

WORLD BANK GROUP

Finance & Markets

Global Islamic Finance Development Center

Islamic Finance Bulletin

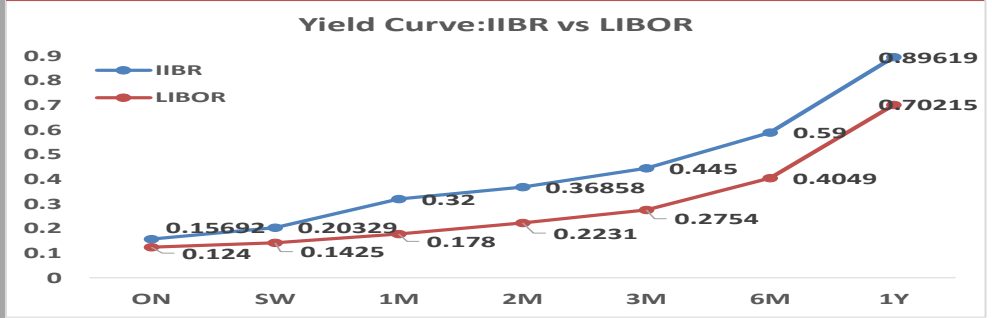
Issue 2, April 2015



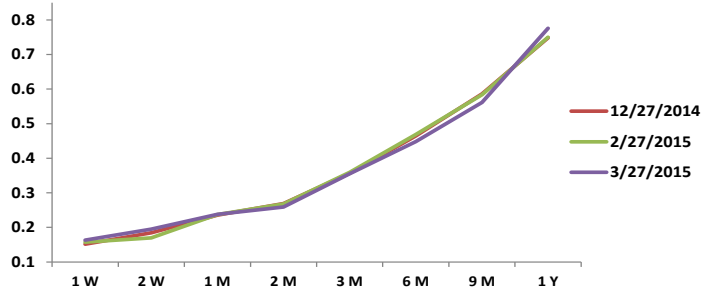
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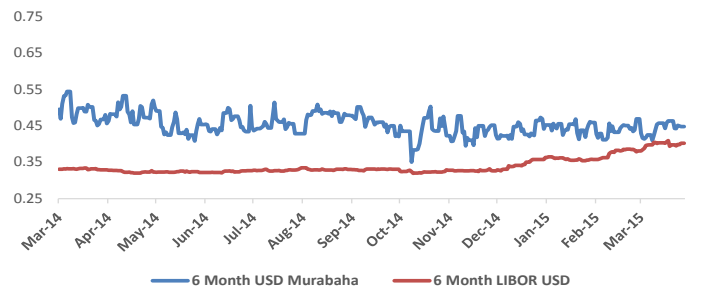
	3/27/2015	2/27/2015	12/27/2014	3/27/2014
	Value	MoM	QoQ	YoY
Equity				
Dow Jones Islamic Index	2928.10	▼ -1.75%	▲ 1.18%	▲ 6.67%
Dow Jones Global Index	327.59	▼ -1.57%	▲ 1.19%	▲ 4.81%
MSCI Islamic Index	1168.40	▼ -2.15%	▼ -0.14%	▲ 1.92%
MSCI World Index	1744.82	▼ -1.58%	▲ 0.89%	▲ 5.55%
MSCI Emerging Market Index	958.11	▼ -3.25%	▲ 0.59%	▼ -1.76%
Fixed Income				
LIBOR 6 Month	0.4019	▲ 0.021	▲ 0.045	▲ 0.073
<i>Murabaha</i> USD 6 Month	0.4478	▼ -0.021	▼ -0.017	▼ -0.019
Dow Jones <i>Sukuk</i> Index	103.74	▼ -0.57%	▲ 0.74%	▲ 1.64%
Bloomberg Emerging Market Bond Index	143.64	▲ 0.32%	▲ 2.00%	▲ 4.83%
Insurance				
Bloomberg <i>Takaful</i> Index	138.88	▲ 0.56%	▲ 14.99%	▲ 19.42%



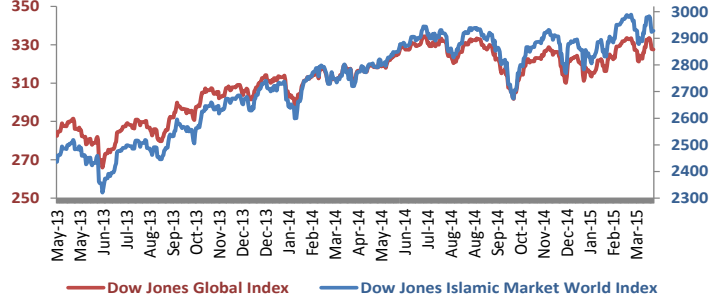
Mark-up *Murabaha* USD Rates



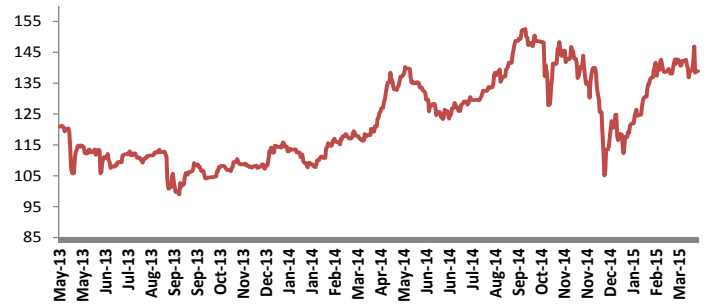
Murabaha Rate vs LIBOR



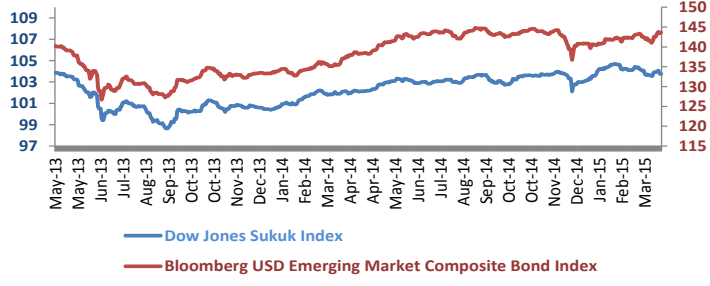
Dow Jones Global vs Dow Jones Islamic Indices



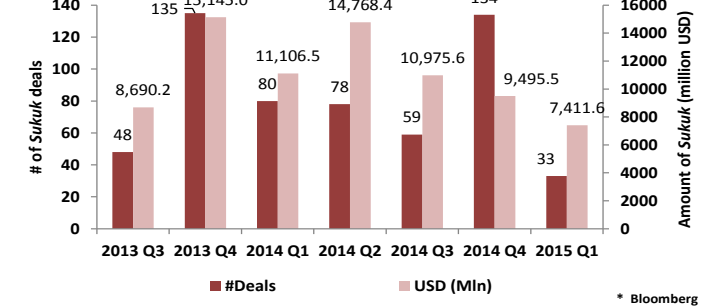
Bloomberg *Takaful* Index



Dow Jones *Sukuk* Index vs Bloomberg Emerging Market Composite Bond Index



Amount and Number of Deals of *Sukuk* Issuances*

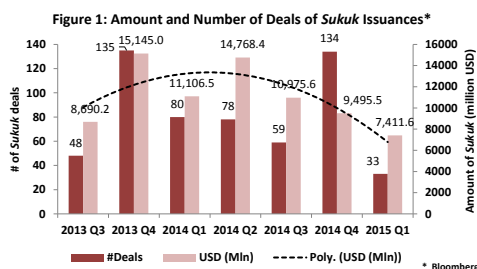


* Bloomberg

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Market Analysis: A Downward Trend In Sukuk?

The slow start of *sukuk* issuances in 2015 has raised concerns as to whether *sukuk* market is going to experience a rapid slowdown in 2015. As can be seen from the figure 1 depicting *sukuk* data compiled from Bloomberg, size of *sukuk* issuances is down almost 33% on year on



year basis in the first quarter of 2015 to 7,411 million \$ from 11,106 million \$ in first quarter of 2014. Number of *sukuk* issuances also decreased from 80 to 33 during the same period. Analysts offer various explanations for the recent downward trend in the *sukuk* markets such as increase in the likelihood of Fed raising interest rates which has strengthened US dollar against other currencies, recent slump in the price of oil and its impact on the economies of Gulf countries.

The robust improvement in the US economy has increased the expectations in global markets of Fed increasing its policy rate. The very likely Fed interest rate hike is going to decrease global liquidity and strengthen the value of US dollar with respect to other currencies. Strong dollar would decrease the demand from European investors to *sukuk*. In addition to this channel, the fact that receipts of *sukuk* are mostly in national currencies, *sukuks* issued in US dollars might face the problem of currency mismatches if the trend of strong US dollar is to continue. Bank of International Settlements has recently warned that the rapid increase in the value of dollar might increase the riskiness of certain emerging markets that are oil exporters. The recent Dubai Islamic Bank Tier 1 *sukuk* issuance to comply with Basel-III capital requirement standards, although being twice

oversubscribed, failed to reach oversubscription levels of its previously offering, as well as to comparable offering made only a few months back by other corporates. Furthermore the *sukuk* in question was priced 500 basis points higher in comparison to a similar offering by Dubai Islamic Bank just under 2 years ago. These examples show that the expectations of Fed interest rate hike is having effects on *sukuk* market as well and investors are not as keen as they were before in investing in the *sukuk* market.

On the other hand the effect of decline of oil prices is more ambiguous. On one hand the decrease in oil revenues could increase the budget deficits which might in turn spur *sukuk* issuances to finance the government deficits. However since many of the gulf countries have vast foreign reserves, they could finance their budget deficits without the being forced to issue *sukuks*. From another point of view, decline in oil prices might increase uncertainties and fragility in gulf economies since their economies are heavily dependent on oil revenues. Increase in the uncertainty about the prospects of gulf economies would decrease the risk appetite and dampen the interest of investors towards *sukuk* issuances in the corporate sector. The fact that recently Barclays Capital has downgraded Gulf corporate bonds to market weight from overweight due to lower oil prices, softening macroeconomic fundamentals and falling bank deposits is interesting.

Despite the aforementioned risks there are many analysts who expect *sukuk* markets to keep their momentum of the previous years since the need for long term infrastructure projects in gulf countries that are very suitable to be financed through *sukuk* issuances is vast and the fast FX reserves of gulf countries will enable them to weather the negative consequences of the expected turmoil in the emerging markets in the upcoming period.

Contact Info:
Rasim Mutlu
+90 212-385-3442
rmutlu@worldbank.org

G20 sets sights on *sukuk* for infrastructure financing

The G20 group of major nations has included discussion of Islamic bonds as an infrastructure financing tool in its annual agenda, a move that could potentially spur the use of project-based *sukuk*.

Developing countries spend about \$1 trillion a year on infrastructure and an additional \$1-1.5 trillion will be needed through 2020 in areas such as water, power and transportation projects, according to the World Bank.

That need could be filled in part by *sukuk*, which are gaining prominence beyond the industry's core markets of the Middle East and southeast Asia; Britain and Hong Kong made debut *sukuk* issues last year. Several Muslim-majority countries now have important economic policy positions at the G20. Turkey holds the group's presidency this year, Indonesia co-chairs the G20 investment and infrastructure working group, and Malaysia is a guest representing the ASEAN group of countries.

A meeting of G20 ministers and central bank governors last month discussed ways for *sukuk* to be used more widely as a financing tool, Turkey's Deputy Prime Minister Ali Babacan told a press briefing in Istanbul.

"We also had an extensive discussion on equity-based financing, asset-based instruments like *sukuk*," he added.

The G20 has called on regulators to study ways to include *sukuk* in their monetary policy frameworks and for the International Monetary Fund to include *sukuk* in an upcoming paper on asset-based financing.

<http://www.reuters.com/article/2015/03/17/islam-financing-sukuk-idUSL6N0WI03M20150317>



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Islamic banking assets in six core markets on course to hit \$1.8 trillion by 2019

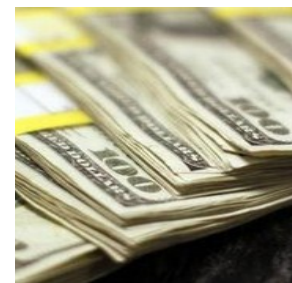
According to EY's World Islamic Banking Competitiveness Report 2014-15: Participation Banking 2.0, Islamic banking assets with commercial banks in international markets were set to exceed \$778 billion in 2014. Global Islamic banking assets witnessed a compound annual growth rate (CAGR) of around 17 per cent from 2009 to 2013.

The report, prepared by EY's Global Islamic Banking Centre, said that approximately 95 per cent of international Islamic banking assets of commercial banks are based out of nine core markets, five of which are in the GCC (Saudi Arabia, UAE, Qatar, Kuwait and Bahrain). The market share of Islamic banking

assets in Saudi Arabia, UAE, Qatar, Kuwait, Bahrain and Malaysia is now between 20 per cent and 49 per cent. EY's analysis excludes Iran.

Islamic banks in Saudi Arabia, Kuwait and Bahrain represent more than 48.9 per cent, 44.6 per cent and 27.7 per cent market share respectively. Positive progress has been made in Indonesia, Pakistan and Turkey, with 43.5 per cent, 22.0 per cent and 18.7 per cent CAGR respectively from 2009 to 2013.

http://www.zawya.com/story/Islamic_banking_assets_to_exceed_USD778bn-ZAWYA20150325075504/



The key driving markets for Islamic banking will continue to be Saudi Arabia and Malaysia, with Turkey and Indonesia also establishing themselves as large Islamic banking centres.

ADB steps up Islamic finance efforts, eyes infrastructure

The Asian Development Bank (ADB) is stepping up efforts to assist member countries to use Islamic finance in areas such as infrastructure financing, ranging from technical assistance to providing credit guarantees, an ADB official said.

The Manila-based development lender sees Islamic finance, a sector which now holds systemic importance in countries such as Pakistan and Bangladesh, as complementing its objectives to boost financial inclusion and promote financial stability. Sharia-compliant instruments such as *sukuk*, or Islamic bonds, have gained prominence as funding tools for a wide range of countries over the last year, a trend which the ADB is keen to extend to

several of its 67 member countries.

"*Sukuk* issuances by Hong Kong and the UK have allowed our member countries to look at *sukuk* in a very different way," said Ashraf Mohammed, Assistant General Counsel and Practice Leader of Islamic Finance at the ADB.

ADB is also preparing a \$2 million technical assistance (TA) programme to help five central and west Asian countries to develop their regulatory framework and strengthen their ability to deal with Islamic finance supervision.

<http://www.reuters.com/article/2015/03/23/islam-financing-adb-idUSL6N0WM00820150323>

ADB had considered making an issuance of its own, but the focus is now on supporting member states' use of *sukuk* for their public debt financing, mirroring a move by the G20 which placed *sukuk* in its annual agenda last month.

Africa's Afreximbank looks to Islamic finance with IDB tie-up

Cairo-based African Export-Import Bank (Afreximbank) has signed an agreement with the private sector arm of the Islamic Development Bank to explore *shariah*-compliant financing and investment opportunities on the continent.

African markets are gradually opening to Islamic finance, buoyed by governments' debut sales of sovereign *sukuk* and legislative efforts to make the sector more attractive for companies across the region.

Afreximbank, which was founded by African gov-

ernments and other investors in 1993 and focuses on trade finance, will seek to participate in syndicated transactions and investment funds alongside the Jeddah-based Islamic Corporation for the Development of the Private Sector (ICD).

The agreement will also allow cooperation in structuring capital market deals including Islamic bonds, the institutions said in a joint statement.

<http://www.reuters.com/article/2015/03/03/islam-financing-afreximbank-idUSL5N0W508F20150303>



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UAE central bank expands Islamic banks' access to its funds

From April 1 Islamic banks, which account for roughly a quarter of banking assets in the UAE, will be allowed to use sharia-compliant securities other than central bank-issued Islamic certificates of deposit to borrow overnight from the central bank's Collateralised *Murabaha* Facility.

The expansion of the collateral will permit Islamic banks to obtain central bank liquidity in the same way that conventional banks do from the Interim Marginal Lending Facility, which was launched last July, the central bank said in a statement on Tues-

day.

From April 1, eligible collateral will range from *sukuk* issued by foreign governments, which must have a minimum long-term credit rating of A, to UAE corporate entities and even some *sukuk* which are rated below investment grade or do not have ratings, at the central bank's discretion.

https://www.zawya.com/story/UAE_central_bank_expands_Islamic_banks_access_to_its_funds-TR20150324nL6NOWQ3CNX2/



The United Arab Emirates central bank said it was making it easier for Islamic banks to access its special lending facility by expanding the range of collateral they can use.

Dubai says may establish *Shari'ah*-compliant exim bank

Dubai's government will consider establishing the world's first fully *shari'ah*-compliant export-import bank to promote the emirate's foreign trade, the Department of Economic Development said on Wednesday.

The bank would provide financing to companies involved in trade while helping them to reduce their risks and gain market access, the department said in a statement without giving details of the proposed institution's structure or financing.

Noor Investment Group, which is affiliated to Investment Corp of Dubai, the emirate's flagship investment vehicle, will advise on the project, the department added. It did not give a time frame.

Dubai is a top trans-shipment hub for trade in the region and wants to become a leading global centre for Islamic finance.

<http://www.reuters.com/article/2014/03/19/emirates-trade-banking-idUSL6N0MG2MO20140319>

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Arabian Scandinavian Insurance Co. switches to *Takaful* system

The Arabian Scandinavian Insurance Co. PLC - *Takaful* (Ascana Insurance) has recently announced the transformation of the company's services and activities from the traditional approach to the *Takaful* insurance system. This has been implemented in order to provide *Shariah*-compliant insurance products.

The company said in a statement that it had made the required modifications to complete the transformation process required to practice its business on a cooperative basis. It will provide Islamic insurance products called *Takaful*, which is a system that offers promising prospects for growth and development for insurance companies in the region.

Ascana Insurance added that the subscriptions of all customers will be transformed to the *Takaful* insurance system without any alteration to their rights.

The renewal of any contract between the company and its customers will be conducted in accordance with the rules and regulations of the *Takaful* insurance system in future for those who wish to adhere to it.

The company reported that it is ready to deal with any objections raised by its customers with full transparency and clarity. The company is also willing to make the necessary adjustments should any customers be unwilling to transform their subscriptions to the *Takaful* insurance system.

https://www.zawya.com/story/UAEs_Arabian_Scandinavian_Insurance_switches_to_Takaful_system-ZAWYA20150309063806/



Arabian Scandinavian Insurance Company(PLC)

Experts and officials within the Islamic insurance sector say that *Takaful* is booming in the region, and is expected to grow between 30 and 40 percent per year, over the next 3-5 years.

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Speaking to media during a roundtable discussion at the Four Seasons Hotel in Doha on Wednesday, Gramegna said, "Luxembourg wants to become a regular player in the issuance of sukuk."

Luxembourg plans new *sukuk* in '16

The Grand Duchy of Luxembourg is keen to issue another *sukuk* next year following the success of the QInvest-assisted, first euro-denominated sovereign *sukuk* issued in September 2014, Finance Minister Pierre Gramegna said.

Speaking to media during a roundtable discussion at the Four Seasons Hotel in Doha on Wednesday, Gramegna said, "Luxembourg wants to become a regular player in the issuance of *sukuk*."

"The first *sukuk* that we launched was very successful, as it was more than 2x oversubscribed. It was the first sovereign *sukuk* denominated in Europe ever launched, and involves some players from Qatar...and as a result, the government plans to issue further *sukuk* next year," Gramegna explained.

He stressed that a euro-denominated sovereign *sukuk* "represents a milestone in establishing Luxembourg as the global hub for Islamic Finance outside the Middle East."

"We have a lot to learn from the specialists here in the Islamic banks and so that is one of the reasons why we are here, and we are looking forward to a fruitful co-operation in this field. The *sukuk* that we have issued has been marketed in Europe and in the Middle East," he said.

http://www.zawya.com/story/Luxembourg_plans_new_sukuk_in_16-ZAWYA20150306042930/

Vodafone Qatar, an affiliate of Britain's Vodafone Group, said it had switched all its financial activity to Islamic transactions. In the following eight trading days, its shares jumped 22 per cent in the heaviest turnover for over a year.

First banks, now companies: Gulf firms 'go Islamic'

Across the Gulf, companies that have traditionally used conventional finance are considering whether to "go Islamic", by conforming to sharia principles such as bans on interest payments and monetary speculation.

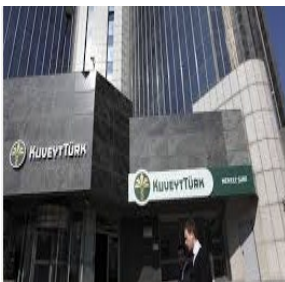
The number of major firms taking the plunge is still small - a handful in the past six months - but they underline the growing depth and cost-effectiveness of Islamic finance after several years of rapid growth in the industry.

Traditionally, Islamic financial tools such as *sukuk* - shariah-compliant bonds - were more expensive to use than conventional instru-

ments, because of their complexity and investors' lack of familiarity with them. The range of available sharia-compliant instruments has been much smaller than the array of conventional products.

But that has been changing; Islamic equivalents to conventional financial instruments have been developing even in relatively obscure areas such as short-term interbank lending, trade financing and swaps.

<http://www.albawaba.com/business/first-banks-now-companies-gulf-firms-go-islamic-672864>



Turkish lender Kuveyt Turk said on Sunday it would launch Germany's first full-fledged Islamic bank in July, a first step intended at offering sharia-compliant retail banking services across the continent.

Kuveyt Turk preps July launch of Germany's first Islamic bank

Turkish lender Kuveyt Turk said on Sunday it would launch Germany's first full-fledged Islamic bank in July, a first step intended at offering sharia-compliant retail banking services across the continent.

The wholly-owned subsidiary will be called KT Bank AG and use Frankfurt as its base, aiming to tap Europe's second-largest Muslim community, many of whose members are of Turkish descent.

The subsidiary would seek to serve Germany's roughly 4 million Muslims but also target a wider client base, expanding its branch network across the country and later into the rest of Europe, the statement said.

Kuveyt Turk, the largest Islamic bank in Turkey and 62 percent owned by Kuwait Finance House, set up a financial services branch in Mannheim in 2010 and applied for a full banking license in 2012.

At the time, the lender said it would invest initial capital of 45 million euros (\$48.7 million) in the planned German unit.

Islamic finance has been slow to gain a foothold in Europe due to a fragmented market and lack of industry-specific regulations.

<http://www.reuters.com/article/2015/03/22/islam-financing-germany-idUSL6N0W00UW20150322>

Upcoming Events (Apr-May 2015)

<u>Name</u>	<u>Location</u>	<u>Date</u>
Kazan Sukuk Conference 2015 http://kazansukuk.com/registration/	Russian Federation, Kazan	09 Apr
The World Takaful Conference (WTC 2015) https://www.megaevents.net/takaful/registration_secure.php	UAE, Dubai	13-14 Apr
The World Islamic Funds & Financial Markets Conference (WIFFMC) https://www.megaevents.net/islamic_funds/registration_secure.php	Bahrain, Manama	18-19 May
12th Islamic Financial Services Board (IFSB) Summit http://ifsb.org/s12_index.php	Kazakhstan, Almaty	19-21 May
IFSB- FIS Workshop Series (Turkey) http://www.ifsb.org/register_online.php?act=addnew&e_id=245	Turkey, Istanbul	25-26 May

Recent Publications On Islamic Finance

<u>Name</u>	<u>Location</u>
<i>Can Islamic Banking Increase Financial Inclusion?</i>	https://www.imf.org/external/pubs/ft/wp/2015/wp1531.pdf
<i>Are Islamic Banks More Resilient during Financial Panics?</i>	http://www.imf.org/external/pubs/ft/wp/2015/wp1541.pdf
<i>Islamic Finance, Financial Inclusion and Poverty Reduction in OIC and Arab MENA Countries</i>	http://conference.qfis.edu.qa/app/media/11202
<i>"What Drives Sukuk Markets? The Economic and Political Determinants of Sukuk Markets' Depth"</i>	http://conference.qfis.edu.qa/app/media/11264
<i>"Sukuk co-movement and contribution to global capital market diversification"</i>	http://conference.qfis.edu.qa/app/media/11263
<i>"Relationship between Intention and Actual support towards the Construction of Modern Waqf-based Hospital in Uganda"</i>	http://conference.qfis.edu.qa/app/media/11269
<i>"The relationship of Islamic investment rates and interest rates revisited: Turkish Case"</i>	http://conference.qfis.edu.qa/app/media/11288
<i>"Measuring Liquidity Creation and its Determinants in Banking Sector: A Comparative Analysis between Islamic, Conventional and Hybrid Banks in the Case of the GCC Region"</i>	http://conference.qfis.edu.qa/app/media/11287
<i>"Financial Stability, Islamic Banking and the Economic Turmoil: Evidence from the Gulf Cooperation Council"</i>	http://conference.qfis.edu.qa/app/media/11304
<i>"Freedom of contract, actual justice and Islamic finance regulation: how to balance legal efficiency and moral legitimacy in market economy"</i>	http://conference.qfis.edu.qa/app/media/11320

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Description of Data:

Dow Jones Sukuk Index: The Dow Jones Sukuk Index is designed to measure the performance of global Islamic fixed-income securities—also known as sukuk. The index includes U.S. dollar-denominated investment-grade sukuk issued in the global market that have been screened for Shari'ah compliance according to the index methodology. The index was created as a benchmark for investors seeking exposure to Shari'ah-compliant fixed-income investments.

The Dow Jones Sukuk Index follows the same consistent, quantitative methodology as the Dow Jones Islamic Market™ (DJIM) Indices, which are monitored to ensure their continued adherence to Shari'ah principles.

Bloomberg USD Emerging Market Composite Bond Index: The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities issued in emerging markets as identified by Bloomberg. Emerging market issuers can be found at function EMWH. The major components of the index are the Bloomberg USD Emerging Sovereign Bond Index, Bloomberg USD Emerging Market Corporate Bond Index, Bloomberg USD Investment Grade Emerging Market Bond Index and Bloomberg USD High Yield Emerging Market Bond Index. To be included in the index a security must have a minimum par amount of 100MM.

LIBOR USD 6 Month: London - Interbank Offered Rate - ICE Benchmark Administration Fixing for US Dollar. The fixing is conducted each day at 11am & released at 11.45am (London time). The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration. The top and bottom quartile is eliminated and an average of the remaining quotations calculated to arrive at fixing. The fixing is rounded up to 5 decimal places where the sixth digit is five or more.

Dow Jones Islamic Market World Index: The Dow Jones Islamic Market World Index is a global index of companies that meet Islamic investment guidelines. The index is quoted in USD.

Dow Jones Global Index: The index measures the performance of stocks that trade globally, targeting 95% coverage of markets open to foreign investment. It is float market cap weighted. It is quoted in USD.

MSCI World Islamic Index: The MSCI World Islamic Index is a free-float weighted equity index. It was developed with a base value of 1000 as of May 31 2007.

MSCI World Index: The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets.

MSCI Emerging Markets Index: The MSCI Em (Emerging Markets) Index is a free-float weighted equity index.

Bloomberg Takaful Index: Bloomberg Takaful Index is a capitalization-weighted index of all globally listed Takaful-recognized companies. Takaful is an Islamic term meaning mutual support, which is the basis of the concept of insurance or solidarity among Muslims. This is a form of insurance based on mutual assistance. The index was developed with a base level of 100 as of April 15, 2009

Murabaha Deposit Rates: Murabaha Deposit An agreement that refers to the sale and purchase transaction for the financing of an asset or project where by the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or in installments, will be specified in the agreement. Use all prices available in the terminal and updated within the last three working days. Banks that do not price for more than 3 days are excluded from the daily calculation. Islamic Market Reference Rate is calculated by Bloomberg using contributed rates from several local and international banks. Reference rates are calculated by taking the average bid & ask of the contributing banks, after eliminating the 4 highest and 4 lowest values.

Glossary Of Key Terms

Mudaraba	Trustee finance contract: One party contributes capital while the other contributes effort or expertise; profits shared according to a predetermined ratio; investor not guaranteed a return and bears any financial loss; no fixed annual payment; financier has no control on how venture is managed
Murabaha	Sale with agreed mark-up: Financing purchase of assets for a profit margin; asset purchased on behalf of client and resold at a pre-determined price; payment could be lump sum or in installments; ownership of asset remains with bank till full payments made
Musharaka	Partnership; equity participation contract: Both parties contribute capital; profits shared by a pre-determined ratio, not necessarily in relation to contributions; losses shared in proportion to capital contributions; both parties share and control how investment is managed; each partner liable for the actions of the other
Shari'ah Board	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of Shari'ah compliance.
Sukuk	An Islamic financial certificate, similar to a bond in Western finance, that complies with Shari'ah, Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a sukuk sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contrac-
Takaful	The term 'takaful' is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a takaful arrangement, the participants contribute a sum of money as wholly or partially taburru' (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the takaful.