

**Bank Pembangunan Malaysia Berhad
(Incorporated in Malaysia)**

Shariah Committee Report

In the Name of Allah, The Compassionate, The Most Merciful
Praise be to Allah and peace be upon His messenger, his family and his companions.

Assalamualaikum Warahmatullahi Wabarakatuh

To the shareholders, depositors and customers of Bank Pembangunan Malaysia Berhad ("the Bank"):

INTRODUCTION

In carrying out the roles and the responsibilities of the Shariah Committee of the Bank as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance with our terms of appointment, we hereby submit the Shariah Committee Report for the financial year ended 31 December 2016.

Management's Responsibility

The Management of the Bank shall at all times be responsible for ensuring that the Bank's aims and operations, business affairs and activities in relation to its Islamic financial business are conducted in accordance with Shariah.

Shariah Committee's Responsibility

The Shariah Committee of the Bank shall be responsible to form an independent opinion, based on our review of the aims and operations, business, affairs and activities in relation to the Islamic financial business of the Bank and to produce this report.

The Shariah Committee of the Bank is assisted by the Shariah compliance and research functions which are established to carry out the specified roles under the Shariah governance requirements. These functions are carried out by Group Shariah, Group Risk Management, Group Compliance, and Group Audit & Examination. Generally, the roles of these functions include conducting Shariah research and providing Shariah advisory, acting as the Shariah Committee's secretariat, managing Shariah non-compliance risks, conducting Shariah review and Shariah audit in relation to Islamic financial business of the Bank.

During the financial year, there were twelve (12) meetings held by the Shariah Committee of the Bank in which we reviewed and deliberated on, among others, the products and services, transactions, processes and documents which were presented to us by the Bank. In performing our roles and responsibilities, we had obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with Shariah. Accordingly, we have also assessed the work carried out by Shariah review and Shariah audit for this purpose.

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Shariah Committee Report (cont'd.)

SIGNIFICANT DEVELOPMENTS & ACTIVITIES

Among the key developments and activities during the financial year are the approval of a new product for revolving financing based on *tawarruq* contract, implementation of Shariah endorsement and concurrence certificate for credit proposals, enhancement of main governance processes to improve oversight by Shariah Committee, visit to a commodity supplier of crude palm oil, deliberation on the initiatives for the strategic roadmap for conversion of conventional facilities into Shariah compliant facilities and strengthening of Shariah related functions with injection of new Shariah talents with the required qualification and experience.

The following are the other major developments and initiatives in relation to Shariah governance that took place during the financial year:

a. Shariah Research

The review process undertaken by staff in Group Shariah on the documents for Shariah Committee's approval, deliberation and information as well as providing Shariah advisory to internal stakeholders and endorsement to the proposals was carried out on an on-going basis. The documents include the credit proposals, draft guidelines and procedures, draft legal documentation and marketing decks.

Apart from that, Group Shariah had also conducted Shariah research and study on a number of Shariah issues. These issues had been identified from time to time in the course of advising the stakeholders within the Bank or based on the request made by us. Throughout the financial year, Group Shariah had prepared a number of Shariah research for Shariah Committee's deliberation covering among others, the following main issues:

- 1) Zakat for *Asnaf Fi-Sabilillah*
- 2) Screening Methodology For Islamic Facilities

b. Shariah Risk Management

During the financial year, we note that the Bank has strengthened its implementation of Shariah risk management. A number of initiatives have been carried out by Group Risk Management, which include Shariah Risk and Control Self-Assessment ("RCSA"), revision of Shariah Non-Compliance Risk Catalogue and enhancement of Shariah Non-Compliance Reporting Procedure.

The Shariah RCSA has been conducted by the designated Operational Risk Liaison Officers at each business and support function. The purpose of the RCSA is to identify and assess the Shariah non-compliance risk inherent in the products, business and operations, and recommend necessary action to mitigate Shariah non-compliance ("SNC").

In addition, the Shariah Non-Compliance Risk Catalogue has been revised to reflect current changes in regulatory and operational requirements. It serves as a user guide for all staff of the Bank in understanding the Shariah non-compliance risks which exist in the daily operations in operationalising the various types of Shariah contracts. Besides, the Shariah Non-Compliance Reporting Procedure has also been updated to address the regulatory requirements in handling and reporting of SNC event upon detection.

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Shariah Committee Report (cont'd.)

SIGNIFICANT DEVELOPMENTS & ACTIVITIES (CONT'D.)

c. Shariah Review

Group Compliance, through its dedicated Shariah Compliance team continued to play a vital role in ensuring that the activities and operations in relation to Islamic financial business carried out by the Bank do not contravene Shariah. The scope generally covers the Bank's business operation, including end to end product development process, level of Shariah compliance as well as remedial rectifications measures to resolve Shariah non-compliances.

During financial year 2016, there were 24 Shariah review assignments which were presented and deliberated by Shariah Committee as follows:

- 1) Review on *Bai' Dayn* Facility
- 2) Review on *Bai' Dayn* Facility for PLC
- 3) Review on *Bai' Murabahah* Facility
- 4) Review on *Ijarah* Facility for PLC
- 5) Review on *Ijarah Muntahiah Bitamlik* Facility
- 6) Review on *Ijarah Thumma Al-Bai'* Facility
- 7) Review on *Istisna'* Facility
- 8) Review on *Kafalah* Facility
- 9) Review on *Tawarruq* Deposit Facility
- 10) Review on *Tawarruq* Financing Facility
- 11) Review on Advertisement Materials
- 12) Review on BPMB's Shariah Governance Framework
- 13) Review on Financial Reporting
- 14) Review on Investment in Securities
- 15) Review on Islamic Financing Collateral
- 16) Review on Marketing Materials
- 17) Review on Money Market Activities
- 18) Review on Payment of Rebate and Fee Charges
- 19) Review on Publication of BPMB's Sukuk Information
- 20) Review on Staff Understanding on Islamic Products
- 21) Review on Tabung *Tazkiyah* Amwal (Zakat Fund)
- 22) Review on Tabung *Tazkiyah* A'mal (Charity Fund)
- 23) Review on Training Materials
- 24) Review on Utilization of Islamic Fund

Additionally, the Shariah Committee had also noted several initiatives to strengthen the roles of Shariah Compliance team which include among others, the enhancement of Shariah review procedures, compilation of relevant Shariah Advisory Council Resolutions and Shariah Committee meeting decisions (from 2000-2016) in order to have a complete internal Shariah resolutions inventory.

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Shariah Committee's Report (cont'd.)

SIGNIFICANT DEVELOPMENTS & ACTIVITIES (CONT'D.)

c. Shariah Review (cont'd.)

The appointment of new designated compliance officers ("DCOs") at the respective functional lines had also been extended to cover Shariah compliance matters including reports of Shariah non-compliance issues and subject matter expert at the respective functions. Continuous training and expert advice are provided to DCOs to ensure that the DCOs are equipped with the necessary pre-requisite knowledge and understanding.

d. Shariah Audit

The performance of audit to ensure a sound and effective internal control system for Shariah compliance in the Bank is within the responsibility of Group Audit & Examination. This is to enable Group Audit & Examination, to provide an independent assessment and objective assurance on the degree of Shariah compliance in relation to the Bank's business operations to the Shariah Committee.

In 2016, the Shariah Committee noted that Group Audit & Examination adopts an audit approach where Shariah coverage is embedded within audits on specialised areas.

Among the prominent initiatives introduced by Group Audit & Examination in 2016 to enhance the Shariah governance structure and process are as follows:

1. Revision of the Internal Audit Charter to include the reporting line of Group Audit & Examination to the Shariah Committee.
2. Revision of the audit methodology

Besides the above initiative, issues arising from the audit on the following areas were presented to the Shariah Committee:

1. Audit on Shariah Advisory & Product Development
2. Audit on Group Finance
3. Audit of BPMB's Compliance with Bank Negara Malaysia (BNM) Guidelines on Product Transparency and Disclosure

INITIATIVES ON TRAINING & AWARENESS

During the year, we note that two (2) knowledge-sharing sessions, four (4) refresher sessions and six (6) in-house training programs on Islamic financial business were organised for the staff of the Bank. A total of 178 staff attended these refresher sessions and in-house training programs.

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Shariah Committee's Report (cont'd.)

INITIATIVES ON TRAINING & AWARENESS (CONT'D.)

In addition, in line with the Bank's aspiration to become a full-fledged Islamic development financial institution (FFIDFI), we note that all business and credit-related staff are required to undergo the Islamic Certified Credit Executive (i-CCE) certification program. The i-CCE consists of 2 modules, i.e. Shariah & Ethics in Islamic Finance and Fundamentals of Credit Operations, with a total of fourteen (14) training days. For the first batch which commenced end of 2016, 20 staff had now completed the Module 1 of the i-CCE and is expected to complete the Module 2 by mid-2017.

For all non-credit related staff and non-executives of the Group, a Shariah awareness program entitled 'Fundamentals and Application of Shariah in Islamic Finance' has commenced and will continue until August 2017. For year 2016, two (2) groups of 42 staff had attended.

Apart from the in-house training organised, 62 staff attended various Islamic finance and Shariah-related training programs and seminars externally and overseas, whereas four (4) Shariah Committee members attended various Islamic finance and Shariah-related courses and seminars organised by various training providers such as International Shariah Research Academy for Islamic Finance ("ISRA"), Association of Shariah Advisor in Islamic Finance Malaysia ("ASAS") and Securities Commission. In addition, during the year, one (1) staff from Group Audit & Examination has attained the Associate Qualification in Islamic Finance ("AQIF") certification.

SHARIAH NON-COMPLIANT EVENTS

During the financial year 2016, we confirm that there was no incident of Shariah non-compliance event.

ZAKAT ON BUSINESS & CHARITY FUNDS

During the financial year the zakat has been computed using the growth capital computation method at the rate of 2.5775% in accordance with the approved guidelines and decisions by the Shariah Committee. The method of computation for the year has been revised to be more aligned with *Manual Pengurusan Zakat Perbankan* issued by the *Jabatan Wakaf, Zakat dan Haji (JAWHAR) Jabatan Perdana Menteri*.

Of the total amount of zakat payable, 7/8 of the amount is distributed by the Bank to the states' zakat authorities in Malaysia based on the data on the poverty level of the respective states as reported by the Department of Statistics of Malaysia, whereas the balance of 1/8 of the amount is distributed by the Bank directly to eligible beneficiaries (*asnaf*).

Throughout the year, we also note that the Bank has carried out the distribution of the following in accordance with the internal guidelines and as approved by us:

- a) The zakat fund has been distributed to the eligible *asnaf*; and
- b) The charity fund has been distributed to the eligible recipients.

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Shariah Committee's Report (cont'd.)

SHARIAH OPINION

We had also reviewed the audited financial statements of the Bank's Islamic financial business for the financial year and confirmed that the financial statements are in compliance with Shariah.

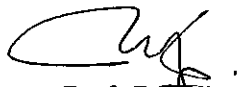
Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Bank in relation to its Islamic financial business during the financial year ended 31 December 2016 that were reviewed by us, are in compliance with Shariah;
2. The computation and distribution of business zakat are in compliance with Shariah;
3. The distribution of charity fund are in compliance with Shariah.

We, being two of the members of the Shariah Committee of Bank Pembangunan Malaysia Berhad, do hereby confirm that on behalf of the Shariah Committee, to the best of our knowledge and belief, the aims and operations, business, affairs and activities of the Bank in relation to its Islamic financial business for the financial year ended 31 December 2016 have been conducted in conformity with Shariah.

We bear witness only to what we know, and we could not well guard against the unseen! (Surah Yusuf, verse:81)

We beg Allah the Almighty to grant us all the Success and Straight-Forwardness and Allah Knows Best.



Assistant Prof. Dr. Miszairi Sitoris
Member of the Committee



Assoc. Prof. Dr. Noraini Mohd Ariffin
Member of the Committee

Kuala Lumpur, Malaysia
31 May 2017