

IRAF: QUESTIONNAIRE FOR SELF-ASSESSMENT
QUESTIONNAIRE REGARDING SHARIAH COMPLIANCE OF ISLAMIC BANKING INSTITUTIONS

ANNEXURE IX

| S # | Particulars | Compliant | Comments |
|-----|---|--------------|----------|
| | | Scale 1 - 5 | |
| 1. | Did the IBIs refrain from engaging in or financing the trading of <i>Haram</i> goods? | ¹ | |
| 2. | Did the IBI submit to SBP, the salient features of new products before launching it? | | |
| 3. | Did the IBI submit a copy of schedule of charges to the Islamic Banking Department in addition to BP&RD, at least seven days before commencement of the related period? | | |
| 4. | Did the IBI implement Islamic Financial Accounting Standard -1 and 2 notified by SECP for Murabaha and Ijara transaction? | | |
| | APPOINTMENT OF SHARIAH ADVISORS: | | |
| 5. | Were the Terms of Reference of the Shariah Advisor approved by the Board/management, as the case may be? | | |
| 6. | Does the Shariah Advisor report functionally to the Board of Directors (BoD), in case of full fledged Islamic Banks? | | |
| 7. | Was the approval sought from SBP for the appointment of Shariah Advisor(SA)? | | |
| 8. | Does the Shariah Advisor (SA) hold any executive / non-executive position in any other financial institution except working as SA of the Islamic mutual fund of the same IBI? | | |
| 9. | Did the IBI abstain itself from terminating or removing any Shariah Advisor before the expiry of his term? | | |
| 10. | Was the approval for termination of SA obtained from authority which had approved his appointment? | | |
| 11. | Did the IBI notify SBP of any resignation or termination of the Shariah Advisor within prescribed period of the date of resignation or termination? | | |
| 12. | Did the IBI ensure that the Shariah Advisor was not a director or shareholder of this institution? | | |
| 13. | Does the Shariah Advisor vet all the related policies and agreements regarding the products and their manuals? | | |
| 14. | Did the Shariah Advisor conduct/ arrange Shariah training programs for the IBI staff? | | |
| 15. | Does the Shariah Advisor review operations of the IBI on a periodical basis in coordination with officials responsible for Shariah compliance to ensure that all | | |

¹ 1 = Fully Compliant, 2 = Significantly Compliant, 3 = Partially Compliant, 4 = Marginally Compliant, 5 = Non Compliant

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| | the products and services being offered by the IBI conform to the injunctions of Shariah? | | |
| 16. | Did the Shariah Advisor prepare a report on the Bank's annual financial statement in respect of its Shariah compliance that was to be published in the IBI's annual report? | | |
| 17. | Did the IBI refer, any case arising due to difference of opinion between SA and SBP inspection staff, to SBP Shariah Board? | | |
| 18. | Did the IBI's management refer any ruling, on the basis of difference of opinion with their Shariah Advisor, to the Board's audit committee or BoD for decision? | | |
| 19. | Did the bank ensure its Shariah Advisor's participation in various meetings called by the SBP? | | |
| | CHARITY FUND | | |
| 20. | Did the IBI develop policy for Charity Fund and vetted by Shariah Advisor and approved by the Board of Directors, in case of locally incorporated IBIs or by management in case of foreign banks having IBBs ? | | |
| 21. | Was any income declared non-Shariah compliant by the Shariah Advisor credited to Charity Account? | | |
| 22. | Did the IBI utilize amount in Charity fund for charitable purposes in accordance with the policy for Charity Fund? | | |
| 23. | Did the IBI disclose in their annual audited financial accounts all transactions relating to charity fund? | | |
| 24. | Did the IBI substantially utilize the amount available in Charity Fund in the accounting year in which it was accrued? | | |
| 25. | Did the IBI ensure that no amount of charity fund was directed or utilized by persons directly or indirectly connected with the bank? | | |
| | INTRODUCTION OF NEW PRODUCTS AND SERVICES: | | |
| 26. | Did the IBI prepare process flows, checklists and manuals pertaining to the products being offered by them? | | |
| | SHARIAH COMPLIANCE: | | |
| 27. | Did the IBI develop a compliance mechanism having special emphasis on Shariah aspects with relevant provisions of existing laws, rules, regulations, policies and procedures related to Islamic Banking? | | |

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| 28. | Did the Shariah Compliance officer monitor and review all activities, products and locations of IBIs? | | |
| 29. | Did the IBI introduce a system of internal Shariah audit to ensure that the management of the IBI is discharging its responsibilities in compliance with Shariah rules. They should be in line with the prescribed by the State Bank of Pakistan and the Shariah Advisor of the IBI? | | |
| 30. | Did the IBI place the report of the Internal Shariah Audit before the SA for advising the appropriate corrective action and then before the Audit Committee of the IBI for consideration and appropriate remedial action as advised by the SA? | | |
| | INVESTMENT IN SHARES: | | |
| 31. | Did the IBI invest their surplus funds in shares of such companies whose primary business was not prohibited under Shariah, and a screening process for the selection of those shares was followed? | | |
| 32. | Did the IBI purify the dividend income received from investee company, in case of a portion of non-Shariah compliant income existed there was that donated to charity on prorate basis for the period holding of the Share ? | | |
| 33. | Did the IBI follow the regulatory limits prescribed by State Bank in Prudential Regulations in terms of their aggregate exposure in shares both in ready/cash and futures market, as amended from time to time? | | |
| | PROFIT DISTRIBUTION WITH PLS DEPOSITORS: | | |
| 34. | Did the IBI develop a policy to safeguard the interests of the Profit and Loss Sharing based deposit holders (PLS depositors) according to the guidelines issued by SBP? | | |
| 35. | Did the Shariah advisor and external Auditor verify jointly the distribution of profit and loss by IBI? | | |
| 36. | Did the IBI display the applicable Profit Sharing Ratios and Weightages for each type of deposits in the branches and on the website for information of the general public? | | |
| | MURABAHA | | |
| 37. | Did the IBI disclose to the client the cost of goods sold and a margin of profit included in the sale price of goods agreed to be sold? | | |
| 38. | Did the IBI perform Murabaha transaction in respect of any debt instrument including receivables? | | |

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| 39. | Did the IBI sell only those commodities that existed, owned by them and in their physical or constructive possession ? | | |
| 40. | Did the IBI assume all the risks of ownership before selling the commodities to the buyer/customer? | | |
| 41. | Did the agreement finalize on offer followed by acceptance and includes certainty of price, place of delivery, and date on which the price, if deferred was to be paid? | | |
| 42. | Did the IBI make transactions independent of each other in case of appointment of an agent, if any, the purchase of goods by or for and on behalf of the IBI and the ultimate sale of such goods to the customer? | | |
| 43. | Did the commodity remain in the risk of IBI during the period of purchase of the commodity by the agent till its ultimate sale? | | |
| 44. | Did the IBI obtain the invoice in his own name in case the commodity was purchased by an agent on his behalf? | | |
| 45. | Did the IBI record valid reason to make direct payment to the supplier? | | |
| 46. | Did the IBI ensure to get the documentary evidence for purchase of good from the agent timely? | | |
| 47. | Did the IBI abstain from changing the selling price, once the sale transaction was concluded? | | |
| 48. | Did the IBI ensure that sequence of various transactions murabaha was followed as approved by SA? | | |
| 49. | Did the IBI ensure to get prior approval of SA in sale / purchase under Murabaha arrangement that involve or was potentially or like to result in a buy back arrangements involving groups entities comprising, subsidiary related parties associate companies called by what ever name? | | |
| 50. | Did the IBI stipulate while entering into the agreement that in case of late payment or default by the client, IBI would recover from him an amount calculated at a predetermined percentage per day or per annum as compulsory contribution to Charity Fund ? | | |
| 51. | Did the IBI approach competent courts for award of solatium which would be determined by the Courts at their discretion, on the basis of direct and indirect costs incurred, other than opportunity cost? | | |

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| 52. | Did the IBI abstain from deriving any financial benefit from the asset that was furnished as security? | | |
| 53. | Did the IBI place customer's cash security deposit, in a PLS account under his lien? | | |
| 54. | Did the IBI distribute profit against the security deposit placed in PLS account? | | |
| 55. | Did the IBI roll over any Murabaha contract? | | |
| 56. | Did the IBI extend the repayment date of Murabaha contract with condition to increase the selling price of goods? | | |
| 57. | Did the IBI enter into buy-back arrangement during Murabaha contract as the commodities already owned by the client could not become the subject of a Murabaha transaction between them? | | |
| 58. | Did the IBI assign the promissory note or bill of exchange or any evidence of indebtedness or transferred on a price different from its face value? | | |
| | IJARAH (LEASING) | | |
| 59. | Did the IBI refrain to lease out any thing which could not be used without consuming the same like money, edibles, fuel, etc? | | |
| 60. | Did the IBI lease out only such assets which were owned by them? | | |
| 61. | Did the IBI abstain from charging lease rentals until such time that assets were leased and delivered to the lessee. | | |
| 62. | Did the IBI retain the title of the assets and bear all risks and rewards pertaining to the ownership, during the entire term of the lease? | | |
| 63. | Did the IBI ensure the consequences arising from non-customary use of the asset without mutual agreement would be borne by the lessee? | | |
| 64. | Did the IBI ensure that the lessee was not responsible for all risks and consequences in relation to third party liability, arising from or incidental to operation or use of the leased assets? | | |
| 65. | Did the IBI bear the cost of insurance? and was the insurance of the leased asset in his name? | | |
| 66. | Did the IBI record the reasons, in those circumstances where insurances were obtain instead of Takaful? | | |
| 67. | Did the IBI record reasons, in case of termination of Ijara before its expiry of the term? | | |

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| | | Scale 1 - 5 | |
| 68. | Did the IBI agree with customer for the amount of rental in advance in an unambiguous manner either for the full term of the lease or for a specific period in absolute terms? | | |
| 69. | Did the IBI terminate contract of lease if the leased asset ceases to give the service for which it was rented? | | |
| 70. | Did the bank stipulate in the lease agreement purporting to transfer of ownership of the leased assets at future dated? | | |
| 71. | Did the IBI stipulate, while entering into the agreement that in case of late payment of rentals by the lessee, that had irrevocably authorized the IBI to recover from him an amount calculated at a predetermined percentage per day or per annum as compulsory contribution to Charity Fund? | | |
| | SALAM | | |
| 72. | Did the IBI pay the price in full to the seller at the time of the contract of sale was made? | | |
| 73. | Did the bank determine the specifications, quality and quantity of the commodity at the time of entering into a Salam contract to avoid any ambiguity? | | |
| 74. | Did the parties agree upon the date and place of delivery of goods at the time of Salam contract? | | |
| 75. | Did the IBI ensure the availability of subject of Salam contract at the time of delivery? | | |
| 76. | Did the bank ensure that the commodity which was the subject of Salam contract was normally expected to be available at the time of delivery? | | |
| 77. | Did the IBI ensure that Salam was not tied to the produce of a particular farm, field or tree? | | |
| 78. | Did the IBI ensure not to sell or transfer ownership of the goods to any person before taking the possession? | | |
| 79. | Did the IBI enter into a parallel Salam contract without any condition or linkage with the original Salam contract? | | |
| 80. | Did the IBI fix separately, the quantity and period of delivery for each of them, in case of multiple commodities? | | |
| 81. | Did the IBI stipulate while entering into the agreement that in case of delay in delivery of the commodity by the seller, the IBI would recover from him an amount calculated at a predetermined percentage per day or per annum as compulsory | | |

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| | contribution to Charity Fund? | | |
| | MUSHARAKA | | |
| 82. | Did the IBI distribute profit in the proportion mutually agreed in the contract? | | |
| 83. | Did the IBI ensure that in case of non-working or silent partners, the ratio of profit was not exceeded the ratio of their capital investment in Musharaka? | | |
| 84. | Did the IBI ensure that share of profit was in proportion of his own capital in addition to share as Mudarib, if Mudarib in a Shirkah arrangement also contributed his own capital to the business? | | |
| 85. | Did the IBI tie up the rate of profit with the capital? | | |
| 86. | Did all the partners share losses in proportion to their capital, in case of loss? | | |
| 87. | Did the all partners contribute their capital in terms of cash or kind at an agreed valuation as determined at the time of entering into Musharaka? | | |
| 88. | Did the IBI determine valuation of the investment, on the culmination or termination of Musharaka, on the basis as agreed between the parties at the time of commencement of Musharaka? | | |
| 89. | Did the IBI mention in the agreement that in case of any delay or default in the payment of profit by the Musharik (the client of IBI), IBI would recover from him an amount calculated at a predetermined percentage per day or per annum as compulsory contribution to Charity Fund ? | | |
| | MUDARABA | | |
| 90. | Did the IBI as Mudarib, carry out the business of Mudarabah, within the framework of mandate given in the Mudaraba agreement? | | |
| 91. | Did the IBI divide profit in strict proportion agreed at the time of contract? | | |
| 92. | Did the IBI ensure that no party was entitled to a predetermined amount of return or remuneration? | | |
| 93. | Did the IBI ensure that financial losses of the Mudaraba was borne solely by the Rabbulmal, unless it was proved that the Mudarib was guilty of fraud, negligence or willful misconduct or had acted in contravention of the mandate? | | |
| 94. | Did the IBI ensure that the liability of Rabbulmal was limited to his investment unless otherwise specified in the Mudaraba contract? | | |

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| 95. | Did the IBI stipulate while entering into the agreement of Mudaraba that in case of any delay or default in the payment of profit by the Mudarib (the client of IBI), IBI would recover from him an amount calculated at a predetermined percentage per day or per annum as compulsory contribution to Charity Fund ? | | |
| | ISTISNA | | |
| 96. | Did the IBI ensure that the commodity was known and specified to the extent of removing any ambiguity regarding its specifications including kind, type, quality and quantity? | | |
| 97. | Did the bank ensure that the price of the goods to be manufactured was fixed in absolute and unambiguous terms? | | |
| 98. | Did the bank stipulate in the agreement that if the delivery was not made within the mutually agreed time period, then the buyer could refuse to accept the goods? | | |
| 99. | Did the IBI enter in into a Parallel Istisna contract without any condition or linkage with the original Istisna contract in case of every Istisna contract? | | |
| 100. | Did the IBI ensure that each of the two contracts were independent of the other? | | |
| 101. | Did the IBI stipulate while entering into the agreement that in case of delay in delivery of the goods by the client, the IBI would recover from him an amount calculated at a predetermined percentage per day or per annum as compulsory contribution to Charity Fund ? | | |
| 102. | Did the IBIs approach competent courts for award of damages, in case of default by the client, which were determined by the court at its discretion? | | |
| | DIMINISHING MUSHARAKA (FOR SHRIKATUL-MILK) | | |
| 103. | Did the IBI enter into Diminishing Musharaka contract for intangible assets only? | | |
| 104. | Did the IBI ensure that Diminishing Musharaka limited to the specified Asset(s) and was not to the whole enterprise or business? | | |
| 105. | Did the IBI follow the three steps? , i.e. a) Creation of joint ownership between the co-owners. b) Renting out by one co-owner the undivided share in the asset owned to the other co-owner; and c) Selling in periodic installments by one co-owner his share to the other co-owner(s) | | |

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| 106. | Did the IBI ensure that proportionate share of each co-owner was known and defined in terms of investment? | | |
| 107. | Were expenses incidental to ownership borne jointly by the co-owners in the proportion of their co-ownership? | | |
| 108. | Did the IBI enter into separate agreements/contracts at different times in such manner and in such sequence so that each agreement/contract was independent of the other in order to ensure that each agreement was a separate transaction? | | |
| 109. | <p>Did the IBI follow the sequencing of the agreements in a diminishing Musharaka as :</p> <p>a) There was an Agreement of co-ownership between the parties.</p> <p>b) There was an agreement of lease between the co owners to lease out one's share in such property to another for an agreed periodic payment in consideration of the use of the former's share by the latter.</p> <p>c) An undertaking by one of the co-owners was to the effect to purchase the units of other co owner at a mutually agreed price until the entire ownership of the asset was transferred to the purchasing co-owner. Additionally, an undertaking was be given by the other owner to the effect that he would sell the units owned by him to the first co-owner in the event the latter desires to purchase the units earlier than the agreed schedule on such price as may be mutually agreed.</p> <p>d) The sale of units by one co-owner to the other co-owner as aforesaid would be documented in such a manner as the parties may mutually agree.</p> | | |

President/CEO

Secretary to BOD