Islamic Finance news

A REDmoney Product

Vol. 3, Issue 13 5th May 2006

The World's Global Islamic Finance News Provider

BRUNEI

Brunei issues Sukuk

Brunei has initiated its Islamic capital market with the issuance of short-term Sukuk al-Ijarah (Shariah compliant asset-backed lease securities). It is the first Ijarah-based Islamic money market program ever implemented anywhere in the world.

The transaction is a fully allocated offering of BND150 million (US$95.3 million), with pricing based on Singapore Interbank Offered Rate -3.75 basis points, with a yield of 3.4% for a three-month paper. Distribution goes to domestic institutional investors and foreign commercial banks operating in Brunei.

Brunei has become the first sovereign in the world to bypass conventional capital markets in developing an Islamic capital market instrument. It appointed HSBC and HSBC Amanah as consultants.

BAHRAIN

Biggest bank in Middle East

United International Bank (UIB) has been launched by the Bahrain Monetary Institution as the biggest Islamic bank in the Middle East. The founding committee of UIB, headquartered in Bahrain, emphasized that subscription to the bank had been a success.

Subscription applications exceeded the paid capital required according to the licence and was estimated at US$1 billion, while the issued capital amounted to US$3 billion. Hence, UIB has become the biggest Islamic investment bank which adopts the principles of Islamic Shariah in all of its activities and products.

Sultan Fayez Al Matary, deputy chairman of Athar Al Magd holding company, UIB's strategic partner, stated that many applications for special subscription have been submitted by financial and banking institutions, financial families, investors and businessmen from inside and outside the GCC countries.

BAHRAIN/SAUDI ARABIA

New realty by IIB

International Investment Bank (IIB) has created a new real estate development company for investment in the Saudi Arabian real estate market, with an authorized capital of SR400million (US$107 million). To be based in Saudi Arabia, this entity will seek to invest some SR2 billion (US$533 million) in the fast-developing Saudi Arabian property sector over the next three years.

IIB has partnered with the Islamic Corporation for Development of the Private Sector (ICD), a multilateral investment affiliate of the Islamic Development Bank, and the Saudi Economic and Development Company (SEDCO), a Saudi-based investment group. Together, IIB and its two partners will work to identify and invite subscription from additional strategic investors and partners to add value and further financial and operating strength to the company.

"Market opportunities in the Saudi Arabian real estate sector are broad ranging as demand continues to increase exponentially. It is expected that in the next ten years, the gap between the housing supply and demand will reach some 1 million units. These projections continue to drive aggressive development plans and the need for greater inflows of investment into the sector," said IIB chief executive officer, Aabed Al Zeera.

In this issue

Note from the Editor

The year 2005 witnessed an across-the-board expansion of the various industry sectors in the Labuan International Offshore Financial Centre (IOFC), with an increased number of players and higher profitability levels. In particular, the growth of offshore companies in Labuan has increased, trust companies have continued to prove a lucrative business, the offshore insurance industry continued to record the most new licences and growth in insurance premiums, there was significant growth in the offshore leasing industry and greater participation of non-residents in both deposits and outstanding loans.

Numerically, offshore financial industries recorded continued growth, with 532 new offshore companies registered in the IOFC, resulting in a total of 5,152 companies originated from almost 80 countries as at the 31st December 2005.

As the Labuan Offshore Financial Services Authority (LOFSA) enters into its second decade, it is necessary to take stock and review the strategic direction going forward to take into account the changes in the international financial landscape. The future financial environment can be expected to be increasingly competitive, more internationalized, subject to greater scrutiny and demands for greater disclosure and transparency. New international regulations and standards will also emerge.

The Labuan IOFC has developed as an active centre for Islamic finance, regionally as well as worldwide, and is now home to innovative Islamic financial solutions. However, in view of the highly competitive international financial environment, Labuan IOFC cannot afford to be complacent and rest on its laurels, but needs to work harder and implement various initiatives to enhance its competitive advantage.

Innovativeness must, however, be subject to in-depth scrutiny, especially in the area of fund management. The Islamic fund management industry was born in the 1970s when Arab investors sought an alternative to "the profit at all costs" mentality of western investing. The primary characteristic that distinguishes Islamic fund management from conventional investing is its compliance with Shariah. Fund managers who are Shariah compliant must adhere to moral economic activities and invest only in companies that have an ethical purpose.

Gaining approval for a fund compliant with Shariah certainly does not appear easy. First, the fund must meet the approval of Islamic scholars, with their varying interpretations of the law, which forbids taking of interest income and investments in "unethical" firms. Then there are a host of other obstacles to be overcome, including poor liquidity, shortage of experts in the banking and legal fields, not to mention uncertainty surrounding taxation and hostile political attitudes to Islamic finance in certain countries.

And yet Islamic hedge funds, despite being approved and launched as Shariah compliant products, still cause controversy amongst investors regarding their permissibility. More often than not investors will start to question the permissibility when short selling – which is an essential component in hedge funds – is not allowed by Shariah because of the riba and gharar elements in the contract. To gain a better insight of our readers' views on this issue, we decided to table it as the Forum question for this issue and received many interesting responses, five of which we have published for you to ponder (see Islamic Finance Forum, page 15).

As long as Shariah compliance is transparent and is subject to scrutiny by peers and independent analysis, and first principles are never compromised, such innovation must be encouraged by the Islamic financial movement, which can ill afford to be stagnant and static, especially in this current era of globalization.

Zakariya Othman, Editor

NEWS BRIEFS

MALAYSIA

LFX picks listing sponsors

The Labuan International Financial Exchange (LFX) has appointed Citibank Malaysia (L) and Capital Investment Bank (L) as its 9th and 10th listing sponsors respectively. LFX board chairman Yusli Mohamed Yusoff said the appointments of foreign financial institutions as LFX listing sponsors showed its growing credibility.

He added there was increasing recognition by international financial institutions of LFX as an offshore exchange, as well as a global offshore financial business sector. Yusli, who is also chief executive officer of Bursa Malaysia, said he hoped to see more listing sponsor licences issued to showcase products and services mainly out of Labuan.

Citigroup Malaysia country head for corporate and investment banking Sanjeev Nanavati said Citibank Labuan was delighted to be picked as the first foreign listing sponsor on LFX: "Given our depository, clearing and settlement abilities, this listing licence will help us to further develop our business in Labuan and help contribute to the development of Labuan as a major financial centre," he said.

Capital Investment Bank (L) managing director Megat Mizan Nicholas Denney said his company had seen the potential of LFX and plans to tap the available international resources via LFX.

A listing sponsor of LFX is primarily responsible for providing advice, structure and arranging for the listing of financial instruments on the LFX, and for any subsequent post-listing obligations. With the above licensing, LFX now has 10 listing sponsors.

MALAYSIA

LOFSA in aggressive promotion

The Labuan Offshore Financial Services Authority (Lofsa) will embark on aggressive promotional activities as part of its strategy to achieve a 10% annual growth in the number of its offshore institutions.

According to LOFSA director-general Azizan Abd Rahman, the regulatory agency will focus on enhancing its Islamic finance, insurance and leasing businesses this year. To date, there are more than 5,000 companies registered in the Labuan International Offshore Financial Centre (IOFC). These companies provide a full range of financial services, including offshore banking, insurance, investment holding, trust, fund management and leasing.

"Specifically, we want to look at government-linked companies and big corporations which have overseas operations," Azizan said.

On Islamic finance, Azizan said the IOFC wanted to be at the forefront of the business and to be able to move forward in this area, it was important to have full legislation to govern the various sectors of Islamic financial services in the IOFC.

The Malaysian government has allocated RM120 million (US$33.18 million) under the Ninth Malaysia Plan for the development of the IOFC. The fund will be used for research and development activities, benchmarking exercises and the development of human capital.

NEWS BRIEFS

BAHRAIN

UGB expects 5% growth

Bahrain-based offshore investment bank United Gulf Bank (UGB) expects its 2006 net profit to grow nearly 5% from the previous year to a record US$85 million.

Chief executive officer William Khouri said this year's net earnings would grow from a record US$81 million achieved in 2005. For the first quarter of 2006, UGB posted a net profit of US$22.6 million, up 38% from the first quarter of 2005.

Mr Khouri said his bank had plans for medium-term borrowing in 2006 to further strengthen and lengthen the bank's funding profile, following the heavy demand from the US$175 million Murabahah Islamic financing facility issued in October 2005.

He highlighted that the bank's key achievements in 2005 included reaching assets under management of US$5.6 billion, and the plan for 2006 was to continue to build its network with investment companies in Tunis and Abu Dhabi.

UGB, the investment banking subsidiary of Kipco, manages a regional network of investment and asset management companies.

BAHRAIN

Bahrain Bay attracts Singapore money

Singapore-based CapitaLand Commercial and Integrated Development (CapitaLand) has signed a Memorandum of Understanding to acquire land and develop a US$600 million residential and retail zone within the Bahrain Bay development project, a joint venture between Arcapita Bank and a Bahrain-based investment group.

CapitaLand will form and lead a consortium in developing entertainment, retail and mixed use developments to transform this part of Bahrain Bay. CapitaLand joins hotelier Four Seasons Resorts and Hotels and Arcapita as the third anchor developer in this US$1.5 billion project off the north-east shore of Manama.

BAHRAIN

GFH posts US$57m profits

Gulf Finance House (GFH)'s net profit for the first quarter of 2006 reached US$57 million, an increase of 75% on last year. Total assets increased by 133% to US$1.28 billion, while shareholders' equity grew by 110% to US$524 million.

"The first three months of the year witnessed the achievement of a number of major milestones. These include an increase in the bank's total capital to US$391 million following the successful closure of the rights issue and regulatory approval to list our shares on Dubai Financial Market," said GFH chairman Dr Fuad Al Omar.

He added that towards the end of the first quarter, GFH launched Qatar Finance House (QFH) in co-operation with Qatar Islamic Bank.

MALAYSIA

RUSD to launch Islamic fund

RUSD Investment Bank (RUSD) plans to launch a US$200 million Islamic fund which will be invested in Malaysian properties. RUSD chairman, Saleh Jameel Malaikah, said the group was looking to launch in June, close in August, and to commence operations in September.

RUSD investment bank is sponsored by Takaful firms in the Middle East and is a member of the RUSD Group in Saudi Arabia.

Apart from the real estate fund, the investment bank also plans to develop a fund which will be invested in the Malaysian stock market and a private equity fund.

NEWS BRIEFS

UAE (Dubai)

IXIS to operate at DIFC

IXIS Corporate & Investment Bank (IXIS) has received a DFSA licence to operate out of the Dubai International Financial Centre (DIFC). IXIS holds a banking licence under French law and offers a combination of optimal security and excellent ratings in capital markets.

Part of the Groupe Caisse d'Epargne of France, IXIS becomes the first French investment bank to take advantage of the growing opportunities and liquidity in the Middle East and North Africa.

Charles Stauffer, who will act as senior executive officer and develop the bank's business, commented that operating within the DIFC offered the group a comfortable platform to be closer to its clients in the region.

MALAYSIA

Offshore players for Labuan IOFC

The Labuan Offshore Financial Services Authority (LOFSA) is actively encouraging offshore players to continuously strengthen the operating environment in the Labuan International Offshore Financial Centre (IOFC).

Chairman Dr Zeti Akhtar Aziz said LOFSA would continue to enhance the supporting and enabling environment, increasing the potential for Labuan IOFC in the high-growth Asia Pacific region.

Zeti said for the Labuan IOFC to stay ahead of the competition and remain at the forefront of change to overcome future challenges, offshore players needed to capitalize on the favourable business environment to offer a diverse range of innovative and high quality products and services.

"We believe the Labuan IOFC is moving on the right path to be your preferred offshore financial centre by remaining focused on quality and regarded as a high-end offshore jurisdiction," she said (see full article on Labuan, page 9).

BRUNEI

Joint law venture to advise HSBC

A joint law venture between Allen & Overy and Shook Lin & Bok has been appointed to advise HSBC on the development and implementation of Brunei's Ijarah based Islamic debt program, as well as the first issue of a US$95.3 million debut Islamic Sukuk issue.

The Allen & Overy/Shook Lin & Bok team in Singapore advising HSBC comprises partner Mr Kenneth Aboud and associate Ms Cheam Li-Shenn.

Mr Aboud commented that they were very pleased to have advised on this significant transaction, adding that it once again demonstrated the group's leading position and expertise in Islamic financing.

"It is further evidence of our ability to advise on complex structured finance transactions which at the same time are Shariah compliant," he noted.

NEWS BRIEFS

QATAR

QIB restructuring approved

Qatar Islamic Bank (QIB)'s new structure has been approved by the board of directors. Under the new structure the managing director, the executive committee, the Shariah Control Board (Religious Supervisory Committee) and the executive president (formerly general manager) will report directly to the bank's board of directors.

The risk, audit and policies committees will be reporting to the managing director, while the business, operations, risk, financial control and operations and communications teams will be reporting to the executive president. The retail services, corporate services, investment, credit analysis and control and business development will be reporting to the business team, headed by Abdullatif Al Mir (see Moves section).

Abdullatif Abdullah Al Mahmoud, QIB managing director, said the new structure aimed to boost staff capabilities, ensure optimal business and customer services ability.

GENERAL

IDB in Palestine and Morocco deals

The Islamic Development Bank (IDB) has signed six financing agreements amounting to more than US$170 million with the Palestinian Authority and Morocco.

A US$10 million loan finance agreement was signed with Dr Samir Abu Esha, Minister of Planning in the Palestinian Authority Government, for establishing 12 schools. Another agreement was signed with the Palestinian Minister for US$4.4 million loan finance from Al Aqsa and Al Quds Funds for expanding and accommodating 11 schools.

Meanwhile, three financing agreements were signed with the Moroccan National Bureau for Electricity. These include US$10 million in loan finance for participating in extending electricity supply to 158 villages located in four Moroccan regions; and two agreements amounting US$46.21 million for participating in electric network projects for supplying electricity in Morocco. A US$100 million agreement was also signed with Jalal Ba Amir, President of Samir Company, in Morocco for importing crude oil from member countries.

SAUDI ARABIA

US$37.5m deal signed by SHIC

The Saudi Health Investment Company (SHIC) has signed a landmark agreement with Injazat Capital's Shefa Healthcare Fund (Shefa Fund) where the former will invest US$37.5 million in private equity capital into the fund and gain three seats on the fund's board of directors.

The US$100 million Shariah compliant Shefa Fund has also entered into a tie-up with a prominent Saudi group – Al Mashafi Group of Hospitals – gaining a majority stake in two of the group's hospitals in exchange for stock that it hands to the Al Mashafi Group.

Widening its regional operations, the Shefa Fund has recently signed Memoranda of Understanding with five hospitals in Lebanon, Egypt and Jordan, laying the ground for further serious negotiations with the hospitals concerned.

UAE (Dubai)

Emirates profits soar by 123%

The Emirates Bank Group announced a 123% increase in net profits to Dh603 million (US$164 million) for the first quarter of 2006, compared to Dh270 million (US$73.51 million) in the same period of 2005.

Increased IPO activity in the period led to an increase in the bank's total assets to Dh147.9 billion (US$40.27 billion) on the 31st March 2006, up from the December 2005 level of Dh59.3 billion (US$16.14 billion). The bank collected Dh86.7 billion (US$23.61 billion) on account of IPO share applications.

Islamic financing and investment products increased by 57% to Dh3.8 billion (US$1.03 billion) from Dh2.4 billion (US$650 million) in the previous quarter.

MALAYSIA

Maybank to issue bonds

Maybank will issue RM1.5billion (US$415 million) of Islamic subordinated bonds with a tenure of 12 years through private placement. This will be the second Islamic subordinated bond issuance from Maybank. The proceeds raised will be used to fund the bank's Islamic financial activities.

Maybank will have the option to redeem the bonds on the 7th anniversary or any semi-annual date thereafter. Should the bank not exercise its option to redeem, the bondholders will be entitled to a permissible step-up profit rate from the beginning of the 8th year to the final maturity date.

NEWS BRIEFS

RATINGS NEWS

MALAYSIA

AA1 for Segari's Sukuk

Rating Agency Malaysia (RAM) has assigned a long-term rating of AA1, with a stable outlook, to Segari Energy Ventures (Segari)'s RM930 million (US$258 million) Sukuk Ijarah. This Sukuk will be used to refinance Segari's existing private debt securities.

The assigned rating reflects Segari's strong business fundamentals: the company has been charting a commendable and predictable annual revenue of between RM1.2 billion (US$332 million) and RM1.5 billion (US$416 million) for the last five years.

Segari is expected to maintain the stability of its revenue by virtue of its Power Purchase Agreement with Tenaga Nasional, which essentially guarantees a steady annual income from the power company, thus insulating Segari from demand risk.

KUWAIT

Kuwaiti banks to maintain performance

A report issued by Fitch Ratings has stated that the Kuwaiti banking sector will continue to benefit from the current high level of oil prices and positive business and consumer sentiment. These factors, alongside higher net interest margins, helped Kuwaiti banks to deliver strong earnings growth in 2005, Fitch's special report states.

"Kuwaiti Banks: 2005 Annual Review and 2006 Outlook," says that earnings growth will continue this year amid a buoyant local economy. However, while asset quality is not expected to deteriorate in the short-term, and coverage ratios are seen as remaining adequate, some risks have been building up in the property and stock markets, which will require close monitoring.

The Kuwaiti banking sector saw its net profit grow 34% year on year in 2005, when growing global demand for oil resulted in surging oil prices, leading to surplus liquidity in the Kuwaiti economy. The banks were significant beneficiaries of this influx of funds, with customer deposits growing 22%. Loan growth of 20% was higher than in the previous year (6%), when some banks saw their loan growth constrained by the new 80% loan/deposit ratio.

In 2005 higher interest rates translated into higher net interest margins, which boosted revenues. Despite the surge in consumer and commercial lending, credit quality held up well and credit losses were relatively benign.

MALAYSIA

Maybank's ratings reaffirmed

Malayan Banking (Maybank)'s general bank ratings have been reaffirmed at AAA/P1 by Rating Agency Malaysia (RAM).

Concurrently, Maybank's proposed RM1.5 billion (US$416 million) Islamic Subordinated Bonds have been assigned a rating of AA1. Along with the existing RM1 billion (US$277 million) Islamic Sub-Bonds, this has been earmarked for Maybank's Islamic financing activities, and represents part of the implementation of the bank's strategic capital management plan.

Meanwhile, the ratings of the bank's RM1 billion (US$277 million) Islamic Sub-Bonds and RM610 million (US$169 million) Sub-Bonds have been reaffirmed at AA1. All the long-term ratings carry a stable outlook.

MALAYSIA

ELITE's BAIDS upgraded

Rating Agency Malaysia (RAM) has upgraded the long-term rating of highway concessionaire Expressway Lingkaran Tengah (ELITE)'s RM800 million (US$222 million) Al Bai Bithaman Ajil Islamic Debt Securities from AA3 to AA2, with a stable outlook.

RAM's rating action is premised on the strong traffic growth on ELITE's highways and their strategic position. However, ELITE's credit strength is moderated by vulnerability to downturns in the travel and tourism industry, given that much of its overall traffic volume hinges on traffic to and from Kuala Lumpur International Airport.

MALAYSIA

Mieco MCP downgrade

Rating Agency Malaysia (RAM) has downgraded the AA3 long-term rating of Mieco Chipboard (Mieco)'s RM175 million (US$48.5 million) Al Murabahah Commercial Paper/Medium-Term Note Program (MCP/MMTN) to A1.

The short-term rating of P1 has been maintained, as has the negative rating outlook. The negative outlook reflects the increasingly challenging operating environment for the group. Further deterioration in the company's financial profile may exert additional downward pressure on the ratings of the MCP/MMTN.

The rating downgrade is premised on the group's shrinking profit margins due to the more challenging operating environment in the chipboard industry, as well as Mieco's weaker debt servicing ability. Strong demand for chipboard has resulted in a rise in production capacity in the South East Asian region, and this is expected to expand further in the near future.

NEWS BRIEFS

UAE (Dubai)

HSBC Amanah closes US$1.45b deals

HSBC Amanah has closed deals worth Dh5.32 billion (US$1.45 billion) in the GCC in the first three months of 2006. These include the Dh3.11 billion (US$850 million) five-year revolving Murabahah for Kuwait Finance House and the Dh2.2 billion (US$600 million) Islamic facility for the Rabigh Refinery and Petrochemical Project for Saudi Aramco.

"Project finance in the Middle East is growing at a great pace, which is an indication of the booming local economies. We find that a growing number of the related funding requirements are being structured according to Shariah," said Asad Zafar, managing director of the Asset Finance Advisory Group of HSBC Amanah.

On the Sukuk front, HSBC Amanah acted as advisor to the Government of Brunei on the establishment of its Brunei Dollar Short-term Sukuk Al Ijarah Program. The program, denominated in Brunei dollars, involves the issue of short-term Sukuk Al Ijarah and is the first Ijarah-based Islamic money market program ever implemented.

UAE (Dubai)

Tamweel to issue Sukuk

Tamweel has announced that it will issue internationally rated asset-backed securities (Sukuk) worth US$300 million in the third quarter of this year. The Shariah compliant transaction, one of the first internationally rated securitization programs launched in the region, will help promote the secondary mortgage system in the country.

"The main objectives of issuing these Sukuk are to further smooth tenor mismatch as well as optimize leverage from our balance sheet and we look forward to great demand for these Sukuk from the investors," Adel Al Shirawi, Tamweel's chief executive, said.

SAUDIA ARABIA

Sabic US$1b Murabahah

The Saudi Basic Industries Corporation (Sabic) and Deutsche Bank have signed a US$1 billion Murabahah agreement. Under the deal Sabic will be able to make use of various funding facilities to help finance its expansion projects and future investments.

The agreement comes as Sabic diversifies its funding sources and selects the financing facilities that best suit its business strategy.

RETAIL NEWS

UAE (Dubai)

EIB ties up with Al Majid Motors

Emirates Islamic Bank (EIB) has announced a tie-up with UAE Kia distributor Al Majid Motors. This agreement will mean that those purchasing Kia cars can obtain finance over 72 months, with the first installment payable after 90 days and no down-payment.

The offer is available on Opirus, Carnival, Cerato, Optima, Carens, Sorento and pick ups. The promotion ends on the 15th June 2006.

UAE (Dubai)

New DIB branch

Dubai Islamic Bank (DIB) has opened its first branch in Umm Al Quwain, raising its branch network to 28 branches nationwide. The new branch will offer a range of services including opening current, savings and investment deposit accounts, Murabahah and financing services.

The branch will also offer an advance banking service for women, to enable them to conduct all their financial transactions in an atmosphere that respects their privacy.

THIS TIME LAST YEAR

The **Syrian government** approved the draft Islamic banking law; Malaysia's **Finance Ministry** said the issuance of Islamic banking licences would not affect the government's policy to encourage consolidation in the domestic banking sector; **Bangladesh Bank** announced it would soon produce a set of policies and guidelines for an Islamic banking system; the first **Islamic Finance Summer School** was held in August in Davos, Switzerland, organized by **Davos Management Institute**, a newly formed joint venture between the **AIAK Group** and **REDMoney; World Bank** issued its first Islamic bond, a US$200 million Islamic debt securities; **Hong Leong Bank** formalized the transfer of its Islamic banking business to **Hong Leong Islamic Bank**; **Faisal Islamic Bank of Egypt** registered a 350% surge in net profits to US$3.1 million for the first quarter of 2005; Stuart Pearce was appointed CEO of the **Qatar Financial Center Authority**; the **Dubai Financial Services Authority** appointed David Knott as its new CEO; Malaysian and Qatari investors approached the **Securities and Exchange Commission of Pakistan** to spearhead Takaful in the country; **Dubai Islamic Insurance and Reinsurance Company** reported a net profit of US$460,000 for the first quarter of 2005, up from US$137,300 in the same period of 2004; and **Saudi Arabian Monetary Agency** announced the impending approval of eight more insurance companies, including Islamic insurance companies, to operate in Saudi Arabia, while 26 firms were asked to close down their offices.

Strategic Direction of Labuan IOFC

By Dr Zeti Akhtar Aziz

Introduction

A decade since its establishment, the Labuan International Offshore Financial Centre (IOFC) has evolved into a modern offshore financial centre that has matured and gained increased international recognition.

The establishment of Labuan Offshore Financial Services Authority (LOFSA) 10 years ago was a strategic move by the Government of Malaysia to streamline the administration and supervision of the IOFC. Indeed, its establishment not only significantly reduced bureaucracy and expedited the administrative processes for the businesses in Labuan IOFC, but has also contributed towards the significant development and growth of the IOFC. In 1996, a year after the establishment of LOFSA, the number of offshore companies incorporated in Labuan increased to 937, almost doubling the total in the first five years since the establishment of the IOFC in 1990. To date, we have more than 5,000 companies registered in the Labuan IOFC.

Of importance is that the Labuan offshore financial centre now provides the full range of financial services that include offshore banking, including investment banking, insurance and insurance-related services, investment holding, trust, fund management, leasing and factoring. Today, Labuan is home to top-ranked financial institutions that originate from more than 80 countries. Of importance also is the physical presence of the financial institutions in Labuan, indicating that Labuan is not a brass-plate jurisdiction.

With 59 international offshore banks, 112 insurance and insurance-related companies, 69 leasing companies, 19 fund managers and 20 trust companies, the Labuan IOFC offers a diversified range of innovative and high quality offshore products and services. In addition, the setting up of the Labuan International Financial Exchange (LFX) has further boosted the offshore business activities. A key component of the capital market, it allows for the listing and trading of financial instruments. The creation of the LFX complements the various financial services and activities that are offered and available in Labuan IOFC. Since its first listing in 2001 with market capitalization of only US$250 million, the number of listings on LFX has grown to 36 instruments issued by domestic and foreign financial institutions, comprising of investment funds, Islamic notes and debt securities that cumulatively have a total market capitalization of US$13.5 billion.

> "Currently, the total Islamic fund size in Labuan is more than US$600 million"

The LFX players include eight listing sponsors and four trading agents. LFX is expecting to issue more licences to listing sponsors and trading agents. It has recently issued a new licence to the first foreign financial institution as listing sponsor. Going forward, the aim is for LFX to provide quality services to the international capital market industry and offer itself as a platform for listing by international issuers, especially from the Asia-Pacific region.

Islamic finance centre

In the more recent period, the Labuan IOFC has developed as an active centre for Islamic finance, regionally as well as worldwide, and is now the home for innovative Islamic financial solutions. Several measures have been implemented to enhance Labuan IOFC's position in the area of Islamic finance. The necessary financial infrastructure for the development of Islamic financial services has been put in place in Labuan IOFC. The Shariah Advisory Council has been established to advise LOFSA on issues relating to the development of Shariah approved financial instruments in Labuan IOFC. The scope of responsibilities of the Shariah Advisory Council has now been expanded to cover endorsement of Islamic financial instruments submitted by offshore players.

The Council, which comprises Malaysian and international Islamic finance scholars, has endorsed several innovative Islamic financial products that have been offered out of Labuan, including cash waqf and captive Takaful. LOFSA has also issued the "Directive on Islamic Financial Business in Labuan IOFC" to facilitate offshore financial institutions with guidelines to ensure that the products and services offered are Shariah compliant. Another consultative body that has been established, the Task Force on Islamic Finance, provides recommendations from the practitioners' perspective on matters regarding Islamic financial markets and the development of Islamic finance in the Labuan offshore financial centre.

In terms of financial institutions, Labuan is the home for three Islamic banks, three Islamic investment banks, as well as two conventional banks with Islamic windows and four conventional banks with Islamic assets. The total Islamic assets, including that from Islamic windows, was US$709 million in 2005, constituting 3.9% of the total assets of the banking industry. Another area has been the growth of re-Takaful in the Labuan IOFC. Currently, the Labuan IOFC has four re-Takaful entities including two conventional reinsurers that have established re-Takaful divisions. With the participation of these re-Takaful windows, the capacity for Labuan in the re-Takaful business has increased substantially.

The Labuan IOFC also came to the forefront in Islamic product development with the issuance of the first global Sukuk (Islamic bond) out of Labuan by a Malaysian conglomerate and the sovereign Sukuk by the Government of Malaysia. Both Sukuk are listed on LFX. The issuance of these Sukuk in Labuan been followed by the proliferation of global Sukuk issued, amounting to US$13.6 billion worldwide. Islamic fund management activities have also expanded in Labuan. In 2005, two Islamic funds were set up in Labuan. Currently, the total Islamic fund size in Labuan is more than US$600 million.

The Asian Takaful Group, formed as a body to enhance greater co-operation among Takaful operators in Brunei, Indonesia, Malaysia, Singapore, Sri Lanka and Saudi Arabia, is now a global brand as the first Takaful and re-Takaful organization in the world. The Asian Takaful Group has now expanded to become the vehicle for co-operation among Takaful companies in Asia, with Labuan acting as the secretarial centre. Currently, the Asian Takaful Group has more than 20 members from more than six countries and its membership is growing.

At the international level, LOFSA has participated actively in the International Islamic Financial Market (IIFM). Linkages between Labuan and other Islamic financial centres such as Bahrain and Dubai

continued...

Strategic Direction of Labuan IOFC *(continued...)*

continue to be strengthened, thereby enhancing the financial flows between Labuan and the other financial centres.

A number of important factors account for the success that has been achieved thus far by the Labuan IOFC. The conducive business environment, the efficient tax regime, and the competitive cost of doing business have been among the important factors. In addition, adequate legislation and the relatively well-developed physical infrastructure have been important in facilitating this program. To a major extent this has been made possible by the extraordinary support and commitment by the Government. This support has been reinforced by the strong regulatory regime and supervisory systems that have been put in place by LOFSA to maintain confidence and to preserve the reputation of the offshore financial centre.

The development of Labuan IOFC is a long-term national agenda of the Government. More than RM3 billion (US$831.34 million) has been invested by the Government to provide the necessary infrastructure to facilitate offshore business and to meet the requirements of the offshore community in Labuan. Although Labuan is already well-endowed with many infrastructure and amenity facilities, the Government has continued to enhance the infrastructure, not only for the IOFC industry, but also for the tourism industry and other commercial activities in Labuan. These include the extension of the Labuan Airport runway, which is expected to be completed later this year, and the new Labuan International Ferry Terminal, which has recently just been opened. The Government's strong commitment is further reflected by an allocation for the first time under the Ninth Malaysia Plan amounting to RM120 million (US$33.25 million) for the future development of the Labuan IOFC.

Regulatory framework

An important precondition of the success of any offshore financial centre is the quality of its financial regulation. The regulatory framework for the offshore industry in Labuan is separate and independent of the domestic law of Malaysia. The regulatory and supervisory frameworks in place are based on international best practices. LOFSA also accords the highest priority in its enforcement efforts to ensure that the Labuan IOFC remains reputable and competitive. In addition, a high degree of co-operation with other regulatory regimes, including other jurisdictions, has been entered into. This is important given the strengthening of the international financial inter-linkages across financial centres in the current global financial system.

In Labuan there is a comprehensive legislation that is now in place to protect the rights and interests of investors and to fight against financial crime. The legal framework has also facilitated the introduction of new business in Labuan. To further diversify and widen the scope of business in Labuan IOFC, LOFSA introduced three further legislations in addition to the then five offshore legislations. They are the Labuan Offshore Trust Act 1996, the Labuan Offshore Limited Partnership Act 1997 and the Labuan Offshore Securities Industry Act 1998. With the introduction of these Acts, investors have wider options in selecting the most efficient structure to conduct their businesses in Labuan IOFC. The legal infrastructure in Labuan is therefore comprehensive to deal with all aspects of financial activity. To supplement the regulatory framework of the IOFC, LOFSA has also introduced several guidelines covering the areas of corporate governance, sound operational requirements and anti-money laundering measures.

Of equal importance as the regulatory framework is the regulatory institution. Strengthened, independent regulators are vital. Significant attention has therefore been accorded to strengthening the capability and institutional capacity of the Authority to not only to ensure high quality financial regulation and supervision, but also to drive the development of the offshore financial infrastructure. LOFSA has recognized the need to avoid an excessively bureaucrative environment that results in an undue regulatory burden. Steps have also been taken to improve the delivery system, in particular the efficiency of the approval process for applications under the legislations in the Labuan IOFC. In addition, a web-based electronic document submission system has been introduced to facilitate online registration of offshore companies.

The quality of the regulators is determined by the quality of the human capital. LOFSA has therefore upgraded its human development program to keep abreast with the continuous innovation of the offshore products and services.

Forward thinking

As LOFSA enters into its second decade, it is necessary to take stock and review the strategic direction going forward, to take account of the changes in the international financial landscape. The future financial environment can be expected to be increasingly competitive, more internationalized, subject to greater scrutiny, subject to demands for greater disclosure and transparency and the emergence of new international regulations and standards.

In this challenging environment, the strategic focus is on the areas of comparative advantage that build on existing strengths and distinct capabilities. The financial sector masterplan issued in 2001 outlines

continued...

Strategic Direction of Labuan IOFC *(continued...)*

a three-pronged strategy for the development of the Labuan IOFC: to promote and diversify further the financial players and activities in the IOFC; to develop and strengthen the capital market, e-commerce and the ancillary activities; and to promote the development of Islamic banking and re-Takaful business.

Offshore players are encouraged to invest in research and development and increase their product offerings in Labuan to attract more business volume. The volume of business conducted in the IOFC must be commensurate with the number of institutions. The offshore players are expected to play their roles in enhancing research and development to come out with more innovative products and services in Labuan. In addition, the industry needs to aggressively intensify its marketing efforts. The capital market in particular offers a strong potential for business growth in Labuan. The market is becoming more sophisticated with the introduction of highly structured products both in the conventional and Islamic modes. Labuan needs to capture the origination of these products with value-added elements integrated into these products.

LOFSA will also continue to leverage on ICT and technology to enhance the delivery capability in the Labuan IOFC to increase access to financial services through a wider range of delivery channels aimed at reducing costs and providing greater convenience.

In attracting more institutions into the Labuan IOFC, the focus of attention will be on developing greater depth and breadth in selected portfolios, business segments and geographical markets. In particular, the goal is to develop the Labuan IOFC for out-out business and to increase the non-resident business.

LOFSA will also constantly review the existing regulatory requirements to facilitate the growth of business in Labuan IOFC. The approval and supervisory processes will also be enhanced to make them more market-oriented. In this regard, LOFSA will embark on a comprehensive review of the legislative framework. In addition, to maintain the competitiveness and attractiveness of Labuan, LOFSA, together with the Ministry of Finance, will conduct a holistic review of the taxation structure for the IOFC.

Recognizing that the advanced development of Islamic finance in the domestic market is partly attributed to the existence of a specific legislation, LOFSA will be introducing a separate omnibus law to govern the various sectors of Islamic financial services in the Labuan IOFC. One of the components of Islamic financial services that has the potential to grow in Labuan is the re-Takaful business.

In this regard, LOFSA is developing the necessary operational framework, including guidelines, to facilitate more conventional reinsurance companies to establish a re-Takaful division in Labuan IOFC. At the same time, the existing fully fledged re-Takaful company is encouraged to increase its capacity to enable it to compete for global re-Takaful business.

To develop a high level of expertise in offshore financial activities, LOFSA is upgrading its human development program so as to keep abreast with the continuous innovation of offshore products and services. In addition, LOFSA is enhancing its structured program for human talent development at all levels to ensure the necessary expertise to enhance the effectiveness of LOFSA as an offshore authority.

Conclusion

We believe that Labuan IOFC is moving on the right path to be your preferred offshore financial centre by remaining focused on quality and regarded as a high-end offshore jurisdiction. LOFSA will continue to strengthen and enhance the supporting and enabling environment. In the centre of the high growth region of the Asia Pacific, the potential for the Labuan IOFC is tremendous.

For the Labuan IOFC to stay ahead of competition and remain at the forefront of change to overcome future challenges, offshore players need to capitalize on this favourable business environment to offer a diverse range of innovative and high quality products and services.

Offshore players in Labuan are encouraged to continuously engage in the consultative process to strengthen further the operating environment in the Labuan IOFC and to enhance the volume of business and performance of the Labuan IOFC in the next decade.

The presence of the offshore institutions operating in Labuan IOFC is a testimony to the conducive business environment of Labuan IOFC as the preferred financial hub.

LOFSA
LABUAN OFFSHORE FINANCIAL SERVICES AUTHORITY, MALAYSIA

The author is chairman of LOFSA.

This paper was presented at the Seminar on Labuan IOFC – The Preferred Financial Hub, held on the 2nd–3rd May 2006 in Labuan.

Riba al-Nasa: An Analytical Study (Part 2)

By Samir al-Amad

This is the second installment of a two-part article analysing riba al-nasa, the first section of which appeared in last week's issue of Islamic Finance news

Parties of riba (lender and borrower)

As was discussed in last week's issue, there are two points to be discussed here. The first is the idea of exploiting the needy, where the riba of old times is different from usury today, because it was between a wealthy lender and a poor borrower. The analysis of the second issue, which is riba of the old times being the same riba as practised today, will be based on the first point. The common idea of the two parties to usury as was practised in the old times are wealthy (lender), and needy (borrower); therefore logically the lender will not risk his money to give it to a poor person, who mostly may not be able to give it back over a rate of interest. That means the old interest loans prohibited by the Quran were between two rich wealthy parties in order to increase their wealth. This conclusion is deduced from the Quran:

> "Whatever riba you give to grow in people's wealth will not grow with Allah. And whatever Zakat you give for seeking Allah's pleasure those are the winners of multiple reward" (Al-Rum: 39)

The key point in this verse is "to grow in people's wealth," which denotes that the borrower is wealthy as well as the lender, so usury these days is exactly the same as in the old days, where the lender is the bank. Al-Suddi said that this verse was sent down because of Thaqeef usury, that they dealt in riba with Qurish and vice versa. Abu Muhammad al-Qadi said this verse may denote the prohibition of usury in trading and transactions (Ibn Atyya al-Andulsi (1985), Vol. 11, pp. 460–462).

The Quran confirms the ethical rationale of riba prohibition, and puts forward the substitution that the relationship between the wealthy and the poor is to give charity, or zero-interest loans (kard hasan). Obviously when we set up this result that usury is not a relationship between a wealthy lender and a needy borrower, the second issue will be refuted. Thus no one can claim that the rationale of usury prohibition, which is exploitation of the needy, is absent or the prohibition invalid (Tag el Din lecture, 2005:11).

Defenders of modern banking interest rate system

Exploitation of the needy through claims that the riba of old times was different from usury today because it was between a wealthy lender and a poor borrower has been exposed as an incorrect understanding. There is an important point based on this, which is that riba of the old times is the same riba as practised today. The defenders of the modern banking rate system argue that usury in the pre-Islamic period set up an inhumane exploitation of needy borrowers by wealthy lenders, while modern banking is free from this exploitative nature (Tag el Din lecture, 2005: 11). Tag el Din states that the consensus of all contemporary scholars is that usury and the modern banking interest rate are the same. However, this consensus is occasionally challenged. Borrowers at banking interest rate, it is argued, are productive entrepreneurs with strong economic standing, as opposed to borrowers of old times, who are best served through charity (2005: 11).

According to the Quran in the verse quoted above, the poor can be served by giving charity or lending at zero interest. Allah says: "Allah degrades riba and upgrades charity" (Al-Baqara: 276). The first verse projects the mechanism of usury as it is practised today – as the depositing of funds to grow through interest in people's wealth. It mentions that borrowers are wealth owners who wish to build more wealth through borrowing. Ultimately, the outcome of this analysis is that the usury of the old times which is prohibited in Islam is the same riba as practised today.

The difference between riba and interest

Arrif clarifies that the argument concerning the distinction between interest and usury in the late Middle Ages in Europe had its impact on some writers, who applied it to make a distinction between riba and interest, on the basis that interest is not regarded as riba as long as its rate is not usurious. There is a controversy over the differences between "al riba" and "interest." Khan makes it clear that there is no difference between forbidding riba and interest, as they are same. He defines interest simply as "it is any increase (large or small, nominal or real) received on a loan." Mannan has explained that if the meaning of riba is viewed in its correct historical perspective, there appears to be no difference between riba and interest. An overall view of all modern theories of interest has revealed that economists have failed to discover a clear answer as to why interest is paid. However, the Islamic theory of capital does recognize the share of capital in national

wealth only to the extent of its contribution, to be determined as a variable percentage of profits, rather than the fixed percentage of capital itself.

Concerning this issue, Khan has commented that this claim does not deserve serious attention, because it is clearly stated in the Quran that at the expiry of the time limit of the loan, the lender is only permitted to receive his principal, without any addition. Actually this distinction does not have any theoretical base, but it is more or less a pragmatic attempt to "Islamize" the un-Islamic situation existing today in Muslim countries.

Islamic banks and usury

The theoretical framework of Islamic banking reviews how Islamic banks operate on the basis of profit, which can be achieved in three areas: trading, leasing and direct financing in profit loss sharing (PLS) contracts (Al-Omar and Abdul Haq, 1996: 23).

Ahmad illustrates that interest in all modern banking deals and transactions falls under riba (al-nasa), about prohibition of which there is consensus of Ummah. Production/commercial loans did exist at the time of prophet (peace be upon him), that involved riba al-nasa, or interest in different forms. Oweiss has commented that interest leads to ever-increasing shares of risk-free capital vis-à-vis risk-based equity capital, resulting in failures in business, unemployment, and finally in gross inequalities of income and wealth that are bound to end up in social strife and economic chaos.

Conclusion

The prohibition of interest is a matter concurred upon not only by Islam, but all revealed religions and most of the ancient philosophers. Prohibition of usury in the Quran and Sunnah is clear: no one can challenge it. Allah says: "In order that it does not become a fortune used by the rich among you" (Al-Hashr, 59: 7). Therefore, charging of a pre-determined and fixed rate of interest on loans for productive purposes cannot be justified morally. Justice requires the capital provider to share the risk. The consensus of all contemporary scholars is that usury and the modern banking interest rate are the same and prohibited.

There is controversy over the difference between "al riba" and "interest." However, Khan makes clear that there is no difference between riba and interest; they are same. The Islamic theory of capital recognizes the share of capital in national wealth only to the extent of its contribution, to be determined as a variable percentage of profits, rather than the fixed percentage of capital itself. Interest in all modern banking deals and transactions falls under riba (al-nasa), which is prohibited. Production and commercial loans did exist at the time of prophet (peace be upon him), which involved riba al-nasa, or interest in different forms.

The author can be contacted at: 54 Leicester Road, Markfield, Leicestershire, LE67 9RE, UK. Email: samiralamad@yahoo.com.

References are available on request from the author.

Meet the Head

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

Name: Badlisyah Abdul Ghani
Position: Head
Company: CIMB Islamic
Based: Kuala Lumpur
Age: 32
Nationality: Malaysian

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

I have had an interest in Islamic banking since I was at secondary school. I decided to do law as I believe that in order to do Islamic banking, you must understand legal matters.

After I graduated I joined Bank Islam in Labuan, which provided me with an opportunity to learn how cross-border transactions were carried out. Then, in mid-2002, I joined the Islamic capital market division with the corporate finance section of CIMB, and within a week I was called to discuss the setting up of an Islamic arm of the bank and that materialized – CIMB Islamic.

Despite being the head of CIMB Islamic, I have also been appointed to my current position as the chief executive officer of Commerce Tijari Bank, a member of the CIMB Banking Group.

What does your role involve?

I oversee all Islamic transactions within the CIMB group.

What is your greatest achievement to date?

My greatest achievement has been to contribute to the development of the global Islamic capital market. I was involved in the first Sukuk issuance in the world by Kumpulan Guthrie even before the government or other issuers started it. In fact, it became the template for the other issuers.

Which of your products/services deliver the best results?

Sukuk is very near to my heart as I was involved with the first Sukuk in the world. As such Sukuk will always be the best products among the other competitive products or services, especially when the government has resolved the tax issues on Sukuk.

What are the strengths of your business?

In most organizations, the Islamic banking department does not have any management control over the department. In CIMB, we started as an independent business division of the bank, operating like a separate bank. Other institutions with Islamic banking windows, although they have a separate balance sheet, are still not run independently. At CIMB, we manage separately. From there we can have the control over how things are handled; we can decide what products we are selling, the quality, etc. In other institutions if the products do not sell, the management scrap them.

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

Factors contributing to the success of CIMB Islamic:

1. Strong commitment from senior management.
2. Strong commitment of the shareholders.
3. Strong commitment of the staff.

What are the obstacles faced in running your business today?

In any jurisdiction, obstacles will be regulatory in nature. The main one being man-made rules, which actually complicate the whole process. In one transaction you have to take care of tax, land law and so on and so forth. More often than not, we will be stuck with the regulatory framework.

To convince regulators is another obstacle. They need to be educated. We have to start explaining from scratch to resolve an issue and repeat the same issue with another department, even within the same organization. That is slowing down the process.

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

At par with conventional banking products in terms of quality and competitiveness, but not so much in terms of market share, as Islamic banking has just started as compared to its conventional counterpart. The industry will definitely grow.

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

Islamic finance should be the proxy to the Islamic economy and not looked at in isolation. Harping on about Islamic finance will only make it grow, but sooner or later it will stop because the body, i.e. the Islamic economy itself, is not there.

CIMB Islamic

CIMB has the largest in-house dedicated Islamic capital market team in Malaysia, and one of the largest in South East Asia, overseeing all areas relating to Islamic financial transactions. It is a dedicated Islamic financial solutions boutique offering investment banking products and services in compliance with Shariah.

CIMB Islamic is responsible for CIMB Group's Islamic finance business onshore and offshore and aims to develop a comprehensive system and range of products for our clients. CIMB Islamic also recognizes the importance of the role of financial institutions in developing the Islamic finance industry and is committed to research and product development.

Is Islamic Hedge Fund an Oxymoron?

A hedge fund is basically a mechanism to invest in or speculate on whatever you want. Commodities, futures, energy, securities, pencil sharpeners if you wish. But the key issue in alignment with Islamic finance is the ownership and speculative nature of hedge funds in general.

However, I do believe there is a way. Regardless of how a security or equity is held, or a debt is assigned, its value will fluctuate. While many suggest that Shariah tries to remove the "speculative" nature of an investment and revolves more around ownership, the use of Islamic bonds and other such instruments clearly have a "value" that fluctuates. The issue really comes down to whether you can have a fixed income and a capital gain on the hedge if it is implemented in Shariah.

I think with a basket of equities or assets that generate income, and some other components that might fluctuate and give a capital gain – a Islamic hedge might be possible. It would just need to be that when the investor buys into the hedge fund, they are only guaranteed 80% of their principal back or something similar. Anything beyond that would be a capital gain.

BRETT KING: *VP – International American Academy of Financial Management*

Maybe it is easiest to consider the phrase Islamic hedge fund in its three component parts.

First – Islamic – which in its widest sense mandates the sharing of risk and reward to the exclusion of interest earning activities, together with prohibitions on a number of investment sectors that need not be reiterated here. Aside from these exclusions, Islamic investors may be encouraged to invest in activities that have a reasonable balance between risk and reward, always taking into consideration individual investors' particular circumstances.

Secondly – Hedge – it follows that a reasonable approach to investment will involve a number of different asset classes, maturities and investment objectives – essentially hedging the risks that would stem from over-exposure to one particular sector, strategy or maturity. Hedge funds typically do just that, spreading risk and endeavouring to mitigate the volatility that occurs from time to time in most financial markets.

Finally – Fund – Collective investment schemes are part of the bedrock of Islamic investment, combining the wealth of many Muslims to be invested more efficiently.

So why the hysteria when the three words are combined? Probably because hedge funds are presumed, rightly or wrongly, to consist only of highly leveraged investments that make money for their investors by shorting financial instruments using financial derivative instruments to achieve this. Some may, others do not. Thus it is particularly important to study each potential "hedge fund" investment carefully to assess the strategy, investment instruments and operational structure objectively.

Any effort to develop Shariah compliant structures that prevent Islamic investors being placed at a disadvantage to others should be applauded. If conventional wisdom is to call such structures Islamic hedge funds, so be it. More importantly, flexibility of thought combined with innovative structures that nevertheless adhere absolutely to the Shariah is essential to the future of Islamic finance.

JAMES HUME: *Omega Group*

There are many empirical examples of Islamic hedge funds developed by reputable asset managers. Clearly, utilizing the basic Islamic contracts (in this case arbun or salam), it is possible to effectively develop Shariah compliant alternatives for long/short strategies and, provided there is sufficient demand, to also change prime broker agreements. The question of whether Islamic hedge funds are an oxymoron is therefore moot.

Perhaps the real issue is whether the Islamic investor has an appetite for such products. Should resources be allocated in merely replicating secular products, or should innovation be focused on providing products that capture the essence of Shariah compliant investing through Mudarabah and Musharakah based contracts? I very much vote for the latter.

YAVAR MOINI*: Senior manager of Islamic structured finance, Dubai Bank*

Is Islamic Hedge Fund an Oxymoron?

If there is one question which sums up the self-deluded and surreal world of current Islamic finance, it is this one.

A submarine is a beautiful piece of engineering: a triumph of man's ingenuity and ability to master the world in which he lives by travelling swiftly and silently beneath the waves. But its purpose is malign: it exists to sink ships, or, worse, to launch nuclear missiles. So it is with the Islamic hedge fund.

It is a triumph of financial engineering and sophistry: but its purpose, I submit, is fundamentally un-Islamic. Because an Islamic hedge fund, like all of its kin, exists for the sole purpose of making money out of money.

An "Islamic hedge fund" is an oxymoron which serves as an extreme example of the underlying truth that Islamic finance, as currently practised, is a "halal window on a haram palace" where money is an object, created as debt by "credit institutions" as a multiple of their capital base.

It is depressing but unsurprising that the Islamic finance industry should choose not to question this "fractional reserve banking" money creation, because it makes them so much profit. However, they should be aware that the monetary system which they use is both mathematically unsustainable and the direct cause of the global imperative for "economic growth" which is consuming our planet.

There is another path, and the industry should follow it, where:

- Money has no "cost" other than that of shared administration and defaults.
- Money is based upon assets rather than a claim over them.
- Value is co-operatively created rather than competitively extracted.
- Risks and rewards from investment are shared equitably.

I live in hope.

CHRIS COOK: *Principal, Partnership Consulting LLP*

Durham University

Arguably the ideals of Islam, implying Shariah compliance, and the traditional activities of hedge funds, involving speculative short selling, are indeed contradictory, and those who attempt to promote such funds, as implied in the word oxymoron, are at best foolish, and possibly morons, this referring to not only the simple-minded, but also the degenerate.

Hedge funds have become an increasingly wide asset class, however, and if funds are engineered on the basis of forward trading transactions, which imply delivery, then these may be legitimate. The devil is in the detail.

The problem is that hedge fund managers do not want to disclose the detail. Disclosure to a small committee of Shariah scholars may be insufficient, as the issues need to be debated by the wider Islamic finance community, including those leading Shariah scholars well versed in the complexities of financial derivatives.

As western equity markets have been performing well in recent years, and especially in 2005 and 2006, the attraction of hedge funds based on these markets is minimal at present. Islamic hedge funds could, however, be a potentially interesting asset class in the increasingly volatile markets of the Gulf, but at present there are none. If some emerge it might be better if they were differently designated, one possibility being "arboun funds," the parallel in this case being with Sukuk securities versus conventional bonds or floating rate notes. This would eliminate the unfortunate "oxymoron" designation.

PROFESSOR RODNEY WILSON: *Director, University of Durham*

Next Forum Question

How independant should the regulatory bodies be from the organizations they are representing?

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 17th May.

Takaful news
www.islamicfinancenews.com

MALAYSIA

Bank Rakyat eyes stake in Takaful Malaysia

Bank Kerjasama Rakyat Malaysia (Bank Rakyat) is considering taking a substantial stake in Syarikat Takaful Malaysia (Takaful Malaysia) to boost its income from fee-based services. The co-operative bank is keen to grow the Takaful business as it faces rising competition in its vital lending business.

There was an invitation for Bank Rakyat to buy a stake in Takaful Malaysia, although the bank has yet to give an answer. It seems that the bank has approached other Takaful players, including Takaful Ikhlas and Takaful Nasional. Bank Rakyat was believed to be interested in a 30% stake, although it is thought that Takaful Malaysia was only offering a 20% stake.

Bank Rakyat would have to pay some RM83 million (US$22.96 million) for a 30% stake in Takaful Malaysia, based on a price earnings multiple of 10 times for the latter's 2005 net profit of RM27.6 million (US$7.64 million).

Bank Rakyat managing director Kamaruzaman Che Mat previously announced that the bank planned to venture into Islamic insurance this year to boost income.

UAE (Dubai)

Demand for Takaful to rise

The global demand for Takaful and re-Takaful products and services is expected to grow significantly over the next five years, with the market value increasing from Dh6.23 billion (US$1.7 billion) to between Dh27.5 billion (US$7.5billion) and Dh36.7 billion (US$10 billion), according to the chairman of the Islamic Arab Insurance Company (SALAMA).

Sheikh Khaled bin Zayed bin Saqr Al Nahyan said: "The last 12 months have been exceptional for the company. Not only was the IPO a major success, but we also acquired a majority stake in Tariic (Bahrain) and Best Re, the world's largest re-Takaful company, which has expanded our geographical footprint to include the North African market specifically in Egypt, Algeria, Senegal and Tunisia." SALAMA plans to diversify its product base by introducing health Takaful and family Takaful in all markets, he added.

The company posted a net profit of Dh65 million (US$17.7 million) for the first quarter of this year, an increase of 20% over the profit recorded for the fourth quarter of 2005. Its shareholders approved a 10% stock dividend payout at the recent annual general meeting.

SINGAPORE

AMPRO launches Takaful schemes

AMPRO Holdings Singapore (AMPRO), in partnership with United Overseas Insurance (UOI), a member of United Overseas Bank, has launched three Takaful schemes focusing on motor, domestic help and travel cover.

AMPRO chairman Yang Razali Kasim said that although it comprised mainly of volunteers and entrepreneurs, the organization had been at the forefront of the country's Takaful development. He acknowledged that the partnership with UOI reflected strong confidence in Takaful in the region, noting that the industry was taking root in Muslim countries throughout the world, including neighbouring Malaysia.

David Chan, managing director of UOI, said the group streamlined its business infrastructure, committed resources and customized products to serve ethical needs, noting the success of its Hajj Takaful product, where more than 50% was taken up by Singaporeans, prompting the group to offer a new Umrah product.

UAE (Dubai)

AMAN IPO

The Dubai Islamic Insurance and Reinsurance Company (AMAN)'s IPO has been fixed on the 25th May 2006 in an effort to increase the capital from Dh60 million (US$16.34 million) to Dh200 million (US$54.45 million) without any subscription fees. The IPO will be done through offering 14 million shares worth Dh10 (US$2.72) each.

Announcements and sending invitations to shareholders will continue for a month starting from the 25th May. The subscription will allow for one payment only.

BAHRAIN

BisB, Takaful International tie-up

Bahrain Islamic Bank (BIsB) has signed a Memorandum of Co-operation with Takaful International to provide social and Takaful security for its employees and their families. The insurance covers death for any reason and total disability resulting from illness or accident.

The bank's chief executive Yousuf Saleh Khalaf has written to all the bank's employees thanking them for their outstanding efforts and contributions that resulted in a 99% increase in the bank's profits in 2005. In recognition of these efforts the new benefit of Takaful life insurance for all employees was offered.

Takaful – Recommendations for the Islamization of the Insurance System in Pakistan, Part I

By Abdul Rahim Abdul Wahab

This is the first section of a three-part article looking at Takaful opportunities in Pakistan. The second section of this piece will appear in next week's issue of Islamic Finance news.

Introduction

The concept of Takaful is becoming popular in Pakistan, with a number of existing as well as new players seriously considering entering the area. These are the signs of a great change, where Shariah compliant insurance solutions could finally be available to over 145 million Muslims in the country.

The scope of this paper is to cover the potential opportunities and obstacles in setting up a Takaful-based insurance company in Pakistan. Different Takaful models prevalent amongst the international Takaful operators have been discussed and the approach evolved in the country by Shariah scholars has also been presented. Finally, some practical recommendations have been made which should go a long way towards encouraging the effective development of a Takaful-based insurance system in the country.

The current trend in the financial sector is towards introduction of Islamic financial products. A number of such instruments require that the assets be insured through an Islamic insurance company if one is available. Moreover, there is a large potential market which does not insure its assets or take personal life insurance for religious reasons. At the moment all insurance companies are based on conventional insurance practices and there is a real need for some Islamic insurance companies in the market.

The country

Pakistan is a very large country with a population of over 148 million people, of which almost 98% are Muslim. Its economic indicators have shown improvements over the last couple of years and the insurance industry has been showing fairly healthy growth.

The insurance market

The insurance sector in general is highly under-developed in the country in terms of market penetration. Less than 2% of the population is covered under any kind of life insurance plan. On the general insurance side it is felt that other than the large public sector or private sector listed companies who insure their assets, most small businesses are not insured (other than where mandated by law, such as in the marine business). Personal insurance, such as for personal property, motor vehicles, family health, etc, hardly exists, barring where required by law (for instance in the case of leased cars, which has become a very fast growing market), or where provided by the employer, such as group life and health insurance. There could be a number of reasons for this low penetration in the insurance sector.

These may include:

(i) Lack of effort by insurance companies to expand their services in a wider context, most companies concentrating on core businesses in major cities only.
(ii) Lack of trust in the insurance sector, in terms of claim-paying practices.
(iii) Low level of awareness of the concept of insurance.
(iv) Religious reasons, as all insurance companies are based on conventional principles.
(v) Cost reasons, as businesses cannot afford the extra costs related to insurance.
(vi) Low level of savings in general, resulting in less people buying life insurance.
(vii) Low returns by life insurance companies, resulting in other financial instruments being used for savings.
(viii) Lack of tax incentives.
(ix) Lack of demanding consumers.

Opportunities

General Takaful

The business figures for the industry for 2002 indicate a total market premium of about Rs11.5 billion (US$191.54 million), with 42 companies operating. Of this amount almost 92% is written by the top 10 companies. The growth in the industry premium has been around 12%–15% p.a. in the last three years. A 5% switch of the existing insured to Takaful companies could mean a premium income of over Rs600 million (US$9.99 million). Achieving this would naturally take time, as the concept of Takaful is new and it may take some time before people start becoming aware of this alternative and accept an alternative system.

The National Insurance Company Limited (NICL) underwrites government business with premiums of around Rs2.5 billion (US$41.64 million). With pressure on the government to permit this business to open competition, this represents another potential market which Takaful operators can explore with government support.

Reinsurance terms have become tighter due to worldwide events, resulting in higher premiums for the industry and ultimately the consumers. Consumers are concerned and look for alternative solutions for commercial reasons as well.

A fairly significant portion of businesses and individuals do not insure themselves due to non-compliance of the conventional insurance contracts to Shariah principles. More importantly, a Takaful company may cater to the needs of Islamic financial institutions, which currently have no option but to insure through conventional means. Further demand is likely to arise from commercial banks, which have been permitted to operate Islamic finance windows. Also, leasing companies (especially car Ijarah contracts) may provide potential customers who would like to insure on a Takaful basis. A Takaful company will thus complete a vital link in the development of the Islamic financial system.

There is no way of determining the size of the untapped insurance market which would like to insure Islamically if a Shariah compliant insurance alternative was available. A crude way of looking at this may be that even if 10% of the existing insured market is without insurance for religious reasons, this represents a very large potential of over Rs1.2 billion (US$19.99 million) in premium income for just general insurance needs. Personal lines business such as health, motor, homeowners and personal accident may have more potential to grow, as individuals may have more religious concerns when insuring their personal losses (which are not required and the need is not felt), as opposed to business losses.

An international Takaful study indicated market potential for Takaful in Pakistan to be Rs4.5 billion (US$76 million) for 2015. To achieve this would certainly require a great deal of effort and dedication in promoting the concept and implementation in spirit.

The return of surplus to the consumers under Takaful contracts is a big

continued...

Takaful – Recommendations for the Islamization of the Insurance System in Pakistan, Part I *(continued...)*

attraction for consumers in other countries. Consumers are attracted to the Takaful system because of its fairness and not just for religious reasons. This has been seen in Malaysia, where many non-Muslims are Takaful clients.

This all indicates a sizeable market for General Takaful companies to come up with Shariah compliant solutions for the masses, which are also commercially viable for those who offer these solutions.

Family Takaful (life insurance)
The life insurance market has grown fairly rapidly over the past five years, with private sector life insurance companies now being allowed to operate in the country. There are six life insurance companies with a total premium income for 2002 of about Rs11.2 billion (US$186.54 million). Of this, individual life policies account for over 175,000 new policies being issued each year with a annual premium income of Rs1.9 billion (US$31.65 million). Renewal of old policies for over 1.8 million policyholders accounted for Rs7.2 billion (US$119.9 million) in annual premium income. Further, more than 7.2 million individuals were covered under group life contracts through their employers paying a annual premium of Rs2.1 billion (US$34.98 million).

The above figures may seem impressive, but indicate a vast potential market where only a very small segment of the market is insured under individual policies. A large segment of the market remains untapped due to religious concerns relating to insurance. Family Takaful based on Shariah compliant principles can fill this gap to some extent.

Group life and health insurance contracts are widely used by employers to cover their employees' losses relating to death, disability and medical expenses. Such contracts covering more than 7.5 million individuals can very easily be offered on a Takaful basis.

The success of Islamic banks in terms of attracting large amounts of funds on a Shariah compliant basis clearly indicates a thirst for financial rewards (savings) and protection (insurance) on a Shariah compliant basis. Both these objectives can be achieved through Family Takaful plans.

Need is the mother of invention. Product innovation generally takes place when there is pressure from consumers on the industry to provide alternative solutions. It is therefore the responsibility of the consumer to demand Shariah compliant products if they wish insurance companies to come up with such products.

Obstacles

General Takaful
Legal aspects (Takaful Rules/Shariah Board)
As per the Insurance Ordinance 2000, "Takaful" means a scheme based on mutual assistance in compliance with the provisions of Islamic Shariah, and which provides for mutual financial aid and assistance to the participants in case of occurrence of certain contingencies, and whereby the participants mutually agree to contribute to the common fund for that purpose.

There are at this stage legal obstacles in the establishment of a Takaful operator. Takaful rules need to be developed so that a Takaful operator can be given permission to operate under the guidelines of those rules.

There would also be a need to have a central Shariah Advisory Board, with which SECP would need to take advice prior to the approval of products and other documentation filed by insurance companies.

Consumer mindset
Consumer mindset has become such that consumers tend to try to recover the premium that they have paid to an insurance company. A number of malpractices have crept into the system because of this mindset. Changing this could be a major challenge for a Takaful operator. It would need to ensure that like the conventional system, compromises do not creep into the system due to pressure from clients. It may be important for a Takaful operator to avoid insuring such consumers, as they can affect the credibility of the Takaful system and compromise operational controls.

Malpractices
The insurance industry is plagued with a number of malpractices in its operational practices. The reasoning for this, as mentioned above, has much to do with consumer mindset. However, the insurance industry has also accepted many compromises as a matter of routine in the thirst to protect its business. This includes settlement of false or ex gratia claims, kickbacks, back-dating of policies and many others. All of this means that the cost of protection ultimately becomes more expensive to the consumers. It is a standard practice of the industry to look more leniently at claims when they relate to a large client (or

continued...

Takaful – Recommendations for the Islamization of the Insurance System in Pakistan, Part I *(continued...)*

clients with favourable loss experience), and more strictly when it comes to a small individual client. Ex gratia claims are similarly settled for business considerations (under pressure by clients), resulting in higher loss ratios than otherwise would be the case. A senior executive related to the insurance industry indicated that a claims ratio could be lowered by at least 10% (if not more) if such practices were controlled. Once insured, the claims process should be independent of the loss ratios or business interests, as insurance by definition is for contingent events.

It needs to be understood that with a conventional insurance company, the underwriting surplus/deficit goes to the shareholders, as such a company is run as a normal business entity with profits and losses being the basic objective. However, settlement of ex gratia claims still results in higher premiums being charged, as the overall experience of the portfolio worsens.

For a Takaful company however, it needs to be remembered that a Takaful operator is effectively a trustee on behalf of the participants, and is managing the pool on their behalf. In such a case, therefore, if claims are settled which are not payable as per the contract terms, or different practices are followed for different people for business considerations, it amounts to breaking the trust. A Takaful approach, if implemented in spirit, would ultimately benefit the consumer by lowering the cost of protection on a Takaful basis by way of reduction in up-front cost (premium), as well as by way of return of surplus to the consumers.

Window products

A major obstacle that might be faced by a Takaful operator is by conventional companies naturally trying to protect their business. It is likely that conventional companies would come up with Takaful-based products to protect their business interests, especially if they see Takaful becoming successful. Major industry players have never introduced Takaful-based products, but it now appears that there is a degree of concern and companies are considering developing window products to be available should their clients require such a product, due to the increased awareness of the Takaful system.

It is desirable that the regulators should ensure that the Takaful industry is given a chance to establish itself and grow. It is therefore suggested that at least for a period of three to five years, General Takaful products should only be permitted by Takaful operators established as separate companies. I believe that it would be extremely difficult (if not impossible) to be able to implement a true Takaful operational system if it is operated as a window operation within existing conventional companies. This is unlike Islamic banking, where the changes primarily relate to documentation and windows may be able to operate with strict guidelines, the implementation of which is yet to be seen. What is at stake here is the credibility of the Takaful system being injured by non-serious operators bringing in products to protect their business interests, but not being able to follow and apply the Takaful concept of mutuality.

A Takaful operator with a dedicated operation would hopefully be seen by the public as a better alternative than a conventional insurer having both products. International experience indicates less than 5% of Takaful business is from window operations. The rest is all from dedicated Takaful operations. Further, countries like Malaysia and the Middle East have also not allowed conventional insurers to introduce Takaful products; they require a separate Takaful company.

In either case, very strict and detailed guidelines and operational practices would need to be set out for Takaful operators so that the system is used to get more people to protect themselves from various commercial and personal risk exposures which they are unable to in the absence of a Takaful operator. This would only happen if they really see this alternative as different and credible.

Investment aspects

Investment rules would need to be framed to allow for Shariah compliant investment options, but with limitations to protect the Takaful funds from being invested in highly risky alternatives.

Investment avenues in Shariah compliant investments are still limited. With more Islamic banks and window products likely to be available in the future, it is hoped that this critical obstacle may be overcome. State Bank would soon need to come up with Shariah compliant bonds or other instruments so that Takaful operators are able to apply the funds generated by their operations. For the State Bank deposit requirement, State Bank may consider a Takaful operator investing in an approved and reasonably secure Islamic financial institution with a link to State Bank, unless it comes up with its own instruments.

For a Takaful company, it is all the more essential to ensure that within Shariah compliant investments, a Takaful operator acts prudently in investing in different Shariah compliant investments. It would therefore be essential to ensure that suitable percentages are defined as limits on each type of investment, considering the risk profile of various Shariah compliant instruments.

Family Takaful

Some of the obstacles covered above are equally applicable to Family Takaful plans. The issues which deserve separate attention are discussed here.

Investments

Investment issues are all the more relevant to a Family Takaful operator as more funds accumulate, due to renewal premiums on long-term plans and consumer expectation of better returns on their investments. Different guidelines for these funds would also need to be adopted which should reflect the product features and the statutory funds to which the assets would belong.

Window products

It is suggested that window products for Family Takaful plans should be permitted. The reason for this being that it is much more difficult to develop a Family Takaful business in terms of its infrastructure needs, such as distribution capacity, as well as creating a large enough need, due to the stronger public perception of life insurance being un-Islamic. It may, therefore, be relatively difficult for a new company to come in with Family Takaful plans as its only business, especially with a larger capital requirement.

Further, the issues related to malpractices, etc, especially on the claims side, would not be a major obstacle on the life side (as the event primarily insured is the death of a person). It is therefore suggested to allow Family Takaful products to be launched by existing life insurance companies with strict guidelines defined in terms of operational practices and surplus distribution policies.

The author is a Fellow of Society of Actuaries and executive director of Sidat Hyder Morshed Associates. He can be contacted by email on: abdul.rahim@pk.ey.com.

MOVES

DIFC – UAE (Dubai)

A new board of directors has been appointed by the Dubai International Financial Centre (DIFC) for the DIFC Authority, which develops the strategy of the DIFC. The previous board, having overseen the creation and initial operational period, has reached the end of its scheduled tenure.

David Eldon has been appointed to be chairman of the new board. Mr Eldon is a former chairman and CEO of HSBC. The DIFC Authority's new deputy chairman is Abdulaziz Abdulla Al-Ghurair, the CEO of Mashreqbank.

The other board directors are Sameer Al Ansari, CEO of Dubai International Capital; Hussain Al Qemzi, CEO of Sharjah Islamic Bank; Cyrus Ardalan, Vice-Chairman of Barclays Capital; Assem O. Kabesh, chief business development officer at the DIFC; and Essa Kazim, director general of the Dubai Financial Market.

In addition, Dr Omar Bin Sulaiman, the director general of the DIFC Authority, has been appointed as chairman of DIFC Investments, which oversees the investment strategy of the DIFC.

DENTON WILDE SAPTE – UAE

Denton Wilde Sapte has promoted Rahail Ali to a new role as the firm's first global head of Islamic finance. Rahail, who joined Denton Wilde Sapte in 2001 and previously worked in the firm's London office, is now a senior equity partner in the firm's Dubai office.

He has worked on some of the most prestigious Islamic financings to date, including advising the underwriters on the landmark US$3.5 billion PCFC Musharakah Sukuk; advising on the inaugural Sukuk for the Government of Dubai and the Government of Qatar; and advising the underwriters on the US$550 million Sukuk for Emirates, amongst other high profile transactions.

DEUTSCHE BANK – Malaysia

Deutsche Bank has appointed Yusoff Hassan to be head of cash management corporates, Malaysia, within its global transaction banking (GTB) division, based in Kuala Lumpur.

Yusoff comes to Deutsche from HSBC Bank Malaysia, where he was division head for payments and cash management sales.

QATAR FINANCIAL CENTRE AUTHORITY BOARD – Qatar

Dr Hussein Ali Al-Abdullah has been appointed as the deputy chairman to the Qatar Financial Centre Authority Board.

HSBC – Malaysia

HSBC Malaysia has appointed Faizah Khairuddin as its new senior manager in services and product management. Ms Faizah will drive HSBC's personal financial services banking products and wealth management, and oversee customer services.

Ms Faizah has held a wide variety of posts within the finance and manufacturing industries, which has equipped her with extensive experience spanning retail banking, Islamic banking, customer service and product management.

In addition, Currim Oozeer has been appointed by HSBC Amanah Malaysia as its Asset Finance Advisory Group's head of Asia origination. Mr Oozeer, who was previously based in Dubai, will oversee HSBC Amanah's investment banking activities in the Asian region.

EXIM BANK – Malaysia

Kamal Mohd Ali is tipped to become the new chief executive officer of Export–Import Bank of Malaysia (Exim Bank) as early as next month. Mr Kamal, 46, is currently the general manager of corporate and institutional banking at Bank Islam Malaysia, which he joined last year. Before that he was with Bumiputra-Commerce Bank.

It is believed that Mr Kamal will be assisted by Mohd Noordin Abbas, the bank's chief operating officer.

Exim Bank provides medium to long-term credit to promote exports of Malaysian goods and services, with an emphasis on non-traditional markets.

OASIS LEASING – UAE (Abu Dhabi)

Oasis Leasing International has promoted Salem Rashid Al Noaimi to the position of deputy CEO from his former position as director of business development and investor relations. Al Noaimi, a UAE national, is a graduate of Northeastern University with a BA in Finance and International Business.

Simon McLean has been promoted to the role of chief operations officer. Formerly leasing director, McLean holds a MBA degree from the University of Leicester.

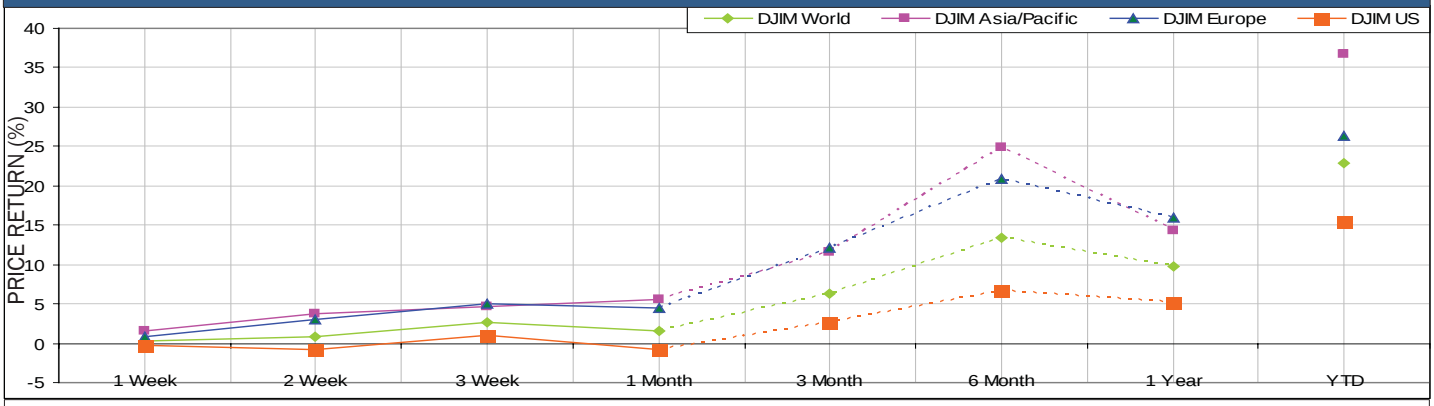
QATAR ISLAMIC BANK – Qatar

Abdullatif Al Mir has been appointed to head the business team of the newly structured Qatar Islamic Bank. Retail services, corporate services, investment, credit analysis and control and business development will all be reporting to him.

DOW JONES ISLAMIC MARKET INDEXES

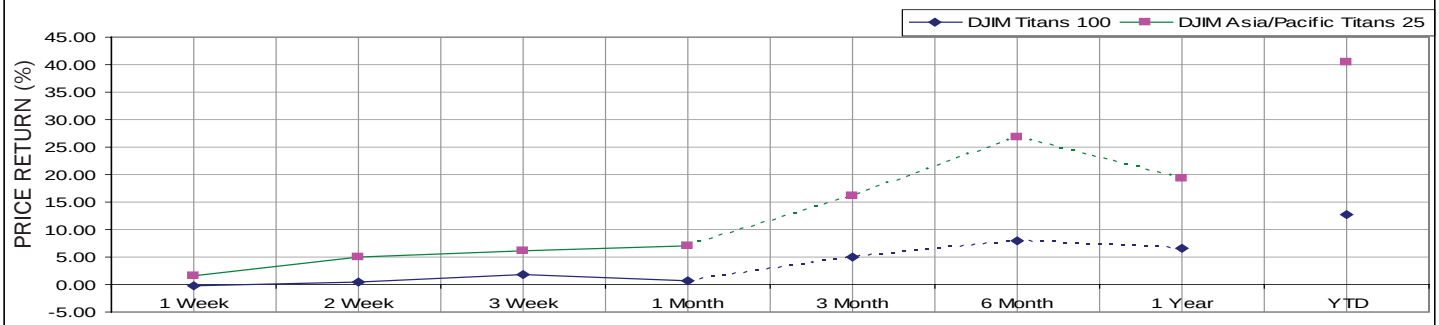
Data as of the 3rd May, 2006

PERFORMANCE — **PRICE RETURN (%)**



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	0.36	0.82	2.68	1.55	6.36	13.33	9.74	22.84
DJIM Asia/Pacific	1.53	3.80	4.57	5.57	11.57	24.95	14.30	36.81
DJIM Europe	0.75	3.07	4.94	4.43	12.04	20.86	15.93	26.43
DJIM US	(-0.28)	(-0.89)	1.01	(-0.89)	2.58	6.63	5.28	15.33

PERFORMANCE — **PRICE RETURN (%)**



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	(-0.18)	0.47	1.82	0.73	5.03	7.99	6.60	12.83
DJIM Asia/Pacific Titans 25	1.53	4.97	6.06	7.14	16.03	26.86	19.34	40.48

DESCRIPTIVE STATISTICS

Index	Component number	Market Capitalization (US$ billions) Full	Float-adjusted	Mean	Median	Largest	Smallest	Component Weight (%) Largest	Smallest
DJIM World	1944	14,612.2	12,664.3	6.5	1.6	389.4	0.0	3.07	0.00
DJIM Asia/Pacific	721	2,404.6	1,780.2	2.5	0.7	84.9	0.0	4.77	0.00
DJIM Europe	261	3,538.5	2,915.2	11.2	2.6	254.1	0.3	8.72	0.01
DJIM US	693	7,527.9	7,149.7	10.3	2.9	389.4	0.2	5.45	0.00
DJIM Titans 100	100	7,046.8	6,423.3	64.2	48.6	389.4	6.4	6.06	0.10
DJIM Asia/Pacific Titans 25	25	843.0	606.9	24.3	19.2	71.0	6.4	11.69	1.06

Mean, median, largest, smallest and component weights are based on float-adjusted market capitalization, not full market capitalization.

Bondweb MALAYSIA

MALAYSIAN ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET: FORTNIGHTLY SNAPSHOT

AS AT 28th Apr 2006

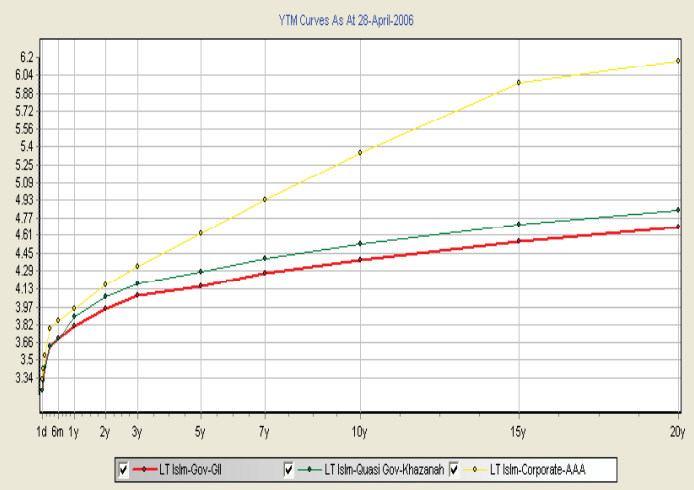
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	21 Apr 06 (RM)	14 Apr 06 (RM)	7 Apr 06 (RM)
Private Debt Securities					
PLUS 0.00000% 16.06.2017 – SERIES 2	AAA (RAM)	52.01	51.99	52.48	53.02
PLUS 0.00000% 17.06.2016 – SERIES 1	AAA (RAM)	55.51	55.87	56.98	57.52
PENANG BRG 0% 31.03.2017 – Tranche 4	AA2 (RAM)	55.48	50.72	50.90	52.00
PLUS PRIMARY BONDS SERIES 5 – 31.05.2007	AAA (RAM)	101.35	101.28	101.69	101.71
HUBLINE 7.55% 23.12.2011	A2 (RAM)	103.71	102.95	103.40	103.48
Government Investment Instruments					
PROFIT BASED GII 1/2006 14.04.2009	n/a	99.65	99.30	99.99	n/a
Quasi Government					
IFC 2.880% 13.12.2007	n/a	98.34	98.33	98.46	98.58
KHA1/04 1.15B 0 CP 5Y 18.09.2009	n/a	86.72	86.73	87.95	88.01
KHA1/05 1B 0 CP 5Y 18.01.2010	n/a	85.08	85.43	86.69	86.73

SPREAD VS GII (in b.p)

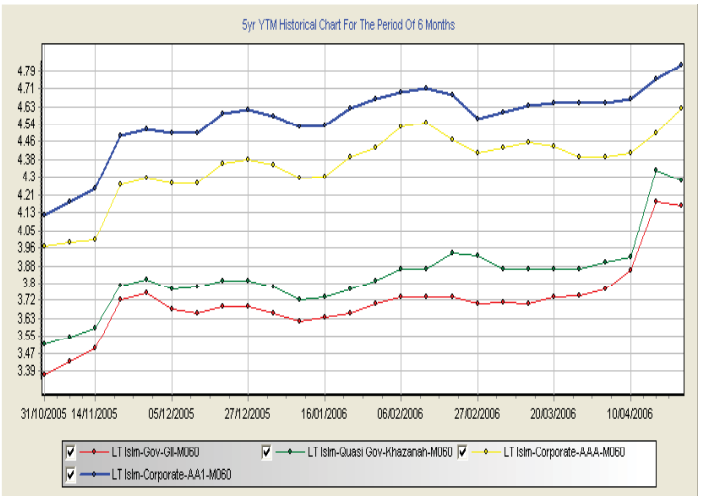
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.8	3.96	4.07	4.16	4.27	4.39
Cagamas	0.26	0.26	0.28	0.36	0.42	0.44
Khazanah	0.09	0.1	0.11	0.12	0.13	0.14
AAA	0.16	0.21	0.26	0.46	0.66	0.96
AA1	0.26	0.36	0.46	0.66	0.85	1.17
A1	1.05	1.23	1.45	1.96	2.41	2.92

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 — MAY 2005 – MAY 2006

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	PCFC Development	UAE	Convertible Sukuk	3,500	2	29.8	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	953	1	8.1	Malaysian Government bond
3	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	777	11	6.6	Cagamas, AmMerchant
4	Rantau Abang Capital	Malaysia	Musharakah MTN	594	1	5.1	CIMB, AmMerchant
5	Emirates Airlines	UAE	Sukuk Al Musharakah	550	1	4.7	Dubai Islamic Bank, HSBC, Standard Chartered
6	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Bond	542	6	4.6	CIMB, HSBC, ABN AMRO, AmMerchant
7	Islamic Development Bank	Saudi Arabia	Islamic Bond	500	1	4.3	Deutsche, HSBC
8	PLUS Expressways	Malaysia	Serial Bai Bithaman Ajil Islamic Securities	349	4	3.0	CIMB
9	Syarikat Bekalan Air Selangor	Malaysia	Bai Bithaman Ajil Commercial Papers/ MTN	273	4	2.3	CIMB, Bank Islam Malaysia, HSBC
10	Maybank	Malaysia	Islamic Subordinated Bond	265	1	2.3	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	2.1	AmMerchant, RHB Sakura, Malaysian International Merchant Bankers, Bank Muamalat Malaysia
13	Putrajaya Holdings	Malaysia	Murabahah MTN	235	4	2.0	Alliance Merchant, CIMB, RHB Sakura
14	DRB HICOM	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	209	11	1.8	AmMerchant, Malaysian International Merchant Bankers
15	Konsortium Lebuhraya Utara Timur (KL)	Malaysia	Redeemable Secured Serial Sukuk Istisnah	207	9	1.8	CIMB
16	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN Facility	163	13	1.4	Malaysian International Merchant Bankers, AmMerchant, RHB Sakura, Bank Muamalat Malaysia
17	Ranhill Power	Malaysia	Islamic MTN Program	142	12	1.2	Aseambankers
18	Sistem Penyuraian Trafik KL Barat	Malaysia	Al Bai Bithaman Ajil Notes Issuance Facility	136	5	1.2	United Overseas Bank (Malaysia)
19	WAPDA First Sukuk Co	Pakistan	Sukuk Al Ijarah	134	1	1.1	Citibank NA (Pakistan), Jahangir Siddiqui & Co, MCB Bank
20	Antara Steel Mill	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	133	6	1.1	AmMerchant
	Total of issues used in the table			**11,731**	**299**	**100.0**	

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	31.9	Malaysian Government bond
2	Rantau Abang Capital	Malaysia	Musharakah MTN	594	1	19.9	CIMB, AmMerchant
3	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	592	8	19.8	AmMerchant, Cagamas
4	Putrajaya Holdings	Malaysia	Murabahah MTN	235	4	7.9	Alliance Merchant, CIMB, RHB Sakura
5	WAPDA First Sukuk Co	Pakistan	Sukuk Al Ijarah	134	1	4.5	Citibank (Pakistan), Jahangir Siddiqui & Co, MCB
6	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	3.6	CIMB, HSBC
7	BNM Sukuk	Malaysia	Sukuk Al Ijarah	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
10	IJN Capital	Malaysia	Sukuk Musharakah	27	5	0.9	RHB Sakura
11	Harum Intisari	Malaysia	Murabahah Commercial Paper/MTN Program	27	1	0.9	HSBC
12	UEM Builders	Malaysia	Murabahah Commercial Paper/MTN Program	27	1	0.9	AmMerchant
13	Maxtral Industry	Malaysia	Islamic bond	22	4	0.7	OSK Securities
14	Instacom SPV	Malaysia	Murabahah MTN	13	6	0.4	Utama Merchant Bank
15	Pharmaniaga	Malaysia	Murabahah Commercial Paper/MTN Program	9	3	0.3	RHB Sakura
16	Nam Fatt Corp	Malaysia	Murabahah Islamic Commercial Paper/MTN Program	7	1	0.2	Hwang DBS Securities
17	Leader Universal Holdings	Malaysia	Murabahah Commercial Paper/MTN Program	3	1	0.1	United Overseas Bank (Malaysia)
18	Goodway Integrated Industries	Malaysia	Murabahah MTN	3	1	0.1	Amanah Short Deposits
19	Touch Matrix	Malaysia	Murabahah MTN	1	1	0.0	KAF Discounts
	Total of issues used in the table			**2,986**	**53**	**100.0**	

ISLAMIC LEAGUE TABLES

ISLAMIC DEBT				MAY 2005 – MAY 2006
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Dubai Islamic Bank	1,933	3	16.5
2	Barclays Capital	1,750	2	14.9
3	CIMB	1,610	54	13.7
4	Malaysian Government bond	1,061	2	9.0
5	HSBC	1,006	19	8.6
6	AmMerchant	819	47	7.0
7	Cagamas	645	10	5.5
8	Aseambankers	542	40	4.6
9	RHB	316	57	2.7
10	Standard Chartered	308	27	2.6
11	Deutsche	275	3	2.3
12	United Overseas Bank	267	24	2.3
13	EON Bank	206	34	1.8
14	Bank Muamalat Malaysia	179	49	1.5
15	Affin Merchant	136	17	1.2
16	Alliance Merchant	132	14	1.1
17	OCBC	111	26	0.9
18	Bank Islam Malaysia	91	4	0.8
19	Avenue Securities	52	3	0.4
20	Citigroup	45	1	0.4
21	Jahangir Siddiqui & Co	45	1	0.4
22	MCB Bank	45	1	0.4
	Total of issues used in the table	**11,731**	**299**	**100.0**

ISLAMIC DEBT BY COUNTRY			MAY 2005 – MAY 2006
	Amt US$ m	**Iss.**	**%**
Malaysia	7,012	59.8	292
UAE	4,050	34.5	3
Saudi Arabia	500	4.3	1
Pakistan	134	1.1	1
Indonesia	36	0.3	2
Total	**11,731**	**100.0**	**299**

ISLAMIC DEBT BY CURRENCY			MAY 2005 – MAY 2006
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	7,012	59.8	292
US dollar	4,550	38.8	4
Pakistan rupee	134	1.1	1
Indonesian rupiah	36	0.3	2
Total	**11,731**	**100.0**	**299**

ISLAMIC DEBT				YEAR–TO–DATE
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Malaysian Government bond	1,061	2	35.5
2	Cagamas	592	8	19.8
3	CIMB	525	12	17.6
4	AmMerchant	324	2	10.8
5	RHB	115	12	3.8
6	HSBC	81	2	2.7
7	Alliance Merchant	81	5	2.7
8	Citigroup	45	1	1.5
9	Jahangir Siddiqui & Co	45	1	1.5
10	MCB	45	1	1.5
11	Amanah Short Deposits	27	6	0.9
12	OSK Asia Securities	22	4	0.7
13	MIDF-Sisma Securities	13	6	0.4
14	Hwang-DBS Securities	7	1	0.2
15	United Overseas	3	1	0.1
16	KAF Discount	1	1	0.0
	Total of issues used in the table	**2,986**	**53**	**100.0**

ISLAMIC DEBT BY COUNTRY			YEAR–TO–DATE
	Amt US$ m	**Iss.**	**%**
Malaysia	2,852	95.5	52
Pakistan	134	4.5	1
Total	**2,986**	**100.0**	**53**

ISLAMIC DEBT BY CURRENCY			YEAR–TO–DATE
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	2,852	95.5	52
Pakistan rupee	134	4.5	1
Total	**2,986**	**100.0**	**53**

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
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
22nd – 23rd	Asian Islamic Finance & Investment Management Conference 2006	Jakarta	Events Actually
June			
1st	International Centre for Education in Islamic Finance	Kuala Lumpur	INCEIF
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	Kuala Lumpur	ABF Asia
August			
21st – 22nd	Islamic Banking & Finance Conference	Singapore	ABF
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

Published every Thursday (50 issues per year)

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

Yes! I would like to subscribe to Islamic Finance News

INDIVIDUAL SUBSCRIPTION

- ◯ 1 Year at US$525 net*
- ◯ 2 Years at US$920 net*

COMPANY WIDE SUBSCRIPTION

- ◯ 1 Year at US$2,250 net*
- ◯ 2 Years at US$3,600 net*

(Max: 10 Individual Subscriptions)

Each subscription will receive:

- **50 issues of Islamic Finance News available every Friday.**
- **Exclusive login details for each subscriber.**
- **Unlimited access to the archived library of all past issues**
- **All additional supplements, guides and reports.**

***Exclusive Corporate Subscription packages are available. Contact us today!**

YOUR DETAILS

Full Name

(First Name) (Surname)

Company Name

Designation

Address

.....

.....Postal/Zip.....

Country.....

Work Email

Telephone

Fax

PAYMENT METHOD

☐ By Cheque:
Please make cheques payable to Red Money . .

☐ By Telegraphic Transfer (T/T):
Account Name: Red Money . .
Account No: 2 14129 00 19527 7 (Malaysian Ringgit)
Account No: 6 14129 00 00574 3 (US Dollars)
Swift Code: RHBBMYKL
Bank Name & Address: RHB Bank Berhad, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Please send your T/T advice with this form to us either by post or fax. **ALL TELEGRAPHIC TRANSFER FEES ARE BORNE BY THE SUBSCRIBER.**

HOW TO ORDER


+603 2143 8100


+603 2141 5033


Geraldine.Chan@IslamicFinanceNews.com


7A, Bangunan Angkasa Raya, Jalan Ampang 50450 Kuala Lumpur, Malaysia

The information you provide will be safeguarded by RedMoney . ., whose subsidiaries may use it to keep you informed of relevant products & services.
☐ Tick here if you do not wish to receive further Islamic Finance related information.

Company Index

Country Index