INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA

# FINANCIAL REPORTING

# GUIDANCE

# FOR

# ISLAMIC BANKING

# INSTITUTIONS

AUGUST 2022

## ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by an Act of Parliament now the Accountants Act, 2013. The functions of the Institute, as prescribed by the Act, are:

i. To regulate and maintain the standard of accountancy in Uganda.

ii. To prescribe and regulate the conduct of accountants and practicing accountants in Uganda.

### Vision

To be a world-class professional accountancy institute.

### Mission

To develop, promote and regulate the accountancy profession in Uganda and beyond.

### Core Values

1. Professional Excellence
2. Accountability
3. Integrity
4. Innovation

### International Affiliations

ICPAU is a member of the International Federation of Accountants (IFAC), the Pan African Federation of Accountants (PAFA), and the Association of Education Assessment in Africa (AEAA).

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# ICPAU FINANCIAL REPORTING GUIDANCE FOR ISLAMIC BANKING INSTITUTIONS

## PURPOSE OF THE GUIDANCE

International Financial Reporting Standards (IFRS) are principle-based. IFRS require a substantial degree of judgment, which may result in divergent outcomes. This Guidance has been designed to assist accountants in the application of IFRS to Islamic finance transactions or events without violating Shariah Principles.

The Guidance clarifies and sets minimum expectations in the application of the IFRS Standards to Islamic finance transactions. It also aims to ensure adequate financial statement disclosures by an Islamic financial institution as a way of promoting comparability among financial statements and better facilitating the assessment of an Islamic financial institution's financial position, performance, and Shariah compliance.

The Guidance gives specific requirements on the application of IFRS Standards to Islamic finance transactions as well as minimum disclosure requirements to achieve fair presentation of Islamic finance transactions by IFRS compliant financial statements.

## APPLICABILITY

This Guidance may largely apply to licensed Islamic banks; licensed Islamic banking windows; and financial holding companies. We have appended illustrative guidance on the classification of Shariah contracts, as well as an illustration of disclosure requirements by Shariah contracts.

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

This Guidance is a living document that shall be regularly reviewed and updated to reflect changes in the industry as well as changes in IFRS requirements.

## Disclaimer

The information contained within this Guidance is strictly limited to that which falls within the mandate of ICPAU as stipulated in the Accountants Act, 2013 or any other laws of Uganda prevailing at the time.

The Guidance is persuasive rather than prescriptive and is not intended to be comprehensive or to deal with all situations that might be encountered, that is to say, it is supplementary to and not a substitute for the International Financial Reporting Standards (IFRS) and any other directives and Guidelines that may be developed over time by ICPAU, which should be regarded as the primary source of guidance for accountants. The accounting policies for example are demonstrative and not exhaustive, accountants are thus expected to make full disclosers of accounting policies as applied. Accountants are further encouraged to apply professional judgment in complying with the requirements of IFRS Standards.

## 1.0 INTRODUCTION

In 2016, the *Financial Institutions Act 2004* was amended to include specific provisions allowing for the establishment of fully-fledged Islamic Financial Institutions and for existing Financial Institutions to offer Islamic banking alongside their conventional banking services under what is termed an *Islamic Banking Window*.

The amendments therein included exemptions offered to licensed Islamic Financial Institutions concerning restrictions on engaging in trade and commerce related to Islamic banking activities. Subsequently, the Bank of Uganda issued the *Financial Institutions (Islamic Banking) Regulations* in February 2018 to cater for the technical aspects unique to Islamic financing.

Islamic finance is designed to create a link between money and profit as an alternative to interest by using trade-based contracts which require the exchange of a physical commodity for consideration. The uniqueness of Islamic financial transactions questions their ability to be faithfully reported using International Financial Reporting Standards (IFRS Standards).

Like most jurisdictions, ICPAU subscribes to the belief that the primary difference between financial reporting for Islamic finance and that of conventional finance is not that of recognition and measurement, but merely, the extent of information that is needed to be provided to users. Therefore, in the absence of specific Shariah prohibition, IFRS are suitable for Islamic finance.

## 1.1 ETHICS AND ISLAMIC FINANCE

Islamic law rules that if one advances a loan, one is entitled only to the principal amount loaned—nothing more. If one wishes to secure a gain, one should enter into a partnership and/or become a shareholder. In addition to usury (interest), Islamic law also prohibits excessive uncertainty, and gambling. These prohibitions, however, are not peculiar to the religion of Islam. History suggests that a number of examples of such prohibitions can be found in the early Greek, Roman and Rabbinical thought. Overtime, as industrial, financial and commercial power become concentrated in the hands of giant Western firms, a global dominance of capitalist imperialism followed. This created widespread acceptance of the prohibited practices which then dominated Western law and ethics for over a millennium[1]. Unfortunately, capitalism has caused a terrifying scenario of making the rich richer and the poor poorer due to interest charges.

The Islamic financial system establishes a duty to observe high ethical standards and a corresponding requirement to take into account the wider impact of the transactions

[1] The Riba Conundrum: The Ethical Appeal of Islamic Banking, (Nico P Swartz, Odirile Otto Itumeleng, Wankie, Anisha Jeelabdeen & R. Kumar, 2013)

financed. This view of ethical conduct, and of wider accountability, as envisioned by Islamic finance thus stands somewhat removed from the notion of a firm that needs only to maximize profits for its shareholders without regard to the social or other consequences of its actions[2].

The Islamic financial system is based on the avoidance of all forms of financial exploitation and on having as its principal object the combined purpose of the creation of wealth and the alleviation of poverty. "The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service".[3]

[2] Ethics in Islamic Finance: Embracing Duties and Consequences in the Post-Crisis Environment, 2015 https://www.ifac.org/knowledge-gateway/building-trust-ethics/discussion/ethics-islamic-finance-embracing-duties-and-consequences-post-crisis-environment

[3] Pope Benedict XVI (the Vatican's official newspaper Osservatore Romano, 4 March 2009, cited by Bloomberg.com, 2010)

## 2.0 KEY DEFINITIONS

**a. Islamic financial business**

Has the meaning assigned to it in the Financial Institutions Act, 2004 as amended (the Act).

**b. Islamic financial institution**

A company licensed to carry on financial institution business in Uganda whose entire business comprises Islamic financial business and which has declared to the Central Bank that its entire operations are and will be conducted in accordance with the Shariah.

**c. Islamic window**

The section of a financial institution, other than an Islamic financial institution, which conducts Islamic financial business.

**d. Placement**

The depositing of funds with one financial institution by another financial institution for purposes of settlement of payments and business operations.

**e. Deposit**

Has the meaning assigned to it in section 4(4) of the Act and for Islamic financial business, includes sums of money held in a profit-earning investment account, a profit-sharing investment account, and a non-profit-bearing deposit account.

**f. Islamic contract**

Has the meaning assigned to it in the Act.

**g. Islamic financial business**

Has the meaning assigned to it in the Act.

**h. Ijarah**

The term Ijarah means "to give something on rent," also known as leasing of lease-based financing.

i. **Ijarah Muntahiah Bit Tamlik**

This is a lease followed by ownership of the leased assets. This may also be known as an operating lease. The main purpose of Ijarah Muntahiah Bit Tamlik is for the customer to obtain benefits from the leased asset with no intention of owning the asset. Accordingly, at the end of the lease period, the ownership of the asset may remain with the Islamic financial institution as the lessor.

**j. Ijarah thumma al Bai'**

This is a lease with an option to acquire the leased assets. This can be translated as a hire purchase. Ijarah Thumma al Bai' involves two types of contracts, namely leasing contract (Ijarah), followed by sale contract (Al- Bai'). At the initial stage, the Islamic financial institution will conclude an Ijarah agreement under which it will appoint the customer as an agent to purchase an asset identified by the customer. Subsequently, the Islamic bank will lease the asset to the customer for a specified lease term the expiry of which will award the customer an option to purchase the asset from the Islamic financial institution. If the customer opts to purchase the asset, the Islamic financial institution and the customer will conclude a sale contract and the ownership of the asset will be transferred from the Islamic financial institution to the customer.

**k. Istisna**

This refers to a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery. This is widely used in providing financing for the manufacture or construction of houses, plants, projects, and the building of bridges, roads, and highways.

**l. Mudarabah**

This refers to a contract where a financer (rabul maal) provides capital to be managed by the entrepreneur (mudarib) and any profit generated from the capital is shared between the two according to a mutually agreed profit sharing ratio whilst financial losses are borne by the financer provided that such losses are not due to the entrepreneur’s misconduct, negligence or breach of specified terms. Essentially, the entrepreneur receives a sort of salary or wage as compensation for managing the enterprise while the financer is entitled to a profit. This may be compared to the relationship between shareholders and managers.

m. **Murabahah**

Otherwise known as sale-based financing, is an arrangement where assets are purchased by a financial institution and sold to a customer at a price greater than the cost price at which the asset was purchased by the financial institution (cost-plus mark-up).

**n. Musawamah**

This is a general kind of sale in which the price of the commodity to be traded is bargained between the seller and the purchaser without any reference to the price paid or cost incurred by the former.

o. **Musharakah**

Is a profit and loss sharing partnership. Musharakah means a relationship established under a contract by the mutual consent of the parties for sharing of profits and losses in the joint business. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by every partner strictly in proportion to respective capital contributions. Musharakah is equivalent to a partnership.

**p. Musharakah Mutanaqisah**

This is a diminishing partnership (diminishing Musharakah). It is a contract of diminishing partnership in which the interests of one of the partners, being the financial institution, are gradually acquired by the other partner over time, and by which assets are owned jointly by a financial institution and its customer.

**q. Qard**

This is a benevolent loan. It is a contract where a lender transfers an agreed sum of money to a borrower who is obliged to repay only the principal amount in full (at no interest). In case the borrower is in difficulty, Islamic law requires the lender to extend time or even voluntarily remit the whole or a part of the principal.

**r. Tawarruq**

Tawarruq is a financing arrangement whereby party A, who needs liquidity, purchases a commodity from party B on credit at a cost-plus mark-up. Party A then sells the commodity to party C to get the required liquidity. Part A repays the credit (cost-plus mark-up) to Party B as and when agreed.

**s. Wakalah**

This refers to a contract of agency in which one person appoints someone else to perform a certain task on his behalf, usually against a certain fee.

**t. Salaam**

Salam is also known as a forward sale. It is a contract in which advance payment is made for goods to be delivered at a future date.

**u. Rahn**

Rahn is a pledge or collateral or guarantee. It refers to a contract that makes something as a guarantee to the completion of settlement of a debt. Usually, the collateral is required by the creditor from the debtor during the commencement of the contract to guard against default.

**v. Kafalah**

The literal meaning of Kafalah is responsibility or suretyship. It refers to an arrangement where a guaranteed person's liability is turned into a joint liability of the guaranteed and guarantor at the time of demanding compensation. Kafalah refers to a contract where the guarantor conjoins the guaranteed party in assuming the latter's specified liability.

**w. Ujrah**

This means a fee charged for services rendered.

**x. Sukuk**

This means Shariah-compliant debentures and bonds.

**y. Zakat**

Zakat is a religious obligation of alms on all Muslims who meet the necessary criteria to donate a certain portion of wealth each lunar year to charitable causes.

**z. Profit sharing investment account**

This has the meaning assigned to it in Regulation 6 of the Financial Institutions (Islamic Banking) Regulations, 2018 "the Regulations".

**aa. Profit earning investment account**

This has the meaning assigned to it in Regulation 7 of the Financial Institutions (Islamic Banking) Regulations, 2018 “the Regulations”.

**bb. Non-profit-bearing deposit account**

This has the meaning assigned to it in Regulation 8 of the Financial Institutions (Islamic Banking) Regulations, 2018 “the Regulations”.

## 3.0 GENERAL FINANCIAL REPORTING REQUIREMENTS

3.1 The ICPAU Council is mandated to issue and adopt internationally accepted accounting and auditing standards and promote their usage in Uganda.[4] According to ICPAU[5], a financial institution (including an Islamic financial institution) shall prepare its financial statements in accordance with IFRS Standards and not the IFRS for SMEs Standard.

3.2 Since IFRS Standards are principle-based, an Islamic financial institution should take into account 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 or 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.

3.3 An Islamic financial institution shall comply with the resolutions of the Central Shariah Advisory Council of the Central Bank of Uganda (CSAC) on the applicability of the following accounting principles adopted in the IFRS Standards to ensure consistency with the broader view of Shariah principles:

i. Accrual basis of accounting;
ii. Substance over form;
iii. Probability;
iv. Time value of money; and
v. Fair value.

ICPAU recommends the following guidance on the applicability of the above accounting principles in Islamic Banking:

| S/N | Accounting Principle | Our recommended Applicability in Islamic banking |
|---|---|---|
| (a) | Accrual basis of accounting. | Where the effect of a transaction and other events are 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. |

[4] S12 (h) of the Accountants Act, 2013.

[5] Guidelines for Implementation of IFRS for SMEs in Uganda.

| | | |
|---|---|---|
| (b) | "Substance over form" | Where the "form" and "substance" of the transaction must be consistent and shall not contradict one another. Unlike IFRS[6], in the event of inconsistency between "substance" and "form", Shariah places greater importance on "substance" rather than "form". |
| (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. |
| (d) | Time value of money | Where a transaction involves 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). |

3.4 For financial instruments that are measured at fair value, an Islamic financial institution shall ensure that sound risk management and control processes around their measurement are in place as per IFRS 13 Fair Value Measurement.

3.5 An Islamic financial institution shall ensure that sound methodologies for assessing credit risk and measuring the level of loss allowance are in place[7]. The methodologies employed must incorporate a sufficient level of prudence and the aggregate amount of loss allowance must be adequate to absorb the inherent losses in the credit portfolio.

## 4.0 SPECIFIC FINANCIAL REPORTING REQUIREMENTS

4.1 The financial statements and financial reports referred to in this Guidance shall be presented in Uganda Shilling (UGX).

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[6] Paragraph 2.12 of the Conceptual Framework for Financial Reporting, March 2018.

[7] 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.

4.2 For 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 Requirements Regulations,2005,

The fundamental principle that adequate capital protects against distress applies equally to Islamic banks as it does to their conventional counterparts. However, the Financial Institutions (Revision of Minimum Capital Requirements) Instrument, 2010 sets the minimum paid-up cash capital of not less than one million, two hundred and fifty thousand currency points for any person to conduct financial institution business in Uganda. At the onset, one would thus believe without any specific minimum capital requirements for Islamic banks, and given that in the meantime the country does not necessarily have fully-fledged Islamic banks but the law allows conventional banks to run Islamic windows that offer Shariah-compliant products, the above minimum capital requirements would apply as a whole.

Regulation 9 of the Financial Institutions (Islamic Banking) Regulations, 2018 requires an Islamic financial institution or financial institution operating an Islamic window, in the computation of the capital adequacy requirements, to include the sum of any accrued losses in the profit-sharing investment accounts as part of its contingent claims, notwithstanding the Financial Institutions (Capital Adequacy Requirements) Regulations, 2005, sub-regulation (2) requires the computation of the Liquid Assets of an Islamic financial institution or a financial institution operating an Islamic window to include the sum of any accrued losses in the profit-sharing investment accounts; notwithstanding the Financial Institutions (Liquidity) Regulations, 2005.

4.3 Islamic banks may enter into two Mudarabah contracts. The first is when the Islamic bank is the Mudarib (entrepreneur) and the customer of the Islamic bank is the Rabbul Mal (financer). The second situation is where the Islamic bank is the Rabbul Mal and the Mudarib is the Entrepreneur. The financing part represents an asset (investment) to the customer of the Islamic bank. Accounting for Mudarabah depends on whether the capital is invested (i) internally (i.e the Islamic bank's own assets using funds from the parent company) or (ii) with external parties.

4.4 Mudarabah capital invested internally shall be accounted for by applying IFRS 9.

4.5 Recognition And Measurement for the capital invested externally depends on whether it represents an equity interest in another entity or investment with contractual rights to cash flows. If it is the former (i.e. equity in another entity), then the Islamic bank shall consider accounting for such investments either under:

i. IFRS 10 Consolidated Financial Statements – where the Islamic bank has control over the investee who in this case is the Mudarib;
ii. IAS 28 Investment in Associates and Joint Ventures - where the Islamic bank has significant influence over the venture; or
iii. IFRS 11 Joint Arrangements – where the Mudarabah investment meets the definition of a joint arrangement; or
iv. IFRS 9 Financial Instruments - where the Mudarabah investment meets the definition of a financial asset.

4.6 For separate financial statements, IAS 27:10 states that an entity shall account for investment in subsidiaries, joint ventures and associates either: (a) at cost, (b) in accordance with IFRS 9, or; (c) using the equity method as prescribed in IAS 28. An Islamic financial institution shall not account for the investments in associates and joint ventures using the equity method described in IAS 28 *Investment in Associates and Joint Ventures* in the preparation of its separate financial statements.

4.7 The liabilities of an Islamic bank are made up of deposits[8] from customers, deposits and placements of other banks and financial institutions, bills and acceptance payable, short-term and long-term borrowings[9], provisions[10], tax liabilities, and liabilities to creditors. An Islamic financial institution shall present the carrying amount and income and expenses related to Islamic deposits and investment accounts in separate line items in its separate financial statements and consolidated financial statements (Refer to the liabilities section in Appendix 6.1: *Illustration of presentation of investment account*)

4.8 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 the liabilities section in Appendix 6.1: *Illustration of presentation of investment account*).

4.9 Pursuant to Paragraph 4.8, 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 statements. The total Islamic banking assets shall be calculated as the sum of total assets and financial assets which are

[8] Unlike a typical conventional bank, in addition to the savings, current and fixed deposits, the Islamic bank also has investment deposits or investment accounts. These may be restricted or unrestricted.
[9] For long-term borrowings, the Islamic bank will have Sukuk instead of debentures and bonds.
[10] In addition to provision for taxes, an Islamic bank has a provision for Zakat as part of its liabilities.

funded by the investment account and are recognised off-balance sheet. (Refer to Appendix 6.1 for illustration).

4.10 For placement of funds in an investment account with an Islamic banking institution, an Islamic financial institution shall:

a. present the placement, as a separate line item in the statement of financial position, as "investment account placement"; and

b. Disclose in the explanatory notes the nature of the underlying assets for the investment.

4.11 In applying the impairment requirements under IFRS 9 *Financial Instruments*, an Islamic banking institution must maintain, in aggregate, a loss allowance for non-credit-impaired exposures (i.e. Stage 1 and Stage 2 provisions) and regulatory reserves of no less than 1% of total credit exposures (i.e. credit exposures that are subject to impairment requirements under IFRS 9), net of loss allowance for credit-impaired exposures.

4.12 An Islamic banking institution shall classify a credit facility as credit-impaired:

a. Where the principal or profit or both of the credit facility is past due for more than 90 days or 3 months. In the case of revolving credit facilities (e.g. overdraft facilities), the facility shall be classified as credit-impaired where the outstanding amount has remained in excess of the approved limit for more than 90 days or 3 months;

b. 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, the credit facility exhibits weaknesses in accordance with the Islamic banking institution's credit risk measurement framework; or

c. When the credit facility is classified as rescheduled or restructured. For the avoidance of doubt, where repayments are scheduled at intervals of 3 months or longer, the credit facility is classified as credit-impaired as soon as a default occurs.

4.13 To ascertain the period in arrears in Paragraph 4.12:

a. Repayment on each of the installment amounts must be made in full. A partial repayment made on an installment 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 of Appendix 1 of the policy document on Credit Risk, the determination of the period in arrears shall exclude the moratorium period granted.

4.14 For Paragraph 4.12(c), the rescheduled and restructured credit facility shall only be reclassified from credit-impaired to non-credit-impaired when repayments based on the revised and restructured terms have been observed continuously for a period of 6 months or a later period as determined by the Islamic banking institution's policy on rescheduled and restructured facilities.

## 5.0 MINIMUM DISCLOSURE REQUIREMENTS

5.1 The requirements under the following paragraphs refer specifically to disclosures that form part of the financial statements. This Guidance 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, Shariah Committee Report, among others).

5.2 An Islamic financial institution shall make disclosures in the financial statements in accordance with the requirements of the IFRS Standards. This shall be presented along with any other information that may be required by a regulatory organisation such as the Bank of Uganda.

5.3 An Islamic financial institution shall comply with the following key principles on disclosure of information as provided in IAS 1:15-46:

a. Fair presentation and compliance with IFRS[11];
b. Going concern;
c. Accrual basis of accounting;
d. Materiality and aggregation;
e. Offsetting;
f. Frequency of reporting;
g. Comparative information; and
h. Consistency of presentation.

5.4 An Islamic Financial Institution shall provide adequate disclosures 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.

[11] A fair presentation also requires an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

5.5 The explanatory notes to be disclosed in the annual financial statements of an Islamic financial institution shall include the information specified in Paragraphs 5.6 to 5.20 of this Guidance.

5.6 An Islamic financial institution shall disclose the recognition and measurement accounting policies on each Shariah contract or main class of Shariah contract e.g. murabahah, ijarah, mudarabah, istisna'.

a. 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 Appendix 6.3); and
b. in respect of Paragraph 3.1 above, where an Islamic financial institution has departed from a particular IFRS requirement due to Shariah prohibition and to achieve a fair presentation, the following shall be disclosed:
   i. title of the IFRS Standard from which an Islamic financial institution has departed;
   ii. 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 IFRS requirement.

5.7 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, an Islamic financial institution shall show separately those designated as fair value upon initial recognition;
b. type of financing (e.g. overdrafts, revolving financing, hire purchase, mortgage financing) and further breakdown by main Shariah contracts in table format (Refer to Illustration 6.5.1 in Appendix 6.5):
   (i) an Islamic financial institution shall disclose the significant[12] subclasses 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 4;
c. geographical distribution;
d. profit rate sensitivity (e.g. fixed rate, variable rate);
e. economic sector; and

[12] An Islamic financial institution shall follow its own internal policies and procedures in determining significant subclasses of main Shariah contracts.

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

5.8 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).

5.9 An Islamic financial institution shall disclose a movement schedule of loss allowance with a breakdown by class of financial instrument and show 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.

5.10 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 6.5.2 in Appendix 6.5).

5.11 An Islamic financial institution shall disclose for transactions that reflect acquisition or transfer of ownership before its subsequent sale, the carrying amount held for the purpose of murabahah (cost-plus sale) which can be transacted on a spot or deferred basis (Refer to Illustration 6.5.3 in Appendix 6.5).

5.12 An Islamic financial institution shall disclose for Ijarah Muntahiah Bit Tamlik (leasing that does not lead to the transfer of ownership at the end of the leasing period) the following:

a. carrying amount of assets held for 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 6.5.2).

5.13 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 6.5.3);
    (ii) types of customers (e.g. government, business enterprises); and

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

b. Investment accounts of customers with a breakdown by[13]:

(i) Types of investment accounts (e.g. unrestricted or restricted investment account) and further breakdown by Shariah contracts (e.g. wakalah and mudarabah).

(ii) types of customers; and

(iii) maturity structures of investment account with maturity;

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 the counterparty (e.g. licensed Islamic banks, licensed banks);

(Refer to Illustration 6.5.5).

5.14 An Islamic financial institution shall disclose income and expenses with a breakdown by the 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.

5.15 An Islamic financial institution shall disclose non-profit income and other operating expenses with a breakdown of major items of income or expense.

5.16 An Islamic financial institution shall disclose the 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 director, distinguishing between the executive and the non-executive directors, and eual Shariah Committee members.

5.17 An Islamic financial institution shall disclose reserves with a breakdown by type and purpose of reserves maintained. A movement schedule shall also be disclosed.

5.18 An Islamic financial institution shall disclose liquidity risk information 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 behavioral profile.

[13] An Islamic financial institution 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.

5.19 An Islamic financial institution shall disclose commitments and contingencies with a breakdown by types and amount distinguishing between contingent liabilities and commitments.

5.20 An Islamic financial institution shall disclose intercompany charges with a breakdown by type of services received and geographical distribution.

5.21 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 the 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.

5.22 The breakdown for the above explanatory notes shall be consistent with that specified for annual financial statements (refer to Paragraph 5.5). In addition, an Islamic financial institution shall disclose items that are material to the understanding of the interim financial report in accordance with IAS 34 Interim Financial Reporting.

## 6.0 APPENDICES

6.1: Illustration of presentation of investment account

6.1.1: Statement of Financial Position

| **Statement of Financial Position** | **Note** | **20X1 SHS'000** | **20X0 SHS'000** |
|---|---|---|---|
| **Assets** | | | |
| Cash and short-term funds | | xxx | xxx |
| Deposits and placements with financial institutions | | xxx | xxx |
| Investment accounts placement - financing | | xxx | xxx |
| Statutory deposits with the Bank of Uganda | | xxx | xxx |
| Property, plant, and equipment | | xxx | xxx |
| Investment in associates | | xxx | xxx |
| **Total assets** | | **xxx** | **xxx** |
| **Liabilities** | | | |
| Islamic deposits from customers | 6.5.3 | xxx | xxx |
| Investment accounts of customers | 6.5.4 | xxx | xxx |
| Deposits and placements of banks and other financial institutions | | xxx | xxx |
| Financial liabilities | | xxx | xxx |
| Provision for zakat and taxation | | xxx | xxx |
| **Total liabilities** | | **xxx** | **xxx** |
| **Shareholder's equity** | | | |
| Share capital | | xxx | xxx |
| Reserves | | xxx | xxx |
| Total shareholder's equity | | xxx | xxx |
| **Total liabilities and shareholder's equity** | | **xxx** | **xxx** |
| Restricted investment accounts | | xxx | xxx |
| Total Islamic banking asset | | xxx | xxx |
| Commitment & contingencies | | xxx | xxx |

6.1.2: Statement of Comprehensive Income

| **Statement of Comprehensive Income.** | **Note** | **20X1 SHS'000** | **20X0 SHS'000** |
|---|---|---|---|
| Income derived from the investment of depositors' funds | | xxx | xxx |
| Income derived from the investment of investment account funds | | xxx | xxx |
| Income derived from the investment of shareholders' funds | | xxx | xxx |
| Impairment loss on investments | | xxx | xxx |
| **Total distributable income** | | **xxx** | **xxx** |
| Profit share/wakalah fees income from investment accounts are treated as off-balance sheet. | | 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 | | xxx | xxx |

## 6.2: Guidance on accounting policy of Shariah contracts

An Islamic financial institution shall disclose its significant accounting policies comprising: (a) the measurement basis (or bases) used in preparing the financial statements; and (b) the other accounting policies used that are relevant to an understanding of the financial statements[14].

Illustrative disclosure of accounting policy for each Shariah contract or group the Shariah contracts based on mutual accounting policy

i. Financial assets

Financing and receivables

Financing and receivables comprise murabahah, ijarah, and musharakah contracts. These contracts are initially recognised at fair value, including direct and incremental transaction 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.

ii. Income recognition

Income from financing and receivables

Income from financing and receivables is 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.

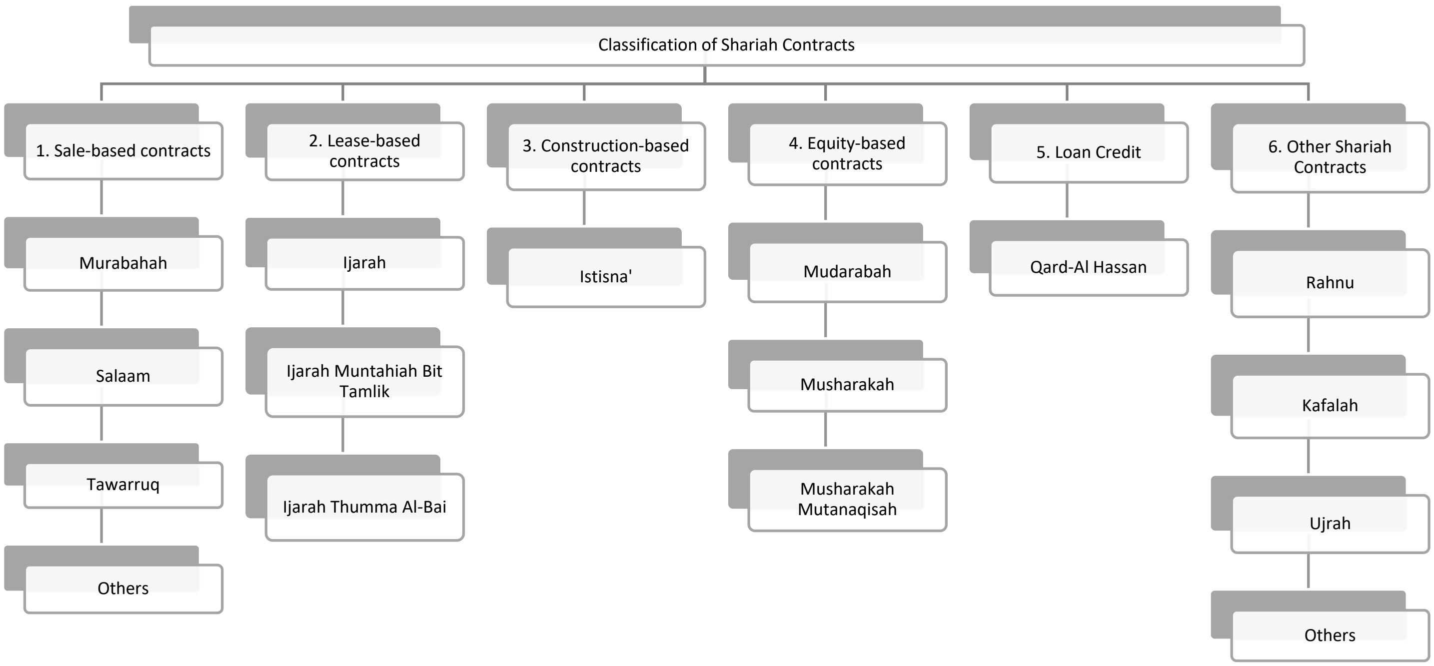
Murabahah: Murabahah income is recognised on an effective profit rate basis throughout the contract based on the principal amounts outstanding.

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

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

[14] IAS 1:117

## 6.3: Guidance on Classification of Shariah Contracts of an Islamic Bank



6.4: Illustration of disclosure requirements by Shariah contracts

Financing by types and Shariah contracts in table format

| Type | Ijarah | Istisna' | Musharakah | Qard | Others | Total financing, advances, and other receivables |
|---|---|---|---|---|---|---|
| **Cash line** | XX | XX | XX | XX | XX | XX |
| **Term financing** | XX | XX | XX | XX | XX | XX |
| **House Financing** | XX | XX | XX | XX | XX | XX |
| **Hire purchase receivables** | XX | XX | XX | XX | XX | XX |
| **Lease receivables** | XX | XX | XX | XX | XX | XX |
| **Other term financing** | XX | XX | XX | XX | XX | XX |
| **Bills receivable** | XX | XX | XX | XX | XX | XX |
| **Trust receipts** | XX | XX | XX | XX | XX | XX |
| **Claims on Customers under acceptance credits** | XX | XX | XX | XX | XX | XX |
| **Staff financing** | XX | XX | XX | XX | XX | XX |
| **Revolving credit** | XX | XX | XX | XX | XX | XX |
| **Others** | XX | XX | XX | XX | XX | XX |
| **Total financing, advances, and other receivables** | XX | XX | XX | XX | XX | XX |

## 6.5: Illustration of disclosure requirements by Shariah contracts

### 6.5.1: Purpose and source of fund for Qard

| Qard | SHS'000 | 20X1 SHS'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 |

Murabahah inventories

| Inventories* | 20X1 SHS'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 murabahah (cost-plus sale) transactions which can be transacted on the spot or a deferred basis.

### 6.5.2: Ijarah assets

| Investment Properties** | Land SHS'000 | Building SHS'000 | Total SHS'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:

| | SHS'000 | Extent of transfer of usufruct (%) |
|---|---|---|
| Land | xxx | xxx |
| Building | xxx | xxx |

| Property and equipment | Office equipment SHS'000 | Motor vehicles SHS'000 | Total SHS'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 fair value above are assets held for ijarah:

| | SHS'000 |
|---|---|
| Office equipment | xxx |
| Motor vehicles | xxx |

6.5.3: Islamic deposits from customers

| Islamic deposits from customers | 20X1 SHS'000 | 20X0 SHS'000 |
|---|---|---|
| Savings deposits | | |
| Wadiah | xxx | xxx |

| | | |
|---|---|---|
| Qard | xxx | xxx |
| Demand deposits | | |
| Wadiah | xxx | xxx |
| Qard | xxx | xxx |
| Term deposits | | |
| Tawarruq | xxx | xxx |
| Other Islamic negotiable instruments | xxx | xxx |
| | **xxx** | **xxx** |

6.5.4: Investment accounts of customers

| Investment accounts of customers | 20X1 SHS'000 | 20X0 SHS'000 |
|---|---|---|
| Unrestricted investment account without maturity | | |
| Mudarabah | xxx | xxx |
| Wakalah | xxx | xxx |
| Unrestricted investment account with a maturity | | |
| Mudarabah* | xxx | xxx |
| Wakalah* | xxx | xxx |
| | **xxx** | **xxx** |
| *of which: | | |
| Structured product | xxx | xxx |
| Other Islamic negotiable instruments | xxx | Xxx |
| | | |
| Restricted investment account with maturity | Xxx | xxx |
| Mudarabah | Xxx | xxx |
| Wakalah | **Xxx** | **xxx** |
| | | |
| **Total investment account of customers** | **Xxx** | **xxx** |

6.5.5: Investment account due to designated financial institutions

| **Investment account due to designated financial institutions** | **20X1 SHS'000** | **20X0 SHS'000** |
|---|---|---|
| Unrestricted investment account | | |
| Wakalah | xxx | xxx |
| By type of counterparty | | |
| Licensed Islamic banks | xxx | xxx |
| Licensed banks | xxx | xxx |
| | **xxx** | **xxx** |