ISLAMIC BANKING BULLETIN

July-September 2022

Islamic Banking Department
State Bank of Pakistan

Table of Contents

Progress & Market Share of Islamic Banking Industry

Overview

Assets of Islamic Banking Industry (IBI) grew by Rs 121 billion during the quarter July to September, 2022 and were recorded at Rs 6,902 billion by end September, 2022. Deposits of IBI also increased by Rs 165 billion during the period under review and crossed the five trillion mark to reach Rs 5,021 billion by end September, 2022. The year on year (YoY) growth of assets and deposits of IBI was recorded at 41.3 percent and 31.4 percent, respectively by end September, 2022. The market share of assets and deposits of IBI in the overall banking industry rose to 20 percent and 21 percent, respectively by end September, 2022.

During the period under review, net investments and financing of IBI observed a growth of Rs 149 billion and Rs 24 billion, respectively. As a result, the market shares of financing of IBI in advances of overall banking industry reached at 27 percent while share of investment reached at 15.7 percent by end September, 2022 **(Table-1)**.

Table 1: Industry Progress and Market Share (Amount in PKR Billion)

Particulars	Period			Yearly Growth (%)			Share in Overall Banking Industry (%)		
	Sep-21	Jun-22	Sep-22	Sep-21	Jun-22	Sep-22	Sep-21	Jun-22	Sep-22
Total Assets	4,884	6,781	6,902	28.2	41.4	41.3	17.0	19.5	20.0
Deposits	3,822	4,856	5,021	26.0	27.0	31.4	18.6	20.5	21.1
Investment (Net)	1,371	2,672	2,821	28.1	96.1	105.8	9.4	15.0	15.7
Financing (Net)	2,267	2,961	2,985	34.1	39.8	31.7	24.7	27.2	27.0
Number of Islamic Banking Institutions	22	22	22	-	-	-	-	-	-
Number of Branches*	3,651	4,086	4,191	10.5	14.0	14.8	-	-	-
Number of Islamic Banking Windows	1,579	1,463	1,467	13.9	(6.3)	(7.1)	-	-	-

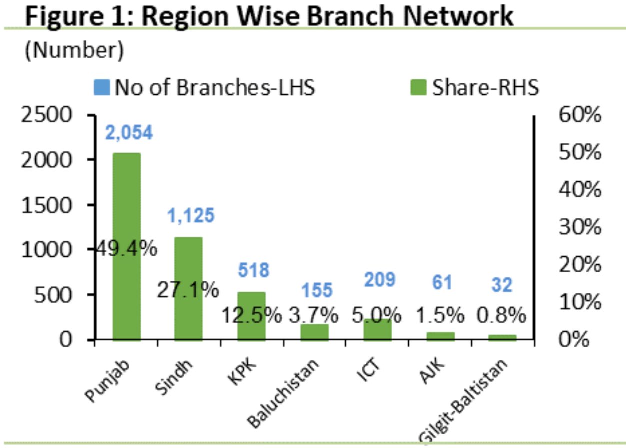
**including sub-branches*

Source: Data submitted by banks under quarterly Reporting Chart of Accounts (RCOA)

Branch Network of Islamic Banking Industry

The network of IBI comprised of 22 Islamic Banking Institutions (IBIs), including 5 full-fledged Islamic Banks (IBs) and 17 Conventional Banks having Islamic Banking Branches (IBBs). During the period under review, 105 branches were added to the branch network of IBI. With this addition, the branch network of IBI reached to 4,191 (spread across 129 districts of the country) by end September, 2022. **Figure-1** shows geographical dispersion of branches across Pakistan. The Islamic

Figure 1: Region Wise Branch Network



Source:SBP

banking windows (dedicated counters at conventional branches) operated by IBBs stood at 1,467 by end September, 2022 (**Annexure I**).

Assets and Liabilities Structure

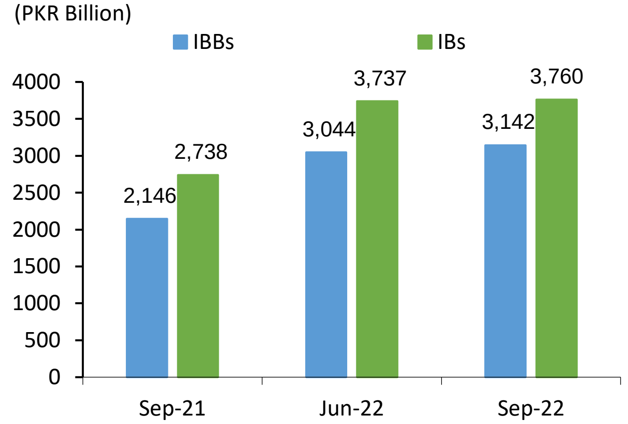
Assets

During the period under review, assets of IBI increased by Rs 121 billion and stood at Rs 6,902 billion compared to Rs 6,781 billion in the previous quarter. Market share of IBI's assets in overall banking assets also increased to 20 percent by end September, 2022 compared to 19.5 percent in the previous quarter. The expansion in asset was mainly backed by investments (net) that exhibited a quarterly upsurge of Rs 149 billion. Likewise, financing (net) of IBI experienced an escalation of Rs 24 billion during the period under review. The share of investments (net) and financing (net) in the total assets of IBI was recorded at 40.9 percent and 43.3 percent, respectively by end September, 2022 (see section below on **Investments** and **Financing & Related Assets** for details).

Breakup of Assets of IBs and IBBs

During the period under review, assets of IBs observed a surge of Rs 23 billion and touched Rs 3,760 billion by end September, 2022. Besides, assets of IBBs increased by Rs 98 billion and were recorded at Rs 3,142 billion by end September, 2022. The share of IBs and IBBs in overall assets of IBI was registered at 54.5 percent and 45.5 percent, respectively by end September, 2022 **(Figure 2)**.

Figure 2: Breakup of Assets

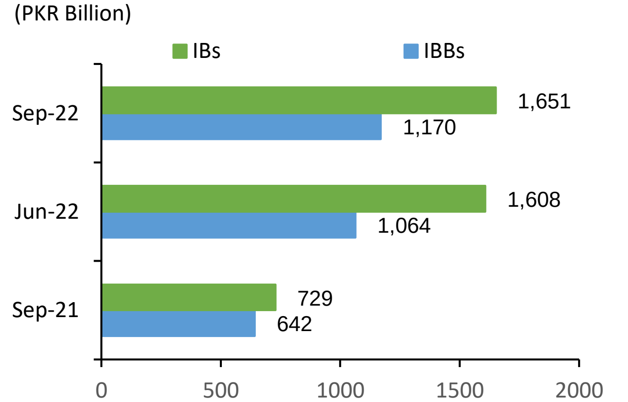


Source: SBP

Investments

Investments (net) of IBI moved up by Rs 149 billion during the period under review to reach Rs 2,821 billion by end September, 2022. This increase was mainly due to investments made by IBI in the Government of Pakistan (GoP) domestic Ijarah Sukuk (GIS). GoP issued six GIS amounting Rs 120 billion during the period under review.

Figure 3: Breakup of Investments



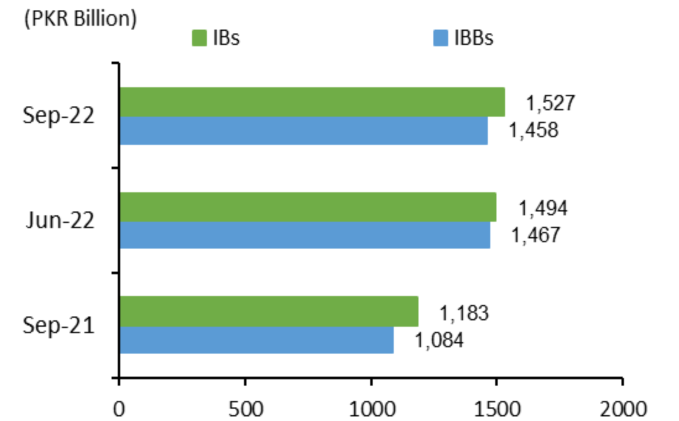
Source: SBP

The breakup of investments (net) portfolio of IBs and IBBs illustrates that investments (net) of IBs increased by Rs 43 billion during the period under review and were recorded at Rs 1,651 billion by end September, 2022. In contrast, investments (net) of IBBs witnessed a quarterly rise of Rs 106 billion to reach Rs 1,170 billion by end September, 2022. The share of IBs and IBBs in overall investments of IBI was 58.5 percent and 41.5 percent, respectively by end September, 2022 (**Figure-3**).

Financing & Related Assets

Financing & related assets (net) of IBI rose by Rs 24 billion during the period under review and stood at Rs 2,985 billion by end September, 2022. The YoY growth of financing of IBI was recorded at 31.7 percent by end September, 2022. Breakup of financing and related assets (net) among IBs and IBBs divulges that financing & related assets (net) of IBs experienced a quarterly increase of Rs 33 billion to reach Rs 1,527 billion by end September, 2022. However, financing and related assets (net) of IBBs decreased by Rs 9 billion and were recorded at Rs 1,458 billion by end September, 2022 (**Figure-4**).

Figure 4: Breakup of Financing



Source: SBP

It is pertinent to mention that the growth of financing portfolio of IBI remained impressive during the last few years. Consequently, the market share of financing of IBI in advances of overall banking industry increased to 27 percent by end September, 2022 compared to 24.7 percent by end September, 2021.

Mode wise break-up of financing divulges that the share of Diminishing Musharaka (35.2 percent) continued highest in the overall financing of IBI, followed by Musharaka (22.9 percent) and Murabaha (15.7 percent) by end September, 2022 (**Table-2**).

Table-2: Mode Wise Financing (Share in %)

Mode	Sep-21	Jun-22	Sep-22
Murabaha	15.9	15.6	15.7
Ijarah	4.8	4.7	4.6
Musharaka	22.0	22.9	22.9
Diminishing Musharakah	35.1	33.9	35.2
Salam	1.7	2.1	1.4
Istisna	6.9	8.0	8.4
Others	13.6	12.8	11.8
Total	**100**	**100**	**100**

In terms of sector wise break-up of financing, textile (16.4 percent), agribusiness (13.6 percent) and production & transmission of energy (10.9 percent) remained three dominant sectors in terms of their share in the overall financing of IBI by end September, 2022 (**Table-3**).

Table-3: Sector Wise Financing (Share in %)				
Sector	**Sep-21**	**Jun-22**	**Sep-22**	**Overall Banking Industry**
Chemical & pharmaceuticals	3.7	4.3	4.6	3.7
Agribusiness	11.5	13.5	13.6	8.7
Textile	15.1	15.7	16.4	16.1
Cement	3.1	2.2	2.7	2.3
Sugar	1.8	3.5	2.3	2.3
Shoes and leather garments	0.5	0.4	0.5	0.5
Automobile & transportation equipment	1.2	1.5	1.5	1.9
Financial	0.2	0.5	0.4	3.0
Insurance	0.0	0.0	0.0	0.0
Electronics & electrical appliances	1.1	1.1	1.0	1.4
Production & transmission of energy	12.1	11.5	10.9	13.3
Individuals	11.6	12.4	12.4	10.0
Others	38.2	33.4	33.6	36.8
Total	**100**	**100**	**100**	**100**

The breakup of client wise financing portfolio shows that the share of corporate sector (68.8 percent) remained highest in the overall financing of IBI followed by commodity financing (16.2 percent) and consumer finance (10.8 percent). Conversely, the share of SMEs and agriculture financing remained low compared to the overall banking industry's share in financing to these sectors (**Table-4**).

Table-4: Client Wise Financing Portfolio (Share in %)				
Segment	**Sep-21**	**Jun-22**	**Sep-22**	**Overall Banking Industry**
Corporate Sector	67.9	68.0	68.8	70.6
SMEs	2.4	1.9	1.8	3.8
Agriculture	0.9	0.8	0.8	3.6
Consumer Finance	10.9	10.9	10.8	7.5
Commodity Financing	16.1	16.8	16.2	10.2
Others	1.7	1.6	1.6	4.3
Total	**100**	**100**	**100**	**100**

Asset Quality

During the period under review, non-performing finances (NPFs) to financing (gross) ratio of IBI remained unchanged and stood at 2.6 percent by end September, 2022. However, net NPFs to net financing ratio further improved and was registered at 0.1 percent by end September, 2022 compared to 0.3 percent in the previous quarter while provision to NPFs ratio was 94.4 percent. The above-mentioned ratios remained relatively better than those of overall banking industry averages (**Table-5**).

Table-5: Assets Quality Ratio (%)				
Ratio	**Sep-21**	**Jun-22**	**Sep-22**	**Overall Banking Industry**
NPFs to Financing (gross)	3.1	2.6	2.6	7.6
Net NPFs to Net Financing	0.4	0.3	0.1	0.7
Provisions to NPFs	86.2	90.5	94.4	92.0

Liabilities

Deposits of IBI expanded by Rs 165 billion during the period under review and were recorded at Rs 5,021 billion by end September, 2022. The market share of IBI's deposits in overall banking industry's deposits increased to 21 percent by end September, 2022 compared to 20.5 percent in the previous quarter.

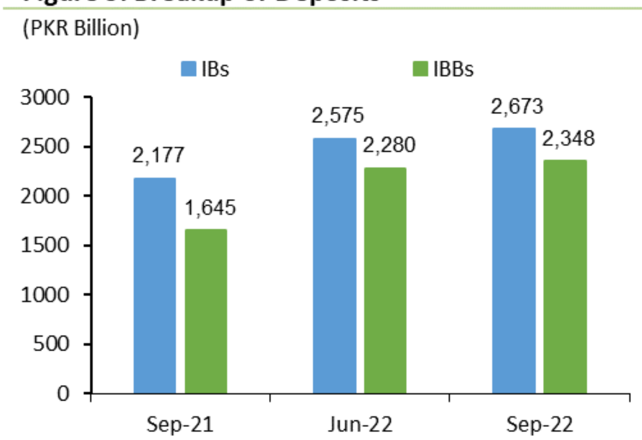
Table-6: Break up of Deposits (Amount in PKR Billion, Growth in %)

Category	Sep-21	Jun-22	Sep-22	Yearly Growth (%)	Quarterly Growth (%)
1. Customers					
Fixed Deposits	642	872	927	44.4	6.3
Saving Deposits	1,448	1,621	1,688	16.6	4.1
Current Deposits	1,405	1,892	1,878	33.7	(0.7)
Others	43	72	81	88.4	12.5
Sub-total	**3,538**	**4,456**	**4,574**	**29.3**	**2.6**
2. Financial Institutions					
Remunerative Deposits	272	383	431	58.5	12.5
Non-remunerative Deposits	12	17	16	33.3	(5.9)
Sub-total	**284**	**400**	**447**	**57.4**	**11.8**
Total (1+2)	**3,822**	**4,856**	**5,021**	**31.4**	**3.4**

Category wise breakup of customers deposits depicts that fixed deposits and saving deposits up by Rs 55 billion and Rs 67 billion, respectively during the period under review. However, current deposits decreased by Rs 14 billion. In contrast, the financial institutions deposits increased by Rs 47 billion during the period under review (**Table-6**). The deposit base of IBs and IBBs was recorded at Rs 2,673 billion and Rs 2,348 billion, respectively by end September, 2022.

The share of IBs and IBBs in overall deposits of IBI stood at 53 percent and 47 percent, respectively by end September, 2022 (**Figure-5**).

Figure 5: Breakup of Deposits



Source: SBP

Liquidity

Liquidity ratios i.e., liquid assets to total assets and liquid assets to total deposits stood at 40.8 percent and 56.1 percent, respectively by end September, 2022. While, financing to deposit ratio of IBI was recorded at 59.4 percent by end September, 2022. Like previous quarters, financing to deposits ratio of IBI remained considerably higher than the overall banking industry average (**Table-7**).

Table-7: Liquidity Ratios (%)

Ratios	Sep-21	Jun-22	Sep-22	Overall Banking Industry
Liquid Assets to Total Assets	27.0	40.4	40.8	57.0
Liquid Assets to Total Deposits	34.5	56.4	56.1	82.7
Financing to Deposits (Net)	59.3	61.0	59.4	46.4

Capital

Capital to total assets and capital minus net NPAs to total assets ratios of IBI were recorded at 5.8 percent and 5.6 percent, respectively by end September, 2022. The above ratios were almost correspond to overall banking industry ratios (**Table-8**).

Table-8: Capital Ratios (%)

Ratios	Sep-21	Jun-22	Sep-22	Overall Banking Industry
Capital to Total Assets	6.3	5.5	5.8	5.8
(Capital - Net NPAs) to Total Assets	6.0	5.3	5.6	5.6

Profitability

Profit before tax of IBI was recorded at Rs 124.5 billion by end September, 2022. While, profitability ratios like return on assets (ROA) and return on equity (ROE) [before tax] stood at 2.6 percent and 46.4 percent, respectively by end September, 2022. Operating expense to gross income ratio of IBI reduced by 2.4 percent and stood at 44 percent by end September, 2022 (**Table-9**).

Table-9: Profitability Ratios (%)

Particulars	Sep-21	Jun-22	Sep-22	Overall Banking Industry
Profit before tax (PKR billion)	66.4	73.4	124.5	487.0
ROA before tax	1.9	2.4	2.6	2.0
ROE before tax	31.3	42.6	46.4	33.0
Operating Expense to Gross Income	50.7	46.4	44.0	49.7

Country Model: Republic of Senegal

i. Introduction

A coastal country in West Africa, Senegal is home to 17 million people spread over an area of 196,712 square km. It borders the North Atlantic Ocean, between Guinea-Bissau and Mauritania. The Senegalese economy is driven by services (primarily tourism), mining, construction, fisheries and agriculture. It is a Muslim-majority (96 percent) nation. According to the International Monetary Fund (IMF), Senegal's GDP stood at $27.54 billion with a GDP growth rate of 4.7% (as of October 2022) and is forecasted to grow at 4.9% by 2025. Despite the growth, the COVID-19 pandemic has delayed developments in the sectors contributing to GDP.

ii. Regulatory landscape

Senegal is a member of the Western African Economic and Monetary Union (WAEMU), comprising eight nations where the union's banking sector is regulated by a common central bank named The Central Bank of West African States, also known by its French acronym, Banque Centrale des États de l'Afrique de l'Ouest (BCEAO). In 2018, the BCEAO introduced a series of four instructions under which the banks, financial institutions, and microfinance institutions in each member state will be able to execute Islamic financing activities.

Since 2021, BCEAO has initiated work aimed at improving the regulatory framework of Islamic finance by developing prudential and accounting frameworks and model contracts for Islamic finance operations and setting up a central Shariah committee. Furthermore, the regional financial market regulator, Regional Council for Public Savings and Financial Markets 'CREPMF' for WAEMO has begun its project of engineering and implementing an Islamic capital market framework.

In 2015, a Waqf Bill to formalize and regulate the Waqf sector was passed by the government, which laid the foundation of the High Authority of Waqf (HAW) in Senegal. According to this decree, the HAW is responsible for managing, and administering public Waqf and ensuring control and supervision of other types of Waqf.

iii. Islamic Banking and finance

There is one full-fledged Islamic bank in Senegal called the Banque Islamique du Senegal (BIS). BIS is currently leading the country's Islamic banking landscape with over 20 branches. Two banks have Islamic banking windows namely Coris Bank International's Baraka and National Bank for Economic Development. Further, other Islamic financial institutions in the country include Faisal Islamic Bank, Islamic Investment Company, and Tamweel Africa Holding's Islamic subsidiary. In addition, Senegal has an Islamic mutual fund named FCP Al Baraka.

Senegal has also been actively engaged with the Islamic Development Bank (IsDB). This engagement has resulted in the Program for the Promotion of Islamic Microfinance in Senegal (PROMISE). PROMISE is a national campaign that aims to financially support 50,000 Micro, small and medium enterprises through initiatives that include building awareness of Islamic finance and microfinance. PAMECAS, an Islamic microfinance institution in Senegal, is an active player in the program, while Taysir Finance received regulatory approval in 2021 to start Islamic microfinance operations as well.

iv. Sukuk

Senegal issued its first Sukuk issue in 2014 amounting to $155.69 million with a maturity of four years, and a second issuance in 2016 for an amount of $233.53 million with a maturity of 10 years. The third Sukuk issue was issued in 2022, which garnered significant attention from investors and resulted in an oversubscription rate of more than 110% and an issue of $513.76 million. This was an unprecedented amount in Sukuk issuance, on the member countries' regional stock exchange, the Bourse Regionale des Valeurs Mobilieres (BRVM).

v. Takaful

In 2019, the Inter-African Conference on Insurance Markets (CIMA), the body in charge of insurance regulation in 14 French-speaking countries including Senegal, introduced takaful and re-Takaful activities in its insurance law. Currently, SenTakaful also known as Sen Assurance Vie's Takaful window is the only takaful player in the country. It offers one product which is a life Takaful contract to back Shariah-compliant financing in case of the subscriber's disability, unemployment, or death.

vi. Way Forward

With the regulatory framework now in place to support Islamic financing in the country, the prospects for Islamic Banking and finance in Senegal are strong. The Senegalese government has taken initiatives to support and encourage Islamic financing in the country. This, coupled with the support of the WAEMU, which has had tremendous success in maintaining stability in the economic bloc, shows promising signs for financial institutions and should facilitate the entrance of additional Islamic banks in the country.

Sources of Information

- Islamic Finance News {https://www.islamicfinancenews.com}
- Website of The Central Bank of West African States { https://www.bceao.int}
- International Monetary Fund (IMF) {https://www.imf.org}
- World Bank (WB) Data: {https://data.worldbank.org}

Adoption of AAOIFI Shari'ah Standard No. (11): 'Istisna'a and Parallel Istisna'

State Bank of Pakistan (SBP), vide IBD Circular No.01 of 2022, has adopted four AAOIFI Shar'iah Standards; (i) No. 10 (Salam and Parallel Salam), (ii) No. 11 (Istisna'a and Parallel Istisna'a), (iii) No. 25 (Combination of Contracts) and (iv) No. 50 (Irrigation Partnership (Musaqat). For the current issue, Standard No. (11): Istisna'a and Parallel Istisna'a is discussed below along with the amendments advised by the Shari'ah Advisory Committee of SBP.

1. Scope of the Standard

The standard covers Istisna'a and parallel Istisna'a transactions whether the Institution is acting as an ultimate purchaser or is acting as a manufacturer or as a builder for construction.

2. Istisna'a Contract

2/1 Conclusion of an Istisna'a contract at the time of contracting or after the bilateral promise

2/1/1 It is permissible that the Institution and a customer conclude an Istisna'a contract before the Institution assumes title to the subject-matter to be sold to the customer or to the materials from which the subject-matter will be produced (manufactured or constructed).

2/1/2 It is permissible for the Institution to benefit from any price offers or quotations that the customer has obtained from other dealers or suppliers to assist it in the evaluation of expenses and the computation of prospective profit.

2/1/3 It is not permissible that the Institution's role in the Istisna'a be that of a financial intermediary between a buyer and a third party, especially if the buyer has become unable to meet his obligations toward such a third party, and this prohibition applies whether such a role would take place before or after the commencement of the work. [see item 4/2/2]

2/2 Form and conditions of an Istisna'a contract

2/2/1 A contract of Istisna'a is binding on the contracting parties provided that certain conditions are fulfilled, which include specification of the type, kind, quality and quantity of the subject-matter to be produced. Moreover, the price of the subject-matter must be known and, if necessary, the delivery date must be determined. If the subject-matter does not conform to the specification agreed upon, the customer has the option to accept or to refuse the subject-matter.

2/2/2 Since a contract of Istisna'a is binding, the parties to the contract are inevitably bound by all obligations and consequences flowing from their agreement. In other words, the contracting parties need not to renew an exchange of offer and acceptance after the subject-matter is completed. This is different from the promise in a contract of Murabahah, which requires the signature of a sale contract through a new offer and acceptance by the parties when possession of the items to be sold is taken by the Institution.

2/2/3 It is not permitted for the manufacturer to stipulate in the contract of Istisna'a that he is not liable for defects.

2/2/4 It is not permissible to conclude Istisna'a contracts or processes of Istisna'a in a manner that makes it a legal device for a mere interest-based financing. Examples are a transaction in which the Institution buys items from the contractor on a cash payment basis and sells them back to the manufacturer on a deferred payment basis at a higher price; or where the party ordering the subject-matter to be produced is the manufacturer himself; or where one third or more of the facility in which the subject-matter will be produced belongs to the customer. All the circumstances mentioned above would make the deal an interest-based financing deal in which the subject-matter never genuinely changes hands, even if the deal is won through competitive bidding. This rule is intended to avoid sale and buy back transactions (Bay' al-'Inah).

3. Subject-Matter of, and Guarantees in, Istisna'a

3/1 The rulings concerning al-Masnoo'

3/1/1 An Istisna'a contract is permissible only for raw materials that can be transformed from their natural state by a manufacturing or construction process involving labour. Therefore, Istisna'a is valid only in so far as the supplier has agreed to provide a subject-matter that is manufactured or constructed.

3/1/2 It is permissible that a contract of Istisna'a be concluded for the production of a subject-matter having unique descriptions according to the requirement of the ultimate purchaser even if such a subject-matter has no substitutes in the market, provided the subject-matter is subject to specification. Similarly, it is permissible that the subject-matter of a contract of Istisna'a be items that have perfect substitutes in the market, and can be substituted for one another in fulfilling an obligation, because they share common characteristics by virtue of the process of manufacture or construction. This rule applies whether the items to be produced are intended for consumption or for use with their substance kept intact.

3/1/3 It is not permissible that the subject-matter of an Istisna'a contract be an existing and identified capital asset. For example, it is invalid for the Institution to conclude a contract to sell a particular designated car or factory on the basis of Istisna'a. This is because Istisna'a is a sale contract applicable to items that are identified by specification, not by designation. Unless the items are completely or partially delivered, the ultimate purchaser has no prior right (in the event that the supplier is declared bankrupt or insolvent) over a third party to the items that are the subject-matter of the contract while they are still in the process of being produced and have not yet been delivered to him. In addition, the ultimate purchaser cannot be regarded as the owner of the materials in the possession of the manufacturer for the purpose of producing the subject-matter of the contract, unless the manufacturer has previously undertaken, as a guarantee for the completion of the work, that such materials will only be used for the order of the ultimate purchaser.

3/1/4 The contract of Istisna'a may be concluded with a condition that the production shall be carried out by the Institution using its own resources, in which case it has to abide by this condition and has no right to assign the process of production to another entity.

3/1/5 It is permissible for the manufacturer to fulfil his obligation in an Istisna'a contract by using items produced by his own resources or items produced by other parties that existed before the contract was concluded. The latter option is, however, only valid if the ultimate purchaser did not stipulate that the manufacturer should use his own resources. However, this rule should not be used as a device for deferment of consideration (the price and the commodity) of a sale of a subject-matter that is to be delivered in the future based on its specification as given by the seller, but which are not intended to be produced.

3/1/6 The manufacturer is under an obligation to produce the subject-matter according to specification and within the period agreed upon or within such reasonable time as the nature of the work may permit, in accordance with accepted practice that is recognised by experts.

3/1/7 The parties may agree on a period during which the manufacturer will be liable for any defects or the maintenance of the subject-matter. They may also leave the determination of liability relating to defects and maintenance to customary practice.

3/1/8 It is permissible to draw up an Istisna'a contract for real estate developments on designated land owned either by the ultimate purchaser or the contractor, or on land in which either of them

3/2 Price and guarantees of Istisna'a contract

3/2/1 It is a requirement that the price for an Istisna'a contract be known at the conclusion of the contract, in which case it can be in the form of cash or tangible goods or the usufruct of an asset for a particular duration, whether such usufruct is related to an asset other than the subject-matter or to the subject-matter itself. The use of usufruct of the subject-matter itself as consideration for an Istisna'a contract is relevant to situations when a government offers a preferential contract giving usufruct to the builder or manufacturer for a particular duration, commonly known as Build Operate Transfer (BOT).

3/2/2 The price of an Istisna'a contract may be deferred or paid in instalments within a certain period of time, or if delivery of the subject-matter is to be made in stages a portion of the price may be paid immediately while the balance is paid by instalments according to the stages of delivery. It is also permissible to connect payment with the stage of completion of the work, (such that a payment is made at the end of each stage), provided the stages of this type of work are by custom subject to specification and their identification will not lead to dispute.

3/2/3 If the process of manufacture or construction is divided into phases, or payment is designed according to the stage of completion of the work, then the manufacturer or contractor is entitled to request that the ultimate buyer make payment accordingly for each stage that has been carried out according to specification.

3/2/4 It is permissible that the price of Istisna'a transactions vary in accordance with variations in delivery date. There is also no objection to a number of offers being subject to negotiation, provided that eventually only one offer will be chosen for concluding the Istisna'a contract. This is to avoid uncertainty and lack of knowledge that may lead to dispute.

3/2/5 A contract of Istisna'a cannot be drawn up on the basis of a Murabahah sale, for example, by determining the price of Istisna'a on a cost- plus basis.

3/2/6 If the actual costs incurred by the Institution to bring the subject-matter to completion are substantially less than the estimated costs or the Institution secures a discount from the party with whom it contracted on a Parallel Istisna'a basis to acquire the subject-matter in order to fulfil its contractual obligation, the Institution is not obliged to give a discount to the ultimate purchaser and the latter is not entitled to the amount or part thereof the Institution has gained over the estimated costs. The same rule applies conversely when the actual costs of production are substantially greater than the estimated costs.

3/3 Guarantees

3/3/1 It is permissible for the Institution, acting either in the capacity of the manufacturer or of the ultimate purchaser, to give or demand accordingly ’Arboun as a guarantee, which will either be part of the price, if the contract is fulfilled, or forfeited, if the contract is rescinded. However, it is preferable that the amount forfeited be limited to an amount equivalent to the actual damage suffered.

3/3/2 In an Istisna’a contract, it is permissible for the Institution, whether acting in the capacity of manufacturer or in the capacity of the ultimate purchaser, to demand guarantees that it considers sufficient to secure fulfilment of its rights against an ultimate purchaser or a manufacturer. It is also permissible for the institution, when acting in the capacity of an ultimate purchaser, to give guarantees requested by the manufacturer, which can be in a form of a mortgage, personal guarantee, assignment of rights, a current account, or an investment account or consent to blocking withdrawal from an account.

4. Changes to Istisna’a Contract

4/1 Amendments, changes and introduction of new conditions

4/1/1 It is permissible, after the conclusion of an Istisna’a contract, for the manufacturer and the ultimate purchaser to agree on amending the manufacturing or construction specifications previously agreed upon or introducing additional specification requirements on condition that the price is adjusted accordingly and a reasonable period for the execution of the new requirements is granted. It is also permissible to state in the contract that the consideration for amendments or introduction of additional requirements shall be determined and added to the original price as per the expert opinion, custom or an identified price index which preclude any uncertainty that may potentially lead to dispute.

4/1/2 The ultimate purchaser cannot oblige the manufacturer to introduce modifications and changes to the subject matter of an Istisna’a contract without the consent of the manufacturer.

4/1/3 It is not permissible for amendments and changes to the contract to be agreed on the basis that an additional sum will be paid in consideration for an extension of the period of payment. However, a rebate for pre-payment is permissible provided it is not stipulated at the conclusion of the contract.

4/2 Intervening contingencies (force majeure)

4/2/1 It is permissible, by way of agreement of the contracting parties or arbitration or judicial procedure, to amend the contract price of an Istisna’a contract upwards or downwards, as a result of intervening contingencies (force majeure). This rule must be read together with item 4/1/3 above.

4/2/2 It is permissible for the Institution to replace a contractor and enter into an Istisna’a contract with a customer to complete a project which had been started by the previous contractor of such a customer. In this case, an assessment of the project should be undertaken on the basis of the existing status of the project. The cost of this assessment is chargeable to the account of the customer, in which case all outstanding debts, if any, that arise from the incomplete Istisna’a contract shall be the personal responsibility of the customer. The parties may after this conclude a new Istisna'a contract for the remaining work. The Institution is not bound to deal with the previous contractor. Rather, the Institution has the right to stipulate that the work needed to complete the project will be carried out by any means it deems fit.

4/2/3 In the case of constructing buildings or public utilities on land owned by the ultimate purchaser, it is permissible to stipulate that the ultimate purchaser has the right to perform the contract of Istisna'a at the expense of the manufacturer if the latter fails to perform the contract or to complete the work within a particular period of time, and that this performance will be effected from the date the manufacturer halted the work.

4/2/4 If the contractor is unable to continue to discharge his obligation, the ultimate purchaser (the owner of the land) is not entitled to acquire ownership of the incomplete building structures or utilities that are already in place without giving consideration to the contractor. However, this rule depends on the cause of the failure to continue the work. If the failure to perform is due to the misconduct of the contractor, the ultimate purchaser is liable only for the value of the building structure and the builder is liable to compensate the ultimate purchaser for any actual damage or loss he suffered. If the failure to perform is due to the misconduct of the ultimate purchaser, the contractor is entitled to the value of the work he has completed and compensation for any damage or loss. However, if the failure to perform has not been caused by either of them, the ultimate purchaser is liable only for the value of the building structure that is already in place and neither of them has any responsibility to pay compensation for the loss or damage the other party had suffered. [see item 4/2/3]

4/2/5 It is permissible that a contract of Istisna'a includes a clause to the effect that if any additional conditions are inserted into the contract at a later date as a result of directives of the relevant authorities, and these additional conditions lead to extra expenses that cannot, by virtue of the terms of the contract, be borne by the manufacturer because they were not in the original contract as signed or there is no law making such payment compulsory, the extra expenses will be borne by the ultimate purchaser.

5. Supervision of the Execution of an Istisna'a Contract

5/1 It is permissible for the seller and purchaser to appoint technically experienced consulting firm to represent it in determining whether the subject-matter conforms to the contractual specification, and to advise the Institution as to whether payment for the subject-matter, or delivery or acceptance of it, under the terms of the contract, should take place, and they should adhere to its resolutions.

5/2 It is permissible for the Institution, when acting as the manufacturer, to draw-up an independent and separate contract of agency appointing the ultimate purchaser as an agent of the Institution to supervise the manufacturing or construction process so as to ensure that the items produced conform to contractual specification.

5/3 It is permissible for the manufacturer and the ultimate purchaser to agree on the party who will bear the additional costs of supervision of an Istisna'a contract.

6. Delivery and Disposal of the Subject-Matter

6/1 The manufacturer is discharged from liability if the subject-matter is delivered to either the ultimate purchaser or to a person appointed by him or if the ultimate purchaser is enabled to exercise full control over the subject-matter.

6/1/1 If the condition of the subject-matter does not conform to the contractual specifications at the date of delivery, the ultimate purchaser has the right to reject the subject-matter or to accept it in its present condition, in which case the acceptance constitutes satisfactory performance of the contract. It is also permissible for the contracting parties to agree on acceptance of a subject-matter that fails to conform to the specification even if such an arrangement involves a price discount.

6/1/2 If the seller offers to deliver a better quality, then the purchaser shall accept his conditions, provided that the seller shall not charge any additional amounts for the better quality, which may be considered one of the ways in which a contract is ethically fulfilled, unless the quality specified in the contract is particularly pursued by the purchaser.

6/2 It is permissible that delivery of the subject-matter takes place before the due date, on condition that the subject-matter meets the specifications agreed upon, in which case the ultimate purchaser is obliged to accept the subject-matter. If the ultimate purchaser is unwilling to take delivery of the subject-matter, the rule on this point depends on whether or not there is justification for this refusal. If there is a good reason for the rejection of the subject-matter, the ultimate purchaser shall not be obliged to accept it. If there is not a good reason for rejecting it, then the ultimate purchaser will be obliged to accept the subject-matter.

6/3 The delivery of the subject-matter may take place through constructive possession, by enabling the ultimate purchaser to take control over the subject-matter after the production process is completed. At this point, the liability of the manufacturer in respect of the subject-matter comes to an end and the liability of the ultimate purchaser begins. If after enabling the ultimate purchaser to take control over the subject- matter any loss or damage subsequently occurs to the subject-matter without any proof of negligence or misconduct on the part of the manufacturer, then the ultimate purchaser is liable. This is therefore the demarcation line between the liabilities of the two parties: the liability of the manufacturer and the liability of the ultimate purchaser.

6/4 If the ultimate purchaser refuses to accept the subject-matter without a good reason after he is enabled to take possession, the subject-matter will remain in the possession of the manufacturer on a trust basis, in which case the manufacturer will not be liable for loss or damage that occurs to it, unless such loss or damage is a result of negligence or misconduct on the part of the manufacturer. The ultimate purchaser bears the expenses for the safe keeping of the subject-matter.

6/5 It is permissible to state in a contract of Istisna'a that the manufacturer will act as the agent of the ultimate purchaser to sell the subject- matter if there is a delay on the part of the purchaser in taking delivery of the subject-matter within a particular period of time. In this case, the manufacturer will sell the subject-matter on behalf of the ultimate purchaser and, after deducting the agreed contract price, the balance, if any, will be returned to the purchaser. If the price obtained is less than the contract price, the manufacturer shall have a right of recourse to the ultimate purchaser for the recovery of the remaining balance. In addition, the ultimate purchaser will bear the expenses incurred in selling the subject-matter.

6/6 It is permissible for the contract of Istisna'a to include a fair penalty clause stipulating an agreed amount of money for compensating the ultimate purchaser adequately if the manufacturer is late in delivering the subject-matter. Such compensation is permissible only if the delay is not caused by intervening contingencies (force majeure). However, it is not permitted to stipulate a penalty clause against the ultimate purchaser for default on payment. [see item 2/1/2 of the Shari'ah Standard No. (3) on Procrastinating Debtor]

6/7 It is not permissible to sell the subject-matter prior to taking either actual or constructive possession of it [see item 6/4]. However, it is permissible to conclude an Istisna'a contract to sell an item on the basis of description or specification that is similar to an item to be acquired from a manufacturer, and this is called Istisna'a Muwazi: Parallel Istisna'a [see item 7].

6/8 It is permissible for the Institution acting in the capacity of ultimate purchaser to appoint, after taking possession of the subject-matter, the manufacturer as an agent to sell the subject-matter to latter's customers on behalf of the Institution. This agency is permissible whether it is carried out free of charge, or for consideration either in the form of a fixed fee or a particular percentage of the sale price, on condition that the contract of agency and the contract of Istisna'a were not entered into in connection with each other.

7. Parallel Istisna'a

7/1 It is permissible for the Institution to buy items on the basis of a clear and unambiguous specification and to pay, with the aim of providing liquidity to the manufacturer, the price in cash when the contract is concluded. Subsequently, the Institution may enter into a contract with another party in order to sell, in the capacity of manufacturer or supplier, items whose specification conforms to the wishes of that other party, on the basis of parallel Istisna'a, and fulfil its contractual obligation accordingly. This is permissible on condition that the delivery date stipulated in the parallel (sale) contract must not precede that stipulated in the original purchase contract, and, moreover, the two contracts should remain separate from each other. [see item 3/1/4]

7/2 It is permissible for the Institution, acting in the capacity of the producer or supplier, to conclude an Istisna'a contract with the aim of selling such items to the customer on a deferred payment basis, and to enter into a Parallel Istisna'a contract on an immediate payment basis with a manufacturer or builder to acquire such items as per the specifications in the first contract and sell them to the customer. This is permissible on condition that the two contracts should remain separate and, moreover, be subject to the matters set out in item 3/1/4.

7/3 As a result of concluding an Istisna'a contract in the capacity of a producer or supplier, the Institution must assume liability for ownership risk and maintenance and insurance expenses prior to delivering the subject-matter to the ultimate purchaser (the customer). Moreover, the Institution is not permitted, in the Parallel Istisna'a contract concluded with the manufacturer, to transfer to the latter the risk arising from its obligations towards the customer.

7/4 It is not permissible to make any contractual link between the obligations under two contracts (the contract of Istisna'a and the contract of Parallel Istisna'a) when they are concluded. Therefore, it is also not permissible for a party to an ordinary Istisna'a contract (I) to withdraw his contractual obligations or delay delivering the subject-matter of the contract because the obligation under Parallel Istisna'a did not take place or (II) to increase the price of the goods to be delivered because of an increase in the cost of goods in the Parallel Istisna'a. However, there is no restriction on the right of the Institution to stipulate conditions and requirements when concluding a Parallel Istisna'a contract as a purchaser, including a penalty clause similar to, or different from, that which the customer has stipulated in the first Istisna'a contract in which the Institution is the supplier.

8. Date of Issuance of the Standard

This Standard was issued on 29 Safar 1422 A.H., corresponding to 23 May 2001 A.D.

Adaptation of the Standard in Pakistan:

For adoption of the Standard in Pakistan, following amendments have been made on the advice of the Shari'ah Advisory Committee, State Bank of Pakistan:

Clause No.	Clarifications/Amendments
1	The following is added as a footnote to the clause: *This clause may be read as follows:* *"**Scope of the Standard*** *The standard covers Istisna'a and parallel Istisna'a transactions whether the institution is acting as a purchaser or as a seller (manufacturer or a builder). But it does not cover 'Istisna'a Sukuk' whose rules have been mentioned in Sukuk Standard."*
2/1/1	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible that the institution and a customer concludean Istisna'a contract even if the institution is yet to hold title to the subject matter of the sale or to the material from which the subject matter will be produced (manufactured or constructed)."*
2/1/3	The following is added as a footnote to the clause: *This clause may be read as follows: "It is not permitted for the institution to finance an already concluded Istisna'a contract between a buyer and a third party, especially if the buyer has becomeunable to meet his obligations toward such a third party, whether the financing takes place beforeor after commencement of the work. (see item 4/2/2)"*
2/2/1	The following is added as a footnote to the clause: *This clause may be read as follows: "A contract of Istisna'a is binding on the contracting parties provided that certain conditions, such as determination of the type, kind, quality, quantity, price of the subject matter to be produced, and ascertaining the delivery date if necessary, are fulfilled.If the subject matter does not conform to the specification agreed upon, the customer has the option to accept or to refuse the subject matter."*
2/2/2	The following is added as a footnote to the clause: *This clause may be read as follows: "Since a contract of Istisna'a is binding, the parties to the contract are inevitably bound by all obligations and consequences following the execution of theagreement. In other words, the contracting parties need not to renew an exchange of offer and acceptance after the subject matter is manufactured. This is different from the promise in*

	a contract of Murabaha, which requires execution of a sale contract through an offer and acceptance by the parties when the title to and possession of the items to be sold is taken by the institution.”
2/2/4	The following is added as a footnote to the clause: *The text “All the circumstances mentioned above would make the deal an interest-based financingdeal in which the subject-matter never genuinely changes hands” is deleted.*
3/1/1	The following is added as a footnote to the clause: *This clause may be read as follows: “An Istisna'a contract is permissible only for those materials that can be transformed from one state to another by a manufacturing or construction process. Therefore, if the manufacturer undertakes to deliver the subject matter of Istisna'a, the contract is valid.”*
3/1/2	The following is added as a footnote to the clause: *This clause may be read as follows: “It is permissible that a contract of Istisna'a be concluded forthe production of a subject matter having unique descriptions according to the requirement of thepurchaser even if such a subject matter has no available sample in the market, provided it can beadequately described. Similarly, it is permissible that the subject matter of a contract of Istisna'abe items that are commonly available in the market, and can be substituted for one another in fulfilling an obligation, because they share common characteristics by virtue of the process of manufacture or construction. This rule applies whether the items to be produced are intended forconsumption or use with their corpus kept intact.”*
3/1/3	The following is added as a footnote to the clause: *This clause may be read as follows: “It is not permissible that the subject matter of an Istisna'a contract be an identified asset; for example, the seller says I sell this car or this factory. This is because Istisna'a is a sale contract applicable to items that are described by specification and notby identification. Unless the items are completely or partially delivered, the purchaser has no priorright on the items that are the subject matter of the contract. In addition, the purchaser cannot be regarded as the owner of the materials in the possession of the manufacturer for the purposeof producing the subject matter of the contract, except when the manufacturer has undertaken, as a guarantee for the completion of the work, that such materials will only be used for the orderof the purchaser.”*
3/1/4	The following is added as a footnote to the clause: *This clause may be read as follows: “The contract of Istisna'a may be concluded with a condition that the production shall be carried out by the institution itself, in which case it has to abide by this condition and has no right to assign the process of production to another entity.”*
3/1/5	The following is added as a footnote to the clause: *This clause may be read as follows: “It is permissible for the manufacturer to deliver items produced by it before entering into the Istisna’a contract or items produced by other parties. The latter option is, however, only valid if the purchaser has not stipulated that the manufacturer should manufacture the goods itself. However, this rule should not be used as a device for deferment of counter values (the price and the commodity) in selling a specified asset to be delivered by the seller, but which was not intended to be produced/manufactured.”*

3/1/6	The following is added as a footnote to the clause: *This clause may be read as follows: “The manufacturer is under an obligation to produce the subject matter according to specification and within the period agreed upon or within such reasonable time as the nature of the work may require, in accordance with accepted practice thatis recognized by experts.”*
3/1/7	The following is added as a footnote to the clause: *This clause may be read as follows: “It is permissible for the parties to agree on a warranty period(during which the manufacturer would be liable for manufacturing defects) or to agree on manufacturer’s liability for maintenance of the asset for a period as mutually agreed or determined by customary practice.”*
3/1/8	The following is added as a footnote to the clause: *This clause may be read as follows: “It is permissible to draw up an Istisna'a contract for real estate developments on designated land owned either by the purchaser or the contractor, or on land in which either of them owns the usufruct on the ground that the subject matter of Istisna’ais specified buildings that will be constructed and not the identified place (i.e. the land).”*
3/2	The following is added as a footnote to the clause: *The heading may be read as “**Price of Istisna’a Contract**”.*
3/2/1	The following is added as a footnote to the clause: *This clause may be read as follows: “It is a requirement that the price for an Istisna'a contract beknown at the conclusion of the contract, whether it is in the form of cash or tangible goods or theusufruct of an asset for a particular duration, and whether such usufruct is related to an asset other than the subject-matter or to the subject-matter itself. The use of usufruct of the subject- matter itself as consideration for an Istisna'a contract is relevant to situations when a governmentoffers a preferential contract, giving the usufruct of a project to the builder or manufacturer for aparticular duration, commonly known as Build Operate Transfer (BOT).”*
3/2/2	The following is added as a footnote to the clause: *This clause may be read as follows: “The price of an Istisna'a contract may be deferred or paid ininstallments within a certain period of time, or if delivery of the subject-matter is to be made in stages a portion of the price may be paid immediately while the balance is paid by installments according to the stages of delivery. It is also permissible to connect payment with the stage of completion of the work, (such that an installment payment is made at the end of each stage), provided the stages of the work can be adequately defined by customary practice in a manner that would not lead to any dispute.”*
3/2/3	The following is added as a footnote to the clause: *This clause may be read as follows: “If the process of manufacturing or construction is divided into phases, or the price is determined on the basis of units, then the manufacturer or contractor is entitled to stipulate that the buyer shall make the payments for the work that has been completedaccording to specifications.”*
3/2/4	The following is added as a footnote to the clause: *This clause may be read as follows: “It is permissible to quote different prices in Istisna'a in*

	accordance with variations in delivery dates and there is also no objection to a number of quotations being subject to negotiation, provided that eventually only one quotation will be chosen for concluding the Istisna'a contract. This is to avoid uncertainty and ambiguity that maylead to dispute."
3/2/6	The following is added as a footnote to the clause: *This clause may be read as follows: "If the actual cost incurred by the institution to bring the subject matter to completion is less than the estimated cost or the institution secures a discount from the party with whom it contracted on a parallel Istisna'a basis to acquire the subject-matterin order to fulfill its contractual obligation, the institution is not obliged to give this discount to the purchaser and the latter is not entitled to the amount or part thereof the institution has gainedover the estimated cost. The same rule applies conversely when the actual cost of production is greater than the estimated cost."*
3/3/1	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible for the institution, acting either in the capacity of the manufacturer or of the purchaser, to demand or give 'Arboun as a guarantee, which will either be part of the price if the contract is fulfilled, or (the 'Arboun) be forfeited if thecontract is rescinded. However, it is preferable that the amount forfeited be limited to an amountequivalent to the actual damage suffered."*
3/3/2	The following is added as a footnote to the clause: *This clause may be read as follows: "In an Istisna'a contract, it is permissible for the institution, whether acting in the capacity of manufacturer or in the capacity of the purchaser, to demand guarantees that it considers sufficient to secure fulfillment of its rights against the purchaser or the manufacturer. It is also permissible for the institution, when acting as a purchaser, to give guarantees requested by the manufacturer, which can be in a form of a Rahn, personal guarantee,assignment of a right, a current account, or an investment account or consent to blocking withdrawal from the account."*
4/1/1	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible, after the conclusion of an Istisna'a contract,for the manufacturer and the purchaser to agree on amending the manufacturing or construction specifications previously agreed upon or introducing additional specification requirements on thecondition that the price is adjusted accordingly and a reasonable period for the execution of the new requirements is granted. It is also permissible to state in the contract that the considerationfor amendments or introduction of additional requirements shall be determined in proportion to the original price as per the expert opinion, custom or an identified price index which preclude anyambiguity that may lead to dispute."*
4/1/2	The following is added as a footnote to the clause: *This clause may be read as follows: "The purchaser cannot oblige the manufacturer to introduce modifications and changes to the subject matter of an Istisna'a contract without the manufacturer's consent."*
4/1/3	The following is added as a footnote to the clause: *This clause may be read as follows: "It is not permissible to increase the price in lieu of an*

	extension of the period of payment. However, a rebate for early payment is permissible provided it is not stipulated in the contract."
4/2/1	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible to amend the price in an Istisna'a contract upwards or downwards, through mutual agreement of the contracting parties or arbitration or judicial procedure, if such a price adjustment is required due to unforeseen circumstances and contingencies (force majeure). This rule must be read together with item 4/1/3 above."*
4/2/2	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible for the institution to enter into an Istisna'a contract with a customer to complete a project, which has been started by another contractor. Inthis case, the incomplete project should be settled fully by the customer, and the outstanding debts, if any, (that may arise from the settlement of the incomplete Istisna'a transaction) shall bethe personal liability of the customer. The institution and the customer may thereafter conclude an Istisna'a contract for the remaining work without any binding on the institution that it would seek help from the previous contractor. Rather, it should be stipulated that the institution may complete the work by any means it deems fit."*
4/2/3	The following is added as a footnote to the clause: *This clause may be read as follows: "In case of constructing buildings or projects on land owned by the purchaser, it is permissible to stipulate that the purchaser has the right to carry out the Istisna'a contract, after passage of a specified time from discontinuation of the work by the contractor, at the expense of the manufacturer if the latter fails to carry out the contract or fails to complete the work."*
4/2/4	The following is added as a footnote to the clause: *This clause may be read as follows: "If the contractor is unable to complete the work, the purchaser (the owner of the land) is not entitled to own the incomplete building structures free ofcost. However, this rule depends on the cause of the failure to continue the work. If the failure toperform is due to a reason attributable to the contractor, the purchaser is liable only for the valueof the building structure to the extent the work completed and the builder is liable to compensatethe purchaser for any actual damage or loss. If the failure to perform is due to a reasonattributable to the purchaser, the contractor is entitled to the value of the work he has completedand compensation for any damage or loss to the contractor. However, if the failure to perform has not been caused by either of them, the purchaser shall be liable only for the value of the building structure to the extent that has been completed and neither of them has any responsibility to pay compensation for the loss or damage the other party has suffered (see item 4/2/3)."*
4/2/5	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible that a contract of Istisna'a includes a clauseto the effect that if any additional conditions are inserted into the contract at a later date as a result of directives of the relevant authorities, and these additional conditions lead to extra expenses that are not to be borne by the manufacturer under the terms of the contract, and the law of the land, the extra expenses will be borne by the purchaser."*

5	The following is added as a footnote to the clause: *The heading may be read as "**Supervising Execution of an Istisna'a Contract**"*
5/2	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible for the institution, when acting as the manufacturer, to draw up an independent and separate contract of agency appointing the purchaser as an agent of the institution to supervise the manufacturing or construction process so as to ensure that the items produced conform to the specifications stipulated in the contract."*
5/3	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible for the manufacturer and the purchaser to agree on who amongst them will bear the additional costs of supervision of an Istisna'a contract."*
6/1	The following is added as a footnote to the clause: *This clause may be read as follows: "The manufacturer is discharged from liability if the subject- matter is delivered to either the purchaser or to a person appointed by him or if the purchaser is enabled to exercise full control over the subject matter."*
6/1/1	The following is added as a footnote to the clause: *This clause may be read as follows: "If the subject matter does not conform to the contractual specifications at the date of delivery, the purchaser has the right to reject the subject matter or to accept it as it is, showing leniency with the manufacturer in accepting the asset (of lower standard). It is also permissible for the contracting parties to agree on acceptance of such subjectmatter even if it involves a price discount."*
6/1/2	The following is added as a footnote to the clause: *This clause may be read as follows: "If the seller offers to deliver a better quality, then the purchaser shall accept the same provided that the seller shall not charge any additional amount for the better quality. This shall be by way of fulfilling one's obligation in a better manner than what is contractually required. However, this will apply only if the (inferior) description specifiedin the contract is not itself required by the buyer."*
6/2	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible to deliver the subject-matter before the duedate, on the condition that the subject-matter meets the specifications agreed upon. If the purchaser refuses to take delivery of the subject-matter, the matter will be decided on the basis of the reason for this refusal. If there is a valid reason for the rejection of the subject-matter, thepurchaser shall not be obliged to take delivery thereof. However, if there is no valid reason for rejecting delivery before due date, then the purchaser will be obliged to take delivery of the subject-matter."*
6/3	The following is added as a footnote to the clause: *This clause may be read as follows: "The delivery of the subject-matter may take place through constructive possession, by enabling the purchaser to take possession of the subject-matter afterthe production process is completed. At this point, the risks of ownership of the asset transfer from the manufacturer to the purchaser. If after enabling the purchaser to take*

	possession of thesubject-matter any loss or damage occurs to the subject-matter which has not been a result of negligence or misconduct on the part of the manufacturer, then the purchaser shall bear such loss. This is therefore the demarcation line between the liabilities of the two parties: the liability of the manufacturer and the liability of the purchaser."
6/4	The following is added as a footnote to the clause: *This clause may be read as follows: "If the purchaser refuses to take the possession of the subject-matter without a valid reason after he is enabled to take possession, the subject-matter will remain in the possession of the manufacturer on a trust basis, in which case the manufacturer willnot be liable for loss or damage that occurs to it, unless such loss or damage is a result of negligence or misconduct on the part of the manufacturer. The purchaser shall also bear the expenses of safe keeping of the subject-matter."*
6/5	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible to stipulate in a contract of Istisna'a that themanufacturer will act as the agent of the purchaser to sell the subject-matter if there is a delay for a specific period of time on the part of the purchaser in taking delivery of the subject-matter. In this case, the manufacturer will sell the subject-matter on account of the purchaser and, after deducting the agreed contract price, the balance, if any, will be returned to the purchaser. If the price obtained is less than the contract price, the manufacturer shall have a right of recourse to the purchaser for recovery of the shortfall. In addition, the purchaser will bear the expenses incurred in selling the subject-matter."*
6/6	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible for the contract of Istisna'a to include a fair penalty clause stipulating a mutually agreed amount of money to compensate the purchaser in case the manufacturer fails to deliver the subject-matter at maturity without the delay being caused by force majeure or unforeseen circumstances. However, it is not permitted to stipulate a penalty clause on the purchaser for delay in payment (see item 2/1/2 of the Shari'ah Standard No. (3) on Procrastinating Debtor)."*
6/7	The following is added as a footnote to the clause: *This clause may be read as follows: "It is not permissible to sell the subject-matter prior to taking either actual or constructive possession of it (see item 6/4). However, it is permissible to conclude an independent Istisna'a contract to sell an item on the basis of description or specification that is similar to an item to be acquired from a manufacturer, and this is called Istisna'a al-Muwazi: parallel lstisna'a (see item 7)."*
6/8	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible for the institution, acting as purchaser, to appoint the manufacturer as an agent to sell the subject-matter, after taking possession of the subject-matter, to manufacturer's customers on behalf of the institution. This agency is permissible whether it is carried out free of charge, or for consideration either in the form of a fixed fee or a particular percentage of the sale price, on condition that the agency is not stipulated as a condition in the contract of lstisna'a."*
7/1	The following is added as a footnote to the clause:

	This clause may be read as follows: "It is permissible for the institution, acting as purchaser, to buy described items to be manufactured on the basis of a clear and unambiguous specification and to pay, with the aim of providing liquidity to the manufacturer, the price in cash when the contract is concluded. Subsequently, the institution may enter into a contract with another party in order to sell, through a parallel Istisna'a in the capacity of manufacturer or supplier, items whose specifications conform to those of the items purchased by it with a delivery date occurring after delivery date of the first Istisna'a contract, provided the two contracts are fully independent from each other (see item 3/1/4)."
7/2	The following is added as a footnote to the clause: *This clause may be read as follows: "It is permissible for the institution, acting as manufacturer/contractor, to conclude an Istisna'a contract with a customer on a deferred payment basis, and to enter into a parallel Istisna'a contract on an immediate payment basis with a manufacturer or builder to acquire such items as per the specifications in the first contract provided that the two contracts are independent from each other and the rule in item 3/1/4 is complied with."*
7/3	The following is added as a footnote to the clause: *This clause may be read as follows: "An institution, concluding an Istisna'a contract as a manufacturer/contractor, must assume liability for ownership risks, maintenance and insurance (Takaful) expenses prior to delivery of the subject-matter to the purchaser (the customer). The institution is not permitted to transfer these liabilities to the manufacturer/contractor in the parallel Istisna'a contract."*
7/4	The following is added as a footnote to the clause: *This clause may be read as follows: "It is not permitted to make any contractual link between the contract of Istisna'a and the contract of parallel Istisna'a. And it is not permissible for a party to one of these two contracts to refrain from delivery of the asset in case the asset has not been delivered in the other one, or to delay the delivery or increase the cost on the basis of a delay or increase in cost in the other one. However, there is no issue if the institution stipulates conditions and requirements when concluding a parallel Istisna'a contract as a purchaser, including a penalty clause similar to, or different from, those conditions which the customer has stipulated in the first Istisna'a contract (in which the institution is the manufacturer/contractor)."*

As per practice, these amendments are issued by SBP as footnotes of the standard.

Source:

1. AAOIFI website
2. IBD Circular No. 01 of 2022

Events and Developments at Islamic Banking Department (IBD) – State Bank of Pakistan (SBP)

A. Events

Fundamentals of Islamic Banking Operations (FIBO)

Islamic Banking Department (IBD), in collaboration with National Institute of Banking and Finance (NIBAF), conducted three (03) online iterations of 'Fundamentals of Islamic Banking (FIBO)' program during the period under review. These programs were held at Sukkur, Quetta, and Bahawalpur during July 25 – 29, August 22 – 26, and September 05 – 09, 2022, respectively. The FIBO program is aimed to enhance the capacity of the industry professionals, Shariah scholars, academia, etc.

Islamic Banking Branch Operations (IBBO)

A short duration capacity building program named 'Islamic Banking Branch Operations' continued during the period under review. This program is especially designed for upscaling capacity levels of Islamic banking branch officials. IBD in collaboration with NIBAF conducted three (3) online iterations of IBBO program for the participants from Shaheed Benazirabad (Nawabshah), Sahiwal, and Gujranwala.

Islamic Banking News

I. Local Industry News

New Shariah compliant trading platform encourages Pakistani diaspora to invest in capital market back home

Pakistan Stock Exchange (PSX) and fully-fledged Islamic bank Meezan Bank have collaborated to establish a new, dedicated trading platform catering to Islamic banks' clients that hold Roshan Digital Accounts (RDAs) — an investment solution for non-resident Pakistanis. The new platform will be available through the exchange's Karachi Internet Trading System (KiTS) and will facilitate any RDA client of an Islamic bank focused on investing in Shariah compliant securities, through the services of over 100 securities brokers and trading right entitlement certificate (TREC) holders that use KiTS as an order management system.
https://www.islamicfinancenews.com/

Faysal Bank to be Sharia-compliant by end of 2022

Faysal Bank Ltd will become a full-fledged Islamic lender by the end of 2022 after ring-fencing its residual conventional loan portfolio. The commercial lender will surrender its conventional banking mandate once the regulator grants it the license for Islamic banking. Faysal Bank will formally apply for an Islamic banking licence in September. Faysal Bank decided to convert its entire business from conventional to Sharia-compliant five years ago. It adopted the "asset-led conversion" model, which prioritized the conversion of banking assets such as investments and financings over that of liabilities like deposits.
https://www.dawn.com/

OBS Pakistan to issue Sukuk

OBS Pakistan is looking to issue Sukuk worth PKR 5 billion (US$20.84 million), a statement from VIS Credit Rating confirmed. Concurrently, the rating agency assigned an 'A+' preliminary rating to the proposed issuance. The proposed Sukuk will have a six-year tenor with an 18-month grace period. The proceeds from the proposed Sukuk will contribute to funding the acquisition of 18 pharmaceutical brands which are being marketed by Pfizer Pakistan.
https://www.islamicfinancenews.com/

II. International Industry News

Post-crisis innovation fires Islamic banking forward

Despite the double shock of the COVID-19 pandemic and raging global inflation, momentum from the Islamic finance industry has stepped up – again. While GCC countries are the most important movers, Islamic banking is gaining traction in Malaysia, Indonesia, Turkey and Pakistan. Despite the extreme adverse environment last year, global Islamic assets grew by 10.6 percent in 2020. This figure is expected to increase in 2022. With an estimated 1.9 billion Muslims around the world – nearly a quarter of the world's population and the largest religious group in the world – the opportunity and necessity of Islamic finance is irrefutable.
https://www.worldfinance.com/

6th Cambridge Islamic Finance Leadership Programme successfully concluded at Clare College, University of Cambridge

The 6th Cambridge Islamic Finance Leadership Programme (Cambridge-IFLP 2022) was held at the Clare College, a member of the University of Cambridge syndicate, from August 7–12, 2022. Approximately 30 high-level delegates from the global Islamic financial services industry attended this 5-day residential training programme. At the core of this unique training is the view that a leadership programme should be delivered by real business life leaders and not only academicians. The programme includes leadership interviews, leadership activities, leadership talks, leadership walks and social activities that are a must when visiting the historic scenic city of Cambridge. With its alumni and mentoring faculty serving as top executives in the global Islamic financial services industry, other halal businesses and multilateral institutions like the International Monetary Fund (IMF), the aspiring middle and upper middle management employees of Islamic financial institutions find Cambridge-IFLP as the most cost-effective means to hobnob with the crème-de-la-crème of Islamic banking and finance.
https://www.zawya.com/

Russian financial regulator to adopt legal framework for accelerating Islamic finance development

The Center for Participating (Islamic) Financing and Special Projects, a special department of Sber established in 2020, is the key unit in constructing and implementing Shariah compliant activities of Sber. Now, the center is ready to offer to the Russian market two new products — Islamic accounts for corporate clients and trade financing (commodity Murabahah). Sber will be opening an Islamic window in Tatarstan, a leading Russian Muslim region, in November 2022. Bank of Russia announced new approaches to participating (Islamic) finance development in Russia. The regulator considers that along with the development of the capital market in the changed conditions, the role of participating (Islamic)

finance as an alternative source of resources for economic development may increase. The expansion of participating (Islamic) finance will assist in attracting additional funds to finance business, including SMEs, and improve the well-being of the population.
https://www.islamicfinancenews.com/

IsDB approves projects and over US$1.12 billion in development financing for 13 countries

Around 13 countries, three of which are non-members of the IsDB, will be the recipients of project development financing and grants worth over US$1.12 billion, all approved by the multilateral bank's board of executive directors in its 347th session. Each country will be receiving sovereign financing contributions from the IsDB, for projects focusing on water supply, infrastructure and the health sector. These projects are expected to enhance access to state-of-the-art infrastructure, facilitate access to markets for farmers and traders and reinforce regional integration and tourism for the member countries.
https://www.islamicfinancenews.com/

International Islamic Trade Finance Corporation and League of Arab States to develop intra-Arab trade

The trade finance arm of the IsDB has signed an MoU with the League of Arab States (LAS) to cooperate on trade development intervention and initiatives in Arab countries. The International Islamic Trade Finance Corporation (ITFC) will work with the Economic Sector of the LAS on a general framework to develop and enhance capacities in international trade and intra-Arab trade among member countries of both organizations. Under the agreement, a special focus will be placed on supporting the least developed Arab countries, with initiatives that include the development of customs outlets; regional conferences and workshops in various fields of policies; and regional trade exchanges that aim to enhance the advantages granted by the Greater Arab Free Trade Area.
https://www.islamicfinancenews.com/

III. Articles and Views

Corporations ramp up financing amid inflation and exchange rate shocks

The twin impact of supply chain clogs and Russia’s invasion of Ukraine has caused inflation to become stubbornly entrenched in countries across the globe. The trickle-down effect of these phenomena, alongside policy mismatch, has caused the local currency to further lose its purchasing power, while consumer wallets continually remain under pressure. No doubt, the attendant impact of the Russia–Ukraine conflict on energy prices bodes well for some oil-producing countries which have in fact benefited significantly from the price rally. The unfortunate others are bedeviled by inflation and rising interest rates as local monetary authorities tighten the noose and contribute to a spike in the cost of borrowing. Amid the inflation and currency management woes, smaller corporates have also initiated private Sukuk raises, particularly for real estate development and business expansion. Beyond these issuances, Islamic finance institutions still have the task of developing instruments that can effectively hedge against exchange rate movements.
https://www.islamicfinancenews.com/

SRI, ethical, green: Thriving amid adversity

Activities and developments over the last 12 months signal bright prospects for Islamic sustainable finance as the world attempts to march forward toward a more green and just future. Finance for social good and investments in socially responsible endeavors including in companies and activities of ethical and socially-conscious themes such as environmental sustainability and gender equality have exhibited phenomenal growth. Bloomberg projects that global ESG assets are primed to exceed US$53 trillion by 2025, translating to over a third of the US$140.5 trillion estimated total assets under management while the SDG funding gap in OIC countries are approximately US$1 trillion a year. Market participants have long noted the deep opportunities for Islamic sustainable finance due to the SDG funding gap in Muslim jurisdictions and natural alignment between Islamic finance and SRI/ESG values. This confluence has become more prominent in recent years as governments, multilateral financial institutions and the industry buckle down on using Islamic financial instruments. Market analysts are optimistic about the growth trajectory of Islamic ESG and SRI finance, although persistent challenges remain such as weak ESG standard governance, high carbon transition risk, complex issuance process and regulatory constraints.
https://www.islamicfinancenews.com/

Islamic fintech: Alternative financing for SMEs

SMEs play a vital role in developed and developing countries and are major contributors to job creation and growth. Traditionally, banks have been unable to fill this funding gap for a variety of reasons ranging from regulatory constraints to inefficient customer journeys that make access to financing for SMEs through traditional methods long and complex. This has led to the emergence of alternative finance providers (peer-to-peer (P2P) lending, crowdfunding and other fintech start-ups) that were quick to develop products and processes that made access to finance quicker and easier for SMEs. As the COVID-19 pandemic has accelerated the adoption of digital financial solutions by consumer and businesses, Islamic fintech platforms are starting to focus more and more on the underserved SME market. Funding SMEs that were financially excluded due to a lack of Shariah compliant business financing options plays a vital role in driving financial inclusion and prosperity. Financial inclusion is positioned prominently as an enabler of other development goals in the 2030 UN SDGs. The ethical and Shariah compliant screening criteria used by Islamic fintechs also ensure that the business activities and use of proceeds of the SMEs are ethical. Investors are hence able to generate financial returns, while also making a strong social impact.
https://www.islamicfinancenews.com/

Annexure I: Islamic Banking Branch Network

Islamic Banking Branch Network
(As of September 30, 2022)

Type	Name of Bank	No. of Branches	Windows
Islamic Banks	AlBaraka Bank (Pakistan) Limited	164	-
	BankIslami Pakistan Limited	244	-
	Dubai Islamic Bank Pakistan Limited	210	-
	Meezan Bank Limited	940	-
	MCB Islamic Bank Limited	178	-
	Sub-Total	**1,736**	**-**
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	117	135
	Askari Bank Limited	103	7
	Bank Al Habib Limited	163	150
	Bank Alfalah Limited	263	-
	Faysal Bank Limited	640	-
	Habib Bank Limited	277	572
	Habib Metropolitan Bank Limited	56	232
	National Bank of Pakistan	188	40
	Silk Bank Limited	27	-
	Sindh Bank Limited	14	13
	Soneri Bank Limited	35	15
	Standard Chartered Bank (Pakistan) Limited	2	38
	Summit Bank Limited	14	35
	The Bank of Khyber	111	-
	The Bank of Punjab	130	33
	United Bank Limited	150	197
	Zarai Taraqiati Bank Limited	5	-
	Sub-Total	**2,295**	**1,467**
	Total Full-Fledged Branches and windows	**4,031**	**1,467**
Sub Branches	AlBaraka Bank (Pakistan) Limited	6	-
	Askari Bank Limited	3	-
	Bank Alfalah Limited	2	
	BankIslami Pakistan Limited	112	-
	MCB Islamic Bank Limited	1	
	The Bank of Khyber	5	
	Dubai Islamic Bank Pakistan Limited	25	
	The Bank of Punjab	2	-
	Faysal Bank Limited	2	
	United Bank Limited	2	-
	Total Sub-Branches	**160**	**-**
	Grand Total Branches/Sub-Branches/Windows	**4,191**	**1,467**

Source: Information/Data obtained from different banks

Annexure II: Province/Region wise Break-up of Islamic Banking Branch Network

Province/Region wise Break-up of Islamic Banking Branch Network

(As of September 30, 2022)

Type	Name of Bank	Azad Kashmir	Baluchistan	Federal Capital	Gilgit-Baltistan	Khyber Pakhtunkhwa	Punjab	Sindh	Grand Total
Islamic Banks	AlBaraka Bank (Pakistan) Limited	2	4	7	3	14	92	42	164
	BankIslami Pakistan Limited	4	14	13	4	26	102	81	244
	Dubai Islamic Bank Pakistan Limited	7	5	15	3	10	86	84	210
	Meezan Bank Limited	9	39	40	3	69	502	278	940
	MCB Islamic Bank Limited	2	10	10	1	18	88	49	178
	Sub-Total	**24**	**72**	**85**	**14**	**137**	**870**	**534**	**1,736**
Conventional Banks having Standalone Islamic Banking Branches	Allied Bank Limited	2	4	6	1	12	70	22	117
	Askari Bank Limited	-	3	9	1	16	50	24	103
	Bank Al Habib Limited	1	8	10	1	30	52	61	163
	Bank Alfalah Limited	1	7	18	-	34	150	53	263
	Faysal Bank Limited	9	24	27	7	51	362	160	640
	Habib Bank Limited	8	4	12	2	30	151	70	277
	Habib Metropolitan Bank	1	2	1	-	15	17	20	56
	National Bank of Pakistan	9	4	6	1	40	95	33	188
	Silk Bank Limited	-	1	3	-	4	11	8	27
	Sindh Bank Limited	1	1		-	2	7	3	14
	Soneri Bank Limited	-	1	2	1	9	15	7	35
	Standard Chartered Bank (Pakistan) Limited	-	-	-	-	-	1	1	2
	Summit Bank Limited	-	1	2	2	1	2	6	14
	The Bank of Khyber	-	6	3	-	89	10	3	111
	The Bank of Punjab	3	6	6	2	19	88	6	130
	United Bank Limited	1	5	7	-	52	47	38	150
	Zarai Taraqiati Bank Limited		-	1	-	1	2	1	5
	Sub-Total	**36**	**77**	**113**	**18**	**405**	**1,130**	**516**	**2,295**
	Total Full-Fledged Branches	**60**	**149**	**198**	**32**	**542**	**2,000**	**1,050**	**4,031**
Sub Branches	AlBaraka Bank (Pakistan) Limited	-	-	-	-	-		6	6
	Askari Bank Limited	-	1	-	-	1	1	-	3
	Bank Alfalah Limited			1				1	2
	BankIslami Pakistan Limited	1	6	9	-	5	40	51	112
	Dubai Islamic Bank Pakistan Limited	-	-	-	-	-	9	16	25
	MCB Islamic Bank Limited						1		1
	Faysal Bank Limited		-	-	-	-	2	-	2
	The Bank of Khyber	-	-	-	-	5	-	-	5
	The Bank of Punjab	-	-	-	-	-	2	-	2
	United Bank Limited	-	-	1	-	1	-	-	2
	Total Sub-Branches	**1**	**7**	**11**	**0**	**12**	**55**	**74**	**160**
	Grand Total	**61**	**156**	**209**	**32**	**554**	**2,055**	**1,124**	**4,191**

Annexure III. District wise Break-up of Islamic Banking Branch Network

District wise Break-up of Islamic Banking Branch Network
(As of September 30, 2022)

S. No.	Province	District	No. of Branches*	S. No.	Province	District	No. of Branches*
1	Sindh	Badin	3	67	Khyber Pakhtunkhwa	Abbottabad	31
2		Dadu	8	68		Bannu	15
3		Ghotki	5	69		Batagram	4
4		Hyderabad	68	70		Buner	13
5		Jacobabad	5	71		Charsadda	12
6		Jamshoro	4	72		Chitral	9
7		Karachi City	920	73		Dera Ismail Khan	18
8		Kashmore	2	74		Hangu	10
9		Khairpur	5	75		Haripur	18
10		Larkana	9	76		Karak	5
11		Matiari	4	77		Kohat	17
12		Mirpurkhas	14	78		Lakki Marwat	1
13		Naushahro Feroze	6	79		Lower Dir	33
14		Shaheed Benazir Abad	18	80		Malakand	26
15		Sanghar	14	81		Mansehra	22
16		Shikarpur	1	82		Mardan	26
17		Sukkur	20	83		Nowshera	28
18		Shahdadkot	2	84		Peshawar	128
19		Tando Allahyar	4	85		Shangla	8
20		Tando Mohammad Khan	4	86		Swabi	13
21		Thatta	3	87		Swat	66
22		Umer Kot	5	88		Tank	2
Sindh Total			**1,124**	89		Torghar	1
23	Punjab	Attock	28	90		Upper Dir	17
24		Bahawalnagar	30	91		Kohistan	2
25		Bahawalpur	39	92		Bajaur Agency	8
26		Bhakkar	7	93		Khyber Agency	12
27		Chakwal	23	94		Mohmand Agnecy	1
28		Chiniot	8	95		Orakzai Agency	2
29		Dera Ghazi Khan	27	96		Kurram Agency	5
30		Faisalabad	169	97		North Waziristan Agency	1
31		Gujranwala	101	**KPK Total**			**554**
32		Gujrat	78	98	ICT	Islamabad	209
33		Hafizabad	11	**Islamabad Total**			**209**
34		Jhang	18	99	Gilgit-Baltistan	Astore	1
35		Jhelum	22	100		Baltistan	1
36		Kasur	24	101		Ghizer	1
37		Khanewal	35	102		Hunza	1
38		Khushab	10	103		Skardu	6
39		Lahore City	623	104		Diamir	7
40		Layyah	13	105		Gilgit	15
41		Lodhran	5	**Gilgit-Baltistan Total**			**32**
42		Mandi Bahauddin	18	106	Balochistan	Chaghi	3
43		Mianwali	11	107		Duki	1
44		Multan	120	108		Gawadar	8
45		Muzaffargarh	23	109		Harnai	1
46		Nankana Sahib	11	110		Jaffarabad	3
47		Narowal	11	111		Kalat	1
48		Okara	36	112		Kech	2
49		Pakpattan	18	113		Khuzdar	3
50		Rahim Yar Khan	57	114		Kharan	1
51		Rajanpur	8	115		Lasbela	6
52		Rawalpindi	201	116		Loralai	6
53		Sahiwal	44	117		Mastung	1
54		Sargodha	50	118		Noshki	2
55		Sheikhupura	36	119		Nasirabad	2
56		Sialkot	79	120		Panjgur	3
57		Toba Tek Singh	30	121		Pishin	9
58		Vehari	31	122		Qilla Abdullah	9
				123		Qilla Saifullah	7
				124		Quetta	75
				125		Sibi	2
				126		Sohbatpur	1
				127		Turbat	3
Punjab Total			**2,055**	128		Zhob	4
59	Azad Kashmir	Bagh	4	129		Ziarat	3
60		Bhimber	3	**Baluchistan Total**			**156**
61		Dadyal	4				
62		Hattian Bala	1				
63		Kotli	8				
64		Mirpur	22				
65		Muzaffarabad	14				
66		Poonch	5				
Azad Kashmir Total			**61**	**Grand Total**			**4,191**

*including sub-branches