

SHARIAH COMPLIANCE

2014

SHARIAH GOVERNANCE

The Islamic banking activity of BPMB is operating on a window basis and governed by Shariah Governance Framework (SGF) issued by Bank Negara in 2011.

SGF provides a guideline comprising Shariah governance structure, system processes and controls which is managed and monitored by a dedicated Shariah Advisory function and Compliance function of the Bank. The Shariah Advisory works closely with other functions within the Bank to undertake the following processes/programs:-

1. Awareness, training and communication;
2. Assessment of Shariah compliance;
3. Mitigation and control of Shariah risk; and
4. Monitoring and Reporting.

During the year, key measures undertaken include:-

1. Improvement to the guidelines and procedures as recommended as stipulated in the Shariah Audit Report 2013.
2. Training in Islamic Product has been conducted for internal audit officers, Business Banking officers, Shariah Advisory officers and Compliance officers throughout 2014.
3. Establishment of "Tabung Tazkiyah Al-A'mal" for non-Shariah compliance income where these funds will be channeled to identified NGOs for charity purposes.

SHARIAH COMMITTEE

The operation of Islamic banking window is governed by Section 129 (4) of the Development Financial Institutions Act 2002 which stipulates that "the prescribed institution may, in carrying on Islamic banking business or Islamic financial business, seek the advice of the Syariah Advisory Council on the operations of such business in order to ensure that it does not involve any element which is not approved by the religion of Islam". Principle 1 of the Bank Negara's Shariah Governance Framework for Islamic Financial Institutions, stipulates that every bank carrying out Islamic banking business is required to establish a Shariah Committee.

Functions and Responsibilities

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.
2. To advise the management and the board on Shariah matters in order to ensure that the Islamic banking operations comply with Shariah principles at all times.

3. To validate and endorse that:-

- a) The Islamic products of the bank comply 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 and procedures of the products, schemes and funds offered by the bank.
 - The product manual, marketing advertisement, sales illustrations and brochures used to describe the product.
- b) To endorse Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah.

4. To confirm on Shariah compliance based on assessment of Shariah audit and review, and provide assurance on information to be disclosed in the annual report, with respect to the following:-

- All transactions for the reporting year are Shariah-compliant;
- The allocation of profit and charging of losses relating to investment accounts are Shariah-compliant;
- Non-Shariah compliant income is to be channeled to charity;
- Zakat calculation is Shariah-compliant

5. To uphold and observe corporate governance and compliance with the relevant legislation, rulings, regulations and guidelines issued by Bank Negara Malaysia.

6. To advise the bank to consult the Shariah Advisory Council of Bank Negara Malaysia (SAC) on any Shariah matters which have not been resolved or endorsed by the Shariah Committee.

7. To provide written Shariah opinion(s) in the following circumstances:-

- Where the Bank refers to the SAC for advice; or
- Where the Bank submits applications to Bank Negara Malaysia for approval of Islamic Products

8. The number of Shariah Committee meetings held in the year, as well as the attendance of every Shariah Committee shall be disclosed in the bank's annual report.

9. And assist related parties such as legal counsel, auditor or consultant subject to the recommendation of management.

10. The Shariah Committee shall put on record in its report or statements directed to the board, its concerns over any Shariah non-compliance issues.

COMMITTEE MEETING AND ATTENDANCE

Based on the Terms of Reference of the Shariah Committee, the meeting is to be held a minimum 6 times a year. During the financial year 2014, the Shariah Committee held 8 meetings. The members of the Shariah Committee and their record of attendance are as follows:-

NAME OF SHARIAH COMMITTEE MEMBER	NO OF MEETING AND ATTENDANCE
YBhg.Tan Sri Dato' Seri (Dr) Haji Harussani Bin Haji Zakaria	8/8
YBrs. Prof Dr Abdul Jalil Bin Borham (Deceased on 13 November 2014)	7/7
YBrs. Dr. Ridzwan Bin Ahmad	8/8
YBrs. Asst. Prof. Dr. Miszairi Bin Sitoris	8/8
YBrs. Assoc. Prof. Dr Noraini Binti Mohd Ariffin	8/8

In view of the demised of one of the Shariah Committee, BNM has granted a temporary exemption until end of 31 March 2015 or upon the appointment of new Shariah Committee, whichever is earlier. Nevertheless, BPMB is required to comply with the minimum quorum of two-third with Shariah background when convening the Shariah Committee meetings as specified in the Guidelines on Shariah Governance Framework for Islamic Financial Institutions.

MOVING FORWARD

In ensuring full compliance with Shariah Governance Framework for Islamic Banking Institutions issued by Bank Negara Malaysia, the following key measures have been initiated and targeted to be completed in phases before the end of 2015:-

1. Management response to be undertaken and completed in appropriate period as stipulated in the Shariah Compliance (Governance) Internal Audit Report 2014.
2. Continuous knowledge enhancement through Islamic Financing training to all officers of the Bank.
3. Greater emphasis on promoting Islamic products by adopting "Islamic first" approach when marketing BPMB products whereas for existing customers will be approached and consulted to convert their conventional loans to Islamic financing.

Moving forward, innovation will be the key to grow the Islamic banking portfolio, with the development of structured products that conform to Islamic principles, with continuous focus on asset based financing under the concept of Ijarah and Tawarruq and enlightens the scope of guarantee to guarantee Sukuk and Islamic Private Debt Securities to be contributed through non-funded activities.