



Shari'ah Governance Framework

Approved by the Board of Directors on the 25th of February 2022

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1. Introduction

Purpose

This document outlines the Shari'ah Governance Framework ("SGF") for NBF Islamic, an Islamic window within NBF, which shall be the guiding principles for the Shari'ah governance structure for the Shari'ah Compliant Business.

The SGF is to be read in conjunction with the laws, regulations and guidelines, as issued by the Central Bank of the United Arab Emirates ("CBUAE") and the Higher Shari'ah Authority.

All stakeholders in NBF Islamic are expected to be familiar with the SGF and understand their roles and responsibilities in order to ensure appropriate application of SGF to the activities of NBF Islamic.

Definitions

Higher Shari'ah Authority: The Authority referred to in Article (17) of the Federal Decree Law No. (14) of 2018, herein after referred to as "HSA"

Bank: National Bank of Fujairah

Board: Bank's Board of Directors.

Central Bank Law: Union Law No (14) of 2018 concerning the Central Bank, the Monetary System and Organization of Banking as amended or replaced from time to time.

CEO: Chief Executive Officer of National Bank of Fujairah

Compliance with Islamic Shari'ah: refers to compliance with Shari'ah in accordance with

- a. Resolutions, fatwas, regulations and standards issued by the Higher Shari'ah authority in relation to licensed activities and businesses of the Bank ('HSA's resolutions').
- b. Resolutions and fatwas issued by the ISSC of the Bank, in relation to licensed activities and businesses of the Bank ('the Committee's resolutions') provided they don't contradict HSA's resolutions.

Executive Member: one or more members of Internal Shari'ah Supervision Committee (ISSC) nominated as executive member.

External Shari'ah Audit: An annual assessment conducted by external body to inspect and assess the Bank's compliance with Islamic Shari'ah to the extent of Islamic Banking Services and the level of adequacy and effectiveness of the governance of Shari'ah supervision systems.

Fatwas: Juristic opinions on any matter pertaining to Shari'ah issues in Islamic Finance issued by HSA or ISSC

Management Committee (MANCOM): The highest level of Senior Executives appointed by the Bank reporting directly to the CEO.

Senior Management: The executive management of the Bank responsible and accountable to the Board for the sound and prudent day to day management of the Bank, including Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Islamic Banking and Heads of Compliance and Audit functions.

Islamic Banking Resources: Any staff or employee of the Bank who is tasked or made accountable to originate / sell / distribute, structure / develop and manage / administer Islamic Banking products and services.

Independence

Ensuring that the Internal Shari'ah Supervision Committee is not subject to any form of undue influence when issuing resolutions and fatwas in accordance with Shari'ah parameters, and ensuring that the Shari'ah control section and Shari'ah audit section are also not subject to any form of undue influence. This should be carried out to strengthen the confidence of both shareholders and stakeholders in the Bank's compliance with Islamic Shari'ah to the extent of Islamic Banking Services.

Islamic Banking Services/NBF Islamic: Islamic Banking products offered by the Bank through Islamic Window operations.

Internal Shari'ah Audit: regular process to inspect and assess the Bank's compliance with Islamic Shari'ah to the extent of Islamic Banking Services and the level of adequacy and effectiveness of the governance of Shari'ah supervision systems.

Shari'ah Scholar: The person who is equipped with not just general knowledge of Shari'ah or other disciplines, but more importantly have reached a specialized level of being learned and expert in Fiqh al-Muamalat. He is engaged professionally by bank to provide expertise in the Shari'ah compliance process.

Internal Shari'ah Supervision Committee: An independent Committee (hereinafter referred to as "ISSC") appointed by the Annual General Assembly of National Bank of Fujairah that carries on all or part of its activities and businesses in accordance with the provisions of Islamic Shari'ah. Membership of this committee shall consist of experienced specialists in Islamic financial and benchmarking transaction jurisprudence. This committee shall undertake Shari'ah approval and supervision of all businesses, activities, products, services, contracts, documents, and conduct of NBF Islamic in accordance with the rules, principles and standards set by the HSA, in order to ensure compliance thereof with Shari'ah. Fatwas or opinions issued by the ISSC shall be binding.

Internal Shari'ah Supervision Division: a technical division of section in the Bank with a mandate to support the ISSC in its duties.

Management Risk Committee: -The Committee constituted by the Management Risk Committee Charter approved by the Board of Directors for the purpose and with the powers and authority set out therein.

Shari'ah Advisory firm: An entity that provides Shari'ah advisory services, including Shari'ah audit reviews, as well as advice on Shari'ah -compliant product development, as part of its professional services.

Shari'ah Supervision: To the extent of Islamic Services, monitoring of Bank's compliance with Islamic Shari'ah in all its objectives, activities, operations and code of conduct.

Shari'ah non-compliance risks: Probability of financial loss or reputational damage that Bank might incur or suffer due to not complying with Islamic Shari'ah.

Review and update of policy

The SGF is a Schedule A document pursuant to the Bank's Enterprise-wide Risk Management Framework to be approved by the Board of Directors upon the recommendation of the Bank's Shari'ah Governance Committee ("SGC") and after consultation with the ISSC.

The SGF is subject to annual review. Any proposed amendment to be made to the SGF by the SGC may be permitted for one or more of the following reasons (which are not exhaustive), including changes in:

- i. laws and regulations;
- ii. functions and activities of the Bank;
- iii. business processes of the Bank;
- iv. the organizational structure of the Bank;
- v. job roles, duties, and descriptions for staff of the Bank; or
- vi. any other aspect, where NBF Islamic deems it necessary to update its policies and procedures.

2. 2 Objectives and Scope of Application

Objectives

This SGF is designed to meet the following objectives:

Setting out the expectations of the Bank for its Shari'ah governance processes to ensure that the operations and business activities of NBF Islamic are in accordance with Shari'ah principles; and

Providing comprehensive guidance to MANCOM, MRC, and the SGC in discharging their duties in matters relating to Shari'ah principles.

Associated Documents

This SGF is to be read together with the following documents:-

- i. Charter for the ISSC ("**Charter**");
- ii. Shari'ah Review and Audit Manual ("**SRM**"); and
- iii. Shari'ah Compliance Manual ("**SCM**").

In the event of a conflict between the interpretation of the terms of the SGF and the documents listed above, the terms of this SGF shall prevail.

Scope of the SGF

The SGF shall be applicable to all of the activities of NBF Islamic and shall **exclude** the conventional banking business of the Bank and its related group entities and branches.

The Shari'ah governance processes and all relevant functions contained in the SGF are to be implemented fully with the collaboration and support of all departments of the Bank.

In the event of any inconsistencies between the SGF and other policies and procedures of NBF Islamic, the SGF shall prevail.

In the event that any provision of the SGF shall explicitly contravene any principles of Shari'ah, the determination of the ISSC shall prevail over the terms of the SGF and the Bank shall proceed to make appropriate amendments to the SGF and relevant policies and procedures.

This SGF forms part of the NBF's risk management process to ensure compliance with applicable Shari'ah principles.

Related Documents - Sources of Shari'ah Law

Primary sources of the Shari'ah are the *Qur'an* (the Holy Book of Islam revealed to the Prophet Muhammad (SAW)) and the *Sunnah* (Traditions) of the Prophet Muhammad (SAW).

Secondary sources of the Shari'ah include, but are not limited to:-

- i. *Ijma'* - Consensus of the scholars on certain rules of Islamic law;
- ii. *Qiyas* - Juridical analogy (based on a clear injunction passed on previous incident);
- iii. *Istihsan* - Juristic preference for stronger evidence over juridical analogy;
- iv. *Al Masalih al-Mursalah* - No definite judgment in the Shari'ah but allowed due to it being of general benefit to the community; and
- v. *Ijtihad* - the process of making a legal decision by independent interpretation of the primary sources.

3. Compliance with Shari'ah Principles

The Shari'ah, literally, translates to "*the guided way*". It is the Divine framework and guidance that outlines the principles of Islamic beliefs and covers the basic tenets for how man is to conduct his social and economic activities. In dealing with economic or any business activities the elements of usury ("*Riba*"), gambling ("*Maisir*"), uncertainty ("*Gharar*") and matters which are not permissible ("*Haram*") are prohibited.

It is a prerequisite for the validity of an Islamic Financial Institution ("**IFI**") or Islamic window (conventional bank carrying out Islamic finance services with a dedicated window) that none of its contracts or business aspects should contravene any express or implied Shari'ah sanctions. Shari'ah provides the Divine guidance by Allah Almighty and, therefore, it is necessary for any transaction to be in conformity with the Divine rules and regulations. Any transaction, which fails to be practiced in conformity with such rules and regulations, will therefore become invalid.

NBF places great importance in ensuring that the Islamic activities of the organisation are in accordance with Shari'ah principles. This objective is to be achieved through the wholesale adoption of international Islamic best practices as advised by the ISSC which shall be the Bank's highest authority on Shari'ah matters.

NBF also requires that all of its officers and employees operating in the United Arab Emirates operate in accordance with the highest ethical standards.

3.1 Appointment of ISSC

The ISSC shall be an independent entity of the Bank which shall consist of qualified Shari'ah scholars appointed by NBF Shareholders in Annual General Assembly Meeting (AGAM).

Names of members of ISSC shall be presented to Higher Shari'ah Authority for approval, prior to presentation to the AGAM along with their passport copies and detailed resumes.

HSA approval will be sought within two months from the end of the financial year, in order for HSA to express its remarks prior to AGAM.

Upon approval by HSA, the members will be appointed in AGAM by Shareholders.

Term of appointment (minimum of 3 years) and remuneration of ISSC shall be as determined by AGAM of the bank.

The ISSC members shall comprise of persons with appropriate qualifications and experience in Shari'ah laws and application of Shari'ah principles contained in the Shari'ah laws who are able to deliberate Islamic market issues brought before them and provide decisions of the highest Shari'ah standard to NBF.

Save where the ISSC may, by way of exception, determine otherwise the NBF shall segregate all conventional monies (if any) from its Islamic monies and may only utilise its Islamic monies for Shari'ah-compliant business activities. The balance sheet of NBF's conventional assets and liabilities and NBF's Islamic assets and liabilities shall be prepared separately but may be reported in consolidated accounts.

3.2 Dismissal/Resignation by ISSC

Application for dismissal or resignation of any member of ISSC shall be submitted to HSA for its consent, then this will be presented in General Assembly for approval, once HSA concurrence is obtained.

No dismissal or resignation shall be deemed effective without HSA approval.

3.3 Review Report by ISSC

The ISSC shall issue an annual review and audit report (covered in Shari'ah Review and Audit Manual) which should not be dated earlier than the date of issue of financial statements (the date on which financial statements are signed or approved by the management).

This report shall be provided to the Higher Shari'ah Authority for its approval no later than two months from the end of the financial year, in order for the HSA to express its remarks prior to the AGAM.

Once approved, the report mentioned above:

- a. Shall be read at Annual General Assembly Meeting of the Bank.
- b. Shall be published in the Bank's Annual Report

The report shall take the form specified by the HSA, and shall indicate the extent of compliance of management of NBF, with the provisions of Islamic Shari'ah in all its activities, businesses, products, contracts entered into, and documentation used. The said report shall include contents mentioned in Article 80(1) of the Decree Law No. 14 of 2018 and other specified formats as issued for industry by HSA.

NBF Islamic review and audit report is presented in Shari'ah review and audit manual

3.4 Fatwas issued by ISSC

The Fatwas issued by ISSC shall be published on NBF's website.

4. Governance and Oversight

Board of Directors

The Board is ultimately responsible for bank's compliance with Islamic Shari'ah to the extent of Islamic Banking services. The Board is responsible for establishing and implementing a Shari'ah governance framework for Islamic Banking services of the Bank that is commensurate with the size and complexity of the Islamic Banking services of the Bank and its risk appetite, to ensure the Bank's compliance with Islamic Shari'ah to the extent of its Islamic Banking services.

Chief Executive Officer ("CEO")

The CEO shall be the owner of the SGF providing, in consultation with the MRC and the ISSC, the necessary oversight which shall consider the following:

- i) ensuring the current business strategy, governance framework and business structures for NBF Islamic are in line with the Bank's Risk Appetite.;
- ii) ensuring that detailed procedures are in place across the Bank to ensure compliance with the SGF;
- iii) assisting in providing subject matter expertise, support and technical guidance to NBF Islamic; and
- iv) communicating the SGF to NBF Islamic and concerned functions and ensuring it is understood.

The CEO and the MANCOM shall be consulted on dealing with executive decisions and/or actionable issues arising from the implementation of SGF process and any deficiencies.

Shari'ah Governance Committee

The Shari'ah Governance Committee (the 'SGC') , in consultation with the Risk Management Group of the Bank, assumes oversight and supervisory responsibilities and is responsible to provide adequate resources for implementation of the functions specified in the SGF, and ultimate responsibility for the ongoing review and for any application for exemption to the provisions of this SGF.

Any deviations or exemptions to the SGF must be based on a proposal by the SGC to the ISSC.

The SGC reports into the MRC.

Management Risk Committee

The MRC is accountable to ensure that NBF Islamic receives proper guidance on risk matters and shall receive reports with regard to the state of compliance of NBF Islamic with all Shari'ah requirements. The SGC shall provide the MRC with its Minutes of Meeting in order to maintain awareness of all issues under consideration at the SGC.

Three Lines of Defence

The Bank's Risk Philosophy is executed by the structured implementation of a Three

Lines of Defence Model (3LOD). Key attributes to a 3LOD risk model at NBF includes:

First Line of Defence – Business Units are responsible for ensuring that a risk and control environment is established as part of the day to day operations. Line management should be adequately skilled to create risk controls within their internal control environment, understand the risk that they own and make their own risk assessments and attestations. Business line management is accountable for the identification and control of risks as below:

- Manage and identify risks in the activities of the business line;
- Ensure activities are within the bank's risk appetite, risk management policies and limits;
- Design, implement and maintain effective internal controls (this includes managing a First Line controls assurance process determined by the second line of defence); and
- Monitor and report on business line risks.

Second Line of Defence – Risk Management & Compliance function, in its role as the Second Line of Defence provides guidance to and challenge of First Line processes and risks and where possible support any operational efficiencies aligned to the NBF RAS and ERMF. Second Line, through supporting Material Risk policies, may determine a view to conduct, review and challenge via testing any established quality assurance program.

The RM function is principally concerned with:

- Establishing bank-wide, or if applicable, group-wide risk and control strategies and policies for the Bank's Material Risks
- Remaining independent of risk taking activities
- Providing oversight and independent challenge of business line accountabilities, including reviewing key standard operating procedures developed by the first line of defence to ensure appropriateness of controls and risk mitigants
- Conducting an independent review and assessment of Risks via the Bank's Operational Risk Management Framework
- Guiding the development and communication of risk concepts, internal control improvement and general risk awareness training; and
- Monitoring and reporting on compliance with risk appetite, laws, regulations, policies and limits.

The Bank's Compliance function is operationally independent of other Second Line of Defence business activities (further information can be found in Section 3.3.8)

Third Line of Defence – Internal Audit, provides independent, objective assurance and consulting activities that are designed to add value and improve NBF operations. The third line is required to evaluate and improve the effectiveness of risk management control and governance in an efficient manner.

Internal Audit independently assesses:

- The effectiveness and efficiency of the internal control, risk management and governance systems and processes; and
- The effectiveness of business line management in fulfilling its mandates and managing risk.

Internal Audit reviews should consider existing reports provided by the 2nd Line of

Defence with respect to any report derived from ORMF tools (e.g. Control Assessments).

Head of Islamic Banking

The Head of Islamic Banking is part of the First Line of Defence and reports directly to the Shariah Governance Committee. The Head of Islamic Banking is responsible and accountable to the Shariah Governance Committee for the operations of the Islamic Banking business. The Head of Islamic Banking coordinates with the relevant departments concerning activities and businesses that comply with Islamic Shari'ah and shall be regarded part of the business line. The Head of Islamic Banking shall be appointed as per applicable regulations of the HSA.

Internal Shari'ah Control Section

The Internal Shari'ah Control Section is part of the Second Line of Defence and section supports the ISSC in its duties and performs functions including ISSC secretariat function, Shari'ah Consultations function, Shari'ah research and development function, Shari'ah compliance function and Shari'ah training function. The ISSC shall supervise the work of this section from technical perspective.

Internal Sharia Audit section

Internal Shari'ah Audit section is part of the Third Line of Defence and undertakes Shari'ah audit and monitors NBF's compliance with Islamic Shari'ah. This is conducted through an annual plan to collect and assess evidence of NBF Islamic's activities and transactions to ensure their compliance with Islamic Shari'ah and ensure the adequacy of internal procedures Shari'ah Governance Framework.

5. Overview of NBF Islamic Operations

The Islamic business activities of NBF Islamic will include (but are not limited to) marketing and distributing transactions structured in compliance with Shari'ah principles to retail and corporate investors together with institutional investors (including Islamic banks and Islamic fund managers) acting through an Islamic window of NBF.

The following is a non-exhaustive list of Shari'ah compliant commodities which, subject to review of the end to end transaction flows, NBF Islamic may incorporate into the Commodity Murabaha transactions it offers retail, corporate and institutional clients:

- (a) barley
- (b) canola
- (c) coal
- (d) cocoa
- (e) coffee beans
- (f) copper
- (g) corn
- (h) cotton

- (i) crude oil and/or its upstream products
- (j) iron ore
- (k) natural gas
- (l) non-ferrous metals
 - (1) nickel
 - (2) aluminium
 - (3) lead
 - (4) tin
 - (5) zinc
- (m) palladium
- (n) palm oil
- (o) platinum
- (p) rubber
- (q) soybean or soybean meal
- (r) steel
- (s) sugar
- (t) wheat
- (u) electric power that is both quantifiable and capable of delivery

The above non exhaustive list may be amended from time to time as investors request NBF Islamic to use commodities not appearing on this list ("**New Proposed Asset**"). NBF Islamic, on receipt of such a request from an investor, shall request a ruling on the compliance of the New Proposed Asset from the ISSC.

The ISSC may request further information on the New Proposed Asset. If satisfied with all information received the ISSC may approve or deny the use of the New Proposed Asset for a Murabaha transaction. NBF Islamic shall not use the New Proposed Asset until it has received a ruling from either the ISSC.

Where the New Proposed Asset is not approved by the Executive Member of the ISSC or the ISSC same shall be noted as a non-compliant asset.

Assets that are currently deemed non-compliant for a Murabaha transaction are as follows:

- (a) gold
- (b) silver
- (c) lean hogs
- (d) tobacco
- (e) alcohol
- (f) racing horses
- (g) slot machines

6. Shari'ah Governance Process Guidelines

The SGF is divided into five (5) sections, with each section focusing on one governing principle, as follows:

Table 1.0: Structure of Shari'ah Governance Framework

Section	Key Areas	Explanation
I	General Requirement of the SGF	This section outlines the general requirements of the SGF, which describes the essential key functions.
II	Rights, Duties and Accountabilities	This section outlines the level of accountability and responsibility expected of the ISSC, MANCOM, MRC, and SGC.
III	Independence	This section aims to safeguard the independence of the ISSC in ensuring sound Shari'ah decision-making and emphasis on the role of the MANCOM and MRC in recognizing the independence of the ISSC.
IV	Competency	This section highlights requirements and expected competencies to ensure key functions are capable of implementing Shari'ah governance.
V	Confidentiality and Consistency	This section outlines the minimum set of rules that emphasizes the importance of observing and preserving confidentiality, and improving the level of consistency in decision-making by the ISSC.

SECTION I: General Requirements of the Shari'ah Governance Structure for NBF

It is the duty and responsibility of NBF to establish a sound and robust Shari'ah governance framework and processes for the activities of NBF Islamic.

NBF Islamic shall ensure that the aims and operations of its business activities are in compliance with Shari'ah principles at all times. An end-to-end control shall be established in all aspects of its business operations to ensure that its overall activities are Shari'ah compliant. Shari'ah compliant refers to Shari'ah rulings and decisions issued by the ISSC.

A sound and robust SGF is reflected by professional and duly qualified and experienced members of NBF Islamic and an effective and responsible governance and oversight structure and an independent ISSC that is both competent and accountable, all supported by a robust risk management framework.

NBF aims to establish Shari'ah controls comprising of three lines of defense approach that are independent from each other, which includes:

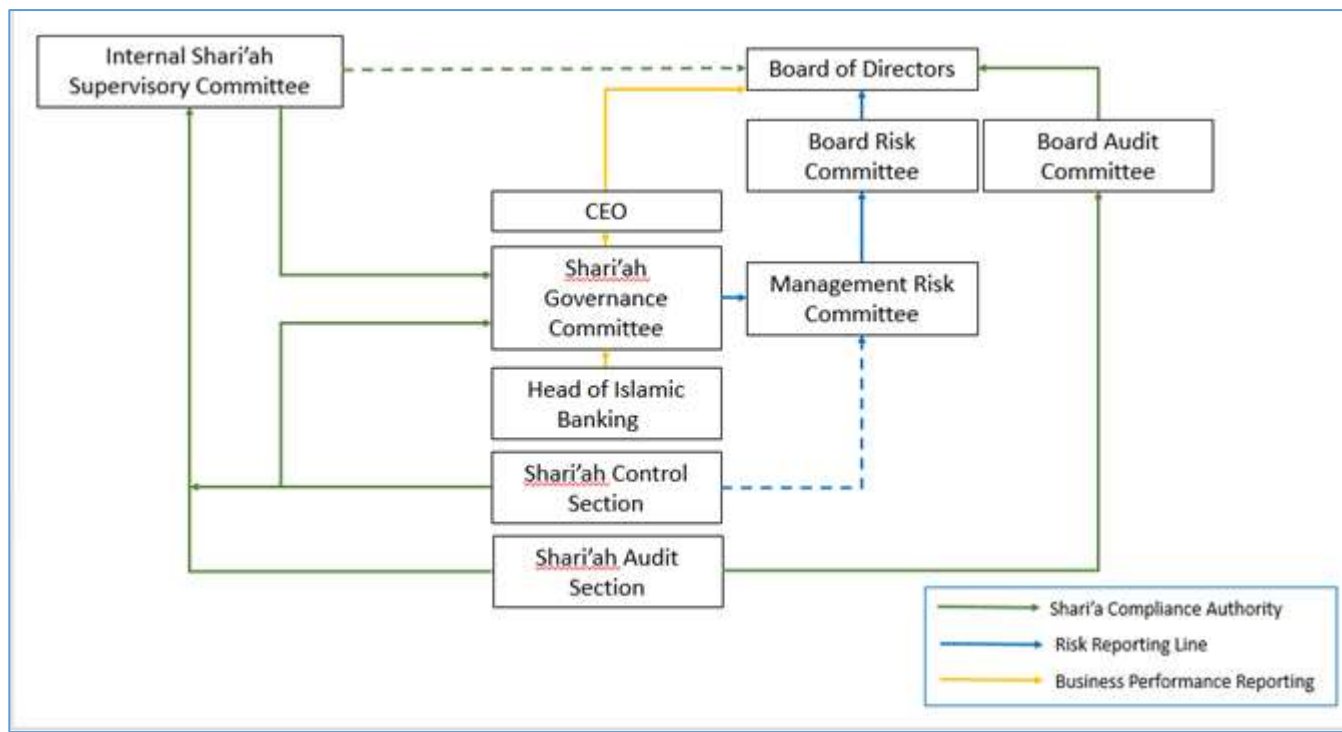
The first line of defense, represented by the business line, which should set clear policies, procedures and controls, approved by ISSC and execute the business activities in a manner compliant with Islamic Shari'ah.

The second line of defense, represented by the Internal Shari'ah Control Division which shall perform functions including following:

- a) ISSC secretariat function
- b) Shari'ah Consultations function
- c) Shari'ah research and development function
- d) Shari'ah compliance function
- e) Shari'ah training function

The third line of defense represented by Internal Shari'ah Audit section, which undertakes Shari'ah audit and monitors NBF's compliance with Islamic Shari'ah.

Illustration 1.0: Shari'a Governance Framework for NBF



SECTION II: Rights, Duties and Accountabilities

The Accountability of each individual or Committee associated with the SGF is as follows;

Board Risk Committee

The Board Risk Committee ("Risk Committee") shall supervise and monitor management of Shari'ah non-compliance risk, and set controls in relation to this type of risk, in consultation with ISSC and through the Internal Shari'ah Control Section.

The Risk Committee is responsible to review and approve the establishment of framework for managing Shari'ah non-compliance risk as part of the overall risk management framework of the Bank including mandating sufficient resources, structures, policies and procedures, and must oversee its implementation by the Senior Management.

The Risk Committee must ensure there is an information system that enables bank to measure, assess and report Shari'ah non-compliance risk. Reports must be provided on a timely manner to the Board and Senior Management, its formats suitable for their use and understanding.

Board Audit Committee

The Board Audit Committee shall evaluate the effectiveness of bank's policies (approved by ISSC) designed to monitor bank's compliance with Islamic Shari'ah.

The Committee shall also assess the effectiveness and adequacy of internal Shari'ah audit and its contribution in ensuring bank's compliance with Islamic Shari'ah to the extent of Islamic banking services. The Audit Committee's responsibility includes the following:

Internal Shari'ah Audit

- Assess the independence, effectiveness and adequacy of internal Shari'ah audit scope and programs.
- Review the reports prepared by the internal Shari'ah audit division to ensure that all necessary measures have been taken.
- Facilitate the work of internal Shari'ah audit division.
- Hold regular meetings with the head of internal Shari'ah audit division twice a year, at minimum

External Shari'ah Audit

- Review the scope, results, and adequacy of the external Shari'ah audit review (if applicable).
- Review the reports prepared by external Shari'ah auditor to ensure that the senior management have taken all necessary measures in this regard
- Hold meetings with the external Shari'ah auditor with a minimum of one meeting per financial year.

Chief Executive Officer

The CEO shall ultimately be accountable and responsible for the adaptation and implementation of the SGF within NBF's governance structure, by putting in place the appropriate mechanisms to discharge the responsibilities.

Management Risk Committee

The MRC shall perform diligent oversight over the effective functioning of the SGF through the SGC. The MRC may intervene or enquire into the operations of NBF Islamic and in the case where the MRC has any reason to believe that NBF Islamic has carried on any activity that is non-compliant to Shari'ah principles under its IM, it may order or direct that a prompt rectification measure be taken.

Senior Management

Senior Management must execute and manage NBF Islamic's activities and businesses in compliance with Islamic Shari'ah and all relevant laws and regulations issued by any competent authority including without limitation the Cabinet of the UAE, CBUAE and HSA.

The Senior Management must report to the Board regarding NBF Islamic's compliance with Islamic Shari'ah in all of its activities, operations, policies, internal regulations, and code of conduct.

The senior management is responsible before the Board for:

- Submitting Shari'ah matters related to all NBF Islamic's businesses and activities, including its policies, internal regulations and code of conduct, all onshore/offshore transactions, services and products to ISSC, and should not consider approval of any of the Group's Shari'ah Supervision Committees outside the country as substitution to approval of the ISSC.
- Ensuring implementation of the ISSC's fatwa and resolutions

The Senior Management must fully disclose all relevant information required by the ISSC in a transparent, accurate and timely manner

The Senior Management shall provide the ISSC with financial and human resources that are commensurate with the size and nature of NBF Islamic's business.

The Senior Management must

- Facilitate work of Internal Shari'ah audit and external Shari'ah audit
- Ascertain that the Shari'ah auditors are not obstructed in their work.
- Enable Shari'ah auditors to access information or staff, from all different levels

The Senior Management is responsible to establish sufficient knowledge regarding the Compliance with Islamic Shari'ah requirements and the culture of Islamic Shari'ah compliant banking in NBF Islamic.

Shari'ah Governance Committee

The SGC shall assume the duty of ensuring the operational execution of the SGF by NBF Islamic. The SGC is ultimately accountable for the establishment and overall governance of the SGF. The SGC shall also assume the duty of overseeing that the implementation of the resolutions (religious decree/edict from a qualified scholar) issued by the ISSC are managed by its various reporting lines and that the provisions in the SGF are complied with.

The SGC is expected to understand the Shari'ah non-compliance risks for the purpose of the Islamic business activities of the NBF Islamic. Shari'ah non-compliance risks refer to possible failures to meet the obligation to satisfy the Shari'ah principles or in other words, possible incidences of Shari'ah non-compliance associated with Islamic finance business and the issues relating to such risks, as well as the potential implications arising from failures to comply.

The SGC is expected to make available or take all reasonable measures to make available to the ISSC the information, records and other related documents that are relevant to the Islamic business activities conducted by the NBF Islamic in a prompt and timely manner to assist the ISSC in arriving at informed resolutions, advice and decisions in a prompt and timely manner.

Alongside a sound Shari'ah governance structure, the SGC is under the obligation to ensure that policies and strategies of the Bank that may be relevant to and enhance the Shari'ah compliance environment including effective communications and sufficient and impartial disclosures, are well administered throughout relevant support areas and other business units interacting with the NBF Islamic.

It is the duty of the SGC to ensure that the Shari'ah policies and procedures of NBF Islamic provide clarity on matters related to the end-to-end process of Shari'ah governance in the Islamic business activities and operations of the Bank and that the ISSC's resolutions are accessible to the relevant parties at all times. The SGC shall also be responsible in ensuring that the NBF Islamic's operations are executed in accordance with Shari'ah compliant policies and procedures, and to constantly review and update the Shari'ah compliant policies and procedures to reflect current market practices and developments.

SGC has to submit the approval applications for all new financial products and services to the HSA for review and approval prior to offering them to customers. This shall:

- Include a complete and clear presentation of the product/service, the structure used and the commissions and fees to be charged (if any).
- The submission must be accompanied by all relevant documentation and contracts, and the approval of ISSC.

In the event that it is resolved by the ISSC that certain activities or operations of NBF Islamic are carried out in a manner that is not Shari'ah compliant, the ISSC, after consultation with the SGC, shall specify whether it deems the breach to be a minor or accidental breach of Shari'ah compliance or it deems the breach to be a serious, deliberate or fundamental breach of Shari'ah compliance and the following shall occur.

- i. In the event that the ISSC deems the breach to be a minor or accidental breach of Shari'ah compliance, the SGC shall:
 - a) take immediate steps to isolate and eliminate this Shari'ah non-compliance (up to and including ceasing to taking on new business of the Shari'ah non-compliant product or service);
 - b) purify any tainted income arising out of such non-compliance;
 - c) within 90 (ninety) days of becoming aware of such Shari'ah non-compliance or such further period as may be permitted by the CEO, prepare a report to the ISSC as the case may be outlining how this Shari'ah non-compliance occurred and how to deal with the matter; and
 - d) provide additional training to staff involved in the Shari'ah non-compliance to reduce the likelihood of its reoccurrence.

Notwithstanding the above, any repetition of a Shari'ah non-compliant event, although minor in nature, may be regarded by the ISSC as a serious, deliberate or fundamental breach of compliance.

- ii. In the event that the ISSC deems the non-compliance to be a serious, deliberate or fundamental breach of Shari'ah compliance, the SGC shall:
 - a) immediately notify the NBF Board, MANCOM and MRC of the fact;
 - b) immediately cease to take on any new business related to the Shari'ah non-compliant business;
 - c) within thirty (30) days of becoming aware of such Shari'ah non-compliance or such further period as may be permitted by the ISSC, furnish a plan to rectify the state

- of Shari'ah non-compliance, to be endorsed by the ISSC and duly approved by the MRC;
- d) purify the tainted income arising out of such non-compliance;
 - e) provide additional training to staff involved in the Shari'ah non-compliance to eliminate the likelihood of its reoccurrence;
 - f) notify the HSA of such non-compliance, if required;
 - g) the Bank shall impose appropriate disciplinary actions on the employee(s) responsible for the breach pursuant to its disciplinary processes; and
 - h) the ISSC may suggest administrative or oversight procedures to the Bank to avoid similar breaches in future.

The SGC may nominate and delegate the duties and responsibilities to a particular stakeholder but the delegation thereof shall not obviate the oversight accountability assumed by the SGC.

The Independent Internal Shari'ah Supervision Committee (ISSC)

The ISSC is the highest authority and decision making body on matters related to Shari'ah principles in the Bank's course of business. The ISSC is responsible for the views, decisions and advices provided to the Bank and is expected to consider each issue extensively and in-depth before arriving at any decision. In doing so, the ISSC has the right to call upon any relevant party in the Bank or convene a meeting with relevant parties to facilitate decision making.

The ISSC is expected to perform an oversight role on Shari'ah matters related to NBF's Islamic operations and activities through the observations and reports from NBF Islamic by identifying possible Shari'ah issues, if any, and propose the necessary corrective measures.

The ISSC may itself or require the Bank to obtain the services of an independent Shari'ah Advisory Firm to undertake periodic audits and reviews of NBF Islamic's products and processes to assist it in its deliberations regarding the Bank's compliance with Shari'ah obligations.

The ISSC is expected to provide assistance to the MRC and MANCOM in overseeing the enforcement and implementation of the ISSC's resolutions.

The ISSC has the responsibility to disclose sufficient information on the Bank's state of compliance in its annual financial report pursuant to the requirements of applicable laws.

In cases where disagreement arises, over Shari'ah opinion, between members of ISSC or the disagreement between ISSC and BOD of NBF over the compliance or non-compliance of a particular matter with the provisions of Shari'ah, the disagreement shall be referred to HSA, whose opinion on the matter shall be final.

Other duties and accountabilities of the ISSC and the governing operation procedures for the ISSC shall further be spelt out in the Charter ("**The Charter**") of the ISSC. A copy of the Charter is set out at **Appendix A**.

In addition to the abovementioned duties and accountabilities, the members of the ISSC are expected to observe other relevant provisions contained in this SGF.

The resolutions of the ISSC regarding standard products, services, fees and other basic mechanisms governing Bank's Islamic Banking services including late payment fees and the commitment to donate it shall be published on Bank's website.

SECTION III: Independence

Independence of the ISSC

Independence of the ISSC shall be observed at all times in exercising their duties to make objective and informed judgment.

The Bank shall ensure that the ISSC is free from any undue influence that would hamper it from exercising objective judgment in deliberating issues brought before it. Correspondingly, the ISSC is expected to make sound decisions on Shari'ah matters in an independent and objective manner.

The Bank, shall ensure that all recommendations made by the ISSC are duly noted and considered. Recommendations made by the ISSC should not be modified without its consent.

The ISSC shall have access to accurate, timely and complete information from the SGC. If the information provided is insufficient, the ISSC may request for additional information which shall be duly provided.

In the event that the ISSC is not provided with the required information, the CEO shall be informed of the fact and appropriate action shall be taken to rectify the situation.

Where the ISSC has reason to believe that NBF has been carrying on Shari'ah non-compliant activities, the ISSC shall inform the SGC and recommend suitable measures to rectify the situation.

To ensure independence of ISSC members, guidelines given by the HSA from time to time shall be applicable on ISSC members unless a member is exempted from the guidelines by the HSA.

SECTION IV: Competency

The key management and other relevant parties, engaged in the Islamic business activities of NBF, shall possess adequate competency in Islamic finance. Every party shall use their best effort to enhance their Shari'ah knowledge by attending internal and external training provided and, where relevant, proactively self-educating themselves.

ISSC members are expected to equip themselves with knowledge on current Shari'ah issues and developments as well as attend relevant training programs provided by key Shari'ah bodies such as Islamic Fiqh Academy ("**IFA**"), Accounting and Auditing of Islamic Financial Institutions ("**AAOIFI**"), Islamic Financial Services Board ("**IFSB**") and their successor organisations and other similarly renowned organisations, as are relevant.

The Bank is not, at any time, under any obligation to assess the ISSC in relation to its competence in Shari'ah. The standard of competence of an ISSC member and other requirements are outlined in the Charter.

SECTION V: Confidentiality and Consistency

Confidentiality and consistency requirements by the ISSC

The ISSC shall have access to both confidential and non-confidential files, records, conversations and draft materials, that are relevant to the activities and operations of NBF Islamic, to the extent that are required to facilitate decision making, unless disclosure is prohibited by law or the CBUAE. Any confidential or commercially sensitive information obtained by any member of the ISSC shall not be disclosed or used in any manner that may be detrimental to the Bank. Every member of the ISSC is entrusted with individual responsibility to observe the principle of confidentiality at all times.

Confidential information is information received by the members of the ISSC that is not public in nature and has not been authorized to be made public. Confidential information includes, but is not limited to, the following:

- i. information on the development of new products and services;
- ii. decisions of the Board of Directors, MANCOM, MRC or the SGC;
- iii. internal memorandums or reports prepared in connection with matters presented, or to be presented to the ISSC;
- iv. the content or occurrence of conversations among members of the ISSC concerning matters deliberated in the meeting and representatives of the Bank;
- v. the progress status of a business transaction or action that has not been made public;
- vi. views expressed by various parties in the course of discussions on a particular matter deliberated by the ISSC; and
- vii. any subject matter that the Bank has indicated should not be revealed, such as internal policies and procedures.

Notwithstanding the above, the disclosure of sensitive information by the ISSC in good faith within the Bank when reporting a matter of concern regarding breach or potential breach of Shari'ah obligations does not constitute a breach of confidentiality. In the event the ISSC is required to disclose any of the above information to any third parties, the ISSC must seek prior written consent from the Bank.

In order to ensure consistency and quality in the Shari'ah decisions and resolutions, the ISSC is expected to develop and adopt a structured process of decision making that is documented and maintained at all times to ensure the credibility of the ISSC.

The ISSC shall use international Islamic Finance best practices for its decision making process pursuant to this clause.

7. Custodian of Shari'ah Governance Framework

The SGF is a critical document approved by the Board of Directors.

Any changes to the SGF shall be made on the recommendation of the SGC after it has engaged with the ISSC and obtained its opinion with regard to the impact of the change on the Bank's compliance with Shari'ah obligations.

A complete and accurate copy of the SGF and its associated documents shall be published on Policytech and shall be made available to all internal stakeholders and ISSC members for reference and implementation.