

Islamicity Disclosure Index for Shariah Banking: A Case

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The sharia financial industry is currently a very attractive option with its growth reaching 15% to 20% per year. This fact makes performance evaluation a must for banks. Unfortunately, there are not many indices developed specifically to determine company performance. That is why this paper was prepared with the aim of knowing the performance of the 5 best bank categories from global finance, namely ADIB, BIMB, BMI, IIAB and ABG. The method used in the research is qualitative with descriptive statistics because it involves 2 different indexes namely Islamicity Disclosure Index and Islamicity Performance Index which involves quantitative data. The data used in the study is a data set taken from the financial statements and annual reports of related banks for the period January 1-December 31, 2020. The results of the analysis show that ADIB is the bank that meets the most Islamic reporting indicators followed by BIMB, BMI, ABG and IIAB successively. Meanwhile, the performance index focuses more on distributing benefits not only to shareholders and creditors as in the conventional index but also provides benefits to all parties involved with the bank either directly or indirectly. The results show that these banks still do not meet the criteria for reporting and calculating Islamic performance as a whole.

Keywords: Islamic disclosure index, Performance, Islamic banking

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2.1.

INTRODUCTION

Banks are one of the financial institutions that have an important role in the economy of a country as a financial intermediary (Abustan, 2009). In Law No. 1998 article 1 paragraph (2) which is an amendment to Law No. 7 of 1992 concerning banking, a bank is a business entity that collects funds from the public in the form of deposits and distributes them in the form of credit or loans and other forms in order to improve the lives of many people.

In achieving goals, every bank will carry out several strategies so that the goals set can be achieved. One of these strategies is to conduct a performance evaluation. Performance evaluation is a method of measuring the company's achievements based on previously set targets. This is part of the control measures that can help the company to improve future performance by identifying deficiencies in the process of achieving these goals, including financial issues. Having a good and appropriate performance measurement system is important, so that every bank can remain competitive and financially strong (Shahul et al, 2004). Performance evaluation is also a very important part of life because it is one of the values of Islamic teachings, namely muhasabah, which is ordered to always be done.

Evaluation is one of the important strategies in the business world, as well as the evaluation carried out by each individual in living a life, this evaluation is encouraged so that each individual remembers what has been done for a full day, where by evaluating themselves each individual can improve themselves. Evaluation of this vision is what the Prophet described as the first key to success. In addition, the Prophet also explained the second key to success, which is action after evaluation (Mohammad Bugi, 2007).

Evaluating Islamic financial institutions is as important as measuring the achievements of each individual, it is clear that the responsibility of Islamic financial institutions is not only between customers and banks but is broader than that, but how they conduct business and the measures used in order to ensure that all activities are carried out in accordance with Shariah requirements (Shahul et al, 2004). Then the role and responsibility of Islamic financial institutions is also not only limited to the disclosure of financial issues, but such as employee issues, justice, social responsibility and others are important issues that must be disclosed by Islamic financial institutions as well.

Janachi (1995), cited in Suleiman (1999) is of the view that "Islamic banks bear a great responsibility ... all the staff of such banks, and the customers with whom they deal must be Islamized and act within the framework of the Islamic formula, so that everyone who approaches an Islamic bank must be given the impression that he is entering a holy place to perform a religious ritual, that is the use of capital for something acceptable and satisfying to Allah." (p. 101)

One way that can be used to measure the performance of a company is to use an index. But unfortunately, many Islamic financial institutions still use conventional indexes as a medium for calculating the performance of their institutions because there is no serious index model developed specifically to measure the performance of Islamic institutions. The development of the index was then carried out by Shahul et al in 2004 which included maqasid (the purpose of shara') as a proxy for calculating performance in conventional indexes that have been known.

Referring to the background that has been described above, the author in this paper tries to develop several alternative disclosures and calculations of the performance of Islamic banks in five selected countries namely Indonesia, Malaysia, Dubai, United Arab Emirates and Jordan. Explicitly, the objectives of this paper are First: to examine the performance of selected shariah banks through alternative disclosures and performance calculations using Islamic indexes and their compatibility with maqasid; Second: To provide suggestions for policy directions that should be made related to the results of the discussion.

The second section of the paper will be followed by a literature review of previously developed indexes. The third section will focus on explaining the data and methodology. In the next section, a description of the application of the islamization of the indexes will be discussed. And the final part as well as the closing of the paper will be presented conclusions and suggestions from the discussion and assessment that has been done.

LITERATURE REVIEW

Maqasid Shariah in terms of the strength of its essence is divided into three categories, Dharuriyat (primary), hajiyat (secondary), and Tahsiniyat (tertiary), plus Mukammilat (perfection of all). these three parts are closely related to mashalih (some benefits) which the shari'a exists to protect them (Riyadl Manshur, 2004).

Included in the Mukammilat addloruri (completion of primary needs) are: Allah SWT's command contained in the verse of dain (dependents / debts) regarding writing/recording and making witnesses in transactions, as well as His command to provide pawn goods. This shows that keeping property is included in the category of dloruri or basic needs. (Riyadl Manshur, 2004).

Maqasid sharia in maliyah muamalah is summarized in five maqasid, the second is Assidqu wal bayan (true and clear), meaning that every contract and transaction runs perfectly with clear honesty and truth in every practice. This is intended to avoid negative symptoms such as conflicts and disputes caused by lies and concealment of facts.

Before further discussing the Islamization Index and its application in Islamic banking, we will first discuss some literature reviews related to previously developed indexes to deepen the study. Basically, there are several indices that are used and recognized to examine various aspects of companies such as disclosure index, environmental disclosure index, corporate government index and social responsibility index.

Disclosure Index

Disclosure is disclosure or explanation, providing information by the company, both positive and negative, which may affect an investment decision (Ahmad Antoni K. Muda, 2003, p. 113). Disclosure index: to determine the relationship between the level of disclosure and the cost of equity. Where the company takes a sample of background information, 10/5 summary of historical results, key non-financial statistics, forecast information, management discussion and analysis of background information. (Botosan, 1997).

Environmental Disclosure Index

Examines the relationship between corporate social responsiveness and organizational characteristics, such as: financial performance, capital expenditure, pollution emissions. This index is basically used to compare the ratio of the number of environments made internally and externally. Where internal includes: environmental information obtained through annual reports and company reports, while external is obtained from newspapers, journals, magazines and press releases (Sarah and Stanwick, 1998).

Corporate Governance Index

Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the

company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term. Stakeholders in this case would include everyone ranging from the board of directors, management, and shareholders to customers, employees and society (Lisa Mary Thomson, 2009).

Clapper and Love (2002) are one of the groups of authors who have written on the corporate governance index. According to them, Credit Lyonnais Securities Asia (CLSA) has produced corporate governance rankings for 495 firms across 25 emerging markets and 18 sectors. The corporate governance ranking is based on the 57 qualitative, binary (yes/no) questions. Each yes answer was given one point. The questions are further divided into seven categories, namely discipline (15%), transparency (15%), independence (15%), accountability (15%), responsibility (15%), fairness (15%) and social awareness (10%). (Shahul et al, 2004).

Corporate Responsibility Index

The Corporate Responsibility Index (CR Index), is a leading business management and benchmarking tool that enables companies to effectively measure, monitor, report and improve their impacts on society and the environment. Developed in consultation with business leaders the first CR Index survey was launched in 2002. In addition to it being a public exercise in transparency the Index was created as a robust tool to help companies systematically measure, manage and integrate responsible business practice. (mark scot, 2010)

According to Griffin and Mahon (1997), several ways have been used to measure the social performance of a company. One of them is the KLD index, which was developed by Kinder, Lyenberg, Domini & Co, Inc. This financial analysis firm created the index by assessing each company on eight dimensions of corporate social performance which are community relations, employee relations, environment, product, treatment of women and minorities, military contracts, nuclear power, South Africa involvement. The first five dimensions are assessed on a 4-point scale from major strengths to major weaknesses. Meanwhile, the last three dimensions are assessed by a dichotomous scale: minor weakness or major weakness. KLD index is measured by summing up all ratings from major strengths (+2) to major weaknesses (-2) to create an overall performance score (Shahul et al, 2004).

METHODS

The author in analyzing the problems in the paper uses a qualitative approach with descriptive statistics. According to [Bogdan and Taylor \(1975\)](#), qualitative research produces descriptive data in the form of written or spoken words from people or observable behavior. While the main data sources in qualitative research as revealed by [Subandi \(2011\)](#) are words and actions, written data sources, photos and statistics. This research then combines a qualitative approach with descriptive statistical analysis through numbers that can describe the problem.

The data used are data sets sourced from the annual financial statements and annual reports ending on December 31, 2012 that have been published. The annual financial statements used are audited financial statements, including: balance sheets, income statements, statements of restricted investments, statements of changes in capital, cash flows, zakat infaq and sadaqah fund reports and notes to very detailed financial statements.

There are two main parts in this scientific work, the first is the Islamicity Disclosure Index and the second is the Islamicity Performance Index. In the first part, the author uses 3 elements as a reference, namely Shari'ah compliance, Corporate governance and Social/environmental indicators referring to research

conducted by Shahul et al. Of the three elements, the author simply checks the points listed in the financial statements of the relevant companies. The results of this method will then be analyzed and elaborated so as to provide information in the form of the results of the research conducted.

In the second part the author uses 7 elements, namely (1) Profit sharing performance, (2) Zakat performance, (3) Equitable distribution performance, (4) Directors - employees welfare ratio, (5) Islamic investment VS non-Islamic investment, (6) Islamic Income VS non-Islamic Income and (7) AAOIFI Index.

ANALYSIS

The writer agree for taking 5 samples of Islamic Bank in five different countries, those are Bank Muamalat Indonesia (BMI), Bank Islam Malaysia Berhad (BIMB), International Islamic Arab Bank (IIAB), Abu Dhabi Islamic Bank (ADIB) and Albaraka Bank Group (ABG). The choice of these five banks are based on the argument that these banks are allocated at different countries which are growing in Islamic Finance and based on considering these banks include in the world best Islamic banks at Global finance.

Shariah compliance indicator

Table 1. Shariah compliance indicator

No	Item	BIMB	ADIB	ABG	IIAB	BMI
1	Shari'ah Supervisory Board					
	a. The appointment of SSB	√	√	X	X	X
	b. The report of SSB	√	√	√	√	√
	c. Identification of the actual activity conducted	√	√	√	√	√
	d. The SSB members' background	√	√	√	√	√
2	Basic of Information					
	a. The Vision, mission and objectives	√	√	√	√	√
	b. Principal activity	X	√	X	X	√
3	Financial Statement					
	a. Identification of <i>Islamic</i> investment	√	√	√	X	X
	b. Identification of <i>non-Islamic</i> investments	√	√	X	X	X
	c. Identification of <i>Islamic</i> revenue	√	√	√	X	X
	d. Identification of <i>non-Islamic</i> revenue	√	√	X	X	X
	e. Provide the statement of sources and uses of funds in <i>Zakat</i> and charity	X	X	√	X	√
	f. Provide the statement of sources and uses of funds in the qard fund	X	X	X	√	X
	g. Identification of sources of revenue: ✓ exclude revenue attribute to depositors ✓ exclude revenue attribute to <i>Murabaha</i> financing	√	√	√	√	√
	h. The adoption of current value whenever it is possible	√	√	√	√	√
	i. Value added statement	X	X	X	X	X

The indicator of shariah compliance is divided into 3 items, namely shariah supervisory board, basic of information and financial statement. These items are adopted from a paper entitled Alternative Disclosure & Performance Measures For Islamic Banks (Shahul Hameed Bin Mohamed Ibrahim, Ade Wirman, Bakhtiar Alrazi, Mohd Nazli Bin Mohd. Nor and Sigit Pramono, 2002). From the first item, it is known that ADIB and BIMB fulfill all the requirements, while other banks BMI, ABG, and IIAB do not fulfill one of the 4 requirements in the first item. Then the second item, namely Basic of Information, only BMI and ADIB fulfill all of them and for BIMB, ABG, IIAB do not fulfill 1 requirement in this second item. And

finally the third item, Financial Statement ADIB and BIMB fulfill the requirements of 6 conditions. Followed by ABG which fulfills 5 conditions, while BMI and IIAB can only fulfill 3 out of 9 conditions on the financial statement.

Then the total of each bank that meets the requirements of the three items, so that it meets shariah compliance. The highest is ADIB fulfills 12 out of 16, then BIMB fulfills 11 out of 16, then ABG and BMI which fulfill 9 and 8 out of 16. While IIAB only fulfills 7 out of 16.

Corporate Governance Indicator

Table 2. Corporate Governance Indicator

1	Composition of board of directors	BIMB	ADIB	ABG	IIAB	BMI
	a. The board of directors comprises at least one-third of independent non-executive directors.	√	√	√	√	√
	b. The board of directors has representatives from the Shari'ah board	√	√	√	√	√
2	Appointment and Re-appointment					
	a. The director retires by rotation one in three years and is subsequently eligible for re-appointment.	√	√	√	√	√
	b. The re-appointment of non-executive directors is not automatic.	X	X	X	X	X
	c. The terms of appointment of the non-executive directors are disclosed	√	√	X	√	√
3	Board meetings					
	a. Board meetings were conducted at least four times a year	√	√	√	√	√
	b. The number of board meetings held in a year and the details of attendance of each individual director in respect of meetings held are disclosed	√	X	√	√	X
	c. Directors attend at least 75% of meetings on average	√	√	√	√	X
4	Director's fees and remuneration					
	a. Directors remuneration is disclosed	√	X	X	√	X
	b. Separate figures for salary and performance related elements, and the basis on which performance is measured are explained.	X	X	X	X	X
	c. Shareholders approve directors aggregate pay	X	X	X	X	X
5	Nomination committee					
	a. The company has a nomination committee	√	√	X	√	√
	b. The committee should exclusively consist of non-executive directors of which the majority are independent.	√	X	X	X	X
6	Remuneration committee					
	a. There is a Remuneration Committee	√	√	√	√	√
	b. Remuneration consisting wholly or mainly of non-executive directors	X	X	X	X	X
	c. Membership of the remuneration committee should appear in the directors' report	X	X	X	√	X
7	Audit committee					
	a. There is an audit committee	√	√	√	√	√
	b. The Audit Committee consists of at least three	√	√	X	X	√

	non-executive directors, of whom the majority are independent.					
	c. Audit committee includes someone with expertise in accounting	√	√	√	√	√
	d. The audit committee recommends the external auditor at the annual shareholders meeting.	X	X	X	√	X
	e. At least once a year the committee met with the external auditors without executive board members present, to review the financial statements.	X	X	X	X	√
	f. Details of the activities of audit committees the number of audit meetings held in a year and details of attendance of each individual director in respect of meetings are disclosed.	X	X	X	X	X
	g. Audit committee members attend at least 75% of meetings on average	X	√	X	√	X
8	Shari'ah supervisory board					
	a. Include someone with expertise in accounting	X	X	X	X	X
	b. SSB meets with audit committee and/or external auditor to review financial statements	X	X	X	X	X
	c. Details of the activities of SSB, the number of board meetings held in a year and details of attendance of each individual member in respect of meetings are disclosed.	√	√	X	X	X
	d. SSB committee members attend at least 75% of meetings on average	X	√	X	X	X
	e. SSB is an independent body	√	√	√	√	√
9	Others					
	a. Directors, senior management are qualified persons in terms of educational background, working experience etc.	√	√	√	√	√
	b. Chairman and CEO are different persons	√	√	X	√	√
	c. There is a Risk Management Committee	√	√	√	√	√
	d. English disclosure exists	√	√	√	√	√
	e. There is a statement on Corporate Governance	√	√	√	√	√
	f. The maintenance of an effective system of internal controls is disclosed	√	√	√	√	√
	g. There is a director's report	√	√	√	√	√

The second indicator is grouped into 9 items, namely composition of board of directors, appointment and re-appointment, board meetings, directors fees and remuneration, nomination committee, remuneration committee, audit committee, shariah supervisory board and others. In the first item there are 2 requirements that each bank must fulfill and all 5 banks we researched fulfill these requirements. For the second item there are 3 requirements, BMI, BIMB, ADIB and IIAB fulfill 2 of the 3 requirements in this second item, while ABG only fulfills 1 requirement. The third requirement is board meetings, BMI, ABG and ADIB fulfill all the requirements. BIMB fulfills 2 of the 3 requirements and the smallest IIAB only fulfills 1 requirement. Furthermore, the fourth item,

BMI and ADIB only fulfill 1 requirement while BIMB, ABG and IIAB do not fulfill at all item fifth nomination committee, BMI fulfills both existing requirements, while BIMB, ADIB and IIAB only fulfill 1 requirement and ABG does not fulfill any of the requirements of this item.

Remuneration committee only ADIB meets 2 of the 3 requirements, while BMI, BIMB, ABG and IIAB only meet 1 of the 3 requirements. Then the audit committee has more requirements than others, for BIMB, ADIB and IIAB fulfill the most requirements, namely 4 out of 7. While BMI and ABG are 3 and 2 out of 7 respectively. For the eighth item, BIMB outperforms the others by fulfilling 3 of the 5 requirements. BMI only fulfills 2 of the 5 conditions

and the others ABG, ADIB and IIAB only fulfill 1 condition. Lastly the others that still need to be fulfilled by each bank, all five banks fulfill all the requirements

of this item except ABG which fulfills 6 out of 7 requirements.

Social/Environmental indicator

Table 3. Social indicator

No.	Item	BMI	BIMB	ADIB	ABG	IIAB
1	Policy and Objectives					
	a) Mission statement/statement of environmental policy	X	X	X	X	X
	b) Mission statement/statement of social policy	X	X	X	√	√
	c) Environmental target and objective	√	X	X	√	X
	d) Social target and objective	√	√	√	√	√
2	Community issues					
	a) Consumer care	√	√	√	√	√
	b) Community involvement	√	√	√	√	√
3	Employee issues					
	a) Health and safety	√	√	√	√	√
	b) Employee training	√	√	√	√	√
	c) Reporting on other issues	√	√	√	√	X
4	Environmental issues					
	a) Environmental protection	√	√	√	√	X
	c) View on environmental issues	X	√	√	X	√
	d) Environmental Management System	√	X	√	√	X
	e) Energy saving	√	X	√	X	X
	f) Environmental indicators and targets	√	X	√	√	X

This indicator focuses the discussion within the framework of disclosing the social and environmental dimensions, these indicators can be seen by the presence or absence of disclosure of social activities and contributions to the environment.

Based on the assessment table above, it can be clearly seen that the assessment results of the *Social/Environmental indicators* of these banks are quite encouraging. On average, these banks disclose their activities or concerns in accordance with the indicators listed in the table.

The best results compared to the other banks studied were shown by BMI, ADIB and ABG which

only did not disclose 3 of the 14 indicators listed, in other words they managed to disclose 11 of the 14 indicators. Then followed by BIMB which disclosed 8 out of 14 indicators. And finally IIAB who only revealed 7 of the 14 indicators listed. The results of this assessment will then be weighted according to the predetermined weight to determine the quantitative value of the five banks on this indicator.

Islamicity Disclosure Index

Based on research on the financial statements of each Bank, the following results are obtained:

Table 4. Overall Islamicity disclosure index

Indicator	BMI	BIMB	ABG	ADIB	IIAB
Shari'ah Compliance	8/16	11/16	9/16	12/16	7/16
Corporate Governance	23/35	22/35	16/35	23/35	19/35
Social / Environmental	11/14	8/14	11/14	11/14	7/14

These are the results of each bank's book cover disclosures from several indicators. Now these indicators will be given their respective weights. Shariah compliance is weighted 50% because it is the main basis of shariah banking. Next for corporate governance given a weight of 30% because corporate

governance concerns issues about integrity, trust, accountability and transparency in the organization. And finally social / environmental weighted 20% because aspects of social / environmental already included in the previous two indicators.

Based on the weighting above, the following results are obtained:

Table 5. Overall calculation

BANK	SC %	At 50%	CG %	At 30%	S/E %	At 20%	Total % (b)+(d)+(f)
BMI	50	25	65.7	19.7	78.6	15.7	60.4
BIMB	68.7	34.4	62.8	18.8	57.1	11.4	64.6
ABG	56.2	28.1	45.7	13.7	78.6	15.7	57.5
ADIB	75	37.5	65.7	19.7	78.6	15.7	72.9
IIABJ	43.7	21.9	54.3	16.3	50	10	48.2

From the above calculation, it can be concluded that from the total of all indicators ADIB shows the best disclosure compared to the other 4 banks, with a total of 72.9%. Furthermore, BIMB, BMI and ABG with a total of 64.6%, 60.4%, 57.5%. And the one that shows the lowest value of the sum of each indicator is IIAB at 48.2.

CONCLUSION

Islamic banking, which is now the belle of the financial world, has become a public spotlight. Various attempts have been made to examine the norms of such banks. Moreover, the obligation of these banks under Islamic religious norms is not just to provide satisfaction to owners and stakeholders, more importantly, Islamic banks have a responsibility to God and also to fellow creatures. Therefore, it is important to develop an Islamic index to assess the performance of Islamic banks.

Based on the calculation in the indicators that represent the Islamicity Disclosure Index, ADIB is ranked first as the bank that discloses the most banking activities compared to the other 4 banks. BIMB, BMI, ABG and IIAB are next in line. The last index used is the Islamicity Performance Index which is more focused on financial aspects, to find out how much banking contributes to the ummah. The basic idea of this index is a diversion from conventional indices that focus on the profits of shareholders and creditors, so it is expected that banks can really provide *maslahah* in *muamalah*.

Even so, we still find many shortcomings on the part of the banks in terms of both reporting and performance of the company, making it very difficult for external parties to know more about the performance of the banks. This, of course, makes it difficult for ordinary people to assess the performance of Islamic banks whether they are in accordance with the demands of sharia or not and determine their choice of banks. Therefore, to avoid the assumption and possibility of hiding activities that are contrary to sharia, we suggest that Islamic banks should be more active in reporting their activities.

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