</sup> The proposed dividend payment is not at the full discretion of the Islamic financial institution.

<sup>23</sup> Any waived dividend must not be made up by the Islamic financial institution at a later date.

<sup>24</sup> For example, newspaper, press release and website.

<sup>25</sup> In accordance with the standards on review engagements issued by the Malaysian Institute of Accountants (MIA).

<sup>26</sup> Subsidiaries which are major contributors to the group's revenue, assets or profit/loss.

<sup>27</sup> For the avoidance of doubt, the interim financial reports of the principal subsidiaries need not be subject to review by the auditor.

- (iv) a written confirmation by the officer primarily responsible for the financial management of the Islamic financial institution that its interim financial reports have been prepared in accordance with the MFRS subject to requirements specified by the Bank in paragraph 9 of this policy document; and
- (v) the calculation of Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio showing the positions separately before and after the proposed payment of dividends; and
- (b) where a final dividend is proposed-
  - (i) the information specified in paragraph 13.1; and
  - (ii) the calculation of Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio showing the positions separately before and after the proposed payment of dividends.

### 13. Annual financial statements

- S** 13.1 Within three months after the close of each financial year and before the laying of the financial statements at the general meeting, an Islamic financial institution shall submit to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan of Bank Negara Malaysia, as the case may be, the following:
- (a) its annual audited financial statements<sup>28</sup>;
  - (b) the audited financial statements of its principal subsidiaries, where relevant;
  - (c) its Auditor's Report<sup>29</sup>, including a report on the key accounting and auditing matters tabled to the board audit committee;
  - (d) the analysis of performance by key business segments;
  - (e) in the case of the consolidated financial statement, a report on its operations in the financial year, including an analysis (both quantitative and narrative), of the overall assessment of the group's financial performance. The analysis of performance, for the current and preceding year, of each subsidiary within the group which are major contributors to the group's profit 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;
  - (f) a written confirmation by the officer primarily responsible for the

<sup>28</sup> Both the separate financial statements and consolidated financial statements.

<sup>29</sup> This refers to the detailed report prepared by the auditor on the audit of an Islamic financial institutions annual financial statements

- financial management of the Islamic financial institution that its annual financial statements have been prepared in accordance with the MFRS subject to requirements specified by the Bank in paragraph 10 of this policy document; and
- (g) the tentative date of the publication of its annual financial statements on the website, where applicable.
- S** 13.2 For the purpose of paragraph 13.1(b), where audited financial statements are in a language other than the national language or English, the copy submitted shall be translated into English.

#### **14. Interim financial report**

- S** 14.1 An Islamic financial institution shall submit to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan of Bank Negara Malaysia, as the case may be, not later than four weeks after the end of each interim period, the following:
- (a) its interim financial reports<sup>30</sup>;
- (b) the interim financial reports of its principal subsidiaries<sup>31</sup>, where relevant;
- (c) the analysis of performance of key business segments;
- (d) in the case of the consolidated financial report, an analysis, (both quantitative and narrative) 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 year, of each subsidiary within the group which are major contributors to the group's profit 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) a written confirmation by the officer primarily responsible for the financial management of the Islamic banking institution and the financial holding company that the interim financial report has been prepared in accordance with the MFRS subject to requirements specified by the Bank in paragraph 10 of this policy document.

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<sup>30</sup> Both the separate financial statements and consolidated financial statements.

<sup>31</sup> Where the interim financial statements are in a language other than the national language or English, the copy submitted shall be translated into English.

**PART D PUBLICATION REQUIREMENTS****15. Annual Financial Statements**

- S** 15.1 An Islamic banking institution shall –
- (a) publish, in an abridged format, the audited annual financial statements in at least two local daily newspapers, one of which shall be in the national language and the other in English; and
  - (b) make available the full set of the audited annual financial statements on its website<sup>32</sup>,  
no earlier than five working days after the date of submission of the information specified in paragraph 13.1 to the Bank but not later than fourteen calendar days after its annual general meeting.
- S** 15.2 A financial holding company shall make available the full set of the audited annual financial statements on its website no earlier than five working days after the date of submission of the information specified in paragraph 13.1 to the Bank but not later than 14 calendar days after its annual general meeting.
- S** 15.3 For the purpose of paragraph 15.1(a), the abridged format of the financial statements to be published in the newspapers shall, at a minimum, consist of the following:
- (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) the Auditors' Report; and
  - (f) the Shariah Committee Report.
- S** 15.4 For the purposes of paragraph 15.1(a), the two approved local daily newspapers, are -
- (a) Berita Harian or Utusan Malaysia; and
  - (b) The New Straits Times or The Star.
- S** 15.5 An Islamic banking institution shall make available a copy of the audited annual financial statements at every branch of the Islamic banking institution in Malaysia.
- S** 15.6 For the purpose of paragraph 15.1(a), an Islamic banking institution shall include a prominent note in the published abridged format of its financial statements stating that -
- (a) the full set of the financial statements is available on the Islamic banking institution's or its financial group's website, together with the address of the website; and
  - (b) a copy of the audited annual financial statements is available at every branch of the Islamic banking institution in Malaysia.

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<sup>32</sup> Or the corporate website of an Islamic banking institution.

**16. Interim financial reports**

- S** 16.1 Where an application has not been made under paragraph 12.1, an Islamic financial institution shall make available on its website or the website of its financial group, the interim financial report prepared on a quarterly and half-yearly basis, as the case may be, no earlier than five working days after the date of submission of the information specified in paragraph 14.1 to the Bank but not later than eight weeks after the close of the interim period.
- S** 16.2 Where an application has been made under paragraph 12.1 and approval from the Bank has been obtained under section 60(1) of the IFSA, an Islamic financial institution shall make available on its website, the interim financial report prepared on a quarterly and half-yearly basis, as the case may be, no later than eight weeks after the close of the interim period. In the case where the application has yet to be approved by the Bank by the end of the eight week after the close of the interim period, an Islamic financial institution shall disclose on its website the interim financial report no later than five working days after the approval from the Bank has been obtained.
- S** 16.3 Where the audited annual financial statements for the preceding financial year have yet to be published by the end of the eighth week after the close of the interim period, a financial institution shall disclose on its website the first quarter interim financial reports on the same day or not later than three working days after the publication of the audited annual financial statements.

## APPENDICES

### Appendix 1 Illustration of presentation of investment account

Illustrative Statement of Financial Position.

<b>Statement of Financial Position</b>	Note	20X1 RM'000	20X0 RM'000
<b>Assets</b>			
Cash and short term funds		xxx	xxx
Deposits and placements with financial institutions		xxx	xxx
Investment accounts placement - financing		xxx	xxx
Financial assets		xxx	xxx
Financing and advances		xxx	xxx
Statutory deposits with Bank Negara Malaysia		xxx	xxx
Investment in subsidiaries		xxx	xxx
Investment in associates		xxx	xxx
Property, plant and equipment		xxx	xxx
<b>Total assets</b>		<u>xxx</u>	<u>xxx</u>
<b>Liabilities</b>			
Islamic deposits from customers		xxx	xxx
Investment accounts of customers		xxx	xxx
Deposits and placements of banks and other financial institutions		xxx	xxx
Investment accounts due to designated financial institutions		xxx	xxx
Financial liabilities		xxx	xxx
Provision for zakat and taxation		xxx	xxx
<b>Total liabilities</b>		<u>xxx</u>	<u>xxx</u>
<b>Shareholder's equity</b>			
Share capital		xxx	xxx
Reserves		xxx	xxx
<b>Total shareholder's equity</b>		<u>xxx</u>	<u>xxx</u>
<b>Total liabilities and shareholder's equity</b>		<u>xxx</u>	<u>xxx</u>
<b>Restricted investment accounts</b>		xxx	xxx
<b>Total Islamic banking asset</b>		xxx	xxx
<b>Commitment &amp; contingencies</b>		xxx	xxx

## Illustrative Statement of Comprehensive Income.

<b>Statement of Comprehensive Income</b>	Note	20X1 RM'000	20X0 RM'000
Income derived from investment of depositors' funds		xxx	xxx
Income derived from investment of investment account funds		xxx	xxx
Income derived from investment of shareholders' funds		xxx	xxx
Impairment loss on investments		(xxx)	(xxx)
Total distributable income		xxx	xxx
Profit share/ <i>wakalah</i> fees income from investment accounts <sup>33</sup>		xxx	xxx
Profit/hibah distributed to depositors		(xxx)	(xxx)
Profit distributed to investment account holders		(xxx)	(xxx)
Total net income		xxx	xxx
Personnel expenses		xxx	xxx
Other overhead expenses		xxx	xxx
Profit before zakat and taxation		xxx	xxx
Zakat		xxx	xxx
Taxation		xxx	xxx
Profit for the year		xxx	xxx
Earnings per share (sen)		xxx	xxx

<sup>33</sup> These relate to IFI's profit share or *wakalah* fee earned from investment accounts which are treated as off-balance sheet.

## Appendix 2      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.

##### Murahahah

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

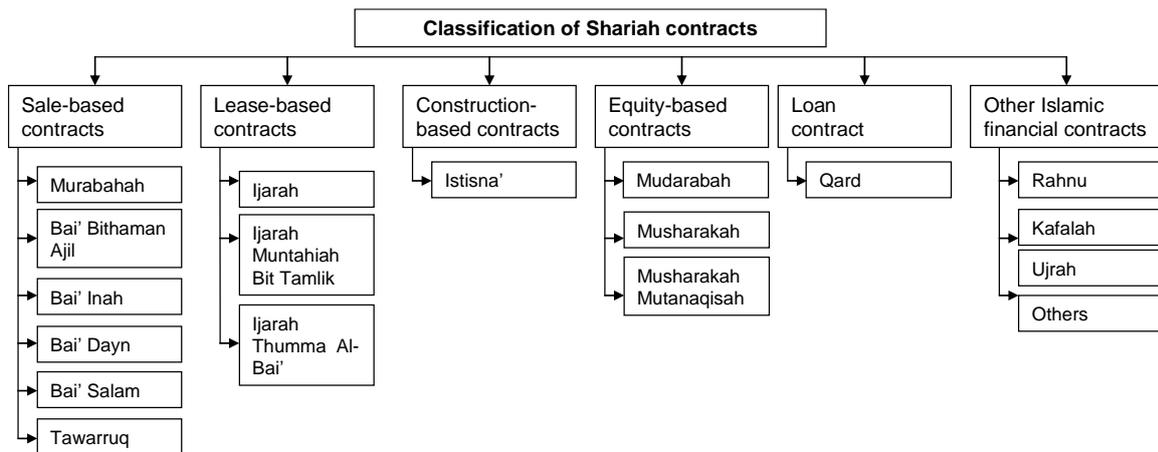
##### Ijarah

*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 3 Guidance on classification of Shariah contracts



## Appendix 4 Illustration of disclosure requirements by Shariah contracts

### 1. Financing by types and Shariah contracts in table format

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

2. Purpose and source of fund for *qard*

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

3. *Murabahah* inventories

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

4. *Ijarah* assets

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

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

## 5. Islamic deposits from customers

<b>Islamic deposits from customers</b>	20X1	20X0
	RM'000	RM'000
<i>Savings deposits</i>		
<i>Wadiah</i>	xxx	xxx
<i>Qard</i>	xxx	xxx
<i>Demand deposits</i>		
<i>Wadiah</i>	xxx	xxx
<i>Qard</i>	xxx	xxx
<i>Term deposits</i>		
<i>Tawarruq</i>	xxx	xxx
<i>Other Islamic negotiable instruments</i>	xxx	xxx
<i>Structured products</i>	xxx	xxx
	xxx	xxx
	xxx	xxx

## 6. Investment accounts of customers

<b>Investment account of customers</b>	20X1	20X0
	RM'000	RM'000
Unrestricted investment account		
without maturity		
<i>Mudarabah</i>	xxx	xxx
<i>Wakalah</i>	xxx	xxx
	xxx	xxx
with maturity		
<i>Mudarabah*</i>	xxx	xxx
<i>Wakalah*</i>	xxx	xxx
	xxx	xxx
*of which:		
Structured product	xxx	xxx
Islamic negotiable instruments	xxx	xxx
Restricted investment account		
with maturity	xxx	xxx
<i>Mudarabah</i>	xxx	xxx
<i>Wakalah</i>	xxx	xxx
	xxx	xxx
<b>Total investment account of customers</b>	xxx	xxx

## 7. Investment account due to designated financial institutions

<b>Investment accounts due to designated FIs</b>	20X1	20X0
	RM'000	RM'000
Unrestricted investment account <i>Wakalah</i>	<u>xxx</u>	<u>xxx</u>
By type of counterparty		
Licensed Islamic banks	xxx	xxx
Licensed banks	xxx	xxx
Other financial institutions	xxx	xxx
Bank Negara Malaysia	<u>xxx</u>	<u>xxx</u>
	<u>xxx</u>	<u>xxx</u>