



**Screening Guidelines for Selection of Equity Securities as Per Shariah Advisory Board in Equity CIS/ PS Schemes of Alfalah Investments**

The following is the screening criteria for investments in equity scrip in the local market.

- I. Business of the investee company The business of the investee company should be Halal. Accordingly, investment in shares of conventional banks, insurance companies, leasing companies, companies dealing in alcohol and any other non-compliant activities is not permissible.
- II. Interest bearing debt to total assets The total interest-based debt of the investee company should not exceed 37% of the total assets. The debt here includes all interest-based debt & interest-based financing.
- III. Investment in non-Shariah compliant activities and income from non-Shariah compliant investments  
The following two conditions must be observed for share screening purposes:
  - a) Investment in Shariah non-compliant activities should not exceed 33% of the total assets.
  - b) Income from Shariah non-compliant investment should not exceed 5% of the gross revenue. (Gross revenue means gross sales plus other income). Subsequently, giving the proportionate portion of non-compliant income to charity is required to purify earnings from investee companies.
- IV. Illiquid Assets to Total Assets The total illiquid assets as a percentage of the total assets should at least be 25% where illiquid assets are defined as those assets which can be traded at price different from their par value.
- V. Net liquid assets versus share price The net liquid assets [net liquid assets = total assets – illiquid assets – total liabilities] per share should be less than the market price of the share.

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**Purification Guidelines:**

A charity rate should be computed to purify earnings from investment in shares i.e. non-compliant income (after tax) divided by the operating profit and it should be applied to the entire dividend received from the investee company and the calculated amount shall be paid in charity.