



Securities and Exchange  
Commission of Pakistan

# *Shariah Compliant Financing*

*by Lending Non-Banking  
Finance Companies*

**A DETAILED GUIDEBOOK FOR  
PRODUCT STRUCTURING**

**2026**

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# 1. An Overview of NBFC Framework in Pakistan

The Non-Banking Finance Companies (NBFCs) are specialized companies uniquely positioned to serve segments of the population that remain underserved or excluded by traditional commercial banks. These include low-income households, micro-entrepreneurs, small businesses, and gig economy workers. Unlike banks, NBFCs can adopt flexible structures, product innovation, and niche specialization, allowing them to design financial solutions tailored to the needs of specific groups often with lower operational thresholds and quicker rollout timelines.

In Pakistan, the NBFC sector represents a critical and growing component of the country's financial system. Established under the legal authority of Part VIII A of the repealed Companies Ordinance, 1984, and carried forward under Section 509 of the Companies Act, 2017, NBFCs operate under a comprehensive framework comprising the NBFC (Establishment and Regulation) Rules, 2003 and the NBFC & Notified Entities Regulations, 2008. These regulations empower the Securities and Exchange Commission of Pakistan (SECP) to regulate a wide range of financial services beyond traditional banking, allowing for both fund-based and non-fund-based business models in conventional and Shariah-compliant formats.

Against this backdrop, the importance of this report is amplified by the growing inclination of NBFCs to offer Shariah-compliant financial products. As per product-wise data, approximately 16% of NBFC products are currently Shariah-compliant, with around 43 companies offering such products in response to increasing market demand. With more consumers seeking ethical and faith-based alternatives, and more NBFCs looking to diversify their portfolios in line with these preferences, a structured approach to Shariah-compliant finance within the NBFC sector has become both timely and essential.

## 1.1. Types of License and Market Segmentation

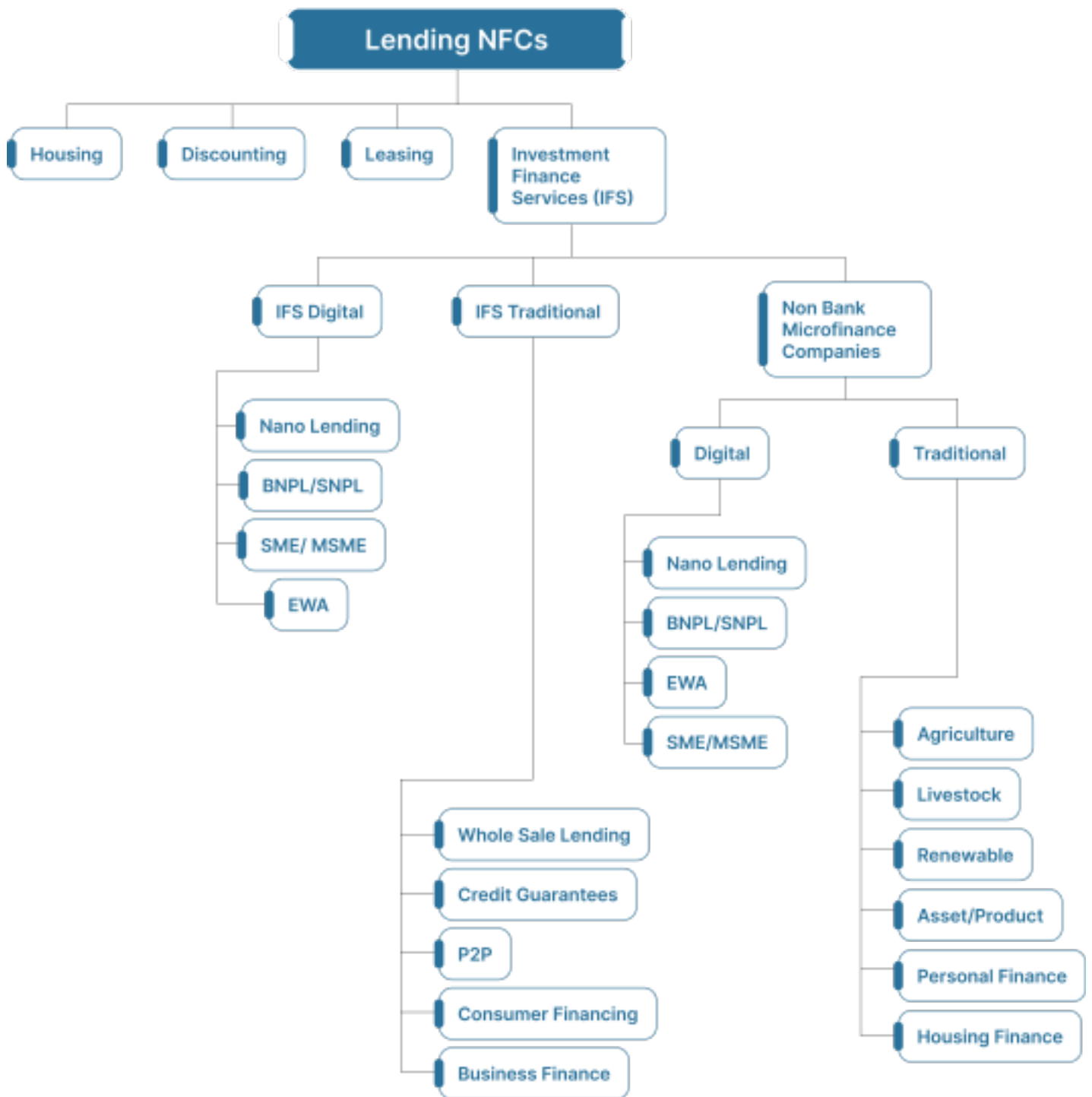
NBFCs operate across a wide range of financial services. Broadly, the industry can be categorized into two segments:

- **Fund Management:**

This segment primarily comprises entities involved in managing collective investment schemes, private funds, pension funds, REITs, and discretionary portfolios. Key participants include Mutual Funds and Plans, Asset Management Companies/Investment Advisors, Discretionary & Non-Discretionary Portfolios, Pension Funds, REIT Management Companies, Real Estate Investment Trusts, Private Fund Managers, and Private Equity & Venture Capital Funds.

- **Lending NBFCs:**

This segment includes entities providing financing across different sectors and purposes, including investment banking, microfinance, leasing, modarabas, discounting, and housing finance. Key participants include Investment Banks, Non-Bank Microfinance Companies, Leasing Companies, Modarabas, Discounting Companies, and Housing Finance Companies. Lending NBFCs landscape and product offering are explained in Figure 1.



- Figure 1: Current Licensing Regime under NBFC Rules

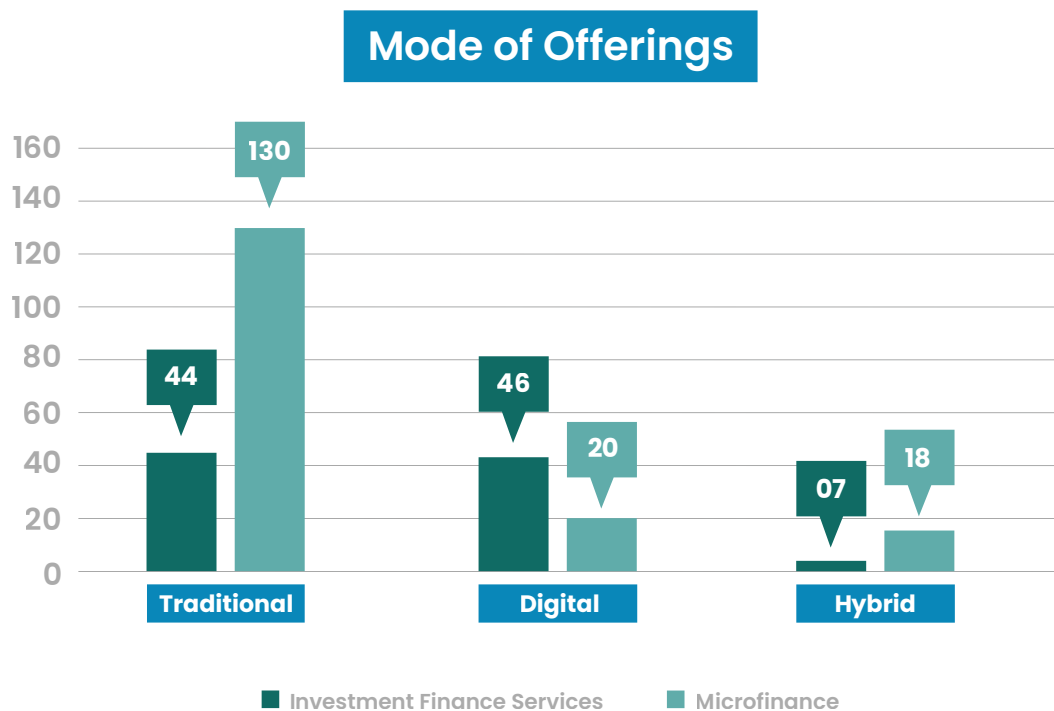
Overall, the NBFC sector consists of 715 entities with aggregate assets of Rs 6,844.35 billion as of December 31, 2025. Detailed numbers of licenses, assets, and percentages for each sub-sector are provided in the Figure 2 below.

Sector & Sub-Sectors		No. of Licenses Notified Entities	Total Assets (Rs in billion)	Percentage of Total Assets
FUND MANAGEMENT	Mutual Funds and Plans	409	4,536.71	66.30%
	Asset Management Companies / Investment Advisor	29	108.22	1.60%
	Discretionary & Non-Discretionary Portfolios	-	991.79	14.50%
	Pension Funds	62	136.05	2.00%
	REIT Management Companies *	38	16.12	0.20%
	Real Estate Investment Trust	25	218.89	3.20%
	Private Fund Managers *	16	2.28	0.00%
	Private Equity & Venture Capital Funds	20	10.48	0.20%
Lending NBFCs	Investment Finance Services	45	339.12	5.00%
	Non-Bank Microfinance Companies	42	410.41	6.00%
	Leasing Companies	3	5.27	0.10%
	Modarabas	20	67.8	1.00%
	Discounting	1	0.12	0.00%
	Housing Finance Companies	5	1.08	0.00%
<b>Total</b>		<b>715</b>	<b>6,844.35</b>	<b>100.00%</b>

- Figure 2: Types of NBFCs

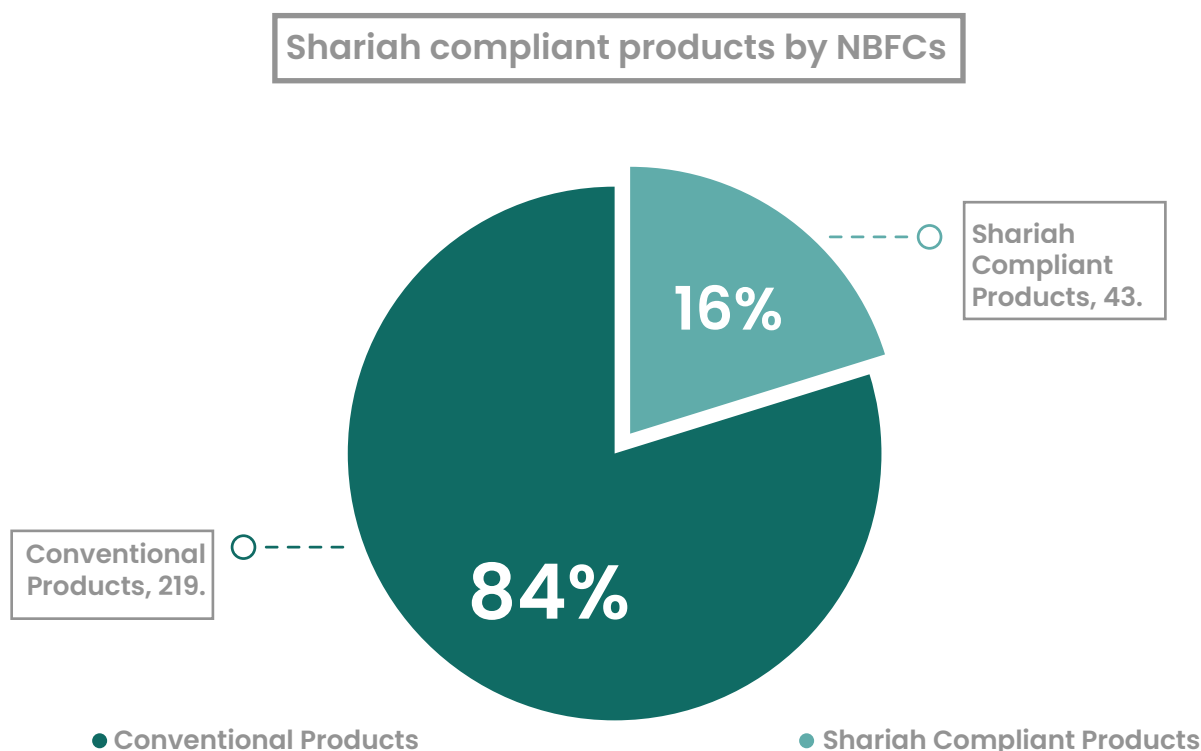
## 1.2. Digital and Shariah-Compliant Expansion

Over 265 different products offered by NBFC sector indicates a growing inclination toward digital delivery models, especially in nano lending, Buy Now Pay Later, and personal finance. About 35–40 digital product offerings have been identified, reflecting a strategic shift toward technology-driven and low-touch financial solutions. These models rely on mobile apps, automated underwriting, and alternative credit scoring, providing fast and scalable financial access to the unbanked and underbanked.



- Figure 3: Mode of offering

Simultaneously, Shariah-compliant finance is gaining ground, particularly in the microfinance, asset finance, and SME segments. The data indicates that around 17% of total product offerings across Lending NBFCs are now structured in accordance with Islamic principles, with microfinance NBFCs leading the trend. This aligns with the preferences of a large section of Pakistan’s population, enhancing financial trust and social acceptance of these services.



- Figure 4 : Shariah compliant NBFCs

### 1.3. Need for this Guidebook

Recognizing this need and in response to the growing market demand for Shariah Compliant and ethically structured financial solutions, SECP is issuing a comprehensive Guidebook on Shariah compliant financing by lending NBFCs. This guidebook aims to assist Lending NBFCs in understanding the fundamental principles of Islamic finance and how to design, document, and execute products in compliance with Shariah. The guidebook also provides clarity on the regulatory expectations, permissible structures (such as Murabaha, Ijarah, Musharakah, and Wakalah), disclosure obligations, and risk-sharing mechanisms. The objective is to enable a consistent, transparent, and Shariah-aligned product development process while ensuring adequate protection for consumers and alignment with international best practices. This initiative is expected to encourage more NBFCs to diversify their offerings, tap into the expanding Islamic finance market, and contribute meaningfully to Pakistan’s broader agenda of transitioning toward a riba-free financial system—one that is socially responsible, commercially viable, and widely accessible.

### 1.4. Scope of the Guidebook

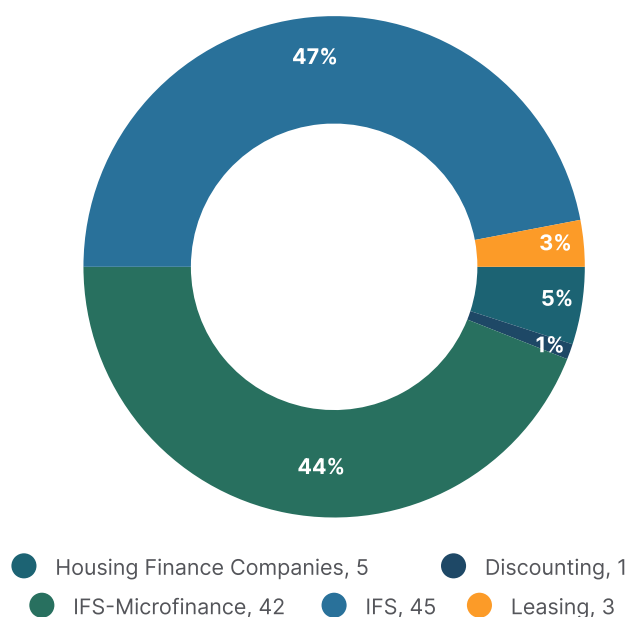
This guidebook is specifically designed to apply only to NBFCs offering financing, including investment finance companies, housing finance companies, leasing companies, discounting service providers, and microfinance NBFCs. While the broader NBFC sector encompasses

various entities such as asset management companies, private funds, and REITs, the focus of this document is limited to entities engaged in direct financing activities. This targeted approach ensures that the guidance remains practical and relevant, addressing the unique operational models, risk profiles, and regulatory needs of lending-focused NBFCs, particularly in the context of offering Shariah-compliant financial products.

## 2. NBFCs Engaged in Financing

NBFCs providing finance in Pakistan form the backbone of inclusive finance by offering a wide variety of financial products that cater to the diverse needs of individuals, households, and businesses across income brackets. These institutions serve as key alternatives to traditional banks, especially for those segments that remain underserved or excluded. Whether it is a salaried individual seeking a personal loan, a farmer requiring seasonal financing, a gig worker needing nano credit, or a small enterprise looking for business expansion capital, lending NBFCs provide tailored solutions across the board. Their product portfolio spans from large-ticket wholesale and structured financing to small, quick-disbursal products such as nano lending and BNPL (Buy Now Pay Later). This ability to cater to both structured and granular credit needs makes lending NBFCs essential vehicles for financial deepening and socio-economic empowerment.

Within the lending NBFC framework, various categories of financing solutions exist. These include core offerings such as housing finance, leasing, discounting, personal and consumer finance, education and health loans, and business finance. In addition, there are specialized loan structures like P2P lending, EWA (Earned Wage Access), platform-based financing, SME/MSME lending, and credit guarantees that target specific market gaps. Importantly, non-bank microfinance companies, though focused on the low-income segment, are also licensed as Investment Finance Services (IFS) under the Lending NBFC framework and offer nearly the full range of financing products at the micro level. These entities are not separate from the lending NBFC landscape but are integral to it, using specialized methodologies suited for micro-clients.



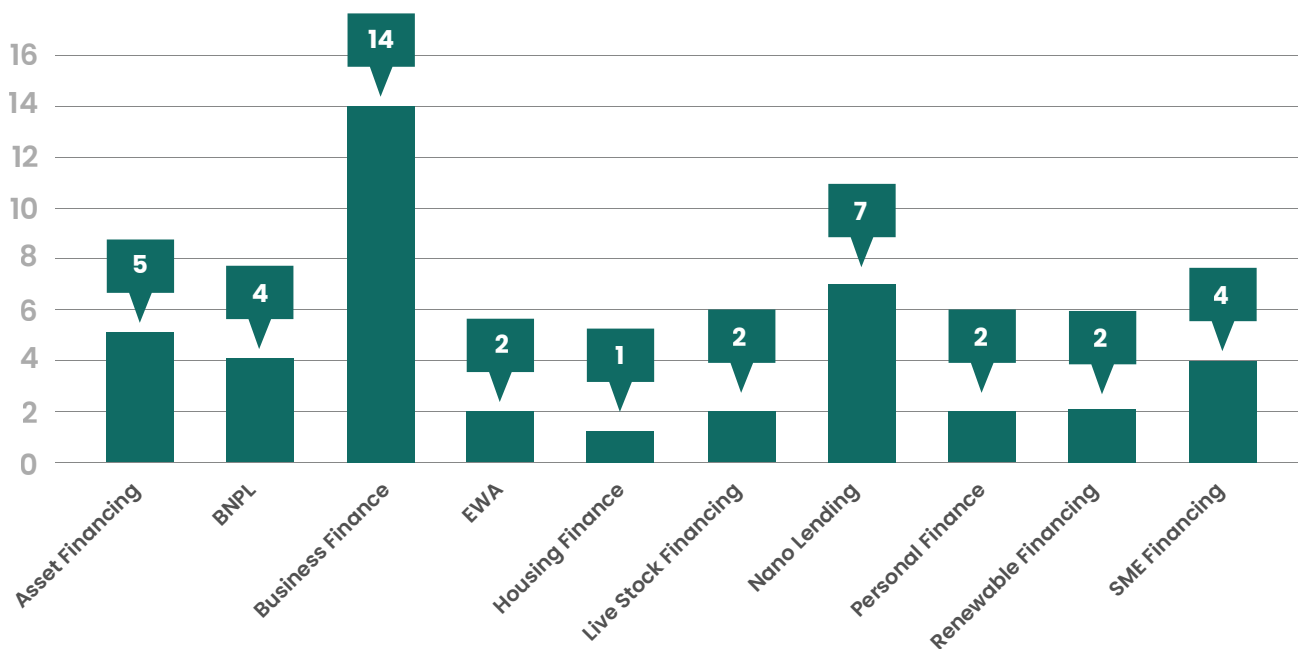
- Figure 5: Number and percentage of lending NBFCs as of 31 December 2025

### 3. Shariah Compliant Modes of Financing

Islamic finance has evolved significantly, reaching a stage where almost every financial product currently offered by conventional NBFCs can be structured in a fully Shariah-compliant manner. With a wide array of Islamic contracts such as Murabaha, Ijarah, Diminishing Musharakah, Modaraba, Salam, and Kafalah, the industry now offers mature and well-tested frameworks to support the design of ethical, interest-free alternatives across the entire range of lending products. From large-scale wholesale lending to digitally enabled micro and nano finance, and from consumer loans to sector-specific financing, Shariah-compliant solutions can now match the flexibility and commercial viability of their conventional counterparts. This growing sophistication enables conventional NBFCs to transition their product lines smoothly into Islamic formats, meeting the rising demand for faith-based finance while aligning with national objectives of promoting a riba-free, inclusive, and socially responsible financial system.

Currently lending NBFCs are using Shariah compliant products covering all NBFCs product categories;

No. of NBFCs offering Shariah Compliant Products



- Figure 6 : No of NBFCs offering Shariah compliant products

The following table illustrates which Shariah-compliant financing modes correspond to different NBFC product offerings.

Sr. No.	Product	Shariah Compliant Alternate
1	Wholesale lending	Partnership Contracts (Modaraba)
2	Auto financing	Diminishing Musharakah
3	House financing	
4	Leasing	
5	Cash on Delivery	Murabaha
6	Asset financing	
7	Buy Now Pay Later	
8	Business finance	
9	Agri Financing	Running Musharkah
10	Service Now Pay Later	Salam
11	Education financing	Shirkat ul Amal
12	Health financing	
13	Marriage financing	
14	Nano Lending	
15	Payroll financing	
16	Pension loan	
17	Personal loan	
18	Top-up loan	

## 4. Application of Partnership Contracts

### 4.1. Financial Institution Initiates Application

The process begins when a Financial Institution (FI) approaches the NBFC seeking Shariah-compliant wholesale funding under a Modaraba arrangement for onward financing to its eligible end customers. The FI confirms that the intended financing activities are permissible under Shariah principles and provides details regarding the target market, proposed financing modes, and expected utilization of funds.

## 4.2. Agreement Execution

Once the application is reviewed and approved, the NBFC and the FI enter into a Modaraba agreement. Under this arrangement, the NBFC acts as Rabb-ul-Maal (capital provider) and the FI acts as Modarib (manager). The agreement clearly outlines the purpose of the financing pool, management responsibilities, reporting requirements, tenure, and the pre-agreed profit-sharing ratio. The structure ensures compliance with Shariah principles and does not guarantee any fixed or predetermined return to the NBFC.

## 4.3. Capital Contribution

Under the Modaraba agreement, the NBFC provides the required capital for the wholesale financing pool, while the FI does not contribute capital but provides management expertise, operational capacity, and market access. The capital amount is clearly defined and deposited into a dedicated and segregated pool account to ensure transparency and proper tracking.

## 4.4. Initiation of Financing Operations

With the Modaraba arrangement formalized, the FI deploys the funds from the pool to provide Shariah-compliant financing to its end customers through approved contracts such as Murabaha, Ijarah, Diminishing Musharakah, Salam, or Istisna. The FI manages all operational matters, including customer selection, credit assessment, documentation, monitoring, and recovery, in accordance with the agreed mandate.

## 4.5. Accumulation of Income

As financing transactions generate returns, income is credited into the designated Modaraba pool account. Proper records are maintained to track revenues, expenses, recoveries, and any provisions. Net profit is calculated after deduction of directly attributable expenses.

## 4.6. Profit Sharing

In accordance with the pre-agreed profit-sharing ratio stated in the Modaraba agreement, the net realized profit is distributed between the NBFC and the FI. The profit share is expressed strictly as a percentage of actual profit and cannot be fixed in amount or guaranteed.

## 4.7. Loss Sharing

If the Modaraba venture incurs a loss, the financial loss is borne solely by the NBFC as the capital provider, while the FI loses its effort and entitlement to profit. However, if any loss results from negligence, misconduct, or breach of agreed terms by the FI, the FI shall be liable to the extent of such breach.

## 4.8. Final Settlement and Dissolution

Upon expiry of the agreed tenure or completion of the financing cycle, the Modaraba arrangement is formally terminated. Outstanding financings are settled or allowed to mature, accounts are reconciled, and the remaining capital along with any undistributed profit is

returned to the NBFC in accordance with the agreement. The arrangement is then dissolved, ensuring full transparency and compliance with Shariah and regulatory requirements.

## 5. Application for Diminishing Musharakah

### 5.1. Customer applies for Diminishing Musharakah financing

The process begins when a customer approaches the NBFC for Shariah-compliant financing to acquire a tangible, identifiable, and halal asset—such as a house, vehicle, or machinery. The NBFC ensures that the financing purpose is permissible under Shariah and that the asset qualifies for joint ownership. At this stage, the customer declares willingness to enter into a partnership arrangement and agrees to gradually buy out the NBFC's share through periodic payments.

### 5.2. NBFC and customer enter into Musharakah (Partnership) agreement

Once the application is approved, the NBFC and the customer enter into a Musharakah agreement, wherein both parties agree to jointly own the asset. The NBFC contributes the majority share of the capital, while the customer contributes an initial amount (usually a small percentage, e.g., 10–20%) as equity. A co-ownership arrangement is legally and Shariah-wise established, and ownership shares are clearly defined. Shariah requires that the asset must be acquired jointly in proportion to these ownership ratios.

### 5.3. Purchase of asset in joint ownership

The asset is then purchased in the name of both the NBFC and the customer or in the name of a customer with documentation reflecting joint ownership. The NBFC's ownership risk begins from this point. Shariah stipulates that both parties must bear ownership-related risks in proportion to their shares, and the asset must be in existence and deliverable.

### 5.4. Ijarah agreement for use of NBFC's share

Since the NBFC is not using the asset, it leases its undivided share in the asset to the customer through a separate Ijarah (lease) agreement. The customer pays rent for using the NBFC's share of the asset, while continuing to use the asset as a whole. The rental amount is calculated based on the NBFC's ownership share, and the rent is revised periodically as the customer's share increases. Shariah requires that rent be charged only for the NBFC's share and that it must be fair, pre-agreed.

### 5.5. Gradual purchase of NBFC's share (Sale agreement)

Alongside the lease, the customer enters into a separate sale undertaking to gradually purchase the NBFC's ownership share over time, usually through monthly or quarterly installments. With each payment, the NBFC's ownership decreases, and the customer's share

increases proportionately. It is critical from a Shariah perspective that each transfer of ownership is executed through a separate documented sale, and not assumed automatically with each rental payment. These buy-out transactions must occur separately from the rent agreement and must be recorded properly.

## 5.6. Completion of ownership transfer

Once the customer completes the purchase of all NBFC shares, full ownership of the asset is transferred to the customer. The Ijarah agreement terminates automatically, and no further rent is due. At this point, the Musharakah arrangement is fully dissolved. The documentation must reflect the final transfer of ownership, and any charges such as token transfers or title changes must be handled transparently and in line with Islamic legal requirements.

# 6. Application for Ijarah

## 6.1. Customer applies for Ijarah based financing

The process begins when a customer submits a request to the NBFC for Shariah-compliant financing to acquire a specific asset (e.g., a vehicle, machinery, or equipment). The NBFC conducts due diligence to ensure the asset is halal, identifiable, and capable of being leased. Under Shariah, the purpose of leasing must be permissible, and the asset must be tangible and valuable. The NBFC also obtains a declaration from the customer agreeing to comply with the lease terms and confirming no intention to use the asset for prohibited purposes.

## 6.2. NBFC purchases the asset

After approving the request, the NBFC purchases the requested asset from the supplier using its own funds. It must take full ownership and risk of the asset prior to leasing it out. Shariah strictly requires that the lessor (NBFC) bear all ownership-related risks—such as damage prior to delivery, warranty claims, and Takaful responsibility—throughout the lease facility. The NBFC cannot lease an asset it does not own and possess, and if any forward Ijarah contract is executed it should follow the rules of Ijarah Mawsufah Fi Zimmah unless backed by ownership.

## 6.3. Execution of Ijarah agreement

Once the asset is acquired and ready for delivery, the NBFC executes a formal Ijarah (leasing) agreement with the customer. The contract must specify the lease term, rental amount, payment frequency, responsibilities for maintenance, Takaful, and conditions of default. From a Shariah perspective, the lease payment must be fixed or linked to a predefined benchmark. The asset must remain in the NBFC's ownership throughout the lease term, while only the usufruct (right to use) is transferred to the lessee. Rental charges commence only after the asset is delivered to the customer, and not before. Although an advance rental may be charged.

## 6.4. Delivery and use of the asset by customer

The NBFC delivers the asset to the customer, who takes possession and begins using it in

accordance with the lease agreement. The customer, as the lessee, is responsible for the asset's operational maintenance, while the NBFC bears the cost of major structural repairs and ownership-related liabilities. Shariah requires clear distinction between ownership (which stays with the NBFC) and usage rights (granted to the customer). The customer must not be compelled to buy the asset during the lease term unless under a separate, non-binding undertaking to Purchase.

## 6.5. Lease payments and end-of-term options

The customer pays periodic lease rentals as per the agreed schedule. In case of late payment, the NBFC cannot charge any penalty, however, an undertaking to charity clause may be included whereby in case of late payment customer is bound to pay charity at a rate specified in the agreement. At the end of the lease term, the asset is either returned to the NBFC, or transferred to the customer through a separate sale agreement (if agreed upfront as a non-binding promise). The transfer must be based on a distinct and independent transaction. Shariah prohibits automatic ownership transfer in Ijarah unless executed via a properly structured Ijarah Muntahia Bittamleek (lease ending in ownership), following the rules of either a sale or gift.

- This Ijarah model allows NBFCs to offer structured, and asset-backed financing in a fully Shariah-compliant manner, providing a credible alternative to conventional leasing products. It is essential that all Ijarah transactions comply with AAOIFI Shariah Standard No. 9 and are executed strictly in accordance with its stipulated conditions.

## 7. Application of Murabaha

NBFCs intending to offer Shariah-compliant asset financing can use the model based on Murabaha, which is actively used by banks for financing asset requirements of companies.

### 7.1. Customer approaches the NBFC with a financing request:

The customer identifies an asset (e.g., machinery, vehicle, equipment) they wish to acquire. The customer submits a Murabaha Financing Request to the NBFC, requesting the NBFC to purchase the asset and sell it to them on a deferred payment basis. At this stage, no sale contract exists, only an indication of interest to buy.

### 7.2. NBFC appoints customer as its agent (Wakeel):

The NBFC signs a Wakalah Agreement with the customer. Through this agreement, the NBFC appoints the customer as its agent to buy the asset from the supplier on behalf of the NBFC. The agreement clearly states: The customer will act as a non-beneficial agent (cannot buy the asset for themselves). The asset must be purchased in the name of the NBFC or by its agent. The customer will disclose all relevant details and not exceed the delegated authority.

### 7.3. Customer purchases the asset as NBFC's agent:

Acting as the NBFC's agent, the customer executes the purchase transaction with the vendor.

The purchase agreement will be executed. The vendor delivers the asset either to the NBFC or to the customer (as future buyer) on behalf of the NBFC.

#### 7.4. NBFC takes possession (Qabdh) of the asset:

The NBFC ensures actual (haqiqi) or constructive (hukmi) possession of the asset. The asset remains the NBFC's property and is held at the NBFC's risk until sold to the customer.

#### 7.5. Customer offers to purchase the asset on a Murabaha basis:

After the NBFC has acquired and possesses the asset, the customer submits an Offer to Purchase the asset.

This offer includes:

- Acknowledgement that the asset is available and inspected.
- Agreement to buy at cost plus profit.
- Acceptance of deferred payment terms (e.g., 12 monthly instalments).

#### 7.6. NBFC accepts the offer and executes Murabaha sale:

The NBFC accepts the customer's offer and executes a Murabaha Sale Agreement, which includes:

- Cost price incurred by the NBFC.
- Declared profit margin.
- Total sale price and payment schedule.
- Once signed, the sale becomes binding and the sale price becomes locked.

#### 7.7. Delivery of the asset to the customer

If not already done, the NBFC delivers the asset to the customer (physical or constructive). A delivery certificate or acknowledgment of receipt may be obtained from the customer. Risk and liability now shift to the customer as owner.

#### 7.8. Payment of Murabaha price in instalments

The customer pays the agreed deferred Murabaha price as per the schedule (e.g., monthly/quarterly). The amount due becomes a debt obligation (dayn) from the customer to the NBFC. If default occurs, the NBFC may impose charity clauses (donated to charity), but cannot charge additional profit.

#### 7.9. Important Shariah controls

- The asset must not be a currency or debt instrument.
- Any other commodity falling in Bai' al-Sarf must not be used for deferred payment.
- The dual role of customer (agent and buyer) must be separated by time and contracts.
- Proper documentation is necessary: Request Letter, Wakalah Agreement, Purchase Invoice, Murabaha Offer, Murabaha Contract, Delivery Note, etc.
- No Bai al-Inah (buyback) structure or synthetic transactions allowed.
- All Murabaha transactions must comply with AAOIFI Shariah Standard No. 8 and are executed strictly in accordance with its stipulated conditions.

## 8. Application for Shirkat ul Amal

### 8.1. Customer/Partner Initiates Application

The process begins when a customer approaches the NBFC seeking a Shariah-compliant arrangement for joint service delivery. The applicant confirms that their intended service activity is permissible under Shariah principles and expresses willingness to form a partnership where both risk and reward will be shared through active participation and periodic settlements.

### 8.2. Agreement Execution

Once the initial application is reviewed and approved, the NBFC and the customer enter into a Musharakah agreement. This document clearly outlines the terms of engagement, including the nature of the joint services, the types of contributions (monetary, expertise, manpower, etc.), and the predefined ratios for profit-sharing and loss-bearing. The agreement is structured to comply with Shariah, ensuring no guarantee of fixed returns.

### 8.3. Capital and Non-Capital Inputs

Under the agreement, both parties contribute to the partnership: the NBFC typically provides the majority of the financial capital or necessary operational resources, while the customer/partner contributes complementary inputs such as technical expertise, labor, or a smaller capital share. Each contribution is duly recorded, forming the basis for future profit- and loss-sharing.

### 8.4. Initiation of Operations

With the partnership formalized, the joint entity commences the delivery of the agreed services. The service offering may target underserved market segments or specific niche areas, ensuring that the operational structure remains flexible and innovative, in line with both market needs and Shariah-compliant principles.

### 8.5. Accumulation of Income

As services are rendered, revenue is collected and pooled into a designated account. Detailed records are maintained to ensure transparent tracking of income, which will later be used to determine the net profits after deduction of relevant operational expenses.

### 8.6. Profit Sharing

In accordance with the pre-agreed profit-sharing ratios, the net profit is distributed among the parties. For instance, if the arrangement stipulates a 60:40 split, the NBFC and the customer receive their respective shares based on the actual profit generated by the service venture.

## 8.7. Loss Sharing

Should the venture incur a loss, it is apportioned solely on the basis of each party's actual capital contribution, ensuring fairness and adherence to Shariah-compliant principles.

## 8.8. Final Settlement and Dissolution

Once the contractual service period ends or the intended objectives are achieved, the Musharakah arrangement is formally terminated. A final settlement is conducted to reconcile any outstanding amounts, and the partnership is dissolved. All documentation is updated to reflect the complete transfer or conclusion of liabilities and claims, ensuring full transparency and compliance with both legal and Shariah standards.

# 9. Application for Salam

NBFCs intending to offer Shariah-compliant agricultural or commodity financing may use a Salam model, which is suitable for advance payment financing against future delivery of specified goods.

## 9.1. Customer Approaches the NBFC

The customer, typically a producer, farmer, or supplier, approaches the NBFC seeking advance payment against the future delivery of goods. The customer specifies the type, quantity, quality, and expected delivery date of the commodity. At this stage, the request serves as an expression of interest and does not constitute a binding contract.

## 9.2. Execution of Salam Agreement

Upon approval, the NBFC and the customer execute a Salam Agreement. Under this agreement, the NBFC agrees to pay the full purchase price in advance, and the customer undertakes to deliver the specified goods on the agreed future date. The agreement clearly defines the type, quality, and quantity of goods, the delivery date and place, the full purchase price, and the payment terms, ensuring that the Salam contract complies fully with Shariah principles. The contract becomes binding once executed, and the advance payment is made.

## 9.3. Advance Payment by NBFC

The NBFC makes the full Salam payment at the time of contract execution. Partial payment is not permissible, as Shariah requires that the purchase price be paid in advance. Once payment is made, the obligation of the customer is to deliver the specified goods at the agreed date and location, creating a binding debt on the customer.

## 9.4. Production and Delivery of Goods

The customer uses the advance funds for the production or procurement of the goods as

specified in the contract. On the agreed delivery date, the goods are delivered to the NBFC at the predetermined location. The NBFC takes either actual or constructive possession of the goods, at which point the risk transfers from the customer to the NBFC.

## 9.5. Disposal of Goods and Profit Realization

After taking possession of the goods, the NBFC may sell them in the market through a separate and independent sale transaction. Profit is realized only upon sale, reflecting the difference between the Salam purchase price and the resale price, and is subject to market risk. The NBFC may also structure a parallel Salam transaction provided it remains independent and does not rely on the outcome of the first Salam.

## 9.6. Default or Non-Delivery

If the customer fails to deliver the specified goods on the agreed date, the NBFC may grant an extension, demand a refund of the Salam price, or seek compensation for actual losses incurred, excluding opportunity costs. Shariah requires that such remedies do not involve interest or guaranteed penalties beyond actual loss.

## 9.7. Shariah Controls

The Salam price must be paid in full in advance. Goods must be clearly specified in terms of quantity, quality, delivery date, and delivery place. They must be standardizable and not uniquely identified items. Salam cannot be executed for currencies or precious metals such as gold or silver. Any parallel Salam contracts must remain independent from the original transaction, and the overall structure must comply with AAOIFI Shariah Standard No. 10 governing Salam transactions.

# 10. Application of Commodity Murabaha

In cases where the financing objective does not involve the acquisition of a tangible asset—such as funding for personal, welfare, or liquidity needs—products must be structured using a Shariah-compliant mechanism that facilitates cash-based financing without violating the prohibition of interest. The Commodity Murabaha model offers a well-established and widely accepted solution for such scenarios. By executing a real and documented sale of commodities, this structure enables NBFCs to provide funds through a trade-based transaction, ensuring compliance with Islamic principles while addressing customer demand for non-asset-backed financing. Its flexibility and transactional clarity make it particularly suitable for a range of financial offerings that are otherwise difficult to structure under traditional asset-based contracts.

## 10.1. Customer applies for financing:

The process starts when a customer approaches the NBFC seeking Shariah-compliant financing for the purchase of mutual fund units. The NBFC must confirm that the mutual fund is

Shariah-compliant, screened according to approved criteria (e.g., business activity, financial ratios, and income sources). The purpose of financing must be halal, and care must be taken to ensure it is not a disguised form of cash or interest-based lending. All customer declarations and undertakings related to Shariah compliance should be obtained upfront.

## 10.2. NBFC purchases mutual fund units

After approving the request, the NBFC purchases the required number of mutual fund units or any other commodity using its own funds. It must take full ownership and constructive possession of the units before offering them to the customer. This step is critical under Shariah, as the NBFC must bear the risk and liability of ownership—even if for a short time—before entering into a sale transaction. The mutual fund units must be tradable and free from any contractual restrictions that prevent transfer of ownership.

## 10.3. Murabaha sale to the customer

Once the NBFC has acquired and possessed the mutual fund units, it sells them to the customer at a disclosed cost-plus-profit price on deferred payment terms through a Murabaha contract. The contract must specify the cost price, profit margin, payment schedule, and installment frequency. Under Shariah, this sale can only occur post-ownership and must involve full transparency and absence of interest. The Murabaha contract must not be preconditioned by a binding promise prior to asset acquisition and should reflect genuine trade rather than financing in form only.

## 10.4. Transfer of units of the customer

Upon execution of the Murabaha agreement, the NBFC transfers full legal and beneficial ownership of the mutual fund units to the customer. The customer should be able to independently redeem, hold, or manage the units. Shariah requires that the asset is genuinely transferred to the buyer with all associated rights and responsibilities. The NBFC cannot retain any residual control, beneficial ownership, or impose buy-back or resale conditions that would contradict the validity of the sale.

## 10.5. Deferred payment by customer

The customer repays the agreed Murabaha price (cost plus profit) in instalments over the agreed tenure. Shariah prohibits charging additional profit or penalties for delays in payment; however, an undertaking to charity clause may be included whereby in case of late payment customer is bound to pay charity at a rate specified in the agreement. And subsequently that amount should be donated to charitable purpose by the NBFC. The repayment terms must remain fixed and non-compounding. The NBFC should ensure that all documentation, payment records, and contractual clauses align with AAOIFI standards adopted by SECP and are subject to Shariah audit and governance procedures.

# 11. General considerations for structuring Shariah compliant products

## 11.1. Asset ownership and possession:

The financier (NBFC) must first take ownership and constructive or physical possession of the asset before selling or leasing it to the customer.

## 11.2. Price disclosure and profit clarity:

The cost price and profit margin must be clearly disclosed and agreed upon in sale-based contracts like Murabaha—no ambiguity or hidden charges are allowed.

## 11.3. No buy back agreements:

The asset cannot be sold back to its original seller (e.g., in sale-and-buy-back arrangements), as this violates the principle of genuine asset transfer.

## 11.4. Prohibition of interest (Riba):

Any return on financing must be derived through trade, lease, or partnership—not through time-based interest.

## 11.5. Leasing (Ijarah) Rules:

In Ijarah, the leased asset must remain the property of the lessor (NBFC), and rental payments begin only after the asset is delivered to the lessee.

## 11.6. Risk & Liability Sharing:

The financier must bear ownership-related risks (such as damage or loss before delivery) during the period it owns the asset.

## 11.7. Gharar (Uncertainty) Avoidance:

Contract terms must be clear, especially regarding asset specifications, delivery timelines, and payment structure to avoid excessive uncertainty.

## 11.8. Prohibition of Sale of Debt:

Debts cannot be sold or discounted at a value different from their face value; this applies especially in Tawarruq or Murabaha-based products.

## 11.9. Separation of Contracts:

Two contracts (e.g., a sale and a promise to buy or undertaking to purchase) must be executed separately in sequence—merging of dependent contracts into one document is not permitted in some structures.

## 11.10. Shariah Governance & Documentation:

All products must be vetted by a qualified Shariah Advisor, and proper documentation must reflect Islamic contract elements (e.g., offer, acceptance, consideration) along with necessary declarations and undertakings.

## 11.11. Shariah compliance certification:

A financial institution intending to offer Shariah compliant financial services requiring Shariah compliance certification shall obtain required certification under Shariah Governance Regulation 2023, before offering such financial services.

## 11.12. Voluntary endorsement of Shariah compliant product:

A financial institution intending to offer Shariah compliant products which does not require Shariah compliant certification may follow Guidelines for Offering Islamic Financial Services 2023. However, any financial institution intending to offer innovative Shariah compliant service or product, may voluntarily seek endorsement of Shariah Advisory Committee of SECP.

# 12. Additional considerations for offering Shariah compliant products digitally

## 12.1. Shariah Governance by Shariah Compliant FinTech

- A financial institution intending to offer Shariah compliant products through digital medium shall adopt the Shariah Governance mechanism provided in Shariah Governance Regulations 2023, and Guidelines for Offering Islamic Financial Services 2023.
- In addition to the principles outlined in the Regulation and the Guidelines, a company offering digital Shariah compliant products shall put in place adequate technological mechanisms to mitigate Shariah governance risk peculiar to the technology-based institutions.
- Any institution offering digital Shariah compliant products must ensure that the execution of the Islamic contract must follow the required order and sequence of the contract.
- Any institution offering digital Shariah compliant products must devise a proper mechanism to obtain the consent of contracting parties of an Islamic contract.
- Shariah compliant FinTech shall publish a Shariah structure of the contract along with the opinion of Shariah Advisor.
- Any financial institution offering technology based Shariah compliant services shall abide by all the conditions imposed upon at the time of registration or license.

## 13. Annexure – A

Serial No	Product	No. of NBFC offering
1	Agri Financing	20
2	Asset financing	6
3	Auto loan	11
4	Buy now Pay Later	9
5	Business finance	42
6	Buy back Financing	1
7	Capacity building	11
8	Cash on Delivery	4
9	Credit Guarantee	3
10	Education Financing	18
11	Earned Wage Access	3
12	Health Financing	4
13	House Financing	11
14	Investment products	4
15	Invoice Financing/ Discounting	4
16	Leasing	9
17	Live Stock Financing	16
18	Loan against remittances	1
19	Margin financing	1
20	Marriage Financing	2
21	Nano Lending	40
22	No clear product details	1
23	Online payment (Payment payout)	5
24	Online payment solutions - tokenization	1
25	P2P	3
26	Payroll financing	1
27	Pension loan	1
28	Personal loan	9
29	Platform-based financing	1
30	Service Now Pay Later	1
31	Social projects	8
32	Solar/renewables	12
33	Topup loan	1
34	Wholesale lending	1
	<b>Grand Total</b>	<b>265</b>



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