SHARI'AH COMPLIANT ASSET & LIABILITY SIDE PRODUCTS KEY FEATURES
&
DIFFERENCES WITH CONVENTIONAL PRODUCTS

MURABAHA FINANCING

Murabaha is an Islamic cost + profit sale mode where the seller has to disclose cost & profit to buyer. It is usually used as short term financing mode as a substitute to conventional banking short term loans facilities.

Murabaha Facility

Under the Murabaha Facility, the Bank will first purchase the required goods directly or through an Agent. All costs incurred on such purchases will be borne by the Bank.
Subsequently the Bank will sell the goods to the customer on deferred payment basis usually up to one year tenure at an agreed price comprising cost of goods purchased and Bank's profit.

On due date the customer will pay to the Bank the agreed price, in lump sum or as per the agreed installment schedule.

Key features

1. Available to procure consume able commodities/goods/materials/tangible assets directly from the suppliers
2. Cost is known to the customer
3. Can be Installment based financing
4. No hidden charges
5. No penalty is demanded on delay of Installments*

Difference between Murabaha and Conventional Short Term Loans

S.No.	Murabaha	Conventional Short Term Loans
1.	It's a sale transaction	It's a loan based contract
2.	Islamic Banks own the assets risks and rewards.	Conventional banks do not own the risks and rewards of Assets / Commodity / Goods while extending conventional loans.
3.	Compensation is in the form of price of goods.	Compensation in the form of interest,

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S.No.	Murabaha	Conventional Short Term Loans
		since any benefit over the loan is interest.

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DIMINISHING MUSHARAKAH FINANCING

Diminishing Musharakah (DM) is a Shariah compliant concept, wherein the Bank and its customer enter in a joint ownership of an asset(s). The Bank after establishing this partnership leases out its portion/share to the customer at a rent agreed upon using a benchmark through a separate Rental Payment Agreement. Further, the customer also agrees to purchase the share of the Bank in small unit at periodical intervals. For this purpose, the share of the bank is divided into small units. The customer over an agreed tenor purchases all the units of the Bank's share through independent sale contract ultimately taking the complete ownership of the said asset(s).

Key features

1. Diminishing Musharaka can be used in following avenues;

- Construction of building
- Acquisition of fixed assets
- Purchase of plants, Machineries and Equipment

2. Installment based financing
3. Ownership is gradually transferred from bank to the customer
4. Ownership related expenditures, rights and liabilities will be borne proportionately
5. Usage related expenditures, rights and liabilities will be borne by the customers
6. No hidden charges
7. No penalty is demanded on delay of Installments*

Difference between Diminishing Musharakah Financing and Term Loans

S.No.	Diminishing Musharakah Financing	Conventional Term Loans
1.	Islamic Banks acts as partner with customer to acquire joint ownership in the assets and thus own the risks and rewards over assets till the total bank's share purchased by customers.	It's merely an interest based lending where Conventional banks do not acquire joint ownership in the assets and thus do not own the risks and rewards over assets.
2.	Ownership of the bank gradually transferred to the customer.	Ownership of the property lies with the customer from inception.
3.	The customer's payment to the bank over the agreed tenure represents;	The customer's payment to the bank over the agreed tenure represents;

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S.No.	Diminishing Musharakah Financing	Conventional Term Loans
	• Purchase price for the share of bank in the property • Rental payment for the use of bank's share in the property	• repayment of principal and payment • Interest/Riba on the principal amount
3.	Ownership related charges are borne by both the Bank and Customer in proportion to their ownership	All charges are borne by the customer.

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IJARAH (LEASING)

'Ijarah' means "to transfer the usufruct of a particular property to another person in exchange for a rent claimed from him." In this case, the term 'Ijarah' is analogous to the English term 'leasing'. Here, the lessor is called 'Mujir', the lessee is called 'Mustajir' and the rent payable to the lessor is called 'Ujrah'.
In Ijarah financing the bank will first purchase the asset(s) as required by the Customer and subsequently the asset(s) will be leased to the Customer on the terms and conditions as agreed with him.

Key features of Ijarah Financing

1. Ijarah Facility will be offered for the following avenues:
   - Vehicles (Commercial)
   - Office Equipment
   - Plant and Machinery
2. Installment based financing.
3. Usufruct of the asset is transferred to the lessee not the ownership of the asset.
4. Ownership of the Ijarah asset is transferred to customer through a sale contract or gift deed at the maturity of period or early termination.
5. consumable things cannot be leased out
6. No penalty is demanded on delay of Installments*

Difference between Ijarah Financing and Conventional Leasing

S.No.	Ijarah Financing	Conventional Leasing
1.	Islamic Banks acquire ownership over the asset and thus own the risks and rewards over the asset during the financing tenure.	Conventional banks do not acquire ownership over the asset and thus do not own the risks and rewards over the asset during the term loans tenure.
2.	The bank bears all the risk of loss of asset if such loss is not caused by the negligence of the customer.	The bank is not responsible for any loss to the asset.
3.	No rent can be charged and demanded prior to the delivery of the asset.	Rent is charged and demanded prior to delivery of the asset.

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S.No.	Ijarah Financing	Conventional Leasing
4.	Since Ijarah is a binding agreement therefore, neither party can terminate it without mutual consent unless if there is a breach of contract by either party.	The conventional lease agreements give unilateral right to bank to terminate the Lease Agreement without any reason.

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LIABILITY SIDE PRODUCTS

Deposit Schemes being offered by NBP's Islamic Banking Branches include the following:

- Current Deposit Scheme based on Qardh/loan.
- Profit & Loss Sharing (PLS) Deposits & Islamic Term Deposits Scheme Based on Mudarabah

Current Deposit Scheme

Current Account is based on Qardh/loan contract where the Bank is liable to pay customer money back on demand.

Key Features

- Ideal for customers looking for security of their funds along with absolute convenience in its use, in the form of Current accounts.
- Funds deposited with the bank will be utilized by the bank at its sole discretion in Shariah acceptable avenues.
- The Customer will have the flexibility to withdraw a part or the whole of their balances at any time as per their requirement.
- This is a non-remunerative deposit scheme and thus the customer will not be sharing the profits nor will be sharing losses (if any).
- No deduction on low balance maintained

Difference between Islamic & Conventional Current Account

S.No.	Islamic Current Account	Conventional Current Account
1.	Since Islamic current accounts are based on Qard (borrowing) contract, bank cannot give pre-determined benefits to current accounts	Conventional banks can give pre-determined benefits to current accounts
2.	Islamic banks do not deduct penalty on low balance maintained.	Conventional banks deduct penalty on low balance maintained
3.	Islamic Banks cannot incentivize current account holders for maintaining current account.	Customers are usually incentivized by the bank in terms of free services on maintaining current account e.g. free cheque book, free ATM, pay order etc.

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Profit & Loss Sharing Deposit (PLS) Scheme

PLS Saving Deposits Scheme will accept deposits on Mudharabah basis, where the depositor will be Rabb-ul-Mal (Investor) and Bank will be Mudarib (Fund Manager). PLS accounts are further classified into two categories;

1. Saving Accounts
2. Term Deposits

In saving account the Depositor will have the flexibility to withdraw a part or the whole of their balances at any time as per their requirement whereas in Term deposits the funds are fixed for the specified term with the bank. Therefore weightages for Term deposits are usually hire than saving account

Key Features

- The Bank will invest the deposited funds at its sole discretion in Shariah acceptable avenues.
- The Bank will share profit to the Depositors on the basis of agreed profit sharing ratio of actual profits which are announced by the Bank from time to time.
- In the event of financial loss, the PLS depositors will bear the loss in proportion of their investment.
- The Depositors will not participate in the management of the business of the Bank.
- Customers can be incentivized in terms of free services e.g. free cheques book, pay order, ATM card etc.

<u>Difference between Islamic & Conventional Saving Account</u>

S.No.	Islamic Saving Account	Conventional Saving Account
1.	Islamic saving accounts are based on Mudaraba partnership contract where bank cannot give agreed fixed return but shares actual Shariah compliant profit based on agreed profit sharing ratio with its customers.	Conventional saving accounts are based on Qardh (borrowing) contract where bank gives agreed fixed interest (Riba) to its customers.
2.	An Islamic bank cannot guarantee its return to the depositors	Conventional Bank Guarantees return on customer's deposit.
3.	The Islamic bank cannot quote the	Conventional Banks fixe the rate of

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S.No.	Islamic Saving Account	Conventional Saving Account
	depositors with certainty that it will give a specific amount of profit to them.	return at the time of taking deposit
4.	Islamic banks do not impose penalty on low balance maintained.	Conventional banks may impose penalty on low balance maintained

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*** CONCEPT OF CHARITY DUE TO DELAY IN PAYMENT AND DEFAULT**

In conventional banking customer is required to pay penalty for delay in payment of installments in addition to the pre-agreed installment amount on due date and it becomes part of bank's income. However In order to avoid the above adverse consequences in Islamic banks, an alternative is that the client may be asked to undertake that if he fails to pay an instalment on its due date, he will pay a certain amount to charity account which will not become part of bank's income in any way. For this purpose, the Islamic bank maintains a charity fund and disburses charity from it under the directions of the Shariah board of the bank and State Bank of Pakistan.

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