

- a. Contracts and related documentation used;
- b. Appropriateness of Shariah basis for the allocation of profit between shareholders and investment account holders; and where appropriate
- c. Disposal of any earnings from prohibited source/means to charitable causes;
- d. Zakat computation; and
- e. Any known non-compliance with Shariah and action taken to remedy such non-compliance as reported by the Islamic banking institution as specified in the Circular on Shariah Non-Compliance Reporting. (BNM, Financial Reporting for Islamic Banking Institutions 2018)

In order to present the Shariah Committee's Report, an Islamic banking institution may refer to the framework provided in the Shariah Governance Framework for Islamic Financial Institutions. In paragraph 2.9 of the framework states that "the Shariah Committee is expected to disclose sufficient information in the IFI's annual financial report on the state of the IFI, as per the requirements under the Guidelines on Financial Reporting for Licensed

Islamic Banks (GP8-i) and Guidelines on Financial Statements for Takaful Operators (GPT6)" (BNM 2010). The framework has provided a complete guideline as well as the example of minimum annual disclosure for the banks in presenting the Shariah Committee's Report.

Hence, the banks are supposed to present all the shariah non-compliant events and the income obtained from those events. Other than that, the banks must also present rectification plans to avoid the reoccurrence of the SNC events in the future.

THE PRACTICE OF REPORTING SHARIAH NON-COMPLIANT INCOME

A review has been done to the annual reports of sixteen Islamic Commercial Banks in Malaysia for year 2018 to investigate the existence of Shariah non-compliant incomes reported in the Shariah Committee's Report of the banks. The researchers found that out of sixteen Islamic commercial banks, nine provided the report of SNC income in the annual financial report for the year 2018. The details are given below in table 2:

TABLE 2. The Practice of Reporting SNC income in the Annual Report 2018

No.	Name of Banks	Existence of SNC Income Report in the Annual Report (2018)
1.	Affin Islamic Bank Berhad	Yes
2.	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	No
3.	Alliance Islamic Bank Berhad	Yes
4.	Ambank Islamic Bank Berhad	Yes
5.	Bank Islam Malaysia Berhad	Yes
6.	Bank Muamalat Malaysia Berhad	No
7.	CIMB Islamic Bank Berhad	No
8.	HSBC Amanah Malaysia Berhad	No
9.	Hong Leong Islamic Bank Berhad	Yes
10.	Kuwait Finance House (Malaysia) Berhad	No
11.	MBSB Bank Berhad	No
12.	Maybank Islamic Berhad	Yes
13.	OCBC Al-Amin Bank Berhad	Yes
14.	Public Islamic Bank Berhad	Yes
15.	RHB Islamic Bank Berhad	No
16.	Standard Chartered Saadiq Berhad	Yes

From the table presented, we can observe that nine Islamic Commercial Banks have satisfied the standard provided by BNM in reporting Shariah non-compliant income in the annual financial report. The details regarding the reports are as follows:

AFFIN ISLAMIC BANK BERHAD

The Shariah Committee of the bank reported that the contracts, transactions and dealings entered by the bank during the year ended 31 December

OCBC AL-AMIN BANK BERHAD

The Shariah Committee of OCBC Al-Amin Bank reported that there was one occurrence of SNC event for financial year 2018 due to non-adherence to Guidelines on Late Payment Charges for Islamic Financial Institution, which led to wrong computation of late payment charge for post judgement debt. The financial report of the bank reported that the SNC income of the year amounting to RM3,000 had been channelled to non-profit organizations (OCBC Al-Amin 2018).

PUBLIC ISLAMIC BANK BERHAD

For the financial year 2018, the earnings of Public Islamic Bank that have been realised from sources or means prohibited by the Shariah rules and principles, or any other non-recognisable earnings such as *Gharamah*, were recorded to amount to RM21,000. The Shariah Committee Report of the bank stated that the SNC income had been

considered for disposal to charitable organizations as a rectification plan to minimise reoccurrence of SNC events (Public Islamic 2018).

STANDARD CHARTERED SAADIQ BERHAD

It was reported that there was only one SNC event being detected by the Shariah Committee of Standard Chartered Saadiq Berhad (SCSB), with no SNC income in 2018. In addition to that, there was SNC income amounting to RM4,794 (2017: RM5,850) from an event classified as a SNC event in the year 2017 and approved as SNC income by SCSB's Shariah Committee in 2018. The bank has channelled an amount of RM10,644 (2017: nil) to charity (Standard Chartered, 2018).

The table below shows the conclusion of the reports explained previously, which pertaining to the amount of SNC income reported by the Shariah Committee of the banks and the amount channelled to charity as rectification plans:

TABLE 3. Amount of SNC Income and Charity Fund Reported in the Annual Report 2018 of Nine Islamic Commercial Banks

No	Name of banks	Amount of SNC Incomes (2018)	Amount of Charity Fund (2018)
1.	Affin Islamic Bank Berhad	No SNC income	No record
2.	Alliance Islamic Bank Berhad	RM2,797.00	No record
3.	Ambank Islamic Bank Berhad	RM4,000.00	No record
4.	Bank Islam Malaysia Berhad	RM9,852.53	RM11,568.13
5.	Hong Leong Islamic Bank Berhad	RM26,408.25	RM52,514.33
6.	Maybank Islamic Berhad	RM28,000.00	RM28,000.00
7.	OCBC Al-Amin Bank Berhad	RM3,000.00	RM3,000.00
8.	Public Islamic Bank Berhad	RM21,000.00	RM21,000.00
9.	Standard Chartered Saadiq Berhad	RM4,794.00	RM10,644.00

On the other hand, the researchers found that the remainder (six banks) of Islamic Commercial Banks did not disclose the SNC income report for the year 2018 in their Annual Financial Report. Those banks only provided general statements on SNC income and did not disclose the nature of SNC events. Therefore, it can be summarized that those banks did not satisfied the standards regulated in the Policy Document of Bank Negara Malaysia. Those banks include Al Rajhi Banking & Investment Corporation (Malaysia) Berhad, Bank Muamalat Malaysia Berhad, CIMB Islamic Bank Berhad, HSBC Amanah Malaysia Berhad, Kuwait Finance House (Malaysia) Berhad, MBSB Bank Berhad and RHB Islamic Bank Berhad (Al-Rajhi Bank 2018; Bank Muamalat 2018; CIMB Islamic 2018; HSBC Amanah 2018; Kuwait Finance House 2018; MBSB 2018).

CONCLUSIONS AND RECOMMENDATIONS

Based on the previous discussion, a few points need to be highlighted. Firstly, Shariah non-compliant income is income received from invalid Shariah contracts which may have taken place in Islamic Financial Institutions, though the institutions are supposed to comply with Shariah rules in all their operations. Therefore, in order to enhance transparency in Shariah compliance of business and financial dealings of Islamic banks, Bank Negara Malaysia issued the Policy Document of Financial Reporting for Islamic Banking Institutions, which required that all Islamic Banks disclose SNC income in the annual report, including their rectification plans. The study of the annual reports of 16 Islamic

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