Islamic Finance news

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CIMB joint lead manager for US$500 million Sukuk

Malaysia's CIMB Bhd, via its Labuan unit, is the only Asian investment bank among the four mandated by Saudi Arabia-based International Development Bank (IDB) to sell its second round of US$500 million Sukuk issue targeted for launch in April this year.

CIMB is joint lead manager, as are HSBC Holdings Plc, Deutsche Bank and Dubai Islamic Bank for the issue. IDB is a lender set up by 55 Muslim nations to foster economic development.

It was reported on the 26th January that the Saudi-based bank plans to issue US$1 billion worth of Islamic bonds this year. The bonds will be used for financing of IDB's member countries, the bank said. The bonds will be issued in several tranches. The first issue will be of Islamic bonds worth US$500 million and is to be launched in the first quarter of the year, IDB added. The bonds will be traded on international bourses, including European and Asian stock exchanges.

IDB recently revealed its five-year strategy to be implemented in early February. The strategy outlines the poverty reduction in the Islamic countries, the strengthening of the co-operation between IDB member states and the expansion of the Islamic banking as the bank's priority tasks for the coming years. IDB, based in Jeddah, western Saudi Arabia, was established in 1975 to support economic development and social progress in Islamic countries and Muslim communities Worldwide.

It was recently reported that the five-year, floating rate debt would be sold before April to finance loans for projects. IDB Advisor Dost Mohammed Qureshi was reported to have said that IDB would raise as much as US$4 billion in the next five years.

For CIMB, winning the mandate reflects its aggressive drive to penetrate the Middle Eastern market. CIMB has a dedicated Islamic banking unit that specialises in the issuance of Islamic banking instruments. It also has a mix of international and Malaysian scholars on its board to advise on global Shariah principles. It is understood that the four banks were selected very carefully since IDB wanted wider distribution of its Sukuk.

Qatar Islamic Bank signs US$23.907 million deal for Al Waseel Tower

The Qatar Islamic Bank signed a US$23.907 million (QR87 million) Istisna'a contract for the construction of the Al Waseel Tower, which will be built in the New West Bay Area within a period of 18 months, a bank spokesman said on the 25th January. The tower will consist of 16 multi-floors, a basement and a ground floor.

The project called Syna Development and Engineering will be constructed by Mann Enterprise, Qatar while Consultant Arab Engineering Bureau will undertake the site supervision and management. Contracts for the construction and supervision were signed by QIB Acting General Manager Abdulaziz Al Meer and the bank's Executive Manager, Domestic Investment, Ahmed Mushari while on behalf of contractors, General Manager Sami Toma and Finance Manager Roy Mathiew were the signatories.

Abdulaziz said that the Al Waseel Tower was the latest project to be financed by his bank on the Istisna'a basis, adding that the extensive experience gained by the bank's real estate division in this field was very precious in this industry. "The Istisna'a contract currently applied by QIB is one of the most successful financing tools offered by any Islamic bank in the region. Signing this contract undoubtedly reflects the faith that customers and investors have placed in the bank's financial services," he added.

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NEWS BRIEFS *(continued...)*

National Bank of Sharjah now Sharjah Islamic Bank

The National Bank of Sharjah has changed its name to the Sharjah Islamic Bank, and is increasing its capital from US$105 million to US$270 million through a rights issue. The board told its annual general meeting that the new name and logo symbolises a new identity as the Islamic bank for everyone.

The new shares will be offered to existing shareholders at a par value of US$0.68 (Dhs2.5) and a premium of US$0.68 (Dhs2.5). The AGM also approved the bank's financial statements for 2004, which witnessed a 16.4% year-on-year increase in net profit to US$19.4 million (Dhs71.3 million).

As part of the bank's "growth re-branding" strategy, Sharjah Islamic Bank is focusing intensively on its three core businesses namely retail, investment and corporate banking, which have all made a solid contribution to performance.

Syarikat Takaful Malaysia bags Euromoney award

Syarikat Takaful Malaysia Bhd has won "The Best Provider of Takaful Services" award for the second consecutive time from London-based international financial publication, Euromoney. It won the global award for the first time last year.

Takaful, in a statement released in Kuala Lumpur on the 2nd February, said Euromoney has acknowledged Takaful Malaysia as "the dominant provider of Takaful services in Malaysia", offering 120 different products for both general and family Takaful businesses. Takaful Malaysia is part of BIMB Holdings group of companies, the largest Islamic financial institution in the country.

Euromoney Managing Director Simon Brady said the award reflected the growing interest and development of Islamic finance globally, particularly in the Takaful industry.

RHB Capital incorporates Islamic banking unit

RHB Capital Bhd has incorporated RHB Islamic Bank Bhd following approvals from the Minister of Finance and Minister of Domestic Trade and Consumer Affairs.

RHB Capital said on the 2nd February that the company was its wholly-owned subsidiary that would carry on the Islamic banking business under the Islamic Banking Act 1983 after the licence was issued by Bank Negara.

Ghana's MET Insurance introduces Islamic product

Metropolitan Insurance Company Limited (MET) is the first and only insurance company in Ghana to design a savings and investment policy specifically and peculiarly for Muslims in accordance with Shariah laws.

The policy is based on the Islamic profits sharing principle of Mudarabah and reciprocal guarantee principle of Takaful.

MET is a multi-line insurance company with proven competence and record of accomplishment among a large number of individuals and blue chip clientele. The company offers a full range of insurance products covering life and pensions, general and accident insurance.

Dubai Islamic Bank revenues up 43%

Dubai Islamic Bank recorded a 43% rise in revenue to US$400.3 million in 2004. Following a significant growth in the bank's financing and investment operations, it now has a US$8.4 billion asset portfolio, representing a growth of 44%. Profit on account of shareholders grew 97% to US$125.5 million, while profit including depositor profits climbed to US$278 million. The Board of Directors has recommended a 20% cash dividend for shareholders.

NEWS BRIEFS *(continued...)*

Bahraini Sukuk Al-Salam February 2005 issue return rises to 2.75%

The expected annual return on the February 2005 issue of US$25 million worth of 91-day Bahraini Shariah compliant bonds Sukuk al-Salam climbed to 2.75% from 2.57% for the January 2005 issue.

The issue was oversubscribed by 339% and received bids worth US$84.75 million. The bonds were issued by the Kingdom's Central Bank Bahrain Monetary Agency (BMA) on behalf of the Bahraini Government on the 2nd February and will mature on the 4th July. The January 2005 Sukuk al-Salam issue was three times oversubscribed and received bids worth US$75.24 million.

Islamic bond inflows boost Pakistan's forex reserves

Pakistan's foreign exchange reserves have reached US$12.75 billion following the transfer of proceeds from Sukuk bonds, Dr Salman Shah, the Prime Minister's Finance Advisor, said on the 29th January.

He said the reserves had improved with the transfer of Islamic bonds worth US$600 million and the disbursement of loans by donors. Minister of State for Finance Omer Ayub Khan, Economic Advisor to the Finance Ministry Ashfaq H Khan and Finance Secretary Nawid Ehsan also accompanied Dr Shah at the briefing. Dr Shah said Pakistan became the first country this year to offer Islamic bonds in the international market.

"The size of the Sukuk bonds was the largest compared to those offered by other countries and the response was impressive". He said the government had leased the Lahore-Islamabad Motorway through the sale of the Sukuk bonds (asset-based) and the Pakistan Sukuk Company, set up by the government, would use income from the motorway to service lease/rental payments to bond buyers for a five-year period.

After the five-year period, the bonds transaction would be reversed to the government. The government's economic team also disclosed that nine Executive Directors of the World Bank - posted in the UK, Japan, India, the Netherlands, Switzerland and Algeria - will visit the country soon to discuss future lending programmes, infrastructure projects funding and other economic issues with the government.

In another development the State Bank of Pakistan Deputy Governor Tawfiq A Husain announced recently that the bank was working with the government to develop Shariah compliant banking services.

Speaking in Karachi at a seminar on "Islamic banking - A complete business solution," organised by the Institute of Chartered Accountants of Pakistan (ICAP) and Meezan Bank, he said this was necessary for the growth of Islamic banking in the country. He added that a revolutionary process was going to take place in conventional banks, especially the SME Banks.

Bahrain Monetary Agency plans US$70 million Ijara Sukuk issue in February 2005

Bahrain's Central Bank, Bahrain Monetary Agency (BMA) plans to issue Islamic leasing bonds, Ijara Sukuk, worth US$70 million in February 2005, it was reported on the 26th January. This will be BMA's 11th issue of Ijara Sukuk and will raise the total value of the Islamic leasing bonds, issued by the central bank to US$1.13 billion.

The bonds will be listed on the Kingdom's bourse, the Bahrain Stock Exchange. Besides Ijara Sukuk, BMA also issues on a monthly basis Islamic bonds, called Sukuk al-Salam, as well as conventional T-bills. BMA issues 91-day T-bills on a weekly basis and 182-day T-bills on a monthly basis to finance short-term operations.

Alliance Bank offers Shariah based loans

Malaysia's Alliance Bank has launched its new hybrid of Islamic financing, the iWish Home Financing, which emphasises the Shariah principles of fairness, transparency and elimination of the element of interest, or *Riba*, in all transactions.

The iWish Home Financing protects consumers from base lending rate (BLR) fluctuations with a capped floating rate feature. In the past, conventional interest rates fluctuated depending on the BLR while traditional Islamic banking home financing packages offer only fixed rates.

At 1.28% per annum first year for properties under construction, the new product is said to be one of the most competitive in town, even for completed properties as well as for those who wish to refinance, Senior General Manager of Mortgages, Hire Purchase and Wealth Management Ong Ah Tin said in a statement earlier.

Meanwhile, Senior General Manager of Islamic banking Yahya Ibrahim said that Alliance Bank planned to launch more Islamic banking products and services this year. To date, the bank has almost all products for consumer, trade finance and business financing under Shariah principles such as the Alwadiah (savings and current account), Mudarabah (savings and general investment account), Murabah (letter of credit and working capital financing), Kafalah (letter of guarantee) and financing products such as Al-Bai Bithaman Ajil (deferred payment sale) and Ijarah Thuma Albai (hire purchase).

NEWS BRIEFS *(continued...)*

DIB sole underwriter of credit facilities for Dubai airport expansion project

Dubai Islamic Bank (DIB) is the sole underwriter for the joint venture company that has been awarded the Dubai International Airport Expansion Project (Phase II), it was reported on the 25th January .

The joint venture company, consisting of Al Habtoor Engineering, Murray & Roberts and Takenaka has been awarded the US$977.551 million (AED3.59 billion) project covering completion of finishes, mechanical, electrical and plumping works for Terminal 3, Concourse 2 and car park. The project, which is being developed by the Department of Civil Aviation was awarded in mid December 2004 and will take 28 months to complete.

DIB Deputy CEO Saad Abdul Razak said: "Credit facility structures that are completely Shariah compliant have been developed with the necessary flexibility to provide our contracting clients with what they need. The bank began to pursue the contracting finance business last year to support an important and growing sector in the UAE and region."

This landmark project adds to a number of large projects DIB has been engaged in during the past year. He added that DIB aims to become the leading player in the contracting finance business in the UAE and the region.

GFH unit launches investment products

The Bahrain-headquartered Gulf Finance House Commercial Bank (GFHCB) recently announced the launch of its maiden portfolio of Shariah compliant, high-yield investment products. GFHCB a wholly owned on-shore banking subsidiary of Gulf Finance House (GFH) is one of the leading Islamic investment banks in the region.

Launched within a record period since its inception last month, the two products unveiled by GFHCB include the Amlak and the Mudaraba Investment Account. While Amlak offers investors an opportunity to invest in Bahrain's real estate market, the Mudaraba Investment Account offers liquidity as well as diversification of risk, said the bank.

As a niche Islamic bank, its strategic focus is to take advantage of the dynamic growth in property markets in and out of Bahrain by offering investment products to high net worth individuals, said GFH CEO Esam Janahi.

The property investment products launched are focused on the high-growth real estate market of Bahrain, said GFHCB General Manager Ebrahim Hussain Ebrahim. He said the dollar-denominated Amlak would invest in the real estate sector of Bahrain that has been growing rapidly, driven by favourable economic conditions and the liberalisation of laws pertaining to land ownership.

"Our second offering - the Mudaraba Investment Account - is an investment unrestricted account yielding attractive returns, and offering both liquidity as well as diversification of risk," said Ebrahim.

The minimum investment in the US$25 million Amlak Investment is US$50,000, with additional subscriptions accepted in multiples of US$25,000, aggregating US$22.5 million, or 90% of the investment size.

The remainder US$2.5 million (10%) in the investment product will be taken up by GFHCB. The investment period is 18 months from the closing date, with a targeted return on capital in excess of 13% per annum.

Amlak will primarily focus on commercial plots, while also exercising the secondary option of investing in residential plots with a view to diversifying risk. Its investment strategy comprises acquiring and selling property in parcels, development, trading, identifying land with growth potential and discounted properties for strategic acquisitions, said Ebrahim.

Meanwhile the Mudaraba Investment Account is available in Bahrain Dinars and US Dollars. It requires a minimum investment of BD10,000 or US$25,000 or 25,000 Euros respectively. The term of the deposit ranges from 1 month to 18 months, with different sizes and tenors of deposits attracting different shares in the bank's profits.

Bahraini Islamic banks consolidated balance sheet grows to US$5.4 billion at end-November 2004

The consolidated balance sheet of Bahrain's Islamic banks grew to US$5.396 billion at end-November 2004 from US$5.343 billion at end-October 2004, statistics of the Central Bank Bahrain Monetary Agency showed.

Total domestic assets of the Islamic banks, including Shariah compliant commercial banks, investment banks and offshore banking units, rose to US$2.448 billion from US$2.403 billion and total foreign assets climbed to US$2.948 billion from US$2.939 billion.

Total domestic liabilities of the Kingdom's Islamic banks inched up to US$3.036 billion from US$2.875 billion, while total foreign liabilities decreased to US$2.359 billion from US$2.467 billion.

NEWS BRIEFS *(continued...)*

Malaysia as centre for Islamic products

Malaysia must capitalise on its first mover advantage in Islamic financing and establish the country as the centre for international Islamic capital markets. The country's Second Finance Minister Tan Sri Nor Mohamed Yakcop said Malaysia was now well placed to become an international focal point for innovation in Islamic capital market products.

"The high regard for Malaysia's capabilities in the Islamic capital market is reflected in the establishment, in Malaysia, of the Islamic Financial Services Board to serve as an international standard setting body," he said.

The Minister added that the inaugural Ringgit bond issue by the International Finance Corporation was based on Islamic financial principles. These underscore Malaysia's high standing within the global Islamic financial community.

Nor Mohamed said that while the acceleration in the growth of Islamic finance had been achieved, Malaysia needed to further build on the momentum that had started. "Industry players must be prepared to innovate, and be active in exploiting opportunities to develop commercially viable and liquid domestic markets in a wider range of Islamic products, such as property-based products and derivatives that meet the demands of increasingly sophisticated investors and issuers, both domestic and external," he said.

New scheme to allow Muslims to buy affordable homes

Muslims, who observe Shariah law, could be free to buy affordable homes under a new scheme developed by the UK's Metropolitan Home Ownership. In what is being heralded as a first for the sector, they will now be able to purchase homes through the Homebuy scheme, which gives tenants a discount to buy a home on the open market, without jeopardising their beliefs, it was reported recently.

Some practising Muslims have been excluded from traditional affordable home ownership schemes because their interpretation of Shariah law forbids them from paying or receiving interest and therefore from securing conventional mortgage loans.

While some specialised lenders do offer mortgage and finance products tailored to Islamic beliefs, these are aimed at the open property market and therefore tend to exclude those Muslim households on lower incomes who are unable to afford them.

Metropolitan Home Ownership has worked with Alburaq, a Shariah compliant financial services company, Faith Regen UK, Devonshires Solicitors and the Housing Corporation to develop a model which enables Muslims to get a foot on the property ladder through the Homebuy scheme while still complying with Shariah law.

Metropolitan Home Ownership and Devonshires Solicitors will now work with the Housing Corporation to devise a model that can be rolled out across the sector. The model used in the pilot carried out by Metropolitan entails the financial institution purchasing the property and then granting a lease to the resident. The resident then pays 'rent' to the financial institution, with their share in the property changing over a defined term. The freehold is transferred to the resident at the end of that term.

Abu Dhabi Islamic Bank posts 22% rise in 2004 profits

UAE Islamic bank Abu Dhabi Islamic Bank (ADIB) recorded a net profit of US$33.5 million (Dhs122.9 million) for 2004, registering a 22% increase year-on-year. The bank's Board of Directors has proposed a 7% cash dividend for 2004, which is to be discussed and approved at a general shareholders' meeting to be held soon.

ADIB's total assets rose to US$3.458 billion (Dhs12.7 billion) at end-2004 from US$2.505 billion (Dhs9.2 billion) at end-2003, while customer deposits grew 56% year-on-year to US$2.614 billion (Dhs9.6 billion). The bank's operating income rose 80% year-on-year to US$133.4 million (Dhs490 million) in 2004, helped by new products and upgrades of existing products.

***TERMINOLOGY– Amanah**
Lit: Reliability, trustworthiness, loyalty, honesty. Technically, an important value of Islamic society in mutual dealings. It also refers to deposits in trust. A person may hold property in trust for another, sometimes by implication of a contract

NEWS BRIEFS *(continued...)*

Gulf Finance House net profit soars by 233% to US$56.9 million

In line with the strong growth in earnings reported during each quarter of 2004, the Bahrain-based Islamic investment and commercial banking group, Gulf Finance House (GFH) reported a full year consolidated net profit of US$56.9 million in 2004, an increase of 233% compared to US$17.1 million in 2003.

Commenting on the strong financial results for 2004, senior officials of GFH said that it vindicated the successful investment strategy that the bank has pursued since its inception and reflected GFH's commitment to provide above average returns to its shareholders and investors.

GFH Chairman Dr Fuad Al-Omar said the 2004 results were a testimony of the bank's progressive vision. "Our achievements in 2004 were considerable. During the year we more than doubled the bank's share capital and listed the bank on the Kuwait and Bahrain stock exchanges. We also opened a new on-shore commercial bank at the end of the year, which exclusively focuses on real estate. The listing of the bank focused our attention on the issue of corporate governance and we took the initiative of organising an independent review by international consultants " he added.

The results represent a return on share capital (including share premium) of 33%. Basic earnings per share increased by 92% to reach US 14 cents. The bank has proposed to pay a dividend of 30% on paid-up capital (excluding share-premium) of which 7% will be in shares and the remainder in cash.

GFH CEO Esam Janahi said 2004 was indeed a milestone year for the bank. He added that the bank's investment strategy in 2004 was two pronged – to focus on major infrastructure projects and to secure profitable exits for its clients. "This strategy has paid off. Our clients have displayed a keen appetite for investment in major infrastructure projects in the GCC and we secured our first private equity exit, which was successful," he said.

He added that 2004 proved a watershed not just in terms of investments but also in terms of exits. "We concluded successfully the sale of our clients' investment in IFC at a price that returned a total of over 50% to our clients over the three-year holding period and we have further exits planned during the first half of 2005," he said.

Commenting on some of the salient achievements last year, Janahi said the increase in capital allowed GFH to establish a new Islamic commercial banking subsidiary, GFH Commercial Bank, which is a strategic initiative aimed at investments in the real estate sector, with an initial focus on Bahrain.

On plans for 2005, he explained that GFH has a strong pipeline of income from existing projects and that GFH will build on this in 2005 by adding to its portfolio projects in Jordan, Oman and Saudi Arabia.

Qatar Islamic Insurance Company's 2004 profits increase by 118.4%

Qatar Islamic Insurance Company (QIIC) announced net profits of US$11.1 million (QAR40.4 million) in 2004 against US$5.083 million (QAR18.5 million) in 2003. Earnings per share rose to US$2.47 (QAR9) in 2004 as compared to US$1.35 (QAR4.9) in 2003. QIIC's Board of Directors announced a dividend of 66% to shareholders as well as a two-for-three share bonus issue. QIIC is among the nine Qatari companies, listed on the Doha Securities Market, which have so far announced their dividend proposals for 2004.

Qatar Islamic Bank's 2004 profits increase 108%

Qatar Islamic Bank (QIB)'s Board of Directors announced that the bank made a profit of US$83 million (QAR302 million) in 2004, compared to a profit of US$39.84 million (QAR145 million) in 2003.

QIB's assets rose 37.8% year-on-year or US$581.934 million (QAR2.118 billion) in 2004 to reach US$2.12 billion (QAR7.716 billion). The bank's deposits during the same period increased from US$1.035 billion (QAR3.77 billion) in 2003 to US$1.228 billion (QAR4.47 billion). The Board of Directors of QIB have decided to distribute 50% of the profits by way of a bonus issue and 25% of profits by way of cash dividend, subject to receiving the nod from Qatar Central Bank and QIB's general assembly.

Marc receives confirmation on portion of Munif redemption

The Malaysian Rating Corporation Bhd (MARC) has received confirmation from the Lead Arranger and Trustee that a portion of Europlus Corporation Sdn Bhd's US$92.105 million (RM350 million) Murabaha Underwritten Notes Issuance Facility (MUNIF) amounting to US$5.0 million (RM19.0 million) has been fully redeemed.

Effective 25th January, 2005, the facility limit has been reduced to US$51.579 million (RM196.0 million), taking into consideration the abovementioned redemption and earlier redemptions, MARC said in a statement on the 28th January.

Bahrain's Solidarity to enter 13 new markets

Bahrain-based Solidarity Islamic Insurance and Assurance Company plans to venture into 13 new markets in the next three years, it was reported on the 27th January. Among the targeted markets are Egypt, the UAE, Saudi Arabia, Pakistan, Iran, Yemen, Morocco and the UK, said Solidarity.

The move follows the increasing customer demand for Solidarity's Shariah compliant Takaful insurance products, the company added. Solidarity has already entered the Lebanese and Qatari markets through partnerships with local companies to market Takaful products.

INDONESIA

COUNTRY REPORT

Islamic Finance in Indonesia

By Tamara Box, Mohammed Asaria and Eri Reksoprodjo

Indonesia is home to over 250 million Muslims, which gives rise to an expectation that it should have one of the most developed systems of Shariah banking. However, it is only recently that the Indonesian Shariah banking industry has begun to experience similar levels of growth as those enjoyed elsewhere in the Muslim World. The Indonesian Shariah banking sector has seen radical change over the last few years and in 2004 alone it was estimated that assets under management in the sector grew by over 70%. This growth far exceeded that enjoyed by the Islamic banking industry globally which grew by comparison last year at a rate of 20%.

Indonesia boasts 78 banking institutions offering Shariah banking services and for this, credit must be attributed to the Indonesian legislature and Bank Indonesia. The legislature passed Act No. 7 of 1992 concerning banking, as amended by Act No. 10 of 1998 and Act No. 23 of 1999. These Acts facilitated the development of Islamic banking in Indonesia. Bank Indonesia published 'The Blueprint of Islamic Banking Development in Indonesia' in 2002 which outlines Bank Indonesia's goal and implementation strategy for the development of an Indonesian Shariah banking system that complies with international standards for financial products and services.

Indeed, some commentators consider Shariah banks in Indonesia to be in a better financial position than their conventional counterparts. As a whole, Shariah banks enjoy a higher average financing to deposit ratio than conventional banks in Indonesia as they have not been affected by the Indonesian Government's recapitalisation programme. The non-performing loans of Shariah Banks as of August 2003 stood at an impressive 3.91 per cent, well under the 5 per cent threshold required by Bank Indonesia.

Institutional Islamic banking in Indonesia is also enjoying a similar success story. A US$292 million syndicated Murabaha facility was recently structured for Pertamina. This facility was originally intended to be limited to US$200 million but was increased in size due to strong investor demand. Participants were not just confined to the Islamic World and syndicate members included conventional European and Indian financial institutions. The Indonesian sovereign seems to be encouraged by the level of investor demand for Shariah compliant instruments and is expected to issue a sovereign Sukuk (Islamic bond) during the course of 2005.

On a more general note, the growth of the Islamic structured finance market may be attributed to the potential that it provides for enhanced liquidity management, which has been identified as one of the key requirements necessary for the further development of the Islamic banking and finance industry. Under modern jurisprudence, Shariah prohibits financial institutions from trading short-term debt instruments at anything other than face value, or from drawing upon established interbank money markets. A consequence of such prohibitions is that Islamic financial institutions have developed highly liquid balance sheets that, by their nature, limit investment opportunities available for their assets.

Sukuk have, over the past two years, created new possibilities for the short and medium term placement of funds. Investor demand is driving the market and numerous Sukuk issues were oversubscribed in 2004 (for example the recent Dubai airport Sukuk offering). Surprisingly it is not just Islamic investors or corporates who are demonstrating enthusiasm for this product. Last year a German federal institution (the federal state of Saxony-Anhalt) with no Islamic constitutional links, issued a US$100 million Sukuk. The rationale behind this offering was two-fold, as was outlined by Saxony-Anhalt's regional Finance Minister:

> '*... on the one hand ... economic reasons. There are investors out there and it makes sense to provide them with a product. On the other hand it is a matter of international courtesy. We want to send out a message of respect for other cultures who have different regulations on investing.*'

The combination of the growth of the Sukuk market and an increased appetite for emerging market credit risk (as was witnessed in 2004) bodes well for both the conventional and Islamic capital markets in Indonesia. After all, Indonesia's enviably low budget deficit figure of 1.9% of GDP makes it a potentially attractive market to investors.

Moreover, Singapore's active attempts to develop into an Islamic finance hub in the Pacific Rim is expected to attract Middle Eastern funds to the region. Singapore is well placed to fulfil this ambition - owing to its reputation as a well-regulated financial centre and its entry into free trade agreements with several Arab states. If Indonesia were to formally co-operate with Singapore in this initiative, it is conceivable that Islamic funds could flow freely into Indonesia.

At present, the Islamic Development Bank (IDB) is advancing a significant amount of funds to Indonesian corporates. The IDB was established in 1973 by the member countries of the Organisation of the Islamic Conference, one of which is Indonesia. The IDB's aim is to foster economic development and social progress in member countries and Muslim countries Worldwide based on principles of Shariah. In 2004, the IDB funded trading activities conducted by PT Pertamina, steel mill company PT Krakatau Steel and chemical manufacturer PT Petrokimia, as well as numerous health and education projects. However, Indonesia has only absorbed 30% of po-

INDONESIA

COUNTRY REPORT *(continued...)*

tential loans that could be extended by the IDB, principally due to problems concerning regional autonomy. In 2005, the IDB is looking to fund the purchase of patrol ships for the Customs and Excise office, the construction of a monorail system and various toll roads. In addition, the IDB has also made a preliminary commitment to provide working capital for the state-owned aircraft manufacturer, PT Dirgantara Indonesia. The IDB's involvement is not limited to state-managed or large scale projects. It is also looking to extend up to US$30 million in loans to Indonesia's small and medium-sized enterprises. It is expected that such loans would be made in amounts ranging from US$4,500 to a maximum of US$4.5 million for each individual project.

It is not just the sovereign and multi-lateral institutions that are looking to the Islamic finance arena. Indonesian corporates are tapping the Islamic capital markets with more frequency. PT Mahataria Putra Prima, the supermarket operator, issued US$16.296 million (IDR150 billion) Islamic bonds which bear a fixed 13.8% return. PT Matahari used the proceeds of this issue to buy store space on behalf of bondholders. The company then leased the store space from the bondholders, who receive rental income rather than interest thus complying with Shariah principles.

When comparing the development of the Indonesian Shariah bond market to that of the Middle East, it is immediately evident that corporates in Indonesia have been more confident in the opportunities offered by this market and have not waited for the sovereign to 'test the waters'.

With all this in mind it seems that Indonesia's Islamic capital markets will experience significant growth in 2005, especially as investors seem comfortable with corporate Islamic credit risk. Considering the apparent appetite in the Middle East (and beyond) for Islamic structured finance instruments, Indonesian corporates may be able to achieve a lower cost of dollar funding in a manner which is nonetheless compatible with their faith.

USA

COUNTRY REPORT

Development and growth of the US Shariah Riba-Free Industry: Prospects after 9-11 *By Dr Yahia Abdul-Rahman*

The US Muslim community has grown over the last 50 years; its population is conservatively estimated to be 6 million and expected to expand to approximately 12 million by 2020.

The State of California has the largest Muslim population with an estimated 700,000 Muslims. This is followed by the states of New York (4.7% of total population), Illinois (3.6%), New Jersey (2.5%), Michigan (3.2%), and Texas (2%). There is a significant Muslim community living in other states like Connecticut, Indiana, Maryland, Missouri, Minnesota, Ohio and Virginia.

Most of the Muslims in the US have been integrated in the conventional (Riba-based) banking system prevailing in the country and the rest of the World. They take advantage of Federal Deposit Insurance Corporation (FDIC) insured bank deposits, borrow money for buying homes (Riba mortgages), use credit cards with delayed payment terms, and take home equity (Riba-based) lines of credit. Most of the affluent members of the Muslim business community have used the Riba-based banking system in the US and have accumulated significant wealth through its use.

In this environment, it was very difficult to convince many members of the Muslim community to change over, even in a small way, from this *haram* or forbidden activity and into a *halal* or lawful based system. A number of justifications for continued participation in Riba activities have been and continue to be raised, albeit at a lesser rate, by members of the community. Examples include:

- The laws of Islamic finance and economics cannot be upheld by a minority group which lacks the credible institutions and the means to offer *halal* financing and banking;
- Riba is usury – meaning "exorbitant interest rate" not "regular" interest. So, as long as the interest rate charged is not excessive and is done by the choice of the user and is not forced onto him/her then it is not considered Riba,
- Riba and Islamic-based profits are the same. All Islamic Finance Institutions do is to replace the word *interest* with the word rent or *profit*; and
- Some Islamic financial institutions in Egypt and other parts of the World like in Dubai, Denmark, Belgium and Turkey have failed due to inexperience, fraud, and insufficient disclosure of risk, lack of transparency and regulatory supervision and mismanagement.

In all fairness, based on first hand experience and in-depth knowledge at the grassroots level of the community, it was discovered that a large portion of the Muslim middle class households accepted Riba mortgages and other conventional financial and banking services because there were no alternatives available. It is our feeling that many of these households would happily and readily convert to Riba-free mortgages and financing if such were available and competitive.

There are many people, Muslims and non-Muslims, who feel disenfranchised by traditional methods of financing, or who feel – whether correctly or not - that they are denied access to adequate credit with terms that are morally acceptable and economically feasible and affordable. We are reminded of the successes of the credit union industry among blue-collar workers in America. History shows that the credit union system catered to those people who simply could not afford traditional bank accounts because they live from pay check to pay check and cannot maintain a minimum balance and/or do not have the sophistication to prepare the financial disclosures required by banks.

In the case of the Muslim community, the scene changed when the American Finance House LARIBA and Muslim Savings and Investments (MSI) in California introduced Riba-free financing alternatives in 1987. While MSI discontinued its operations in 2004, other companies came to the US market, namely: Al-Baraka (California and Chicago 1989 to 2000), Al-Manzil (United Bank of Kuwait operation in New York 1999 to 2000) and more recently HSBC (through its Amanah Investments in New York) and Guidance Financial Group (associated with the Abu Dhabi Investment Authority operating out of Virginia.)

It is important to note that most of the companies that came to America represented foreign investments that wanted to take advantage of the growing and untapped Muslim communities' market. LARIBA and MSI were the only companies that were capitalised fully by American community members and did not rely on foreign investors.

Riba-free players

The current market participants in the US Riba-free market are:

- *LARIBA – American Finance House (www.LARIBA.com)*
  Headquartered in Pasadena, California, LARIBA offers its Riba-free financing in most of the states of the US through licensing or through a community-owned national bank. The company is the oldest US community-owned Riba-free and Shariah compliant finance company serving the community since 1987. LARIBA is the only company in the US that offers Riba-free financing of autos, home mortgages, medical clinics, dialysis centres, small businesses, food franchises (like KFC) and trade financing since 1987. The company has also helped in financing community schools, centres, burial yards and places of worship. It has no foreign capital. LARIBA is the first Riba-free finance company recognised by Freddie Mac and is the first and only company offering Riba-free mortgage backed securities with Fannie Mae for the US capital markets.

  (Ed: Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to support homeownership and rental housing. Freddie Mac purchases single-family and multi-family residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage pass through securities and debt instruments in the capital markets. Over

USA

COUNTRY REPORT *(continued...)*

the years, Freddie Mac has opened doors for one in six homebuyers and more than two million renters in America. As a private company since 1968, Fannie Mae has provided US$6.3 trillion in home financing for more than 63 million American families, reducing the cost of buying a home and increasing the homeownership rates in America. Fannie Mae is also the nation's largest investor in multifamily rental housing.)

LARIBA has a small number of customers who are from the Jewish, Christian, Buddhist and Hindu Faith. The company has been holding a seminar and awarding recognition awards to significant contributors in the field since 1993.

- *Guidance Financial Group (www.guidancefinancialgroup.com)*
  Headquartered near Washington, DC in the state of Virginia, it started operations in April 2002. The company relies mostly on foreign capital, which can be traced to connections with the Abu Dhabi Investment Authority. However, the company states that a member of the Muslim community in France, who received his education at Stanford University, provides the capital. The company offers home mortgage financing only and Freddie Mac approved them in 2002. Guidance offers its services in 11 states in the United States and Washington DC. The company only offers home financing but it promises more services to be offered soon.

- *HSBC – through Amanah Finance (www.hsbcamanah.com)*
  The model used is based on Murabaha and is based on the prevailing interest rates and is usually tied to LIBOR. The model postulates buying the property and then selling it back to the buyer at a profit that is usually calculated based on the interest rate. The model was introduced in New York.

- *DEVON Bank (www.devonbank.com)*
  This is a small community bank operating out of one of the Chicago suburbs where many of the American Muslims from the Indo-Pakistani subcontinent live and conduct their business. The bank has just been approved by Freddie Mac to offer Islamic Financing. The bank is the most recent participant in this market. That is why very little information on the model used and its supporters are available.

- *SHAPE Financial (www.shapefinancial.com)*
  Shape Financial offers Islamic financing through a number of banking institutions in the US. The company is apparently connected with Kuwaiti investors as an entrepreneur from the prominent Kuwaiti family of Al-Shaya chairs it. Abdul-Kader Thomas who has been very active in the field of Islamic Financing in the US for a long time heads the company operations. Thomas has been instrumental in much regulatory presentations to the Treasury Department (The Office of the Comptroller of The Currency, OCC) and the US Internal Revenue Service. He started Al-Manzil Program in New York, which was the US Islamic Banking effort of the United Bank of Kuwait (1999 - 2000.) The bank closed its operations in the US and moved all Al-Manzil files to London, England. The bank proceeded to find suitors who would buy the portfolio.

Impact of 9-11 on Islamic finance in the US

There was no net negative impact observed of the terrorist attacks on the World Trade Centre buildings in New York. The official efforts to help the Muslim American community integrate by buying their own homes and owning "a piece of the rock" were intensified by both Freddie Mac and Fannie Mae. The objective was to help the average Muslim community members own their own homes while respecting the Islamic belief of not participating in interest.

It is true that there were a very small number of isolated incidents that prompted some to freeze and/or cancel contracts and agreements officiated before 9-11 but it should be stated in all fairness that both Freddie Mac and Fannie Mae did their utmost to make the dream of a Riba-free home ownership a reality.

On our end we did not experience any fallout as a result of the 9-11 attacks. This can be attributed to our strong working relationship with our elected officials from the mayor of the city to our senators, to the Sheriff of Los Angeles, to the Congressmen who represent us. We have also developed respectable relationships with the Cardinal of Los Angeles, the Board of Rabbis in Los Angles, the Mormon Church leadership, Evangelical Seminaries, University of Judaism and the largest Buddhist temple in the area. We trace this harmonious relationship with the community from the time we began operations in 1987.

Future prospects of Riba-free Shariah financing

Going forward LARIBA is now busy meeting more demand for financing in other areas as the need for new home purchases and refinancing has declined. LARIBA hopes to expand its services to offer financial advisory services that use Riba-free products and services, Riba-free banking services, retirement planning, children education planning, hajj planning and estate planning. In order to achieve this Riba-free mortgage backed securities are now being offered as a substitute to fixed income Riba instruments.

In addition, the founders of LARIBA now own a Community National Bank that offers depository services that are FDIC insured using the Shariah window concept used in Malaysia. It is true that the Bank is a small community bank but it allows those who believe that Riba-free financing is all about belief, a way of living and values to share their way of thinking and interacting (Muamalat) with America at large. The results, so far, have been very positive.

LARIBA's has a vision of opening a small unit next to every Masjid, centre of worship, church, synagogue, Buddhist temple or Hindu temple. It would not be wrong to say that LARIBA has also been a pioneer in popularising the Riba-free thinking in America. An annual seminar on Riba-free thinking, living and financing has been held every year for the past 11 years.

Note: The author is Founder and Shariah Supervisor of the LARIBA System.
Email: Yarahman@Lariba.com

NEW ZEALAND

COUNTRY UPDATE

Opportunities to participate in New Zealand's maiden Islamic finance initiative

By Faris Azimullah

At present there is virtually no Islamic financial offering in New Zealand. In fact it is fair to say that knowledge of Islamic finance amongst business (and certainly consumers) is poor. With a view to fill this void, in late 2004 Deloitte undertook an industry roadshow to promote Islamic finance concepts among local business, the financial services sector and the regulatory authorities.

The roadshow was an educational exercise but what turned out to be a surprise was the level of interest from the average consumer. So positive was the response that the Federation of Islamic Associations of NZ (FIANZ) has seized the opportunity to approve a key project to assist any interested party to participate in the introduction of Islamic financial products into the country.

The FIANZ response is typical of the New Zealand consumer and business sentiment. Firstly, putting the 40,000 Muslims in New Zealand aside, Islamic financial products simply make sense. Local consumers are clearly finding the concept of sharing risks and rewards with banks an appealing scenario. However no conventional bank in New Zealand has responded with products to date.

Secondly, the fact remains that the 40,000 Muslims in New Zealand currently have no option when it comes to Islamic products. This is a captive target market for the pioneer provider of such products.

According to the President of FIANZ, Javed Khan, the Federation's immediate project is to establish an Islamic savings and loans co-operative in New Zealand where no interest will be charged or taken. The proposed scheme will be based entirely on profit sharing or similar concepts. While the products will need to be based on Islamic principles, there are no plans at present to restrict the product-set to Muslims.

Call to prospective investors

Through discussions with local financial service providers, one viable and likely model for Islamic financing has already been identified. This model already meets many of the Islamic principles, has a relatively low cost of entry and a fast implementation path. For example, the infrastructure for typical banking facilities is already in place (including teller machines, Internet banking, telephone banking and card services).

The hurdles identified to date are not considered significant. FIANZ will engage Deloitte, a professional services firm with strong expertise in Islamic finance to bring experience from other countries where Islamic finance is being introduced into a conventional business and regulatory framework. This will allow New Zealand to consider trends and workable solutions from other countries where conventional and Islamic models co-operate.

To kickstart the project expressions of interest from investors are now being sought globally for around US$300,000 in total to establish a professional business case. This will cover:

- Research on New Zealand regulatory, prudential and financial framework – including potential issues (such as taxation) that will require focused activities during the implementation of Shariah principles in the New Zealand environment.
- Research on governance issues facing the application of Shariah principles in the implementation of financial products in the New Zealand environment.
- Feasibility of Islamic products in New Zealand.
- An initial high level "model" of the Islamic financial institution covering rules, governance, management and administrative structure.
- Benefits to be delivered from the investment.
- The minimum amount of funding required to implement the Islamic financial institution.
- A full Project Plan to establish an Islamic financial institution in New Zealand.

Besides financial institutions FIANZ also expects that the business case funding may also be attractive to high net worth individuals who are keen to see the realisation of Islamic finance in places where Muslims are isolated from Islamic infrastructure.

Deloitte.

For more information or a copy of the FIANZ Expression of Interest please contact Faris Azimullah at Fazimullah@deloitte.co.nz

This article is a country update from the article which ran in Vol.1 Issue 1
(click here to see previous article)

SECTOR REPORT

ISLAMIC FUND MANAGEMENT AND ITS WORLDVIEW

By Prof. Dr. Mohd. Ma'sum Billah

Islamic fund management offers Muslims the opportunity to invest in funds that adhere to the Shariah. Such funds are basically similar to conventional funds except that they comply with Shariah rules and regulations and as such are prohibited from investing in companies that engage in activities such as gambling, alcoholic business, pornography, ribawi institutions and the companies that are financed by ribawi institutions.

Every investment deals with the risks and equally there are risks in Islamic funds. The risks vary depending on the counters chosen by the investors. While risk is accepted in Islam, speculation of any kind is rejected. This is because speculation may lead to gharar and maisir - two principles that are haram.

Some pillars of wisdom for investing are as follows:

1. *Successful investing involves doing just a few things right and avoiding serious mistakes.* An investor has to plan and do his homework regarding the strength, weaknesses, opportunities, and threats of the prospective organisation. He has to know whether the company meets Shariah rules.

2. *When there are multiple solutions to the problem, choose the simplest one.* For example, if an investor has two choices - whether to invest in high risk company or low risk company (the high risk company offered 5% rate of return but low risk company only offer 2.5% rate of return) – he should rely on the investment that is more of a guarantee.

3. *Try to earn money every time even if it is a small amount*. The investor does not leave his money idle. In Islam the idle money is entitled for zakat if it is over a certain amount and is being kept idle over a period of time.

4. *Today is better than yesterday*. Based on this principle, an investor who has been in the investment field for a long time has to have the expertise in choosing the companies to invest. So, Muslim investors are logically able to gain more after some time in the investment field.

5. *An investor has to diversify his investment*. Diversification helps the investor balance his risk.

6. *Cost-benefit analysis is best in determining which companies are the ideal to invest in*. Cost-benefit analysis is prepared by taking into consideration all the costs that are incurred when the investor invests. These costs will be deducted from the benefits expected.

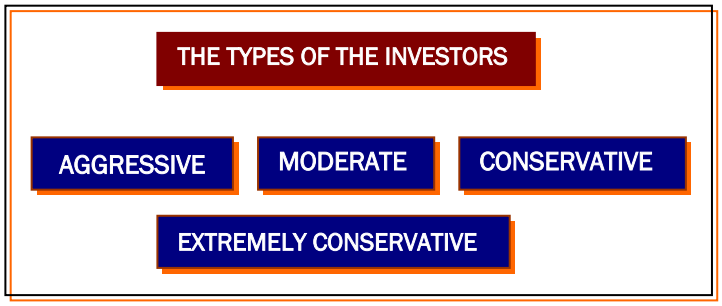
7. *Know the business*. Before investing in any business, an investor is required to know at least basic information regarding the activity of the business he or she wants to invest in. This is to ensure that an investor will not blindly invest in the company as this may lead to the loss of capital.

8. *Investors have to have a balanced estimation.* This means not to over-estimate or under-estimate the returns. Over-estimation and under-estimation will lead the investor to a state of frustration if he or she fails to achieve the estimated return.

9. *Beware of last year's achievement*. The situation and environment are always changing. Past achievements are good for checking the reliability of the internal control of the management, but it is not good as a measure of prospects.

10. *The financial market is related to the fears, hopes, knowledge and greed of all investors everywhere*. For Muslim investors, all of these feelings should not be there. This is because it will lead to serious speculation which is *haram*.

11. *An investor should have long term planning*. The investors should not grab short-term based chances - patience and consistency are valuable assets for the intelligent investor.



Types of investors

The level of acceptable risk is referred as *risk tolerance*. Risk tolerance differs among investors. The best measurement for risk tolerance is *sleep quotient* – in other words the level of risk that a person thinks it is disturbing. If a person feels that he or she is not comfortable with a highly risky investment, he or she may start selling them and move to a lower risk fund or counter.

An aggressive investor is one who is interested in capital appreciation and is willing to accept high market risk.

The second group of investors are those who are willing to accept moderate market risk. He or she views current income as a subordinate to capital appreciation. For them, current income is the second most important receipt after capital appreciation.

The third group of peoples are conservative and are willing to accept only limited market risk. For them, current income is more important than capital appreciation. Meanwhile, the extremely conservative are not willing to accept any risk. He or she tries to greatly reduce the market risk and increase market return or current income. He is not interested in capital appreciation.

Investment from an Islamic point of view

Savings refer to a part of money that is not spent on consumption. Meanwhile investment refers to the expenditure that is not for consumption but for the purpose of capital appreciation, and on the

SECTOR REPORT *(continued...)*

creation of new capital. Idle money cannot be considered as investment as it loses its purchasing power.

There are two types of investment available for an investor - physical or financial assets. Physical assets are gold, coins, and other real assets. Meanwhile, financial assets are stocks, bonds and mutual funds. A mix of these two financial assets is preferable as it is more liquid, allowing the investor to easily enter or exit the market.

Meanwhile, the stocks of a company are divided into two types - ordinary and preferential. The difference between two is that holders of the latter are entitled for fixed returns over the years, regardless of whether the company makes a profit or loss. Meanwhile the ordinary is determined by the decision of the management of the company. The fixed return received from an investment of stock preference is *haram* according to Islamic scholars. As such, Muslims may invest in common stock.

FUNDS

CONVENTIONAL	ISLAMIC
• Any Profitable Counter	• Islamic Counter • Comply with Shariah • Profitable Counter

Islamic mutual fund vs. conventional mutual fund

A mutual fund is the company that pools money to invest in various counters and buys portfolios of securities. All portfolio securities are eligible for conventional mutual funds. However, scanning must be done for an Islamic fund to ensure that the operations comply with the Shariah.

In a conventional mutual fund, investors will share the profits and losses earned from the investment. The ratio of the profit and loss is based on the amount of shares they invested. Meanwhile, in Islamic fund investment, the profit and shares are distributed based on modes of investment agreed by the investors - namely *Ijara fund, equity fund, commodity fund, Murabaha fund, mixed fund* etc...

Gaining the highest revenue from an investment is the main objective of all investors. There are a number of investors who outsource the job of investment to investment companies. However there are also investors who are very meticulous with every cent he or she invests and will try to evaluate the performance of the portfolios on their own.

Why outsource?

Basically there are five reasons why investors try to avoid evaluating investments on their own; a desire to avoid fiduciary responsibilities, a lack of time, a lack of interest, an inability to control emotions, and insufficient knowledge.

WHY INVESTORS OUTSOURCE THE INVESTMENT?

- Fiduciary
- Lack of time
- Lack of interest
- Inability to control
- Insufficient Knowledge

- Fiduciary responsibilities
  There are some people who have surplus money. They have an intention to invest their money but they do not have enough time to do so on their own. Therefore outsourcing investment activities is a better option for them.

- Lack of time
  This is the second group of investor who frequently seek outside assistance. He or she does not have enough time to manage investment activities. Although they are the people who may do an excellent job the time constraint limits them from doing so.

- Lack of interest
  This is the third group of investor who simply lacks the interest to actively manage their own investment. For example, upon retiring, many people choose to enjoy their time travelling, doing recreational activities, or spending time with family and friends.

- Inability to control emotions
  Investors who fail to control their emotions are most in need of an advisor. This is because emotions play an important role in determining the actions of a person. To avoid risk, investors may choose outside advisors as their investment agents.

- Insufficient knowledge

Note: The author Associate Professor of Law (Insurance, Takaful, Islamic Banking, Finance and E-Commerce), Faculty of Economics and Management Sciences, International Islamic University Malaysia. He is also an Adviser and Consultant to several Companies and Institutions on Takaful, Re-Takaful, Insurance, Banking, Financial and IT regulations, Wealth & Asset Management, Islamic Bond Market, Islamic Capital Market, Islamic Money market and Gold Dinar. He can be contacted at masum2001@yahoo.com

Islamic Finance forum

In a new section to 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:

Do you envisage the volume of Sukuk globally to rise sufficiently during 2005 to support a true secondary Islamic Capital market? And who will be the issuers?

IQBAL KHAN
Chief Executive Officer,
HSBC Amanah Finance
Dubai

The successful debut of the Government of Pakistan's Sukuk for US$600 million has kick-started the Sukuk market for the year 2005. In a generic sense, we see Sovereigns in IDB member countries, multi-nationals and public sector entities issuing international Sukuk. We also see some positive developments in the local currency issuance in domestic market of selected IDB member countries. Towards the end of the year we will see increased secondary market activity as people re-evaluate their portfolios and position themselves for opportunities in 2006 and beyond.

SOHAIL JAFFER
Partner
FWU Group,
Switzerland

The last 3 years have witnessed a remarkable growth in both the volume of issuance and maturing of the Sukuk market segment that now represents a viable alternative to conventional fixed income instruments.

Recent sovereign Sukuk issuances have spurred investor demand and directly channelled investments in productive infrastructure developments and multibillion-dollar real estate projects within the GCC region and the emerging markets. The Sukuk issuer base has diversified and includes a few from OECD countries as well.

Product innovation in structuring Sukuk has favourably impacted demand from global market investors. Interestingly, both corporate and retail investors are poised to shape the demand for Sukuk in 2005. However, to achieve greater convergence with international capital markets in 2005, Sukuk need to overcome important cross border legal and tax challenges and encourage more issuance from corporate issuers as well as global Financial Institutions. Increased new Sukuk activity in 2005 should culminate in the development of a true secondary market for trading and liquidity.

BALJEET KAUR GREWAL
Chief Economist
Head of Fixed Income Research
Aseambankers
Malaysia

The global stock of Sukuk is currently trending at US$5.92 billion. I envisage the volume of Sukuk in 2005 to increase by an average of 30 - 35% against the backdrop of continued interest in Islamic instruments, the myriad of Islamic structures available, and the preference for corporates to raise funds using Shariah compliant instruments given the attractive yield/return track record. Sukuk also enhance competitiveness of companies via lower financing costs as well as promote an ethical investment climate. In 2005 we'll see the advent of more structured Islamic products to the market, specifically as a catalyst in the infrastructure and services sector. As to whether the increase in funds raised generates liquidity momentum - well that's something that remains to be seen. A lack of market makers in Islamic bonds, as well as the presence of buy and hold investors for asset/liability management, disenables the liquidity framework in that most bonds are held to maturity given their attractive returns. This remains an impediment to Shariah compliant instruments but in time with the increase in the number of Sukuk issuers across a range of tenors will likely see this challenge subside.

(Continued...)

(Continued...)

JAMES HUME
Chief Executive Officer,
Omega Group Services Ltd.
Dubai

Unfortunately, while I am aware of a significant number of current financing opportunities across a spectrum of assets from aircraft to renewable energy financing, there remains a degree of inertia and unwillingness to act promptly by a number of those institutions that should be in the forefront of the growing Sukuk market. Resulting material delays are reflected in missed opportunities. One effect is to reduce volumes of transactions coming to market so that there is an insufficient range of credits, currencies and maturities to form the basis of a liquid market and the growth of a truly Islamic yield curve.

Further impediments include a lack of well capitalised specialist market makers and a level of demand that far outstrips the available supply, resulting in those issues that do make it to market being held to maturity by the original purchaser. This situation is unlikely to change during 2005.

Issues coming to market will continue to focus on sovereign risk from Islamic countries, but there will be increasing levels of corporate Sukuk – with conventional banks increasing their involvement in structuring, underwriting and placement – plus some more from the 'Saxony' template.

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

MOVES & PROMOTIONS

BANK MUSCAT – Manama

The Board of Directors of BankMuscat International (BMI) have approved Sheikh Abdul Malik bin Abdullah Al Khalili to be Chairman, Sheikh Khalid bin Mustahail Al Mashani to become Deputy Chairman and Musallam Al Shukairy as Chief Executive Officer of the newly launched Bank.

The Bahrain Monetary Agency granted approval to BankMuscat (SAOG) in November 2004 to set up BMI an independent Banking entity that will be focused on becoming a truly GCC regional bank.

TEMASEK – Singapore

The Singapore Government Investment Agency has appointed Grant Ferguson as Managing Director in its Strategic Development Group. Mr. Ferguson was previously CFO of Thai mobile phone operator DTAC. In his new capacity he will focus on the team's media and telecoms portfolio.

CIMB – Malaysia

Encik Mohd Willieuddin Lim Bin Johan Lim has joined Commerce International Merchant Bankers (CIMB) as an Associate Director in the CIMB Islamic Department. Prior to joining CIMB he was the Head of Life Offshore Business at Mayban Life International (L) Ltd.

Encik Zailani Bin Mahmud and Encik Abdul Ghani Bin Endut have both been appointed as Managers in the CIMB Islamic Department. Encik Zailani was previously Group Legal Manager at Permodalan Terengganu Berhad. Encik Abdul Ghani was a Manager with Bank Islam Malaysia Berhad.

CITIGROUP - Hong Kong

Frank Slevin has been appointed Global Corporate and Investment Banking Head for Hong Kong. Mr. Slevin joined the bank in 2002 as Managing Director and Head of Hong Kong Investment Banking

EVENTS DIARY

Islamic Finance Conference
The Langham Hotel, London
Monday 21st – 23rd February 2005
Organised By: Islamic Conferences Group

Middle East Insurance Forum
Ritz Carlton Hotel, Bahrain
Tuesday 8th - 9th March 2005
Organised By: Al Iktissat Wal Aamal Group

International Islamic Finance Forum 2005
JW Marriot Hotel, Dubai
Sunday 13th - 15th March 2005
Organised By: IIR Middle East

Islamic Retail Banking
Hotel Nikko, Kuala Lumpur
Monday 4th - 5th April 2005
Organised By: Asia Business Forum

Islamic Retail Banking II
Dubai
April 2005
Organised By: Islamic Conferences Group

The 2nd Islamic Financial Services Board Summit "The Rise & Effectiveness of Corporate Governance in the Islamic Financial Services Industry"
Sheraton Doha, Qatar
Tuesday 24th - 25th May 2005
Organised By: Islamic Finance Services Board

If you would like to place your event in this section, please fax us your event details at +603 2141 5033 or simply email info@IslamicFinanceNews.com.

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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 - FEBRUARY 2005

	Issuer or Group	Amt US$ m	Iss.	%Share
1	Dubai Global Sukuk FZCO	1,000.00	1	21.48
2	Kapar Energy Ventures Bhd	895.26	1	19.23
3	Pakistan International Sukuk Co Ltd	600.00	1	12.89
4	Sarawak Corporate Sukuk Inc	350.00	1	7.52
5	SAJ Holdings Sdn Bhd	336.84	2	7.24
6	Saudi Hollandi Bank	186.66	1	4.01
7	Encorp Systembilt Sdn Bhd	179.82	1	3.86
8	Optimal Chemicals (Malaysia) Sdn Bhd	149.21	10	3.20
9	International Finance Corp - IFC	131.58	1	2.83
10	Stichting Sachsen-Anhalt Trust	120.39	1	2.59
11	Optimal Glycols (Malaysia) Sdn Bhd	119.21	10	2.56
12	Sarawak Specialist Hospital & Medical Centre Sdn Bhd	111.84	1	2.40
13	Mid Valley City Sdn Bhd	105.26	2	2.26
14	Standard Chartered Bank Malaysia Bhd	100.00	1	2.15
15	Petroliam Nasional Bhd - Petronas	65.79	5	1.41
16	Negeri Sembilan Cement Industries Sdn Bhd	52.63	1	1.13
16	PECD Bhd	52.63	1	1.13
18	Ace Polymers (M) Sdn Bhd	18.42	6	0.40
19	Royal Mint of Malaysia Sdn Bhd	14.47	1	0.31
20	PT Humpuss Intermoda Transportasi Tbk	13.18	1	0.28
	Total of issues used in the table	**4,655.69**	**60**	**100.00**

ISLAMIC DEBT JULY 2004 - FEBRUARY 2005

	Manager or Group	Amt US$ m	Iss.	%Share
1	HSBC	866.23	28	18.61
2	Citigroup	753.73	3	16.19
3	RHB Capital Bhd	568.25	3	12.21
4	AmMerchant Bank Bhd	500.26	2	10.75
5	UBS	350.00	1	7.52
6	Dubai Islamic Bank	333.33	1	7.16
7	United Overseas Bank Ltd	285.08	3	6.12
8	Aseambankers Malaysia Bhd	279.39	27	6.00
9	Commerce International Merchant Bankers Bhd	178.07	3	3.82
10	Bank Islam Malaysia Bhd	112.28	2	2.41
	Total of issues used in the table	**4,655.69**	**60**	**100.00**

ISLAMIC DEBT BY COUNTRY JULY 2004 - FEBRUARY 2005

	Amt US$ m	Iss.	%Share
Malaysia	2,572.45	51	55.25
United Arab Emirates	1,000.00	1	21.48
Pakistan	600.00	1	12.89
Saudi Arabia	186.66	1	4.01
United States	131.58	1	2.83
Germany	120.39	1	2.59
Indonesia	44.61	4	0.96
Grand Total	**4,655.69**	**60**	**100.00**

ISLAMIC DEBT BY CURRENCY JULY 2004 - FEBRUARY 2005

	Amt US$ m	Iss.	%Share
Malaysian Ringgit	2,354.03	51	50.56
US Dollar	1,950.00	3	41.88
Saudi Arabian Riyal	186.66	1	4.01
Euro	120.39	1	2.59
Indonesian Rupiah	44.61	4	0.96
Grand Total	**4,655.69**	**60**	**100.00**

For all enquires regarding the above information, please contact: Edward Cheung
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