

Islamic Finance *NEWS*

A REDMONEY Product

Vol. 2, Issue 14 11th July 2005

LARIBA
American Finance House

CIMB
Islamic
breakthrough ideas
breakthrough results

Durham
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DAVOS

BRUNEI

CIMB to help issue Sukuk in Brunei

Commerce International Merchant Bankers Bhd (CIMB) has announced that its Islamic banking unit is working with a Brunei client to help issue a US\$300 million Sukuk facility, said to be the first by a local company in the oil Kingdom.

The recent announcement is on the heels of CIMB's statement last month that it plans to establish a branch in the Brunei International Financial Centre (BIFC). In so

doing it is the first Malaysian entity to establish a presence in the financial centre.

CIMB Brunei will be a full-service offshore branch and is expected to begin operations in the fourth quarter of this year. CIMB Group Chief Executive Datuk Nazir Razak said CIMB Brunei would further enhance the group's regional investment banking presence and strengthen its connection with its existing Brunei customer base.

MALAYSIA

OCBC secures Brunei Islamic banking licence

The Oversea-Chinese Banking Corp Ltd (OCBC) has secured an Islamic banking licence to operate in the Brunei International Financial Centre and is expected to open a branch in the oil Kingdom soon.

OCBC was among the earliest foreign banks to introduce Islamic banking ser-

vices in Malaysia, beginning in 1995. Currently, it offers 16 deposit and financing products to both individual and corporate customers.

In Singapore, OCBC is said to be the only bank offering Islamic deposit products for individual and corporate customers.

JAPAN

Maybank wooing Japanese corporations for Islamic facilities

Malayan Banking Bhd (Maybank), which has 230 Japanese corporate clients with outstanding facilities of US\$500 million (RM1.9 billion), is wooing more Japanese firms to take up its Islamic banking facilities.

Maybank Deputy President Agil Natt said presently the bank's portfolio of Islamic banking facilities for its Japanese clients

had reached US\$184.21 million (RM700 million), mainly in Islamic loans and trade financing.

Facilities offered to Japanese businesses include deposits and financial facilities such as overdrafts, term loans, revolving credits, trade finance to remittances and foreign exchange as well as cash management services.

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NEWS BRIEFS

UAE

EIB to enhance its online services

Emirates Islamic Bank announced last week that it has enhanced its online facilities for paying balances on most Etisalat accounts. This would mean that customers would be able to pay their fixed-line telephone, GSM, Internet dial-up and Wasel renewal balances, as well as recharge their Wasel accounts, through the bank's secure website.

In addition to that the bank has worked out an incentive where those who use this service to recharge their Wasel accounts will receive an extra 10% credit.

Bank customers who have registered for Emirates Islamic Bank's online banking service, Banknet, can use the new facility immediately, while other customers can sign up either through the bank's website or via a visit to any bank branch.

INDIA

India to explore Islamic banking

The Indian government has asked the Reserve Bank of India to explore ways to introduce Islamic banking in the country. The central bank has already formed a senior team to look into the matter.

The group is headed by Anand Sinha, Chief General Manager of banking operations and development, and includes senior bankers from State Bank of India and a few other government and foreign banks. Some of the foreign banks operating in India already offer Islamic banking products in the Middle East and Europe.

BAHRAIN

Islamic Industrial and Investment Bank to be set up

The Bahrain-based General Council for Islamic Banks and Financial Institutions (GCIBFI) has announced the establishment of the new Islamic Industrial and Investment Bank with a capital of US\$1 billion.

About 60% of the capital would be raised within three days from contributions by Islamic banks. The council hopes that the bank would be fully capitalized within one month.

Similar to that of the Islamic Development Bank, the new bank will begin operations early next year. However unlike the IDB (which is a bank of Muslim governments) the new bank will be owned by the private sector.

GCIBFI represents Islamic banks and financial institutions and the Islamic financial industry globally. Members come from different countries, including the United Arab Emirates, Kuwait and Malaysia.

DUBAI

DIB subsidiary opens new office

Al Islami Financial Services (IFS), a subsidiary of Dubai Islamic Bank (DIB), recently announced the opening of a new office to conduct remote trading on the Dubai and Abu Dhabi stock markets.

The office, one of the first to offer remote trading in UAE, will offer investors Shariah-compliant brokerage services to buy and sell local securities through a fully automated system linked with the Dubai Financial Market (DFM) and Abu Dhabi Securities Market (ADSM). The new office also includes an advanced call centre, a trading room, and a special area for women.

BAHRAIN

Quorum Group to offer unit trust

The Quorum Trust Group has been given the go-ahead by the Bahrain Monetary Agency (BMA) to establish a subsidiary in Bahrain. The Bahrain venture would be operating under the name Ohad Trusts Corporate and Financial Services.

Ohad Trusts will focus on trust services, including Shariah-compliant trusts, as well as third party fund administration services, including management of custodian services.

Quorum Trust Group is headquartered in Jersey, Channel Islands. It specializes in trust and corporate services for private and institutional clients. It also advises on wealth structuring solutions to families and private corporations.

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NEWS BRIEFS

BRUNEI

Brunei bank merger enhances Islamic banking sector

The merging of two major banks in Brunei, Islamic Bank of Brunei Ltd (IBB) and the Brunei Islamic Development Bank Ltd (IDBB) is set to further strengthen the Islamic financial institutions in the oil Kingdom.

A Finance Ministry announcement last week said that the merging of both the small and medium institutions is in line with the economic and banking reforms that are being implemented by regional countries and the Asian region.

The merging would also enable IBB and IDBB Takaful companies to explore opportunities for new products in line with activities of international insurance markets.

GLOBAL

Call for IDB to set up technology fund

Participants of a technology conference have called for Muslim countries to set up a US\$1 billion fund to give information and communications technologies (ICTs) a greater role in development.

The proposal was made by the Malaysian Institute of Microelectronic Systems (MIMOS) and approved by delegates at the conference, which was held in conjunction with the annual meeting of the Islamic Development Bank (IDB) Board of Governors.

MIMOS has suggested that the IDB should set up the proposed fund to provide low-interest loans to its 57 member nations. The proposed fund could be used to apply ICTs to agriculture, education and health in Muslim countries, and reduce the digital divide between them and the West.

BRUNEI

Data recovery centre to improve info-communication system

The recently established Data Recovery Centre at the Islamic Bank of Brunei (IBB) is aimed at upgrading the reliability towards establishing a resilient financial entity through a strong info-communication system - secure and reliable without any failures.

The IBB also plans to implement the system comprehensively and would involve all the banks operations from front liners to back-end office.

BAHRAIN

Rating upgrade for ABC

International rating agency Fitch Ratings has upgraded Arab Banking Corporation's (ABC) long-term rating to BBB from BBB- and changed its support rating to 2 from 3. The rating outlook remains stable. The agency has also affirmed the bank's short-term F3 and individual C ratings.

The upgrade reflects ABCs significantly strengthened balance sheet following the sale of two major subsidiaries. It also takes into account an improved risk profile resulting from investment in a highly rated securities portfolio, a reduction in non-Arab emerging market exposures and a strategic re-focus on the Arab world.

STRUCTURING ISLAMIC FINANCIAL PRODUCTS

6 - 9 SEPTEMBER 2005, Singapore
11 - 14 DECEMBER 2005, Dubai

COURSE OUTLINE

- Discuss the foundations of Islamic Finance
- Examine essentials of Structured Hybrid Islamic Products
- Discuss vital rules of structuring Islamic Financial Instruments
- Understand Islamic Bonds and Securitization
- Assess Islamic Funds Management

EXPERT COURSE DIRECTOR:

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DUBAI

Tamweel launches new investment product

Dubai-based Tamweel recently unveiled Tamweel Investment Deposits, a new product offering investment opportunities for corporations, making it the first home finance company in the UAE to offer deposit services aimed at corporates.

The company also launched Tamweel Corporate Investment Deposit. The Shariah compliant product based on the Mudaraba concept, offers investors a chance to get attractive returns by sharing profits from Tamweel's vast array of mortgage finance products.

ABU DHABI

ADIB increases paid up capital

The board of directors of the Abu Dhabi Islamic Bank (ADIB), which met last week has recommended a US\$54.50 million (Dhs2 billion) increase in the bank's paid up capital, raising it to US\$816.79 million (Dhs3 billion) from the present level of US\$272.26 million (Dhs1 billion). The increase will be raised via a rights issue of 200 million shares, with a proposed premium of US\$5.45 (Dhs20) per share.

GLOBAL

Arab banking summit discusses changing business dynamics

The creation of strong market economies, liberalization and integration of European and Arab institutions were among the subjects discussed at the Arab Banking summit held in Frankfurt, Germany last week.

Over 300 leading banking, financial and investment personalities attended the summit called 'Euro-Arab Economic Dialogue'. The summit was organized by the Union of Arab Banks in co-operation with the International Bankers Forum.

BAHRAIN

Clarendon Parker Middle East relocates

A growing business has prompted Clarendon Parker Middle East to relocate their Bahrain office to the Diplomatic Area. The firm covers different sectors of recruitment, ranging from Secretarial/Administration, Sales & Marketing, Engineering, IT, Human Resources, Finance, Logistics and Customer Service.

QATAR

Kuwaiti Financial Investment Co to open Islamic property company

Al-Massaleh Kuwaiti Financial Investment Co last week announced plans to set up an Islamic real estate development company in Qatar with a capital equivalent to US\$136.99 million (KD40 million) in alliance with Salam International Investment Company.

Head of the Direct Investment Department at Al-Massaleh, Hussam Al-Hunaidi, said that Bunyan Investment and Real Estate Develop-

ment Company would develop, manage and maintain properties in and outside Qatar according to the Islamic Shariah.

Al-Massaleh Kuwaiti Financial Investment Co. was established in 1982 with a capital of US\$51.37 million (KD15 million) and it is a sister company of Al-Massaleh Real Estate Company, listed at the Kuwait Stock Exchange.

SAUDI ARABIA

Bank Al-Jazira introduces Shariah compliant savings program

Bank Al-Jazira's women's division has introduced Shariah compliant savings programs to raise awareness among women customers on the importance of savings and financial planning. Despite these efforts the bank says more needs to be done.

The bank's latest program "Takaful Ta'awuni", is a system of mutual co-operation for financial assistance and protection. Subscribers can choose from a variety of plans - there is an Education Plan, a Marriage Plan, a Waqf Plan, a Women's Flexible Savings Plan, a Retirement Plan and a Protection Plan.

What makes this special is that customers are not obliged to open a bank account. What's more, a woman may enrol in a plan without having their guardian's consent. They have only to show proof of income from their employers.

INDONESIA

Bank Muamalat Indonesia considers acquisition of smaller banks

Indonesia's largest and first Islamic bank Bank Muamalat Indonesia (BMI) is thinking about buying a few small banks to strengthen its position as a Shariah anchor bank. The country's central bank, which encourages mergers among small banks or acquisitions by more powerful banks ahead of the implementation of Indonesian Bank Architecture in 2010, has announced a number of criteria for a bank to serve as consolidating bank.

According to BMI a few foreign investors like Islamic Development Bank, which is BMI's major shareholder, BMF Holding Limited, Atwill Holding Limited, IDF Investment Foundation and Boubyan Bank of Kuwait have offered to strengthen the capital of BMI.

UAE

Bonds and Sukuk regulated

The UAE Securities and Commodities Authority (SCA) last week issued two directives in relation to the listing of Islamic Sukuk and bonds in the UAE financial markets. The SCA said Islamic Sukuk and securities to be offered for subscription are to submit a request to the SCA in order to list those bonds in one of the licensed financial markets.

Additionally Islamic Sukuk to be listed must be approved by the Shariah authority belonging to the issuing body in the event the said body is one of the Islamic financial institutions recognized by the SCA.

The SCA added that in the case of private companies seeking listing the companies in question must have been established as per the laws of the country, to possess permits for operating and that their securities allow them to issue debt bonds or Islamic Sukuk.

NEWS BRIEFS

NIGERIA

Nigerian Islamic scholar calls for Shariah compliant banking

An Abuja-based Islamic scholar, Imam Nurain Dindi, has urged the federal government "to shun interest-laden loans which impoverish the debtor". He made the advice in his lecture on "Debts: Islamic Perspectives," at the monthly meeting of Muslim Media Practitioners of Nigeria (MMPN), Abuja chapter.

He blamed the collapse of many banks in Nigeria to "the issue of interest-based debts and bad management which have led to the liquidation of many banks with depositors' money trapped".

Lauding the country's recent full membership to the Islamic Development Bank he said IDB's loans "attract no interest and will therefore help to galvanize development in all sectors".

In a related development Christian religious leaders have asked the federal government to stay action on Nigeria's membership of the Islamic bank in the interest of peace adding that the consent of all Nigerians had to be sought.

BAHRAIN

ABC Islamic Bank markets Musyarakah Sukuk issue

ABC Islamic Bank last week announced that it was starting a series of road shows to market the Investment Dar Company's Musharaka Sukuk. The road show kicked off in Bahrain on the 6th July followed by Dubai on the 7th July.

JORDAN

KD80 million fund to finance property development project

Gulf Finance House (GFH), one of the leading Islamic investment banks and Kuwait's premier financial institution, Kuwait Finance & Investment Company (KFIC) last week announced a new US\$273.96 million (KD80 million) investment product to fund the development of Jordan Gate and Royal Village.

Subscriptions in the new investment product are offered through a capital increase of Kuwait-based Bayan Holding Company.

Subscriptions will be offered at a price of US\$0.38 (KD0.11) per share and the minimum investment limit has been pegged at 100,000 shares. Bayan Holding Co. will develop the projects through two Jordanian private shareholding companies - Jordan Gate Company PSC and Royal Village Company PSC.

GFH and KFIC will each invest up to US\$17.12 million (KD5 million) in the issue. Post-placement, each will hold a 6.18% stake in the company. The balance 87.64% will be held by investors. While Bayan Holding Company will invest 100% in Royal Village Company PSC, it will hold 89.62% in Jordan Gate Company PSC, with the balance 10.38% being taken up by Greater Amman Municipality.

IRAN

Iran is third largest shareholder of Islamic Development Bank

The Islamic Development Bank (IDB) in its recent report revealed that Iran is the third largest shareholder of the bank after Saudi Arabia and Libya. Iran accounts for 9.59% of the bank's capital.

Egypt (9.48%), Turkey (8.65%), the United Arab Emirates (UAE) (7.76%), Kuwait (6.86%), Pakistan (3.41%), and Malaysia (2.81%), of the stocks, rank fourth to ninth.

Albania, the Maldives, Djibouti, Kyrgyzstan, Turkmenistan, Somalia, and Sri Lanka are the last on the list of the shareholders.

GENERAL

Olam secures Islamic trade finance facility

Olam International Ltd last week announced that it had secured a US\$85 million syndicated Islamic trade finance facility from a syndicate of six banks. Proceeds from the facility will be used primarily to fund the working capital requirements of the company.

The mandated lead arranger of the facility is Standard Chartered Bank while the arrangers are Dubai Islamic Bank and Kuwait Finance House. Boubyan Bank and National Bank of Pakistan are co-arrangers of the facility.

The facility that is lead managed by Emirates Islamic Bank is for a period of one year and can be extended for a further period of one year upon request.

SAUDI ARABIA

Sabic to issue Sukuk

Petrochemical company Saudi Basic Industries Corporation (Sabic) will be issuing a US\$267 million corporate bond in the third quarter of the year. HSBC is advisor to the Islamic bond issue that would be limited to the local market.

SAUDI ARABIA

IDB closes US\$500 million Sukuk

The Islamic Development Bank's US\$500 million Sukuk was closed recently, with the order book 1.56 times oversubscribed. Both Islamic and conventional investors snapped up the issue.

Joint book runner Deutsche Bank said the transaction marked the first time that an issuance programme, similar to an EMTN programme, has been established for Islamic bonds.



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NEWS BRIEFS

SINGAPORE

NTUC Income launches Islamic fund

Singapore's NTUC Income has launched a new Islamic Takaful fund called Amanah – the first of its kind, offering a well-diversified portfolio of global Islamic bonds and equities. With a launch value of US\$176.29 million (S\$300 million), to be increased to US\$352.58 million (S\$600 million) by the end of the year, it is the largest Islamic fund in the island republic.

The launch also marks the first time that Islamic bonds have been made available in Singapore. To ensure that the fund development and operation are in line with Islamic principles, NTUC Income has established a Shariah panel consisting of renowned international, regional and local Shariah experts.

The fund's Islamic bonds and equities are managed by RHB Asset Management (RHBAM) and State Street Global Advisers (SSGA) respectively.

GLOBAL

HSBC Amanah home finance rate reduced

HSBC Amanah recently reduced its home finance rate to 5.74%, down by 0.25%. The new rate that took effect on the 1st July is fully compliant with Shariah law.

HSBC's Islamic finance division, HSBC Amanah was launched in 1998, with the first home purchase scheme and current account introduced in July 2003.

PAKISTAN

Islamic banking and money market conference in September

The International Islamic Financial Market (IIFM) is organizing an Islamic Banking and Money Market conference on the 14th and 15th September. The event, being jointly organized with Ferguson Associates (Pakistan) and to be staged in Karachi, Pakistan, will focus on Islamic banking in general and Islamic markets, in particular.

BAHRAIN

IIFM to launch major new initiatives

A newly re-energized International Islamic Financial Market (IIFM) is poised to implement a number of new initiatives to stimulate the development of Islamic capital and money markets. CEO Ijlal Alvi said the initiatives are part of a revised and expanded business plan being drawn up by the IIFM.

The IIFM's Board of Directors, at its meeting in Kuala Lumpur last month also gave the green light for the reorganization of the institution, as well as a new corporate identity.

According to Alvi a revised business plan, based on market requirements and feedback, will set priorities and specific deliverables. Apart from developing the Islamic financial services industry, the IIFM would also seek alliances with international organizations involved in the capital markets.

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NEWS BRIEFS

PALESTINE

Arab Islamic Bank nets 170% profit growth

Arab Islamic Bank (AIB) has recorded a 170% jump in its first quarter profits over the corresponding period last year. Profit in the first quarter reached US\$702,000 compared to US\$260,000 in the same period a year ago.

A healthy Palestinian market for financial services is said to be the driver for the growth. AIB is currently looking at increasing its branch network from the existing eight branches.

DUBAI

DIB first half profit up 123%

The Dubai Islamic Bank last week announced a 123% increase in its net profits - before depositors' share - for the first six months of 2005 to US\$245.58 million (Dhs902 million), com-

pared to US\$110.26 million (Dhs405 million) for the corresponding period last year.

The bank's total assets grew 23% to US\$9.10 billion (Dhs33.4 billion) at the end of June 2005, compared to US\$7.41 billion (Dhs27.2 billion) at the end of June last year.

The bank's financing and investment portfolio also showed a significant growth of US\$1.18 billion (Dhs4.3 billion), a 29% increase to US\$5.15 billion (Dhs18.9 billion) at the end of June 2005. Customer deposits with DIB also grew by US\$871.22 billion (Dhs3.2 billion) reaching US\$7.57 billion (Dhs27.8 billion) during the first half of 2005.

Since the beginning of 2005, the bank has opened three new branches, and it aims to have more than 28 branches across the country by the end of this year. It also has plans to increase its international branch network and has announced that this will be extended to cover areas in Pakistan through DIB Pakistan Limited. It recently opened its first representative office in Turkey to improve its access to that huge market.

WHO SHOULD ATTEND

- In House Counsel
- Private Practice Lawyers
- Investment and Corporate Bankers
- Internal Auditors
- Risk Managers
- Compliance Professionals
- All Islamic Banking Professionals
- Senior Management
- Consultants
- Regulators

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7 - 8 SEPTEMBER 2005

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- Assess Shariah documentation and legal issues in Islamic financing structures
- Examine the future growth and development of Islamic finance globally
- Identify the major challenges facing legal parameters of Islamic finance

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NEWS BRIEFS

BANGLADESH

Islamic Banking seminar for Central Bank officials

Dun and Bradstreet SAME Ltd, a leading provider of global business information and risk management solutions, recently conducted a seminar on Islamic Banking for officials of the Central Bank of Bangladesh.

The seminar, on behalf of the South Asia Enterprise Development Facility (SEDF), an International Finance Corporation (IFC) body of the World Bank was held in Dubai, from the 23rd – 28th June .

The week-long seminar was aimed at giving Central Bank officials an understanding on the various aspects of Islamic banking as well as gaining an understanding of the regulations and procedures followed by Central Bank inspectors, in particular their adherence to Shariah principles.

MALAYSIA

New ratings for DRB-Hicom

Malaysian Rating Corporation Bhd (MARC) has assigned ratings of AA-ID (Double A Minus, Islamic Debt) to DRB-Hicom Bhd's US\$178.95 million (RM680 million) Bai' Bithaman Ajil Islamic Debt Securities.

In addition, the rating agency accorded MARC-1ID/AA-ID to DRB-Hicom's US\$52.63 million (RM200 million) Underwritten Murabahah CP/MTN and RM120 million Murabahah CP/MTN facilities, respectively.

According to the rating agency the assigned ratings reflect the group's diversified businesses - automotive manufacturing and distribution, property development and construction and services divisions; strong market position and presence in the local automotive industry and manageable debt leverage position.

INDONESIA

Bank Century ventures into Islamic banking

Driven by market demand, Bank Century shareholders have given the go-ahead for the bank to expand its business to include Islamic banking.

For a start the bank will open two Islamic banking branches, one each in Jakarta and Makassar. As of March this year, the total assets of the bank were US\$868.14 million (IDR8.5 trillion), while the third party's fund of the bank was US\$683.51 million (IDR6.7 trillion).

PAKISTAN

Standard Chartered to open second Islamic banking branch

Standard Chartered Plc is spreading its wings in Pakistan, as plans are afoot for the opening of a second Islamic banking branch. Additionally the bank is also seeking more such consumer and investment banking business in Indonesia and Malaysia.

BAHRAIN

Arcapita Bank funds property projects

Arcapita Bank has unveiled two major real estate projects, valued at about US\$1.3 billion, it is sponsoring in Bahrain.

One of the projects is the US\$300 million Riffa Views project to be launched in September, involving the development of a housing community around the 18-hole Riffa Golf Course. The bank is also sponsoring a US\$1 billion project involving the reclamation and development of more than 400,000 sq m in northeast Manama.

riskWORLD

Middle East 2005

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NEWS BRIEFS

SUDAN

Sudan Bank IPO exceeds target

The initial public offering for the Emirates and Sudan Bank, a new Islamic bank, collected US\$200m in 30 days, about eight times more than the US\$28.5 million targeted. The bank has sold 25% of its capital to the public following a successful US\$85 million private placement.

MALAYSIA

RUSD led group gearing up

A financial consortium led by RUSD Investment Bank (RUSD Bank), is gearing up to start its operations in Malaysia. The consortium was given the green light last October to start Islamic banking operations in Malaysia.

The new Islamic bank has a US\$100 million initial capital outlay and will decide soon on the location of its Kuala Lumpur office, RUSD Bank Managing Director Naseeruddin Khan said.

He said the new bank, backed by the world's foremost Takaful companies, would gradually increase its capital outlay as and when needed. The largest single investor in the new venture is a re-Takaful company, BEST Reinsurance (BEST Re) that in turn is owned by the Dallah Al Baraka group from Saudi Arabia.

Besides RUSD Bank, the other two members of the consortium are Doha-based Qatar Islamic Bank and Kuwait's Global Investment House.

UAE

Sharjah Islamic for equity fund

Sharjah Islamic Bank is to collect US\$14 million for its Tharwa Islamic Equity Portfolio. The fund is managed by Shuaa Capital and audited by KPMG. Minimum investment is US\$2722.79 (Dhs10,000) up to US\$272,279 (Dhs1 million). The portfolio has a three-year time horizon that can be extended for a further two years.

UAE

Net profit to grow by 200%

UAE Islamic bank Abu Dhabi Islamic Bank (ADIB) has projected its net profit for the first half of 2005 to increase by more than 200% over the corresponding period last year.

The bank is projecting good results for the second quarter of the year. Traded on the Abu Dhabi Securities Market, the bank posted a net profit of US\$11.3 million (Dhs41.4 million) for the first quarter of 2005, registering a 58% year-on-year increase.

BAHRAIN

Al Marfa'a Al Mali Sukuk issue closed

Al Marfa'a Al Mali Sukuk issue has been successfully closed at US\$134 million, it was reported last week.

The Istisna'a - Ijara Sukuk was structured by the Liquidity Management Centre (LMC) in accordance and in compliance with the principles of Shariah. The Sukuk has a five-year term maturing in 2010, offering a quarterly profit distribution. It will finance the development and construction of the Financial Centre that repre-

sents the first phase of the Bahrain Financial Harbour project comprising the Dual Towers, the Financial Mall and the Harbour House.

The Sukuk offering which was recently launched has received an overwhelming response from various financial institutions in Bahrain and around the region, led by the senior lead underwriters - Gulf Finance House Commercial Bank (Bahrain) and LMC; lead underwriters - Islamic Development Bank, Dubai Islamic Bank, Emirates Islamic Bank and Bahrain Islamic Bank; along with other participating financial institutions.

QATAR

National Leasing mulls idea of Sukuk issue

Qatar's Shariah-compliant company National Leasing is currently studying a US\$200 million Sukuk issue, it was reported recently. National Leasing hopes that through the Sukuk issue it would be able to secure long-term financing for expansion activities as well as to increase the investment revenue of its shareholders.

BAHRAIN

Arcapita Bank Murabaha-backed Sukuk

Bahrain-based Arcapita Bank BSC has appointed Bayerische Hypo- und Vereinsbank AG (HVB), Standard Bank Plc (SB) and WestLB AG, London Branch (WestLB) as the mandated lead arrangers for its 5-year multicurrency Murabaha-backed Sukuk.

SB and WestLB will act as bookrunners with HVB acting as facility agent.

Boubyan Bank (K.S.C), Bumiputra - Commerce Bank (L) Limited, Natexis Banques Populaires, Raiffeisen Zentralbank Oesterreich Aktiengesellschaft and The Arab Investment Co (OBU) have joined the facility as lead arrangers and sub-underwriters ahead of the launch of the general syndication. The mandated lead arrangers and lead arrangers have underwritten the Sukuk in full.

Banks are being invited to participate in this international multicurrency Sukuk offering. The proposed pricing for the Sukuk is 175 basis points above the three-month LIBOR.

DUBAI

DIB launches training programme

Dubai Islamic Bank (DIB) has announced the launch of the fourth round of its training programme, Iktasib, targeting UAE nationals. The training to be held over the next two months aims to identify the strengths and capabilities available in the workforce.

It also provides a practical and professional opportunity for the youth to familiarize themselves with the Islamic banking sector.

MALAYSIA

Islamic banking licence for HLB

The government has granted an Islamic banking licence to Hong Leong Bank Bhd 's wholly owned subsidiary Hong Leong Islamic Bank Bhd. In a statement to the stock exchange Hong Leong Bank said it had obtained a vesting order for the transfer and vesting of its Islamic banking business to Hong Leong Islamic Bank.

SECTOR REPORT

Sizing up high growth opportunities: A call for Islamic capital to invest in intellectual capital and technology *By Asad Sultan*

Last month, in *Islamic Finance News*, I posed a question while knowing full well the answer. The question was: “Does Islamic capital lend itself to growth investing?”

Islamic capital typically chases asset-based, high-yield investments such as property; rather than intellectual capital, high-growth assets such as technology. Besides the hard fact that there's little that is Islamic about such a fixation, the result has been a dangerously over-weighted investment and lending portfolio into fixed assets, and land in particular. The risks associated with such an imbalance are obvious, both from a financial theory and from empirical evidence.

To illustrate, the GCC states have a concentration of Islamic capital, and equivalently have developed an over-reliance on property development. More so, with the capital influx into the US being stymied post - 9/11, the result has been a growing pool of GCC cash chasing investment opportunities self-restricted to land and property.

Nowhere is this better evidenced than in the Emirate of Dubai, where the scale of building is such that the world has not seen the like since Las Vegas in the 1980's and Shanghai in the 1990's. The oft-asked question around town is “Do you think this is a bubble?” And the answer is, simply, “Yes”. Local banks and other lending institutions are already at their maximum exposure to property, and a downturn in market prices would send developers and their creditors into a tailspin. The cycle can quickly turn from virtuous to vicious, and exacerbate itself through panic. Dubai property has turned into a classic pyramid scheme, and all pyramid schemes end the same way: with the music abruptly stopping and unhappy newcomers to the party left without a seat.

Despite conventional wisdom, the [non-energy producing] Persian Gulf states are not property oriented economies as a result of tourist and worker demand, but rather because of regulations prohibiting foreign ownership of land and protecting locals, and because of the capital available to them to develop it. Despite the opening up of small tracts of property to well-heeled foreigners in localities like the Dubai Marina and the much talked about Palms, the overall development of land has been a closed-market, supply-driven boom, and the investment Dollar - or Dirham or Dinar in this instance—has been used at the expense of other economic opportunities. Put succinctly, the investment dollar has not sought the optimal return that the free hand of the market would have led it to.

Specifically the service sectors have lagged behind, particularly telecom, media, and technology (or TMT). This is in spite of the nature of these sectors being Shariah-approved or “halal” investments. Dubai's attempt of a media and internet city, while impressive in scope and scale, is little more than a dressed-up building scheme. Like the other one of its scale in Asia, Hong Kong's Cyberport, both have been abysmal failures in creating the intellectual technology hubs that they supposedly set out to achieve, yet have been resounding successes as property development projects.

In the meantime and in a perverse role reversal from the times when Islam was in the forefront of technology, the Western world and the US in particular has come to dominate the research and

innovation in the service sectors, and entire communities of investors and institutions, such as those in Silicon Valley, have sprung up to support its growth. Home grown solutions in the Middle East and Asia are not home grown at all, but simply international extensions of these ventures, which have outgrown their home markets in the North America and Europe. Not being in the forefront of technological advances is bad enough. Not investing in available technology related opportunities is unforgivable. Years from now Islamic financial institutions will feel the impact of these opportunity costs.

Take Vonage as a case-in-point. Vonage is the leading provider of broadband phone services in the US with a 400,000 customer base and growing. Pundits tell us that in about a decade, the only infrastructure left standing shall be broadband access into our homes, offices and the outdoors, all in one glorious meshed fibre-wireless network. The lines between Cable TV, Telco, and Cellular provider should erode and only broadband access they say – both wireless and fixed – would prevail. Certainly a worthy idea commanding investor attention, wouldn't you say? But such opportunities are only being exploited by US and European based funds.

In fact, Vonage last month completed a lightning-quick US\$200 million financing round, bringing total investment in the company to US\$408 million, and making this the biggest private equity investment in a technology start-up since the heady days of the technology boom. By their own admission, Vonage's latest round of financing will be used to accelerate the expansion of service in North America and the UK. Nowhere does Asia figure into the equation.

A Malaysian-based Voice over Broadband (VoB) initiative recently announced plans to take advantage of the gaping hole in Asia due to the lack of a Vonage-type regional branded service. These are seasoned players with close connections within the region to allow for a quality of service Vonage is unable to deliver. While this group's first feelers were to Islamic institutions in the region, their funding is more likely to come from the same Silicon Valley investors who drive technology change in the Western world and appear to be the only ones suited to understand, manage and capture the growth afforded by such opportunities. Shariah approval notwithstanding, Islamic institutions have no appetite for growth-based opportunities.

Of course, yield-based investors have other “non-Shariah”, interest-based alternatives, such as government and corporate bonds, whose markets enjoy greater development, transparency and liquidity. Therefore the institutions supporting these markets have grown more numerous, and larger, while Islamic lending institutions continue to operate at the fringe of the financial capital markets even in countries with sizeable Islamic populations.

According to the Bahrain-based General Council for Islamic Banks and Financial Institutions, about 73% of some 285 Islamic banks and financial institutions worldwide have paid-up capital of less than US\$25 million. Until the investment rationale has changed in these institutions, they cannot grow in scale and size in the free market, unless propped up by Islamic development banks and Muslim governments, as has been the case with the recently announced US\$1 billion “Wholesale International Islamic Bank”.

At the same time, Islamic banks are now managing close to US\$300 billion in assets globally, and this figure is expected to grow

SECTOR REPORT (continued...)

20% annually in the next decade. Unless these institutions diversify their lending practices, they will pose a serious financial risk to the countries that they operate in, both in terms of the instability of the make-up of their investment and lending portfolio, but more to the damage to the competitiveness of the domestic economies they thrive in.

While Islamic as well as developing countries pay lip-service to participating in research and development in telecom, media, information and bio-technology, and other service industries of the future, few are putting their money where their mouth is and fewer still have delivered success stories like the Vonage's of the world.

Until that happens, the answer to the question posed in this article remains, alas, "No".

Note: The author is Director/ Advisor AIAK Capital Limited



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INTERVIEW

Dr. Yahia Abdul Rahman, Founder and Resident Shariah Supervisor of LARIBA talks to Islamic Finance News



Dr Yahia Abdul Rahman, Founder and Resident Shariah Supervisor of LARIBA openly discusses the history behind the Californian based Finance House, its market, its progress and its plans for the future.

How did LARIBA first come to fruition? And was it long in the making?

In November 1971, my wife and our first daughter moved from Madison, Wisconsin to Dallas, Texas to start my first job after finishing my Ph.D. with a major oil company. Dallas did not have any Islamic Center or even a Friday Congregational prayer. We started organizing the community. In 1973 we wanted to buy a house and a piece of land in order to start the first centre in Dallas. We did not have the money. So, it was suggested to go and borrow from the banks. Many community members objected about participating in Riba. My position was: I do not know much about it. But I promised that I would study it. So, I went to University of Texas night school for an MA in Finance and International Management and started reading about the prohibition of Riba.

What were your initial intentions and objectives?

Our original intentions were to provide co-operative savings and financing for the Muslim community of the Islamic Centre I was associated with in 1978 in Southern California. However, because of many disappointing partnerships between members of the centre and the loss of money, many of the community leaders recommended that we do this independently without involving the centre.

We were not sure about the legal structure of the entity. We did not have enough money to start a bank or buy a bank. We checked on starting a mutual fund as a vehicle to raise money but were told that we needed to have a minimum of US\$50 million to start with and the costs were prohibitive. We also looked into limited partnerships but they did not have the flexibility. So, we decided on starting a finance company with a sub-Chapter S status. This allowed us to raise funds amongst friends and accredited investors and reduced our taxes by preventing double taxation.

I assume you faced numerous difficulties as all start-ups do. What were the most frustrating?

The most frustrating was the raising of the start-up seed capital. I thought that if I went to my rich friends to ask them to chip in US\$10,000 each (which was a very small amount compared to what they donated to the community centre), they would welcome the idea. They did not. I understood their concern. They did not want to expose themselves to criticisms by community members if money is lost in this venture. They also did not believe in the concept and the potential of this "new" idea. After all, money was made using the Riba system and many thought at the time that Riba meant excessive interest – usury – and NOT renting money as we all understand today.

So how did you overcome these challenges?

Well, I borrowed a page from the experience of all God's prophets

including Prophet Muhammad, may God's peace be showered on all God's prophets. I started discussing with my very close friends and community members. To my surprise, it was the humble members and friends who supported the idea because they believed in the prohibition of Riba. We agreed that each of us would contribute US\$10,000. I said to them; please do not hate me for the rest of your life if this money was lost. We raised a total of US\$200,000. That was the beginning. Then I authored the book, LARIBA Bank, which was distributed throughout the community.

Have your goals changed since your inception back in 1987?

Certainly! As we experienced the market and as we learned more about the market needs and as we studied, researched and interacted with many scholars in the field.

We started as a small company serving our friends in the Muslim community of our centre. Then we expanded to cover Southern California. Then we expanded to cover the US. And, with the acquisition of the Bank of Whittier we now can offer a Riba-Free window that is FDIC insured as well as many of the products and services community members were looking for. On the front of products and services we started by offering automobile and small business financing, then home financing and then franchises. We are also expanding the Riba-Free services of LARIBA to serve all people of all faiths. In fact, a Christian Ministry in the Presbyterian Church in Pasadena was formed to operate Riba-free.

We are also expanding our contacts to the Jewish community through dialogues on the subject of Riba/ribbit. We want to use our activity in Riba-free financial services to offer a window of faith-based co-operation amongst all those who love God and are sincere about serving him.

Where is LARIBA currently witnessing much of its growth?

Well, if you evaluate growth in dollar volume, the biggest growth has been in Riba-free home mortgages throughout the US. In addition, automobile & business financing have been growing steadily throughout the US.

When LARIBA is approached by those individuals who also have the option of the conventional banking system, how do you decide who to 'partner' with? Do you have a partnership model you stick to or is each business venture looked at individually?

We have a standard Shariah Compliant Model that was developed over the years to comply with the Shariah laws and in the same time complies with the laws and regulations of the United States. Our philosophy is simple. We want to protect the interests of our community members and make them feel comfortable because they do not violate the laws of Shariah. The only situation where we look at on a case-by-case basis is that of business financing because each business is different. However, we use the same standard lease-to-purchase model.

So where does LARIBA earn its money and how do you calculate your fees?

We earn our money through participation in the rent of the property. By the way, we at LARIBA have a big problem with those who take

INTERVIEW (continued...)

the interest rate of the hour and call it "an agreed upon rent." This is because they are renting money; which is definitely Riba. At LARIBA we go to the actual market and evaluate the rental rate of similar properties in the same neighbourhood. LARIBA obtains 3 actual estimates and the customer obtains 3 actual estimates. Then the customer and the LARIBA officer agree on a mutually acceptable rental rate. This rate is used in our proprietary financing model (ISLAMABAD because it was developed with a scholar in Islamabad.) Then we evaluate the economic viability of the financing as if we are buying the house for investment purposes. If it is profitable, we finance. If not, we recommend NOT to finance.

How do you ensure that you are continuously competitive with the typically much larger conventional banks that have the equity and advantage over the smaller players?

Frankly, the most important thing is your intention ("niyat" in Islamic terms.) I sincerely believe that the Almighty God creates the reasons for you to achieve excellence and serve people if one is sincere in his goal to serve God through serving people. In my life, I learned that what comes out of your heart reaches peoples' hearts. That is the secret of success of every successful person. Yes, large banks attempt to lure people through lower rates. However, we can always compete with them through service and through knowing our customers. This alone reduces losses due to non-performing loans. Also, in our business, our associates who serve at LARIBA are motivated by their belief in what they do and that is the secret of lower overheads compared to the larger banks.

It is well documented that LARIBA enjoys a healthy working relationship with Fannie Mae. How did this come about and what exactly is the agreement?

They are simply impressed by the quality of our work at LARIBA, the quality and dedication of our associates and the mission we are out to achieve. That is where many of the Islamic Banks that want to come to the US and other Western countries go wrong. I say that respectfully. They start by trying to change the laws of the land, which is an impossible and very expensive task. Then they hire very expensive legal advisors who end up trying to make the existing systems "look Islamic." And in the process, people wonder about the difference! In our case, we first try to do the best we can to establish trust through exemplary behaviour and quality of work.

In your travels around the world, what fascinates you most about the world of Riba-Free financing today?

That Riba-free banking has not reached the grassroots yet to serve those who really need it the most to develop, to conquer poverty and to improve their life style. Riba-free banking is mostly a rich persons' banking. I hope that this will change. I am also amazed at the many principles in the banking code and regulations in the US including the Community Reinvestment ACT and the Truth-in-Lending regulations. These are true Riba-free banking ethics. Finally, I am amazed at those who have made it easier for people to deal in interest under a different name; rent! And say it is all right from a Shariah point of view. They should know that this is renting of money and Judaism, Christianity and Islam prohibits this. People have been conditioned to deal in money as if it were a commodity bought and sold at a price called interest. So, if that credit card company wants to sell more they lure the public by reducing the rate by 1/8 of a point. However, the public is supposed to be better educated through Riba-free thinking to evaluate the economics of using and investing money.

What next? You've achieved a considerable amount over the past 20+ years - where do you see LARIBA in 20 years from now?

I dream of a worldwide faith-based movement to eradicate Riba from peoples' lives for all people of all faiths. I dream of a Riba-free unit next to every Synagogue, Church, Masjid (mosque), Buddhist temple and Hindu temple.

Regarding LARIBA, we hope to develop a banking service that will serve all people using the Riba-free philosophy and system. When people hear our "story" and "methods" they say "wow!"

And secondly to develop the LARIBA System worldwide. I dream of a LARIBA in every corner of the world. We want LARIBA to become the catalyst that will create a real financial & growth revolution in the less developed regions and neighbourhoods of the world. We want people to think in terms of investing in something not in terms of consuming and borrowing just because the price of money - interest rate - is low.

Note : Set up in Pasadena, California in 1987, LARIBA (Los Angeles Reliable Investment Bankers Associates) is now registered to conduct business in all US states except New York.

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UAE

COUNTRY REPORT

Central Bank Resolution No.165/6/2004 - What it means to Islamic finance in the UAE By Al Tamimi & Company Advocates & Legal Consultants

In accordance with the worldwide trend towards implementing Islamic compliant financing, and the demand for further Islamic banks and finance companies, the UAE Central Bank has taken a good step forward by issuing Resolution No.165/6/2004 in early 2005. This resolution was issued by the Central Bank to regulate the activities of the Islamic finance companies independently of the earlier resolution issued by the Central Bank No.58/3/96 regarding the activities of conventional financial companies, particular in lieu of the large demand shown by Islamic financial institutions in the UAE.

The purpose of this commentary is to clarify certain important aspects of the Central Bank Resolution No.165/6/2004 and it is best read with a copy of the Resolution since there shall be reference to Articles of the Resolution.

Article 2 - An Islamic Finance Company (IFC) must take the form of a public joint stock company (PJSC). Under the Federal Commercial Companies Law (Companies Law), in a PJSC, founders are to subscribe to between 20% to 45% of the capital of the company with the balance to be offered through an initial public offering to the public.

Upon reviewing Article 2, it seems that in the event that a PJSC is one of the founders of the IFC, then the legal status requirements are met, i.e. there is no need for the IFC to take the shape of a PJSC and may instead be for example, a limited liability company.

This means that a party that is a PJSC and intends to set up an IFC can set up the IFC as an LLC and can therefore enjoy 100% ownership of the IFC and not have to offer shares in the IFC to the public.

Article 3 - The activities that are permitted to be undertaken by the IFC are clear in this Article. Special mention should be made to the fact that the IFC may provide trade finance activities and maintain accounts and take in deposits from corporate entities.

Article 4 - The IFC is prohibited from granting deposit facilities, opening accounts or accepting loans from the public. However, it seems that the intention is to permit IFCs to provide all types of financing to the public, under Article 3 this will include personal financing, property financing and vehicle financing.

As such we foresee that more investors will resort to Islamic financing that in turn will lead to growth in this sector.

Article 5 - The paid up capital of the IFC should not be less than AED 35 million unless approval of the Central Bank is obtained (Article 5-2). The amount of AED 15 million of the capital of the IFC is to be deposited at the time of application, with the balance to be deposited immediately after obtaining preliminary approval of the Central Bank (Article 7-d). UAE shareholding in the IFC must be a minimum of 60% of the paid up capital of the IFC (Article 5-4).

(While the minimum paid up capital remains unchanged at AED 35 million, such a strict requirement is set to ensure certainty, integrity and genuineness.)

Article 8 - The Manager and Auditor of the IFC must have experi-

ence in Islamic financing activities and operations. (Article 8-2-2-b). Each IFC must have a Shariah Supervisory Board consisting of at least 3 members. The memorandum and articles of association of the IFC must provide for the appointment of the board and its administration. It is to be noted that the names of the members of the Shariah Supervisory Board must be submitted to the Higher Shariah Board of the (Ministry of Justice, Islamic Affairs and Awqaf) for their approval before being appointed by the board of directors of the IFC subject to the subsequent approval of the General Assembly. (Article 8-4).

The principal founders must be at least six individuals and/or corporate entities. (Article 8-5)

60% of the members of the board of directors must be knowledgeable in Islamic finance activities. (Article 8-6)

Given the emphasis for those involved in the business of IFCs to have extensive experience in their fields and specialized knowledge, sound and solid decisions shall be taken in line with the principles of Islamic Finance, as opposed to normal/conventional practices.

Article 10 - The licence of the IFC shall be for a period of five years, renewable for similar periods. (Article 10-1-b). This is a longer period than is usually granted by the Central Bank.

Article 11 - The IFC is prohibited from engaging in exchange activities or any activities of financial investment activities.

Article 14 - The Central Bank may introduce resolutions to regulate the licensing of representative offices or branches of foreign IFCs in the UAE, when it determines that this will promote Islamic compliant financing and banking and will serve the requirements of the UAE's economy. At present, these resolutions have not been issued and therefore representative offices/branch offices of foreign IFCs may not be established in the UAE.

Once the Central Bank determines that such licensing shall serve the UAE economy, it can be expected that branch and Representative Offices of foreign IFCs will be established at an increasing pace - subject of course to the UAE's economy's need for such offices.

Article 15 - The Resolution is very clear in that it is to be interpreted by the Governor of the Central Bank, his interpretation being final. Therefore, in the event that there is some ambiguity in any of the provisions of the Resolution, it is suggested that the advice and interpretation of the Governor of the Central Bank is requested, since ultimately his interpretation is conclusive.

To summarise, the Resolution has been very clearly and well drafted by the Central Bank, and meets the demands of the financial institutions seeking to enter this field. The range of activities permitted by the Central Bank to be offered by IFCs are considerably wide. Finally, the fact that the interpretation of the Governor of the Central Bank is conclusive will have the effect of ensuring certainty since he can be readily approached.

Note: Dubai-based Al Tamimi & Company Advocates & Legal Consultants specialize in Litigation and Dispute Resolution, Corporate and Commercial Law, Banking and finance Law, Property Law, intellectual Property and Information Technology Law, Telecommunications Law, Maritime, Trade and Insurance Law as well as Construction Law.

DOCTORAL WORK

In the first of a series, postgraduate students currently studying at Durham University in the UK under Professor Rodney Wilson, have kindly offered the readers of Islamic Finance News an exclusive insight into the findings obtained during the authoring of their respective thesis's.

An econometric analysis of conventional and Islamic bank deposits in Malaysia

By Remali Yusoff

The objective of this study was to determine the main factors influencing Islamic and conventional deposits in Malaysia's banking system. A structural model consisting of five behavioural equations and three identities was applied to annual data for the 1983–2001 period. Ordinary least squares analysis in the log linear form was used to estimate the influences of various factors on conventional demand deposits, conventional time deposits, Islamic demand deposits, Islamic time deposits and Islamic investment deposits. The results show that bank deposit growth was influenced by changes in real gross domestic product, interest rates on conventional deposits and the profit-share for savings and invest-

ments in Islamic banks. The Chow test values show that demand deposits and time deposits in Islamic banks are more stable than conventional demand and time deposits. Furthermore the findings indicated a stronger relationship between the monetary base and conventional deposits than between the monetary base and Islamic deposits as shown by the *t* statistics and the values of the adjusted *R*².

The doctoral work was successfully completed in 2004. An article on the research findings will be published in the autumn 2005 issue of the *Review of Islamic Economics*.

The working of Islamic inheritance law in Malaysia *By Mohd Asmadi Abdullah*

Although there are no inheritance taxes in Malaysia wills need careful planning if estates are to be managed smoothly on death. Yet most Malay Muslims have failed to draw up wills, and consequently family disputes over inheritance are all too common. The situation is further complicated by the application of Federal and State laws, as well as Shariah law. The estates of Muslims should of course be distributed as decreed under Shariah law, but the interface between this and Federal and State laws can cause confusion and complications. The research involved an examination of court rulings regarding the estates of Muslims where disputes have arisen, as well as interviews with Shariah scholars with expertise in this area. Establishing what constitutes the estate is often com-

plex, as the deceased may own assets such as interest bearing bank accounts and conventional securities that do not comply with Shariah law. Insurance and pension fund entitlements introduce further complications. All financial obligations have to be settled before probate can be granted, including mortgages on property, business loans and guarantees provided by the deceased. The investigation sought the opinions of the Shariah scholars on these issues, as well as on the current workings of the Federal and State laws of Malaysia.

The work is ongoing, and it is hoped the thesis will be completed in 2006.

The influence of dealers' perceptions on the buying and selling of Islamic bonds

By Kamisan Gadar

The work involved a survey of those who traded Sukuk securities in Kuala Lumpur to ascertain whether the factors influencing purchasing and selling decisions were any different to those with respect to conventional securities. The trading almost exclusively involved corporate Sukuk. The major finding was that there was no significant difference in dealer behaviour when trading Sukuk to trading conventional bonds and notes. The dealers were both Muslims and non-Muslims, but religious belief did not appear to influence decision-making. The findings can be explained by the characteristics of the Sukuk securities. Although the Sukuk were structured to be Shariah compliant, and were based on Bai Bithamin Ajil, Murabaha and Ijara contracts, their financial characteristics mirrored conventional bonds and notes. Consequently buying and selling decisions were heavily influenced by interest rate developments and pricing expectations regarding conventional securities.

Islamic Sukuk represent a distinct asset class legally, but not in financial terms. For these to be treated differently alternative forms of income determination would have to be devised rather than taking interest rate benchmarks. For corporate Sukuk these could include the actual profit derived from the project being financed. For sovereign Sukuk real macroeconomic indicators could be used, with governments paying greater returns when GDP growth is high and tax revenues increase enhancing the ability to service debt, while lower payouts could be made in the downturn of the business cycle when tax revenue growth declines.

The doctoral work was successfully concluded in 2004 and the thesis is in Durham University library.

Islamic venture capital finance in Malaysia *By Fara Ahmad Farid*

Malaysia is the only Muslim economy to have a significant venture capital industry geared largely to provide seed funding to start-up companies or those in the early stages of their life cycle. The companies are often specialist suppliers or subcontractors to larger companies, some involved in manufacturing fields such as pharmaceuticals or biotechnology, while others provide services from consultancy to cleaning. Although Musharakah Islamic partnership finance is believed to be well suited for Shariah compliant venture capital financing, it has been little used in any Muslim country for this purpose, and it is only very recently that this type of financing has been provided in Malaysia. Semi structured interviews are currently being conducted in Kuala Lumpur and Selangor with venture capital companies as well as bankers involved with small en-

terprise finance. The opinions of Shariah scholars are also currently being sought on how Musharakah can be appropriately structured to serve the needs of the venture capital industry. For successful venture capital funding it is not only the financing terms that matter, but also the skills and knowledge provided by the "business angels" who may be actively involved in the venture rather than being sleeping partners. Trust is important, as firms want venture rather than vulture capitalists, and in this shared religious beliefs and values can help cement relations between Musharakah joint venture partners.

The work is ongoing, and it is hoped the thesis will be completed in 2007.

DOCTORAL WORK (continued...)

Islamic housing finance in Malaysia By Eleena Abdul Samad

Most Malay Muslim families want to own rather than rent the property they reside in, and there are provisions for the local Muslim community to acquire new property at a discount as part of the Malaysian government's policy of facilitating wider home ownership. As few families have the funds to purchase a property outright, most resort to mortgage finance. A survey was undertaken of Malay Muslims with Islamic or conventional mortgages that resulted in 150 usable responses. Issues covered included the amount of monthly mortgage repayments in relation to the respondent's income, the size of the mortgage in relation to the purchase price of the property, the length of the mortgage term, how deposits were covered, and mortgage protection insurance. Respondents were invited to comment on the application process, and whether they saw the terms of the mortgage as being sufficiently flexible. Issues of payments arrears and non-payment were also covered, and re-

spondents were asked for their opinions on the help given by mortgage providers to those who experienced financial difficulties. Questions were also asked about the reasons for the choice of the type of property and whether it had appreciated or depreciated in value. The respondents resided in Kuala Lumpur, Selangor, Negeri Sembilan and Perak. The responses are currently being analyzed. It is evident that many of the respondents had more than one mortgage, with some taking advantage of subsidized housing financing from the government or employer, and then taking a second Islamic or conventional mortgage for a buy to rent property.

The work is ongoing, and it is hoped the thesis will be completed in 2007.

Household's asset allocation strategy and the demand for Islamic financial assets: a life cycle analysis By Zurina Shafii

Personal financial management is often deficient amongst Malaysian Muslims and consequently assets are frequently not employed effectively to safeguard and enhance family wealth. This research aims to look at attitudes to risk and return in the Malaysian Muslim community and examine the extent to which these are influenced by age and level of education. Retirement and estate planning issues are included, and the life cycle hypothesis is tested to discover if Malaysian Muslims have different propensities to save and consume dependent on their age and family commitments. For Muslim savers and investors there is the specific issue of the extent to which sufficient Shariah compliant assets are avail-

able that are denominated in Ringgit to provide for adequate portfolio diversification to reduce risk, and to what extent the expectations concerning income and capital gains from Shariah compliant assets are similar or inferior to those on conventional assets. The fieldwork for the research involved conducting semi-structured interviews with personal financial advisors in Malaysia as well as a survey of households in Kuala Lumpur.

The work is ongoing, and it is hoped the thesis will be completed in 2006.



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EVENTS DIARY

Takaful Insurance Forum

Marriot Hotel, Cairo
Wednesday, 20th - 21st July 2005
Organized By: Egyptian Insurance Supervisory Authority

Islamic Real Estate Finance

Dorchester Hotel, London
Tuesday, 19th - 21st July 2005
Organized By: Islamic Conferences Group

Jakarta International Islamic Finance Forum

Jakarta Hilton - Indonesia
Wednesday, 3rd - 4th August 2005
Organized By: CERT & IIR Middle East

The First Islamic Finance Summer School

The Sunstar Park Hotel, Davos - Switzerland
Tuesday, 23rd - 26th August 2005
Organized By: Davos Management Institute

Islamic Funds World

Shangri-La, Dubai
Monday, 12th - 15th September 2005
Organized By: Terrapin Conferences

Risk World Middle East

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

2nd Annual Asian Islamic Banking & Finance Summit

Mandarin Oriental Hotel, Kuala Lumpur
Tuesday, 19th - 21st September 2005
Organized By: Euromoney Seminars

2nd Conference on Islamic Banking & Finance

Singapore
Monday, 26th - 27th September 2005
Organized By: ABF Asia

8th International Islamic Finance Forum

Ceylan Inter-Continental Istanbul Turkey
Monday, 26th - 28th September 2005
Organized By: IIR Middle East

World Islamic Economic Forum

Sunway Lagoon Resort, Kuala Lumpur
Saturday, 1st - 3rd October 2005
Organized By: Asian Strategy & Leadership Institute (ASLI)



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- Arab Islamic Insurance Company on expansion drive

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NEWS BRIEFS

BRUNEI

Takaful IBB launches new products

Brunei's largest Islamic insurance operator, Takaful IBB Berhad, recently introduced two savings accounts, "Cemerlang" and "Jawasan". The former is a savings account based on 'Al-Wadiah' concept especially for students from 12 to 21 years old while the "Jawasan" account (also an 'Al-Wadiah' savings account), is targeted at Brunei's elderly who are above 50 years old.

Takaful IBB, with its headquarters and 11 branches operating nationwide, offers various products from Motor Takaful scheme, Fire Takaful scheme and Marine Hull coverage.

MALAYSIA

Syarikat Takaful sells its stake to Islamic Development Bank

Syarikat Takaful Malaysia Berhad last month signed a share sale and purchase agreement for the proposed disposal of 2,200,000 ordinary shares in its offshore subsidiary, Asean re-Takaful International (L) Ltd (ARIL).

The agreement for the sale of shares representing 5.71% equity interest in ARIL was with the Islamic Corporation for the Development of the Private Sector (ICD), a 50%-owned company of Islamic Development Bank (IDB).

The agreement is on the heels of ARIL's capital restructuring and represented one of the initiatives by both Takaful Malaysia and IDB in working together to promote and further enhance the global Takaful market. IDB's stake in ARIL would also assist in the latter's efforts to promote its Takaful and re-Takaful business globally as well as enhance its investment performance.

Upon completion of the disposal, Takaful Malaysia's shareholding in ARIL would accordingly be reduced to 63.54% from 79.25%.

ARIL was incorporated on the 17th May 1997 as an offshore re-Takaful company in the Labuan International Offshore Financial Centre. The re-Takaful operation of ARIL is licensed and regulated under the Offshore Insurance Act, 1990 and ARIL has established itself as the first Islamic reinsurer in the Asian region. ARIL is principally engaged in the family and general re-Takaful business.

DUBAI

Arab Islamic Insurance Company on expansion drive

Eying global growth, Dubai-based Arab Islamic Insurance Company has taken-over two Takaful companies in Bahrain and Tunisia. The acquisitions come on the heels of the two licences the company has obtained to offer Takaful products in Saudi Arabia and Malaysia.

Chairman Shaikh Khalid bin Zayed Al Saqr Al Nahyan said the company has recently taken over the operations of Takaful and re-Takaful Insurance Company in Bahrain which has operations in the Malaysia, Saudi Arabia, Egypt, Algeria, Senegal, Lebanon and Jordan.

The AIIC has also acquired BEST Re, a Tunisian Islamic insurance company with a wide operational network in North Africa, Levant, Far East and Gulf.

Just published by Euromoney Books:

Islamic Retail Banking and Finance: Global Challenges and Opportunities

Edited by Sohail Jaffer

The first book to bring together the views and experiences of 20 industry leaders in promoting, marketing and establishing Islamic retail products.

Ensuring Good Management is Key to a Takaful Business By Dato' Mohd Fadzli Yusof

“Free cover” for participants of the Takaful business may sound like a strange proposition - implying that Takaful is a charitable organization. After all no business would give away its products or services for free except on the occasion of a special event. From the context of insurance it looks more awkward because the core activity of insurance after all is to provide some kind of financial guarantee in order to compensate against loss or liability in the event of a misfortune. What is more the quantum of guarantee may exceed the premium paid in the first place in the event of a huge misfortune.

Nevertheless, through the profit-sharing contract of al-Mudarabah, as provided by Takaful such an opportunity is no more a dream, nor should it sound strange. Taking the performance of Takaful Malaysia as an example, where participants have been enjoying a rate of profit averaging at around 35% a year for the general Takaful business over the last five years, participants who have been sticking to Takaful in terms of their insurance needs would fully appreciate the meaning of “free cover”. With the total aggregate of the three consecutive years profit it would obviously be more than sufficient to pay for the fourth year renewal contribution (premium), assuming that the amount of contribution each year has been the same throughout. But profit is something that is not guaranteed or assured.

On the other hand, whether such a level of profit rate could be sustained would depend on the claim experience as well as the accounting practice adopted by a Takaful operator. Certainly, in the event of big claims the financial benefits paid from the Takaful fund would be correspondingly high. This would decrease the balance of the fund and hence would affect its underwriting results. Should the amount of claims exceed contributions the underwriting performance would suffer a deficit. Hence there would be no profit.

From the technical standpoint, Takaful, to all intents and purposes, is no difference from insurance. It therefore follows that the art of evaluating or underwriting a risk would also be no different from the principles commonly and universally practised by insurance, so long as these principles do not contravene the Shariah rules. After all, Islam calls for good governance and excellent management, particularly in a situation where one is entrusted as custodian or trustee to manage and handle money.

In a contract, the parties involved have to uphold certain obligations and responsibilities to ensure fairness, transparency and equitability. Honesty and sincerity are essential hallmarks in ensuring one party does not have an undue advantage at the unfair expense of the other resulting to unjust loss and injury not only to the other party, but others as well who at the same time may be having joint financial interest in the same contract. This is where the “utmost good faith”, a doctrine strongly advocated in Islam, should strictly be adhered to as a way to prohibit all parties in a Takaful contract not to conceal any material fact either at the point of inception of the contract or upon the happening of a misfortune leading to claim.

Since it is in the best interest of the parties concerned to safeguard the Takaful fund from any undue exposure due to unwarranted practices, it would rest upon the shoulders of the Takaful operator to see and ensure that proper professional management is in

place. After all, the fund which is built from the Tabarru' or donation portion of the contributions paid by the participants is for their common benefit. Together with the operator as trustee and manager on the one hand, and the participants as the ‘insurers’ and ‘insured’ at the same time on the other must protect the Takaful fund from undesired claims.

Towards this end, every strategy adopted in ensuring good management of an insurance company would also be relevant in ensuring good management of Takaful. If insurance requires professional skills and strong technical know how in the areas of underwriting, risk management and claims evaluation, so would Takaful. However in the case of Takaful an appreciation of Shariah would help to enhance towards better understanding of its operation.

Accounting practices are also key

The accounting practice adopted is also a critical factor in determining the profit. For a practical reason, it is generally accepted by Shariah that cash accounting would be a suitable basis for any contract. Although it is not strictly an issue of Shariah, it is however argued that any profit to be shared must be based on actual or realized figures. To distribute profit which has been not realized is simply not practical. In this respect for the type of Takaful operation with a profit-sharing arrangement, as practised by Takaful Malaysia, for example, the most appropriate accounting policy would be on cash basis. By this policy, only the recognition of income is on a cash basis, but liabilities and expenses are accrued.

Following this practice, participants who pay their Takaful contributions early, ideally on the day the Takaful contract is incepted would have the opportunity to receive a relatively higher amount of profit compared to the late paymasters. Profit is calculated from the day contribution is paid. Therefore any delay in the settlement of the contribution would mean an opportunity due to relatively less amount of actual profit received. For example a participant who pays the contribution on the same day the Takaful commences would enjoy a full year profit upon the expiry of cover. On the contrary if payment is made three months later, the amount of profit distributed would be equivalent only to three quarter of the full year's profit.

The other critical feature commonly adopted as part of the accounting policy under the Mudarabah practice is on the treatment of the operator's management expenses. In this respect, a distinction has to be made between costs of Takaful, such as payments of claim, re-Takaful and reserve which are borne by the Takaful fund, from the management expenses of the operator which are charged to the shareholders' fund. In terms of the Takaful contract, participants of general Takaful agree that the operator would pay on their behalf claims to their aggrieved fellow participants and other related costs including re-Takaful and reserve as Tabarru' or donation from their contributions.

As in the case of conventional insurance, due to the nature of general Takaful, Tabarru' amount can only be known when a misfortune occurs. For the purpose of profit sharing therefore, the contribution recognized as the Mudarabah capital would be the balance after deducting the Tabarru' amount. And investment profit will be added back to the capital.



Note: The author is Chief Executive Officer of Takaful Malaysia.

Email: fadzli@takaful-malaysia.com.my

MOVES

SHELL - Dubai & Northern Emirates

Charles Watson has been appointed Country Chair for Shell in Dubai and the Northern Emirates, and Executive Vice President for Shell Gas and Power for North Africa, the Middle East and South Asia.

Mr Watson has replaced Ron van den Berg who recently retired. He has been with the shell Group since 1983 and arrived in Dubai early 2004. Previous posts include; Deputy Business Director for Shell's Exploration and Production business for the Middle East, General Manager UK Retail; General Manager, Quadrant (now a part of Shell Energy Europe) and Executive Vice President for Shell Gas and Power.

HSBC - Malaysia

Ian Ogilvie has been appointed Deputy Chief Executive of HSBC Bank Malaysia Bhd replacing John Coverdale who has been promoted to Managing Director of Saudi British Bank, an associate company of the HSBC Group.

Mr Ogilvie will oversee the operations and implementation of strategies of HSBC in Malaysia.

Joining the Group in 1981 as a research and planning analyst he previously held the position of General Manager of Human Resources.

LOFSA - Malaysia

Azizan Abdul Rahman is the new Director General of The Labuan Off-shore Financial Services Authority (LOFSA) replacing the outgoing Rosnah Omar.

Mr Rahman had been the Director of the Banking Supervision Department at Bank Negara since 1999, the department he joined following his graduation in 1979.

The announcement was made by LOFSA's Chairman, Tan Sri Dr Zeti Akhtar Aziz.

THE NATIONAL INVESTOR - Abu Dhabi

Orhan Osmansoy will replace Dr. Karim El Solh as Chief Executive Officer at the Abu Dhabi-based investment and merchant bank in September 2005.

Mr Osmansoy, who was only recently appointed as Managing Director of the banks merchant banking division has extensive experience including spells at Morgan Stanley, Whitney & Co and more recently with the London based Dexter Capital Group.

The announcement follows the decision by Dr. El Solh to step down and pursue a new entrepreneurial venture which will be announced in the autumn, but will focus on private equity investments.

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.

JEBEL ALI FREE ZONE - UAE

Salma Ali Saif Bin Hareb has been appointed Chief Executive Officer of the Middle East North Africa (MENA) region business hub.

Ibrahim Mohamed al Janahi has been promoted to the position of Vice President of Sales. He was previously the Regional Manager for Europe.

Talal al Hashimi will take the role of Vice President of Property Management. Prior to the promotion Al Hashimi was the Director of Human Resources.

Ali Bin Damithan has also been promoted within his current division to Vice President of Customer Services.

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ISLAMIC LEAGUE TABLES

TOP 20 ISSUERS OF ISLAMIC DEBT JULY 2004 - JULY 2005

| Issuer or Group | Nationality | Amt US\$ m | Iss. | %Share |
|---|---------------|--------------|------------|--------------|
| 1 Dubai Global Sukuk FZCO | UAE | 1,000 | 1 | 13.8 |
| 2 Kapar Energy Ventures Bhd | Malaysia | 895 | 1 | 12.3 |
| 3 Pakistan International Sukuk Co Ltd | Pakistan | 600 | 1 | 8.3 |
| 4 Wings FZCO | UAE | 550 | 1 | 7.6 |
| 5 Cagamas Bhd | Malaysia | 368 | 7 | 5.1 |
| 6 Sarawak Corporate Sukuk Inc | Malaysia | 350 | 1 | 4.8 |
| 7 PLUS Expressways Bhd | Malaysia | 349 | 4 | 4.8 |
| 8 SAJ Holdings Sdn Bhd | Malaysia | 337 | 2 | 4.6 |
| 9 Jimah Energy Ventures Sdn Bhd | Malaysia | 245 | 10 | 3.4 |
| 10 Gold Sukuk dmcc | UAE | 200 | 1 | 2.8 |
| 10 International Bank for Reconstruction & Development - World Bank | Supranational | 200 | 1 | 2.8 |
| 12 Saudi Hollandi Bank | Saudi Arabia | 187 | 1 | 2.6 |
| 13 Encorp Systembilt Sdn Bhd | Malaysia | 180 | 1 | 2.5 |
| 14 Special Power Vehicle Bhd | Malaysia | 163 | 13 | 2.2 |
| 15 Optimal Chemicals (Malaysia) Sdn Bhd | Malaysia | 149 | 10 | 2.1 |
| 16 Musyarakah One Capital Bhd | Malaysia | 149 | 5 | 2.1 |
| 17 International Finance Corp - IFC | Supranational | 132 | 1 | 1.8 |
| 18 Stichting Sachsen-Anhalt Trust | Germany | 120 | 1 | 1.7 |
| 19 Optimal Glycols (Malaysia) Sdn Bhd | Malaysia | 119 | 10 | 1.6 |
| 20 Sarawak Specialist Hospital & Medical Centre Sdn Bhd | Malaysia | 112 | 1 | 1.5 |
| Total of issues used in the table | | 7,255 | 150 | 100.0 |

ISLAMIC DEBT JULY 2004 - JULY 2005

| Manager or Group | Amt US\$ m | Iss. | %Share |
|---|--------------|------------|--------------|
| 1 HSBC | 1,050 | 29 | 14.5 |
| 2 Commerce International Merchant Bankers Bhd | 776 | 13 | 10.7 |
| 3 Citigroup | 754 | 3 | 10.4 |
| 4 RHB Bank Bhd | 670 | 26 | 9.2 |
| 5 AmMerchant Bank Bhd | 639 | 41 | 8.8 |
| 6 Dubai Islamic Bank | 617 | 3 | 8.5 |
| 7 UBS | 350 | 1 | 4.8 |
| 8 Standard Chartered Bank | 292 | 3 | 4.0 |
| 9 United Overseas Bank Ltd | 285 | 3 | 3.9 |
| 10 Aseambankers Malaysia Bhd | 279 | 27 | 3.9 |
| Total of issues used in the table | 7,255 | 150 | 100.0 |

ISLAMIC DEBT BY COUNTRY JULY 2004 - JULY 2005

| | Amt US\$ m | Iss. | %Share |
|----------------------|--------------|------------|--------------|
| Malaysia | 3,987 | 134 | 55.0 |
| United Arab Emirates | 1,750 | 3 | 24.1 |
| Pakistan | 600 | 1 | 8.3 |
| United States | 332 | 2 | 4.6 |
| Saudi Arabia | 187 | 1 | 2.6 |
| Germany | 120 | 1 | 1.7 |
| United Kingdom | 100 | 1 | 1.4 |
| Indonesia | 100 | 6 | 1.4 |
| Bahrain | 80 | 1 | 1.1 |
| Total | 7,255 | 150 | 100.0 |

ISLAMIC DEBT BY CURRENCY JULY 2004 - JULY 2005

| | Amt US\$ m | Iss. | %Share |
|---------------------|--------------|------------|--------------|
| Malaysian Ringgit | 4,068 | 136 | 56.1 |
| US Dollar | 2,700 | 5 | 37.2 |
| Saudi Arabian Riyal | 187 | 1 | 2.6 |
| Euro | 120 | 1 | 1.7 |
| Indonesian Rupiah | 100 | 6 | 1.4 |
| Bahraini Dinar | 80 | 1 | 1.1 |
| Total | 7,255 | 150 | 100.0 |



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Qatar National Bank to offer Shariah compliant products

UNITED KINGDOM
Islamic Bank opens third UK branch

KUWAIT
US\$22.5 million financing of Al Mawanaat Hospital, Kuwait

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- Islamic Hedge Funds Case Study
- An Islamic Alternative
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