

# Shariah Board Report

الحمد لله رب العالمين، والصلاة والسلام على خاتم الأنبياء والمرسلين، محمد المصطفى الأمين، وعلى آله وأصحابه أجمعين، وبعد:

All praises to Allah (ﷻ). This was the 19<sup>th</sup> year of Islamic commercial banking for Meezan Bank Limited which is under review. During the year, the Shariah Board (SB) of Meezan Bank held five meetings to review various issues, referred to them by the Bank.

We are pleased to inform that the Bank received two of the most prestigious awards in the domain of Shariah-compliance during 2021 which are Shariah Authenticity Award and the Shariah Auditor of the Year Award from Global Islamic Finance Awards (GIFA 2021). We also congratulate Mr. Irfan Siddiqui – Founding President & CEO, Meezan Bank Limited on receiving the award of Islamic Banker of the Year from GIFA 2021. We are also pleased to share that the Bank received Islamic Finance Advisory Service Provider of the Year Award from Islamic Finance Forum of South Asia Awards (IFFSA). All these accolades reflect the Bank's commitment to provide customers with excellent banking services that completely adhere to Shariah principles.

Meezan Bank has a team of professionals in the Shariah Compliance Department (SCD) working under the guidance of SB. The main objective of this department is to facilitate and ensure Shariah-compliance in all processes, procedures and products, refinement of existing products and procedures, Islamic banking trainings & awareness sessions and Shariah-compliance review of transactions. The SCD also serves as secretariat to the Bank's Shariah Board.

We appreciate the efforts of entire staff of the Bank towards promoting and strengthening the environment of Shariah-compliance in the Bank. It gives us comfort to observe a high level of commitment of the staff, Management and the Board members of the Bank.

We are pleased to share the major achievements of Meezan Bank towards the growth of Islamic Banking during the year ended December 31, 2021:

## Research and New Product Development

We are pleased to share that this year the main focus of the Bank was to extend its reach to the masses and for that purpose launched 'Meezan Asaan Mobile Account' and 'Meezan Smart Wallet' to facilitate the account opening process.

This year the Bank also introduced consumer product suite for Roshan Digital Account (RDA) customers namely Roshan Apna Ghar and Roshan Apni Car, under which the Bank provided financing of Rs 626 million.

During the year the Bank successfully made a transaction under SBP's newly introduced discount window for IBIs on Mudaraba basis. The window will help Islamic banks manage any liquidity shortfall effectively.

We congratulate the Bank for getting the highest allocation of Rs 30 billion for the Islamic SME Asaan Financing (ISAAF) scheme of State Bank of Pakistan. The SME sector comprises of around 5.2 million entities, employs 78% of the non-agricultural labour force and contributes 40% to GDP and 30% to exports. Access to finance remains a key challenge faced by the industry. The ISAAF portfolio and products will play key role in inclusive economic growth.

This year was also a challenging year for the businesses in Pakistan due to the COVID-19 pandemic and its adverse effects on continuity and profitability of businesses. The Bank had accommodated customers in the various Shariah-compliant Refinance Schemes launched by SBP to support business during these difficult times.

Meezan Bank continued to play a leading role towards the Sovereign Sukuk market development and GOP Sukuk worth Rs 736 billion were issued in 2021.

We would also like to appreciate the Bank's efforts in supporting the low-income segment by working on various initiatives such as:

- Support towards development of small businesses through the Kamyab Jawan Scheme of the Government;
- Financing support to retailers, distributors and vendors of different corporate entities
- Financing provided under the Mera Pakistan Mera Ghar scheme of Government of Pakistan.

We are also pleased to share that the Bank has continued to provide financing towards those areas that are environmentally friendly and contributed towards green financing such as Solar Panels financing and as of December 31, 2021 total financing extended under this scheme was Rs 91 million which accounts for approximately 900KW of power.

The SB recognizes the efforts of the SCD for conducting around 234 customer and industry visits to understand their business model and reviewing more than 2,500 different types of cases as per the guidance of RSBM/SB.

During the year, eighteen Shariah-compliant syndicated transactions for various private and public sector entities involving various structures such as Ijarah, Diminishing Musharakah and Running Musharakah were executed for infrastructure development, capital expansion and project financing related needs.

During the year, the SB provided guidelines for different matters; most noteworthy of them were:

- Structure for financing under construction housing schemes
- Profit sharing mechanism for Interbank Musharakah
- Third party paid guarantees in Shirkat ul aqd transactions to secure risk of negligence from partner
- Musharakah with company having stake in rented properties
- Meezan Islamic Card (Alternative to Credit Card)
- Digi Remittance Account
- Meezan Foran Freelancer Account &
- Meezan Instant Asaan Account

## Training & Development

During the year, 173 training sessions comprising more than 3,954 man-hours were organized for staff members across the country, catering to more than 5,205 employees of the Bank. This number includes orientation and batch trainings for new joiners, refresher programs such as Asset Refresher, Deposit Refresher, specialized training for CAD and SME department and certification programs in Islamic financial products. One Islamic Banking e-Learning was also launched, through which 3,758 staff were trained.

The Bank, in collaboration with IBA-CEIF also conducted an Islamic Financial Literacy workshop for kids which was attended by children in the age bracket of 9 to 15 years. In addition, two Islamic calligraphy workshops were held for staff and their children. We are pleased with these initiatives as they are helpful in creating basic awareness about our religion in this age group.

The Bank has also launched a 'Meezan Ambassador Program' that aims to identify well versed and professionally groomed senior level individuals as Meezan Ambassador to conduct trainings and awareness sessions in their areas.

The Bank launched Training Videos in sign language which is a commendable initiative. May Allah (SWT) be pleased with these efforts.

In order to create awareness of Islamic banking among general public, the Bank conducted 75 seminars in major cities which were attended by more than 5,500 participants from different spheres of the society. Owing to the pandemic, most of these sessions were conducted through digital platform. During the year, one Shariah training session was also arranged for the Board of Directors and senior management of the Bank.

It is heartening to observe that in order to disseminate the teachings of Holy Quran, 34 lectures on Understanding Quran were held for all Meezan staff.

### Shariah Advisory and Industry Support

SB is also pleased to share that the Bank is actively supporting the Islamic Finance industry across the globe by providing tailor-made Shariah advisory solutions for their business needs. Following are the notable advisory services provided by the Bank during the year:

- Advisory support to an Islamic Financial Institute in Australia regarding Takaful & other products.
- Technical Advisory services related to converting a leading Consumer electronic goods company into a Shariah-compliant company.
- Technical Advisory services to a Shariah-compliant stock trading platform for Shariah screening of various foreign companies listed in different stock markets globally.
- Technical Shariah Advisory to 'Akhawat Islamic

Microfinance Company' in providing various Shariah-compliant schemes.

- Technical Advisory services to more than 65 funds and plans, which covers a major share of the Islamic Mutual Fund industry.
- Facilitation to NCCPL for launch of a platform for Shariah-compliant share financing.
- Facilitation to EXIM Bank for launch of Islamic window that will support trade business in Pakistan in a Shariah-compliant manner.
- Provide screening facility to PSX in bi-annual re-composition of KMI-30 and PSX-KMI All Share Indices.
- Review and Issuance of Shariah-compliant certificates to several companies based on their financial statements.
- Assist many brokerage houses in developing Shariah Trading Platforms at PSX for RDA accountholders.

## Review of Assets

The Bank has moved towards diversification in the usage of various financing products and has reduced the reliance on Murabaha, as is evident from the Bank's financing portfolio. There is a 3.6% increase in Running Musharakah share of total financing over the previous year. The Bank has mainly focused on financing through Musharakah modes and these constitute 54.1% of the Bank's total financing. The Bank's total financing portfolio reached Rs 777 billion (gross) as of December 31, 2021. Breakup of different financing modes is given here:

We have noted that as per our guidelines, the Bank reversed the financing of Rs 917.7 million provided to its customers under Murabaha & Musawamah without any profit, as those transactions could not be converted into real trade due to genuine business reasons.

Financing Modes	2021 % in total portfolio	2020 % in total portfolio	Increase/ (Decrease)% in total portfolio
Diminishing Musharakah	24.4	27.6	(3.2)
Musharakah & Running Musharakah	29.6	26.0	3.6
Istisna	11.8	12.8	(1.0)
Ijarah	8.1	9.4	(1.3)
Murabaha	1.6	2.6	(1.0)
Musawamah	8.0	7.1	0.9
Salam - Bills	1.3	0.8	0.5
Wakalah Tul Istithmar	4.4	7.5	(3.1)
Tijarah	1.9	2.0	(0.1)
Salam - Commodity	1.8	1.8	-
Other	7.1	2.4	4.7

## Summary of Direct Payment in Murabaha Financing

During the year 2021, 95% of payments for Murabaha financings to Corporate and SME/Commercial customers were direct payment. It is highly recommended that efforts be continued to increase this percentage of direct payments in Murabaha transactions.

It is worth mentioning that in order to strengthen the Shariah-compliance control, physical inspection of delivery of goods was carried out in almost all Istisna and Tijarah transactions.

## Liquidity Management

For the purpose of liquidity management, the Bank invested Rs 114 billion in Pakistan Energy Sukuks I and II and Rs 399 billion in GOP Sukuk. Due to lack of availability of venues for Shariah compliant investments, Bai Muajjal transactions worth Rs 303 billion were outstanding at year end.

## Review of Deposits

It is heartening to see deposits grow by 16% to reach a sum of Rs 1,456 billion as on December 31, 2021. During the year, the process of allocation of assets and funds to various deposit pools, announcement of overall profit-sharing ratios for Mudarabah-based deposits, monthly allocation of weightages, and distribution of income to deposit accounts was monitored and reviewed in accordance with the respective pool management guidelines of SBP and Meezan Bank.

## Shariah Audit

In compliance of the Shariah Governance Framework issued by the State Bank of Pakistan (SBP), a dedicated Shariah Audit Department reporting to the Audit Committee of the Board is in place. This department is playing a significant role towards accomplishment of the objective of ensuring Shariah-compliance by evaluating adherence to Shariah guidelines prescribed by Shariah Board, Resident Shariah Board Member and Shariah guidelines of Islamic Banking Department of the SBP. This

department submits its report to RSBM / Shariah Board for information, review and determination of appropriate corrective actions.

During the year under review, Shariah Audit of 682 branches, Area offices, consumer & corporate hubs and Head Office departments was conducted as a part of the Bank's efforts to strengthen the internal Shariah controls mechanism. These audits not only cover the assessment of financial transactions and operational activities that the branches/departments undertake but also include an evaluation of the knowledge of staff pertaining to Islamic finance.

## Charity

An amount of Rs 201.7 million was transferred to the Charity Payable Account during the year. This includes Rs 77.1 million to eliminate the non-compliant income portion which was identified during Shariah audit, Rs 16 million to purify the dividend income earned from investment made in the Shariah-compliant stocks by the Bank and Rs 108.6 million transferred to Charity Payable Account in the normal course of business on account of non-timely payments by customers in various financial transactions. An amount of Rs 94.2 million was disbursed from the Charity Account after approval of the RSBM/SB.



Details of charity account are available in the note # 20.5

## Suggestions

For the purpose of further improving the business of the Bank and the overall Islamic Banking Industry, SB suggests the following:

### Shariah-compliance Environment

- It is suggested that the Bank should focus on strengthening Shariah controls and accountability culture for Shariah non-compliance to ensure Shariah-compliance in all spheres of banking.
- Considering the higher levels of recent Sukuk issuances, the Bank should reduce reliance on Bai Muajjal.
- Being part of the premier Islamic Bank, all staff should strive to live their lives in accordance with Shariah principles and in particular to follow the dress code as per HR policies.

### Green and Sustainable Finance

- The Bank should play their part to achieve the Sustainable Development Goals set by the United Nations (UN-SDG) and being the market leader should set targets to go beyond.
- The Bank should endeavor to increase sustainable banking practices and increase portfolio of green financing.

### Financial Inclusion and Digitization

- The Bank should actively engage to provide access to finance to the unbanked groups. Focusing on the youth, low-income segment, entrepreneurs and women will help in achieving prosperous Ummah.
- The Bank should use more digital technology in facilitating the customers for their banking needs.

### SME

- Trade forms the basis of Islamic finance; the Bank should

therefore facilitate trade by providing halal financing to the SME sector, small traders and retailers.

- The Bank should have dedicated and well-trained staff to support SMEs in documentation and provide ease of entry to the financial system.

### Awareness

- To bring SMEs and Corporate closer to Islamic banking, the Bank should conduct more customized workshops on Islamic banking products and documentation.
- The Bank should increase focus on creating awareness about Islamic Finance in children, including importance of halal earning and Riba in curricula across all levels of educational institutes to make them future ambassadors of Islamic Finance.
- The Bank should also work on creating awareness about Islamic Finance among Accounting and Business faculty of Universities and colleges and other thought leaders from Government bodies and media houses as they have a major influence on their following.

### Regulatory Framework

- Conventional insurance is not permissible from a Shariah perspective; therefore, it is again recommended to convert more clients to Islamic Insurance i.e. Takaful as soon as possible.
- It is suggested that public-private sector partnership be encouraged for issuance of Sukuk to support financing requirements of the Government.

## Conclusion

As per the charter of the Bank, it is mandatory for the management and employees to ensure application of Shariah principles and guidelines issued by the Shariah Board and Resident Shariah Board Member and to ensure Shariah-compliance in all activities of the Bank. The prime responsibility for ensuring Shariah-compliance of the Bank's operations thus lies with the Board of Directors and Executive Management.

Based on extensive reviews of sample cases for each class of transaction, related documentations, processes, profit distribution mechanism for the depositors by SCD Department, review of Internal Shariah Audit and External Shariah Audit reports and Management's representation made in this regard, the Bank, in our opinion, has complied with the rules & principles of Islamic Shariah in light of the guidelines and directives given by the Shariah Board, Resident Shariah Board Member of Meezan Bank and guidelines issued by Shariah Advisory Committee of the SBP related to Shariah-compliance. The non-compliant income identified during the review is being transferred to the Charity Account through a well-defined system and is being utilized properly in accordance with the instructions of the SB.

Based on the strength and capacity of the full-fledged SCD department and policies/guidelines for Shariah-compliance issued at the Bank, we are of the opinion that an effective mechanism is in place to ensure Shariah-compliance in overall operations of the Bank.

May Allah (ﷻ) bless us with the best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the life hereafter and forgive our mistakes.

Wassalam Alaikum WaRahmat Allah Wa Barakatuh.



Mufti Muhammad Naveed Alam  
Resident Shariah Board Member



Sheikh Esam Mohamed Ishaq  
Member Shariah Board



Dr. Muhammad Imran Ashraf Usmani  
Vice Chairman Shariah Board



Justice (Retd.) Muhammad Taqi Usmani  
Chairman Shariah Board

Dated: 1<sup>st</sup> Rajab UI Murajjab 1443 H / February 3, 2022