PART A: INTRODUCTION

OVERVIEW

1. Purpose

1.1 An important element in the risk management capability of Islamic banking institutions (IBI) is managing risks that are peculiar to Islamic finance transactions. A dominant contractual relationship in Islamic banking, namely the mudharabah (profit-sharing) contract between the investment account holder (IAH) and the IBI is an example of the distinct risk in Islamic finance that would require adherence to strong risk management governance and a high degree of transparency. Unlike conventional deposits where the interest rate is fixed at the point of placement of the deposits, the return of the mudharabah contract can only be ascertained at the end of the investment period. Consequently the mudharabah contract exposes the IBIs to the impact of cyclicality of returns generated from assets funded by the IAH, the stability of the rates of return to the IAH and the level of IBIs' competitiveness within the Islamic finance industry and against the conventional banking industry.

1.2 In order to maintain comparable rates of return vis-à-vis conventional interest rates, the IBIs are exposed to Displaced Commercial Risk (DCR). DCR refers to the risk arising from the assets managed on behalf of the IAH which maybe borne by the IBI's own capital, when the IBI foregoes part or all of its share of profits on the IAH funds, and/or make transfer to IAH out of the shareholders' fund investment profits as a result of commercial and/or supervisory concerns in order to increase the return to the IAH[1].

1.3 The application of DCR requires the IBIs to displace the credit and market risk losses to themselves by paying a return that exceeds the actual return that was supposedly to be earned by the IAH on the assets based on the contractual profit sharing ratio. The rate of return paid to the IAH is thus given at the expense of the profits belonging to the IBIs' shareholders. Hence, under this

[1] Capital Adequacy Standard for Institutions (other than Insurance Institutions) offering only Islamic financial services issued by IFSB. In general, the discretion to manage DCR is with the IBI.

arrangement, the IBIs would be expected to manage DCR[2] in order to safeguard IBI's own capital and to mitigate potential withdrawals and inflow of funds by the IAHs.

1.4 There are several techniques in the management of DCR[3] namely;

(i) forgoing part or all of the IBI's share of profit as mudharib to the IAH by way of varying the percentage of profit taken as the mudharib share in order to increase the share attributed to the IAH in any particular year;

(ii) transferring IBI's current profits or retained earnings to the IAH on the basis of hibah;

(iii) establishing Profit equalisation reserve (PER) by setting aside amounts from the profits before allocation between the IAH and IBI; and

(iv) maintaining an Investment risk reserve (IRR) by setting aside amounts of profits attributable to IAH, after deducting the IBI's mudharib share of profits.

Under the Framework of Rate of Return (ROR Framework), PER was introduced as a mechanism to enable the IBIs to mitigate the downside risk of income reduction and to maintain competitive rates of returns or deposit rates. Although the other techniques were not specifically mentioned in the ROR Framework, the Bank however acknowledges the use of the other techniques by the IBIs except for IRR.

1.5 PER refers to the amount appropriated out of the total gross income before distribution for the IBI to maintain an acceptable level of return for the IAH. Since its introduction in 2001, PER has been an important prudential tool to manage DCR used by the IBIs to preserve financial stability in a dual banking system. Moving forward, there is a need to ensure effective implementation and

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[2] Unless the IBI is able to prove to the Bank that it is unaffected and has the appropriate mechanism in place to mitigate similar risks that may lead to financial instability.

[3] GN-3: Guidance Note On The Practice Of Smoothing The Profits Payout To Investment Account Holders issued by IFSB. Also included are other mechanisms that may be adopted by IBI to achieve the effect of a comparable rate of return to the market

to eliminate ambiguity in its application. Thus the guidelines serve to specify the framework of PER mechanism and the related regulatory requirements.

1.6 The guidelines shall be read together with the Rate of Return Framework.

2. Applicability

2.1 The guidelines are applicable to:

(i) Islamic banks licensed under section 3(4) of the Islamic Banking Act 1983 (IBA),

(ii) banking institutions participating in the Islamic Banking Scheme (IBS) licensed under Banking and Financial Institutions Act 1989 (BAFIA), and

(iii) development financial institutions prescribed under the Development Financial Institutions Act 2002 (DFIA).

The institutions are hereinafter referred to as "Islamic banking institutions" (IBI).

3. Effective Date/Implementation Date

3.1 The IBIs are required to implement the guidelines for financial year beginning 1 July 2011.

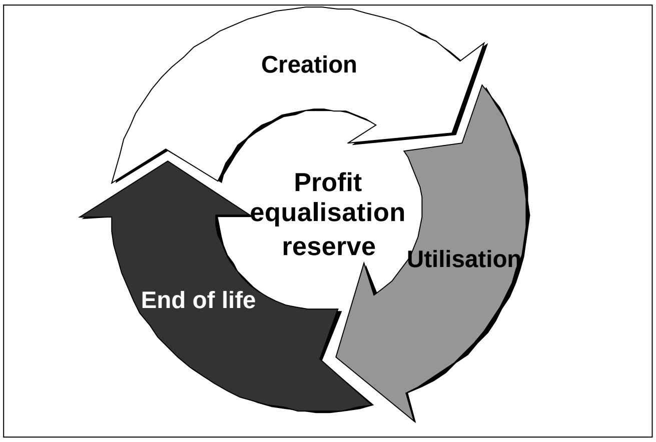
PART B: PROFIT EQUALISATION RESERVE FRAMEWORK

POLICY REQUIREMENTS

4. Operating mechanism

4.1 The PER framework (“Framework”) outlines the operating mechanism of PER which prescribes the parameters for the operation of PER in every aspect through its entire life cycle, as a risk management tool to mitigate the effects of DCR. (Illustration 1)

Illustration 1:



4.2 Prior to the creation of PER, IBI is required to obtain the consent from the IAH to apply PER mechanism to manage the rates of return offered to the pool of IAH in the long term, as part of its risk management regime to mitigate DCR.

(i) The IBI is required to inform and disclose to the IAH the concept of DCR and the practice of PER as a risk management tool to mitigate DCR, either in the agreement or contract, upon opening of new accounts by the IAH.

(ii) This consent constitutes a waiver of IAH’s rights over the immediate undistributed portion of profit that was appropriated to create PER, but may be subsequently distributed as part of future returns offered to the same or other IAHs in the pool. Importantly, the PER amount apportioned to the IAH shall only be paid to the IAH or other IAHs in the pool. Any outstanding PER of the IAH at the end of any point in time shall belong to all existing identifiable IAH. It shall not, irrespective of the circumstances be distributed to the IBI.

4.3 PER is created by setting aside an amount out of the total gross income before distribution to the IAH and the IBI. The amount shall be used solely for DCR mitigation purposes and shall be ascertained based on the following criteria:

(i) The IBI is expected to develop and implement a sound methodology to identify, monitor, measure and report the impact of DCR and the amount that has to be set aside to mitigate the exposure. The methodology should be supported by sound analysis, procedures and information systems, and should include criteria for early identification and reporting of significant changes in DCR exposure. The methodology should be applied systematically and reviewed at regular intervals and any changes to the methodology adopted must be justified and approved at the appropriate management level. In considering the appropriate methodology, the IBI is expected to include, among others, the following:

- a detailed analysis of both the asset and liability side of the investment account portfolio, performed on a regular basis, consistent with the maturity cycle of the respective investment account funds. This should be based on all available and reliable data and consider all known relevant internal and external factors that may affect asset performance and market expectations (such as industry, economic and political factors).

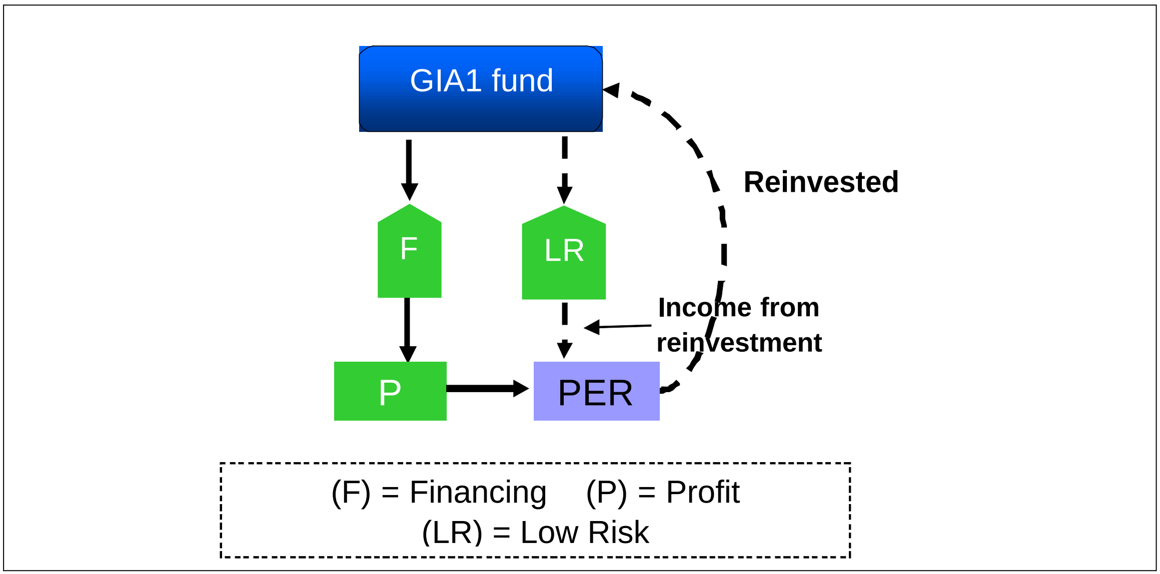
- robust analyses on trends of past returns and current returns supported by adequate historical data to measure the experience of exposure to DCR. The IBI is also required to calibrate the computation of PER proportionally to the magnitude of DCR exposure associated with the different types of customer e.g. retail, corporate, government institutions and etc.

(ii) PER should reflect the IBI's best estimate of the funds required to mitigate DCR and shall not be a devise to disclose the financial statements in a manner that will enhance the financial position of the IBI throughout its business cycle ("window dressing"). Therefore, the IBI is expected to enforce appropriate governance measure over the implementation of the Framework to prevent mismanagement of funds and manipulation of the financial results.

(iii) PER should be segregated between the portion belonging to the IAH and the IBI based on the contractual profit sharing ratio at the point of creation.

(iv) PER that has been set aside may be reinvested. Reinvestment of PER shall be in low risk instruments and/or investments that carries minimal risk of possible erosion in the value of PER[4]. Any income generated from the reinvestment of PER shall be allocated back to the respective PER of the IAH and IBI. (Illustration 2)

Illustration 2:



4.4 PER shall be utilised for its intended purpose only, and cannot be utilised to cover principal losses attributable to the IAH arising from realised investment

[4] Such assets may be referenced to the stock of liquefiable Islamic assets as prescribed in the Liquidity Framework for Islamic Banks.

losses as prohibited by Shariah. The following conditions need to be observed prior to the release of PER:

(i) The release of PER shall be appropriated from both the IAH's and the IBI's portion based on the contractual profit sharing ratio at the point of utilisation. The amount of PER utilised shall be limited to the maximum of either PER of the IAH or IBI depending on prevailing profit sharing ratio.

(ii) The release of PER must not be presented as an increase in the income in the financial statements but shall be an outflow of funds arising from the settlement of obligation to the IAH.

(iii) In the event that upon its periodical evaluation, PER is assessed to be significantly in surplus vis-à-vis to its requirement, the IBI is allowed to release PER as special profit distribution or dividends in addition to the rate of return already offered. The IBI is expected to exercise appropriate judgement and governance to ensure a fair and timely distribution of profits to the pool of IAH whilst maintaining sufficient funds to mitigate DCR and avoid excessive build up of PER.

4.5 The IBI is expected to continue maintaining the outstanding PER until such time where the following situations warrant for its discontinuation:

(i) If the IBI decides to discontinue the application of PER to mitigate DCR, PER is to be distributed to the remaining IAH and the IBI based on the outstanding proportion. Notwithstanding, IBI is expected to notify the Bank of its decision to discontinue PER and include its justification for discontinuation and revised risk management plan for DCR without PER.

(ii) Upon maturity of the dedicated investment account fund ("close-ended fund"), in which case the assets are realised; the principal and actual returns and PER is to be returned to the IAH and the IBI based on the outstanding proportion.

Where the dedicated investment account fund is operated like an "open-ended fund", the PER is to be maintained within the dedicated investment account fund until the closure of such funds whereby the PER shall be distributed to the remaining IAH and the IBI based on the outstanding proportion.

(iii) Upon liquidation, the IBI is expected to ensure that the outstanding PER is realised to the rightful owners which are the IAH and the IBI based on the outstanding proportion. If the distribution to the IAH is not operationally feasible or effective, the IBI is required to channel the outstanding PER due to the IAH to charities as approved by the Shariah Committee of the IBI. The PER of the IBI will be released into its retained earnings and will be subject to standard rules governing priority of claim upon liquidation or gone concern basis.

4.6 Notwithstanding the above mechanism, the IBI is allowed to utilise PER along with other DCR management tools taking into consideration the best interest of the pool of IAH and most effective strategy to mitigate DCR.

5. Regulatory requirements

Governance

5.1 As part of the governance process, the IBI is required to develop and enforce a comprehensive policy and procedure governing DCR management to maintain true, fair and accurate distribution of profits in accordance with Shariah principles. The policy and procedure has to be approved by the Board of Directors and Shariah Committee and should at minimum cover the following:

(i) Robust risk management policy in respect of DCR management including assigning clear governance and roles and responsibilities to the Board of Directors and senior management in monitoring the operational aspect of DCR and PER management, setting DCR and PER limits review, approval and timely periodic review, efficient and effective decision making process and effective and robust information system, and

(ii) Appropriate methodology in evaluating DCR exposure and in computing, appropriating and utilising PER to mitigate the DCR exposure.

5.2 The Shariah Committee is required to attest the appropriateness of profit distribution between the IAH and the IBI and amount set aside to PER. Shariah compliance in all aspects governing the management of DCR including PER shall be endorsed by the Shariah Committee and any non compliance shall be rectified and reported as a known non compliance with Shariah rulings in its report in the annual financial statements.

Financial reporting and disclosures

5.3 The IBI is expected to account for PER as follows:

(i) The creation of PER establishes an obligation to manage distribution to the IAH from a Shariah perspective. The **PER of the IAH** is to be classified as liability and recognised at cost. Subsequent apportionments will be recognised in the income statement. The eventual distribution of PER as profit distributable to IAH will be treated as an outflow of funds due to the settlement of obligation to the IAH.

Dr Appropriation to PER of the IAH (statement of comprehensive income)

Cr PER of the IAH (statement of financial position)

(To record the creation of PER of the IAH)

Dr PER of the IAH (statement of financial position)

Cr Deposits accepted (statement of financial position)

(To record the utilisation of PER of the IAH for distribution of profits)

(ii) The **PER of the IBI** is to be classified as a separate reserve in equity. Subsequent apportionments from and distributions to retained earnings will be treated as transfers between reserves.

Dr Retained earnings (statement of changes in equity)

Cr PER of the IBI (statement of changes in equity)

(To record the creation of PER of the IBI)

Dr PER of the IBI (statement of changes in equity)

Cr Retained earnings (statement of changes in equity)

(To record the release of PER of the IBI for distribution of profits)

5.4 The IBI is required to disclose in their annual financial statements the following:

(i) Accounting policy adopted in respect of PER including computation and apportionment basis and the rights and ownership of PER belonging to the IAH and the IBI.

(ii) Amount of PER apportioned between the IAH and the IBI and the movements in PER including opening and closing balances and amounts appropriated to (created) and utilised from respective PER during the year.

(iii) Shariah attestation on the appropriateness of profit distribution between the IAH and the IBI and amount set aside to PER in the Shariah Committee Report[5].

Regulatory submissions

5.5 For reporting in the financial statements and submission to Bank Negara Malaysia, the amount of PER provided for a particular month shall be reported in the subsequent month. For example, the amount of PER provided in November shall be reported in December.

[5] As illustrated in Appendix 3 of the Shariah Governance Framework for Islamic Financial Institutions.

5.6 Notwithstanding Para 5.5, all IBIs shall report the amount of PER provided at financial year-end in the current month.

Illustration 3

Reporting of PER for the IBIs with financial year ended December:

Provided in the calculation table (month)	Reporting in financial statements and submission to Bank Negara Malaysia (month)
November	December
December	December

In this regards, in the first month of subsequent financial year, no amount of PER shall be reported in the financial statements and the submission to the Bank.

Product transparency and disclosure

5.7 The IBI is expected to comply with the Guidelines on product transparency and disclosure in obtaining the consent from the IAH to apply PER mechanism to manage the rates of return offered to the pool of IAH in the long term, as part of its risk management regime to mitigate DCR. The IBI is also expected to ensure that the staffs are aware of the changes and requirements of these guidelines and are able to communicate the information effectively and accurately to customers.

Retained earnings and capital requirements

5.8 The PER of the IBI is to be utilised for the purpose of DCR to provide a reasonable return to the IAH. Therefore, PER of the IBI is to be excluded in the computation of retained earnings available for distribution to the shareholders.

5.9 For the purpose of capital adequacy computation, PER of the IBI shall be excluded from the computation of capital base. However, the credit and market risk-weighted assets funded by PER of the IBI will be deducted from the total risk-weighted assets as allowed in the Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components).

6. Transitional provisions

Consent requirement

6.1 The IBI is required to implement a comprehensive strategy to obtain the necessary consent from the IAHs upon renewals of placement or during new application for its investment account products, including its action plan pertaining to the IAH who has opted not to provide consent (e.g. recommending account to be transferred to another suitable product). The IBI is given one (1) year to comply with this requirement and is required to confirm its status of compliance with this requirement by 30 June 2012. The IBI is expected to inform the Bank if it is unable to comply within the stipulated period and inform the Bank of its plan to achieve compliance.

6.2 The consent from IAH shall include an agreement to the following:

(i) to waive IAH's rights over the immediate undistributed portion of profit to be appropriated for the creation of PER. Notwithstanding, the PER of the IAH may subsequently be eligible to be distributed as part of future returns to the IAH or other IAHs in the pool. At any point in time, any outstanding PER of the IAH shall belong exclusively to all existing identifiable IAH.

(ii) to allow reinvestment of PER in low risk investments; and

(iii) to allow distribution of PER as special dividend based on IBI's discretion.

Financial reporting and disclosures

6.3 The IBI is required to present the change in accounting policy prospectively in the annual financial statements with appropriate disclosures in the notes to accounts.

APPENDIX 1: Illustration of Statement of Financial Position

The example below is for illustration purposes only:

ABC Bank Berhad

Balance Sheet 31 July 20XX

	31.07.XX		30.06.XX	
	Outstanding Amount (RM '000)	**Average Daily Amount Total (RM '000)**	**Outstanding Amount (RM '000)**	**Average Daily Amount Total (RM '000)**
Assets				
Property and equipment	2,400.50		1,010.66	
Deposits Placed and Reverse Repos	32,448.65	30,000.00	21,227.31	20,000.00
Amount Due from Designated FIs	20,391.24	20,000.00	10,120.45	10,000.00
Loan, Advances and Financing	206,583.05	195,000.00	101,054.10	100,000.00
Investment Securities	34,720.00	34,500.00	34,610.00	34,500.00
Miscellaneous Assets	19,823.10	2,000.00	4,702.24	5,000.00
Total assets	316,366.54	281,500.00	172,724.76	169,500.00
Liabilities				
Amount Due to Designated FIs	3,050.65	3,000.00	2,070.60	2,000.00
Deposits Accepted	302,923.96	267,500.00	160,432.13	125,500.00
of which: Current Deposits	30,066.00	30,000.00	15,033.06	15,000.00
Savings Deposits	32,080.00	32,000.00	10,026.16	10,000.00
General Investment Deposits	206,123.96	205,500.00	100,795.92	100,500.00
Special Investment Deposits	34,654.00	34,500.00	34,577.00	34,500.00
Profit equalisation reserve of IAH	2.85		25.61	
IBCF/SHF*				
Share capital	10,000.00		10,000.00	
Retained earnings	388.13		188.74	
Regulatory reserve - PER of bank	0.95		7.68	
Total equity and liabilities	316,366.54		172,724.76	

APPENDIX 2: Illustration of Statement of Comprehensive Income

The example below is for illustration purposes only:

ABC Bank Berhad
Income statement for the year ended 31 July 20XX

	31.07.XX (RM '000)	**30.06.XX (RM '000)**
Income derived from investment of depositors' funds	1,138.69	754.81
Income derived from investment of shareholder's funds	274.20	207.16
Allowance for losses on financing and advances	(74.33)	(57.08)
Other expenses directly attributable to depositors' & shareholder's fund	(73.66)	(58.98)
Total distributable income	1,264.89	845.91
Income attributable to the depositors	(824.20)	(432.13)
Net provision for profit equalisation reserve (depositors' portion)	-	(25.61)
Total net income	440.69	388.16
Overhead expenses	(174.95)	(117.24)
Profit before taxation and zakat	265.74	270.93
Taxation	(66.43)	(67.73)
Zakat	(6.64)	(6.77)
Profit for the period attributable to equity holder of the Bank	192.66	196.42

APPENDIX 3: Illustration of Statement of Changes in Equity

The example below is for illustration purposes only:

ABC Bank Berhad
Statement of Changes in Equity
As at 31 July 20XX

	Attributable to Equity Holders of the Company			
		Non-Distributable	**Distributable**	
	Share Capital RM'000	**Profit Equalisation Reserve RM'000**	**Retained Profits RM'000**	**Total RM'000**
At 1 June 20XX	10,000.00	-	0.00	10,000.00
Net profit for the year	-	-	196.42	196.42
Net provision for the year	-	7.68	(7.68)	-
At 30 June 20XX	10,000.00	7.68	188.74	10,196.42
At 1 July 20XX	10,000.00	7.68	188.74	10,196.42
Net profit for the year	-	-	192.66	192.66
Net utilisation for the year	-	(6.73)	6.73	0.00
At 31 July 20XX	10,000.00	0.95	388.13	10,389.08

APPENDIX 4: Illustration of Calculation Table

The example below is for illustration purposes only:

CALCULATION TABLE (ROR II)
SPECIFIC INVESTMENT ACCOUNT (SIA)

	Item	**31.07.XX (RM '000)**	**30.06.XX (RM '000)**
A1	Deposits Placed and Reverse Repos	-	-
A2	Amounts Due from Designated FIs	-	-
A3	Loan, Advances and Financing	-	-
A4	Dealing Securities	-	-
A5	Investment Securities	115.00	115.00
A7	Securities Sold Under Repo	-	-
A8	Miscellaneous Assets	-	-
A9	**Gross Income**	115.00	115.00
A10	(±) Net Trading Income	-	-
A11	(±) Other income	-	-
A12	**Total Gross Income**	115.00	115.00
A13	(±) Collective Impairment Provision	-	-
A14	(±) Individual Impairment Provision	-	-
A15	(±) Impairment Loss from Investment Securities	(5.00)	(5.00)
A16	(±) Provision for Commitments and Contingencies	-	-
A17	(-) Direct Expenses	-	-
A18	(-) Other Expenses	-	-
A19	**Net Distributable Income**	110.00	110.00
	of which: Amount Attributable to IAH	77.00	77.00
	Amount Attributable to IBI	33.00	33.00

GENERAL INVESTMENT ACCOUNT (GIA) & MUDHARABAH BASED DEPOSITS

	Item	31.07.XX (RM '000)	30.06.XX (RM '000)
A1	Deposits Placed and Reverse Repos	33.03	20.64
A2	Amounts Due from Designated FIs	67.05	41.91
A3	Loan, Advances and Financing	892.20	557.63
A4	Dealing Securities	-	-
A5	Investment Securities	-	-
A6	Securities Sold Under Repo	-	-
A7	Miscellaneous Assets	21.41	9.63
A8	Income from reinvestment of Profit equalisation reserve	10.00	10.00
A9	**Gross Income**	1,023.69	639.81
A10	(±) Net Trading Income	-	-
A11	(±) Other income	-	-
A12	**Total Gross Income**	1,023.69	639.81
A13	(±) Collective Impairment Provision	(43.75)	(37.50)
A14	(±) Individual Impairment Provision	(15.43)	(10.00)
A15	(±) Impairment Loss from Investment Securities	-	-
A16	(±) Provision for Commitments and Contingencies	-	-
A17	(-) Direct Expenses	(82.75)	(57.00)
A18	(-) Other Expenses	-	-
A19	(±) Net movement in Profit Equalisation Reserve	29.49	(33.29)
	of which: Amount Attributable to IAH*	22.76	(25.61)
	Amount Attributable to IBI*	6.73	(7.68)
A20	**Net Income**	911.25	502.02
A21	Appropriation from current year profit of shareholder	-	-
A22	Appropriation from retained earnings	-	-
A23	**Net Distributable Income**	911.25	502.02
	of which: Amount Attributable to IAH	769.96	355.13
	Amount Attributable to IBI	141.29	146.89

* amount includes income from reinvestment of Profit equalisation reserve

APPENDIX 5: Illustration of Distribution Table

The example below is for illustration purposes only:

DISTRIBUTION TABLE FOR YEAR ENDED 30 JUNE 20XX
GENERAL INVESTMENT ACCOUNT (GIA) & MUDHARABAH BASED DEPOSITS

			PER			Distributable Profit														
								Depositor							Bank					
	ADA	Net Income before PER	Total	Depositor	Bank	Net Income		Contractual PSR	Contractual ROR	DCR	Current year profit/ retained earnings	Actual PSR	Actual ROR		Contractual PSR	Contractual ROR	DCR	Actual PSR	Actual ROR	
Types of Deposit	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(%)	(%)	(RM '000)	(RM '000)	(RM '000)	(%)	(RM '000)	(%)	(%)	(RM '000)	(RM '000)	(%)	(RM '000)	(%)
***Mudharabah* based current & savings account**																				
CA	15,000.00	66.11	0.00	0.00	0.00	66.11	5.29	0.50	33.06	0.00	0.00	0.50	33.06	2.64	0.50	33.06	0.00	0.50	33.06	2.64
SA	10,000.00	48.44	0.00	0.00	0.00	48.44	5.81	0.54	26.16	0.00	0.00	0.54	26.16	3.14	0.46	22.28	0.00	0.46	22.28	2.67
GIA																				
1-month	25,000.00	92.02	(3.14)	(2.35)	(0.78)	88.89	4.27	0.75	66.67	0.00	0.00	0.75	66.67	3.20	0.25	22.22	0.00	0.25	22.22	1.07
	20,000.00	73.62	(6.95)	(5.56)	(1.39)	66.67	4.00	0.80	53.33	0.00	0.00	0.80	53.33	3.20	0.20	13.33	0.00	0.20	13.33	0.80
3-month	10,000.00	38.75	(2.08)	(1.56)	(0.52)	36.67	4.40	0.75	27.50	0.00	0.00	0.75	27.50	3.30	0.25	9.17	0.00	0.25	9.17	1.10
6-month	10,000.00	44.29	(6.52)	(4.89)	(1.63)	37.78	4.53	0.75	28.33	0.00	0.00	0.75	28.33	3.40	0.25	9.44	0.00	0.25	9.44	1.13
	10,000.00	45.46	(5.88)	(4.70)	(1.18)	39.58	4.75	0.80	31.67	0.00	0.00	0.80	31.67	3.80	0.20	7.92	0.00	0.20	7.92	0.95
12-month	20,000.00	96.87	(4.65)	(3.49)	(1.16)	92.22	5.53	0.75	69.17	0.00	0.00	0.75	69.17	4.15	0.25	23.06	0.00	0.25	23.06	1.38
15-month	5,500.00	29.74	(4.08)	(3.06)	(1.02)	25.67	5.60	0.75	19.25	0.00	0.00	0.75	19.25	4.20	0.25	6.42	0.00	0.25	6.42	1.40
	125,500.00	535.31	(33.29)	(25.61)	(7.68)	502.02	4.80				0.00		355.13	3.40					146.89	1.34

Explanatory notes:

1. The IBI initially computes the returns to the IAH based on the contractual PSR. In this example, the return on a 3-month GIA before PER is RM38,750. The expected market rate of return for this type of placement is 3.30%. Therefore, the IBI decides to allocate the remaining RM2,080 into PER which comprise of IAH's portion of RM1,560 segregated based on contractual PSR of 75:25. The final distribution that the IAH receives is RM27,500 (3.30%) and the IBI receives RM9,170 (1.10%) based on contractual PSR 75:25.

DISTRIBUTION TABLE FOR YEAR ENDED 31 JULY 20XX
GENERAL INVESTMENT ACCOUNT (GIA) & MUDHARABAH BASED DEPOSITS

			PER			Distributable Profit														
								Depositor							Bank					
	ADA	Net Income before PER	Total	Depositor	Bank	Net Income		Contractual PSR	Contractual ROR	DCR	Current year profit/ retained earnings	Actual PSR	Actual ROR		Contractual PSR	Contractual ROR	DCR	Actual PSR	Actual ROR	
Types of Deposit	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(%)	(%)	(RM '000)	(RM '000)	(RM '000)	(%)	(RM '000)	(%)	(%)	(RM '000)	(RM '000)	(%)	(RM '000)	(%)
***Mudharabah* based current & savings account**																				
CA	30,000.00	73.33	0.00	0.00	0.00	73.33	2.93	0.50	36.66	29.34	0.00	0.50	66.00	2.64	0.50	36.66	(29.34)	0.50	7.33	0.29
SA	32,000.00	81.81	0.00	0.00	0.00	81.81	3.07	0.54	44.18	35.82	0.00	0.54	80.00	3.00	0.46	37.63	(35.82)	0.46	1.81	0.07
GIA																				
1-month	50,000.00	147.24	4.00	3.00	1.00	151.24	3.63	0.75	113.43	24.07	0.00	0.91	137.50	3.30	0.25	37.81	(24.07)	0.09	13.74	0.33
	30,000.00	89.46	6.79	5.43	1.36	96.25	3.85	0.80	77.00	5.50	0.00	0.86	82.50	3.30	0.20	19.25	(5.50)	0.14	13.75	0.55
3-month	25,000.00	87.00	0.50	0.38	0.13	87.50	4.20	0.75	65.63	5.21	0.00	0.81	70.83	3.40	0.25	21.88	(5.21)	0.19	16.67	0.80
6-month	28,000.00	100.30	3.53	2.65	0.88	103.83	4.45	0.75	77.88	3.79	0.00	0.79	81.67	3.50	0.25	25.96	(3.79)	0.21	22.17	0.95
	20,000.00	72.28	6.05	4.84	1.21	78.33	4.70	0.80	62.67	2.33	0.00	0.83	65.00	3.90	0.20	15.67	(2.33)	0.17	13.33	0.80
12-month	40,000.00	176.81	4.86	3.65	1.22	181.67	5.45	0.75	136.25	5.42	0.00	0.78	141.67	4.25	0.25	45.42	(5.42)	0.22	40.00	1.20
15-month	12,500.00	53.54	3.75	2.81	0.94	57.29	5.50	0.75	42.97	1.82	0.00	0.78	44.79	4.30	0.25	14.32	(1.82)	0.22	12.50	1.20
	267,500.00	881.76	29.49	22.76	6.73	911.25	4.09				0.00		769.96	3.45					141.29	0.63

Explanatory notes:

2. In the next month, the expected market rate of return to IAH on the 3-month GIA is 3.40%. Since the income in the month is lower than expected, the IBI has to manage DCR which requires it to forgo a portion of its own profits to the IAH or utilise PER to meet the expected rate of return. In this case, the IBI decides to release PER of RM500 which comprise of IAH's portion of RM380 shared based on contractual PSR 75:25. In addition it still has to forgo RM5,210 of its profit to the IAH. The final distribution to the IAH is RM70,830 (3.40%) and the IBI receives RM16,670 (0.80%). The actual PSR becomes 81:19 due to DCR.