

## Differences between Islamic Banking and Conventional Banking Offerings

### Deposit / Liabilities

#### CASA & Term Deposit

Conventional banks accept deposits on the basis of **loan** for all types of deposit accounts including Term Deposit, Savings and Currents accounts. Interest based returns are provided for the Savings accounts and Term Deposits, whereas Current Accounts may offer free banking facilities. In addition to this, conventional bank invests the deposits in non-shariah compliant avenues and subsequently earns non-shariah compliant returns.

Islamic Banks offers deposit products based on the following structures:

1. **Qard** – Current accounts are offered under this contract where the risk of the funds lies with the bank and no added benefits are provided to the client solely based on this facility. However, clients may be allowed to avail those facilities which are offered across the board.
2. **Mudarabah** – a type of partnership where client funds are invested in various businesses and returns are shared between the bank and client as per the agreed profit sharing ratio whereas, the loss is shared as per the investment ratio. Term Deposit and Savings Accounts are offered on the basis of Mudarabah.

### Lending / Financing

Conventional banks offer lending facilities to their clients to fulfil their cash requirement on the basis of **loan contracts** where the relationship between the Bank and client is that of lender and borrower respectively.

#### Conventional Banking Loan Contracts Characteristics:

1. No risk of underlying assets
2. Income through Interest
3. Late Payment charges on delayed payments and shall constitute bank's income.

Islamic banks offer financing/leasing facilities to their clients to fulfil their business requirements on the basis of following contracts depending on the requirements of the client:

#### Islamic Banks Financing Transactions Characteristics:

1. Islamic bank takes the risk of the asset
2. Income is earned through sale or leasing contracts
3. Share profit & bear Loss as the case may be
4. In case of late payment or default by the client, there will be no penal charges. However, to instil a payment discipline, Bank is authorized to recover an amount at a predetermined percentage as compulsory contribution to Charity Fund constituted by the bank approved Shariah Board. This contribution to Charity Fund shall not constitute income of the bank.
5. The bank will deploy the Islamic Funds in only Shariah Compliant avenues.

Following are the Saadiq financing products along with their relevant financing structures:

#### 1. Saadiq Home Finance

**Structure:** Diminishing Musharakah

A long term transaction where the bank and the client mutually own an asset and bank earns returns through leasing the asset to the client. In addition to this, periodically client purchases the bank's share and gradually becomes the complete owner of the asset.

#### 2. Saadiq Credit Cards

**Structure:** Ujrah

A contract of services, where the bank charges for the provision of associated privileges and benefits. In addition to this, no extra amount is charged over the

credit limit utilized by the client. Saadiq Credit Card restricts usage services at Non-Shariah Compliant merchants.

### 3. Business Term Finance

**Structure:** Diminishing Musharakah Sale & Leaseback - DM SLB

A medium to long term transaction where the bank purchases the partial ownership from the client and jointly owns the asset with the client. Client pays the rentals for using the bank's share and periodically starts purchasing the bank's share after a completion of a 12 months period to avoid buy back (which is not allowed as per Shariah). Immediately after the completion of gradual purchase of share client becomes the complete owner of the asset.

### 4. Commercial & Trade

#### ✓ **Saadiq Murabaha Finance**

**Structure:** Murabaha

Sale based transactions where bank purchases the asset and bears the risk and reward of the asset and subsequently sells it to the client after adding a certain profit.

#### ✓ **Saadiq Term Finance**

**Structure:** Diminishing Musharakah

A medium to long term transaction where the bank purchases the partial ownership from the client and jointly owns the asset with the client. Client pays the rentals for using the bank's share and periodically starts purchasing the bank's share after a completion of a 12 months period to avoid buy back (which is not allowed as per Shariah). Immediately after the completion of gradual purchase of share client becomes the complete owner of the asset.

#### ✓ **Saadiq Term Musharakah and Overdraft**

**Structure:** Musharakah

Musharakah based structure where the bank invests the funds in the clients business on a profit and loss sharing basis. The Bank can take profit on provisional payment basis which would be subject to adjustment when the client's financial statements are published

## Trade Finance

Conventional banks offers trade finance related operations under the concepts of services, guarantee and lending.

### Conventional Banks Trade Transactions Characteristics:

1. Commission based Income
2. Income through guaranteeing payments
3. Income through Interest on loan payments
4. Additional interest income on delayed payments

Islamic banks also offer trade finance related operations under the concepts of services, guarantee and financing with the following conditions:

### Islamic Banks Trade Transactions Characteristics:

1. Commission based Income as per the guidelines of Shariah
2. Income through payment and documents facilitation services
3. Income through sale or lease of assets
4. Share Profit & bear Loss as the case may be
5. In case of late payment or default by the client, There will be no penal charges. However, to instil a payment discipline, Bank is authorized to recover an amount at a predetermined percentage as compulsory contribution to Charity Fund constituted by the bank approved Shariah Board. This contribution to Charity Fund shall not constitute income of the bank.
6. The bank will deploy the Islamic Funds in only Shariah Compliant avenues.

Following are the Saadiq trade finance products along with their relevant financing structures:

#### 1. Saadiq LC Issuance and Import Finance Under Murabaha

**Structure:** Murabaha under Agency

Saadiq appoints the client as undisclosed agent to import the goods through LC arrangement and sells the goods to the client after disclosing the cost and profit at the time of receipt of goods

#### 2. Saadiq LC Issuance Under Kafalah

**Structure:** Kafalah

Saadiq facilitates the client to import the goods and only guarantees the payment to the supplier in case of a default from the client as per the concept of Kafalah. Service charges will be levied to the client to cover the following expenses i.e. Credit assessment procedures, Operational procedures and Processing and issuance procedures. Further, Service charges will be obtained as a fixed percentage of the LC amount based on the duration of the LC.

#### 3. Saadiq Import Invoice Financing

**Structure:** Murabaha under Agency

Saadiq appoints the client as undisclosed agent to import the goods and sells the goods to the client after disclosing the cost and profit at the time of receipt of goods

#### 4. Saadiq Guarantees

**Structure:** Kafalah

Saadiq facilitates the client as a guarantor against their payment or performance obligations under the concept of Kafalah. Service charges will be levied to the client to cover the following expenses i.e. Credit assessment procedures, Operational procedures and Processing and issuance procedures. Further, Charges may be levied upon fixed percentage basis or can be Tiers/slabs wise.

**5. Saadiq Export LC Confirmation**

**Structure:** Kafalah

Saadiq facilitates the client to export the goods and only guarantees the receipt of the payment in case of a default from the buyer as per the concept of Kafalah. Service charges will be levied to the client to cover the following expenses i.e. Credit assessment procedures, Operational procedures and Processing and issuance procedures. Further, Service charges will be obtained as a fixed percentage of the LC amount based on the duration of the LC.

**6. Saadiq Export Bills under LC and Saadiq Export Invoice Finance**

**Structure:** Musawammah & Agency

Saadiq facilitates the client through purchasing the goods on cash and appoints the client as agent to export the goods under agency

**7. Saadiq Import Bills for Collection**

Structure: Collection Services (Commission based income against services)

Saadiq provides the import document collection services and charge a fee for providing the required services

**8. Saadiq Import Finance Musharakah**

**Structure:** Musharakah

Saadiq enters into a Musharakah transaction with the client through investing funds in clients business at an agreed profit sharing ratio and facilitates the client to import the goods. The client utilizes the imported goods in his business operations and shares the agreed returns with Saadiq. Partners bear the risk of loss as per the investment ratio.

**9. Saadiq Export Bills Under Collection**

**Structure:** Collection Services (Commission based income against services)

Saadiq provides collection and forwarding services for the export documents and charge a fee for providing the required services

#### 10. **Saadiq Export Refinance**

**Musharakah:** Agency & Murabaha

Saadiq and State Bank of Pakistan (SBP) on joint terms finance runs a pool of funds where on behalf of the pool Saadiq appoints client as its agent to purchase goods and later on sells the goods to the client on the basis of Murabaha.

Whatever, returns are generated from the Murabaha transactions are shared between Saadiq and SBP.

#### 11. **Saadiq Export Bills Under LC – Musharakah**

**Structure:** Musharakah

Saadiq enters into a Musharakah transaction with the client and invests funds in client business. Client submits the exports bills to Saadiq as a security and shares the returns as per the agreed profit sharing ratio.

#### 12. **Saadiq Export Bills Under LC Goods Murabaha**

**Structure:** Agency & Murabaha

Saadiq facilitates the client to avail financing under Murabaha against Export Bills under LC. The bank appoints the client as his agent to purchase the goods and then subsequently sells the goods after disclosing the cost and the profit. The maturity of the bill and murbaha finance is matched, however if the bill proceeds are not realized, the client is required to pay from his own sources which confirm about the exclusivity of both transactions.

#### 13. **Saadiq Pre-shipment Finance Musharakah**

**Structure:** Musharakah

Saadiq enters into a Musharakah transaction with client to facilitate the export orders. Saadiq and client shares the returns as per the profit sharing ratio generated from the export proceeds.

#### 14. **Saadiq Invoice Finance Musharakah Facility**

**Structure:** Musharakah

Saadiq enters into a Musharakah transaction with the client where both the parties invest together in the business and share the generated returns as per the

agreed profit sharing ratio.

**15. Saadiq Transactional Commodities Finance**

**Structure:** Agency & Murabaha

Saadiq appoints client as its agent to purchases the goods and then procures the goods in a warehouse and subsequently sell it to the client on the basis of Murabaha.

**16. Saadiq Transactional Commodities Finance**

**Structure:** Agency & Musawammah

Saadiq appoints client as its agent to purchases the goods and then procures the goods in a warehouse for subsequent selling it to the client on the basis of Musawammah.

**17. Islamic Currency Spot & Promise to Purchase**

**Structure:** Wa'd

Islamic Currency Spot & Promise to Purchase product is based on the concept of Wa'd and sale, where initially the buying party enter into a promise to purchase a currency at a future date, however the actual sale occurs on a future date where an offer and acceptance is executed to conclude the sale transaction.