Islamic Finance news

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UAE (Dubai)

US$35.39m bond sold

National Bonds Corporation (NBC) announced that more than AED 130 million (US$35.39 million) worth of National Bonds had been sold in the first month of sales. It reported that the largest single purchase of bonds stood at an astonishing AED 500,000 (US$136,000).

The unique Shariah compliant saving scheme, which was made available to the public on the 18th March 2006, has received a staggering 50,000 applicants during the first month of sales. In addition, NBC have received 29,000 telephone enquiries from potential savers interested in the groundbreaking initiative.

National Bonds went on sale at more than 100 banks and exchange houses around the UAE including Emirates Islamic Bank, Al-Ansari Exchange, Al-Ghurair Exchange, Thomas Cook Al-Rostamani Exchange Company and UAE Exchange Centre. Its website also experienced heavy traffic as nearly 25,000 people searched for information and purchased bonds online.

"We anticipate National Bonds will further grow in popularity after the first draw on the 6th May 2006" commented Mr. Nasser Al-Shaikh Vice Chairman and CEO of NBC.

MALAYSIA

Good collection from two funds expected

CIMB - Principal Asset Management expects its fixed income funds, Xcess Income Fund and Lifetime Dana Fayyad, to garner RM200 million (US$54.63 million) and RM100 million (US$27.31 million) respectively within three months.

Its chief executive, Noripah Kamso, said the funds were designed for businesses and organizations requiring a liquid and flexible investment that offered optimized results and monthly returns.

"Xcess Income Fund and Lifetime Dana Fayyad are created to provide businesses with an alternative capital management tool to place fixed deposits in banks. We are targeting to pay out monthly distribution payments and the funds are optimized to make the most of their cash reserves while maintaining the liquidity and flexibility of cash," she said.

The minimum investment in Xcess Income Fund or Lifetime Dana Fayyad is RM10,000 (US$2,730) and the initial selling price per unit for both funds is RM1 (US$0.27). Launched on the 20th April 2006, both funds have 500 million units each.

QATAR

OIC provides financing

An industrial development financing arm of the Organization of Islamic Conference (OIC) is providing financing to private sector manufacturing projects in Islamic countries.Called the Islamic Corporation for the Development of the Private Sector or ICD, the agency has so far funded 65 industrial and other projects in OIC-member countries around the world.

According to Ali A Soliman, CEO of Jeddah-based ICD, the corporation is exposed to the extent of 15.5% of its total loan portfolio in Iran and 7% in Pakistan. ICD currently has projects in 18 OIC-member countries.

OIC's Islamic Development Bank holds 50% equity in ICD, while 30% ownership is with the member countries and the remaining 20% with five public finance institutions from these states. ICD's authorised capital is US$1 billion and it has so far provided loans worth more than US$2 billion.

In this issue

Note from the Editor

Islamic banking and finance is ascending to greater prominence in the global financial system and has fast extended beyond the traditional predominantly Muslim economies to major industrial economies. This growing significance is a manifestation of the viability of Islamic banking as a financial intermediation channel that supports economic growth and development of nations. While it was initially developed to fulfill the needs of the Muslims, Islamic banking and finance has now gained universal acceptance.

The industry has come a long way since the early days of simple cost-plus structures. New products are emerging all the time, attracting new players and increased investment.

However, while the industry is gaining full momentum to be innovative, moving forward with new or enhanced products, the regulatory dimension, especially in the area of accounting is still grappling in establishing standards for such practices.

Are the industry players too fast? Or are the regulators, in this case the accountants, too slow to grab the baton in the marathon? Or could it be that we are taking lightly the issuance of standards for Islamic finance by giving priority to the conventional ones. For instance, the Malaysian Accounting Standards Board (MASB), since its inception has only produced one standard and two technical reviews for Islamic finance while about 40 standards have been issued for the conventional transactions. MASB may argue that most conventional standards are adopted from the International Accounting Standards (IASs) but why are they not doing the same for Islamic finance by adopting the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)?

Are we not serious about the accounting aspect of the industry? The lukewarm response for the Forum this week scares me as that could be the answer to this question.

In the first place, why develop new standards when you can adopt the existing ones? And why develop in isolation when convergence is almost the norm of any process. In fact, the UK-International Accounting Standards Board (IASB) and the US-Financial Accounting Standards Board (FASB), having decided to converge in the accounting standards setting process, have started to look into a more serious area of standard settings like the basis of standard establishment to further improve the end result. The issue as to whose standards are more superior is no longer a concern.

Are we banging our heads to create new standards just to tell the world that we are better than the rest? We have to be united, despite the fact that there are 71 schools of law within the rules of Shariah. Integration is the success in achieving unity in diversity of the interpretations of Shariah injunctions in the realm of finance.

The need for such unification in the standard setting exercise is well elaborated in this week's issue. We continue the second part of the overview of accounting standards for Islamic financial institutions and to further understand the accounting for Takaful, we have also the first part of an article on Takaful accounting.

One may question as to why this issue is highly focused on accounting and the simple analogy is that while you are too far in front, do not forget to turn back to look at those behind who are pushing you to the front!

The Islamic finance industry needs the accounting standards to move forward.

Zakariya Othman, Editor

NEWS BRIEFS

UAE (Sharjah)

SIB posts profit

The Sharjah Islamic Bank (SIB) has posted a net profit of AED61.5 million (US$16.74 million) in the first quarter of 2006, representing a 32% rise from the previous AED46.8 million (US$12.74 million) return. The bank's financial statement for the period ended 31st March 2006 put the total of operating profit at AED61.5 million (US$16.74 million), compared to AED23.3 million (US$6.34 million) recorded in the first quarter of 2005. This represents an increase of 164% at an amount of AED38.2 million (US$10.40 million).

Customer facilities also surged significantly to reach AED4 billion (US$1.09 billion), up by AED503 million (US$136.94 million), which represents a 15% rise since December 2005. Total assets also rose to AED5.9 billion (US$1.61 billion), representing a growth of 11%. Its investment also grew by 21% to reach AED519 million (US$141.30 million), while customers' deposits also surged to cross the AED3.2 billion (US$871 million) ceiling, representing a growth of 10% since December 2005.

SIB recently opened its tenth branch in Dhaid as part of its plans to open numerous branches in various parts of the country by the end of this year.

UAE (Dubai)

Path Solutions ranked first

Path Solutions has been ranked the world's number one dedicated Islamic banking system Vendor for 2005 in the influential International Banking Systems annual sales league table. It had recently been awarded the top Islamic banking software company worldwide at the International Islamic Finance Forum

The Dubai-based company has been commended on its unique iMAL solution, a tailor-made Shariah compliant software solution which controls costs, streamlines tasks and is able to help financial institutions to generate higher return on investments for clients.

UAE (Dubai)

DIB sponsors education award

Dubai Islamic Bank (DIB) has announced its sponsorship of UAE's Minister of Education Award for Total Quality in Student Activities and Welfare", organized by the Ministry of Education and Youth. The award is to recognize efforts of teachers and schools encouraging students to undertake various activities.

DIB's senior vice president-branches Mr. Mohammed Amiri said DIB's decision to sponsor the award was part of the bank's ongoing Corporate Social Responsibility program to support various educational, social, and cultural activities noting that the bank had expressed its desire to sponsor more activities during the course of the year.

UAE (Dubai)

Clifford Chance firms up practice in Gulf region

In firming up its practice in the Gulf region, Clifford Chance has transferred its senior associate, Mr Qudeer Latif, to the Finance and Banking Practice Group of the Dubai office.

The firm has been at the forefront of ground breaking and high value Islamic finance transactions within the Gulf, in the last two years alone advising on the US$2.35 billion Islamic financing for Etihad-Etislat (and its recent refinancing), the US$3.5 billion Sukuk for Dubai Ports and Free Zone Corporation (PCFC), the US$600 million Islamic tranche of the US$5.8 billion debt financing for Rabigh Refinery and Petrochemical Company.

Qudeer has been advising on the PCFC and Rabigh deals whilst based in the London office, and worked closely with his colleagues in Dubai on both transactions.

UAE (Abu Dhabi)

UNB conducts Islamic banking training

Union National Bank (UNB) has conducted orientation training on Islamic Banking for its staff who will be involved with UNB's Islamic Banking initiative.

"It is our objective to ensure high quality training in Islamic banking for our staff as well as the best quality of service for our customers. Going forward, we will be conducting other specialized programs covering various areas of Islamic Banking products and services" said Mr Ahmed Elshall, senior vice president & group head ISBG at the Union National Bank

The orientation tackled different aspects of Islamic Banking such as the "Foundation & Principles of Islamic Banking" & "Comparison with Conventional Banks". The Orientation was conducted by Dr. Mabid Ali Al-Jarhi, of the Shariah structuring and co-ordination dept. of Emirates Islamic Bank, Dubai.

NEWS BRIEFS

BAHRAIN

Al Salam shares to be traded on BSE

Al Salam Bank (Al Salam) has signed an agreement with Bahrain Stock Exchange (BSE) to pave the way for the trading of shares on the bourse.

Al Salam is a Bahraini shareholding company with total paid-up capital of BD120 million (US$318.3 million) of which BD42 million (US$111.4 million) was offered to the public through an initial public offering (IPO) representing 35% of the paid up capital.

The BSE director revealed that Al Salam would be listed in the commercial banking sector with trading on its shares commence on Thursday (27th April) under the trading symbol of "salam." With Al Salam listed on the bourse, the number of listed company increases to 48.

MALAYSIA

CIMB-Principal to merge with SBB Mutual and SBB Asset

CIMB-Principal Asset Management will be merging with SBB Mutual and SBB Asset Management, which will make it the largest asset management company in the country.

The company plans to launch five to six new funds this year, which are largely offshore funds.

BAHRAIN

World Conference on Islamic funds and capital markets

The World Islamic Funds and Capital Markets conference will be held in Bahrain on the 7th - 8th May this year 2006 under the patronage of the Governor of the Bahrain Monetary Agency, HE Rasheed M. Al-Maraj.

More than 200 investors, fund managers and the key players will come together to identify new growth opportunities in the rapidly evolving Shariah compliant funds market and expand the scope of focus into the highly dynamic and growing global Sukuk market and Islamic capital markets that is supported by the Bahrain Monetary Agency.

The event will also feature a major exhibition that will run alongside the conference, networking functions, the Islamic fund excellence award & the Islamic capital markets excellence award ceremony, a workshop and a press conference.

SAUDI ARABIA / MOROCCO

IDB grants US$100m to LASAMIR

The Islamic Development Bank (IDB) has granted the Moroccan refinery LASAMIR a Fund Line of Credit of US$100 million intended to cover the importation of crude oil by the company. Financing each operation of importation extends over six months renewable in the same conditions after full repayment of the first amount.

IDB funding for LASAMIR projects haves reached a total amount of US$1.3 billion.

QATAR

QIB chalks US$71m in profits

The Qatar Islamic Bank (QIB) has announced net profits of QR258.4 million (US$70.97 million), at the end of the first quarter of showing an increase of 97% from the previous period.

Salah Al Jaidah, general manager of the bank said that operating profits for the period were QR314.8 million (US$86.46 million) against QR163.8 million (US$44.99 million) in the corresponding period of 2005. Equity rose to QR2145.7 million (US$589.32 million) as at the end of March 2006. Assets increased from around QR9.6 billion (US$2.64 billion) in 2005 to QR10.9 billion (US$2.99 billion).

NEWS BRIEFS

SAUDI ARABIA

IDB approves US$460 million

The Islamic Development Bank (IDB) has approved US$460 million for project financing and trade operations.

IDB president Dr Ahmad Mohammad Ali said the approved development projects were in Indonesia, Lebanon, Nigeria and Morocco. Adding that the IDB had also given approval for assistance grants to five Muslim communities in non-member countries in India, USA, Malawi, Mauritius and Russia, in addition to educational grants to Afghanistan, Tajikistan and Somalia.

According to Dr Ali, the board reviewed a concept paper on the implementation of the Makkah Summit resolution on the establishment of a poverty alleviation fund within the IDB, the draft annual report and a progress report on the implementation of the Ouagadougou Declaration on enhancing cooperation among member countries in Africa.

The Ouagadougou Declaration is a programme that gives top priority to technical education projects and vocational training for member countries in Africa to help alleviate poverty. He said the board was informed that the articles of the agreement of the International Islamic Trade Finance Corporation (ITFC) had been approved by circulation by the IDB governors, and it would be signed during the IDB annual meeting in Kuwait in May.

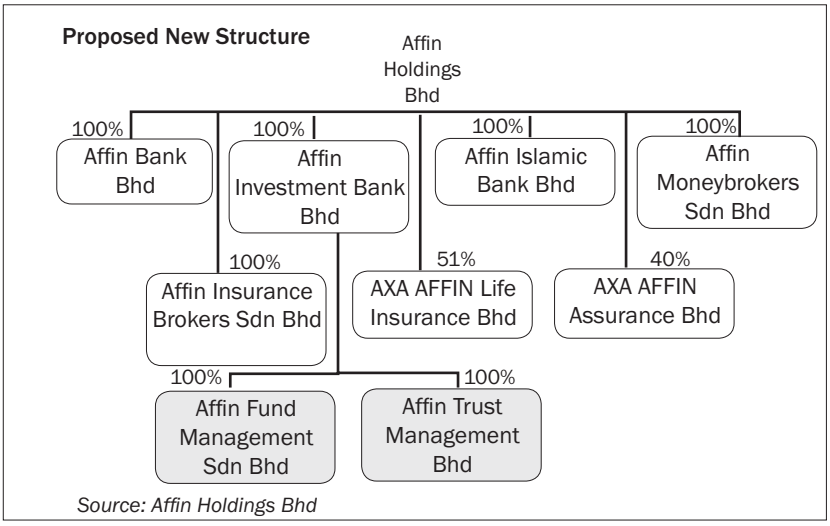
They include US$35.5 million Istisnah and installment finance for reconstruction of IAIN Ar-niry University in Aceh, which was destroyed by the 2004 tsunami, and US$42 million to the Lebanese University for the construction of Engineering and Fine Arts faculties, Tripoli campus, in Lebanon.

MALAYSIA

Affin Holdings reorganized

Affin Holdings is undergoing a corporate reorganization exercise where the new structure will see Affin Islamic Bank coming directly under Affin Holdings instead of under Affin Bank as in the present structure.

Upon completion of the group's reorganization exercise, it will have a new corporate structure that is leaner and flatter.



Source: Affin Holdings Bhd

NEWS BRIEFS

QATAR

QNB to fund Dar's Plaza

Qatar National Bank (QNB) and QNB Al Islami have agreed to provide banking facilities and funds for Dar Investment and Development (Dar)'s two prestigious projects in Doha – the Lagoon Plaza and Palm Towers.

Dar chief executive officer Douglas Beckett said both QNB and QNB Al Islami were committed to serving their customers by offering suitable commercial and Islamic products that would enable them to acquire assets in real estate.

Customers were offered lower interest rates and facilities to borrow up to 75% of the property's value and repayment periods of up to 25 years. They were also able to start paying the monthly installments after completion of the project.

IRAN

IDB to finance water projects

The Islamic Development Bank (IDB) will finance four major water industry projects in Iran, worth about US$150 million.

Iranian deputy minister for water affairs Mr Rassoul Zargar disclosed that Jegin and Shamil & Nian dams in Hormuzgan province, a project to supply water to Qeshm as well as another major project in Mazandaran province, would be implemented with the help of the IDB funds.

According to Zarqar, The World Bank had also lent US$150 million for the Zagros irrigation and watershed project, which is currently

QATAR

QIIB profits leap 114%

Qatar International Islamic Bank (QIIB) has posted a net profit of QR101.5 million (US$27.88 million) in the first quarter of 2006, up 114% from the previous corresponding period.

QIIB's chairman, Sheikh Thani bin Abdullah Al Thani, said the bank's operating income had gone up by 50% to QR82.6 million (US$22.69 million) compared to QR55.6 million (US$15.27 million) in 2005. Investment earnings jumped 59% to reach QR46.4 million (US$12.75 million) at the back of the total assets that rose to QR6.8 billion (US$1.87 billion) in the first quarter compared to QR5.3 billion (US$1.46 billion) in same period last year.

Terming the first quarter results as extremely satisfying, Sheikh Thani said the bank was determined to continue its sterling performance in the remaining part of the year as well as in future.

"We are committed to serving our country, shareholders and customers and meeting their aspirations," Sheikh Thani assured.
In the first quarter, QIIB provided returns on deposits of 6% for deposits of more than one year, 5% for one year, 4.5% for six months, 4.25% for three months and 4% for a month.

The bank is planning to open a full-fledged branch at Dafna, and to launch mobile banking soon.

SAUDI ARABIA

Al Rajhi US$500m deal closed

Al Rajhi's US$500 million Murabahah financing facility has been successfully closed. The joint book-runners Calyon and Gulf International Bank confirmed that the facility was well oversubscribed, allowing Al Rajhi to increase the size of the facility to US$500 million from a launch size of US$300 million.

A total of 19 financial institutions from the MENA region, Asia, Europe and the USA participated in this first ever syndicated financing for the world's largest Islamic bank. Arab Bank plc, Calyon, Gulf International Bank B.S.C., Malayan Banking, Standard Chartered Bank and WestLB AG, London Branch are the mandated lead arrangers.

Gulf International Bank is the facility Agent, Standard Chartered Bank acted as documentation bank while Calyon, the corporate and investment bank of the Credit Agricole Group, acted as Financial Advisor to Al Rajhi.

NEWS BRIEFS

KUWAIT

KFH calls for real estate incentives

Kuwait Finance House (KFH) has called for providing administrative and legal incentives to encourage investment in the real estate sector.

Its assistant general manager for finance at the Baitak program, Mr Imad Al-Thaqeb said that the property sector in Kuwait was the next most important investment sector after oil, adding that the Islamic investment instruments, including Murabahah, Sukuk and others, had enriched the banking sector by reaching through and meeting customer demand for such products.

He added that the Baitak investment scheme had helped the state resolve its housing problems and provided housing to some 20,000 Kuwaiti families. He pointed out that the Baitak scheme provided for at least two monthly repayment installments to be delayed and paved the way for the complete repayment to be achieved over a 15 year period.

Thaqeb also noted that up to 26 housing companies were now operating in the Kuwaiti real estate market with 40 more registered in 2005.

"This large number of companies explains the significant potential of this sector," he said.

DUBAI

IIB launches new investment in Dubai

The International Investment Bank (IIB) has launched a new commercial real estate investment that offers investors attractive returns over a relatively short investment holding period. IIB has taken a 65% stake in the proposed state-of-the-art West Bay Tower, which will be developed in partnership with SNASCO, a GCC based real estate company, and will form part of the Business Bay District in Dubai.

The 30-storey West Bay Tower, which will be built at a development cost of approximately US$87.84 million, offers investors the opportunity for an early realization of their investment, which could potentially be achieved through pre-sales of office units during the construction period of the Tower. The projected internal rate of return on the West Bay Tower project is 21.6% per annum over an investment horizon of 36 months.

IIB's chief operating officer, Mr Salah Nooruddin said IIB continued to explore and source high quality Shariah compliant investment opportunities across diverse asset classes, industry sectors and territories with the aim of delivering real value for its clients.

KUWAIT / BAHRAIN

Largest Sukuk exchange planned

Sokouk Holding Company (SHC) has set up a strategic partnership with the Munshaat Real Estate projects company to create the largest Islamic investment company specialized in Sukuk exchange activities in Bahrain.

Chairman of SHC, Mr Fawaz Al-Ahmed stated that the new financial entity should be named Sokouk Exchange Center Company (Tadawul) to clearly indicate the company's policy and activity and underpin its line of business.

Considered one of the largest Islamic investment companies in the region, the exchange will have an authorized capital of US$500 million and paid up capital of US$300 million.

UAE (Abu Dhabi)

ADIB's profit up 277%

Abu Dhabi Islamic Bank (ADIB) has posted a net profit of Dh156.3 million (US$42.6 million) for the first quarter of 2006, up by 277.5% over Dh41.4 million (US$11.27 million) earned in the same period last year. Shareholders' equity as on 31st March 2006 was Dh2.07 billion (US$563 million), as opposed to Dh1.5 billion (US$408 million) as of 31st March 2005, recording a growth of 34%.

Earnings per share have also risen from Dh0.345 (US$0.09) by end of March 2005 to Dh1.02 (US$0.28) by end of March 2006, a growth rate of 277%.

Total assets grew 105% amounting to Dh30.5 billion (US$8.30 billion) in the first quarter of 2006 compared to Dh14.90 billion (US$4.06 billion) in the previous corresponding period, all excluding IPO accounts.

Customers' deposits represented 63% of total assets, amounting to Dh19.3 billion (US$5.25 billion) in 2006, a 69% growth in comparison to Dh11.4 billion (US$3.10 billion) in 2005. Profit distribution to depositors has also increased by 677% from 58.50 million (US$15.92 million) in 2005 to Dh454.9 million (US$123.85 million) in 2006; not including IPO accounts either.

INDONESIA

BRI to create independent Islamic bank

Bank Rakyat Indonesia (BRI) is considering spinning off its Shariah unit to become an independent Islamic bank this year. The Shariah unit of BRI controls total assets of IDR 800 billion (US$89 million).

NEWS BRIEFS

MALAYSIA

Stanchart offers Islamic Derivatives

Standard Chartered Bank Malaysia (Stanchart) is now offering a comprehensive Islamic derivatives solution. Based on the globally accepted Islamic concept, it comprises the Islamic profit rate swap, Islamic cross currency swap and Islamic forward rate agreement.

Chief executive officer Shayne Nelson said the effort had enabled the bank to tap its competency in offering innovative solutions in Islamic derivatives adding that the bank would continue working with its partner, the government and regulators to make Malaysia an outstanding hub for Islamic banking.

Stanchart's head of Islamic banking Azrulnizam Abdul Aziz explained that the Islamic profit rate swap was an option for customers to swap fixed rate profit to floating rate profit and vice versa while the Islamic cross currency swap best served the segment of customers who required to manage exposure of multiple currencies.

"Finally, the Islamic forward rate agreement provides customers the capability to individually tailor their cash flow management on a specific period," he said.

UAE (Dubai)

Amlak reports 86% profit rise

Amlak Finance has reported a net profit of AED 37.1 million (US$10.1 million) (after depositor's share) for the first quarter ended 31st March 2006, an 86% increase over the same period in 2005. The first quarter increase reflects the company's recent history of solid growth performance. The profit before depositor's share was AED 71.2 million (US$19.39 million), an increase of 145% over the previous year's figure of AED 29.1 million (US$7.93 million).

Revenues for the Islamic finance innovator and home finance pioneer saw a 136% increase to reach AED 89.4 million (US$24.34 million) against AED 37.9 million (US$10.32 million) in 2005. Earnings per share was AED 0.10 (US$0.03) compared to AED 0.6 (US$0.16) for the equivalent period in 2005 despite the increase in the company's capital from AED 750 million (US$204.19 million) to AED 1.5 billion (US$408 million) .

BOSNIA

IDB resumes business in Bosnia

The Islamic Development Bank (IDB) is intensifying its operations in Bosnia including training staff there on principles of Islamic banking. IDB president Dr Ahmad Ali said the branch in Bosnia, which opened its doors about three years ago, would soon spawn numerous branches across Bosnia in a bid to compete with existing branches of European banks.

He underlined the competition among banks in Bosnia, admitting that European banks were far ahead in their operations but lacked knowledge in Islamic banking practices.

"That could launch IDB's branch here ahead of the competition as Islamic banking becomes more and more appealing to the Muslim population of Bosnia," he said.

UAE (Dubai)

DIFC investment arm launched

The Dubai International Financial Centre (DIFC) Authority has launched a subsidiary called DIFC Investments. The creation of the new entity will result in the allocation to it of all non public administration activities previously carried out by DIFC Authority.

This will include all commercial and other activities such as the operation and management of any current and future subsidiaries, the development of the centre's investment strategy and relevant policies and any other strategic investments or alliances which will further the goals and objectives of the Dubai International Financial Centre and contribute to the fulfillment of the centre's vision.

The DIFC Authority will then be primarily concerned with the administration of the non-regulated public service operations of the centre, including the incorporation, registration and licensing of legal entities to operate in and from the DIFC and the issuance and enforcement of municipal regulations governing the conduct of lawful commercial operations and private residency in the DIFC.

MALAYSIA

Islamic dual currency instrument

HSBC Bank Malaysia (HSBC Malaysia) has introduced the country's first Shariah compliant structured investment product to further complement the success of its Islamic banking business which it has steadily built up since 1994.

HSBC Malaysia's deputy chairman and chief executive officer Zarir J. Cama said the product was expected to appeal to existing customers who were already investing in dual currency structured investments or for those with a need for various foreign currencies such as for overseas education.

He added that it would also be an alternative for Malaysian institutions or corporations which wanted to manage their foreign currency exposures with a risk management instrument that was consistent with Shariah principles.

The product is made of two components, namely the Commodity Murabahah-i and the Unilateral Promise to Exchange Currencies, which offers investors the opportunity of earning enhanced returns on short-term surplus funds. Under the second component, the investor will provide the bank with a unilateral promise to exchange currencies in which the amount of currencies to be exchanged is specified in the unilateral promise.

UAE (Dubai)

DIFC acquires stake in Euronext

Dubai International Financial Centre (DIFC) Authority investment arm has acquired more than a 1% stake in Euronext to complement those centres in Europe, USA and the Asia Pacific region.

"This is consistent with our focus and long term strategic aim of developing the DIFC," said DIFC's head of marketing and communications Charles Skeeles who added that DIFC's investment in Euronext fitted well with our ambitions for growth.

NEWS BRIEFS

UAE (Dubai)

DIB Q1 profits up 127%

Dubai Islamic Bank (DIB) posted a record 127% increase in its first quarter profit of 2006 (including depositors' share of profit) to AED 695 million (US$189.22 million) , compared to AED 305 million (US$83.04 million) in the previous corresponding period.

Net profit attributed to shareholders also rose to AED 332 million (US$90.39 million), a 118% increase as compared to AED 152 million (US$41.38 million) in the 2005. The Bank's total assets grew by a record 109% to AED 63.4 billion (US$17.26 billion) at the end of the first quarter of 2006. Customer deposits also showed strong growth of 37% to reach AED 35.3 billion (US$9.61 billion) at the end of the period under review.

RATINGS NEWS

MALAYSIA

Ratings for Putrajaya Holdings

Malaysian Rating Corporation (MARC) has assigned Islamic debt ratings of MARC-1ID/AAAID to Putrajaya Holdings (PJH) proposed RM1.5 billion Murabahah Commercial Papers and/or Medium Term Notes ("CP/MTN") Program.

The Islamic debt ratings reflect PJH's robust capitalization coupled with a strong set of shareholders, exceptional financial flexibility and the strategic importance of PJH in the development of Putrajaya as the nation's administrative capital. The primary source of repayment for the CP/MTN securities is expected to be by way of the progress payments in respect of the construction of Government Quarters for Phases II and III.

PJH is the concessionaire and developer of Putrajaya which involves the construction of infrastructure, Government office buildings, GQ, commercial development and certain amenities. Proceeds from this proposed issuance will be mainly utilized towards the construction of GQ units under Phases II and III.

RETAIL NEWS

BAHRAIN

BIsB and KFI joint financing scheme

Bahrain Islamic Bank (BIsB) and Khaleej Finance & Investment (KFI) have launched a joint promotional campaign for financing the 2006 models of Toyota and Nissan vehicles. The two partners announced that they planned to finance customer purchases of Camry and Corolla vehicles from the Toyota dealership and Altima and Tiida vehicles from the Nissan dealership at very low profit rate of 3.9 % and at soft term installments for a period of up to five years without making any down payment. No salary transfer will be required and even more, a joint free life Takaful insurance is provided as part of the package.

Yasser Abdul Qader of KFI said that KFI had consolidated its position as one of the leading Islamic banking institutions in the region, hence the new marketing campaign jointly launched with BIsB was considered significant in every sense of the word as it ensured the continuity to further enhance its strong market position.

MALAYSIA

Public Bank posts US$149 million profits

Public Bank Group's pre-tax profit rose 13% to RM544 million (US$148.5 million) for the first quarter 2006 on higher net interest income, net income from Islamic banking business and other operating income.

Net interest income grew by 12% to RM672 million (US$ 183.43 million) on sustained strong loans growth and asset quality while that of the Islamic banking business rose 9% to RM105 million (US$ 28.66 million) on the back of strong deposit and financing growth.

Other operating income posted a 16% growth to RM230 million (US$62.78 million), on foreign exchange gains, higher fees and transaction income from retail banking operations.

At the bank-level, Public Bank registered a 25% increase in pre-tax profit which accounted for 80% of the group's profit.

THIS TIME LAST YEAR

The International Islamic Centre for Reconciliation and Commercial Arbitration for the Islamic Finance Industry was launched in Dubai; Bahrain's **Noriba Bank**, the Shariah compliant subsidiary of Switzerland's **UBS group** sold its first real estate investment portfolio in the US; Malaysia's **Windsor Trade** announced its intention to build and operate an integrated barter trade terminal financed through a hybrid structure whereby 80% would be financed by an Islamic bond issue and 20% would be through an equity injection by new investors; Malaysian toll operator **Konsortium Butterworth-Kulim** announced plans to issue secured Bai Bithman Ajil Islamic Debt Securities worth up to US$65 million; **The Islamic Financial Services Board** approved the application of the **Monetary Authority of Singapore** to be upgraded to a full member and admitted **Banque du Liban** as an associate member; The shareholders' meeting of **Qatar Islamic Bank** approved a revised 70% bonus issue for 2004, raising its capital to US$174 million; **The Islamic Development Bank**, in collaboration with a number of banks, arranged a US$600 million financing package for Pakistan's oil imports that included a US$100 million Mudarabah facility; The Board of the **Dubai Financial Services Authority** announced the appointment of **David Knott** as its new CEO; **Gary Millar** was appointed as Personal Banking Manager of **Lloyds TSB**; **Takaful Ikhlas** signed a Memorandum of Understanding with **Alliance Bank Malaysia** for some synergistic collaborations and The **Pakistan Government** issued the draft Takaful Rules 2005, introducing a Wakalah operational model, to solicit views and comments of the insurance industry, general public and other stakeholders.

Accounting Standards for Islamic Finance: A Unified Exercise

By Zakariya Othman

Standard setting is admittedly a time consuming, costly and laborious process. The development of internationally acceptable standards requires concerted efforts backed by in-depth research, extensive consultations and post-exposure debates. It is difficult, especially in the face of differing environments and objectives in various countries.

The task is indeed challenging, more so in regions faced with professional limitations, resource constraints and, above all, peculiar conditions arising out of innovative Islamizing of economic and financial systems. The challenge has to be accepted to ensure protection of investors and financiers; so as to bring about harmonization of recognized accounting principles and financial discipline.

The main controversy in accounting standards setting is, "Whose rules should we play by, and what should they be?" The answer is not immediately clear because the financial accounting statements users have both coinciding and conflicting needs for various types of information. And to meet these needs as well as to satisfy the fiduciary reporting responsibility, a single set of financial statements is prepared that is expected to present a fair, clear and complete picture of the financial operations of the organization.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has done a good job of dealing with many complex accounting issues over the years. It is the unquestioned leader in setting financial accounting standards for the Islamic financial institutions. Its standards serve as the model for a large number of Muslim countries: some countries have adopted its standards to suit their local conditions.

The AAOIFI standard-setting process is open, encouraging participation by all interested constituencies. AAOIFI does not shy away from taking up difficult, even unpopular, stands on tough issues. Even many opponents of its proposals now support its actions. It has acknowledged expertise, an established tradition and a reputation for visionary leadership in setting standards.

As at March 2006, AAOIFI has issued two financial accounting statements relating to the objectives and concepts of financial accounting for Islamic financial institutions, 22 accounting standards, five auditing standards, four governance standards, two standards on ethics and 21 Shariah standards. There are four other Exposure Drafts which were subjected to public hearing in February 2006 and by mid-2006, subject to approval by the Board, these new standards would bring the total standards issued by AAOIFI to more than 60. (Please refer to Table 1 for detail)

So, why do we need to have multiple standards setting bodies with the inclusion of relative newcomers such as the Islamic Financial Services Board (IFSB) or Malaysian Accounting Standards Board (MASB)? They are indeed established with a common objective, almost similar to that of AAOIFI, as in to promote the development of a transparent Islamic financial industry through the introduction of new international standards consistent with Shariah principles, and recommending these for adoption.

Established in 2002, IFSB has recently published two prudential standards on Risk Management and Capital Adequacy for institutions (non-insurance institutions) offering only Islamic financial services. It is still working on its draft Guiding Principle of Corporate Governance for Institutions offering only Islamic Financial Services (excluding Islamic Insurance / Takaful) and Islamic Mutual Funds.

Malaysian Accounting Standards Board (MASB) that took over the standard setting responsibility from the Malaysian Institute of Accountants in 1997 has only issued its first and only standard for Islamic financial institutions seven years after its inception. The body then issued the guidance on how to account for Zakat and Ijarah in Islamic financial transactions for companies in the form of a Technical Release in the first quarter of this year.

The argument that multiplicity is good because it pushes organizations to be more responsive to their constituents can be taken only so far. In some instances the consequences of competition can be worse than a monopoly. Multiple standard-setters may write similar, overlapping, or different standards that appeal to the same or different organisations. Producing sloppy standards enhances neither the reputations of those who set or comply with the standards nor the demand for their services.

More importantly, the cost of failed experimentation with accounting standard setting mechanisms is not low. Costs of standards include the costs incurred by the standard setting body and the users in the standards formulation, the direct costs of standard implementation by firms preparing the financial statements, and the indirect costs of various agents adjusting their behavior to the new standard as well as the economic consequences of the altered behavior.

The duplication of effort in evaluating standards is inevitable and wasteful. On top of this, firms may incur significant implementation costs if they decide to switch between different standards.

Like all social norms, accounting standards may converge over time with or without competition. Even the British and the Americans, who have disagreed in the past, have now decided to work together toward convergence. The US Financial Accounting Standards Board (FASB) and the UK International Accounting Standards Board (IASB) have indeed reaffirmed the Boards' shared objective of developing high quality, common accounting standards for use in the world's financial markets.

If both boards believe that a common set of high quality accounting standards will enhance the consistency, comparability and efficiency of financial statements, enabling global markets to move with less friction, why can't we? Why do we need to develop our own standards in isolation?

More often than not, players as well as regulators of the Islamic finance industry are Muslims, thus giving a more valid reason to be united. Islam lays great importance on unity in every aspect of life. The unity of people makes an invincible strong nation. Unity teaches us the message that we should not divide humans into sections and sects. The Almighty Allah in the Quran says that the division of people into races and clans is only for their introduction and the best one out of them is the man of piety.

continued...

Table 1: Issued Accounting Standards for Islamic Finance

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Established in 1990	• Objective of Financial Accounting of Islamic Banks and Financial Institutions • Concepts of Financial Accounting for Islamic Banks and Financial Institutions **Accounting** • General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions • Murabaha and Murabaha to the Purchase Orderer • Mudaraba Financing • Musharaka Financing • Disclosure of Bases for Profit Allocation between Owners' Equity and Investment Account Holders and Their Equivalent • Salam and Parallel Salam • Ijarah and Ijarah Muntahia Bittamleek • Istisna'a and Parallel Istisna'a • Zakah • Provisions and Reserves • General Presentation and Disclosure in Financial Statements of Islamic Insurance Companies • Disclosure of Bases for Determining and Allocationg Surplus or Deficit in Islamic Insurance Companies • Investment Funds • Provisions and Reserves in Islamic Insurance Companies • Foreign Currency Transactions and Foreign Operations • Investments • Islamic Financial Services offered by Conventional Financial Institutions • Contributions in Islamic Insurance Companies (New) • Deferred Payment Sale • Disclosure on Transfer of Assets (New) • Segment Reporting (New) **Auditing** • Objective and Principles of Auditing • The Auditor's Report • Terms of Audit Engagement • Testing by an External Auditor for Compliance with Shariah Rules and Principles by an External Auditor • The Auditor's Responsibility to Consider Fraud and Error in an Audit to Financial Statements (New)	**Governance** • Shariah Supervisory Board: Appointment, Composition and Report • Shariah Review • Internal Shariah Review • Audit and Governance Committee for Islamic Financial Institutions **Ethics** • Code of Ethics for Accounting and Auditors of Islamic Financial Institutions • Code of Ethics for the Employees of Islamic Financial Institutions **Shariah Standard 2003 - 4 Edition** • Dealing in Currencies • Debit Card, Charge Card and Credit Card • Default in Payment by Debtor • Settlement of Debts by set-off • Guarantees • Murabaha to the Purchase Orderer (Reclassified) • Ijarah and Ijarah Muntahia Bittamleek (Reclassified) • Salam and Parallel Salam (Reclassified) • Istisna' and Parallel Istisna' (Reclassified) • Transfer of debts • Conversion of a Conventional Bank to an Islamic Bank • Mudaraba • Sharika (Musharaka) and Modern Corporations • Mudaraba • Documentary Credit • Jua'la • Commercial Papers • Investment Sukuk • Possession (Qabd) - (New) • Qard (Loan) - (New) • Sale of Commodities in Organised Markets (New) • Financial Paper (Shares and Bonds) - (New) Statement on the Purpose & Calculation of the Capital • Adequacy Ratio for Islamic Banks - 1999 Edition Fundamentals of Banking Operations - 2005
Islamic Financial Services Board (IFSB) Established in 2002	• Capital Adequacy Standard for Institutions (other than Insurance Institutions) offering only Islamic Financial Services • Guiding Principles of Risk Management for Institutions (other than Insurance Institutions) offering only Islamic Financial Services	• Draft- Guiding Principle of Corporate Governance for Institutions offering only Islamic Financial Services (excluding Islamic Insurance / Takaful) and Islamic Mutual Funds
Malaysian Accounting Standards Board (MASB)* Established in 1997	• Presentation of Financial Statements of Islamic Financial Institutions (FRSi-1) • Accounting for Zakat on Business (TRi-1) • Ijarah (Tri-1)	

* Standards disclosed are for Islamic financial institutions only

It is undeniable that the lack of uniformity in specific forms of Islamic principles applied in Muslim countries makes it difficult to generalize as to what might be considered Islamic finance in practice. In other words, similar banking procedures and financial instruments may be accepted in one Muslim country and be rejected in another. Another constraint in the search for a common set of financial practices in Muslim countries is the different degree of public sector involvement in the economy in general and in the financial and banking sectors in particular. The spectrum is rather wide, ranging from full public-sector control of banks in Iran to more liberal environments such as Malaysia.

Given that there are many variants of Islamic finance practices, it may be useful to reach an understanding of a paradigm version of Islamic finance and use it as a benchmark against which to measure current practices. By doing so, effective supervisory norms can be developed to address special issues that characterize players operating according to a paradigm version of Islamic finance. This may prove to be the best course of action because it is always difficult to envisage general prescriptions that are valid for all countries at all points in time.

An Overview of Accounting Standards for Islamic Financial Institutions (Part 2)

By Syed Alwi bin Mohamed Sultan

It must be clearly noted that the foundation of setting standards for Islamic financial institutions is on the basis of filling in a vacuum that conventional standards have left void. It is not on the basis of "reinventing the wheel" and competing with conventional standards. AAOIFI did not reject existing GAAP standards except in cases where such principles conflict with Shariah principles.

It is clearly stated in AAOIFI's Statement of Objectives that: "it is natural that there should be differences between objectives of other banks and objectives of Islamic banks. This does not mean that we should reject all the results of contemporary accounting thought in non-Islamic countries". Hence it can be argued that it is not harmful to begin where others have ended, if what has been developed by others is beneficial and does not contradict the Shariah. Thus, a selection of what actually constitutes a violation of Shariah within conventional accounting thought is presented in the following. This is not an exhaustive list – far from it - but merely a selection to demonstrate the kinds of issues addressed by AAOIFI standards.

a) Substance Over Form

The framework of accounting standards by IAS and other generally accepted accounting standards require that the accounting information is presented according to the substance and economic reality and not merely the legal form. Hence requiring an entity that enjoys a greater and more significant amount of economic benefits of an asset to report the asset in their balance sheet – as typically appears in a leasing contract - is consistent with this postulate. This is known as "Substance Over Form". Apparently, this characteristic of accounting principle is in violation of Shariah and hence is not recognized by AAOIFI standards.

The reason why "Substance Over Form" is a blatant violation of Shariah can be explained by the fact that Shariah places paramount importance on contractual agreements which is the foundation of determining rights and obligations of the parties of the contract. Chapter 2 of the Holy Quran at verse 282 reads:

"O ye who believe! When ye deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing".

An owner of an asset should bear the risks of ownership such as ensuring the usability of the asset and thus these risks can only be identified if reported to the effect to reflect the ownership status. Failure to report as such will result in ambiguity and hence trigger off a potential for Gharar element to set in, which is a violation of Shariah.

b) Prudence

Prudence is a concept that appears in the IAS Framework of Accounting Standards and promotes the need to be cautious in overstating assets or profits especially in the face of inevitable uncertainties in the business world. Circumstances that lead to uncertainties such as collectability of doubtful receivables, the probable useful life of assets and other contingencies are recognized by the disclosure of their nature and extent with a reasonable dose of prudence in the preparation of financial statements.

Apparently, AAOIFI standards are silent on this characteristic of financial reporting. The reason that can be attributed to the silence, which must not be read as objection, is that such a principle conflicts with the very idea that financial reporting in Islam should focus on fair reporting of an entity's financial position in a manner that would reveal what is halal (permissible) and haram (forbidden), on which the Islamic accounting standards are developed upon. By understating a potential income or asset value, the Islamic bank would subject itself to the withholding of information on an unfair basis to its stakeholders or users of accounting information.

It can certainly be argued that if an Islamic bank takes a route to ensure in exact detail the value of each element of the financial statement, it would be much more harmful to the stakeholders what with the additional cost and effort of ensuring full and exact disclosure, which will have to be borne by the shareholders directly and other stakeholders indirectly. Hence, AAOIFI standards are silent with regards to the concept of prudence and leaves it to the best discretion of the preparers of financial statements to comply with their local regulatory requirements or management direction or any other force that would shape the decision in so far as employing prudence in the reporting process.

c) Mudarabah Investment Accounts

The products of Islamic financial institutions are different from those offered by conventional banks due to the Shariah compliant contracts attached to each Islamic banking product. Even though on the surface an Islamic bank offers a similar range of financial solutions as found in a conventional bank such as mortgages, leasing, trade financing instruments etc, the foundation and legal structure of these contracts are in effect cleansed against prohibitions mentioned by Shariah

One such product that takes on a much more significant importance insofar as reporting in financial statements is concerned is the product of Mudarabah investment accounts. This is a deposit mobilization product which is meant to be an alternative to the conventional fixed deposit product but is significantly different by its contractual nature.

In a Mudarabah investment account, customers become equity holders for contributing their capital to the bank. The bank acts as the investment manager and has a fiduciary role to ensure the maximization of the returns to these customers who are not the typical depositors. This is because the customers would assume all losses that result from the investment returns while profits will be shared between the customers and the bank as the manager on a pre-agreed profit sharing ratio. There are two types of investment accounts depending on the limitations of investment avenues and profit sharing and hence the two types are known as restricted and unrestricted investment accounts.

To ensure a transparent disclosure of this type of product, AAOIFI through its first financial accounting standard (FAS1), require the unrestricted investment accounts to be presented on the claims side of the statement of financial position (liabilities and equity) in a separate section, not as liabilities and not also surmounting to shareholder equity of the bank. It shall be reported as "Equity of Unrestricted Investment Account Holders". Meanwhile restricted investment accounts shall be reported as an off-balance sheet item and presented in the "Statement of Changes in Restricted Investments".

continued...

d) Asset Valuation

The valuation of asset for corporations would be done if the probability of future economic benefit associated with the asset will flow to the reporting entity and that the asset has a value that can be measured. Typical measurement bases are the historical cost measurement simply because this is the most commonly adopted by enterprises in preparing their financial statements, Islamic banks included.

Nevertheless, in an Islamic bank's financial report, the measurement of asset would also very much be influenced by the terms of the Shariah contract underlying the product. For example, in a Murabahah transaction, the Islamic bank – upon a request from the customer – would buy the asset before selling it to the customer. The question is: Is the request of the customer and his agreement to purchase from the bank subsequently, a binding or non-binding promise?

This is an issue that is still being debated by contemporary juristic scholars. Without appearing to form any opinion on this matter to respect the fluidity of constructive debates, AAOIFI's standard addressed both scenarios as can be seen in its 'FAS2: Murabahah and Murabahah To the Purchase Orderer'.

In the scenario where the promise from the customer is non-binding, the bank will be exposed to the risk of loss as a result of purchasing the asset from the supplier. Hence, AAOIFI's standard requires the bank to value the asset in their balance sheet on the basis of cash equivalent value. On the other hand, if the contract obliges the customer to fulfill his promise, the bank shall value the asset in their balance sheet on the basis of historical cost.

The other aspect where AAOIFI standards depart from conventional practice is on the treatment of assets in an Ijarah Muntahia Bittamleek contract. Ijarah Muntahia Bittamleek is an innovation in Fiqh to satisfy the financing lease contracts in conventional practice. However, while the contract Ijarah Muntahia Bittamleek structurally meets the end result as with the finance lease, the legal validity is not the same. This is because Ijarah Muntahia Bittamleek is a combination of two contracts which run sequentially one after the other and hence the reporting of the financial transaction as mentioned in AAOIFI's FAS 8: Ijarah and Ijarah Muntahia Bittamleek, would reflect such a situation as well.

According to FAS 8, the Islamic bank when it enters into a leasing transaction with a customer – assuming the Islamic bank is the lessor – will have to record the asset in their balance sheet at historical cost under the heading Ijarah Muntahia Bittamleek Assets. The asset can transfer to the lessee's hand through several means such as by gift, by a token price, through gradual transfer of shares or by an outright sale prior to the end of the tenor. The asset will be valued at cash equivalent value or book value depending on the method the asset transfers hands.

AAOIFI Successes

It is difficult to prioritize the successes of AAOIFI but probably the fact that the organization is represented by 121 institutions from 25 countries in its General Assembly is a logical starting point. There are five founding members of AAOIFI namely, Islamic Development Bank (IDB), Dallah Al Baraka, Dar Al Maal Al Islami, Al-Rajhi Banking and Investment Corporation and Kuwait Finance House (KFH). These five were the signatories to the agreement establishing AAOIFI (or as it was known then) in 1989 while the latest edition to the founding member is the Al-Bukhary Foundation Malaysia, which joined the founding members group in 2005. Apart from the founding members, there are other leading financial institutions, standard setting bodies and professional services firms involved in the Islamic banking industry who take up either an Associate member, Supervisory Authority member, Supporting member or an Observer member.

As at March 2006, AAOIFI has issued two financial accounting statements relating to the objectives and concepts of financial accounting for Islamic financial institutions, 22 accounting standards, five auditing standards, four governance standards, two standards on ethics and 21 Shariah standards. There are four other Exposure Drafts which were subjected to public hearing in February 2006 and by mid-2006, subject to approval by the Board these new standards would bring the total standards issued by AAOIFI to more than 60.

The AAOIFI standards were adopted on a mandatory basis by Bahrain in 1998 and Sudan in 1999. Jordan followed suit in 2002 in joining the ranks of countries requiring Islamic financial institutions in their jurisdictions to abide by the AAOIFI standards in their reporting disclosure. Several other countries have been guided or inspired by the AAOIFI standards in regulating the Islamic finance industry in their local jurisdiction. In Malaysia and Indonesia, the local standard setting authorities have created a separate set of accounting standards specifically for Islamic financial institutions. Considering that AAOIFI is not empowered to enforce its standards, the above achievements are quite admirable. However, efforts are still being undertaken by AAOIFI to identify ways and means to improve the international recognition of its standards and formulate strategies to harmonize the practices of accounting disclosure among Islamic financial institutions globally.

Another feather in the cap of AAOIFI is the recently launched Certified Islamic Professional Accountant (CIPA) program which is designed to become the first professional qualification program to be accredited by a leading authority in the Islamic finance industry. The program represents AAOIFI's attempt to address the resource crunch issue which is echoed by industry practitioners as a significant challenge in the critical path of the industry growth. The program is designed to evolve into a full blown professional chartered accountancy course within 3-5 years and will offer membership benefits to its graduates. This will create a pool of recognized and qualified professionals to serve the industry's need for human capital expertise.


AAOIFI

Syed Alwi is a consultant in Islamic banking and has wide experience in the financial services sector in the South East Asian region having worked in Malaysia, Singapore, Indonesia and Brunei. He has vast experience advising and consulting clients on Shariah audit, asset and funds management, process improvement, system selection and system implementation work. He is currently attached with AAOIFI and is based in Bahrain.

Meet the Head

Islamic Finance *news* talks to leading players in the industry

Name: Dr. Yahia Abdul Rahman
Position: Founder of LARIBA
Company: American Finance House-LARIBA
Based: California, USA
Age: 62
Nationality: Egyptian/USA

Could you provide a brief journey of how you arrived where you are today?

When we were in Dallas, we started to organize an Islamic community as there was no Islamic centre or even a Friday congregational prayer. We wanted to buy a house and piece of land to start the first Islamic center in Dallas but we did not have the money. So it was suggested to go and borrow from the banks but many objected about participating in Riba. As I knew nothing about Riba, I decided to go to the University of Texas night school to do an MA in Finance and started reading about the prohibition of Riba.

My name was recommended to the World Bank and I was offered to go to Kuwait to become a member of the founding team of the Industrial Bank of Kuwait which is where my banking career began. As for Islamic banking, I met by chance one of the pioneers in Islamic banking at Eid prayer in Los Angeles in 1987. We exchanged ideas and that initiated me to launch American Finance House - LARIBA.

What does your role involve?

By establishing LARIBA, our role was initially to help people in the community invest their savings back in to projects of the community, thus encouraging Muslims to trust each other and work with each other. Then, we introduced the community to the real meaning of Islam, not only about rituals but also social responsibility to all, Muslims and non-Muslims alike. Now, our mission is to develop a network of financial institutions in the US and around the world that operate according to Islamic jurisprudence and that care about communities to serve all people of all faiths.

What is your greatest achievement to date?

To raise a total of US$200,000 as a start-up seed capital from humble members of the community and friends who supported the idea of establishing LARIBA.

Which of your products/services deliver the best results?

LARIBA Mortgage Financing whereby we sidestep interest by entering into a partnership with customers to buy a home. The customer acquires the home through a lease-to-own arrangement. Their monthly payment includes two components: repayment of the lender's contribution to the purchase price and fair-market rent.

What are the strengths of your business?

The uniqueness and primary differences between LARIBA, and other Riba-free models and Riba banks are the following:

- We do not rent money. We approach each transaction as an investment (using the lease-to-purchase model) instead of lending. We advise you as to whether the transaction is a good investment or it is better to rent.
- We never start from an interest rate to calculate your payment. Your payment is based on the market rental value of the property you are seeking to finance. The rental value is determined by mutual agreement between you and us.
- We work with clients in a humane and fair way in times of trouble.

What are the factors contributing to the success of your company?

I sincerely believe that the Almighty God creates the reasons for you to excel and serve people. What comes out of your heart reaches people's hearts. That is the secret of success for every successful person.

What are the obstacles faced in running your business today?

Obstacles are everywhere in every kind of business. The most glaring obstacle in Riba-free business is the mentality of the players themselves, claiming their products to be more superior that others'. This will definitely dampen the growth of the industry.

Where do you see the Islamic finance industry, maybe in the next five years?

In assessing the future strategic direction of the Islamic finance industry, it is important to recognize one fundamental difference between Islamic and the Riba-based banks. The purpose of Islamic finance is not simply to provide financing services to customers. It is also to enable the Muslim community to conduct its financial affairs in accordance with the Shariah. The business model for Islamic finance is not one of pure profit maximization. An Islamic finance bank which is unprofitable and steadily going out of business is still an Islamic bank providing that it adheres to its overriding strategic objective of conducting all its operations in accordance with the Shariah – it may not be a very good bank, but its credentials as an Islamic bank remain undiminished.

Name one thing you would like to see change in the world of Islamic finance

More co-operations among the industry players especially in the accepting views of others.

American Finance House-LARIBA was established in 1987 in the city of Pasadena, California, USA. Since inception, it has distributed competitive profits and dividends which are believed to be proper and in accordance to Islamic jurisprudence. The company specializes in single family home financing and in small and medium size business financing using the leasing model (Ijarah) and / or joint venture (Musharakah). www.lariba.com

Accounting Standards for Islamic Finance: Re-invent the wheel or adopt with modification?

Islamic banks and conventional banks offering Islamic financial services have to be audited according to the same criteria and standards as any other financial institution, but it is important that the firms conducting the audits have an understanding of the distinctive nature of Shariah compliant assets and liabilities. It is in this respect that AAOIFI, the Accounting and Auditing Organization for Islamic Financial Institutions, has performed a useful function for over a decade in devising distinctive standards.

One issue is whether the AAOIFI standards should be regarded as a substitute for conventional standards, or an add on. In practice the answer is the latter. For example current accounts with Islamic banks are no different to conventional current accounts, and in accounting terms should be treated in the same manner. Investment Mudarabahah accounts, which cannot be guaranteed under Shariah, are clearly distinctive, and it is these that should be treated differently from conventional savings deposits. It is here that AAOIFI standards matter.

The way forward is for the established international accounting firms to encourage some of their staff to take an interest in Islamic finance, and where there a sufficient business, to set up units within their firms that specialize in this type of audit, or at least to have one or more partners with designated responsibilities for Islamic finance. This is already happening. Such an approach is preferable to having small independent specialized firms of accountants focused on Islamic financial institutions. The latter sounds appealing, but the wealth of expertise that the major accounting firms can provide is difficult to match, and most Islamic banks prefer to be audited by leading international accountancy firms, as having them sign off the audit provides greater credibility.

PROFESSOR RODNEY WILSON: *Director, University of Durham*

The AAOIFI Board contemplated this issue at the very onset of the development of accounting standards for IFIs way back in 1990. Two workable approaches emerged. The first is to develop accounting standards from the principles of Shariah and then adopt them and implement them - this is akin to the "reinvent the wheel" approach. The second approach is to review the standards which have been developed by prevailing accounting thoughts, test them against Shariah then adopt those which are consistent with Shariah and exclude those which are not. After in-depth studies of Shariah and accounting aspects, it was decided to adopt the second approach.

Hence the accounting standards developed by AAOIFI consist of the following:

a) The existing accounting concepts that are useful and do not conflict with Shariah are borrowed and integrated into AAOIFI standards without change.

b) The existing accounting concepts which are in conflict with Shariah precepts are either rejected or modified sufficiently to remove the conflicting aspects and to make them useful.

c) New concepts which reflect the unique nature of Islamic banking practices will be developed.

SYED ALWI BIN MOHAMED SULTAN: *AAOIFI*

Islamic Finance *news* The issue as to whether accounting standards should be re-invented or be adopted with modification is no longer a question when the process is already in the phase of convergence.

In the past, different views of the role of financial reporting made it difficult to encourage convergence of accounting standards. Now, however, there appears to be a growing international consensus that financial reporting should provide high quality financial information that is comparable, consistent and transparent, in order to serve the needs of investors. Over the last few years, we have witnessed an increasing convergence of accounting practices around the world. And there is no reason for Islamic finance accounting standards setters to do otherwise.

If convergence of disclosure and accounting standards contributes to an increase in confidence on the industry, the players would then benefit from increased volumes of business. So, why put the extra cost to develop accounting standards in isolation when the approach is no longer required.

Next Forum Question

Is Islamic Hedgefund an Oxymoron?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Islamic Finance *news* Manager at: Christina.Morgan@IslamicFinanceNews.com before Wednesday 3rd May.

QATAR

Doha Solidarity Launched

Doha Insurance Company (DIC) has launched its Takaful branch, Doha Solidarity, having partnered with the Bahrain-based Solidarity. Doha Solidarity will serve as DIC's new Takaful branch in Qatar.

Through the formation of Doha Solidarity, Solidarity will be able to offer its full range of Shariah compliant general Takaful products and services to the Qatari market. Solidarity will also provide DIC's new Takaful branch with an experienced and highly trained management team.

PAKISTAN

SLIC to offer Takaful

The State Life Insurance Corporations of Pakistan (SLIC) aims to offer Takaful, apart from other new products such as investment linked policies, village insurance plans for rural areas and pension funds.

SLIC has showed robust business performance in first quarter in 2006 by securing Rs.633 million (US$10.56 million) from new business as in the first year premium while showing an increase of 19.04% in that period.

MALAYSIA

Takaful market penetration rises 5.6%

Market penetration in the local takaful industry rose to 5.6 % in 2005 from 5.1% previously, underpinned by a strong domestic economic growth.

BNM said other factors which contributed to the industry's strong performance included a combined family and general takaful net contributions, which grew by 18.8 %to RM1.3 billion (US$355 million) from RM1.1 billion (US$300 million) in 2004. This increased takaful share to 5.4 % from 5.1% in 2004, of the combined net contributions in the insurance sector.

Total assets of the takaful industry increased by 16.9% to RM5.9 billion (US$1.6 billion) in 2005 from RM5 billion (US$1.36 billion) in 2004, accounting for 5.7 % of the total assets in the insurance sector last year compared with 5.6% the year before.

The strong double-digit growth of the takaful industry was supported by the encouraging performance of the three main distribution channels of banctakaful, agency and brokers, as well as direct marketing.

MALAYSIA

BNM to further cautious on industry

The central bank, Bank Negara Malaysia (BNM) will step up its vigilance of the insurance and takaful industry's state of readiness to cope with the changing environment both in the market and industry regulations.

Its governor Tan Sri Dr Zeti Akhtar Aziz said as significant impending regulatory changes drew closer for implementation and market conditions continued to evolve to reflect broader-based competition and multi-faceted risk dimensions, an orderly transition of market-led adjustments was vital to ensure that the adjustments did not de-stabilise the market or undermine public confidence.

"Efforts will continue towards building institutional capabilities and putting in place the necessary supporting financial infrastructure," she said .

Takaful Accounting

By Omer Morshed

Introduction and Some Basic Principles

Accounting is essentially the recording and presentation of economic transactions relating to defined business operations, usually a legal entity. It does not seek to deal with the legality, in Shariah or otherwise, of the business conducted and the transactions undertaken by the entity, but simply to record and report on these.

Takaful (meaning literally mutual cooperation) is a word which has become synonymous with Islamic Insurance. A number of Takaful models are in use in different parts of the world, some of which are, in my view, not compliant with the essence of the Shariah but based simply on artificial transactions created in order to achieve results as close to conventional insurance as possible. I have included these models within the scope of dealing with issues relating to accounting.

The nature of Takaful operations, in terms of detailed accounting, is largely similar to that of conventional insurance operations. Both receive premiums/contributions, investment income, pay claims, maintain reserves, have assets and liabilities, etc... Differences exist in certain limited areas, the basic ones being as follows:

- **The method used to remunerate the Takaful operator**. In conventional insurance the insurer bears the risk, the underwriting profit or loss therefore being a substantial portion of the total profit, the other portion being investment income. In Takaful operations there is strictly no profit or loss to be made from underwriting, although in some models this is allowed. This has a bearing in terms of reserving as well as in the treatment of underwriting surpluses or deficits.

- **The nature of mitigating risks** (re-Takaful vs reinsurance).

- **The nature of investments, which, by their very nature, excludes fixed income investments.**

Given the similarities with conventional insurance with respect to most economic transactions, it stands to reason that accounting methods for these transactions should be similar. It is therefore, in my view, not necessary to define all encompassing accounting standards for Takaful operators separately (as has been done by AAOIFI), but instead to deal with issues where the nature of Takaful operations is different from conventional insurance.

One other area which is likely to affect accounting for Takaful operators is that of regulation. In some cases (like in most countries in the Middle East, Africa and parts of South Asia), regulation of insurance is weak and does not always deal with accounting, providing at best broad formats for producing financial statements. In other jurisdictions, including Pakistan in the post Insurance Ordinance 2000 environment, both the Ordinance and subsequent subsidiary regulations provide detailed guidance on issues such as the maintenance of separate statutory funds (in the case of life insurers) as well as a framework for accounting. Although this paper deals with Takaful accounting in generic terms, it does focus on the Pakistani regulatory environment.

Major differences

The major differences between conventional insurance and Takaful:

- Underwriting surplus or deficit to be borne by the participants (policyholders) in the case of Takaful.
- Similarly, re-Takaful is to be done strictly in a risk pooling basis and not on a risk cession basis
- Investments to be either in equity or in other Shariah complaint savings instruments. Fixed income is not allowed.

Underwriting Surplus/Deficit

The distribution of underwriting surplus or deficit either partially or wholly to policyholders is something which has been in vogue in conventional insurance for some time, especially in the case of health insurance (where even pure administrative services contracts are common) and life insurance (where large "profit commission" payments are common in some countries).

Takaful is operated through two models:

- Al Mudharabah Model, whereby cooperative risk-sharing occurs among participants yet the Takaful operator shares also in any operating surplus as a reward for its careful underwriting on behalf of participants. Examples of this model include Takaful Malaysia (STM - Malaysia), Takaful Nasional (Malaysia) and Takaful International (Bahrain).

- Al Wakalah Model, whereby cooperative risk-sharing occurs among participants with a Takaful operator earns a fee for services {as a Wakeel or agent} and does not participate or share in any underwriting results as these belong to participants as surplus or deficit, under the Al Wakalah Model, the operator may also charge a funds management fee and a performance incentive fee (as Bank Aljazira does).

Although the two models involve certain major differences in approach, the accounting issues which arise are common. These include the following:

- Segregation of assets, liabilities, income and expenditure between the Takaful operator, the various Mudharibahs and (if separately maintained) the various Takaful funds (risk-pools) [these various "funds" being referred to hereafter as "accounting entities]

- Setting aside reserves for meeting outstanding claims, future claims (from accepted risks) and contingencies in the process of ascertaining surplus/deficit.

- Definition of bases for recognition of revenue and expenditure (cash vs accrual), this having an impact on determination of surplus/deficit.

- Accounting for Qard-e-Hasan

Segregation of Assets, Liabilities, Income and Expenditure

The essential need for implementation of the Takaful models is segregation of income and expenditure, as this would be needed to:

continued...

Takaful Accounting *(continued...)*

1. Determine the surplus or deficit which would impact the distribution to participants; or, where a Mudharibah model prescribes sharing by the Takaful operator in the surplus/ deficit, determination of the amount payable to the operator.
2. Determine the solvency position of the Takaful fund and, therefore, the possible determination of a need for qard-e-hasan or a repayment thereof.

The accounting model can provide for segregation of income and expenditure without necessarily segregating assets and liabilities, this system being in vogue in most cost accounting systems. Direct transactions (contributions, claims, payment of medical fees, etc.) can be debited or credited to the concerned Accounting Entity, whereas others (such as investment income, bank charges, etc...) may be apportioned on some equitable basis.

It is my considered opinion, however, that, in order to be totally equitable, approximations should be kept to a minimum, and, as far as is possible, all income and expenditure should be allocated as close to reality as possible. For this purpose the segregation of assets and liabilities becomes a requirement, as this would allow the separation of actual liquid funds (which would be invested and would yield income).

Interestingly the Insurance Ordinance 2000 of the Government of Pakistan introduced a concept of statutory funds for life insurers, there also being a requirement for total separation of assets, liabilities, income and expenditure between each statutory fund and the shareholders' fund (S17 of the Ordinance). The Ordinance also contains strict provisions to ensure that allocation of any common expenses between statutory funds is equitably carried out. The framework contained in the Ordinance is, in my view, highly suitable for implementation for Family Takaful products.

As an aside, I would suggest, that the Ordinance provides a framework for allowing life insurers to set up "Takaful windows", as the accounting safeguards required to ensure the equitable determination of surplus is already built into the system.

Interestingly, a framework for segregation of even income and expenditure (even if not assets and liabilities) for various major classes of business (or even between underwriting operations and other operations) does not exist on the non-life side. Such a framework should, in my opinion, be defined when defining regulations under which non-life Takaful operations could be conducted, so as to ensure equity in surplus determination.

Ideally, therefore, when assets and liabilities are also segregated, there is effectively a need for maintaining separate self-balancing trial balances for each accounting entity, with inter-entity accounts being maintained. Again, for the sake of equity, any inter-entity balances needs to be kept to a minimum and frequently settled (preferably not longer than monthly).

Reserving

Reserves required to be set up by Takaful operators (within the Takaful funds), consist of the following:

1. Unearned revenue reserves, generally relating to risk premiums (tabarru) received for periods which extend beyond the financial reporting date.

2. Estimated amounts to be paid out relating to claims already incurred before the reporting date, including those which have been reported as well as those which have not.

3. Deficiency reserves, where there is an expectation (based on statistical experience) that contributions charged are not adequate to cover expected claims.

4. Contingency reserves set aside for possible adverse variations in claims in the future, i.e. to smooth the emergence of surpluses and deficits.

Reserving is, by its very nature, a process of estimation. Estimation has certain drawbacks. Two professionals, for example, may, with the purest of intentions, end up with different determination of reserves on exactly the same portfolio, simply due to different assumptions or different reserving methods. It may also not be wise to necessarily prescribe standard assumptions or methods, as different ones may be suitable for different portfolios.

In a perfect system, surpluses and deficits should be measured in actual terms. This is actually done in the case of some reinsurance pools, whereby separate accounts are run for various years and the resulting underwriting surpluses or deficits shared by those who participate in those pools. Whereas this may be practical for reinsurance pools, these may not be practical for Takaful pools catering to consumers, who would not wish to wait for years for final determination of the claims position of a pool.

Reserving based on estimates is, therefore, a necessary compromise which has to be made for the sake of pragmatism. Of the elements set out above, the first three are clearly reserves which need to be set aside in the determination of surplus. The fourth, however, may be

continued...

viewed not as a provision to be accounted for in the determination of surplus but as an appropriation of surplus. This needs to be discussed further.

An essential feature of all Takaful models is the sharing of underwriting surpluses/deficits by participants. Accurate determination of the surplus/deficit is, therefore, fundamental to the accounting process. The setting aside of a reserve for contingencies, however, raises the question as to who this reserve belongs to. This is relevant as the impact of the reserve in the initial years of Takaful operations is likely to be substantially greater than in subsequent years. This will effectively result in the participants in earlier years paying for stabilization of underwriting results for the participants in later years.

Despite the possible inequity in a pure sense, the building up of contingency reserves is desirable in order to enable stability in underwriting results and make it practical to expand the size of the risk pool (as there will be limits to what amounts the Takaful operator will be able to provide as qard-e-hasan in case of deficits).

It is recommended that contingency reserves set aside are disclosed separately from other reserves. Given alternative treatments possible, however, it is only possible to treat this as a reserve within the Takaful fund in which it has been set up. It has, therefore, to be treated as a long term liability in much the same way as other reserves.

Basis for Recognition of Revenue and Expenditure

Many Takaful organizations recommend the recognition of revenues on a cash basis, on the premise that surpluses determined for distribution should be based on "actual" and not "accrued" revenue. The standard produced by AAOIFI does not, however, apparently agree with this point of view, as the format for the balance sheet prescribed in it included contributions receivable (i.e., accrued revenue).

I share the AAOIFI view. The issue of cash vs accrual is one which is generic to all entities required to produce accounts. What is important with respect to the accounting treatment of any transaction is that the treatment reflects what is equitable between different generations of participants. If, for example, an ordinary share in which the Mudharabah fund has invested has gone ex-dividend, it would seem to me that it is equitable to treat the dividend as receivable for accounting purposes, whether or not it has been received.

I am therefore strongly of the view that normal accrual concepts should be followed in accounting for Takaful.

Accounting for Qard-e-Hasan

Qard-e-hasan, in a Takaful concept, is a loan made to the Takaful fund in order to cover a deficit in that fund after exhausting any contingency reserves. While discussing the accounting treatment of amounts so transferred, both in the period of transfer as well as amounts due, at the balance sheet date, from the Takaful fund to the Takaful operator, one can draw a parallel with capital contributions from the shareholders' fund to a statutory fund which is envisaged under the Insurance Ordinance 2000.

It is, in my view, not appropriate to treat the amount outstanding as a liability of the Takaful fund and an asset of the Takaful operator. From a point of view of determining the extent to which the qard is receivable by the Takaful operator, it is clear that this is contingent upon future surpluses arising in the Takaful fund. In accordance with the prudence concept, therefore, this should not be recognized as an asset. As a corollary, therefore, the qard should not be recognized as a liability in the Takaful fund.

There are two possible ways of treating the qard from an accounting perspective:

1. As a revenue transfer from the Takaful operator to the Takaful fund, any repayment then being treated as a revenue transfer the other way.
2. As an appropriation of profits in the P&L Account of the Takaful operator and a capital transfer in the accounts of the Takaful fund.

I would recommend the treatment set out in 2 above.

For regulatory purposes it is clear that the capital available should be reduced by the amount of any qard-e-hasan outstanding, as effectively either treatment would reduce shareholders' equity.

MOVES

DOHA SOLIDARITY – Qatar

Mr Abdulla Sharif Al Rayes has been appointed as executive manager for Doha Solidarity, a Doha Insurance Company's Takaful branch in Qatar. Prior to his new appointment, Mr Al Rayes headed Solidarity's – General Takaful marketing department and has over nineteen years of experience in the insurance industry.

BIMB HOLDINGS - Malaysia

Datuk Zukri Samat, the executive director for investments at Khazanah Nasional Bhd, is tipped to move to Bank Islam Malaysia as chief executive officer. He will succeed managing director Datuk Noorazman A. Aziz, who is slated to be the managing director of BIMB Holdings, the bank's parent company. Prior to Khazanah, Zukri was managing director of Pengurusan Danaharta Nasional and has worked in various banking and financial institutions.

Datuk Noorazman, who joined Bank Islam in April last year, initiated a revamp of the bank – from the way it operates its business to how it positions itself in the marketplace. It will take some time to see the full impact of the ongoing revamp.

BANK NEGARA MALAYSIA – Malaysia

Bank Negara Malaysia has appointed Mr Mohamed Akwal bin Sultan Mohamad as the chief executive officer of the Credit Management and Counseling Agency, its wholly-owned subsidiary that will provide advisory, counseling and assistance on areas relating to credit, financial management, education as well as debt restructuring.

INTERNATIONAL CENTER FOR EDUCATION IN ISLAMIC FINANCE (INCEIF) - Malaysia

Mr Agil Natt, the executive director and deputy president of Malayan Banking (Maybank), will head the newly formed International Centre for Education in Islamic Finance (INCEIF).

Agil is due to retire from Maybank in September, and it has been said Bank Negara Malaysia made him the offer just over a week ago. They said he would head INCEIF from the 1st July as chief executive officer.

CLIFFORD CHANCE - Dubai

Mr Qudeer Latif has been transferred to the Finance and Banking Practice Group of the Dubai office from the London office.

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EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
April			
22nd – 23rd	7th Harvard University Forum on Islamic Finance "Integrating Islamic Finance in the Mainstream: Regulation, Standardization and Transparency"	Boston	Harvard Law School
24th	Seminar on Challenges and Opportunities in Islamic Finance jointly organized with The World Bank	Washington	IFSB
25th – 26th	STEP Arabia Conference	Dubai	Barker Brooks Media
May			
7th – 8th	The World Islamic Funds & Capital Markets Conference & Exhibition	Manama	Mega Events
8th – 10th	The World Halal Forum	Kuala Lumpur	The Halal Journal
17th – 18th	3rd Islamic Financial Services Board Summit: Aligning the Architecture of Islamic Finance to the Evolving Industry Needs	Beirut	IFSB
June			
4th – 7th	Commodity Investment World Middle East	Dubai	Terrapinn
4th – 7th	Funds World Middle East	Dubai	Terrapinn
11th – 12th	8th AAOIFI Annual Conference on Islamic Banking & Finance 2006	Manama	AAOIFI Conference
12th – 15th	The International Islamic Finance Forum Asia	Singapore	IIR Middle East
19th – 20th	Backroom Operations for Financial Institutions	TBC	ABF Asia
September			
5th – 6th	3rd Annual Asian Islamic Banking & Finance Summit	Kuala Lumpur	Euromoney Seminars
16th – 17th	Brunei Islamic Financial Services Forum hosted by the Ministry of Finance Brunei	Brunei	IFSB
17th – 18th	The World Islamic Real Estate Investment Conference	Dubai	Mega Events
26th – 28th	Islamic Funds World	Dubai	Terrapinn
November			
13th – 16th	The International Islamic Finance Forum Europe	Zurich or Geneva	IIR Middle East
December			
9th – 11th	The World Islamic Banking Conference & Exhibition	Manama	Mega Events

Islamic Finance news team

Published By: REDmoney

Suite A, Level 7 Menara Angkasa Raya,
Jalan Ampang, 50450 Kuala Lumpur,
Malaysia
Tel: +603 2143 8100
Fax: +603 2141 5033

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EDITORIAL TEAM

Managing Editor Frances O'Sullivan
Frances.OSullivan@IslamicFinanceNews.com

Editor Zakariya Othman
Zakariya.Othman@IslamicFinanceNews.com

Deputy Editor Sreerema Banoo
Sreerema.Banoo@IslamicFinanceNews.com

Correspondents Seelan Sakran
Kamal Bairamov
Shirene Shan

Website Content Christina Morgan
Christina.Morgan@IslamicFinanceNews.com

Production Jeya Jeevan
Jeevan@IslamicFinanceNews.com

SALES TEAM

New Business Manager Charles Philip
Charles.Phillip@IslamicFinanceNews.com
Tel: +603 2143 8100 x 13

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

MARKETING TEAM

Manager Zalina Zakaria
Zalina.Zakaria@IslamicFinanceNews.com
Tel: +603 2141 6021

Assistants Dhana Dorasamy
Sharifah Shazana

Administration Kim Yong
Kim.Yong@RedMoneyGroup.com

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

Individual Annual Subscription Rate: US$525
Company wide Subscription Rate: US$2,250

Islamic Finance Training

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

Sales Manager Training Derrick Lee
Derrick.Lee@RedMoneyGroup.com
Tel: +603 2143 8100 x 14

Bondweb MALAYSIA

MALAYSIAN ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET: FORTNIGHTLY SNAPSHOT — **AS AT 14th Apr 2006**

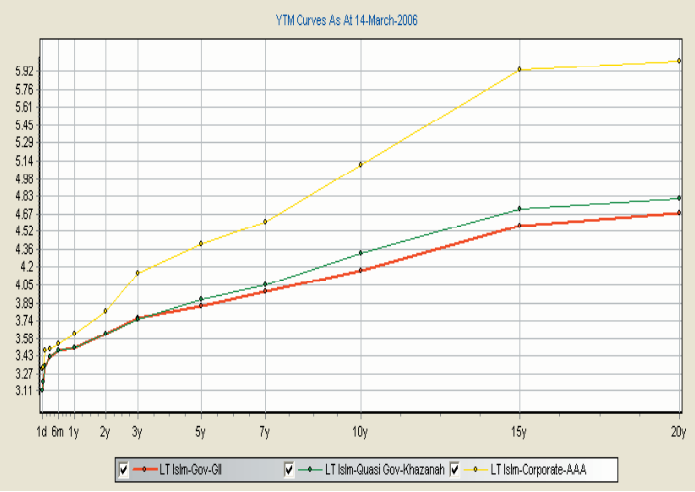
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	07 Apr 06 (RM)	31 Mar 06 (RM)	24 Mar 06 (RM)
Private Debt Securities					
DRB-HICOM 0% 26.07.2010	AA- ID (MARC)	91.02	91.28	91.2	90.84
OPT CHEMIC 3.55000% 29.09.2006	AAA ID (S) (RAM)	100.04	99.91	99.95	100.02
OP GLYCOLS 3.55000% 29.09.2006	AAA ID (S) (MARC)	100.04	99.91	99.95	100.02
PUTRAJAYA RM260.0MIL 5.25% 15.04.2011	AAA ID (MARC)	102.20	103.11	103.57	103.66
OP OLEFINS 3.50000% 29.09.2006	AAA ID (MARC)	100.02	99.89	99.93	100.00
Government Investment Instruments					
PROFIT-BASED GII 1/2006 14.04.2009	n/a	99.7	n/a	n/a	n/a
PROFIT-BASED GII 24/2005 08.12.2010	n/a	100	99.74	99.91	99.93
Quasi Government					
IFC 2.880% 13.12.2007	n/a	98.46	98.58	98.56	98.54

SPREAD VS GII (in b.p)

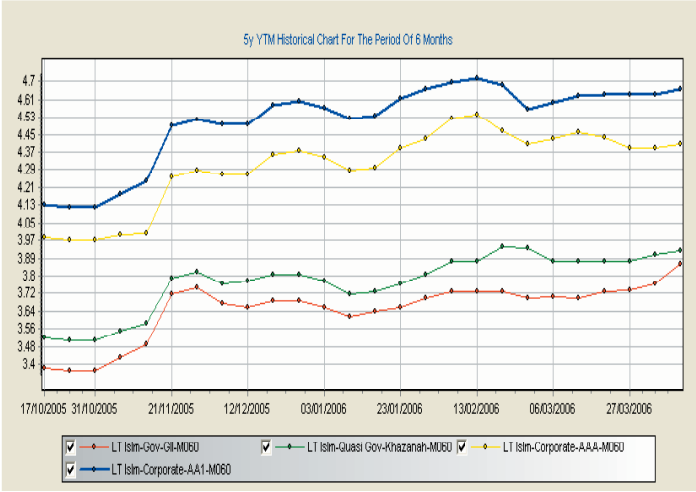
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.62	3.76	3.9	4.02	4.12	4.3
Cagamas	0.25	0.28	0.33	0.36	0.42	0.44
Khazanah	0.09	0.1	0.08	0.15	0.15	0.24
AAA	0.09	0.15	0.34	0.48	0.57	0.89
AA1	0.26	0.44	0.54	0.73	0.95	1.31
A1	1.05	1.38	1.61	2.42	2.94	3.19

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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



ISLAMIC LEAGUE TABLES

TOP ISSUERS OF ISLAMIC DEBT — APR 2005 – APR 2006

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	PCFC Development	UAE	Convertible Sukuk	3,500	2	28.8	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	953	1	7.9	Malaysian Government bond
3	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	777	11	6.4	Cagamas/AmMerchant
4	Rantau Abang Capital	Malaysia	Musharakah MTN	594	1	4.9	CIMB, AmMerchant
5	Emirates Airlines	UAE	Sukuk Al Musharakah	550	1	4.5	Dubai Islamic Bank, HSBC, Standard Chartered
6	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Bond	542	6	4.5	CIMB, HSBC, ABN AMRO, AmMerchant
7	Islamic Development Bank	Saudi Arabia	Islamic Bond	500	1	4.1	Deutsche, HSBC
8	PLUS Expressways	Malaysia	Serial Bai Bithaman Ajil Islamic Securities	349	4	2.9	CIMB
9	Syarikat Bekalan Air Selangor	Malaysia	Bai Bithaman Ajil Commercial Papers/ MTN	273	4	2.3	CIMB, Bank Islam Malaysia , HSBC (Malaysia)
10	Maybank	Malaysia	Islamic Subordinated Bond	265	1	2.2	Aseambankers
11	Senai Desaru Expressway	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	249	26	2.1	Aseambankers, Standard Chartered
12	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN Facility	245	10	2.0	AmMerchant, RHB Sakura, Malaysian International Merchant Bankers , Bank Muamalat Malaysia
13	Putrajaya Holdings	Malaysia	Murabahah MTN	235	4	1.9	Alliance Merchant Bank, CIMB, RHB Sakura
14	DRB HICOM	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	209	11	1.7	AmMerchant, Malaysian International Merchant Bankers
15	Konsortium Lebuhraya Utara Timur (KL)	Malaysia	Redeemable Secured Serial Sukuk Istisnah	207	9	1.7	CIMB
16	Gold Sukuk dmcc	UAE	Islamic Sukuk Al Musharakah Issue	200	1	1.6	Standard Bank, Dubai Islamic Bank
17	International Bank for Reconstruction & Development World Bank	Supranational	Bai Bithaman Ajil Islamic Debt Securities	200	1	1.6	ABN Amro, CIMB
18	Special Power Vehicle	Malaysia	Bai' 'Inah Islamic MTN Facility	163	13	1.3	Malaysian International Merchant Bankers, AmMerchant, RHB Sakura, Bank Muamalat Malaysia
19	Ranhill Power	Malaysia	Islamic MTN Program	142	12	1.2	Aseambankers
20	Sistem Penyuraian Trafik KL Barat	Malaysia	Al Bai Bithaman Ajil Notes Issuance Facility	136	5	1.1	United Overseas Bank (Malaysia)
	Total of issues used in the table			**12,138**	**304**	**100.0**	

For all enquires regarding the above information, please contact:

Catherine Chu
Email: Catherine.Chu@Hk.Dealogic.com
Phone: +852 2804 1223; Fax: +852 2529 4377

ISLAMIC LEAGUE TABLES

TOP ISSUERS OF ISLAMIC DEBT — YEAR–TO–DATE

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Malaysia	Malaysia	Islamic Sukuk	953	1	32.0	Government bond/no bookrunner
2	Rantau Abang Capital	Malaysia	Musharakah MTN	594	1	19.9	CIMB, AmMerchant
3	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	592	8	19.9	AmMerchant/Cagamas
4	Putrajaya Holdings	Malaysia	Murabahah MTN	235	4	7.9	Alliance Merchant, CIMB, RHB Sakura
5	WAPDA First Sukuk Co	Pakistan	Sukuk Alljarah	134	1	4.5	Citibank (Pakistan), Jahangir Siddiqui & Co, MCB
6	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	3.7	CIMB, HSBC Malaysia
7	BNM Sukuk	Malaysia	Sukuk Alljarah	107	1	3.6	Malaysian Government bond
8	Penang Bridge	Malaysia	Redeemable Secured Serial Sukuk Istisnah	96	6	3.2	CIMB
9	Medi Innovation	Malaysia	Murabahah MTN	27	6	0.9	Amanah Short Deposits
	IJN Capital	Malaysia	Sukuk Musharakah	27	5	0.9	RHB Sakura
	Harum Intisari	Malaysia	Murabahah Commercial Paper/ MTN Program	27	1	0.9	HSBC
	UEM Builders	Malaysia	Murabahah Commercial Paper/ MTN Program	27	1	0.9	AmMerchant
	Maxtral Industry	Malaysia	Sukuk	22	4	0.7	OSK Securities
	Pharmaniaga	Malaysia	Murabahah Commercial Paper/ MTN Program	9	3	0.3	RHB Sakura
	Instacom SPV	Malaysia	Murabahah MTN	9	4	0.3	Utama Merchant
	Nam Fatt Corp	Malaysia	Murabahah Islamic Commercial Paper/ MTN Program	7	1	0.2	HwangDBS Securities
	Goodway Integrated Industries	Malaysia	Murabahah MTN	3	1	0.1	Amanah Short Deposits
	Touch Matrix	Malaysia	Murabahah MTN	1	1	0.0	KAF Discounts
	Total of issues used in the table			**2,979**	**50**	**100.0**	

ISLAMIC LEAGUE TABLES

ISLAMIC DEBT		APR 2005 – APR 2006		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Dubai Islamic Bank	2,033	4	16.8
2	Barclays Capital	1,750	2	14.4
3	CIMB	1,710	55	14.1
4	Malaysian Government bond	1,061	2	8.7
5	HSBC	1,006	19	8.3
6	AmMerchant	819	47	6.7
7	Cagamas	645	10	5.3
8	Aseambankers	542	40	4.5
9	RHB	316	57	2.6
10	Standard Chartered	308	27	2.5
11	Deutsche	275	3	2.3
12	United Overseas Bank	264	23	2.2
13	EON	206	34	1.7
14	Bank Muamalat Malaysia	179	49	1.5
15	Affin Merchant	136	17	1.1
16	Alliance Merchant	132	14	1.1
17	OCBC	111	26	0.9
18	ABN AMRO	100	1	0.8
18	Standard Bank Group	100	1	0.8
20	Bank Islam Malaysia	91	4	0.8
	Total of issues used in the table	**12,138**	**304**	**100.0**

ISLAMIC DEBT		YEAR–TO–DATE		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Malaysian Government bond	1,061	2	35.6
2	Cagamas	592	8	19.9
3	CIMB	525	12	17.6
4	AmMerchant	324	2	10.9
5	RHB	115	12	3.9
6	HSBC	81	2	2.7
7	Alliance Merchant	81	5	2.7
7	Citigroup	45	1	1.5
7	Jahangir Siddiqui & Co	45	1	1.5
10	MCB Bank	45	1	1.5
11	Amanah Short Deposits	27	6	0.9
12	OSK Asia Securities	22	4	0.7
13	MIDF-Sisma Securities	9	4	0.3
14	Hwang-DBS Securities	7	1	0.2
15	KAF Discount	1	1	0.0
	Total of issues used in the table	**2,979**	**50**	**100.0**

ISLAMIC DEBT BY COUNTRY	APR 2005 – APR 2006		
	Amt US$ m	**Iss.**	**%**
Malaysia	7,019	295	57.8
UAE	4,250	4	35.0
Saudi Arabia	500	1	4.1
United States	200	1	1.6
Pakistan	134	1	1.1
Indonesia	36	2	0.3
Total	12,138	304	100.0

ISLAMIC DEBT BY COUNTRY	YEAR–TO–DATE		
	Amt US$ m	**Iss.**	**%**
Malaysia	2,845	49	95.5
Pakistan	134	1	4.5
Total	2,979	50	100.0

ISLAMIC DEBT BY CURRENCY	APR 2005 – APR 2006		
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	7,219	296	59.5
US dollar	4,750	5	39.1
Pakistan rupee	134	1	1.1
Indonesian rupiah	36	2	0.3
Total	**12,138**	**304**	**100.0**

ISLAMIC DEBT BY CURRENCY	YEAR–TO–DATE		
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	2,845	49	95.5
Pakistan rupee	134	1	4.5
Total	2,979	50	100.0

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