

# 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 21<sup>st</sup> year of Islamic commercial banking for Meezan Bank which is under review. During the year, the Shariah Board (SB) of Meezan Bank held four meetings to review various issues, referred to them by the Bank.

Alhamdulillah, this year also Meezan Bank was recognized as 'Best Bank in Pakistan' by Pakistan Banking Awards. This award is the most prestigious award of the banking sector of Pakistan and the Bank has won this award for the third time. This award reflects the hard work and commitment of the entire team of Meezan Bank towards the cause of promoting Islamic banking in Pakistan.

Alhamdulillah, the CFA Society of Pakistan has also recognized Meezan Bank as the 'Best Bank of the Year- Large size Banks' and 'Islamic Bank of the Year' for 2023. Furthermore, the Bank was again given the Shariah Authenticity Award and the Shariah Auditor of the Year Award by Global Islamic Finance Awards (GIFA).

We are pleased to share that Mr. Irfan Siddiqui, the President & CEO of the Bank, Dr. Imran Ashraf Usmani, Vice Chairman of Shariah Board of Meezan Bank, and other team members are playing an active role in the high-power steering committee and other related sub-committees made by the Government of Pakistan for the implementation of Federal Shariat Court of Pakistan's judgement on Riba. We extend our warm wishes to them for this noble cause. May Allah (ﷻ) accept their efforts in His path.

Meezan Bank's Shariah Compliance Department (SCD) works under the guidance of the the Bank's Shariah Board (SB). The main objective of this department is to facilitate and ensure Shariah compliance in all processes, procedures and products of the Bank. These includes the refinement of existing products and procedures, Islamic banking training & awareness sessions and Shariah compliance reviews of transactions. SCD also serves as the secretariat to the Bank's Shariah Board.

We appreciate the efforts of the 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 towards insuring Shariah compliance.

We are pleased to share the major achievements of Meezan Bank towards the growth of Islamic banking during the year ended December 31, 2023:

## RESEARCH AND NEW PRODUCT DEVELOPMENT

We are pleased to inform that the Bank played a leading role as the Joint Financial Advisor of the Government of Pakistan towards the issuance of Rs 1.77 trillion Government of Pakistan (GoP) Sukuk this year. Notably, this marks the highest amount of GoP Sukuk issued in any business year in Pakistan. These issuances have not only assisted the GoP in its effort to convert the banking system to Islamic but have also contributed towards reducing its budget deficit. This year, the first-ever GoP Sukuk auction was conducted through Pakistan Stock Exchange, enabling all sectors of society, including individuals, to directly participate in GoP Sukuk and earn halal profit on their investments.

During the year, the Bank launched a Mudarabah-based Women First Account, a dedicated account for the financial inclusion of women, offering a range of value-added services and benefits tailored to their needs. Additionally, the Bank launched a dedicated Certificate of Islamic Investment (COII) for senior citizens with special weightages to provide them an opportunity to earn higher profit rates.

To support green and renewable energy initiatives, the Bank launched a commercial solar financing product for end consumers on the basis of Musawamah adding a total of 1,361 KW to the national grid. The Bank continued to provide financing for solar panels under the State Bank of Pakistan refinance scheme. As of December 2023, the total exposure to Solar Finance stood at Rs 239 million.

The Bank also relaunched its bike finance product, 'Apni Bike' for its customers on the basis of Musawamah, providing an affordable motorcycle financing solutions, disbursing a total of Rs 147 million for this purpose.

We are pleased to share that the Bank is focusing on increasing access to finance for the SME sector in Pakistan. Despite challenging market conditions, the SME portfolio grew by 13.5%, from Rs 17.8 billion in 2022 to Rs 20.2 billion in 2023. The Bank provided financing to 230 distributors in the SME sector, of a leading multinational company through the digital Shariah-compliant financing platform in collaboration with Haball. To further increase access to financing for SMEs, the Bank has also launched the subsidized-rate Islamic SME Asaan Financing (ISAAF) scheme introduced by State Bank of Pakistan. As of December 31, 2023, the total number of SMEs reached by the Bank is 373 under ISAAF scheme, with a total outstanding financing of Rs 2.76 billion.

Throughout the year, 15 Shariah-compliant syndicated transactions & Sukuk issuances 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.

## SHARIAH COMPLIANCE

The SB recognizes the efforts of Shariah Compliance Department (SCD) department for conducting around 344 customer and industry visits and reviewing more than 1,900 different types of financing cases as per the guidelines of SB/RSBM.

In 2023, the SCD implemented system-based branch review system to further improve the efficiency of the branch review mechanism and extract meaningful insights of each branch. These insights will help SCD to gauge areas of weakness in Shariah knowledge among branch staff of various designations. SCD conducted review of 176 branches of the Bank to assess basic knowledge of branch staff and general Shariah environment of the Bank. SCD also conducted Shariah review of 25 departments/functions of the Bank to ensure that the 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:

- Approval of Shariah structure of various GoP Ijarah Sukuk
- Guidelines on the short-term GoP Sukuk structure
- Guidance on Open-Ended Guarantee
- Approval of different deposit accounts
- Approval of Shariah Structure of Sukuk on purchase of patents
- Approval of various policies and manuals of the Bank
- Approval of Training and Shariah Audit plans

## TRAINING & DEVELOPMENT

During the year, 361 Shariah related training sessions were conducted, catering to around 14,000 employees of the Bank. These sessions include orientations and batch trainings for new joiners as well as refresher programs such as Asset Refresher, Deposit Refresher, Consumer Refresher, Treasury and Trade Refreshers, and the Islamic Banker Certificate. We are pleased to inform that the Bank launched 3 digital learning modules on the internal Learning Management System (LMS) which was attended by 13,400+ (Module-1), 13,100+ (Module-2) and 12,900+ (Module-3) staff members respectively. The Bank also conducted 2 specialized 'Train the Trainer' program for the Internal Shariah trainers of the Bank. Furthermore, the Bank conducted 5 programs of Shariah related Advanced-level Interactive training for senior executives in Karachi, Lahore, and Islamabad.

The Bank continues to support various universities for capacity building of their faculty members, equipping them to provide knowledge about Islamic Banking effectively to their students. In 2023, the Bank engaged with several universities including University of Karachi, NED University of Engineering & Technology, DHA Suffa University, Institute of Business Management (IoBM), The COMSATS University – Islamabad (CU), Bahauddin Zakariya University (BZU), University of Agriculture Faisalabad (UAF), University of the Punjab and several other institutes across the country for academic and capacity building of their faculty members.

The Bank collaborated with University of Agriculture Faisalabad (UAF) and Bahauddin Zakariya University (BZU) Multan for the establishment of Centre for Islamic Finance, which will promote Islamic Finance in these regions.

## 2023 Highlights

**344** customer & industry visits

**1,900** financing reviews

**176** branch reviews

**25** department reviews

**361** training sessions

**14,000** employees trained



Launched digital learning modules

The Bank had also collaborated with NIBAF - National Institute of Banking & Finance and IBA - Centre for Excellence in Islamic Finance (CEIF) for a Certificate program on Islamic Finance for the business faculty of different universities in Islamabad and Northern areas. The program was attended by more than 50 faculty members and Insha'Allah, will enable them to provide knowledge about Islamic banking to their students effectively.

We are pleased to share that the Bank is making considerable efforts towards establishing strong ethical values in line with Islamic cultural values. The Bank arranged various sessions on leadership and ethical values from renowned speakers. Several internal sessions on 'Role of an Islamic Bankers' for Branch Managers have also been conducted.

The Bank launched 2 animated videos regarding Islamic mode of finance. Additionally, the Bank introduced a series of videos namely 'Meezan Aagahi' to cover various aspects of Islamic Banking. Another video series, 'Paigham-e-Ramzan', was launched, featuring short video messages by senior executives shared on social media platforms.

To create awareness of Islamic banking among the general public, the Bank conducted 200 Islamic Banking seminars in major cities, attended by more than 18,000 participants from different spheres of society. The Bank also conducted 5 workshops for its Corporate and SME customers across different cities in Pakistan, two of which 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 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 and Support to SAFCO Microfinance Company (SMC), in terms of establishing full-fledged Islamic branches by developing Shariah-compliant products, reviewing policies and procedures, and capacity building and training of employees. Through this initiative, a Shariah-compliant financing facility will be available for the low-income population of rural areas.
- Shariah Advisory services & support to a digital bank for the establishment of a full-fledged Islamic digital bank.
- Shariah Advisory services and support to one of Pakistan's leading Development Financial Institution (DFI) for the establishment of their Islamic window along with developing policies, procedural manuals, product programs and capacity building.
- Shariah Advisory services to Pakistan's leading Mutual Funds having a major share of the Islamic Mutual Fund industry in terms of, including but not limited to, investment avenues, launching of funds and plans, review of policies and manuals, etc.
- Screening facility to PSX in bi-annual re-composition of KMI-30 and PSX-KMI All Share Indices.
- Assisted several brokerage houses in developing Shariah-compliant Trading Windows. Till now, the Bank has successfully equipped 35 brokers to offer a Shariah-compliant Trading Platform for PSX.
- Developed one-of-a-kind Sukuk structures for telecommunication and pharma companies based on digital airtime and royalty payment, respectively.
- Developed Shariah Structures for various privately placed Sukuk issued by telecommunication, pharma, FMCG and automobile companies.

## REVIEW OF ASSETS

The Bank has maintained diversification in the usage of various financing products, as evident from the Bank's financing portfolio. The Bank has mainly focused on financing through Musharakah modes, which now constitute 54.3% of the Bank's total financing. The Bank's total financing portfolio reached Rs 992 billion (gross) as of December 31, 2023. Breakup of different financing modes is as follows:

We have noted that as per our guidelines, the Bank reversed the financing of Rs 821.1 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.

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

Financing Modes	2023 %	2022 %	Growth / (Decline) in total portfolio %
Diminishing Musharakah	29.9	26.1	3.8
Musharakah & Running Musharakah	24.4	28.7	(4.3)
Istisna	15.8	14.1	1.7
Ijarah	6.4	6.8	(0.4)
Murabaha	2.2	1.9	0.3
Musawamah	7.4	9.9	(2.5)
Salam – Bills	0.1	0.5	(0.4)
Wakalah Tul Istithmar	3.1	2.5	0.6
Tijarah	1.8	1.3	0.5
Salam – Commodity	2.7	2.1	0.6
Other	6.2	6.0	0.2

## SUMMARY OF DIRECT PAYMENT IN MURABAHA FINANCING

During the year 2023, almost 99% of payments for Murabaha financings were made through banking channels such as Pay Order/Crossed cheques/Account transfer/RTGS into supplier's accounts through our customer. It is highly recommended that efforts be continued to maintain this percentage of direct payments in Murabaha transactions. Ensuring payment to the supplier from banking channels is encouraged as it is essential for financial inclusion and reducing undocumented trade culture.

## LIQUIDITY MANAGEMENT

For the purpose of liquidity management, the Bank invested Rs 1.4 trillion in GOP Sukuk. With the increase in Sukuk issuance the Bank has reduced its reliance on Bai Muajjal transactions, whose outstanding has decreased remarkably from Rs 60 billion in 2022 to Rs 35 billion in 2023.

## REVIEW OF DEPOSITS

It is heartening to see deposits grow by 33.7% to reach a sum of Rs 2,217 billion as of December 31, 2023. 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 were monitored and reviewed in accordance with the respective pool management guidelines of SBP and Meezan Bank.

We are pleased to share that Meezan Bank's management has made efforts to increase deposit rates and, in this

regard, special focus was given to certain deposit segments such as women, senior citizens, mobile wallet account holders and New-To-Bank customers to attract them towards Islamic banking by providing attractive investment options. The Bank also added a new category in Bachat Account product to pass on higher profit rates in 2023 to its small ticket customers. A dedicated term deposit was launched for senior citizens to provide a viable saving proposition in addition to the checking account.

## 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 accomplishing 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 / SB for information, review and determination of appropriate corrective actions.

During the year under review, Shariah Audit of 872 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 203.98 million was transferred to the Charity Payable Account during the year. This includes Rs 2.37 million to eliminate the non-compliant income portion identified during Shariah audit, Rs 17.7 million to purify the dividend income earned from investment made in the Shariah-compliant stocks by the Bank, and Rs 167.6 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 135.85 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, following are our suggestions. Some of them are again reiterated to emphasize the ongoing nature of these suggestions.

### GROOMING OF STAFF

- The Bank is strongly advised to develop and launch Islamic learning and Quran courses for staff so that they could improve their spirituality and be more connected to the noble cause of Islamic banking and establish Islamic banking as banking of first choice.
- Bank should focus on inculcating Islamic values in their training program of front-end-staff and strive to create a culture of 'right product for the right customer' in the Bank.

### CONVERSION OF FINANCIAL SYSTEM

- Being a Premier Islamic Bank, the Bank should continue to provide maximum support to the Government and State Bank of Pakistan for their efforts towards the Islamization of the financial system.
- The Bank, in its role as Joint Financial Advisor to Ministry of Finance, should strive to develop different types of Sukuk structures to cater to various financing and investment needs of different sectors of society.

### BANKING OUTREACH

- Bank should develop smart and easy-to-use Shariah-compliant financing products for small borrowers like BNPL, etc.
- It is a matter of concern that Bank's contribution towards SME finance is very low. It is strongly advised that the Bank must focus and develop long-term sustainable strategy that enables it to grow in this segment which is the backbone of the economy.
- It is suggested that the Bank should continue to find ways to offer good returns to its depositors in these testing times of high inflation.
- The Bank should strive to make collaborations with different micro and nano-financing institutions and incubation centers to increase the reach of Islamic finance to this segment of society.

## SHARIAH COMPLIANCE ENVIRONMENT

- It is suggested that the Bank should continue to use digital technology for its capacity building efforts and also use this platform for training on Islamic values.
- 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.
- The Bank must ensure robust system of accountability of negligent staff so that compliance culture would improve in the Bank.

## AWARENESS

- To bring SMEs and Corporates closer to Islamic banking, the Bank should continue to conduct workshops on Islamic banking.
- The Bank may collaborate with different trade bodies and chambers to create awareness about Islamic banking among the business community.
- The Bank should continue its effort to arrange focused sessions for different segments of society, such as women, children, university students, media persons, journalists, etc.

## 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 the issuance of Sukuk to support financing requirements of the Government.

## CONCLUSION

As per the Shariah Governance framework issued by State Bank of Pakistan, it is mandatory for the management and employees to ensure the 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 the 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 the 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.



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: 16<sup>th</sup> Rajab Ul Murajjab 1445 H / February 7, 2024