Islamic Finance news

A REDMONEY Product

Vol. 2, Issue 8 18th April 2005

UNITED KINGDOM

Lloyds TSB expands Islamic finance scheme

Lloyds TSB has continued the expansion of its pilot scheme to offer Islamic financial products, with the introduction of Shariah compliant products to its Southampton branch.

The branch will offer Shariah compliant current accounts and home finance products, equivalent to mortgages. Lloyds TSB unveiled its Shariah compliant home finance product last month, and the current account was launched in February this year. The products were first piloted in London, Birmingham and Luton, and earlier this month the pilot was extended to Dewsbury.

A spokesman for Lloyds TSB said that the scheme had so far been a success. "We are concentrating on branches in areas with strong Muslim populations". "We expect demand to grow, and the pilot will be expanding further across the UK later this year."

Lloyds TSB's Islamic current account doesn't offer interest or an overdraft facility and has no fee or minimum opening balance. It comes with a debit card, and all charges on the account are the same as the bank's Classic account.

The bank said the funds held in its Islamic current accounts would be held in accordance with Islamic law. This means that investment will be restricted to ethical industries, so the bank will not be able to invest the money in certain companies, for example, tobacco, alcohol or pornography businesses.

The bank's home finance product will be based on the principles of Ijara and diminishing Musharakah. Under this arrangement, the bank and customer jointly buy and own a property. The bank purchases up to 90% and the customer buys the remaining percentage with an initial payment. To begin with, the bank is the legal owner of the property, but through monthly payments, over an agreed period, the customer buys the bank's share, until the property is transferred to the customer's name.

Britain has an estimated 1.8 million Muslims, but until recent years, the range of finance services that comply with Islamic law has been limited. HSBC began offering Islamic products in 2003, and last September, the Islamic Bank of Britain became the first UK bank to operate solely in line with Islamic law.

Lloyds TSB is the latest mainstream bank to enter into the Islamic finance market, suggesting that competition in this area is increasing.

BAHRAIN

Islamic banks consolidated balance sheet dips

The consolidated balance sheet of Bahrain's Islamic banks fell to US$5.818 billion at end-February from US$5.434 billion at end-December 2004, statistics of the Bahrain Monetary Agency (BMA) showed.

Total domestic assets of the Islamic banks, including Shariah compliant commercial banks, investment banks and offshore banking units, grew to US$2.766 billion from US$2.535 billion and total foreign assets increased to US$3.051 billion from US$2.899 billion. Total domestic liabilities of the Kingdom's Islamic banks reached US$3.452 billion, up from US$3.186 billion and total foreign liabilities rose to US$2.365 billion from US$2.247 billion.

HAVE YOU SUBSCRIBED? If not, DO IT TODAY! TURN TO PAGE 24 NOW

Inside Islamic Finance News:

DON'T MISS THE NEXT ISSUE - OUT ON MONDAY 2nd MAY 2005

News Briefs (*continued...*)

INDIA

Parsoli in talks with NSE for Islamic index

Buoyed by the success of the Parsoli-IBF.Net Equity (PIE) index a couple of years ago, the Ahmedabad-based financial services company, Parsoli Corporation Ltd, is now in talks with the National Stock Exchange (NSE) to launch an Islamic equity index.

The company hopes that the new index will materialize in the next three months.

"India now needs an Islamic equity index, so that it can act as a benchmark for the NRI money. Dow Jones came out with an Islamic equity index and this has been doing great. For the moment though, the PIE is only for our customers. In future, we intend to make this available to all investors," said Parsoli CEO Zafar Sareshwala. He added that about 80% of the 1,200-odd customers, use the PIE index to invest in Shariah compliant scripts.

Parsoli, in collaboration with IBF-Net, had in 2003, compiled Parsoli-IBF.Net Equity (PIE) index, India's first and only Islamic Equity Index, comprising the most liquid stocks of Shariah compliant companies registered on the NSE and the BSE. The companies are screened every fortnight to determine their Shariah compatibility.

A company with the debts to market capital ratio not more than 33%, cash recoverables less than 45% of the net worth, main income not from interest and not into the manufacturing of alcohol, leather or are not connected in any way to gambling are classified as Shariah compliant.

Last week also saw Parsoli announce a specially designed 'Islamic Wealth Management System' (IWMS) to tap the huge Muslim community.

Announcing the launch of IWMS in Ahmedabad, Sareshwala, said: "This system has Islamic stock broking, insurance and Islamic equity index as some of the tools for wealth maximization. Our management thinks there is a tremendous opportunity to reward the Muslim investors, its target audience, using some of these wealth management tools and get first mover advantage." □

INDONESIA

Boubyan Bank acquires stake in Indonesian Islamic bank

Boubyan Bank last week signed a deal to acquire a 20% stake in Bank Muamalat Indonesia, which controls nearly half of the Asian nation's Islamic banking sector, the Head of the Kuwaiti Islamic bank said.

Boubyan Bank "aims through this deal to make Bank Muamalat Indonesia the strategic passageway to the rest of the East Asian countries," said Chairman and Managing Director Yacob Al Muzaini. He did not specify the value of the deal.

Boubyan Bank aims to start providing full commercial banking services to the public in the third quarter of this year and will compete with Kuwait Finance House, which now has a monopoly on Islamic banking in the Gulf Arab state.

Al Muzaini said Bank Muamalat Indonesia controls up to 50% of the Islamic banking sector in Indonesia, the world's most populous Muslim nation. He said the Indonesian bank, set up in 1991 as that country's first Islamic bank, now has 156 branches and up to one million customers.

Islamic banking amounts to 1.9% of the total banking sector in Indonesia, he said, but the government has plans to increase that share to about 5%. Up to 90% of Indonesia's 220 million population are Muslims. □

News Briefs (*continued...*)

KUWAIT

Global offers Islamic investment services

Kuwait's global investment company, Global, has offered many Islamic investment services and products coping with the financial needs of its clients, a company executive said last week.

Vice-Chairperson and Managing Director Maha Al-Ghunaim said Global offered the Global Islamic Fund and the Durra Islamic Fund that invests in companies listed on the Kuwait Stock Exchange.

Al-Ghunaim said the funds were compatible with the Islamic Shariah laws, and were making good yields from local, Gulf and international investments.

The executive said that Global offered the Global Fund for real estate in the US. She added that Global was investing in real estate in Bahrain and planned to build two modern housing complexes.

INDONESIA

Public still unaware of Shariah banks

Despite the fact that Shariah-based banks in Indonesia experienced a remarkable 88.6% growth in assets in 2004, the public is still years away from fully embracing the concept, a top banker said recently.

Speaking at a discussion held by the Bogor Agricultural Institute, Bank Rakyat Indonesia (BRI) President Director, Rudjito, cited an internal survey conducted in Aceh, where Shariah-based laws are officially imposed, and where only one of BRI's ten branches offer full Islamic banking services.

The survey revealed that although the majority of Acehnese said that commercial banking models were against Islamic teachings, only 11% of them claimed to have an adequate understanding of Shariah banking.

"The number one, two and three priority is educating the public on Shariah," said Rudjito whose bank operates 17 Shariah branches out of its 340 branches. He added that since Islamic banking is not confined to Muslims, the focus should not be on religion alone.

With 17 Shariah branches, BRI has the largest presence -- outside of the three fully-fledged Shariah banks -- among the 15 commercial banks with Shariah units. The 15 banks offering Shariah services are a significant increase from the eight banks in 2003.

In 2004, the business of Shariah banking experienced rapid growth, with assets reaching US$1.47 billion (Rp14 trillion), representing about 1.14% of total banking assets in the country. Over the past four years alone assets have grown 60% on average. Bank Indonesia projects that by 2011, the asset share of Shariah banks will reach between 5% and 9% of the nation's total banking assets.

DUBAI

DIB's net profit up 71%

Dubai Islamic Bank (DIB) last week announced a 71% increase in its first quarter profits. The bank's net profits (including depositors' profit) for this year's first quarter soared to US$83.04 million (AED305 million), against US$49 million (AED 180 million) for the same period in 2004.

The bank's total revenue witnessed a record growth of 63% reaching US$112.17 million (AED412 million) in the first quarter of 2005 as compared to US$68.88 million (AED253 million) in the same period of 2004. DIB's total assets also grew 21% to US$8.30 billion (AED30.5 billion) in the period, from US$6.89 billion (AED25.3 billion) for the first three months of 2004.

Dr Mohamed Khalfan bin Khirbash, the UAE Minister of State for Finance and Industry and Chairman of DIB, said: "The bank's impressive performance during the first three months of this year reflects the success of our strategy to diversify its wholly Islamic finance products and services range to meet the growing demands of the market. The performance also reflects the success of our ambitious initiatives to work in new markets and sectors with the support of our strategic alliances and partners."

DIB's investment and financing activities also reported vigorous growth of 32% to US$4.85 billion (AED17.8 billion), against US$3.68 billion (AED13.5 billion) for the same period last year. Customer deposits also showed strong growth in the quarter, climbing 16% - an increase of US$980.15 million (AED3.6 billion) to US$7.16 billion (AED26.3 billion), from US$6.18 billion (AED22.7 billion) for the first three months of 2004.

The buoyancy of the financial performance figures reflected a surge in activity at the bank. DIB was appointed the mandated lead arranger for an innovative, gold related, Islamic Sukuk, announced by the Dubai Metals & Commodities Centre (DMCC). The issue has been assigned an A rating by Standard & Poor's Rating Services.

On the regional front, the bank has been mandated to co-manage the US$530 million Islamic finance tranche for Qatar Gas II. DIB also co-managed Pakistan's US$600 million first Sovereign Islamic bond issue.

The bank's determination to capitalize on the rapidly expanding global interest in Islamic finance saw it take the first steps towards establishing an international network of offices in the early months of this year.

News Briefs (*continued...*)

DUBAI

New centre to settle disputes

The International Islamic Centre for Reconciliation and Commercial Arbitration for the Islamic Finance Industry has been launched in Dubai. The UAE has contributed US$250,000 to the establishment of the new centre, half of the total investment, the remaining of which was provided by the Islamic Development Bank (IDB), according to reports.

The centre to be based in Dubai, will settle financial and commercial disputes between financial or commercial institutions that have chosen to comply with the Shariah. It will also settle disputes between these institutions and third parties through reconciliation and arbitration.

Dr Ezzedine Khoja, Secretary-General of the General Council for Islamic Banks and Financial Institutions (GCIBFI), the organization, which along with the IDB, are the promoters of the centre, said at the launch that there was an urgent need for such an institution.

According to Ernst & Young, which conducted the feasibility study of the project on the basis of the promoters objectives, over the years, Islamic finance has rapidly grown from a highly specialized niche market into a multi-billion dollar global industry, estimated to have assets in excess of US$230 billion worldwide and expected to experience double-digit growth in the coming decades.

The growth and evolution of the Islamic financial services, which exist in over 75 countries, called for strong support institutions, with one of them being a framework for resolving disputes that may occur between industry participants as well as their counter parties.

Dr Khoja said that Islamic financial institutions pursue litigation for nearly 5% of their disputes, above US$30,000, while the rest of their disputes are settled out-of-court. Litigation, on average, costs nearly 20% of the value of the disputed amount and even if the decision of the court is in favour of the financial institution, only 80% of the value of the disputed amount is recovered, he said, adding that the duration of the settlement period in cases when litigation is pursued is generally in excess of five months.

The cost of an out-of-court settlement is nearly 17% of the disputed amount and in a few cases the cost of the out-of-court settlements was found to be greater than the cost of litigation.

He attributed this to the absence of institutions providing alternate dispute services specifically to Islamic financial institutions. □

BAHRAIN

Noriba sells US investment portfolio

Bahrain's Noriba Bank, the wholly-owned Shariah-compliant subsidiary of Switzerland's UBS Group, has recently sold its first real estate investment portfolio in the US.

The real estate investment is comprised of three office buildings in New Jersey and two office buildings in Kansas City in Missouri, Noriba Bank said. The holding period for the investment had been initially set at between 36 and 60 months and the sale of the investment after a holding period of only 26 months, led to an internal rate of return (IRR) of 18.2% instead of the projected IRR of 12.5%.

Noriba Bank, set up in May 2002, operates in the fields of Islamic bonds, wealth and portfolio management, treasury products, foreign exchange, equities, Islamic investments and real estate. □

MALAYSIA

Sukuk issue to finance barter trade terminal

Malaysia's Windsor Trade Sdn Bhd will build and operate an integrated barter trade terminal in Sandakan, Sabah.

The terminal, which will be developed on 46 acres in the Batu Sapi area of Sandakan is to house a grain warehouse, bunkering area, a customs, immigration and quarantine complex and a commercial centre.

The project will be financed through a hybrid structure including equity injection and an Islamic bond issuance.

According to Windsor Trade Executive Director Tengku Shaifful Bahri Tengku Zainal Abidin Tengku Shaifful, 80% of the project cost would be financed by an Islamic bond issue to be arranged by Amanah Short Deposits Bhd. The remaining 20% would be through an equity injection by new investors. □

MALAYSIA

Toll operator issues Islamic paper

Konsortium Butterworth-Kulim Sdn Bhd (KBKSB), a subsidiary of MMC Corp Bhd, plans to issue Secured Bai Bithaman Ajil Islamic Debt Securities (BaIDS) worth up to US$65 million (RM247 million).

KBKSB, the operator of a toll road linking Penang and Kedah will use the BaIDS's to refinance the consortium's outstanding syndicated term-loan facility. The proposed BaIDS are structured in 25 series, with maturities ranging from one year to 17 years from the date of issuance. □

News Briefs (*continued...*)

IRAN

IFSB Council and 3rd General Assembly convene in Tehran

The Islamic Financial Services Board (IFSB) convened its Third General Assembly and the Sixth Council Meeting in Tehran recently. A press release issued by the IFSB said that the meetings were hosted by the Central Bank of Iran (CBI).

The meetings were chaired by the Governor of CBI who is the present Chairman of the IFSB General Assembly and Council. The meetings were attended by the President of the Islamic Development Bank as well as the Governors of the central banks of Indonesia, Kuwait, Malaysia, Qatar, Sudan, the UAE and the Saudi Arabian Monetary Agency.

At the meeting the council approved the application of the Monetary Authority of Singapore to be upgraded to a full member. The council also admitted Banque du Liban as an associate member and seven new observer members.

DUBAI

S&P assigns A rating for DMCC

Standard & Poor's (S&P) has assigned A (long term)/ stable/ A-1 (short term) for an innovative, gold related, Islamic Sukuk, which was announced by Dubai Metals & Commodities Centre (DMCC) in February this year.

DMCC had appointed Dubai Islamic Bank (DIB) as mandated lead arranger and joint lead manager, and Standard Bank (SB) as joint lead manager to create the Shariah compliant financing, a first for the region. The issue is expected to have a five-year final maturity with an average life of 2.75 years. The size of the Sukuk is yet to be announced.

The proceeds will be used to fund the development of market infrastructure for the DMCC free zone, which caters to commodity related businesses in Dubai. The planned infrastructure includes the construction of three prestigious, purpose built towers.

QATAR

QIB shareholders approves bonus issue

The shareholders' meeting of Qatar Islamic Bank (QIB) have approved a 70% bonus issue for 2004 after it had revised the earlier proposed dividend. The shareholders agreed on the distribution of bonus shares at a ratio of seven free shares for every ten shares held for 2004 instead of the previously recommended 50% bonus issue and 20% cash dividend for the year.

Based on the shareholders' decision, QIB will raise its capital to US$174 million (QR633 million) from US$107.2 million (QR390 million).

PAKISTAN

IDB arranges oil import financing deal

The Islamic Development Bank (IDB) in collaboration with a number of banks managed to arrange a financing package for Pakistan's oil imports.

The US$600 million loan will be split between a US$100 million Mudarabah facility and a US$500 million general financing.

Malaysia

Jimah's Islamic Bond launch soon

Malaysia's Jimah Energy Venture Sdn Bhd is expected to launch an Islamic serial bond later this month that could be the biggest debt issue in Malaysia this year, according to sources close to the deal.

The bond would be worth about US$1.32 billion (RM5 billion) and would be used to partly finance a US$1.58 billion (RM6 billion) 1,400-megawatt coal-fired power plant in southern Negeri Sembilan state. "It will happen in one to two weeks' time," a banker was reported to have said.

The Islamic bond would have staggered maturities that are six months apart and which could go up to 15 years, the banker said.

At US$1.32 billion (RM5 billion), the Jimah bond could account for up to 15% of the total US$8.68 billion - US$9.21 billion (RM33 billion-RM35 billion) of private debt that Commerce International Merchant Bankers (CIMB) bond analyst Jason Wong expects to be issued this year.

Only 20%-25% of the bond may be open to investors via bookbuilding, bankers and fund managers said. The rest of the issue may be privately placed with parties such as the government-controlled Employees Provident Fund.

In August 2004, Jimah signed a 25-year agreement to sell power to government-controlled Tenaga Nasional Bhd when the plant starts up in early 2009. Tenaga holds the monopoly for power distribution to most of Malaysia.

Negeri Sembilan's royal family is the controlling shareholder of Jimah, with Tenaga owning 20% and the state government holding 15%.

A consortium comprising AmMerchant Bank, Malaysian International Merchant Bankers, Bank Muamalat and RHB Sakura Merchant Bank have been mandated for the Jimah bond. Officials from Jimah and the arranging banks weren't immediately available for comment.

News Briefs (*continued...*)

THAILAND

Attracting mosques to become long-term depositors

The Islamic Bank of Thailand hopes to attract mosques to become long-term deposit customers. Bank President Anant Tangtatswas said plans call for a restructure of deposit account offerings by the third quarter of the year, in order to allow greater choices to specific prospective customers.

"There are around 3,500 mosques nationwide," he said. "Currently, most use their funds for operating expenses, as well as to further community activities.

"We will be splitting up our deposit offerings, and each category will have a specific goal. Depositors can then choose for themselves what types of industry they want to support. Returns may well be different for each type of industry," he said.

The Islamic Bank is run strictly according to Shariah. Anant said the bank plans to offer seven or eight different types of deposit accounts, including those focused on food, housing, clothing and medicine.

The bank's 12-month Al-Ameen account, which has a minimum deposit of US$25,150 (Bht1 million), was launched last October, and currently has around 50 accounts with deposits of about US$ 2.52 million (Bht100 million). Depositors receive about 60% of the bank's operating profits; the rest covers bank expenses.

Rates of return over the past six months were around 0.23-0.27% per month, or 2.8-3.32% on an annual basis, outstripping the typical 0.25-2% interest rates paid by commercial banks. □

MALAYSIA

AmBank introduces "ijarah" loan

Malaysia's AmBank Bhd will introduce a loan product based on Islamic banking known as Ijarah that will allow borrowers to repay under fluctuating rates.

Ahmad Zaini Othman, Senior General Manager and Head of Islamic Banking of the AmBank Group, said the central bank had given its approval for the launch of the product.

The loan was expected to attract a lot of interest as it would allow borrowers with a number of options to repay their loans, he said. He added that loan repayment under existing Islamic banking products was based on a fixed rate but the Ijarah facility offered a fluctuating type of facility in accordance with market movements. Borrowers can also opt to pay once every three months, twice a month or every 28 days.

"Ijarah will widen the concept of Islamic banking and the concept can be used for transactions involving the sale of property, business loans and other types of loans," he said.

Ahmad Zaini said AmBank would also introduce an overdraft facility known as I-Cash and it could be tied to the Islamic-based credit card facility known as Al-Taslif. □

USA

New York Islamic finance conference

A conference on Islamic finance will take place in New York on the 19th April, organized by the Arab Bankers Association of North America. The half-day forum will look at trends and products for retail, real estate, private and public funds and Sukuk. Representatives from Dow Jones, the Federal Reserve Bank and the Bahrain Monetary Agency are among the speakers. □

TURKEY

DIB inaugurates branch in Turkey

Dubai Islamic Bank (DIB) has inaugurated its first representative office in Turkey, further consolidating the bank's position as one of the leading financial organizations in the world.

In an announcement recently UAE Minister of Communications and Vice Chairman of DIB Sultan bin Saeed Al Mansouri said: "The inauguration of DIB's first representative office here builds on the historic ties that have existed for centuries between Turkey and the UAE.''

Turkey offers one of the biggest and most mature economies receptive to banking and financial products and the Turkish economy has grown significantly in recent years and has a huge potential, particularly if progress is made on its entry into the European Union.

The new office will help DIB to access the Turkish market and benefit from the different investment opportunities available there. The economy is now buoyant with GDP growth hovering around 9%, the world's highest growth rate and inflation under control, having plunged from 68.5% in 2001 to just 11.4% last year.

With the Turkish government having passed new laws that pave the way for further privatization in sectors such as energy, telecommunications, banking and industry, the potential and scope is huge for DIB's funding products. In addition the Government of Turkey has existing privatization programmes to enforce competition and facilitate market entry of foreign private sector players in various sectors. □

FOR FULL GLOSSARY OF ISLAMIC FINANCE TERMS click here

News Briefs (*continued...*)

SINGAPORE

System Access targets Middle East, Asia-Pacific

SESDAQ aspirant System Access, a Singapore banking software solutions provider, has set its sights on expanding its business in the Middle East and Asia Pacific this year and is also looking at tapping the growing Islamic banking sector.

To achieve its expansion plans, the company intends to issue 80 million new shares in its planned initial public offering (IPO). It recently lodged its preliminary prospectus with the Monetary Authority of Singapore.

CEO Leslie Loh said that the group plans to use US$3.04 million (S$5 million) of the IPO proceeds for R&D, and another US$4.26 million (S$7 million) on expanding its sales and marketing operations. Recognizing that Islamic banking is a key growth area, System Access plans to create a product for this sector. "Our system already supports international needs and meet some Islamic banking requirements," Loh said. □

UAE

National Bank of Fujairah plans Islamic finance firm

UAE commercial bank National Bank of Fujairah (NBF) has submitted a request to the UAE Central Bank for the establishment of a new Islamic finance company with a capital of US$136.1 million (Dhs500 million).

The company's founders, including NBF, are understood to be planning to subscribe to 45% of the company's capital, while the remaining 55% will be offered in an initial public offering (IPO).

The new company will provide Shariah compliant financing. □

UAE

Seven Islamic applications pending

The UAE Central Bank has seven licences for Islamic finance companies pending, Governor Sultan bin Nasser Al Suwaidi said recently. He also revealed that Swiss and Dutch banks had also recently been awarded licences to operate in the UAE though he did not name them. □

MIDDLE EAST

Deutsche & Islamic think tank tie up

Deutsche Bank is holding a series of educational seminars throughout the Middle East to highlight the need for greater innovation in the Islamic finance sector. Leading Islamic scholars from the Dar Al Istithmar (DI) will explain the role of innovation in developing new Shariah compliant products.

DI is a highly positioned Shariah think tank and joint venture between Deutsche Bank, Oxford Centre for Islamic Studies and Russell Wood Limited, a renowned advisor on investment structures in the Middle East.

With the collective expertise of DI, Deutsche Bank is developing an innovative new range of Shariah compliant products for both institutions and individual investors. The product range focuses on opening all asset classes for Muslim investors and will include Commodity and Hedge Funds as well as a diverse range of products focusing on areas from Money Markets to Real Estate. □

SAUDI ARABIA

Shariah compliant real estate fund

Rikaz, the leading Saudi Arabian real estate company, and Shamil Bank of Bahrain BSC, the Bahrain-based Islamic commercial and investment bank, last week announced the launch of the Royal Amwaj Real Estate Development Fund. The fund is the first Saudi Riyal denominated, Shariah compliant, regulated real estate development fund for investment in the Saudi Arabian real estate market.

The BMA-regulated fund was structured and will be managed by Shamil Bank. The project The Royal Amwaj Resort meanwhile, will be developed and marketed to potential buyers by Rikaz.

The US$124.2 million (SR 465.9 million) fund is a Shariah compliant, three-year, closed-end investment fund that will finance the delivery and marketing of the Royal Amwaj Resort, a mixed-use development on a one million square meter waterfront site to the south of the city of Al-Khobar, in the Eastern Province of Saudi Arabia.

The fund is initially targeting investors from Saudi Arabia and the Gulf region but is open to international investors looking for exposure to the Kingdom's emerging real estate market. The fund's projected returns are anticipated at an ROI of more than 43% and an IRR of 18.1% over the fund's term.

A regulated investment product ensures that investors are provided with a higher degree of transparency both as a result of the supervisory function carried out by the regulator but further through the role played by independent parties that are responsible for the oversight of various aspects of the fund and its proper management. While this process does not eliminate the intrinsic risks of investments made through a regulated fund, it guards against the misuse of the proceeds raised and provides investors with the relevant information at the onset whereby they can make more informed and educated investment decisions, says the fund's backers. □

News Briefs (*continued...*)

MALAYSIA

Musyarakah One obtains AAA Ratings

Musyarakah One Capital Bhd's (Musyarakah One) US$149.1 million (RM566.56 million) Sukuk Musyarakah Series 2005-A has been assigned a long term rating of AAAID by Malaysian Rating Corporation Bhd (MARC).

Musyarakah One was incorporated for the purpose of acquiring receivables from the originator, TIME System Integrators Sdn Bhd (TSI).

In a statement released recently, MARC said Musyarakah would be issuing Sukuk to acquire the receivables comprising rights, title, interests and benefits to the payment obligations of the Government of Malaysia to TSI pursuant to the contract and letter(s) of award to supply teaching equipment and provision of services to various schools and certain government areas, from time to time, to implement a programme for teaching Science and Mathematics in English.

On the 22nd October 2003, the Government had awarded TSI, a wholly-owned subsidiary of TIME Engineering Bhd with a contract to supply certain teaching equipment and services for the school year 2004 to all schools in the country and certain designated government areas (if any).

MARC said that payment from the government will be made on a deferred payment basis (without set-off) as stipulated in the facility payment certificate.

Sukuk Musyarakah Series 2005-A, the first Musyarakah series will be issued in five tranches to acquire receivables generated from supplies made under the Letter of Award dated the 22nd October 2003.

Meanwhile, instalment payments from the government in respect of Sukuk Musyarakah Series 2005-A will commence in 2006, one year from the date of issue of Sukuk Musyarakah series 2005-A. The receivables will be sold via absolute legal assignment to Musyarakah One. □

BAHRAIN

April Sukuk Al-Salam return at 3.12%

The expected annual return on the April 2005 issue of US$25 million worth of 91-day Bahraini Shariah compliant bonds Sukuk al-Salam stands at 3.12%.

The issue was oversubscribed and received bids worth US$80.31 million. The bonds would be issued by the Kingdom's central bank Bahrain Monetary Agency (BMA) on behalf of the Bahraini Government on the 6th April and will mature on the 6th July . □

BANGLADESH

Shahjalal Bank set to launch IPO

Bangladesh's Shahjalal Bank Ltd, a bank run by Shariah laws, is all set to launch initial public offerings (IPOs) worth US$14.75 million (Tk935 million) by the end of this year on the back of growth registered in its deposit and investment.

"We are going to issue a US$14.75 million (Tk935 million) IPO by December if the Securities and Exchange Commission approves our proposal," said a senior official of the bank . The current paid up capital of Shahjalal Bank is around US$7.35 million (Tk466 million).

The Bank is receiving a huge number of applications for industrial loans. Its investment nearly doubled to US$112.98 million (Tk7.16 billion) in 2004 from US$68.17 million (Tk4.32 billion) in 2003. The projected investment for the current year is US$220.90 million (Tk14 billion). "Until December last year, our investment in the textile and garment sector stood at US$15.78 million (Tk1.0 billion) that was followed by real estate," the senior official added.

During the period, Shahjalal's deposits also notched encouraging growth - it was US$95.15 million (Tk6.03 billion) in 2003 and US$143.13 million (Tk9.09 billion) in 2004. It is projected to grow to US$236.69 million (Tk15 billion) this year.

With the increasing popularity of Islamic banking, Shahjalal has applied to the Bangladesh Bank to open four more branches. Currently, it has 12 branches across the country. □

KUWAIT

A'Ayan issues Islamic bonds

A'ayan shareholders gave the nod in the annual meeting for raising the company's capital to US$97.7 million (KDs29.3 million) and dividends of 15% in stocks. In addition, shareholders unanimously voted for authorizing the Board of Directors to issue US$20 million (KDs20 million) worth of Islamic bonds. The increase of capital is consistent with the growth of the company's operations and with the expectations of even more growth and investments diversification.

Both Chairman Ali M Al-Ghanim and CEO Ahmad A Al-Dosary addressed the shareholders during the annual meeting. On the company results for fiscal year 2003 total assets and shareholders' equity grew by 57% and 45% respectively over 2002 while operating income and profit from operations grew by 97% and 224% respectively.

Leasing operations of the company continued its growth during the last fiscal year. Leasing represents the most important and strategic product of the Company. Leasing has achieved a dramatic increase in A'ayan real estate business, by rising to 66% of the volume of real estate financing operations in 2003, compared to 36% in 2002. □

SECTOR REPORT

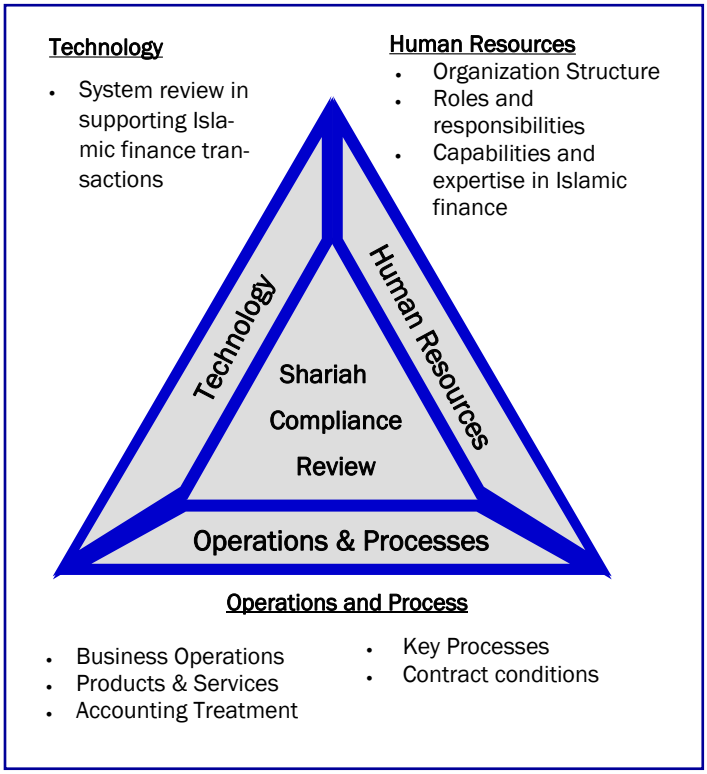
Shariah Compliance Reviews *By Daud Abdullah (David Vicary)*

As Islamic Finance steadily progresses from being part of a niche market to joining the mainstream of finance, there will be increasing pressure from both the market and regulatory bodies to ensure that operations are in compliance with Shariah.

The trend towards greater transparency and improved corporate governance, will doubtless see regulators, in the none too distant future, insist that some form of Shariah Compliance Review (SCR) is undertaken on a regular basis in Financial Institutions that offer Shariah compliant products. Indeed, in the last 9 months, my own organization has completed a number of SCR's in the Southeast Asian region. At this stage, these reviews have not been driven by the need for regulatory compliance, but rather by a desire from the Bank itself, to ensure that it's Shariah operations are being conducted in an appropriate manner. The key business driver has been to determine whether or not the Financial Institution has been exposed to any unnecessary risk, particularly "reputational risk."

As most readers will already be aware, in Islamic Banking there are requirements to comply with Shariah that go over and above local regulatory standards. An effective means of gaining assurance that all is well is by conducting a Shariah Compliance Review (SCR). (Please see the attached diagram that outlines the proposed framework for a SCR).

In summary, the methodology for the SCR is as follows:-



Ensure that activities carried out by the Islamic Financial Institution (IFI), both at the operational and transactional levels, are Shariah compliant. This would include a review of overall business operations. An integrated approach is used to conduct the SCR, whereby three main areas are assessed for Shariah compliance. These areas comprise the IFI's operations and processes, as well as its technology and human resource functions.

A review of the operational aspects such as product manuals, accounting policies and contract conditions is conducted as part of the exercize. An assessment of the application systems and human resources supporting Islamic Finance operations is also performed. A systems review of the organization structure, roles and responsibilities, together with the capabilities and expertize in Islamic Finance is also undertaken.

Our experience in running a number of SCR's has demonstrated that there are some challenges that need to be addressed, in order to ensure that the SCR program is successful.

Firstly, proper governance and structure, programs and procedure need to be in place prior to undertaking a SCR. Otherwise there will be nothing to review against! Secondly, those conducting the review should possess adequate levels of knowledge and skills across the various disciplines. Thirdly, promote the involvement of the external auditors in order to enhance the independence and transparency of the industry.

Now let's get down to the details. As a result of conducting an SCR, what sort of findings have we come up with. These can be classified into six main areas as follows:-

1. Lack of co-ordination between management and the Shariah Advisory Board

   On occasions, we have seen an absence of a dedicated unit or process to co-ordinate activities, meetings and discussions with the Shariah Advisory Board. There have been examples where, as a result of the absence of a complete process, that the Shariah Advisory Board has not had all Shariah matters referred to them. This has led to the Board not being able to review all the terms and conditions in all agreements.

2. Lack of Shariah compliance in agreements, contracts and products

   Many examples have been uncovered where contracts have been executed in accordance with Shariah. For example, Murabaha without a contract of sale, no evidence of transfer of ownership and stipulation of fixed profit payment to the bank under a Musharakah contract.

3. Lack of standardization in terms and conditions in contracts

   Problems mainly ensued from a lack of centralization, where branches were able to stipulate terms and conditions differently from Head Office. This lack of centralization could potentially

SECTOR REPORT *(continued…)*

lead to fraud and collusion. Branch employees were often found to be unfamiliar with Shariah concepts, which in turn led to non-compliance with contractual terms and conditions

4. **Lack of skills and capabilities**
   Bank employees who have no prior training and exposure to Islamic Finance concepts, were sometimes dealing with customers who were interested in Islamic products. This lack of education and training of staff can potentially lead to a loss of confidence by customers. They may be the recipients of poor or erroneous information, which would reflect badly on the reputation of the Islamic Bank

5. **Co-mingling of funds as a result of Islamic operations being recorded in conventional books**
   A rare occurrence, but this misleads the users of accounting information.

6. **Misleading terminologies**
   Usually as a result of accommodating conventional IT application systems to Islamic finance needs. Examples would be system produced Statements of Account for Islamic Banking customers containing terms such as *interest* earned and *loan* amount, instead of *profit* earned and *financing* amount

As can been seen by the above, many of the exceptions found could lead to significant "reputational" risk to the bank, if they were to be made public. This highlights the need for a regular Shariah review in order to ensure compliance, and perhaps heralds the need for regulatory intervention to ensure that Shariah is being complied with.

The problem is arguably more acute in the case of Islamic Window operations, were the sharing of assets and resources may lead to a co-mingling of funds from Shariah compliant operations with riba based operations.

Shariah Compliance Reviews (SCR's) are essential to minimize the potential "reputational" and legal risks to a bank. The last thing a bank wants is a loss of confidence from it's customers should Shariah not be complied with.

Deloitte.

CONTACT US AT:

David Vicary

dvicary@deloitte.com

Director, Financial Services
Deloitte Consulting Malaysia
Level 19, Uptown 1
Damansara Uptown
1, Jalan SS 21/58
47400 Petaling Jaya
Malaysia

UK

COUNTRY REPORT

UK Budget kick-starts Islamic banking *By John Challoner*

The Budget statement in 2003 was historic in that it recognized that specific tax legislation was required in the UK to cater for Islamic Finance. The initial changes made by that year's Finance Act were modest, relating only to stamp duty land tax (SDLT was introduced in 2003 to replace the old system of stamping documents that transferred interests in land).

Without the specific legislation, mortgages of UK land which were structured as Murabaha sales or Ijara leases would be taxed twice, once on the acquisition of the property by the financial institution and again on the sale, or lease, to the customer (or even three times in the case of refinancing). These changes in themselves were helpful, although there was some concern that only individuals could take advantage of the reliefs; they did not apply where the customer was a company, and this remains the case today. However, it was recognized by the Inland Revenue that these changes were only the start.

This year's Budget, followed by the publication of the 2005 Finance Bill at the end of March, makes a big leap forward in that it brings the direct tax treatment (income tax and corporation tax) of Islamic banking products into line with their traditional, non-Shariah equivalents. The new changes fall into two categories: relatively small SDLT changes, and major changes in the treatment of banks and customers engaged in Murabaha and Mudarabah transactions.

The SDLT provisions make technical changes to ensure that the existing reliefs can apply to transactions carried out under Scottish law. They also amend the provisions that relieve Ijara leases so that these reliefs also apply to "diminishing Musharakah" forms of Ijara transactions, under which beneficial interests in the property pass from the bank to the customer in tranches over the life of the transaction.

In my view, the diminishing Musharakah changes were not necessary as the original legislation covered the situation. Nevertheless, the fact that the Inland Revenue are prepared to legislate to benefit new products, as they become aware of them, is welcome. The new SDLT provisions will apply to transactions entered into after the day on which the Finance Act 2005 receives Royal Assent.

The big change, however, is in relation to the direct tax consequences of Shariah compliant deposit and loan arrangements. Historically the taxation of such arrangements in the UK has been a mess. There was a gulf between the technical tax treatment of such transactions and the way they were actually taxed in practice. More importantly, neither the strict technical treatment, nor their practical application, provided a level playing field with traditional banking products involving the payment of interest. If a bank pays interest to a customer, the interest is deductible in computing the bank's taxable profits. If a customer pays interest to a bank, depending on the purpose of the loan, the interest may be tax-deductible for the customer. However, under deposit arrangements (equivalent to savings or term deposit accounts) that are structured as Mudarabah, or on a shared profit and loss basis, the "profit" element paid by the bank to the customer is treated as a distribution by the bank of its profits and is not tax-deductible. It is arguable that this treatment is not in line with the actual tax legislation because, in many cases, the bank is merely acting in a fiduciary capacity and should only be taxed on its actual profits in any event.

In the case of bank loans, a customer who obtains finance from a bank under a Murabaha transaction - say, to purchase a property which he intends to let, or for the purpose of his business - would not get any tax relief in respect of payments representing the bank's margin on the transaction, whereas relief would have been available if that margin had been paid in the form of interest on a loan.

The way the banks were taxed in practice and the uncertainty surrounding the correct tax treatment resulted in reluctance on the part of most UK financial institutions to offer these facilities. The changes in this year's Finance Bill result from co-ordinated and well structured lobbying by the Islamic Bank of Britain and others.

> **"The purchase price payable under Murabaha, and the deposited amount under Mudarabah, are to be treated as the principal amount of a loan"**

The new provisions equate the Murabaha and Mudarabah transactions for tax purposes to their traditional banking counterparts. For all the purposes of corporation tax and income tax, the "effective return" on Murabaha transactions, and the "profit share return" on Mudarabah transactions, are to be treated as if they were payments of interest (even though, under Shariah law, they are not, because of the differing underlying structures). In addition, the purchase price payable under Murabaha, and the deposited amount under Mudarabah, are to be treated as the principal amount of a loan.

This ensures that, for both banks and their UK customers, the tax treatment should be the same as it would have been if the transaction had been structured as an interest-bearing loan (including relief for the incidental costs of obtaining the finance). One of the consequences of this is that, where the bank or financial institution makes the payment (of the "effective return" or "profit share return") to an individual under a deposit arrangement, the bank must deduct income tax at the rate applicable to savings transactions (currently, 20%) in the same way as applies to interest payments. Although this has an adverse cash flow effect for the customer, it means that individuals who are liable to income tax at the lower or basic rates of taxation have no further liability in respect of the payments and higher rate taxpayers will get full credit for the tax withheld. UK companies will be taxed under the "loan relationships" regime that was introduced in 1996. Under this regime, the tax treatment broadly follows the company's accounting treatment in respect of the transaction.

UK

COUNTRY REPORT *(continued...)*

There was a further disincentive for non-UK residents to enter into Murabaha transactions with UK banks, in that there was a possibility that the customers would be regarded as carrying on a trade in the UK through an agent or permanent establishment and so be subject to UK tax on their profits. The new law makes it clear that this will not be the case.

The new provisions apply to arrangements entered into after the 5th April 2005. However, profits arising on Mudarabah arrangements entered into earlier, but arising after 5th April 2005, will fall within the new provisions and there are transitional rules setting out how companies entering the "loan relationships" regime will be treated.

Discussions are continuing with Customs & Excise as to whether changes need to be made to the Value Added Tax laws, which are not addressed in the Finance Bill.

Note: The author is a Tax Partner at Norton Rose, International Law Firm

SECTOR REPORT

Why is Islamic accounting important? *By Prof. Bala Shanmugan*

Historically, accounting has always been used as a tool in the economy to report financial relationships between individuals, business and government. Generally, accounting is characterized according to the assumptions of the economic community. Thus cultural, social, economical and political factors have had considerable bearings on financial statements.

Projecting itself as the only true model of reporting and recording, conventional accounting controls the globe's financial affairs. The West has managed to give a massive inferiority complex to those who are not 'modern' in their image. Copying what is 'new' and 'modern' has become an obsession and a fever to which there seems to be little remedy. For day-to-day analogies we feel more presentable with a knife and fork in our hands and more elegant if dressed in jacket and tie (never mind if 'the tie was originally a Mongol invention for dragging prisoners tied to the pommels of their saddle!')

So too with accounting, there does not appear to be many principles or ideas capable of challenging this 'modernity'. Following Western trends at all cost is an order against which there is no appeal. Merely to question the route taken, its rationality or its consequences has become impossible.

The current system of conventional accounting follows what is known as Generally Accepted Accounting Principles. This takes into account among others: historical cost, conservatism, accrual and matching and substance over form, going concern, monetary measurement, materiality and consistency. While these principles were defined and elaborated from the beginning of the last century these notions nevertheless favour and follow the historical development of Western civilizations.

In recent years however, it has been recognized that the conventional accounting theory may have undesirable consequences (Hines, 1988). As a result of this there have been calls to redress this issue. Some of those calling for changes include Tinker et al (1982), Cooper and Sherer (1984), Hopper and Powell (1985), Chua (1986), Lehman (1988) and Arrington (1990).

As Hayashi (1989) states: 'The traditional Western double-entry accounting technology is well-suited to an orthodox positivist society ... It is not surprising that this is proving inadequate, as people are returning to more integrated world views, whether Islamic or otherwise'

Islamic Economics

From the Islamic point of view, as in other traditional civilizations, economics was never considered as a separate discipline or distinct domain of activity. As a result, there is no word to describe economics in classical Arabic.

As such the term *Iqtisad* being a fairly recent translation of the modern term 'economics' in Arabic has an entirely different meaning in classical Arabic. What it primarily means is moderation.

The Islamic economy is composed of three broad and basic components, which are:

- The principle of multi-faceted ownership;
- The principle of economic freedom within a defined limit;
- The principle of social justice.

The Holy Quran states: 'In their wealth there is a known right for those who ask for it and those who have a need for it.' This can be interpreted as wealth maximization not being the sole objective of economics in Islam.

The basic framework for an Islamic financial system is a set of rules and laws, collectively referred to as Shariah, governing economic, social, political, and cultural aspects of Islamic societies. Shariah originates from the rules dictated by the Quran and its practices, and explanations rendered (more commonly known as Sunnah) by the Prophet Muhammad. Further elaboration of the rules are provided by scholars of Islamic jurisprudence within the framework of the Quran and Sunnah.

The major reasons for Islamic transactions to insist upon an alternative framework for reporting are due to the existence of the following viewpoints and practices (Hameed, 2000)

Prohibition of Interest (Riba)

Riba literally means excess and interpreted as "any unjustifiable increase of capital whether in loans or sales". More precisely, any positive, fixed, predetermined rate tied to the maturity and the amount of principal is considered riba and is prohibited. The general consensus among Islamic scholars is that riba covers not only usury but also the charging of "interest" as widely practiced.

Risk Sharing

As interest is prohibited, suppliers of funds become investors instead of creditors. The providers of financial capital and entrepreneurs share business risks in return for a share of the profits.

Money as "Potential" Capital

Money is treated as 'potential' capital instead of capital, as it becomes actual capital only when it comes together with other resources to undertake productive activity. Islam recognizes the time value of money, but only when it acts as capital, not when it is 'potential' capital.

Prohibition of Speculative Behaviour

Islam discourages hoarding and prohibits transactions featuring extreme uncertainties and gambling.

Sanctity of Contracts

Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard.

Shariah-Approved Activities

Only those business activities that do not violate the rules of Shariah or Islamic law qualify for investment. For example, any investment in businesses dealing with alcohol, pork or gambling would be prohibited.

SECTOR REPORT *(continued…)*

Islamic Accounting

In many ways Islamic accounting can be described as a 'wholesome accounting process' because it provides appropriate information, which is not necessarily limited to financial data for stakeholders of an entity. An Islamic accounting system would ensure the stakeholders' entity is continuously run within the confines of the Shariah and that the entity adheres to its socioeconomic objectives. As such Islamic accounting would enable Muslims to evaluate their own accountabilities to God in relation to inter-human and environmental relationships.

In essence it can be argued that an accounting system based on Islamic principles can be expected to be stable owing to the elimination of debt-financing and enhanced allocative efficiency. This stability is largely attributed to the fact that the term and structure of the liabilities and the assets are symmetrically matched through profit-sharing arrangements, no fixed interest cost accrues, and refinancing through debt is not possible. Allocative efficiency occurs because investment alternatives are strictly selected based on their productivity and the expected rate of return. In addition it is also felt that Islamic accounting models support the growth of entrepreneurship without greed.

The meaning of Islamic accounting would be clearer if one compares this with the definition of conventional accounting. Conventional accounting as mentioned earlier according to the American Accounting Association's (1966) definition is the identification, recording, classification, interpreting and communication of economic events to allow users to make informed decisions.

There is a common standing in the sense that both forms of accounting are essentially involved, in the provision of information. However this is only at the surface level. There exists numerous differences. For instance one must ask these questions:

1. What are the objectives of providing the information
2. What is the type of information that has been identified,
3. How is the information measured and valued, recorded and communicated, and
4. To whom will the information be communicated, i.e. who are the users

Conventional accounting seeks to allow informed decision makers, whose ultimate purpose is to efficiently allocate scarce resources available, to the most profitable users by providing information in the market (FASB, 1978). However, in meeting with this objective the end result is a profit motive, as users either make buy, sell or hold decisions on their investments.

On the other hand, Islamic accounting attempts to answer the above questions quite differently. Islamic accounting's major aim is to enable users to ensure that Islamic organizations (could be business, government or non-profit organization) abide by the principles of the Shariah in all its dealings. By doing this it enables the assessment of whether the socio-economic objectives of the organization are being met.

However this does not mean Islamic accounting is not concerned with profits. On the contrary, due to the prohibition of interest-based income or expense, profit determination is more important in Islamic accounting than conventional accounting. There is a difference, however, as Islamic accounting aims to be holistic in its reporting. Therefore the reporting of Islamic accounts includes both financial and non-financial measures with regards to economic, social, environmental and religious events and transactions.

Another salient point in conventional accounting is it mainly uses historic cost (or lower) to measure and value assets and liabilities. By now the accounting profession is quite aware of the limitations of using such an assumption. However, despite recommendations for using current values (rather than historic costs), this initiative was given up due to its complexity and presumed lack of objectivity. Even so, this measure can be used in Islamic accounting, at least for the computation of Zakat, where current valuation is obligatory. This feature was prompted by Clarke et al (1996) and Baydoun and Willet (1994). For instance, the accounting period for Zakat purposes is different from the conventional accounting period as there is a need to follow the Hijri'iah year and not the Gregorian year. The reason for this is Zakat is payable for the former year and not the latter.

Another difference is that Islamic accounting may require a different statement altogether, mainly to deemphasize its focus on profits via the income statement, as measured by conventional accounting standards. In fact Baydoun and Willet (1994) have even suggested a Value Added Statement (VAS) to replace the Income Statement in Islamic corporate reporting. They argue that using the VAS encourages a co-operative environment in business (sidelining the greed motive) as opposed to a destructive competitive environment.

As for the users of the information, even though the accounting profession has recognized various stakeholders as users of accounting information, it nevertheless considers the main users to be shareholders and creditors of a firm. This is based on FASB's definition which dismisses a whole range of stakeholders by including the term – "and others". Looking at current practices in global financial markets, it is believed that conventional accounting seems to be serving a select group of financiers consisting of wealthy individuals, banks and other financial institutions. It has reached a state where current accounting practices have been accused of helping a group of rich people get richer (Gray et al, 1996) - a critical view indeed, as the profession more often than not justifies its monopoly on audit services by virtue of its practice of safeguarding public interest.

"Due to the prohibition of interest-based income or expense, profit determination is more important in Islamic accounting than conventional accounting"

Islamic accounting seeks to serve the whole gamut of stakeholders and not any particular group, and society as a whole can make corporations accountable for their actions and ensure they comply with Shariah principles. Being accountable to all and by working within the confines of Shariah will result in organizations not harming some while making money ethically for others. Such an approach will go a long way in achieving equitable allocation and distribution of wealth.

Table 1 below spells out the major similarities and differences between conventional and Islamic models of accounting.

Table 1: Similarities and Differences between Islamic and Conventional Accounting , *Source: Taheri, (2003)*

Elements	Anglo-American Model	Islamic Model
Economic Approach	Micro	Macro
Primary Users	Investors and Creditors	State, Management, People
Accounting Policy	Goal Oriented	Value Oriented
Asset Valuation	Historical Cost Price	Current Price
Income Determination	Revenue-Expense Approach	Asset-Liability Approach
Time Value of Money	Yes	No
Time Period	Yes	Yes
Primary Focus	Income Statement	Balance Sheet
Theoretical Concept	Entity Theory	Proprietary Theory
Going Concern Postulate	Based on Income	Based on Islamic Law
Fixed Interest	Yes	No
Legalistic Orientation	Common Law	Religious Law
Accounting Ethics	Professional Ethics	Religious Ethics
Stock Exchange Market	Yes	Yes
Bonds	Yes	Yes with condition
Accounting Approach	Value Approach	Event Approach
Dichotomy of Business and Private Morality	Yes	No

Conclusion

The dire need for a new model for reporting financial transactions has not gone unnoticed. As early as 1991 the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) was established. By the end of 2004 they had devised 22 accounting standards and 5 auditing standards.

Unfortunately however not all Islamic financial institutions adhere to these new standards. Non-conformity would only slow down Islamic finances' move to integrate with the global financial markets. In fact the EU has decided that unless firms adhere to IASB requirements they would not be allowed to seek funding from EU capital markets from 2007 onwards. In view of such a ruling standard setting organizations such as the Accounting Standards Board of Japan (ASBJ) are working hard to align their standards. In the interest of internationalization it is high time for Islamic organizations to construct standards and seek convergence.

References

- American Accounting Association (AAA)., (1966), "Committee to prepare a statement of basic accounting theory. A Statement of Basic Accounting Theory", Illinois, USA, 1966.
- Arrington, E., (1990), "Intellectual Tyranny and the Public Interest: The Quest for the Grail of and the Quality of Life", Journal of Public Interest Accounting, Vol 3, pp1-16, 1990.
- Baydoun, N. and Willett, R., (1994), "Islamic Accounting Theory", Paper presented at the AAANZ Annual Conference, 3-6 July, 1994, Wollongong, Australia.
- Chua, W.F., (1986), "Radical Developments in Accounting Theory", The Accounting Review, Vol. LX1, No. 4, October ,1986.
- Crane, R., (1981), "Islamic commercial law in contemporary economics", Embassy Handbook, Washington, DC, U.S. Department of State
- Clarke, F., Craig, R. and Hamid, S., (1996), "Physical asset valuation and zakat: Insights and implications", Advances in International Accounting, No. 9, pp. 195-208.
- Cooper, D.J. and Sherer, M.J., (1984), "The value of Corporate Accounting Reports: Arguments for a Political Economy of Accounting", Accounting, Organisations and Society , Vol. 9, No. 3/ 4, pp 207-232, 1984.
- Financial Accounting Standards Board, (1978) "Statements of Financial Accounting Concepts for Business Enterprises No. 1: Objectives of Financial Reporting by Business Enterprises", Stamford, Connecticut, FASB.
- Gray, R., Owen, D. and Adams, C., (1996), "Accounting and Accountability: Corporate Social and Environmental Reporting in a changing world" , London: Hermel Hempstead, Prentice Hall, 1996.
- Hayashi, T., (1989), "On Islamic Accounting: Its Future Impact on Western Accounting", The Institute of Middle Eastern Studies, International University of Japan.
- Hameed, S., (2000), "From Conventional Accounting to Islamic Accounting", http://islamic-finanance.net/islamic-accounting/acctg1.html
- Hines, R., (1988), "Financial Accounting: In communicating reality, we construct reality," Accounting, Organisations and Society, Vol. 13, No.3, pp251-261, 1983.
- Hopper, T. and Powell, A., (1985), "Making sense of Research into the organisational and social aspect of Management Accounting: A review of its underlying assumptions", Journal of Management Studies, pp429-465, Sept 1985
- Iqbal, Z. and Amerah, M., (1990), "Public Finance in Islam".
- Lehman, C., (1988), "Accounting Ethics: Surviving survival of the fittest", Advances in Public Interest Accounting, Vol. 2, pp 71-82, 1988.
- Lehman, C., (1992), "Accounting's changing role in Social Conflict ", London: Paul Chapman Publishing, 1992.
- Taheri, M.R., (2003), "The Basic Principles of Islamic Economy and Their Effects on Accounting Standards-setting", http://islamic-finance-net/islamic-accounting/acctg6.html.
- Tinker, T., Merino, B. and Neimark, M., (1982), " The normative origins of positive theory", Accounting, Organisations and Society, Vol. 7, No. 2, pp167-200, 1982.

Note: The author holds the Chair of Accounting and Finance at Monash University Malaysia. He is also the Director of the Banking and Finance Unit. As Head of the Accounting and Finance Department he supervises postgraduate research, undertakes independent research and consulting and teaches postgraduate classes. He has an extensive publication record.

Takaful news
www.islamicfinancenews.com

Inside Takaful News:

NEWS BRIEFS

MALAYSIA

Takaful Ikhlas expecting gross contribution of US$26.32 million

Malaysia's Takaful Ikhlas Sdn Bhd expects to post a gross contribution (or premiums) of US$26.32 million (RM100 million) in the financial year ending 31st March 2006 in light of the solid growth in the Islamic banking sector.

The unaudited gross contribution for the last financial year was at US$17.37 million (RM66 million), said its Managing Director and Chief Executive Officer, Syed Moheeb Syed Kamarulzaman.

Speaking at the Memorandum of Understanding (MoU) signing ceremony between the company and Alliance Bank Malaysia Bhd, he said the Takaful Family segment remained its largest contributor, accounting for 60%.

The balance was expected from Takaful General, he said.

On the signing, Syed Moheeb said Takaful Ikhlas expected to generate new business worth US$789,583 (RM3 million) for the current year by offering Mortgage Reducing Term Takaful (MRTT) through Alliance Bank. MRTT is otherwise known as Mortgage Reducing Term Assurance (MRTA).

He said the MRTT portfolio was also expected to increase to 50% from the current 35%.

Under the MRTT, there will be a partial refund of contribution upon maturity of the MRTT certificate. It is additional to the refundable premium paid for un-utilized period of coverage in case of early settlement or cancellation of the certificate by the insured. Other benefits of the MRTT include coverage of funeral expenses of up to US$263.16 (RM1,000).

Going forward, Syed Moheeb said Takaful Ikhlas would embark on other financial plans with Alliance Bank particularly on motor as well as the Small and Medium Scale Enterprises (SMEs) loan segments.

"We have been in most financial institutions as an alternative financial protection provider. With this exclusivity with Alliance Bank, we hope we can expand more to other segments with them," he said.

Meanwhile, Alliance Bank's Senior General Manager, Hire Purchase, Ong Ah Tin said the bank was looking at setting up an Islamic banking subsidiary and "it is always an option." Ong said Alliance Bank has intensified efforts in the area of Islamic products and business development as it believed in the potential growth of the sector.

To date, Ong said that 80% of the bank's new hire purchase loans were booked under Islamic Hire Purchase while 60% of the bank's Islamic Banking customers were non-Muslims. □

PAKISTAN

Draft Takaful rules notified, comments sought

The Pakistan Government has announced the draft Takaful Rules, 2005 for soliciting views and comments of the insurance industry, general public and all other stakeholders within fifteen days.

According to a statement, under the proposed Rules, a Wakalah (agency) operational model has been introduced in the country. Under the model, surplus in the Takaful fund is distributed to the policyholders. The operator charges Wakalah fee from contributions that covers most of the expenses of business.

The rate of fee is fixed in advance in consultation with Shariah committee of the company. All investments are made in Shariah compliant instruments.

The draft Takaful rules were first developed by a task force constituted by the Securities and Exchange Commission of Pakistan (SEC), under the Chairmanship of former Chief Justice, Federal Shariat Court, Mian Mahboob Ahmed and later sent to the Ministry of Commerce for approval and notification. □

UAE

Abu Dhabi National Takaful listing

UAE Islamic insurance company Abu Dhabi National Takaful was listed on the Abu Dhabi Securities Market (ADSM) on the 10th April , becoming the 40th firm traded on the stock exchange. Abu Dhabi National Takaful is a subsidiary of Abu Dhabi Islamic Bank (ADIB). The company reported a net profit of US$60,200 (Dhs221,200) for 2004. □

NEWS BRIEFS *(continued...)*

DUBAI

AMAN launches online Service

AMAN, the pioneering Dubai-headquartered Islamic insurance and reinsurance company, has broken new ground with the announcement that it has launched a service that will allow motorists to apply for and receive insurance quotations online.

AMAN online, the first service of its kind in the region, is said to transform the whole process of insuring vehicles in the UAE and has wide implications for the competitiveness of the market.

Vehicle owners just need to log on to the site (www.aman-diir.ae), key in basic information such as their name, address, the vehicle model and series, and they will instantly receive a copy of AMAN's motor insurance quotation by e-mail. Special discounts are available for owners who use the new e-service, which can be accessed 24 hours a day, seven days a week.

AMAN General Manager Jihad Feitrouni said: "The service facilitates the underwriting process of motor insurance contracts. Users instantly receive an electronic version of our quotation after they submit their online application. The quotation will include the total insurance premium and our advanced call centre is available to respond to queries."

The service increases transparency with the quotations giving a good indication of premium levels for specific vehicles and circumstances. AMAN is able to draw on a comprehensive database on the vehicles and their models that exist in the UAE market.

"The online service has been developed by AMAN in response to the growing demand of customers and in light of the increasing electronic transactions taking place in the UAE market," said Feitrouni. "It is capable of processing hundreds of applications in a very short period of time, it is user-friendly and aims to reduce the time and effort customers have previously been forced to allocate to insuring their vehicles.

"The launch of the online service reflects AMAN's commitment to developing the Islamic insurance sector by creating unique products and top quality services. We keep a close check on the UAE insurance market to make sure we are in tune with its needs," he added.

By introducing the new service, AMAN has set a benchmark for the regional insurance industry and paved the way for further development of innovative products and services in the sector, he added.

QATAR

Doha Bank launches Takaful Family Protection Shield

Qatar's commercial bank Doha Bank has launched a Shariah compliant insurance scheme, called Takaful Family Protection Shield. Under the Takaful scheme, families of insured account holders will get US$13,700 (QR50,000) in the case of death or permanent total disability of the account holder.

The monthly insurance fee stands at US$2.70 (QR10), Doha Bank said. Customers can extend the protection limit up to US$27,500 (QR100,000) by paying additional monthly premiums.

The Takaful Family Protection Shield, available for account holders aged up to 65 years, was launched in co-operation with the Qatar Islamic Insurance Company (QIIC). The Islamic insurance product will be offered on a trial basis over a one-month period, officials said. Doha Bank has recently amended its articles of association to read that it is allowed to offer Shariah compliant banking services and products.

What makes a company 'Takaful'? *By Ajmal Bhatty*

The Takaful industry is still evolving but has already come a long way in improving its products, services and standards. The pace of development has been high, which is good but it has had its drawbacks. Some Takaful companies, old and new, adhere to the underlying Takaful concepts but some do not.

The reasons for starting Islamic banking and Islamic insurance in the first instance were, I am sure, not to make lots of money. It all started with a small group of dedicated and determined businessmen, the pioneers back in the 1970's, who felt a strong desire to uphold the principles of Shariah in their everyday dealing of business and finance. Among these pioneering entrepreneurs were some prominent investors from Saudi Arabia. For many years they persevered despite losses and only small amounts of profit.

In the beginning it was more a case of religious application to business practices. Later it evolved into application of business expertise and technical know-how applied within the boundaries of Shariah principles. Malaysia soon emulated in a pragmatic way. Other countries in the Middle East, Asia and Africa followed suit. Bahrain became a regional centre for Islamic banking. And it worked in the end as Islamic banking has flourished.

Estimates of the size of the Islamic banking industry vary between US$200 billion and US$500 billion of Shariah compliant assets. The potential remains huge with a sustained growth over the past many years of more than 15% per annum. Investors from the GCC alone have invested over US$1.2 trillion in international assets, predominantly in the US and Europe.

Islamic insurance lagged behind for a while during the 1980's but over the last decade, this too has gathered momentum. It has started to make inroads into the market share of conventional business. The potential is phenomenal in life insurance where conventional products have not made any real impact reflecting less than US$1 of life premium per capita in Saudi Arabia. The potential is many times more, possibly US$10 per capita in a country where the population is in excess of 24 million. In my paper that I presented in London last year entitled "Takaful – Global Overview and Opportunities ahead", I estimated the size of the Takaful industry for 2002 at US$2 billion. According to the current trends this figure is likely to exceed US$12 billion in the next ten years, with assets under management of some US$30 billion.

What is the reason for this success?

It is mainly that Islamic products offer exactly what the customers need. These are customers who are increasingly a part of the growing number of educated Muslim middle class. They create the impetus in financial markets through their ability to save and spend. They are more aware of the Islamic socio-economic order that is the basis for a just society in accordance with the principles of Islamic Shariah. Islamic insurance, like Islamic banking, offers exactly that - ethical forms of business dealings, based on principles that are good for society. Takaful is about mutual help between participants of a Takaful scheme, which is an extension of seamless social welfare order.

Protection through insurance has a great social value for individuals competing in the ever so competitive economic environment. This is true of all times whether we are talking of 2000 before Hijri or 3000 after Hijri. And yet, insurance has remained an unmentionable topic for hundreds of years amongst the Muslims. The introduction of Takaful has changed all that. Now when we talk about insurance in the form of Takaful, it is no longer a taboo. It is a subject that the customers can relate to. It falls in line with the customers' values and beliefs.

The Takaful space is getting busier every year. More and more players are entering the market in many parts of the world, as Takaful companies or Takaful windows of conventional companies. Do these Takaful providers genuinely provide answers to the very reasons for which customers want to buy Takaful? Are these Takaful providers doing justice to these ideals that the customers aspire to? Or are they driven to maximize market share and profits while it lasts, on the back of conventional products cloaked in Takaful garb. If it is the latter, it is only a matter of time that a Takaful operator would fail when the truth becomes apparent to the ever-so-trusting customer when he finds that you have not respected those very ideals that are a way of life for them.

In the context of the current stage of evolution of the Takaful industry globally, thinking in these terms led me to many other questions, such as:

1. Is co-operative the same as Takaful?
2. Is Takaful the same as a Mutual Company?
3. Is the only thing that is needed is a Fatwa to tell the customers that our products and operations are Shariah compliant?
4. Is it that if we were just to invest insurance funds in accordance with Shariah guidelines, the system of insurance becomes Takaful?
5. Is it sufficient just to have a Shariah compliant preamble to policy wordings of a conventional product to make our products Takaful?

The answers are a simple "no" in all cases. These are real examples where a number of companies have got just one or two of the issues right. The rest appear to be a compromise and that, I am afraid, does not really make up for a Takaful company.

So what are the essential parameters that make a company a Takaful company?

A Takaful company must have all of the following characteristics:

1. Its Memorandum and Articles should be non-contradictory to Shariah norms.
2. Its Investment management must be Shariah compliant and for Islamic windows all financial transactions related to Takaful

What makes a company 'Takaful'? *(continued…)*

must be distinguishable separately.

3. Its products must be clear and transparent as to benefits, charges and operations.

4. The contract of Takaful must be based on recognized Shariah norms of methods and principles.

5. The Policy must be unambiguous and the structure and operation must minimize doubt (Al-gharar) and Maisir (exploitation) through contracts and concepts based on collective rights, clarity of role of the company, ownership of funds and profit sharing.

6. The operations must generate goodwill for the society and community in the long run

7. A demonstrable balance must be maintained between making profits and in serving customer needs, i.e., between shareholder interests and interests of the society.

In light of these Takaful boundaries, let us revisit the questions again:

Is co-operative the same as Takaful?
A co-operative insurance company could be a conventional company as the concepts of insurance are based on the law of large numbers. Many argue that the aspect of law of large numbers makes an insurance fund a co-operative fund, which benefits the policyholders collectively. But the real question is who owns the fund in this instance? The shareholders own the fund. The policy document is a contractual basis between the company and the policyholder to pay the benefits and receive the premiums. Beyond that, the policyholder has no right over the insurance funds. That is not so in a Takaful company.

Is Takaful the same as a Mutual Company?
A mutual company has no access to external capital. Its policyholders are its shareholders and it has to manage its affairs out of premiums. That is different from a Takaful company, which has its own shareholders, and must maintain two accounts (policyholders and shareholders) separately.

Is the only thing that is needed is a Fatwa to tell customers that our products and operations are Shariah compliant?
What if such a fatwa is given and then the company does not follow it fully? Normally such a fatwa may be given with pre-conditions, and one of them would be to have regular Shariah reviews to ensure that the company's products and operations are in line with Shariah principles.

Is it that if we were just to invest insurance funds in accordance with Shariah guidelines, the system of insurance becomes Takaful?
Shariah compliant investment management is only one of the Takaful requirements. There are so many others like how do we account for expenses, surplus, policyholder rights, shareholder obligations etc.

Is it sufficient just to have a Shariah compliant preamble to policy wordings of a conventional product to make our products Takaful?
It would be gross misrepresentation if the letter is not followed by the spirit of its meaning.

The talent and resource that we need to build credible Takaful institutions is scarce and we need to build this through education and training. The universe of Shariah resource has grown and there is now better polarization of knowledge and understanding of Shariah issues versus technical and business issues. The utilization of Takaful and Shariah resource is key to avoiding the shortcuts that come from poor understanding of Takaful concepts. As an industry, we have a reasonable number of dedicated practitioners of Takaful from Kuala Lumpur to Karachi and education institutions active in Takaful in London, Kuala Lumpur and Bahrain and Riyadh soon to follow, which should effectively be utilized.

Takaful is all to do with fulfilling the perceptions of customers looking for Islamic solutions. Insurance to them is interesting when they see it through the filters of Takaful. This is especially so in the case of life insurance. A universal recognition of this fact would lead us to credible Islamic institutions that would provide consumer confidence and bring benefits to the society in which we live, whether it is in Asia, Europe or the US.

On the other hand, if we do not address the real underlying issues that constitute Takaful then this would merely be an opportunistic business exercise. Such an approach built on shortcuts in the delivery of Takaful products and the management of Takaful operations is like building structures on sand. Such a company would lose Takaful credibility somewhere down the line and this would prove costly to its shareholders in the long run. Institutions dedicated to uphold the concepts of Takaful would persevere and grow like the Islamic banking institutions of the 1970s through the pioneering spirit of individuals involved to establish the foundations of the US$500 billion Islamic banking industry of today.

Shareholders and investors beware!

Note: The author is Global Head of Takaful, HSBC Amanah.
Email: ajmalbhatty@hsbc.com

MOVES & PROMOTIONS

CITIGROUP - Dubai

Mohsin Nathani is Citigroup's new CEO and Managing Director of Citi Islamic Investment Bank. He has transferred internally from his current post of co-head of Asian Debt Capital Markets.

DUBAI INTERNATIONAL FINANCIAL CENTRE – Dubai

Sir Anthony Evans P.C. has been appointed Chief Justice of the DIFC Court. His responsibilities will include overall management of the administrative affairs of the DIFC Court, the establishment of circuits and divisions of the DIFC Court, the appointment of staff and its judicial officers as well as the appointment of judicial officers as members of its tribunals.

Michael Hwang S.C. has been appointed a Judge of the DIFC Court, and will also serve as Sir Anthony's deputy. Both judges will serve for three years.

AL SALAM BANK – Sudan

Mohamed Ali Al Abbar has been elected Chairman of the Board.

Omar Mahmoud Al Qouqah, Abdullah Abdul Karim Shoeitar, Faisal Mansour Aloun, Kamal Hamza Al Hassan and Mohammed Ibrahim Hamdoun - New Board Members.

A.D Hussain Hamed Hassan as Chairman and Head of the Shariah Committee, Dr. Ahmad Ali Abdullah and Dr. Mohammed Abdul Hakim Zuair as members and decision makers of the Shariah Committee.

HSBC – Asia Pacific

Joanne Murphy, currently Head of Regional Sales for HSBC's Alternative Fund Services group has decided to head for pastures new with Friday 22nd April being her final day.

Colin Lunn will assume Ms. Murphy's responsibilities under a new combined role of Regional Head of Sales and Client Relationships for Asia Pacific. Mr. Lunn is a 15 year veteran of the Fund industry with the last 10 years spent at HSBC's Bank of Bermuda.

EVENTS DIARY

Challenges and Prospects of Integrating Islamic Finance into Global Finance
Central Bank of the Islamic Republic of Iran
Thursday, 5th May 2005
Organized By: Central Bank of the Republic of Iran

Sharia & Trusts: Working In Harmony Professional International & Regional Estate & Planning for the Future
Shangri-La, Dubai
Tuesday, 17th - 18th May 2005
Organized by: STEP Arabia Dubai Conference

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
Organized By: Islamic Finance Services Board

Structuring Financial Products for Islamic Markets
Shangri-La Hotel, Jakarta
Monday 30th - 31st May 2005
Organized By: IBC Asia

Islamic Economics & Banking during the 21st century
Jakarta
Monday 1st August 2005
Organized By: IRTI

International Leadership Summit in Islamic Finance
Kuala Lumpur
Wednesday 21st - 22nd September 2005
Organized By: International Centre for Leadership in Finance

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.

ISLAMIC FINANCE *News* Team

Published By: RED MONEY
Suite F, Level 20 Menara Angkasa Raya
Jalan Ampang
50450 Kuala Lumpur
Malaysia
Tel: +603 2143 8100
Fax: +603 2141 5033

Editor Sreerema Banoo Tel: +603 2141 6021
Sreerema.Banoo@IslamicFinanceNews.com

Correspondents Kamal Bairamov Tel: +603 2143 8100
Shirene Shan

Newsletter Manager Christina Morgan Tel: +603 2141 6025
Christina.Morgan@IslamicFinanceNews.com

Production Manager Geraldine Chan Tel: +603 2141 6024
Geraldine.Chan@IslamicFinanceNews.com

Marketing Manager Zalina Zakaria Tel: +603 2144 5033
Zalina.Zakaria@IslamicFinanceNews.com

Managing Director & Publisher Andrew Morgan Tel: +603 2141 6020
Andrew.Morgan@IslamicFinanceNews.com

ISLAMIC FINANCE *Training*

Andrew Tebbutt
Managing Director
Tel: +603 2141 6022
Andrew.Tebbutt@IslamicFinanceTraining.com

DISCLAIMER
Published every other Monday (25 issues per year)
Individual Annual Subscription Rate: US$360
Group Wide Subscription Rate: US$1,450

A RedMoney Publication: RedMoney Sdn Bhd, Suite F, 20/F, Bangunan Angkasa Raya, Jalan Ampang, 50450, Kuala Lumpur, Malaysia.
Tel: +603 2143 8100, Fax: +603 2141 5033

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 - APRIL 2005

	Issuer or Group	Amt US$ m	Iss.	%Share
1	Dubai Global Sukuk FZCO	1,000.00	1	18.80
2	Kapar Energy Ventures Bhd	895.26	1	16.83
3	Pakistan International Sukuk Co Ltd	600.00	1	11.28
4	Sarawak Corporate Sukuk Inc	350.00	1	6.58
5	SAJ Holdings Sdn Bhd	336.84	2	6.33
6	Cagamas Bhd	263.16	3	4.95
7	Saudi Hollandi Bank	186.66	1	3.51
8	Encorp Systembilt Sdn Bhd	179.82	1	3.38
9	Optimal Chemicals (Malaysia) Sdn Bhd	149.21	10	2.80
10	Musyarakah One Capital Bhd	149.09	5	2.80
11	International Finance Corp - IFC	131.58	1	2.47
12	Stichting Sachsen-Anhalt Trust	120.39	1	2.26
13	Optimal Glycols (Malaysia) Sdn Bhd	119.21	10	2.24
14	Sarawak Specialist Hospital & Medical Centre Sdn Bhd	111.84	1	2.10
15	Mid Valley City Sdn Bhd	105.26	2	1.98
16	Standard Chartered plc	100.00	1	1.88
17	Petroliam Nasional Bhd - Petronas	65.79	5	1.24
18	Negeri Sembilan Cement Industries Sdn Bhd	52.63	1	0.99
18	PECD Bhd	52.63	1	0.99
20	Intelbest Sdn Bhd	42.11	4	0.79
	Total of issues used in the table	**5,319.88**	**108**	**100.00**

ISLAMIC DEBT JULY 2004 - APRIL 2005

	Manager or Group	Amt US$ m	Iss.	%Share
1	HSBC	866.23	28	16.28
2	Citigroup	753.73	3	14.17
3	RHB Capital Bhd	568.25	3	10.68
4	AmMerchant Bank Bhd	537.11	18	10.10
5	UBS	350.00	1	6.58
6	Dubai Islamic Bank	333.33	1	6.27
7	Commerce International Merchant Bankers Bhd	327.16	8	6.15
8	United Overseas Bank Ltd	285.08	3	5.36
9	Aseambankers Malaysia Bhd	279.39	27	5.25
10	Government bond/no bookrunner	263.16	3	4.95
	Total of issues used in the table	**5,319.88**	**108**	**100.00**

ISLAMIC DEBT BY COUNTRY JULY 2004 - APRIL 2005

	Amt US$ m	Iss.	%Share
Malaysia	3,111.01	97	58.48
United Arab Emirates	1,000.00	1	18.80
Pakistan	600.00	1	11.28
Saudi Arabia	186.66	1	3.51
United States	131.58	1	2.47
Germany	120.39	1	2.26
United Kingdom	100.00	1	1.88
Indonesia	70.24	5	1.32
Total	**5,319.88**	**108**	**100.00**

ISLAMIC DEBT BY CURRENCY JULY 2004 - APRIL 2005

	Amt US$ m	Iss.	%Share
Malaysian Ringgit	2,992.59	56.25	98
US Dollar	1,950.00	36.65	3
Saudi Arabian Riyal	186.66	3.51	1
Euro	120.39	2.26	1
Indonesian Rupiah	70.24	1.32	5
Total	**5,319.88**	**100.00**	**108**

For all enquires regarding the above information, please contact: Edward Cheung
Email: Edward.Cheung@Hk.Dealogic.com;
Phone: +852 2804 1223; Fax: +852 2529 4377

ISLAMIC LEAGUE TABLES

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

Islamic Bonds Issuers League Table 2005							
Ranking	Issuer	Manager	Country	Type of Issued Sukuk	Amt US$m	Issues	% Share
			Announced				
1	Jimah Energy Ventures	AmMerchant Bank Berhad RHB Sakura Merchant Bhd MIMB Bank Muamalat	Malaysia	Sukuk	1316.17	1	24.46
2	Syarikat Bekalan Air Selangor Sdn Bhd	NA	Malaysia	Sukuk	1295.00	1	24.07
3	Islamic Development Bank	Dubai Islamic Bank HSBC Amanah CIMB Deutsche Bank	Saudi Arabia	Sukuk	1000.00	1	18.58
4	Amlak Finance	Emirates Islamic Bank	UAE	Sukuk	350.00	1	6.5
5	Senai Desaru Expressway	NA	Malaysia	Sukuk	263.25	1	4.89
6	Dubai Metals & Commodities Centre	Dubai Islamic Bank Standard Bank	UAE	Sukuk	200.00	1	3.72
7	Boustead Holding Bhd	NA	Malaysia	Ijarah	199.00	1	3.7
8	Al Marfa'a Al Mali Sukuk Co. B.S.C (Bahrain Financial Harbour)	Liquidity Management Centre Gulf Finance House	Bahrain	Istisna'a and Ijara Sukuk	170.00	1	3.16
9	Time Engineering Bhd		Malaysia	Zero Coupon Non Tradeable Sukuk	149.12	1	2.77
10	Amlak Finance	HSBC Amanah	UAE	Sukuk	136.13	1	2.53
				Total	5381.1	16	100
			Sovereign				
1	Government of Pakistan	Citigroup HSBC Amanah	Pakistan	Ijarah	600.00	1	88.3
2	Government of Bahrain	Bahrain Monetary Agency	Bahrain	Ijarah	79.50	1	11.7
				Total	679.5	2	100
			Corporate				
1	Durrat Sukuk Company BSC	Kuwait Finance House Liquidity Management Centre	Bahrain	Istisna'a and Ijara Sukuk	152.50	1	38
2	Peremba Jaya Holdings Sdn Bhd	MIMB Affin Bank Berhad	Malaysia	Murabahah	52.63	1	13.12
3	Ample Zone Berhad	MIMB	Malaysia	Ijarah	39.50	1	9.84
4	Malaysian Merchant Marine Bhd	NA	Malaysia	Bai' Bithaman Ajil	31.63	1	7.88
5	Intelbest Sdn Bhd	Abrar Discounts Bhd	Malaysia	Bai' Bithaman Ajil	28.95	1	7.21
6	Tracoma Holdings Bhd	Affin Bank Berhad	Malaysia	Bai' Bithaman Ajil	26.32	1	6.56
7	PG Municipal Assets Bhd	AmMerchant Bank Berhad	Malaysia	Mudharabah	21.05	1	5.25
8	Mulpha International Bhd	AmMerchant Bank Berhad	Malaysia	Murabahah	19.74	1	4.92
9	M-Trex Corporation Sdn Bhd	Affin Discount Bhd	Malaysia	Murabahah	15.80	1	3.94
10	Intelbest Sdn Bhd	Abrar Discounts Bhd	Malaysia	Murabahah	13.16	1	3.28
				Total	401.28	10	100

ISLAMIC LEAGUE TABLES *(continued...)*

Islamic Deals Managers League Table 2005

Ranking	Manager	Amt US$m	Issues	% Share
1	Dubai Islamic Bank	1307.53	2	32.55
2	HSBC Amanah	396.00	3	9.86
3	Kuwait Finance House	382.75	4	9.53
4	ABC Islamic Bank	330.00	1	8.21
4	Gulf International Bank	330.00	1	8.21
4	BNP Paribas	330.00	1	8.21
4	Arab Petroleum Investment Corporation	330.00	1	8.21
4	National Bank of Bahrain	330.00	1	8.21
5	Islamic Development Bank	164.85	3	4.10
6	Abu Dhabi Islamic Bank	25.00	1	0.62
6	Calyon Corporate	25.00	1	0.62
7	Qatar Islamic Bank	21.40	1	0.53
8	Abu Dhabi Islamic Bank	12.50	1	0.31
8	International Islamic Bank	12.50	1	0.31
9	Kuwait Investment	3.29	1	0.08
9	Arab Investment	3.29	1	0.08
9	International Leasing	3.29	1	0.08
9	Amlak Finance	3.29	1	0.08
9	National Bank of Sharjah	3.29	1	0.08
9	Al Salam	3.29	1	0.08

Islamic Deals Issuers League Table 2005

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

Islamic Finance *news*

A REDMONEY Product

YES! I would like to subscribe to Islamic Finance News

Individual Subscription:	☐	1 Year - US$360 nett
	☐	2 Years - US$625 nett
Company Wide Subscription: (Max. 10 Individual Subscriptions)*	☐	1 Year - US$1,450 nett
	☐	2 Years - US$2,300 nett

*Over and above the 10 individuals - just US$100 each.

* Ringgit Malaysia prices are available for Malaysian subscribers only

PERSONAL INFORMATION

Name: Mr/Ms/Dr/Mrs_____
(please underline family name)

Company:_____

Job Title:_____

Address:_____

_____

_____

Postal/Zip Code:_____Country:_____

Tel: (Office):_____Fax:_____

Email:_____

(Please ensure your email is correct as your username will be emailed to the given address)

PAYMENT METHOD

Payment can be made by cheque or telegraphic transfer in US$ or RM. A confirmation will be sent once payment is received. Please note that subscription is not confirmed until payment has been made in full.

❑ By Cheque:

Please make cheques payable to **Red Money Sdn Bhd** and post back along with original order form to:
Suite F, 20/F, Bangunan Angkasa Raya, Jalan Ampang, 50450 Kuala Lumpur, Malaysia

❑ By Telegraphic Transfer (T/T):

Account Name: Red Money Sdn. Bhd.
Account No: 2-14129-0018508-5 (Malaysian Ringgit)
Account No: 6-14129-0000574-3 (US Dollars)
Swift Code: **RHBBMYKL**
Bank Name & Address: RHB Bank Berhad. RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Please send your T/T advice with your subscription form to us either by post or fax.
ALL TRANSFER FEES ARE BORNE BY THE SUBSCRIBER

* Your username will be emailed to you upon receipt of payment

PLEASE RETURN TO


+603 2143 8100


+603 2141 5033


Suite F, Level 20
Bangunan Angkasa Raya
Jalan Ampang
50450 Kuala Lumpur
Malaysia


Info@IslamicFinanceNews.com


Islamic Finance news

A REDMONEY Product

Vol. 2, Issue 4 21st February 2005

Visit Our Homepage

ISLAMIC RETAIL BANKING

Takaful news

QATAR

Qatar National Bank to offer Shariah compliant products

UNITED KINGDOM

Islamic Bank opens third UK branch

KUWAIT

US$22.8 million financing of Al Mowasat Hospital, Kuwait

IN OUR NEXT ISSUE

MONDAY 7th MARCH 2005

Islamic Finance *training*

Please send me more information on the following courses:

❑ **Structuring Islamic Financial Products**
17 - 20 May 2005, Kuala Lumpur
6 - 9 September 2005, Singapore

❑ **Financial Product Development & Innovation**
30 May - 2 June 2005, Singapore

❑ **Basel II Compliance & Risk Management in Islamic Banking**
14 - 17 June 2005, Kuala Lumpur

❑ **Key Legal, Documentary and Structuring Issues for Islamic Financial Products**
11 - 12 July 2005, Kuala Lumpur

❑ **Islamic Financial Engineering and Advanced Products**
14 - 17 June 2005, Kuala Lumpur

Please contact Andrew Tebbutt on
+603 2141 6022 or
Andrew.Tebbutt@IslamicFinanceTraining.com
for more details.