



ISLAMIC BANKING & FINANCING

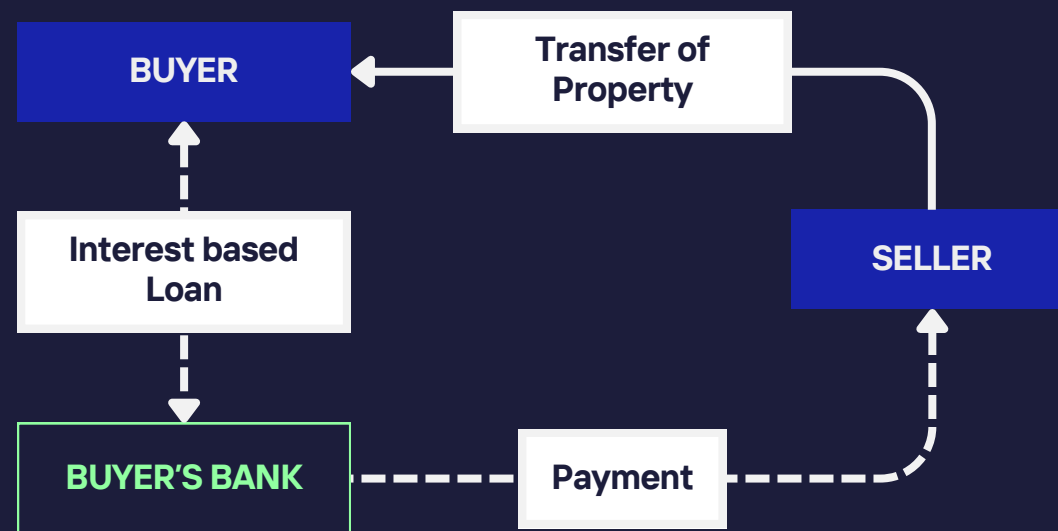
A comparative overview of conventional and islamic financial instruments



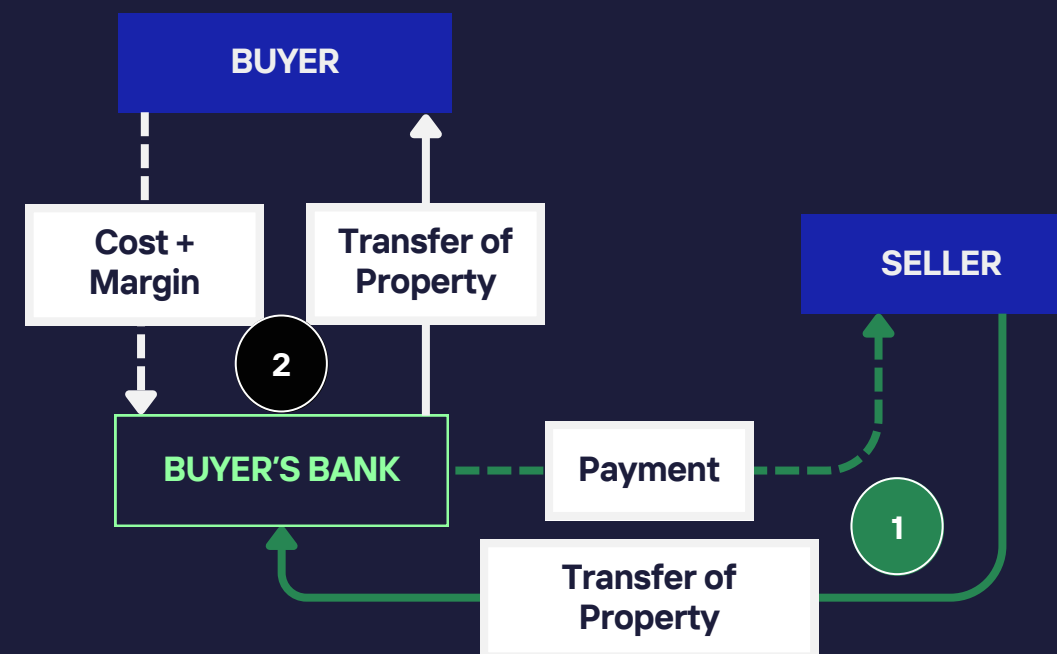
REAL-ESTATE MORTGAGE



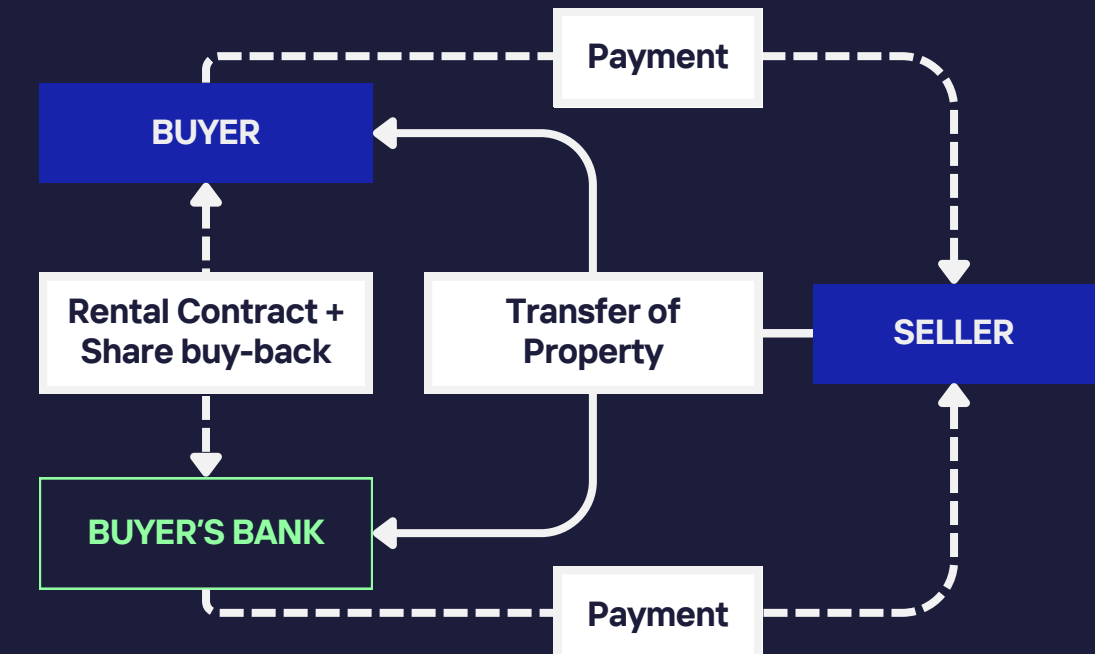
In a conventional mortgage, the bank lends money with interest, which is prohibited in Islam. Instead, Islamic mortgages rely on asset-based structures. A "fixed rate" islamic mortgage can be structured through Murabaha financing, where the bank purchases the property and sells it to the buyer at a profit margin. "Floating rate" islamic mortgages are structured through a combination of Musharaka and Ijara contracts: the bank and buyer form a joint venture to buy and co-own the property, and the buyer gradually purchases the bank's share while paying rent for the bank's portion in the meantime.



Conventional Mortgage



Fixed rate - Murabaha

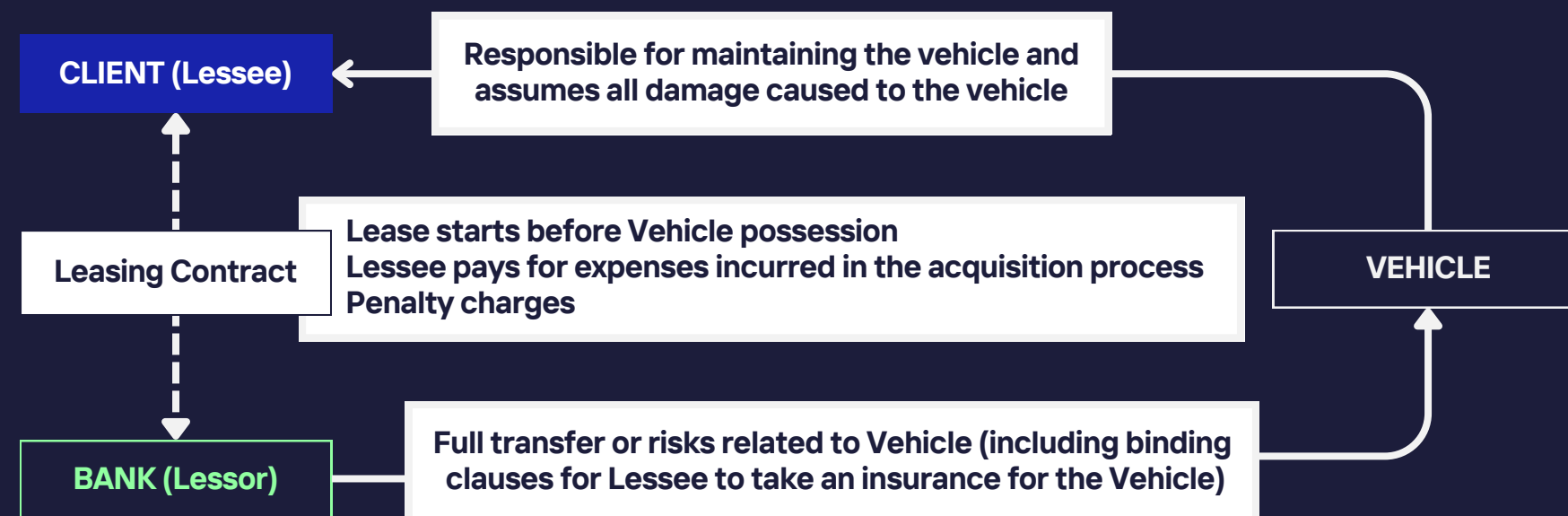


Floating rate - Musharaka + Ijara

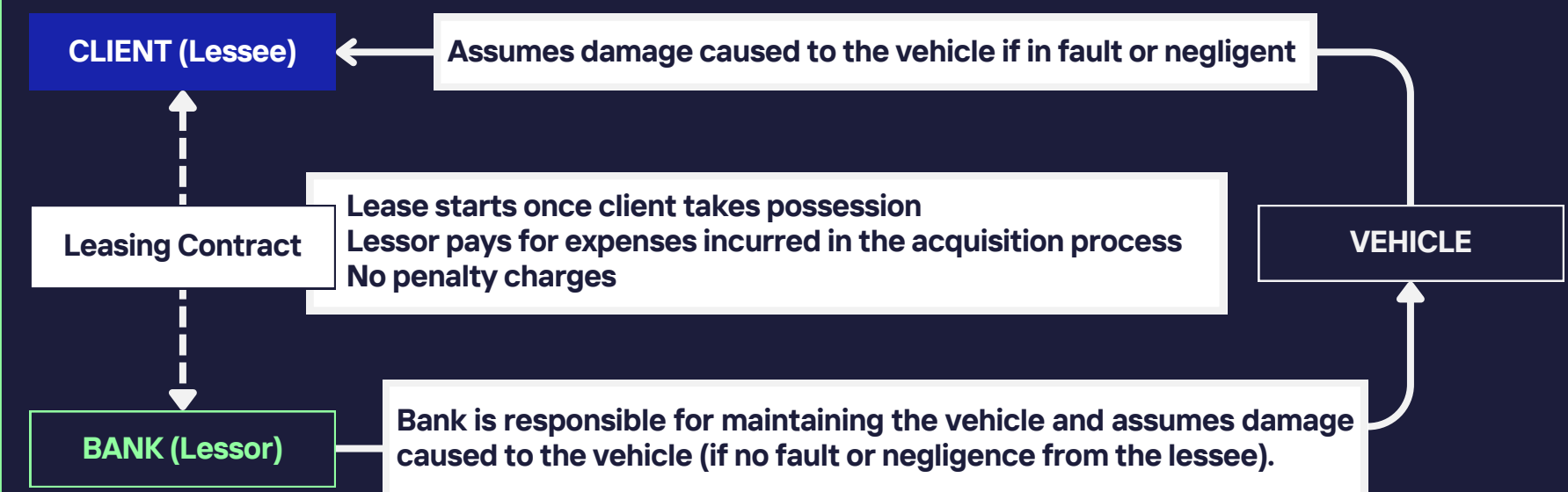
CAR LEASING



In conventional car leasing, the lessee assumes many risks and responsibilities, often including vehicle maintenance, acquisition costs and subscribing to an insurance. Moreover, late payment penalties are imposed and the lease contract may begin before the vehicle is even delivered to the lessee. By contrast, Islamic car leasing is structured using the Ijara contract, which strictly requires that the bank owns the asset before leasing it, and the lease only begins after the lessee takes possession. Ownership risks, such as major maintenance, accidental damage not caused by negligence, or insurance obligations, remain the responsibility of the bank as the legal owner. No interest can be charged, and penalties for late payment are either prohibited or redirected to charity.



Conventional Car Leasing

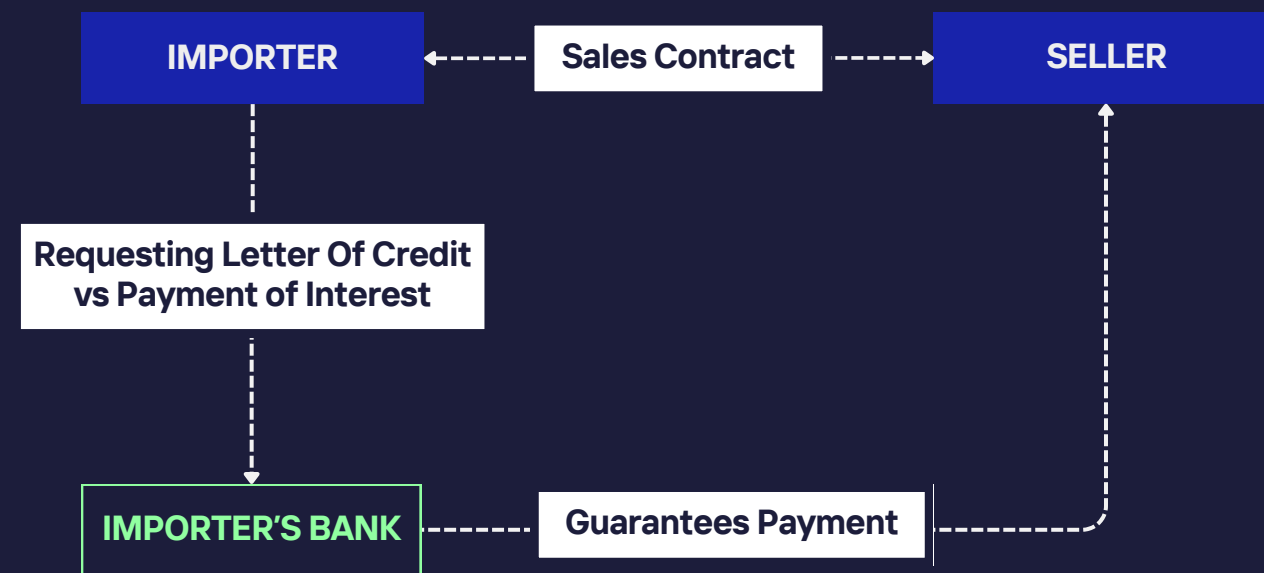


Islamic Car Leasing

LETTER OF CREDIT



Conventional letters of credit involve interest-bearing transactions. In contrast, Islamic letters of credit are structured using shari'a compliant contracts. For existing goods, the bank may use Murabaha or Musawama contracts. The bank will first buy the goods and then sell back to the importer. For manufactured or future goods, Salam or Istisna' contracts are used. The islamic bank will usually mandate its client as Agent to inspect and take possession of the goods, but ownership remains with the bank until the resale.



Conventional Letter of Credit



Islamic Letter of Credit



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