

## Glossary of terms and contracts

**Absentes** – a contract where the parties are not present at the time of agreement

**Al-kharaj bi al-daman** – the concept that reward should correspond to risk involved

**Amanah** – is not a contract as such, but is a feature or a requirement in some specific contracts that impose on one of the parties to disclose the actual cost price, such as in Murabahah sale as compared to negotiated price sale (Musawwamah) with no requirement for such disclosure. Amanah relates to the part of the buyer/seller relationship that is based on trust. This might occur where the financial institution buys goods from a third party vendor on the request of the institution's customers, which will subsequently purchase the goods from the financial institution. Upon purchasing the goods from the vendor, the financial institution assumes risks relating to the specified asset until the point of purchase by the buyer. An Amanah, or trusteeship, is required of the seller/financier to disclose the actual cost of the goods purchased from the vendor before selling it to the customer at cost plus mark-up.

Another example of Amanah being introduced into an Islamic financial arrangement would be Wadiah Yad-Amanah, which is where a bank as the custodian undertakes the task of safekeeping the assets or funds deposited by a customer in a safe custody contract, based on trusteeship. It is executed between two parties, namely the depositor (owner) and the bank (custodian). The liability of the custodian triggers only in cases of negligence and misconduct. This is to distinguish between safe custody contracts, which are based on liability, and this safe custody contract, which relies on trusteeship. It establishes the liability of one of the parties, whereby a contract that is featured as Amanah will not inflict any legal liability on the part of the custodian, except in the case of negligence and misconduct.

### Key principles of Amanah

- Requires a true and honest disclosure of the cost price in all Amanah-based sales.
- Establishes liability on trustees only in cases of negligence and misconduct.

**'Aqd** – contract

**Asham** – shares

**Bay' mu'ajjal** – deferred payment sale

**Bay'** – sale

**Bay' al-dayn** – the sale of debt

**Bay' al-murabahah** – sale of a commodity at cost price plus a known profit

**Bay' al-tawliyah** – sale at cost without profit or loss

**Bay'al-wadiah** – sale below the cost price or at a discounted price

**Bayt al-mal** – government treasury

**Bulugh** – physical puberty

**Dayn** – a debt or the obligation to deliver

**Diminishing Musharakah** – see Musharakah Mutanaqisah

**Fiqh** – Islamic substantive law

**Fiqh al-muamalah** – Islamic commercial law

**Gharar** – uncertainty

**Gharar fahish** – major uncertainty

**Gharar yasir** – minor uncertainty

**Halal** – acceptable

**Hanafi** – particular school of law

**Hanbali** – particular school of law

**Haram** – unacceptable or prohibited

**Hasuna** – pleasing, appealing or nice

**Hiba** – gift

**Hiwalah** – transfer of debt/right to claim

**Hukm** – a ruling in the Qur'an or the Traditions of the Prophet Muhammed, or derived through reasoning of durists

**Ibra'** – can be defined as a discount or rebate. An example of Ibra' in practise might be where a bank which is owed a set amount from one of its clients and accepts less for early payment. This practice of discount or rebate avoids unjust enrichment and maintains the competitiveness of the bank.

#### Key principles of Ibra'

- Relates to the forfeiting of rights to claim.
- Involves a discount or rebate for early repayment of an amount owed.

**Ijarah tasqilliyyah** – Ijarah is simply a lease contract. Ijarah tasqilliyyah refers to an operating lease, where the financial institution transfers the usufruct (right of beneficial use) of a particular property to another person in exchange for a rent claimed from the lessee. The financial institution, such as a bank, will purchase an asset, for example plant and machinery, from a vendor and lease it to the lessee or client at an agreed rate for a defined period. The operating lease will clearly state that the lessee has the right over the usufruct in exchange of a rental claim. The ownership of the asset will not be transferred to the lessee during the period of the Ijarah contract. At the end of each Ijarah period, the bank will negotiate a new lease with the lessee and the lease period will continue until the bank chooses to scrap the asset. No option or right to purchase is granted to the lessee.

#### Key principles of Ijarah

- Involves a straightforward operating lease.
- At the end of the lease period title does not transfer to the lessee.
- At the end of the lease period the owner of the asset will negotiate a new lease or sell/scrap the asset.

**Ijarah 'ala al-ashkash** – hire of people

**Ijarah al-a'yan** – lease of the asset

**Ijarah mausufah fi al-dhimmah** – forward lease

**Ijarah mausufah fi al-dhimmah mleek** – lease with option to purchase

**Ijarah muntahiah bi tamleek** – where an option to transfer the title of the asset to the customer is provided for in the lease, the lease arrangement is Ijarah Muntahiah bi tamleek. It is also known as Ijarah Thumma al bay' (lease followed by sale) or Ijarah wa al-iqtina' (hire and purchase). The objective of this financing is to transfer the legal title of the leased asset to the lessee at the end of the lease period. At the end of this contract, the bank will surrender its ownership of the asset to the client in consideration of the total accumulated rental claim that is inclusive of the profit. The concept Ijarah Muntahia bi tamleek is an alternative to finance leasing and in particular hire-purchase financing. There are several forms of Ijarah muntahia biltamleek financing which reflect the different modes of transferring the ownership of the asset such as gift, sale and transfer of equity claim from the lessor to the lessee.

**Key principles of Ijarah muntahia bi tamleek**

- Involves a lease with an option to purchase the leased asset.
- At the end of the lease period title transfers to the lessee.
- Several forms exist to reflect the mode of transfer of ownership.

**Ijarah tashghiliyah** – an operating lease

**Ijarah thumma al bay'** – see Ijarah Muntahia Bi Tamleek

**Ijarah wa al-iqtina'** – see Ijarah Muntahia Bi Tamleek

**Ijtihad** – interpretation

**Ijma'** – consensus or agreement of all Muslim scholars over interpretation

**'Illah** – effective cause or ratio legis

**In rem** – action relating to property rather than the person

**Inter absentes** – not physically present

**Inter praesentes** – contract physically present

**Istihsan** – equity consideration

**Istishab** – presumption of permissibility

**Istisna'** – is a contract to build, manufacture, construct or develop the object of sale at a definite price, over a defined period of time, according to agreed specifications between the parties. An Istisna'a contract can be established between a bank and contractor, developer or producer that allows the bank to make progress payments as construction progresses. Istisna' financing is provided in the form of advance progress payment(s) to the customer who builds, manufactures, constructs or develops the object of sale. Upon completion of the project, the asset is delivered to parties who agreed to take delivery of the asset. Parallel Istisna' arises when the party that intends to take delivery provides advance progress payment to the bank to engage the builder, manufacturer, contractor and developer. Variations of timing and cash flow

expectations, between the purchaser and the parties that deliver the object of sale, are bridged by the bank.

#### Key principles of Istisna'a

- Involves the purchase of an item that has yet to be built, manufactured or constructed.
- Progress payments are normally made by instalments as construction progresses.
- On completion of the project the asset is sold or leased to those that originally commissioned it.
- Parallel Istisna' is where those that commission the asset make progress payments to the financier as the asset is constructed by another contractor or developer .
- Parallel Istisna' allows for any mismatch in the timing or amount of cash flows between those that commission the asset and those that construct it.

**Istisna' muwazi** (*parallel Istisna'*) – see above

**Ju'alah** – commission-based

**Kafalah** – is a contract of guarantee or surety that provides assurance in terms of performance and value when the object of the transaction is exposed to adverse change due to varying outcomes. In trade financing, a bank guarantee is issued when the owner of goods discharges the liability for the goods on behalf of a third party. Such guarantees are often used in cases of goods being imported. The exporter knows that the goods will be paid for and can feel free to allow the goods to be uplifted by the importer. The importer may be required to offer some form of collateral as surety and will normally pay a fee for the service. The purpose of a Kafalah contract is to facilitate international trade.

#### Key principles of Kafalah

- Involves a guarantee or surety.
- Used when something being bought or sold could change in value if exposed to adverse conditions.
- Often used when importing/exporting goods.
- Facilitates international trade.

**Litera legis** – literal rule

**Madhhab** – schools of Islamic law

**Madhahib** – plural of Madhhab

**Mafsadah** – evil and harm

**Maisir** – gambling

**Majallah al-ahkam al-adliyyah** – the Islamic Civil Code of the Ottoman Empire)

**Mejelle** – English translation of Majallah al-Ahkam al- Adliyyah

**Maliki** – particular school of law

**Maqasid** – objectives and ultimate purposes of Islamic law

**Maslahah** – what is good or beneficial

**Mudarabah** (*capital provider, Entrepreneur – Mudarib*) – a Mudarabah contract is a profit sharing contract. Under a Mudarabah contract, the capital provider agrees to share the profits between themselves and the entrepreneur at an agreed ratio or percentage. (1) As a source of capital for a business venture, a businessman might consider undertaking a commercial project financed by funds from a bank under a Mudarabah contract. If agreeable, the bank supplies the finance to the businessman on the understanding that both parties will share the profits of the venture. (2) As a deposit taking activity, money deposited in a bank by an individual or institution under a Mudarabah contract is treated as an investment in the bank by the individual or institution. The bank will use this investment to help make profits from its trading activities, i.e. financing of individuals and businessmen. Under the Mudarabah contract, the bank will have agreed to give the depositor a share of its profits in return for the investment, based on a pre-agreed ratio.

Investment financing through Mudarabah is a commitment to participate in the risk associated with business ventures, with the aim of sharing the profit generated from a given business venture. Parties to the Mudarabah contract will only benefit if the venture is successful. Should the project fail, the financier will lose his investment, whereas the businessman will only lose the time and effort expended on the project.

In general, conditions imposed and agreed on by both parties limit the mobilisation of the funds raised under a Mudarabah contract, such as pooling with other funds, types of business venture or investment, as well as profit and loss sharing among the funds. In the case of a savings account, a Mudarabah contract without conditions and restrictions is usually adopted, which is intended for public and retail investors. Mudarabah, unlike Musharakah, does not entitle the capital provider to an executive function in the management of the business venture.

#### Key principles of Mudarabah

- Profit sharing contract.
- Returns depend on a profit being earned.
- Conditions could apply to what the investment can be used for.
- Requires a commitment to participate in the risk associated with business venture.
- The businessman only loses the time and effort expended on the project, where the financier assumes the financial loss.
- Does not entitle the financier to any say in the running of the venture.

**Mudarabah muqayyadah** – This type of contract is used in specific bank accounts known as restricted investment accounts (RIAs), where the bank acts as an agent for the investor(s) simply by acting upon their instructions. Here, the funds deposited based on the Mudarabah contract are never really under the control of the bank because the depositor(s) determine the manner as to where, how and for what purpose the funds are to be invested. Commingling of the funds raised under this type of contract with the bank's shareholder and other deposit funds is usually restricted or prohibited. The returns distributed to restricted investment account holders (RIAHs) is based on an agreed profit sharing ratio confined to the returns earned on a designated specific investment portfolio involving the funds agreed upon by the RIAHs.

Any distribution between the bank and the depositor will be in accordance with an agreed profit sharing ratio, or agency fee if the contract is based on wakalah or agency for investment. Mudarabah profits or income distributable to RIAHs are derived from the performance of designated financing assets or investments managed by the bank.

#### Key principles of Mudarabah muqayyadah

- Financial institutions act as entrepreneurs or agents for investors.
- Investors decide where funds will be invested.
- Commingling of funds is either restricted or prohibited.
- Returns paid to investors come only from returns earned on the specified investments.

**Mudarabah mutlaqah** – unlike Mudarabah Muqayyadah, this contract relates to investment accounts where the account holder fully authorises the bank to invest the funds without restrictions imposed by the account holder and is in accordance to the Shariah principles and rules. The funds are pooled with the bank's shareholder funds and other deposits to facilitate financing and investments by the bank. The returns depend of the level of profits earned, and are shared and distributed across the varying classes of investment account holders based on different investment horizons from one to 60 months or more. Usually, returns to investment account holders are computed and accrued on a month-to-month basis. The investment account holder must submit written notice to Islamic banks prior to the withdrawal of funds and a minimum notification period is required. Mudarabah profits or income distributable to unrestricted investment account holders are derived from the performance of the banks' financing assets and investments.

#### Key principals Mudarabah mutlaqah

- Financial institutions fully authorised to invest deposited funds without restrictions.
- Commingling of funds can take place.
- Returns paid to investors come only from returns earned across all investments of the financial institution.
- Returns paid to investors depend on class and time horizon of investment.

**Muhammad** – the Last Prophet of Islam

**Mujtahid** – the person who performs Ijtihad

**Murabahah** – a Murabahah contract refers to a cost plus mark-up transaction between parties. Murabahah financing is the prevalent mode of asset financing undertaken by a large number of Islamic banks. It represents a significant portion of Islamic bank financing of either short term or long term asset financing. Under this contract, a three party arrangement is made where the customer places an order with the financial institution to purchase goods from a supplier. The customer can pay a security deposit with the financial institution and the amount of financing outstanding can be secured either in the form of collateral or a guarantee. The financial institution, having purchased the goods from the supplier, then sells them to the customer at a credit price including mark-up, with a fixed credit period. The nature of the buyer and seller relationship is based on the principle of trust (Amanah), mentioned above, where the seller upon purchasing the goods from the vendor must honestly disclose to the customer the actual cost price of the purchase, prior to selling the asset to the customer under a Murabahah.

Under this contract, the customer is always aware of the mark-up, i.e. it is set in advance, and pays the Murabahah selling price either on an instalment basis or at the end of the financing period. The mark-up or profit agreed in the price does not change over the period. Hence there is a price ceiling for the Murabahah financing to ensure certainty in the price. Rebates may be granted for early settlement, provided the rebate provision is not contractually documented in the contract. On the other hand, provision for penalty charges for delinquent payments could be included in the contract as a form of compensation but to be distributed to charity as the provision is only to deter moral hazard behaviour. The bank may take some of this compensation money to cover the actual cost incurred by the bank due to the default. Compensating for loss of opportunity cost or cost of funds is not acceptable.

#### Key principles of Murabahah

- Cost plus mark-up arrangement.
- Usually involves a financial institution, the customer and a third party vendor.
- Based on a relationship of trust between the parties.
- Can be secured by collateral or guarantee.
- Sets a fixed price between the financier and customer.
- The price is paid over an agreed period of time.
- Early repayments are allowed and can result in a reduction of the overall price charged.
- Penalties can be applied for late payment as a deterrent.

**Murabahah-tawarruq** – contract to realise cash

**Murabahah li al-amir bi al-shira** – Murabahah to the purchase orderer

**Maslahah mursalah** – benefit or interest / unrestricted public interest

**Musharakah** – a Musharakah contract is a form of equity partnership investment. It is similar to equity investment in a conventional capital market but the investments made must be confined to stocks and financial securities or other assets that are consistent with the principles of Shari'ah. Note, partnership contracts come in three forms, namely Shirkah al-Amal (work partnership), Shirkah al Wujoh (partnership by reputation) and Shirkah al-Amwal (partnership by capital). Musharakah financing is based on Shirkah al-Amwal (partnership by capital).

As a form of equity based financing, like Mudarabah investment financing, Musharakah financing is a commitment by the financier to participate in risks associated with business ventures. Musharakah also means a joint enterprise in which all partners share the profits or losses of the venture. While the profit sharing ratio may be negotiated, the loss sharing ratio must always be proportionate to capital contribution. It also allows the institution to be involved in the executive decision on administration, operations and management of the business activity. The financial institution would be able to mitigate any form of operational risks by assuming an element of control in the conduct of business.

The Musharakah financing mechanism operates on a capital contribution basis for a defined existing or potential project or assets. The outstanding financing amount could increase or decrease depending on the demands for funding during the financing period. At any point in time, the outstanding capital contribution provides the basis for determining the profit or loss sharing ratio. As a profit and loss sharing arrangement, Musharakah takes various forms, depending on the parties' capital contribution and their effort in managing the venture. Musharakah is considered as the most flexible form of equity financial claim that can be adopted for various economic sectors, including services, production and distribution.

#### Key principles of Musharakah

- Profit and loss sharing contract.
- The financier invests into the venture.
- Requires the participants to work in partnership.
- The financial institution or lender has a say in the running of the project.
- Relates to a specific project or asset.
- Returns depend on a profit being earned.
- Allows for the level of finance outstanding to fluctuate up or down.
- Allows for the level of finance outstanding to fluctuate up or down.
- Requires a commitment to participate in the risk and loss associated with business venture.

**Musharakah mutanaqisah** – is a variety of Musharakah contract, where the term Mutanaqisah means 'to diminish'. Thus, Musharakah mutanaqisah, also referred to as Diminishing Musharakah, means a form of partnership which creates an avenue for the capital provider to reduce or be free of the joint ownership after the initial investment period has been satisfied. As mentioned above, a normal Musharaka contract allows for fluctuating levels of investment, but a Musharakah Mutanaqisah contract specifically relates to a reducing investment.

Diminishing Musharakah provides an avenue for the financial institution to systematically reduce its exposure over the financing period, with planned and scheduled redemption of the contribution amount. This form of finance is often used in the purchase of a house in the form of a joint venture. The financier contributes the bulk of the house price with the individual customer contributing the remaining balance. The joint venture accepts rental repayments from the individual who is now living in the house. The rental is split between the financial institution and the homebuyer with the homebuyer's share going toward the redemption or dilution of the financier's shareholding.

#### Key principles of Musharakah mutanaqisah

- As with Musharakah above.
- Allows for planned diminution in investment to the point where the financier exits the venture
- Effectively finances the customer to acquire an asset through a joint venture scheme.

**Musawamah** – negotiated sale

**Musawamah, Tawliyah** – negotiated sale at agreed price

**Parallel Istisna'** – see Istisna' – two contracts operated in parallel

**Parallel Salam** – see Salam – two contracts operated in parallel

**Praesentes** – where the parties to the contract are present at time of agreement

**Qard/Qard hasan** – interest free loan

**Qiyas** – analogy

**Qiyas al-tard** – extension of a legal rule from one case to another due to a material similarity

**Qur 'an** – the Holy Book revealed to the Prophet Muhammad

**Rahn** – pledge

**Ra'y** – personal opinion

**Ratio decidendi** – legal basis

**Riba** – interest/usury

**Riba al-fadl** – interest by an excess of countervalues

**Riba al-nasiah** – interest by deferment in the delivery

**Ribawi** – usurious or interest-based

**Rem** – see in rem

**Rushd** – prudence

**Sadd al-dharai'** – blocking the means

**Sahm** – a share

**Salam** – refers to the purchase of a commodity for deferred delivery in exchange for immediate payment. Thus, in a Salam contract, the price is paid in full and in advance while the commodity is deferred to an agreed date in the future. This type of contract might be used where the commodity price is subject to change. The buyer is locked with the purchase price at contract date and thus hedged against price increase. Stringent conditions are applied to ensure a binding and legally enforceable contract such as reasonableness of delivery and specifications of quality type and quantity of commodities. Any variations of quality and quantity of goods as well as timeliness of delivery would not affect the agreed price.

The object of a Salam contract must be commodities that can be specified clearly, due to the non existence of the object of sale at the time when the contract is concluded. The detailed features and specifications of the product of sale must be agreed upon to avoid ambiguity that would render the contract unknown to the parties. When there arises a disparity or mismatch in terms of types, quality and timing of delivery, the buyer has either the choice to take delivery without discount or premium on price, or to revoke the contract. Advance payment made by the bank to the seller or exporter to deliver or produce the goods constitutes Salam financing. Parallel Salam is based on two independent Salam contracts whereby the financier will be both the seller and the buyer in this arrangement. In the first Salam contract, the IFI will be the buyer of the Salam asset by providing a full payment to the seller against a future delivery of an asset. Then, this IFI may enter into a Salam contract as a seller with another party for a shorter period of delivery of the asset. the spread between the first and second Salam contracts is the profit earned by the IFI through this parallel Salam arrangement.

#### Key principles of Salam

- Involves a forward purchase of a commodity
- Full payment is made at the beginning of the contract period
- Goods are received at the end of the contract period
- The goods must be clearly identifiable
- Remedies available for failure to complete the contract as specified
- Parallel Salam is useful to finance the ultimate producer as the IFI is neither the ultimate producer nor the user.

**Sanadat al-dayn** – certificates of debt

**Shafi'i** – particular school of law

**Shari`ah** – sacred law revealed by God Almighty

**Shirkah** – partnership

**Sukuk** – certificates of investment

**Sukuk al-ijarah** – certificates of investment in leased assets

**Sunnah** – The Traditions of The Prophet Mohammad

**Ta'awun** – cooperation

**Tabarru** – donation contracts

**Takaful** – is an Arabic term derived from the root word kafala, meaning to guarantee. To be more precise, it is derived from the verb 'Takafala' meaning to mutually guarantee and protect one another. Therefore, literally, it means mutual help and assistance. It can be noted that the contract of Takaful is based on the concept of helping one another, whereby each and every participant contributes to the common fund in order to provide financial assistance to any member who needs help, as defined in the mutual protection scheme. In principle, Takaful is very similar to conventional mutual insurance in terms of its philosophy and structure. However, it differs significantly from conventional mutual insurance as all its operations should be based on Islamic principles, including investment

activities, the establishment of the Shari'ah board and causes for legitimate claim, which exclude causes such as suicide and death under the influence of alcohol.

#### Key principles of Takaful

- Relates to the idea of mutual guarantee.
- Used in the context of mutual help of assistance.
- Similar to conventional mutual insurance. but differs in terms of investment portfolio and legitimate causes for claims.
- Claims restricted under Shari'ah principles.

**Tanazul** – is an act to waive certain rights of claim in favour of another party in a contract. In Islamic finance, it is applied where the right to share some portion of the profits is given to another party. For example, in a Mudarabah contract, the capital providers may agree to limit the rate of return to a defined percentage whereby the excess can be given to the manager as an incentive or performance fee. The decision of the investors to waive their right to the profit is based on the principle of Tanazul that is specified as a condition of the contract to waive such a right.

#### Key principles of Tanazul

- Involves the waiving of rights in favour of someone else.
- Often seen where the capital providers agree to waive their right to a portion of the profits in a venture in favour of, say, a manager on the project.

**Taskeek** – securitisation

**Tawarruq** – buy spot and sell deferred payment or vice versa to facilitate cash liquidity

**Tijarah** – private commercial transactions

**Ujrah** – fee

**Ummah** – Islamic nation

**Umum balwa** – common plight and difficult to avoid

**'Urf** – customary practice

**'Urbun** – is essentially a down payment made by a buyer to a seller after both parties have entered into a valid contract. The down payment represents the commitment to purchase the goods. If the buyer is able or decides to pay the remaining outstanding payment during a prescribed period, the amount paid as down payment will be counted as part of the purchase price. Otherwise, the down payment will be forfeited by the seller. This is the original version of 'Urbun in Islamic commercial law. This feature is often used to mirror the behaviour of conventional options by providing an opportunity to the buyer (the person making the down payment) to benefit from the market up-side (call option) of the underlying asset and by limiting the potential loss to the amount paid under the down-payment scheme.

#### Key principles of Urban

- Involves the payment of a down payment to secure an option or right to purchase something in the future.
- Mimics the economic benefits of purchasing conventional options.
- If the option to complete the purchase is not taken up the down payment is forfeited.

**Usufruct** – the right to use

**Usul al-fiqh** – Islamic legal theory providing principles and guidelines on interpretation

**Wa'd** – is a feature attached to a contract and is a unilateral promise made by one party to

another, binding on the party that makes the promise. In financing transactions this feature provides assurance that the transaction will be executed as per the specifications of the contract. For example, an importer who has foreign exchange transaction exposure in terms of payment of imports in foreign currency upon delivery of goods might hedge the risk of appreciation of foreign currency by undertaking a promise to buy the foreign currency in the future that matches the real exposure to currency risk of import transaction upon delivery.

#### Key principles of Wa'd

- Involves a unilateral promise made by one party to another.
- Binds the promisor to fulfil some obligation in the future.
- Ensures that the contract is fulfilled as set out in the terms

**Wadiah** – safe custody

**Wadiah yad dhamanah** – guaranteed safe-custody deposit contracts

**Wakalah** – is a contract between an agent and principal. This contract enables the agent to render services and be paid a fee (Ujrah). For example, in a case where the importer applies for a letter of credit based on Wakalah, the importer will authorise the bank to issue the letter of credit on his behalf to the exporter's bank. The issuing bank will act as the agent to process the issuance of the letter of credit and for this will impose a fee on the importer for the services rendered.

#### Key principles of Wakalah

- Involves an agency contract between an agent and principal.
- Used as a facility to enable transactions to take place.
- The agent earns a fee (Ujrah) for his services.

**Wakil** – agent

**Waqf** – permanent endowment

**Wasiyyah** – will contract

**Zahiris** – literalists

**Zakat** – is a form of religious levy on the wealth of Muslims. It is based on wealth that exceeds the specified quantum for a defined period (where relevant) and is meant for the poor and needy as well as other specified beneficiaries mentioned in the Quran. It is the third pillar of Islam and is made obligatory for Muslims who have the financial means to discharge such obligations. Methods of Zakat computation are prescribed to facilitate determination of Zakatable wealth as well as the prescribed rate. In the case of investment or deposit funds, there is no specific date set for the payment of zakat, but it should be paid on all accumulated wealth for the period twelve lunar months. Zakat is not payable on the value of the individual's home, furniture, transport or 'tools of trade', nor is it paid on personal jewellery.

#### Key principles of Zakat

- Religious levy on wealth of Muslims who possess a certain amount of specific assets.
- Payable on all accumulated wealth held for the period of 12 lunar months.
- Not payable on specified items that are personal in character.

