

Sharia Board Report
(For the year 2024)

Dubai Islamic Bank Pakistan Limited



الحمد لله رب العالمين، والصَّلوة والسَّلام على خاتم الانبياء والمرسلين، وعلى آله وأصحابه أجمعين، وبعد

By the Grace of Almighty Allah, Dubai Islamic Bank Pakistan Limited (DIBPL) has completed another year of successful operations and played its part well, for the growth of Islamic banking and finance industry.

During the Year 2024, Sharia Board (SB) of DIBPL conducted four Sharia Board meetings to review and approve various matters including transaction proposals, new product variants, new policies and manuals, amendments proposed in the existing policies, product programs and other documentation. The SB received multiple queries and issues from different departments of the Bank and in response, issued appropriate pronouncements, instructions, and guidelines thereon.

The SB has reviewed Sharia Review & Sharia Audit reports pertaining to the Bank's operations during the year, issued its directives and proposed corrective measures. In some instances, impermissible profit amounts have also been instructed to be transferred to charity during the year.

Two meetings of Sharia Board were also held with Board of Directors of the bank to discuss the overall Sharia compliance environment of the bank.

Sharia Compliance

During the year, Sharia Compliance Department (SCD) conducted Sharia Review exercise on a regular basis. For each renewal of financing facilities, sample executed transactions were reviewed to check their compliance with the approved process flows.

During the year, SCD conducted Sharia review of different branches in all regions to assess basic knowledge of branch staff and general Sharia environment of the branch. SCD also conducted a review of monthly profit distribution exercise to ensure that the profit is calculated and distributed in transparent manner to the depositors. SCD also performed review of different departments and financing products during the year.

The bank has a system in place for effective Sharia Non-Compliance Risk Management, which is sound enough to ensure that any earnings realized from sources or by means prohibited by Sharia have been credited to charity account and are being disbursed to various charitable organizations covering different sectors such as Health, Education, welfare etc. During the year, the amount of PKR 53.674 million was transferred to the Charity. This includes non-compliant income portion identified during Sharia Review and Sharia Audit exercise and charity amount on late payments by customers in various transactions etc. The Charity amount was disbursed from the Charity Account after approval of the Charity Committee. Details of Charity disbursements are available in notes to the financial statements of DIBPL.

Learning & Development Department Activities:

SCD continued to facilitate the training department in imparting Islamic Banking trainings to the Bank's staff. During the year, 72 training sessions were organized for 2,978 staff across the country. SB appreciates the bank's commitment to maintain its collaborations with renowned academic institutions like IBA CEIF for

promoting Islamic Finance education especially with respect to AAOIFI Sharia Standards which is producing trained Islamic Banking practitioners for the industry.

Research & New Product Development:

During the year, the bank has developed and launched many products including the Business Debit Card and Co Brand Credit Card during the year, these cards are designed to provide ease to company/legal entity's employees in managing their administrative expense such as travel, inventory purchases, vendor payments, payment for services, etc. The bank also launched Visa Infinite Card designed specifically for high-net worth individuals.

To promote energy conservation and support alternative methods of efficient energy generation, the bank has introduced solar financing for its staff. This offering will also help the bank as a pilot product before the launch in commercial market which is expected to be launched in first quarter 2025.

Moreover, the bank had participated in industry wide structuring of Efficient Energy Saving Fans Financing Facility to make energy-efficient fans affordable for general consumers.

Being part of Joint Financial Advisor (JFA), DIBPL contributed its role in the structuring and legal documentation for the issuance of different GoP Sukuk in the calendar year. These Sukuks not only provide government of Pakistan with much needed financings but also help Islamic banks place their excess liquidity.

To achieve continuous improvement and efficiency, the Bank has optimized its financing product "**Istisna cum Wakalah**". The optimization has been made to enhance the Bank's revenue stream and reduce Shariah non-compliance risk. Additionally, through this optimization, the Bank has simplified operational processes, improved control mechanisms and improved transparency.

During the year, the Bank has developed a new financing product "Transaction Finance", an innovative solution designed to cater the needs of all sectors of business under the concept of Shirkat-ul-Aqd. This optimized innovation includes the better Risk Mitigation and addresses financing needs for customers operating on thin profit margins.

Conclusion & Recommendations:

While the Board of Directors and Executive Management are solely responsible to ensure that the operations of DIBPL are conducted in a manner that always comply with Sharia principles, we are required to submit a report on the overall Sharia compliance environment of the Bank.

To form our opinion as expressed in this report, the SCD of the bank carried out reviews, on test check basis, of each class of transactions, the relevant documentation and process flows. Further, we have also reviewed the reports of the Sharia Audits. Based on above, we are of the view that:

- a. DIBPL has complied with Sharia rules and principles in the light of fatawa, rulings and guidelines issued by its SB.
- b. DIBPL has complied with directives, regulations, instructions, and guidelines related to Sharia compliance issued by SBP in accordance with the rulings of SBP-SAC.
- c. DIBPL has a comprehensive mechanism in place to ensure Sharia compliance in its day-to-day operations. However, to upkeep and strengthen the Sharia compliance environment, SB recommends that the management of DIBPL should focus mainly on system-based controls in financing transactions and lay more efforts to resolve the issue of high turnover of staff. There must be a mechanism in place which shall ensure the continuity of operations through succession planning.

- d. DIBPL has complied with the SBP instructions on profit and loss distribution and pool management. DIBPL uses a system for profit distribution and pool management. However, the system must be further improved to have real time asset/deposit tagging by integrating it with core banking system.
- e. The Bank has made efforts to meet the minimum level of satisfaction in creating awareness and capacity building of its staff related to the importance of Sharia compliance in the products and processes of DIBPL. However, on account of the high turnover of the staff in DIBPL, more frequent and effective Sharia related training is recommended by the SB.

SB has emphasized the management on the importance of training needs of staff including executive management. A comprehensive program needs to be implemented which should, on a regular basis, equip all staff with necessary knowledge about basic concepts of Islamic Banking and its products related to their job roles and responsibilities. Efforts should be made to enhance the effectiveness of E-Learning modules and online knowledge testing mechanism.

In addition to that, SB also recommends DIBPL to enhance its collaborations with other educational institutes to meet training & development requirements of the public at large.

SB recommends that the bank should make more efforts for adherence of Sharia guidelines at branch level and general knowledge about Islamic banking etc. Further, there is a need to spread Islamic banking knowledge through conducting awareness seminars to its clientele and public as well as to enrich the existing Sharia knowledge of its employees with special focus on its front-end staff.

- f. SB has been provided adequate resources enabling it to discharge its duties effectively. However, SB suggests that the Sharia Compliance environment within the Bank should be further strengthened through additional placements of qualified and Islamic Banking experienced resources, mainly in Sharia Audit Unit, Sharia Compliance Unit, Product Development Unit, Trade Ops, Disbursement Desk and Learning & Development Unit.
- g. Most of the observations highlighted by internal/ external Sharia auditors during the year were resolved and no significant outstanding issue is included in this report. However, management should make efforts to have a robust system in place to avoid repeated audit observations in succeeding years.
- h. SB recommends that attention and improvement are needed specifically in collection and safety of transaction documents. Further, Sharia-related controls should be built in the systems to avoid Sharia non-compliance instances due to excessive reliance on manual work/record keeping.



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