Islamic Finance news

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UAE (Dubai)

Hawkamah teams up with FSVC

Institute for Corporate Governance, Hawkamah has signed an MoU with the USA based Financial Services Volunteer Corps (FSVC) to build sound banking and financial systems in developing countries.

The MoU outlines areas of cooperation in promoting corporate sector and corporate governance reforms in the Middle East North African (MENA) region. One of the main objectives of the signed MoU is to help establish an Institute of Directors and to promote the creation of Centralized Credit Registries and Companies Houses in the MENA region.

The MoU will also focus on improving corporate governance practices of private and public sector entities, listed companies, banks, financial institutions, family and state owned enterprises.

Both organizations will work together to help develop national and regulatory frameworks for corporate governance in support of open and transparent financial markets.

SAUDI ARABIA

Sukuk securitization breaks new ground

The Kingdom of Installment Company (KIC) Sukuk transaction is considered as the first true-sale securitization in the Gulf Cooperation Council (GCC). It is backed by US$23 million of Ijarah and Istisna contracts, providing an off-balance sheet alternative source of funding to KIC as well as a Shariah compliant, fixed-income investment product (akin to a mortgage-backed security) to GCC and international capital markets.

The Law Office of Mohammed Al-Sheikh, in association with White & Case, acted as counsel to Unicorn Investment Bank and Standard Bank in connection with a landmark securitization transaction on behalf of KIC in Saudi Arabia. Unicorn Investment Bank was lead manager and Shariah advisor, and was also joint book runner in conjunction with Standard Bank.

Mohammed Al-Sheikh, lead partner advising on the deal and co-head of White & Case's Islamic Finance Unit explained that the securitization had broken new ground from a legal and Shariah structuring perspective and paves the way for future Sukuk transactions in Saudi Arabia.

The underlying Sukuk structure and assets were rated A- by Capital Intelligence.

UK

HSBC Amanah completes Amtech MBO

HSBC Amanah has completed its first Islamic private equity investment of US$31 million in the management buy-out (MBO) of Amtech Power Software (Amtech). The investment was made to support the management team of the UK based software company.

The HSBC Amanah Private Equity team was led by Mahmoud Atalla, assisted by Chris Gill and Patrick Sixsmith. The deal was structured in a manner consistent with Islamic principles and involved executives from HSBC Amanah's teams in London and Dubai.

The MBO, believed to be the first Shariah compliant in the UK, was led by managing director and shareholder Mark Tindall, together with colleagues James Cooper (Sales Director) and Paul Hale (Operations Director). Simon Hunt and John Jugggins will join Tindall and his colleagues as Non-Executive Chairman and Finance Director respectively.

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News Briefs

Note from the Editor

Islamic finance must be able to compete in the financial market place if it is to become truly viable. In complying with the Shariah requirements, there should not be an excuse for inefficiency, rigidity and conservatism. If at all we are to demonstrate the dynamism of the Shariah, then these Shariah guided finance practices must be able to respond positively to the hectic pace of change within the sector. Islamic finance must be able to provide financial services to their customers and carve its own niche in the market place.

We are justifiably proud of the success of Islamic finance. The success and other factors, including pious sentiments, have encouraged the call for further implementation of the Shariah and for the establishment of institutions carrying Islamic labels. This issue has given rise to much confusion and must be addressed rationally.

Speaking of mere labels, Warren Edwardes of Delphi Risk Management had said that perhaps replacing the exotic Arabic terminology with its English analogue would lead to a greater understanding of Islamic banking. He added that it also appeared that, given a choice between a pure Islamic bank and a highly rated reputable international bank providing the same service, Islamic clients would rather go to the one that had a brand name than the one that provided Islamic only services, without the brand name and rating.

Interestingly, the question as to whether it is time to remove "Islamic" from Islamic banking posed as this week's Forum question received balance responses. Rushdi Siddiqui of Dow Jones feels that the word Islamic is not necessary as proven by most of the successful banks whose names are without Islamic. More importantly, he adds, Islamic financial institutions need a branding exercise instead. Adding on to this, Salim Manzar of Princeton Advisory Group finds the use of Islamic terminology dis-unifying and can be misread as something exclusive for Muslims.

On the other hand, Professor Rodney Wilson of Durham University notes that the Financial Services Authority of the UK requires banks designating themselves as Islamic to have a Shariah advisory board. This seems sensible in the interests of consumer protection and product credibility. Mohamad Ridza, managing partner of Mohamed Ridza & Co, expresses his concern that in replacing Islamic with some other terminology, it may not accurately represent the Islamic finance which has been sanctioned under the Islamic jurisprudence.

Surely mere labels are not the criteria for truly Islamic. Justice, fairness, transparency, and efficiency are fundamental questions to be addressed. Unfortunately, these values have never been given sufficient emphasis in the discourse on the subject. What is important in evaluating these institutions is whether they serve the interests and needs of the ummah -- to eradicate poverty, to provide education and employment, and generally to improve the quality of their life and their well-being.

In implementing Islamic principles in banking and finance, we must address substantive issues rather than be kept pre-occupied by terminology. Instead, Islamic bankers must devise strategies and coordinate plans to mobilize the resources of the ummah.

In this regard, we would like to see greater collaboration and exchanges among the existing Islamic financial institutions. This will not only facilitate the movement of capital but also expertise.

Zakariya Othman, Editor

NEWS BRIEFS

UAE (Dubai)

UNB 1st half profit up

Union National Bank (UNB)'s first half net profit increased by 20% to reach AED627.34 million (US$170.8 million). Its loans and advances rose by 30% growing from AED17.08 billion (US$4.65 billion) as at June 2005 to reach AED22.25 billion (US$6.06 billion) as at June 2006. This growth was the main factor behind its total assets growing at about 25% from AED27.14 billion (US$7.39 billion) to AED33.82 billion (US$9.21 billion) for the same period. Customer deposits also increased by 18% to AED23.59 billion (US$6.42 billion).

Despite operating expenses increasing by 36% on a year-to-year basis, the cost/income ratio increased by only 7% from the 20% as at June 2005, reflecting UNB's determination to maintain efficiencies whilst continuing to grow across the varied business segments and enhance its infrastructural capabilities.

UNB's annualized return on average assets for the first half of 2006 is an impressive 4% whilst the return on average equity is a high 31%. Given that the bank's total equity has risen by 113% over the previous period, the continued strength in the return on average equity indicates the bank's focus on its core earnings.

UAE (Dubai)

Mashreq Capital granted license

Mashreq Capital, a wholly-owned subsidiary of Mashreqbank has been granted a license from the Dubai Financial Services Authority (DFSA) to operate at the Dubai International Financial Center (DIFC).

The license will enable Mashreq Capital to provide a number of investment and brokerage services for investors and over time it will introduce a number of services such as debt and equity capital raising and underwriting services, private placements and the distribution of securities, brokerage in securities and financial instruments and asset management activities.

MALAYSIA

Zecon Toll proposes BAIDS

Zecon Toll Concessionaire (Zecon Toll) has proposed to issue a RM60 million (US$16.27 million) Bithaman Ajil Islamic Debt Securities (BAIDS) facility to refinance its short-term loan and for working capital.

Affin Investment Bank has been appointed the principal adviser and lead arranger for the issuance. With a tenure of up to 15 years, the facility will be issued in 11 series from the date of the first issue under the Shariah financing principles of Bai' Bithaman Ajil with Affin Investment Bank as the primary subscriber.

INDONESIA

IDB to finance energy projects

The Islamic Development Bank (IDB) will finance electricity projects in Indonesia that could be valued at US$30 billion. Its vice president Amadou Boubacar Cisse said the bank would finance the projects with its own funds and also act as an arranger to shift resources from the Middle East to the energy projects in Indonesia.

He noted that apart from the energy sector, the bank will also focus its contribution on the infrastructure development including roads, airport, ports and housing.

MALAYSIA

Minetech Resources to issue debt

Minetech Resources plans to issue up to RM100 million (US$27.12 million) Islamic debt papers to tap the competitive private debt securities market and reduce its borrowing costs for expansion. The issuance comprises partially underwritten Murabahah notes issuance facility (MUNIF) and Islamic medium term notes issuance (IMTN).

The RM100 million (US$ 27.12 million) is for the repayment of existing bank borrowings, capital expenditure and/or investments and working capital.

NEWS BRIEFS

USA

DJIM BRIC Equal Weighted Index launched

The Dow Jones Islamic Market (DJIM) BRIC Equal Weighted Index has been launched to measure the performance of companies in the Brazil, Russia, India and offshore China markets that pass screens of Shariah compliance.

It is designed to serve as underlying for investment products such as mutual funds, exchange-traded funds (ETFs) and other investable products, offering market participants two unique advantages, namely access to the performance of the most sought after emerging markets as well as exposure to an investable and Shariah compliant index that follows the superior methodology of the DJIM.

The four represented countries are equally weighted within the DJIM BRIC Equal Weighted Index. Simultaneously, the components of the index are weighted by free-float market capitalization, subject to a 10% cap on the weight of any individual security. The index will be reviewed quarterly in March, June, September and December. Historical index values are available daily back to the 31st December 2005. The base value of the index is set at 1,000 as of that date.

UAE (Dubai)

Tabreed's 1st half profits up

The National Central Cooling Company, Tabreed, has posted an increase in its first half profit of 2006 to AED32.5 million (US$8.84 million), from the previous AED31.5 million (US$8.58 million).

Its revenues rose 21% to AED231.4 million (US$63 million) while operations profits soared to AED105.6 million (US$28.75 million). Total assets increased to AED3.04 billion (US$827 million). The company's contract volume is expected to double in capacity to reach 200,000 tons of refrigeration (TR) from 97,000 TR in 2005.

UAE (Dubai)

CIMB lead manages Tabreed's Sukuk

Commerce International Merchant Bankers (CIMB) has lead managed the National Central Cooling Company, Tabreed's US$200 million Sukuk. This is the second Sukuk issuance by Tabreed after its inaugural issue in 2004.

The US$200 million Sukuk is structured under combined Shariah principles of Istisna' and Ijarah. The issuer is a special purpose vehicle domiciled in the Cayman Islands with Tabreed being the ultimate obligor. The Sukuk carry's a senior secured debt rating of BBB- by Standard & Poor's, reflecting Tabreed's BBB- (stable) corporate credit rating. The book-building process for the Sukuk covered various destinations across the Middle East, Europe and Asia. The book received strong interest especially from banks across the Middle East and was oversubscribed.

CIMB is one of the joint lead book runners and lead managers for the transaction along with Dresdner Kleinwort and HSBC.

UAE (Dubai)

EIB expects to double business

Emirates Islamic Bank (EIB) expects business to double for at least the next three years as demand for Islamic banking takes a greater share of the country's financial sector.

Its general manager Abdulla Abdul Karim Showaiter noted that up to the end of June, the bank's profits reached AED7.5 billion (US$2.04 billion), up 60% in just six months over its 2005 end figure.

From only 3% of the UAE financial sector a few years ago, Shariah compliant banking now accounts for 15% of the sector, based on the statistics of the Dubai International Financial Center's Islamic finance unit.

NEWS BRIEFS

UK/UAE (Dubai)

Jasper is launched

Jasper Capital has launched its new subsidiary, Jasper Consult Financial Services and will be headed by Mr Stewart Jack. Its target market will initially be the Middle East.

The financial services consulting market in this region has been dominated for many years by consulting businesses developed on the back of the major audit firms' presence in the region. Following the recent rationalization of this sector, there is currently no niche consulting group in the target market which has succeeded in becoming the consultancy of choice within the financial services sector.

Jasper's new business will be headquartered in London. In addition to its office in Dubai, it also has plans to open further offices in the near future elsewhere in the GCC.

The new business will offer clients access to some of the most experienced consultants in the region. Operating totally independently of any supplier, Jasper does not operate on both the 'buy' and 'sell' side of the same transaction.

SAUDI ARABIA

SABIC signs underwriting agreement

Saudi Basic Industries Corporation (SABIC) has signed the underwriting agreement for its debut SR3 billion (US$800 million) Sukuk with the lead manager HSBC Saudi Arabia and a group of co-managers that include Banque Saudi Fransi, National Commercial Bank, Samba Finance Group, Saudi Hollandi Bank, SABB and Gulf International Bank.

HSBC is also acting as the Sukuk holders' Agent, while SABB Amanah of SABB is the Shariah coordinator and SABB is the payments administrator for this landmark transaction.

SINGAPORE

MidEast boost local Islamic finance

Middle East investors are boosting Singapore's effort to become a regional center for Islamic finance.

Strong performance of the Middle East economies, high energy prices and rapid financial innovation has set the stage for Islamic finance to grow and flourish and Singapore is capitalizing on the growth.

THAILAND

SET to consider Islamic index

Thailand's bourse is studying the feasibility of introducing an Islamic Index to draw Muslim investments into the local bourse. Stock Exchange of Thailand (SET) president Patareeya Benjapolchai said a committee would be set up to study the introduction of an Islamic Index that comprised listed companies whose activities were Shariah compliant. The proposed Index is expected to comprise between 50 to 80 Thai securities.

Benjapolchai said SET would consult with MFC Islamic Fund of the MFC Asset Management to work on the Islamic Index.

UK/UAE (Dubai)

Gulf Navigation IPO opened

Gulf Navigation Holding's initial public offering (IPO) to list on the Dubai Financial Market opened on the 24th July 2006 for all GCC nationals, companies, establishments and general firms under the Federal and Local Governments.

SHUAA Capital is the financial advisor, lead manager and book runner for the IPO while the receiving banks for the subscription in the UAE include National Bank of Abu Dhabi, Emirates Bank, Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates Financial Services, Finance House, First Gulf Bank, Mashreqbank, National Bank of Fujairah, Union National Bank and HSBC. In addition to the UAE, HSBC will open its branches for subscription in Qatar, Oman and Bahrain.

MALAYSIA

World's first Islamic REIT IPO

The world's first Islamic real estate investment trust (I-REIT), Al-'Aqar KPJ REIT IPO was launched with AmMerchant Bank appointed as the adviser, managing underwriter and sole placement agent.

Under the IPO, a total of 340 million units will be issued and of these, KPJ Healthcare (KPJ) will hold 160 million units or 47% while 165 million units will be issued to institutional investors at RM1 (US$0.27) per unit and 15 million units to the public at RM0.95 each.

About RM180 million (US$49 million) is expected to be raised from the IPO and a total of RM167.25 million (US$45.53 million will be used to part fund the acquisition of assets and another RM5.13 million (US$1.39 million) will be used to finance the renovation and expansion of the properties.

NEWS BRIEFS

MALAYSIA/INDONESIA

INCEIF inks MoU with LPPI

The Malaysian International Centre for Education in Islamic Finance (INCEIF) has inked a memorandum of understanding (MoU) with Lembaga Pengembangan Perbankan Indonesia (LPPI) for human capital development in the Islamic finance industry.

Malaysian central bank governor Dr Zeti Akhtar Aziz acknowledged the MOU signing would forge closer cooperation between INCEIF and LPPI in realizing the common objective of developing a robust and resilient Islamic financial system.

The fast pace of innovation in the global Islamic financial services sector has created a great demand for experts in Islamic financial services who have the right blend of deep knowledge in both finance and the Shariah.

UAE (Dubai)

EBG chalks a 36% increase

Emirates Bank Group (EBG) has chalked a net profit of AED971 million (US$264.3 million) for six months ended 30th June 2006 reflecting a 36% increase over AED712 million (US$193.48 million) earned in the same period in 2005. The first half of 2006 also saw Earnings per share increase to AED0.42 (US$0.11) from AED0.31 (US$0.08) a year ago.

Total assets of the Group reached AED72.4 billion (US$19.71 billion) at 30th June 2006, an increase of AED13.0 billion (US$3.53 billion) from the 31st December 2005 level of AED59.3 billion (US$16.14 billion). Loans and advances increased 20% to AED46.2 billion (US$12.57 billion) at 30th June 2006 from AED38.5 billion (US$10.48 billion) at 31st December 2005 reflecting robust growth in both corporate and retail segments. Customer deposits increased to AED31.6 billion (US$8.6 billion) at June end from AED29.4 billion (US$8 billion) at 31st December 2005.

Emirates Islamic Bank continues to deliver strong growth in earnings. Islamic financing and investments increased by 103% to AED4.3 billion (US$1.17billion) at 30th June 2006 from AED2.1 billion (US$571 million) at 31st December 2005. Islamic customer deposits also increased to AED6.2 billion (US$1.69 billion) from their 31st December 2005 level of AED3.5 billion (US$953 million).

MALAYSIA

First Islamic currency swap executed

Standard Chartered Bank Malaysia (Stanchart Malaysia) has executed, what it described as the first Islamic cross-currency swap in the world, with Bank Muamalat Malaysia.

Its chief executive officer Shayne Nelson said the Islamic cross-currency swap was trailblazer combining the benefits of managing currency risks and rate differential returns with Shariah compliance principles

The Islamic cross-currency swap is an arrangement between the two parties to exchange a series of profit and/or principal payment denominated in one currency for another series of profit and/or principal payment denominated in another currency, based on a notional principal amount over an agreed period. The arrangement uses commodity Murabahah transactions as the underlying transactions.

MALAYSIA

ARB to enter REIT market

Amanah Raya (ARB) will enter into the real estate investment trust (REIT) market by issuing a combination of conventional and Islamic funds worth about RM1 billion (US$272.3 million) in the third quarter of this year. The company will introduce its conventional REIT worth RM500 million (US$136.16 million) first, followed by its Islamic scheme before the year end.

Its general manager for corporate services, Sudirman Masduki, said the company had identified several properties for the two schemes, comprising mainly hotels, warehouses and commercial buildings.

The company also plans to launch a RM1 billion (US$272.3 million) trust fund next month.

UAE (Dubai)

Islamic LMC to be established

Dubai International Financial Center (DIFC) is establishing an Islamic liquidity management center (LMC) with a start-up capital of US$1 billion, as early as next year. It will work much like an Islamic central bank, specifically for the management of liquidity of the Islamic banking community through different products like Sukuk.

DIFC director of Islamic finance Khalid Yousaf said the centre would create the much needed short-term liquidity flows for Islamic banks, while also jump-starting a pipeline of Islamic structured products for listing on the Dubai International Financial Exchange (DIFX).

Liquidity is a big issue for Islamic banks because of their small size. Of the world's 282 Islamic institutions, 72% are capitalized at US$25 million or less.

NEWS BRIEFS

RETAIL NEWS

QATAR

Doha Islamic opens new branch

Doha Islamic has opened its second branch on C-Ring Road to provide convenience to its customers in the locality and in line with the banks' strategy to meet the increasing demand in Shariah compliant products and services.

With the opening of Doha Islamic's new branch, customers' financial requirements and inquiries are met by an experienced and dedicated team that is singularly focused on providing customers with the highest levels of service and the right banking and financing solutions, Doha Bank chairman R. Seetharaman said.

BAHRAIN

KFH Bahrain joins BDB to help SMEs

Kuwait Finance House Bahrain (KFH Bahrain) has teamed up with Bahrain Development Bank (BDB) to form a US$10 million venture capital company to finance and invest in the Small and Medium Enterprises (SMEs) in Bahrain.

The new venture represents a new dimension for the BDB, whereby the financing and investments are offered through Shariah compliant mechanisms in alliance with KFH Bahrain, a leading provider of Islamic commercial and investment banking products and services.

The establishment of the new venture capital company is in line with the strategic objectives of the bank and its ongoing efforts to promote economic growth, diversification and advancement in Bahrain.

BAHRAIN

New website for BIsB

A new website for Bahrain Islamic Bank (BIsB) has been launched with a new look and updated materials at www.bisbonline.com, as part of the recent changes witnessed by the bank.

The new look website is only the first phase of an interactive website that will be further improved in the next few months. The main page provides basic information about the bank, its mission and future vision. It also provides data about a select group of the main business activities of the bank such as corporate services, new products, facilities, retail banking services and other vital topics

UAE (Dubai)

Tamweel to announce Q2 results

Home finance provider Tamweel will be announcing its second quarter (Q2) financial results ended 30th June 2006 on Sunday the 30th July 2006.

Tamweel is the only company in the UAE that has been offering Islamic home finance products since its inception and plays a vital role in the development of the UAE real estate market.

BAHRAIN

GFH Commercial unveils new identity

Gulf Finance House Commercial Bank (GFH Commercial Bank), a wholly owned subsidiary of Gulf Finance House has unveiled its new corporate identity and inaugurated its new corporate headquarters at Al-Zamil Tower.

Named as Khaleeji Commercial Bank, the bank is capitalized at BD30 million (US$80 million) and offers specialized products and services to a niche market of high net worth individuals and financial institutions, including financing opportunities for property developers, landowners and property investors across the region.

The bank is also seeking to develop alliances with other Islamic banks, large property developers and real estate agents in the region to source investment and financing opportunities. In addition to the current range of restricted, unrestricted and financing products, the bank plans to offer a host of Islamic retail banking products such as savings accounts, current accounts, money transfers, drafts, and ATM and credit card facilities.

MALAYSIA

BUTM declares income dividend

BIMB Unit Trust Management (BUTM) has declared an income distribution of 1.5 sen (US$0.004) per unit for its Amanah Saham Bank Islam (ASBI) Dana Al-Muin, which is equivalent to a 6.42% return from the fund's net asset value as at 1st July 2006.

ASBI is an Islamic unit trust fund established by Bank Islam Malaysia to provide a channel for investors to pool and invest in Shariah compliant products.

NEWS BRIEFS

RATINGS NEWS

MALAYSIA

MARC rated Symphony

Malaysian Rating Corporation has assigned the ratings of MARC-2ID/AID to Symphony House's RM100 million (US$27.24 million) Islamic commercial paper/medium term notes (CP/MTN) program.

The ratings reflected, amongst others, Symphony's cash flow generating capabilities supported by a healthy mix in various business segments; the growth potential of Symphony's business process outsourcing (BPO) services, via Vsource Asia (Vsource). The ratings were moderated due to the inherent volatility in performance of the information technology services industry.

Of the RM100 million (US$27.24 million) CP/MTN, Symphony intends to issue between RM25 million (US$6.8 million) to RM55 million (US$14.98 million) in the initial issue for partial refinancing of existing borrowings and funding the acquisition of Corporate House Services.

MALAYSIA

SPG's Sukuk ratings assigned

Sarawak Power Generation (SPG)'s proposed serial Sukuk Musharakah (Sukuk) of up to RM215 million (US$58.55 million) has been assigned long and short-term ratings of AA1 and P1, respectively by Rating Agency of Malaysia (RAM).

Concurrently, RAM has reaffirmed the AA1 rating of SPG's RM160 million (US$43.57 million) Al-Bai Bithaman Ajil Islamic Debt Securities (BaIDS) with a stable outlook. RAM notes that the RM160 million (US$43.57 million) BaIDS will be fully redeemed on Dec 15, 2006. Following this, the proposed Sukuk will be SPG's only outstanding debt.

The ratings are supported by the strong project economics and commendable operating track record of the Tanjung Kidurong power plant, the strong counterparty for the project and SPG's robust debt-servicing ability.

PAKISTAN

FPM rating reaffirmed

First Paramount Modaraba (FPM) entity rating at BBB-/A-3 (Triple B Minus / A-Three) with a stable outlook has been reaffirmed by JCR-VIS Credit Rating Company (JCR-VIS).

FPM is a multipurpose manufacturing Mudarabah company, engaged in Musharakah and Mudarabah business. The rating agency has noted improvement in FPM's operations owing to higher capacity and business volumes which now contributes substantially to overall profitability of the Mudarabah.

However its small size and limited market access has implications on the risk taking ability. Resultantly diversification of revenue sources, meaningful business growth and development of sources for fund mobilization would be essential for the Mudarabah in the future.

MALAYSIA

MARCWatch placed on M-Trex Corp' CP

The Malaysian Rating Corporation (MARC) has placed M-Trex Corporation (M-Trex)'s RM60 million (US$16.34 million) Murabahah Commercial Paper (CP) program on MARCWatch with a negative outlook.

The action resulted from M-Trex's failure to provide the necessary information for MARC to carry out its first annual surveillance review.

M-Trex is currently in breach of provisions under the Facility Agreement and Trust Deed, primarily relating to the utilisation of proceeds from the issuance. M-Trex has sought consent/indulgence from the note holders but up till the release of this announcement, the consent/indulgence from the note holders has not been formalised.

THIS TIME LAST YEAR

A financial consortium led by **RUSD Investment Bank** was gearing up to start Islamic banking operations in Malaysia with a US$100 million initial capital outlay; UAE's **Sharjah Islamic Bank**, collected US$14 million for its Tharwa Islamic Equity Portfolio, which was managed by Shuaa Capital and audited by KPMG; **Al Marfa'a Al Mali Sukuk** issue was successfully closed at US$134 million. The five year Istisnah and Ijarah Sukuk was structured by the **Liquidity Management Center** and received an overwhelming response; Qatar's **Shariah compliant National Leasing** was stated to be studying a US$200 million Sukuk issue, to secure long-term financing for expansion activities; Bahrain based **Arcapita Bank** appointed **Bayerische Hypound Vereinsbank, Standard Bank and WestLB** as the mandated lead arrangers for its five-year multi currency Murabahah backed Sukuk; The Malaysian government granted an Islamic banking license to **Hong Leong Islamic Bank;** Dubai's Minister if Economy and Planning and the chairman of the Board of **Emirates Securities Commodities Authority** – Shaikha Lubna Al Qasimi – approved the listing of the **Islamic Arab Insurance Company** under the category of Class 2; **Dubai-based International Arab Insurance Company's** US$54.5 million IPO was about eight times oversubscribed, raising a total of US$258.6 million and increasing the company's capital to US$272.3 million. The additional capital was to buy an 82% stake in **Bahrain-based Islamic Insurance and investment firm TARRIC**; **Bangladesh's Ministry of Commerce** received applications from about 40 politicians, former bureaucrats and businessmen for licenses to run life and general insurance companies.

Rulings On Penalty Charges

By Fakihah Azahari

The issue of legitimacy of penalty charges has been discussed by a group of international jurists at the seminar conducted and published by the Al Baraka Investment & Development Co as follows:-

Issue: *Is the principle of holding a dilatory liable to pay damages to the creditor legitimate from the point of view of the Islamic law.*

Answer: *"In Islamic law it is permissible to hold responsible a financially capable debtor who delays payment of debt without any genuine reason, and to compensate the Financier for any loss resulting from late payment. Such a debtor is unjust as the Prophet said "A debtor who delays payment of debt is unjust. The case of such person is similar to that of an unjust decreed that besides returning the capital he should also be made to return any profit made by him on the usurped penalty. This was the majority opinion. Some are of the view that the obligation to pay this amount is a sort of penalty clause based on the principle of public welfare provided any income obtained is spent on legitimate charitable works."*

Jumhur ulama' has taken the view that a person who has the means to repay his debt but delays in doing so is actually committing an unjust act. The liability of the Customer is also subject to the proviso that he is unable to offer any genuine reasons for his delay. It may be constructed that the appropriate rate to be determined may be influenced by factors such as whether there was a willful intention on the part of the Customer to delay his payment or there are other extraneous factors beyond the control of the Customer.

If we were to stretch the element of public welfare evident in the opinion, it is also possible to look at the culpability factor that contributes to the injury committed. Culpability factor occurs where the act of delaying the payment of the debt was due directly by the actions of the person committing the act and precipitated by extraneous factors. The culpability factor may be relevant at arriving at a fair rate of penalty; depending on the circumstances of the case to be weighed by the authority imposing the penalty rate.

When the element of public welfare is taken into further consideration, any penalty charges imposed may be channeled through charitable institutions, subject always to the institution overseeing and supervising the collection and distribution of the penalty charges.

Stipulating a penalty clause (opinion published by international jurists)

Issue: *Is it permissible to stipulate a penalty clause in the case of those who delay paying their debts while they are able to pay.*

Answer: *"It is permissible to stipulate a penalty clause as a deterrent against those who are well off and still delay paying their debts provided the money received from these penalties is spent on works of charity and special welfare. In case there is any taxes to be paid on the amount of penalty the Bank is entitled to deduct these expenses from the penalty for late payment".*

Jumhur ulama are of the opinion that it is permissible to stipulate a penalty clause in the contract between the Financier and the Customer. A valid contract is one that fulfils the conditions if a *sahih (valid)* contract namely; offer and acceptance, subject matter and the contracting parties. It is a fundamental *Shariatic* principle that consent/mutual agreement of both parties to the terms of contract are given effect to. Parties to the contract may stipulate their agreement to a penalty clause in the contract. This will effectively prevent any dispute between the parties in the future as to the rights of the Financier to impose a penalty charge on the Customer. *Jumhur ulama* nevertheless put a condition that any income received from the imposition of penalty charges should go to charitable purposes and welfare.

continued...

Rulings On Penalty Charges *(continued...)*

The rate of penalty charges

Jumhur ulama have left the question of the appropriate rate to be imposed to the experts; the Bankers and Financiers. They have provided some guidelines for consideration namely; whether the debtor is able to offer a genuine and reasonable explanation for their delay; whether willful intention was present at the time the wrongdoing was committed and whether there was a culpability factor.

The injured party may have to decide on what amounts to extraneous factors which gives rise to the culpability factor. Is high interest rate due to recession an extraneous factor or simply a business risk to be shared between the Customer and the Financier. It may be argued by the Financier, that they are the party more vulnerable as high interest rates directly affect its cost of fund. Islamic banking in Malaysia is based on a fixed rate mechanism and Islamic banking would have to absorb the gap between the cost of fund and the profit it has fixed for the Customers in a situation of interest hike.

The rate of the penalty charges to be imposed is dependent on many factors namely the Financier's cost of fund, the administrative charges, expenses, legal costs, etc. The principle in charging penalty charges is to compensate the Financier for any loss or injury suffered by the Financier. The difficulty here would be to actually quantify the actual amount of the losses or injury suffered and determine what was the losses or injury suffered.

The Supreme Court of Pakistan in the case of Dr. M. Aslam Khaki v. Syed Muhammad Hashim 2000 Shariat Law Reports states that "...a service charge based on the actual (eg. Secretarial) expenses incurred by the financier, in advancing a loan can be claimed by him from the Customer.

This principle is derived from the following Quranic verses:

Al Baqarah: 82

> "And the indebted person shall dictate (the document evidencing the debt)"

Here the preparation of the document of loan has been held to be the responsibility of the Customer which naturally means that if this documentation involves some expenses, they will be borne by the Customer. It lays down the principle that the expenses of such nature in a transaction of loan can be claimed by the financier, on condition that they are really based on actual expenses.

It is submitted that a parallel reading of the word "service charge" to include charges incurred by the Financier as a result of the Customer's default is not contrary to the Shariah, Further the Court were of the opinion that if some additional expenses were incurred after the default through sending reminders, they were not necessarily at the same rate the service charge was calculated. They can be less or more if the Financier has to take a legal action against the Customer.

In qualifying the actual losses or injury suffered, the Financier shall have to be able to provide in detail the actual amount and to be able to justify the amount to be charged.

The dividing line between a ribawi (interest based) and non ribawi (non-interest based) transaction here depends to a large extent whether the Financier is able to justify the penalty charges imposed and it is fair and legitimate in the event the Customer challenges the penalty charges. The principle of determining a fair penalty charge therefore should be on the basis of justification.

In examining the concept of ribawi, we find that the majority jurists have unanimously agreed by way of ijma' that 'riba' does not refer to an amount of money or its equivalent, but encapsulates elements of oppression, exploitation and uncertainty.

In the above stated case an opinion submitted by a representative of the Islamic economic scholars on the definitions or 'riba', states "...in order to come within the term 'riba', such return would have to reflect exploitation of the Customer by the Financier..'. It is submitted that the element of 'exploitation' or 'uncertainty' may be contained where the Financier is able to provide the correct information and such information has not been withheld or manipulated to serve their own interest.

NIK HISHAM, FAKIHAH & CO

The author is a partner of Nik Hisham, Fakihah & Co, Malaysia, and specializes in the areas of Islamic banking, capital and money markets, as well as Islamic inheritance law. She can be contacted at fakihah@naflaw.com.

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MUIS' Roles In Developing Islamic Finance In Singapore

By Haji Mohammad Alami Musa

There are numerous challenges facing the Islamic finance industry, while Singapore is working towards developing itself as the hub for the region. Playing its roles as the city-state Islamic religion authority, the Islamic Religious Council of Singapore (MUIS) hopes to contribute to overcoming those challenges. Amongst others are issues with regards to Shariah compliance and new product development.

Shariah Compliance

Shariah compliance of financial products is essential to ensure credibility of the products and institutions. It is, at the end of the day, what differentiates conventional from Islamic financial products.

We have already seen the statistics on the potential of Islamic finance. The number of Muslim investors is increasing. They are becoming more sophisticated and will demand more from their bankers. Investors will not only look at investment performance or Shariah compatibility alone. They will demand both Shariah compliance and good returns.

In fact, using the label 'Islamic' or 'Shariah Compliant' would suggest that the product is already adhering to the principles of Shariah. Any violation of this rule would mean a loss of confidence in the product, firm or even the system itself. Investors will vote with their feet. Therefore, it is in the industry's interest to ensure that the Shariah supervision systems in the Islamic financial institutions are managed well.

However, ensuring effective Shariah compliance is not a straightforward matter. There are many issues that confront it. For example, one of the more pertinent problems is the lack of standardization in addressing Shariah issues. Conventional banking and finance is moving towards standardization in many areas, for example, through the Basel Committee on Banking Supervision. Islamic finance, as well, has to continue in that direction. A lack of standardization may result in problems such as increased transaction costs, lack of recognition of legal rights and marketability problems across borders. It may even impede the development of the industry.

New Product Development

Aside from Shariah compliance, another factor that is crucial to the development of the industry is the constant innovation and development of new products. Financial markets are increasing in sophistication; the environment is constantly changing and competition is increasing. Muslim investors need a range of products to meet their desire for diversification of their investments, based on their unique individual needs. There have been many talks about the need to attract the Middle Eastern investors to this region. However, we have yet to see different asset classes of investment being created to attract these investors.

MUIS has innovated the issuance of a Musharakah bond for our wakaf development. The Ijarah 'Sukuk' worth S$60 million (US$38million) – the first of its kind five years ago – has put Singapore on the world map for product innovation. It is now widely used in the Islamic finance industry. Not only that, the Sukuk issuance, is part of a bigger wakaf asset enhancement program that has enabled us to realise and maximize the potentials of our wakaf properties for the betterment of the Muslim community in Singapore.

The Sukuk was issued to develop two of our wakaf properties. The first one was a mixed development property, which comprised of a serviced apartment with 107 rooms, a four-storey commercial complex and a mosque. The cost of this project was S$35 million (US$22.17million), financed by an Ijarah Sukuk issuance. The serviced apartment, currently managed by Ascott, is running close to full occupancy.

The second project was the purchase and refurbishment of a six-storey office building at 11 Beach Road, which is currently fully tenanted. A further S$25 million (US$15.83million) Ijarah Sukuk was launched to finance the acquisition of the property. Both properties are currently valued at more than S$100 million (US$63.35million). Thus, the community has managed to reap both financial and social gains from the developments. The Ijarah Sukuk that we issued five years back is still the only available Sukuk in Singapore. We hope to contribute further in generating new products.

Current Improvements

Hence, there are some very important issues that face the Islamic finance industry. Two of the more crucial ones, as we have seen, are regarding Shariah compliance and new product development. Nevertheless, it is heartening to note that much effort is being made to address these challenges.

For example, institutions such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) have made great progress in developing standards, including on Shariah compliance. I am glad to note that the Monetary Authority of Singapore (MAS) is a full member of IFSB, and is taking part in some of the standard setting projects.

We can also see new developments in investment products such as Sukuk, property funds, and hedge funds. Some of these alternative forms of investments have already been discussed and we hope that the industry will endeavour to introduce more innovative Shariah compliant products in Singapore.

Developing Talents

But at the end of the day, in order to address these challenges and to achieve further improvements, we cannot run away from the fact

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that we need talented people. Shariah scholars, in particular, have to play a greater role. Shariah boards may have to operate differently in order to facilitate the innovation process, without compromising Islamic principles.

They have to be involved in the new product development process at the onset. They have to integrate Shariah considerations early and fully in any development or strategy. They have to provide constant supervision and work in close partnership with management to ensure innovative yet Shariah compliant products.

They have to understand customers' needs, safeguard their interests and represent them to the management of the organizations. They have to develop Shariah compliance systems that adhere to the standards developed by AAOIFI and IFSB. And all of these procedures will have to be transparent in order to avoid problems of information asymmetry and to gain the trust of potential investors.

Ultimately, both customers and Islamic financial institutions benefit. Investors will have a range of products to choose from. Institutions will gain greater credibility and an increase in potential customers.

To play this new role, Boards have to be staffed by qualified individuals who understand both the intricacies of modern finance and the rigour of Shariah laws. Unfortunately, finding such scholars is a problem for many financial institutions.

MUIS is playing its part in developing these scholars in Singapore. Annually, we provide scholarships to deserving young people to further their studies in reputable universities. Through the Muis Postgraduate Scholarships, we hope to be able to create a dynamic breed of Shariah scholars in Singapore, who will be able to meet the needs of the increasingly complex Islamic finance industry.

However, MUIS' efforts alone are not enough. We would like to encourage the local financial institutions to develop their own talents by identifying and training future scholars to meet their organizations' needs. Financial institutions can also work together with MUIS or the Monetary Agency of Singapore in order to develop Shariah scholars. The industry will benefit from the enlarged talent pool.

Conclusion

In conclusion, the future of Islamic finance depends very much on the core fundamentals of Shariah compliance and new product development. Customers will demand from the institutions more choices of products, better returns and Shariah compatibility. To meet their customers' needs, Shariah boards will have to play a more active role in product development and work in close partnership with management. And because of the increasingly complex role that they have to play, Shariah boards should be staffed by scholars who are trained in both modern finance and Shariah law.

On its part, MUIS will continue to develop such scholars. We are also committed to contribute to the development of new and innovative products, just like what we had innovated five years ago. We hope that the other players in the industry will also do likewise. With such efforts, we will see a more exciting future ahead for the Islamic finance industry.

MAJLIS UGAMA ISLAM SINGAPURA
ISLAMIC RELIGIOUS COUNCIL OF SINGAPORE

The author is the President of Islamic Religious Council of Singapore and can be contacted at alami@muis.gov.sg

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Islamic Finance forum

Is it time to remove "Islamic" from Islamic banking?

In some jurisdictions, notably Saudi Arabia, banks are not permitted to use the word Islamic in their title, as firstly it might imply that the other banks are not Islamic, and secondly it might be perceived as making money through a kind of exploitation of religious belief. There are also some countries, notably Nigeria, where the division of the population on religious lines means that using the terms Muslim and Islamic might be seen as divisive, and this is therefore prohibited for bank titles.

The majority of Shariah scholars however see no problem with using the word Islamic to designate a bank, as this provides a signal concerning its methods of operation. As non-Muslims can use Islamic banks everywhere, the term Islamic does not imply religious exclusion. In the United Kingdom the Financial Services Authority require banks designating themselves as Islamic to have a Shariah advisory board. This seems sensible in the interests of consumer protection and product credibility.

The problem is where an institution designates itself as Islamic without a board of named and qualified Shariah scholars, as has happened in the past, even in the United Kingdom.

With this proviso, I personally see no problem in the Islamic designation.

PROFESSOR RODNEY WILSON: *VP – Director of Postgraduate Studies, Durham University*

I've gone on record in stating that, after 40 plus years, Islamic banking no longer needs the 'crutch of Islamic' for growth and development, hence, the substance of 'ethical banking' will take over the form of the religious defining label. I've not come across Hindu Banking, Christian Banking, Buddhist Banking, etc... For those who seek to call a 'spade, a spade,' and use examples of their home Muslim country, with encouragement from the top-down of Malaysia, where the minority non-Muslims are participating in Islamic banking, may I suggest to look at the situation in the larger OECD countries, where Muslims are a small minority, and trying to get a meeting/lobby politicians/regulators on 'Islamic banking' becomes a difficult exercise, especially during 'events' in the Middle East.

If we are to look at some of the most successful banks in Islamic banking, like Kuwait Finance House (KFH), Gulf Finance House (GFH), Al Rajhi, National Commercial Bank (retail), we do not see the word 'Islamic' in the title. One of the most successful international Islamic Banks, Bahrain's First Islamic Investment Bank (FIIB), changed its name to Arcapita.

Additionally, one of the most successful western banks with an Islamic subsidiary is HSBC Amanah, no Islamic label here. Finally, some of the new banks, Al Bilad Bank, Boubyan Bank, etc..., or do not have Islamic in title.

What about the entity created to address secondary market trading for Sukuk, Liquidity Management Center (LMC) no Islamic label here?

In Turkey, political issues aside, Islamic banking is referred to as Participatory Banking, and the essence of the word 'participation,' conveys the inclusionary nature and universality of ethics in Islamic finance for all those interested.

I view it as the following: (1) those entities satisfied with home [Muslim] country, then 'Islamic' banking works; (2) for those interested in offering Islamic banking in, say, India (with 150M Muslims), China (40+M) or Russia (20+M), Participatory Banking may be the 'way to the watering hole'; and (3) for those with global aspirations, Arcapita or KFH, one can make money for shareholders and investment account holders and undertake 'financial dawah' without calling it Islamic. Thus, I view Islamic banking as requiring a branding exercise, where, the label will let Muslims know its Islamic banking and non-Muslims will not have an immediate emotional/gut reaction, and not bother to learn about the substantive ethical nature of Islamic finance, which is consistent with their faith's teaching, except not yet codified 'faith and finance.'

RUSHDI SIDDIQUI: *Dow Jones Indexes*

While Islam's message is one of unification, I find the use of the terminology "Islamic" finance somewhat, albeit unintentionally, disunifying in that it can be misread as something exclusive for Muslims. Good business and finance practices are for everyone, and we are fortunate to have the foundation and basis of the same in the guidance of the Quran and the teachings of the Prophet.

SALIM MANZAR: *Executive Director, Princeton Advisory Group*

My only concern that in replacing Islamic with some other terminology i.e. Riba, Shariah etc..., it may not accurately represent the Islamic finance which has been sanctioned under Islamic jurisprudence. This is because riba free, shariah only forms some of the components of Islamic finance.

MOHAMED RIDZA: *Ridza Law*

The views expressed in Islamic finance forum are those of our panelists, and not necessarily those of Islamic Finance *news*.

Meet the Head

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

Name: Arshad Ismail

Position: Head of Sukuk

Company: HSBC Amanah

Based: Dubai, United Arab Emirates

Nationality: Malaysian

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

I started my career as an advocate & solicitor with a law firm based in Kuala Lumpur where I specialized in corporate & commercial law and Islamic finance. The firm I worked with had a niche practice in the area of Islamic finance and I was fortunate to have been involved in some exciting and groundbreaking work. After several fulfilling years in private practice, I joined CIMB Islamic (the Islamic finance division of the CIMB Banking Group based in Kuala Lumpur) in 2003. At CIMB Islamic, my focus was Islamic capital markets and I had the opportunity to work on many interesting and innovative transactions during my time there. Subsequently, I joined HSBC Amanah as the Head of Sukuk in 2004.

What does your role involve?

The incumbent has overall responsibility for the development of the Sukuk business at HSBC Amanah (and hence HSBC Group). It involves originating and executing Sukuk transactions in all jurisdictions, and assisting in the distribution of the Sukuk.

What is your greatest achievement to date?

It is difficult to single out a particular achievement as being the greatest. I certainly experience a great sense of achievement when we successfully convince a client to issue Sukuk, especially when the client has several other options available to it. Another achievement would be when clients appreciate the Shariah reasoning for certain components of a structure and decide to adopt them even though it would not have been required of them had they opted for a conventional financing solution.

Which of your products/services deliver the best results?

My role is a product-focused role within HSBC Amanah and hence, my products all fall within the category of Islamic capital market.

What are the strengths of your business?

The Sukuk business is a relatively new business that has yet to achieve critical mass. However, it is a business that is set to grow at a rapid pace in the coming years. HSBC Amanah is a pioneer in the Sukuk space and these two factors i.e. the expected rapid growth of, and HSBC Amanah's experience in the Sukuk business, will certainly help us build the business into something significant.

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

Over the years, we have built the business in strict compliance with Shariah and the HSBC Amanah brand name has become associated with Islamic finance services and products of the highest standards. Another factor is certainly the reputation of the HSBC banking group and the confidence the market has in the Group, and the symbiotic relationship between HSBC Amanah and the larger HSBC banking group has had an amazing positive effect on our success.

What are the obstacles faced in running your business today?

One would be the tendency to develop Islamic instruments that mirror the conventional "equivalents". Some of the features of conventional instruments that are incorporated into Islamic instruments often result in Shariah scholars expressing reservations but such instruments are nevertheless approved as industry players argue that these are necessary to ensure the success of the transaction.

Another point of concern is the lack of depth in the Islamic investor base. Sukuk transactions seem to have a maturity ceiling of 7 years and this often creates a problem for issuers who require longer term funding.

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

From the perspective of the Middle East, the industry is certainly expected to grow at a rapid pace. Businesses are still educating themselves on the options available in the Islamic finance market and many are beginning to conduct their operations (and not just their funding activities) in a Shariah compliant manner. This industry driven demand for Islamic finance augurs well for the future of Islamic finance.

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

There is a lot of competition in Islamic finance and this is certainly a good sign. However, I also believe that a significant amount can be achieved if industry players were to work together not only to enhance revenues but more importantly, to develop, improve and nurture the growth of the industry. It is extremely important for financial institutions in the arena of Islamic finance to assist industry bodies like AAOIFI, IFSB and IIFM.

MALAYSIA / UAE-Dubai

MNRB to enter Dubai

MNRB Holdings (MNRB) plans to enter Dubai before the end of this year. Its chairman Mohammad Abdullah said the reinsurance firm was in the process of finalizing the plan to open a representative office including obtaining clearance from relevant authorities.

"The approval process from the authorities in Dubai will take between three to four months from the date we submit the application," he said noting that the group was allocating about US$100,000 to have an office there.

In another development, Abdullah explained that the company was still awaiting approval from the Central Bank for the retakaful license it has applied for.

It has been rumored earlier that MNRB was contemplating on disposing its major stake in Takaful Ikhlas to EON Bank, having had serious negotiation for some time. The general reinsurance firm that holds a 100% ownership in Takaful Ikhlas is said to be under pressure when the Central Bank issued four new licenses to players who are stronger and financially-backed by a foreign bank or insurer.

MNRB has also been said to wanting to hasten growth of its takaful unit as the latter only registered profit after its third year of business.

EON Bank was believed to be the receiving party as the seventh largest bank in Malaysia had earlier announced its strategy to venture into Takaful and also denied eyeing stake in Syarikat Takaful Malaysia.

Abdullah however denied the rumors on selling a major stake to the EON Bank Group, noting that no such discussions had been carried out with any party.

UAE-Dubai

SALAMA's profits surge six times.

The Islamic Arab Insurance or SALAMA has charted a six time increase in its first half profits to AED 101 million (US$27.8 million) from the previous period in 2005. The company had made AED110 million (US$29.94 million) profits for the whole of 2005.

Its chairman Sheik Khaled bin Zayed Sagr Al Nahyan said the outstanding performance was limited to the IPO only but also the success in acquiring majority shareholdingsin Takaful and re-Takaful International Investment Co of Bahrain and BEST Re.

The acquisition, he added, had contributed to widening the group's geographic presence to include North Africa, especially in Egypt, Algeria, Senegal and Tunisia.

Dr Saleh Malaikah, SALAMA's vice chairman and chief executive officer noted that the group had invested AED 1.1 billion (US$ 29.99 million) in developing and consolidating the group's operations. SALAMA is anticipating a huge growth in the Takaful and Re-Takaful industry globally which is currently valued at US$ 1.7 billion to US$ 7.5 to 10 billion during the next five years, making it one of the fastest growing sectors of financial services in the world.

MALAYSIA

Jerneh to venture abroad

Jerneh Asia is assessing the feasibility of investing in the life insurance business in India, Vietnam and Myanmar. Its managing director Tam Chiew Lin said the countries were close to Malaysia and had enormous growth potential.

On the group's venture into Takaful with the HSBC group, Tam said the bank was laying the groundwork for the launching of a range of Takaful products and scheduled to announce them by the third quarter of the year.

Jerneh Asia holds 31% stake in HSBC Amanah Takaful. The other partners in the Islamic insurance company are HSBC Insurance (Asia Pacific) Holdings (49%), and the Employees' Provident Fund (20%).

MALAYSIA

Takaful Ikhlas expects higher revenue

Takaful Ikhlas expects a higher revenue of RM220 million (US$59.9 million) this year from RM147 million (US$40.02 million) last year.

Managing director, Syed Moheeb Syed Kamarulzaman, said through strategic marketing, the company was confident of achieving its quest of being the preferred provider of Islamic financial protection services.

Takaful In Saudi Arabia

By Sohail Jaffer

Introduction

It is encouraging to observe the establishment of Takaful companies in Australia, Egypt, Kuwait, Lebanon, Nigeria, Pakistan, Sri Lanka, South Africa, Tunisia, and the UAE. Several former Soviet States have also shown much interest in opting for Takaful mode for wealth accumulation for their nationals.

Since this exponential increase in consumer demand for Takaful has coincided with the emergence of a new breed of professional Takaful player, the industry is poised for a global take-off. The business opportunities for Takaful companies are only matched by the strategic challenges and opportunities that remain to be overcome.

Saudi Arabia – what the future holds

It is common knowledge that the GDP of the Kingdom of Saudi Arabia is the highest amongst the Muslim countries of the world. However, the insurance penetration rate is only a mere 0.45% - almost half that of the penetration rate of the total Arab Insurance market. This low penetration is attributable to the security generated by the extended family system and continued reliance on welfare state benefits. Consequently, Saudi consumers do not give sufficient priority to savings and capital accumulation especially for the medium to long term.

In light of the above, Takaful products offer a host of investment opportunities in Saudi Arabia (and other Muslim states that adopt a stricter implementation of Islamic law). The long awaited emergence of a new Saudi regulatory insurance body will boost the insurance market as a whole by giving extra credibility and transparency to what is undeniably a growth product.

Using available data, it is possible to forecast the anticipated growth of Takaful products in Saudi Arabia over the next 15 years (i.e. 2005-2020) based on certain key assumptions. It should be noted that throughout this exercise, the Islamic nation of Malaysia was used as a 'role model' via which to project Saudi Takaful growth due to the similarity displayed between the two countries in terms of economic and demographic indicators e.g. population, Islamic sensitivities etc (with the exception that Saudi's GDP is almost double that of Malaysia's).

The key assumptions are:

1. Saudi market opens up in 2005 to achieve the penetration level of 1% of Gross Premium Income (as compared to 5.34% of Malaysia – 2003.)
2. Saudi market achieves penetration level of 0.5% for life insurance (as compared to 2.05% of Malaysia – 2003).
3. Business share of Takaful life insurance products grows to 6% of Gross Premium Income (one and half times 4% currently prevailing in Malaysia – 2003).
4. Saudi market maintains an 8% of Gross Premium Income share for Takaful general insurance products.

Over this 15 year projected period, it is expected that the Saudi Takaful premium income (life and general) will reach US$1 billion. This is not an unrealistic objective, considering that Malaysian Takaful business has demonstrated a growth of 23.37% per annum over 2000-2003. Accordingly, with a concerted effort by Saudi Takaful providers, it is not unrealistic to forecast a relatively more modest growth rate of 15% per annum.

The admittedly low penetration rates for Saudi life insurance do however mean that in measuring progress one is afforded the benefit of a low starting point which means that any growth, even if on the conservative side, will still be seen to be exponential in nature. As such, from its very low starting base, Takaful life insurance products should ultimately represent 50% of the total Takaful market with this 'exponential' growth being a key attraction to would be providers.

However, it is important to note that unlike insurance, the success of Takaful is heavily dependent on both religious principles and market forces. Religious endorsement is significantly effective, especially in areas where insurance penetration is low.

It is augmented further with an increase in the understanding of Islamic fundamentals in the region. The concept thrives in areas where insurance penetration is high. For example, in urban areas, where exposure to insurance is higher, the acceptability rate of Takaful will commensurate accordingly.

The Arab world is endowed with sought after natural resources rapidly growing population and vast territory flanked by Mediterranean, Red Sea and Arabian Sea. This equation if backed by infrastructure improvements and the general financial awareness will lead to an increased demand for insurance. The current economic and financial reforms including new insurance regulations and market liberalization measures coupled with expected increased contributions from the Takaful sector will boost the overall growth in the Arab world. The Arab region remains the richest in terms of producing 30% of total oil and 60% of total gas production in 2002. The medium term growth potential of the insurance industry across the Arab world is promising.

FWU

Sohail Jaffer
Managing Director

The author is a partner at FWU Group and can be contacted at s.jaffer@fwugroup.com

MOVES

HSBC AMANAH – Middle East

Mr Razi Fakih has been appointed acting chief executive at HSBC Amanah's Global Onshore Banking Unit with immediate effect. Mr Fakih is one of the founding members of the business and currently managing director and head of HSBC Amanah's Global Onshore Banking.

The appointment is in place of Mr Iqbal Khan, who will leave the group by the end of this year to establish a dedicated Islamic financial services firm. Mr Khan will step down as the head of HSBC's global Islamic financial services division immediately, but will continue to serve as an adviser to the Group. He also retains his responsibility to establish the HSBC Amanah Foundation, a non-profit body devised to strengthen educational projects in Muslim communities, of which he will remain a board member and trustee.

TEJOORI – UAE

Independent Shariah compliant investment company, Tejoori has appointed Mr Rashad Barajakly as its finance director. Barajakly brings extensive finance and operational experience to the position.

Barajakly was most recently vice president at NBK Capital, where he executed and closed substantial private placements in both the oil and gas sector and food industry. Prior to this, Barajakly was the finance director of the recently launched Dubai International Financial Exchange (DIFX) and was involved in the financial strategy and planning of the Dubai International Financial Centre (DIFC) and its subsidiaries. Barajakly also held senior positions at Williams Capital, an investment bank in New York and Gray and Company, an investment consulting firm in Atlanta.

DEUTSCHE BANK – UAE (Dubai)

Mr Zahed Chowdhury has been hired as head of Middle East Company Research with immediate effect.

Chowdhury, who will be based in Dubai, will develop and manage the bank's company research coverage for the Middle East region. He will report to Stephen O'Sullivan, head of EEMEA and Latin American Research.

Chowdhury joins Deutsche Bank from HSBC where he was head of research based in Dubai. There he managed a team of analysts in developing an equity, credit and economic research product for HSBC in the region. Prior to that, he was a senior investment analyst at Merrill Lynch.

Ansbacher Middle East – UAE (Dubai)

David Forde has been appointed as a private banker and joins Ansbacher Middle East from HSBC.

He will be based in Dubai and also actively support Ansbacher's team in Doha.

Prior to this David has worked in the Gulf as a broker and a private banker since 1994.

David will report to Bruno Martorano, senior executive officer Ansbacher Middle East.

Next Forum Question

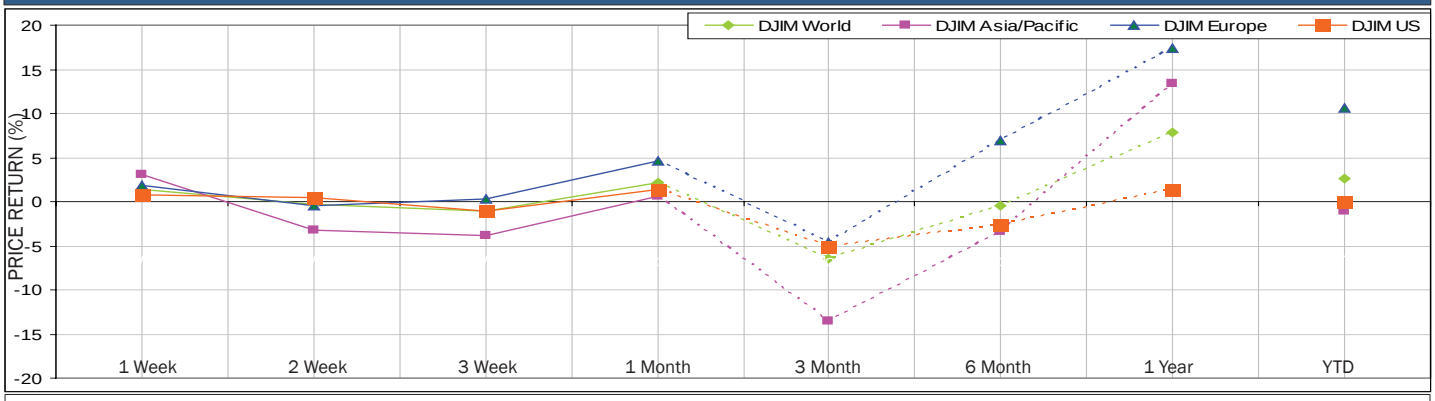
Sovereign Sukuk – Are Governments doing enough?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Zakariya Othman, Islamic Finance *news* Editor, at: Zakariya.Othman@islamicfinancenews.com before Wednesday 9th August.

DOW JONES ISLAMIC MARKET INDEXES

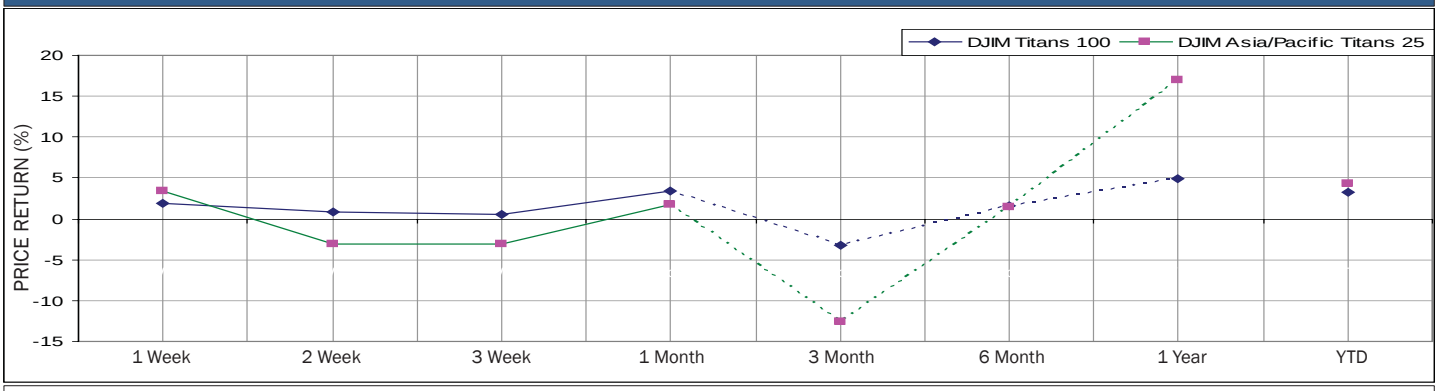
Data as of the 26th July, 2006

PERFORMANCE — **PRICE RETURN (%)**



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	1.37	-0.32	-1.07	2.23	-6.42	-0.47	7.82	2.69
DJIM Asia/Pacific	3.1	-3.3	-3.81	0.54	-13.47	-3.45	13.41	-1.1
DJIM Europe	1.89	-0.41	0.34	4.67	-4.54	6.95	17.42	10.66
DJIM US	0.71	0.39	-1.03	1.38	-5.05	-2.59	1.45	-0.03

PERFORMANCE — **PRICE RETURN (%)**



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	1.83	0.83	0.49	3.44	-3.2	1.67	4.97	3.2
DJIM Asia/Pacific Titans 25	3.43	-3.14	-3.1	1.72	-12.59	1.42	17.01	4.31

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	1978	13732.2	11886.58	6.01	1.4	406.38	0.01	3.42	0
DJIM Asia/Pacific	729	2157.49	1566.27	2.15	0.59	73.49	0.03	4.69	0
DJIM Europe	279	3449.03	2820.03	10.11	2.34	235.04	0.25	8.33	0.01
DJIM US	700	7120.67	6779.36	9.68	2.54	406.38	0.12	5.99	0
DJIM Titans 100	100	6847.6	6275.79	62.76	45.67	406.38	9.11	6.48	0.15
DJIM Asia/Pacific Titans 25	25	732.75	526.96	21.08	15.33	56	9.11	10.63	1.73

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 26th July 2006**

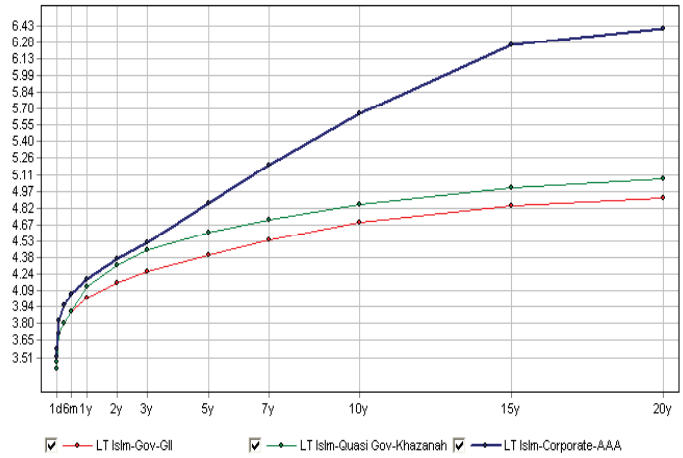
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	19 July 06 (RM)	12 July 06 (RM)	5 July 06 (RM)
Private Debt Securities					
PUTRAJAYA IMTN 5.200% 25.01.2018	AAA (MARC)	95.58	94.92	95.08	94.83
PLUS 0.00000% 17.06.2016 – SERIES 1	AAA (RAM)	56.98	55.42	55.36	55.24
UEMB IMTN 0% 26.06.2009	AA3 (RAM)	101.19	100.66	100.72	100.59
KL SENTRAL 0.000% 06.04.2007 – PN	A ID (MARC)	101.78	101.64	101.74	101.74
SPLASH 0.000% 18.07.2008	AA3 (RAM)	97.09	97.08	96.69	96.54
Government Investment Instruments					
PROFIT-BASED GII 2/2006 14.07.2011	n/a	100.95	99.93	n/a	n/a
PROFIT-BASED GII 1/2006 14.04.2009	n/a	99.04	98.58	98.57	98.47
GII 1/2004 0.00000% 15.06.2007	n/a	96.53	96.37	96.38	96.22
Quasi Government					
CAGABAIS 191/2005 02.03.2007	AAA (RAM)	99.51	99.49	99.46	99.45
IBRD 0.00000% 12.05.2010	n/a	96.5	96.13	96.11	95.92
IFC 2.880% 13.12.2007	n/a	98.31	98.12	98.20	98.14
KHA2/03 1B 0-CP 5Y 18/9/08	n/a	91.25	91.14	91.11	90.92
SAC 7/2004 17.08.2006	AAA (RAM)	99.97	99.94	99.93	99.90

SPREAD VS GII (in b.p)

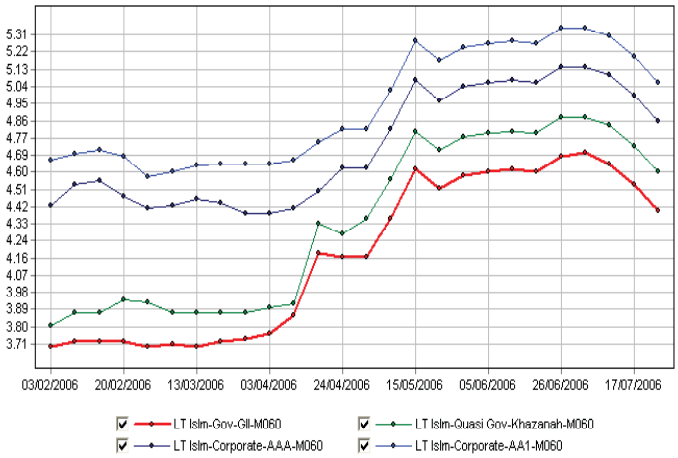
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	4.03	4.16	4.26	4.4	4.54	4.69
Cagamas	0.22	0.2	0.2	0.25	0.35	0.44
Khazanah	0.09	0.15	0.19	0.2	0.18	0.16
AAA	0.16	0.21	0.26	0.46	0.66	0.96
AA1	0.26	0.36	0.46	0.66	0.85	1.17
A1	1.05	1.23	1.45	1.96	2.41	2.92

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 — July 2005 – July 2006

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	PCFC Development	UAE	Convertible Sukuk	3,500	2	29.5	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	1,771	2	14.9	Malaysian Government bond
3	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	863	12	7.3	Cagamas/AmMerchant/Aseambankers
4	Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	681	2	5.7	Aseambankers
5	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	594	1	5.0	CIMB, AmMerchant
6	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	3.9	Deutsche
7	Putrajaya Holdings	Malaysia	Murabahah MTN	456	9	3.8	Alliance, CIMB, RHB Sakura
8	Syarikat Bekalan Air Selangor	Malaysia	Bai Bithaman Ajil MTN	273	4	2.3	CIMB, Bank Islam Malaysia, HSBC
9	Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	2.2	Aseambankers
10	Senai Desaru Expressway	Malaysia	Bai Bithaman Ajil Islamic Debt Facilities	249	26	2.1	Aseambankers
11	Konsortium Lebuhraya Utara Timur (KL)	Malaysia	Redeemable Secured Serial Sukuk Istisnah	207	9	1.7	CIMB
12	Tabreed 06 Financing Corp	UAE	Sukuk Istisnah	200	1	1.7	CIMB, HSBC, Dreer Kleinwort Wasserstein
13	Sistem Penyuraian Trafik KL Barat	Malaysia	Bai Bithaman Ajil Notes Issuance Facility	136	5	1.1	United Overseas Bank (Malaysia)
14	WAPDA First Sukuk Co	Pakistan	Sukuk Ijarah	134	1	1.1	Citibank NA (Pakistan), Jahangir Siddiqui & Co, MCB
15	Antara Steel Mill	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	133	6	1.1	AmMerchant
16	Sime Darby	Malaysia	Murabahah MTN	133	1	1.1	CIMB
17	Konsortium Lapangan Terjaya	Malaysia	Bai Bithaman Ajil/ Murabahah MTN	121	12	1.0	Alliance, United Overseas Bank (Malaysia)
18	Golden Crop Returns	Malaysia	Sukuk Ijarah	117	15	1.0	Affin
19	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	0.9	AmMerchant, Bank Muamalat Malaysia, Malaysian International Merchant Bankers
20	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	0.9	CIMB, HSBC
	Total of issues used in the table			**11,878**	**290**	**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	1,771	2	29.5	Malaysian Government bond
2	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	731	11	12.2	Cagamas/Aseambankers
3	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	594	1	9.9	CIMB, AmMerchant
4	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	7.7	Deutsche
5	Putrajaya Holdings	Malaysia	Murabahah MTN	456	9	7.6	Alliance, CIMB, RHB Sakura
6	Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	416	1	6.9	Aseambankers
7	Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	4.3	Aseambankers
8	Tabreed 06 Financing Corp	UAE	Sukuk Istisnah	200	1	3.3	CIMB, HSBC, Dreer Kleinwort Wasserstein
9	WAPDA First Sukuk Co	Pakistan	Sukuk Ijarah	134	1	2.2	Citibank (Pakistan), Jahangir Siddiqui & Co, MCB
10	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	1.8	AmMerchant, Bank Muamalat Malaysia, Malaysian International Merchant Bankers
11	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	1.8	CIMB, HSBC
12	BNM Sukuk	Malaysia	Sukuk Ijarah	107	1	1.8	Malaysian Government bond
13	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	100	10	1.7	RHB Sakura, Malaysian International Merchant Bankers, Bank Muamalat Malaysia, AmMerchant
14	Penang Bridge	Malaysia	Redeemable Secured Serial Sukuk Istisnah	96	6	1.6	CIMB
15	Dura Palms	Malaysia	Sukuk Ijarah	77	4	1.3	Avenue Securities
16	Kwantas SPV	Malaysia	Sukuk Ijarah	43	9	0.7	Aseambankers, OCBC
17	FEC Cables (Malaysia)	Malaysia	Murabahah Islamic MTN	35	8	0.6	Utama Merchant
18	Sunrise	Malaysia	Murabahah MTN	27	1	0.5	CIMB
19	Medi Innovation	Malaysia	Murabahah MTN	27	6	0.4	Amanah Short Deposits
20	IJN Capital	Malaysia	Sukuk Musharakah	27	5	0.4	RHB Sakura
	Total of issues used in the table			**6,011**	**139**	**100.0**	

ISLAMIC LEAGUE TABLES

ISLAMIC DEBT			JULY 2005 – JULY 2006	
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Malaysian Government bond	1,878	3	15.8
2	Barclays Capital	1,750	2	14.7
3	Dubai Islamic Bank	1,750	2	14.7
4	Aseambankers	1,234	47	10.4
5	CIMB	1,171	52	9.9
6	AmMerchant	675	33	5.7
7	Cagamas	592	8	5.0
8	Deutsche	485	3	4.1
9	HSBC	368	12	3.1
10	RHB	313	49	2.6
11	United Overseas	288	28	2.4
12	Alliance	215	22	1.8
13	Affin	152	28	1.3
14	Standard Chartered	143	27	1.2
15	Avenue Securities	129	7	1.1
16	OCBC	108	27	0.9
17	Bank Islam Malaysia	91	4	0.8
18	Bank Muamalat Malaysia	82	22	0.7
19	Dresdner Kleinwort	67	1	0.6
20	EON	62	20	0.5
	Total of issues used in the table	**11,878**	**290**	**100.0**

ISLAMIC DEBT			YEAR–TO–DATE	
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Malaysian Government bond	1,878	3	31.2
2	Aseambankers	834	19	13.9
3	CIMB	706	20	11.7
4	Cagamas	592	8	9.9
5	Deutsche	460	1	7.7
6	AmMerchant	385	22	6.4
7	RHB	213	27	3.5
8	Alliance	164	13	2.7
9	HSBC	148	3	2.5
10	Avenue Securities	77	4	1.3
11	Bank Muamalat Malaysia	71	21	1.2
12	Dresdner Kleinwort	67	1	1.1
13	EON	62	20	1.0
14	MIDF-Sisma Securities	50	15	0.8
15	Citigroup	45	1	0.7
16	Jahangir Siddiqui & Co	45	1	0.7
17	MCB Bank	45	1	0.7
18	Amanah Short Deposits	34	10	0.6
19	United Overseas Bank	23	5	0.4
20	OSK Asia Securities	22	4	0.4
	Total of issues used in the table	**6,011**	**139**	**100.0**

ISLAMIC DEBT BY COUNTRY		JULY 2005 – JULY 2006	
	Amt US$ m	**Iss.**	**%**
Malaysia	7,545	283	63.5
UAE	4,160	4	35.0
Pakistan	152	2	1.3
Indonesia	21	1	0.2
Total	**11,878**	**290**	**100.0**

ISLAMIC DEBT BY COUNTRY		YEAR–TO–DATE	
	Amt US$ m	**Iss.**	**%**
Malaysia	5,178	134	86.1
UAE	660	2	11.0
Pakistan	152	2	2.5
Indonesia	21	1	0.4
Total	**6,011**	**139**	**100.0**

ISLAMIC DEBT BY CURRENCY		JULY 2005 – JULY 2006	
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	7,545	283	63.5
US dollar	4,160	4	35.0
Pakistan rupee	152	2	1.3
Indonesian rupiah	21	1	0.2
Total	**11,878**	**290**	**100.0**

ISLAMIC DEBT BY CURRENCY		YEAR–TO–DATE	
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	5,178	134	86.1
US dollar	660	2	11.0
Pakistan rupee	152	2	2.5
Indonesian rupiah	21	1	0.4
Total	**6,011**	**139**	**100.0**

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
August			
14th – 15th	Malaysian Islamic Finance *Issuers & Investors Forum 2006*	Kuala Lumpur	Islamic Finance events
21st – 22nd	Islamic Banking & Finance Asia Conference	Singapore	ABF
September			
3rd – 6th	The 4th Annual Islamic Funds World 2006	Dubai	Terrapinn
5th – 6th	3rd Annual Asian Islamic Banking & Finance Summit	Kuala Lumpur	Euromoney Seminars
11th – 12th	Islamic Real Estate Asia 2006	Singapore	IQPC Worldwide
15th – 16th	Brunei Islamic Financial Services Forum hosted by the Ministry of Finance Brunei	Brunei	IFSB
17th – 18th	World Islamic Real Estate Investment Conference	Dubai	Mega Events
17th – 20th	Private Equity World Middle East	Dubai	Terrapinn
26th – 28th	Islamic Funds World	Dubai	Terrapinn
November			
5th – 6th	The World Islamic Infrastructure Finance Conference	Doha	Mega Events
13th – 14th	4th International Islamic Banking & Finance Conference 2006	Kuala Lumpur	Monash University (KL)
13th – 16th	The International Islamic Finance Forum Europe	Zurich	IIR Middle East
19th – 20th	International Banking & Finance Forum	Libya	IBC Gulf Conferences
20th – 21st	Middle East Capital Markets	Dubai	MEED Conferences
December			
7th – 8th	International Leadership Summit in Islamic Finance	Kuala Lumpur	IFSB
9th – 11th	The World Islamic Banking Conference & Exhibition	Manama	Mega Events
19th – 21st	Trade Finance MENA	Dubai	Terrapinn
25th – 29th	Kuala Lumpur International Islamic Finance Expo	Kuala Lumpur	CERT

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