# Islamic Finance news

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## SAUDI ARABIA

### ABG to launch IPO, part 2

Albaraka Banking Group (ABG) is preparing to launch the second stage of its Initial Public Offering (IPO) within the month, having obtained the approval of the Dubai International Financial Centre (DIFC) for listing in the Bahrain and Dubai financial markets.

One of the largest IPOs in the GCC region, it comprises two stages, the first of which has been successfully completed – a US$400 million private placement exercise.

Commenting on the IPO, Adnan Ahmed Yousif, CEO of ABG, said that the subscription would enable them to strengthen the capital of the group's banks in Turkey, Egypt, Algeria and Jordan, in addition to facilitating new regional and market expansion.

The participation of Emirates Bank Group as a strategic shareholder is also a representation of an added value in the group's shares, Mr Adnan claimed, adding that given the substantial weight Emirates holds in the financial markets and Islamic banking, its participation would create a positive impact on shareholders' equity in both groups.

## KUWAIT

### KFH opens Al-Adaliya branch

Kuwait Finance House (KFH) has opened its 38th branch in the country in Al-Adaliya, in line with its expansion strategy.

Kuwaiti minister of finance Badel Al-Humaidhi said that Islamic banking services have become a major financial sector of the market and demand for this sector was rapidly increasing. This acknowleded that KFH was able to compete on international standards with highly qualified and trained workers.

## MALAYSIA

### Regulators to host Issuers and Investors Forum

Bank Negara Malaysia, in collaboration with the Securities Commission of Malaysia (SC), the Labuan Offshore Finance Services Authority (LOFSA) and Bursa Malaysia, will host Malaysian Islamic Finance – Issuers and Investors Forum 2006 (MIF).

Focusing on the Malaysian Islamic financial markets, this two-day event is scheduled for the 14th and 15th August 2006 at the Mandarin Oriental Kuala Lumpur.

Produced by Islamic Finance events, this event has been devised to be like no other with a groundbreaking format – the first day is exclusively devoted to issuers and the second to investors.

In announcing the event, managing director Andrew Morgan said: "Additionally, unlike many other events, participation is by invitation only with no fee charged for delegates, there will be no presentations or sales pitches, it will focus on the practical side of the industry and delegates will leave with a fuller understanding and their questions answered."

He continued that with the full support of the regulators, including the Central Bank governor, Dr Zeti Akhtar Aziz, superior panellists from around the world are guaranteed. Professor Rifaat Ahmed Abdel Karim, the Secretary General of the Islamic Financial Services Board (IFSB) has also confirmed his full support for this event and will be providing one of the keynote addresses during the program.

In this issue

# Note from the Editor

As Islamic finance is growing rapidly, so the quality of financial reporting, disclosure and transparency in the sector has also come under greater scrutiny. Calls have been made for greater standardization of auditing and accounting standards, as well as reporting and presentation of financial statements.

There are some similarities between Islamic finance and its conventional counterpart, but also key differences. While the two systems can co-operate and interact, as there is already growing co-operation in this respect, it would be dangerous to suggest that for Islamic finance to become "mainstream," all that needs to be done is Islamize the conventional structures and practices.

Western credit rating agencies have flatly refused to develop a rating methodology and criteria for Islamic institutions, instead arguing that the current methodology and criteria for conventional banks would suffice.

While explaining the core rating factors of Moody's Investor Service, real estate finance managing director John J. Kriz commented that these factors also apply to Shariah-based institutions, with some modifications depending on the nature of the business and the modus operandi of such products and services. The core rating factors include liquidity and funding, leverage and capital structure, market position and asset quality, profitability and cash flow sustainability, internal and external operating environments.

However, financial disclosure practices among Islamic financial institutions (IFIs) still fall short of international best practice. This is partly due to IFIs largely being active in emerging markets, which generally have low financial disclosure with minimal disclosure obligations. Surprisingly, regulators of some Middle Eastern countries do not include rating as a requirement, but creditworthiness is an important element in investment analyses.

This should not be an excuse for the International Islamic Rating Agency (IIRA) to stay dormant since its inception in 2000. After several announcements which have not been acted upon, the Bahrain-based rating agency has again announced that it expects to have around 15 ratings under its belt by the end of the year, including both Shariah and conventional credit ratings. It is much hoped that this time it is for real.

On another note, the popularity of Islamic finance has led to a number of predominantly non-Muslim populated countries establishing Islamic banks, or revisiting regulations to accommodate Islamic banking. On page 13, we feature an update on Islamic finance in Australia, where certain areas of improvement are suggested. These include the organizational structure, assessment and decision-making on applications. It is interesting to see that the author highlighted the fact that organizations have to accept that many or most Muslims in Australia are not well-informed on Islamic finance. He suggests that offering informal education on this issue can be a prudent marketing strategy.

Speaking of informal education, law firm Lee Hishamuddin Allen & Gledhill deserves a pat on the back for initiating a luncheon talk on the global direction of Islamic finance by Mustafa Hussain of London-based Taylor Wessing and Dr Mohd Daud Bakar of the International Institute of Islamic Finance. This commendable effort of the law firm in educating the general public, who are craving for such knowledge, should be applauded.

Zakariya Othman, Editor

# NEWS BRIEFS

## BAHRAIN

### Islamic funds in Bahrain up 20%

Islamic investment funds in Bahrain have increased by about 20% in the past five years, almost reaching the US$1 billion mark.

Bahrain Monetary Agency (BMA) governor Al Maraj said that Islamic funds represented one-eighth of the total US$8 billion registered funds in Bahrain, adding that the country – which already served as a major offshore banking centre in the Middle East – also wanted to generate a higher profile in Islamic finance.

The global Islamic finance market is currently estimated at between US$300 billion and US$400 billion, attracting both Muslim and non-Muslim clients.

## MALAYSIA

### Two new Islamic REITs expected

Two Islamic real estate investment trusts (REITs) are expected to make their debut on Bursa Malaysia this year, having submitted their applications to the Securities Commission (SC).

Unconfirmed rumours report that the Permodalan Nasional (PNB) group and Kumpulan Guthrie, the plantation turned property development arm of the Malaysian conglomerate, were the two companies in question.

SC chairman Zarinah Anwar said the commission had received two Islamic REITs applications that met the requirements outlined in the guidelines issued last November. She believed that Islamic REITs will create another avenue for foreign investors to invest in Shariah compliant products in Malaysia.

However, CIMB equity capital market unit associate director Azhar Mohd Zabidi said the weak performance of REITs prices was due to the inadequate size they offered, high tax structures and low gearing ratio limit requirements. Mr Azhar noted that despite the higher distribution yield offered compared with other regional REITs, interest in the local REITs was not there. The distribution yield of local REITs ranged from 5.89% to 7.16% for the current calendar year, compared with the estimated 5% for most regional REITs.

## MALAYSIA

### DJ–RHB Islamic Malaysia Index Fund

RHB Unit Trust Management (RHBUT) has launched the first fund in Malaysia that tracks the Dow Jones–RHB Islamic Index. Priced at RM1 (US$0.277) during the initial period (up to 31st May), the minimum initial investment is RM1,000 (US$277) – or US$1000 if the investment in made in US$.

CEO Michael Tan said with a size of RM500 million (US$140 million), the fund would enable investors leverage on the expertise and experience of the international brand name of Dow Jones in selecting the Shariah compliant stocks to provide maximum return potential. According to RHB Securities CEO Dr Zaha Rina Zahari, the current number of 40 stocks in the Dow Jones–RHB Islamic Index would be increased to about 60 stocks by the end of the year.

In other developments Dow Jones Indexes has pledged to assist Malaysia in making the country the Islamic Index hub, so it could be a point of reference for Islamic indices around the world. Its Islamic group global director A. Rushdi Siddiqui said the collaboration with RHB Group in developing the Dow Jones–RHB Islamic Malaysia Index last year was a good start.

## SINGAPORE

### Singapore set for IIIF

The 10th International Islamic Finance Forum (IIFF), which is due to take place in Singapore on the 12th–15th June 2006, has invited an array of expert international Islamic finance specialists to deliver an extensive, bespoke program for the launch of IIFF Asia.

The first for the Asia-Pacific region, IIIF Asia will focus on Islamic asset management and has allocated more than 20 hours of networking time for leading business figures, finance experts and government ministers to discuss key issues relevant to the region. Over 40 top industry speakers have so far confirmed their availability.

The forum program has been specifically tailored towards the interests of the region, featuring in excess of 20 in-depth sessions covering a wide range of topics, including alternative forms of investment in the Asia-Pacific region, the rapidly changing private banking landscape and retail issues.

## UAE (Dubai)

### DCA closes US$1 billion deal

The Dubai Department of Civil Aviation (DCA) has completed a US$1 billion 3-year Ijarah facility, with Dubai Islamic Bank (DIB) appointed as the mandated lead arranger to spearhead the funding of the development and expansion of Dubai International Airport.

The eight other lead arrangers are Standard Chartered Bank, ABN Amro, Deutsche Bank, WestLB, Development Bank of Singapore, Societe Generale, Depfa Bank and DZ Bank.

Dr Mohammad Khalfan Bin Kharbash, UAE Minister of State for Finance and Industry and chairman of Dubai Islamic Bank, said that the participation of these eight banks from around the world reflects the strength of Dubai's presence in the international capital markets, and the maturity of Islamic financial solutions.

This is the second major partnership that DIB and DCA have embarked on, following the successful arrangement of a US$1 billion Sukuk in 2004.

## BOSNIA

### Bosna Bank partners Misys group

Bosnia-based Bosna Bank International (BBI) has partnered Dubai's Misys Equation Islamic and Misys Trade Innovation to help expand the reach and capabilities of its retail banking operation and its trade finance services for corporate customers. It is the first bank in Bosnia and Herzegovina to be based on Shariah principles.

The bank is planning to double the number of retail branches within the country while adding new channels to its retail banking offer, such as internet and telephone banking. The fully integrated system will be installed at the bank's head office in Sarajevo, from where it would be rolled out across the branch network.

Acknowledging Misys Banking Systems' excellent track record in helping Islamic banks to cater to their customers needs, he said that he was convinced that the partnership will help strengthen the bank's trade finance operation.

# NEWS BRIEFS

## QATAR

### Markaz to operate at QFC

Kuwaiti company Markaz has obtained a licence to open a branch office at the Qatar Financial Centre (QFC).

General manager Manaf Alhajeri said the licence was an important milestone in Markaz's strategic regional expansion and in developing closer relationships with its clients, adding that Markaz could play an active role in Qatar's financial services sector through its wide spectrum of advisory services in the asset management and investment banking areas.

He added that Markaz had expertise in the real estate and energy sectors and was also reputed for structuring conventional and Islamic solutions that satisfied the investment and financing requirements of institutions.

Being the first Kuwaiti company of the nine entities that were licensed by the QFC, Mr Alhajeri said they were very satisfied to benefit from QFC's international standards of regulation and first class legal and business infrastructure.

## MALAYSIA

### HLIB grows 14%

Hong Leong Islamic Bank (HLIB) saw its financing business growing 14% for the nine-month period ending on the 31st March 2006. Islamic customers contributed 13.9% to the group's loan and financing base.

The bank posted net profits of RM14.5 million (US$4.05 million) in the third quarter and RM46.8 million (US$13.07 million) for the nine-month period. HLIB contributed up to 8% of the group's pre-tax profit of RM164.59 million (US$45.97 million) in the period under review.

## MALAYSIA

### Law firm in Islamic finance talk

Law firm Lee Hishammuddin Allen & Gledhill (LHAG) organized a CEO luncheon briefing on recent international trends in Islamic finance.

Two members of LHAG's Islamic finance advisory panel shared their views and comments on developments in the international Islamic finance phenomenon. The speakers were Dr Mohd. Daud Bakar of the International Institute of Islamic Finance and Mustafa Hussain of UK-based law firm Taylor Wessing.

LHAG's head of Islamic finance Hamdi Abdullah said the objective of the luncheon was to provide a concise and up-to-date brief on Islamic banking for the benefit of the firm's CEO guests.

## UAE (Dubai)

### Amlak Finance investment branch

Amlak Finance has announced the establishment of Amlak Investments with an authorized capital of Dh500 million (US$136 million).

Managing director Mohammed Ali Al Hashimi said that Amlak Investments would focus on the current investment opportunities in the UAE, GCC and overseas while allowing Amlak Finance to concentrate on its core financial activities.

"We believe that Amlak Investments will further enhance shareholders value, provide synergy with Amlak Finance and ultimately result in additional profit to the bottom line," he stated.

# NEWS BRIEFS

## UAE (Dubai)

### Tunisie Telecom financing

Emirates Bank and Standard Chartered Bank (StanChart) have been mandated by Dubai Holding to finance a 35% equity stake in Tunisie Telecom. A consortium of TECOM Investments and Dubai Investment Group has been formed to complete the landmark acquisition by Dubai Holding Group. The 18-month facility is expected to be launched in the last week of May 2006.

Abdul Wahid Al Fahim, the Emirates Bank corporate banking general manager, said that the move signifies Emirates Bank's commitment to investment and trading initiatives in the UAE, both regionally and internationally.

StanChart's managing director added that growth driven by cross-border acquisitions had becoming increasingly important over the last two years and that StanChart looked forward to supporting such initiatives by its clients in the region.

## BAHRAIN

### Five-fold increase in IIB profits

International Investment Bank (IIB) has posted a five-fold increase in net profit to US$3.54 million for the first quarter of 2006. The bank posted US$708,000 in the previous corresponding period. Net operating income also grew by 259% to US$5 million as at the end of March 2006, while shareholders' equity grew 7% to US$54.2 million.

IIB chairman Saeed Abdul Jalil Al Fahim said the bank's strategy of investing across diverse asset classes and geographic regions continued to deliver record income, with excellent returns for the bank's shareholders and investors.

"The strong Q1 2006 financial results, built on IIB's solid 2005 performance, are setting the stage for an increase in the Bank's current paid-up capital of US$43 million, that is expected to take place during the second half of 2006," he said.

Aabed Al-Zeera, chief executive officer of IIB, explained the current intention was to have a rights issue for existing shareholders and invite certain investors who had invested in the group's deals to share in the success of the bank.

## MALAYSIA

### Bondweb appointment

Bondweb Malaysia has been appointed Malaysia's first bond pricing agency by the Malaysian Securities Commission, making it the official source for fair valuation of ringgit bonds.

Bondweb provides the financial industry with a common valuation methodology for Malaysian bonds and benchmarks the industry in accordance with globally accepted financial reporting standards, which emphasize greater transparency to protect investors' interest. Through these mechanisms, the bond market will see higher levels of liquidity, more efficient allocation of capital and enhanced risk management.

Bondweb also provides real-time quotes via BondStream, a customized internet-based platform, deployed to over 200 professional users. The country's pioneer specialist on the ringgit fixed income market also has an exclusive arrangement with Islamic Finance *news* where readers of the weekly newsletter are updated on the Islamic fixed income industry with Bondweb's valuation reports.

## BAHRAIN

### ADIH to finance Lagoon

Abu Dhabi Investment House (ADIH) has opened a US$41.5 million private placement to finance the 600,000 square feet Lagoon project in Bahrain.

The private placement has been floated to part-fund the development of the Lagoon, which ADIH acquired from Oasis Property Developers.

Rashad Janahi, chief executive officer of ADIH, said the Lagoon was a unique and pioneering development, which for the first time allowed Bahraini and international retail and commercial investors to own their own units on a leasehold basis.

## UAE (Dubai)

### Positive fund flows ahead for DIFC

The Dubai International Financial Centre (DIFC) has predicted that it will become one of the global leading funds centres following the enactment of the Collective Investment Law 2006.

Collective investments cover all funds including mutual funds, property funds, Islamic funds, hedge funds, fund of funds and private equity funds. This new law completes the regulatory law governing the asset management industry within DIFC.

Sandy Shipton, head of asset management at DIFC, said that the enactment of the law would finalize the completion of a world class domicile for the funds industry in the DIFC. The new DIFC law put in place the regulatory and legal environment that would enable the establishment of a funds industry in the Middle East

## TURKEY

### Strong demand for Bank Asya shares

The initial public offering (IPO) of Bank Asya – which was 50 times oversubscribed – has raised US$160 million from the selling of 60 million shares, which is 20% of the post-IPO valuation of US$800 million.

The shares of the Turkish Islamic bank are expected to be traded on the Istanbul Stock Exchange on the 12th May at an initial price of TRY3.5 (US$2.59).

Ugur Pembecioglu, vice-president of corporate finance at Deniz Investment, which led the 39-member consortium that managed the deal, said: "There are not many publicly traded Islamic banks in the world and there is a demand for such stocks. Asya is the first Islamic bank in Turkey to become listed on the stock exchange."

## BAHRAIN

### Shamil Bank profit up 10%

Shamil Bank has chalked up a 10% increase in net profit to US$11.3 million for the first quarter of 2006 from the previous US$10.2 million in the previous corresponding period.

The earnings per share for the first quarter increased to US$0.049 from US$0.045 for the same period last year. The bank's consolidated total assets increased by US$400 million to US$1.9 billion.

Shamil Bank successfully closed the US$60 million Shamil China Realty Mudarabah, the first ever Islamic property fund for investment in the Chinese real estate market.

# NEWS BRIEFS

## BAHRAIN

### Arcapita capital to double

Arcapita Bank's capital-doubling proposal to US$800 million has been approved, with US$200 million shares to be issued to existing shareholders and the remaining US$200 million offered to new investors.

The bank also plans to establish the Arcapita Share Liquidity Program, which will facilitate trading between willing buyers and sellers of Arcapita's shares.

CEO Atif A. Abdulmalik said the strengthening of the bank's capital base consolidated the rapid growth achieved by the bank in recent years and ensured that Arcapita maintained a strong capital structure to support its future expansion plans.

Over the last eight years, Arcapita's net income has grown at a compounded annual growth rate of 37% and its balance sheet has grown to about US$1.9 billion as at the 31st December 2005. Arcapita has completed 52 transactions with a total value of US$11 billion during this period.

## INDONESIA

### Eurocapital to launch two mutual funds

Eurocapital Peregrine Securities is scheduled to launch two new funds, namely Euro Peregrine Sukuk Plus and Euro Peregrine Syariah Balanced Plus, early next month.

Each of the funds should attract at least Rp500 billion (US$55.56 million) during the first year, Eurocapital chairman Rudi Rusli said, adding that both funds would be combined with charity programs, as 10% of the management fees would be donated for developing education and entrepreneurship in Indonesia.

Mr Rudi also said that all the assets of the funds would be invested in the capital markets, bonds, and other vehicles considered permissible under the Islamic Shariah law. Both funds are currently awaiting regulatory approval.

## BAHRAIN

### Sokouk and Munshaat collaborate

Sokouk Holding Company has partnered with Munshaat Real Estate Projects Company to form one of the largest Islamic investment banks specializing in Sukuk exchange activities to be established in Bahrain.

Fouad Al-Hamoud, chairman of the founding members committee of Sokouk Holding Company, said that the establishment of the entity would meet the liquidity and cash management requirements of Islamic finance.

"In addition, the accelerated growth of the Sukuk secondary market enhanced the need to establish such an entity given the huge size of the investment institutions and companies and their need for new investment tools that comply with the provisions of the Islamic law to diversify their investment regionally and internationally," he added.

Mr Fouad also said that the collaboration would provide the market with a great opportunity to fulfil its needs of liquidity consistently with the provisions of Islamic law.

## THIS TIME LAST YEAR

**Albaraka Banking Group** unveiled plans to set up a **European Islamic bank** with a capital of US$200 million; **Parsoli Corporation** initiated talks with housing finance companies in a bid to launch a Shariah compliant housing finance scheme; The **Kuala Lumpur Regional Centre for Arbitration** offered to conduct arbitration for Islamic banking disputes; The **Islamic Bank of Britain** said it expected to open three more braches in the UK; Three licence applications for new Islamic banks were submitted to regulatory authorities in the UK, Canada and Kenya, all seeking the expertise of the UK's **Financial Services Authority**; **Riyad Bank** opened seven Islamic banking branches: three in Jeddah and four in Mecca; **Lloyds TSB** announced plans to extend its Islamic financial services to branch in Aldgate East, the second branch in London to offer Islamic current accounts and mortgages; **Westbank** saw a phenomenal increase in the demand for Islamic financing; **OCBC Bank**, the first foreign Asian bank in Malaysia to offer Islamic banking services, announced plans to launch more products; A fully underwritten US$100 million issue of Islamic Ijarah Sukuk for the **Kuwaiti Commercial Real Estate Company** opened for subscription; Lester Wynne-Jones was appointed as regional head of personal financial services at **HSBC Middle East**; Christian Mouchbahani was appointed head of corporate finance and management board member of **Dubai Bank**; Saleh Mohammed Ibrahim Al Jaidah was appointed general manager of the **Qatar Islamic Bank**; **Commerce Asset Holding** received approval from the **Companies Commission of Malaysia** to establish a Takaful business; The **Bahrain Monetary Agency** launched its new insurance rulebook in line with the principles and standards set by the **International Association of Insurance Supervisors**; The **Qatar Islamic Insurance Company** discontinued its popular investment-linked insurance scheme, Sanabel, following directives from the **Ministry of Economy and Commerce**; **Dubai Islamic Insurance and Reinsurance Company** announced the launch of a new branch in Jebel Ali Free Zone.

# NEWS BRIEFS

## RATINGS NEWS

### SAUDI ARABIA

#### A for Samba's EMTN

Fitch Ratings has assigned Saudi Arabia-based Samba Financial Group (Samba)'s US$1.6 billion euro medium-term note (EMTN) program long-term A and short-term F1 ratings for senior unsecured debt.

Fitch also rated Samba's first issue under the program – US$ notes due in 2011 – as long-term A. Samba is rated issuer default A with a stable outlook, short-term F1, individual B and support 2.

### BAHRAIN

#### Fitch affirms AUB ratings

Fitch Ratings has affirmed Ahli United Bank (UK) (AUB)'s ratings at issuer default BBB+, short-term F2, individual B/C and support 2.

These ratings reflect AUB's consistent profitability, improved asset quality, sound capital ratios and closer integration into its parent company. They also take into account a concentrated funding profile. The rating outlook is stable.

The support rating reflects a high likelihood of support from its 100% owner Bahrain-based Ahli United Bank BSC, and by AUB's institutional shareholders, should this be necessary. AUB is owned by a number of institutional and corporate shareholders in the Gulf. The Government of Kuwait is the largest shareholder, with a 20% stake.



### QATAR

#### Doha Bank ratings upgraded

Fitch Ratings has upgraded Qatar-based Doha Bank's individual rating to C from C/D. The support rating is reaffirmed at 2.

This action follows improvements in the bank's asset quality measures and profitability in 2005. The individual rating reflects its well-established domestic franchise, adequate capital position and sound liquidity. Although asset quality measures have improved, this is mitigated by recent credit growth, which could lead to renewed loan losses. The rating also takes into account the bank's reliance on a small, undiversified economy.

The support rating is premised on Doha Bank's size in a relatively small banking system and the ability of the Qatari authorities to provide support should it be required.

### IRAN

#### Fitch downgrades Iran

Fitch Ratings has downgraded the Islamic Republic of Iran's foreign currency, local currency issuer default ratings and the country ceiling to B+ from BB-, with a stable outlook.

Fitch has additionally assigned a recovery rating of RR4 to Iran's eurobonds, indicating average recovery prospects. The short-term rating is affirmed at B.

This downgrade is premised on the escalating confrontation between Iran and the international community over Iran's nuclear program. Although material sanctions remained in the future, the risk was increasing and events were becoming increasingly unpredictable. However, the stable outlook acknowledges that such an outcome is still some way off and also that the current high oil prices mean Iran's external financial position remains strong.

### MALAYSIA

#### RAM rates US$3.34b in bonds

For the first three months of 2006, Rating Agency Malaysia (RAM) rated RM11.96 billion (US$3.34 billion) of corporate bonds. This accounted for more than 70% of the entire market's RM16.08 billion (US$4.47 billion) of rated ringgit-denominated corporate bonds for the same period.

Rantau Abang's RM10 billion (US$2.78 billion) Sukuk Musharakah, issued in this period, was Malaysia's largest ever issue of fixed income securities.

### QATAR

#### Commercial Bank rating upgraded

Fitch Ratings has upgraded Commercial Bank of Qatar (CBQ)'s issuer default rating from BBB+ to A- with a stable outlook. Simultaneously the bank's short-term rating has been affirmed at F2, individual at C and support rating at 2.

The upgrade reflects CBQ's well-established and growing franchise, continued strong financial performance, sound asset quality and healthy capital ratios. The ratings also take into account CBQ's strong credit growth.

# NEWS BRIEFS

## RETAIL NEWS

### INDIA

## Esquire opens up in Chennai

Esquire Systems, a Middle East-based company involved in developing applications for large financial service institutions, has launched its first offshore development centre in Chennai, India, a city well known for its ability to produce first class professionals.

Anil Nair, CEO of Esquire Systems, also revealed that the company would set up an office in Malaysia in the next quarter of 2006.

### UAE

## EIB to finance Deyaar projects

Emirates Islamic Bank (EIB) has signed a Memorandum of Understanding (MoU) with property development company Deyaar, paving the way for the bank to finance certain projects developed by the latter and enhancing its presence in the retail banking and home finance market.

The MoU covers three projects developed by Deyaar: Al Seef 1 in Dubai Marina, Al Seef 2 in Jumeirah Lake Towers and Al Dana Towers in Sharjah.

### UAE (Dubai)

## CBI to revert to Islamic bank

Commercial Bank International (CBI) has received approval from the Ministry of Economy and Planning to revert its status to an Islamic bank, with a capital increase to Dh1 billion (US$272 million).

The bank has also obtained approval for a 20% increase in the Ras Al Khaimah Government's share in the bank.

Hamad Abdullah Al Mutawa, chairman of the board, said that this move was driven by the fact that there was an increasingly high demand for Islamic banking services in the UAE.

### UAE (Abu Dhabi)

## ADCB Islamic banking study

Abu Dhabi Commercial Bank (ADCB) has commissioned an external review to look at the possibility of setting up a separate Islamic banking subsidiary.

CEO Eirvin Knox said the study would take around three months and he expected the group could make a decision on whether or not to enter the Islamic banking industry by the end of the year: "It is not as easy as it sounds and one option would be to acquire an existing Islamic bank, however I think everybody is struggling with exactly what the right route is," he added.

### MALAYSIA

## CIMB allocates funds for halal food

CIMB will allocate RM500 million (US$139 million) in the form of loans to halal food players by the second half of this year. Designed to support and encourage the industry's growth, this is said to be the first such package of its kind.

CIMB Islamic head Badlisyah Abdul Ghani said the special halal financial packages will give the halal food industry more choices in terms of financing for the next few years. The halal package forms part of the bank's recently introduced Islamic Equity Fund, which was established for small and medium enterprises.

### MALAYSIA

## KFH Islamic property financing

Kuwait Finance House (Malaysia) (KFH Malaysia) has unveiled a new Islamic financing product based on the Shariah concepts of Musharakah Mutanaqisah (diminishing partnership) and Ijarah (leasing) – KFH Musyarakah Mutanaqisah Home & Property Financing – i.

Under this scheme the customer and the bank jointly purchase and acquire the property, which is then leased to the customer. Monthly rentals paid by the customers will be applied towards increasing their ownership of the property until the customer fully owns the property.

"KFH Musyarakah Mutanaqisah Home & Property Financing-i makes it possible for customers to own their own home according to Shariah principles. This facility will be made available initially for properties in which KFH has invested," said Salman Younis, executive director of KFH Malaysia.

### UAE (Dubai)

## DIB launches auto scheme

Dubai Islamic Bank (DIB) has launched Al Islami Flexi Drive, a new Shariah compliant auto finance scheme. Based on the principles of residual value financing, which reduces the monthly installments.

DIB explained that with residual value financing, the customer has the choice to split the amount into two parts and pay monthly installments on the first part, as with any normal auto loan, ranging from 12 to 36 monthly installments.

### MALAYSIA

## 6.7% yield for Islamic equity fund

Mayban Unit Trust, a member of the Maybank group, has reported a 6.7% yield for its Islamic equity fund, Mayban Dana Yakin. This represents a gross total distribution of over RM14 million (US$3.85 million) to about 10,500 unit holders for the fiscal year ended on the 30th April 2006.

CEO Shamsudin Bahari said the fund would be actively managed and continues to maintain overweight equity exposure.

### KUWAIT/SAUDI ARABIA

## NBK opens in Saudi Arabia

The National Bank of Kuwait (NBK) has opened its first branch in Saudi Arabia, making it the first Kuwaiti bank in Saudi Arabia.

NBK Jeddah will offer a wide range of financial products and services, including current and savings accounts, fixed deposits, international currency trading, corporate loans, treasury and commercial financing services, private banking and consultation services.

The commercial division of the bank will offer special banking services to a wide range of high net worth customers and corporate clients, in addition to a special branch for females.

NBK's vice-chairman Nasser Al-Sayer noted that NBK's presence in Saudi Arabia was a strategic decision due to the Kingdom's economic and financial prominence.

# Islamic Finance *news* talks exclusively to Professor Anas Zarqa, of King Abdul Aziz University in Saudi Arabia

*By Zakariya Othman*

**The ever-increasing innovations associated with derivative instruments have revolutionalized the global finance industry over the past two decades. Today, derivatives can safely be said to be commonplace in the international financial area. Yet the doubts surrounding the permissibility of derivative instruments in Islamic finance generally remains. The instruments also remain an enigma to many, mostly due to unfamiliarity with the basic mechanics. Here, Professor Anas Zarqa of Saudi Arabia's King Abdul Aziz University talks to Islamic Finance *news* about the Islamic approach to derivatives.**

A derivative instrument is simply a financial instrument or asset that derives its value from the value of some other underlying asset. The first derivative instrument was probably the forward contract, which is also the simplest type of derivative.

The benefits of a forward contract are often much more than merely hedging price risk, as both parties will eliminate all the price risks and more importantly, since both parties have "locked in" their price/cost, they are in a better position to plan their business activities. For example, the buying party can confidently quote to his customer the prices at which he can deliver products in the future. This would not have been possible were he uncertain about his input price.

The next step in the evolution from forwards was to futures contracts. Futures were innovated essentially to manage risk. Although futures contracts have been able to overcome the problems associated with forwards, they still proved inadequate in some respects to modern business needs.

In particular, there were two inadequacies that stimulated the search for future product innovation. The first was the fact that while futures enabled easy hedging by locking in the price at which one could buy or sell, being locked in also meant that one could not benefit from subsequent favourable price movements. Secondly, futures (and forwards) were unsuited for the management of contingent liabilities or claims on a business entity that could arise depending on an uncertain outcome. It is precisely for managing such complicated risks that options were introduced.

Professor Anas Zarqa, however, acknowledged that a number of scholars have found options objectionable, based on two grounds: first, that maturity beyond three days as per khiyar-al shart (option of stipulation) was unacceptable; and secondly, that the buyer of an option was granted many more benefits than the seller, which leads to oppression and injustice.

According to the senior professor of law, when viewed solely as a promise to buy or sell an asset at a pre-determined price within a stipulated period, Shariah scholars found nothing objectionable with options. However, he added, it was in the trading of such promises and the charging of premiums that the problems lay.

In the case of futures contracts, he commented, some scholars state that deferred sale was not allowed, while others cite precedents to deferred sales such as Bai Salam, but objected to futures on other grounds – mostly because they encourage speculation.

Professor Zarqa noted that options were acceptable when viewed in the light of Bai al-Urbun, but that they should be prohibited because they were detached and independent of the underlying asset, and therefore it was unjustified for the seller to charge a premium. Bai al-Urbun is a transaction in which a buyer places an initial good faith deposit with the seller.

Quoting Mufti Taqi Usmani, he highlighted that the former Pakistani judge was of the opinion that an option contract, when viewed as a promise, was acceptable, but charging a fee and trading was not.

Professor Zarqa also pointed out that gharar is another reason given for objection to options. The permissibility of conventional options, he said, was generally denied by the majority of scholars on the ground that they involved gharar and were primarily transacted for speculative gains. Acknowledging that gharar did not have a consensus definition, he reiterated that gharar was said to be the result of jahl, inadequate information and a lack of transparency.

To further understand the permissibility of derivatives, Professor Zarqa said it was necessary to understand betting, as well as insurance and

*continued...*

# Islamic Finance *news* talks exclusively to Professor Anas Zarqa, of King Abdul Aziz University in Saudi Arabia *(continued...)*

riba, because derivatives were related to the concepts of betting and security. In distinguishing permissible from prohibited betting, he quoted two simple examples. An example of prohibited betting, he explained, was that of two persons competing for a result, each putting up a sum of money and the winner taking all. Whereas a permitted form was that of a one-sided bet, where A put up a prize for the winner and B put up nothing and they both competed. If A won he retrieved his bet, and if B won he got the bet. Thus a characteristic of a permissible bet was that for one participant (the non-player) it was a win/no-win situation and for the other (the payer of the bet) it was a lose/no-win situation.

Continuing further, the professor said that in the case of insurance, one party tried to avoid uncertainty or protected himself from its adverse consequences by paying an insurance premium, but in the case of a riba loan, a lender similarly avoided the possibility (uncertainty) of loss in a proposed venture by lending at interest to the equity holder.

"What he pays is the foregone opportunity of any ex post profits greater than the ex ante interest he stipulates in the loan. At this point the tenuous similarity ends and the more fundamental differences between insurance and riba appear," he confirmed.

He stressed that in lending at interest, the goal of the lender was to gain and to augment his wealth, whereas in insurance, the goal of the insured was to protect his wealth from a large loss, not to augment it. Insurable events were usually those subject to calculable risks, whereas with a riba loan, the lender was seeking protection against uninsurable commercial uncertainty.

On the question of attitudes towards risk from the Islamic perspective, he raised a question as to whether a Shariah rule on a Muslim's attitude towards risk could be derived. He admitted that he had never come across any Shariah text that outlined the ideal attitude towards risk, as long as the person taking the risk was using his own funds. However, he stressed that if one was an agent acting on behalf of a principal, it was required by Shariah to act as a risk averter, unless explicitly instructed to act otherwise by the principal.

Summing up, Professor Zarqa stated that all financial instruments and transactions must meet a number of criteria in order to be considered halal, stressing that at a primary level all financial instruments and transactions must be free of at least the following five items, namely riba (usury), rishwah (corruption), maysir (gambling), gharar (unnecessary risk) and jahl (ignorance).

Obviously, he noted, instruments that had as their underlying asset items that were haram would need no further consideration, but derivatives on equity instruments, currencies and halal input commodities deserved attention.

Although it might seem safer for Islamic scholars to err on the side of conservatism, Professor Zarqa pointed out that such a position could have costly consequences for Islamic businesses in the long run: "In an increasingly competitive and sophisticated business environment, denying them the use of a flexible and powerful array of instruments could place them at a disadvantage," he said, concluding that Islamic scholars must take into consideration the potential "welfare loss" when deciding on the permissibility of derivative instruments.

# Islamic Finance in Australia

*By Zulfikar M Sharif*

## Introduction

**Established with the aim of presenting a practical model of Islamic banking to the Muslim community and to Australian society at large, as well as providing Muslims in Australia with an alternative to the existing, interest-based financial products and services, Muslim Community Co-operative Australia (MCCA) started up in February 1989 with 10 members and a starting capital of A$22,300 (US$17,161).**

Operating from its head office in Burwood, Victoria, MCCA's activities involve financial dealings and transactions based on the principles of Islamic finance. Transactions that involve interest are completely excluded from MCCA's activities. Its activities also include the provision of an institutional framework for converting charitable funds into a socially beneficial and economically productive tool.

MCCA manages five types of funds: Murabahah, Musharakah, Mudarabah, Qard-el-Hassan and zakat funds. It has enjoyed phenomenal growth since its inception and currently has more than 8,000 members, with an asset base of A$30 million (US$23.09 million), compared to only A$105,700 (US$81,365) in 1991.

The other organization offering Shariah compliant financing facilities in the country is APV Sydney Finance, which was created in 1997 with a view to helping both business people and personal customers arrange finance solutions.

The finance method used is based on the various fatwas issued by eminent Islamic scholars, who have given their rulings on obtaining Islamic finance in a non-Islamic country. Opinion was also obtained from Al Azhar University in Egypt in relation to specific issues concerning the finance model used and approval was obtained from Imam Taj el-Din Al Hilali, Mufti of Australia.

## Areas of improvement

There are certain areas where improvement could greatly enhance an Islamic financing organization in Australia. These include the organizational structure, as well as assessment and decision-making on applications.

**Organizational structure**

An efficient organizational structure for any institution is always linked to the objectives of that institution. For an Islamic financial institution in an Australian environment, it seems that the organizational structure should serve to achieve, amongst other things, the following objectives:

*(a) Securing a reliable source of capital*

An internal source of capital is far more preferable than an external one. Should that prove to be hard to obtain in terms of amount and/or liquidity of money, there should be no reason why an external source may not be explored. From wherever it is sourced, the capital requires, among other things, a solid base of trust in quality, reliability, efficiency and a high level of performance of those managing the financial institution.

*(b) Prompt and efficient service to members*

Establishing clear and well-documented functions and procedures for dealing with the various areas of activity is a vital condition for success. Moreover, the smooth and efficient delivery of services at all levels must not be interrupted in the case of any staff being temporarily or permanently unavailable for work. Well-planned, ongoing training programs must be put in place and carried out.

*(c) Appropriate supervisory and executive structure*

Members of the organization may elect members to the board of directors, who will perform monitoring, supervisory and strategic policy-setting functions. Election should be at suitably spaced regular periods in a way that guarantees continuity of those functions. An executive branch, headed by a chief executive officer, should regularly report to the board of directors. The board must approve the initial appointment of the managing director, who is responsible for running the day-to-day affairs of the institution in line with recommended policies, set by the board.

*(d) Empowerment of branch offices*

To maximize their contribution, staff members need to believe what they are doing is meaningful, contributing towards the achievement of the Islamic vision of the enterprise, thus providing rewards and motivation. When the vision for the work process is clear, individuals or teams should have the freedom to improve work methods so as to achieve those results.

It is reasonable for a small organization to centralize the timing of releasing funds in response to successful applications for finance as a main office function. Delays resulting from overloading the main office with final decision-making on branch management issues, including, amongst other things, approval/disapproval of applications, may be damaging to the image of the branch concerned. This becomes even more essential as the organization becomes larger and the number of branches increases.

*(e) Readily available expert advice*

Situations may arise where an application for finance touches upon an otherwise not commonly known or not clearly defined area of business transaction. Legal, professional and specific business areas may be beyond the area of expertise of the staff concerned. Consultation and advice should be readily available to them.

*(f) Islamic Supervisory Committee*

All financial transactions carried out by the organization must fall within the guidelines of lawful Islamic transactions allowed by Shariah. If disagreement occurs between the organization and members, the

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dispute should be presented for arbitration according to the principles of Shariah on the issues raised within a given period.

**Assessment and decision on applications**

With the primary objective of the organization being to provide alternative Islamic finance for approved applications, it is essential for the processing of the applications, and subsequent decision, to be thorough, relevant, fair and impartial. This may be achieved, among other things, by the following:

*(a) Members database(s)*

Applications must come from members. Necessary and relevant information on members must be collected at the time of application for membership and later updated and made readily available as and when necessary. This information may include related accounting information.

*(b) Classification of applications*

Applications may be classified into appropriate categories based on clear and well-documented guidelines. Broadly speaking, categories may include the object of finance, purpose of use, number of previous approved applications, etc. This should distinguish between, for example, a house for an applicant to live in and a house bought for investment purposes.

*(c) Processing and assessment procedures*

Professional and user-friendly designed databases may be structured and maintained for all known and future categories.

*(d) Informative brochures*

Spreading awareness of the various types of Islamic alternatives to finance is in itself a way of daawah. Educating the Muslim and non-Muslim community in this area would go a long way towards enhancing the general image of Islam itself.

Being open, truthful and co-operative with members/applicants is a successful marketing technique, as well as a desirable Islamic attitude. There is no reason why current and potential applicants should not be able to conduct self-assessment to get a feel for the chances of success of their applications by having access to the organization's assessment and decision criteria. Applicants would then take the necessary steps to increase the chances of approval for their respective applications.

Any organization has to accept that many or most Muslims in Australia are not yet well informed about Islamic finance. Reaching out to offer informal education on this issue is yet another form of daawah, as well as a prudent marketing strategy. Staff training on relevant Islamic issues should be part of their ongoing development.

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# Islamic Bonds in Practice

*By Professor Dr Mohd. Ma'sum Billah*

## Introduction

**The 1970s saw a global movement towards commercialization of the Islamic banking system, spanning countries from the Middle East to South Asia. But growth over the next 10 years was at a snail's pace, given the lack of proponents and competition with the fast-paced conventional banking system. But today, Islamic financing service (IFS) products have achieved an upward turn in the global market, where demand for financial products that comply with Shariah law is growing fast, not just among the world's 1.2 billion Muslims, but also among non-Muslims.**

Islamic bonds are one of the well-established Islamic financial products that have been given high rank to compete with conventional bonds – the German state of Saxony-Anhalt has just sold Europe's debut Islamic bond to fulfil current market demand. In this report, Malaysian Islamic bonds will be used as a discussion example to provide a clearer view regarding Islamic bond issues.

The Malaysian Islamic financing and banking system is one of the best in the world as compared to the systems of other Muslim countries. Malaysia has floated the idea of an Islamic universal bond to give the fledgling market another helping hand. In order to provide some general knowledge and guidelines, we will examine some of the important elements that are applied by the Shariah system.

## Implementation of Shariah in Islamic bonds

In Islamic finance, any income generated through interest payments via lending or credit activities is not recognized, as it is pure riba (usury). A condition was made that before a debt can be sold or negotiated, there must be an underlying contract of sale and purchase involving real, tangible assets at the beginning of the process.

This transaction normally contains a delayed payment element in it, so that a debt is created. This is the debt that will later become the focus of the intended securitization. It is likely that another concept, bai al-inah, is also used in creating debt security. Bai al-inah allows sale and buy-back transactions so that an earlier sale of assets would produce a cheaper price compared to the price tag for the subsequent sale.

For example, the first buyer, normally a financier, would pay in cash the purchase price of the asset, say US$100 million, and immediately sell the same asset to the first party, normally a customer, for US$210 million, payable in installments for five years.

The whole process involves a number of interrelated transactions:

1. Normal sale and purchase contract (al-bai). When the customer sold his assets to the financier in the first transaction the sale price was US$100 million.
2. Buy-back transaction that occurred immediately after the first transaction, which cost US$210 million. The buy-back and normal sale are known together as bai al-inah.
3. The payment for the buy-back transaction is delayed through the installment mechanism known in Islam as bithaman ajil, or deferred payment.
4. The debt as owed by the customer as a result of the buy-back transaction will then be sold as securities, accompanied by a certificate or note.
5. When this debt is sold as securities another concept is used – bai al-dayn, or sale of debt.

Thus there is a fine distinction between a conventional bond and an Islamic security. In the conventional sense, a bond is a debt instrument whereby the issuer will pay a certain percentage of interest to the buyer of the issued bond, or if it is a zero coupon bond, it will be issued at a discount and repaid in full at maturity. Bond holders will receive the proceeds in the form of interest. In contrast, the debt created in the Islamic transaction is an unpaid purchase price owed by the customer to the financer.

Such a debt is not a result of a money-lending process, as there was no such activity. Money-lending is known in Islamic finance as al-Qard. The Malaysian Global Sukuk, although containing an element of floating rate, is not a debt-based security, as it uses Ijarah (leasing of physical assets) as an underlying transaction.

Some other key elements that exist are:

- Al Bai Bithaman Ajil – Financing with deferred repayments over a specific period of time.
- Al Mudharabah – An agreement to provide the capital by one party and management expertise by the other party. Any losses suffered in the venture will be borne by the provider of the capital.
- Al Murabahah – Financing with a repayment agreed by both parties that includes the profit mark-up.
- Al Qardhul Hassan – Benevolent loan, where the provider of capital is guaranteed at least the principal portion.

These are only some of the key elements that could be discussed here. A review of legal, tax and regulatory aspects should go hand in hand with continuous research and development in product development.

## Islamic bonds in the real market

Globally, there are some 260 Islamic institutions, mainly banks, in 76 countries, which handled close to US$200 billion in the system, with the market growing by 12%–15% annually. With the infrastructure for an internationally thriving sector in place, cross-border financial activities are taking place in offshore centres like Bahrain and Labuan, with countries like Malaysia and Qatar offering Sukuk (sovereign Islamic bonds). Inter-governmental organizations like the Islamic Development Bank have also issued Sukuk.

In the UK, the laws have been charged so that those offering Islamic mortgage finance do not pay double stamp duty. The system may also open up into Europe, where there are large Muslim populations in countries like France, or even China. Reflective of the global aspirations

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and standing of Malaysia, the Islamic Financial Services Board (IFSB) was established in Kuala Lumpur in March 2003 to develop more suitable regulatory and prudential supervisory standards for IFS globally.

In the domestic market in Malaysia, up to RM77.4 billion (US$21.46 billion) of Islamic corporate bonds had been issued and rated by financing concept as at December 2003. Finance under the Bai Bithaman Ajil concept contributed the largest portion of the transaction, with 58% from total value, followed by Murabahah (25%).

## Crisis in the Islamic bond system

Muslims have different understandings of the Islamic law and the regulations that should be practised in many fields, including financial systems, and specifically the Islamic bond system. Because of this, there is no real worldwide established Islamic bond that is accepted by all Muslims – even the one just issued by the Malaysian financial system.

Not all Muslim countries have given their full support to these new Islamic products, as compared to conventional bonds, which have been widely supported all over the world, including among Muslims. Islamic bonds somehow obtained a small portion of the international market, with a minor injection by western countries such as England, Germany and America. Muslim countries did not put much effort into building united and strong Islamic financial products, which should be dominating the Muslim market at least.

## Disqualified companies to invest

With the better systems that keep on being developed by Muslim economists, Islamic bonds might be able to attract buyers to inject big amounts of capital worldwide. However, there are doubts about the availability of suitable companies with good track records to flow the money through, which will lead the economic growth of each industry and be able to sustain high earnings growth.

## Conclusion

As senior fellow with the Institute of Islamic Understanding Malaysia (IKIM), Mazilan Musa, said: "The differences are a minor disagreement and not a fundamental one. Malaysia has taken the path that Islamic banking products are permissible if there is no evidence to suggest otherwise."

As such, harmonizing Shariah opinions is not only a great challenge, but is necessary for global IFS to reach a higher plain. Observers say Malaysia is already seen as a leader in IFS globally, and the country, as the new head of the Organization of Islamic Conference, could try to utilize this goodwill at a political level to push IFS forward.

The author is Islamic Corporate Advisor on Shariah Compliance of Banking, Finance, Investment, Takaful, re-Takaful, Business, Wealth, Asset and Property Management, Capital Market, Bond (Sukuk) Market, Money Market and e-Commerce. He is a Professor of Islamic Finance at the Faculty of Islamic Finance, University of Camden, USA (Malaysian Center). He can be contacted by email on: masum2001@yahoo.com; website: http//.www.applied-islamicfinance.com.

References are available on request from the author.

# Meet the Head

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

**Name:** Craig Nethercott
**Position:** Co-head of the Islamic Finance Unit
**Company:** White & Case LLP
**Based:** London
**Age:** 36
**Nationality:** Irish

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

I was seconded to the White & Case Saudi Arabian office from our New York office in the mid-1990s for two years. During my time in the Kingdom we worked on some ground-breaking Shariah compliant structures – including the first adl-based secured project financing in Saudi Arabia. Following Saudi Arabia, I returned to our London office, where we have continued to break new ground with the first Islamic project financing tranches in Qatar, Oman and, most recently, Saudi Arabia with the Rabigh Petrochemical project financing (the largest in the region to date). White & Case has been advising on Islamic financing issues for more than 30 years, but earlier this year we took the decision to formalize our capabilities within an official Islamic Finance Unit.

### What does your role involve?

I am co-head of our Islamic Finance Unit with Mohammed Al Sheikh, a partner based in our Riyadh office. In addition to my day-to-day transaction work in the Middle East and elsewhere, I am involved (with Mohammed) in assisting our Islamic finance activity throughout the network. Both Mohammed and I spend a considerable amount of time providing educational seminars to clients (including financial institutions) that have an interest, but limited experience, in dealing with Islamic finance products.

### What is your greatest achievement to date?

It has to be the Islamic tranche in the Rabigh Petrochemical project financing in Saudi Arabia that was signed earlier this year. Significant effort was focused by the project sponsors and the Islamic facility participants to develop a structure that worked under the laws of Saudi Arabia. It has set a precedent that will be followed by future deals in the Kingdom.

### Which of your products/services deliver the best results?

One of our key attributes is our ability to navigate uncharted waters on behalf of our clients to deliver innovative solutions that meet their specific needs. We have a proven ability to break new ground with Islamic finance structures; for example the US$2.4 billion financing for the Sohar Aluminium smelter in Oman, which included the first Islamic financing tranche in a project financing in Oman.

### What are the strengths of your business?

We have worked hard on building up wide geographical coverage (we are present in 24 countries), with lawyers involved in Islamic finance located throughout our global network, including in London, New York, Riyadh and Singapore. We have also worked hard on ensuring that we have the right mix of skills and industry expertise in order to deliver the best results for our clients. What this means for our clients is that not only can we meet their global needs on a local basis, but we are also able to offer a very strong combination of US, English and domestic legal advice, which can prove a critical factor in getting deals done.

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

We know the business needs of our clients and get their deals done.

### What are the obstacles faced in running your business today?

Trying to maintain a good "work–life balance." We make a point of being available to our clients whenever they want and wherever they are located, which can mean this is something of a challenge.

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

I see the Islamic capital markets; in particular the Sukuk market, playing a more prominent role in project and asset financings. For instance, there are enormous capital requirements in the Middle East over the next 10 years and a number of bank financed projects nearing the refinancing stage. The Sukuk market is well placed to meet this spiralling demand for capital.

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

I would like to see some of the mystery surrounding Islamic financing disappear. There is an incorrect perception in my area of practice, project finance, that the products and the process can be more complicated and time consuming than other financial products, which is not the case.

WHITE & CASE

White & Case LLP is a leading global law firm with nearly 2,000 lawyers in 24 countries. Among the first US-based law firms to establish a truly global presence, we provide counsel and representation in virtually every area of law that affects cross-border business. Our clients value both the breadth of our network and depth of our US, English and local law capabilities in each of our offices and rely on us for their complex cross-border transactions, arbitration and litigation. Whether in established or emerging markets, the hallmark of White & Case is our complete dedication to the business priorities and legal needs of our clients.

White & Case has more than 30 years' experience in the structuring and implementation of financial transactions compliant with Islamic law. The firm has a 25-strong Islamic Finance Unit consisting of specialist lawyers based throughout its global network of offices. Several members of the unit are fluent in Arabic and have received specialized training in the principles and substance of the Shariah at leading academic institutions and either reside permanently in the Middle East or elsewhere in the Islamic world, or have spent considerable periods of time there.

Takaful news
www.islamicfinancenews.com



## UAE (Dubai)

### Group One Takaful at DIFC

Group One Takaful Holding, a company recently launched by the Kuwait-based Investors Group, has been registered as an Ancillary Service Provider at the Dubai International Financial Centre (DIFC).

Sami Al-Bader, chairman of the Investors Group, commented that Group One Takaful Holding had been specially launched to consolidate all of the group's Shariah compliant reinsurance business in the region.

He said that the DIFC offered a totally global environment, where the very best advice, counsel and consultancy were available, and added that he was thrilled that Group One Takaful could be part of the world's newest and fastest growing international financial centre.

"The DIFC is an obvious choice of location for us to set up a new office, as it offers access to a major pool of liquidity and investment funds, a strong pre-existing infrastructure and international standards regulations." Mr Al Bader went on to explain that Takaful International/Bahrain would be the technical adviser for the group's activities and Investors Bank would be the financial advisor for Group One Takaful Holding's banking operations.

## MALAYSIA

### Takaful Ikhlas aims high

Focusing on the retail market, Takaful Ikhlas aims to achieve contributions of RM220 million (US$61.4 million) for its 2007 fiscal year.

Gross premiums had surged to RM133 million (US$37.1 million) by February 2006 and are expected to hit RM150 million (US$41.89 million) by end of this year.

Ikhlas managing director Syed Moheeb Syed Kamarulzaman noted that emphasis would be placed on the rural market, as the penetration rate was a mere 5.4% in rural areas, compared with 37.6% in urban areas.

Currently split 60/40 between life and general coverage, 2007 will see Ikhlas focusing more on life coverage, specifically individual life, which currently makes up 40% of the company's life coverage business.

The company also aims to increase the number of policyholders to half a million from its current 200,000 by 2007.



# MOVES

### AVENUE CAPITAL RESOURCES – Malaysia

Avenue Capital Resources has appointed Cheah Teik Seng as its new group managing director, replacing Tengku Zafrul Aziz. Prior to this appointment, Mr Cheah was BNP Paribas Hong Kong's managing director.

Mr Cheah has more than 20 years' experience working in the international investment banking industry in the area of capital markets, specifically in fixed income and debt origination, derivatives and risk management. He began his career in 1981 with the Finance Ministry as a civil servant and moved to a local commercial bank in 1983 to begin his career in banking.

### AMLAK INVESTMENTS – UAE

Mohammed Ali Al Hashimi has been appointed as the chairman of the new investment arm of Amlak Finance. He is the managing director and CEO of Amlak Finance.

### QATAR CENTRAL BANK – Qatar

Sheikh Abdullah bin Saud bin Abdulaziz Al Thani has been appointed as governor of Qatar Central Bank (QCB).

He is also the chairman of the State Audit Bureau, as well as Qatar Industrial Development Bank.

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

*By Abdul Rahim Abdul Wahab*

*This is the second installment of a two-part article looking at the potential for a Takaful industry in Pakistan. Having reviewed the opportunities and obstacles last week, in this issue we will offer the reader some thoughts on how Takaful could work in Pakistan.*

## Takaful business models

**Presently different Takaful models are prevalent in different countries. The basic models are Mudarabah based (Malaysian model) and the Wakalah model (Middle Eastern model). However, there are a number of finer issues and combinations of models that exist in practice.**

Discussions with scholars in Pakistan have revealed a clear preference for the Wakalah model, due to there being less Shariah concerns with this approach, as opposed to the Mudarabah model, where scholars have a number of serious concerns. A refinement of the Wakalah model has also appeared – called Wakalah with WAQF Fund – evolved by Darool Uloom, in Karachi. I had the opportunity of assisting in this process; the model which has taken shape still needs to be discussed on a larger platform before it can be considered as ready for implementation by Takaful operators.

The general perception in Pakistan is that people would be more comfortable with the approach acceptable to Middle Eastern Shariah scholars, rather than the Malaysian approach, which is generally considered as more liberal in Islamic banking.

A final consensus needs to be developed and a decision taken on the model that we wish to adopt for Pakistan. It is hoped that urgent discussions take place on this issue and consultations are made with Shariah scholars from other countries to arrive at a consensus. A central Shariah Board would also be required to advise the Securities and Exchange Commission of Pakistan (SECP) on the approval of specific products.

Once a consensus has been reached, it is equally important that the Takaful rules should specify the specific model to be adopted, to avoid confusing the public with different models and different variations of models being adopted by different companies. The rules may, however, allow for some flexibility in certain aspects which may be left to the individual Shariah boards. This step would go a long way to ensuring public faith in the acceptability of the Takaful system and avoid creating confusion with differing interpretations of different models.

## Practical recommendations for the Islamization of the insurance system

The approach of the Government in the case of Islamic banking has been to allow a parallel development, perhaps due to the practical difficulties inherent in the implementation of a full Islamic system such as existing long-term debt servicing. In the case of insurance, the difficulties would be less and it would be possible and perhaps more practical to implement a Takaful-based system for the country as a whole.

**General Takaful, group life and group health**

General insurance contracts are mostly for one year or less and contract terms can be changed at the time of renewal each year. Similarly, group life and health insurance contracts are also of one year's duration and can be changed easily to a Takaful basis.

**Individual life**

Under individual life insurance, contracts are of longer duration. They also have elements of guaranteed return and may be difficult to alter unless reasonably secure Islamic investment vehicles are available. This requires a willingness to shift from an interest-based system to an Islamic system of returns on the part of the Government, the industry and the consumers.

The advantages of such a transformation could be enormous, starting with a real possibility of getting away from malpractice and waste in the conventional insurance system, which would directly benefit the consumers and ultimately the country's economy. The will to transform the system and then to lay out specific steps with a time line to implement the changes is required. This naturally requires detailed planning and commitment, with all stakeholders taking part in an extensive review of the overall issues involved. Some of the steps which may be taken in this direction could include those listed below.

*Encourage the establishment of separate General Takaful companies*

To start with, regulations need to encourage the establishment of separate Takaful companies, instead of allowing window operations which may simply try to crush a Takaful operator for pure commercial interests before it can establish itself, as any business entity would do to protect itself.

It needs to be ensured that regulatory limitations do not penalize a Takaful operator on account of two sets of rules being applied to it in terms of compliance: one from the regulators and the other from a Shariah perspective. Regulation needs to ensure that there is at least a level playing field for Takaful operators so that they are able to operate and establish themselves and so that compliance and other costs do not unduly disadvantage them; perhaps some incentives could be offered to encourage companies to set up separate Takaful operations.

*Representation by participants*

Participants having an interest on the board of a Takaful operator may be considered, in order to protect the interest of consumers and develop a sense of belonging. This may, for example, be a representative of an employers' or employees' association.

*Regulatory changes*

It is important to realize that a Takaful operator also needs to be financially viable. One should not expect a capital investment of Rs80 million (US$1.33 million) or more on the part of the shareholders for the sake of introducing a Shariah compliant company. I do not believe there is anything wrong with earning rewards on the effort that you

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

make, as long as the compensation basis is defined in advance and is acceptable to both parties. Sharing in underwriting profits is not acceptable under Shariah, given the objective of mutuality in sharing risks, but a fee-based approach is acceptable.

It is important that Takaful rules are framed keeping in view protection for the consumer in terms of controls in operational practices and penalizing operators not adhering to strict guidelines. On the other hand, limitations should not be such that the operator is at a disadvantage from day one and is therefore not able to compete with conventional operators on at least an equal footing.

Regulations would need to ensure that proper and adequate measures are implemented and there is a strict monitoring system in place to control malpractice, with strict penalties for any violations.

*Composite companies*

Under the new Insurance Ordinance, general insurance companies require a capital of Rs80 million (US$1.33 million) and life insurance companies Rs150 million (US$2.5 million). Separate licences are required for both lines of business and composite companies are not permitted. Part of the reasoning behind this was previous malpractice (when composite companies were allowed prior to nationalization) related to the proper allocation of expenses and the segregation of funds and accounts, which suggested that composite companies should not be permitted. This led to issues related to equity for life insurance policyholders of composite companies in the form of bonuses. In general insurance the concept of a bonus did not exist, and all the profits belonged to shareholders.

Under a Takaful system following the Wakalah model, the Takaful operator's fees are pre-defined, as per the contract. All expenses may be charged from this fee, and any excess gets charged to the shareholders' account. Expenses less than the fee are the source of profit for the shareholders. Further, the underwriting surplus is to be passed onto the policyholders. In view of this, it is suggested that to encourage companies to launch family Takaful plans as well, a composite licence may be granted to Takaful operators. The paid-up capital should be related to the types of products and the distribution network that the operator wishes to use.

(i) Additional paid-up capital of Rs70 million (US$1.17 million) (i.e. a total of Rs150 million (US$2.5 million)). It is suggested that with this additional capital (separately identified) General Takaful operators may be allowed to market life assurance risk products through certain distribution channels suggested as through banks and directly to employers (as a group contract). This would result in lower distribution costs (with lower expense limits also to be applicable by Takaful rules) for the Takaful operator to establish and maintain a distribution network and ultimately lower costs to the consumer. With the above limitations, a General Takaful operator should be permitted to write life risk business (group life and bank assurance risk products) with a total paid-up capital of Rs150 million (US$2.5 million) (instead of Rs80 million (US$1.33 million) for General business only). Risk products may also be co-branded with savings products of Islamic banks to offer a one-window, cost-effective solution to consumers.

(ii) If a Takaful operator wishes to also write individual life business through the usual agency distribution channels, then the normal capital requirement of an additional Rs150 million (US$2.5 million) would apply.

(iii) In addition to encouraging Takaful operators to write Family Takaful risk business, this would also provide an opportunity to employers to spread their risk over a larger Takaful pool with assets as well as employee-related risks. There could be a possibility of surplus determination and/or distribution based on the overall pool and the share of an employer/participant may be on the combined portfolio of risks passed on to the pool.

*Re-Takaful pool*

The Government needs to encourage the establishment of a re-Takaful pool for Takaful operators. Such a pool is highly desirable for the Takaful industry to grow, not only in Pakistan, but also internationally Takaful

*continued...*

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

operators have a need for risk sharing pools. The National Insurance Company Limited (NICL) and Pakistan Reinsurance Corporation Limited (PRCL) may be considered suitable to establish such pools for General Takaful business, given their portfolio size. However, it needs to be ensured that these are managed on a professional basis and are able to attract Takaful operators within Pakistan and possibly Takaful operators from other countries in the region as well. Such a pool has been established in Malaysia and caters to about six different Takaful operators. Similarly, State Life Insurance may be encouraged to form a re-Takaful pool for Family Takaful business, given its huge capacity to retain risks.

## Transformation to Islamic insurance system

A complete transformation would obviously require Government intervention by way of incentives to encourage both consumers to move to a Takaful-based company, and also insurers to offer Takaful-based products to their clients.

For example, a premium paid to a Takaful operator could be made an 100% deductible expense, whereas that paid to a conventional insurer may be 90% tax deductible. If such an incentive was offered, then it would be necessary to allow window products by conventional companies, as otherwise an unfair advantage would be given to Takaful operators. The objective is to gradually transform the system, not provide Takaful operators with the upper hand.

Similarly, insurers could be charged a lower tax rate on Takaful business income in order to encourage them to switch clients to Takaful-based products. The incentive aspect really needs to be thought through after discussions on the practical issues which could arise in implementation.

An objective may be set to transform the conventional insurance industry into a Takaful-based industry within a pre-defined period of 5–10 years' time. The cost to the consumer would decrease as elimination of elements of malpractice would bring in more than the required savings to offset the temporary tax cost.

It is important that such a transformation is seen positively by the conventional insurance industry. Such a transformation would mean that the industry would compete on its service levels and the fees it charges. Also it should be noted that its ability to implement better risk management would not go unrewarded. On the risk side, it manages the risk professionally but does not derive any direct income for its shareholders on this account. The incentive to pay ex gratia claims for business reasons also is minimized for two reasons:

(i) By controlling such practices and having better overall underwriting results it is able to distribute more surplus to its participants, which itself would attract more customers to its portfolio. This would mean it would have a larger pool to manage, thereby reducing its costs which implies higher profits for shareholders and/or reducing fee levels further to attract even more business.

(ii) It may over time lose its credibility if the market that wishes to insure on a Takaful basis realises that the company is not following the spirit of Takaful. Further regulatory controls and participants' representation would make it more difficult to settle such claims.

A complete transformation could rid the insurance industry of many evils which are unlikely to disappear with a parallel system. A Shariah compliant Takaful system does not prohibit insurers from making profits. For instance the Takaful operator fee may be kept at 40% if the market accepts this level of fees (although it is likely that regulation would limit the fee level). For the shareholders, the risk of underwriting losses would be passed on to the policyholders (other than giving a Qard Hasnah, recoverable from future surplus), although risk management techniques would seek to ensure that deficits do not arise in a Takaful fund by way of re-Takaful/reinsurance (as may be permissible).

A complete transformation or incentives to Takaful would mean more and more security would become available on a Takaful basis. This would ease the creation of a re-Takaful pool amongst Takaful operators and make this much-needed service available. A larger re-Takaful pool can also better negotiate with international reinsurers and, with expansion, increase its capacity to retain risks within the pool. This would over time reduce reliance on foreign reinsurance, which is difficult to obtain in any case. The ultimate objective should be to have large enough pools to eliminate or minimize the need for foreign reinsurers.

## Conclusion

The implementation of such reforms would have its own hurdles which would need to be surmounted, with solutions being discussed with the industry as well as with consumers. A change in consumer mindset is an essential element in any kind of market reform and a sense of trust needs to be established for reforms to succeed. To make a start it is essential to lay down the issues which may be faced and create multiple platforms to discuss the issues at length before a implementation plan can be evolved.

The issue here is to provide financial protection at a reasonable price to all who wish to protect themselves from unforeseen events whilst respecting Shariah requirements, which are very much aligned with the objectives of the community at large. Takaful can provide the opportunity to reduce the costs of protection and ensure that if a surplus arises in the pool, there is a return of surplus available to participants. This may not have an impact on the earnings potential of shareholders, as what is changing is the source of profits – from fees rather than from underwriting results to follow the mutuality concept. Takaful could become an insurance program encouraged by Government but financed by individuals and managed by private companies who wish to join on a voluntary basis. This could result in substantial overall economic benefits, as well as the resolution of moral issues related to the industry.

I hope this discussion paper serves as a useful documentation of the issues that need to be digested, discussed and concluded. This may enable the industry as a whole and potential sponsors who intend to introduce the Takaful concept and establish a company. The issues need to be thought through together with consumers and regulators so that all aspects of this huge industry and its equally large untapped potential are explored to their fullest.

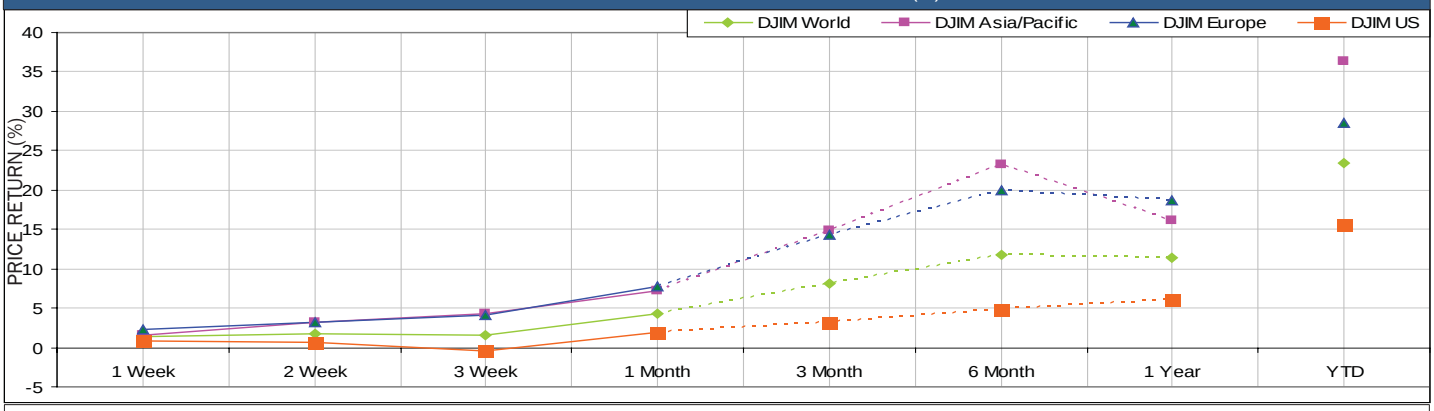
The opportunity to offer an alternative to the conventional insurance system to the population at large is a great opportunity which should be utilized in its true spirit.

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

# DOW JONES ISLAMIC MARKET INDEXES

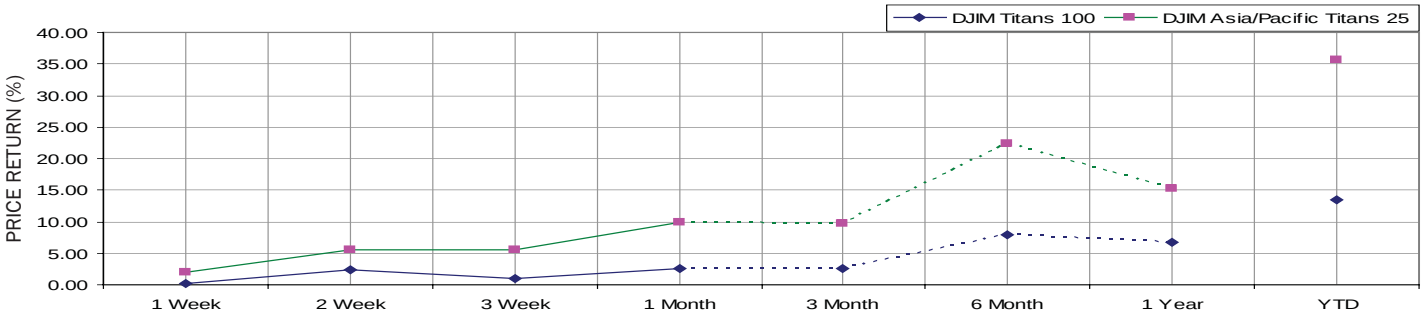
Data as of the 10th May, 2006

**PERFORMANCE** — **PRICE RETURN (%)**




| Index | 1 Week | 2 Week | 3 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD |
|---|---|---|---|---|---|---|---|---|
| DJIM World | 1.44 | 1.81 | 1.55 | 4.37 | 8.07 | 11.82 | 11.32 | 23.48 |
| DJIM Asia/Pacific | 1.55 | 3.11 | 4.27 | 7.23 | 14.80 | 23.27 | 16.07 | 36.30 |
| DJIM Europe | 2.34 | 3.11 | 4.13 | 7.81 | 14.24 | 19.91 | 18.64 | 28.54 |
| DJIM US | 0.87 | 0.59 | (-0.39) | 1.85 | 3.27 | 4.83 | 6.19 | 15.57 |

**PERFORMANCE** — **PRICE RETURN (%)**




| Index | 1 Week | 2 Week | 3 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD |
|---|---|---|---|---|---|---|---|---|
| DJIM Titans 100 | 1.02 | 0.84 | 0.98 | 3.18 | 5.56 | 6.55 | 7.69 | 13.30 |
| DJIM Asia/Pacific Titans 25 | 0.98 | 2.52 | 4.49 | 8.28 | 17.95 | 24.41 | 20.51 | 38.40 |

**DESCRIPTIVE STATISTICS**

| Index | Component number | Market Capitalization (US$ billions) | | | | | | Component Weight (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Full | Float adjusted | Mean | Median | Largest | Smallest | Largest | Smallest |
| DJIM World | 1942 | 14,833.5 | 12,847.3 | 6.6 | 1.6 | 390.1 | 0.0 | 3.04 | 0.00 |
| DJIM Asia/Pacific | 721 | 2,441.1 | 1,807.9 | 2.5 | 0.7 | 87.2 | 0.0 | 4.82 | 0.00 |
| DJIM Europe | 261 | 3,620.5 | 2,983.6 | 11.4 | 2.8 | 256.4 | 0.2 | 8.59 | 0.01 |
| DJIM US | 693 | 7,595.9 | 7,211.7 | 10.4 | 2.9 | 390.1 | 0.2 | 5.41 | 0.00 |
| DJIM Titans 100 | 100 | 7,121.1 | 6,489.0 | 64.9 | 48.9 | 390.1 | 6.4 | 6.01 | 0.10 |
| DJIM Asia/Pacific Titans 25 | 25 | 853.5 | 612.8 | 24.5 | 19.7 | 72.9 | 6.4 | 11.90 | 1.04 |

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 12th May 2006

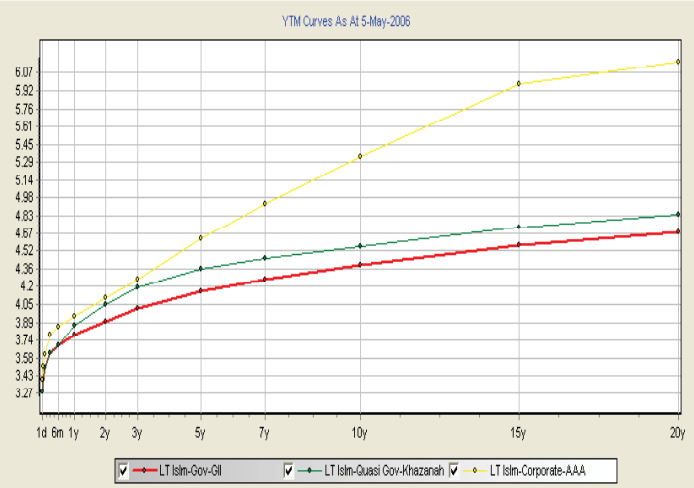
| Key Benchmarks Trend (by volume) | Rating | This week close (RM) | 28 Apr 06 (RM) | 21 Apr 06 (RM) | 14 Apr 06 (RM) |
|---|---|---|---|---|---|
| **Private Debt Securities** | | | | | |
| PENANG BRG 0% 29.03.2019 – Tranche 6 | AA2 (RAM) | 43.14 | 43.79 | 42.92 | 43.91 |
| KEV BAIDS SERIES 9 08.07.2009 | AA+ID (MARC) | 102.32 | 102.54 | 102.46 | 102.76 |
| PENANG BRG 0% 30.03.2018 – Tranche 5 | AA2 (RAM) | 47.17 | 47.45 | 46.88 | 47.34 |
| CELCOM 0.00000% 15.04.2008 | AA1 (RAM) | 107.89 | 108.02 | 107.91 | 108.14 |
| KEV BAIDS SERIES 14 06.01.2012 | AA+ID (MARC) | 106.57 | 107.23 | 107.44 | 107.94 |
| **Government Investment Instruments** | | | | | |
| PROFIT-BASED GII 1/2006 14.04.2009 | n/a | 99.64 | 99.66 | 99.30 | 99.99 |
| PROFIT-BASED GII 24/2005 08.12.2010 | n/a | 98.18 | 98.36 | 98.37 | 99.14 |
| **Quasi Government** | | | | | |
| KHA1/03 1B 0 – CP 5Y 18.6.08 | n/a | 92.05 | 91.82 | 91.69 | 92.24 |
| KHA1/04 1.15B 0 – CP 5Y 18.9.2009 | n/a | 86.61 | 86.72 | 86.73 | 87.95 |

## SPREAD VS GII (in b.p)

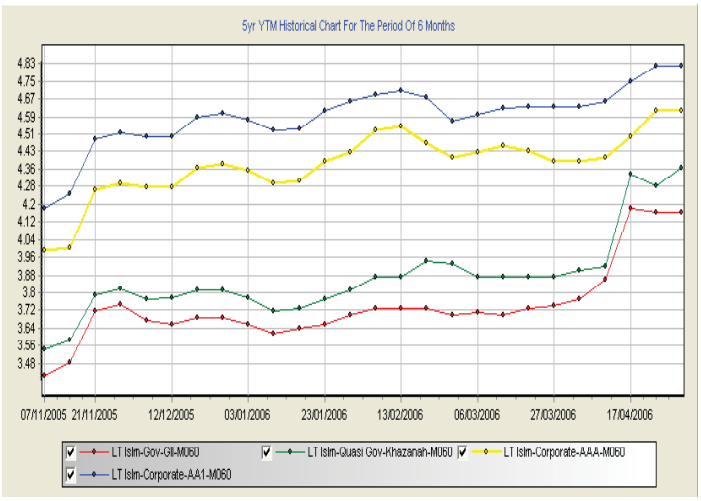
| | TENURE | | | | | |
|---|---|---|---|---|---|---|
| | 1Y | 2Y | 3Y | 5Y | 7Y | 10Y |
| GII | 3.78 | 3.9 | 4.01 | 4.16 | 4.27 | 4.39 |
| Cagamas | 0.22 | 0.2 | 0.2 | 0.25 | 0.35 | 0.44 |
| Khazanah | 0.09 | 0.15 | 0.19 | 0.2 | 0.18 | 0.16 |
| AAA | 0.16 | 0.21 | 0.26 | 0.46 | 0.66 | 0.96 |
| AA1 | 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 | 30.0 | Barclays Capital, Dubai Islamic Bank |
| 2 | Malaysia | Malaysia | Islamic Sukuk | 953 | 1 | 8.2 | Malaysian Government bond |
| 3 | Cagamas | Malaysia | Bithaman Ajil Islamic Securities | 777 | 11 | 6.7 | 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, 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 | Ranhill Power | Malaysia | Islamic MTN Program | 142 | 12 | 1.2 | Aseambankers |
| 17 | Sistem Penyuraian Trafik KL Barat | Malaysia | Al Bai Bithaman Ajil Notes Issuance Facility | 136 | 5 | 1.2 | United Overseas Bank (Malaysia) |
| 18 | WAPDA First Sukuk Co | Pakistan | Sukuk Al Ijarah | 134 | 1 | 1.1 | Citibank NA (Pakistan), Jahangir Siddiqui & Co, MCB |
| 19 | Antara Steel Mill | Malaysia | Bai Bithaman Ajil Islamic Debt Securities | 133 | 6 | 1.1 | AmMerchant |
| 20 | Sime Darby | Malaysia | Murabahah CP/MTN Program | 133 | 1 | 1.1 | CIMB |
| | **Total of issues used in the table** | | | **11,675** | **298** | **100.0** | |



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# 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 Bank, CIMB, RHB Sakura |
| 5 | WAPDA First Sukuk | Pakistan | Sukuk Al Ijarah | 134 | 1 | 4.5 | Citibank (Pakistan), Jahangir Siddiqui & Co, MCB Bank |
| 6 | Bank Pembangunan Malaysia | Malaysia | Murabahah MTN | 109 | 1 | 3.6 | CIMB, HSBC Bank Malaysia |
| 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 | 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 | 16.6 |
| 2 | Barclays Capital | 1,750 | 2 | 15.0 |
| 3 | CIMB | 1,610 | 54 | 13.8 |
| 4 | Malaysian Government bond | 1,061 | 2 | 9.1 |
| 5 | HSBC | 1,006 | 19 | 8.6 |
| 6 | AmMerchant | 805 | 46 | 6.9 |
| 7 | Cagamas | 645 | 10 | 5.5 |
| 8 | Aseambankers | 542 | 40 | 4.6 |
| 9 | Standard Chartered | 308 | 27 | 2.6 |
| 10 | RHB | 302 | 56 | 2.6 |
| 11 | Deutsche | 275 | 3 | 2.4 |
| 12 | United Overseas | 267 | 24 | 2.3 |
| 13 | EON Bank | 192 | 33 | 1.6 |
| 14 | Bank Muamalat Malaysia | 165 | 48 | 1.4 |
| 15 | Affin | 136 | 17 | 1.2 |
| 16 | Alliance | 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** | **11,675** | **298** | **100.0** |

| ISLAMIC DEBT BY COUNTRY | | | MAY 2005 – MAY 2006 |
|---|---|---|---|
| | **Amt US$ m** | **Iss.** | **%** |
| Malaysia | 6,955 | 59.6 | 291 |
| UAE | 4,050 | 34.7 | 3 |
| Saudi Arabia | 500 | 4.3 | 1 |
| Pakistan | 134 | 1.1 | 1 |
| Indonesia | 36 | 0.3 | 2 |
| **Total** | **11,675** | **100.0** | **298** |

| ISLAMIC DEBT BY CURRENCY | | | MAY 2005 – MAY 2006 |
|---|---|---|---|
| | **Amt US$ m** | **Iss.** | **%** |
| Malaysian ringgit | 6,955 | 59.6 | 291 |
| US dollar | 4,550 | 39.0 | 4 |
| Pakistan rupee | 134 | 1.1 | 1 |
| Indonesian rupiah | 36 | 0.3 | 2 |
| **Total** | **11,675** | **100.0** | **298** |

| 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 | 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 Bank | 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** | | | |
| 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** | | | |
| 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 |
| 14th – 15th | Malaysian Islamic Finance *Issuers & Investors Forum 2006* | Kuala Lumpur | Islamic Finance Events |
| **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 |


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