Financial Reporting for Islamic Banking Institutions
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PART A  
OVERVIEW

1. Introduction

1.1 The Malaysian Financial Reporting Standards (MFRS) which serve as a basis for financial reporting in Malaysia have been fully converged with the International Financial Reporting Standards (IFRS) from 1 January 2012. On-going improvements of these standards have contributed to a greater alignment between financial reporting and prudential frameworks. Notwithstanding these positive developments, the increasingly more principle-based financial reporting standards and the substantial degree of judgment required under the financial reporting standards can continue to result in divergent outcomes between the objectives of financial reporting and prudential regulation, which is primarily concerned with promoting financial stability.

1.2 Recognising this potential dichotomy, a licensed person is required under the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA) to prepare its financial statements in accordance with the MFRS, subject to any standards as may be specified by the Bank to reflect specific modifications or exceptions to the MFRS. The Bank envisages that such modification or exceptions will only become necessary in circumstances where alternative prudential measures would not be adequate to promote the financial resilience of the licensed person or address threats to financial stability. Where such modifications or exceptions are specified by the Bank, this must be accompanied by a disclosure of that fact by the licensed person.

Policy objective

1.3 This policy document clarifies and sets minimum expectations for the application of the MFRS to a licensed person. It also aims to ensure adequate disclosures by a licensed person in the financial statements to improve comparability for users of financial statements and better facilitate
the assessment of a licensed person’s financial position, performance and Shariah compliance of Islamic banking activities.

Scope of policy

1.4 This policy document sets out:

(a) the specific requirements on the application of the MFRS;
(b) information to be disclosed in the financial statements including those arising from the Shariah contracts applied in Islamic banking transactions;
(c) application requirements for approval of a dividend payment; and
(d) requirements on submission and publication of the financial statements

2. Applicability

2.1 This policy document is applicable to:

(a) a licensed Islamic bank except for licensed international Islamic bank; and
(b) a bank licensed under section 10 of the Financial Services Act 2013 (FSA) and approved by the Bank to carry on Islamic banking business under section 15 of the FSA in respect of the Islamic banking business carried on by it, hereinafter referred to as “licensed person”.

3. Legal provisions

3.1 The requirements in this policy document are specified pursuant to section 29(1)(b), section 57(1), section 60, section 65(2)(d), section 73, section 74, section 75, section 155(2) and section 277 of the IFSA.
4. **Effective date**

4.1 This policy document comes into effect on 5 February 2016.

4.2 A licensed person shall notify the Bank of its intention to early apply MFRS 9 *Financial Instruments* (MFRS 9) for financial years beginning before 1 January 2018, at least six months before the early application. The notification must be supplemented with the following:

i. a written assessment by the auditor of the licensed person’s readiness to implement the impairment requirements of MFRS 9, particularly in respect of the systems’ capacity, data availability and computation method; and

ii. an explanation of the changes in the impairment allowance and a reconciliation from the ending impairment allowances determined in accordance with MFRS 139 *Financial Instruments: Recognition and Measurement* (MFRS 139) to the opening impairment allowances determined in accordance with MFRS 9.

4.3 A licensed person shall notify the Bank (one-time notification) of its intention to apply the fair value option under MFRS 139 and the scope of the fair value application to financial instruments as approved by the board, at least one month before the option is first applied. The notification must be supplemented with relevant extracts of board minutes detailing the list of financial instruments approved by the board to apply the fair value option and the intended date of the application of the fair value option.

5. **Level of application**

5.1 A licensed person is required to comply with the requirements in this policy document in the preparation and publication of a licensed person’s separate financial statements and consolidated financial statements.
6. Interpretation

6.1 The terms and expressions used in this policy document shall have the same meanings assigned to it in the IFSA unless otherwise defined in this policy document.

6.2 For the purpose of this policy document:

“S” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement actions;

“G” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted; and

“separate financial statements” and “consolidated financial statements” shall have the same meaning as set out in MFRS 127 Separate Financial Statements and MFRS 10 Consolidated Financial Statements.

7. Policy documents superseded

7.1 The policy document on Financial Reporting for Islamic Banking Institutions issued on 28 January 2015 is superseded.
PART B REGULATORY REQUIREMENTS

8. Compliance with the MFRS

S 8.1 Pursuant to section 74 of the IFSA, a licensed person shall ensure that financial statements are prepared in accordance with the MFRS¹ subject to the requirements specified in paragraphs 9.1 to 9.7, and shall disclose a statement to that effect in the financial statements.

G 8.2 The licensed person should take into account of the differences between Islamic banking transactions and conventional banking transactions which may arise from the application of the Shariah contracts that involve, for example, trade-related transactions, partnership-related transactions and profit and loss sharing transactions. A licensed person should therefore consider both the Shariah and the economic effects of such transactions to determine the most appropriate accounting treatment.

S 8.3 A licensed person shall comply with the resolutions of the Shi’ariah Advisory Council of Bank Negara Malaysia (SAC)² on the applicability of the following accounting principles adopted in the MFRS as being consistent with the broader view of Shariah principles:

(a) accrual basis, where the effect of a transaction and other events is recognised when it occurs (and not as cash or its equivalent is received or paid) and is recorded in the accounting records and reported in the financial statements of the periods to which it relates;

(b) “substance over form”, where the “form” and “substance” of the transaction must be consistent and shall not contradict one another. In the event of inconsistency between “substance” and “form”, the

¹ In line with the MASB’s consultative approach, a licensed person is to refer to MASB when there is divergence in practices regarding the accounting for a particular Shariah compliant transaction or event, or when there is doubt about the appropriate accounting treatment and the licensed person believe it is important that a standard treatment be established.

² Resolutions achieved at the 16th SAC meeting (11 November 2000), 57th SAC meeting (30 March 2006) and 71st SAC meeting (26-27 October 2007).
Shariah places greater importance on “substance” rather than “form”\(^3\);

(c) probability, where the degree of uncertainty that the future economic benefits associated with the transaction will flow to or from the licensed person is considered in reference to the recognition criteria; and

(d) time value of money, where a transaction involving time deferment, the asset (liability) is carried at the present discounted value of the future net cash inflow (outflow) that the transaction is expected to generate in the normal course of business. The application of time value of money is permissible only for exchange contracts that involve deferred payment and is strictly prohibited in loan transactions (\textit{qard}).

\textbf{S 8.4} The board shall ensure that the financial statements are drawn up so as to give a true and fair view of the state of affairs and of the results of the business of the licensed person. This is consistent with the fiduciary and statutory duties placed on the board being the persons responsible to provide oversight on the management of the business and the affairs of the licensed person which includes ensuring that a reliable and transparent financial reporting process is in place to ensure the integrity and credibility of the financial statements.

\textbf{S 8.5} For financial instruments that are measured at fair value, a licensed person shall ensure that sound risk management and control processes\(^4\) around their measurement\(^5\) are in place.

\(^3\) For example, in a sell and buyback agreement (SBBA), due to the substance of the transaction being financing rather than a sale transaction, the overall effect of all the contracts involved in the transaction will be recorded as financing under the MFRS. The financial assets sold under the SBBA will not be derecognised from the books of the seller.


\(^5\) Refer to MFRS 13 \textit{Fair Value Measurement}.
9. Specific requirements on the application of the MFRS

S 9.1 The financial statements and financial reports referred to under Part C and Part D of this policy document shall be presented in ringgit (RM).

S 9.2 For the purpose of disclosures of non-compliance with externally imposed capital requirements, the relevant capital adequacy requirements shall be those set out under paragraph 8.1 of the *Capital Adequacy Framework for Islamic Banks* (Capital Components).

S 9.3 A licensed person that is a member institution of Perbadanan Insurans Deposit Malaysia (PIDM) shall also comply with the disclosure requirements specified by PIDM.

S 9.4 A licensed person shall not account for the investments in associates and joint ventures using the equity method as described in MFRS 128 *Investment in Associates and Joint Ventures* in the preparation of its separate financial statements.

S 9.5 A licensed person shall present the carrying amount and income and expenses related to Islamic deposit and investment account in separate line items in its separate financial statements and consolidated financial statements.

S 9.6 Where the licensed person has not recognised the investment account as a financial liability in its separate financial statements and consolidated financial statements, the licensed person shall present the carrying amount of the off-balance sheet investment account separately from its commitments and contingencies. (Refer to Appendix 1 for illustration)
S 9.7 Pursuant to paragraph 9.6, a licensed person shall also disclose a total carrying amount of the Islamic banking assets in the statement of financial position of its separate financial statement. The total Islamic banking assets shall be calculated as the sum of total assets and financial assets which are funded by the investment account which are recognised off-balance sheet. (Refer to Appendix 1 for illustration)

10. Minimum disclosure requirements

G 10.1 The requirements under the following paragraphs refer specifically to disclosures which form part of the financial statements. Except for the minimum disclosure for Shariah Committee Report required under paragraph 10.4, this policy document does not deal with other disclosures provided by a licensed person as part of the Annual Report (e.g. Director's Report, Statement on Corporate Governance).

S 10.2 A licensed person shall make disclosures in the financial statements in accordance with the requirements of the MFRS, and include information specified under paragraphs 10.4 to 10.23 and additional requirements that may be specified in other policy documents applicable to the licensed person such as:

(a) *Guidelines on Late Payment Charges for Islamic Financial Institutions*; and

(b) *Guidelines on Profit Equalisation Reserve*.

S 10.3 A licensed person shall comply with the following key principles on disclosure of information:

(a) information should be timely and up-to-date, to avoid undue delays in disclosure which may affect the relevance of the information being disclosed;

(b) the scope and content of information disclosed and the level of disaggregation and detail should be sufficient to provide
comprehensive, meaningful\textsuperscript{6} and relevant information to the users;

\textbf{(c)} adequate disclosures should be provided on areas of uncertainty, in particular information on key estimates, and if sensitivity analysis is used, a discussion on the assumptions and the probabilities of the occurrence of various scenarios; and

\textbf{(d)} disclosures should allow comparisons over time and among institutions\textsuperscript{7}.

\textbf{S 10.4} In meeting the requirement in paragraph 2.9 of the \textit{Shariah Governance Framework for Islamic Financial Institutions} with respect to the state of compliance with Shariah principles, a licensed person shall disclose the Shariah Committee’s Report as part of the Annual Report, signed by not less than two Shariah Committee members. The Shariah Committee’s Report shall contain the following information:

\textbf{(a)} opening or introductory paragraph;

\hspace{1em} (i) identification of the purpose of the Shariah Committee’s engagement; and

\hspace{1em} (ii) a clear statement of management’s responsibility in ensuring compliance with Shariah principles;

\textbf{(b)} scope paragraph describing the nature of the work performed;

\hspace{1em} (i) confirmation that the Shariah Committee has performed appropriate tests, procedures and review work as appropriate;

\textbf{(c)} paragraph expressing the Shariah Committee’s opinion on the licensed person’s compliance with Shariah in respect of;

\hspace{1em} (i) contracts and related documentation used;

\textsuperscript{6} For example, given the heterogeneity of users of financial reporting, background information on the wider economic environment a licensed person operates in is often necessary to provide sufficient information to understand the context for specific disclosures. Information must also be useful to support decision-making by users.

\textsuperscript{7} For example, users shall be informed of the accounting policies employed in the preparation of the financial statements including any changes in those policies and the effects of such changes. This should enable users to identify differences between the accounting policies for like transactions and other events used by the same entity from period to period and by different entities. Compliance with MFRS, including the disclosure of the accounting policies used by the entity, helps to achieve this comparability.
(ii) appropriateness of Shariah basis for the allocation of profit between shareholders and investment account holders; and where appropriate

(iii) disposal of any earnings from prohibited sources/means to charitable causes;

(iv) zakat computation; and

(v) any known non-compliance with Shariah and action taken to remedy such non-compliance as reported by the licensed person as specified in the Circular on Shariah Non-Compliance Reporting.

A licensed person may refer to the illustration provided in the Shariah Governance Framework for Islamic Financial Institutions.

S 10.5 The explanatory notes to be disclosed in the annual financial statements of a licensed person shall include the information specified in 10.6 to 10.21.

S 10.6 A licensed person shall disclose the recognition and measurement accounting policies on the following:

(a) each Shariah contract or main class of Shariah contract e.g. murabahah, ijarah, mudarabah, istisna’;

(i) a licensed person has the option of listing the accounting policy for each Shariah contract or group the Shariah contracts based on mutual accounting policy according to the nature of the transactions e.g. murabahah financing, ijarah financing, murabahah deposit (refer to guidance in Appendix 1);

(ii) in respect of paragraph 8.1, where a licensed person has departed from a particular MFRS requirement due to Shariah prohibition and to achieve a fair presentation, the following shall be disclosed:
  • title of the MFRS from which a licensed person has departed;
  • nature and reason of the departure; and
- financial effect of the departure on each item in the financial statements that would have been reported in complying with the MFRS requirement;

(b) a licensed person’s obligation on zakat, which may alternatively be disclosed under the Director’s Report. A licensed person that does not pay zakat must also disclose a statement to that effect in the financial statements. A licensed person that pays zakat shall disclose additional information regarding:
   (i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders;
   (ii) method applied in the determination of zakat base e.g. growth method, working capital method; and
   (iii) the beneficiaries of zakat fund e.g. Baitul Mal, the poor, etc;

(c) income derived from Shariah non-compliant activities which may alternatively be disclosed under the Director’s Report or Shariah Committee’s Report. A licensed person shall disclose additional information\(^8\) regarding:
   (i) nature of Shariah non-compliant activities;
   (ii) amount of Shariah non-compliant income;
   (iii) number of non-Shariah compliant events occurring during the year; and
   (iv) rectification process and control measures to avoid recurrence of such Shariah non-compliant activities.

**S 10.7** A licensed person shall disclose financing, receivables and other qard loans with a breakdown by:

(a) measurement basis (e.g. amortised cost, fair value):
   (i) for fair value through profit or loss, show separately those designated as fair value upon initial recognition, and those

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\(^8\) As specified under the *Operational Risk Integrated Online Network* (ORION) for guidance on treatment of Shariah non-compliant items.
classified as held-for-trading;

(b) types of financing (e.g. overdrafts, term financing, revolving financing, hire purchase, mortgage financing) and further breakdown by main Shariah contracts in table format (refer to Illustration 1 in Appendix 4):

(i) a licensed person shall disclose the significant\(^9\) subclasses of the main contracts; and

(ii) the classification of main Shariah contracts and their subclasses shall at minimum follow the guidance set out in Appendix 3;

(c) geographical distribution;

(d) profit rate sensitivity (e.g. fixed rate, variable rate);

(e) economic sector or purpose; and

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

S \(10.8\) A licensed person shall disclose a movement schedule of impairment allowances segregated between individual impairment and collective impairment and showing separately the amount charged and the amount utilised to write-off impaired financing/advances during the year.

S \(10.9\) A licensed person shall disclose financing, receivables and other \textit{qard} loans classified as impaired\(^{10}\) (irrespective of whether allowances are made) with separate disclosures of:

(a) a movement schedule showing separately the amount classified during the year as impaired, amount reclassified as non-impaired, amount recovered and amount written off; and

(b) a breakdown of impaired financing, receivables and other \textit{qard} loans

\(^9\) A licensed person shall follow its own internal policies and procedures in determining significant subclasses of main Shariah contracts.

\(^{10}\) A licensed person shall refer to the policy document on the \textit{Classification and Impairment Provisions for Loans/Financing}.

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by geographical area and by economic sector or purpose.

S 10.10 A licensed person shall disclose a movement schedule of the *qard* loan or financing which includes opening and closing balances, sources and uses of the fund (refer to Illustration 2 in Appendix 4).

S 10.11 A licensed person shall disclose for transactions that reflect acquisition or transfer of ownership prior to its subsequent sale, the carrying amount held for the purpose of *murabahah* (cost plus sale) which can be transacted at spot or deferred basis (refer to Illustration 3 in Appendix 4).

S 10.12 A licensed person shall disclose for *ijarah* (leasing that does not lead to transfer of ownership at the end of the leasing period), in the following manner:

(a) carrying amount of assets held for the purpose of *ijarah*; and

(b) extent of the transfer of usufruct (in percentage terms) from the *ijarah* asset to the lessee over the *ijarah* period under the terms of the *ijarah* contract (refer to Illustration 4 in Appendix 4).

S 10.13 A licensed person shall disclose the following information:

(a) Islamic deposits from customers with a breakdown by:

(i) types of Islamic deposits (e.g. savings, current and term deposits) and further breakdown by Shariah contracts (e.g. *wadi’ah, qard, amanah* and *tawarruq*) (refer to Illustration 5 in Appendix 4);

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

(iii) maturity structures of term deposits\(^\text{11}\) (e.g. < 6 months, 6-12 months, 1-3 years).

(b) investment accounts of customers with a breakdown by\(^\text{12}\):

\(^{11}\) Including negotiable instruments of deposits e.g. Negotiable Islamic Debt certificate

\(^{12}\)
(i) types of investment account (e.g. unrestricted or restricted investment account) and further breakdown by Shariah contracts (e.g. *wakalah* and *mudarabah*). A licensed person shall also disclose the carrying amounts of investment accounts which qualify as unlisted capital market products under the Capital Markets and Services Act 2007 (CMSA) by type of product (refer to Illustration 6 in Appendix 4);

(ii) types of customers; and

(iii) maturity structures of investment account with maturity;

(c) investment account due to/from designated financial institutions with a breakdown by -

(i) types of investment account and further breakdown by Shariah contracts; and

(ii) types of counterparty (e.g. licensed Islamic banks, licensed banks);

(refer to Illustration 7 in Appendix 4);

**S 10.14** A licensed person shall disclose income and expenses with a breakdown by source of funds e.g. Islamic deposit and shareholder’s funds and by categories of financial assets or liabilities. Profit income recognised for impaired financing and receivables\(^\text{13}\) shall be disclosed separately.

**S 10.15** A licensed person shall disclose non-profit income and other operating expenses with a breakdown of major items of income or expense.

**S 10.16** A licensed person shall disclose CEO, directors’ and Shariah Committee members’ remuneration with a breakdown of types of remunerations (e.g. salary, fees, bonus, benefits-in-kind, retirement benefits), disclosed separately for the CEO and each individual director, distinguishing between

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\(^{12}\) In addition, an IFI is required to also disclose information as specified in paragraph 27.6 of the policy document on *Investment Account*. For the avoidance of doubt, an IFI is required to distinguish the additional disclosure of investment accounts which are recognised on-balance sheet from investment accounts which are recognised off-balance sheet.

\(^{13}\) Accrued in accordance with paragraph AG93 of MFRS 139

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executive and non-executive directors, and each individual Shariah Committee members.

S 10.17 A licensed person shall disclose capital with a breakdown by:

(a) capital structure which shall be consistent with that specified under paragraphs 10.1, 11.1 and 12.1 of the *Capital Adequacy Framework for Islamic Banks (Capital Components)*; and

(b) capital adequacy showing separately Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio, and express as percentage to three decimal places.

S 10.18 A licensed person shall disclose reserves with a breakdown by type and purpose of reserves maintained. A movement schedule shall also be disclosed.

S 10.19 A licensed person shall disclose liquidity risk information incorporating an analysis of assets and liabilities in the relevant maturity tenures based on remaining contractual maturities. A licensed person may also provide the analysis of assets and liabilities in the relevant maturity tenures based on their behavioural profile.

S 10.20 A licensed person shall disclose commitments and contingencies with a breakdown by types and amount distinguishing between contingent liabilities and commitments.

S 10.21 A licensed person shall disclose sources donations/charities funds (e.g. gharamah amount, Shariah non-compliance income, shareholder’s funds) and uses of such funds (e.g. distribution to the poor, education fund).

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A licensed person may refer to Principle 13 of the *Principles for Sound Liquidity Risk management and Supervision, Basel Committee on Banking Supervision, September 2008* for guidance on relevant quantitative and qualitative disclosures.

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The explanatory notes to be disclosed in the interim financial reports of a licensed person shall include the following information, as applicable:

(a) deposits from customers;
(b) investment account of customers and breakdown of the underlying assets funded through investment account;
(c) financing, receivables and other qard loans;
(d) a movement schedule of impairment allowances;
(e) financing, receivables and other qard loans classified as impaired;
(f) income and profit distributed; and
(g) capital.

The breakdown for the above explanatory notes shall be consistent with that specified for annual financial statements (refer to paragraph 10.5). In addition, a licensed person shall disclose items that are material to the understanding of the interim financial reports in accordance with the MFRS 134 *Interim Financial Reporting*.

**PART C    REGULATORY PROCESS AND SUBMISSION REQUIREMENTS**

### 11. Declaration and payment of dividends

11.1 Pursuant to section 60(1) of the IFSA, a licensed person is required to obtain the Bank’s written approval prior to declaring or paying any dividend on its shares. For the avoidance of doubt, shares refer to both the ordinary shares and preference shares.

11.2 Unless otherwise informed by the Bank in writing, approval is given to a licensed person to declare or pay any dividend on its preference shares where the dividend is non-discretionary\(^{15}\) and non-cumulative\(^{16}\). For the avoidance of doubt, where the Bank has, prior to the effective date of this

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\(^{15}\) The proposed dividend payment is not at the full discretion of the licensed person.

\(^{16}\) Any waived dividend must not be made up by the licensed person at a later date.

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policy document, imposed a requirement on a licensed person to obtain the Bank’s written approval prior to declaring or paying any dividend on its preference shares, such approval requirement shall continue to apply and subject to the requirements set out in paragraph 11.4 shall be observed by the licensed person.

S 11.3 Where an application has been made under paragraph 11.1, a licensed person shall not:
(a) publish in print and/or electronic form\textsuperscript{17}
(b) lay the annual financial statements at its general meeting; and
(c) in the case of a listed licensed institution, submit to the stock exchange,
the interim financial reports or annual financial statements, as the case may be, unless the proposed dividend has been approved by the Bank under section 60(1) of the IFSA.

S 11.4 An application for approval made under paragraph 11.1 by a licensed person must be supplemented with the following:
(a) where an interim dividend is proposed,
   (i) its interim financial reports, with a review by the auditor\textsuperscript{18} of the profit after tax for the period. The explanatory notes to the interim financial reports shall be consistent with that specified for annual financial statements (refer to paragraph 10.5);
   (ii) the interim financial reports of its principal subsidiaries\textsuperscript{19,20}, as applicable;
   (iii) the limited review report by its auditor;
   (iv) a written confirmation by the officer primarily responsible for the financial management of the licensed person that its interim

\textsuperscript{17} For example, newspaper, press release and website.
\textsuperscript{18} In accordance with the standards on review engagements issued by the Malaysian Institute of Accountants (MIA)
\textsuperscript{19} Subsidiaries which are major contributors to the group’s revenue, assets or profit/loss.
\textsuperscript{20} For the avoidance of doubt, the interim financial reports of the principal subsidiaries need not be subject to review by the auditor.

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financial reports have been prepared in accordance with the MFRS subject to requirements specified by the Bank in paragraph 9 of this policy document; and

(v) the calculation of Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio showing the positions separately before and after the proposed payment of dividends.

(b) where a final dividend is proposed,

(i) the information specified in paragraph 12.1; and

(ii) the calculation of Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio showing the positions separately before and after the proposed payment of dividends.

12. Annual financial statements

S 12.1 Within three months after the close of each financial year and before the laying of the financial statements at the general meeting, a licensed person is required to submit to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan of Bank Negara Malaysia, as the case may be, the following:

(a) its annual audited financial statements;\(^{21}\)

(b) the audited financial statements of its principal subsidiaries, where relevant;

(c) its Auditor’s Report, including a report on the key accounting and auditing matters tabled to the board audit committee;

(d) the analysis of performance by key business segments;

(e) in the case of the consolidated financial statement, a report on its operations in the financial year, including an analysis (both

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\(^{21}\) Both the separate financial statements and consolidated financial statements.

\(^{22}\) This refers to the detailed report prepared by the auditor on the audit of a financial institutions annual financial statements

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quantitative and narrative), of the overall assessment of the group’s financial performance. The analysis of performance, for the current and preceding year, of each subsidiary within the group which are major contributors to the group’s profit shall at a minimum, include the following:

(i) total assets (in RM and % of group);
(ii) profit/(loss) before tax (in RM and % of group);
(iii) profit/(loss) after tax (in RM and % of group);
(iv) dividends (if any);
(v) ratio of profit/(loss) before tax to average shareholders’ funds; and
(vi) ratio of profit/(loss) before tax to average total assets;

(f) a written confirmation by the officer primarily responsible for the financial management of the licensed person that its annual financial statements are prepared in accordance with the MFRS subject to requirements specified by the Bank in paragraph 9 of this policy document; and

(g) the tentative date of the publication of its annual financial statements on the website, where applicable.

S 12.2 For the purpose of paragraph 12.1(b), where audited financial statements are in a language other than the national language or English, a licensed person shall ensure that the copy submitted to the Bank has been translated into English.
13. Interim financial reports

S 13.1 A licensed person shall submit to Jabatan Penyeliaan Konglomerat Kewangan or Jabatan Penyeliaan Perbankan of Bank Negara Malaysia, as the case may be, not later than four weeks after the end of each interim period, the following:

(a) its interim financial reports\(^{23}\);
(b) the interim financial reports of its principal subsidiaries\(^{24}\), where relevant;
(c) the analysis of performance of key business segments;
(d) in the case of the consolidated financial report, an analysis, (both quantitative and narrative) of the overall assessment of the group’s financial performance. The analysis of performance, for the current interim period and cumulatively for the current financial year-to-date and comparable interim period (current and year-to-date) of the preceding year, of each subsidiary within the group which are major contributors to the group’s profit shall at a minimum, include the following:

(i) total assets (in RM and % of group);
(ii) profit/(loss) before tax (in RM and % of group);
(iii) profit/(loss) after tax (in RM and % of group);
(iv) dividends (if any);
(v) ratio of profit/(loss) before tax to average shareholders’ funds; and
(vi) ratio of profit/(loss) before tax to average total assets; and

(e) a written confirmation by the officer primarily responsible for the financial management of the licensed person that the interim financial report has been prepared in accordance with the MFRS subject to requirements specified by the Bank in paragraph 9 of this policy document.

\(^{23}\) Both the separate financial statements and consolidated financial statements.

\(^{24}\) Where the interim financial statements are in a language other than the national language or English, the copy submitted shall be translated into English.
PART D  PUBLICATION REQUIREMENTS

14.  Annual Financial Statements

S 14.1  A licensed person shall –
(a) publish, in an abridged format, the audited annual financial
statements in at least two local daily newspapers, one of which shall
be in the national language and the other in English; and
(b) make available the full set of the audited annual financial statements
on its website, no earlier than five working days after the date of submission of the
information specified in paragraph 12.1 to the Bank but not later than
fourteen calendar days after its annual general meeting.

S 14.2  For the purpose of paragraph 14.1(a), the abridged format of the financial
statements to be published in the newspapers shall, at a minimum, consist
of the following:
(a) a statement of financial position;
(b) a statement of comprehensive income;
(c) a statement of changes in equity;
(d) a statement of cash flows;
(e) the Auditors’ Report; and
(f) the Shariah Committee Report.

S 14.3  For the purposes of paragraph 14.1(a), the two approved local daily
newspapers, are:
(a) Berita Harian or Utusan Malaysia; and
(b) The New Straits Times or The Star.

S 14.4  A licensed person shall make available a copy of the audited annual
financial statements at every branch of the licensed person in Malaysia.

25 Or the corporate website of a licensed person.

Issued on: 5 February 2016
14.5 For the purpose of paragraph 14.1(a), a licensed person shall also include a prominent note in the published abridged format of its financial statements stating that:

(a) the full set of the financial statements is available on the licensed person’s or its financial group’s website, together with the address of the website; and

(b) a copy of the audited annual financial statements is available at every branch of the licensed person in Malaysia.

15. Interim financial reports

15.1 Where an application has not been made under paragraph 11.1, a licensed person shall make available on its website or the website of its financial group, the interim financial report prepared on a quarterly and half-yearly basis, as the case may be, no earlier than five working days after the date of submission of the information specified in paragraph 13.1 to the Bank but not later than eight weeks after the close of the interim period.

15.2 Where an application has been made under paragraph 11.1 and approval from the Bank has been obtained under section 60(1) of the IFSA, a licensed person shall make available on its website, the interim financial report prepared on a quarterly and half-yearly basis, as the case may be, no later than eight weeks after the close of the interim period. In the case where the application has yet to be approved by the Bank by the end of the eight week after the close of the interim period, a licensed person shall disclose on its website the interim financial report no later than five working days after the approval from the Bank has been obtained.
S 15.3 Where the audited annual financial statements for the preceding financial year has yet to be published by end of the eighth week after the close of the interim period, a licensed person shall disclose on its website the first quarter interim financial reports on the same day or not later than three working days after the publication of the audited annual financial statements.
APPENDICES

Appendix 1  Illustration of presentation of investment account

Illustrative Statement of Financial Position.

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and short term funds</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Deposits and placements with financial institutions</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Investment accounts due from designated financial institutions</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Financial assets</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Financing and advances</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Statutory deposits with Bank Negara Malaysia</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Investment in subsidiaries</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Investment in associates</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Islamic deposits from customers</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Investment accounts of customers</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Deposits and placements of banks and other financial institutions</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Investment accounts due to designated financial institutions</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Provision for zakat and taxation</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Shareholder’s equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Reserves</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total shareholder’s equity</strong></td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholder’s equity</strong></td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Restricted investment accounts</strong></td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Total Islamic banking asset</strong></td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Commitment &amp; contingencies</strong></td>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>
Illustrative Statement of Comprehensive Income.

<table>
<thead>
<tr>
<th>Statement of Comprehensive Income</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note RM'000</td>
<td>RM'000</td>
<td></td>
</tr>
<tr>
<td>Income derived from investment of depositors’ funds</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Income derived from investment of investment account funds</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Income derived from investment of shareholders’ funds</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Impairment loss on investments</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Total distributable income</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Profit share/wakalah fees income from investment accounts</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Profit/hibah distributed to depositors</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Profit distributed to investment account holders</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Total net income</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Other overhead expenses</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Profit before zakat and taxation</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Zakat</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Taxation</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Earnings per share (sen)</td>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

26 These relate to IFI’s profit share or wakalah fee earned from investment accounts which are treated as off-balance sheet.

Issued on: 5 February 2016
Appendix 2  Guidance on accounting policy of Shariah contracts

Example: Mutual accounting policy

Financial assets

1. Financing and receivables
Financing and receivables consist of murabahah, ijarah and musharakah contracts. These contracts are initially recognised at fair value, including direct and incremental transactions costs, and subsequently measured at amortised cost using the effective yield method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

Income recognition

2. Income from financing and receivables
Income from financing and receivables are recognised in the income statement using the effective profit method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset. The calculation of the effective profit rate includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate.

Murabahah
Murabahah income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

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

Musharakah
Income is accounted for on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield on the asset.
Appendix 3  Guidance on classification of Shariah contracts

Classification of Shariah contracts

- Sale-based contracts
  - Murabahah
  - Bai' Bithaman Ajil
  - Bai' Inah
  - Bai' Dayn
  - Bai' Salam
  - Tawarruq

- Lease-based contracts
  - Ijarah
  - Ijarah Muntahiah Bit Tamlik
  - Ijarah Thumma Al-Bal'

- Construction-based contracts
  - Ijarah

- Equity-based contracts
  - Mudarabah
  - Musharakah
  - Musharakah Mutaniaqisah

- Loan contract
  - Qard

- Other Islamic financial contracts
  - Rahnu
  - Kafalah
  - Ujrah
  - Others
Appendix 4  Illustration of disclosure requirements by Shariah contracts

1. Financing by types and Shariah contracts in table format

<table>
<thead>
<tr>
<th>Type</th>
<th>Bai’</th>
<th>Ijarah</th>
<th>Istisna’</th>
<th>Musharakah</th>
<th>Qard</th>
<th>Others</th>
<th>Total financing, advances and other receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Line</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Term Financing</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>House Financing</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Syndicated Financing</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Hire purchase receivables</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Lease Receivables</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Other term financing</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Bills receivable</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Trust receipts</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Claims on customers under acceptace credits</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Staff financing of which RMXXX (20XX: RMXXX) are to Directors</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Credit/Charge cards</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Revolving credit</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Others</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Total financing, advances and other receivables</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>
2. **Purpose and source of fund for qard**

<table>
<thead>
<tr>
<th>Qard</th>
<th>20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
</tr>
<tr>
<td><strong>As at 1 January 20XX</strong></td>
<td>xxx</td>
</tr>
</tbody>
</table>

**Sources of Qard fund:**
- Depositors' fund | xxx
- Shareholders' fund | xxx
- Others | xxx

**Uses of Qard fund:**
- Loans for asset purchase | xxx
- Loans for education purposes | xxx
- Microfinancing | xxx

| (xxx) |

**As at 31 December 20XX**

| xxx |

3. **Murabahah inventories**

<table>
<thead>
<tr>
<th>Inventories</th>
<th>20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
</tr>
<tr>
<td><strong>Automobiles (cost)</strong></td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Machines and equipment (cost)</strong></td>
<td>xxx</td>
</tr>
<tr>
<td><strong>Properties for resale (net realisable value)</strong></td>
<td>xxx</td>
</tr>
</tbody>
</table>

| Total inventories at lower of cost and net realisable value | xxx |

*All inventories are held for the purpose of murabahah (cost plus sale) transactions which can be transacted at spot or on deferred basis.*

Issued on: 5 February 2016
4. *Ijarah* assets

<table>
<thead>
<tr>
<th>Investment Properties</th>
<th>Land RM'000</th>
<th>Building RM'000</th>
<th>Total RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair value:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 20XX</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Addition</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Disposal</td>
<td>(xxx)</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>(xxx)</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td><strong>As at 31 December 20XX</strong></td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

*Included in the fair value above are assets held for *ijarah*:

<table>
<thead>
<tr>
<th>Land</th>
<th>Building</th>
<th>Extent of transfer of usufruct RM'000 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property and equipment</th>
<th>Office equipment RM'000</th>
<th>Motor vehicles RM'000</th>
<th>Total RM'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 1 January 20XX</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Addition</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Disposal</td>
<td>(xxx)</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td><strong>As at 31 December 20XX</strong></td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

| Accumulated depreciation: |                         |                       |              |
| As at 1 January 20XX      | xxx                     | xxx                   | xxx          |
| Addition                 | xxx                     | xxx                   | xxx          |
| Disposal                 | (xxx)                   | (xxx)                 | (xxx)        |
| **As at 31 December 20XX** | xxx | xxx            | xxx          |

| Net book value as at 31 December 20XX | xxx | xxx | xxx |

*Included in the net book value above are assets held for *ijarah*:

| Office equipment | xxx |
| Motor vehicles   | xxx |
5. Islamic deposits from customers

<table>
<thead>
<tr>
<th>Islamic deposits from customers</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td><strong>Savings deposits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wadiah</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Qard</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Demand deposits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wadiah</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Qard</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Term deposits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tawarruq</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Other Islamic negotiable instruments</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Structured products</strong></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

6. Investment accounts of customers

<table>
<thead>
<tr>
<th>Investment account of customers</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RM'000</td>
<td>RM'000</td>
</tr>
<tr>
<td><strong>Unrestricted investment account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without maturity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mudarabah</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Wakalah</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>with maturity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mudarabah*</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Wakalah*</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>*of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structured product</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Islamic negotiable instruments</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Restricted investment account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>with maturity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mudarabah</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Wakalah</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Total investment account of customers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>
7. Investment account due to/from designated financial institutions

<table>
<thead>
<tr>
<th>Investment accounts due to/from designated FIs</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM'000</td>
<td>RM'000</td>
<td></td>
</tr>
</tbody>
</table>

Unrestricted investment account

*Wakalah*

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxx</td>
<td>xxx</td>
<td></td>
</tr>
</tbody>
</table>

By type of counterparty

- Licensed Islamic banks: xxx, xxx
- Licensed banks: xxx, xxx
- Other financial institutions: xxx, xxx
- Bank Negara Malaysia: xxx, xxx