

Report of Shariah Board (For the Year 2023)

In the name of Allah, the Beneficent, the Merciful

By the Grace of Almighty Allah, the year under review is the 6th year of operations of Islamic Banking Division of Zarai Taraqiati 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 (Revised)
2. Liability Product Manual (Amendments)
3. Zarai Islamic Tahfuz e Ajnas (Agri Storage) Financing
4. Zarai Islamic Khushhali Financing
5. Zarai Islamic Livestock Financing
6. IBD's Chapter in ZTBL Training & Development Policy
7. Shariah Compliance Policy (Revised)
8. Charity Policy (Revised)
9. P&L Distribution and Pool Management Policy (Revised)
10. Policy for Exposure Against Cash Securities (Revised)
11. Circular of Financing Product of "Three Wheeler Loader Rickshaw"
12. Circular of Financing Product of "Rice Transplanter".
13. Revised Shariah Compliance Check Lists (Anx-1 of Shariah Compliance Manual)
14. Shariah Vetting/Approval of IB Credit Policy

Agreements & Documents:

1. Internal Shariah Compliance Review Plan-2023
2. Internal Shariah Audit Plan-2023
3. Shariah Approval for Addition of Inclusion of "U Micro Finance Bank" into the Approved List of Banks.
4. Review of the Contract for Hajj-2023".
5. Shariah Approval of BID Document Tractor Takaful.
6. Shariah Approval / Vetting of the Newspaper AD, Banner & Invoice Conversion 2023.
7. Revised Timeline for Profit Rate Announcement and Disbursement.
8. Shariah Approval of HBL Musharakah Agreements
9. Shariah Approval of Amendments in Conversion Plan-2023.
10. SB's Relaxation of Requirements of 20% in to 10% Tradable / Tradable Assets in Pools

11. Shariah Approval of List of AMCs for Fund Acceptances
12. Shariah Approval of “Conversion Plan 2023”
13. Shariah Board Certificates of the Conversion of Branches
14. Shariah Approval of Addition of Pak Qatar AMC in to Approved List of AMCs
15. Shariah Approval of Master Mudarabah Acceptance Agreement with Pak Qatar
16. Shariah Approval of BID Document of Crops Takaful
17. Shariah Approval (Post Facto) of the Late Disbursement of Profit in to Customers ACs
18. Shariah Approval of the Updated Approved List of FIs for Fund Acceptance under Our SB Approved Agreements Formats
19. Schedule of Charges of Islamic Banking (01.07.2023 to 31.12.2023)
20. Shariah Approval/Vetting of the draft agreement to be executed with Takaful Company
21. Internal Shariah Compliance Review Plan-2024
22. Annual Training Plan-2024 of ZTBL IBD.
23. Shariah Board Opinion on proposed Agri Financing product on Profit & Loss mode.
24. Shariah Approval/Vetting of Financing Form/Document “Acknowledgement by Client”.
25. Approval of Updated / Revised Shariah Process Flow of Financing Transactions under DM.
26. Shariah Approval of Collateral Security in IB Agriculture Financing
27. Schedule of Charges of Islamic Banking (01.01.2024 to 30.06.2024)

Approval of Sukuk:

1. Shariah Approval of Addendum to GOP Ijarah Sukuk Structure
2. Shariah Approval for Participation & Purchase of Upcoming 01 Year Ijarah Sukuk Auction

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, Shariah Board 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, Shariah Board 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. 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.

SCD has also reviewed all the submitted policies, products, documents/agreements and proposed some amendments and corrections that were approved by Shariah Board. The SCD has ensured the compliance and implementation of the Shariah Board rulings.

SCD conducted Shariah Compliance / Control Review, under the supervision of Shariah Board, of the Conversion Process of the 20 branches converted in to Islamic banking during the year 2023 and submitted reports to Shariah Board. Shariah Board has issued Shariah Certificates of the conversion of converted branches.

Training and Capacity Building

The Training Plan of IBD for the year 2023 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, 04 trainings for the staff of the converted branches 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 complies 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 2023:

- 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 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. It is recommended to expedite the conversion process to transform the whole bank into Riba Free/Islamic Bank to achieve the guidelines of Federal Shariat Court regarding Riba Free economy.
- ii. It is recommended to hire Shariah Scholars in both Shariah Compliance Department (SCD) and Internal Shariah Audit Unit (ISA) to strengthen overall Shariah Compliance of the bank and fulfill regulatory requirements, as mentioned in Shariah Governance Framework (SGF-SBP) 2018.

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 Uzair Ashraf Usmani
Member SB

Mufti Muhammad Wasie Fasih
Chairman SB

Date of Report: 22/02/2024