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B.Com Honours | Semester V | Calicut University

INTRODUCTION TO ISLAMIC COMMERCIAL BANKING

Course Code: COM5EJ311 • Module 2 Notes

Module II: Evolution & History of Islamic Banking

Covers historical origin of interest-free institutions, pioneer Islamic banks (Mit Ghamr, DIB, IDB), core banking functions, and deposit product structures (Al-Wadiah & Mudarabah).

Unit 5: Brief History & Evolution of Islamic Banking

Historical Progression: Pre-Islamic merchant trade networks (Suftaja bills of exchange) → Mit Ghamr Savings Bank (Egypt 1963 - First modern interest-free experiment by Dr. Ahmad El-Naggar) → Dubai Islamic Bank (1975 - First commercial Islamic bank) → Islamic Development Bank (IDB Jeddah 1975).

Unit 6: Functional Scope of Islamic Banks

Core Functions: Mobilizing public savings without interest, financing real sector trade & agriculture, issuing Shariah-compliant guarantees (Kafalah), managing Zakat social welfare funds, & offering interest-free benevolent loans (Qard Hasan).

Unit 7: Deposit Products in Islamic Banks

1. Al-Wadiah Yad Dhamanah (Safe Custody Guarantee): Current & Savings accounts. Principal guaranteed by bank; bank may give voluntary bonus (Hibat) at its discretion.
2. Mudarabah Investment Deposits: General & Special Investment Accounts. Customer (Rabb-ul-Mal) provides funds, bank (Mudarib) manages funds. Actual profits shared according to pre-agreed Profit Sharing Ratio (PSR); financial loss borne entirely by investor.

Practical Case Framework 1 (Landmark Pioneer Islamic Institutions Matrix): Detail institutional milestones, founding year, location, and structural contributions.

Historical Evolution Milestones Table:

Pioneer Institution Name	Founding Year & Location	Historical Contribution & Model
Mit Ghamr Savings Bank	1963 (Egypt)	Pioneered rural interest-free micro-savings & loans
Dubai Islamic Bank (DIB)	1975 (Dubai, UAE)	First private full-fledged commercial Islamic bank
Islamic Development Bank (IDB)	1975 (Jeddah, Saudi Arabia)	Inter-governmental multilateral development bank

Practical Case Framework 2 (Al-Wadiah vs Mudarabah Deposit Structure Matrix): Compare contract basis, principal safety guarantee, return nature, and loss liability.

Islamic Deposit Product Comparison Table:

Deposit Account Type	Underlying Shariah Contract	Principal Guarantee & Return Rules
Current Account	Al-Wadiah (Safe Custody)	100% Principal Guaranteed; No return/profit paid
Savings Account	Al-Wadiah Yad Dhamanah	Principal Guaranteed; Optional discretionary bonus (Hibat)
Investment Account	Mudarabah (Trust Investment)	No Principal Guarantee; Profit shared as per PSR ratio