



## ABU DHABI

### Deutsche Bank & Abu Dhabi Commercial Bank completes deal

Deutsche Bank & Abu Dhabi Commercial Bank (ADCB) have completed the first Shariah compliant transaction, linked to a basket of commodities for high net worth clients, it was reported recently.

The principal-protected transaction allows investors to benefit from the upside in prices of three key commodities-platinum, aluminium and crude. An exposure to a basket of commodities allows investors to diversify risk and decrease volatility when added to a portfolio of financial assets.

"This Islamic structure will allow high net worth investors to take exposure to this asset class to benefit from the diversification play in their portfolios in addition to taking advantage of the surging prices of commodities," said ADCB Investment Services Product Manager Ahmad Barakat.

Deutsche Bank Global Head of Islamic Finance Nizar Al Shubaily said: "There is a growing appetite from Islamic investors for opportunities to invest in all asset classes. Deutsche Bank is at the cutting edge when it comes to Islamic products and we plan to bring many more innovations to the market." □

## PAKISTAN

### Government considers issuing bonds in the US

The Pakistan government is considering the launching of Global Bonds in the financial year 2005-06. This time the government is likely to target the financial markets in the US and its regional countries. It was reported that following the announcement of the new federal budget, the government would engage lead managers of international repute who would decide on the timing of the launching and the size of bonds.

The offering of bonds in the international markets is part of the Pakistan government's strategy of raising capital from the world markets and testing the credibility of the country through the response of investors.

In the last one and a half years, the government has already introduced Euro and Sukuk bonds, raising more than US\$1 billion worth of capital in foreign exchange.

This time around the new bonds, likely to be named as Global Bonds, would follow the US treasury rate when fixing the rate of return on the bonds, an official said. The new bonds are said to help further stabilize foreign exchange reserves, support balance of payment position and improve the overall economic cycle in the country. The federal government officials are optimistic that the proposed bonds, to be floated in the US and regional markets, might set a new precedent of over-subscription as these markets have plenty of financial resources. □

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### BAHRAIN

#### Real estate Sukuk oversubscribed

The US\$100 million issue of Ijara Sukuk (leasing bond) for Bahrain-based Commercial Real Estate Sukuk Company (CRC) was oversubscribed 133%, according to the placement agents Kuwait Finance House and Bahrain-based Liquidity Management Centre. The issue was the first Islamic Shariah compliant leasing-bond offer in Kuwait, arranged for CRC in support of its growing real-estate development projects in Kuwait and the region.

The Sukuk has been structured as lease-to-own Islamic Shariah compliant securities with a five-year term maturing in 2010 and offering a semi-annual return on the leasing bond of 125 basis points over the US dollar and six months Libor.

The Sukuk is the first offer of a rated corporate leasing-bond issue, assigned a rating of A- by Capital Intelligence. The Sukuk was underwritten by senior lead manager Kuwait Finance House (Kuwait), lead manager Boubyan Bank (Kuwait), in addition to Deutsche Bank, Emirates Islamic Bank, Gulf Investment Corp (Kuwait), Kuwait Financial Centre, Liquidity Management Centre, Bank Muscat International, Arab Islamic Bank (Palestine) and Arab Insurance Group (Bahrain).

### MALAYSIA

#### KFH to start business in Malaysia

Kuwait Finance House (KFH) is expected to be the first foreign financial institution to conduct Islamic banking business in Malaysia. Deputy International Trade and Industry Minister Datuk Ahmad Husni Hanadzlah said KFH is expected to start operations in Malaysia in the second half of this year.

KFH is one of three foreign financial institutions awarded the li-

cence by Bank Negara Malaysia to undertake Islamic banking business here. The other two are Qatar Islamic Banking Consortium and Saudi Arabia's Al-Rajhi Banking and Investment Corporation.

Speaking at the seminar on Malaysia-Kuwait business opportunities in Kuwait City last week Ahmad Husni said the financial sector offers a lot of potential for the participation and collaboration of Kuwait and Malaysian companies.

"Several domestic banking groups are exploring the possibility of venturing into the Gulf Co-operation Council (GCC) region. These banks are currently undertaking the feasibility study on the opening up of branches or subsidiaries or joint ventures in the Islamic financial markets," he said.

### MALAYSIA

#### RAM eyes role in Islamic capital markets

Rating Agency Malaysia Bhd (RAM) said the Islamic capital market is developing rapidly locally and it hopes to assist by providing timely ratings and analyses of debt offerings.

"There are a lot of West Asian funds pumping into the Islamic capital market. So I think the government is on the right track, developing this sector," said RAM Executive Director Wong Fook Wah.

RAM has rated, among others, the US\$1.47 billion (RM5.6 billion) Islamic debt paper for the financing of Tanjung Bin power plant and the US\$1.61 billion (RM6.1 billion) Islamic funding facility for Jimah power plant - the country's biggest corporate debt arrangement so far this year. Islamic bonds outstanding in Malaysia have grown rapidly in recent years to US\$26.13 billion (RM99.3 billion as at March this year.

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## News Briefs (continued...)

### YEMEN

#### Saba Islamic Bank posts net profit

Yemen's Saba Islamic Bank posted a net profit of US\$1.22 million (YER221.3 million) for 2004. The bank's gross profit amounted to US\$7.39 million (YER1.339 billion) in 2004. Deposits increased to US\$204.9 million (YER37.112 billion) from US\$133.4 million (YER24.157 billion).

The bank's total assets reached US\$232.4 million (YER42.09 billion), compared to US\$152.9 million (YER27.683 billion) the previous year.

In 2004, Saba Islamic Bank reportedly became the first Yemeni bank to have launched an investment portfolio. The portfolio had a capital of US\$52,500 (YER9.5 million). The bank was established in 1996 to provide Shariah compliant banking and investment services. It operates through five branches across Yemen. □

### MALAYSIA

#### Bank Islam a model for all

Bank Islam's growth from a modest bank to one of Malaysia's biggest has spurred interest from others in the country and abroad to learn its system. "The bank's role in promoting and developing Islamic banking has put Bank Islam at the centre of attention in the banking sector and we are on our way into turning Malaysia into the international capital of Islamic banking," it said.

Bank Islam has been entrusted by the Government to spearhead the advancement of Islamic banking and Islamic financial services. This is implemented through the incorporation of subsidiaries, where it was involved in developing the Islamic financial sectors dealing in banking, Takaful, stockbroking, leasing, research and training.

Bank Islam was set up with an initial authorized capital of US\$131.58 million (RM500 million) and a paid-up capital of US\$21.03 million (RM79.9 million). The bank's authorized and paid-up capital have been increased gradually, standing at US\$526.35 million (RM2 billion) and US\$148.16 million (RM563 million), respectively, in 2000 to accommodate the growth of its assets and to position the bank for expansion. It was listed on the main board of Bursa Malaysia on the 17<sup>th</sup> January 1992.

To date, it has 89 branches nationwide, with about 50 innovative and sophisticated Islamic banking products and services. It has come out with financing facilities for the implementation of infrastructure and development projects. The bank has syndicated many financing packages. For instance, it is the joint lead manager in the Al-Musarakah financing with Participating Certificates Issuance Facility of US\$157.89 million (RM600 million) for Sarawak Shell Bhd; and the arranger for US\$578.91 million (RM2.2 billion) syndicated Al-Bai Bithaman Ajil with Notes Issuance facility for KL International Airport Bhd (KLIA).

The bank has also introduced e-banking services: corporate desktop banking and other electronic banking delivery channels at its electronic banking centres. □

### SINGAPORE

#### CapitaLand & Arcapita team up in property investment deal

Singapore's property developer CapitaLand has teamed up with Islamic banking group Arcapita to invest in a Japanese property joint venture. The two partners hope to build up a portfolio worth US\$300 million in the next 12 to 18 months.

CapitaLand said the move will cater to a growing demand among Middle Eastern investors for Asia-based investment opportunities. The latest deal marks CapitaLand's first foray into Islamic investments.

Under the agreement, Arcapita will hold a 70% stake in the joint venture, while CapitaLand will take about 19%, as well as provide asset management services. Goodwood Park Hotel will hold the rest.

For a start, the venture will buy three rental apartment properties in Japan worth about US\$43 million. Arcapita said Middle East investors are looking for more investment options.

Arcapita Executive Director Azim Zafar said: "Middle East investors are all very US-dollar-centric because all the currencies in the Middle East are pegged to the US dollar. I think now, with the deterioration and devaluation of the US dollar against all major currencies, what they are looking for are avenues to get out of the US dollar.

In accordance with Islamic law, the joint venture's properties will not be leased to tenants involved in gambling, pornography or the production or distribution of pork products.

The deal could open the door for Southeast Asia's largest property company to tap Middle East money for future Islamic funds.

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## News Briefs (continued...)

### MALAYSIA

#### StanChart mulls setting up of Islamic bank

Standard Chartered Bank Malaysia Bhd (StanChart) will look into setting up a fully-fledged Islamic bank subsidiary if its total Islamic assets reaches a bigger base of 11% from the current 2%.

Its Chief Executive Shayne Nelson said for now, the bank had no plans to do so because of the advantage of keeping it as a window as opposed to a separate unit, which would require additional capital and manpower.

“We have no plans to go for a subsidiary status, unless we have a bigger base of Islamic business,” he said, adding that the 11% target will be in tandem with the government’s objective of seeing the country’s Islamic assets accounting for one-tenth of its banking system by 2006/2007.

The Financial Sector Master Plan has envisaged for Islamic assets to account for 20% of the country’s banking system by 2010. □

### DUBAI

#### STEP’s inaugural Middle East conference

The Society of Trust and Estate Practitioners (STEP) will hold its first Middle East Conference in Dubai on the 17<sup>th</sup>- 18<sup>th</sup> May.

The topic of STEP Arabia’s opening conference is “Shariah and Trusts: Working in Harmony”. The speakers include some of the most important players in Dubai’s financial community as well as some of the world’s most eminent trust practitioners. Each will give their own unique insight into the ways in which Shariah law and the rules laid down in the Quran affect trusts, gifts and inheritance.

Dr. Habib Al Mulla, Chairman of Dubai Financial Services Authority and one of the speakers at the conference said: “With the recent growth in Shariah compliant investment, and the huge potential of Islamic investment vehicles in the future, now is the perfect time to discuss the role of Shariah Trusts. □

### MALAYSIA

#### OCBC fulfils needs of customers

OCBC Bank, the first foreign Asian bank in Malaysia to offer Islamic banking services, plans to launch more products and attract more Muslims. One such product is the OCBC Cash Financing-i. This product was rolled out in August last year and as of the 25<sup>th</sup> April, more than US\$25.53 million (RM97 million) worth of financing has been approved to 7,727 applicants.

OCBC Cash Financing-i is an unsecured personal term financing product for individual applicants, based on the Islamic contract of Bai-Al Inah. It can be used for a downpayment for a house or car

purchase, payment of medical/education bills, house renovation, debts or credit card payments. For this financing, no collateral or guarantor is required and all one has to do is fill out an application form and submit with documentation.

In all, OCBC Bank offers nine financing products and six depository products, including savings, current and investment accounts as well as financing products such as home, cash and equipment financing. □



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## News Briefs (continued...)

### MALAYSIA

#### Banks aim to woo conventional lenders' clients

Three of Malaysia's newest Islamic lenders say their biggest rivals for market share will be conventional banks, even as the local banking sector opens up to more Islamic players.

Commerce Tijari Chief Executive Officer Nor Azzam Abdul Jalil said that its competition is not among Islamic banks and is looking at wooing clients of conventional banks. "We are trying to convert their borrowers to Islamic banks," said Nor Azzam.

However, Kuwait Finance House Malaysia Director Salman Younis said the bank's objective is to complement local players and not compete with them. He said Kuwait Finance House has a different business model and its key area will be to introduce innovative products. Kuwait Finance House was the first Islamic lender to win a foreign banking licence in Malaysia. "Local banks have local knowledge and experience. We will share with them our models and international experience. We see it as a win-win situation," explained Salman. □

### INDONESIA

#### Permata Syariah targets lending

Bank Permata Syariah, the Islamic banking unit of Bank Permata, has set the target of lending as much as US\$24.46 million (IDR250 billion) this year. The bank also plans to open seven new branch offices in Java this year.

General Manager of Bank Permata Syariah, Ismi Kushartanto, said that the lending target of the bank would be mainly (60%) for the retail sector, while 40% would be for the consumption sector.

The bank also plans to target small and medium sized companies that of late have reached hundreds of thousands throughout the country. He said that there had been an agreement between Astra Foundation and Bank Permata to support the financing of those small and medium sized companies.

He added that to strengthen its access to the customers the conventional offices of Bank Permata would also provide Shariah banking services. □

### QATAR

#### QIB part-finances Tower in Al-Dafna

Qatar Islamic Bank has recently signed a new Shariah compliant Istisna'a agreement to partially finance the establishment of a US\$43.1 million (QR157 million) tower in the Dafna district of the capital Doha.

The 38-storey tower is an addition to the series of towers in Doha, whose construction is being financed by QIB in conformity with the

Istisna'a mechanism. The agreement is also part of the bank's efforts to contribute to the uplift in the construction sector in Qatar. Presently, some 70% of QIB's total investments are focused on the local market. □

### BAHRAIN

#### BMA grants licence to Swiss bank

The Bahrain Monetary Agency (BMA) has granted a licence to Dexia Private Bank (Switzerland). The bank, which is a subsidiary of the Dexia Group, will establish a Representative Office in Bahrain, the Dexia Group's first presence in the GCC region.

The Bahrain entity will operate under the name Dexia Private Bank (Switzerland) Middle East Representative Office. The Dexia Group is a major player in retail financial services, investment management services and treasury and financial markets in Europe. The Bahrain unit will not only offer a wide range of financial products, such as structured finance, investment funds, Shariah compliant investment products and alternative products, but also financial engineering and customized project financing.

The bank will target high net worth individuals as well as institutional investors in Bahrain and the region, as part of its plans to grow the bank's Middle East business from its hub in Bahrain.

The Dexia Group's capital stood at US\$6 billion in 2003, while total assets amounted to US\$458 billion. The Dexia Group is listed on the Euronext markets in Brussels and Paris, as well as Luxembourg. □

### DUBAI

#### DIB launches new service

Dubai Islamic Bank (DIB) recently announced the launch of its new Instant Bill Payment Service, allowing customers to recharge and renew their Al Wasel and GSM cards, and pay landline and Internet bills through its nationwide ATM network.

Customers using the service will benefit from a 10% bonus rate on the credit of the Al Wasel card. They can also view their outstanding Etisalat Bills online, reactivate phone lines, and receive instant credit for their Etisalat Bills through the bank's payment channels such as the bank's call centre "Al Islami Al Mubasher", its website "Al Islami Online", and DIB's widespread ATM network.

Executive Vice President of Business Services Abdullah Al Hamili, said: "The Instant Bill Payment Service builds on the strong relationship between DIB and its customers. The bank's policy has always focused on providing advanced services to our customers along with allocating significant investments to enhance the bank's operations."

Dubai Islamic Bank is the first to offer this service through its 84 ATM network in the UAE. The service DIB provides enables users to save time, ensures continuous availability of the service, and provides instant access to reactivate a disconnected line. □

## News Briefs (continued...)

### BAHRAIN

#### Al-Amin Bank provides Ijara financing

Bahrain's Islamic investment bank Al-Amin Bank will extend a Shariah compliant Ijara facility to the Bahraini real estate investment company Aqari to finance the purchase of two residential buildings worth a total of US\$10.5 million.

Under a recently signed Ijara contract, Al-Amin Bank will buy the buildings and rent them to Aqari for a three-year period. At the end of the period the company can buy the properties from the bank for a final nominal price. Al-Amin Bank, which has so far participated in Shariah compliant financing deals solely in foreign countries, will be for the first time engaged in an Islamic finance deal in the Kingdom.

Aqari, which also operates in conformity with the Shariah, has so far bought four residential buildings in different parts of the Kingdom for a total US\$26.5 million.

Al-Amin Bank, established in 1987, is a member of the Saudi-based diversified group Dallah AlBaraka Holding Company. The bank was granted an Islamic investment banking licence by the Kingdom's Central Bank Bahrain Monetary Agency (BMA) in May 2001. □

### MALAYSIA

#### Commerce Tijari eyes earning contributions

Malaysia's Commerce Tijari Bank Bhd, the wholly-owned Islamic banking unit of Bumiputra-Commerce Bank Group (BCB Group) launched on the 15<sup>th</sup> April, conservatively targets a contribution of 2% to the group's earnings in the first year of its launch.

CEO Nor Azzam Abdul Jalil said to date Tijari was only offering a home financing product. He said that Tijari planned to have 20 more Islamic products and corporate financing would be offered next. "We have yet to be aggressive. However, so far the response is good. After two weeks, we managed to attract about 300 to 400 accountholders," he said.

Tijari's target customers are within the BCB Group, which amounted to about four million and that he said, "was more than enough for us to grow." He also said that Tijari would expand its business through leveraging BCB Group's network, domestically and internationally.

BCB Group currently has a strong presence in London, Hong Kong, Singapore, Tokyo and branches well scattered throughout the Peninsular of Malaysia.

Tijari is also looking at forming strategic alliances with foreign partners in the Islamic financial services and studying the possibility of opening its own branches in Dubai and Bahrain. □

### GLOBAL

#### Key Islamic finance role in spotlight

Preparations are in full swing for the first International Islamic Financial Markets Conference (IIFMC), which will be held on the 16<sup>th</sup> and 17<sup>th</sup> May at the Gulf International Convention and Exhibition Centre, Gulf Hotel, Bahrain.

The conference will be held under the patronage of the Bahrain Monetary Agency (BMA) Governor Rasheed Al Maraj, who will deliver the opening address. The conference and its specialized technical panels are jointly organized by the International Islamic Financial Market (IIFM) and the General Council for Islamic Banks and Financial Institutions (CIBAFI). It is supported by the BMA and the Islamic Development Bank's Islamic Research and Training Institute (IRTI).

The conference, being held under the theme 'Opportunities in the Islamic Capital and Money Markets', will focus on various theoretical and practical aspects directly affecting the Islamic financial services industry, with a particular focus on the Sukuk and Islamic money markets issues.

The Al Baraka Banking Group (ABG), Kuwait Finance House (KFH) Bahrain, Jordan Islamic Bank and ABC Islamic Bank are lead sponsors of the event. Also sponsoring is the Bahrain Financial Harbour (BFH), which is holding a special talk on the BFH Sukuk.

The conference will also address the ways and means of establishing an effective Islamic money market, focusing on the experiences of such countries as Malaysia, Sudan, Indonesia, Bahrain and Bangladesh.

About 250 delegates representing all key market players, including Sukuk issuers, arrangers, underwriters, market makers, investors, funds/portfolio managers, regulators, reserve managers, Shariah scholars, consultants and legal advisers, are expected to attend the conference. □

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## News Briefs (continued...)

### BAHRAIN

#### BIB net profit hits US\$5.3 million

Bahrain's Shariah compliant financial services provider Bahrain Islamic Bank (BIB) achieved a net profit of US\$5.3 million (BhD2.0 million) in the first quarter of 2005, an increase of 8.5% year-on-year.

The increase was attributed to the growth in the bank's operating revenue during the first three months of 2005, according to the Chairman of BIB's Board of Directors, Khalid Abdullah al-Bassam. The bank is expected to further improve its financial results for the full 2005, Al-Bassam added.

The bank's operating revenue grew to US\$11.4 million (BhD4.3 million) between January and March 2005 from US\$9.3 million (BhD3.5 million) in the year-ago period due to growth in its financing operations, diversified investments and achievement of significant returns on the bank's real estate assets, according to BIB's CEO, Yousif Khalaf. □

### EGYPT

#### Faisal Islamic Bank results

Faisal Islamic Bank of Egypt announced its first quarter 2005 results ending March, reporting net profits of US\$3.1 million (EGP18 million). This reflects a 4.5 times increase relative to the previous US\$689,664 (EGP4 million) achieved in the corresponding period last year. □

### UAE

#### Sharjah Islamic Bank seals tie-up with Daman Securities

Sharjah Islamic Bank (SIB) has signed a partnership deal with Daman Securities that will help the bank manage local and international equity funds with high rates of return.

This is the second such deal reached by SIB following its recent partnership with Shuaa Capital, and is part of its commitment to the expansion of investment opportunities and diversification of risk.

The purpose of SIB's partnership with Daman Securities, a UAE-based financial investment company, is to create new and innovative ways of profit-making, distinct from regular investment opportunities such as real estate and syndications, both locally and internationally.

The bank said this would be done in strict compliance with Islamic Shariah law approved by the bank's Shariah Control and Fatwa Board.

The bank has also made large investments in its retail business, through the introduction of innovative products into the market, and was responsible for the launch of the first Islamic credit card. □

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## News Briefs (continued...)

### BAHRAIN

#### Albaraka Banking Group officially launched

The Ordinary General Assembly and the Extra-Ordinary General Assembly of Albaraka Banking Group (ABG) held in mid-April have announced the official launching of the Group after it had satisfied all requirements and obtained the Bahrain Monetary Agency's stamp of approval.

The Assembly has adopted the Directors' Report, the Shariah Supervisory Board Report as well as the approved Financial Statements and the Profit and Loss Account for the period from incorporation in July 2002 to the 31<sup>st</sup> December 2003. The Group accounts reflected total assets of US\$4.2 billion and a net income of US\$27.3 million. □

### SUDAN

#### Private placement closes

Emirates and Sudan Bank has completed its private placement at US\$85 million with a strong response from investors in Sudan and the UAE. It was reported earlier this month that large institutions and Islamic banks from both countries have taken part in the private placement including Dubai Islamic Bank (DIB), Sharjah Islamic Bank, Abu Dhabi Islamic Bank, and the Islamic Development Bank.

The bank also announced that its US\$28.3 million initial public offering (IPO) will be open to subscription in the middle of this month. Once the IPO is completed the bank will be the largest capitalized bank in Sudan with a paid-up capital of US\$113.3 million, and an authorized capital of US\$200 million. Mr. Saad Abdul Razak, member of the founders' committee, Chairman of the steering committee, CEO of DIB, said: "The strong response is a clear indication of the investors' confidence in the prospects for the economy of Sudan and their belief in the bank's ability to capitalize on emerging opportunities and will support the growth of the banking and financial sectors in Sudan."

Emirates and Sudan Bank intends to be on the forefront in offering Islamic banking solutions in Sudan's growing and rapidly changing marketplace. It plans to quickly expand out of its Khartoum headquarters and create a network of branches throughout the country. The bank has already put in place a professional management team and is planning to invest in developing and training local staff to service its imminent branch network.

Sudan's economic indicators are generally positive and forecasts for gross domestic product, balance of payment, balance of trade, exchange rates, and foreign investments suggest that the country is poised for an economic upswing, particularly after the latest developments to do with the signing of a peace treaty between the north and south of the country.

What's more Sudan's vast oil and gas reserves have been attracting a considerable amount of attention and it has become a magnet for investors, businesses and financiers from all over the world. □

### MALAYSIA

#### Rimbunan Hijau chose OCBC

OCBC Bank (Malaysia) Bhd has lead arranged Rimbunan Hijau (RH) Group's first Islamic Securities issuance, paving the way for a new asset class for securitization. In a statement issued earlier this month, OCBC Bank said RH Group inked an agreement with the bank to issue its first Islamic Securities of up to US\$37.63 million (RM143 million).

RH Group, led by Tan Sri Datuk Tiong Hiew King, is a diversified, multi-national conglomerate based in Sibu, Sarawak and has business interests ranging from timber, mining, oil palm plantations, palm oil mill, media/newspaper publishing, general trading and financial services to information technology, amongst others.

Its operations are carried out throughout the world including in Malaysia, Singapore, Hong Kong, China, Papua New Guinea, Central Africa, Russia, Far East, Australia and New Zealand.

RH Group's US\$37.63 million (RM143 million) Islamic Securities comprising a US\$24.47 million (RM93 million) bond issue and a US\$13.16 million (RM50 million) Commercial Papers/Medium Term Notes (CP/MTN) Programme will be issued by Midas Plantation Sdn Bhd (Midas Plantation), a special purpose vehicle owned by RH Group. Proceeds from the transaction will be utilized by RH Group to fund its plantation business.

Structured along the internationally accepted Islamic concept of Sukuk Ijarah, Midas Plantation's issuance will be the first Islamic securitization backed by oil palm plantation assets to be launched in the Malaysian capital market.

By leveraging on the cash flow of two oil palm plantations and one palm oil mill, the bonds have been accorded the long-term stand-alone rating ranging from AAA to A by Rating Agency Malaysia Berhad (RAM).

OCBC Bank Director and CEO, Datuk Albert Yeoh signed on behalf of OCBC Bank whilst David Tiong, Executive Director of RH Group signed on behalf of Midas Plantation. □

### EDITORIAL CONTRIBUTIONS

We aim to educate and inform the Global Islamic finance market via up-to-date and relevant editorial. Country and Industry Reports, Case Studies, Regulatory changes and product specific development reports all assist and provide our audience and your clients with the knowledge they require.

If you are interested in authoring an exclusive report please contact: [Christina.Morgan@IslamicFinanceNews.com](mailto:Christina.Morgan@IslamicFinanceNews.com) or Tel: +603 2143 8100

## News Briefs (continued...)

### BAHRAIN

#### Sukuk Al-Salam return hits 3.21%

The expected annual return on the May 2005 issue of US\$25 million worth of 91-day Bahraini Shariah compliant bonds Sukuk al-Salam reached 3.21%. The issue was oversubscribed and received bids worth US\$86.24 million.

The bonds issued by the Kingdom's Central Bank Bahrain Monetary Agency (BMA) on behalf of the Bahraini Government on the 4<sup>th</sup> May will mature on the 3<sup>rd</sup> August. □

### MALAYSIA

#### Pharmaniaga bond sale

Malaysian healthcare company Pharmaniaga Bhd is raising US\$26.32 million (RM100 million) from the sale of Islamic bonds to part-finance the construction of a new manufacturing facility and provide working capital.

The financing comprises an Islamic Medium-Term Notes Programme of up to US\$15.79 million (RM60 million) and an Islamic Commercial Papers Programme of up to US\$10.53 million (RM40 million). RHB Sakura is the lead arranger for the bond sale.

The term notes will carry a tenure of five years while the commercial papers would have maturities of seven years. Rating Agency Malaysia Bhd (RAM) has assigned a long-term rating of "AA2(s)" for the term notes and a short-term rating of "P1" for the commercial papers.

Pharmaniaga will use US\$15.79 million (RM60 million) from the proceeds to part-finance the construction of the Small Volume Injectable Facility (SVI) in Puchong. The balance from the bond sale will be used for working capital. □

### BAHRAIN

#### ABC net profit up 23%

Bahrain-based banking group, Arab Banking Corporation (ABC Group), registered a 23% year-on-year increase in its 2004 net profit to US\$27 million.

Net operating income rose to US\$79 million in 2004 from US\$70 million in the previous year, boosted mainly by high US dollar interest rates and increasing business in the fields of treasury and trade finance. Operating expenses remained flat at US\$46 million. □

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## News Briefs (continued...)

### MALAYSIA

#### Bank to offer Islamic rate hedges

CIMB, Malaysia's biggest investment bank, will offer Islamic bond issuers and investors a way to hedge against interest-rate fluctuations while adhering to Islam's ban on paying or receiving interest.

"The problem in Islamic finance is the inability to hedge the movement of interest rates, so a lot of investors have a phobia about increasing their Islamic portfolios," said Badlisyah Abdul Ghani, who heads CIMB Islamic. "The product will protect any entity that wants to manage exposure to the movement of interest rates."

Investors and borrowers in the Islamic finance market, valued at US\$200 billion, until now have not been able to take advantage of a standard practice at the world's biggest companies: using swaps to match the type of payments on their debts with those on their income.

Citigroup, HSBC Holdings and other banks vying to lead the Islamic finance market have created bonds, loans and bank accounts that comply with religious restrictions. Deutsche Bank in March began selling derivatives that allow Islamic real-estate investors to reduce their currency risk.

Interest-rate swaps worldwide more than doubled in the three years to June 2004, to US\$128 trillion, according to data compiled by the Bank for International Settlements. The contracts involve one party paying an amount linked to a floating interest rate, like the London interbank offered rate, while the other pays a fixed amount linked to the so-called swap rate.

CIMB's so-called profit-rate swap will use income from assets to make payments that are in line with the income from interest rate swaps, Ghani said. He would not specify the assets that would be used to back the profit-rate swap. CIMB took four years to develop the Islamic profit-rate swap and plans to offer the product to investors by the end of June. Bank Negara Malaysia, the country's Central Bank, will help oversee the contracts.

CIMB Islamic plans to market the swaps along with other investment banking products to clients in the Middle East. Banks that offer the swap will earn a fee from the transaction, Ghani said. □

### UAE

#### DIB launches its first ladies branch in Sharjah

Dubai Islamic Bank (DIB) recently announced the opening of its first exclusive ladies banking branch in Sharjah. The branch, located in Al Ghubaiba district in Sharjah, is DIB's third Johara branch in the UAE, after the inauguration of Al Khalida Johara branch in Abu Dhabi, and Jumeirah Johara branch in Dubai.

The new branch is expected to meet the increasing demand for an exclusive ladies bank in Sharjah and will offer innovative and flexible financial services for women.

Al Johara customers in Sharjah are now afforded the privilege of conducting their financial transactions in complete privacy and comfort in a professional environment devoted to meeting the customers' financial needs and requirements.

Mohammad Al Ameery, DIB's Senior Vice President and Head of branches, said: "The opening of Johara's third branch in Al Ghubaiba reflects the bank's support for initiatives that boost the role of women in the development of UAE's economy." The new branch is fully managed and administered by the most qualified UAE female financial professionals. The branch is specialized in providing financial solutions for women and is expected to fulfil the growing demand for DIB's products and services across the UAE. □

### Gulf Finance House net profit up

Gulf Finance House (GFH), one of the leading Islamic investment banks, recently announced an excellent start to the year with an impressive set of first quarter results. Year-on-year net profit rose by 108% to US\$32.6 million for the three months to the 31<sup>st</sup> March 2005.

Announcing the results GFH Chairman Dr Fuad Al-Omar said: "These very strong first quarter results reflect the soundness of the bank's business model and the dedication and hard work of the bank's team. We are committed to maximizing total shareholder returns."

Commenting on the results, CEO Esam Janahi said: "The results reflect the strength, skill and experience of our management team and their ability to create value for the bank's clients. At GFH, we look for opportunities in the GCC and outside the region that could potentially reward our shareholders and investors and this has led us to work closely with strategic partners in landmark projects." □

### MALAYSIA

#### HSBC targets Islamic banking assets

HSBC Bank Malaysia Bhd aims for Islamic banking to account for 15% of its total customer assets by the end of 2007 in line with the Government's target, said Deputy Chairman and CEO Zarir J Cama.

Speaking after launching the bank's new Islamic product, Business-Vantage-i (BVAi), a current account for corporate customers, he said Islamic banking made up about 10.5% of HSBC's total customer assets last year, also in line with the Government's target.

"I will be quite disappointed if we don't reach our target by 2007," he added, but declined to disclose the total customer assets the bank had last year. He said Islamic financing had increased rapidly over the past few years because of the emphasis by the regulators who provided the framework and a workable system to accelerate the growth.

On the new Islamic product, he said it would help the bank achieve a higher level in the Islamic banking industry, adding that the bank currently enjoyed about 4% market share. □

## INTERVIEW

### Majid Dawood CEO of Yasaar talks to Islamic Finance News

Yasaar Limited is an independent firm based in London offering a truly unique service.

Majid Dawood, Chief Executive Officer, discusses exclusively with Islamic Finance News the concept of Yasaar, its services and his views on the industry.



#### Could you sum up what services Yasaar Limited provides?

The aim of Yasaar is to provide a comprehensive Shariah compliance service relating to the Islamic Banking and Finance sector on a professional and timely manner with a single contract to provide all the necessary Shariah input from experienced Shariah Scholars. This appeals to the compliance departments of the Institutions.

#### You're an investment banker by trade, where did the idea of setting up Yasaar come from?

It was incidental. Originally my idea was to set up an Islamic asset management company in conjunction with a large International name. When after a lot of interest but no agreement I decided to do it myself and we were lucky when Morgan Stanley agreed to manage an Islamic Global Equity fund, but later they wanted to do it themselves as ours would have been a small fund. They, however, asked us to provide the Shariah compliance as I had arranged that for our fund. The Scholars felt that that was something they had wanted to do and this was as good a time as any to start. This was and is the first and only Shariah compliance company with the Scholars as Shareholders and Directors of the company and this removes the conflict of interest aspect when the Scholars are appointed by the bank individually and directly.

#### What are some of the obstacles you have encountered to date?

I think the biggest obstacle would be the events of 9/11. No one was interested in anything Islamic unless it was negative. However, now there has been greater interest based on the fact that investable funds are returning to the region, the oil revenues are accumulating due to the recent price hikes and there is considerable development in the region.

The other obstacle was raising our profile above the parapet as I wanted to avoid the "flash in the pan" syndrome by trying to over-achieve too early as happened with a number of companies at the time that spent a fortune in profile raising exercises. There are lot of happy PR companies and advertisers and other media who benefited from this largesse.

#### Have you had to change direction since the inception of Yasaar?

Fortunately since we started we deliberately decided to ensure the continuation of our service and to that end the Board decided to

encourage younger Scholars to join Yasaar and be mentored by our senior Scholars and have since added two younger Scholars. Direction wise we intend to keep to our mission and so far Allah willing we have done so and intend to keep on doing so.

#### How big is your team of Shariah compliance officers?

We now have five Shariah Scholars working with us.

#### Can you divulge who they are?

Sheikh Dr.M.A. Zaki Badawi, a very prominent and experienced Scholar based in London. Sheikh Yusuf Talal DeLorenzo, a well respected and expert Scholar based in Virginia. Dr. Mohd Daud Bakar a learned and highly respected Scholar based in Kuala Lumpur. Sheikh Essam Ishaq an upcoming young Scholar based in Bahrain and Muhammad Nurullah Shikder a young Scholar with a strong English legal background based in Dubai

#### In your view what attributes does an individual require to qualify as a Shariah Scholar?

For the sort of work we get assigned, I think a strong comfort level with the English language, understanding of Banking terms and structures, an ease with legal documentation and a strong and deep understanding of the Shariah with considerable expertise in Fiqh al Muamalat that has been studied extensively. Of course not forgetting that experience counts considerably.

#### I'd like to discuss the Shariah Board concept where you provide and place individuals into an organization to assist in their compliance with Shariah regulations.

#### Do you generally provide the entire Shariah Board or just the occasional individual, and how do you decide which individuals to place on which boards?

Normally two of our Scholars will attend to the proposal presented by the institution and then all will review the initial comments and provide their input, from this point the collective view is given to the client institution.

Generally we would list all the Scholars that have done the work, but there are cases where we may be asked for the involvement of one or more specific Scholars.

Also our Scholars deal with the proposal based on who has more expertise and experience with any particular structure. Our Scholars are all very well known and hold a strong place in this field and so far we have not come across any challenges.

#### What type of organizations are you targeting and in which markets?

Mainly it is the larger financial institutions, but we welcome all interested parties as we wish to encourage the development of the sector and we target institutions globally.

## INTERVIEW

### Majid Dawood CEO of Yasaar (continued...)

**This is a relatively unique service you are providing here. Do you need to sell the concept or are you being approached directly?**

It is the first company of its kind. Some of the Scholars are Directors and shareholders of the company and we market our services through word of mouth, presentations at conferences and we get approached by institutions and other professional service providers.

**Surely the question of transparency arises quite frequently. What is your response to that?**

Well in this respect we had many reservations and it was, with this concern in mind that we embarked on this venture. If a person is employed by the institution he feels his job is on the line if he does not go along with the general consensus. This can cause a conflict of interest. As we provide our service as an external consultant we maintain our independence and also avoid the conflict of interest. Further, this appeals to the compliance department of institutions as there is a single entity to deal with, one contract to cover all the work, and due to a continuous dialogue on a daily basis between the Scholars and myself, on multiple levels and multiple transactions at any given time, they get a superior service.

**With the same Compliance Officers sat on numerous Shariah boards, Company Board Directors must be concerned that their trade secrets and future plans are exposed. Do confidentiality agreements need to be signed and how is this monitored?**

This is a very serious issue and we take it very seriously. We sign Non Disclosure Agreements (NDA) with all our clients and maintain their intellectual property as theirs.

**How do you charge for this service?**

We have a fee schedule covering the various possible transactions/ structures and also the on going Shariah compliance audits.

**How do you see your business progress from here? Perhaps more of a consultancy role?**

There are only so many hours in a day and only a handful of Scholars. We would reach a plateau but that is the whole rationale for ensuring growth and continuity by mentoring the younger Scholars. We intend to grow organically and develop revenue streams from associated business lines.

**Finally, what advice would you give to an organization, perhaps a fund manager, considering entering into the world of Islamic finance for the first time? Apart from the market conditions how would they ensure they were moving in the right direction?**

My main advice to them would be that if they are embarking on the path leading to Islamic finance, they should get their Shariah Board and advisors in place as it will save them an inordinate amount of time and money. Of course they can always call us to assist them with their plans.



www.yasaar.org

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## CASE STUDY

### Sukuk and Islamic Shipping Finance By Neil D Miller, Norton Rose



**Islamic finance and the shipping industry have only come together a few times since Islamic finance started its modern development in the mid-seventies. Previous experiences of the shipping sector have had mixed results for Islamic investors.**

The recent commercial success of most classes of shipping has triggered the attention of the Islamic investment community. The very obvious link between oil production in the Arab world and the need to ship it to other parts of the globe, clearly holds out opportunities for any institution providing finance to clients or projects in the Middle East. As a consequence, the past two or three years have witnessed a renewal of interest by Islamic financiers in shipping. At the same time as this has been happening, certain owners have started to show an increasing willingness to contemplate alternative sources of funds, including Islamic finance techniques.

Although traditional shipping bankers might say they are having a hard time in the current global economic climate (owners awash with funds do not need finance or are only interested in driving down margins), there are deals to be done for those who know where to look. On many occasions in recent years, I have said that Islamic finance is all about finding the “right deal, at the right time, in the right place” and recent developments in Islamic finance and shipping suggest this has been the case recently.

Several transactions in the past year or so have culminated in the recent Sukuk financing of the VLCC mv “VENUS GLORY” that formed part of the overall refinancing of the vessel. The transaction demonstrates a growing appetite amongst Islamic investors for this asset class and also added a new instrument to the range of Islamic financing techniques that are available to structure such deals.

Looking back a few years earlier, the financing of mv “ABADI” in 2002 witnessed a wholly Islamic debt financing of an LNG carrier using Ijara wa Iktina techniques. At that time, this deal represented a significant extension of tenor and saw the introduction of an approach to determining lease periods and rental payments that has since become the basic method used for many other lease-based Islamic financing techniques in a diverse range of asset classes.

Last year saw the launch of two shipping funds aimed at Islamic equity investors. The arrangements have facilitated the participation of Islamic equity in the shipping sector supported by conventional bank lending to provide the requisite leverage. The structures deployed have largely replicated the structure first developed by the author’s firm and used in an aircraft leasing fund (Millennium Aircraft Leasing Limited) several years prior. Similar structures are now also being applied in the real estate sector. Working closely with the Islamic scholars, Norton Rose has developed solutions that enable the providers of Islamic finance to both meet the financing requirements of their customers whilst also observing the strictures of the Shariah.

#### Significance of Venus Glory deal

The VENUS GLORY transaction is important in several respects. First, it used the Sukuk techniques to raise funding for a single asset in a class not previously financed in this way. Secondly, it establishes a methodology that it should be possible to deploy in a wide variety of further applications. Having said this, the analysis undertaken to ensure that the scholars were satisfied with the underlying rationale for the financing and the effort involved in making sure that the option arrangements all worked in a satisfactory way, is not to be taken for granted. As a result, any future transaction that seeks to deploy this approach will need to be looked at on its merits.

The funding could have been raised using Mudarabah techniques however the financiers wanted to achieve a broad characterization akin to equity. At the same time, the owner of the vessel being refinanced wanted to minimize costs and avoid having to dispose of the asset with the consequent costs and administrative burden of re-flagging/registration etc. By creating a new leasing business the Islamic financiers were able to slot into an existing lease structure, assuming an appropriate degree of business risk for Shariah purposes whilst ensuring that the registered owner remained unchanged and the operator continued to be responsible for the operation of the vessel. A head lease structure combined with a service agency agreement was deployed to ensure the Islamic veracity of the leasing arrangements.

The owner was able to refinance its existing debt whilst extracting value through the Islamic portion that effectively became mezzanine in character, principally because of a call option at the time charter level that effectively preserved the owning group’s equity in the structure.

In overall volume terms, the Sukuk was a relatively small private placement. It was undertaken through a Jersey limited liability company that issued a Sakk Instrument (representing the interest of the Islamic investors or noteholders) as recorded in a register maintained by an administrator on behalf of the company, Al Safeena 1 Limited.

The successful completion of the transaction clearly demonstrates that this technique could be used for assets of a higher value or for a series of assets, such as a fleet of vessels. For investment purposes, the ultimate character of the transaction will be determined by the pricing. Of course, the pricing will be affected by the risk profile engendered in specific structure and the option arrangements that give any particular deal its final characterization.

There can be little doubt that financing a whole vessel using a Sukuk would have been easier to put in place structurally from an Islamic perspective but when looking at future applications, perhaps the singular most interesting element of the deal was that the Islamic investors were able to finance a business enterprise that comprised the leasing in and the leasing out of the single asset, even though other non-Islamic interests were also able to participate in the overall transaction because of the way in which it was structured.

We would certainly hope to be involved in the deployment of similar arrangements in other asset classes whether in conjunction with conventional tranches or on a wholly Islamic basis.

*Note: The author is Head of Islamic finance at the international law firm Norton Rose*

# SECTOR REPORT

## Best Practices of Corporate Governance in Islamic Banking

By Daud Abdullah (David Vicary)

The subject of corporate governance in both the conventional world of finance and in the sphere of Islamic banking has reached a level of prominence in recent months. Much has been written, debated and enacted since the late 1990's and I am certain that the debate will continue well in to the future. As most of you are aware, both the IFSB and AAOIFI are working currently on the issuance of corporate governance standards.

The topic is important as good corporate governance provides a framework for the resolution of issues and conflicts that arise from time to time between the stakeholders of a financial institution. Without doubt, a good corporate governance framework embodies principles of fairness, transparency, accountability and responsibility. These principles are as important to the Islamic banking community as they are to the conventional world. However, Islamic banking, as a nascent industry, does have some unique corporate governance issues that need to be addressed. Indeed, if they are addressed well, then they could act as a catalyst to propel our industry further into the mainstream. I shall now revert to some of these unique features.

### Shariah Compliance

The need to comply with Shariah rulings over and above local regulatory requirements

### Profit/Loss Sharing (PLS) Business Model

Can lead to difficulty in accommodating a conventional style deposit protection scheme

### Dual Fiduciary Role

Profit sharing or risk and reward type contracts such as Mudaraba, result in the bank having to play a fiduciary role for both shareholders as well as the Investment Account Holders (IAH)

### Risk Management Issues

Islamic financial contracts, which are typically different in nature and structure from conventional, have different risk implications compared with their conventional counterparts. Moreover, the complexity of understanding Islamic banks, by conventional regulators, can make it difficult to assign appropriate risk weightings. (The March exposure draft on Risk Management from IFSB should do much to provoke the appropriate debate and deepen the understanding around this particular challenge).

Let us now take a look at six suggestions for best practices around corporate governance. Some of which are already in place, while others are under development: -

### 1. Application of high quality and internationally recognized standards

- With both IFSB, AAOIFI and others, much of the infrastructure is already in place to facilitate the continuing development of international standards and best practices for the Islamic financial services industry
- Adoption of these standards by regulators will go a long way to ensuring that Islamic Financial Institutions (IFI's) operate within a Shariah compliant environment

### 2. Shariah Compliance Review (as suggested in my previous article for this publication - 18<sup>th</sup> April 2005: Vol.2 Issue 8)

- Would strengthen internal control framework at operational and transactional levels
- Proper governance and structural programs and procedures would need to be in place prior to undertaking a SCR
- Training would need to be provided to the Shariah reviewers to ensure that they possess adequate levels of knowledge and skills across the appropriate disciplines.

### 3. Shariah Certification

- Consideration should be given to certifying the annual financial statement in addition to the auditors report

### 4. Shariah Advisory Board

- As indicated in my previous article, we have found during our Shariah reviews several examples where existing procedures have not been adequate to ensure that the Shariah Advisory Board (SAB) is involved in all aspects of the product approval process
- The SAB should have a more prominent position within the organization structure
- Roles and responsibilities of the SAB and their accountability should be made explicit
- Ensure that the SAB is empowered to direct, review and supervise activities of the bank in line with Shariah
- Should establish structured and disciplined communication processes between SAB and management

### 5. Enhancing transparency and market discipline

- There continues to be a pressing need to develop the knowledge management infrastructure of the industry in order to promote increased transparency, as the operations of Islamic Banks are still not that well understood, especially by those outside the industry
- Good disclosure, incorporating information which is useful to the market (see figure 1) accurate, credible and provided in a timely fashion would go a long way to achieving this
- Transparency encourages the use of market discipline, which refers to the use of the market as a means of governance, as a complement to regulation and supervision (see

# SECTOR REPORT (continued...)

Figure 1: USEFUL INFORMATION DISCLOSURE

The Board of Directors and management of financial institutions must be committed to providing good information disclosure which is useful. The information required depends on what market discipline aims to achieve. For example:

| Objective of Market Discipline  | Useful Information  |
|---|---|
| Satisfactory performance and profitability                                    | Financial statements and comparatives   |
| Good risk management  | Information on how the company is managing its risk exposures   |
| Resolution of IAH conflict resulting from the dual fiduciary role of the bank | Information pertaining to asset allocation and profit allocation of the bank                            |
| Shariah compliance  | Shariah certification in annual reports as well as an overview of the Shariah Review program undertaken |

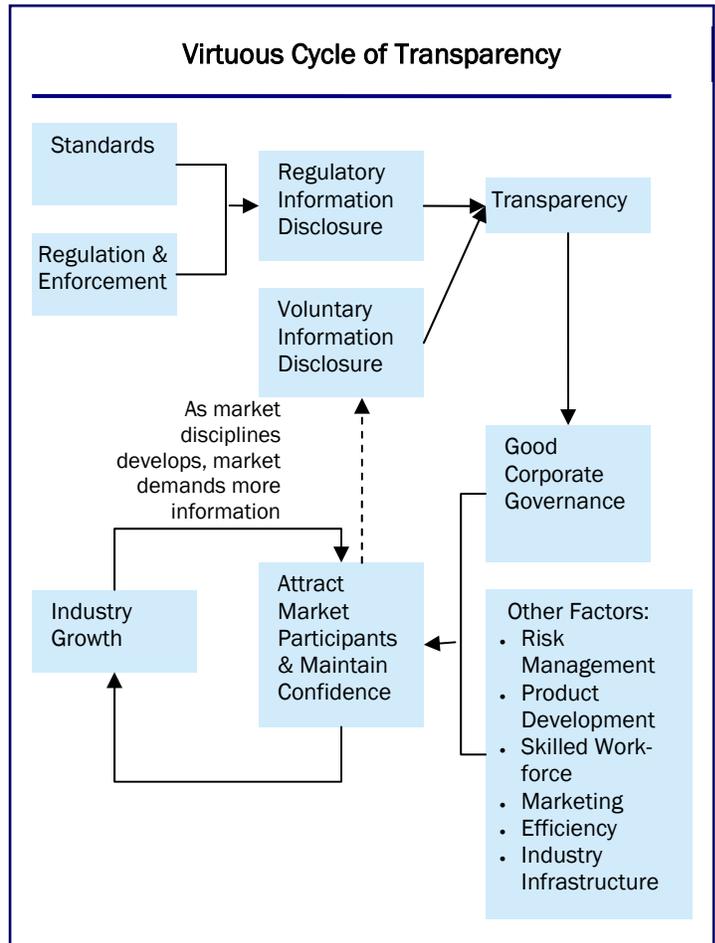
figure 2 on the Virtuous Cycle of Transparency)

- Market discipline can provide financial institutions with the necessary incentive to properly address relevant corporate governance issues and to behave responsibly
- This may be achieved by the markets developing a reputation for rewarding and punishing institutions based on information disclosed to provide an incentive for good behaviour

## 6. Fair Policy Statements

- Consider instituting transparent and fair policy statements in safeguarding the interests of equity-based depositors. For example, the basis for profit allocation, provisions, reserves and investment policies

In conclusion, good corporate governance will not guarantee the complete elimination of corporate fraud and mis-management, but it will provide investors and other stakeholders with a certain degree of assurance that will increase confidence in the industry. Ultimately, this will serve as a catalyst to further grow the industry and take it well into the mainstream.



**Deloitte.**

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# Islamic Finance forum

'There is a growing number of Islamic related associations and organizations sprouting around the world all of whom are tirelessly working to produce new workable and Shariah compliant models, structures and standards. In March this year the IFSB released its first two exposure drafts and over the years AAOIFI has devised some 27 standards in total.'

Taking this into consideration, is there an absolute need for these bodies? If so what needs to be done to ensure their work is not worthless? And where is the line drawn between a Shariah Advisory Board and a standard setting organization?



**IOBAL KHAN**

Chief Executive Officer  
HSBC Amanah

The Islamic finance industry, being a private sector phenomenon, had from the very beginning realized the need to build industry building and self regulatory organizations. As a new industry, it does not have the benefit of the regulatory architecture and framework available to conventional banks. A variety of organizations have been established to fill this void, and they serve different roles.

In industry building organizations, we have the International Association for Islamic Banks, which has been succeeded by the General Council for Islamic Financial Banks and Institutions (GCIBFI), the Islamic Finance Project at Harvard University, the Institute for Islamic Banking for Insurance in London, etc.

Amongst the self regulatory standard setting bodies, the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) was the first and more recently the Islamic Financial Services Board (IFSB) has been created. Both these institutions are important for the future of the industry. However, there is an urgent need for strategic collaboration between the two bodies. There are also other specialized institutions such as the Liquidity Management Company (LMC), International Islamic Financial Markets (IIFM), Islamic Rating Agency (IRA), which need to collaborate with each other and with AAOIFI and IFSB. The work of all these organizations has been important in creating a uniform, level playing field for this evolving Islamic finance industry. The bodies have also helped to build the awareness for the growing Islamic finance industry. They have also brought together the public sector, (i.e., Central Banks, Ministries of Finance, etc.) and the private sector to come up with a rule book for this industry.

The work is more pronounced and noteworthy in the field of Shariah standards, where AAOIFI's Shariah standards have brought together a whole range of fatwas with 95% consensus on all Shariah matters pertaining to public deals in business and finance. This doesn't take away the need for individual Shariah Advisory Boards. Where a bank's management focuses on detailed market driven opportunities, it must first bring these issues to the individual Shariah board's attention. It is these Individual Shariah board who can give the necessary time to pronounce a specific ruling for a specific situation. Once they are generalized, these rulings can be escalated to the AAOIFI Shariah Board, where the harmonization of the best standards and evolution of the industry's rule book can continue.

I believe that these industry building bodies, rule setting organizations and specialized institutions play a very important role in taking Islamic financing industry to the next stage of its evolution. They each have a role to play, and will be most successful if they work in close collaboration.



**SOHAIL ZUBAIRI**

VP & Head  
Shariah Co-ordination Dept  
Dubai Islamic Bank

Simply, each body has a different and important role to play.

Whilst AAOIFI has filled the big vacuum by giving the benchmark Shariah and Accounting standards, the purpose of the IFSB is completely different and is restricted to holding dialogue with Basel Committee on devising separate capital adequacy and risk management regulations for Islamic Financial Institutions (IFIs).

Then there is the newly established Islamic Rating Agency based in Jeddah with the objective of examining each IFI and allocating ratings to it in relation to its adherence to the Shariah principles on the basis of AAOIFI standards.

In April, the Islamic Arbitration and Conciliation Centre was formed in Dubai under the umbrella of the Islamic Development Bank. The centre will supervise disputes between parties to an Islamic financing transaction.

CONTINUED...

# Islamic Finance forum (continued...)

Clearly, each such body has been established with a purpose and has a defined role to play in promoting the growth of Islamic financing and investment activities on a sound footing.

You will appreciate that these bodies actually supplement each other and have some common scholars in their respective Shariah boards, thereby providing consistency to the working of these bodies in unison.



## **SOHAIL JAFFER**

*Partner  
FWU Group*

The Islamic financial services industry is a global business that requires Shariah compliant international standards for accounting, auditing, corporate governance, prudential supervision and capital markets trading. The various standards and guidelines established by AAOFI, IFSB and IIFM need to be adopted by the Islamic Financial Institutions as part of their best industry practices.

The national regulatory bodies in the major jurisdictions should mandate such international norms and ensure their adherence by Islamic Financial Institutions. Special industry awards and recognition may also encourage market participants to implement these standards and guidelines. Mutual areas of co-operation between such international standard setting bodies includes technical research, harmonization, co-ordination, training and certification.

The Shariah principles and relevant case law needs to be integrated into a single reference source, be more widely disseminated and complied by the market participants. The Shariah guidance from the standard setting bodies is helpful in defining the broad framework, providing guidance on new product development and reducing scope for inconsistent application of principles. The Shariah Advisory Boards of the individual market participants can apply specific principles to relevant transactions in each organization and if necessary, consult with the standard setting body on new or evolving issues.

It is important for the international standard setting bodies and various trade associations to effectively communicate with one another, co-operate on major industry issues, collectively contribute to raising the standards and enhancing transparency, education and consumer awareness.

The Deloitte logo consists of the word 'Deloitte' in white, sans-serif font, set against a dark blue rectangular background.

## **DAVID VICARY**

*Director  
Deloitte Consulting*

My view is that there is a clear need for both the IFSB, which operates at the regulator level and AAOIFI, which operates on accounting standards at a practitioner level. The devil, as always, is in the detail. Regulatory and standard setting bodies define the roadmaps and guidelines. Shariah Advisory Boards advise within this framework and other aspects that relate to the local environment. I do not believe that there is any major cause for alarm here. An evolutionary process is, and will take place. Just remember that the conventional world is still not completely clear-cut and some overlaps remain, even after a much longer modern period of existence.

The Lovells logo features the word 'Lovells' in a white, serif font, set against a dark red rectangular background.

## **MOHAMED ASARIA**

*Partner  
Lovells LLC*

The Islamic finance industry is in a state of continuous development. On a daily basis market participants are innovating and seeking to develop new Shariah compliant products. It is felt by some that there needs to be a regulatory body to oversee this development and this may not be left to the Shariah Scholars alone. A regulatory body will not only ensure a uniformity of approach within the Islamic finance industry but will also ensure the transparency of the industry and may encourage further institutions to become involved in the industry.

For the work of standard setting bodies/regulators to have effect current market participants will have to acknowledge these standards as binding and agree to be bound by them. In addition for such a self-regulating model to be truly effective the regulatory bodies will be required to impose sanctions on any parties which transgresses from the accepted standards.

**If you would like to participate in the Islamic Finance Forum please contact us with your details.  
Alternatively if you have a question for our panel of experts please submit to  
[Andrew.Morgan@IslamicFinanceNews.com](mailto:Andrew.Morgan@IslamicFinanceNews.com)**



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## NEWS BRIEFS

### SAUDI ARABIA

#### Eight more insurance licences

An additional eight insurance companies will soon be given the nod to operate in Saudi Arabia, bringing the total to 22. The Saudi Arabian Monetary Agency (SAMA), the Kingdom's insurance regulator says the studies on the applications of these firms have reached advanced stages.

The new firms are Arabian Company for Co-operative Insurance, Al-Ahliya Insurance Company for Co-operative Insurance, Arabia Insurance Co-operative Company, Takaful Taawuni Company, Saudi Arabian Insurance Company, Al-Sagr Company for Co-operative Insurance, Saudi IAIC for Insurance, and Hemayah Co-operative Insurance Company.

Meanwhile SAMA has asked 26 firms, which have been providing insurance services in the country, to close down their offices for failing to fulfil the conditions set by the government. The regulator disclosed that four companies have expressed their desire to withdraw from the market and presented their withdrawal plans. The four firms are: Abu Dhabi National Insurance Company, Arabian American Insurance Company (AAICO), American Life Insurance Company (ALICO) and Saudi Aman Insurance Company.

The new move comes as part of SAMA's efforts to regularize the market, which is set to exceed US\$4.0 billion (SR15 billion) by 2009 as a result of growing demand for medical and car insurance. At present, the Saudi insurance market contributes less than 1% of the gross domestic product (GDP) as a result of a fall in per capita spending on insurance to US\$40 (SR150) per year. However, per capita spending is expected to rise to US\$200 (SR750) per year, thus increasing the sector's contribution to the GDP to 3-5%. □

### MALAYSIA

#### CAHB's Takaful business approved

Commerce Asset-Holding Bhd (CAHB) has received approval to establish a Takaful business, the company announced recently. In a statement CAHB said Companies Commission of Malaysia has approved the incorporation of a new company which will be a wholly-owned subsidiary of CAHB to undertake the Takaful business under the Takaful Act 1984.

The name of the new company will be announced upon approval being obtained from the relevant authorities, said CAHB adding that business will start upon obtaining Form 23 - Certificate for Commencement of Business and other pre-registration conditions have been satisfactorily met and approved by Bank Negara Malaysia. □

### BAHRAIN

#### New insurance rules

The Bahrain Monetary Agency (BMA), the country's central bank and financial services regulator, recently announced the launch of its new insurance rulebook, which will provide Bahrain with one of the most advanced regulatory regimes in the Middle East and Northern Africa region.

The new insurance rulebook overhauls the existing insurance regulatory regime bringing it in line with the principles and standards set by the International Association of Insurance Supervisors (IAIS), of which the BMA is a member. This initiative is a key component of the BMA's efforts to consolidate the country's position as a regional insurance hub.

Although the insurance penetration is currently low as insurance premiums represent only 1% of GDP in the MENA region, the opportunities for growth in the region is promising due to the rapid growing population, which offers rich prospects for business development. The World Bank estimates that the MENA region population will reach 330 million by 2010.

It is predicted that the insurance market in the Middle East region could reach US\$44 billion. Another key factor contributing to the growth of this sector is the rise of compulsory insurance and the government's efforts to encourage greater private sector involvement in health and pension provisions.

The new insurance rulebook is a comprehensive document of rules and covers issues such as: the segregation of shareholder and policyholder funds, capital adequacy and solvency, valuation of assets and liabilities, corporate governance; and the conduct of business.

The new insurance rulebook addresses both conventional and Islamic insurance. In so doing, Bahrain will become one of the few countries in the world to have a comprehensive set of regulations for Islamic insurance firms. PricewaterhouseCoopers advised the BMA in the drafting of the new insurance regulations. □

**NEWS BRIEFS (continued...)****QATAR****QIIC discontinues Sanabel scheme**

The Qatar Islamic Insurance Company (QIIC) has discontinued its popular investment-linked insurance scheme, Sanabel, following directives from the Ministry of Economy and Commerce.

The ministry has not specified any reasons why it wanted the company to stop the Sanabel scheme. Sanabel is expected to be replaced with a pure insurance scheme for individuals for amounts up to US\$27,483 (QR100,000) or US\$54,966 (QR200,000) or even more against a nominal yearly premium.

Launched more than three years ago, Sanabel had become extremely popular, particularly with expatriates, as it was a compulsive investment for the low and middle-income workers and the return offered was handsome at over 10% annually. The company had mobilized millions of Qatari Riyals as premium from policy holders and levied low charges for the insurance coverage linked to the Sanabel investment scheme.

Minimum investment was US\$54 (QR200) a month for a period of five years but the beauty of the policy was that it could be discontinued any time a holder wished to without having to pay any penalty. Minimum age prescribed to subscribe to the policy was 5 to 65 years, making it convenient even for dependents of expatriate workers to buy the policy.

Encouraged by Sanabel's popularity, the QIIC had later launched an insurance-linked pension scheme and was planning to soon float an endowment scheme on these lines.

Following the ministry's directive QIIC informed policy holders about the decision, asking them to collect their invested funds with an expected annual return of 4% for the four months this year (January to April).

Returns for the previous years are already calculated and adjusted with invested amounts. The company will, however, continue to offer pure insurance schemes, including Takaful (life insurance) and home and fire insurance, among others.

Among the schemes that will continue are group insurance for workers from companies as well as those sponsored by community associations and individual insurance coverage of up to US\$8,245 (QR30,000) for which the yearly premium is US\$22 (QR80). □

**BAHRAIN****Bank sets up insurance firm**

Bahrain-based Investors Bank has received regulatory approval to set up a Takaful company in Kuwait with an initial paid up capital of US\$17.12 million (KWD5 million).

Chief Executive Mohammed Buqais said the new entity would be a publicly-traded Kuwaiti company after three years of operation, once it is listed on the Kuwait Stock Exchange. □

**ISLAMIC  
FUNDS  
WORLD  
AD  
1/2 pg**

## NEWS BRIEFS (continued...)

### BAHRAIN

#### European Real Estate Fund launched

As an integral part of providing investment solutions to Family Takaful policyholders, Bahrain-based Solidarity, one of the Middle East's leading Takaful companies, has launched the "Solidarity" European Real Estate Fund, which supplements its current range of Shariah compliant investment vehicles.

According to Solidarity, the fund offers investors an opportunity to invest in attractive, stable European real estate markets distinguished by healthy long-term market performance and favourable return potential in major cities.

"European markets with a potential 3-3.5% increase in the rental index year on year and stable rental cashflows have spurred an increase of investments into the Pan European region. From this, the fund offers obvious financial benefits for our clients," said Solidarity's Asset Management General Manager, Ziyad Arekat.

Investment in real estate through this new Solidarity Fund affords investors a diverse set of benefits including low long-term correlation to equity and bond markets and portfolio diversification. It has the potential to provide attractive risk-adjusted returns through the application of leveraging, a significant current income environment, a hedge against market inflation and a tangible and secure asset class.

Arekat emphasised that the fund shall maintain a diversified investment base spread across a range of real estate sectors, including residential, industrial, commercial and retail. The Fund also seeks to benefit from regional diversification across Europe.

Solidarity has developed a comprehensive Shariah compliant fund management capability where clients have access to a wide range of unit linked investment funds. Each fund has its own investment objectives with its relative risk versus return parameter. The "Solidarity" European Real Estate Fund joins a growing portfolio of investment opportunities. These funds span a variety of sectors including equities, leasing and Sukuk, Murabaha, real estate and other specialist funds.

Solidarity is in the process of adding new funds to its range allowing its policyholders to benefit from a wide variety of investment choices. Established in Bahrain, Solidarity is reported to be looking to enter selected markets in the Middle East, North Africa, Asia and Europe over the next three years. □

### SUDAN

#### Islamic Insurance Corp seals deal with Sudanese company

The Islamic Corporation for the Insurance and Invest Export Credit has signed an agreement for reinsurance on an optional basis with the Shikan Insurance and Reinsurance Company Ltd of Sudan.

Under the agreement, the Islamic Corporation will reinsure exports from Sudan against risk of non-payment export guarantees. The

agreement is part of the Islamic Corporation's strategy of supporting organizations that guarantee exports in member countries, by providing reinsurance and technical co-operation, in order to develop their export capabilities. □

# UNKNOWN AD

## Takaful Insurance in the Arab Gulf: Overview and Challenges

### By Balal Aquil

The Takaful market is estimated to be worth US\$3.1 billion in premium income and is a rapidly growing industry in the Middle East region, largely facilitated by the success of Islamic banking. Saudi Arabia, Iran and Bahrain currently account for the largest share of the market with others such as the UAE and Qatar closely following suit.

This article provides a brief overview of Takaful and summarizes the market trends in the Arab Gulf region. This is followed by the practical challenges facing the Takaful industry that an operator would need to examine.

The Takaful concept is similar to conventional mutual insurance. Since mutual insurance involves the participants sharing the risk on a co-operative basis, it reflects Islamic principles of solidarity, mutual assistance and co-operation. Technically speaking, it comes from the Arab customary practice of 'asabiyya (tribal solidarity) and diyya (compensation or blood money).

The concept of mutual insurance is widely applied in international commerce, for example by shipowners' Protection and Indemnity associations (P & I clubs). In the case of P & I clubs, at the beginning of each period of insurance members pay advance premiums or "calls" during the policy year. If there are insufficient funds to pay for a claim the members are required to meet the shortfall by a "supplementary call". Whilst members may be responsible for any losses the mutual makes, any profit may also be distributed amongst them or used to create a reserve in respect of future 'calls'. However, one aspect of such mutual insurance is not lawful under the Shariah because a mutual invests its members' contributions in return for interest, a practice which contravenes the Shariah principles of Riba.

Each Shariah school of jurisprudence has different views on the most suitable structure. In practice Wakala (agency) and Mudarabah (limited partnership) are the two main models used. Both models have been used in Malaysia and the Middle East where there is a high penetration in Takaful. But the Shariah scholars in the Middle East region prefer to use the Wakala model.

It is to be noted that all charges, fees, and profit sharing percentages in both Takaful models are declared at the outset of the contact and are therefore totally transparent to the parties involved. This is consistent with the concept of avoidance of Gharar in Islamic law.

#### Arab Gulf Takaful Market

##### Bahrain

Bahrain is a major player in the growth and success of Islamic financing and this is equally applicable to Takaful. Bahrain's Takaful premium income is estimated to be US\$8.4 million and this is likely to grow at a rate of 15% within the next three years. Bahrain's Takaful International, also one of the regions first Takaful operators started writing Family (life) Takaful business in 2000 has also witnessed an increase in profits in the Takaful sector.

##### Kuwait

In Kuwait, one conventional company has set-up a window-type Family Takaful operation in late 2000, and in early 2001, two Takaful companies were established, but currently both are writing only non-family business.

##### Oman

It is interesting to note that Oman does not yet have a Takaful operator. However, observing the success in the region and Oman's penetration of Takaful, it is a matter of time until a Takaful provider is established.

##### Qatar

Qatar's economy is growing at an unprecedented rate, largely because of the increased demand for liquefied natural gas (LNG). Takaful, equally has been recognized as a growth area with estimates that the Takaful market is valued at US\$20 million in premium income. This may increase to US\$1 billion if the insurance companies start writing marine Takaful business for LNG tankers (where Islamic financing is provided for such tankers).

In Qatar, there are currently only two companies that are authorized to write Takaful business out of four insurers. One is currently only authorized to write non-Family Takaful business, whereas the other, Qatar Islamic Insurance Company (QIIC), established in 1994 started writing Family Takaful in 2000. Doha Bank Qatar's commercial bank has recently launched a Shariah compliant insurance scheme, called Takaful Family Protection Shield. The scheme has been launched in co-operation with the Qatar Islamic Insurance Company (QIIC). These developments are a reflection of the local interest in Takaful and the insurance companies recognizing the demand in this sector.

##### Saudi Arabia

There is an enormous demand for Takaful in Saudi Arabia. The National Company for Co-operative Insurance (NCCI) estimates the current market volume at around US\$1.07 billion (SR4 billion) with motor insurance having a share of 32%, medical insurance at 22%, property insurance at 17% and others at 29%. Takaful motor insurance in Saudi Arabia is estimated to grow to US\$1.33 billion (SR5 billion) and medical insurance to US\$1.68 billion (SR6.3 billion) within the next four years.

The Saudi Arabian Monetary Agency (SAMA) sets the rules and regulations for insurance companies while the Health Insurance Council and other agencies monitor their services. Banks are under the supervision of Saudi Arabia Monetary Agency (SAMA). Under SAMA rules, products that contain a savings element and therefore are similar to a bank's financial products can only be distributed through banks. However, there are a number of insurance companies which operate as branches of foreign registered insurers. The foreign insurers that are writing Takaful business are mainly writing non-life business. Local insurers have recognized the growing interest in Family Takaful and set up a Family Takaful operation in 2000. An interesting development is Bank Al-Jazira's own Takaful insurance unit which provides two Family Takaful products.

##### United Arab Emirates

Motor and life insurance form the largest share of the Takaful market in the UAE, with estimates which suggest that the current Takaful

## Takaful Insurance in the Arab Gulf (continued...)

market is valued at US\$23.4 million in insurance premium income and will continue to grow. The Dubai Islamic Insurance and Reinsurance Company (AMAN), (a subsidiary of the Dubai Islamic Bank), one of the major Islamic insurance companies in the UAE, made a significant increase in profits in 2004 which is a reflection of the growth in Takaful in the UAE. Abu Dhabi National Takaful, a subsidiary of Abu Dhabi Islamic Bank (ADIB) has equally seen huge increases in profits.

In general there are very few statistics for Takaful premium income for the Arab Gulf. The table on the right illustrates each country's total premium income as well as the premiums from Takaful. It can be seen that Takaful consumes a 4% average share of each country's total premium income (the average excludes the Saudi Arabian market). As a percentage of the total, this is still small, but the growth is rapid (15-20% in Iran, Qatar and Bahrain).

### Insurance laws and regulations

Bahrain and Dubai have recognized the growth in Takaful and have accordingly introduced Takaful specific regulations as part of their wider insurance laws. The Bahrain Monetary Agency (BMA) has been the first to adopt solvency margin on Takaful and re-Takaful that apply to the Wakala model under its draft Takaful regulations. Under the BMA regulations, there is a separation between the contributors' account in the company acting as manager of the Takaful operations and the participants' account (policyholders) so that the capital of the company belonging to the contributors is totally distinct from the money of the participants.

The Dubai Financial Services Authority (DFSA) has also proposed similar rules for Takaful insurers under the DFSA's Prudential Rules for Insurers. A Takaful insurer must report to the DFSA all distributions of profit or surplus to policyholders within 15 business days of the date of declaration of the distributions. Under the regulations the Takaful funds do not form part of a Takaful insurers capital reserves. It remains to be seen how the BMA and DFSA regulations are applied in practice.

### Practical challenges

Aside from the legal and regulatory issues, there are a number of practical challenges that also need to be addressed in order to ensure the growth and success in this industry. The practical challenges relate to the pricing of the premiums or the "donations" which need to be more competitive in order to offer a commercially viable alternative to conventional insurances.

A conventional insurer offers a range of products from life insurance cover to travel insurance. In order to compete with this market a Takaful operator would need to have a range of products to appeal to a wide range of consumers.

### Takaful Premium income

| Country      | Country total premium income* (US\$ millions) | Takaful share of total premium income** | Takaful premium income (US\$, millions) |
|--------------|---|---|---|
| Bahrain      | 210   | 4%                                      | 8.4                                     |
| Iran         | 1 555   | 5%                                      | 77.8                                    |
| Kuwait       | 204   | 4%                                      | 7.2                                     |
| Qatar        | 242   | 4%                                      | 9.7                                     |
| Saudi Arabia | 1 029   | 37%                                     | 380.7                                   |
| UAE          | 1 169   | 2%                                      | 23.4                                    |

Source: Author's own

\*Swiss Re sigma study, 'World Insurance in 2003'. The statistical appendix of this study were last updated in February 2005.

\*\*Data from Axco Global Statistics referred to in the Axco update (18 January 2005).

Muslims have a misconception that insurance, in particular life insurance is haram (forbidden) under the Shariah and are not generally aware of Takaful products. A solution is to launch a marketing initiative to change such views as well as cross-sell the products with Islamic home financing.

Although the Takaful market is in its infancy in the Middle East, statistics indicate that there is a clear potential for more entrants into this growing market and there is much scope for the development of different types of products catering not only for retail customers but also extending to corporate clients.

A Takaful marine insurance product for Shariah ship finance for example is likely to be very successful. There are a number of factors that need to be addressed in refining Takaful products and making customers more aware of such products. This can be achieved by marketing campaigns, enacting legislation to govern Takaful products and protecting the consumer. The Bahrain and Dubai regulations are an encouraging indication for neighbouring countries.

There are interesting times as well as numerous challenges ahead for Takaful, both globally and throughout the Arab Gulf.

*Note: The author is an Islamic finance lawyer with Clyde & Co's Middle East Regional Office in Dubai. He was previously a Vice President and General Counsel at a Lloyd's insurance broker in London. Balal can be contacted on balal.aquil@clydeco.ae.*



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ISLAMIC FINANCE INFORMATION SERVICE

## TOPIC: Consumer Awareness & Education of Takaful products to the Muslim community

In this section of Islamic Finance News we ask the industry's leading experts from around the globe to provide their views on a single question which reflects the issues in the market. This week the experts share their views on the following Question:

**How do you approach the topic of Takaful in a market which is traditionally uncertain about products such as insurance?**

 **NORTON ROSE**

Not necessarily but insurance is generally disliked. The Muslim community's stance is no different. However, Takaful has the ability to encourage both Muslims and non-Muslims alike to embrace the concept of insurance.

### JAMES BATESON

Partner

Norton Rose

Takaful's compliance with Shariah principles stands it in good stead with Muslims analyzing it from a conceptual perspective. However, its appeal does not end there. The structure of Takaful offers something very different from conventional insurance; it promotes profit sharing, offering policyholders a return from their contractual policy. If Takaful providers can promote Takaful's commercial viability to the market they may be rewarded with interest from Muslims and non-Muslims alike.

## TROWERS & HAMLINS

### ABDULLAH MUTAWI

Partner

Trowers-Hamlins

Insurance in the Middle East region has historically very low market penetration. However, this is likely to change with continuing economic development, the rise in per capita GDPs and the increase in the perceived need for insurance as part of any successful financial planning strategy.

The topic and structure of Takaful clearly has many parallels with the concepts of mutual insurance developed in the Western insurance markets over a long period. The model of mutuality is compelling and the Wakala model of Takaful has received favourable reception among Shariah scholars in this region.

My approach to the topic of Takaful in this market therefore combines a layering of the concept of mutuality with the Shariah principles and structures that make Takaful distinct. The explosion of Islamic finance business in the region is likely to contribute directly to an exponential rise in insurance business in the coming years.

In my opinion, Takaful is set to take the lion's share of such new business because it will spawn products that are attractive to the increasing number of Muslims seeking to engage in holistic financial planning.

 **CLYDE&CO** كليد و كو

### BALAL AQUIL

Partner

Clyde & Co.

The Takaful concept is relatively new to consumers and there are a number of factors which limit its growth and development. One major factor is the general perception by Muslims that all forms of insurance are *haram* (forbidden) and therefore contrary to the Shariah. A practical solution of dealing with this is to educate Muslim consumers that the use of Takaful conforms to the principles of the Shariah and is based on mutual assistance. This can be achieved in a number of ways such as marketing through mass media campaigns, for example in local newspapers, magazines and television. These marketing initiatives need to highlight how Takaful is useful for the consumer, explaining the pricing of the products and how Takaful differs from conventional insurances. Additionally, Takaful companies can cross-sell their products with Shariah home finance which will require the support of Islamic banks.

**If you would like to participate in the Takaful Forum please contact us with your details.**

**Alternatively if you have a question for our panel of experts please submit to**

**Andrew.Morgan@IslamicFinanceNews.com**

## MOVES & PROMOTIONS

### JORDANINVEST - Jordan

Hani Al-Ali has been appointed Executive Vice President at Jordaninvest, the first Jordanian public shareholding company which offers a variety of integrated investment banking services including the issuance of bonds, mergers and acquisitions, capital raising, financial advisory, and privatization.

Mr Al-Ali was previously an economist at the Royal Hashemite Court's Economic Department. He has also held various managerial posts at the Jeddah-based Alesayi Group Holding Company, and was Chief Operating Officer at Tantash Group.

### RHB BANK - Malaysia

Professor Bala Shanmugam has been appointed to the Board of RHB Bank. Professor Shanmugam who holds the Chair in Accounting and Finance is also Director of the Banking and Finance Unit at Monash University in Kuala Lumpur.

Professor Shanmugam said "My appointment as a Director on the board of RHB Bank is testimony that it is possible for academia and industry to work together." The bank launched its Islamic banking subsidiary, RHB Islamic Bank earlier this year.

### EMIRATES BANK - UAE

Patrick Miranda has been appointed Head of Marketing for Retail Banking at the UAE based Emirates Bank.

Mr Miranda has previously held positions at Standard Chartered - Grindlays, HSBC and the National Bank of Kuwait.

### CLYDE & CO—Dubai

Balal Aquil has joined the Islamic Finance Practice of Clyde & Co, the International Law Firm. Mr Aquil is based in Dubai, the firms' regional office.

Mr Aquil was previously based in London and brings with him a wealth of experience in the structuring and documentation of Shariah compliant finance transactions.

If you would like to place any staff movements in this section, please fax us the details at +603 2141 5033 or simply email [info@IslamicFinanceNews.com](mailto:info@IslamicFinanceNews.com).

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### OASIS INTERNATIONAL LEASING - Bahrain

Khaldoon Khalifa Al Mubarak has been appointed Vice Chairman of the Board of Directors at the Abu Dhabi based leasing company.

Al Mubarak is also a member of the Executive Council for the Emirate of Abu Dhabi and the Chairman of The Organization & Administration Departmentas as well as the Chief Executive Officer of Mubadala Development Company which is owned by the Abu Dhabi government.

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## EVENTS DIARY

### Sharia & Trusts: Working In Harmony Professional International & Regional Estate & Planning for the Future

Shangri-La, Dubai  
Tuesday, 17<sup>th</sup> - 18<sup>th</sup> May 2005  
Organized by: STEP Arabia Dubai Conference

### The 2<sup>nd</sup> Islamic Financial Services Board Summit

Sheraton Doha, Qatar  
Tuesday 24<sup>th</sup> - 25<sup>th</sup> May 2005  
Organized By: Islamic Financial Services Board

### The World Islamic Funds Conference

The Gulf International Convention & Exhibition Centre, Bahrain  
Sunday, 29<sup>th</sup> - 30<sup>th</sup> May 2005  
Organized By: Middle East Global Advisors

### Structuring Financial Products for Islamic Markets

Shangri-La Hotel, Jakarta  
Monday, 30<sup>th</sup> - 31<sup>st</sup> May 2005  
Organized By: IBC Asia

### The Preferred Investment Destination An Investors' Conference

Kuala Lumpur Convention Centre, Malaysia  
Wednesday, 22<sup>nd</sup> - 23<sup>rd</sup> June 2005  
Organized By: IDB & Bank Negara Malaysia

### Islamic Real Estate Finance

Dorchester Hotel, London  
Thursday, 21<sup>st</sup> July 2005  
Organized By: Islamic Conferences Group

### The First Islamic Finance Summer School

The Kongress Hotel, Davos - Switzerland  
Tuesday, 23<sup>rd</sup> - 26<sup>th</sup> August 2005  
Organized By: Davos Management Institute

### Islamic Funds World

Shangri-La, Dubai  
Thursday, 15<sup>th</sup> September 2005  
Organized By: Terrapin Conferences

### Risk World Middle East

The Jumeirah Beach Hotel, Dubai - UAE  
Monday, 19<sup>th</sup> - 21<sup>st</sup> September 2005  
Organized By: Terrapin Conferences

### International Leadership Summit in Islamic Finance

Kuala Lumpur  
Wednesday, 21<sup>st</sup> - 22<sup>nd</sup> September 2005  
Organized By: International Centre for Leadership in Finance

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#### Dr. Monzer Kahf

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# ISLAMIC LEAGUE TABLES

Islamic Finance News has teamed up with Dealogic to bring you up-to-date league tables every two weeks depicting the leading issuers and arrangers in the Global Islamic Debt Capital Markets.

| TOP 20 ISSUERS OF ISLAMIC DEBT JULY 2004 - MAY 2005                |                 |            |               |
|--|-----------------|------------|---------------|
| Issuer or Group  | Amt US\$ m      | Iss.       | %Share        |
| 1 Dubai Global Sukuk FZCO  | 1,000.00        | 1          | 17.31         |
| 2 Kapar Energy Ventures Bhd  | 895.26          | 1          | 15.50         |
| 3 Pakistan International Sukuk Co Ltd                              | 600.00          | 1          | 10.39         |
| 4 Sarawak Corporate Sukuk Inc                                      | 350.00          | 1          | 6.06          |
| 5 SAJ Holdings Sdn Bhd   | 336.84          | 2          | 5.83          |
| 6 Cagamas Bhd  | 263.16          | 3          | 4.56          |
| 7 Gold Sukuk dmcc  | 200.00          | 1          | 3.46          |
| 7 International Bank for Reconstruction & Development - World Bank | 200.00          | 1          | 3.46          |
| 9 Saudi Hollandi Bank  | 186.66          | 1          | 3.23          |
| 10 Encorp Systembilt Sdn Bhd                                       | 179.82          | 1          | 3.11          |
| 11 Optimal Chemicals (Malaysia) Sdn Bhd                            | 149.21          | 10         | 2.58          |
| 12 Musyarakah One Capital Bhd                                      | 149.09          | 5          | 2.58          |
| 13 International Finance Corp - IFC                                | 131.58          | 1          | 2.28          |
| 14 Stichting Sachsen-Anhalt Trust                                  | 120.39          | 1          | 2.08          |
| 15 Optimal Glycols (Malaysia) Sdn Bhd                              | 119.21          | 10         | 2.06          |
| 16 Sarawak Specialist Hospital & Medical Centre Sdn Bhd            | 111.84          | 1          | 1.94          |
| 17 Mid Valley City Sdn Bhd   | 105.26          | 2          | 1.82          |
| 18 Standard Chartered plc  | 100.00          | 1          | 1.73          |
| 19 Petroliam Nasional Bhd - Petronas                               | 65.79           | 5          | 1.14          |
| 20 Special Power Vehicle Bhd                                       | 56.58           | 1          | 0.98          |
| <b>Total of issues used in the table</b>                           | <b>5,776.46</b> | <b>111</b> | <b>100.00</b> |

| ISLAMIC DEBT JULY 2004 - MAY 2005             |                 |            |               |
|---|-----------------|------------|---------------|
| Manager or Group                              | Amt US\$ m      | Iss.       | %Share        |
| 1 HSBC  | 866.23          | 28         | 15.00         |
| 2 Citigroup                                   | 753.73          | 3          | 13.05         |
| 3 RHB Capital Bhd                             | 582.39          | 4          | 10.08         |
| 4 AmMerchant Bank Bhd                         | 551.25          | 19         | 9.54          |
| 5 Dubai Islamic Bank                          | 433.33          | 2          | 7.50          |
| 6 Commerce International Merchant Bankers Bhd | 427.16          | 9          | 7.39          |
| 7 UBS   | 350.00          | 1          | 6.06          |
| 8 United Overseas Bank Ltd                    | 285.08          | 3          | 4.94          |
| 9 Aseambankers Malaysia Bhd                   | 279.39          | 27         | 4.84          |
| 10 Government bond/no bookrunner              | 263.16          | 3          | 4.56          |
| <b>Total of issues used in the table</b>      | <b>5,776.46</b> | <b>111</b> | <b>100.00</b> |

| ISLAMIC DEBT BY COUNTRY JULY 2004 - MAY 2005 |                 |            |               |
|--|-----------------|------------|---------------|
|  | Amt US\$ m      | Iss.       | %Share        |
| Malaysia                                     | 3,167.59        | 98         | 54.84         |
| United Arab Emirates                         | 1,200.00        | 2          | 20.77         |
| Pakistan                                     | 600.00          | 1          | 10.39         |
| United States                                | 331.58          | 2          | 5.74          |
| Saudi Arabia                                 | 186.66          | 1          | 3.23          |
| Germany                                      | 120.39          | 1          | 2.08          |
| United Kingdom                               | 100.00          | 1          | 1.73          |
| Indonesia                                    | 70.24           | 5          | 1.22          |
| <b>Total</b>                                 | <b>5,776.46</b> | <b>111</b> | <b>100.00</b> |

| ISLAMIC DEBT BY CURRENCY JULY 2004 - MAY 2005 |                 |            |               |
|---|-----------------|------------|---------------|
|   | Amt US\$ m      | Iss.       | %Share        |
| Malaysian Ringgit                             | 3,249.17        | 100        | 56.25         |
| US Dollar                                     | 2,150.00        | 4          | 37.22         |
| Saudi Arabian Riyal                           | 186.66          | 1          | 3.23          |
| Euro  | 120.39          | 1          | 2.08          |
| Indonesian Rupiah                             | 70.24           | 5          | 1.22          |
| <b>Total</b>                                  | <b>5,776.46</b> | <b>111</b> | <b>100.00</b> |



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# ISLAMIC LEAGUE TABLES



Islamic Finance News has teamed up with IFIS to bring you up-to-date league tables every two weeks depicting the leading issuers and arrangers in the Global Islamic Finance Capital Markets. The tables below are a brief list only. To access the full list along with the term sheets, please go to [www.securities.com/ifis](http://www.securities.com/ifis) directly

| Islamic Bonds Issuers League Table 2005 |   |  |              |                                    |                |           |            |
|---|---|--|--------------|------------------------------------|----------------|-----------|------------|
| Ranking                                 | Issuer  | Manager  | Country      | Type of Issued Sukuk               | Amt US\$m      | Issues    | % Share    |
| <b>Announced</b>                        |   |  |              |                                    |                |           |            |
| 1                                       | Jimah Energy Ventures   | AmMerchant Bank Berhad<br>RHB Sakura Merchant Bhd<br>MIMB<br>Bank Muamalat | Malaysia     | Sukuk                              | 1316.17        | 1         | 28.86      |
| 2                                       | Islamic Development Bank  | Dubai Islamic Bank<br>HSBC Amanah<br>CIMB<br>Deutsche Bank                 | Saudi Arabia | Sukuk                              | 1000.00        | 1         | 21.93      |
| 3                                       | Syarikat Bekalan Air Selangor                                     | NA   | Malaysia     | Sukuk                              | 473.68         | 1         | 10.39      |
| 4                                       | Amlak Finance   | Emirates Islamic Bank  | UAE          | Sukuk                              | 350.00         | 1         | 7.68       |
| 5                                       | Senai Desaru Expressway   | NA   | Malaysia     | Sukuk                              | 263.25         | 1         | 5.77       |
| 6                                       | Dubai Metals & Commodities Centre                                 | Dubai Islamic Bank<br>Standard Bank  | UAE          | Sukuk                              | 200.00         | 1         | 4.39       |
| 7                                       | Boustead Holding Bhd  | NA   | Malaysia     | Ijarah                             | 199.00         | 1         | 4.36       |
| 8                                       | Al Marfa'a Al Mali Sukuk Co. B.S.C<br>(Bahrain Financial Harbour) | Liquidity Management Centre<br>Gulf Finance House                          | Bahrain      | Istisna'a and Ijara<br>Sukuk       | 170.00         | 1         | 3.73       |
| 9                                       | Time Engineering Bhd  | Commercial International   | Malaysia     | Zero Coupon Non<br>Tradeable Sukuk | 149.12         | 1         | 3.27       |
| 10                                      | Amlak Finance   | HSBC Amanah  | UAE          | Sukuk                              | 136.13         | 1         | 2.99       |
| <b>Total</b>                            |   |  |              |                                    | <b>4559.78</b> | <b>16</b> | <b>100</b> |
| <b>Sovereign</b>                        |   |  |              |                                    |                |           |            |
| 1                                       | Government of Pakistan  | Citigroup<br>HSBC Amanah   | Pakistan     | Ijarah                             | 600.00         | 1         | 88.3       |
| 2                                       | Government of Bahrain   | Bahrain Monetary Agency  | Bahrain      | Ijarah                             | 79.50          | 1         | 11.7       |
| <b>Total</b>                            |   |  |              |                                    | <b>679.5</b>   | <b>2</b>  | <b>100</b> |
| <b>Corporate</b>                        |   |  |              |                                    |                |           |            |
| 1                                       | Musyarakah One Capital Berhad                                     | CIMB   | Malaysia     | Musyarakah                         | 658.02         | 1         | 42.35      |
| 2                                       | World Bank  | CIMB<br>ABN-Amro Bank Bhd  | Malaysia     | Bai' Bithaman Ajil                 | 200.00         | 1         | 13.78      |
| 3                                       | Durrat Sukuk Company BSC  | Kuwait Finance House<br>Liquidity Management Centre                        | Bahrain      | Istisna'a and Ijara<br>Sukuk       | 152.50         | 1         | 10.51      |
| 4                                       | Commercial Real Estate Company                                    | Kuwait Finance House<br>Boubyan Bank                                       | Kuwait       | Ijarah                             | 100.00         | 1         | 6.89       |
| 5                                       | Peremba Jaya Holdings Sdn Bhd                                     | MIMB<br>Affin Bank Berhad  | Malaysia     | Murabahah                          | 52.63          | 1         | 3.63       |
| 6                                       | Ample Zone Berhad   | MIMB   | Malaysia     | Ijarah                             | 39.50          | 1         | 2.72       |
| 7                                       | Malaysian Merchant Marine Bhd                                     | NA   | Malaysia     | Bai' Bithaman Ajil                 | 31.63          | 1         | 2.18       |
| 8                                       | Intelbest Sdn Bhd   | Abrar Discounts Bhd  | Malaysia     | Bai' Bithaman Ajil                 | 28.95          | 1         | 2          |
| 9                                       | Oxbridge Height   | HSBC Amanah<br>OSK Securities Berhad                                       | Malaysia     | Sukuk                              | 27.37          | 1         | 1.89       |
| 10                                      | Tracoma Holdings Bhd  | Affin Bank Berhad  | Malaysia     | Bai' Bithaman Ajil                 | 26.32          | 1         | 1.81       |
| <b>Total</b>                            |   |  |              |                                    | <b>1451.11</b> | <b>17</b> | <b>100</b> |

## Islamic Deals Issuers League Table 2005

| Ranking          | Company   | Manager   | Country    | Type                          | Amt US\$m      | % Share    |
|------------------|---|---|------------|-------------------------------|----------------|------------|
| <b>Sovereign</b> |   |   |            |                               |                |            |
| 1                | Government of Pakistan  | Islamic Development Bank (IDB)  | Pakistan   | Murabaha Financing            | 100.00         | 59.67      |
| 2                | Government of Lebanon   | Islamic Development Bank (IDB)  | Lebanon    | Loan                          | 62.10          | 37.05      |
| 3                | Government of Pakistan  | Kuwait Finance House, IDB   | Pakistan   | Trade Financing               | 5.50           | 3.28       |
| <b>Total</b>     |   |   |            |                               | <b>167.6</b>   | <b>100</b> |
| <b>Corporate</b> |   |   |            |                               |                |            |
| 1                | Department of Civil Aviation (DCA)                            | Dubai Islamic Bank  | UAE        | Islamic credit facility       | 977.53         | 63.36      |
| 2                | Bahrain Petroleum Company                                     | Dubai Islamic Bank, HSBC Amanah, ABC Islamic Bank, Gulf International Bank, Kuwait Finance House, BNP Paribas, Arab Petroleum | Bahrain    | Ijara Lease Facility          | 330.00         | 21.39      |
| 3                | Bank TuranAlem (BTA) JSC, Kazakhstan                          | Abu Dhabi Islamic Bank, Calyon Corporate  | Kazakhstan | Syndicated Murabaha Financing | 50.00          | 3.24       |
| 4                | Pertamina   | Kuwait Finance House  | Indonesia  | Oil Sector Financing          | 40.00          | 2.59       |
| 4                | Zorlu Linen Dokuma Empirme Konfeksiyon Sanayi ve Ticaret A.S. | HSBC Amanah   | Turkey     | Syndicated Murabaha Financing | 40.00          | 2.59       |
| 5                | Vestel Dayanikli Tuketim Mallari Pazarlama A.S.               | HSBC Amanah   | Turkey     | Syndicated Murabaha Financing | 26.00          | 1.69       |
| 6                | Ministry of Islamic Affairs & Awqaf, Qatar                    | Abu Dhabi Islamic Bank, International Islamic Bank  | Qatar      | Ijara                         | 25.00          | 1.62       |
| 7                | Al Mowasat Hospital   | Amlak Finance, National Bank of Sharjah, Al Salam, Kuwait Investment, Arab Investment, International Leasing                  | Kuwait     | Leasing                       | 23.00          | 1.49       |
| 8                | Qatari Investor   | Qatar Islamic Bank  | Qatar      | Istisna Financing             | 21.40          | 1.39       |
| 9                | Firat Plastik   | Kuwait Finance House  | Turkey     | Murabaha Financing            | 10.00          | 0.65       |
| <b>Total</b>     |   |   |            |                               | <b>1542.93</b> | <b>100</b> |

## Islamic Bonds Managers League Table 2005

| Ranking       | Manager  | Amt US\$m | Issues | % Share |
|---------------|--|-----------|--------|---------|
| <b>Issued</b> |  |           |        |         |
| 1             | Commerce International Merchant Bankers Berhard (CIMB) | 758.02    | 2      | 35.58   |
| 2             | HSBC Amanah  | 320.26    | 3      | 15.03   |
| 3             | Citigroup  | 300.00    | 1      | 14.08   |
| 4             | Kuwait Finance House                                   | 126.25    | 2      | 5.93    |
| 5             | ABN-Amro Bank Bhd                                      | 100.00    | 1      | 4.69    |
| 6             | Bahrain Monetary Agency (BMA)                          | 79.50     | 1      | 3.73    |
| 7             | Liquidity Management Centre                            | 76.25     | 1      | 3.58    |
| 8             | MIMB   | 65.81     | 2      | 3.09    |
| 9             | Affin Bank Berhad                                      | 52.63     | 2      | 2.47    |
| 10            | Boubyan Bank   | 50.00     | 1      | 2.35    |
| 11            | Abrar Discounts Bhd                                    | 42.11     | 2      | 1.98    |
| 12            | AmMerchant Bank Berhad                                 | 40.79     | 2      | 1.91    |
| 13            | NA   | 31.63     | 1      | 1.48    |
| 14            | PT Andalan Artha Advisindo Securitas                   | 25.28     | 1      | 1.19    |
| 15            | OSK Securities Berhad ("OSKS")                         | 20.26     | 2      | 0.95    |
| 16            | Affin Discount Bhd                                     | 15.80     | 1      | 0.74    |
| 17            | ABC Islamic Bank                                       | 8.66      | 1      | 0.41    |
| 17            | ABCIB Islamic Asset Management                         | 8.66      | 1      | 0.41    |
| 17            | Abu Dhabi Commercial Bank (ADCB)                       | 8.66      | 1      | 0.41    |



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