

Report of Shariah Board (For the Year 2021)

In the name of Allah, the Beneficent, the Merciful

By the Grace of Almighty Allah, the year under review is the 4th 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.

ZTBL is the largest specialized financial institution of the country with focus on agriculture. The Bank has proven track record of providing credit facilities to agriculturists and landless rural population since its inception. 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. Thus Islamic Banking Division started its operations in July, 2018.

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

Different documents including Policies/Manuals/Agreements or amendments therein submitted by IBD through Shariah Compliance Department were reviewed and Shariah approvals were granted as per Shariah perspective. The following Policies/Manuals/Documents/Agreements were reviewed and approved by Shariah Board;

Policies, Manuals & Products:

1. Exposure Against Cash Securities
2. Bank Guarantee Product
3. Zarai Amadani Certificate (Liability Product)
4. IB Treasury Manual (Revised)
5. Zarai Ijarah Finance (Financing Product)
6. IB Window Policy
7. Liability Product Manual (Amendments / Changes)

Agreements & Documents:

1. Internal Shariah Audit Plan-2021
2. Internal Shariah Audit Plan-2022
3. Internal Shariah Compliance Review Plan-2021
4. IBD Annual Training Plan-2021
5. Schedule of Charges (Jul-Dec 2021)
6. Master Musharakah Acceptance Agreement (with an Islamic Bank)
7. Master Musharakah Placement Agreement (with an Islamic Bank)
8. Account Opening Form for Islamic Asaan Current/Saving Accounts (One page)
9. Shariah Board Opinion regarding Islamic Banking Windows
10. Transfer Pricing Mechanism between Islamic and Conventional
11. Shariah Approval of first fund acceptance transaction between ZTBL IBTD and ZTBL Conventional Treasury / Other Banks Treasuries
12. Shariah Approval of Master Musharakah Agreements (with an Islamic Bank)
13. Schedule of Charges (Jan-June 2022)
14. Shariah Approval for Accrual of Profit of Al-Barakah Sukuk

15. Revision of Intra Treasury Fund Acceptance limit between ZTBL Conventional and ZTBL Islamic Treasuries for upto 100% of Prevailing ZTBL IB Deposits on Mudarabah/Musharakah Basis.
16. Relaxation in Tangible/Tradable Assets Percentage in Pools as per SBP Profit & Loss Distribution and Pool Management Guidelines
17. The Process Flow of managing of funds acceptances from interbank treasuries on Musharakah basis
18. Shariah Approval / Clearance for Profit Accrual for AGP-OBS Sukuk (For the Month of July 2021).
19. Approval of the Institutions Recommended by IBD for Charity Funds Distribution

Approval of Sukuk:

1. Rated, Unsecured, Subordinated and privately Placed Tier-II Sukuk by Al-Baraka Bank (Pakistan) Limited
2. OBS AGP Sukuk
3. Sukuk issued by Agha Steel Industries Limited
4. PIA Sukuk-I
5. Participation in GOP Ijarah Sukuk Auction

Shariah Board Meetings

The bank has Shariah Board (SB) including full time Resident Shariah Board Member (RSBM) to examine and approve all products, policies, agreements and other relevant documents of all types of services offered by Islamic Banking Division of ZTBL. The Shariah Board convened its meetings four times during the year and two times with ZTBL BOD. Full quorum of Shariah Board attended the meetings. 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. Further, the Profit Distribution and Pool Management were reviewed regularly by SCD on monthly basis before each disbursement. Moreover, Internal Shariah Audit Unit conducted quarterly post disbursement audit of the Profit Distribution and Pool Management. All the reports were submitted to Shariah Board as required under SGF of SBP for obtaining suggestions/corrective actions.

While the SCD reviewed the different printed and security stationery items, policies, procedural manuals and product manuals, some amendments and corrections were proposed that were approved by SB. Various changes in the approved documents proposed by SCD were reviewed and approved by SB.

The SCD has ensured, on ongoing basis, the compliance and implementation of the SB rulings.

Training and Capacity Building

The Training Plan of IBD for the year 2021 has been approved by Shariah Board. IBD and Training & Development Division with support of SCD arranged 02 trainings (03 days each) for the staff of Islamic Banking Branches and IBD. Moreover, during Shariah Compliance Review, group discussions were also held in each reviewed IBB.

SCD's staff visited different IBBs 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 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, we are 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 Compliance / Audit 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 2021:

- 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 Department 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.

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
Member SB

Date of Report: 09/03/2022