CENTRAL BANK OF NIGERIA

GUIDANCE NOTES ON DISCLOSURE REQUIREMENTS TO PROMOTE TRANSPARENCY & MARKET DISCIPLINE FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

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DEFINITIONS OF TERMS

TERM	DEFINATION
Confidential information	Confidential information means information in respect of which the NIFI has obligations to customers or other counterparty relationships binding it to secrecy.
Material information	Material information means information which if omitted or misstated could change or influence the assessment or decision of a user relying on such information for the purpose of making economic decisions.
Proprietary information	Proprietary information means information which, if shared with the public, would undermine the NIFI's competitive position. It may include information regarding products or systems which, if shared with competitors, would render the NIFI's investment therein less valuable.
Hamish Jiddiyyah (Earnest Deposit)	This is an amount advanced by a party making a binding promise to enter into a contract with a counter party, whereby the amount is deposited to serve as compensation for any loss suffered by the counter party as a result of a breach of the promise by the promisor.
Ijarah (Leasing)	An *Ijarah* contract refers to an agreement made by NIFIs to lease to a customer an asset specified by the customer for an agreed period against specified instalments of lease rentals. An *Ijarah* contract usually commences with a promise to lease that is binding on the part of the potential lessee prior to entering the *Ijarah* contract.
Ijarah wa Iqtina (Finance Lease)	A finance lease contract that provides a separate promise of the lessor giving the lessee an option to own the asset at the end of the lease period either by purchase of the asset through a token consideration or payment of the market value, or by means of a *Hibah* contract.
Investment Risk Reserve	The amount appropriated by the NIFIs out of the income of Investment Account Holders (IAH), after allocating the *Mudarib*'s share in order to cushion against future investment losses for IAH.
Istisna (Manufacturing/ Construction Contract)	A contract of sale of specified objects to be manufactured or constructed, with an obligation on the part of the manufacturer or builder to deliver the objects to the customer upon completion.
Non-Interest Financial Institutions	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.

Non-Interest Banking Window	A Non-Interest banking Window is part of a conventional financial institution that mobilises deposits and provides fund management (investment accounts), financing and investment, and other banking services that are Shariah compliant, with proper segregation of funds from the parent bank.
Mudarabah (Trust Partnership)	A contract between the capital provider (*Rabbul-Mal*) and a skilled entrepreneur (*Mudarib*) whereby the capital provider contributes capital to an enterprise or activity that is to be managed by the entrepreneur as the *Mudarib* (or labour provider). Profits generated by the enterprise or activity are shared in accordance with the terms of the *Mudarabah* agreement, while losses are borne solely by the capital provider, unless the losses are due to the *Mudarib's* misconduct, negligence or breach of contractual terms.
Murabahah (Cost plus Mark-up Sale)	A sale contract whereby a NIFI sells to a customer a specified kind of asset that is already in its possession, whereby the selling price is the sum of the original price and an agreed profit margin.
Musharakah *(*Active Partnership)	A *Musharakah* is a contract between an NIFI and a customer to contribute capital to an enterprise, whether existing or new, or to ownership of a real estate or moveable asset, either on a temporary or permanent basis. Profits generated by the enterprise or real estate/asset are shared in accordance with the terms of the *Musharakah* agreement whilst losses are shared in proportion to each partner's share of capital.
Profit Equalization Reserve (PER)	PER is the amount appropriated by the NIFIs out of the *Mudarabah* income, before allocating the *Mudarib's* share, in order to maintain a certain level of return on investment for IAH and to increase owners' equity.
Restricted Investment Accounts Holders (RIAHs)	The account holders authorize the NIFIs to invest their funds based on *Mudarabah* or agency contracts with certain restrictions as to where, how and for what purpose these funds are to be invested.
Shari`ah (Islamic Law)	The divine laws derived from the Qur'an and Sunnah and other sources such as consensus and analogical deductions from the Qur'an, Sunnah and consensus.
Sukuk (Islamic Investment Certificates)	*Sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, or (in the ownership) of assets of particular projects or special investment activity.
Takaful (Islamic Insurance)	*Takaful* means solidarity whereby a group of participants agree among themselves to indemnify one another jointly

	against a defined loss or peril.
Unrestricted Investment Account (URIA)	URIA is an account where the holders authorize the NIFI to invest their funds based on *Mudarabah* or *Wakalah* (agency) contracts without imposing any restrictions. The NIFI can commingle these funds with their own funds and invest them in a pooled portfolio
Urbun/Arbun (Earnest Money)	*Urbun or Arbun* means earnest money held as collateral (taken from a purchaser or lessee) to guarantee contract performance after a contract is established.

1.0 INTRODUCTION

1. The aim of this Guidance Notes is to achieve transparency and promote market discipline by allowing market participants, particularly the Investment Account Holders (IAHs), to access relevant, reliable and timely information on risk exposures and risk management policies and procedures of a NIFI. This document sets out the disclosure requirements with respect to procedure, frequency and content of information to be disclosed.

1.1 General Disclosure Principle

2. Non-Interest Financial Institutions (NIFIs) shall have a formal disclosure policy approved by the board of directors that addresses the NIFIs' approach for determining what disclosures it will make and the internal controls over the disclosure process. In addition, NIFIs shall implement a process for assessing the appropriateness of their disclosures, including validation and frequency. Also, NIFIs shall have a Governance Committee to oversee governance issues relating to IAHs so as to enhance the transparency of returns and risks and of the underlying factors that affect them, as required by CBN Guidelines on Income Smoothing and Management of Profit Sharing Investment Accounts. For smaller and less complex NIFIs, the function of the Governance Committee can be assigned to an existing Board Committee (such as Board Audit Committee or Board Finance and General Purpose Committee) in liaison with the Advisory Committee of Experts (ACE).

2.0 DISCLOSURE REQUIREMENTS

2.1 Organization of Information and Limitation of Obligations

3. The information whose disclosure is governed by this Guidance Notes is listed in Annex A.

2.2 Content and Procedures for Disclosing Information

4. NIFIs shall disclose information relating to their core activities, risks profiles and methodologies used in risk management.

5. NIFIs are expected to make adequate disclosure consistent with their organizational complexity and the type of business they engage in, taking into account their internal reporting systems to the board and management.

2.3 Disclosure Eligibility Requirements

6. For NIFIs that adopt internal systems to calculate capital requirements for credit, market and operational risks and for those using credit risk mitigation techniques, compliance with specific disclosure requirements (Disclosure Eligibility Requirements) shall be a necessary condition for the recognition of such approach and the effects of such techniques for regulatory capital purposes. These disclosure requirements are marked by an asterisk in the annexed tables.

2.4 Derogation from Disclosure Requirements

7. NIFIs may omit the disclosure of information that is not considered material, with the exception of information that represents a disclosure eligibility requirement.

8. In exceptional cases, NIFIs may omit the disclosure of proprietary or confidential information (including information that represents a disclosure eligibility requirement), provided that they specify the information that is not disclosed and the reasons for non-disclosure, and publish more general information on the matter in question.

2.5 Medium and frequency of disclosure

9. Information on qualitative and quantitative disclosures shall be made through NIFIs' website, prospectuses, flyers and in printed audited financial statements.

10. NIFIs shall make adequate pronouncement on the means of disclosure in their financial statements.

    i. Disclosures shall be published on a bi-annual basis and within thirty days of publishing the financial statements. However, for NIFIs with stable Composite Risk Rating (CRR) of "Low" and "Moderate" other than domestic systemically important NIFIs, annual reporting will be acceptable.
    ii. Domestic systemically important NIFIs may be required to publish information on a more frequent basis in recognition of their level of business, international affiliations and financial sectors dynamics.

2.6 Organization and controls

i. NIFIs shall adopt suitable organizational arrangements to ensure the compliance with disclosure requirement under this Guidance Notes. Board and management shall independently assess and verify the quality of information. The solutions adopted shall form part of the NIFI's system of internal controls.
ii. Within this framework, NIFIs shall establish appropriate specific procedures for verifying disclosures that are yet to be subjected to verification by external auditors or the CBN.

ANNEX A

Table 1: General requirements

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	For each risk category (including those considered in the following tables), NIFIs shall disclose risk management objectives and policies, including: • The strategies and processes for managing such risks; • The structure and organization of the relevant risk management function; • The scope and nature of risk measurement and reporting systems; • The policies for *Shari'ah*-compliant hedging and mitigating risk as well as strategies and processes for monitoring their continuing effectiveness.
Quantitative Disclosure	(b)	Disclosure of the types and measures of risks facing each Restricted IAHs funds based on its specific investment policies.
	(c)	Disclosure of the treatment of assets financed by Restricted IAHs in the calculation of Risk Weighted Asset (RWA) for capital adequacy purposes.
	(d)	Disclosure of the treatment of assets financed by Unrestricted IAHs in the calculation of RWA for capital adequacy purposes.
	(e)	Composition of financing by type of contract as a percentage of total financing.
	(f)	Percentage of financing for each category of counterparty to total financing – that is, amount of financing extended to a category of counterparties (outstanding) / amount of total financing (outstanding) x 100.
	(g)	Disclosure of the carrying amount of any assets pledged as collateral (excluding amounts pledged to the Central Bank of Nigeria (CBN) and the terms and conditions relating to each pledge.
	(h)	The amount of guarantees or pledges given by NIFIs and the conditions attached to those guarantees or pledges.

Table 2: Scope of application

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	The name of the NIFI to which the disclosure requirement applies.
	(b)	An outline of differences on the basis of consolidation for accounting and prudential purposes, with a brief description of the entities within the group which: i) Are fully consolidated; ii) Are proportionally consolidated; iii) Are deducted from the regulatory capital; iv) From which surplus capital is recognized; v) Are neither consolidated nor deducted. This specifically applies to full-fledged Non-interest banking subsidiaries. In the case of Islamic Window operations, a separate set of financial statements is to be disclosed in the notes.
	(c)	Any restrictions, or other impediments, on the transfer of funds or regulatory capital within the group.
	(d)	For groups, any reduction in individual capital requirements applied to the parent entity and the Nigerian subsidiaries.
Quantitative Disclosure	(e)	The names of all subsidiaries excluded from consolidation and aggregate amount of their capital deficiencies with respect to any mandatory capital requirements.

Table 3: Regulatory capital structure, including Equity of UIAHs

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Summary descriptive information on the types, forms, terms and conditions of the main features of all capital- and equity-related capital instruments and unrestricted investment accounts.
Quantitative Disclosure	(b)	The amount of Tier 1 capital, with separate disclosure of: • Issued and paid-up share capital of NIFI, and any changes since the last reporting financial year; • Disclosed reserves; • Minority interests in the equity of subsidiaries;

		• Any capital- and equity-related capital instruments that are eligible for inclusion in Tier 1 capital; • Shareholdings equal to or exceeding 5% of the total paid-up capital.
	(c)	The total amount of Tier 2 capital, if any.
	(d)	Total Regulatory Capital.
	(e)	The amount of Unrestricted IAH funds.
	(f)	Profit Equalization Reserve (**PER**) (Shareholders' and IAHs'components) and Investment Risk Reserve (**IRR**).

Table 4: Capital adequacy

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Summary description of the NIFI's approach to assessing the adequacy of its internal capital to support current and future activities.
	(b)	A description of policy on identifying RWA funded by unrestricted investment accounts.
Quantitative Disclosure	(b)	For a NIFI calculating credit risk-weighted exposure amounts using the standardized approach, the capital requirement for each of the exposure classes.
	(c)	For a NIFI calculating credit risk-weighted exposure amounts using the IRB approach, the capital requirement for each of the exposure classes envisaged in this Guidance Notes. For retail exposures, separate disclosure shall be made for each of the following categories: "exposures secured by residential property", and "other retail exposures".
	(d)	Capital requirements for market risks, with separate disclosure for: - Assets included in the supervisory trading portfolio: i) Equity Position risk; ii) Foreign exchange risk; iii) Commodity risk; (v) Inventory Risk; and (vi) Rate of Return Risk.

	(e)	Capital requirement for operational risks
	(f)	Capital requirement for counterparty risks.
	(g)	Capital adequacy ratio (**CAR**) (Standard formula or Supervisory Discretion formula).
	(h)	Ratio of total Tier1 capital to total RWA.
	(i)	Ratio of total capital to total assets.
	(j)	Disclosure of capital requirements according to different risk categories (credit and market risks) for each category of *Shar*i`*ah* -compliant financing contract
	(k)	Disclosure of DCR, when the supervisory discretion formula is used.

Table 5: Investment Accounts (both Unrestricted and Restricted IAH) – General Disclosures ("F" means periodic external financial reporting process, "P" means part of product information published)

Qualitative Disclosures	(a)	Written procedures and policies applicable to the investment accounts, including a synopsis of the following: • Range of investment products available from the NIFI; • Characteristics of investors for whom various investment accounts may be appropriate; • Purchase, redemption and distribution procedures; • Governance arrangements for the IAH funds; and • Procedures for trading and origination of assets.	**F**	**P** ✔
	(b)	Disclosure that IAH funds are invested and managed in accordance with *Shar*i`*ah* requirements.	✔	✔
	(c)	Product information and the manner in which the products are made available to investors.		✔
	(d)	Bases of allocation of assets, expenses and profit in relation to IAH funds.	✔	
	(e)	Disclosure on the policies governing the management of both unrestricted and restricted IAH funds, which covers the	✔	✔

		approaches to the management of investment portfolio, establishment of prudential reserves, and the calculation, allocation and distribution of profits.		
Quantitative Disclosures	(f)	PER-to-PSIA ratio: Amount of total PER / Amount of PSIA by type of IAH (i.e. Restricted and Unrestricted IAH)	✔	
	(g)	IRR-to-PSIA ratio: Amount of total IRR / Amount of PSIA by type of IAH.	✔	
	(h)	Return on assets (**ROA**): Amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAHs, and current accounts and other liabilities.	✔	
	(i)	Return on equity (**ROE**): Amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity.	✔	
	(j)	Ratios of profit distributed to PSIA by type of IAH.	✔	✔
	(k)	Ratios of financing to PSIA by type of IAH.	✔	

Table 6: Unrestricted Investment Accounts – Additional Disclosures

Qualitative Disclosures	(a)	General investment objectives and policies that are offered to the unrestricted IAH based on the general business strategy and risk-sharing policies of the NIFI (including commingling of funds).	**F**	**P** ✔
	(b)	Disclosure that IAH funds are invested and managed in accordance with *Shar*i`*ah* requirements.	✔	✔
	(c)	Method for calculation and distribution of profits.		✔
	(d)	Rules governing the transfer of funds to or from PER and IRR	✔	✔
	(e)	Basis applied for charging expenses to unrestricted IAH	✔	✔

	(f)	Description of total administrative expenses charged to unrestricted IAH.		✓
Quantitative Disclosures	(h)	Total amount of unrestricted IAH funds, and sub-totals by asset category.	✓	
	(i)	Share of profits earned by unrestricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested).	✓	
	(j)	Share of profits paid out to unrestricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested).	✓	
	(k)	Movements on PER during the year.	✓	
	(l)	Movements on IRR during the year.	✓	
	(m)	Disclosure of the utilization of PER and/or IRR during the period.	✓	
	(n)	Profits earned and profits paid out over the past five years (amounts and as a percentage of funds invested).	✓	
	(o)	Amount of total administrative expenses charged to unrestricted IAH.	✓	
	(p)	Average declared rate of return or profit rate on unrestricted PSIA by maturity (3-month, 6-month, 12-month and 36-month).	✓	✓
	(q)	Changes in asset allocation in the last six months.	✓	
	(r)	Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies.	✓	
	(s)	Disclosure of limits imposed on the amount that can be invested in any one type of asset.	✓	✓

Table 7: Restricted Investment Accounts – Additional Disclosures

			F	P
Qualitative Disclosures	(a)	Written policies on the NIFIs' fiduciary duties in managing IAH funds.		✓
	(b)	Investment objectives and policies applicable to the restricted IAH based on their specific investment portfolio.	✓	✓
	(c)	Disclosure of the duties and obligations of investment account managers in managing the IAH funds.		✓
	(d)	Written policies and procedures for monitoring fiduciary duties and regulatory obligations of the investment account managers.	✓	✓
	(e)	Method for calculation and distribution of profits.	✓	✓
	(f)	If applicable, rules for the transfer of amounts to and from PER and IRR, including contractual or regulatory limits on management's discretion in the matter.	✓	✓
Quantitative Disclosures	(h)	Amount of restricted IAH funds for each fund with sub-totals by asset category.	✓	
	(i)	Share of profits earned by restricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested)	✓	
	(j)	Share of profits paid out to restricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested).	✓	
	(k)	Movements of PER during the year, if applicable.	✓	
	(l)	Movements of IRR during the year, if applicable.	✓	
	(m)	Disclosure of the computation of PER and/or IRR, if applicable.	✓	
	(n)	Disclosure of the utilization of PER and/or IRR, if applicable.	✓	
	(o)	Current period returns.	✓	

	(p)	Historical returns over the past five years	✔	✔
	(q)	Average declared rate of return or profit rate on restricted PSIA by maturity (3-month, 6-month, 12-month, 36-month).	✔	✔
	(r)	Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies.	✔	
	(s)	Changes in asset allocation in the last six months.	✔	
	(t)	Disclosure of limits imposed on the amount that can be invested in any one type of asset.	✔	✔

Table 8: Credit Risk: General Disclosures for all NIFIs

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	In addition to the general disclosure indicated in Table 1, the following information shall be disclosed for the exposure to credit risk: (i) Disclosure of the names of External Credit Assessment Institutions (ECAIs) used for the purpose of assigning risk weights to assets. ii) Disclosure of definitions of past due receivables and impaired financial assets, and policies and practices for making loss provisions on financial assets.
Quantitative Disclosure	(b)	Total gross credit exposures[1] and average gross credit exposures[2] over the period in terms of geographical area, counterparty and industry, and residual contractual maturity[3] for each class of Islamic financing assets, giving the percentages funded by the NIFI's own capital and current accounts and by PSIA, respectively.
	(c)	Total gross credit exposures and average gross credit exposures over the period by rating categories, where applicable.
	(d)	Total gross exposure and average gross exposure to equity-based financing structures by type of financing contract.
	(e)	Amount of past due and impaired financing assets, as well as specific and general impairment, classified by counterparty, industry and

		significant geographic areas, for each class of Islamic financing assets.
	(f)	Disclosure of the amount and changes in impairment during the financial year.
	(g)	Disclosure of any penalty imposed on customers for default, and the disposition of any monies received as penalties.

Table 9: Credit Risk: Disclosures for Portfolios Treated under the Standardized Approach, Specialized Financing and Equity Exposures Treated under IRB Approaches

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	NIFIs calculating credit risk-weighted exposures using the standardized approach shall provide the following information for each exposure class: i) Names of the nominated external credit assessment institutions (ECAIs), and the reasons for any changes; ii) The exposure classes for which each ECAI is used;
Quantitative Disclosure	(b)	NIFIs calculating credit risk-weighted exposures using the standardized approach shall provide, for each exposure class, the exposure values, with and without credit risk mitigation, associated with each credit quality step as well as the exposure values deducted from the regulatory capital.
	(c)	For exposures subject to the supervisory risk weights in IRB approaches (specialized financing – equity exposures under the simple risk weight method), the exposures assigned to each credit risk class shall be provided.

Table 10: Credit Risk: Disclosures for Portfolios Treated Under IRB Approaches (*)

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Authorization from the CBN to use the approach selected and/or to use phased roll-out.
	(b)	Explanation of: i) The structure of internal rating systems and relation between

		internal and external ratings; ii) The use of internal estimates for purposes other than the calculation of risk-weighted exposure amounts in accordance with IRB approaches; iii) The process for managing and recognizing credit risk mitigation techniques; iv) The control and review mechanisms for the rating systems, including discussion of independence and accountability.
	(c)	Description of the internal ratings process, provided separately for the following exposure classes: i) Central governments and central banks; ii) Banks and other financial institutions; iii) Non-financial institutions, including SMEs and specialized financing; iv) Retail exposures, for each of the categories envisaged (exposures secured by residential property and other retail exposures); v) Equities.[1] The description shall include: • The types of exposure included in the exposure classes; • The definitions, methods and data for estimation and validation of Probability of Default (PD) and, where applicable, Loss Given Default (LGD) and the credit conversion factors, including assumptions employed in the derivation of these variables;[2] • The description of deviations from the definition of default as permitted by prudential regulations, where these are determined to be material, also indicating for each class the main categories of exposure affected by such deviations.[3]

[1]Equities shall only be disclosed here as a separate class where the bank uses the PD/LGD approach for equities held in the banking book.

[2]Banks shall provide a general overview of the system approach, describing definitions of the variables, and methods for estimating and validating those variables set out in the quantitative risk disclosures. This should be done for each of the classes indicated in the text. Banks should draw out any significant differences in the approaches used to estimate these variables within each class.

[3]Banks shall only describe the main areas where there has been material divergence from the reference definition of default such that it would affect the reader's ability to compare and understand the disclosure of exposures by PD grade.

Quantitative Disclosure: Risk Assessment	(d)	Exposure values for each exposure class. Exposures towards central governments and central banks, banks and other financial institutions, and corporates, where the NIFI use the IRB advanced approach, must be shown separately from exposures for which the NIFI do not utilise this approach.
	(e)	For each exposure class – central governments and central banks; banks and other financial institutions; corporates; equities – provide the following information, with a sufficient breakdown between PD categories (including default) to allow a significant differentiation of credit risk:[4] i) Total exposures (for exposures towards central governments and central banks, banks and other financial institutions, and corporates, the sum of outstanding financing plus unutilised profit; for equities, outstanding amount); ii) For NIFIs on the advanced IRB approach, exposure-weighted average LGD (percentage); iii) Exposure-weighted average risk weight; iv) For NIFIs on the advanced IRB approach, the amount of unutilised profit and relative exposure-weighted average EAD.[5]
	(f)	For retail exposures, provide for each category envisaged: i) The information referred to in point e above (if applicable, on a pool basis) or ii) Analysis of exposures (if applicable, on a pool basis) against a sufficient number of expected loss (EL) grades to allow for a meaningful differentiation of credit risk.
Quantitative Disclosure: Historical Results	(g)	Actual value adjustments (for example, charge-offs and specific write-downs) in the preceding period for each exposure class (showing each retail exposure category separately) and how this differs from previous years.
	(h)	Discussion of the factors that impacted on the loss experience in the preceding period (for example, has the bank experienced higher than

[4]The PD, LGD and EAD disclosures below shall reflect the effects of collateral, netting and guarantees, where recognized. Disclosure of each PD grade should include the exposure-weighted average PD for each grade.
Where banks are aggregating PD grades for the purposes of disclosure, this shall be a representative breakdown of the distribution of PD grades used in the IRB approach.

[5]Banks shall only provide one estimate of EAD for each exposure class. However, where banks believe it is helpful, in order to give a more meaningful assessment of risk, they may also disclose EAD estimates across a number of EAD categories, against the undrawn exposures to which these relate.

		average default rates, or higher than average LGDs and credit conversion factors).
	(i)	NIFI's estimates against actual outcomes over a longer period. This should at least include information on estimates of losses against actual losses in each exposure class, over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail exposures, the information must be given for each of the categories provided). Where necessary, NIFI should further decompose this to provide analysis of PD and, for NIFI on the advanced IRB approach, LGD and credit conversion factor outcomes against estimates provided.

(*) Eligibility requirements for the use of particular instruments or methodologies

Table 11: Risk mitigation techniques (*)

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Policies and processes for, and an indication of the extent to which the NIFI makes use of, on- and off-balance sheet netting.
	(b)	Disclosure of the policies and processes for valuation of collateral and for ensuring its enforceability, together with related policies and processes for assets leased under *Ijarah Wa Iqtina*. When the assets are not readily convertible into cash by the NIFIs, the policies for disposing of the assets, or for using them in the NIFIs' operations, shall be disclosed.
	(c)	A description of the main types of collateral and other credit risk mitigants taken by the NIFIs, such as *Hamish Jidiyyah*, *Urbun*, PSIA/Deposit, pledged assets, *Sukuk*, and guarantees by third parties.
	(d)	Where a third party Guarantee (*Kafalah*) is taken as a risk mitigant, the risk weight applicable to the guarantor shall be disclosed.
	(e)	Information about market or credit risk concentrations under the credit risk mitigation instruments used.
Quantitative disclosure	(f)	For NIFI calculating credit risk-weighted exposures in accordance with the standardized or foundation IRB approaches, separately for each exposure class, the total exposure value (if applicable, net of on-balance sheet netting and off-balance sheet netting agreements) that is covered by financial collateral and other eligible collateral, after application of haircuts.

	(g)	Disclosure of the carrying amount of assets owned and leased under *Ijarah Wa Iqtina*.

(*) Disclosure requirements for NIFIs using credit risk mitigation techniques.

Table 12: Liquidity Risk

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	A summary of the liquidity risk management framework in addressing risk exposure for each category of funding as well as on an aggregate basis: • Current accounts; • Unrestricted investment accounts; and • Restricted investment accounts.
	(b)	General information on policies to address liquidity risk, taking into account the ease of access to *Shar*i*`ah*- compliant funds and diversity of funding sources.
Quantitative Disclosure	(c)	Indicators of exposures to liquidity risk such as short-term assets to short-term liabilities, liquid asset ratios or funding volatility.
	(d)	Maturity analysis of financing and various categories of funding (current account, unrestricted investment account and restricted investment account) by different maturity buckets.

Table 13: Market Risks: Disclosures for NIFIs using the Internal Models Approach (IMA) for Position Risk, Foreign Exchange Risk and Commodity Risk

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Disclosure of appropriate framework for market risk management, including reporting, in respect of all assets held for sale, including those that do not have a ready market and/or are exposed to high price volatility.
	(b)	For each portfolio covered by the IMA: i) Characteristics of the models used; ii) A description of stress testing applied to the portfolio; iii) A description of the approach used for back testing and/or validating the accuracy and consistency of the internal models and

		modelling processes.
	(c)	The scope of acceptance by the CBN regarding the use of the internal models approach.
	(d)	Description of the level of conformity with the rules governing the systems and controls used to ensure prudent and reliable assessments of the positions included in the supervisory trading portfolio, as well as the methods used to ensure compliance with such rules.
Quantitative Disclosure	(e)	Indicators of exposures to market risk, such as: • Breakdown of market RWA by: i) Equity position risk in the trading book and market risk on trading positions in *Sukuk*; ii) Foreign exchange risk; and iii) Commodity and inventory risk; • Foreign exchange net trading position to capital; • Commodity net trading position to capital; and • Equity net trading position to capital.
	(e)	Total amounts of assets subject to market risk by type of assets
	(f)	Measures of value-at-risk (VAR) or other sensitivity analyses for different types of market risk, such as; • Foreign exchange risk; • Commodity price risk; and • Potential losses due to movements in market rate of return, benchmark rates or equity prices

Table 14: Counterparty Risk

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Description of: i) The method used to assign the operating limits defined in terms of internal capital and credit for counterparty credit exposures; ii) Policies relating to guarantees and assessments concerning counterparty risk; iii) The impact in terms of the amount of collateral that the bank

		would be required to provide given a credit rating downgrade.
Quantitative Disclosure	(b)	i) Gross positive fair value of contracts; ii) Reduction in gross positive fair value due to netting; iii) Positive fair value net of netting agreements; iv) Collateral held; vi) Measures of Exposure at Default (EAD), or value of the exposure to counterparty risk, calculated in accordance with the methods used (internal, standardized, mark-to-market models)

Table 15: Operational risk

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Policies to incorporate operational risk measures into the management framework – for example, budgeting, target-setting, performance review and compliance.
	(b)	Policies on processes; (a) to help track loss events and potential exposures; (b) to report these losses, indicators and scenarios on a regular basis; (c) to review the reports jointly by risk and line managers; and (d) to ensure *Shari`ah* compliance
	(c)	Policies on the loss mitigation process via contingency planning, business continuity planning, staff training and enhancement of internal controls, as well as business processes and infrastructure.
	(d)	A description of the advanced measurement approaches (AMA), if used by the NIFI, including a discussion of relevant internal and external factors considered in the approach adopted. In case of partial use of the AMA, the scope and coverage of the different approaches used should be indicated.
	(e)	For NIFI using the AMA, a description of the use of *Takaful* (insurance) for the purpose of mitigating operational risk.
Quantitative Disclosure	(f)	Disclosure of the RWA equivalent for Quantitative operational risk.
	(g)	Indicators of operational risk exposures, such as: • Gross income; and • Amount of *Shari`ah* non-compliant income.

(*) Eligibility requirements for the use of particular instruments or methodologies

Table 16: Equity Exposures: Disclosures for Banking Book Positions

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	i) Differentiation between exposures according to the objectives pursued (for example, capital gains, relationships with counterparties, strategic reasons); ii) Description of accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation, as well as significant changes in these practices.
Quantitative Disclosure	(b)	Value disclosed in the balance sheet and fair value; in addition, for listed securities, a comparison with market quotation where it is materially different from fair value.
	(c)	Type, nature and amounts of exposures, distinguishing between: i) Exposures traded in the market; ii) Exposures in private equity instruments held in sufficiently diversified portfolios; iii) Other exposures.
	(d)	Total cumulative realised gains and losses arising from sales and liquidations in the reporting period.
	(e)	i) Unrealised gains/losses (recognised in the balance sheet but not taken to the income statement); ii) Amount of the above gains/losses included in Tier 1 or Tier 2 capital.

Table 17: Rate of Return Risk

		Description of Disclosure
Qualitative Disclosure	(a)	Discussion of factors affecting rates of return and benchmark rates, and the effects thereof on the pricing of contracts
	(b)	Processes and systems to monitor and measure the factors that give rise to rate of return risk.
Quantitative Disclosure	(c)	Indicators of exposures to rate of return risk – for example, data on expected income from financing and the cost of funding at different maturity buckets according to time of maturity or time of re-pricing for floating rate assets or funding

	(d)	Sensitivity analysis of NIFIs' profits and the rate of returns to price or profit rate movements in the market

Table 18: Displaced Commercial Risk

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Disclosure of the NIFI's policy on DCR, including the framework for managing the expectations of its shareholders and unrestricted IAH, the sharing of risks among the various stakeholders, and the range and measures of risks facing unrestricted IAH based on the NIFI's general business strategies and investment policies
Quantitative Disclosure	(b)	Disclosure of historical data over the past five years: • Total *Mudarabah* profits available for sharing between unrestricted IAH and shareholders (as *Mudarib*) as a percentage of *Mudarabah* assets); • *Mudarabah* profits *earned* for unrestricted IAH (as a percentage of assets) before any smoothing; • *Mudarabah* profits *paid out* to unrestricted IAH (as a percentage of assets) after any smoothing; • Balances of PER and IRR, and movements on these in determining unrestricted IAH payout; • Variations in *Mudarib's* agreed profit-sharing ratio from the contractually agreed ratio; and • Market benchmark rates.
	(c)	Five-year comparison of historical rate of return of unrestricted IAH in relation to the market benchmark rate.
	(d)	Five-year comparison between the percentage rate of returns to IAH and the percentage returns to shareholders from *Mudarabah* profits.
	(e)	Amount and percentage of profits appropriated to PER and IRR.
	(f)	Analysis of the difference between aggregate *Mudarabah*-earned profits and profits distributed (paid out) to IAH as a function of movements in PER, IRR and the *Mudarib's* share.
	(g)	Analysis of the proportion of the RWA funded by IAH that should be considered in arriving at the total RWA (α, as specified in Appendix A of the IFSB's *Capital Adequacy Standard*), as approved by the CBN, together with an explanation of the underlying rationale.

Table 19: Contract-Specific Risks

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Policy on relative shares of various *Shari`ah*-compliant financing contracts and capital allocation for various types of *Shari`ah*-compliant financing contracts.
Quantitative Disclosure	(b)	Total RWA classified by type of *Shari`ah*-compliant financing contract.

Table 20: General Governance Disclosures

		Description of Disclosure
Qualitative Disclosure	(a)	Disclosure and explanation of any departure from complying with the applicable financial reporting standards.
	(b)	Disclosure of the NIFI's corporate governance arrangements and practices, including whether the NIFI complies in full with the *Code of Corporate Governance Standard* issued by CBN, and if it does not so comply, an explanation of any non-compliance.
	(c)	Disclosure of any related party transactions and treatment of material events by the NIFI.
	(d)	Disclosure of any investor/consumer education programmes for information on new products and services.
	(e)	Information on mediation and advice bureaus for investors and customers set up by the NIFI, including clearly written procedures for lodging of complaints.
	(f)	Disclosure of social functions and charitable contributions of the NIFI, such as *Sadaqah* (Donation), *Qarḍ* (Benevolent loan), etc.

Table 21: *Shari`ah* Governance Disclosures

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	A statement on the governance arrangements, systems and controls employed by the NIFI to ensure *Shari`ah* compliance and on how these meet applicable national or international standards, and if there is less than full compliance with desirable standards, an explanation of the reasons for non-compliance. A statement of compliance with the guidelines on *Shari`ah* governance and Corporate Governance Standard for NIFI issued by CBN (and reasons for any non-

		compliance) shall be provided.
	(b)	Disclosure of how *Shari`ah* non-compliant earnings and expenditure occur and the manner in which they are disposed of.
	(c)	Disclosure that compliance with *Shar*i*`ah* rulings is mandatory.
Quantitative Disclosures	(d)	Disclosure of the nature, size and number of violations of *Shari`ah* compliance during the year.
	(e)	Conventional banks with Windows shall disclose information on the appropriate mechanism established to segregate the funds of the Islamic window from the funds of the parent entity.
	(f)	Disclosure of annual *Zak*at contributions of the NIFI, where relevant.
	(g)	Remuneration of ACE members.

Table 22: Treatment of Islamic Windows of Conventional Banks

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Conventional banks shall disclose the Window arrangement adopted whether branch or dedicated unit.
	(b)	All relevant disclosure requirements for NIFI under this standard also apply to the Window.
	(c)	Conventional banks shall provide complete set of financial statements with notes for an Islamic Window.
	(d)	Conventional banks shall disclose information on the appropriate mechanism established to provide *Shari`ah* oversight of the activities of an Islamic Window.
Quantitative Disclosure	(e)	Conventional banks shall disclose their holdings in *Sukuk*, if any.