

Report of Shariah Board (For the Year 2022)

In the name of Allah, the Beneficent, the Merciful

By the Grace of Almighty Allah, the year under review is the 5th year of operations of Islamic Banking Division of Zarai Taraqati Bank Ltd. The scope of this report is to cover the affairs of the bank from Shariah perspective as required under the Shariah Governance Framework of State Bank of Pakistan.

State Bank of Pakistan has accorded in-principle approval for Islamic banking in the month of July 2017. After fulfillment of all required conditions, SBP granted license and permission for the commencement of the business of Islamic Banking and thereafter Islamic Banking Division started its operations in the year 2018.

Review and Approval of New Products and Policies/Manuals/Documents/Agreements:

Documents including Policies/Manuals/Agreements or amendments therein submitted by Islamic Banking Division were reviewed and Shariah approvals were granted. The following Policies/Manuals/Documents/Agreements were reviewed and approved by Shariah Board;

Policies, Manuals & Products:

1. Shariah Compliance Manual (Amendments)
2. Staff Financing Products Under Islamic Modes of Financing
3. Liability Product Manual (Addendum)
4. Zarai Islamic Alternate Renewable Energy Financing
5. Zarai Islamic Milk Processing & Preservation Financing
6. Zarai Islamic Farm Mechanization & Agriculture Machinery Financing
7. Zarai Islamic Soil Less Tunnel Farming Financing

Agreements & Documents:

1. Timeline of Profit & Loss Distribution (Amendments / Changes)
2. Shariah Approval of SBP facility "Shariah Compliant Standing Ceiling Facility-Mudarabah Based Financing Facility (MFF)".
3. Shariah Approval of SBP facility "Shariah Compliant Mudarabah Based Open Market Operations-Injections (OMO-Injections)".
4. Annual Training Plan-2022 of ZTBL-IBD
5. Review report on charity distribution (accrued till December 31, 2021)
6. Internal Shariah Compliance Review Plan-2022
7. Shariah Approval for Accrual of Profit of Al-Barakah Sukuk
8. Shariah Approval of the list of Islamic Banks/Windows for Funds Placement/Acceptance.
9. Approval of the Addition of "Cancer Care Hospital & Research Centre Lahore" to the ZTBL-IBD Approved List of Charitable Institutions.
10. Shariah Approval of Extension in Deadline for Declaration of Profit Rates for the month of Feb-2022
11. Review of Periodic Status of compliance of audit observations
12. Review of half yearly status report of unresolved Shariah related issues for the period ended December 31, 2021
13. Shariah Approval for the Purchase of Upcoming GoP Ijarah Sukuk

14. Shariah Approval/Clearance of Placement of ZTBL Hajj funds (collected in Staff salaries) in Shariah Compliant Avenues of IBD
15. Schedule of Charges & Revised Schedule of Charges (July to December-2022)
16. Schedule of Charges (January to June-2023)
17. Islamic Financing Modules of CBAS-Islamic & Financing Forms/Documents.
18. External Shariah Audit Report of ZTBL-IBD for the Year 2021.
19. Shariah Board Opinion / Certificate regarding operations of the proposed Islamic Banking Windows (as required by SBP)".
20. Shariah Approval of OBS AGP Rs. 2,600m Sukuk Issue –NOC for Asset Carve Out
21. Shariah Approval / Vetting of the Neon Sign Board & Standee Design of the IBWs.
22. Annual Training Plan-2023 of ZTBL-IBD
23. Shariah Board Review and Approval of "Circular of DM with Process Flow"
24. Shariah Approval / Opinion of SB Regarding "Alco Agenda - IB Financing Pricing"
25. Shariah Approval of Revised MCB Islamic Interbank Musharakah Acceptance and Placement Agreements
26. Shariah Approval of Minor Changes made by ABL-Islamic in our approved Master Musharakah Acceptance & Placement Agreements
27. Shariah Approval of "Conversion Plan 2023"
28. Shariah Approval of UBL Ameen Master Musharakah Acceptance & Placement Agreements.

Approval of Sukuk:

1. GOP Ijarah Sukuk Investments
2. Shariah Approval of Bank Islami Tier-1 Upcoming Sukuk Investment
3. GOP Ijarah Sukuk Auction Participation

Shariah Board Meetings

The Shariah Board convened meetings four times during the year as per regulatory requirement along with meetings with Board of Directors. Further, SB attended various meetings with member of Board of Directors, authorized for coordination with Shariah Board / Management to discuss all aspects for making the bank Shariah compliant. Apart from these meetings, SB continuously monitored and guided IBD on matters related to Shariah.

Shariah Compliance and Shariah Audit

Shariah compliance has been the strength of ZTBL-Islamic Banking. Shariah compliance mechanism operates at different levels ranging from approval of the products by the SB, approval of specific process flows, random transaction reviews etc. Shariah Compliance Department (SCD) and Shariah Audit Unit perform their functions under the guidance of Shariah Board. SCD conducted Shariah Compliance / Control Review, under the supervision of RSBM, of the Islamic Banking branches and relevant departments of IBD. Shariah Audit unit also conducted Shariah audit of the Islamic Banking branches. Furthermore, the Profit Distribution and Pool Management were reviewed regularly by SCD on monthly basis before each disbursement along with quarterly Internal Shariah Audit Unit. All the reports were submitted to Shariah Board as required under SGF of SBP for obtaining suggestions/corrective actions. During the review, few amendments and corrections were also proposed that were approved by SB. The SCD has ensured the compliance and implementation of the SB rulings.

Training and Capacity Building

The Training Plan of IBD for the year 2022 has been approved by Shariah Board. IBD and Training & Development Division with support of SCD arranged 02 trainings for the staff of Islamic Banking Branches and IBD. Furthermore, 02 trainings for the staff of Islamic Banking Windows were also arranged. Moreover, during Shariah Compliance review, group discussions were also held in reviewed Islamic Banking Branches.

SCD's staff visited Islamic Banking Branches for assessment of understanding of staff and their interaction with customers. It was noted that most of the branches staff's knowledge regarding Islamic banking and Shariah compliance is satisfactory. Further, the interaction of staff with customers to gauge customer's satisfaction was also observed satisfactory.

Conclusion

While the Board of Directors and Executive Management are solely responsible to ensure that the operations of ZTBL-Islamic Banking are conducted in a manner that comply with Shariah principles at all times, Shariah Board is required to submit a report on the overall Shariah compliance environment of ZTBL-Islamic Banking. To establish our opinion as expressed in this report, the Shariah Audit Unit and Shariah Compliance Department carried out Shariah Audit / Compliance Reviews, of the Islamic Banking Branches and relevant departments of IBD. All the reports of the Internal Shariah Audit and Internal Shariah Compliance Review were checked/reviewed.

Based on above and to the best of our knowledge we are of the view that in the year 2022:

- i. The ZTBL-Islamic banking has complied with Shariah rules and principles in the light of Shariah opinions (decisions), rulings and guidelines issued by the Shariah Board.
- ii. The ZTBL-Islamic banking has complied with directives, regulations, instructions and guidelines related to Shariah compliance issued by SBP in accordance with the rulings of SBP's Shariah Advisory Committee.
- iii. ZTBL-Islamic banking has a comprehensive mechanism in place to ensure Shariah compliance in its overall operations. The mechanism comprising of Shariah Compliance Department, independent Internal Shariah Audit Unit, full time RSBM in the bank and trainings for Islamic Banking staff in line with Shariah Governance Framework of SBP are in place.
- iv. ZTBL-Islamic banking has a well-defined system in the shape of Shariah Compliance Review and Internal Shariah Audit in place sound enough to ensure that any earnings realized from sources or by means prohibited by the Shariah shall be credited to charity account that will be properly utilized.
- v. ZTBL-Islamic banking has complied with the SBP instructions on profit and loss distribution and pool management.
- vi. The level of awareness, capacity and sensitization of the staff, and the management for Shariah Compliance remained acceptable. It is encouraging to note that the Bank's Training & Development Division on our advice carried out Islamic Banking training for all the employees posted in Islamic Banking branches.
- vii. The Shariah Board has been provided adequate resources enabling it to discharge its duties effectively.

Recommendations:

- i. Shariah Board has already approved the Conversion Plan for the year 2023 and the same was submitted to State Bank of Pakistan. State Bank of Pakistan has accord approval for conversion of 20 branches in to Islamic Banking in the year 2023. It is recommended that the conversion process may be completed within SBP's given timeline. Going forward, it is further recommended that the conversion may be carried out every year to enhance the network of IBD.

In the end; we pray to Allah Almighty to grant us success in both worlds and help us at every step, keep us away from every hindrance and difficulty, and give financial success to ZTBL-IBD.



Mufti Fawad Ali
RSBM



Mufti Muhammad Wasie Fasih
Chairman SB

Date of Report: 30/01/2023