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B.Com Honours | Semester V | Calicut University

INTRODUCTION TO ISLAMIC COMMERCIAL BANKING

Course Code: COM5EJ311 • Module 1 Notes

Module I: Concept of Islamic Banking

Provides conceptual definitions of Islamic banking, philosophy of interest-free finance, global institutional framework, comparative analysis with conventional commercial banking, and core Shariah prohibitions.

Unit 1: Introduction to Islamic Commercial Banking

Islamic Banking: Financial system operating in strict adherence to Shariah (Islamic Law) jurisprudence. Philosophy: Financial transactions must be backed by real tangible economic assets, promoting social justice, ethical investment, & risk-sharing.

Unit 2: Modern Islamic Banks Architecture

Modern Islamic Banks: Full-fledged Islamic Banks, Islamic Banking Windows in conventional banks, & Islamic Microfinance Institutions. Governed by a Shariah Supervisory Board (SSB) ensuring product compliance.

Unit 3: Difference between Islamic & Conventional Banking

Conventional Banking: Money is treated as a commodity; earns guaranteed fixed interest (Riba) regardless of borrower profit/loss; risk transferred entirely to debtor.
Islamic Banking: Money is a medium of exchange; profit generated via asset trading & risk-sharing partnerships (PLS); losses shared according to capital contribution.

Unit 4: Core Principles & Prohibitions of Islamic Finance

1. Prohibition of Riba (Interest/Usury): Any pre-determined guaranteed return on loans is strictly forbidden.
2. Prohibition of Gharar (Excessive Ambiguity): Contracts with ambiguous terms or unknown subject matter are invalid.
3. Prohibition of Maysir (Gambling/Speculation): Unearned profit derived purely from chance.
4. Halal Business Requirement: Strictly prohibiting investment in alcohol, pork, gambling, or weapons industries.

Practical Case Framework 1 (Islamic vs Conventional Banking Comparative Matrix): Compare operating philosophy, return mechanism, risk distribution, and regulatory governance.

Islamic vs Conventional Banking Comparison Table:

Comparison Dimension	Conventional Commercial Banking	Islamic Commercial Banking
Core Philosophy	Interest-based money lending for profit	Asset-backed trading & profit-loss sharing
Return Mechanism	Fixed predetermined interest rate (Riba)	Actual profit-sharing ratio or trade margin
Risk Distribution	Risk transferred entirely to borrower	Shared between bank & partner based on equity
Shariah Compliance	No ethical Shariah restrictions	Supervised by independent Shariah Board

Practical Case Framework 2 (Core Shariah Prohibitions Matrix): Detail Islamic legal prohibitions, textual definition, and economic rationale.

Core Shariah Prohibitions Reference Table:

Shariah Prohibition	Textual Definition & Meaning	Economic & Ethical Rationale
Riba (Interest)	Unearned surplus charged on principal loan	Prevents exploitation & unearned wealth accretion
Gharar (Deceit/Ambiguity)	Uncertainty in contract price or delivery	Protects contracting parties from hidden fraud
Maysir (Gambling)	Speculative gain dependent on pure chance	Encourages productive labor over speculation