

# SHARIAH COMPLIANCE

## SHARIAH GOVERNANCE

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

SGF provides a guideline comprising Shariah governance structure, system processes and controls which are 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 recommendation as stipulated in the Shariah Audit Report 2012.
2. Shariah Audit training has been conducted for internal audit officers, Shariah Advisory officers and Compliance officers in September 2013.
3. Shariah Risk Catalogue has been approved by Shariah Committee in July 2013 and fully implemented by the Bank.

## 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 Shariah 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 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.
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 followings:-
  - 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 channelled 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 (SAC) of Bank Negara Malaysia (BNM) 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.

## 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 2013, 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
<b>YBhg. Tan Sri Dato' Seri (Dr) Hj Harussani Hj Zakaria</b>	6/8
<b>YBrs. Prof. Dr. Abdul Jalil Borham</b>	8/8
<b>YBrs. Dr. Ridzwan Ahmad</b>	8/8
<b>YBrs. Asst. Prof. Dr. Miszairi Sitoris</b>	8/8
<b>YBrs. Assoc. Prof. Dr. Noraini Mohd Ariffin</b>	8/8

During the year, the Shariah Committee has approved a new product under the concept of Tawarruq i.e. asset financing to widen the Islamic products which has been approved by Bank Negara Malaysia in October 2013.

## 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 2014 :-

1. Audit finding and management response to be undertaken and completed in appropriate period as stipulated in the Shariah Audit Report.
2. Continuous knowledge enhancement through Islamic Financing training to all officers of the Bank.

Moving forward, innovation will be key to grow the Islamic banking portfolio, with the development of structured products that conform to Islamic principles, with 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.