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B.Com Honours | Semester V | Calicut University

INTRODUCTION TO ISLAMIC COMMERCIAL BANKING

Course Code: COM5EJ311 • Module 3 Notes

Module III: Islamic Finance Products (Equity-Based / Participatory)

Covers Islamic financing product classification, equity-based participatory contracts (Mudarabah & Musharakah), Profit-Sharing Ratios (PSR), and comparative analysis with conventional equity.

Unit 8: Introduction of Financing Products

Islamic Financing Taxonomy: Categorized into Equity-Based Participatory Financing (Risk-sharing contracts) and Debt-Based Asset Financing (Trade/Lease contracts). Core objective: Real economic asset creation.

Unit 9: Equity-Based Participatory Products (Mudarabah & Musharakah)

1. Mudarabah (Trustee Partnership): Contract between Capital Provider (*Rabb-ul-Mal*) and Managing Partner (*Mudarib*). Profit shared as per pre-agreed Profit Sharing Ratio (PSR); financial loss borne entirely by Rabb-ul-Mal unless caused by Mudarib negligence.
2. Musharakah (Joint Venture Partnership): All partners contribute capital & management expertise.
3. Diminishing Musharakah (Musharakah Mutanaqisa): Partner gradually buys bank's equity share over time until full ownership is transferred (used extensively in Islamic home financing).

Unit 10: Conventional Equity Finance vs Participatory Finance

Distinction: Conventional equity grants voting dividend shares with limited liability trading on stock exchanges, while Islamic participatory finance enforces Shariah screening, strict non-guaranteed profit ratios, and prohibition of preference shares with fixed dividend guarantees.

Practical Case Framework 1 (Mudarabah vs Musharakah Participatory Contract Matrix): Compare capital contribution, profit sharing, financial loss allocation, and management rights.

Mudarabah vs Musharakah Structure Table:

Contract Dimension	Mudarabah (Trustee Partnership)	Musharakah (Joint Venture)
Capital Contribution	100% by Investor (Rabb-ul-Mal); 0% by Mudarib	Contributed by ALL partners in agreed proportions
Management & Operations	Managed exclusively by Mudarib (Entrepreneur)	Managed jointly or delegated to active partner
Profit Distribution	Shared as per pre-negotiated Ratio (e.g. 70:30)	Shared as per pre-agreed Profit Sharing Ratio
Financial Loss Allocation	Borne 100% by Rabb-ul-Mal (Investor)	Borne strictly in proportion to Capital ratio

Practical Case Framework 2 (Conventional Equity vs Islamic Participatory Finance Matrix): Detail security guarantees, dividend rights, preference shares, and business sector screening.

Conventional Equity vs Participatory Finance Table:

Financial Attribute	Conventional Equity Financing	Islamic Participatory Finance
Preference Shares	Permitted with fixed guaranteed dividends	Forbidden (Violates equal risk-sharing principle)
Loss Allocation Rule	Limited liability based on share value	Loss allocated strictly according to capital share
Sector Screening	No ethical industry prohibitions	Strict Shariah screening (No alcohol, gambling, interest)