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B.Com Honours | Semester V | Calicut University

INTRODUCTION TO ISLAMIC COMMERCIAL BANKING

Course Code: COM5EJ311 • Module 4 Notes

Module IV: Debt-Based Financing Products & Leasing Contracts

Covers trade-based debt products (Murabaha, Salam, Istisna, Musawamah) and leasing contracts (Ijarah & Ijarah Muntahia Bittamleek) with structural risk ownership rules.

Unit 11: Debt-Based Financing Products

1. Murabaha (Cost-Plus Sale): Bank purchases asset from vendor at cost C and sells to client at $C + M$ (cost + agreed profit margin) payable in deferred installments.
2. Bai Salam (Deferred Delivery Sale): Full payment made upfront by bank for goods (agricultural commodities) delivered at a specified future date.
3. Istisna (Manufacturing Contract): Contract for manufacturing or constructing custom assets (real estate, machinery) with stage-wise progress payments.
4. Musawamah: Standard spot sale where cost is not disclosed to buyer.

Unit 12: Leasing Contracts (Ijarah & Ijarah Muntahia Bittamleek)

1. Ijarah (Operational Lease): Bank (Lessor) transfers right of asset use (usufruct) to client (Lessee) for agreed rental payments. Ownership risk & major structural maintenance remain with bank.
2. Ijarah Muntahia Bittamleek (Lease Ending with Ownership): Rental contract culminating in title transfer of asset to client via sale or gift upon lease completion.

Practical Case Framework 1 (Debt-Based Trade Financing Contracts Comparison Matrix): Compare contract basis, payment timing, delivery schedule, and primary commercial application.

Debt-Based Islamic Contracts Table:

Islamic Contract Type	Payment Timing Rule	Goods Delivery Schedule	Primary Business Application
Murabaha (Cost-Plus)	Deferred installment payments	Immediate delivery at contract signing	Working capital & equipment purchase
Bai Salam (Forward Sale)	100% Full upfront advance payment	Deferred future delivery date	Agricultural crop financing
Istisna (Construction)	Flexible stage-wise progress payments	Deferred delivery upon manufacturing completion	

Practical Case Framework 2 (Ijarah vs Conventional Hire Purchase Leasing Matrix): Detail asset ownership risk, maintenance obligations, destruction liability, and default penalties.

Ijarah Leasing Rules Table:

Leasing Operational Aspect	Conventional Hire Purchase	Islamic Ijarah Leasing Contract
Asset Destruction Risk	Transferred to lessee via compulsory insurance	Borne by Lessor (Bank) as legal asset owner
Major Maintenance Duty	Lessor shifts all maintenance to lessee	Major structural maintenance borne by Lessor
Late Payment Default Penalty	Compounded interest penalty charged	Fixed late fee donated 100% to Charity (Takaful)