



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Capital Funds for Islamic Banks

BNM/RH/ GL 002-20	Islamic Banking and Takaful Department	Capital Funds for Islamic Banks
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PART A OVERVIEW

1. Introduction

Policy objective

1.1. Minimum capital funds requirements are introduced as an important entry and on-going requirements to ensure an Islamic bank maintains a minimum size of capital to operate and perform its intermediation function effectively.

Scope of policy

- 1.2. This policy document sets out:
- i. the minimum capital funds that must be maintained by an Islamic bank;
 - ii. components of capital funds; and
 - iii. requirements on maintenance of a reserve fund.

2. Applicability

2.1. This policy document is applicable to all Islamic banks licensed pursuant to section 10 of the Islamic Financial Services Act 2013 (IFSA), except for licensed international Islamic banks^{1,2}. These institutions are hereafter referred to as “Islamic banks”.

3. Legal Provision

3.1. Section 12 of the IFSA requires an Islamic bank to maintain a minimum amount of capital funds at all times.

3.2. The requirements in this policy document are specified pursuant to section 12 and section 57(2)(f) of the IFSA.

¹ The requirement on minimum paid-up capital and net working funds for licensed international Islamic banks is stipulated in paragraph 5 of Guidelines on International Islamic Bank.

² For the avoidance of doubt, this policy document is not applicable to:

- Banking institutions carrying on Islamic banking business under section 15 of the Financial Services Act 2013 in accordance with the Guidelines on *Skim Perbankan Islam*; and
- International Currency Business Units (ICBUs) in accordance with the Guidelines on the Establishment of International Currency Business Unit (Islamic, Commercial and Investment Banks)

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4. Effective date

4.1 This policy document comes into effect on 30 June 2013.

5. Interpretation

5.1. 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.

5.2. For the purpose of this policy requirement:

“**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“**G**” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

“**Capital funds**” shall be the sum of:

- i. Paid-up Ordinary Shares;
- ii. Paid-up Preference Shares;
- iii. Share Premium;
- iv. Retained Earnings;
- v. Reserve Fund³; and
- vi. Other disclosed reserve⁴.

³ Details as set out in paragraph 7.

⁴ Disclosed reserves including other accumulated comprehensive income but excluding share premium.

PART B. POLICY REQUIREMENT

6. Minimum capital funds requirement

6.1. An Islamic bank is required to maintain at all times, a minimum capital funds of RM300 million as prescribed in the *Islamic Financial Services (Minimum Amount of Capital Funds or Surplus of Assets over Liabilities) (Licensed Person) Order 2013*⁵ pursuant to section 12(1) of the IFSA.

S 6.2. In addition to this minimum capital funds requirement, an Islamic bank must also comply with the minimum regulatory capital requirement as set out in the *Capital Adequacy Framework for Islamic Banks (Capital Components)* and *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)*.

7. Maintenance of reserve fund

S 7.1. An Islamic banks shall:

- i. maintain a reserve fund; and
- ii. before declaring any dividends from its net profits of each year (after due provision has been made for *zakat* and/or taxation), transfer to its reserve fund out of the net profits of each year:
 - a. an amount not less than 50% of the net profits of that year, where the amount of the reserve fund is less than 50% of its paid-up ordinary shares and preference shares; or
 - b. an amount not less than 25% of the net profits of that year, where the amount of the reserve fund is 50% but less than 100% of its paid-up ordinary shares and preference shares⁶.

S 7.2. For the purpose of ensuring adequacy of the reserve fund in relation to its business and its liabilities and notwithstanding paragraph 7.1(ii), the Bank

⁵ P.U.(A) 209/2013

⁶ For the avoidance of doubt, an Islamic bank must transfer a sum equal to not less than 25% of its net profits to its reserve fund, notwithstanding in so doing, the reserve fund would have exceeded 100% of its paid-up capital.

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may specify in writing, in respect of one or more Islamic banks, a different portion of the net profits of each year to be transferred to the reserve fund of an Islamic bank, having regard to the specific risk profile of the Islamic bank, and the Islamic bank shall comply with such specification by the Bank.

- S** 7.3. Notwithstanding paragraph 7.1, an Islamic bank may utilize the reserve fund in paying up unissued shares as fully paid bonus shares and the Islamic bank shall obtain the prior written approval of the Bank before doing so.
- S** 7.4. An Islamic bank shall not pay dividends out of the reserve fund.

8. Other regulatory requirements

- S** 8.1. Any change in the authorised and paid up ordinary shares or preference shares of an Islamic bank is subject to prior written approval of the Bank.