



Shari'a Governance Framework

Approved by Sharia Governance Committee on 30-November-2016

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1. Introduction

Purpose

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

This 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**").

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 Shari'a governance framework to the activities of NBF Islamic.

Review and update of policy

This SGF may be reviewed by NBF's Shari'a Governance Committee ("**SGC**") in consultation with NBF's Shari'a Supervisory Board (the "**SSB**") and the NBF Management Committee ("**NBF MANCOM**"), on an annual basis and / or as needed basis, taking into account market conditions, risk mitigation strategies and to align with the strategy of NBF.

Any proposed amendment to be made to the SGF by NBF's 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 NBF;
- iii. business processes of NBF;
- iv. the organizational structure of NBF;
- v. job roles, duties, and descriptions for staff of NBF; or
- vi. any other aspect, where NBF Islamic deems it necessary to update its policies and procedures.

2. Objectives and scope of application

Objectives

This SGF is designed to meet the following objectives:

Sets out the expectations of NBF on its Shari'a governance framework to ensure that the operations and business activities of NBF Islamic are in accordance with Shari'a principles; and

Provides a comprehensive guidance to the NBF MANCOM, SGC and the SSB in discharging their duties in matters relating to Shari'a principles.

Associated Documents

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

- i. Terms of Reference for the SSB ("**TOR**");
- ii. Shari'a Review Manual ("**SRM**"); and
- iii. Shari'a Compliance Manual ("**SCM**").

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

Scope of the SGF

This SGF shall be applicable to all of the activities of NBF Islamic and shall **exclude** the conventional banking business of NBF, all related group entities and other branches of NBF.

The Shari'a governance framework and all its functions as highlighted by the SGF are to be implemented with the collaboration of all related functions of NBF.

In the event of any inconsistencies that explicitly contravene any principles of Shari'a, between this SGF and other policies and procedures of NBF Islamic, this SGF shall prevail.

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

Related Documents - Sources of Shari'a Law

Primary sources of the Shari'a 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'a 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'a 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. Governance and Oversight

National Bank of Fujairah Management Committee

The NBF MANCOM or Risk Committee shall be the authority for approval of the SGF.

Chief Executive Officer ("CEO")

The CEO of NBF shall be the SGF owner for NBF providing, in consultation with the NBF MANCOM or Risk Committee and the SSB, the necessary oversight which shall consider the following:

- i) ensuring the current business strategy, risk appetite, governance framework and business structures are in line with NBF's framework and objectives;
- ii) ensuring that detailed procedures are in place across NBF 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 NBF MANCOM shall be consulted on dealing with executive decisions and/or actionable issues arising from the implementation of SGF process and any deficiencies.

Shari'a Governance Committee

The Shari'a Governance Committee (the 'SGC') , in consultation with the Risk Management Group of NBF, assumes oversight and supervisory responsibilities for the functions specified in this 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 this SGF must be based on a proposal by the SGC to the SSB.

The SGC reports into the NBF MANCOM.

4. 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'a 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'a 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) copper
 - (3) aluminium
 - (4) lead
 - (5) tin
 - (6) 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 Executive Member of the SSB.

The Executive Member may request further information on the New Proposed Asset. The Executive Member, if satisfied with all information received may approve or deny the use of the New Proposed Asset for a Murabaha transaction or escalate the matter, in his absolute discretion, to the SSB for an opinion on same. The SSB shall approve or ratify the use of the New Proposed Asset through circulation or SSB meeting.

NBF Islamic shall not use the New Proposed Asset until it has received a ruling from either the Executive Member of the SSB or the SSB, as the case may be.

Where the New Proposed Asset is approved by either the Executive Member of the SSB or the SSB the NBF Islamic may add the approved asset to the Non exhaustive list in this Clause.

Where the New Proposed Asset is not approved by the Executive Member of the SSB or the SSB same shall be noted in this clause. Assets that are 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

5. Compliance with Shari'a Principles

The Shari'a, 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**"), 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'a sanctions. Shari'a 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'a principles. This objective is to be achieved through the wholesale adoption of international Islamic best practices as advised by the SSB.

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

The SSB shall be an independent entity of NBF which shall consist of qualified Shari'a scholars appointed by NBF Shareholders in Annual General Meeting upon recommendation by Board of Directors. The SSB members shall comprise of persons with appropriate qualifications and experience in Shari'a laws and application of Shari'a principles contained in the Shari'a laws who are able to deliberate Islamic market issues brought before them and provide decisions of the highest Shari'a standard to NBF.

Save where the SSB 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'a-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.

The SSB shall issue a review report (covered in Shari'a Review 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).

The report mentioned above:

- a) Shall be read at Annual General Meeting of NBF
- b) Shall be published in the Annual Report of NBF

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

6. Structure of the Shari'a Governance Framework

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

Table 1.0: Structure of Shari'a 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 NBFMANCOM, SGC and the independent SSB.
III	Independence	This section aims to safeguard the independence of the SSB in ensuring sound Shari'a decision-making and emphasis on the role of the NBF MANCOM in recognizing the independence of the SSB.
IV	Competency	This section highlights requirements and expected competencies to ensure key functions are capable of implementing Shari'a 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 SSB.

SECTION I: General Requirements of the Shari'a governance structure for NBF

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

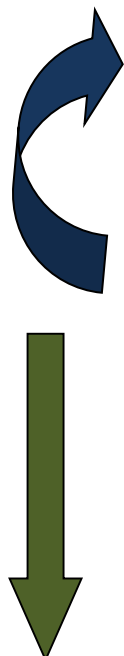
NBF Islamic shall ensure that the aims and operations of its business activities are in compliance with Shari'a principles at all times. An end-to-end control shall be established in all aspects of its business operations to ensure that its overall activities are Shari'a compliant. Shari'a compliant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

A sound and robust SGF is reflected by professional and duly qualified and experienced members of the NBF Islamic and an effective and responsible NBF MANCOM, CEO, and SGC and an independent SSB that is both competent and accountable, all supported by a robust risk management framework.


The end-to-end Shari'a compliance control will be executed through two (2) lines of defence that cater for both pre-execution and post-execution stages.

Table 2.0 and illustration 1.0 illustrate a model structure and respective functions that are involved in each line of defense at a working level.

Table 2.0 Lines of Defence in the Shari'a Governance Framework



High Level Committees	
Branch Oversight	<ul style="list-style-type: none"> • NBF Board Committees • NBF MANCOM • NBF Risk Committee
Special Committee Oversight	<ul style="list-style-type: none"> • SGC
Working Level Committees	
Line of Defence 1: Business units and Support units	<ul style="list-style-type: none"> • NBF Islamic Commercialisation Group • Corporate and Institutional Banking • Retail Banking • Treasury • Operations • Risk Management • Legal • Finance and Middle Office • Corporate Communications
Line of Defence 2: Shari'a Management	<ul style="list-style-type: none"> • SGC • Risk Management
Line of Defence 3: Auditors	<ul style="list-style-type: none"> • NBF Board Audit Committee • Internal Auditors, External Auditors & independent audit by Shari'a experts

Note:  Reporting line of working level to inform high level committees of the status of NBF's Shari'a compliance


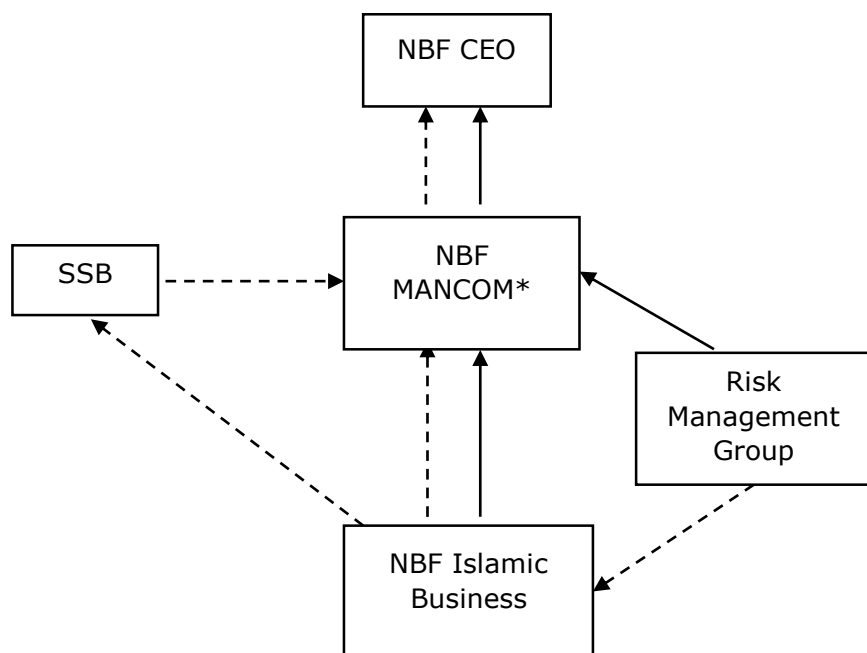
 Line of defence /execution of working committees

Illustration 1.0: Shari'a Governance Framework for NBF



Conventional →
 Relating to Shari'a - - - - - →

***Through Shari'a Governance Committee and Islamic Commercialization Group.**

The SGF comprises of the following

- i) The SSB, overseeing the Shari'a compliance aspects of the activities and operations of NBF Islamic and the High Level Committees and Working Level Committees and departments as stated in this clause overseeing the operational aspects of the NBF Islamic.

The SSB with qualified members who are able to deliberate issues brought before them related to Islamic activities and operations of NBF Islamic and provides sound Shari'a decisions.

- ii) The Shari'a Governance Committee ('SGC'), whose responsibilities include providing adequate resources and capable staff support to every function involved in the implementation of Shari'a governance, in order to ensure that the execution of all operations are in accordance with the Shari'a principles.

- iii) The NBF Islamic (together with internal stakeholders and external advisers such as the SSB), which shall perform the Shari'a related functions of NBF such as Shari'a research, Shari'a review, Shari'a advisory, Shari'a compliance, Shari'a risk management, Shari'a audit, Shari'a secretariat and any other related Shari'a functions in relation to the NBF Islamic, depending on NBF's internal framework and business strategy.

SECTION II: Rights, Duties and Accountabilities**Key functions of NBF and the independent SSB.****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 Committee

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

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

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

The SGC is expected to make available or take all reasonable measures to make available to the SSB 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 SSB in arriving at informed resolutions, advice and decisions in a prompt and timely manner.

The SGC shall endeavour to provide continuous learning and training programs to the NBF Islamic's key internal stakeholders and IM staff to enable sufficient exposure to developments in Shari'a related matters that are relevant to the Islamic business activities conducted by the NBF Islamic and the Islamic financial markets generally. In an effort to create coherence in the understanding and execution of the Shari'a principles, the SGC shall also provide information to NBF Islamic staff via briefings, training and any other suitable means.

It is the duty of the SGC to ensure that the Shari'a policies and procedures of NBF Islamic provide clarity on matters related to the end-to-end process of Shari'a governance in the Islamic business activities and operations of NBF and that the SSB'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'a compliant policies and procedures, and to constantly review and update the Shari'a compliant policies and procedures to reflect current market practices and developments.

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

- i. In the event that the SSB, in consultation with the SGC, deems the breach to be a minor or accidental breach of Shari'a compliance, the SGC shall (and is not restricted to):
 - a) take immediate steps to isolate and eliminate this Shari'a non-compliance (up to and including ceasing to taking on new business of the Shari'a 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'a non-compliance or such further period as may be permitted by the CEO, prepare a report to the SSB as the case may be outlining how this Shari'a non-compliance occurred and how to deal with the matter; and
 - d) provide additional training to staff involved in the Shari'a non-compliance to reduce the likelihood of its reoccurrence.

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

- ii. In the event that the SSB, in consultation with the SGC, deems the non-compliance to be a serious, deliberate or fundamental breach of Shari'a compliance, the SGC shall:

- a) immediately notify the NBF Board, MANCOM and Risk Committee of the fact;
- b) immediately cease to take on any new business related to the Shari'a non-compliant business;
- c) within thirty (30) days of becoming aware of such Shari'a non-compliance or such further period as may be permitted by the SSB, furnish a plan to rectify the state of Shari'a non-compliance, to be endorsed by the SSB and duly approved by the NBF MANCOM;
- d) purify the tainted income arising out of such non-compliance;
- e) provide additional training to staff involved in the Shari'a non-compliance to eliminate the likelihood of its reoccurrence;
- f) notify the appropriate regulatory body in CBUAE (if any) of such non-compliance, if required;
- g) the SSB may not impose sanctions on any employee of NBF for such non-compliance. NBF shall deal with the employee(s) responsible for the breach internally; and
- h) the SSB may, however, suggest administrative or oversight procedures to NBF 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 Shari'a Supervisory Board

The SSB is the highest authority in making the final decision on matters related to Shari'a principles in NBF's course of business operation. The SSB is responsible for the views, decisions and advices provided to NBF and is expected to deliberate every arising issue extensively and in-depth before arriving at any decision. In doing so, the SSB has the right to call upon any relevant party in NBF or convene a meeting with the identified relevant parties to facilitate the decision making.

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

The SSB is expected to provide assistance to the NBF MANCOM in overseeing the enforcement and implementation of the SSB's resolutions. The SSB has the responsibility to disclose sufficient information on NBF's state of compliance in its annual financial report as per the requirements under applicable laws during the tenor of the SSB's appointment.

Other duties and accountabilities of the SSB and the governing operation procedures for the SSB shall further be spelt out in the Terms of Reference ("**TOR**") of the SSB. A copy of the TOR is set out at **Appendix A**.

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

SECTION III: Independence

Independence of the Shari'a Supervisory Board

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

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

The SSB shall report to the NBF MANCOM and regularly inform it on relevant Shari'a matters.

The NBF MANCOM, through the SGC, shall ensure that all recommendations made by the SSB are duly noted and considered by NBF. Recommendations made by the SSB should not be modified without its consent.

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

In the event where the SSB is not provided with the required information, the NBF MANCOM shall be informed of the fact and appropriate action shall be taken to rectify the situation.

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

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'a knowledge by attending internal and external training provided and, where relevant, proactively self-educating themselves.

Besides meeting the requirements of a qualified member of the SSB, the SSB members are expected to equip themselves with knowledge on the current Shari'a issues and development as well as to attend relevant training programs provided by key Shari'a 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 relevant.

NBF and NBF Islamic are not, at any time, under any obligation to assess the SSB in relation to their competence in Shari'a. The standard of competence of an SSB member and other requirements of NBF in an SSB member are outlined in the TOR.

SECTION V: Confidentiality and Consistency

Confidentiality and consistency requirements by the Shari'a Supervisory Board

The SSB 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 the SSB in making their decisions, views and opinions (unless disclosure is prohibited by law or the CBUAE). Any sensitive information obtained by any member of the SSB shall not be disclosed or used in any manner that may be detrimental to NBF. Every member of the SSB is entrusted with individual responsibility to observe the principle of confidentiality at all times.

Confidential information is information received by the members of the SSB 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 NBF MANCOM or the SGC;
- iii. internal memorandums or reports prepared in connection with matters presented, or to be presented to the SSB;
- iv. the content or occurrence of conversations among members of the SSB concerning matters deliberated in the meeting and representatives of NBF;
- v. the progress status on 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 SSB; and

- vii. any subject matter that NBF has indicated should not be revealed, such as internal policies and procedures.

Notwithstanding the above, the disclosure of sensitive information by the SSB in good faith when reporting a serious Shari'a breach to the NBF MANCOM or the CEO, as the case may be, does not constitute a breach of confidentiality. In the event the SSB is required to disclose any of the above information to any third parties, the SSB must seek prior written consent from NBF.

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

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

7. Custodian of Shari'a Governance Framework

The SGF shall be under the safe custody of the SGC. Any changes to the SGF shall be made by the NBF Islamic, with prior consultation with the SSB, as reviewed by the SGC and upon approval by the NBF MANCOM and CEO. A copy of the amended SGF shall be made available to all internal stakeholders and SSB members for reference and implementation.

8. Effective Date of the Document

The effective date of the SGF is the 30th day of November 2016