

COMPARISON OF ISLAMIC FINANCE COMPANY FINANCE COMPANY (CONVENTIONAL)

GOVERNING LAWS & RESOLUTIONS	<p><i>Federal Law No. 6 of 1985 regarding Islamic Banks, Financial Institutions and Investment Companies</i></p> <p><i>The Central bank board of directors' Resolution no. 165/6/2004 (Regarding the regulation for Islamic finance companies)</i></p>	<p><i>The Central bank board of directors' Resolution no. 58/3/96 (Regarding the regulation for finance companies)</i></p>
DEFINITION	<p>Any finance company which is required by its memorandum and articles of association to <u>apply Islamic Sharia principles</u> and carries on business in accordance with those principles</p> <p style="text-align: center;"><i>Art 1 – Law No.6 of 1985</i></p>	<p>The juridical person who conducts one or more of the main finance activities.</p> <p style="text-align: center;"><i>Art. 1 – 58/3/96</i></p>
ACTIVITIES	<p>Islamic financial institutions and investment companies shall have the right to carry out <u>lending</u>, credit and other financial operations. They may also <u>participate in existing or under establishment enterprises</u>, <u>invest their funds in moveable assets</u> and <u>receive deposits for investment</u> thereof in accordance with provisions of Islamic Sharia'h Law.</p> <p style="text-align: center;"><i>Art 3(2) – Law No.6 of 1985</i></p> <p>The Company may engage in financing activities in accordance with the principles of Islamic Sharia and the applicable laws, rules and regulations in force including but not limited to:</p> <ol style="list-style-type: none"> 1. Providing <u>financing</u> designed to meet a variety of individual and consumer needs. 2. Providing <u>commercial financing</u> to businesses, opening 	<p>Finance companies may conduct one or more of the following principal business activities:</p> <ol style="list-style-type: none"> 1. advancing <u>personal loans or credit</u> for personal or consumer purposes; 2. providing <u>businesses and trades with finance</u> including issuance of <u>Letters of Credit and Guarantees</u> on behalf of customers; 3. <u>subscribing to the share capital</u> of projects and (or issuing stocks or certificate of deposits, provided always that the aggregate of the Finance Company's involvement in these activities shall not exceed 7% of its share capital; and 4. any other finance business authorized by the Central Bank. <p>The finance company cannot conduct any other additional business activities</p>

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	<p><u>letters of credit</u>, issuing guarantees and <u>letters of guarantee</u> and entering into <u>foreign exchange contracts</u> in favour of corporate entities.</p> <p>3. <u>Subscribing to capital</u> in undertakings that already exist or are under formation and/or subscribing for issues of shares, bonds and/or certificates of deposit up to a maximum of 7% of its own capital in each instance.</p> <p>4 Providing <u>deposit facilities</u> and <u>opening all types of accounts for corporate entities</u> and <u>issuing legal deeds</u> and other instruments granting financing and certificates of deposit to corporate entities</p> <p>5 <u>Managing investment portfolios</u> and other investment schemes as well as <u>unit investment funds</u>.</p> <p><i>The Company must obtain prior approval from the Central Bank before engaging in any new or additional activities.</i> <i>Art 3 - 165/6/2004</i></p>	<p>without the prior approval of the Board of Directors of the Central Bank; such activities cannot be amended without the approval of the Board of Directors of the Central Bank. <i>Art. 2 – 58/3/96</i></p>
<p>POSSIBLE FORM OF COMPANIES</p>	<p>Public Joint Stock Company <i>Art 2(3) Federal Law No.6 1985</i> <i>Art 2 - 165/6/2004</i></p> <p>The legal status requirements shall be met if any of the founders is a public shareholding company. (therefore, it can be an LLC)</p> <p><i>Art 2 - 165/6/2004</i></p>	<p>Any commercial company as per Law No.8 (1984), including LLC <i>Amendments to 58/3/96</i></p>

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MINIMUM PAID UP CAPITAL	AED 35 Million <i>Art 5(1) - 165/6/2004</i>	AED 35 Million <i>Art 6 – 58/3/96</i> AED 50 Million (if LLC) <i>Amendments to 58/3/96</i>
REQUISITE UAE NATIONAL SHAREHOLDERS	60% Minimum <i>Art 5(4) - 165/6/2004</i>	60% Minimum <i>Art 6 – 58/3/96</i>
MINIMUM NUMBER OF FOUNDERS	Founders -6 (individuals and/or corporate entities) <i>Art 8(5) - 165/6/2004</i> (minimum Board members – 5 and 60% members should be knowledgeable and familiar with Islamic financial and banking activities) <i>Art 8(6) - 165/6/2004</i>	Founders -12 (minimum Board members – 5 and 60% members should be knowledgeable in finance or banking business) <i>Amendment – 58/3/96</i>
LICENSE APPLICANT	Corporate Entity <i>Art 7 - 165/6/2004</i>	Corporate Entity <i>Art 1.1(c) – 58/3/96</i>
LICENSE APPLICANT REQUIREMENTS	a) <u>Personal Capacity</u> : Each founding member of the Company must have good conduct and character and must not have been previously sentenced for an offence involving breach of honour or trust, moral turpitude or violence, must not have previously defaulted on his/ its obligations to banks or other creditors, been declared bankrupt, concluded settlement with creditors or had	a) <u>Personal Integrity</u> : Every founding member of the finance company should be characterized by good conduct and behavior, and should not have been convicted in any crime which stains honour or ethics, or which involves violence. He should not as well have failed to honour his liabilities towards banks or any other creditors. Furthermore, he should not have declared bankruptcy, nor reached a settlement agreement with his creditors; also, he

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	<p>his/ its property subjected to attachment or taken into receivership unless he/ it was subsequently rehabilitated or pardoned by the relevant authorities</p> <p>b) <u>Professional Qualifications</u>: The Manager and Auditor of the Company must have good knowledge and sufficient practical and theoretical experience in Islamic financing activities and operations.</p> <p style="text-align: center;"><i>Art 8(2)- 165/6/2004</i></p>	<p>should not have had his properties confiscated, nor had he been put under court receivership.</p> <p>b) <u>Professional Qualifications</u>: The person who is nominated by the applicant as manager or supervisor should be theoretically and practically familiar with the finance business, and should as well have relevant managerial experience.</p> <p>In deciding on the application for a license, all matters regarding personal integrity or professional qualifications, concerning any other company within the applicant's group, or any manager or supervisor in that group, shall be taken into consideration.</p> <p style="text-align: center;"><i>Art 6 – 58/3/96</i></p>
<p style="text-align: center;">SHARIA SUPERVISORY BOARD</p>	<p>Should appoint a Sharia Supervisory Board consisting of at least 3 members from among Sharia scholars specialized in law and finance under Islamic Sharia to ensure that the Company's operations and transactions comply with the rules and principles of Islamic Sharia.</p> <p style="text-align: center;"><i>Art 8(4)-165/6/2004</i></p>	<p style="text-align: center;">No such requirement</p>
<p style="text-align: center;">NATIONALITY OF LICENSE HOLDER</p>	<p style="text-align: center;">UAE national (Corporate entity)</p>	<p style="text-align: center;">UAE national (Corporate entity) <i>Art 1.1(c) – 58/3/96</i></p>
<p style="text-align: center;">VALIDITY OF LICENSE</p>	<p>5 years (renewable) - from Central Bank <i>Art 10(1) - 165/6/2004</i></p>	<p>2 years (renewable) <i>Art 8 – 58/3/96</i></p>

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DEPOSITS	<p>Permitted from Corporate entities <i>Art 3 - 165/6/2004</i></p> <p>Prohibited from individuals <i>Art 4(2) - 165/6/2004</i></p>	<p>Prohibited from individuals <i>Art 3.2 - 58/3/96</i></p> <p>Can accept from companies as a financial resource <i>Art 3.1 (d) – 58/3/96</i></p> <p>The value of the accepted deposits should be limited to 100% of the paid up capital and reserves of the company during its first 2 years of operations. Thereafter, upon approval from Central Bank up to 200%, after 4 years up to 300% and after 7 years up to 500% <i>Amendment Art 8 – 58/3/96</i></p>
RESTRICTIONS	<p>The Islamic Finance Company <u>should not</u>:</p> <ul style="list-style-type: none"> • Conduct exchange activities • financial investment companies activities • Any unlicensed activities. • Financing to any person or deposit or invest in excess of 7% of its capital monies in any single establishment or group. • Financing to any member of its Board of Directors or his companies in excess of 5% of the capital monies of the Company. • Total financing to all members of the Board of Directors must not exceed 25% of its capital. • Change its name, legal status or capital without obtaining the prior written approval of the Central Bank. • Merge or consolidate with any person or other entity without obtaining the prior written approval of the Central 	<p>The finance company <u>should not</u>:</p> <ul style="list-style-type: none"> • Conduct money changing business • investment companies' business • any other unlicensed business, or • the business conducted by other financial institutions • lend, deposit or invest more than 7% of its paid-up capital and reserves in any one institution or in one group. • extend loans or advances to its board members or to their related companies. • own property apart from what is permitted by the Central Bank. • capital adequacy shall not be less than 15%. • change its legal status or ownership or size of its capital without prior approval in writing from the Central Bank. • merge or consolidate with any other person or entity, without the prior

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Bank.

- trade name should not contain the word ‘bank,’ ‘investment company,’ ‘commercial or real estate company,’ or other words connoting activities other than Islamic financing.
- Open any new branches unless it obtains prior written approval from the Central Bank.
- Encumber any of its assets without obtaining the prior written approval of the Central Bank.
- Provide financing or facilities or open any type of account in favour of external auditors of the Company.
- Provide financing or facilities or open any type of account in favour of the managers of the Company without obtaining the prior approval of its Board of Directors.
- Make any changes to its Articles of Association without obtaining the prior approval of the Central Bank.

Art 11 - 165/6/2004

approval in writing from the Central Bank.

- conduct its business from independent and appropriate premises, approved by the Central Bank,
- conduct any other business of any kind at the same premises;
- relocate its premises without approval from the Central Bank.
- its commercial name should not include the terms “bank”, “investment company”, “commercial or real estate company” or any of what might indicate anything other than the finance business.
- open any branches except after obtaining prior approval in writing from the Central Bank.
- incur any commitments on any of its assets without prior approval in writing from the Central Bank.
- its partners shall not withdraw any amounts exceeding his shares of the annual net profits identified in the provisions of the Companies’ Law No. (8) of 1984 and its amendments.
- none of the partners, managers or auditors of the company shall obtain any loans from it; none of them shall have any current accounts or other accounts with the company.

Art. 10 – 58/3/96