

Report of Shariah Board (For the Year 2024)

In the name of Allah, the Beneficent, the Merciful

By the Grace of Almighty Allah, the year under review is the 7th 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. The requirements of the report are as under;

“The SB (Shariah Board) shall, based on the findings and reports of internal Shariah audit, external Shariah audit and Shariah compliance review, prepare a report on the IBI’s Shariah compliance environment and conditions. Further, the report shall also be placed before the BOD meeting for discussion and shall be published in English with Urdu translation in the IBI’s annual report”

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 & 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/Products/Documents/Agreements were reviewed and approved by Shariah Board;

Policies, Manuals:

1. Internal Shariah Audit Manual (Amendments)
2. Profit & Loss and Pool Management Framework Policy (Revised Version)
3. Addition of Pre-mature encashment procedure in IB Liability Manual
4. Changes / Additions in IB P&L Distribution and Pool Management policy
5. ZTBL Operation Manual
6. ZTBL Conversion Manual
7. IB Windows Policy (Revised)
8. ZTBL PWD Policy
9. Manuals/Policies/Documents of Compliance Division

Products of ZTBL – Islamic Banking:

1. Shariah Process Flow of financing transactions under Zarai Islamic Khushhali Finance product
2. Zarai Islamic Digital Finance.
3. Zarai Islamic Khwateen Rozgar Scheme for Women Empowerment
4. Liability Product “Zarai Islamic Hajj/ Umrah Account
5. Process Flow of Sale & DM Back for Swapping & Conversion
6. Zarai Islamic Agri. Tourist Outlet/Orchard Financing
7. Liability Product Manual (Revised)
8. Bakht Islamic Current and Saving Accounts for women
9. ZTBL Islamic Junior Account for minors
10. ZTBL Islamic Senior Citizen Account for Senior citizens above the age of 60
11. ZTBL Islamic Pension Current Account
12. ZTBL Islamic Pension Saving Account

Agreements & Documents:

1. Format of Internal Shariah Audit Report
2. Checklists of Internal Shariah Audit
3. Checklists for Internal Shariah Compliance Review of IB Branch Operations, IB Financing and IB Treasury Operations.
4. Internal Shariah Audit Plan for the year 2024
5. Half Yearly Report of Head SCD to SB (Jul-Dec 2023)
6. Six Monthly Review Report on training (Jul-Dec 2023)
7. Half Yearly Status Report of Unresolved Issues for the Period ended June 30, 2024
8. Periodic Status Report of Compliance of Audit Observations
9. Opinion / Guidance regarding Proportional Payment of Zonal Office Expenses by IBBs.
10. Master Musharakah Placement Agreement to be executed with Meezan AMC.
11. Bringing down tangible tradable assets requirements in pools from minimum 20% to 10% for the month of Feb 2024.
12. Banker Accounts of IBBs in Conventional banks
13. Shariah Approval of the Late Disbursement of Profit in to Customers ACs.
14. Formats of Master Musharakah Acceptance Agreement (BAFL Islamic).
15. Exemption Regarding Insurance of the financing assets of Islamic Loader Rickshaw Financing.
16. External Shariah Audit Report 2023.
17. Report to SB on Charity Distribution 2024.
18. List of Charitable Institutions/Organizations Recommended by IBD Management.
19. Contents for Social Media.
20. Adoption of Uniform No. of Year Days for Pool Calculations.
21. Schedule of Charges of Islamic Banking (01.07.2024 to 31.12.2024)
22. Shariah Approval (Post Facto) of the late disbursement of profit in customer's accounts in the month of February 2024.
23. Half Yearly Report of Head SCD to SB (Jan-June 2024)
24. Six Monthly Review Report on training for the period ended June 30, 2024
25. Half Yearly Status Report of Unresolved Issues for the Period ended June 30, 2024
26. Periodic Status Report of Compliance of Audit Observations
27. Conversion Plan - 2025
28. Revised Internal Shariah Compliance Review Plan-2024
29. ZTBL IBD Negative List of Prohibited Business Activities
30. Financing against Alienability Certificate in GB Region
31. Transaction Structure of GOP Sukuk.
32. Shariah Board's Fatwa regarding Tobacco (Amendments in Negative List)
33. Addition of Pre-mature encashment procedure in IB Liability Product Manual
34. Schedule of Charges of Islamic Banking (01.01.2025 to 30.06.2025)
35. Formats of Musharakah Acceptance & Placement Agreements (Secured) with MCB

Shariah Board Meetings

The Shariah Board convened meetings four times during the year as per regulatory requirement along with one meeting with Board of Directors. Further, Shariah Board attended various online meetings with IBD team for discussion and better understanding of proposed financing product documents. 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. 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. All the reports were submitted to Shariah Board as required under SGF of SBP for obtaining suggestions/corrective actions.

SCD has also reviewed 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.

Training and Capacity Building

Keeping in view the transformation / conversion of the whole bank in to Islamic banking, for capacity building of the staff, awareness sessions have been conducted along with regular required trainings. An awareness session for the executives (SVPs & above, all GMs, and RBHs) was conducted by Chairman Shariah Board as on August 14, 2024 that was also attended by the key executives included CEO/President of the bank. Further, several weekly awareness sessions (Physical as well as Online) conducted by SB members and other senior staff members of IBD, followed by tests / quizzes are also being organized. Moreover, in-house classroom training sessions are being conducted as a regular feature of ongoing training programs for all staff of the bank.

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 was 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 2024:

- 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 Shariah Compliance Department (SCD) to strengthen overall Shariah Compliance of the bank and fulfill regulatory requirements. Further, hiring of Shariah Scholar is also recommended in Internal Shariah Audit Unit and Product Development Department.

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 Shariah Board



Mufti Wasie Fasih
Chairman Shariah Board

Date of Report: 10/01/2025