

STATEMENT OF SHARIAH GOVERNANCE

BPMB is primarily governed by the Shariah Governance Framework for Islamic Financial Institutions (SGF) issued by Bank Negara Malaysia in 2010

Bank Pembangunan Malaysia Berhad (BPMB) is carrying on Islamic financial business in addition to its conventional financial business. The Islamic financial business of BPMB is governed by the relevant provisions in the Development Financial Institutions Act 2002 and other rules and regulations as issued by Bank Negara Malaysia from time to time. With regard to Shariah governance requirements, BPMB is primarily governed by the Shariah Governance Framework for Islamic Financial Institutions (SGF) issued by Bank Negara Malaysia in 2010. This SGF was issued with the primary objective of enhancing the roles and responsibilities of the Board, the Shariah Committee and the Management of BPMB in relation to Shariah matters. It provides a guideline comprising the Shariah governance structure, system processes and controls which BPMB is expected to adhere in order to ensure that all its operations and business activities are executed in compliance with Shariah. In accordance with the requirements of the SGF, the oversight on Shariah compliance in BPMB is managed and monitored by a dedicated Shariah Committee which reports to the Board, and supported by relevant designated internal control organs residing at Group Shariah, Group Risk Management, Group Compliance and Group Audit & Examination.

SHARIAH COMMITTEE

In line with the SGF, while the Board is ultimately responsible and accountable on the overall Shariah governance framework and Shariah compliance of BPMB, the Board is expected to rely on the Shariah Committee on Shariah decisions in relation to Islamic financial business of BPMB. The Shariah Committee is regarded as a committee of the Board and therefore functionally reports to the Board, and is expected to play an oversight role in overseeing all Shariah matters related to Islamic financial business of BPMB. The Shariah Committee, amongst others, ensures that the Shariah rulings and requirements relating to Islamic financial business of BPMB comply with the fundamental Shariah decisions and resolutions by the relevant authoritative body on Shariah matters.

Specifically, the functions and responsibilities of the Shariah Committee are as follows:-

1. To be responsible and accountable for all Shariah decisions, opinions and views provided by them.
2. To advise the Board and Management of BPMB on Shariah matters in order to ensure that its Islamic financial business and operations comply with Shariah principles at all times.

3. To validate and endorse the following: -
 - a) The Islamic products and services of BPMB are in compliance with Shariah principles in all aspects including:-
 - The terms and conditions contained in the forms, contracts and agreements used in executing the transactions;
 - The guidelines, manuals and procedures in relation to the products and services, schemes and funds offered by BPMB; and
 - The marketing advertisement, disclosure sheets, sales illustrations and brochures used to describe the product.
 - b) The policies and procedures applicable to Islamic financial business prepared by BPMB and to ensure that the contents therein do not contain any elements which are not in line with Shariah.
4. To confirm and form an independent opinion on Shariah compliance status based on the assessment on the works carried out by Shariah review and Shariah audit, and provide assurance information to be disclosed in the annual report, with respect to the following:-
 - The transactions and dealings by BPMB in relation to its Islamic financial business for the reporting year are in compliance with Shariah;
 - The allocation of profit and charging of losses relating to investment accounts, if any, are Shariah-compliant;
 - The Shariah non-compliant earnings realized from relevant sources or means are to be de-recognized and/ or to be channeled for charity purposes;
 - The calculation of Zakat is Shariah-compliant
5. To advise BPMB to consult the Shariah Advisory Council of Bank Negara Malaysia (SAC) on any Shariah matters which could not be resolved.
6. To provide written Shariah opinion(s) in the following circumstances:-
 - Where BPMB refers to the SAC for advice; or
 - Where BPMB submits applications to Bank Negara Malaysia for approval of new Islamic products
7. To assist and provide advice on Shariah matters to related parties such as legal counsel, auditor or consultant appointed by BPMB based on the recommendation or request from the Management.

8. To put on record its concerns over any Shariah non-compliance issues in its report or statements directed to the Board.

Meetings and Attendance

Based on the Terms of Reference of the Shariah Committee and in line with the requirements in the SGF, the meetings shall be held at least 6 times a year. During the financial year 2015, the Shariah Committee had held 10 meetings. The members of the Shariah Committee and their record of attendance are as follows:-

MEMBERS OF SHARIAH COMMITTEE	NO OF MEETING AND ATTENDANCE
Tan Sri Dato'Seri (Dr) Hj Harussani Hj Zakaria	8/10
Asst. Prof. Dr. Miszairi Sitoris	10/10
Assoc. Prof. Dr Noraini Mohd Ariffin	9/10
Professor Dr. Hj Abdul Samat Musa *	6/7
Dr. Rushdi Ramli *	7/7
Dr. Ridzwan Ahmad**	3/3

* Newly appointed w.e.f. 1st April 2015

** Retired w.e.f. 31st March 2015

a) Group Shariah

Group Shariah in BPMB is assisting the Shariah Committee with regard to **internal Shariah research** function which includes day-to-day advisory and pre-approval review in relation to BPMB Group's business and support stakeholders on Shariah aspects in Islamic financial business. It also serves as the secretariat to the Shariah Committee in undertaking related administrative matters. Group Shariah is currently organized into 4 main areas of responsibilities as follows:

i. Shariah Advisory

Responsible for providing Shariah advice and consultancy to relevant stakeholders and entities within BPMB Group, based on the decisions, precedents, rulings, advice and guidelines already made or issued by BPMB's Shariah Committee, BNM's Shariah Advisory Council and SC's Shariah Advisory Council.

ii. Shariah Research & Secretariat

Responsible for performing in-depth Shariah research and studies on Shariah issues identified from time to time and to serve as the secretariat to the Shariah

Committee such as coordinating meetings, compiling proposal papers and disseminating Shariah Committee decisions to relevant stakeholders within BPMB Group. It also includes matters with regard to appointment of Shariah Committee, their trainings etc.

iii. Shariah Transaction

Responsible for reviewing and vetting through the relevant proposed transaction agreements and legal documents as well as on the proposed policies, guidelines and procedures from internal stakeholders in order to ensure that they comply with the approved Shariah principles and decisions. It also coordinates BPMB Group's projects and initiatives in relation to the implementation of requirements under the SGF.

iv. Product Development

Responsible to develop new Islamic products after gathering feedback from business and support functions/entities and facilitate necessary approvals, including to propose enhancement on structures, guidelines and processes of existing Islamic products. It engages regulators, external and internal stakeholders in attending issues related to products such as latest regulatory and operational requirements, to facilitate and advise various functions in BPMB Group on product matters and requirements, including to provide training to staff on Islamic products.

b) Group Compliance

In line with the SGF, the Shariah Compliance Review Unit of the Group Compliance, comprising qualified Shariah officers, is responsible for conducting the **Shariah compliance review** function.

The Shariah Compliance Review Function has established the BPMB Group Shariah Compliance Review Procedures which sets out the Shariah compliance review function, encompassing regular assessment on Shariah compliance in the activities and operations of BPMB Group, including examining and evaluating BPMB Group's level of compliance to Shariah, remedial rectification measures to resolve non-compliances and control mechanisms to avoid recurrences.

In ensuring the activities and operations of the Group are Shariah compliant, the Shariah compliance review officer conducts review of BPMB Group's Islamic financial business activities as per the Shariah compliance review work plan approved by the Shariah Committee and the respective Boards.

c) Group Risk Management

In view Shariah Non-Compliance (SNC) risk is in itself an operational risk, **Shariah Risk Management** (SRM) forms part of the Group's Operational Risk Management (ORM) Framework. The SRM Control Function as outlined by the SGF is undertaken by Group Risk Management's Operational Risk Function to facilitate a systematic and consistent approach in managing SNC risk.

The Strategy, Governance Structure, tools, methodologies and procedures in managing SNC risks have been established. To facilitate the process owners in understanding and identifying SNC risks, a SNC risks catalogue has been established and incorporated into the ORM Framework.

Designated business/operations staff are appointed to facilitate the implementation of SNC risk management within their respective Function. The designated staff were provided with training on SNC risks and the tools to manage them, namely, Risk Control Self-Assessment (RCSA), Shariah Non-Compliance Reporting and Key Risk Indicator. SNC RCSA is performed at least on annual basis, whereby SNC risks and the adequacy of controls in-place to mitigate those risks were being identified and measured by the process owners.

SNC risk awareness was also included in the BPMB Group's risk awareness programme to be conducted regularly with a view to increase the level of awareness on SNC risks.

d) Group Audit & Examination

Group Audit & Examination (GAE), which undertakes **Shariah audit**, reports independently to both the Board Audit Committee and the Shariah Committee. The Shariah audit provides independent assurance on the effectiveness of the internal control systems and related policies and procedures implemented by BPMB Group to govern the conduct of its Islamic financial business operations and activities. In general, the scope of Shariah audit is established in line with the areas stipulated in the SGF as well as accepted auditing standards.

Evaluation on the governance, risk management, controls and compliance with Shariah rules and principles is carried out by adopting GAE's audit methodology which is in line with the Institute of Internal Auditors (IIA) standard. Where appropriate, recommendations for improvements and enhancements are made and thereafter reported to the Shariah Committee.