

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 year was the 20th year of Islamic commercial banking for Meezan Bank and also the 25th year of the journey that began from the launch of Al-Meezan Investment Bank. On the occasion of 25th anniversary of Shariah-compliant banking in Pakistan, we congratulate the entire Meezan family on this successful journey. We pray that may this journey be prolonged with true spirit Insha'Allah. May Allah (ﷻ) give us tawfeeq and more success in the future towards elimination of Riba from the society. Ameen

During the year, the Shariah Board (SB) of Meezan Bank held five meetings to review various issues, referred to them by the Bank.

Alhamdulillah, CFA Society of Pakistan has recognized Meezan Bank as 'Best Bank of the Year- Large Size Banks' and 'Best Islamic Bank of the Year' for 2022 which is a recognition of the Bank's exemplary performance. The Bank has also received the 'Best Consumer Bank' award by Pakistan Banking Awards, which is one of the most prestigious recognitions of merit in Pakistan's banking industry. In recognition of the Bank's efforts towards ensuring Shariah-compliance, the Bank was again given the Shariah Authenticity Award and the Shariah Auditor of the Year Award by Global Islamic Finance Awards (GIFA 2022).

We are pleased to share that Mr. Irfan Siddiqui - Founding President & CEO, along with Dr. Muhammad Imran Ashraf Usmani - Vice Chairman, Shariah Board of the Bank have been nominated in the high-power steering committee constituted by the Government of Pakistan for implementation of Federal Shariat Court judgement on Riba. We extend our warm wishes to them for being selected for this noble cause. May Allah (ﷻ) accept their efforts in His path.

Meezan Bank has a team of professionals in the Shariah Compliance Department (SCD) working under the guidance of the 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, conducting 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, 2022:

Research and New Product Development

We are pleased to inform that the Bank played a leading role as Joint Financial Advisor of Government of Pakistan (GoP) towards the issuance of Rs 1.35 trillion GoP Sukuk in this year. It is noteworthy that this is the highest amount of GoP Sukuk issued in any business year so far in Pakistan and these issuances have not only helped the GoP in its budget deficit but have also helped Islamic banks in managing their excess liquidity. We wish and pray that year 2023 also proves to be a prolific year in terms of issuance of GoP Sukuk of various nature to address the country's ever-increasing need of Islamic instruments and shall also provide solution to GoP to convert its existing conventional financings into Shariah-compliant financings.

On the deposit side, the Bank has launched a 'Senior Citizens Savings Account' which would enable elderly people to get Shariah-compliant profits on their savings. Also, after a soft launch in 2021, the Bank launched 'Meezan Payroll Partner' to facilitate employers with salary processing and to also encourage employees to avail banking services from the Bank. The Bank also joined hands with AMIM to provide a tailor-made plan to the Bank's customers for an opportunity to earn good Shariah-compliant returns. The Bank also launched Mudarabah based 'Asaan Mobile Account' product in collaboration with State Bank of Pakistan (SBP) to provide access to basic banking services by opening of bank account through any type of mobile phone. Meezan Bank is the only bank to offer a Shariah-compliant remunerative account in this category.

The SB is pleased to share that the Bank has successfully completed implementation of automated management of Mudarabah General Pool and profit distribution mechanism which would enhance transparency and authenticity in all the functions pertaining to profit calculation and distribution.

The Bank actively utilized the Shariah-compliant 'SBP Liquidity

Management Facility for Islamic Financial Institutions' which was launched last year. This facility has provided a level playing field to Islamic banks in competing with conventional banks and offers additional avenues for short-term liquidity management to Islamic banks. The Bank entered into a Musharakah arrangement with PMRC which will enable it to provide housing finance at competitive pricing and also to the low-income segment.

The Bank, in collaboration with an Islamic fintech named 'Haball', has launched a first-of-its-kind Shariah-compliant digital financing platform to provide supply chain financing to vendors and distributors of local and multi-national companies. We are hopeful that the Bank will enter into further collaborations with different Shariah-compliant fintechs for launching digital financing solutions and other Shariah-compliant products that address genuine needs of the SME sector and other untapped market segments.

In order to support energy conservation and efficient energy generation alternatives, the Bank continued to provide financing for solar panels under the SBP's Refinance Scheme. As of December 2022, total exposure to solar finance stood at over Rs 5.83 billion.

At the Alternate Distribution Channels (ADCs) front, the Bank launched its POS Acquiring Business with over 10,000 POS terminals installed in 272 cities in its first year. The Bank also launched Visa Infinite Card, which is a debit card for high-net worth individuals.

During the year, 10 Shariah-compliant syndicated transactions for various private and public sector entities involving diverse structures such as Ijarah, Diminishing Musharakah and Running Musharakah were executed for infrastructure development, capital expansion and project financing related needs.

Shariah Compliance

The SB appreciates the efforts of SCD for conducting around 248 customer and industry visits and reviewing more than 4,000 different types of financing cases as per the guidelines of SB/RSBM.

The SCD conducted a review of more than 121 branches of the Bank to assess basic knowledge of branch staff and general Shariah environment of the Bank. Based on their assessment, a report is issued to the Regions to improve their performance on certain areas that were highlighted during these reviews. The SCD also conducted Shariah review of 12 departments of the Bank to ensure that operations of the departments are in line with the SB guidelines.

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

- Guidance on avoidance of qalb ul dain in financing transactions
- Guidance on trading in KMI scripts where Net Liquid Assets per share is more than the current share price
- Approval of Shariah Structure of GoP Ijarah Sukuk on new NHA Assets
- Approval of Financing Structure for acquiring patents/rights
- Approval of various policies and manuals of the Bank
- Approval of training and audit plans

248 customer & industry visits	4,000 financing reviews	121 branch reviews
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Training & Development

During the year, 280 training sessions comprising more than 4,541 man-hours were organized for staff members across the country, catering to around 12,000 employees of the Bank. This number includes Orientation and Batch Trainings for new joiners, Refresher Programs such as Asset Refresher, Deposit Refresher, Treasury and Trade Refreshers and Certification Programs in Islamic financial products. We are pleased to inform that SCD, in co-ordination with Learning & Development launched 2 digital learning modules on internal LMS system which was attended by 11,709 and 10,591 number of staff respectively. The Bank also conducted a 'Train the Trainer' program for the internal Shariah trainers of the Bank as well as 3 programs of Advance level interactive training for senior staff of the Bank in Karachi, Lahore and Islamabad regions.

280 training sessions	4,541 man-hours	12,000 employees
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The Bank had also collaborated with NIBAF and IBA-CEIF for an inaugural certificate program on Islamic Finance for the business faculty of different universities of Karachi. The program was attended by more than 45 faculty members and Insha'Allah would

enable them to provide knowledge about Islamic banking to their students in an effective manner.

We are pleased to share that the Bank is making considerable efforts towards establishing strong cultural values in the Bank in line with Islamic cultural values. In this regard, the Bank had arranged various 'experience sharing sessions' of different scholars and motivational speakers. Noteworthy of them were a series of sessions from a reputable female scholar for female staff regarding grooming, work-life balance management, time management, etc. The Bank also arranged one session for women with an associate professor of INCEIF, who inspired the audience to contribute towards Islamic banking.

The Bank launched 4 training videos where our Shariah Board member Sheikh Esam Mohamed Ishaq educated the audience about various misconceptions in the minds of general public about Islamic banking.

In order to create awareness of Islamic banking among general public, the Bank conducted 160 seminars in major cities, which were attended by more than 10,000 participants from different spheres of the society. During the year, the Bank conducted 5 workshops for its Corporate and SME customers across different cities of Pakistan, two of them were in collaboration with IBA-CEIF.

Shariah Advisory and Industry Support

The SB is also pleased to share that the Bank is actively supporting the Islamic finance industry at a global level 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 and other working capital 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 advisory services to 51 funds and plans, which covers a major share of the Islamic Mutual Fund industry.

- Facilitation to EXIM Bank for launching of an 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.
- Assisting many brokerage houses in developing Shariah Trading Platforms at PSX for Roshan Digital Account holders.
- Developed Sukuk structures for telecommunication and pharma companies based on digital airtime and royalty payment respectively.
- Advisory support to a leading asset management company for launch of Islamic window.
- Advisory support to a leading microfinance company for investments of funds in asset management company.

Review of Assets

The Bank has moved towards diversification in the usage of various financing products and has reduced reliance on Murabaha, as is evident from the Bank's financing portfolio. There is a 5.5% growth in Musharakah from the previous year. The Bank has mainly focused on financing through Musharakah modes, which now constitute 54.9% of the Bank's total financing. The Bank's total financing portfolio reached Rs 1,018 billion (gross) as of December 31, 2022. Breakup of different financing modes is given here.

We have noted that as per our guidelines, the Bank reversed the financing of Rs 501 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	2022 % in total portfolio	2021 % in total portfolio	Increase/ (Decrease)% in total portfolio
Diminishing Musharakah	27.4	28.4	(1.0)
Musharakah & Running Musharakah	27.5	21.0	6.5
Istisna	9.0	8.6	0.4
Ijarah	7.8	12.9	(5.1)
Murabaha	6.8	6.2	0.6
Musawamah	5.5	7.8	(2.3)
Salam - Bills	1.3	0.8	0.5
Wakalah Tul Istithmar	4.5	7.0	(2.5)
Tijarah	1.6	1.7	(0.1)
Salam - Commodity	1.9	1.5	0.4
Other	8.0	4.9	3.1

Summary of Direct Payment in Murabaha Financing

During the year 2022, 84% of payments for Murabaha financings to Corporate and SME/Commercial customers were direct payments. 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 713 billion in GoP Sukuk which is approximately 1.8 times more than the Bank's investment of Rs 398 billion in GoP Sukuk last year. With the increase in Sukuk issuance, the Bank has reduced its reliance on Bai Muajjal transactions, whose outstandings have decreased remarkably to Rs 60 billion at year end 2022, which also includes Bai Muajjal transactions of Rs 32 billion with SBP.

Review of Deposits

It is heartening to see the Bank's deposits grow by 13.9% to reach a sum of Rs 1,658 billion as on December 31, 2022. On the advice of Shariah Board to explore areas for goods returns in Meezan Bank's savings accounts, the Bank had increased the weightages of various deposit categories which increased the returns and rates of those categories. 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 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 SB, RSBM and Shariah guidelines of Islamic Banking Department of the SBP. The department also submits its report to RSBM/SB for information, review and determination of appropriate corrective actions.

During the year under review, Shariah Audit of 736 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 control mechanism. These audits not only cover the assessment of financial transactions and operational activities that the branches and departments undertake, but also include an evaluation of the knowledge of staff pertaining to Islamic finance.

Charity

An amount of Rs 154.85 million was transferred to the Charity Payable Account during the year. This includes Rs 9.32 million to eliminate the non-compliant income portion which was identified during Shariah audit, Rs 15.36 million to purify the dividend income earned from investments made in the Shariah-compliant stocks by the Bank and Rs 122.79 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 121.43 million was disbursed from the Charity Account after approval of the RSBM/SB.



Details of charity account are available in the note 20.5 of the financial statements of the Bank.

Suggestions

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

Conversion of Financial System

- Being the Premier Islamic Bank, Meezan Bank should strive to give maximum support to Government of Pakistan and State Bank of Pakistan for their efforts towards Islamization of financial system.
- It is also suggested that the Bank may offer technical support to different public and private sector financial institutions for conversion of their operations to Shariah-compliant operations.

Economic Outlook of Pakistan

- It is suggested that the Bank should try to further explore offering better returns to its depositors in these testing times of high inflation, especially to the small savers.
- In the current economic landscape of Pakistan, the Bank should target young generation and encourage young entrepreneurs, small business and startups by way of different forms of capacity building and financing solutions.

Shariah-compliance Environment

- It is suggested that Bank should make efforts to use digital technology for its capacity building efforts.
- It is suggested that the Bank should continue its focus on strengthening Shariah controls and accountability culture for Shariah non-compliance to ensure Shariah-compliance in all spheres of banking.
- It is strongly suggested that the Bank should explore ways for inducting human resources who possess strong Shariah mindset and conviction about Islamic banking and who generally practice Islamic values in their personal lives.
- 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.

Green and Sustainable Finance

- The Bank should continue to play its part in achieving the Sustainable Development Goals set by the United Nations (UN-SDGs) and as the market leader, it should set targets to go above and beyond these goals.
- The Bank should endeavor to increase sustainable banking practices, green banking and climate-friendly banking practices.

Awareness

- To bring SMEs and corporates closer to Islamic banking, the Bank should continue to conduct workshops on Islamic banking products & services and may collaborate with trade bodies & chambers for Islamic banking awareness in the business community.
- The Bank should arrange sessions for specific segments of society such as women, children, university students, media persons, journalists to educate them about Islamic banking & finance.
- The Bank should continue to work on creating awareness about Islamic finance, accounting and business amongst faculty members of universities and colleges and other influential leaders how are members of Government bodies and media houses.

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 SB and RSBM 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, 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 Shariah Board.

Based on the strength and capacity of the full-fledged SC 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



Dr. Muhammad Imran Ashraf Usmani
Vice Chairman, Shariah Board



Sheikh Esam Mohamed Ishaq
Member, Shariah Board



Justice (Retd.) Muhammad Taqi Usmani
Chairman, Shariah Board

Dated: 16th Rajab Ul Murajjab 1444 H / February 7, 2023