✓ Introduction
✓ A New Mindset
✓ Enhanced Business/Operating Model
✓ Funding Structure of Islamic Bank
✓ Investment Account as a “New Frontier”
✓ Growth of Investment Account
✓ Motivation for IA Offerings
✓ Governance & Oversight
✓ Key Consideration in Decision Making Process
✓ Other Strategic Issues
✓ Investment Account Platform – A New Marketplace
**Instituting Foundation**

- Islamic Banking Act 1983 – Establishment of Bank Islam Malaysia Berhad
- Merely as an alternative to conventional banking

**Institutional Building, Activity Generation & Market Vibrancy**

- 1993-2005 (Deepening, Creating Critical Mass & Liberalisation)
- Ensuring greater access to Islamic finance

**Strategic Positioning & International Integration with Global Financial System**

- 2006 -2013
- Becoming hub of international Islamic finance

**Advancing in Islamic Financing – Well Developed Marketplace**

- 2013 onwards
- Islamic Financial Services Act 2013 – Moving from “Credit Intermediary” to “Investment Intermediary”
- Marketplace for Global Linkages
- Moving to mainstream

**Strategic Management & Managing Directors’ Office**
A New Mindset

Credit Intermediary

Risk Transfer

Investment Intermediary

Fund Management

Risk Sharing

Differing Risk-Return Profiles
Funding Structure of Islamic Banking

**Deposits**
- Current Account
- Savings Account
- Term Deposit
- Cash Wakaf

**Investment Accounts**
- Unrestricted Investment Account
- Restricted Investment Account

**Shareholders’ Funds**
- Paid Up Capital
- Retained Earnings
- Others
Enhanced Business/Operating Model

1st leg

Channel funds to ventures of their choice

2nd leg

Provide financing

Investors (Source of fund)
- Individual, corporate and institutional investors

Strong roles played by Islamic bank, in line with their fiduciary duties
- Due diligence and continuous monitoring on ventures
- Suitability assessment on investors

Islamic Banks

Ventures (Users of fund)
- Similar to current banking business
- Target ventures can be SMEs and ventures in innovative and new growth areas with viable projects
Operationalising An Investment Account

Intermediation Functions of Islamic Banks in Operationalising an Investment Account

1. Acceptance of funds
- Customer places funds in Islamic bank under investment account
- Conduct suitability assessment to assess eligibility and risk appetite of potential customer
- Provide disclosures on the assets underlying different investment accounts and related risk-return profiles
- Recommend appropriate products in line with the customer’s risk appetite
- Propose Shariah contracts which will define the intermediary’s role and bases for attributing returns generated to the intermediary and the customer

2. Application of funds
- Islamic bank channels the investment account fund to financing assets
- Match funds received with underlying assets according to the investment mandate
- Conduct due diligence on prospective financing assets to ensure that risks undertaken are aligned with the investment mandate
- Ensure proper governance to safeguard customers’ interests and the bank’s reputation
- Maintain clear separation of funds to facilitate distribution of principal and returns, and resolution on winding-up

3. Continuous roles
- Conduct regular monitoring
- Report performance to customers
- Distribute profit to customers at pre-agreed terms
- Identify exit mechanism and perform recovery, if required
Investment Account as a “New Frontier”

- Acts as Investment Intermediary in addition to Credit Provider
- Move towards “Responsible Risk Sharing”
- Facilitates Risk Sharing Shariah Contracts (i.e. Mudarabah Financing)

- Return to commensurate with the risk taken or Differing Risk-Return Profiles
- Promotes Greater Transparency & Disclosure
- Flexibility to Right-size the Balance Sheet

- Allows proactive management of asset concentration or single customer exposure limit
- Competitive Edge to Islamic Finance – Capital Management & Liquidity Management
- Facilitates Mobilisation of Capital – Gateway to Financial Inclusion
Legal Framework
- Islamic Financial Services Act 2013
- Investment Account – Policy Document (14 March 2014)
- Profit Sharing Investment Account (PSIA)

Market Readiness
- Maturity of Islamic Finance industry – as a mainstream
- Increasing customer sophistication
- Developed talent and human capital capability

Government Support
- Part of Incentives under Budget 2015
- Acknowledgement by PIDM
Growth of Investment Account (IA)

1. **1 year after introduction, URIA penetration increased significantly by 22.05% CMGR\(^1\) - 11.7% of total Islamic funds**

   - **RM 35.2 bil (53%) of outstanding IA is URIA**
   - URIA includes: with maturity (term investment) & without maturity (daily investment)
   - Majority of RIA relates to placement by parent bank to Islamic subsidiary
   - Arrangement has been used to provide specific corporate financing (matched funding)

2. **Assets funded by IA is mainly financing**

   - **RM 62.0b (96.3%) financing comprise of 49% corporate financing and 51% consumer financing**
Key Delivery Channels

Islamic Financial Institutional
• 12 Islamic Financial Institutions
• 7 domestic banks – i.e. Maybank Islamic, Bank Islam, Bank Muamalat, Affin Islamic, CIMB Islamic, AmlIslamic, RHB Islamic
• 4 foreign Islamic banks – Siddiq Standard Chartered, Kuwait Finance House, OCBC Al Amin & HSBC Amanah
• 1 Islamic window – Kenanga Investment Bhd

Investment Account Platform
• A FinTech Platform
• Facilitates channeling of funds from investment accounts (RIA) into viable venture
• Acts as an investment intermediary
• Owned by industry players
Motivation for IA Offerings

- **Optimise Capital Management**
  (Underlying assets are exempted from capital charges)

- **Excluded from Statutory Reserve Calculation**

- **Alternative to Tawarruq Transactions (i.e. avoid brokerage fee)**

- **Savings from PIDM Premium**

- **Flexibility to Manage Asset Concentration Risk**
  (Syndication via non-IFI)

- **Avenue to manage Single Customer Exposure Limit (SC EL)**
  (i.e. RIA)

- **Facilitate Non-bank Syndication Facilities**

- **Avenue to securitize its asset portfolio**
Building Block of IA

**Shariah Standards**
- Contract-based Regulatory Framework
- Principal Non Guaranteed

**Operational Standards**
- Product Disclosure Sheet
- Suitability Assessment Form

**Oversight Function**
- Product Offering & Fund Performance Report to be endorsed by Board Investment Committee and Shariah Supervisory Committee

**Resolutions/Mandate**
- Ring-fenced against Specific Underlying Assets
Key Consideration for Decision Making Process

**Origination**
- IA Policy
- Product Design
- Target Market
- Asset Allocation
- Liquidity Management
- Asset Risk Profile (PDs, PDNI, GIF, etc)
- Fixed vs Float Rate Portfolio
- Market Risk
- Rate of Return
- Accounting Treatment

**Execution**
- Product Disclosure
- Suitability Assessment
- Service Level Agreement (RIA)
- Marketing Channel/Communication

**Maintenance**
- Oversight Function
  - Fund Performance Report
  - Or
- Financial Statements & Disclosure
Other Key Strategic Issues of IA

- Cannibalisation
- Impact on Net Income Margin
- Striking Balance of Funding Mix
- Treatment of Transactional IA for Capital Management
- Impact on Asset Re-pricing (Movement of Base Rate)
- IA as collateral
- Impact to PIDM Rating
Investment Account Platform – A New Marketplace

...an investment Intermediary instead of Trading Exchange

Provide funding through opening of RIA with participating banks using IAP

... sounds like a regulated crowd funding

Funds from RIA is used to finance venture

... also similar concept to retail sukuk

... similar to initial public offering... floating of project financing - over or under subscription

... gateway for financial inclusion
Regulatory Expectation on IA Offerings

- Sound Asset Management
- Institute Proper Governance & Oversight Process
- Timely and Accurate Disclosure of Material Information
- Ensure Effective Transfer of Risk & Reward
- Ensure Fair Dealings & Proper Market Conduct (Avoid Mis-selling)
In A Nutshell

Acceptance of funds
- Islamic Deposit
- Investment Account

Application of funds
- Business Financing
- House Financing
- Car Financing
- Personal Financing

Options for customers
- 1. Islamic Deposit
  -Principal guaranteed (up to RM250,000 per depositor for each banking institution)
  -Flexible fund withdrawal
  -Many types of deposits e.g. current account, savings account and term deposits

- 2. Investment Account
  -Returns are based on performance of underlying assets
  -Maturity and withdrawal condition agreed at inception

Types of Investment account
- Restricted Investment Account (RIA)
  -Funds are invested into specified assets according to investment mandate set by customers
  -Requires matching between investment tenure and maturity of the underlying assets
  -Customers are subject to specific withdrawal conditions agreed at inception

- Unrestricted Investment Account (URIA)
  -Customers authorise Islamic banks to determine broad investment mandate
  -Islamic banks may accumulate investment account funds belonging to many customers with similar risk profiles within a single pool or multiple URIA pools and invested into a group of assets
  -Customers are subject to relatively more flexible withdrawal terms

Product offerings

- Islamic Deposit
- Investment Account

Sharī`ah contracts
- Qard (benevolent placement)
- Tawarruq (cost plus basis)
- Musharakah (profit and loss sharing)
- Mudarabah (profit sharing & loss bearing)
- Wakalah (agency agreement)
Key Takeaway

- Demands Product Knowledge
- Requires Customer Suitability Assessment or Understanding of Customer’s risk appetite
- Avoids Miss-Selling

Operational Risk + Reputational Risk
Congratulations

YBhg. Dato’ Sri Zukri Samat
for winning the
“Banking CEO of the Year Asia”
and also to Bank Islam for winning the
“Best Islamic Bank Malaysia”
“Best Innovation in Retail Banking Malaysia”
from
The International Banker Asia & Australasia Banking Awards 2016

Congratulations

to
Encik Hizamuddin Jamalluddin & Bank Islam
for winning the
Upcoming Personality in Islamic Finance
(Leadership) Award 2016 &
Best Wholesale Banking Award 2016
from
Global Islamic Finance Awards 2016
Thank You
والسلام
APPENDICES - Key Documents/References

LAWS OF MALAYSIA
Act 759
Islamic Financial Services Act 2013

Date of Royal Assent: 18 Mar 2013
Date of publication in the Gazette: 22 Mar 2013

An Act to provide for the regulation and supervision of Islamic financial institutions, payment systems and other relevant entities and the oversight of the Islamic money market and Islamic foreign exchange market to promote financial stability and compliance with Shariah and for related, consequential or incidental matters.

ARRANGEMENT OF SECTIONS
PART 1
PRELIMINARY
1. Short title and commencement
2. Interpretation
3. Prescription by Minister of additional business or activity
4. Prescription by Bank of additional agreement, dealing, transaction or person
5. Classification of, and construction of references to, takaful business

PART II
REGULATORY OBJECTIVES AND POWERS AND FUNCTIONS OF BANK
6. Regulatory objectives
7. Powers and functions of Bank

PART III
AUTHORIZATION
Division 1
Authorized business
8. Authorized business to be carried on by authorized person

Transition policy under Islamic Financial Services Act 2013 (IFSA)

Investment Account
### Scope of Business

- Definition of “Islamic banking business”
- Definition of “Islamic deposit” & “Investment account”

### BNM’s Role in Regulating Shariah Compliance

- Regulatory objectives – promote financial stability & Shariah compliance
- Duty of authorised person to ensure compliance with Shariah
- Power of BNM to specify standards on Shariah matters
- Non-compliance with Shariah as trigger for intervention & enforcement actions

### Shariah Compliance & Governance Requirements

- Establishment of Shariah committee
- Duties & functions of Shariah committee
- Requirements relating appointment & cessation of Shariah committee
APPENDICES - IFSA 2013: A New Perspective

Islamic Banking Act 1983

- Broad definition – banking business complying with Shariah
  \[s2\]

- Islamic deposit: receipt or repayment of money based on any Shariah principles
  \[s2\]

- Provision for establishment of IFI’s Shariah Committee
  \[s3(5)(b)\]

Islamic Financial Services Act 2013

- Funding sources: Islamic deposits & investment account
  - Provision of finance ties to underlying Shariah contracts
    \[s2(1)\]
  - **Islamic deposit**: money accepted or paid with principal guarantee
    \[s2(1)\]
  - **Investment account**: investment without principal guarantee
    \[s217\]
    - IA assets are ring-fenced during winding-up

- Duty of IFIs to ensure Shariah compliance in all aspects
  \[s28\]

- Codification of relevant SGF’s requirements (e.g. duties of Shariah Committee, Shariah audit & reporting of Shariah non-compliance events)
  \[s28-38\]

- Power of BNM to specify standards on Shariah matters
  \[s29\]
**APPENDICES - Contract Based Regulatory Framework**

### Islamic Finance:
Islamic banks conduct financial intermediation functions using Shariah contracts
Distinct risk and reward profiles based on Shariah contracts

**End-to-end Shariah compliance under the Islamic Financial Services Act 2013**

<table>
<thead>
<tr>
<th>Shariah Standards</th>
<th>Operational Standards</th>
<th>Oversight Functions</th>
<th>Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with fundamental requirements of respective Shariah contracts</td>
<td>Strengthened risk management, governance, transparency and disclosure, market conduct and other operational aspects of applying Shariah standards.</td>
<td>Codification of the role of the Shariah committee and board of directors of financial institutions in ensuring Shariah compliance</td>
<td>Priority of payment reflective of underlying Shariah contracts</td>
</tr>
</tbody>
</table>

---

**ASSET**

- **Sales Based**
  - Murabahah
  - Istisna’
  - Ijarah
  - Tawarruq

- **Equity Based**
  - Mudharabah
  - Musharakah

- **Fee Based**
  - Wakalah
  - Kafalah
  - Rahnu

- **Islamic Deposits**
  - Wadi’ah
  - Qard
  - Tawarruq

---

**LIABILITIES**

- **Investment Accounts (Equity)**
  - Mudharabah
  - Musharakah

- **Investment Accounts (Other)**
  - Wakalah
### Islamic Deposit

means a **sum of money accepted or paid** in accordance with Shariah -

(a) on terms under which it **will be repaid in full**\(^1\), **with or without any gains**\(^2\), return or any other consideration in money or money’s worth, either on **demand or at a time or in circumstances agreed**\(^3\) by or on behalf of the person making the payment and person accepting it; or

(b) **under an arrangement, on terms** whereby the **proceeds**\(^4\) under the arrangement to be paid to the person paying the sum of money **shall not be less than such sum of money**\(^*\)

### Investment Account

means an account under which, **money is paid and accepted for the purposes of investment**\(^1\), including for the provision of finance, in accordance with Shariah on terms that there is **no express or implied obligation to repay the money in full**\(^2\) and-

(a) **either only the profits, or both the profits or losses**\(^3\), thereon shall be shared between the person paying the money and the person accepting the money; or

(b) **with or without any return**\(^3\);
### APPENDICES - Islamic Deposit vs Investment Account

<table>
<thead>
<tr>
<th>Islamic Deposit</th>
<th>Investment Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Qard</td>
<td>✓ Mudarabah</td>
</tr>
<tr>
<td>✓ Tawarruq</td>
<td>✓ Musharakah</td>
</tr>
<tr>
<td>✓ Wadiah yad dhamanah</td>
<td>✓ Wakalah bi al-istithmar</td>
</tr>
<tr>
<td>✓ Insured by PIDM</td>
<td>✓ Not insured by PIDM</td>
</tr>
<tr>
<td>✓ Repayment in full</td>
<td>✓ Third party guaranteed is allowed (to facilitate capital preservation)</td>
</tr>
<tr>
<td>✓ Principal guaranteed</td>
<td>✓ Returns subject to the performance of the funds/underlying assets</td>
</tr>
<tr>
<td>✓ Returns subject to the terms of Shariah contract</td>
<td>✓ Transactional IA (on demand) or Term IA (at maturity)</td>
</tr>
<tr>
<td>✓ Repayment on demand or at maturity</td>
<td>✓ Legal rights to the distribution of proceeds from the underlying asset class (ring-fenced)</td>
</tr>
<tr>
<td>✓ Distribution of proceeds from the general pool of assets (upon liquidation)</td>
<td></td>
</tr>
</tbody>
</table>

**Distinct definitions are aligned with Shariah contracts…**
Mudarabah

- Profit Sharing & Loss Bearing
- Contract between capital provider (ie fund owner) – rabbul mal and an entrepreneur (ie the Bank) – mudarib
- Upfront agreement of profit sharing ratio
- Financial losses are borne by fund owner provided that such losses are not due to the Bank’s misconduct, negligence or breach of specific terms

Wakalah bi al-Istitmar

- Agency for investment
- Agent to perform a particular task for a certain amount of fee or performance incentive(s)

Musyarakah

- Profit Loss Sharing
- Equal sharing of losses

Section 7.2 of Investment Account Policy Document
APPENDICES - Mudarabah based Investment Account

Investment Account Holders

Place investments with the Bank

Profit as per agreed PSR (IAH)

Profits as per agreed PSR (Bank)

Allocated Assets of the Bank

Invests IAH funds

Profit

Generates profit/in incurs loss

Loss to be borne by the customer

Loss
Investment Account Holders

Appoints Bank Islam as Investment Agent

Profit payment
(Note: Profit earned may be equal to or less than Expected Profit)

Any excess retained as performance incentive

Allocated Assets of the Bank

Invests IAH funds

Loss to be borne by the customer

Generates profit/incurs loss

Profit

APPENDICES - Wakalah based Investment Account
APPENDICES - RIA vs URIA

Restricted Investment Account (RIA):
- IAH provides a specific mandate, tenure and terms/conditions
- i.e. Underwriting criteria, asset class, economic sector, distribution of funds, collection and recovery efforts
- Example: Dana Al Ansar - managed by Bank Islam for Lembaga Tabung Haji
- Mainly PSIA between parent bank (shareholder) with the Islamic IFIs

Unrestricted Investment Account (URIA):
- IAH provides a general mandate, without restrictions/conditions
- Example: Waheed-i by Bank Islam
- Mainly based on the existing financial assets of the IFIs
APPENDICES - Transactional vs Term Investment Account

Transactional
Repayment on demand
Unlimited withdrawal
(i.e. linked to Debit Card/ Internet Banking/ Cheque)

Term
Repayment at maturity
(i.e. via IA Cert)

Profits are calculated based on actual number of days/365
**APPENDICES - IA Offerings Available in Market**

- **Restricted Investment A/C**
- **Unrestricted Investment A/C**

...mainly Profit Sharing Investment Account (PSIA) with parent

---

<table>
<thead>
<tr>
<th>No</th>
<th>Existing Mudarabah-based Account</th>
<th>Reclassify to Mudarabah IA Fund Type</th>
<th>Product Name under Mudarabah IA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Golden Savers Savings Account-I</td>
<td>Daily Fund-I</td>
<td>Golden Savvy Account-I</td>
</tr>
<tr>
<td>2</td>
<td>netCurrent Account-I</td>
<td>Daily Fund-I</td>
<td>net Account-I</td>
</tr>
<tr>
<td>3</td>
<td>Premier Mudarabah Account-I</td>
<td>Daily Fund-I</td>
<td>Premier Mudarabah Account-I</td>
</tr>
<tr>
<td>4</td>
<td>Premier Mudarabah Account-I (SME BB)</td>
<td>Daily Fund-I</td>
<td>Premier Mudarabah Account-I (SME BB)</td>
</tr>
<tr>
<td>5</td>
<td>Premier Mudarabah Account-I (GB)</td>
<td>Daily Fund-I</td>
<td>Premier Mudarabah Account-I (GB)</td>
</tr>
<tr>
<td>6</td>
<td>Private Banking Account-I</td>
<td>Daily Fund-I</td>
<td>Private Banking Account-I</td>
</tr>
<tr>
<td>7</td>
<td>General Investment Account-I</td>
<td>Term Fund-I</td>
<td>General Investment Account-I</td>
</tr>
</tbody>
</table>

---

**Saadiq Business$aver-i**

Higher effective returns* with Maybank Islamic General Investment Account-I (GIA-I).

- 6.0% p.a. 10 - 12th Month
- 4.5% Dividends* paid monthly
- 4.0% 3rd - 9th March

---

Investment Suite
## APPENDICES - Key Differences - Pre & Post IFSA

<table>
<thead>
<tr>
<th></th>
<th>Pre IFSA (IBA 1983)</th>
<th>IFSA 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
<td>Mudharabah Deposit A/C Wakalah Deposit A/C</td>
<td>Mudharabah IA Wakalah IA</td>
</tr>
<tr>
<td><strong>Principal</strong></td>
<td>Repayable in full/ Guaranteed by PIDM (RM250K)</td>
<td>Principal non-guaranteed Aim to preserve capital</td>
</tr>
<tr>
<td><strong>Rank under Liquidation</strong></td>
<td>Rank Parri Passu</td>
<td>IA ranked as secured creditor (via asset ring-fencing)</td>
</tr>
<tr>
<td><strong>Underlying Assets</strong></td>
<td>General Pool (Both, bilateral credits &amp; marketable securities)</td>
<td>Prescribed Assets as per Product Disclosure Sheet</td>
</tr>
<tr>
<td><strong>Withdrawal</strong></td>
<td>On-demand or at maturity</td>
<td>Transactional IA - on demand Term IA - at maturity</td>
</tr>
<tr>
<td></td>
<td>Pre IFSA (IBA 1983)</td>
<td>IFSA 2013</td>
</tr>
<tr>
<td>--------------------------</td>
<td>---------------------------------------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>Reporting</td>
<td>None</td>
<td>Fund Management Report on quarterly basis</td>
</tr>
<tr>
<td>Oversight</td>
<td>No Specific (part of overall oversight)</td>
<td>Board Risk Committee/Board Investment Com.</td>
</tr>
<tr>
<td>Rate of Return</td>
<td>Profit Sharing Ratio (PSR) for Mudharabah</td>
<td>PSR for Mudharabah, Expected Rate of Return for Wakalah</td>
</tr>
<tr>
<td>On-Boarding</td>
<td>KYC</td>
<td>KYC &amp; Suitability Assessment/New Board Resolution/Minutes</td>
</tr>
<tr>
<td>Expected Return</td>
<td>Allow Profit Smoothing Technique</td>
<td>Return to commensurate with the underlying risk profile of the assets</td>
</tr>
</tbody>
</table>
APPENDICES - GOVERNANCE & OVERSIGHT
APPENDICES - Governance

Management Risk Committee
- Product Structure
- Product Features & Documentation
- Product Roll Out & Training
- Fund Management Report

Asset Liability Committee
- Asset Allocation
- Expected Rate of Return / Pricing Strategy

Shariah Supervisory Council
- Product Structure (Application of Shariah Contract)
- Product Features
- Product Documentation
- Fund Management Report

Board Investment Committee
- IA Policy
- Overall Product Approval
- Fund Management Report
APPENDICES - Pricing Strategy

Low Risk
- Term Deposit Tawarruq
- Waheed Investment A/C

Moderate Risk
- Waffiyah Investment A/C

High Risk
- CASA
4.1 Profit & Loss Statement (P&L)

<table>
<thead>
<tr>
<th>WAHEED INVESTMENT ACCOUNT</th>
<th>August 2015</th>
<th>September 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM</td>
<td>RM</td>
</tr>
<tr>
<td>Income</td>
<td>146,388</td>
<td>292,461</td>
</tr>
<tr>
<td>Direct Expenses*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance For Impairment On Financing</td>
<td>(12,379)</td>
<td>(23,013)</td>
</tr>
<tr>
<td>Total Income</td>
<td>RM134,009</td>
<td>RM269,449</td>
</tr>
</tbody>
</table>

ROA: 4.35%  
ROI: Subject to Terms & Conditions

Note:

i) The Return on Investment (ROI) for Waheed Investment Account (Wakalah) is subject to Terms & Conditions at inception.

ii) There are no transactions during the investment placement in June and July 2015.

* Expenses are identifiable, measurable, compulsory and must be incurred in order to complete a specific investment activity (including financing)
APPENDICES - BENEFITS
Appendix 10  Computation of Capital Adequacy Ratio incorporating effect from Investment Accounts

The Capital Adequacy Ratio of the IFI shall be computed as follows:

Modified Formula\textsuperscript{42}: Incorporating the Risk Nature of Investment Accounts

\[
\text{Total Capital Ratio} = \frac{\text{Total Capital}}{\text{Total Risk Weighted Assets}}^{43} \\
\text{Less} \quad (1-\alpha) \quad \text{(Credit and Market Risk Weighted Assets funded by Investment Accounts)}
\]
APPENDICES - Enhanced Liquidity Management

Appendix 8  Calculating Liquidity Requirements for Investment Account

Scenario: In this example, the sources of funding for Islamic Bank ABC consist of two broad categories as follows:
(i) The IFI’s own funds which is sourced from depositors, shareholders & others; and
(ii) Investment account funds which is sourced from investment account holders. Islamic Bank ABC operates two URIA funds (namely URIA Fund 1 and URIA Fund 2) as well as a RIA Fund.

Steps to calculate compliance with the liquidity requirements are depicted in the illustration below:

- Reporting under Investment Account
- Reporting under Liquidity Framework

- URIA Fund 1
  - Inflows
  - (-) Outflows
  - (+) Dedicated liquefiable assets (if any)
- URIA Fund 2
  - Inflows
  - (-) Outflows
  - (+) Dedicated liquefiable assets (if any)
- RIA Fund
  - Inflows
  - (-) Outflows
  - (+) Dedicated liquefiable assets (if any)
  - [Liquidity risk is mitigated]

- IFI’s Own Funds
  - (Lae. Depositors’, Shareholders’ & other sources)
  - Inflows
  - (-) Outflows
  - (+) Liquefiable assets (Including to cover liquidity shortages in URIA)
- (-) Total IFI’s Compliance Requirement, which consists of:
  - Compliance Requirements for Deposits
  - Total Shortfall in URIA Funds
  - (+) Net Compliance Surplus/Shortfall for IFI

Total shortfall from URIA Funds is added to the IFI’s Total Compliance Requirements
APPENDICES - Liquidity Calculation - “Per Fund Basis”

Scenario: As above

For purposes of liquidity reporting and compliance requirements, Islamic Bank ABC has to calculate separately the requirements for each of the funds above i.e. The IFI’s own funds, URIA Fund 1 and URIA Fund 2. The example in Diagram 1 below is for the calculation for the ≤1 week bucket:

Diagram 1: Liquidity calculation on “Per Fund Basis” for each URIA funds and impact to liquidity requirements at IFI’s Fund level

<table>
<thead>
<tr>
<th>Items (In RM '000):</th>
<th>URIA Fund 1</th>
<th>URIA Fund 2</th>
<th>IFI’s Own Fund (i.e. funding from depositors, shareholders &amp; others)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflows from assets and off balance sheet items:</td>
<td>5,000</td>
<td>2,500</td>
<td>300,000**</td>
</tr>
<tr>
<td>(-) Outflows from liabilities &amp; off balance sheet items:</td>
<td>7,500</td>
<td>10,000</td>
<td>1,250,000**</td>
</tr>
<tr>
<td>Total Net Maturity Mismatch Under Normal Circumstances</td>
<td>-2,500</td>
<td>-7,500</td>
<td>-957,000</td>
</tr>
<tr>
<td>(+) Discounted value of liquefiable securities and undrawn portion of formally available credit lines (If any)</td>
<td>5,000*</td>
<td>2,000*</td>
<td>250,000**</td>
</tr>
<tr>
<td>Available cumulative mismatch to accommodate liquidity shocks</td>
<td>2,500</td>
<td>-5,500</td>
<td>707,000</td>
</tr>
<tr>
<td>(-) Compliance/Minimum Liquidity requirement as agreed with BNM</td>
<td>1,500*</td>
<td>1,500*</td>
<td>607,000</td>
</tr>
<tr>
<td>Net compliance/ surplus/ (shortfall) of Fund</td>
<td>1,000</td>
<td>-7,000</td>
<td>100,000</td>
</tr>
</tbody>
</table>

Important notes:

Issued on: 14 March 2014
APPENDICES - Liquidity Calculation - “Per Fund Basis”…cont

** The inflows and outflows reported at the IFI’s own fund level exclude the inflows and outflows of all the URIA funds (hence no double counting).

# Islamic Bank ABC maintains liquefiable assets dedicated for each URIA fund (ie. dedicated liquid assets) as described in paragraph 22.4. Hence, these are the amounts of dedicated liquid assets for each URIA fund.

^^ This amount consists of liquefiable assets to manage liquidity at the IFI’s funds level (eg. depositors withdrawal) and the “pooled liquefiable assets" to manage liquidity for URIA funds, if any, as described under paragraph 22.7. In other words, since inflows and liquefiable assets in URIA Fund 2 are insufficient to meet its liquidity needs, Islamic Bank ABC is employing the strategy of maintaining both "dedicated liquid asset" and “pooled liquid asset” approach to manage liquidity risk for URIA Fund 2.

* 3% of the URIA Fund’s NAV as at reporting date (assumption: each URIA Fund’s NAV is RM50mil)

Assessment

URI A Fund 1 has a net surplus of RM1mil which is available for usage of Fund 1 only. Usage of these surplus funds by other than for purposes of URIA Fund 1 will have to be done on arm’s length basis as clarified under paragraph 22.5.

Meanwhile, URIA Fund 2 has a net shortfall of RM7mil which needs to be covered by the IFI as mentioned under paragraph 30.4. Assuming the IFI accepts a total deposit RM20billion, the IFI’s compliance requirement for up to 1 week bucket is:

\[
\text{Compliance requirement to accommodate deposits withdrawal (ie. 3% x Total Deposits or as agreed with the Bank)} = (3\% \times \text{RM 20,000,000,000}) + \text{RM 7,000,000} = 600,000,000 + 7,000,000 = \text{RM 607 million}
\]

Total net shortfall of URIA Funds (ie. RM7m)

Conclusion: The shortfall in URIA funds increases the IFI’s Total Compliance Requirements to RM607mil as reflected in the table above. This results in a reduction to the IFI’s Net Compliance Surplus to RM100million.
Assume: RM1 bil - placed under tawarruq term deposit

Placement tenure: 1 month

Brokerage fee: RM15 per mil (for 22 days and above)

Total brokerage: RM15,000

Note:
- 1 day placement - RM3 per RM1 mil worth of commodity
- 2-21 days - RM5 per RM1 mil worth of commodity
- 22 days and above - RM15 per RM1 mil worth of commodity
APPENDICES - ACCOUNTING & FINANCIAL DISCLOSURE
### Specific Mandate

- IAH dictate the underwriting credit criteria
- IAH determine the composition of portfolio
- IAH determine the expected rate of return - Wakalah
- IAH determine the Profit Sharing Ratio - Mudarabah
- IAH decide on the principal terms of recovery or rehabilitation
- IAH take the ownership of risk
- Undisputed Rights on the Assets/Ownership of residual cash flows from the underlying assets
- Bank has no control over the underlying asset portfolio
The specific assets are the only source of payment to the IAH.

The underlying assets and liabilities are not recorded as part of the Bank’s liabilities.

Investment amount is subject to the credit risk of underlying assets.

Investments are not guaranteed by the Bank, PIDM or third party.

Underlying Assets & Residual Cash Flow are ring-fenced from the Bank.

Upon termination, any residual assets and cash balances are returned to IAH.

IAH have absolute discretion to review the investment portfolios or discontinue the availability of the funds.

IAH indemnify the Bank from any legal suits or claims in relation to the Bank.

Adherence to MFRS 10.
### APPENDICES - New Look on Balance Sheet

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Short-term Funds</td>
<td>Deposits from Customers</td>
</tr>
<tr>
<td>Financial Assets (HFT, AFS, HTM) i.e. PDS</td>
<td>Investment Account of Customers (URIA/RIA) (i.e. Note 16 – Bank Islam Audited A/C 2015)</td>
</tr>
<tr>
<td>Financing (Consumer, Commercial &amp; Corporate)</td>
<td>Deposit Placements of Banks &amp; Financial Institutions</td>
</tr>
<tr>
<td>Investment in Subsidiaries</td>
<td>Zakat &amp; Taxation</td>
</tr>
<tr>
<td>Other Assets</td>
<td>Other Liabilities</td>
</tr>
<tr>
<td></td>
<td>Equity</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>Total Liabilities &amp; Equity</strong></td>
</tr>
</tbody>
</table>

Note X: Describes the funding structure i.e. URIA or RIA, the amount of funds applied to different Shariah contracts, and the underlying assets supporting the fund. As RIA is off balance sheet, the information presented is for disclosure purposes.
Bank Islam Malaysia Berhad (98127-X)
(Incorporated in Malaysia)
Unaudited Interim Financial Statements

Statements of Financial Position as at 30 June 2016 (continued)

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th></th>
<th>Group</th>
<th></th>
<th>Bank</th>
<th></th>
<th>Bank</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>22</td>
<td>2,384,210</td>
<td>2,363,283</td>
<td>2,384,210</td>
<td>2,363,283</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td></td>
<td>1,933,212</td>
<td>1,669,285</td>
<td>1,934,223</td>
<td>1,669,770</td>
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<td></td>
<td></td>
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<tr>
<td>Total equity</td>
<td></td>
<td>4,317,422</td>
<td>4,032,568</td>
<td>4,318,433</td>
<td>4,033,053</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td></td>
<td>49,744,355</td>
<td>49,763,719</td>
<td>49,751,899</td>
<td>49,767,067</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted investment accounts managed by the Bank</td>
<td>18</td>
<td>116,215</td>
<td>82,567</td>
<td>116,215</td>
<td>82,567</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Islamic banking asset owned and managed by the Bank</td>
<td></td>
<td>49,860,570</td>
<td>49,846,286</td>
<td>49,868,114</td>
<td>49,849,634</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Commitments and Contingencies</td>
<td>33</td>
<td>14,015,757</td>
<td>12,692,303</td>
<td>14,015,757</td>
<td>12,692,303</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
18. Investment accounts of customers

<table>
<thead>
<tr>
<th></th>
<th>Group and Bank</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30.06.2016 RM'000</td>
<td>31.12.2015 RM'000</td>
<td></td>
</tr>
<tr>
<td>Unrestricted investment accounts</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Without maturity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mudharabah</td>
<td>988,712</td>
<td>461,312</td>
<td></td>
</tr>
<tr>
<td>With maturity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wakalah</td>
<td>2,328,230</td>
<td>214,793</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>3,316,942</strong></td>
<td><strong>676,105</strong></td>
<td></td>
</tr>
<tr>
<td>Restricted investment accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With maturity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wakalah</td>
<td><strong>116,215</strong></td>
<td><strong>82,567</strong></td>
<td></td>
</tr>
<tr>
<td>Investment portfolio:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted investment accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House financing</td>
<td>2,316,590</td>
<td>676,105</td>
<td></td>
</tr>
<tr>
<td>Personal financing</td>
<td>1,000,352</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>3,316,942</strong></td>
<td><strong>676,105</strong></td>
<td></td>
</tr>
<tr>
<td>Restricted investment accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other term financing</td>
<td><strong>116,215</strong></td>
<td><strong>82,567</strong></td>
<td></td>
</tr>
</tbody>
</table>

^ Restricted investment accounts ("RIA") is an arrangement between the Bank and its ultimate holding entity where the Bank acts as the investment agent to manage and administer the RIA and its underlying assets. RIA is accounted for as off balance sheet as the Bank has no right and obligation in respect of the assets related to the RIA or to the residual cash flows from those assets except for the Wakalah performance inventive fee income generated by the Bank for managing the RIA.
Income split into 3 categories:

<table>
<thead>
<tr>
<th>Note</th>
<th>2015 RM’000</th>
<th>2016 RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income derived from investment of depositors’ funds</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Income derived from investment of investment account funds</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Income derived from shareholders’ funds</td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>

## Bank Islam Malaysia Berhad (98127-X)
(In Incorporated in Malaysia)
Unaudited Interim Financial Statements

### Statements of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2016

<table>
<thead>
<tr>
<th>Group</th>
<th>3 months ended</th>
<th>6 months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30.06.2016</td>
<td>30.06.2015</td>
</tr>
<tr>
<td></td>
<td>Note RM'000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Income derived from investment of depositors’ funds</td>
<td>23</td>
<td>587,512</td>
</tr>
<tr>
<td>Income derived from investment account funds</td>
<td>24</td>
<td>19,475</td>
</tr>
<tr>
<td>Income derived from investment of shareholders’ funds</td>
<td>25</td>
<td>114,463</td>
</tr>
</tbody>
</table>
Launch of Investment Account Platform (IAP)
Wednesday, 17 February 2016 / 8 Jamadilawal 1437H | Sasana Kijang, Bank Negara Malaysia, Kuala Lumpur
APPENDICES - What is IAP?

IAP is an internet-based multi-bank platform to facilitate channelling of funds from individual, corporate and institutional investors to finance viable ventures intermediated by participating Islamic banks via Restricted Investment Account (RIA) as governed under IFSA

1. **Multi-bank platform** to provide choice to investors and ventures
2. **Wide choice of strong, viable and Shariah-compliant ventures**, assessed and screened by sponsor bank
3. **Robust information** of the ventures to facilitate informed decision-making by investors
4. **Facilitates a good match between the profiles of the venture with the risk appetite** of potential investor
5. **Regular update** on the progress of the ventures by sponsor bank e.g. online performance report
6. **Efficient transactions** of investment account offerings through integration with existing e-payment infrastructure and the core banking system of Islamic banks
7. **Consolidated snapshot** to monitor different investment accounts placed with different banks

![IAP Image](image_url)
APPENDICES - Illustration of IAP Transaction

1. Real Economic Activities
   A contractor is awarded a contract by the government to build a road and requires funding of RM1 mil.

2. Financing Application
   The contractor submits financing application along with the project details for due diligence by Islamic bank (IB).
   - Standardised Rating (Internally or by 3rd party)
   - Performance Guarantee (by 3rd party)
   - Debt or Equity Financing or Hybrids

3. Primary Contract
   The IB negotiates terms of financing with the contractor (i.e. the venture) after satisfactory due diligence and draft the contract.

4. Floatation
   The IB floats the contract on IAP for certain campaigning period (e.g. 30 days) to collect investment from investors.

- FLOAT
- INVESTMENT WINDOW OPENS
- INVEST

5. Investment Application
   Registered IAP users are able to see and review details of the ventures floated on IAP, and subsequently submit investment application to the sponsor IB via IAP.

6. Suitability Assessment
   The IB conducts suitability assessment on potential investors to facilitate the investments.

7. Channeling Fund
   The IB channels fund to the venture. If there is a fundraising shortfall, the IB will fund the unsubscribed portion (subject to maximum limit).

8. Monitoring
   The IB provides continuous monitoring on the project and updates progress to investors.

Reference to relevant authorities (e.g. TEKUN, MIDA)
• **Measure 2: Strengthening Islamic Financial Market**

• 41. The Government will introduce a new shariah-compliant investment product in 2015 called the Investment Account Platform (IAP). IAP will provide opportunities to investors in financing entrepreneurial activities and developing viable SMEs. At the same time, IAP will be a platform to attract institutional and individual investors including high net worth individuals to invest in the Islamic financial market. Initially, IAP will be implemented with a startup fund of RM150 million.

• 42. To promote investment in IAP, the Government proposes individual investors be given income tax exemption on profits earned from qualifying investment for three consecutive years.