

Financial Accounting Standard No. (1)

**General Presentation and Disclosure
in the Financial Statements of Islamic
Banks and Financial Institutions**



Contents

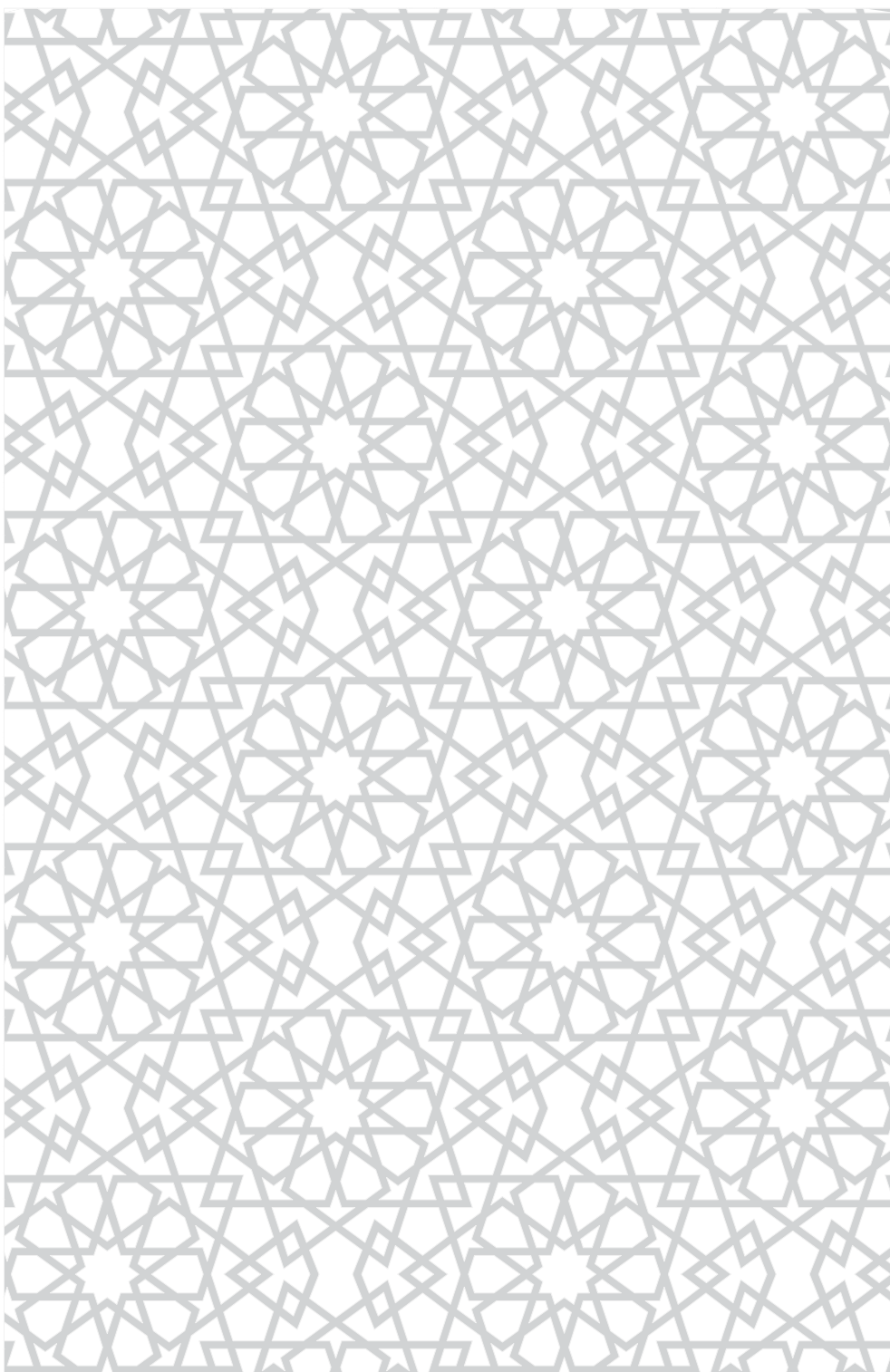
Subject	Para.	Page
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions		
Preface		95
Statement of the Standard.....		98
1. Scope of the Standard	(1)	98
2. General Provisions	(2-7)	98
2/1 The complete set of financial statements	(2)	98
2/2 Comparative financial statements	(3)	99
2/3 Rounding amounts presented in the financial statements	(4)	99
2/4 The form and classification of the financial statements and the terminology used therein.....	(5)	99
2/5 Numbering of pages	(6)	99
2/6 Notes are an integral part of the financial statements.....	(7)	99
3. General Disclosures in the Financial Statements.....	(8-29)	100
3/1 Adequate disclosure of material information	(8)	100
3/2 Disclosure of basic information about the Islamic bank	(9)	100
3/3 Disclosure of the currency used for accounting measurement	(10)	101
3/4 Disclosure of significant accounting policies.....	(11-13)	101
3/5 Disclosure of unusual supervisory restrictions	(14)	102
3/6 Disclosure of earnings or expenditures prohibited by Shari'a	(15)	103
3/7 Disclosure of concentrations of asset risks.....	(16)	103
3/8 Disclosure of concentrations of sources of unrestricted investment and their equivalent and other accounts ...	(17)	103
3/9 Disclosure of the distribution of unrestricted investment accounts and their equivalent and other accounts in accordance with their respective periods to maturity	(18)	103

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

3/10 Disclosure of the distribution of assets in accordance with their respective periods to maturity or expected periods to cash conversion	(19)	104
3/11 Disclosure of compensating balances	(20)	104
3/12 Disclosure of risk associated with assets and liabilities which are denominated in foreign currency	(21)	104
3/13 Disclosure of contingencies.....	(22)	104
3/14 Disclosure of outstanding financial commitments as of the statement of financial position date	(23)	105
3/15 Disclosure of significant subsequent events.....	(24)	105
3/16 Disclosure of restricted assets or assets pledged as security	(25)	105
3/17 Disclosure of accounting changes.....	(26)	105
3/18 Disclosure of the method used by the Islamic bank to allocate investment profits (losses) between unrestricted investment accountholders or their equivalent and the Islamic bank as a Mudarib or as an investment manager whether or not participating in the investments with its own funds.....	(27)	106
3/19 Disclosure of related party transactions	(28-29)	107
4. Presentation and Disclosure in Each Statement.....		108
4/1 Statement of financial position	(30-45)	108
4/2 Income statement.....	(46-52)	111
4/3 Statement of cash flows	(53-57)	112
4/4 Statement of changes in owners' equity or statement of retained earnings.....	(58-60)	113
4/5 Statement of changes in restricted investments	(61-64)	114
4/6 Statement of sources and uses of funds in the Zakah and charity fund.....	(65-68)	115
4/7 Statement of sources and uses of funds in the Qard fund.....	(69-73)	115
5. Treatment of Changes in Accounting Policies.....	(74-81)	116
6. Treatment of Changes in Non-Routine Accounting Estimates	(82)	117
7. Treatment of a Correction of an Error in Prior Period Financial Statements.....	(83-84)	117
8. Effective Date	(85)	118

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

Adoption of the Standard.....	119
Appendix (A): Brief History of the Preparation of the Standard.....	120
Appendix (B): Reasons for the Standard.....	122
Appendix (C): Basis for Conclusions.....	124
Appendix (D): Definitions.....	128
Appendix (E): Example of the Financial Statements and Disclosures Therein.....	130



Preface

The emergence of Islamic banks and financial institutions⁽¹⁾ as relatively new organizations and the great challenge they face to successfully serve the societies in which they operate, have led them, together with specialists in Shari'a and in accounting, to seek the most appropriate means through which accounting standards could be developed and implemented in order to present adequate, reliable, and relevant information to users of the financial statements of such organizations. The presentation of such information is critical to the economic decision making process by parties who deal with Islamic banks and would also have a significant effect on the distribution of economic resources for the benefit of society.

The principles of Shari'a strike a balance between the interests of the individual and society. It is known that investment is the foundation of economic activities in any society. However, not every individual is capable of directly investing his own savings. Accordingly, Islamic banks play an important role by acting as a vehicle to attract the savings of individuals and investing those savings for the benefit of the individual and society.

Islam clearly encourages investment and spending. Indeed, when Islam imposed Zakah, it required that wealth should be invested, otherwise it would be exhausted by Zakah over a period of time. It has been reported that the Prophet (peace be upon him) said: *"Trade in orphans' wealth (property) lest it would be exhausted by Zakah"*.⁽²⁾

However, to induce individuals to invest through savings with their Islamic banks, it is essential that such individuals develop a trust in the ability

(1) Referred to hereafter as Islamic bank or Islamic banks.

(2) Related by Al-Tabarani on the authority of Anas Ibn Malik from the Prophet (peace be upon him). Al-Hafiz Ibn Hajar stated that it is a good hadith. Also, this hadith has been related by Al-Bayhaqi on the authority of Umar (may Allah be pleased with him), and it is a good hadith. *"Fayd Al-Qadir"*, Al-Manawi, [1: 108].

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

of Islamic banks to realize their investment objectives. In the absence of trust in the ability of Islamic banks to invest efficiently and in full compliance with Shari'a, many individuals may refrain from investing through Islamic banks. One of the pre-requisites for the development of such trust is the availability of information that assures the investing public of the ability of Islamic banks to achieve their objectives. Among the important sources of such information are the financial reports of Islamic banks which are prepared in accordance with standards that are applicable to Islamic banks. However, in order to develop such standards it is essential to define the objectives and concepts of financial accounting for Islamic banks. In this respect, it is not harmful to begin where others have ended if what has been developed by others is beneficial and does not contradict the Shari'a.

The interest in developing financial accounting standards for Islamic banks started in 1987 A.D. In this respect, several studies have been prepared. These studies have been compiled in five volumes and deposited in the Library of the Islamic Research and Training Institute of the Islamic Development Bank.

The outcome of these studies has been the formation of the Financial Accounting Organization for Islamic Banks and Financial Institutions (the Organization) which was registered as a not-for-profit organization in the Kingdom of Bahrain in 12/9/1411 A.H., corresponding to 27/3/1991 A.D. Since its inception the Organization has continued the efforts to develop accounting standards. Periodic meetings of the Executive Committee for Planning and Follow Up (the Committee) have been held with the aim to implement the plan approved by both the Supervisory Committee (the supreme authority of the Organization) and by the Financial Accounting Standards Board for Islamic Banks and Financial Institutions (the Board). In this respect, the Committee has retained the service of several consultants on Shari'a and experts and practitioners of accounting, and bankers.

This standard defines the financial statements that should be periodically published by Islamic banks to satisfy the common information needs of users of financial reports set forth in the Conceptual Framework for Financial Reporting by Islamic Financial Institutions. This standard also establishes

Financial Accounting Standard No. (1):

General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

the general principles for the presentation of information and defines certain information that should be disclosed in the financial statements of Islamic banks in order to achieve the objectives of accounting and financial reports within the limitations of financial accounting.

Statement of the Standard

1. Scope of the Standard

This standard is applicable to the financial statements published by Islamic banks to meet the common information needs of the main users of such statements. This standard is applicable to all Islamic banks regardless of their legal form, countries of incorporation, or size.

Should the requirements of this standard contradict the bank's charter or the laws and regulations of the country in which it operates a disclosure should be made of the contradiction and the impact of promulgated standards on the relevant elements of the financial statements. (para. 1)

2. General Provisions

2/1 The complete set of financial statements

The complete set of financial statements that should be published by Islamic banks should consist of the following:

- a) A statement of financial position (balance sheet);
- b) An income statement;
- c) A statement of cash flows;
- d) A statement of changes in owners' equity or a statement of retained earnings;
- e) A statement of changes in restricted investment;
- f) A statement of sources and uses of funds in the Zakah and charity fund (when the bank assumes the responsibility for the collection and distribution of Zakah);
- g) A statement of sources and uses of funds in the Qard fund,
- h) Notes to the financial statements; and
- i) Any statements, reports and other data which assist in providing information required by users of financial statements as specified in the Conceptual Framework for Financial Reporting by Islamic Financial Institutions. (para. 2)

2/2 Comparative financial statements

An Islamic bank should publish comparative financial statements which should include, as a minimum, the financial statements of the comparable prior period. The presentation methods and disclosures in published financial statements should enable the user to differentiate between actual changes in the Islamic bank's financial position, its results of operations, its cash flows, the restricted investments managed by the bank, the sources and uses of funds in the Zakah and charity fund, and the sources and uses of funds in the Qard fund, from accounting changes during the periods covered by the financial statements. (para. 3)

2/3 Rounding amounts presented in the financial statements

Amounts presented in the financial statements and related notes should be rounded to the nearest monetary unit. (para. 4)

2/4 The form and classification of the financial statements and the terminology used therein

The form of and the classification used in the financial statements should ensure a clear presentation of their content. In addition, the terminology used to express the content of the financial statements should enable their users to understand and comprehend the information contained therein. Assets and liabilities should not be classified between current and non-current in the Statement of Financial Position. (para. 5)

2/5 Numbering of pages

Pages containing the financial statements and the related notes should be numbered consecutively. Notes to the financial statements should be given clear and distinct titles and should be cross referenced to the related items in the financial statements. (para. 6)

2/6 Notes are an integral part of the financial statements

The following statement should appear on the bottom of every page containing a financial statement:

“Notes to the financial statements from number –to number– are an integral part of the financial statements”.

In addition, notes should be set forth immediately after the last page containing a financial statement. (para. 7)

3. General Disclosures in the Financial Statements

3/1 Adequate disclosure of material information

The financial statements should disclose all material information that is necessary to make those financial statements adequate, relevant and reliable for their users. (para. 8)

3/2 Disclosure of basic information about the Islamic bank

The financial statements should disclose, to the extent applicable, the following information about the bank:

- a) The name of the Islamic bank;
- b) The country of incorporation;
- c) Formation date and legal form;
- d) Location of headquarters and number of branches in each country where the bank operates;
- e) The nature of the activities the bank is authorized to carry out by its charter and the major banking services it provides;
- f) The names of the bank's subsidiaries whose financial statements are consolidated with those of the bank, the countries of their incorporation, the bank's ownership percentage in each subsidiary and the nature of their activities;
- g) The names of the bank's subsidiaries whose financial statements are not consolidated with those of the bank's, the countries of their incorporation, the bank's ownership percentage in each subsidiary, the nature of their activities, and the reasons for excluding their financial statements from the consolidated financial statements of the bank;
- h) The name of the holding company and the names of other affiliates. An entity is considered an affiliate of another if they are controlled by an entity that owns not less than 51 percent of the shares of each entity;.

- i) The role of the Shari'a adviser or the Shari'a board in supervising the bank's activities and the nature of the adviser's or board's authority in accordance with the bank's by-laws and in actual practice;
- j) The agency responsible for supervising the bank's activities and the agency responsible for supervising the holding company;
- k) The bank's responsibility towards Zakah; and
- l) The tax treatment in the country of incorporation and in other countries where the bank has operating branches. If the bank enjoys a tax holiday in the country of incorporation and in other countries, the period of the tax holiday and the remaining period thereof. (para. 9)

3/3 Disclosure of the currency used for accounting measurement

- a) The financial statements should disclose the currency used for accounting measurement, if not otherwise evident from the contents of the financial statements.
- b) The financial statements should disclose the accounting method used for translating foreign currency balances and transactions. (para. 10)

3/4 Disclosure of significant accounting policies

a) Definition of accounting policies

Accounting policies refer to the accounting principles, bases, rules and methods which have been adopted by the Islamic bank's management for the preparation and publication of the financial statements. (para. 11)

b) The accounting policies that should be disclosed

The financial statements must contain a clear and precise description of the significant accounting policies used for the preparation and publication of the financial statements. This disclosure should include, as a minimum, the significant policies in the following circumstances:

1. The accounting policies that represent a choice among acceptable alternative accounting methods (e.g., the depreciation method used).

2. The accounting policies adopted by the management of the Islamic bank but which are not consistent with the concepts of financial accounting for Islamic banks, if any.
 3. The accounting policies adopted by the management of the Islamic bank for revenue, gain and loss recognition.
 4. The accounting policies adopted by the Islamic bank's management for the recognition and determination of doubtful receivables and the policies of writing-off debts.
 5. The policies, bases and methods adopted by the bank's management for the revaluation of assets, liabilities and restricted investments to their cash equivalent value, if applicable.
 6. The use of historical cost as a basis of determining equity of owners of unrestricted investment accounts and their equivalent (or restricted investment accounts or their equivalent) if the revaluation of assets, liabilities, and reinvestments to their cash equivalent value, is not mandatory.
 7. The accounting policies adopted by the Islamic bank's management for the consolidation of the financial statements of subsidiaries, if any. (para. 12)
- c) Method of disclosing significant accounting policies
- Significant accounting policies should be disclosed in one note and should be shown as either the first or second note of the notes to the financial statements. (para. 13)

3/5 Disclosure of unusual supervisory restrictions

The financial statement should disclose any unusual supervisory restrictions imposed on the Islamic bank by any regulatory or supervisory agency after due consideration with respect to any regulations regarding the disclosure of such restrictions. A supervisory restriction should be considered unusual if it either restricts management's ability to make decisions necessary to manage the bank, or if it prevents the bank from carrying out some of the activities it has been authorized to carry out by its charter. (para. 14)

3/6 Disclosure of earnings or expenditures prohibited by Shari'a

The financial statements should disclose the amount and nature of earnings that have been realized from sources or by means which are not permitted by Shari'a. Likewise, disclosures should be made of the amount and nature of expenditures for purposes not permitted by Shari'a. The Islamic bank should also disclose how it intends to dispose of the assets generated by the prohibited earnings or acquired through prohibited expenditures. (para. 15)

3/7 Disclosures of concentrations of asset risks

Disclosure should be made in the financial statements of the magnitude of assets invested or deposited in any of the following concentrations:

- a) An economic sector (e.g., the agriculture sector, the service sector, the manufacturing sector, the real estate sector, etc.);
- b) A customer, including another bank or a financial institution without stating the customer's name;
- c) A domestic geographical area with unique economic characteristics;
- d) Foreign countries. (para. 16)

3/8 Disclosure of concentrations of sources of unrestricted investment account and their equivalent and other accounts

Disclosure should be made in the financial statements of the magnitude of balances of all unrestricted investment accounts and their equivalent and other accounts by type in foreign countries. (para. 17)

3/9 Disclosure of the distribution of unrestricted investment accounts and their equivalent and other accounts in accordance with their respective periods to maturity

Disclosure should be made in the financial statements of the distribution of unrestricted investment accounts and their equivalent and other accounts, by type, in accordance with their respective periods to maturity, from the date of the Statement of Financial Position. The Islamic bank's disclosure should differentiate between demand accounts and other accounts. With respect to non-demand accounts, the bank should use for the purpose of this disclosure, maturity periods

designed to disclose liquidity requirements during the next period and liquidity requirements during the following periods. Maturity periods should be consistently used and changes in the maturity periods used by the bank should be disclosed. (para. 18)

3/10 Disclosure of the distribution of assets in accordance with their respective periods to maturity or expected periods to cash conversion

Disclosure should be made in the financial statements of the distribution of assets in accordance with their respective periods to maturity or expected periods to cash conversion from the date of the balance sheet. The Islamic bank's disclosure should differentiate between cash and other assets. With respect to other assets, the Islamic bank should use, for the purpose of this disclosure, maturity or conversion periods designed to disclose expected sources of liquidity during the next period and the following periods from outstanding assets at the Statement of Financial Position date. Maturity or conversion periods should be used consistently and changes in the maturity or conversion periods should be disclosed. (para. 19)

3/11 Disclosure of compensating balances

Disclosure should be made in the financial statements of any amounts the Islamic bank is obligated to deposit with others as compensating balances. (para. 20)

3/12 Disclosures of risk associated with assets and liabilities which are denominated in foreign currency

Disclosure should be made in the financial statements of the net assets (net liabilities) by type of foreign currency, as of the Statement of Financial Position date, which are denominated in foreign currency. (para. 21)

3/13 Disclosure of contingencies

Disclosure should be made in the financial statements of contingencies existing as of the Statement of Financial Position date including

those resulting from the issuance of letters of credit or guaranty, documentary credit and similar instruments. (para. 22)

3/14 Disclosure of outstanding financial commitments as of the Statement of Financial Position date

Disclosure should be made in the financial statements of the nature and amounts of outstanding significant financial commitments as of the Statement of Financial Position date which the Islamic bank cannot cancel without significant cost or penalty. (para. 23)

3/15 Disclosure of significant subsequent events

Disclosure should be made in the financial statements of any event subsequent to the date of the Statement of Financial Position which might have a significant effect on the Islamic bank's financial position or results of operations, including those events which may cause significant change in the bank's activities or size, or which may restrict management's ability to take action. Such disclosure should be made after due consideration to regulatory requirements imposed by the supervisory agencies. (para. 24)

3/16 Disclosure of restricted assets or assets pledged as security

Disclosure should be made in the financial statements of the nature and amounts of any assets which are restricted for a particular use or used as a collateral for the Islamic bank's obligations. (para. 25)

3/17 Disclosure of accounting changes

Disclosure should be made in the financial statements of the nature and effects of the following accounting changes:

a) Change in an accounting policy

Disclosure of a change in an accounting policy should include the following:

1. Description of the change and its justification.
2. The effect of the change on net income for the current period and prior periods presented for comparative purposes and

on retained earnings as of the beginning of the first period presented for comparative purposes.⁽³⁾

b) Change in a non-routine accounting estimate⁽⁴⁾

Disclosure of a change in a non-routine accounting estimate should include the following:

1. Description of the change and the reasons thereof.
2. The effect of the change on net income or profits (losses) from restricted investments for the current period.

c) Correction of an error in prior period financial statements

Disclosure of a correction of an error should include the following:

1. Nature of the error and the prior period(s) affected by the error.
2. The effect of the error correction on net income or profits (losses) from restricted investments for the period(s) affected by the error and the current period. (para. 26)

3/18 Disclosure of the method used by the Islamic bank to allocate investment profits (losses) between unrestricted investment accountholders or their equivalent and the Islamic bank as a Mudarib or as an investment manager whether or not participating in the investments with its own funds

Disclosure should be made in the financial statements of the method(s) used by the Islamic bank to determine the share of unrestricted investments in the profits (losses) of the period. Disclosure should also be made of the returns of each type of investment accounts and their rate of return. (para. 27)

-
- (3) If the change relates to restricted investments, disclosure should be made of the effect of the change on both the investment profits (losses) for the current period and for the prior periods presented for comparative purposes, and the balance of restricted investments at the beginning of the first period presented for comparative purposes.
- (4) Non-routine accounting estimates refer to those estimates management makes in order to allocate the recorded amount of an asset or deferred revenues to future periods or in order to estimate the expected amount of a liability that should be given accounting recognition. These do not include estimates management makes at the end of each period in order to determine the results of that period (for example, estimate of uncollectable receivables). The financial statements should also disclose the investment returns for each type of account.

3/19 Disclosure of related party transactions

3/19/1 Definition of related parties

Related parties mean the following:

- a) Members of the Islamic bank's board of directors, its external auditors, Shari'a adviser or members of its Shari'a board, its general manager and his deputies and equivalent.
- b) Relatives of those mentioned in (a) above to the second degree there is vested interest between the two parties.
- c) Any natural person or entity which directly or indirectly owns a percentage (to be determined by the Islamic bank) of the banks voting ownership units and relatives of the natural person to the second degree. Changes in the percentage used by the Islamic bank should be disclosed.
- d) Any entity in which any person in (a), (b) or (c) above either directly or indirectly owns the percentage referred to in (c) above of its voting ownership units or is a member of its board of directors.
- e) Subsidiaries and other affiliates of the Islamic bank. An entity is considered an affiliate of another if they are controlled by an entity that owns not less than 51 percent of the shares of each entity.
- f) Any entity in which the Islamic bank directly or indirectly owns a sufficient percentage of its voting ownership units to enable the bank to influence its operations. (para. 28)

3/19/2 Contents of the disclosure of related party transactions

Disclosure of related party transactions should include the following:⁽⁵⁾

- a) The nature of the relationship between the bank and the related party.

(5) In case of executive managers, disclosure should be limited to amounts in excess of the maximum limits, if any, established by law or regulatory authorities for transactions between the bank and its executive managers.

- b) The nature and amount(s) of the transaction(s) consummated with the related party during the period.
- c) Balances due from or due to the related party as of the statement of financial position date. (para. 29)

4. Presentation and Disclosure in Each Statement

4/1 Statement of financial position

The date of the statement of financial position should be disclosed. (para. 30)

The statement of financial position should include the Islamic bank's assets, its liabilities, equity of its unrestricted investment accountholders and their equivalent, and its owners' equity. (para. 31)

Assets should not be set-off against liabilities⁽⁶⁾ and liabilities should not be set-off against assets unless there is a shar'i or legal right and an actual expectation of set-off. (para. 32)

Significant items of assets, liabilities, unrestricted investment accounts and their equivalent or owner's equity should not be combined on the face of the statement of financial position without disclosure. (para. 33)

The amount of any allowance established to cover expected losses should be disclosed. (para. 34)

Assets and liabilities should be combined into groupings in accordance with their nature and those groupings should be presented in the statement of financial position in the order of the relative liquidity of each group. The statement of financial position should present separate totals for assets, liabilities, unrestricted investment accounts and their equivalent, and owners' equity. (para. 35)

Assets and liabilities should not be classified between current and non-current. (para. 36)

Disclosure should be made on the face of the statement of financial position or the notes to the financial statements of the following

(6) Accounting provisions are not considered as liabilities.

assets with separate disclosures of assets jointly financed by the Islamic bank and unrestricted investment accountholders and those exclusively financed by the Islamic bank:

- a) Cash and cash equivalent.
- b) Receivables:
 - Murabaha receivables
 - Salam receivables
 - Istisna'a receivables
- c) Investment securities.
- d) Mudaraba financing.
- e) Musharaka financing.
- f) Investments in other entities.
- g) Inventories (including goods purchased for Murabaha customers prior to consummation of Murabaha agreement).
- h) Investment in real estate.
- i) Assets acquired for leasing.
- j) Other investments with disclosure of their types.
- k) Fixed assets with disclosure of significant types and related accumulated depreciation.
- l) Other assets with disclosure of significant types. (para. 37)

Disclosure should be made of the net realizable value of an asset if such value is less than the asset's recorded amount. However, all expected losses should be recognized when reasonably measurable. (para. 38)

Disclosure should be made of the historical cost of assets or the historical amounts of liabilities which are reflected in the statement of financial position at their estimated cash equivalent values, when the revaluation of assets and liabilities to their estimated cash equivalent value is utilized. (para. 39)

Disclosure should be made of changes during the period in the provision for doubtful accounts receivable as follows:

- a) Provision charged to income statement during the period.
- b) Receivables written-off during the period.

- c) Receivables collected during the period which were previously written-off.
- d) The balance of the provision for doubtful receivables as of the beginning and end of the period. (para. 40)
Disclosure should be made in the statement of financial position or the notes to the financial statements of the following liabilities:
 - i) Current accounts, saving accounts and other accounts, with separate disclosure of each category of accounts.
 - ii) Deposits of other banks.
 - iii) Salam payables.
 - iv) Istisna'a payables.
 - v) Declared but undistributed profits.
 - vi) Zakah and taxes payable.
 - vii) Other accounts payable. (para. 41)

Unrestricted investment accounts and their equivalent should be disclosed and presented in the statement of financial position as a separate item between liabilities and owner's equity. (para. 42)

A consolidated statement of financial position should disclose the minority interest and that interest should be shown on the statement as a separate item between unrestricted investment accounts and owner's equity. (para. 43)

Disclosure should be made in the statement of financial position, and/or the statement of retained earnings or the statement of changes in financial position, and/or notes to the financial statements, as appropriate, of the following:

- a) Authorized, subscribed and paid-in capital.
- b) Number of authorized ownership units (shares), number of issued ownership units, number of outstanding ownership units, par value per unit and premiums on issued units.
- c) Legal reserve and discretionary reserves at the beginning and end of the period and changes therein during the period.
- d) Retained earnings at the beginning and end of the period and amount of retained earnings resulting from the revaluation of assets and liabilities to their cash equivalent values, where applicable, and

changes therein during the period including distribution to owners and transfers to or from reserves.

- e) Other changes in owners' equity during the period.
- f) Any restrictions imposed on the distribution of retained earnings to owners. (para. 44)

The rights, conditions and obligations of each type of unrestricted investment account and its equivalent and other deposit accounts shown in the statement of position should be disclosed. (para. 45)

4/2 Income statement

The period covered by the income statement should be disclosed. (para. 46)

Investment revenues, expenses, gains and losses should be disclosed by type. (para. 47)

The nature of material revenues, expenses, gains and losses from other activities should be disclosed. (para. 48)

Where applicable, estimated gains and losses from the revaluation of assets and liabilities to their cash equivalent values should be disclosed including the general principles used by the Islamic bank in the revaluation of assets and liabilities. (para. 49)

To the extent applicable, the following information should be disclosed in the income statement with separate disclosures of investment revenues, expenses, gains and losses jointly financed by the Islamic bank and unrestricted investment accountholders and those exclusively financed by the Islamic bank:

- a) Revenues and gains from investments.
- b) Expenses and losses from investments.
- c) Income (loss) from investments.
- d) Share of unrestricted investment accountholders in income (loss) from investments before the bank's share as a Mudarib.
- f) The Islamic bank's share in income (loss) from investments.
- g) The Islamic bank's share in unrestricted investment income as a Mudarib.

- h) The Islamic bank's share in restricted investment profits as a Mudarib.
- i) The Islamic bank's fixed fee as an investment agent for restricted investments.
- j) Other revenues, expenses, gains, and losses.
- k) General and administrative expenses.
- l) Net income (loss) before Zakah and taxes.
- m) Zakah and taxes (to be separately disclosed).
- n) Net income (loss). (para. 50)

The Zakah base should be disclosed whenever the Islamic bank is obligated to pay such Zakah on behalf of all owners. (para. 51)

The minority interest (pertaining to companies whose financial statements are consolidated with those of the Islamic bank) in net income (loss) should be disclosed in the consolidated statement of income as a separate item before net income (loss). (para. 52)

4/3 Statement of cash flows

The period covered by the statement should be disclosed. (para. 53)

The statement of cash flows should differentiate between cash flows from operations, cash flows from investing activities and cash flows from financing activities. In addition, the statement should disclose the main components of each category of cash flows. (para. 54)

The statement of cash flows should disclose the net increase (decrease) in cash and cash equivalent during the period and the balance of cash and cash equivalent at the beginning and end of the period. (para. 55)

Transactions and other transfers that do not require the payment of or do not result in the receipt of cash and cash equivalent should be disclosed, for example bonus shares or the acquisition of assets in exchange for shares in the equity of the Islamic bank. (para. 56)

The Islamic bank's policy with respect to the components of cash and cash equivalent used as a basis for the preparation of the statement of cash flows should be disclosed. (para. 57)

4/4 Statement of changes in owners' equity or statement of retained earnings

The period covered by the statement of changes in owners' equity or the statement of retained earnings should be disclosed. (para. 58)

The statement of changes in owners' equity should disclose the following:

- a) Paid-in-capital, legal and discretionary reserves separately, and retained earnings as of the beginning of the period with separate disclosure of the amount of estimated earnings resulting from the revaluation of assets and liabilities to their cash equivalent values, where applicable.
- b) Capital contribution by owners during the period.
- c) Net income (loss) for the period.
- d) Distributions to owners during the period.
- e) Increase (decrease) in legal and discretionary reserves during the period.
- f) Paid-in-capital, legal and other discretionary reserves and retained earnings as of the end of the period with separate disclosure of the estimated amount of retained earnings resulting from the revaluation of assets and liabilities to their cash equivalent values, where applicable. (para. 59)

The statement of retained earnings should disclose the following:

- a) Retained earnings at the beginning of the period with separate disclosure of the amount of estimated retained earnings resulting from the revaluation of assets and liabilities to their cash equivalent values, where applicable.
- b) Net income (loss) for the period.
- c) Transfers to legal and discretionary reserves during the period.
- d) Distribution to owners during the period.
- e) Retained earnings at the end of the period with separate disclosure of the amount of estimated retained earnings resulting from the revaluation of assets and liabilities to their cash equivalent values, where applicable. (para. 60)

4/5 Statement of changes in restricted investments

The period covered by the statement of changes in restricted investments should be disclosed. (para. 61)

The statement should segregate restricted investments by source of financing (e.g., those financed by restricted investment accounts, investment units in restricted investment portfolios.) In addition, the statement should segregate investment portfolios by type. (para. 62)

The statement of changes in restricted investments should disclose the following:

- a) The balance of restricted investments at the beginning of the period with separate disclosure of the portion of the balance resulting from the revaluation of restricted investments to their cash equivalent values, where applicable.
- b) The number of investment units in each of the investment portfolios and the value per unit at the beginning of the period.
- c) Deposits received or investment units issued by the Islamic bank during the period.
- d) Withdrawals or repurchase of investment units during the period.
- e) The Islamic bank's share in investment profits as a Mudarib or its fixed fee as an investment agent.
- f) Allocated overhead expenses, if any, from the Islamic bank to restricted investment accounts or portfolios.
- g) Restricted Investment profits (losses) during the period with separate disclosure of the amount resulting from the revaluation of restricted investments to their cash equivalent values, where applicable.
- h) The balance of restricted investments at the end of the period with separate disclosure of the portion of the balance resulting from the revaluation of restricted investments to their cash equivalent values, where applicable.
- i) Number of investment units in each of the investment portfolios at the end of the period and the value per unit. (para. 63)

Notes to the statement of changes in restricted investments should disclose the following:

- a) The nature of the relationship between the Islamic bank and owners of restricted investments either as a Mudarib or investment agent.
- b) The rights and obligations associated with each type of restricted investment account or investment unit. (para. 64)

4/6 Statement of sources and uses of funds in the Zakah and charity fund

The period covered by the statement of sources and uses of funds in the Zakah and charity fund should be disclosed. (para. 65)

Disclosure should be made of the Islamic bank's responsibility for the payment of Zakah and whether the bank collects and pays Zakah on behalf of owners of unrestricted investment accountholders. (para. 66)

Other sources of funds in the Zakah and charity fund should be disclosed. (para. 67)

Disclosure should be made of the funds paid by the Islamic bank from the Zakah and charity fund during the period and of funds available in the fund at the end of the period. (para. 68)

4/7 Statement of sources and uses of funds in the Qard fund

The period covered by the statement of sources and uses of funds in the Qard fund should be disclosed. (para. 69)

The balances of Qard outstanding and funds available in the fund at the beginning of the period should be disclosed by type. (para. 70)

The amounts and sources of funds contributed to the fund during the period should be disclosed by source. (para. 71)

The amounts and uses of funds during the period should be disclosed by type. (para. 72)

The balances of Qard outstanding and funds available in the fund at the end of the period should be disclosed. (para. 73)

5. Treatment of Changes in Accounting Policies

The following are not considered changes in accounting policies:

- a) The adoption of a new accounting policy because of a clear difference in the substance of certain transactions and events compared to similar transactions and events in the past.
- b) The adoption of a new accounting policy because of transactions or events that are occurring for the first time or have occurred in the past but were immaterial.
- c) Changes in the classification of items in the financial statements of the current period compared to their classification in prior period financial statements. However, items in prior period financial statements, when presented for comparative purposes, should be reclassified to conform to their current classifications. (para. 74)

If the management of the Islamic bank decides to change an accounting policy, the new policy should be applied retroactively by restating the financial statements for the last period presented unless it is not practicable to obtain the data necessary for the restatement or the data is not available. (para. 75)

If the data necessary for restating one or more of the prior periods' financial statements are not available or not practicable to obtain, retained earnings⁽⁷⁾ as of the beginning of the current or a prior period, as appropriate, should be restated to reflect the cumulative effect of the change in the accounting policy on the prior periods which are not restated. The amount of that cumulative effect should be disclosed. (para. 76)

The balance of retained earnings⁽⁸⁾ at the beginning of the first period presented should be adjusted to reflect the cumulative effect of the change on the prior periods which are not presented. That cumulative effect should be disclosed. (para. 77)

Disclosure should be made as to whether prior periods presented have been restated to reflect the effect of the change. (para. 78)

(7) If the change relates to restricted investments, the balance of restricted investment at the beginning of the period should be adjusted.

(8) If the change relates to restricted investments, the balance of restricted investments at the beginning of the first year presented should be adjusted.

The effect of the change in an accounting policy on unrestricted investment accounts owners' share in income (loss) from investments and on net income (loss)⁽⁹⁾ for the current period and for each prior period presented should be disclosed. (para. 79)

The effects of multiple changes in accounting policies should not be netted and should be disclosed separately. (para. 80)

A change in accounting policy should be disclosed even when its effect is not material either in the current or prior periods when it is expected to have a material effect on future periods. (para. 81)

6. Treatment of Changes in Non-Routine Accounting Estimates

The effect of a change in a non-routine accounting estimate should be reflected in:

- a) The period of the change if the effect of the change is limited to that period.
- b) The period of the change and future periods if the change affects the current and future periods.

The effect of the change in a non-routine accounting estimate on unrestricted investment accountholders share in income (loss) from investments and on net income (loss) for the current period should be separately disclosed.⁽¹⁰⁾ (para. 82)

7. Treatment of a Correction of an Error in Prior Period Financial Statements

An error in prior period financial statements should be corrected retroactively by restating the financial statements for all prior periods presented which have been affected by the error. Disclosure should be made as to whether such an error affects the rights and obligations of the Islamic bank towards others. (para. 83)

(9) If the change relates to restricted investments, the effect of the change on restricted investment profits (losses) for the current period and for each prior period presented should be disclosed.

(10) If the change in non-routine accounting estimates relates to restricted investments, the effect of the change on restricted investment profits (losses) and on the Islamic bank's share in the profits of restricted investments as a Mudarib should be separately disclosed.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

Retained earnings⁽¹¹⁾ at the beginning of the first period presented should be adjusted to reflect the cumulative effect of the correction of the error on the periods which are not presented but which were affected by the error. That cumulative effect should be disclosed. (para. 84)

8. Effective Date

This Standard shall be effective for financial statements for fiscal periods beginning 1 Muharram 1417 A.H. or 1 January 1996 A.D. (para. 85)

(11) If the error relates to restricted investments, the balance of restricted investments at the beginning of the first year presented should be adjusted.

Adoption of the Standard

The Presentation and General Disclosure Standard was adopted by the Board in its meeting No. (15) held in Jumada I, 1414 A.H., corresponding to October 1993 A.D.

Members of the Board:

- | | |
|---------------------------------------------|-----------------|
| 1. Abdel-Aziz Rashed Al-Rashed | Chairman |
| 2. Dr Abdelgadir Banaga | Deputy chairman |
| 3. Ibrahim Al-Subeil | |
| 4. Irtiza Husain | |
| 5. Anwar Khalifa Sadah | |
| 6. Hazim Hassan | |
| 7. Huseyin Cahit Ozcet | |
| 8. Dr. Khaled Boodai | |
| 9. Dr. Rifaat Ahmed Abdel Karim | |
| 10. Samir Tahir Badawi | |
| 11. Abdel-Hamid Abu Musa | |
| 12. Sheikh. Abdullah Bin Sulaiman Al-Maneei | |
| 13. Professor. Abdullah Al-Faisal | |
| 14. Dr. Omer Zuhair Hafiz | |
| 15. Farooq Azam | |
| 16. Professor. Mohamed Al-Siddiq Al-Darir | |
| 17. Mohammed Alawi Thiban | |
| 18. Mohammed Mukhtar Al-Sallami | |
| 19. Musa Abdel-Aziz Shihadeh | |
| 20. Mian Mumtaz Abdullah | |
| 21. Dr. Yousuf Al-Qaradawi | |

Appendix (A)

Brief History of the Preparation of the Standard

The Committee commissioned a number of consultants to conduct field studies on the objectives and standards of financial accounting and the role of governmental, professional and private organizations in countries where Islamic banks operate. The studies have shown that there were differences in the methods of presentation and disclosure of Islamic banks.

The standard is prepared from several preliminary studies which include the views of a number of consultants in Shari'a and in accounting, practicing accountants, officials in central banks and Islamic bankers.

The Committee commissioned two accounting consultants to prepare a preliminary discussion paper on the requirements of presentation and general disclosure in financial statements. The study was developed by another team comprising an accounting consultant and a Shari'a consultant who prepared another discussion paper on the presentation and general disclosure in the financial statements of Islamic banks. An accounting consultant was then asked to prepare a first exposure draft on the standard. The job of finalizing the first exposure draft was assigned by the Committee to a study team consisting of two consultants in Shari'a and two consultants in accounting. The team was supported by meetings attended by other consultants of the Committee and its members who include specialists in Shari'a and in accounting, officials in central banks and Islamic bankers. It is worth noting that the charters, by-laws and published financial statements of Islamic banks were taken into consideration in the various stages of preparing the studies.

The first exposure draft was issued in Rabi' I, 1413 A.H., corresponding to September 1992 A.D., and discussed in the third meeting of the Board

held on 13 Jumada I, 1413 A.H., corresponding to 8 November 1992 A.D., which was attended by the consultants of the Committee. The first exposure draft was distributed to various parties for discussion in a seminar held in the Kingdom of Bahrain on 18-19 Jumada II, 1413 A.H., corresponding to 12-13 December 1992 A.D. The seminar was attended by 124 individuals from various countries representing Islamic banks, central banks, international and local certified public accountants, associations of certified public accountants, international accounting standard-setting organizations, Shari'a scholars, academics, users of financial statements of Islamic banks. In addition to the comments that were expressed in the seminar, the Committee also received written comments.

The Committee and its consultants studied the comments received on the first exposure draft and made the changes which were considered appropriate. The Committee then issued the second exposure draft in Dhul-Qa'dah 1413 A.H., corresponding to April 1993 A.D., and distributed it to various parties. The Committee held two seminars in the Kingdom of Bahrain attended by representatives of Islamic banks to discuss the second exposure draft. The first seminar was held in Dhul-Hajjah 1413 A.H., corresponding to May 1993 A.D., and the second seminar was held in Rabi' II, 1414 A.H., corresponding to September 1993 A.D.

Following are the main comments submitted on the three exposure drafts but which were not accepted by the Committee:

- a) The classification of assets and liabilities into current and non-current.
The Committee decided that such classification is not relevant for Islamic banks. The standard requires that assets and liabilities should be combined into groupings in accordance with their nature and those groupings should be presented in the statement of financial position in order of their relative liquidity of each group.
- b) Not to disclose earnings or expenditures prohibited by Shari'a.
The committee decided that this contradicts the objectives of financial reports in the Statement of Financial Accounting No. (1): Objectives of Financial Accounting of Islamic Banks and Financial Institutions which require that the financial reports of Islamic banks should provide information about the Islamic bank's compliance with the precepts of Shari'a in its operations and dealings.

Appendix (B)

Reasons for the Standard

The Committee commissioned a number of consultants to carry out field studies to identify the objectives and standards of financial accounting and the role of governmental, private, and professional organizations in preparing these studies in countries in which Islamic banks and financial institutions operate. These field studies included a comparison of methods of presentation and the adequacy of disclosure in the financial statements of a number of Islamic banks. The studies have shown that there were differences in the methods of presentation and adequacy of disclosure in the financial statements of Islamic banks. They also confirmed the need to disclose in the financial statements of Islamic banks additional important information related to matters that may affect the way users of the financial statements of these institutions make use of such statements as a basis for investment decisions in a manner that would benefit them in accordance with Shari'a precepts.

A Muslim shareholder, depositor or customer chooses an Islamic bank in preference to other Islamic banks because of his confidence in the performance of the Islamic bank and in its ability to achieve his economic objectives in accordance with the precepts of Shari'a. However, this confidence comes only out of a number of factors, at the top of which is the disclosure of adequate information that enables users to evaluate the performance of the Islamic bank and its ability to achieve their economic objectives. A Muslim evaluates the performance of an Islamic bank mainly by comparing it with that of other similar banks. No doubt, the ability to compare the performance of various Islamic banks depends to a large extent on the adequate disclosure of information in its published financial statements, the methods of presenting the information in these statements and the clarity of the information presented.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

In view of this, it is evident that there is a need to promulgate a standard which defines the information that should be disclosed in the financial statements of Islamic banks and the acceptable methods of presentation in these statements.

Appendix (C)

Basis for Conclusions

The conclusions reached by this standard mainly emanate from the objectives of financial reports and the concepts of financial accounting for Islamic banks and financial institutions. Such objectives being geared to the needs of the categories of the users of such reports as are specified in the previous Statement of Financial Accounting No. (1): Objectives of Financial Accounting for Islamic Banks and Financial Institutions, and the Statement of Financial Accounting No. (2): Concepts of Financial Accounting for Islamic Banks and Financial Institutions (referred to hereafter as the previous Statement of Objectives and the Statement of Concepts).

The previous Statement of Objectives states that financial reports should provide information about the Islamic bank's compliance with the precepts of Shari'a in its dealings and operations and should also provide information to assist in separating earnings and expenditures prohibited by Shari'a, if any, and in verifying that prohibited earnings are spent on charitable purposes. Accordingly, the standard requires that financial statements should disclose the nature of the activities carried out by the Islamic bank, the major banking services it renders, the role of the Shari'a adviser or Shari'a board in supervising the operations of the Islamic bank and the nature of the powers vested in the Shari'a adviser or Shari'a board supervising these operations. The standard also requires the disclosure of any gains generated from sources or methods prohibited by Shari'a, expenditures on activities prohibited by Shari'a, and how the Islamic bank disposes of the funds generated from earnings prohibited by the Shari'a.

The previous Statement of Objectives states that financial reports should provide information to assist in the determination of Zakah on the Islamic bank's funds and where it will be spent. Accordingly, the standard requires

Financial Accounting Standard No. (1):

General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

that financial statements should disclose the Islamic bank's responsibility of paying and distributing Zakah on behalf of shareholders and investment accountholders. The standard also requires that the full set of published financial statements should include a statement of sources and uses of the funds of the Zakah and charity fund and to disclose the Zakah base, the Zakah due for the financial period, and the declared Zakah but not yet distributed.

The previous Statement of Objectives states that financial reports should disclose information that assists in evaluating the adequacy of the Islamic bank's capital to absorb losses and business risks, assessing the inherent risk in the Islamic bank's investments, evaluating the degree of liquidity of the Islamic bank's assets, and the liquidity requirements of its other obligations. Accordingly, the standard requires that financial statements should disclose owner's equity and to separate it from the equity of unrestricted investment accountholders and their equivalent, changes in owner's equity, the concentration of risk in both assets and the distribution of those assets in accordance with their respective periods to maturity or the estimated periods to actual conversion to cash, the concentration of the sources of unrestricted investment accounts and other accounts and their distribution in accordance with their respective periods to maturity, foreign currency risks, unrecorded contingencies in the statement of financial position, outstanding financial commitments, assets restricted for particular purposes including compensating balances with others, subsequent events, unusual supervisory restrictions imposed on the activities of the Islamic bank and valuation allowances established to cover expected losses. This standard also requires the grouping of assets and liabilities in accordance with their nature and the presentation of these grouping in the order of their relative liquidity. Finally, the standard requires that the full set of financial statements should include a statement cash flows.

The previous Statement of Objectives states that financial reports should provide information that assists in estimating cash flows that might be realized from dealing with the Islamic bank, the timing of those cash flows, the risk associated with their realization, the adequacy of such cash flows

Financial Accounting Standard No. (1):

General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

for the Islamic bank's operations including the distribution of return to holders of unrestricted investment accounts and shareholders. In addition to the requirements provided for in latter para., the standard also requires that Islamic banks should publish comparative financial statements and that such statements should disclose cash flows and to distinguish between cash flows according to the activities which generated them or in which they were used. The standard also requires that the income statement should distinguish between the revenues and expenses of investments jointly financed by the Islamic bank and unrestricted investment accountholders and those exclusively financed by the Islamic bank and the revenues, expenses, gains and losses resulting from other activities of the Islamic bank. Finally, the standard requires a number of disclosures relating to the revaluation of the Islamic bank's assets and liabilities at their cash equivalent value, if applicable, and the distribution of the Islamic bank's assets according to their respective periods to maturity or their estimated periods to actual conversion to cash.

The previous Statement of Objectives states that financial reports should provide information to assist in evaluating the Islamic bank's discharge of its fiduciary responsibility to safeguard funds and to invest these at reasonable rates of return, and information about investments' rates of returns and the rates of returns distributed to shareholders and owners of investment accounts. In addition to the requirements provided for in the latter two paras, the standard also requires the disclosure of investments revenues and expenses, the nature of material revenues, expenses, gains and losses from other activities, the profits (losses) of restricted investments and the method which the Islamic bank employs in distributing the profits (losses) between holders of unrestricted investment accounts and owners' of the Islamic bank and the return on each type of account. The standard also requires the disclosure of the investment of available funds according to the nature of the assets in which the Islamic bank invested these funds.

The previous Statement of Objectives and the Statement of Concepts refer to the role of the Islamic bank in fulfilling its responsibility towards society. The previous Statement of Objectives states that financial reports should provide information about the Islamic bank's discharge of its social

Financial Accounting Standard No. (1):

General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

responsibilities. Accordingly, the standard requires that financial statements should disclose the uses of the funds of the Zakah and charity fund and the funds of the Qard fund. The standard also requires that financial statements should disclose the distribution of the Islamic bank's assets between domestic and foreign investments according to the economic sectors in which the investments are made, the nature of investments, and the concentration of the unrestricted investment accounts of the Islamic bank. Such disclosures serve a number of purposes, including indicators, though indirect, about the Islamic bank's discharge of its duties towards society. There is no doubt that there may be other indicators of the discharge of the Islamic bank's social responsibilities which may not be appropriate for inclusion in the General Presentation and Disclosure Standard because this may entail accounting measurements which are outside the scope of this standard.

In order to facilitate comparison by the user of financial statements of the Islamic bank's performance over a period of time and with similar Islamic banks, the standard includes a number of provisions which are aimed mainly at assisting users of financial statements to distinguish between the real changes and accounting changes in the Islamic bank's financial position and the results of its operations and in differentiating, on the other hand, between significant and insignificant changes in the performance of the Islamic bank in relation to other Islamic banks. Therefore, the standard requires that financial statements should disclose a number of basic pieces of information about the Islamic bank, the currency used for accounting purposes, significant accounting policies, and accounting changes and their effects. The standard also includes provisions to standardize the accounting treatment of accounting changes.

Appendix (D)

Definitions

Istisna'a

It is a contract whereby the purchaser asks the seller to manufacture a specifically defined product using the seller's raw materials at a given price. The contractual agreement of Istisna'a has characteristic similar to that of Salam in that it provides for the sale of a product not available at the time of sale. It also has a characteristic similar to the ordinary sale in that the price may be paid on credit; however, unlike Salam, the price in the Istisna'a contract is not paid when the deal is concluded. A third characteristic of the contractual agreement of Istisna'a is similar to Ijarah (employment) in that labour is required in both.

Murabaha

Sale of goods with an agreed upon profit mark up on the cost. Murabaha sale is of two types: In the first type, the Islamic bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second type, the Islamic bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Islamic bank purchases the goods only after a customer has made a promise to purchase them from the bank.

Musharaka

A form of partnership between the Islamic bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital. It is not permissible to stipulate otherwise.

Mudaraba

It is a partnership in profit between capital and work. It may be conducted between investment accountholders as providers of funds and the Islamic bank as a Mudarib. The Islamic bank announces its willingness to accept the funds of investment amount holders, the sharing of profits being as agreed between the two parties, and the losses being borne by the provider of funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Islamic bank. In the latter cases, such losses would be borne by the Islamic bank. A Mudaraba contract may also be concluded between the Islamic bank, as a provider of funds, on behalf of itself or on behalf of investment accountholders, and business owners and other craftsmen, including farmers, traders etc. Mudaraba differs from what is known as speculation which includes an element of gambling in buying and selling transactions. (It is to the former that this standard applies).

Salam

Purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment.

Appendix (E)

Example of the Financial Statements and Disclosures Therein

Notes:

The purpose of this example is to illustrate the application of some of the provisions of the standard. The example is not intended to illustrate the only acceptable methods for the presentation of or the disclosure in the financial statements. Furthermore, the example does not reflect all the requirements of the standard.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Consolidated Statement of Financial Position
as at xxx Year xxx (last year)

	Note	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Assets:			
Cash and Cash Equivalent	8	95,041,890	51,281,906
Sales Receivables	9	3,804,889	875,556
Investments:			
Investment securities	10	14,850,000	15,000,000
Mudaraba financing	11	10,000,000	1,500,000
Musharaka investments	12	–	5,000,000
Participations	13	102,500,000	102,500,000
Inventories	14	–	2,000,000
Investment in real estate	15	58,500,000	71,750,000
Assets for rent	16	89,000,000	94,500,000
Istisna'a	17	–	1,000,000
Other investments			
–		–	–
–		–	–
–		–	–
Total investments	18	274,850,000	293,250,000
Other Assets	19	322,000	15,510,000
Fixed Assets (net)	20	24,870,500	26,070,000
Total Assets		398,889,279	386,978,462

(Paras. 30, 38 of the standard)

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Consolidated Statement of Financial Position
as at xxx Year xxx (last year)

	Note	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Liabilities, Unrestricted Investment Accounts, Minority Interest and Owners' Equity			
Liabilities:			
Current accounts and saving accounts	21	18,550,000	15,400,000
Current accounts for banks and financial institutions		1,200,000	1,200,000
Payables	22	936,112	133,611
Proposed dividends		5,000,000	5,000,000
Other liabilities	23	5,069,750	2,192,321
Total liabilities		30,755,862	23,925,932
Equity of Unrestricted Investment Accountholders	24, 34	7,838,500	6,572,000
(Para. 42 of the standard)			
Minority Interest		3,450,600	3,240,550
(Para. 43 of the standard)			
Total Liabilities, Unrestricted Investment Accounts, and Minority Interest		42,044,962	33,738,482
Owners' Equity			
Paid-up capital	25	350,000,000	350,000,000
Reserves	26	3,368,864	1,649,796
Retained earnings		3,475,453	1,599,184
Total owners' equity		356,844,317	353,248,980
(Para. 44 of the standard)			
Total Liabilities, Unrestricted Investment Accounts, Minority Interest and Owners' Equity		398,889,279	386,987,462

(Paras. 41 to 44 of the standard)

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Income Statement
for the Year Ended xxx (year) xxx (last year)

	Note	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Income			
Deferred sales	(29A)	97,500	36,389
Investments	(29B)	5,120,000	4,168,000
	28, 29	5,217,500	4,204,389
Less			
Return on Unrestricted Investment Accounts Before the Bank's Share as a Mudarib		551,480	455,673
Bank's Share as a Mudarib		(110,296)	(91,135)
Return on Unrestricted Investment Accounts Before Zakah		(441,184)	(364,538)
Bank's Share in Income from Investment (as a Mudarib and as fund owner)		4,776,316	3,839,851
Bank's Income from Its Own Investments	29B	12,000,000	10,000,000
Bank's Share in Restricted Investment Profit as a Mudarib		158,000	140,000
Bank's Fees as an Investment Agent for Restricted Investments		528,000	400,000
Revenue from Banking Services		2,000	1,000
Other Revenues	30	3,000	2,000
Total Bank Revenue		17,467,316	14,382,851
Administrative and General Expenditures		(3,890,000)	(2,468,000)
Depreciation		(2,089,500)	(2,030,000)
Net Income (loss) Before Zakah and Tax		11,487,816	9,884,851
Provision for Zakah		(2,887,479)	(1,632,871)
Net Income Before Minority Interest		8,600,337	8,251,980
Minority Interest		(5,000)	(3,000)
Net Income		8,595,337	8,248,980

(Paras. 46 to 52 of the standard)

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Statement of Cash Flows
for the Year Ended xxx (year) xxx (last year)

	Note	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Cash flows from operation			
Net income (loss)		8,595,337	–
Adjustments to reconcile net income			–
Net cash provided by operating activities			
Depreciation		2,089,500	–
Provisions of doubtful accounts		10,000	
Provision for Zakah		2,887,479	–
Provision for taxes		–	
Zakah paid		(200,000)	–
Taxes paid		–	
Return on unrestricted investment accounts		441,184	–
Gain on sale of fixed assets		–	
Depreciation of leased assets		8,750,000	–
Provision for decline in value of investment securities		150,000	–
Bad debts		(6,000)	–
Purchase of fixed assets		(890,000)	–
Net cash flows provided by operations		21,827,500	–
Cash flows from investing activities			
Sale of rental real estate		–	–
Purchase of rental real estate		–	–
Sale of real estate		15,000,000	–
Acquisition of investment securities		–	–
Increase in Mudaraba investments		(8,500,000)	–
Sale of inventory		2,000,000	–
Sale of Istisna'a		1,000,000	–
Net increase in receivables		(2,933,333)	–
Net cash flows from (used in) investing activities		6,566,667	–

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Statement of Cash Flows
for the Year Ended xxx (year) xxx (last year)

	Note	xxx(year) Monetary Unit	xx (last year) Monetary Unit
Cash flows from financing activities			
Net increase in unrestricted investment accounts		825,316	–
Net increase in current accounts		3,150,000	–
Dividend paid		4,800,000	–
Increase in credit balances and expenses		805,501	–
(Decrease) in accrued expenses		(10,050)	–
Increase in minority interest		210,050	–
Decrease in other assets		15,188,000	–
Net cash flows provided by financing activities		15,365,817	–
Increase (decrease) in cash and cash equivalent		43,759,984	–
Cash and cash equivalent at beginning of year	(37)	51,281,906	–
Cash and cash equivalent at end of year		95,041,890	–

(Paras. 53 to 57 of the standard)

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Statement of Changes in Owners' Equity
for the Year Ended xxx (year) xxx (last year)

Description	Paid-up Capital	Reserves (NOTE 25)		Retained Earnings	Total
	Monetary Unit	Legal Monetary Unit	General Monetary Unit	Monetary Unit	
Balance as at xxx (year)	350,000,000	–	–	–	350,000,000
Issue of () shares					
Net income				8,248,980	8,248,980
Distributed profits				(5,000,000)	(5,000,000)
Transfer to reserves		824,898	824,898	(1,649,796)	–
Balance as at xxx (year)	350,000,000	824,898	824,898	1,599,184	353,248,980
Net income				8,595,337	8,595,337
Distributed profits				(5,000,000)	(5,000,000)
Transfer to reserves		859,534	859,534	1,719,068	–
Balance as at xxx (year)	350,000,000	1,684,432	1,684,432	3,475,453	356,844,317

(Paras. 58 to 60 of the standard)

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank of Institution)
Statement of Changes in Restricted Investments
for the Year Ended xxx (year) XXX (last year)

Units of Restricted Investment Portfolio ¹							
Description	Marketable equity Securities portfolio	Real Estate Trading Portfolio	Murabaha Portfolio		Total		
	XXX (Last year) Monetary Unit	XXX (Last year) Monetary Unit	XXX (Last year) Monetary Unit	XXX (Last year) Monetary Unit	XXX (Last year) Monetary Unit	XXX (Last year) Monetary Unit	
Investment at beginning of year	6,000,000	15,000,000	10,000,000	31,000,000			
Number of investment units at beginning of year	6,000	15,000	10,000	-			
Unit value at beginning of year	1,000	1,000	1,000	-			
Deposits and issues	4,000,000	-	-	4,000,000			
Repurchased investment units and withdrawal	-	-	(2,000,000)	(2,000,000)			
Investment profit (losses)	1,800,000	750,000	880,000	3,430,000			
Administrative expenditures	(2,200)	(1,500)	(2,500)	(6,200)			
Bank's fees as an agent (1)	(360,000)	(150,000)	(176,000)	(686,000)			
Investment at end of year	11,437,800	15,598,500	8,701,500	35,737,800			
Number of investment units at end of year	1,000	15,000	8,000	-			
Unit value at end of year	1,143	1,039	1,087	-			

(Paras. 61 to 64 of the standard)

The attached notes from No. () to No. () form an integral part of the financial statements (Para. 7 of the standard)

(1) or the Bank's share in investment profits as a Mudarib if the relationship between the bank and the holders of restricted investment accounts is based on the Mudaraba contract (Note 43)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Statement of Sources and Uses of Funds
in the Zakah and Charity Funds
for the Year Ended xxx (year) xxx (last year)

	Note	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Sources of Zakah and charity funds (See notes 6 and 7)			
Zakah due from the bank (institution)		2,887,479	–
Zakah due from accounts holders		893,445	–
Donations		200,500	–
Total sources		3,981,424	–
Uses of Zakah and charity funds			
Zakah for the poor and the needy		206,280	–
Zakah for the wayfarer		203,000	–
Zakah for the heavily indebted and freedom of slaves		73,945	–
Zakah for new converts to Islam		350,000	–
Zakah for the cause of Allah		330,000	–
Zakah collection and distribution to staff (administrative and general expenditure)		130,720	–
Total uses		1,293,945	–
Increase (decrease) of sources over uses		2,687,479	–
Undistributed Zakah and charity at the beginning of year		1,632,871	–
Undistributed Zakah and charity funds at end of year		4,320,350	–

(Paras. 65 to 68 of the standard)

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(Name of Bank or Institution)
Statement of Sources and Uses of Qard Funds
for the Year Ended xxx (year) xxx (last year)

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Opening balance		
Good loans	xxx	xxx
Funds available for loans	xxx	xxx
Sources of Qard Fund		
Allocation from current accounts	xxx	xxx
Allocation from earnings prohibited by Shari'a	xxx	xxx
Source outside the bank	xxx	xxx
Total of sources during the year	xxx	xxx
Uses of Qard Fund		
Loans to students	(xxx)	(xxx)
Loans to craftsmen	(xxx)	(xxx)
Settlement of current accounts	(xxx)	(xxx)
Total uses during the year	(xxx)	(xxx)
End-of-year-balance		
Good loans	xxx	xxx
Funds available for loans	xxx	xxx

(Paras. 69 to 73 of the standard)

(*) The attached notes from No. () to No. () form an integral part of the financial statements.
(Para. 7 of the standard)

(Name of Bank or Institution)

Notes

1. Incorporation and Activities

The (name of the bank) was established as a (joint stock or with limited liability) company in (bank's country of incorporation) on (date of incorporation) in pursuance of the (State reference) of (date of the reference). Reference (.....) authorized the bank to carry out all banking, financial and trading activities, investment transactions, setting up manufacturing, economic development, construction of projects and acquiring equities therein inside the country and elsewhere in conformity with the precepts of Shari'a. The bank may, in particular, carry on the following business activities:

- a) Opening current accounts.
- b) Accepting unrestricted investment accounts and commingle the same with those of the bank and investing them in accordance with Shari'a.
- c) Managing the investment of other parties' funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening the provisions of the noble Shari'a.
- d) Industrial, commercial and agricultural business activities, etc. either directly or through companies it may establish, or in which the bank may acquire shares.
- e) Leasing and purchasing lands and constructing buildings and renting out thereof.
- f) Spot foreign exchange dealings.

The bank carries out its business activities through its Head Office in (name of city) and its branches totaling (number of branches) in (name of the domicile country) and (number of branches in other countries, if any) and the following affiliated companies:

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

Company's Name	Country of Incorporation	Equity Percentage	Nature of Business
International Islamic Investment Company	British	99%	Financial investments

(Para. 9 of the standard)

2. Major Accounting Policies

a) General

The bank uses the historical cost concept and accrual basis in recording its assets, liabilities, revenues and expenses.

b) Consolidated financial statements

The consolidated financial statements include the (bank's) financial statements and the financial statement of its local affiliates in which the bank's equity total % or more of their voting capital. The effects of the transactions between the bank and its affiliates whose financial statements have been consolidated with those of the bank have been eliminated. Transactions among affiliates have also been eliminated. The bank's investments in the affiliates whose financial statements have not been consolidated because they are foreign companies are shown at (...*)

(Para. 12 of the standard)

c) Recognition of revenues

1. Murabaha:

The profits and losses which result from Murabaha transaction (including long term, local and international Murabaha are recognized (...*)

2. Salam contracts:

Profits and losses from delivery contracts are recognized (...*)

3. Istisna'a contract:

Profits and losses from manufacturing contracts are recognized (...*)

(*) State the accounting policy adopted by the bank.

4. Leasing

Revenues from the lease of buildings, real estate and other property are recognized (...*).

5. Income from equity participation

The Bank's share in the dividends of companies in which the bank has invested its funds including the affiliated companies whose financial statements have not been consolidated with those of the bank is recognized (...*)

6. Mudaraba contracts

Profits and losses resulting from Mudaraba contracts are recognized (...*)

7. Musharaka contracts

Profits and losses resulting from Musharaka contracts are recognized (...*)

8. Participation

Profits and losses resulting from participation are recognized (...*)

9. Investment securities

Profits and losses resulting from investment securities are recognized (...*)

(Para. 12 of the standard)

d) Transactions and balances in foreign currencies:

Transactions in foreign currencies are recognized (in local currency) at the prevailing exchange rate at the date of the transaction. Assets and liabilities in foreign currency are converted at the date of the statement of financial position to (the local currency) at the prevailing exchange rate at the date of statement of financial position. All gains (losses) resulting from conversion of foreign currencies are recognized as profits or losses in the income statement.

(Para. 10 of the standard)

(*) State the accounting policy adopted by the bank.

e) Receivables and investments:

Receivables are shown in the statements of financial position net any provision for doubtful receivables. Investments are shown in the statement of financial position less provision for the decline in investment value.

f) Provision for doubtful receivables:

The bank's management examines the accounts receivables and investments on an annual basis to estimate the losses expected as a result of a debtor's insolvency or inability to settle the whole or part of his outstanding balance, or as a monthly decline in the investment value. Accordingly, the bank's management shall make a special accounting provision for other receivables and investments, and consider the uncollectable as bad debts.

(Para. 12 of the standard)

g) Mudaraba investments:

Mudaraba investments are shown in the statement of financial position at (...*).

h) Musharaka investments:

Musharaka investments are shown in the statement of financial position at (...*)

i) Participation:

Investment in participation are shown in the statement of financial position at (...*)

j) Inventories:

The inventories are shown in the statement of financial position at (...*)

k) Investment in real estate:

Investment in real estate is shown in the financial position at (...*)

(*) State the accounting policy adopted by the bank.

l) Rental from real estate:

Rental from real estate is shown in the statement of financial position at (...*)

m) Investment securities:

Investment securities are shown in the statement of financial position at (...*)

n) Statement of changes in restricted investments:

The statement of changes in restricted investments include the investments which have been financed from funds received by the bank from restricted investment accounts holder or as a result of the issue of investment units in investment unit portfolios. The bank manages restricted investments, including the investment unit portfolios (specify portfolio) as an agent for a fixed fee and does not participate in the investment results. Restricted investments, restricted investment accounts or investment unit owners' are not shown in the bank's statement of financial position. Restricted investments in the statement of changes of restricted investments are shown at (...*).

o) Revenues, gains, expenses and losses prohibited by Shari'a:

The bank records revenues, gains, expenses and losses prohibited by Shari'a in a special account included in the amounts of credit balances which appear on the statement of financial position. Funds spent from this account is done according to (... disclose relevant rules).

p) Depreciation:

Fixed assets held by the bank for its use are depreciated on (specify method) and over the following estimated useful lives.

(*) State the accounting policy adopted by the bank.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

Buildings	Years	(specify estimated useful lives)
Furniture	Years	
—		
—		
—		
Stationery	Years	
Vehicles	Years	
Computers	Years	

Buildings, machinery and equipment owned by the bank for leasing purposes are also depreciated on (specify method) over their estimated useful lives (state estimated useful lives).

q) Cash and cash equivalent:

The elements of cash and cash equivalent are determined on the basis of the balance in cash and with bank both in local and foreign currencies (the bank should state the basis of determining cash and cash equivalent).

3. Changes in Accounting Policies

The accounting policy regarding (state the accounting policy which was changed if any) has been changed. As a result, (state the impact on the elements of the financial statements which were changed).

(Paras. 74 to 82 of the standard)

4. Supervision of the Regulatory Agency

The bank's business activities are subject to (state the regulatory laws for supervision to which the bank is subjected).

(Para. 14 of the standard)

5. Shari'a Supervisory Board

The bank's business activities are subject to the supervision of a Shari'a supervisory board consisting of (number of the Shari'a supervisory board members) appointed by the General Assembly for a period of

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

(specify period). The Shari'a supervisory board has the power ... (state the powers and responsibilities of the Shari'a supervisory board).

(Para. 14 of the standard)

6. Zakah and Tax Treatment

The Bank is subject to the Zakah and tax treatment prescribed by (state the rules and regulations that govern the Zakah and tax treatment).

(Para. 9/L of the standard)

7. Zakah Base

The Zakah base and Zakah due from the Bank as a legal entity for the years ended xxx xxx consists of the following:

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Year's profits	-	-
Capital	-	-
Reserve (legal and carried forward)	-	-
Carried forward proposed dividend for distribution	-	-
Carried forward retained earnings	-	-
	-	-
	-	-
Less	-	-
Net fixed assets	-	-
Rental real estate	-	-
Investment in real estate	-	-
Musharaka and participation	-	-
.....	-	-
.....	-	-
	-	-
	-	-

Zakah due from the bank totaled (state amount) and is considered one of the items of expenditures included in the income statement. Zakah from unrestricted investment accounts holders and other accounts,

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

totalled The Bank should disclose whether it is responsible for the collection and disposition of Zakah and should disclose the accounting treatment of Zakah. The Bank should disclose if it levies taxes on unrestricted amount holders and the amount levied, if any.

(Para. 51 of the standard)

8. Cash and Cash Equivalents

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Details Should Be Stated According to Materiality of Items	-	-
	-	-
	-	-
	-	-
Total	95,041,890	51,281,906

9. Sales Receivables

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Details should be stated according to materiality of items	-	-	-	-	-	-
- -	-	-	-	-		
- -	-	-	-	-		
Total	3,838,889	905,556	2,138,889	355,556	1,700,000	550,000
Provision for doubtful receivables (see note 32)	(34,000)	(30,000)	(22,000)	(20,000)	(12,000)	(10,000)
Total	3,804,889	875,556	2,116,889	335,556	1,668,000	540,000

(1) Investments jointly financed by the bank and unrestricted investment accounts.

(2) Investments exclusively financed by the bank.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

10. Investment Securities

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Details should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	14,850,000	15,000,000	4,485,000	4,550,000	10,365,000	10,450,000

11. Mudaraba Investments

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Details should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	10,000,000	1,500,000	7,000,000	1,000,000	3,000,000	500,000

(1) Investments jointly financed by the bank and unrestricted investment accounts.

(2) Investments exclusively financed by the bank.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

12. Musharaka Investments

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Details should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	-	5,000,000	-	3,000,000	-	2,000,000

13. Participations

	Total		Jointly financed ⁽²⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Detail should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	102,500,000	102,500,000	67,500,000	67,500,000	35,000,000	35,000,000

(1) Investments jointly financed by the bank and unrestricted investment accounts.

(2) Investments exclusively financed by the bank.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

14. Inventories

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Detail should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	-	2.000.000	-	2.000.000	-	-

15. Investment in Real Estate

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Detail should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	58,500,000	71,750,000	58,500,000	61,750,000	-	10,000,000

(1) Investments jointly financed by the bank and unrestricted investment accounts.

(2) Investments exclusively financed by the bank.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

16. Assets Acquired for Leasing

	xxx (year)			xxx (last year)		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Details should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	100,000,000	(11,000,000)	89,000,000	100,000,000	(5,500,000)	94,500,000
Jointly financed	-	-	-	-	-	-
Self financed	-	-	-	-	-	-
Total	100,000,000	(11,000,000)	89,000,000	100,000,000	(5,500,000)	94,500,000

17. Istisna'a Contracts^(*)

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Detail should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	-	1,000,000	-	1,000,000	-	-

(*) Investment in Istisna'a contracts represents the cost of goods being manufactured. When amounts become receivable they are shown at the sale price in sales receivables.

(1) Investments jointly financed by the bank and unrestricted investment accounts.

(2) Investments exclusively financed by the bank.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

18. Investments

	Total		Jointly financed ⁽¹⁾		Self financed ⁽²⁾	
	xxx (year)	xx (last year)	xxx (year)	xx (last year)	xxx (year)	xx (last year)
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Detail should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	274,850,000	293,250,000	199,485,000	205,800,000	75,365,000	86,450,000

19. Other Assets

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Details should be stated according to materiality of items	-	-
	-	-
Total	322,000	15,510,000

- (1) Investments jointly financed by the bank and unrestricted investment accounts.
(2) Investments exclusively financed by the bank.

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

20. Net Fixed Assets

	xxx (year)			xxx (last year)		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Details should be stated according to materiality of items	-	(-)	-	-	(-)	-
	-	(-)	-	-	(-)	-
	-	(-)	-	-	(-)	-
	-	(-)	-	-	(-)	-
	-	(-)	-	-	(-)	-
Total	28,990,000	(4,119,500)	24,870,500	28,100,000	(2,030,000)	26,070,000

21. Current Accounts and Savings Accounts

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Current accounts*	-	-
Savings accounts*	-	-
(details should be stated according to its materiality)	-	-
Total	18,550,000	15,400,000

(Para. 41 of the standard)

22. Payables^(*)

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Detail should be stated according to materiality of items	-	-
	-	-
Total	936,112	133,611

(*) The rights, conditions and obligation of each type should be disclosed.
(Para. 45 of the standard)

23. Other Liabilities

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Undistributed declared profits		
Accrued undistributed Zakah		
Other accrued expenditures	–	–
(Details should be stated according to materiality of items)	–	–
Total	5,069,750	2,192,321

24. Share of Unrestricted Investment Accounts in Income (loss)

The share of unrestricted investment accountholders (and their equivalent) and the bank's share in the net income (loss) from investments and other trading transactions are calculated on the basis of (state the bank's policy in the calculation of the share of unrestricted investment accounts in net income and the returns of each type of investment accounts and their rate of return.)

(Para. 27 of the standard)

25. Authorized and Paid up Capital

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Authorized and paid up capital: 3,500,000 ordinary shares. Each share valued 100 (monetary unit) issued and fully paid up	350,000,000	350,000,000
	350,000,000	350,000,000

26. Reserves

In accordance with (state the legal reference), % of the net income every year must be transferred to (name the legal reserve) until its balance reaches the percentage of the paid-up capital as prescribed by (state the legal reference determine what is to be done with the reserve). As for other kinds of reserves (state other reserves and their regulations).

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

	xxx (year)			xxx (last year)		
	Reserve xxx	Reserve xxx	Total	Reserve xxx	Reserve xxx	Total
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Balance brought forward	-	-	-	-	-	-
Transfer from net income for the year	-	-	-	-	-	-
Current balance	1,684,432	1,684,432	3,368,864	824,898	824,898	1,649,796

27. Financial Commitments and Contingencies

Financial commitments:

Outstanding financial commitments for the following items (state the items) are as follows:

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Details should be stated according to materiality of items		
Total	15,000,000	6,000,000

(Para. 23 of the standard)

Contingencies:

The Bank contingencies resulting from (state items) totaled countered by commitments by customers for the same amounts as follows:

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
	-	-
	-	-
Total	5,000,000	3,000,000

(Para. 22 of the standard)

28. Net Assets (Liabilities) in Foreign Currencies

The net assets (liabilities) in foreign currencies at the end of were as follows:

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Details should be stated according to materiality of items	xxx	xxx
	xxx	xxx
	xxx	xxx
Total	xxx	xxx

(Para. 21 of the standard)

29. Income (Loss) from Receivables and Investments

	xxx (year)			xx (last year)		
	Revenue/ Gains	Expenses	Net income	Revenue/ Gains	Expenses	Total
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
a) Receivables ⁽¹⁾						
Details should be stated according to materiality of items		-	(-)	-	-	(-)
		-	(-)	-	-	(-)
		-	(-)	-	-	(-)
Total	3,900,000	(3,000,000)	900,000	1,250,000	(1,080,000)	170,000
Deferred profits from previous year ⁽²⁾				14,167	-	
Deferred profits for next year ⁽³⁾				(816,667)	(133,611)	
Total				97,500	36,389	

- (1) Revenue represents the sales value of completed transactions while expense represents the cost of those transactions. Accounts which are not received until the end of the year are included in the receivable items.
- (2) State the investment profits deferred from previous year which belongs to that year.
- (3) State investment profits from receivables which took place during the year but belong to next period (example profits from Salam sales which are being calculated for each year according to the installments due).

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

Income from jointly financed receivables	97,500	36,389
Income from self financed receivables	-	-
Total	97,500	36,389

b) Investments						
Details should be stated according to materiality of items	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	26,290,000	(9,170,000)	170,120,000	23,220,000	(9,052,000)	14,168,000
Income from jointly financed investment	(7,826,500)	(2,706,500)	5,120,000	6,831,000	(2,663,000)	4,168,000
Income from self financed investment	18,427,500	(6,463,500)	12,000,000	16,389,000	(6,391,000)	10,000,000
Total	26,290,000	9,170,000	17,120,000	23,220,000	(9,052,000)	14,168,000

30. Other Revenues

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Details should be stated according to materiality of items	-	-
	-	-
Total	3,000	2,000

31. Administrative and General Expenditures

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Details should be stated according to materiality of items	-	-
	-	-
Total	3,890,000	2,468,000

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

32. Provisions

a) Provision for doubtful receivables (Note 9)

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Balance at beginning of year	–	–
Amounts written off during the year	(–)	(–)
Amounts collected during the year	–	–
Provision for the year	–	–
Balance at end of year	34,000	30,000

b) Provision for decline in investment value (Note 18)

	xxx (year) Monetary Unit	xx (last year) Monetary Unit
Balance at beginning of year	–	–
Amount deducted during the year	(–)	(–)
Provision for the year	–	–
Balance at end of year	150,000	–
Jointly financed investments	–	–
Self financed investments	–	–

33. Related Party Transactions

The value of major transactions with the related parties are as follows:

	Type of relationship	Type of relationship	Balance at beginning of year	Movement during year	Balance at end of year
Related party (State related party)					
	(specify the relat- ionship	Mudaraba Guarantees Murabaha	–	–	–
–		–	–	–	–
–		–	–	–	–

(Para. 29 of the standard)

Financial Accounting Standard No. (1):

General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

34. Assets, Liabilities and Unrestricted Investment Accounts According to Their Respective Periods to Maturity or Expected Periods to Cash Conversion

	Balance at the end of year	Maturity period
Assets		
Cash and cash equivalents	–	(determine the period according to its nature Example: monthly instalment for [] months)
Receivables	–	
(Details should be stated according to materiality of items)	–	
Investments		
(Details should be stated according to materiality of items)	–	
Total	373,696,779	
Liabilities		
(Details should be stated according to materiality of items)		
Total	23,619,750	
Unrestricted investment accounts	–	
(Details should be stated according to materiality of items)	–	
–	–	
–	–	

35. Concentration of Asset Risks

a) Economic sectors

Sectors							
	xxx Monetary Unit	xxx Monetary Unit	xxx Monetary Unit	xxx Monetary Unit	xxx Monetary Unit	xxx Monetary Unit	xxx Monetary Unit
Assets							
Cash and cash equivalent	-	-	-	-	-	-	-
Receivables (Details should be stated according to materiality of items)	-	-	-	-	-	-	-
Investments (Details should be stated according to materiality of items)	-	-	-	-	-	-	-
Total	106,200,000	62,854,889	4,050,000	10,000,000	95,550,000	-	-

b) Geographical areas:

Geographical areas			
	xxx Monetary Unit	xxx Monetary Unit	xxx Monetary Unit
Assets			
Cash and cash equivalent	-	-	-
Receivables (Details should be stated according to materiality of items)	-	-	-
Investments (Details should be stated according to materiality of items)	-	-	-
Total	222,155,779	151,541,000	373,696,779

(Para. 16 of the standard)

Financial Accounting Standard No. (1):
General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions

c) Customers

Customers (No Names)					
	Government	Financial Institutions	Individuals	xxx	xxx
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Assets					
Receivables (Details should be stated according to materiality of items)	–	–	–	–	–
Investments (Details should be stated according to materiality of items)	–	–	–	–	–
Total	95,031,890	1,700,000	2,104,889	10,010,000	–

(Para. 16 of the standard)

36. Concentration of Sources of Unrestricted Investment Accounts

	Domestic	Foreign	Total
Unrestricted investment accounts (Details should be stated according to materiality of items)	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–

(Para. 17 of the standard)

37. Disclosure of Significant Subsequent Events

After the end of the year (mention any significant event which took place after the end of the year) and resulted in (state the financial effect on the Bank as a result of the event).

(Para. 24 of the standard)

38. Earnings and Expenditures Prohibited by Shari'a (if any)

Earnings realized during the year from transactions which are not permitted by Shari'a amounted to (state transactions and their amounts). The balance at the beginning of the year was (state amount) and the amount spent during the year totaled (state how the amounts were). The remaining balance at the end of year is (state amount).

39. Disclosure of Compensating Balances

The bank has deposited the amount (state the amounts) with (state institutions with which the bank was obligated to deposit the amounts) as compensating balances (state the compensating balances).

(Para. 20 of the standard)

40. Restricted Assets or Assets Pledged as Security

Assets which are restricted for (mention the uses and the values of the assets to be used).

(Para. 25 of the standard)

41. Estimated Cash Equivalent Value of Assets and Liabilities Compared to Historical Value

Following is the estimated cash equivalent value of assets and liabilities compared to their historical values (state details) if revaluation of assets and liabilities can be measured on the basis of the principles stated in para. 95 of the Statement of Financial Accounting Standards No. (2): Concepts of Financial Accounting for Islamic Banks and Financial Institutions.

(Para. 39 of the standard)

42. Rights, Obligations and Conditions Related to Unrestricted Investments and Their Equivalents

Rights related to unrestricted investments and their equivalents totaled (amount and currency). Related obligations totaled (amount and currency).

43. Relations Between the Bank and Holders of Restricted Investments Accounts as a Mudarib or an Agent

The bank has invested funds of holders of restricted investment accounts as a (state the status of the Bank as a Mudarib or as an agent). Rights

of holders of restricted investments accounts realized from their investments totaled (amount and currency) and the related obligations totaled (amount and currency).

44. Reciprocal Transactions and Non-Reciprocal Transfers Which Do Not Require Payment or Receipt of Cash

During the course of the year, reciprocal transactions (state transaction conducted and non-reciprocal transfers were conducted but did not require payment or receipt of cash (state the transfers conducted). Following is a statement that explains each transaction (state the transactions and transfers and their amounts).

(Para. 56 of the standard)

45. Social Responsibility

During the period, the bank has discharged its social responsibilities (state how the bank has discharged its social responsibilities, the amounts that were spent in these activities and their impact if possible).



