Differences between Islamic Banking and Conventional Banking Deposit & Financing side Products.

Deposit Side Products

Products	Islamic Banking	Conventional Banking
Current Account	Islamic Banks collect deposits based on the following underlying Shariah principles: **Qard (قرض)** - Al Baraka Current Accounts are based on the Qard contract, whereby customer is the lender and ABPL is the borrower. The funds may be used by the Bank (ABPL) at its discretion in Shariah-compliant investments, and are payable, on demand by the lender (Customer), with neither any addition nor penalty.	Conventional Banks collect deposits based on the following principles: Conventional banks collect deposits from their customers on the basis of loan for Current Accounts. Conventional Bank invests the funds without any Shariah restrictions.
Saving Accounts & Term Deposits	**Mudarabah (مضاربہ)** - Al Baraka Saving Accounts & Term Deposits are based on Mudarabah whereby Investors/Depositor (Rab al-Mal) provide capital to the bank (ABPL) who acts as Mudarib by investing those funds in Shariah-compliant avenues. Profit is shared as per the pre-agreed ratio between both parties. All losses are borne by Rab-ul- Maal as per the Islamic principle except where the loss is due to the gross negligence of Bank.	In Conventional banking, Savings Accounts & Term Deposits are also based on loan in which the customer is the lender and the Bank is the borrower. Conventional Bank may use the amount deposited in accounts regardless of Shariah prohibition. Interest / Markup is paid to the depositors at a pre agreed interest rate and depositors do not bear any kind of loss.

Asset Side Products

Products	Islamic Banking	Conventional Banking
Rental Basis		
Ijarah	Ijarah is a form of rental arrangement in which a durable asset (vehicle, plant, and machinery) is leased out to a customer in a usable condition, under a contract between two parties (Al Baraka Bank and the customer) against a specific rental payment plan for a mutually agreed fixed period. The delivery of asset is the mandatory condition as the lease period, in Ijarah, starts after the asset has been delivered to the lessee. Asset remains in the ownership of the bank throughout the tenure. At the end of Ijarah transaction, Ijarah asset is transferred to the lessee through a Separate and independent Shariah Compliant Contract. Any scenario involving the damage to the asset that has not been caused by the negligence of the lessee, the Bank (ABPL) would bear the damage. In case of Musharakah asset destroyed, rentals will be stopped and could not be charged due to the unavailability of utilization of asset. Furthermore, all Shariah Principals are abided by in case any situation occurs whether it benefits the bank or not	In conventional banking, the lease period for the conventional lease starts after the bank has disbursed. The delivery of asset is not a mandatory condition in conventional lease financing. In the conventional lease, the lease period may even start before the delivery of the asset to the customer. Under Conventional leasing contracts, the ijarah asset is automatically transferred to the customer upon completion of the lease period, which is against the shariah principles. Any scenario involving the damage to the asset, the lessee (customer) has to bear the damage regardless of their negligence. Since the conventional Bank executes loan-based transaction, therefore customer would be liable to pay interest payment till the settlement of the transaction. Bank is always secured in terms of capital amount plus markup. So in case, any situation occurs such

		as non-availability of the leased asset for a particular time etc. The bank is covered in 100% of the cases.

Trade/ Sale Basis		
Murabahah/Musawamah	Murabaha/Musawamah is a common mode utilized in Islamic banking. Murabaha is a cost-plus profit financing sale where the seller (ABPL) discloses the cost of a commodity and its profit to the buyer (the customer).while, Musawamah is a type of sale in which buyer and seller negotiate the selling price of an item without any stipulation in the contract to charge a specific amount of profit. Murabahah/Musawamah, therefore, is not a loan lent on interest. Rather, it is a sale of a commodity at profit similar to the shopkeeper who buys the inventory at a cost and then sells it to its customers by adding particular amount of profit. Under Murabahah/Musawamah contract, Al Baraka bank purchases an item for the customer upon his request establishing a contract between the two parties. Once the possession of the purchased goods is transferred to ABPL, same is sold to customer after adding the profit amount. Risks related to ownership of asset are borne by the bank (ABPL) till the time the assets are sold to the customer.	In conventional banking, the basis of the working capital finance is a loan contract where a conventional bank lends money to the customer. Moreover, the relationship between the bank and customer is that of a borrower and a lender.

Salam	Salam is a contract of sale where payment is done in advance for delivery of goods at a future date. ABPL, at the time of the contract, will pay an advance full price of the specific goods to the client ahead of the agreed upon future date in exchange of the supply of the goods. Salam caters to the Working Capital needs of Agriculture, manufacturers, and exporters of homogeneous commodities. Upon receipt of the delivery/ownership of the commodities, ABPL appoints the client as agent to sell the goods to 3rd party buyers, and the risks related to ownership of commodities are borne by the bank until the commodities are sold onwards in the market. Salam mode of financing is derived directly from the Sunnah of Prophet (SAW)	No risks are borne by conventional banks as these banks do not deal in goods. Thus, they do not cover any loss either. In addition, the income of conventional bank is based on the interest (Riba) received from the customer.

Istisna	Istisna is a short-term financing facility for transactions that caters to the needs of manufacturers. In Istisna, the bank (ABPL) places an order with the seller (customer) to manufacture certain asset and the sale will be completed once the asset has been delivered to the bank (Al Baraka). All Shariah rulings related to manufacturing contracts are abided by in true spirit.	
Tijarah	Tijarah Financing is a Sharia Complaint alternative of conventional Working Capital Financing. In this transaction, bank purchases finished goods at a discount price from Client against the disbursed funds. Upon receipt of the delivery/ownership of the finished goods, bank appoints client its agent to sell the goods to 3rd party in the market at a higher price to earn its desired profit.	
Partnership Modes		
Diminishing Musharakah	Diminishing Musharakah is a combination of Musharakah, Rental and trade contracts in which the customer and the bank (ABPL) will both invest jointly to own asset therefore risk of asset is shared as per the ownership ratio in the asset. It is a form of Musharakah where the ownership of an asset is divided into units. The bank (ABPL) will then lease its share of asset to the customer	

	against periodical rental payments. After the	

	completion of purchase of all the units, the customer becomes the sole owner of the asset.	(customer) and lender (bank). No risks are borne by conventional banks.
Running Musharakah	Running Musharakah is an alternative to a conventional running finance facility where the bank (ABPL) and the client enter into a partnership agreement where Al Baraka and the client agree to invest in the identified operating activities of the customer's business as well as participate in the profits or loss generated by Musharakah. The core business activities of client need to be lawful and Shari'ah compliant. The bank and the client will share the profit as per pre-agreed profit sharing ratio and bear the loss to the extent of investment.	
Modes of Finance		
Running Finance/Working Capital Limits	In Islamic banking, there are different modes of finance such as Murabaha Finance, Salam, Istisna, and Running Musharakah. The risk for Islamic bank changes with the modes of financing, as every mode has its own risk profile. Moreover, the nature of customer's business also adds to the Islamic bank's risk of financing.	Conventional banks only have one mode of financing and that is loan based.

Long-Term Finance	Islamic banking offers Diminishing Musharakah and Ijarah as long-term finance. **Diminishing Musharakah** Diminishing Musharakah is a form of co-ownership in which two or more parties participate in a joint venture of a physical asset. As per the agreement, one of the partner (client) will buy the share of other partners in periodic installments, until the ownership of the asset is completely transferred to the co-owner (client). **Ijarah** Ijarah is a form of rental arrangement in which a durable asset (vehicle, plant, and machinery) is leased out to a customer in a usable condition, under a contract between two parties (Al Baraka Bank and the customer) against a specific rental payment plan for a mutually agreed fixed period. The delivery of asset is the mandatory condition as the lease period, in Ijarah, starts after the asset has been delivered to the lessee.	Long-term finance is a loan facility spread over a year of tenor. In conventional banking, the loan is provided to the bank's customer or client and a markup (quarterly interest) is charged to the customers on their outstanding principal amount. Compounding of interest also takes place on annual basis The interest is also compounded on annual basis in conventional banking.
	Conceptual Differences	
Lending & Borrowing Mechanism	In Islamic banking, the funds would be collected on either the Qard basis or Mudarabah basis. **Qard:** It is a non-cumulative contract where the Qard is extended by the lender to a borrower. **Mudarabah:** It is a form of partnership where one party provides the	In conventional banking, funds are borrowed from depositors on loan. Conventional banks collect funds on debt basis along with charging interest to customers, as their profit. Moreover, the return provided to depositors is Riba (Interest) as it's a benefit on the loan (debt).

	fund while the other party provides the expertise. The party that provides the fund is Rab-ul-Maal whereas the bank (ABPL) would be Mudarib invests the provided funds in the avenues that are Shariah Compliant and shares the profits with its customers.	
Treating Money/Currency as a Commodity	In Islamic banking, money is not identified or treated as a commodity. Hence, Al Baraka will not sell or rent money to make any profit, as it would be Riba.	In conventional banking, money is identified as a commodity, so it can be rented as well as traded for interest.
Risk Sharing	Islamic banks operate in different modes. Musharakah and Mudarabah In modes, such as Musharakah and Mudarabah, these are partnerships and by default that means sharing of profit as per the agreed ratio and sharing of loss as per investment ratio. Thus, the bank (ABPL) shares the risk with customers in such modes. Murabaha, Salam and Istisna On the contrary, in the trade-based modes such as Murabaha, Salam and Istisna, the bank (ABPL) will bear the risk of the commodity before selling it to the customer/3rd party. Similarly, in Ijarah-based modes, the ownership of the asset truly lies with the bank (Al Baraka) as we would bear any risk in case of complete loss.	In conventional banking, the bank offers service on debt for both depositors and borrowers, so there is no risk sharing involved on the part of the bank.
Late Payment Charges	Under Islamic banking, the bank (ABPL) would only charge charity to discipline the clients from delaying payments past the due dates. In addition, the charity income does not add to ABPL's profitability. Instead, it is collected and used for charity purposes by the Bank on behalf of customers.	Under conventional banking, banks make a significant portion of their net profits via late payment charges (penalty) collected from their customers. Late payments are a substantial income for all the banks and it adds to their profitability.