Islamic Finance news

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BAHRAIN

BMA pioneers short-term leasing bonds

The Bahrain Monetary Agency (BMA) has launched the debut issue of a short-term, tradable Ijara Sukuk, in a move to develop Islamic banking and enhance investment opportunities for commercial banks and pension funds.

The issue, which began on the 25th August 2005 and matures on the 23rd February 2006, has been oversubscribed by 222%.

The BD-denominated Sukuk Al-Ijara, bearing a maturity of six months (182 days), is the first of its kind in the world.

The asset-backed, short-term Ijara Sukuk will be issued on a monthly basis by the BMA and each issue will be worth US$27 million (BD10 million). At the close of subscriptions for the debut issue on the 23rd August, tenders worth US$59 million (BD22.2 million) had been received by the BMA.

Each issue will carry a fixed rental return, which will be based on the prevailing six-month Libor rate, with the return to be paid on maturity. The return on the debut issue is 4.06%.

Each Sukuk issue is available to all Islamic and conventional full commercial banks (FCBs) licensed by the BMA, as well as pension funds in Bahrain. Other interested investors, who are allowed to subscribe through eligible FCBs, include locally incorporated insurance firms, Islamic investment banks and individual investors from both in and outside Bahrain.

UNITED KINGDOM

Islamic bonds issued for London property deal

London-based international law firm Taylor Wessing recently advised a consortium including Bahrain-based Taib Bank and Hong Kong-based Dominion Asset Management (represented in the UK by Pelham Associates) on the purchase of the Sanctuary Buildings property in London.

The equity for the deal was raised through two Sukuk issues and the senior debt, provided by UK high street bank Lloyds TSB, invested using an innovative Musharakah structure.

The 30,000 sq. ft. office block was sold for US$257 million by Hamburg-based property manager DIFA.

MALAYSIA

Strong response for Public Mutual's Islamic fund

Public Mutual's Public Islamic Opportunities Fund (PIOF) has received good response from the investing public, with more than 95% of its units sold.

PIOF was launched with an issue price of US$0.07 (RM0.25) a unit. The fund is a Shariah-based small-capitalized cap fund which aims to achieve capital growth through investments in companies with market capitalization of up to US$331.75 million (RM1.25 billion) that comply with Shariah principles.

The company stated that PIOF, which was launched on the 28th June 2005 and has an approved fund size of 1 billion units, is now closed for sale.

Inside Islamic Finance News:

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MALAYSIA

Conference to focus on challenges in Islamic finance

The challenges facing the global Islamic banking industry will be the focus of discussion at the forthcoming Third International Islamic Banking and Finance Conference, organized by Monash University Malaysia.

Themed "Islamic Finance: The Challenges Ahead", the two-day conference will be officially opened by the Prime Minister, Datuk Seri Abdullah Ahmad Badaw, on the 16th November.

Regulation and supervision, financial innovation, human capital development, financial architecture, Islamic IT solutions and legal and Shariah frameworks will be among the areas covered in the discussion.

Organizing Chairman Professor Bala Shanmugam, who is the Chair of Accounting and Finance at Monash University Malaysia, said the prominent foreign and local speakers at the conference will include Islamic Bank of Britain's Managing Director Michael Hanlon and Dr. Yahia Abdul Rahman, the Founder of Shariah Compliant Banking in the US.

Local speakers will include Professor Rifaat Ahmed Abdel Karim from the Islamic Financial Services Board.

PAKISTAN

Financial conference in Karachi

Bahrain-based World Islamic Financial Market announced that it would hold a conference in Karachi on the 14th and 15th September. The conference will address issues relating to Islamic banking and monetary markets and their promotion among key specialized sectors.

The conference is expected to attract 37 experts, of whom 25 will come from the GCC states and Malaysia.

PAKISTAN

New corporate identity for IIFM

The International Islamic Financial Market (IIFM) recently launched its new corporate identity, reflecting the institution's proactive approach to becoming a major player in the global Islamic banking and finance industry.

The corporate logo has been changed to more accurately portray the IIFM's key role in developing Islamic capital and money markets. The new logo, in green and gold, depicts two interlocking circles, symbolizing the convergence of conventional modes of finance with Islamic finance.

This new identity, incorporating the new logo, is also being implemented in a completely redesigned website at www.iifm.net. The redeveloped website will continue to be improved in the coming months.

The new corporate identity and logo are key elements in a revised business plan being finalized by the IIFM. The new plan is designed to position the IIFM as an active agent in stimulating Islamic capital and money market activities globally.

MALAYSIA

Megan Media to issue Islamic papers

Megan Media Holdings Bhd's unit Memory Tech Sdn Bhd has submitted an application to the Securities Commission to issue Bai Bithaman Ajil serial bonds worth US$84.89 million (RM320 million).

The bonds will be issued all at once in six tenors ranging from two to seven years. Memory Tech's proposed issuance is to tap the Ringgit debt capital market to benefit from the lower cost of fixed rate funding available.

NEWS BRIEFS

SINGAPORE

November launch for Islamic financial index

Singapore's first Islamic financial index for SGX-listed stocks, to be called the Lion 30 index, will be launched on Hari Raya Puasa in November.

The brainchild of two Muslim organizations – the Young Entrepreneurs' Network Organization and Karim Business Consulting – the index is aimed at providing a benchmark index for stocks in Singapore which comply with Islamic principles.

SingTel, CapitaMall Trust, Singapore Airlines, Keppel Corp and Creative Technology – these are some of the stocks that are likely to make it onto the Singapore Islamic Financial index. They have been screened and found to be compliant with Islamic principles. Of 68 main board stocks screened for the Lion 30 index, only 33 have passed the test.

BAHRAIN

GFHCB gains US$4.14 million

Thanks to the success of its Shariah compliant investment products, Gulf Finance House Commercial Bank (GFHCB) has posted a net profit of US$4.14 million (BD1.56 million) in its first six months of operation. The bank – a wholly-owned, real-estate-focused, onshore subsidiary of Gulf Finance House (GFH) – also announced that it is all set to move into new, larger premises in Zamil Tower in Manama, to support its strategic expansion plans and chart further growth.

The bank said that its success endorses the GFH Group strategy that a unique Islamic commercial bank focused on the booming real estate market will offer investors an opportunity to take part in the growth of the sector.

GFHCB, established with a capital of over US$79.57 million (BD30 million), has been established with a mandate to undertake a wide range of banking activities – including project financing, direct investment, structured finance and syndication, asset management, property management and advisory services.

BRUNEI

Islamic Bank of Brunei's financial statement approved

Among the important items that were discussed and approved at the Islamic Bank of Brunei Bhd (IBB)'s annual general meeting (AGM) last week was the receipt and approval of the bank's financial statement, as well as the distribution of dividends for the financial year ending on the 31st December 2005.

The IBB bank statement for the financial year ending on the 31st December 2004 showed a growth in total assets that reached US$1.49 billion (B$2.496 billion), compared to US$1.24 billion (B$2.068 billion) for 2003, indicating a growth of more than 20%.

The revenue earned in 2004 was US$85.36 million (B$142.69 million), compared to US$82.03 million (B$137.139 million) for the year 2003, an increase of 4.04%.

NEWS BRIEFS

MALAYSIA

StanChart focuses on Islamic finance

The Standard Chartered banking group (StanChart) is keen to focus on the Islamic banking business in Malaysia, particularly in corporate bonds and offshore funding.

Managing Director and Head of Asian Fixed Income, Brad Levitt, said that Malaysia is one of the most advanced in Islamic financing in the region, with an established banking infrastructure.

StanChart is keen to use the "attractive" situation in Malaysia to develop Islamic banking, especially in credit-linked products, as well as in expanding liquidity.

MALAYSIA

MARC rates SapuraCrest unit's Islamic papers

Malaysian Rating Corporation Bhd (MARC) has assigned the ratings of A+ID and MARC-1ID/A+ID to Bayu Padu Sdn Bhd's Istisna Medium-Term Notes and Murabahah Commercial Papers/Medium-Term Notes facilities. Bayu Padu Sdn Bhd is wholly owned by SapuraCrest Petroleum Bhd.

These ratings reflect SapuraCrest's competitive position as one of the largest Malaysian-owned integrated services provider for the oil and gas multinationals; the expected improvement to its financial profile resulting from substantial contracts-in-hand to sustain the revenue base; and manageable collection risk. Moderating the rating, however, is the higher debt leverage relative to its peers.

GLOBAL

CSFB Islamic unit targets emerging markets

A new player in the Islamic finance scene it may be, but Credit Suisse First Boston (CSFB) is targeting a particular niche market, explained Ahmad Salam, the Global Head of this division of the bank.

That niche involves linking oil-rich Muslim investors in the Middle East with cash-hungry companies in emerging markets in Europe and Asia.

The bank will tap the growing demand from Persian Gulf-based Islamic investors for investments outside of the US and Western Europe. In the wake of the 11th September terror attacks in the US, and elsewhere since, investments outside of these areas are less likely to be seized or frozen by the authorities.

NEWS BRIEFS

MALAYSIA

Bank Islam upgrades network

Bank Islam Malaysia Bhd has upgraded its nationwide network to enable it to be more responsive to changing business requirements. The network was deployed by HeiTech Padu Bhd via Padu*Net, with equipment from Cisco Systems.

The upgraded network will provide Bank Islam with a foundation upon which to deliver fast, reliable and highly secure banking transactions for more than 85 of its branches nationwide.

SINGAPORE

Rising oil prices mean Islamic banking opportunities

The increase in liquidity in the Gulf as a result of rising oil prices offers Islamic banking opportunities in Singapore, according to HSBC Amanah CEO Iqbal Khan.

The oil-rich states in the Middle East are seeing a huge inflow of money because of rising oil prices, and investors there are looking for opportunities to increase their funds.

"There has been a huge growth in wealth in East Asia and the Middle East, primarily driven by higher oil prices followed by deregulation. Just in this year alone the surplus funds in these countries will be excess of US$650 billion," Khan said, adding that the island republic is well positioned to play a role in interacting with the Islamic finance industry.

As much as US$400 billion is held by some 300 Islamic banks worldwide – and almost US$1 trillion worth of funds are being managed by these Islamic institutions. Singapore, he said, could tap into this huge capital.

MALAYSIA

Nam Fatt to issue Islamic papers

Nam Fatt Corporation Bhd recently announced plans to issue up to US$66.37 million (RM250 million) this year in Islamic Commercial Papers and Medium-Term Notes.

The company said that the proposed issue would be completed under the Islamic financing principle of Murabahah, with a tenure of up to seven years. Nam Fatt, a construction and property group, aims to complete the issue by the fourth quarter of this year.

Proceeds from the issue will be used to fund the company's working capital requirements, and in particular to finance projects.

MALAYSIA

Upgrade for KNM's short-term rating

The short-term rating for KNM Group Bhd's US$39.82 million (RM150 million) Murabahah Underwritten Notes Issuance Facility and Islamic Medium-Term Notes has been upgraded to MARC-1ID, whilst its long-term rating has been affirmed at A+ID, Malaysian Rating Corporation Bhd (MARC) has confirmed.

The ratings are a reflection of the group's increasing order book, underpinned by high demand for process equipment in the oil and gas industry. MARC also based its ratings on the group's increased capacity to accommodate the rising demand; its venture into Dubai, which paves the way for the group to tap the Middle Eastern market; and its increasing presence in the international market.

Moderating these ratings is the group's high working capital requirements, due to the nature of its projects.

KNM is an investment holding company with subsidiaries principally involved in the design, manufacture and fabrication of a diverse range of equipment used in the oil, gas, petrochemical and minerals industries for both the local and overseas markets.

MALAYSIA

Hubline to raise US$58.4 million for expansion

Malaysia's Hubline Bhd, a Sarawak-based regional shipping line, has proposed a US$58.4 million (RM220 million) fundraising exercise.

This exercise covers a proposed issuance of a seven-year Murabahah Commercial Papers/Medium-Term Notes programme of up to US$39.82 million (RM150 million) and a proposed issuance of a seven-year Bai Bithaman Ajil Islamic Debt Securities at a nominal value of US$18.58 million (RM70 million).

The company, listed on the main board of Bursa Malaysia Bhd, is engaged in regional shipping and port operation in Thailand. It is expected to utilize proceeds arising from the proposed issue to repay its existing debt and part finance its working capital requirement and its vessel expansion programme.

NEWS BRIEFS

MALAYSIA

WCT Engineering to issue bonds

WCT Engineering Bhd is planning to issue up to US$53.1 million (RM200 million) in Islamic bonds to finance acquisitions and for its capital expenditure needs.

The company intends to sell US$26.55 million (RM100 million) Fixed-Rate Serial Bonds and US$26.55 million (RM100 million) seven-year Islamic Commercial Papers and Medium-Term Notes. Malaysian Rating Corporation Bhd has rated the bond MARC-1ID/ A+ID.

MALAYSIA

HLG Unit Trust unveils package

HLG Unit Trust Bhd, in partnership with Hong Leong Islamic Bank Bhd and Hong Leong Bank Bhd, has launched an investment package of established Islamic unit trusts focused on conservative and defensive funds.

The Golden Income Investment package offers investment options comprising HLG Dana Makmur, HLG Dana Maa'rof and HLG Dana Munir, all Islamic fixed deposits with differing asset allocation and investment objectives.

HLG Dana Makmur is an Islamic equity fund that aims to achieve regular income and consistent capital growth over the medium to long-term, while HLG Dana Munir provides regular income through investments in bonds and other debt securities. HLG Dana Maa'rof, however, diversifies its investments, containing a balanced mixture of equities and fixed-income securities.

Under the Golden Income Investment package, investors can opt to put money into any of the individual funds or spread their investments across all three funds with a pre-determined asset allocation. The Golden Income Investment campaign follows on the heels of the launch of Hong Leong Islamic Bank last month and will run from the 8th August to the 31st October.

MALAYSIA

Islamic banking leads to better results

AmInvestment Group Bhd's net profit for its first quarter to the 30th June rose 72.3% to US$16.78 million (RM63.2 million) from US$9.74 million (RM36.7 million) in the previous corresponding period, thanks to its Islamic banking operations and improvement in non-interest income.

The group's Islamic banking operations registered a US$2.15 million (RM8.1 million) rise in net income. There was also significant improvement in non-interest income, which rose by US$18.9 million (RM71.2 million), or by 192.4%.

The group's merchant banking subsidiary turned in a pre-tax profit of US$21.66 million (RM81.6 million), representing an 86.3% growth. This improved pre-tax profit was recorded on a revenue of US$62.66 million (RM236 million), compared with a previous revenue of US$48.64 million (RM183.2 million).

AmInvestment's fund management division's earnings improved from US$570,825 (RM2.15 million) to US$995,625 (RM3.75 million), while its stockbroking arm, AmSecurities Sdn Bhd, reported earnings of US$477,902 million (RM1.8 million), despite the lacklustre performance of the stock market.

UAE

Commercial Bank gets conversion go-ahead

Ras Al Khaimah-based Commercial Bank International has received the green light from the Ministry of Economy and Planning to convert into an Islamic bank.

The bank will be renamed Islamic Bank International. The bank is planning to raise its capital of between US$81.68 million and US$272 million through a rights issue.

NEWS BRIEFS

ABU DHABI

AMLAK to branch out to Abu Dhabi

AMLAK Finance PJSC recently announced that it intends to provide finance, for the first time, for Abu Dhabi's rapidly growing domestic real estate market. Dubai's first specialist Islamic financing company has submitted its application to the relevant authorities to open new branches in Abu Dhabi.

AMLAK's latest move to increase its business and seek new markets comes at a time when Abu Dhabi's real estate market is on the cusp of fully opening up, following a recent legislative change that allows nationals to own and transfer land.

INDONESIA

Indonesia to launch first Sukuk

Indonesia is set to launch its debut sovereign Islamic Sukuk over the next few months. The Indonesian Central Bank, which will issue the proposed US$500 million Sukuk, is co-operating with the Jeddah-based Islamic Development Bank (IDB), who is advising on the structure.

The IDB itself, in line with its five-year Strategic Plan which includes mobilizing resources from the market, started the ball rolling in May this year with a quasi-sovereign US$500 million floating rate Sukuk under a US$1 billion Medium-Term Notes (MTN) programme. The AAA rated issuance was oversubscribed by US$780 million within a few days of the launch. The IDB's MTN programme is said to be the first of its kind in terms of structure.

BAHRAIN

New fund for education

Bahrain-based Solidarity has announced an enhanced Protection Benefit scheme for its SolidEducation product. The SolidEducation plan, available to nationals, expatriates and international investors, is a Shariah compliant savings plan that provides families with the opportunity to put money aside to ensure their children can attend the educational institution of their choice.

Protection Benefit, which is attached as an added benefit to Solidarity's savings plans, was launched as a new offering to enhance their existing line of Takaful products. Benefits include Takaful protection on death, Takaful protection for critical illness and Takaful protection for waiver of contributions on death.

UNITED KINGDOM

TV ad campaign to target UK market

Halal Financial Services Inc, a Delaware-based corporation, recently announced the launch of the first satellite TV advert as part of its UK and European marketing strategy. The advert is part of an animated series that Halal Financial Services is looking to develop.

The first advert focuses on the reason for taking a Halal mortgage and how to contact the company, both via the website and the contact centre. It has been developed in two languages, English and Urdu.

The advert will be aired to the vast majority of Muslims in Europe over the non-subscription satellite channel Islam TV. Islam TV is the first and currently the only British Islamic channel broadcasting to Europe.

MALAYSIA

Islamic banking lifts Affin's net profit

Affin Holdings Bhd, a banking group controlled by the Armed Forces Fund, reported a 36% jump in second quarter net profit, helped by better income from Islamic banking and lower operating costs.

The group, parent company of Affin Bank Bhd, also said that it plans to cut costs further by shutting down nearly a quarter of its branches and reducing bad loans. Affin posted a net profit of US$13.23 million (RM49.85 million) for the three months ending 30th June, or an earning per share of US$0.0109 (RM0.0413). It declared a dividend of 2% per share.

Interest income fell by 3.2% to US$94.92 million (RM357.5 million). Income from Islamic operations in the second quarter jumped 28% to US$7.83 million (RM29.5 million). Other operating expenses fell 18% to US$35.68 million (RM134.4 million). On a six-month basis, Affin's net income grew by 47% to US$35 million (RM131.8 million).

QATAR

Financial planning training for QIB

Qatar Islamic Bank (QIB)'s Training Department, in co-operation with the Bahrain-based Solidarity Family Takaful, has conducted its second training course in the field of financial planning. A group of female financial planning advisors attended this session of the course.

QIB said the course provided an opportunity for trainees to learn basic skills in sales technique, based on the three principles of credibility, integrity and follow-up, aimed at creating strong ties with customers.

The financial advisors were also trained in required techniques relating directly to products that ensure savings and investment advantages for customers to allow them to undertake various projects.

MALAYSIA

MCIS Zurich plans global Islamic investment-linked fund

MCIS Zurich Insurance Bhd is planning to launch what may be Malaysia's first global Islamic investment-linked fund this November.

The move follows Bank Negara Malaysia's decision to allow insurance companies to invest up to 30% of their investment-linked funds' net asset value abroad from April this year.

MCIS Zurich CEO Datuk L. Meyyappan said the global Islamic investment-linked fund would be co-branded and managed together with other global fund managers. The fund would be targeted at investors from the West Asia region.

MCIS Zurich has three conventional funds as well as one Shariah-based fund, all of which are Ringgit-based.

COVER STORY

Islamic Hedge Funds *By Seelan Sakran*

Islamic Finance News looks at the growth of Islamic investment equity funds, the outlook for the future and challenges for this sector.

To the uninitiated, the Islamic investment equity funds market is one of the fastest growing sectors within the Islamic financial system.

According to Dow Jones Islamic Indices (DJII) Director Rushdi Siddiqui, there are more than 95 Islamic funds following the Dow Jones Islamic Market Index (DJIM), which have over US$1.2 billion invested in various stock markets around the world. What is more, this volume is increasing.

What is the reason behind this increase? "The dynamics of the global financial sector are creating a new opportunity for accelerated growth in Islamic finance and recommended industry-wide initiatives to encourage this," said Mohammed Khalfan Kharbash, the UAE Minister of State for Finance.

"Aversion to interest and speculation are essentially prudential regulations that encourage greater collateralization, marking to market and risk sharing," he added. In the context of Islamic finance, this was its first major victory on the global scene. Although it has long been cast as a form of ethical investing, it was not until the WorldCom, Enron and Tyco debacles that Islamic financial fund managers could boast that they could clearly identify potential signs of trouble for the competition.

"The events of US Worldcom and Enron were an extremely significant moment in the acceptance of Islamic finance by the global financial community," said Siddiqui. He added that over the last few years, an increasing number of global banks and funds have been looking to launch Islamic products.

A Consultant with the International Monetary Fund, John F. Thomas, told *Islamic Finance News* that even as far back as 1999 there were only about 100 Islamic equity funds worldwide: "The total assets managed through these funds at that time had exceeded US$5 billion. Not surprisingly, this growth has exploded, with Islamic equity funds growing by 12–15% per annum. Today this figure is worth in excess of US$100 billion."

Opportunity for growth

An analyst with Swiss UBS Investment Bank noted that: "When one measures the current meagre supply of Islamic products with the current wealth of Muslims worldwide, there is an overwhelming supply–demand imbalance. In the Middle East alone, investible wealth is estimated to be worth more than US$1.3 trillion, representing a significant opportunity for growth."

> **"The dynamics of the global financial sector are creating a new opportunity for accelerated growth in Islamic finance "**

Therefore, with the continuous focus on and interest in the Islamic financial system, there are real signs that more funds will be launched in the future. Some American and European investment funds have just joined the fray, or are thinking of launching similar Islamic equity products aggressively.

For example, just last year Kuwait Finance House, a leading Kuwaiti commercial bank, acquired a US$143.36 million (£80 million) portfolio of prime office and industrial property on the outskirts of London through its Al-Manar UK Property Fund.

This fund, like others similar to it, is aimed at and involved Middle Eastern investors, especially Islamic institutional investors. According to the London international property consultants DTZ: "Indeed, London, in a post 9/11 era, has become a magnet for Middle East property investors. Investors from the Middle East have invested €2.6 billion (US$3.2 billion) in European real estate in 2003, a 15% increase compared to the 2002 levels. Of this amount, some 80% was invested in the UK."

Even the city state of Singapore, which has a rather small Islamic-oriented financial system, is all abuzz. Last month a Singapore-based private equity group, Hupomone Capital Partners, said it was planning to attract another US$50 million from Middle Eastern and European investors to invest in Asia. This is on top of the US$68 million that it has already raised with its Bahrain-based partner, Shamil Bank. All in, the fund will total almost US$120 million.

Although these shifts are small on a global scale, they are clear indicators of the spread of Islamic finance in the West. Not only will banks try to introduce Islamic financial products for Muslims living in the West and other non-Muslim areas, but they could also try to market these products to non-Muslims, especially those looking for ethical investments. "And as the examples of WorldCom and Tyco show, Islamic finance is a safe bet for risk-averse investors", Siddiqui pointed out.

The limitations

However, there are some constraints. A Singapore-based fund manager said the current strategy trend among most of the funds is that they tend to target high net worth individuals and corporate institutions, with minimum investments ranging from US$50,000 to as high as US$1 million. "The target markets for these funds vary of course, some purely catering for local needs," added the fund manager.

Additionally, due to poor marketing, the lack of product innovation, and more importantly, failing to address the needs of investors, there has been a sort of veil undermining the development of Islamic financial instruments, says Wee Kim Hong, Research Head at Malaysian-based SJ Securities. "Sadly over the last few years, quite a number of funds have closed down – mainly due to a drop in world equity markets and flight of capital to safe havens."

In addition, there are several unresolved issues related to developing uniform Shariah rulings, as well as setting benchmarks and disclosure requirements in order to improve transparency and promote the sharing of information.

As Dr. Mohamed A. Elgari, a leading Islamic Economist at King Abdulaziz University in Saudi Arabia said: "Manpower is the weak link. Supply is limited, and institutions of education are not producing enough quality graduates to understand both Shariah and conventional finance. Banks and educational bodies should create an institute to produce such people."

But there are also, he noted, some cultural constraints: "the fact is

COVER STORY *(continued...)*

that since preference is given to the individual and not the prestige of the academy from which he graduates, this will always be a brake on development. Name recognition, unfortunately, takes precedence over knowledge."

Future outlook

Despite the constraints, companies like Failaka, a US-based Islamic investing house, have been monitoring Islamic equity funds' return on investment around the world for quite some time now. Although it is difficult to estimate the returns on an exact basis, and Failaka does not reveal the figures, a Singapore Islamic banking analyst said it could run into the millions. However, this figure pales in comparison to the billion dollar conventional equity funds existing in the U.S.

One of the reasons for this small return, the Singapore analyst added, is because Islamic investments, as well as Islamic banking in general, have been plagued by negative publicity and mishaps of late – which has led many Muslims to be cautious towards Islamic finance themselves.

"Fortunately, the environment, however, is slowly but surely changing," commented an analyst with HSBC Bank.

Islamic Funds, A Historical Perspective

The first known Islamic equity fund, ironically, did not emerge from the Gulf or even the Middle East. In fact, the first Islamic equity fund was called the Amanah Income Fund, and was established in June 1986 by members of the North American Islamic Trust (NAIT), an organization based in Indiana, US. Among its roles is overseeing the funding of mosques in America. The fund is still in existence today and has been one of the better performing Islamic funds. Saturna Capital Corporation, a niche asset management company based in Washington, manages the Amanah Income Fund, as well as the Amanah Growth Funds.

A US bank research report said that when comparing Islamic funds to the fund industry at large, one can easily conclude that Islamic equity funds are still in the infancy stage of their growth and development. Some of the earlier Islamic equity funds include the Mendaki Growth Fund in Singapore, which started in 1991; the Southern Pure Specialist Fund, started in South Africa in 1992; the Saudi Arabia-based Al Rajhi Local Share Fund, started in 1992; and the Tabung Ittikal Arab-Malaysian, started in Malaysia in 1993.

Failaka International, a US-based research house on Islamic equity funds, said most other Islamic equity funds were only actively launched after 1995. Today it is not uncommon to hear of new funds being launched on a regular basis by an increasingly diverse group of financial institutions. In fact, some of the major fund managers who have entered the Islamic world in one way or another are the Wellington Management Co, US; Nomura, Japan; Al Baraka Investment Bank, Saudi Arabia; Brown Brothers Harriman & Co, US; Switzerland-based Faisal Finance; Saudi American Bank in Saudi Arabia, Kuwait; UBS, Switzerland; Commerzbank in Germany; Robert Fleming in Luxembourg; US-based Morgan Stanley Dean Witter and Citibank; and Pictet & Cie, Switzerland.

SECTOR REPORT

Impact of Terrorism Acts on Islamic Finance *By Majid Dawood*

Islamic finance is a fledgling services sector that has been really around for the last thirty odd years and is finally taking roots and entering them mainstream as an alternative to conventional banking and finance with the likes of ethical and socially responsible arenas of financing methods.

However the term Islam is regrettable applied to acts of terrorism perpetrated by terrorists who happen to be Muslim by faith. It can be said that these people have an extremist view and one that is not endorsed or condoned by the majority of Muslims. In all reporting in the media, I do not recall the terrorist groups such as the Bader-Meinhoff being described as Christian Socialist Democratic terrorists nor the Red Brigade being considered as Roman Catholic Socialist terrorists based on their faith or political allegiances.

Following the terrorist events of 9/11 in New York, Bali, Casablanca, Madrid and London among others, the spotlight is on the Muslims as they are generally treated with much suspicion and distrust. The politicians and the security services try not to blame the Muslims as a faith and want their indigenous communities to take responsibility and curb the fanatical extremist rhetoric by fundamental clerics. These community leaders have to take responsibility for their own 'backyards', but at the same time the media have to also shoulder the blame for the growth in this division being enhanced. Let us look at for instance how the media reports some events, the Indian nuclear device has not been termed the 'Hindu' bomb, nor the American or French or British or the others have not had the faith tag attached to them as has the device developed by Pakistan, it was developed not for the Muslim Ummah nor for provision of the technology for any Islamic country that desired it, but for its defense against a very large and dormant neighbour, India. So why was the Pakistani device labeled in the international press as the 'Islamic' bomb.

These perceptions have led people to believe that Islamic banking is linked to terrorism. Immediately post 9/11, the response to initiatives in Islamic finance came to a virtual halt and we witnessed a flight of capital back to the region from the traditional markets in the West. Generally, this movement of funds has actually been a blessing, and by that I mean, the local markets and the regions have been the beneficiaries of indigenous development. More and larger deals are more directed at the development of local industry and services, the local banks get more experience and gain expertise and become more self sufficient. The Islamic finance deals are now getting concentrated into the region and the larger international banks are getting to work with their local counterparts.

Events of 9/11 brought a halt to Islamic finance initiatives in the international arena, there were no takers. After the Bali event there was still a continued feeling around post 9/11. Following the Madrid and London events, there has been a concerted flurry of activity if Islamic financial transactions having a bearing on most transactions being related to investment in the region and not in Western markets as such.

The liquidity created by the massive rise in oil prices has further been utilized to look towards self sufficiency in the region. The local property development, industrial plants, services sectors and therefore the local bourses are giving the kind of returns that are not available in the Western and international markets. These positives have further established strong working relationships between the local banks and corporates. This is helping the sector to take roots and the local retail market should get quite an impetus from it. On the other hand, local educational institutes are being established in co-operation with international counter parts to provide the educational facilities and teaching expertise locally. The international banks are not far behind and are setting up local presences.

All in all it would appear that the Islamic banking and finance section is benefiting indirectly from these events. It is a shame that it had to be such condemnable events to take place and cause so much misery for the Muslims to take a note of their own development and of the Islamic financing alternative.

Note: The author is Chief Executive Officer of Yasaar Limited.

Islamic Finance forum

Are we likely to witness consolidation within the Islamic banking industry as we have seen with the conventional banks?

CHRIS COOK
Principal
Partnerships Consulting LLP, London

Consolidation is an inevitable consequence of the over-riding imperative within Western enterprise models to "cut costs" and "maximize shareholder value". In the case of the Islamic banking industry certain bottlenecks strengthen this trend, principally a shortage of Western-based legal expertise and of Islamic scholars both versed in modern financial techniques and sophisticated enough to bridge the fundamental divide between an asset-based economy and a deficit-based financial system.

The foci of Islamic banking consolidation appear likely to be the developing "Centres of excellence" in London and Dubai. The source of funds will be the sea of petrodollars which - unlike after the first oil shock - are not destined for US assets, but probably rather for investment in the developing economies of the Middle East, India and China.

However, I believe that a tsunami is about to overwhelm any wave of consolidation, embodied in the trend towards disintermediation and decentralization of the financial system inherent in the pervasive spread of the Internet: i.e. the "Napsterization" of financial markets.

We already see in the emergence of a direct "peer to peer" connection between lender and borrower without credit intermediation by banks. Alternatively, new partnership-based "Clearing Unions" offer bilateral interest-free credit, subject to a multilateral guarantee.

In the future banks will no longer create credit – the unquestioned but deeply questionable "Deficit-based" financing at the heart of monetary markets as currently practiced – but may instead manage the creation of credit and introduce investors to investments possibly using new trust and partnership legal "wrappers".

Central Banks will cease to issue deficit-based money and instead become monetary authorities managing the issue of "asset-based" money by national treasuries.

Timescale? At most five years, precipitated by a dollar crisis itself founded upon peaking energy supplies and the reluctance of oil producing nations to fund profligate US energy use.

PROFESSOR RODNEY WILSON
Director
University of Durham

Consolidation within the Islamic banking industry is likely in the long term, but in the next two or three years we are unlikely to see any mergers. Whereas the multinational conventional banks operate in liberal economic environments, where major institutions such as HSBC have been able to buy up local banks, acquisitions within most Muslim countries by foreign banks are likely to counter resistance. The Dubai Islamic Bank has an office in Tehran for example, as trade between Dubai and Iran is increasing in significance, but it is doubtful if it would want to acquire one of Iran's state-owned Islamic banks, even if it had the opportunity, and it is unlikely that the government or Central Bank in Iran would want to let this happen anyway.

In the case of Saudi Arabia, although some new international banks are establishing offices, no foreign takeovers of existing banks are being allowed, and none of the new entrants are Islamic banks. There is perhaps a reluctance to challenge large Islamic retail banks such as the Al Rajhi Corporation for Banking and Investment on its own home turf.

In Malaysia foreign Islamic banks such as the Kuwait Finance House are establishing offices, but they are not interested in establishing or acquiring retail networks, their role being to identify investment opportunities for the funds they have raised in the oil-rich Gulf, not to harness deposits from Malaysians. They are more likely to work in partnership with local banks, but not to take them over, partly because they do not know the market well, and are likely to proceed with extreme caution.

The most likely mergers would be in the UAE where the banking system is very fragmented. Islamic financial institutions such as the Dubai Islamic Bank, the Abu Dhabi Islamic Bank and the National Bank of Sharjah have strong affiliations with particular emirates, as their names imply, and although they have branches throughout the UAE, the identification with a particular home base is viewed as a strength that would be lost after a merger. Nevertheless as the UAE increasingly functions as a single market, and as eventually this is also the case with the wider Gulf Cooperation Council, cross-emirate and cross-border mergers seem inevitable.

CONTINUED....

Islamic Finance forum (continued...)

ASAD SULTAN
Director
AIAK Capital Limited

I do believe there must be consolidation in the Islamic banking industry, because currently bank capital is too low to support significant transaction sizes. A relevant case in point is HSBC's recent landmark asset-backed bridge financing to support Etisalat's US$2.6 billion bid for Pakistan's PTCL.

This was not only managed by HSBC, but every other participant in the syndicate is a commercial bank (including global banks like Citi, Deutche and Barclays). Why? Because Islamic banks don't have the balance sheet to bid for these transactions. So consolidation is a must, else the Islamic banking industry, as we call it, will remain an oddity on the fringe of the banking community, or more likely will be little more than one amongst many specialized product lines offered by the global banks.

Sadly, I don't think the consolidation will happen soon enough, and that the latter scenario is very likely to materialize, but that is a separate matter for discussion.

DR. HUMAYON DAR
Vice President,
Dar Al Istithmar

Despite an impressive growth record, Islamic banking remains only a small segment of the global finance industry. In order to compete with the mainstream banks, Islamic banks must grow in size and resources. However, Islamic banks have so far been insignificant players in their respective markets, barring few exceptions. The largest Islamic bank, Bank Melli in Iran, has total assets of about US$22 billion, compared with total assets of US$1.28 trillion of the largest bank in the world, namely, Mizuho Financial Group of Japan. In fact, there are only six Islamic banks with total assets of US$10 billion or more (only two if the state-owned Iranian Islamic banks are excluded); and there are only four Islamic banks with market capitalization of US$1 billion or more (only two excluding Iranian banks). This compares poorly with the conventional banks: the top six conventional banks have their individual total assets exceeding US$1 trillion; three top conventional banks each have market capitalization of US$100 billion or more. Given this huge size differential, Islamic banks are bound to go through a similar consolidation as their conventional counterparts did in the past. There is now a trend emerging in favour of establishing "mega" Islamic banks; but an active process of mergers and acquisition (M&A) will serve as a real impetus to growth in size of Islamic banks. The conversion of conventional banks into Islamic ones in a number of Muslim countries will pave the way for M&A. The process of conversion is witnessing growth at present and it may take a while before a wave of M&A will emerge in Islamic banking.

EVENTS DIARY

Innovations in Islamic Finance
The Yale Club, New York
Thursday, 8th September 2005
Organized By: Shariah Capital

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

Risk World Middle East
The Jumeirah Beach Hotel, Dubai
Monday, 19th - 21st September 2005
Organized By: Terrapin Conferences

Private Equity World Middle East
Jumeirah Beach Hotel, Dubai
Tuesday, 19th - 21st September 2005
Organized By: Terrapin Conferences

2nd Annual Asian Islamic Banking & Finance Summit
Mandarin Oriental Hotel, Kuala Lumpur
Tuesday, 19th - 21st September 2005
Organized By: Euromoney Seminars

Islamic Trade Finance
Crowne Plaza Hotel, Kuala Lumpur
Thursday, 22nd - 23rd September 2005
Organized By: IIR Middle East

2nd Conference on Islamic Banking & Finance
Singapore
Monday, 26th - 27th September 2005
Organized By: ABF Asia

8th International Islamic Finance Forum
Ceylan Inter-Continental Istanbul Turkey
Monday, 26th - 28th September 2005
Organized By: IIR Middle East

Indonesian Securitization & Islamic Securitization
Shangri-La Hotel, Jakarta
Wednesday, 28th - 29th September 2005
Organized By: IBC Asia

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

Islamic Financial Services Forum: The European Challenge
Luxembourg
Tuesday, 8th - 9th November 2005
Organized By: Islamic Financial Services Board

Kuala Lumpur Islamic Finance Forum 2005
JW Marriot Hotel, Kuala Lumpur
29th November - 1st December 2005
Organized By: CERT

Takafulnews

www.islamicfinancenews.com

Inside Takaful News:

NEWS BRIEFS

PAKISTAN

TNOI set up to spearhead Pakistan venture

Takaful Nasional (TN) recently signed a joint venture agreement with Pakistan Kuwait Investment Company Pte Ltd (PKIC) and Meezan Bank Ltd (Meezan) to form a Takaful company called Pak-Kuwait Takaful Company (PKTC).

The total authorized capital for PKTC is US$8.38 million (PKR500 million/RM32.8 million), of which US$4.19 million (PKR250 million/RM16.4 million) will be subscribed initially. TN's investment of 25% in the initial subscription will amount to US$1.05 million (PKR62.5 million/RM4.1 million).

As part of the agreement TN will provide technical assistance in setting up PKTC's business operation. For this Pakistan business venture TN will channel its investment through a Labuan offshore company, TN Overseas Investment Pte Ltd (TNOI). TNOI will monitor the business activities of PKTC and other future international business ventures, which will include analysing and reporting on performance to ensure the overseas venture is run efficiently.

QATAR

QIIC settles 30 loan claims due to borrowers' death

The Qatar Islamic Insurance Company (QIIC) has so far this year settled about 30 claims for loans provided by Islamic banks and financial institutions in the country due to the death of borrowers.

The number of claim settlements has been rising due to a similar increase in the number of loan products available from Islamic banks and financial institutions.

QIIC covers loans provided under Shariah rules. In addition to the two Islamic banks (Qatar Islamic Bank and Qatar International Islamic Bank), Commercialbank and Qatar National Bank (QNB) have also diversified into Shariah complaint banking.

Al Jazeera Finance, Al Safa, the Islamic banking branch of Commercialbank, QNB's Islamic banking products and First Finance are among the institutions whose loan products are covered by QIIC.

BAHRAIN

Landmark US$464.18 million insurance deal signed

Durrat Al Bahrain, a tourist-cum-residential project with a total cost of over US$1 billion (BD377 million), recently signed a landmark agreement with two Bahrain-based Islamic insurance companies to offer US$464.18 million (BD175 million) insurance coverage for a period of 49 months starting from December.

Durrat Al Bahrain said the international insurance brokers AON Middle East have been appointed as risk management consultants for the Durrat Al Bahrain project, whose insurance cover was equally awarded to Takaful International and Solidarity.

The agreement is believed to be one of the biggest insurance covers offered in the Bahrain construction sector. Not included in this agreement was a reclamation insurance agreement signed by Durrat Al Bahrain with another company for US$143.23 million (BD54 million), taking the project's total insurance covers to US$607.42 million (BD229 million).

Durrat Al Bahrain is a joint venture being carried out by the Government of Bahrain and Kuwait Finance House. It occupies an area of 20km^2 on the southern coast of Bahrain and comprises 13 different islands.

BAHRAIN

Solidarity offers enhanced savings and investment plan

Bahrain-based Solidarity recently announced an enhanced Takaful Protection Benefits scheme for its SolidStart product.

Solidarity's existing SolidStart plan, available to nationals, expatriates and international investors, is a Shariah compliant savings and investment plan that provides individuals and families with the opportunity of saving money to purchase an item of their choice, such as a house, a new car, further education, or a new business venture.

Demystifying Surplus – Heart or Soul of Takaful Insurance Transactions?

By Omar Clark Fisher & Khalil Ghneim

If the "heart" of any insurance transaction is the risk protection element, then surplus can be labelled as the "soulful" element. While there does exist a savings element in some types of insurance, typically people enter into insurance transactions to share risk exposures and minimize personal losses. The mechanism or model of how risk is mitigated determines the mode of insurance selected. Many purchasers of insurance seem indifferent to the mode (or model) of insurance on offer, either due to a lack of knowledge, or a preoccupation with procuring the end product itself, i.e. coverage protection. However, the mode of insurance chosen will determine many aspects of the relationship between the insured person and the insurer that is accepting the risk, including a final disposition of surplus. This article will not address the many differences existing between conventional insurance and Takaful, but rather will assume that a Takaful mode of insurance applies.

What is surplus and how is it calculated?

What is surplus? A typical insurance transaction consists of contributions (premiums) paid into a "risk pool", or insurance fund, from which:

- claims or benefits are paid out to the contract holders (policy holders) as per the terms of the contract (policy);
- administrative and management fees are charged or deducted; and
- any reinsurance or re-Takaful risk-sharing costs are deducted.

In cases where the Takaful operator retains risk, surplus can arise at the primary level, as well as at a reinsurance level, out of the funds that may be retroceded. In a Takaful contribution there are three basic elements:

- risk protection or mortality risk element;
- management fees (Wakalah or Mudarabah); and
- reserves element

If the contribution is linked to a savings plan, then there is a fourth element for investment purposes.

The risk element portion of the contribution is designated as Tabarru' (or donation) and accumulates in a risk pool, out of which claims or other types of mutual assistance are paid to policy holders as needed. At the end of each period, usually one calendar year, when the reinsurers settle any claims and close their books, the primary Takaful operator will calculate whether or not there is a surplus from its operations. The amount of risk contribution paid is an estimate of the expected claims experience for the year ahead. A surplus in Takaful operations arises when the total contributions paid by insureds, less the total value of claims paid (adjusted for any claims recoveries from re-Takaful/reinsurance), less operator fees charged, less the change in any technical reserves and reserves for outstanding claims, leaves a positive balance (surplus), or a shortfall (deficit) in funds. The resultant surplus means that the number of claims experienced at year-end is better than the estimated figures used at the beginning of that year to price the contribution. Any surplus returned to policy holders could be considered to be a partial refund of contribution. However, it must be noted that any expected surplus is not typically a factor in pricing. Depending upon which mode of insurance operations is adhered to, the positive result will impact on either the contract holders or the shareholders.

As a prudent fund manager, a Takaful operator may hold back a portion of that surplus as a contingency reserve, against IBNR claims and/or circumstances of larger-than-expected claims that might occur in the future. However, as we shall see, this contingency reserve rightfully belongs to the policy holders alone. Conversely, if a shortage of funds results then either:

- the policy holders contribute additional funds (assessment mutual); or
- the shareholders cover the deficit; or
- as part of its contractual obligations as operator, the Takaful operator may extend an interest-free loan (Qard Hassan – benevolent) to the risk pool.

Surpluses may exist at the reinsurer's level as well, which is an excess of reinsurance premiums paid over the reinsurer's portion of claims paid. Depending upon the reinsurance treaty accepted between Takaful operator and reinsurer, any surplus may be returned to the primary risk pool (policy holders) based upon some sharing formula (i.e. 50%–50% after deducting reinsurance expenses).

Risk exposures are commonly classified into two broad categories: (1) life or personal risk; and (2) non-life or property risks, including liability or third party risks. The former includes personal life, healthcare, medical, disability and loss of income, while the latter includes property, casualty and liability risks for property, marine, cargo, engineering, automobile and other assets. Computation of surplus may vary per class of business written. Further, surplus calculation may be on the basis of combining all the classes of risk exposures within the main category or, conversely, by segregating the categories of risk into separate "pools". Within a Takaful operation, however, there should not be any cross-subsidization among the discrete categories. This is because each policy holder is indemnifying the other participants in the Takaful "risk pool" pertaining to a similar class of risk, and not transferring that risk. By contrast, when policy holders transfer risk to a stock insurance company, which may be operating several classes of "risk pools" simultaneously, that corporate entity owns all the "pools" and agrees to accept and bear the collective risk of loss. Hence, the cross-subsidization of "risk pools" may result in a general surplus that otherwise would not occur for a single class of risk.

Surplus is not profit

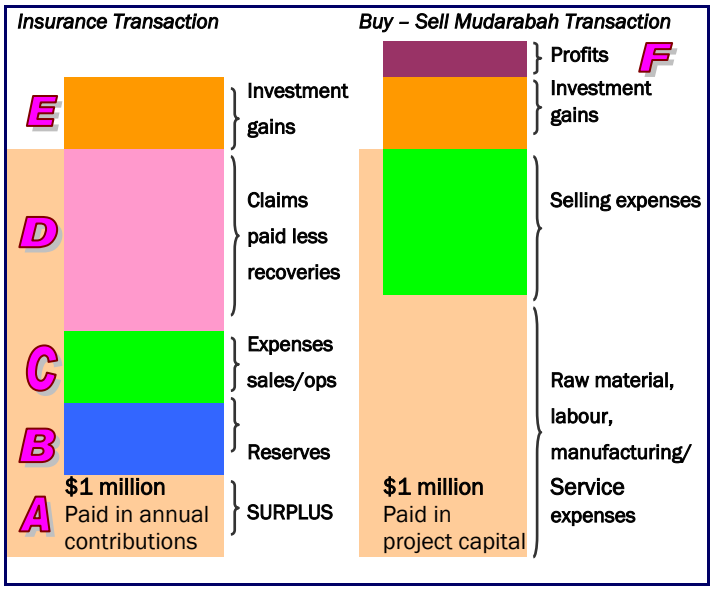
There is an important distinction between Takaful insurance transactions and profit/loss making commercial transactions, frequently characterized as Mudarabah, which clarifies the difference between surplus and profit. As the diagram shows on the following page, in a buy–sell commercial transaction the provider of capital contributes a sum of US$1 million and draws on this amount to cover the various manufacturing, labour, operating and selling expenses. The base contributed capital may be increased during the year by prudent investments. When the finished product/service is sold, the resulting revenues are compared with the aggregate costs of production to determine gain (profit) or loss (deficit). A profit (F) can only be achieved if the selling price and units sold yields an excess return to the original capital applied (A) plus any investment gains (E).

By contrast, a Takaful insurance transaction begins with a contribution (premium) sum paid, from which the main operating components are paid – (D) claims and benefits to policy holders, (C) operations, management and sales expenses, (B) technical and general reserves. Any gains from investing the contributions (E) during the year may be added to the base policy holders' contributions. It can be seen that except for (E), all other items are cost items that are subtracted from the contributed capital, which yields at year-end either a

SECTOR REPORT *(continued…)*

surplus (A) – i.e. residual amount of funds not exhausted – or a deficit if the entire US$1 million of the policy holders' contributions is used up.

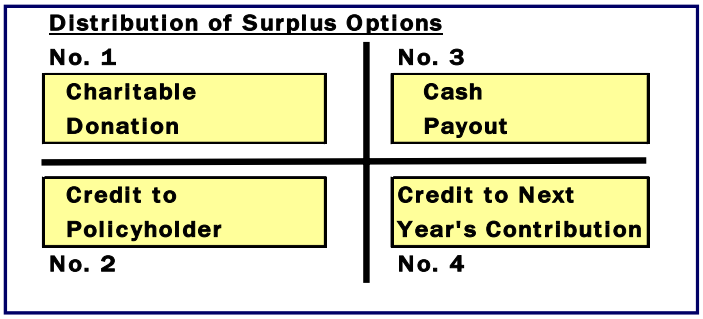
From this simple diagram, it can be seen that surplus is not the same as profit. Surplus (A) not the same as profit (F).



Distribution of surplus

Any remaining funds from annual operations of the Takaful model forming the surplus should be treated in one of four ways.

It is noteworthy that the first option of charitable donation is not offered by conventional insurance companies. Charitable donation of any surplus returned to the policy holders may be accomplished on an individual basis as a matter of conscience, or may be organized collectively by the operator on behalf of and according to instructions approved by individual policy holders.



Who is eligible to receive surplus?

The appropriate answer to this question is determined properly by the mode (model) of insurance elected. Stock: conventional insurance companies retain the surplus, if any, and distribute it only to the shareholders, under the rationale that the policy holder transferred his risk to the "pool" owned by the shareholders and hence the resultant excess of funds is a fair reward for acceptance of that risk. Mutual and co-operative: conventional insurers distribute the surplus, if any, only to the members of that co-operative, as no shareholders exist.

Takaful models are essentially of two types: Mudarabah and Wakalah. Mudarabah operators declare in the contract/policy a fixed percentage division of any surplus achieved between the operator and the respective policy holders and, in this way, actually share in surplus. For example, the Malaysian operators using Mudarabah one year General Takaful policies may allocate the surplus 40% to the operator and 60% to the policy holders, whereas Family (Life) Takaful plans may divide the surplus 30% to the operator and 70% to the plan holders.

Under a Wakalah model, there is no sharing of surplus between the operator and the policy holders. In the case of one Wakalah agency operator in Saudi Arabia for Family Takaful, there is a performance fee, which is a fixed percentage disclosed in the contract and levied (or waived) at the discretion of the operator, depending upon the quantum of surplus achieved. Alternatively, the proposed guidelines for Takaful operators in Pakistan employing the Wakalah model dictate surplus distribution only to policy holders. This proposal also makes clear that payment of surplus to a policy holder should be reduced by the amount of any approved claims or benefits that same policy holder received during the year. By contrast, neither the Saudi Arabian nor the Malaysian Takaful operators offset surplus distributions to policy holders by prior claims experience.

Whether or not to reduce surplus distributions to policy holders who may have suffered losses and consequently qualified for claims or benefits compensation, is controversial among Takaful operators. Some practitioners favour treating all Takaful members equally upon distribution of surplus, as they were the original source of the risk capital. Others prefer to adjust the return of surplus to any policy holder who has already benefited from the Takaful pool during the same year. Nonetheless, benefits paid to a claimant from previous years (such as fire, marine, or liability losses or disability payments) generally do not carry forward and affect the surplus calculation for that policy holder in the current year.

It is widely accepted that surplus distributions are paid to the policy holder of policies in force at the time of surplus calculation. Hence, payments are made either directly to individual policy holders, or to a master policy holder for group schemes and not to employees themselves. Policy holders of lapsed or cancelled contracts generally forfeit their pro rata surplus and that amount is donated to the unallocated surplus reserve. Finally, in the event of the dissolution of a Takaful pool, the accumulated surplus will be distributed among all the active policy holders at that time (similar to a conventional mutual insurer, but in contrast to a conventional stock insurer whereby a final distribution of surplus is made to shareholders only).

Conclusion

When choosing a policy of insurance, most purchasers concern themselves with price, coverage restrictions, policy terms and conditions and the financial ratings of their insurer or reinsurer (such as by AM Best or S&P), but rarely look to the issue of surplus. While surplus may not be the "heart" of an insurance transaction which links to the risk-sharing mechanism, it can be deemed the "soul." Selection of the mode of insurance (stock vs. mutual vs. Takaful) backing the policy will pre-determine the calculation and treatment of surplus.

Clearly, the "heart" of any risk protection transaction is the scope and nature of coverage on offer; however, the ownership of surplus, if any results, and its final disposition, is the "soul" of that insurance transaction as it confirms the essential relationship among the risk-takers. Muslims are enjoined to employ Takaful insurance that assures Shariah compliance in all aspects whereby potential rewards to policy holders include a monetary distribution of surplus in the mundane world, plus spiritual benefits for their Hereafter.

Note: Mr. Omar Clark Fisher is Senior Director and Head of Takaful Business Development at Unicorn Investment Bank, B.S.C.(c) of Bahrain. Mr. Khalil Ghneim, is Director and Manager – Takaful Operations and Technology at Unicorn.

Most national regulators permit only local licensed Takaful companies to operate. How can international or cross border Takaful operators expand their operations across borders without having to establish a new Takaful subsidiary each time?

SOHAIL JAFFER
Partner
FWU Group

The worldwide Takaful market is represented by some 60 companies with an annual gross premium income of around US$3.5 billion.

Currently the European Third Life, Non-Life and Consolidated Life Directives permit an authorized licensed insurance company which fulfils the requisite conditions to operate cross-border in another member state. These are referred to as "passporting rights" and can be exercised after notification to the local insurance regulator within the relevant EC member state. Hence there is limited need for establishing a new subsidiary.

Within the international markets including the GCC there are currently limited opportunities for an authorized insurance provider to service multiple markets with a single licensed entity. Most national regulators require the Takaful operator to be licensed locally.

In certain jurisdictions like Pakistan, Saudi Arabia, UAE and Malaysia, the rules for foreign ownership are being liberalized and may permit foreign ownership stakes in locally established insurance companies.

Alternatively, foreign Takaful companies may choose to enter into a strategic alliance or tie up with a local Takaful operator.

One other possibility is to establish a branch operation within a regulatory international environment which permits such a setup. Currently the Dubai International Financial Centre (DIFC) is an onshore capital market designated as a financial free zone designed to create a unique financial services cluster economy for wealth creation initiatives.

The DIFC offers a hub for insurance and re-insurance companies, brokers, captives and other service providers, enabling them to establish their wholesale regional operations in a single business base in the Centre.

ABDUL GHONI
Senior Consultant Partner - Islamic Insurance Specialist SEBI (Sharia Economic and Banking Institute)

I agree with Professor Rodney Wilson from Durham University's statement that: "Other central banks in the Muslim world have been less pro-active either because governments have associated Islamic banks (wrongly) with Islamic political parties and movements, or because there has been skepticism, and often ignorance of Islamic Banking".

However it is worth pointing out that the oil-rich states of the Gulf have difficulties in reaching Islamic countries such as Indonesia and as such intermediary countries like Singapore play a role in meeting their capital liquidity needs.

A case in point is my previous company, Karim Business Consultant, a specialist Islamic finance consultancy from Indonesia that expanded to Singapore. With the opening of the Singapore office and its role as a hub, Middle East investors could be connected to Indonesia. In this manner we could still service clients from the Middle East that would have otherwise not been possible, as Indonesia's regulations are less familiar to Middle East investors.

MOVES

DUBAI INTERNATIONAL FINANCIAL CENTRE - Dubai

The Dubai International Financial Exchange (DIFX) has appointed six new Directors, effective from the 1st September 2005. These appointments will broaden the regional and international composition of the Board by increasing the representation of regional financial services experts, as well as of executives of global investment banks. The new Directors are:

- Hussain Al Qemzi – Chief Executive Officer, Sharjah Islamic Bank.
- Yassine Bouhara – Head of Global Equity Derivatives and Head of Global Markets, Middle East and North Africa, Deutsche Bank.
- Sameh El-Torgoman – Chairman, Mortgage and Finance Authority, Egypt.
- Mukhtar Hussain – Chief Executive, Corporate and Investment Banking and Markets, Middle East and North Africa, HSBC Bank Middle East.
- Essa Kazim – Director-General, Dubai Financial Market.
- Shadi Sadeek Sanbar – Special Adviser to Kingdom Holding Company.

The expansion will assist the development of DIFX as it moves rapidly from its project phase towards its planned opening on the 26th September 2005.

With the arrival of the new directors, Sameer Al Ansari, Chief Executive Officer of Dubai International Capital (DIC), has stepped down from the Board.

DUBAI FINANCIAL SERVICES AUTHORITY - Dubai

The Dubai Financial Services Authority (DFSA) has announced seven new appointments to the regulatory agency. The appointments are:

- Mark McGinness, Director, International Relations
  (Mr McGinness joins DFSA from the Australian Securities and Investments Commission).
- David Haswell, Senior Manager, Authorization
  (Mr Haswell joins DFSA from Ernst and Young, UK).
- Matthew Warren, Senior Manager, Authorization
  (Mr Warren joins DFSA from Lloyds of London, UK).
- Bernhard Sperling, Senior Manager, Supervision
  (Mr Sperling joins DFSA from Deutsche Bank, Prague).
- Aryan Schoorl, Senior Manager, Markets
  (Mr Schoorl joins DFSA from the Netherlands Authority for the Financial Markets, 'Autoriteit Financiële Markten').
- Tony De Cristofano, Head of Information Technology
  (Mr De Cristofano joins DFSA from Reuters, Dubai).

In effect, Jan Bladen has been promoted as Chief Operating Officer of DFSA, holding responsibility for all corporate services.

ROYAL & SUNALLIANCE - UAE

Owen Belman has been appointed Head of Consumer Banking in the UAE. He brings with him an extensive knowledge of running consumer banking operations covering retail lending, deposits and investment products.

Prior to joining Royal & SunAlliance, Mr Belman worked for Marakon Associates in Singapore, where he consulted to international life assurers and banks.

TEMASEK - Singapore

Simon Israel, Chairman of Danone Asia Pte Ltd, has been appointed to join the 10-member board of Temasek, along with new board member Goh Yew Lin, Executive Director of GK Goh Holdings Ltd. The last change to the board was made in July 2003.

Mr Israel's appointment will enhance the firm's expansion efforts overseas. Mr Israel has a wealth of marketing knowledge and extensive investment experience in the Asia-Pacific region, as well as a practitioner's knowledge of various consumer trends in Asia.

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Bondweb MALAYSIA

MALAYSIA ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET : FORTNIGHTLY SNAPSHOT — AS AT 26th AUGUST 2005

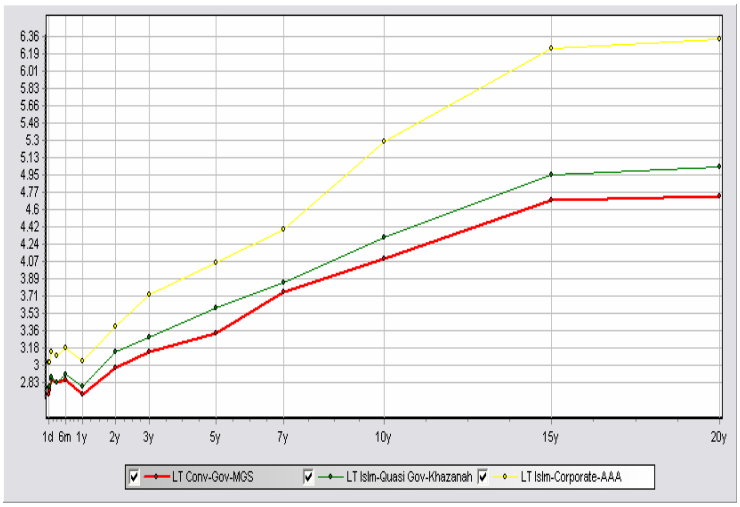
Key Benchmarks Trend (By Volume)	Rating	This week close (%)	15/8/2005 (%)	8/8/2005 (%)	1/8/2005 (%)
Private Debt Securities					
PLUS 0.00000% 16.6.2017 - SERIES 2	AAA *(RAM)*	5.43	5.79	5.95	6.00
PLUS 0.00000% 17.06.2016 - SERIES 1	AAA *(RAM)*	6.01	5.77	5.77	5.77
SSHMC RM45M 3-YR 20.09.2007	AAA ID (S) *(MARC)*	5.15	5.30	5.30	5.30
LKPP BAIDS SERIES 1 31/05/2007	AAA (S) *(MARC)*	3.60	3.70	3.68	N/A
PLUS 0.00000% 15.06.2018 - SERIES 3	AAA *(RAM)*	5.62	5.98	6.05	6.10
PLUS PRIMARY BONDS SERIES 6 - 30.05.2008	AAA *(RAM)*	3.66	3.71	3.71	3.71
Government Investment Instruments					
GII 1/2003 0.00000% 31.03.2008		3.12	3.14	3.17	3.20
GII 3/2004 0.00000% 29.10.2009		3.38	3.39	3.47	3.47
PROFIT-BASED GII 1/2005 16.03.2015		4.02	4.10	4.19	4.19
GII 1/2004 0.00000% 15.06.2007		3.08	3.05	3.06	3.02
GII 2/2004 0.00000% 30.09.2011		3.74	3.74	3.82	3.82
Quasi Government					
KHA1/05 1B 0-CP 5Y 18/01/2010		3.49	3.50	3.64	3.64
KHA1/03 1B 0-CP 5Y 18/6/2008		3.16	3.21	3.26	3.26
IBRD 0.00000% 12.05.2010		3.40	3.40	3.50	3.49
KHA1/04 1.15 B 0-CP 5Y 18/09/2009		3.48	3.48	3.57	3.57
KHA2/03 1B 0-CP 5Y 18/09/2008		3.25	3.30	3.40	3.32
KHA 3/99 1.15B 0CP 10Y 18/9/2009		3.48	3.62	3.62	3.62

SPREAD VS GII (in b.p)

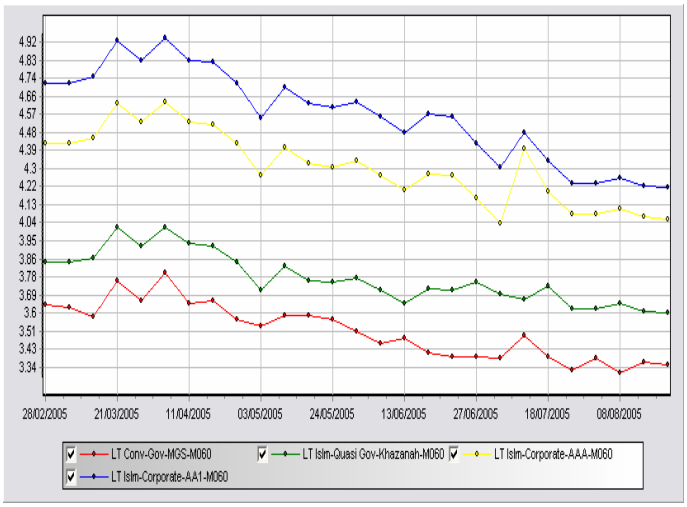
	TENURE					
	1-year	2-year	3-year	5-year	7-year	10-year
GII	2.69	3.04	3.2	3.4	3.65	4.09
Cagamas	2.93	3.33	3.53	3.72	3.98	4.43
Khazanah	2.78	3.14	3.29	3.59	3.84	4.3
AAA	3.04	3.39	3.72	4.05	4.39	5.28
AA1	3.08	3.54	3.97	4.2	4.56	5.38
A1	3.8	4.24	4.65	5.6	6.34	6.98

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



YTM Historical Charts (weekly closing, over last 6 months)



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ISLAMIC LEAGUE TABLES

TOP 20 ISSUERS OF ISLAMIC DEBT — AUGUST 2004 - AUGUST 2005

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%Share	Manager
1	Dubai Global Sukuk FZCO	UAE	Sovereign Islamic Bond	1,000	1	13.4	Citigroup, Dubai Islamic Bank, HSBC
2	Pakistan International Sukuk Co Ltd	Pakistan	Sukuk-Al-Ijara Sovereign Islamic Bond	600	1	8.0	Citigroup, HSBC
3	Wings FZCO	UAE	Islamic Sukuk-Al-Musharaka Issue	550	1	7.3	Dubai Islamic Bank, Standard Chartered Bank, HSBC
4	Cagamas MBS Bhd	Malaysia	Sukuk Musyarakah Islamic Bond	542	6	7.2	CIMB, HSBC, ABN AMRO, AmMerchant Bank
5	Islamic Development Bank	Saudi Arabia	Islamic Bond	500	1	6.7	Deutsche Bank, HSBC
6	Sarawak Corporate Sukuk Inc	Malaysia	Sukuk-Al-Ijara Sovereign Islamic Bond	350	1	4.7	UBS (London)
7	PLUS Expressways Bhd	Malaysia	Serial Bai Bithaman Ajil Islamic Securities	349	4	4.7	Commerce International Merchant Bankers
8	SAJ Holdings Sdn Bhd	Malaysia	Al-Bai Bithaman Ajil Islamic Debt Securities	337	2	4.5	Aseambankers Malaysia, Bank Islam Malaysia, Commerce International Merchant Bankers
9	Jimah Energy Ventures Sdn Bhd	Malaysia	Istisna' Islamic MTN Facility	245	10	3.3	AmMerchant Bank, RHB Sakura Merchant Bankers, Malaysian International Merchant Bankers, Bank Muamalat Malaysia
10	Gold Sukuk dmcc	UAE	Islamic Sukuk-Al-Musharaka Issue	200	1	2.7	Standard Bank, Dubai Islamic Bank
10	International Bank for Reconstruction & Development - World Bank	Supranational	Bai' Bithaman Ajil Islamic Debt Securities	200	1	2.7	ABN Amro Bank, Commerce International Merchant Bankers
12	Saudi Hollandi Bank	Saudi Arabia	Islamic Bond	187	1	2.5	ABN Amro, Saudi Hollandi Bank
13	DRB-HICOM Bhd	Malaysia	Bai' Bithaman Ajil Islamic Debt Securities	181	1	2.4	AmMerchant Bank, Malaysian International Merchant Bankers
14	Encorp Systembilt Sdn Bhd	Malaysia	Al-Bai' Bithaman Ajil Notes Issuance Facility	180	1	2.4	United Overseas Bank (Malaysia)
15	Musyarakah One Capital Bhd	Malaysia	Asset-Backed Sukuk Musyarakah Issuance Programme	176	7	2.4	Commerce International Merchant Bankers
16	Special Power Vehicle Bhd	Malaysia	Bai' 'Inah Islamic MTN Facility	163	13	2.2	Malaysian International Merchant Bankers, AmMerchant Bank, RHB Sakura Merchant Bankers, Bank Muamalat Malaysia
17	Optimal Chemicals (Malaysia) Sdn Bhd	Malaysia	Al-Bai Bithaman Ajil Islamic Debt Securities	149	10	2.0	Aseambankers Malaysia, Malayan Banking, HSBC Bank Malaysia
18	Ranhill Power Bhd	Malaysia	Islamic MTN Programme	142	12	1.9	Aseambankers Malaysia
19	International Finance Corp - IFC	Supranational	Al-Bai Bithaman Ajil Islamic Debt Securities	132	1	1.8	Commerce International Merchant Bankers, HSBC Bank Malaysia
20	Optimal Glycols (Malaysia) Sdn Bhd	Malaysia	Al-Bai Bithaman Ajil Islamic Debt Securities	119	10	1.6	Aseambankers Malaysia, Malayan Banking, HSBC Bank Malaysia
	Total of issues used in the table			**7,490**	**199**	**100.0**	

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ISLAMIC LEAGUE TABLES

TOP 20 ISSUERS OF ISLAMIC DEBT — YEAR-TO-DATE

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%Share	Manager
1	Pakistan International Sukuk Co Ltd	Pakistan	Sukuk-Al-Ijara Sovereign Islamic Bond	600	1	13.6	Citigroup, HSBC
2	Wings FZCO	UAE	Islamic Sukuk-Al-Musharaka Issue	550	1	12.5	Dubai Islamic Bank, Standard Chartered Bank, HSBC
3	Cagamas MBS Bhd	Malaysia	Sukuk Musyarakah Islamic Bond	542	6	12.3	CIMB, HSBC, ABN AMRO, AmMerchant Bank
4	Islamic Development Bank	Saudi Arabia	Islamic Bond	500	1	11.4	Deutsche Bank, HSBC
5	PLUS Expressways Bhd	Malaysia	Serial Bai Bithaman Ajil Islamic Securities	349	4	7.9	Commerce International Merchant Bankers Berhad
6	Jimah Energy Ventures Sdn Bhd	Malaysia	Istisna' Islamic MTN Facility	245	10	5.6	AmMerchant Bank, RHB Sakura Merchant Bankers, Malaysian International Merchant Bankers, Bank Muamalat Malaysia
6	Gold Sukuk dmcc	UAE	Islamic Sukuk-Al-Musharaka Issue	200	1	4.5	Standard Bank, Dubai Islamic Bank
8	International Bank for Reconstruction & Development - World Bank	Supranational	Bai' Bithaman Ajil Islamic Debt Securities	200	1	4.5	ABN Amro Bank, Commerce International Merchant Bankers
9	DRB-HICOM Bhd	Malaysia	Bai' Bithaman Ajil Islamic Debt Securities	181	1	4.1	AmMerchant Bank, Malaysian International Merchant Bankers
10	Musyarakah One Capital Bhd	Malaysia	Asset-Backed Sukuk Musyara-kah Issuance Programme	176	7	4.0	Commerce International Merchant Bankers
11	Special Power Vehicle Bhd	Malaysia	Bai' 'Inah Islamic MTN Facility	163	13	3.7	Malaysian International Merchant Bankers Bhd, AmMerchant Bank Bhd, RHB Sakura Merchant Bankers Bhd, Bank Muamalat Malaysia Bhd
12	Ranhill Power Bhd	Malaysia	Islamic MTN Programme	142	12	3.2	Aseambankers Malaysia Bhd
13	Cagamas Bhd	Malaysia	Bithaman Ajil Islamic Securities	105	4	2.4	Cagamas Bhd
14	Konsortium Lapangan Terjaya Sdn Bhd	Malaysia	Al-Bai Bithaman Ajil Islamic Debt Securities	101	1	2.3	Alliance Merchants Bank, United Overseas Bank (Malaysia)
15	Kingdom of Bahrain	Bahrain	Sukuk Al-Ijarah	80	1	1.8	Bahrain Monetary Agency
16	Konsortium Lebuhraya Butterworth-Kulim Sdn Bhd	Malaysia	Bai' Bithaman Ajil Islamic Debt Securities	66	25	1.5	Bank Muamalat Malaysia
17	Intelbest Sdn Bhd	Malaysia	Al-Bai Bithaman Ajil Islamic Debt Securities/Murabahah Underwritten Notes Issuance Facility	42	4	1.0	Abrar Discounts Bhd
18	Ample Zone Bhd	Malaysia	Sukuk Al-Ijarah	39	13	0.9	Malaysian International Merchant Bankers
19	PT Indonesian Satellite Corp Tbk - Indosat	Indonesia	Syariah Ijarah Tahun 2005	30	1	0.7	PT Andalan Artha Advisindo
20	PT Apexindo Pratama Duta	Indonesia	Syariah Ijarah Tahun 2005	26	1	0.6	PT Andalan Artha Advisindo, PT Mandiri Sekuritas, Standard Chartered
	Total of issues used in the table			4,403	129	100.0	

ISLAMIC LEAGUE TABLES

ISLAMIC DEBT — YEAR-TO-DATE

	Manager or Group	Amt US$ m	Iss.	%Share
1	HSBC	1,004	9	22.8
2	Commerce International Merchants Bankers Bhd	897	18	20.4
3	Citigroup	300	1	6.8
4	Dubai Islamic Bank	283	2	6.4
5	Deutsche Bank	250	1	5.7
6	EON Bank Bhd	232	37	5.3
7	AmMerchant Bank Bhd	214	30	4.9
8	Standard Chartered Bank	192	2	4.4
9	Bank Muamalat Malaysia Bhd	168	48	3.8
10	Aseambankers Malaysia Bhd	142	12	3.2
11	Cagamas Bhd	105	4	2.4
12	RHB Bank Bhd	102	23	2.3
13	ABN AMRO	100	1	2.3
13	Standard Bank Group Ltd	100	1	2.3
15	Bahrain Monetary Agency	80	1	1.8
16	Alliance Merchant Bank Bhd	51	1	1.2
16	United Overseas Bank Ltd	51	1	1.2
18	Abrar Discount Bhd	42	4	1.0
19	PT Andalan Artha Advisindo	38	2	0.9
20	Oversea-Chinese Banking Corp Ltd	24	8	0.6
	Total of issues used in the table	**4,403**	**129**	**100.0**

ISLAMIC DEBT — AUGUST 2004 - AUGUST 2005

	Manager or Group	Amt US$ m	Iss.	%Share
1	HSBC	1,571	36	21.0
2	Commerce International Merchant Bankers Bhd	1,075	21	14.3
3	Citigroup	633	2	8.5
4	Dubai Islamic Bank	617	3	8.2
5	Aseambankers Malaysia Bhd	421	39	5.6
6	UBS	350	1	4.7
7	United Overseas Bank Ltd	336	4	4.5
8	Standard Chartered Bank	292	3	3.9
9	Deutsche Bank	250	1	3.3
10	EON Bank Bhd	250	38	3.3
11	AmMerchant Bank Bhd	229	40	3.1
12	RHB Bank Bhd	223	25	3.0
13	ABN AMRO	193	2	2.6
14	Bank Muamalat Malaysia Bhd	177	49	2.4
15	Bank Islam Malaysia Bhd	112	2	1.5
16	Cagamas Bhd	105	4	1.4
17	Standard Bank Group Ltd	100	1	1.3
18	Saudi Hollandi Bank	93	1	1.2
19	Abrar Discount Bhd	83	6	1.1
20	Bahrain Monetary Agency	80	1	1.1
	Total of issues used in the table	**7,490**	**199**	**100.0**

ISLAMIC DEBT BY COUNTRY — YEAR-TO-DATE

	Amt US$ m	Iss.	%Share
Malaysia	2,212	120	50.2
United Arab Emirates	750	2	17.0
Pakistan	600	1	13.6
Saudi Arabia	500	1	11.4
United States	200	1	4.5
Bahrain	80	1	1.8
Indonesia	61	3	1.4
Total	**4,403**	**129**	**100.0**

ISLAMIC DEBT BY COUNTRY — AUGUST 2004 - AUGUST 2005

	Amt US$ m	Iss.	%Share
Malaysia	3,847	183	51.4
United Arab Emirates	1,750	3	23.4
Saudi Arabia	687	2	9.2
Pakistan	600	1	8.0
United States	332	2	4.4
United Kingdom	100	1	1.3
Indonesia	95	6	1.3
Bahrain	80	1	1.1
Total	**7,490**	**199**	**100.0**

ISLAMIC DEBT BY CURRENCY — YEAR-TO-DATE

	Amt US$ m	Iss.	%Share
Malaysian Ringgit	2,412	121	54.8
US Dollar	1,850	4	42.0
Bahraini Dinar	80	1	1.8
Indonesian Rupiah	61	3	1.4
Total	**4,403**	**129**	**100.0**

ISLAMIC DEBT BY CURRENCY — AUGUST 2004 - AUGUST 2005

	Amt US$ m	Iss.	%Share
Malaysian Ringgit	3,929	185	52.5
US Dollar	3,200	6	42.7
Saudi Arabian Riyal	187	1	2.5
Indonesian Rupiah	95	6	1.3
Bahraini Dinar	80	1	1.1
Total	**7,490**	**199**	**100.0**

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