Report of the Shariah Supervisory Council

In carrying out the roles and responsibilities of the Bank’s Shariah Supervisory Council as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance of the letter of appointment, we hereby submit our report for the financial year ended 31 December 2012:

The Bank’s Management is responsible to ensure that its conducts and businesses are in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion based on our review on the operations of the Bank and to report to you.

We have conducted five (5) meetings and our sub-committee, the Shariah Review Committee have conducted thirteen (13) meetings in which we reviewed various products, transactions, services and processes of Bank Islam Malaysia Berhad during the financial year ended 31 December 2012.

In addition, we hereby report the following:

1. 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 evidences to give reasonable assurance that the Bank has complied with Shariah rules and principles.

2. The Bank carried out Shariah compliance audit performed by the Internal Audit Division and Shariah compliance review performed by Shariah Division throughout the organisation and the reports were deliberated in the Shariah Review Committee meetings and they are the basis for us to form an opinion as to whether the Bank has complied with the Shariah rules and principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, Shariah Advisory Council of Securities Commission (for capital market related matters) as well as Shariah decisions made by us and the Shariah Review Committee.

3. In the financial year, the Bank has fulfilled its obligation to pay zakat on its business to state zakat authorities and the zakat is computed using growth capital method. Several zakat authorities had refunded a portion of the zakat paid for the Bank to act as their agent (wakil) to distribute to eligible beneficiaries (sanad) on behalf of the zakat authorities.

Throughout the year, upon approval from Shariah Review Committee and Zakat Committee, the Bank had distributed the zakat fund to various eligible asmaul such as mosques, non-governmental organisations, higher learning institutions, schools and needy individuals.
4. Throughout the financial year, six (6) Shariah non-compliant events were identified. In general, the Shariah breaches were caused by people and process factors, e.g., failure to follow the proper procedure and failure to execute the contracts according to the correct sequence. We hereby confirm that necessary efforts have been taken to rectify the breaches, and the Bank has also implemented several mechanisms to prevent similar breaches from recurring such as tightening the control in terms of contracts sequence, preparing documents checklist, revising the process flow of products execution and enhancing the IT system to serve as control in complying with Shariah requirements.

5. Within the financial year, the Bank received RM2,570.65 as Shariah non-compliant income from the Shariah non-compliance events and also other sources which include interest received from the Bank’s nostro account opened in foreign conventional banks due to the absence of Islamic banks in such countries, and commissions from Shariah non-compliant merchants of Islamic credit card business. The following amounts of Shariah non-compliant income were channelled to the following recipients upon approval by the Council after considering the use of funds is for charity purposes:
   i. Pasar Jagaan Nur Hasanah, Beranang, Selangor – RM69,000.00 (to purchase a multipurpose van)
   ii. Pasar Pemulihan Dalam Komuniti Untuk Orang Kurang Upay (PDK) Seri Murni, Sungai Siput, Perak – RM69,000.00 (to purchase a multipurpose van)
   iii. Masjid Nurlailah, Batu, Selangor – RM83,400.00 (to purchase hearse van)
   iv. Yayasan Amal Malaysia – RM29,761.14 (to purchase land at Kuala Langat to build Daikvah Regional Centre)
   v. Jabatan Hal Ehwal Agama Islam Kelantan – RM68,061.17 (to purchase a Toyota HiLux to be used as a hearse in the remote area of Lojung, Kelantan)

6. We had also approved in our meetings, initiatives in strengthening the Shariah governance of the Bank which includes the review of Bank’s Shariah Compliance Policy that aims, among others, for a comprehensive Shariah framework and governance of the Bank to ensure alignment of business activities and behaviours are in compliance with Shariah rules and principles.

7. During the financial year, training sessions, courses and briefings were organised which not only aimed at building strong understanding on Shariah application in the banking business and financial activities, but also to infuse Islamic values among staff.

8. We have reviewed the financial statements of the Bank and confirmed that the financial statements are in compliance with the Shariah rules and principles.

In our opinion:

1. The contracts, transactions and dealings entered into by the Bank during the financial year ended 31 December 2012 that we have reviewed are in compliance with the Shariah rules and principles;

2. The allocation of profit and charging of losses relating to investment account conform to the basis that have been approved by the Council;

3. All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles amounted to RM2,570.65 has been considered for disposal to charitable causes;

4. The calculation, payment and distribution of Zakat are in compliance with Shariah rules and principles; and

5. Any Shariah non-compliance events occurred in the Bank were rectified accordingly and the Bank has taken preventive actions to avoid the events from recurrence.
REPORT OF THE SHARIAH SUPERVISORY COUNCIL

On that note, we, Ustaz Dr. Ahmad Shahbadi @ Sobri Salamon and Ustaz Mohd Bakir Haji Mansor, being two of the members of the Shariah Supervisory Council of Bank Islam Malaysia Berhad, do hereby confirm on behalf of the members of the Council that, in our level best, the operations of the Bank for the financial year ended 31 December 2012 have been conducted in conformity with the Shariah rules and principles. Allah Knows Best.

On behalf of the Council:

Ustaz Dr. Ahmad Shahbadi @ Sobri Salamon

Ustaz Mohd Bakir Haji Mansor

Kuala Lumpur,
Date: 23 February 2013