



## **SHARIAH COMPLIANCE DEPARTMENT**

### **FREQUENTLY ASK QUESTIONS ISLAMIC BANKING**

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## **TABLE OF CONTENTS**

Introduction.....	1
1. What is Islamic Banking and how Islamic Banking is different from conventional banking?.....	1
2. Role of Shariah Board/Resident Shariah Board Member.....	1
3. Names of Shariah Board Members of HabibMetro Sirat.....	1
4. Sources of Shariah.....	1
5. Shariah Controls in Islamic Banking Institutions (Full-Fledged Islamic Bank/ Islamic Banking Division).....	1
6. What is Riba/Interest? .....	2
7. Types of Riba.....	2
8. Concept of Banking is against the Principles of Islam.....	2
9. Is Islamic Banking only for Muslims? .....	2
10. Where are Depositors funds invested by Islamic Banking Institutions?.....	2
11. Mode of Islamic Deposits/Accounts.....	2
12. Mudarabah.....	2
13. Murabaha.....	2
14. Musawamah.....	2
15. Al-Bai.....	3
16. Istisna.....	3
17. Salam.....	3
18. Working Capital Musharakah (Shirkat ul Aqd) .....	3
19. Ijarah.....	3
20. Diminishing Musharakah (Shirkat ul Milk) .....	3
21. Sukuk.....	3
22. What are Weightages and when Profit Sharing Ratios and weightages are announced?.....	3
23. What are the key Islamic related requirements in Islamic Branches/ Windows?.....	3
24. Can an Islamic Banking Institution guarantee a fixed rate to its depositor?.....	4
25. Is Fixed rate of return is permitted under Islamic Shariah?.....	4
26. Is waiver on current account only is allowed as per Shariah & regulatory requirements or any additional benefits can be given to an Individual current account holder?.....	4
27. Are Shariah non-compliant instruments allowed to be taken at IBBs?.....	4
28. Is the account opening forms, lockers forms, undertakings, marketing collaterals are approved by the Shariah Board?. .....	5
29. Interest rate can be used as a bench mark? .....	5
30. Islamic Treasury.....	5
31. Takaful.....	5
32. Gharar (Excessive Uncertainty) .....	5
33. Qimar (Gambling) .....	5
34. Charity.....	5
35. How can Islamic Banking Institutions deal with State Bank of Pakistan?.....	5
36. Is it possible for Islamic Banking Institution to pay off Profit while their balance Sheet Show Loss? How is loss distributed? .....	6
37. How is treatment of current account of Islamic Banking different from conventional accounts?.....	6
38. Can weightages be assigned to current account and what will be the profit sharing ratio for current account? .....	6
39. What are pools under the profit & loss distribution instructions?.....	6
40. Mandatory & Regulatory Islamic Banking Training requirements.....	6

## Introduction

Considering the Shariah & regulatory requirements, a significant responsibility rests on all staff including but not limited to staff of Islamic banking, Islamic branches, Islamic windows, business segments, head office & other support functions. Therefore, the discussion in morning huddles should be initiated & managed within each department on Islamic banking concepts and practices.

In this regard, the Shariah Compliance Department, under the supervision of the Resident Shariah Board Member, prepared a questionnaire to be used as a reference and discussion guide. The staff may also refer the Islamic Banking Booklet, which can be downloaded through the QR code on the Bank's website and in case of any queries, the Shariah Compliance Department and the Islamic Product Development Department may also be consulted.

### 1. What is Islamic Banking and how Islamic Banking is different from conventional banking?

Islamic banking is defined as a banking system wherein the banking facilities and products are Shariah compliant and provided according to the Shariah principles. In Islamic Banking, all the financial matters are supervised, operated and approved under the guidance of Shariah scholars and Shariah Board Members of the institution. Islamic Banking prohibits Riba (interest), Gharar (excessive uncertainty) and Shariah non-compliant financing activities.

### 2. Role of Shariah Board/Resident Shariah Board Member

A Shariah Board is a group of qualified Islamic scholars who specialize in Islamic jurisprudence and finance. They are empowered to consider, decide and supervise all Shariah related matters of the Islamic Banking Institutions (full-fledged Islamic bank/Islamic Banking division). Further, one of the member in the Shariah Board, shall be appointed on full-time basis, who will oversee & supervise all the Shariah related matters of the institution.

### 3. Names of Shariah Board Members of HabibMetro Sirat

i.	Chairperson Shariah Board	:	Tan Sri Dr. Mohd. Daud Bakar
ii.	Shariah Board Member	:	Mufti Abdul Sattar Laghari
iii.	Resident Shariah Board Member	:	Mufti Khawaja Noor ul Hassan
The profiles of Shariah Board Members may be accessed through the below link: <a href="https://www.habibmetro.com/sirat/about/shariah-board/">https://www.habibmetro.com/sirat/about/shariah-board/</a>			

### 4. Sources of Shariah

#### 1. Quran

The Book containing the speech and commandments of Allah, revealed to Prophet Muhammad (peace be upon him) in Arabic and passed down through continuous testimony.

#### 2. Sunnah

The words, actions, or approvals of the Prophet Muhammad (peace be upon him).

#### 3. Ijma (Consensus of Shariah Scholars)

Ijma (Consensus of Shariah Scholars) is a unanimous agreement of Muslim jurists/ Muslim scholars on a certain religious issue which has no clear verdict or more than one possible interpretation in Quran and Sunnah.

#### 4. Qiyas (Analogy)

The method of applying an established Shariah rule from the Quran or Sunnah to a new or similar case.

### 5. Shariah Controls in Islamic Banking Institutions (Full-Fledged Islamic Bank/ Islamic Banking Division)

1. Shariah Board with one of its member as Resident Shariah Board Member
2. Shariah Compliance Department
3. Internal Shariah Audit
4. External Shariah Audit
5. Assessment of Islamic Banking Department, State Bank of Pakistan

**Note:** The Islamic Banking Divisions operates as an “institution within an institution” and not as an addition in the product suite.

## 6. What is Riba/Interest?

The word "Riba" means excess, increase or addition. In Islamic law, every loan that entails any benefit is Riba.

## 7. Types of Riba

- **Riba Al-Fadl**: Sale which results in excess quantity in the immediate exchange of same-kind of commodities when the quantities are unequal. It is also known as Riba-Al-Sunnah or Riba-Al-Hadith.
- **Riba Al-Nasiah**: Any gain in a loan contract. It is also called as Riba Al-Quran. This is the Riba in modern financial transactions.

## 8. Concept of Banking is against the Principles of Islam

The use of the word “bank/banking” does not make any institution halal (permissible) or haram (prohibited), rather it is the underlying scope & nature of activities that are being conducted which makes it Halal or Haram. Thus, concept of banking based on pooling of excess funds of depositors and channelizing them towards those who require it for investing activities is not prohibited by Shariah.

## 9. Is Islamic Banking only for Muslims?

Islamic banking exists to serve the entire humanity. All its products are Shariah-compliant, duly approved by qualified Shariah scholars, and are therefore accessible to customers of any faith, ideology, school of thought, or background. Everyone can benefit from these offerings, which combine ethical finance principles with modern banking convenience.

## 10. Where are Depositors funds invested by Islamic Banking Institutions?

All the funds received from the depositors are invested in Shariah Compliant financing modes such as Murabaha, Musawamah, Musharakah, Al Bai, Istisna, Salam, Working Capital Musharakah, Ijarah, Diminishing Musharakah, etc. Thus returns received from these financings is permissible as per the Shariah principles.

## 11. Mode of Islamic Deposits/Accounts

**Current Accounts**: The Islamic current account products are offered on the basis of Qard where the principal amount is guaranteed.

### **Saving Accounts/Islamic Investment Certificates**

The Islamic saving products are offered on the basis of Mudaraba, where the Bank acts as Mudarib and the account holder acts as Rabb-ul-Maal. The profit earned on Mudaraba based products is distributed as per the pre-determined profit sharing ratio and weightages.

## 12. Mudarabah

It is a profit-sharing partnership where one party (Customer) provides funds known as Rabb-ul-Maal, and the other party provides expertise (Bank) known as Mudarib. In this Islamic financing model, the profits generated are shared between the parties according to pre-agreed ratios, while the losses are borne by the investor alone unless caused by negligence of Mudarib.

## 13. Murabaha

It is specific type of sale conducted on a cost plus profit basis. In this transaction, the seller is required to disclosed both the cost and the intended profit to determine the final selling price.

## 14. Musawamah

In Musawamah the price is negotiated without disclosing the original cost or profit margin to the buyer. The buyer only knows the final selling price.

## 15. Al-Bai

It is a mode of financing which is based on Musawamah. In this transaction, customer sells its owned goods to the bank against cash payment by the bank which will be then sold by the customer to its ultimate buyers, as the Bank's agent.

## 16. Istisna

An Istisna contract refers to an agreement to purchase from a customer non-existing goods, which are to be manufactured or build according to its buyer's specifications and delivered on a future date.

## 17. Salam

Salam contract is a sale transaction where the seller undertakes to supply specific homogenous goods to the Bank on a future date against the price fully paid on the spot.

## 18. Working Capital Musharakah (Shirkat ul Aqd)

Working Capital Musharakah is a revolving facility based on Shirkat ul Aqd (type of partnership) and the profit sharing ratio is mutually agreed upon between the bank and the customer. The loss is shared according to their investment ratio.

## 19. Ijarah

An Ijarah refers to the transfer of the usufruct (right to use) of an asset without transferring its ownership. Under Islamic banking, the bank transfers the usufruct to the customer for an agreed period and for an agreed consideration. The asset under Ijarah remains in the ownership of the bank.

## 20. Diminishing Musharakah (Shirkat ul Milk)

Diminishing Musharakah is an Islamic financing facility where two or more parties jointly own an asset. One partner (the bank/financier) gradually purchase the share of the other partner (customer) over time, until the customer becomes the sole owner. The bank (owner) rents out its share of ownership in the asset to the customer.

## 21. Sukuk

Sukuk are Islamic financial instruments which represent ownership in an underlying asset, project or investment. Investors receive a share of the profit/rent generated by the asset rather than fixed interest payments.

## 22. What are Weightages and when Profit Sharing Ratios and weightages are announced?

The weightages & profit sharing ratios are used by Islamic Banks to calculate distribution of profit under the Islamic mode of Mudarabah. The weightages are assigned to different deposit products based on factors such as amount, tenor, profit payment frequency, product features etc. The weightages and Profit Sharing Ratios are announced at least three working days before the beginning of month.

## 23. What are the key Islamic related requirements in Islamic Branches/ Windows?

Some of the key Islamic related requirements for IBBs/IBWs are as follows:

S.No.	Placement at Notice Board	S.No.	Miscellaneous
01	HMB SIRAT Fatwa on Islamic Banking Deposits	01	License of IBB
02	Latest financial Statement only	02	Permission letter of IBW
03	The actual monthly/periodic profit/loss distributed to FCY category of deposits during last 2 years	03	The signboard of conventional banking branches having IBWs shall contain words "Islamic Banking Window" with logo covering at least ¼th portion of the board unless any exception is granted by SBP

04	The actual monthly/periodic profit/loss distributed to PKR category of deposits during last 2 years	04	FAQs issued by SBP on Islamic banking are available in the branch/window
05	PKR Weightages assigned to each category of deposits for period concerned and at least two previous periods	05	Islamic Banking Branch has not accepted any Shariah non-compliant instrument e.g., bonds, school voucher with late Fees.
06	FCY Weightages assigned to each category of deposits for period concerned and at least two previous periods	06	The branch/window maintains & execute Shariah approved & latest Islamic account opening forms, Islamic Locker forms, Takaful Undertaking forms & other branch related documentation
07	Latest Schedule of Charges	07	No third-party product is offered in IBW without SBP approval
08	Islamic Banking Institutions shall be required to display an introduction of the Corporation and its various Circulars at the notice boards of all their branches.	08	IBWs shall ensure that SB approved product brochure/Key Facts Sheet with regard to the products & services is available at IBWs for customers. Further, Product manuals/SOPs of all financing products and deposit schemes being offered by an IBW are available/accessible to the concerned staff for any reference and use.
		09	For IBWs, the branch shall also have a display prominent notice on entrance stating "Islamic banking services are available" (in English and Urdu) to clearly indicate the nature of branch to customers

#### **24. Can an Islamic Banking Institution guarantee a fixed rate to its depositor?**

Islamic Banking Saving Account Deposit/Term Deposit structure is based on the model of Mudarabah, in which the profit rate is based on the actual income earned for the period, therefore Islamic Banks cannot guarantee any rate prior to earning of the income of the said period that's why Islamic banks usually quote expected rates based upon the historical performance and forecast.

#### **25. Is Fixed rate of return is permitted under Islamic Shariah?**

This general statement does not apply on all Islamic modes of financing and is usually applied on Musharakah (Shirkat-ul-Aqd) and Mudarabah modes of financing. Please note that in some Islamic modes, fixed rate is necessary as per the Shariah principles and this rate fixation in those transactions does not make them Haram such as: Profit Fixation in Murabaha/Musawamah transactions, Rent Fixation in Ijarah/Diminishing Musharakah transactions.

#### **26. Is waiver on current account only is allowed as per Shariah & regulatory requirements or any additional benefits can be given to an Individual current account holder?**

Current accounts in Islamic banking are based on the principle of Qard. Shariah principles prohibit any benefit to be given to the current account holder on account of the loan itself, as that would constitute Riba (interest). Offering of priority services, free services or waivers to current account holders only is not permissible under the regulatory guidelines as well.

#### **27. Are Shariah non-compliant instruments allowed to be taken at IBBs?**

Islamic banks are prohibited from accepting any Shariah non-compliant instrument that includes interest-based activity e.g., prize bonds, educational vouchers with late fees etc.

## **28. Is the account opening forms, lockers forms, undertakings, marketing collaterals are approved by the Shariah Board?**

In Islamic banking all such documents including the account opening forms, locker forms, undertakings, and marketing collaterals are reviewed and approved by the Shariah Board of the Bank.

## **29. Interest rate can be used as a bench mark?**

Using Interest Rate benchmark for determining the profit in halal transactions does not render the transaction as invalid or haram. The nature and process of transactions determines the validity and permissibility of the transaction as per the Shariah principles.

## **30. Islamic Treasury**

The Islamic banking treasury products offers a range of Shariah compliant products under the supervision and guidance of the Shariah Board of the Bank. The following Islamic products are offered and executed as per the policies and procedures duly approved by the Shariah Board:

- i. Musharakah (Placement/ Acceptance)
- ii. Mudarabah (Placement/ Acceptance)
- iii. Wakalah (Placement)
- iv. Bai Muajjal - Sukuk
- v. Promise/Waad based transactions (Forward cover)
- vi. Currency Salam

## **31. Takaful**

Takaful comes from the Arabic word 'Kafalah'. It is a form of Islamic insurance based on mutual assistance, where participants pool their funds to support each other against loss or injury. Unlike conventional insurance, it is Shariah-compliant and avoids elements like interest (riba) and excessive uncertainty (gharar). Instead of premiums, participants make contributions to a common fund, and any profits generated from the fund are shared among participants.

## **32. Gharar (Excessive Uncertainty)**

Gharar in Islamic finance is a prohibition against excessive uncertainty in a contract. It is based on the principle that contracts should be clear and mutually beneficial, not deceptive or speculative. Gharar can arise from ambiguity in the subject matter, price, or terms, leading to potential dispute.

## **33. Qimar (Gambling)**

In Islamic finance, **qimar** means gambling or any game of chance, which is prohibited (*haram*) because it involves risking wealth based on an uncertain outcome. It is a transaction where one party gains wealth while another loses it without any productive or lawful effort, simply by chance. This prohibition extends to activities like lottery tickets, sports betting, and poker played for money.

## **34. Charity**

In Islamic banking, charity is an integral concept with specific mechanisms, with funds being channeled to charitable causes, through a charity account in which funds are received from Shariah non-compliant sources, such as late payment amount or other income that cannot be part of the bank's profit. The bank then disburses these funds to charitable institutions under the supervision of a Shariah board.

## **35. How can Islamic Banking Institutions deal with State Bank of Pakistan?**

In Islamic Banking, all the financial matters are supervised, operated and approved under the guidance of Shariah Board Members of the institution. Therefore, Islamic Banking Institutions deals with the State Bank of Pakistan under the Islamic facility modes, as per their requirements.

**36. Is it possible for Islamic Banking Institution to pay off Profit while their balance Sheet Show Loss? How is loss distributed?**

In Islamic banking, it is generally not permissible for an institution to pay profit to investors or depositors if it incurs a loss. Profit payments must be based on actual, earned profits, as Islamic finance emphasizes fairness, transparency, and risk-sharing. In case of loss without the negligence of the Mudarib (Bank), the depositors (Rabb-ul-Mal) bear the loss according to their investment ratio.

**37. How is treatment of current account of Islamic Banking different from conventional accounts?**

The Islamic current account products are offered on the basis of Qard where the principal amount is guaranteed. The bank, as per the nature of the contract, is permitted by the customer, to use these funds at bank's own risk & the depositor has no right for any share of the profit generated. These funds are used in Shariah Compliant avenues only. However, in conventional bank, the bank uses/may use these funds in conventional lending and investments.

**38. Can weightages be assigned to current account and what will be the profit sharing ratio for current account?**

The Islamic current account products are offered on the basis of Qard and are non-remunerative. Therefore, weightages and profit sharing ratios are not applicable.

**39. What are pools under the profit & loss distribution instructions?**

The Islamic banking institution allocates the funds received from the customers to one or more Pools (like PKR/ FCY Deposit Pools) based on types of currency, Investment Strategy, distinct risk and rewards and tenure. These funds from the pool are utilized to provide financing to customers under different Islamic modes. The distributable profit of pool is announced on monthly basis. The profit is calculated at the start of the month for each subsequent month. Loss, if any, is shared among members of pool in ratio of their investment unless the loss has occurred due to negligence of Bank (as Mudarib).

**40. Mandatory & Regulatory Islamic Banking Training requirements**

As per the regulatory instructions, all the staff is required to undergo Islamic banking trainings to have an adequate understanding of Islamic banking and finance and shall be able to understand inherent and reputational risks of Shariah non-compliance. Further, for Islamic branches/windows, the staff, designated/ transferred/posted at any new/existing Islamic branch/Window or any conventional branch being converted into an Islamic branch, the bank shall arrange one-time Islamic banking training session of minimum 05 days (40 hours) and a refresher of minimum 03 days (24 hours) per year, in addition to other soft skills trainings as per overall training and development policy.