

## COMPARISON OF ISLAMIC BANKING PRODUCTS WITH CONVENTIONAL BANKING PRODUCTS

### Liability Products

- **MCB Islamic Current Accounts**

Conventional Bank Current Accounts (Loan)	MCB Islamic Current Accounts ( <i>Qard</i> )
In Conventional banking, customer's deposited funds under current account are based on loan in which the customer is the lender and the Bank is the borrower. Although in normal the Bank does not provide any interest / markup to depositors for their funds, the Bank uses these funds in interest based money lending to generate its non-Shari'ah compliant earnings.	No profit is paid on these accounts. The account is based on the concept of "Qard" where the Customer is "lender" and the Bank is "borrower". The amount deposited by Customer in this account shall remain payable by the Bank to the customer on demand. Bank may at its discretion uses such funds as it deems fit in approved Shari'ah Compliant products / avenues to earn Shari'ah compliant non-interest based earnings / profits.

- **MCB Islamic Saving and Term Deposits Accounts**

Conventional Bank Saving & Fixed Deposit Accounts (Interest Bearing)	MCB Islamic Saving & Term Deposit Accounts ( <i>Mudarabah</i> )
In Conventional banking, customer's deposited funds under Savings and Fixed / Term deposit accounts are also based on loan in which the customer is the lender and the Bank is the borrower. The Bank pays interest / markup to depositors for their funds, which the Bank uses for further interest based money lending to generate its non-Shari'ah compliant earnings.	Savings and Fixed / Term deposit accounts are profit bearing accounts based on the principles of Mudarabah, where Customer is "Rabb-ul-Maal" (Capital Provider) and Bank is "Mudarib" (Fund Manager). The Bank may, at its discretion, use or employ such funds as it deems fit in avenues approved by Shari'ah Board of the Bank. The Bank shall share the profit on the basis of predetermined profit sharing ratio agreed with the customers. Return on deposits will be based on predetermined weightages for each month (or any agreed interval) that are announced as per SBP's instructions. The principal amount of depositors under these accounts is not protected / guaranteed. In the event of any loss, all such depositors / investors shall bear such loss proportionate to their respective investments, while the Bank (being the Mudarib) suffers the loss of its efforts.

## Micro-Finance Product

- **Sharai Karobar**

Conventional Bank	MCB Islamic ( <i>Murabaha</i> )
Underlying contract is of <i>Loan</i> whereby bank lends money to the customer who in turn pays interest / markup to the Bank	Underlying Contract is of <i>Sale</i> whereby Bank sells goods/assets to the customer on Murabaha basis (i.e. cost and profit disclosed to the customer)
Bank's income is based on interest on the loan	Income is based on profit earned on the sale of goods/assets, i.e. trade activity
Penalty is charged in case of late payment which becomes part of Bank's income	Customer undertakes to pay Charity in case of late payment. Charity does not become part of the Bank's income and it is totally used in Charitable purpose through Charitable/welfare organizations

## Consumer Financing Products

- **Rihayesh Finance**

Conventional Bank	MCB Islamic ( <i>Diminishing Musharakah</i> )
Nature of the contract is of loan and transaction is based on interest / markup lending by the Bank to the customer	Nature of the contract is co-ownership of the Bank and the Customer of the underlying property i.e. ( <i>Shirkat-ul-Milk/Joint Ownership</i> ). Transaction is based on gradual transfer of ownership to the customer.
Installments are payable after disbursement of loan irrespective of whether the usufruct of the financed asset is available to the customer.	Rentals only start once usufruct of the asset is available to the customer.
Conventional Bank does not distinguish between ownership and usage related risks and rewards and places all liabilities on the user of the financed asset	All ownership related risks & rewards and liabilities are borne by the joint owners (i.e. Customer and the Bank) as per the prevailing ratio of their ownership in the underlying asset
Penalty is charged in case of late payment which becomes part of the income of the Bank.	Customer undertakes to pay Charity in case of late payment. Charity does not become part of the income of the Bank and it is totally used in Charitable purpose through Charitable/welfare organizations.
Asset is usually covered under non-Shari'ah compliant conventional insurance.	Asset is covered under Shari'ah compliant alternative to insurance, i.e. Takaful.

- **MICAR**

Conventional Bank	MCB Islamic ( <i>Diminishing Musharakah / Ijarah</i> )
-------------------	--

Nature of the contract is of loan and transaction is based on interest / markup lending by the Bank to the customer.	Bank owns the underlying asset / its share in the underlying asset on the basis of Ijarah or Diminishing Musharakah respectively whereby Bank rents the underlying asset / its share in the underlying asset to the customer.
Installments are payable after disbursement of loan irrespective of whether the usufruct of the asset is available to the customer	Rentals only start once usufruct of the asset is available to the customer
Conventional Bank does not distinguish between ownership and usage related risks and rewards and places all liabilities on the user of the financed asset.	All ownership related risk & rewards and liabilities are borne totally by the owner in Ijarah and joint owners (i.e. Customer and the Bank) in case of Diminishing Musharakah) as per the prevailing ratio of their ownership in the underlying asset. .
In case of total loss/ theft, Bank continues to charge lease installments until insurance claim is received from the insurance company.	Installments are not deducted in case of total loss/theft.
Penalty is charged in case of late payment which becomes part of the income of the Bank.	Customer undertakes to pay Charity in case of late payment. Charity doesn't become part of the income of the Bank and it is totally used in Charitable purpose through Charitable/welfare organizations.
Asset is usually covered under non-Shari'ah compliant conventional insurance.	Asset is covered under Shari'ah compliant alternative to insurance, i.e. Takaful.

## CORPORATE / COMMERCIAL / SME Products

### ▪ Working Capital Finance

#### Murabaha Financing

Distinguishing Factor	Murabaha	Conventional loan
Contract	A sale contract whereby bank sells asset (goods / commodities) to customer.	A loan contract, whereby Bank lends money to customer.
Relationship	The relationship between bank and customer is that of seller and buyer.	The relationship between bank and customer is that of lender and borrower.
Income	Income on Murabaha is the outcome of sale i.e. Profit.	Income is based on Mark-up on loan.
Delayed Payment	In case of delayed payment, the customer undertakes to pay Charity which doesn't become part of the income of the Bank and it is totally used in Charitable purpose through Charitable/welfare organizations	Mark-up continues to accrue as a part of the bank's income till the loan is repaid

### Musawamah Financing

Distinguishing Factor	Musawamah	Conventional Loan
Contract	A sale contract whereby bank buys goods from customer	A loan contract, whereby bank lends money to customer
Relationship	The relationship between bank and customer is that of buyer and seller. Subsequently principal and agent	The relationship between bank and customer is that of lender and borrower
Income	Income on Musawamah is the outcome of sale i.e. Profit	Income is based on Mark-up on loan
Delayed Payment	In case of delayed payment, the customer undertakes to pay Charity which doesn't become part of the income of the Bank and it is totally used in Charitable purpose through Charitable/welfare organizations	Mark-up continues to accrue as a part of the bank's income till the loan is repaid.

### Istisna Financing

Distinguishing Factor	Istisna	Conventional Loan
Contract	A sale contract whereby bank purchase the asset needs to be manufactured by the customer.	A loan contract, whereby bank lends money to customer.
Relationship	The relationship between bank and customer is that of buyer and seller.	The relationship between bank and customer is that of lender and borrower.
Financing	Financing is created by paying the Istisna Price to customer.	Financing is created by granting loan.
Income	Income on Istisna is the outcome of sale i.e. profit.	Income is based on Mark-up on loan.
Customer's Liability	Customer is liable to deliver the asset at agreed future date.	Customer is liable to repay the loan at future date.

### Commodity Salam Financing

Distinguishing Factor	Salam	Conventional Commodity finance
Contract	A sale contract whereby bank purchase the asset needs to be produce/ cultivated by the customer for e.g. Agricultural crops.	A loan contract, whereby bank lends money to customer.
Relationship	The relationship between bank and customer is that of buyer and seller.	The relationship between bank and customer is that of lender and borrower.
Financing	Financing is created by paying the Salam Contract Price to customer.	Financing is created by granting loan.
Income	Income on Salam is the outcome of sale i.e. Profit.	Income is based on Mark-up on loan.

Customer's Liability	Customer is liable to deliver the asset at agreed future date.	Customer is liable to repay the loan at future date.
----------------------	--	--

### Musharakah Running Finance

Distinguishing Factor	Musharakah Running Finance	Running Finance
Contract	It is a partnership contract. Running Musharakah is based on the Islamic principle of Shirkat-ul-Aqd, Bank will invest in the core business/primary operating activities of the customer.	Running Finance is a revolving finance. Once the finance limit is approved, then the borrower is free to withdraw amounts to the extent of that limit. The borrower can withdraw and repay the amount as many times as he wishes but he has to pay mark-up on the amount which he has actually used on monthly basis.
Income	Income is earned when Bank participates in the operating activities of the customer and shares profit and loss whereas profit is shared as per agreed Profit sharing ratio and Loss is shared as per Musharakah Investment. Final settlement of profit will be related to the actual performance of the business of the respective MRF period.	Income is generated by charging mark-up on loan.
Loss	In case of loss in Musharakah, the loss will be shared between the Bank and the Customer as per their ratios of investment.	There is no loss distribution in conventional running finance product.
Profit Tiers	Bank and the Customer will have two Profit Sharing Ratios (PSR): Tier 1 Profit Sharing Ratio (PSR) and Tier 2 Profit Sharing Ratio (PSR).	No Profit Tiers in Running Finance.

### ▪ Long Term Finance

#### Diminishing Musharakah

Distinguishing Factor	Diminishing Musharakah	Conventional Loan
Contract	It is a Shirkat-ul-Milk/Joint Ownership contract.	It is a loan contract.
Commencement	Rental commenced after the delivery of asset.	Installment/Interest starts before the delivery of asset.

Ownership & Risk	Asset is jointly owned and the risk is shared in proportion of ownership.	Asset is owned by the customer and all risks are borne by him.
Delayed Payment	Customer pays charity in case of delayed payment of rental which doesn't become part of the income of the Bank and it is totally used in Charitable purpose through Charitable/welfare organizations	In case of delayed payment a penalty is charged and taken to income.
Income	Income is generated by renting out the bank's ownership.	Income is generated by charging mark-up on loan.
Repayment	Customer pays the rental, and purchases the units.	Customer pays the installment comprising of mark-up and principal repayment.
Loss	In case of loss in Musharakah, the loss will be shared between the Bank and the Customer as per their ratios of investment.	Total Loss will be borne by customer.

#### Ijarah

Distinguishing Factor	Ijarah	Conventional leasing
Ownership of Leased asset	The leased asset is owned by the leasing bank.	The leased asset is not owned by the leasing bank.
Rent payment	No rent (ujrah) can be charged and billed prior to delivery of the leased asset.	Rent is charged and billed prior to delivery of the leased asset.
Termination	Ijarah is a binding contract and hence neither party can terminate it without mutual consent unless the contract is breached by either party.	The agreement gives the leasing bank a unilateral right to terminate it at its own discretion.
Charity on Late rental payment	Charity on late rental payment is considered permissible as per Shari'ah principles. This Charity doesn't become part of the income of the Bank and it is totally used in Charitable purpose through Charitable/welfare organizations.	Penalty on late payment is charged.