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Professional Certificate in Islamic Finance and ESG Investing

## Islamic Finance Principles and Concepts

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### Islamic Finance Principles and Concepts Glossary

#### A

**Adl:** Adl refers to justice and fairness in Islamic finance. It is a fundamental principle that ensures equitable treatment for all parties involved in financial transactions.

**Amanah:** Amanah refers to trustworthiness and integrity in Islamic finance. It emphasizes the importance of fulfilling obligations and responsibilities honestly and ethically.

#### B

**Bai' al-'Inah:** Bai' al-'Inah is a form of sale and buyback transaction in Islamic finance. It involves the sale of an asset at a higher price followed by the repurchase of the same asset at a lower price.

**Bai' Bithaman Ajil (BBA):** Bai' Bithaman Ajil is a form of deferred payment sale in Islamic finance. It involves the sale of goods or assets at a deferred price, which includes a profit margin agreed upon by both parties.

#### C

**Commodity Murabaha:** Commodity Murabaha is a type of Islamic financing transaction where a financial institution purchases a commodity at the request of a customer and sells it back to the customer at a higher price on a deferred payment basis.

#### D

**Darura:** Darura refers to necessity in Islamic finance. It allows for exceptions to certain prohibitions in Islamic law when there is a genuine need or emergency situation.

#### E

**Equity Financing:** Equity financing is a method of raising capital in Islamic finance through the issuance of shares or ownership stakes in a business. It involves sharing profits and losses with investors based on their ownership percentage.

#### F

**Fiqh Al-Muamalat:** Fiqh Al-Muamalat is the Islamic jurisprudence related to financial transactions. It provides guidelines for conducting business and financial activities in accordance with Islamic principles.

#### G

**Gharar:** Gharar refers to uncertainty or ambiguity in Islamic finance. It is prohibited in transactions as it involves excessive risk and speculation that may lead to unjust outcomes.

## H

**Halal:** Halal refers to what is permissible or lawful in Islamic finance. It includes activities, transactions, and products that are in line with Islamic principles and ethics.

**Haram:** Haram refers to what is prohibited or unlawful in Islamic finance. It encompasses activities, transactions, and products that are forbidden according to Islamic principles and values.

## I

**Ijarah:** Ijarah is a leasing arrangement in Islamic finance where a financial institution leases an asset to a customer for a specified period in exchange for rental payments.

**Ijarah Muntahia Bittamleek (IMB):** Ijarah Muntahia Bittamleek is a lease-to-own arrangement in Islamic finance. It allows the customer to lease an asset with the option to purchase it at the end of the lease term.

## J

**Joint Venture:** A joint venture is a business partnership in Islamic finance where two or more parties collaborate to undertake a specific project or venture. They share the risks, costs, and profits based on the terms of the agreement.

## K

**Kafalah:** Kafalah is a guarantee or surety in Islamic finance. It involves a third party providing a financial guarantee to ensure the fulfillment of obligations by the debtor.

## L

**Liquidity Management:** Liquidity management is the process of managing cash flow and assets in Islamic finance to ensure sufficient funds are available to meet financial obligations and investment needs.

## M

**Mudarabah:** Mudarabah is a profit-sharing partnership in Islamic finance where one party provides capital, and the other party provides expertise to manage the investment. Profits are shared based on a pre-agreed ratio.

**Murabaha:** Murabaha is a cost-plus sale transaction in Islamic finance. It involves the purchase of goods or assets by a financial institution and their resale to a customer at a markup price.

## N

**Nisab:** Nisab refers to the minimum threshold of wealth that must be reached before zakat, the obligatory

charity in Islam, is due. It is calculated based on the value of gold or silver.

## O

**Operational Risk:** Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems, or human errors in Islamic finance. It includes risks related to technology, compliance, and fraud.

## P

**Profit and Loss Sharing:** Profit and loss sharing is a principle in Islamic finance that emphasizes sharing profits and losses between investors and entrepreneurs. It promotes risk-sharing and equitable distribution of returns.

## Q

**Qard al-Hasan:** Qard al-Hasan is an interest-free loan in Islamic finance that is provided for charitable or benevolent purposes. The borrower is required to repay the principal amount only without any additional charges.

## R

**Riba:** Riba refers to interest or usury in Islamic finance. It is prohibited in Islam due to its exploitative nature and unjust enrichment. Islamic finance promotes profit-sharing and risk-sharing instead of fixed interest.

## S

**Sukuk:** Sukuk are Islamic financial instruments that represent ownership or a share in an underlying asset or project. They are structured to comply with Shariah principles and offer investors a return based on the performance of the underlying asset.

## T

**Takaful:** Takaful is an Islamic insurance concept based on mutual cooperation and shared responsibility. Participants contribute to a common fund to provide protection against risks and losses.

## U

**Ujrah:** Ujrah refers to a fee or compensation for services rendered in Islamic finance. It is different from interest as it is based on the value of services provided rather than the passage of time.

## V

**Venture Capital:** Venture capital is a form of financing in Islamic finance that provides funding to startups and early-stage companies in exchange for an equity stake. It involves high risk but offers the potential for high returns.

## W

**Wakalah:** Wakalah is an agency or representation contract in Islamic finance. It allows one party to appoint another party as an agent to act on their behalf in financial transactions.

X

**X-share:** X-share refers to a class of shares in Islamic finance with special rights or privileges. It may include voting rights, dividend preferences, or liquidation preferences based on the terms of the investment agreement.

Y

**Yield:** Yield is the return on an investment in Islamic finance. It is calculated as a percentage of the initial investment and represents the income earned from the investment over a specific period.

Z

**Zakat:** Zakat is the obligatory charity in Islam that requires Muslims to donate a portion of their wealth each year to help the less fortunate and support charitable causes. It is one of the five pillars of Islam and promotes social welfare and economic justice.