

Islamic Finance *news*

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The World's Global Islamic Finance News Provider



UAE (Dubai)

DIB's CLIP note successfully closed

Dubai Islamic Bank (DIB) has successfully closed its three-year CLIP (Commodity Linked Individually Capped Performance) Notes. The CLIP Notes received an overwhelming response, collecting a record US\$38 million in four weeks.

CLIP Notes are capital protected, and supported by DIB's Shariah supervisory board as well as the Shariah supervisory board of Dar Al Istithmar.

"We are overwhelmed by the response to CLIP Notes, which is a result of market de-

mand for this innovative product. The scale of the response also signifies the strong appetite for commodities as a viable alternate asset class. DIB's Wealth Management division will continue to drive similar innovation in the marketplace, offering world-class products to discerning investors," said Saeed Al Qattami, senior vice-president, head of wealth management at DIB.

CLIP Notes offer customers a profit guarantee of 10% in the first year and maximum potential profit of 8% per annum in the second and third years, depending on performance.

SWITZERLAND

First Islamic commodities fund

UBS is planning to launch the first Islamic fund linked to commodity prices. The new product will be related to copper, nickel and oil prices, while also being compliant with Shariah laws. A marketing campaign has identified potential demand of "several hundred million dollars."

This development reflects a wider trend in the industry, as Shariah compliant bank accounts and investment tools have become mainstream product offerings for wealth managers seeking clients from the Middle East.

BAHRAIN

New Trust Law

Bahrain is now fully open for business related to trust administration and trustee services. The enactment of a new statutory law – the Trust Law – to govern trustees and trust administration has widened opportunities for the establishment, management and administration of private business interests and wealth in estates and trusts. Other types of services using the trust mechanism, such as real estate investment trusts and private pension schemes, are also being offered.

"The Law is aimed at providing a clear and sound legal foundation for trust business which is showing potential for growth in the Middle East region," said Abdul Rahman Al Baker, executive director, financial institutions

supervision at the Central Bank of Bahrain (CBB). He stated that it is a fairly new phenomenon in the Middle East and still shows remarkable growth potential.

In Bahrain currently less than 20 banks offer wealth management services. It is hoped that the Trust Law will encourage some of these institutions to offer such services to their clients in the Middle East.

The new law, which provides for the "appropriate levels of confidentiality" for conducting this business, provides for a trust to be established for duration of a maximum of 100 years and requires a trust to be registered with the CBB.

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Note from the Editor

When a robber was asked why he robbed banks, he replied: "Because that's where the money is." Similarly, when successful institutions were asked how they excelled, they replied: "Go where your customers are and that's where the money is!"

As much as the Islamic financial industry players would like to think otherwise, not everyone in the world is a potential customer for their products or services. As financial services professionals, the challenge is to get the message across to those people who are potential customers for their work – and not waste the time and money trying to sell to the market at large.

And to do that, they have to know who their customers are. Knowing them will allow the industry players to increase their market share, identify and reach similar market segments with profit potential, develop or offer new products that will appeal to the customers appropriately, and more importantly make profitable decisions in all aspects of the business.

It is a mistake to think that the Islamic financial institutions intuitively know who their customers are, where they are, and how many there are. To succeed they must reach the right market, and if they think they are too busy to find out about the market, maybe they are courting failure. More often than not, players tend to jump onto the boat, following the crowd.

While other Islamic financial institutions are busy contemplating making their presence felt in the Middle East, RHB Islamic Bank thinks otherwise. The Kuala Lumpur-based bank decides just to be where its customers are, giving them a strong footing in the region. The surge in petro-dollars has resulted in the Middle Eastern region registering its fastest growth in a generation, and the market is said to be highly competitive and aggressive, while the cost of doing business for foreign banks there is sky-rocketing. Successful western banks have been there for almost 50 years, and yet they are not able to break into the market.

Whetting the appetite of the customers is equally important in sustaining business, apart from being where the customers are. Sticking to its customer-centric approach in business, RHB Islamic Bank continues in its pioneering spirit to set milestones and benchmarks in the industry. Though it is much easier to offer off-the-shelf products to customers, RHB Islamic Bank took the trouble to initiate a new, first of a kind of Sukuk that fulfills the need of its customers. (For the full interview and RHB Islamic Bank Sukuk study, please refer to page 11 and page 13 respectively.)

One must remember that quality service does not happen by itself. It is managed. That is what makes good quality service financial institutions different from others. Their businesses are service centered and service focused – everything revolves around the customer's needs. Those who serve best, profit most. Those organizations will prosper further if they accept that improving their service quality is critical in today's economy.



Zakariya Othman, Editor

Islamic Finance news

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NEWS BRIEFS

MALAYSIA

Bank Islam potential

Dubai Investment Group (DIG) wants to see Bank Islam Malaysia become one of the world's top Islamic banks.

Soud Ba'alawy, CEO of DIG, said its investment in Bank Islam will build a bridge between the Middle East and South-East Asia. "The coming together between DIG and Bank Islam creates this bridge, and Bank Islam accepting us is only the opening of the bridge to the excess liquidity in the Gulf countries which are looking for opportunities to park their money where they can get reasonable returns," he said.

In what is seen as the biggest single foreign direct investment in Malaysia's financial sector, DIG is taking up a 40% stake (RM828 million (US\$22.996 million)), in Bank Islam.

Ba'alawy described Malaysia as one of the most advanced countries in the world in terms of Islamic banking regulations and Shariah related issues. "In Malaysia obviously there are many Islamic banks, some small, some part of other banks, but Bank Islam is very unique. It has a very good reputation and most importantly, it has very loyal customers. Bank Islam is not just an institution, its part of society. So as a foreigner, coming into a country like Malaysia, it is vital that we play a significant role in an institution like that," he said.

"We want to see Bank Islam become one of the pre-eminent global Islamic banks."

UAE (Dubai)

Islamic finance takes to the skies

The utilization of Sukuk is expected to take off in the leasing of commercial aircraft.

Nadim Fattaleh, regional director at Boeing Capital Corporation, said: "Something that could happen in the future is to use aircraft, as opposed to real estate, to back Sukuk." Aircraft can be bought as part of a Sukuk and leased to airlines looking to expand their fleet, thus providing a return.

"Everybody knows how to invest in a building in Dubai," said Fattaleh, "But now that there is a lot more liquidity than there used to be, you find that a lot of the local institutions are looking at other ways of investing. And aircraft make an excellent Islamic investment."

Sukuk account for over US\$200 billion of assets worldwide, with real estate being one of the more obviously compliant assets. But liquidity in Middle East markets could see Islamic banks and financial institutions increasingly turning to other forms of investment. One advantage over real estate is that aircrafts are mobile. "If the value of the asset in that location goes down, you can take an airplane and place it somewhere else. With a building it's kind of difficult to do that," Fattaleh pointed out.

However, increases in the price of aviation fuel could make such an investment at risk. (For a story on AirAsia's aircraft leasing in Malaysia, see *Islamic Finance news*, Vol. 3, issue 28, page 5.)

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BAHRAIN

Shariah rating workshop

A Shariah rating workshop is to be held in November at the Bahrain Institute of Banking & Finance (BIBF) to provide practical insights into the Shariah Quality rating, supported by Bahrain Islamic Bank.

The workshop will focus on key topics such as the structure of Islamic financial institutions, the philosophy underlying the Shariah quality rating for Islamic financial institutions, and its objectives. It will also explore how ratings can serve as an effective tool for introducing standards for greater disclosure and appropriate governance within the global Islamic financial institutions.

"Shariah compliance is the backbone of Islamic financing and one of the most important aspects in practicing Islamic banking. The objective of the Bahrain Islamic Bank is to clarify this concept through its support for such a vital topic through outlining the need of rating for Shariah compliance in addition to the credit rating. Our support to this workshop stems from our commitment to the development of the products offered by the bank and enhancement of mode of financing" said Dr Salah Addeen Saeed, Senior Director Credit and Risk Management at BlsB.

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UAE

Al Manal Development and EIB ink MoU

Al Manal Development and Emirates Islamic Bank (EIB) have signed memorandum of understanding (MoU) to provide mortgage finance to customers wanting to purchase property in Al Manal Development's Dh300 million (US\$81.69 million) flagship venture.

The service will be made accessible through bank's MANZILI home finance services, which allows customers to choose finance schemes that suit their needs, based on the Islamic finance concepts of Murabahah, Ijal and Musharakah-Ijarah.

Juma Al Ghurair, chairman of Al Manal Development, said "Our MoU with Emirates Islamic Bank stems from our belief in this substantially solid banking institution along with our strong faith in its reputation as a prominent, well reputed and customer oriented establishment. We foresee a fruitful relationship with EIB going forward and perceive our agreement as a long term one. We plan to launch a number of ambitious projects in the near future."

Home financing will be extended by EIB up to 85% of the total value of the property to UAE nationals and expatriates, with a repayment period of up to 20 years

BAHRAIN

BIsB profit increase

Bahrain Islamic Bank posted a net profit of BD9.7 million (US\$25.73 million) in this third quarter, an 88% increase on the BD5.1 million (US\$13.53 million) made by the bank in the same period last year.

The bank's operating income has grown 56% from the 2005 figure of BD9 million (US\$23.8 million) to BD14 million (US\$37.14 million). It also recorded a 153% increase in returns on investment accounts from BD3.5 million (US\$9.28 million) to BD9 million (US\$23.87 million).

Khalid Abdullah Al Bassam, BIsB Board Chairman, said: "This excellent performance is due to the remarkable growth in finance and investment transactions which contributed to a significant increase in the total income from the entire bank's business activities in addition to a good increase in total assets and customers' accounts."

Total assets rose by 39% during the first nine months of 2006 to BD445 million (US\$11.8 billion), due to finance transactions and the steady increase in the bank's investments.

SWITZERLAND

11th International Islamic Finance Forum

The 11th International Islamic Finance Forum (IIFF) will take place in Zurich on the 13th-16th November 2006.

The event will focus on the growing demand for Islamic wealth management and private banking services. It is estimated that Arab investors have more than US\$800 billion on deposit in overseas banks, mostly in European banks, and in particular Swiss banks.

Forum director Christianna Tsieterou said: "With so much Arab capital deposited in Swiss banks and growing demand for Shariah compliance in wealth management and private banking, Zurich is the perfect location to launch IIFF Europe."

"European banks need to understand, embrace and implement the fundamentals of Shariah compliance if they are to increase Arab deposits in the long term," commented John Sandwick, managing director of Encore Management SA, Switzerland.

BAHRAIN

Regulation pays off for Bahrain

Bahrain's early regulation of Islamic financial institutions has served the country well, as it is set to attract more business thanks to Islamic financial institutions.

Despite strong global competition, the deputy governor of the Central Bank of Bahrain Anwar Khalifa Al Sadah said that the country was poised to attract more Islamic business in the next three to five years, due to Bahrain's initiative in the early 1980s to attract and regulate Islamic financial institutions.

"Bahrain is home to the largest number of Islamic banking institutions in the world today. We have 351 financial and insurance institutions registered in Bahrain, more than 30 of them are Islamic."

Al Sadah expected the sector to post strong double digit growth in the next few years, as Islamic financial institutions expand the services they provide and as international companies enter the sector.

QATAR

QREIC signs Murabahah facility

Qatar Real Estate Investment Company (QREIC) has signed a US\$105 million Murabahah facility with HSBC and Al Rayan Bank, which will be Al Rayan's first transaction.

The Murabahah facility, which is currently in syndication and is expected to close soon, has been jointly lead managed by HSBC Amanah and Masraf Al Rayan. The facility is structured as a Shariah compliant facility, to meet the expansion requirements of the company.

INDIA

India attracts Gulf investors

Cash-rich Arab partnership firms and public limited companies are planning to invest Islamically in India, possibly after the end of Ramadan.

Mohammed Talha, first manager of international banking services at Qatar International Islamic Bank, commented: "Gulf investments into India are on the rise and many more are waiting on the sidelines to take a plunge. The Qatari Government alone is planning to invest a considerable sum in India. Arab investors would be putting their money in all Shariah compliant investment alternatives with focus on equities and real estate."

Attractions of India include the government's stability and investor friendliness, added to a saturation of European markets, non-performance of the bullion market and sliding crude prices.

USA/UAE (Dubai)

Istithmar acquires W Hotel New York

Dubai-based investment house Istithmar has purchased the landmark W Hotel Union Square, a luxury hotel in Manhattan, New York valued at US\$285 million. The W Hotel Union Square is known for its location, impressive history, business generated and real estate value.

Announcing the deal, Joe Sita, CEO at Istithmar Hotels, said: "W Hotel Union Square is a premier property in one of the world's most recognized locations. This is a unique flagship property that generates cash year after year with significant real estate value. This acquisition reinforces Istithmar's belief in the growth of the hotel sector in New York and is in line with our strategy of investing in luxury hotels in key gateway cities around the world."

NEWS BRIEFS

BAHRAIN

Samba joins WIBC

Samba will be a "Capital Markets Partner & Shariah Open Forum Host" for the World Islamic Banking Conference (WIBC), which will take place on the 9th-11th December 2006.

Eisa Al-Eisa, MD and CEO of financial services provider Samba said: "We are delighted that Samba is participating in this important event. The bank has an Islamic banking and Shariah supervisory board, consisting of internationally renowned Islamic scholars. All components relating to our Islamic banking products are carefully monitored by the board, so that our customers are provided with truly Shariah compliant products."

Unicorn Investment Bank is also participating in the conference as a platinum partner. Majid Al Refai, CEO of the bank said: "Unicorn Investment Bank is delighted to be returning to the WIBC for the second year running as it provides an excellent forum for exchanging views, information and contacts amongst the Islamic banking community."

UAE (Abu Dhabi)

Aldar Properties financing

Aldar Properties plans to borrow up to US\$4 billion to fund projects in the UAE and abroad.

The company is building a Dh70billion (US\$19.06 billion) worth of projects in Abu Dhabi, and is planning its first Islamic bonds for early in 2007, CEO Shafqat Malik revealed: "If you look at the scale of our projects, they require substantial funds. In the next three years we are looking to put together US\$3 billion to US\$4 billion in financing."

Malik said Aldar would list its first Sukuk on the Abu Dhabi stock exchange. "There's a lot of liquidity, especially in Islamic finance," he said. Through expansion overseas, Aldar expects to generate 45% of its revenue from foreign operations within five years.

PAKISTAN

Mudarabah expansion

The recently introduced non-banking finance companies (NBFCs) rules have led to Mudarabah companies in Pakistan wanting to expand too.

The Mudarabah Association of Pakistan (MAP) has decided to approach the Securities and Exchange Commission of Pakistan (SECP) in order to extend the scope of NBFC rules to Mudarabahs.

It has been reported that the newly elected chairman of MAP, Basheer A Chowdry, argued that "some items of the recently revised NBFC rules notified by the SECP can also be extended to the Mudarabah companies to get the same benefits for the multipurpose Mudarabahs for enhancing their activities."

The chairman proposed a revision of the Prudential Regulations for Mudarabahs, so that the business handling capacity of Mudarabahs could be broadened.

He also wants to see close links established with Islamic banks to improve the image and market perception of Mudarabahs.

MALAYSIA

Khazanah bonds listed on LFX

Khazanah Nasional's US\$750 million Islamic exchangeable Sukuk issuance has been listed on the Labuan Financial Exchange (LFX) (see story on the bonds in the last issue of *Islamic Finance news*, page 4).

The world's first Shariah compliant convertible Sukuk was listed through Khazanah's Labuan-incorporated special purpose company, Rafflesia Capital: "The listing of this landmark exchangeable Sukuk on LFX is certainly a milestone, both for LFX and Islamic capital market in general," said LFX board chairman Yusli Mohamed Yusoff.

"The exchangeable Sukuk is the seventh Sukuk listed on LFX, bringing the exchange's Islamic capital market capitalization to US\$2.85 billion. This represents 20% of the total market capitalization of US\$14.2 billion," Yusli, who is also CEO of Bursa Malaysia, continued.

Law firm Linklaters is acting on behalf of UBS Investment Bank, CIMB and HSBC Amanah, who are joint book runners and joint lead managers for the convertible Sukuk.

Kevin Wong, Linklaters managing partner in Singapore, commented: "This was an innovative deal which demonstrates the ongoing development and sophisticated nature of Islamic finance, and also the importance of Malaysia as one of the key Islamic financial centers in the world. Khazanah has set a new benchmark for both global Islamic investors and conventional equity-linked investors in a single, cutting-edge transaction."

MALAYSIA

Bancassurance products to increase

Maybank is preparing to offer more bancassurance products, thanks to its promising business outlook and increasing competition.

Revenue from bancassurance has doubled in the last four years, indicating the growth potential in the area. Maybank expects to see a 20% growth from its bancassurance business for the financial year ending on the 30th June 2007.

Spencer Lee, senior executive vice-president and head of consumer banking, explained that bancassurance was a service to maximize customers' funds by identifying their needs and funds, rather than a product.

"It is a shift in emphasis in the way Maybank does business, focusing, understanding and responding personally to customer needs and widening the range and value of the services offered," he commented.

"In terms of insurance, only about 38% of Malaysians have at least one insurance policy. The potential is therefore tremendous," he said.

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NEWS BRIEFS

BAHRAIN/JORDAN

BlsB and Jordan sign MoU

Bahrain Islamic Bank (BlsB) and the Jordan Permanent Exhibition have signed a memorandum of understanding (MoU) as part of the Tas'heel Personal Finance Scheme, which is to provide Shariah compliant credit facilities to everyone planning a travel to Jordan for medical treatment or to join an educational program.

Rashid Alolaiwi, BlsB senior manager of retail services, said: "This joint service between BlsB and JPE came after an extensive study of customer's travel requirements including trips for joining educational programs and to obtain medical care services in the Kingdom of Jordan."

This signing is as a result of increased demand for this type of travel from Bahrain to Jordan: "In spite of the high quality free health services offered by Bahrain government to the citizens, Jordan is still considered the ideal location for providing medical care services and facilities for illnesses that need specialised treatment," Rashid continued.

The agreement states that any applicant to the bank will be provided the necessary finance according to the rules laid down under the Tas'heel Personal Finance Scheme.

UAE (Dubai)

Jeffries International launching at DIFC

Jeffries International has won a license from the Dubai Financial Services Authority (DFSA) to operate as an authorized firm from the Dubai International Financial Center (DIFC).

Jefferies Middle East and North Africa has stated that government related services will be at the core of its investment banking services, both conventional and Islamic. Jefferies has expertise in the oil and gas, transportation and infrastructure and aerospace, defense sectors.

John Sindors, managing director of investment banking, stated: "We are excited about joining the DIFC. The Middle Eastern and North African market has become an increasingly important global market and a market which is a high priority for our firm. We believe this market has the potential to be one of the main global markets for capital formation. Our endeavor will be a broad based investment banking effort focused on both conventional and Islamic financing."

INDONESIA

Plans to boost Islamic banking

The Central Bank of Indonesia has set up new regulations to boost Islamic banking following an increasing demand for such products in Indonesia. The Central Bank stated that the percentage of the nation's total banking industry held by Islamic banks will increase between 5% and 6% by 2011, from around 1.5% now.

"Officially in our blueprint we are targeting the share 5%-6% in 2011." Harisman, the Central Bank's director for Shariah banking said. "But by the end of 2006, we will revise it. I expect it to be more than that."

Due to Indonesia's large 220 million-strong population, it is believed that the country has potential to become a major player in global Islamic finance.

BAHRAIN

CIPA for BlsB manager

A Bahrain Islamic Bank (BlsB) manager – Tawfiq Hasan Al Sari – is one of the first people worldwide to obtain the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)'s Certified Islamic Professional Accountant (CIPA) Certificate.

BlsB's chief executive officer Yousif Saleh Khalaf congratulated the financial control manager on his achievement: "I would like to congratulate Tawfiq for this commendable achievement that reflects his tremendous efforts to develop his personal performance, hence the overall performance of the Financial Control Department. The award of this qualification is a reflection of his dedication to develop his knowledge and to acquire higher awards. So we are pleased to see that such results reflect the value of our investments in our human resources."

AAOIFI, an international non-profit organization seeking to develop accounting and auditing standards, guidelines and a code of conduct for the Islamic financial industry, has only just started awarding this certificate, which is considered as a major academic achievement for banking professionals and those who work in Islamic finance.

Studies for this qualification include both theoretical concepts and practical applications covering the Islamic financial system, financial reporting for Islamic financial operations, Islamic and Shariah laws and standards, accounting and auditing standards and guidelines and codes of conduct for working in Islamic financial institutions.

QATAR

First Islamic Infrastructure Conference

The 1st Annual World Islamic Infrastructure Conference (WIIFC), which will be held on the 5th and the 6th November in Doha, will be addressed by the governor of the Qatar Central Bank Abdullah Bin Saoud Al Thani.

The theme of the conference is "Capturing The Next Wave of International Investment and Project Finance: Conventional & Islamic Institutions Working Together to Deliver Large-Scale Infrastructure Projects," and it will tackle how conventional and Islamic institutions can better collaborate in order to meet the huge demands for project finance.

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GCC

DJ to launch Islamic GCC indices

Dow Jones is preparing for the launch of two new GCC indices in the near future, to include one Islamic index.

A GCC Islamic regional index and a GCC regional sector index will be launched, following the recent launch of an Islamic index for Kuwait, Rusdhi Siddiqi, global director of Dow Jones Islamic Indexes, has said.

"The GCC region has the same potential as the other established emerging market regions like Eastern Europe, Latin America, and South-East Asia, especially with the return of capital from the west, petro-liquidity, economic diversification ambitions, three financial hubs, WTO membership, FTA agreements and pending with USA, and the mandate to establish a common market. Thus, we saw the potential for the GCC region before our competitors, and made the commitment."

The Dow Jones Citigroup Sukuk index was launched in April (see *Islamic Finance news*, Vol. 3, issue 7, page 6). The total size of the seven issues in the Dow Jones Sukuk index is Dh14.68 billion (US\$4 billion), all from the Islamic finance hubs of Dubai, Bahrain, Qatar and Malaysia, as well as an IDB issue.

"Our expectation is Sukuk issues will be included in a high profile index, DJ CitiGroup Sukuk Index, and, eventually, when secondary market trading increases, a Sukuk Index Fund will be launched," Siddiqi added.

Dow Jones currently maintains Islamic indices for Malaysia, Turkey, and Pakistan.

BAHRAIN

BlsB donates to blind charity

Bahrain Islamic Bank (BlsB) has presented a BD5,000 (US\$13,263) check to the Saudi Bahraini Institute for the Blind to allow the institute to establish an IT laboratory for blind students.

The bank's donation will help blind students to access the internet, as the laboratory has been provided with specialized software to enable students to listen to websites. The software enables the translation of the material from written text into audio material.

MALAYSIA

Scomi Islamic notes approved

Scomi Group's 92.5%-owned KMCOB Capital has received approval from the Securities Commission to issue RM630 million (US\$170.59 million) of Islamic debt notes for future operational requirements and to realign its borrowings. (See story in *Islamic Finance news*, Vol. 3, issue 32, page 3.)

RM250 million (US\$67.66 million) of the RM630 million (US\$170.59 million) nominal value Murabahah notes issuance will be used to settle inter-company advances between Scomi and KMCOB; RM195 million (US\$52.8 million) will be used for advances to KMCOB, Kota Minerals & Chemicals and KMC Oiltools Overseas to enable them to repay their borrowings; up to RM50 million (US\$13.54 million) will be used to settle inter-company advances within Scomi Group; and the remainder will be utilized for KMCOB's working capital and future expenditure.

The notes will be placed with the holders of Scomi's existing RM500 million (US\$135.39 million) nominal medium-term notes issued in 2005 and 2006.

These proposed Islamic notes are not expected to have any material effect on Scomi's earnings for the 2006 financial year.

BAHRAIN

BlsB to double capital base

Bahrain Islamic Bank (BlsB) wants to participate in regional mega-transactions and deals, leading the bank to double its capital base. Doubling its current BD75 million (US\$198.94 million) capital base will mean BlsB will become one of the largest commercial banks in Bahrain.

The annual general assembly of the bank will be asked to ratify the board's recommendations of a 100% capital increase by the first quarter of 2007.

In addition, various types of funds are being introduced with the goal of tapping investment opportunities. Yousif Saleh Khalaf, CEO, said that BlsB's new products would include new equity funds, amongst other investment instruments for the local and regional market. "There is a huge scope for specialized products and services and BlsB will continue to explore opportunities in this regard."

The bank has seen a good business growth with an expected 75% increase in net profits at the end of September 2006 from the third quarter of 2005. The BlsB CEO attributed this continuous growth to the bank's successful Islamic finance transactions.

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MALAYSIA

Fitch to buy into MARC

Fitch Ratings is looking to purchase an equity stake in Malaysian Rating Corporation (MARC) to bolster their existing partnership. Both rating agencies have signed a memorandum of understanding (MoU) to open the door for Fitch to make an unspecified investment in MARC.

"The MoU will enable the initiation of a due diligence process and both parties will be engaged in further discussions on the details of the acquisition," MARC said.

Local ratings agencies MARC and Rating Agency Malaysia (RAM) have strengthened their links with international agencies since 2001, when Malaysia announced the possibility of permitting foreign rating agencies to rate local bond issues. Currently only local agencies can rate local ringgit-denominated bonds.

RAM is affiliated with Standard & Poor's, the two companies having signed a non-equity collaboration agreement in February 2005.

QATAR

QIIC and QIIB launch new company

The Qatar Islamic Insurance Company (QIIC) and Qatar International Islamic Bank (QIIB) have launched the new Tasheelat Company, with limited liability.

The paid up capital for Tasheelat is QR20 million (US\$5.5 million), it is 49% owned by QIIB and 51% owned by QIIC.

Tasheelat will finance individuals, companies and corporations for the purchase of consumer, production and operation commodities, as well as vehicles and equipment, real estate and shares.

MALAYSIA

HSBC Islamic ops to grow

HSBC bank plans to further expand its Islamic operations in Malaysia, executive director and deputy chief executive officer Ian Ogilvie has stated.

The bank plans to increase its Islamic assets (currently 15% of the bank's overall balance sheet): "We will continue developing our Islamic operations and will constantly introduce more innovative products that can suit our consumers," he said.

HSBC believes there is still a lot of room for Islamic banking to flourish as Malaysia takes steps towards becoming a global center for Islamic financial activities.

PAKISTAN

Islamic bank planned by Alfalah

Bank Alfalah is planning to launch a fully fledged Islamic bank, chief executive officer Saleem Akhtar has revealed.

The bank will submit an application to the State Bank of Pakistan for the license soon, to tap into the excellent performance Islamic banking has shown in Pakistan.

The new bank would be entirely owned by Bank Alfalah and would start up with 20 branches. Bank Alfalah has been providing Islamic banking products in the country for several years now.

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NEWS BRIEFS

RETAIL NEWS

QATAR

Doha Islamic personal financing

Doha Bank's Islamic banking arm has launched a personal financing campaign for Qataris in anticipation of the festive season.

Doha Islamic financing is available for customers who either take up fresh financing, top up existing financing, or transfer financing from another bank for a value exceeding QR25,000 (US\$6,867).

Customers may obtain up to 70 times their salary with the bank's personal financing, with added benefits including free Takaful protection, competitive profit rates and flexible repayment periods. This campaign will end on the 31st December.

Doha Bank Deputy CEO R. Seetharaman said: "Ahead of the Eid holidays, we want our customers to benefit from the many advantages of Doha Islamic personal financing. Doha Islamic customers can utilize Doha Islamic network of three branches. Furthermore, Doha Islamic customers can enjoy deposits and withdrawal facilities at all Doha bank branch network."

QATAR

Masraf Al Rayan opened

The first branch of Masraf Al Rayan, the innovative approach of which the bank hopes will appeal to non-Islamic customers, as well as those of the segment's traditional banking base, has been opened by the governor of Qatar's Central Bank in Al Sadd.

Chairman Dr Hussain al-Abdulla said: "Customers will see how different Masraf Al Rayan is, by just walking into our branch. Not only are we the only fully fledged commercial and investment bank with a completely Shariah compliant portfolio, we also offer our customers a level of service and comfort that will establish a new benchmark for the region's banking sector."

Earlier in the year, the IPO of Masraf Al Rayan was the largest in Gulf history, at nearly six times oversubscribed and attracted over 600,000 shareholders.

Next Forum Question

Is there the need for a common Islamic currency and would it assist in the development of the global Islamic capital markets?

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 18th October.

THIS TIME LAST YEAR

The Qatari government revealed it was considering using Islamic debt as part of its plans to raise US\$110 billion in project financing by 2010 to fund a massive overhaul of infrastructure; **Bank Pembangunan Malaysia Group** stated that it expected to finalize the structure of a proposed bond issuance, including Islamic loans, by year-end to raise US\$2.39 billion; **ABC Islamic Bank** closed the deal for **The Investment Dar Company's** Al Musharakah Sukuk. Because of significant oversubscription, the Sukuk was increased from US\$50 million to US\$100 million; Stockbroking and financial services firm **K&N Kenaga** said it hoped to arrange at least two more Islamic debt securities by the end of the year worth between US\$132.72 million and US\$212.68 million; South Africa said that it would consider Islamic bonds in its business expansion plan with GCC countries; The **Bahrain Monetary Agency** granted a license for the establishment of a new

Islamic full commercial bank, **Al Salam Bank**; The size of **Public Mutual's** Public Islamic Bond Fund was increased from 300 million to 800 million units after it obtained **Securities Commission** approval; Bahrain's **Albaraka Banking Group** prepared to list its shares on the **Bahrain Monetary Stock Exchange** through an IPO; **HSBC Bank** Middle East appointed David E. King as Managing Director of Business Development; **Jordan Loan Guarantee Corporation** signed a co-operation agreement with the **Islamic Corporation for Insurance of Investments and Export Credits**, an affiliate of the Jeddah-based **Islamic Development Bank**, to support Jordanian exports; **Solidarity** was looking at expansion into key international markets including the Middle East and North Africa regions and the UK; Malaysia's **Takaful Ikhlas** announced its expectation to break even in 2005, after three years of unprofitable operations.

NEWS BRIEFS

RATINGS NEWS

UAE (Abu Dhabi)

Fitch Ratings affirms ADIB

Fitch Ratings has affirmed Abu Dhabi Islamic Bank (ADIB)'s issuer default A- rating with a stable outlook, short-term F2 and individual C, with support rating upgrade from 2 to 1.

The extremely high probability of support from ADIB's shareholders and the UAE authorities, considering the bank's position as the flagship Islamic bank in Abu Dhabi and its close links to the government and the ruling family of Abu Dhabi, has led to the upgrade of the support rating.

The individual rating reflects improving profitability, sound asset quality and satisfactory liquidity. It also considers an increasing risk profile and weak capital ratios due to rapid asset growth.

MALAYSIA

MARC assigns ratings to KNMC

Malaysian Rating Corporation (MARC) has assigned ratings of A+ID/MARC-1 ID to KNM Capital (KNMC)'s proposed RM300 million (US\$81.20 million) Murabahah Underwritten Notes Issuance Facility/ Islamic Medium-Term Notes, with a positive outlook.

The assigned ratings are premised on KNM's competitive position as one of the largest manufacturers of process equipment in the region; growing international exposure; access to high technical expertise; the ability to offer a wider range of products through the acquisitions of key players in the industry; a healthy order book; proven track record; and improving financial profile. These positives are, however, moderated by the pace of expansion trails that may increase the group's operating risk profile.

KNMC is a completely owned subsidiary of KNM Group and was launched to serve as the centralized funding and treasury vehicle of the KNM group.

MALAYSIA

MARC affirms Ingress Sukuk ratings

Malaysian Rating Corporation (MARC) has affirmed the ratings on Ingress Sukuk's RM160 million (US\$43.31 million) Sukuk Ijarah Issuance at A+IS with a stable outlook.

This ratings affirmation reflects Ingress Corporation's track record as a leading local automotive component manufacturer with a diversified customer base and distribution; and a fairly strong financial profile.

Moderating factors include the vulnerability of the automotive industry and the manufacturing sector to economic swings and concerns of inflationary pressure in the region arising from higher energy cost.

The group operates in Malaysia, Thailand and Indonesia, and continues to expand in those countries.

MALAYSIA

Englotechs ratings affirmed

Englotechs Holdings' RM50 million (US\$13.54 million) Murabahah Medium-Term Notes Program has had its rating of AID affirmed by Malaysian Rating Corporation (MARC), with a stable outlook.

This rating mirrors Englotech's position as a leading manufacturer and exporter of industrial cotton work gloves, added to an increase in demand for its products, consistent operating margins and rising revenue over the last five years.

However, the rating is moderated by increasing competition from China in the manufacture of standard made gloves, rising trade receivables and inventory levels, which have resulted in higher debt levels.

Englotechs manufacturers for a few multinational companies worldwide and has 15 years of experience in the manufacturing and trading of industrial cotton work gloves.

MALAYSIA

RAM rates PLUS

Projek Lebuhraya Utara-Selatan (PLUS)'s Sukuk Musharakah has been assigned an AAA rating by RAM. The Sukuk consist of RM2.26 billion (US\$611.7 million) nominal value Sukuk Musharakah Series 1; RM2.41 billion (US\$652.3 million) nominal value Sukuk Musharakah Series 2; and RM4.5 billion (US\$1.23 billion) nominal value Sukuk Musharakah Medium-Term Notes program.

RAM simultaneously reaffirmed the AAA rating of the company's existing RM5.1 billion (US\$1.38 billion) Bai Bithaman Ajil Islamic Debt Securities (BaIDS).

This debt swap exercise was prompted by the desire of PLUS's holding company, PLUS Expressways, for endorsement and a possible inclusion in global Islamic indices.

MALAYSIA

Top Glove lifted from MARCWatch

The MARCWatch on Top Glove Corporation's Islamic debt securities of up to RM100 million (US\$27.06 million) Murabahah/Ijarah Commercial Papers Program and up to RM100 million (US\$27.06 million) Murabahah/Ijarah Medium-Term Notes (MTN) Program has been lifted by MARC.

This follows confirmation from Top Glove that the issue of expired work permits involving a large number of its overseas workforce has been resolved with the Immigration Department. Top Glove has implemented corrective measures to avoid any repetition of the issue.

MARC put Top Glove on MARCWatch on the 18th August 2006 following news that 2,000 of the company's foreign workforce had not had their work permits renewed. (See Ratings story in *Islamic Finance news*, Vol. 3, Issue 29, page 8.)

MALAYSIA

Moody's affirms ratings for SCSi

Moody's Investors Services has affirmed the BAA1 ratings of Sarawak Corporate Sukuk Inc (SCSi)'s US\$350 million Sukuk Trust Certificates, due in 2009.

The affirmation was triggered by the novation of the rights, liabilities and obligations of Baa1-rated Sarawak Economic Development Corp (SEDC) under transaction documents to an unrated entity, Sarawak Venture Incorporated (SVI).

The Baa1 rating correlates to the foreign currency senior unsecured debt rating of the State Government of Sarawak (SGS) and is based on: payment obligations of SVI to SCSi under the amended and restated transaction documents; parental guarantee provided by Sarawak Technology Holding (STH); letter of support provided by SGS; and the structural and legal integrity of the transaction.

Interview with RHB Islamic Bank's Chief Executive Officer Khalid Bhaimia

By Zakariya Othman

RHB Islamic Bank (RHB Islamic) does not want to be the Baskin Robbins of Islamic finance, offering over 1,000 "flavors" of Islamic finance products and services but serving up no value in terms of meeting customer needs. Instead, it would rather stick to its customer-centric approach, carrying on its pioneering spirit and continuing to set the milestones and benchmarks by which the industry is being shaped and measured. Its chief executive officer Khalid Bhaimia talks exclusively to Islamic Finance news on the RHB Islamic success story.

Increased competition among Islamic financial providers to serve the customers has produced unrelenting pressure on financial services institutions. Customers, faced with a dizzying array of financial products and services, expect customized offerings, value, ease of access and personalization from their providers. Today, customers are expecting even more individual attention, responsiveness, customization, and access, yet are not necessarily willing to pay a premium for these services.

"Firms should not be afraid to re-orientate their businesses so that earnings are measured on the basis of what specific customer segments want, not how many specific products are sold"

Customers are willing to build long-term relationships based on trust and mutual respect with institutions that provide a differentiated and personalized service offering. Over the past few years, financial institutions responded to the intensified competition and high customer attrition by entering each other's markets to capture greater "wallet share" and to ostensibly lower their economies of scale.

Having anticipated the challenges of the new marketplace, RHB Islamic decided to gear its culture towards serving the customers; putting customers' needs, rather than short-term profits, first.

Acknowledging the fact that it was not just conventional banking and financial services that were growing at an enviable rate in Asia, Khalid said that demand for Islamic finance was increasing too.

"Firms should not be afraid to re-orientate their businesses so that earnings are measured on the basis of what specific customer

segments want, not how many specific products are sold," he stressed, adding that the aim over the long term was to add value to the client and hence improve their performance and, by extension, that of the institution itself.

Quoting the recently signed project financing deal with the subsidiaries of Sarawak Enterprise Corporation (SECB), Khalid said that this structure was a good example of a program developed based on the spirit of pioneering, as well as fulfilling customers' needs. (See **Islamic Finance news**, Vol. 3, issue 35, page 1.)

In meeting the customers' financial requirements, he said the RHB Islamic team had developed, within nine months of meetings and discussions, the first of a kind of Sukuk for SECB, structured along the Shariah principles of Mudharabah and Musharakah. One of the key elements of the unique financing structure is that it leverages on SECB's member company Sarawak Power Generation (SPG)'s existing cash-generating capacity.

Interestingly, these Sukuk programs provided almost 100% financing to the Mukah power project, with a paid-up capital of just RM2 million (US\$542,000), Khalid said, noting that that was basically what was requested by the client.

Khalid also highlighted that having to produce the right products was equally important, and he claimed that RHB Islamic was on the right track, as it worked on products that could be marketed internationally. Making use of the same example, he said the Mukah Power Generation Sukuk program would be fully acceptable to the West Asian market, representing a major step for Malaysia towards convergence to the West Asian Shariah standards in Islamic financing.

"Everybody here knows project financing products based on Bai Bithaman Ajil. But we don't do that as it is not applicable or recognized by investors from West Asia because it is just a simple debt instrument," he explained.

He added that banks could only compete by either providing a highly intellectual product for customers, or delivering a service that customers are willing to pay for – RHB Islamic was giving priority to research and development and to customizing its products to suit customers' needs.

Khalid reiterated that with an open culture, financial institutions could satisfy today's customers, and only by satisfying customers could those institutions hope to grow their businesses in a sustainable way, no matter how strong they thought demand would remain.

Even in the fastest-growing markets, what was needed was the determination not to lose sight of the customers and to focus on what they wanted, Khalid added, pointing out that understanding the differing needs of customers in the region was therefore critical. However, plenty of evidence revealed that many institutions in Asia failed to think from the customers' perspective.

continued...

Interview with RHB Islamic Bank's Chief Executive Officer Khalid Bhaimia (*continued...*)

"Once the customer's trust is lost, it is painful and expensive to regain it," he warned.

On RHB Islamic's expansion plans, Khalid explained that while most Islamic financial institutions were jumping onto the bandwagon to make their presence felt in the Middle East, RHB Islamic has decided not to follow this crowd. He stated that the Middle Eastern market was highly competitive and aggressive, and the cost of doing business for foreign banks was very high.

"Once the customer's trust is lost, it is painful and expensive to regain it"

Western banks, he noted, had been in the region for almost 50 years and had not been able to break into the market, as even the cost of finding Islamic bankers was high, due to a shortage of experienced Islamic bankers.

"Some Malaysian banks which have been in West Asia for some years now are not able to break into the market as well," he added.

According to Khalid, RHB Islamic would rather go regional and it planned to do so within the next 18 months. The basic approach for expansion would again be customer-centric, whereby the bank would go where its customers were.

Vietnam was a market of greater attraction for the bank, especially as there are quite a number of Malaysian companies in the country, he said, noting that RHB Islamic also had its eyes on Pakistan and India.

RHB Islamic has been reported to be currently advising a bank in Pakistan on how to do Islamic banking, and Khalid said the group additionally had a great interest in India. This, Khalid added, was also because many Malaysian companies are operating in India.

On the Malaysian front, Khalid said that RHB Islamic was establishing a number of marketing centers to complement its present 200 RHB branches.

RHB ISLAMIC Bank

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RHB Islamic Bank, which was officially launched on the 1st March 2005, is a wholly owned subsidiary of RHB Bank. It is also the first fully fledged Islamic bank of a commercial banking group in Malaysia. The bank offers consumer, commercial and corporate banking and financial products, as well as Treasury products, that are Shariah compliant and in accordance with Islamic principles.

Customers can gain access to their accounts, as well as its full range of products and services, at any of the 208 RHB Bank branches and more than 500 ATMs throughout Malaysia.

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Project Financing for Mukah Coal-Fired Power Station – A Case Study

By RHB Islamic Bank

Introduction

Two units of power company Sarawak Enterprise Corporation (SECB) have agreed to tap the Islamic debt market for a total of RM1.17 billion (US\$317.4 million), using structures that could spur Middle Eastern participation in project financing in Malaysia. The bonds from Sarawak Power Generation (SPG) and Mukah Power Generation (MPG) will be among the first from Malaysian corporations that are structured in compliance with the Islamic code of the Middle East. (See story in *Islamic Finance news*, Vol. 3, Issue 35, pages 1 and 2.)

The bonds represent Malaysia’s first project financing that is almost wholly funded with Islamic debt. Sarawak Power is issuing RM215 million (US\$58.18 million) in bonds based on the Musharakah, or joint venture, concept. Proceeds from the bond will be used to buy some RM950 million (US\$257.1 million) in bonds from sister company MPG.

Mukah Power will use funds from its bonds to build a 270 megawatt coal-fired power plant in East Malaysia’s Sarawak state. MPG and SPG are both wholly owned by SECB, which is controlled by the Sarawak state government.

Apart from RM950 million (US\$257.1 million) bonds to be sold by MPG, the project required only RM2 million (US\$541,199) in paid-up capital. MPG’s bonds are based on the Mudharabah, or profit-sharing, principle.

Project financing

As a project company, MPG issues a senior Sukuk Mudharabah and Junior Sukuk Mudharabah to finance the project. The features of the MPG Sukuk include:

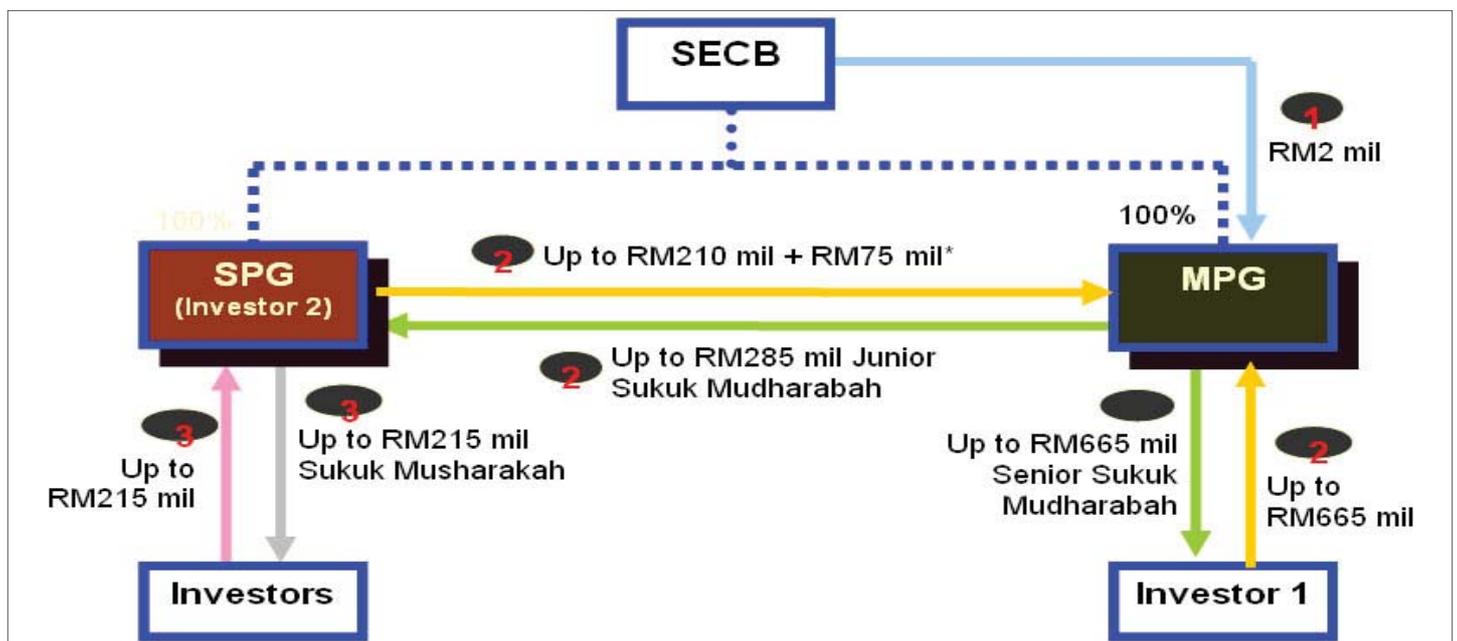
- The issue size of MPG Senior Sukuk is up to RM665 million (US\$179.95 million). The issue size of MPG Junior Sukuk is up to RM285 million (US\$77.12 million).
- The Senior Sukuk are issued with an Istisnah facility. The Senior Sukuk holders shall be entitled to the Istisnah profit payable by MPG during the construction period.
- The Senior Sukuk (rated AA3) has a tenure of 15 years, whereas the Junior Sukuk (rated BBB) will mature in 22 years.

Quasi-equity (Junior Sukuk) financing

- SPG uses internal funds and issues Sukuk Musharakah (SPG Sukuk) to fund the subscription of Junior Sukuk. SPG Sukuk is proposed (as against ordinary/preference shares) as it is more tax efficient and allows flexibility for the outflow of funds to shareholders (vs. dividends). Features of SPG Sukuk include:
 - The issue size of SPG Sukuk is up to RM215 million (US\$58.18 million).
 - SPG Sukuk (rated AA1) has a tenure of 15 years.
- Additional subscription of Junior Sukuk of up to RM75 million (US\$20.3 million) provides a buffer to MPG to meet its funding requirements in the event of cost overrun and completion delay.

continued...

Mukah Power Plant Financing Structure



Project Financing for Mukah Coal-Fired Power Station – A Case Study (continued...)

MPG project financing

The AA3 rated Senior Sukuk terms are driven by MPG's cash flow, based on normal project financing, but the added enhancement for the Sukuk is that the quasi-equity financing, termed as Junior Sukuk, are used to meet MPG's Istisnah obligations during the construction period plus funding requirements in the event of cost overrun and completion delay.

Mudharabah: the profit-sharing mechanism

Mudharib (MPG) and rab al maal (Sukuk holders) will share in the profit and loss generated from the project on six-monthly basis beginning from month six after the project has commenced operations.

Profit sharing scheme between MPG and Sukuk holders:

- If the MV achieves a profit above $RM(x+y)$, $RM(x+y)$ should be distributed to the Sukuk holders and the balance to MPG.
- If the MV achieves a profit less than/equal to $RM(x+y)$, distributions to MPG and Sukuk holders shall be in the ratio of 1% and 99% respectively.

Whatever sum the investors receive will be divided further between rab al maal 1 (Senior Sukuk holders) and rab al maal 2 (SPG) based on the following pre-agreed formula:

- Distribution to Senior Sukuk holders shall rank in priority to distribution to investor 2.
- If distribution to Sukuk holders is equal to/more than RMx , RMx shall be distributed to Senior Sukuk holders and the balance to SPG.
- If distribution to Sukuk holders is less than RMx (say P), such P shall be distributed to Senior Sukuk holders and SPG shall not receive any profit distribution.

Where:

X = Profit which yields the required return of Senior Sukuk holders.

Y = Profit which yields the required return of SPG.

SPG quasi-equity financing

To leverage on Bintulu plant's cash flows to raise funds for SPG to subscribe to Junior Sukuk. SPG is rated AA1, this effective cost of equity financing to SECB Group is AA1 vs. BBB

Musharakah: the profit-sharing mechanism

- SPG and SPG Sukuk holders will share in the profit and loss generated from the business.
- Profit-sharing scheme between SPG and SPG Sukuk holders:
 - If the business achieves a profit above RMx , RMx shall be distributed to the SPG Sukuk holders and the balance to SPG.
 - If the business achieves a profit equal to/less than RMx ,

the distributions to SPG and SPG Sukuk holders shall be in the ratio of 1% and 99% respectively.

Summary

- Comprehensive financial solution:
 - 100% financing
- Reduce overall cost of financing via AA1 rated quasi-equity funding (vs. BBB).
- Junior Sukuk provides consistent cash flow stream to SECB group vs. dividends.
 - SPG may pay dividend-in-kind to SECB in the form of Junior Sukuk.
- SECB group can realize cash by selling Junior Sukuk without losing control and realize non-taxable capital gains (when rating improves after plant completion).
- Issuance expenses are tax-deductible.

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An Islamically Acceptable Model of Preference Shares

By Professor Dr Mohamed A. Elgari

What is a preference share?

A preference share is a security, the holder of which is entitled to a preferential right over holders of ordinary shares of the issuing company. Typically, a preferred shareholder is promised a fixed cash payment every period and a fixed redemption value for his shares upon the firm's liquidation. Such fixed payment may be cumulative, or it may be payable only out of the profits of each year. Furthermore, preference shares generally have no voting power.

Preference shares are considered as an equity security and not debt for two reasons:

1. Their rights to preferred dividend payment is not a legally enforceable claim the way that bond coupons payment is, but must be approved by the firm's board of directors each period. Their only right is that they are paid before common stockholders receive cash dividends and they are paid the face value of this claim before any money is distributed to common stockholders upon liquidation.
2. Preferred stocks are perpetual security with no fixed maturity. In some cases they are structured to be convertible to common stock at the holder's or issuer's discretion. A debt security always has a maturity.

Why preference shares?

Even today, preference shares make a lot as part of the corporate capital structure for many reasons:

1. They provide a means of raising additional capital for the company without diluting the equity of the original owners.
2. Although preference shares have many of the features of debt securities (non-voting, face value redemption, fixed return), holders of preference shares cannot force the company into receivership, because they remain equity not debt.
3. Preference shares become even more important for venture capital investment. As we know, venture capital is the force driving developed economies today. In Europe, the size of venture capital investment exceeded US\$20 billion in 1998 alone. In most cases, this goes to financing new innovations in technology, medicine, electronics, etc. Sizeable amounts of capital are needed before an innovative start-up company can reach the stage of an IPO.

In this context venture capital funds are required, either directly or through specialized investment funds. In both these cases there is moral hazard and adverse selection included in the relationship between fund providers, who do not participate in the day-to-day management, and the owner/investor, who is directly involved in the development process.

Because start-up companies are not as transparent as mature, publicly traded corporations, the fund provider faces the risk of losing all his investment in the event that the company is liquidated before the IPO stage.

Venture capital firms try to structure deals so that the management only benefits if the firm succeeds. In this case, providing funds on the basis of preference shares protects their interest. Hence venture capitalists usually buy preferred stock which is convertible into common shares when the company goes public, and thus they will have prior claim on the assets of the firm in the case of liquidation.

A model of Islamically acceptable preference shares

A company can issue preference shares within the Shariah permissibility in the following form:

1. The issue is based on the Mudarabah contract. The issuing company is the mudarib and the holders are rab al maal. Contemporary scholars do allow the "legal person" to be a party to a Mudarabah contract. They also permit the Mudarabah to be in the form of certificates (or in this case shares).
2. These shares can be redeemable at par value at some time in the future, which can be specified in the terms of issue or can be left to be decided at the discretion of the company. The issuing company may not digress from the face value redemption obligation, except where it can be shown that the capital collected through the issuance of such shares was actually reduced due to losses that were not due to the negligence or misconduct of the mudarib (i.e. the management of the company). In case of liquidation, holders of such shares have a preferential status over holders of ordinary shares. This is because their fund constitutes an obligation on the company, which has to distribute before it can pay anything to ordinary shareholders.
3. The issuing company may not guarantee a fixed income to the holders of these shares. However, they get their share of the profit in a ratio that need not be equal to the holders of ordinary shares.
4. Furthermore, such profit, once realized, becomes an obligation on the company and cannot be used to, for example, pay back creditors of the company. Hence, holders of such shares will effectively have a preferential status vis-à-vis profit compared to ordinary shareholders. Their profit can also be cumulative if profit was declared but not distributed.

Structuring Mudarabah in the form of certificates

Mudarabah as a contract of partnership is a very old contract. In the Middle Ages, it was the core of investment activities in most Muslim societies. Mudarabah remains a very important form of contract in the workings of Islamic banks. Developing structures which include Mudarabah in the form of marketable securities does not change the nature of the Mudarabah contract, nor violate the basic Shariah requirements for such contracts.

continued...

An Islamically Acceptable Model of Preference Shares (*continued...*)

The Islamic Jurisprudence Academy of the OIC, in its fourth conference (1408 H), discussed the subject and permitted issuing Mudarabah-based negotiable certificates.

Musharakah certificates

It is also possible for a corporation to issue Musharakah-based certificates. Such instruments are not unlike those based on Mudarabah, except for certain aspects regarding the status of the holder as compared to ordinary shareholders.

1. Guidelines will be incorporated into the Musharakah agreement which will focus on discouraging the entity from indulging in activities that may adversely affect profitability. These mutually agreed upon guidelines will be structured so that they are flexible and can be relaxed or altered, should change in the business environment warrant as such.
2. At the time of finalizing the terms and conditions for profit-sharing, factors such as depreciation, amortization and other income shall be taken into account, because these are dependent on the nature of operations and various types of financial transactions. Moreover, other income may have to be given a specific treatment. All these factors are to be examined carefully before the profit-sharing ratio is agreed upon.
3. A significant role for the religious board, rating agency, trustees and company auditors is envisaged in the implementation of the model.
4. Primarily, the model aims at targeting Musharakah investment in listed companies.
5. The most important feature is that the entity reserves would be available to set off any future losses. Accumulated reserves are owned by the current holders of the company's ordinary shares. Because the decision to issue these Musharakah certificates is taken at the level of shareholders' assembly, it constitutes an approval of the current owners of the company to share reserves with these certificate holders.

For the potential investors, the existence of large reserves at the time of issue of certificates provides an assurance that the company will be able to distribute profit in the years to come.

Redemption of Musharakah investments

1. Musharakah investment can be redeemed piecemeal or in a lump sum.
2. Before maturity, the investor can redeem his Musharakah investment on the open market by selling his certificates.
3. On maturity, certificate holders will share in any appreciation

in the issuer's assets that takes place during the term of the Musharakah investment. The sharing of this appreciation may be determined either by the entity's share price in the market (one year moving average prices), or by the book value of the entity's share. The valuation should be done at the time of entering into and on completion of the tenor of Musharakah investment. The difference between these two will become the basis of maximum admissible sharing of the appreciation in the entity's assets (assuming valuation at the maturity is higher).

4. At the time of the initial Musharakah agreement, the parties may mutually agree on a ratio for sharing any appreciation in the entity's asset base. In the case of depreciation, which would be the situation if the entity suffers a loss of more than the reserves built up from past profits and there is also a fall in the share price on the stock market, this should be shared strictly in the ratio of funds deployed on a profit-sharing basis. This is in line with the Musharakah jurisprudence whereby profit may be shared non-pro rata, while loss must be borne equally.

Delay in payment of profit/redemption of Musharakah investment

1. Investors will have the option to extend the duration of the Musharakah investment if the entity incurs a loss. However, should investors decide on the redemption of their investment and the entity is unable to fulfill its obligation, then the Musharakah investment shall rank pari passu with shareholders' capital.
2. In case a profit was made but was not distributed, then the due profit/due amount not redeemed will be treated as new Musharakah investment and will be considered as being a contributing capital element to an entity's profit until such time as it is paid off.
3. Where a loss-incurring entity does not foresee better future prospects, the Musharakah capital amount will rank pari passu with shareholder's paid-up capital, but the profit payments due during or at the end of the tenor but not paid would become senior debt with charge ranked pari passu with first charge holders on the assets.
4. If the certificates are traded in an organized market and they are negotiable, then such negotiability must be conditional by the requirement of sale in Shariah.

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BOOK
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Key Trends in Islamic Funds

By Rajeev Baddepudi and Bernardo Vizcaino, EurekaHedge

This is the first part in a series by EurekaHedge. The article will continue in the next issues of Islamic Finance news.

Introduction

Islamic investments have garnered increased interest over the years and have gained momentum not only from established participants, but also from a variety of new entrants. While some outsiders would refer to Islamic finance as a subset of the socially responsible industry, the informed observer will note that the industry has taken on a life of its own and is poised to develop further.

In response to investor demand, EurekaHedge launched a database of Shariah compliant investment products this year, adding to its coverage of the alternative investment universe. This platform currently collates information on more than 330 funds, out of a universe which oscillates around the 400 mark. It is the most comprehensive attempt to provide transparency to investors and provide factual data to its participants.

As a measure of industry development, the number of Islamic funds launched has grown consistently over the years, as shown in Figure 1. A decade ago, one would have relied mostly on the established markets of Saudi Arabia and Malaysia to find around 100 funds, but this number has grown steadily over the years. Following the number of funds alone, the average rate of growth has been 15% per year. A critical mass has arguably been reached that has triggered interest from institutional investors as well as non-Islamic institutions, not only due to size, but also from the track records that are now falling under closer scrutiny.

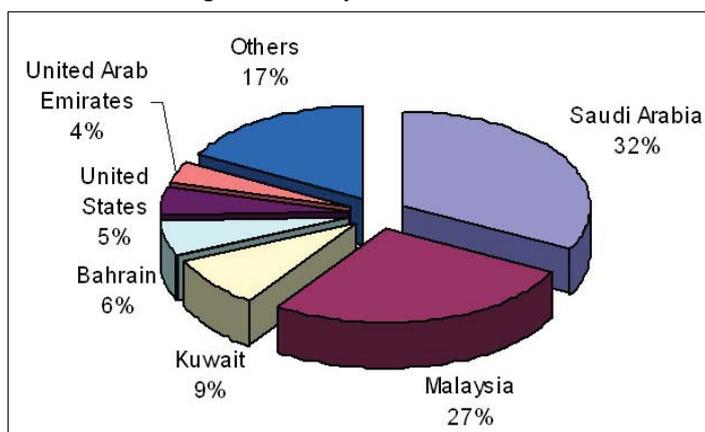
This review seeks to provide a comprehensive overview of the industry and an analysis of its key components. In order to do so, we examine the overall make-up of available products, their growth and development, and their historical performance, in order to establish a benchmarking index to track and compare these funds with one another. As the information available has seldom been collated before, we make an effort to minimize our use of estimates and focus instead on the factual data. As we rely purely on our database for information, we acknowledge the fact that further transparency is needed to reach the levels offered in other industries.

Industry make-up

I. Fund location and geographic mandate

Traditionally there have been two main geographical regions that have dominated the industry, namely the Middle East and South-east Asia. As the graphs below show, this still holds true, but the number of funds by head office location are increasingly found outside of these two clusters (Figure 2). This is an indication of the importance of the two regions as drivers of the industry, but also of the arrival of product offerings from less traditional sources. The presence of offshore products (Figure 3) is again a sign that these products are increasingly being offered to investors across multiple domiciles and are developing more sophisticated structures. Thus a third undefined cluster is emerging, as existing participants explore new markets and new entrants introduce new offerings.

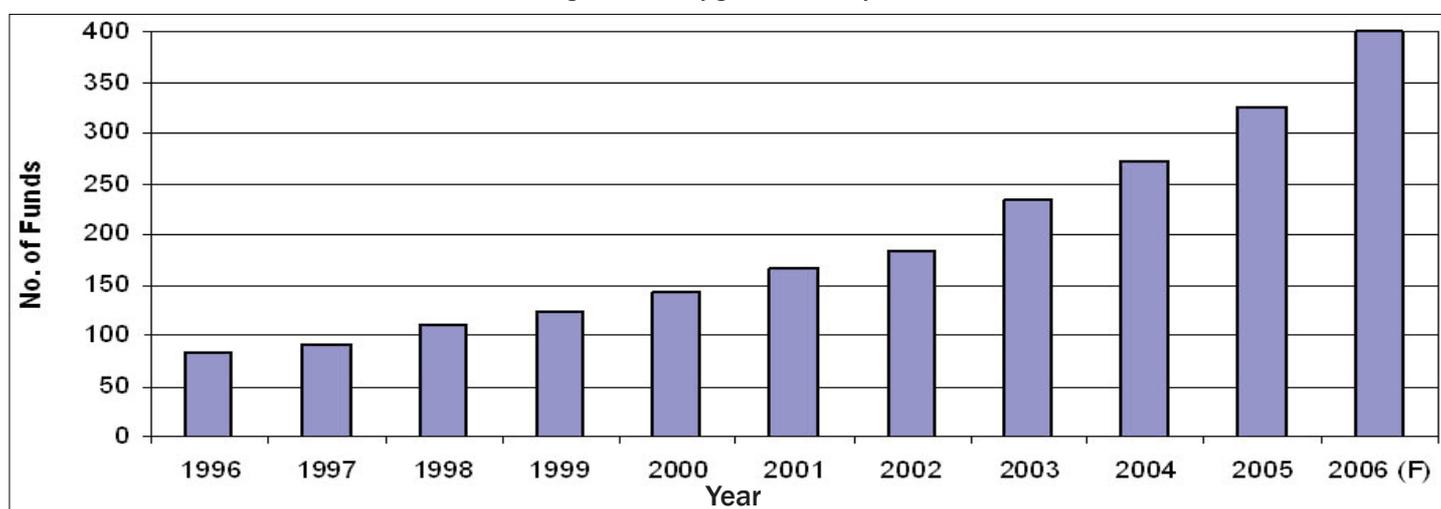
Figure 2: Funds by head office location



Furthermore, geographical mandates follow a similar theme, as shown in Figure 4 below – the GCC and Asia-Pacific markets clearly dominate, and their established institutions further leverage on their

continued...

Figure 1: Industry growth over the years



Key Trends in Islamic Funds (continued...)

experience and extend their product offerings to their client base. Yet investor appetite is increasingly heading towards new markets and/or less traditional exposures. Some of these might be at the periphery of established Islamic financial centers, yet some others are altogether new. For example, in the first half of 2006, new fund launches have seen products with exposure to China, Egypt, India, Pakistan, South Africa and Turkey – to name but a few.

Figure 3: Funds by domicile

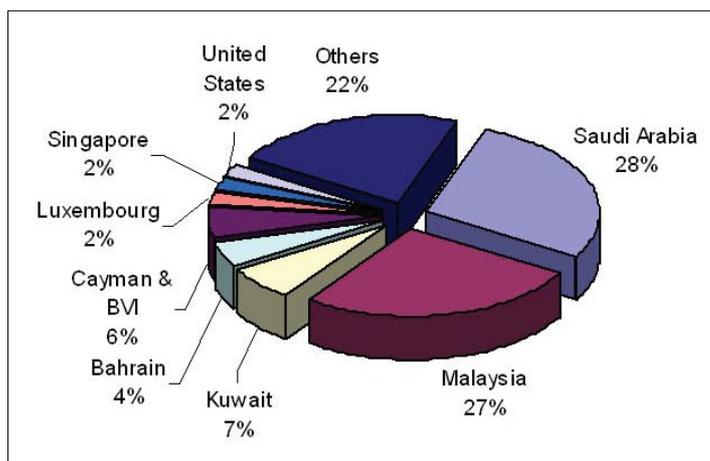
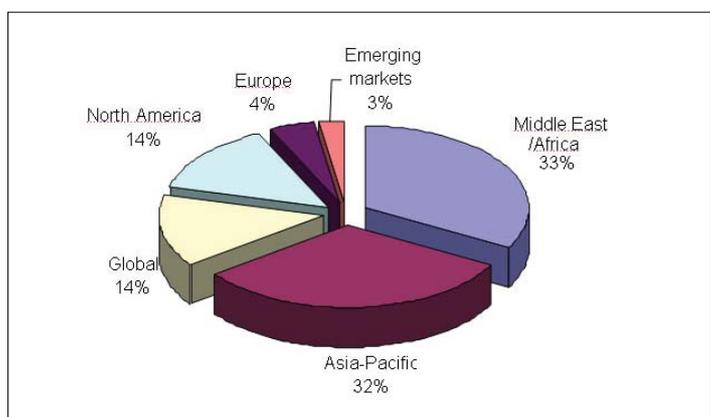


Figure 4: Funds by geographical mandate



II. Industry growth

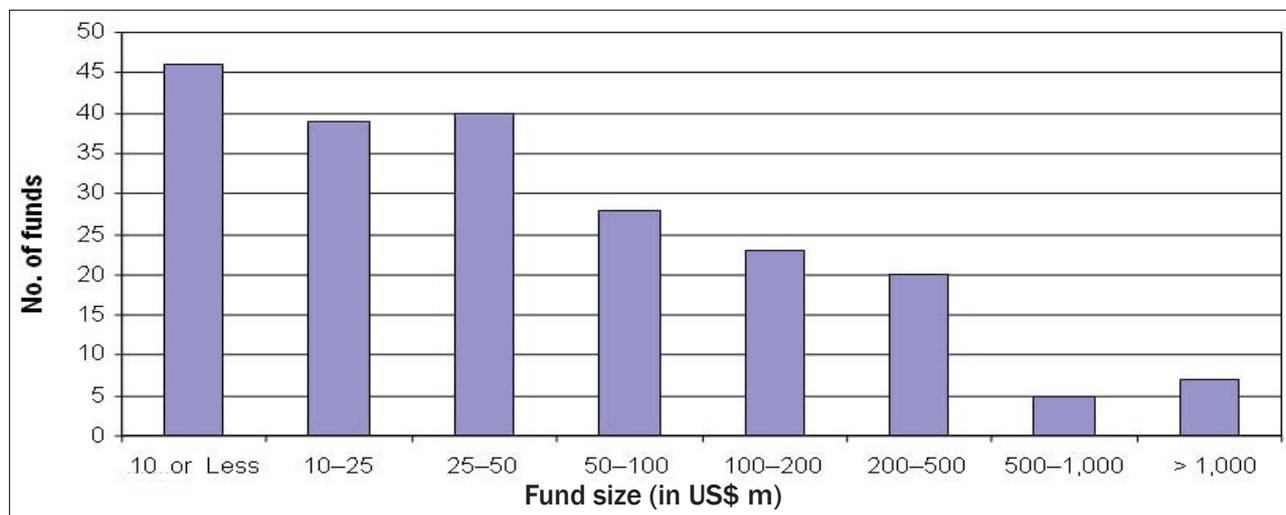
While the number of funds has seen steady growth (as shown in Figure 1), the assets under management have become a matter of debate, mainly due to the lack of information available, if nothing else. We focus on a more telling characteristic, the number of funds segregated by fund size (as shown in Figure 5). This is not a bell-shaped curve, but one skewed to the right (small-sized funds are the norm, but the tail extends to large-sized funds), which is partly due to the local focus of most funds (as they have catered to their domestic constituents) and also to the capacity constraints of some smaller markets (in fact many new mandates emphasize their cross-border exposures as they seek to further differentiate their offering).

The evidence also suggests that a potential rebalancing of portfolios could be in the making (merging of the two poles towards a more “normal distribution” of the industry). However, this might not be immediately possible, due to capacity constraints and a lack of intermediation products that might enable this – although a telling observation is the rather recent development of fund of funds structures and their role in this redistribution of assets. The flow of funds seems to be more relevant in this case than the actual asset size of the industry – which might also be prone to miscalculations, as we observe that not all assets under management are exclusively managed under the same mandate of compliance with the Shariah.

Another often encountered impression is to relate the industry's growth, performance and overall development with the surplus of petrodollars that has been observed in the last few years. This might well be a contributing factor, but, as will be seen in Figure 6 in next week's installment, in the past decade the growth of the industry has seen 1998 and 2003 as the years with the most notable rate of growth. Certainly the last five years have been witness to more than 180 new products (almost doubling the investible universe). However, we find no distinct correlation to any exogenous events, as the overall rate of growth in the industry has remained solid and stable throughout.

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Figure 5: Distribution of funds by size



Meet the Head

Islamic Finance news talks to leading players in the industry



Name: Steven Choy
Position: President/Chief executive officer
Company: Cagamas
Based: Kuala Lumpur, Malaysia
Age: 49
Nationality: Malaysian

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

In early 2006, I was approached by Cagamas to join as president and CEO of the company. Having been in the financial services sector for the past 25 years, in the areas of banking, insurance and fund management, I was very sure that with my experience I could add value to the company, so I took the job.

What does your role involve?

As the president/CEO, my role is to chart the strategic direction of the company and motivate my team to execute the strategies to achieve our set goals.

What is your greatest achievement to date?

I feel my greatest achievement is providing the leadership to bring change to Cagamas to face new challenges as we position ourselves to move on to a new phase of development.

Which of your products/services deliver the best results?

In terms of pricing, all Cagamas products are priced competitively, as the company is able to source competitive funding from the capital market.

In terms of the volume of purchases, currently the product or scheme to purchase Islamic hire purchase (IHP) debts originated by Islamic banking institutions (IBI) on with recourse basis constitutes the largest volume, with about 55% of the company's total purchases in the first half of the year (25% in 2005).

What are the strengths of your business?

Our strengths include:

- our ability to purchase and fund a huge volume of financing assets within a short time span;
- the superior ratings of our bonds, coupled with our broad investor base, has enabled Cagamas to obtain competitive funding from the capital market;
- a strong brand name in the domestic and international market; and
- our superior credit quality, which enables us to obtain continuous funding from the capital market at competitive rates.

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

- Shareholder quality. Our single largest shareholder is Bank Negara Malaysia (BNM), with a 20% shareholding. Other shareholders are commercial banks, finance companies and merchant banks.
- The support received from the Government and the regulatory authorities has enabled the company to play its role successfully as a secondary market institution and to contribute to the development of the debt securities market.
- Cagamas' infrastructure and delivery channels, together with a competent workforce, has enabled the company to conclude transactions within a short period of time.
- Cagamas' commitment to intensify and upscale its role as the national mortgage corporation and securitization house through the provision of innovative products at a competitive price.

What are the obstacles faced in running your business today?

The excess liquidity environment and the readiness of prospective sellers to securitize their assets to Cagamas are the main challenges for our business today.

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

I see the leveraging of the competitive edge offered by Islamic finance in more infrastructure projects globally. I also see Islamic banking adopting best practices on risk management, as envisaged by the Islamic Financial Services Board (IFSB) and as such, I am mindful of the efficiency of capital allocation in business ventures.

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

I would like to see the Islamic finance industry growing to further heights with the convergence of opinions from Shariah scholars, which will result in the promotion of product innovation in Islamic finance to be on a par with conventional finance.

Cagamas Berhad
THE NATIONAL MORTGAGE CORPORATION



Cagamas, the National Mortgage Corporation, was established in 1986 to promote the secondary mortgage market in Malaysia. Its corporate mission is to provide financial products that would make housing loans more accessible and affordable to Malaysians, particularly the lower income group. It borrows money by issuing debt securities and uses the funds to finance the purchase of housing loans from financial institutions, selected corporations and the Government. The provision of liquidity at a reasonable cost to the primary lenders of housing loans encourages further financing of houses at an affordable cost.

Besides housing loans, the company's other products include industrial property loans, hire purchase and leasing debts (conventional and Islamic), and credit card receivables.



SAUDI ARABIA

Cooperative licenses approved

The government of Saudi Arabia, which has for a quarter of a century had an unregulated insurance market, has granted licenses to 13 cooperative insurance companies.

Currently the only licensed company in Saudi Arabia is the Company for Cooperative Insurance.

This licensing decision will pave the way for a dramatic rise in the number of insurance companies listed on the Saudi stock market, as the Capital Market Authority will be able to allow the companies to make IPOs of at least 40% of their value. These companies mainly hold capital of SR100 million – SR600 million (US\$26 million–US\$159.9 million).

One of the companies that had been granted a license, Malath Insurance and Reinsurance Co, stated: “We will need the Capital Market Authority to approve our company’s IPO. We are planning to offer 47% of our company’s capital (SR300 million (US\$80 million) to the public.”

MALAYSIA

Takaful International and Batelco sign agreement

Takaful International and the Batelco Trade Union have signed an agreement for the provision of insurance services to trade union members.

Takaful International will, under this agreement, provide a range of services, including building and motor insurance for members and their families; travel insurance for members and their domestic helpers; family Takaful insurance and other services.

GENERAL

Moody’s comments on Takaful mart

The Takaful market has recorded a premium growth of 20% in recent years, with total premiums of over US\$2 billion in 2005, which are expected to grow to US\$7 billion-plus by 2015.

Moody’s Special Comment – “Takaful: A Market with Great Potential” – explains the key types of Islamic insurance (General and Family), and the three main operational models (Wakalah, Mudharabah and Waqf). It also discusses the emergence of re-Takaful, the development of which Moody’s believes will be critical to overall growth in the market.

The rating agency’s approach to analyzing the financial strength of a Takaful company is essentially the same as with a conventional mutual insurance company, although there are some key differences relating to corporate governance, asset allocation, structural features, capitalization strategies and the regulatory environment.

SWITZERLAND

Converium to write re-Takaful

Swiss Converium Holdings has received approval from the Labuan Offshore Financial Services Authority (LOFSA) in Malaysia to provide international re-Takaful services.

The company plans to write international re-Takaful business in South and South-east Asia through its Malaysian office.

Benjamin Gentsch, Converium’s executive vice-president for specialty lines, said: “We look forward to offering our clients in the Islamic world reinsurance solutions, which are Shariah compliant. Our decision to write re-Takaful business demonstrates our strong commitment to serve fast growing markets, with innovative and culturally sensitive products.”

MALAYSIA

Takaful Malaysia’s new Vacation Plan

Syarikat Takaful Malaysia is expecting 50,000 participants for its newly launched product Takaful Vacation Scheme during the festive period.

The Takaful Vacation Scheme provides coverage to participants and family members when they are on vacation in Malaysia or overseas.

The contribution to the product starts at RM10 (US\$2.70), RM20 (US\$5.41) and RM30 (US\$8.12), thus giving an opportunity for everyone to participate.

The scheme covers death by accident and permanent disablement, with benefits amounting to RM10,000 (US\$2,706) for the participant and RM5,000 (US\$1,353) for spouses, children and parents, including hospital allowance and participants’ household belongings during the vacation.

MALAYSIA

LS Associates sign Takaful Ikhlas MoU

LS Associates have signed a memorandum of understanding with Takaful Ikhlas to provide IKHLAS Motor Takaful cover for clients of its mega auto mart – KARS.

The 31-acre KARS site is expected to be operational by April 2007, managing director Adzmi Abdul Wahab said. LS Associates have invested RM5 million (US\$1.35 million) in this project.

Adzmi commented: “KARS was born from the realization of a dream to sell multi-brand cars in one central convenient location through the convergence concept. This will allow buyers and sellers to gather in one area to browse various marques and help in decision-making.”

Protection in Islam – Insuring Contentment

By *Takaful International*

Introduction

There are numerous references to Ta'awun and Takaful in the Quran in the context of co-operation and solidarity for the good of society. One widely quoted reference is from sura al-Maidah, as follows:

“And help one another in righteousness and piety and do not help one another in evil deeds and enmity”
(Al Quran – Al Maidah 2)

One of the approaches to social help and assistance practiced in Islam that relates to the first Constitution of Medina stated that: “the emigrants from among the Quraish shall be responsible for their ward and shall pay the blood money in mutual collaboration and shall secure the release of their prisoners by paying their ransom themselves, so that the mutual dealings between the believers be in accordance with the principles of recognized goodness, justice and mutual responsibility.”

Where a person inflicts bodily injury or homicide it becomes incumbent upon him or, as mutual responsibility, upon a group of people representing him, to compensate the injured party in cash or kind. This compensation is called “diya.” Where homicide is intentional, the diya or blood money is payable by the person committing that act. A third party (aqila) pays blood money only where the act is unintentional or where it is offered by the aqila on voluntary basis (Malik Al-Muwatta).

A fatwa by Dr. Yusuf Al-Qardhawi states that Islamic insurance may exist in a situation where each participant contributes to a fund which is used to support one another. Islam aims at establishing a social order under universal brotherhood. The underlying concept is that of mutual co-operation and help. The Prophet (pbuh) stressed:

“In mutual compassion, love and kindness you will find the faithful like a body, so that if one part feels pain, the whole body responds with wakefulness and fever.”

“A Muslim is the brother of another Muslim; he neither wrongs him, nor leaves him without help, nor humiliates him.”

Other references to Ta'awun and Takaful in the Quran are as below.

Protection

“(Allah) who prepares nourishment to prevent the fear of hunger and saves / puts at peace those who fear”
(Quran – Al-Quraisy 106:4)

Co-operation

“A Muslim is brother of a fellow-Muslim. He should neither commit oppression upon him nor ruin him and he who meets the needs of a brother, Allah would meet his needs and he who relieves his brother from hardship, Allah will relieve him from the hardships to which he could be put on the Day of Resurrection.” (Sahih Muslim)

Takaful – sharing of responsibility

“The similitude of believers in regard to mutual love, affection, fellow-feeling is like that of a body, when any limb of it aches,

the whole body aches because of sleeplessness and fever.”
(Sahih Muslim)

“A believer is like a brick for another believer, the one supporting the other and hold fast, all together, by the rope which Allah [stretches out for you], and be not divided among yourselves; and remember with gratitude Allah's favor on you:

for you were enemies and He joined your hearts in love, so that by His grace you became brethren; and you were on the brink of the pit of fire, and he saved you from it thus does Allah make His signs clear to you; that you may be guided.”
(Quran – Al Imran 103)

“The believers are but a single brotherhood: so make peace and reconciliation between your two [contending] brothers; and fear Allah, that you may receive mercy.”
(Quran – Al Hujurat 10)

“[Their bearings] on this life and the hereafter they ask you concerning orphans. Say: the best thing to do is what is for their good; if you mix their affairs with yours, they are your brethren; but Allah knows the man who means mischief from the man who means good. And if Allah had wished He could have put you into difficulties: he is indeed exalted in power, wise.” (Quran – Al Baqarah 220)

“But those who before them had homes [in Medina] and had adopted the faith, show their affection to such as come to them for refuge, and entertain no desire in their hearts for things given to the [latter], but give them preference over themselves, even though poverty was their [own lot] and those saved from the covetousness of their own souls; they are the ones that achieve prosperity.” (Quran – Al Hashr 9)

“Serve Allah and join not any partners with him and do good to parents, kinsfolk, orphans, those in need, neighbors who are near, neighbors who are strangers, the companion by your side, they wayfarer [you meet] and what your right hands possess: for Allah loves not the arrogant, the conceited.”
(Quran – An Nisaa 36)

Reference to the Quran regarding basic requirements of Takaful

The system of Takaful must avoid riba, maisir (the gambling element) and gharar (uncertainty).

Avoiding riba

The funds of a conventional insurance company are mainly used in investment activities that contravene the rules of Shariah. They invest in companies that may be involved in unethical activities and build their business through participating in riba. Also, loans may be granted on insurance policies and interest charged for that loan. This is not permitted in a Takaful contract. Riba is prohibited in Islam and laid out below are references in the Quran to this effect.

“Those who eat riba [usury] will not stand [on the Day of Resurrection] except like the standing of a person beaten
continued...

Protection in Islam – Insuring Contentment (*continued...*)

by Shaitan [Satan] leading him to insanity. That is because they say, 'Trading is only like riba or usury, whereas Allah has permitted trading and forbidden riba.' So whosoever receives an admonition from his Lord and stops eating riba shall not be punished for the past; his case is for Allah [to judge]: but whoever returns to riba, are dwellers of the Fire – they will abide therein." (Quran – Al-Baqarah (2): 275)

"O you who believe! Be afraid of Allah and give up what remains [due to you] from riba [from now onward], if you are [really] believers. And if you do not do it, then take notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly [by asking more than your capital sums], and you shall not be dealt with unjustly [by receiving less than your capital sums]" (Quran – Al-Baqarah (2): 278-279)

Avoiding maisir

1. Maisir refers to gambling and to any form of business activity where monetary gains are derived from mere chance, speculation or conjecture. For example uncertainty of the timing of benefits in a pure life insurance contract creates an element of maisir. The basis of compensation must be clearly pre-defined. In its absence, the proceeds of a life insurance policy may not relate to premiums paid up to the date of death.
2. The Hadith of Sahih Muslim narrates that the Prophet (pbuh) forbade the sale called "Habal-Ala Habala," which was a kind of sale where one would pay the price of a she-camel which was not yet born but would be born as the immediate offspring of the expectant she-camel.
3. Maisir is referred to in the Quran as follows:

"O you who believe intoxicants [all kind of alcoholic drinks] and gambling, and Al-Ansab [ways for seeking luck] are an abomination of Shaitan [Satan]. So avoid strictly all that [abomination] in order that you may be successful." (Quran – Al-Maidah (5): 90)

Avoiding gharar

1. An element of uncertainty or gharar may exist in both life and general insurance policies. One of the basic rules of a contract in Islam is that it must be clear (mu'ad'alaih). In a conventional contract the insured or the policyholder agrees to pay a certain sum of premium but it is never clear to him or her how the benefit of life cover is derived.
2. According to Islamic jurisprudence, the element of gharar invalidates a contract if:
 - it is incorporated in a financial contract;
 - its contractual impact is very large and substantial; or
 - there is no genuine need for such contract.

A contract is not invalidated due to gharar if the following conditions are upheld in the contract:

- insurance cover is genuinely required to safeguard the insured's interests;
- such protection that cannot be provided other than through insurance avoids uncertainty through a contract of Takaful based on co-operative principles.



Takaful International, formerly known as Bahrain Islamic Insurance Company (BIIC), was incorporated in 1989. As one of the early players in the Islamic financial field, BIIC offered insurance products and services that were designed to meet the increasing demand for such products. Takaful International has become a pioneer in the provision of innovative, reliable and high quality Takaful products and services that both conform to the Shariah laws and beliefs and satisfy market demands.

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MOVES

AL SALAM – Bahrain

Aidan McNulty has been appointed executive vice-president – chief risk officer of Al Salam Bank.

Mr McNulty has over 20 years' experience in the field of risk management with leading international and regional financial organizations. He holds an MA in Accounting and a Bachelor's degree in Business Studies from Trinity College, Dublin, Ireland.

Before joining Al Salam Bank, Mr McNulty was the co-founding principal and managing director of asset management and insurance at Risk Metrics Group, and prior to that he was with JP Morgan.

UNICORN INVESTMENT BANK – Malaysia

Islamic Finance news understands that Unicorn Investment Bank's Malaysian chief executive, Raja Teh Maimunah, has resigned from her post. She is expected to join another Islamic-focused financier at the beginning of 2007.

Speculation has been mounting about the bank's senior management in Malaysia since its failed bid to purchase a major stake in the country's Bank Islam Malaysia.

MARKAZ – Kuwait

Investment banking and asset management company Markaz has appointed Amani Al Omani as head of local and GCC investments. Ms Omani's deputy will be Bader Al Ghanin, who is assistant vice-president of local and GCC investments.

Ms Omani is the first female to occupy such a position in a Kuwait financial institution and in the GCC. She joined Markaz in July 2002, and was co-managing the Forsa fund, which is the first derivative fund in the Middle East, before this appointment. She also spent seven years in the Bank of Kuwait & the Middle East in the Treasury Department as a foreign exchange and money market dealer.

Bader Al Ghanim has been with Kuwait Financial Center since 2003 with over six years of experience in managing equity investments. He holds a BSc in Electrical Engineering and Bachelor of Arts in Economics from Boston University.

ABN AMRO – Hong Kong

ABN AMRO has announced two new appointments. George Koo has been appointed to the role of head of financial institutions and public sector, commercial segment, Asia. He takes over from Dominic Silva, who will take on a new role as head of SME banking in Asia. Both will be based in the bank's Hong Kong offices.

Mr Koo joins ABN AMRO from Barclays Capital where he was most recently head of financial institutions group for the region. At ABN AMRO, he will be responsible for capitalizing on growing demand for capital management, asset and liability management, and yield

enhancement solutions by banks and insurance companies regionally. His responsibilities will also include developing ABN's relationships with banks and insurance clients in the commercial segment in Asia.

Responsible for rolling out the SME business in China, Hong Kong, Indonesia, Singapore and Pakistan, Mr Silva will provide and increase services to SMEs in the region.

SOLIDARITY – Kuwait

Solidarity has appointed Gautam Datta to the role of general manager for the General Takaful Division.

Mr Datta brings his wide experience in the insurance industry to Solidarity. He has held senior management positions in leading insurance institutions including Chubb Insurance Group, Bahrain Kuwait Insurance and New India Assurance. His in-depth experience, not only in insurance, but also regionally, will add another dimension to Solidarity's executive management team.

ISLAMIC FINANCE COMPANY – UAE

The Islamic Finance Company has been officially formed; its board of directors has been elected; and key personnel appointed.

The board consists of Abdullah Saeed Al Qubessi, Ali Hamel Al Gaith, Gaith Hamel Al Gaith, Al Walid Al Mubarak and Eisa Shamlan Al Shamlan, who together appointed Talal Abi Ghazaleh as financial auditor and Al Tamimi as the company's legal advisors.

Chairman of the founders committee Abdullah Saied Al Qubessi stated: "With the establishment of this company, we are aiming to penetrate the UAE's economical sector with the full gamut of corporate and retail Islamic finance products. We assure to be one of the major players in the development of the economy through our competent workforce and international standards that we will follow. With our Shariah finance experts we are aiming to spread across the region with state of the art facilities and diverse finance solutions to meet every individual's need."

IHG SECURITIES – UAE (Dubai)

Khalid Yousaf has been appointed managing director of Islamic finance at IHG Securities, a branch of the Dubai-based asset manager International Holdings Group.

Mr Yousaf, a highly experienced senior Islamic financing and international banking executive, brings his varied experience and expertise from Citibank in London building board-level Islamic banking relationships, conceived and managed solutions in trade finance, sale of cash, custody and clearing, securities, equity finance, foreign exchange and commercial loans.

Mr Yousaf has also worked in senior executive positions for Citibank in Turkey, the USA, Belgium, Greece and Pakistan, as well as country operations officer and vice-president.

Eurekahedge Islamic Fund Index



Top Ten YTD Returns for all Funds (as of 12th October 2006)

FUND	FUND MANAGER	(%)	INVESTMENT STYLE	
1	SBB Dana Al-Faiz	SBB Asset Management	14.55	Mutual Fund/Unit Trust
2	AlAhli Europe Trading Equity Fund	The National Commercial Bank	11.29	Mutual Fund/Unit Trust
3	SBB Dana Al-Azam	SBB Asset Management	11.09	Mutual Fund/Unit Trust
4	Amana Income	North American Islamic Trust (NAIT)	9.33	Mutual Fund/Unit Trust
5	SBB Dana Al-Ikhlal	SBB Asset Management	8.70	Mutual Fund/Unit Trust
6	Amlslamic Growth	AmlInvestment Services	8.50	Mutual Fund/Unit Trust
7	SBB Dana Al-Hikmah	SBB Asset Management	8.24	Mutual Fund/Unit Trust
8	SBB Dana Al-Ihsan 2	SBB Asset Management	8.12	Mutual Fund/Unit Trust
9	MAAKL Al-Faid Fund	Meridian Asset Management	8.01	Mutual Fund/Unit Trust
10	AlAhli Islamic Europe Equitybuilder Certificates	Deutsche Bank	7.94	Mutual Fund/Unit Trust
<i>Eurekahedge Islamic Fund Index*</i>			0.89	

Top Ten Sharpe Ratio for all Funds (as of 12th October 2006)

FUND	FUND MANAGER	(%)	INVESTMENT STYLE	
1	Asia Pacific Adil Fund	UOB Asset Management	7.35	Mutual Fund/Unit Trust
2	AlAhli Islamic Asia Pacific Equitybuilder Certificates	Deutsche Bank	1.38	Mutual Fund/Unit Trust
3	AlAhli Islamic Global Equitybuilder Certificates	Deutsche Bank	1.22	Mutual Fund/Unit Trust
4	AlAhli Islamic Europe Equitybuilder Certificates	Deutsche Bank	1.01	Mutual Fund/Unit Trust
5	AIManarah High Growth Portfolio	The National Commercial Bank	0.98	Fund of Islamic Funds
6	AlAhli Saudi Trading Equity Fund	The National Commercial Bank	0.98	Mutual Fund/Unit Trust
7	Hermanek Opportunitas Fund	IFM Independent Fund Management	0.92	Others
8	AIManarah Medium Growth Portfolio	The National Commercial Bank	0.89	Fund of Islamic Funds
9	AlAhli Islamic US Equitybuilder Certificates	Deutsche Bank	0.73	Mutual Fund/Unit Trust
10	AIManarah Conservative Growth Portfolio	The National Commercial Bank	0.63	Fund of Islamic Funds
<i>Eurekahedge Islamic Fund Index*</i>			0.06	

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Data as of the 11th October, 2006



DESCRIPTIVE STATISTICS

Index	Component number	Market Capitalization (US\$ billions)						Component Weight (%)	
		Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2297	15474.4	13318.91	5.8	1.35	395.52	0.01	2.97	0
DJIM Asia/Pacific	907	2733.43	2006.81	2.21	0.52	91.27	0.01	4.55	0
DJIM Europe	328	3739.92	3025.51	9.22	2.39	211.33	0.1	6.99	0
DJIM US	742	7885.72	7508.65	10.12	2.62	395.52	0.15	5.27	0
DJIM Titans 100	100	7109.66	6508.52	65.09	46.71	395.52	8.78	6.08	0.13
DJIM Asia/Pacific Titans 25	25	809.7	572.26	22.89	17.07	61.56	8.78	10.76	1.53

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

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DOWJONES *Indexes* Anthony Yeung Regional Director anthony.yeung@dowjones.com Tel: +852 2831 2580 **DOWJONES** *Indexes*

RINGGIT ISLAMIC DEBT MARKET: FORTNIGHTLY SNAPSHOT

AS AT 11th October 2006

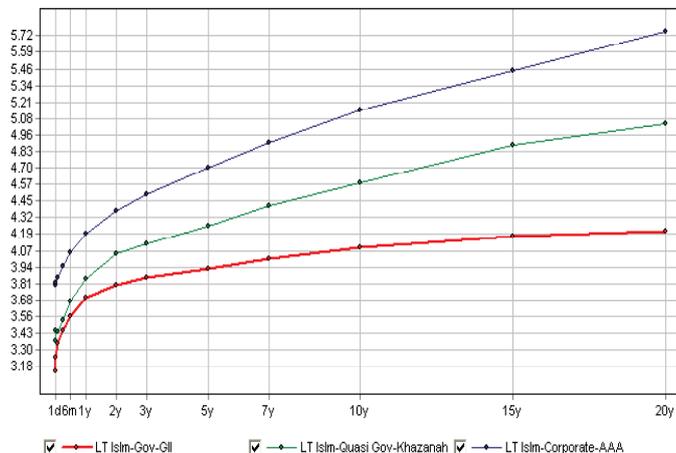
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	04 October 06 (RM)	27 September 06 (RM)	20 September 06 (RM)
Private Debt Securities					
RANTAU IMTN 15.03.2011 - MTN 1	AAA (RAM)	100.2	100.16	99.96	99.96
RANTAU IMTN 0% 14.08.2013 - MTN 2	AAA (RAM)	102.68	102.57	102.4	101.81
PLUS IMTN 0% 08.10.2021 - TRANCHE 2	AAA (RAM)	44.15	n/a	n/a	n/a
PLUS IMTN 0% 09.10.2020 - TRANCHE 1	AAA (RAM)	46.18	n/a	n/a	n/a
MHSA 0.00000% 03.09.2014	A+ID (MARC)	105.05	105.10	105.06	105.20
Government Investment Instruments					
GII 1/2004 0.00000% 15.06.2007	n/a	97.57	97.51	97.38	97.35
PROFIT-BASED GII 1/2005 16.03.2015	n/a	102.4	102.4	102.17	101.07
PROFIT-BASED GII 1/2006 14.04.2009	n/a	100.08	100.08	99.88	99.89
PROFIT-BASED GII 2/2006 14.07.2011	n/a	103	103.02	102.81	102.55
Quasi Government					
CAGABAIS 11/2006 0% 10.08.2007	AAA (RAM)	100.07	100.25	100.29	100.25
CAGABAIS 13/2006 0% 10.08.2009	AAA (RAM)	100.67	100.67	100.72	100.62
KHA1/00 1.02B 0-CP 7YR 20.03.2007	n/a	98.41	98.34	98.27	98.21
KHA1/03 1B 0-CP 5Y 18.06.2008	n/a	93.87	93.41	93.31	93.30
KHA3/03 1B 0-CP 5YR 18.12.2008	n/a	91.92	91.44	91.32	91.32

SPREAD VS GII (in b.p)

	TENURE						
	1Y	2Y	3Y	5Y	7Y	10Y	
GII	3.7	3.8	3.86	3.93	4	4.09	
Cagamas	0.2	0.29	0.31	0.38	0.46	0.58	
Khazanah	0.15	0.24	0.26	0.33	0.41	0.5	
AAA	0.5	0.57	0.64	0.77	0.9	1.06	
AA1	0.55	0.65	0.69	0.87	1.1	1.36	
A1	1.63	1.79	1.89	2.22	2.55	3.06	

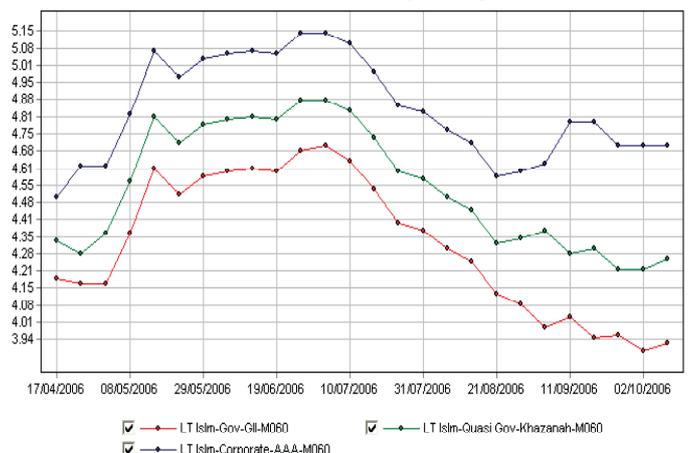
MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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



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ISLAMIC LEAGUE TABLES

TOP ISSUERS OF ISLAMIC DEBT							OCTOBER 2005 – OCTOBER 2006
Issuer or Group	Nationality	Instrument	Amt US\$ m	Iss.	%	Manager	
1 PCFC Development	UAE	Convertible Sukuk	3,500	2	25.3	Barclays Capital, Dubai Islamic Bank	
2 Malaysia	Malaysia	Islamic Sukuk	1,771	2	12.8	Malaysian Government bond	
3 Cagamas	Malaysia	Bithaman Ajil Islamic Securities	1,003	14	7.3	Cagamas, AmMerchant Bank, Aseambankers	
4 Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	999	2	7.2	CIMB, AmMerchant	
5 Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	5.4	CIMB Investment, HSBC Amanah, UBS	
6 Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	5.4	CIMB Investment Bank	
7 Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	681	2	4.9	Aseambankers Malaysia	
8 Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	3.3	Deutsche Bank	
9 Putrajaya Holdings	Malaysia	Murabahah MTN	456	9	3.3	Alliance Merchant Bank, CIMB, RHB Sakura Merchant Bankers	
10 Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	1.9	Aseambankers	
11 Senai Desaru Expressway	Malaysia	Bai Bithaman Ajil Islamic Debt Facilities	249	26	1.8	Aseambankers	
12 SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	1.6	HSBC	
13 Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Redeemable Secured Serial Sukuk Istisnah	207	9	1.5	CIMB	
14 Tabreed 06 Financing Corp	UAE	Sukuk Istisnah	200	1	1.4	CIMB, HSBC, Dreer Kleinwort Wasserstein	
15 Sistem Penyuraian Trafik KL Barat	Malaysia	Bai Bithaman Ajil Notes Issuance Facility	136	5	1.0	United Overseas (Malaysia)	
16 WAPDA First Sukuk Co	Pakistan	Sukuk Ijarah	134	1	1.0	Citibank NA (Pakistan), Jahangir Siddiqui & Co, MCB	
17 Sime Darby	Malaysia	Murabahah MTN	133	1	1.0	CIMB	
18 Golden Crop Returns	Malaysia	Sukuk Ijarah	117	15	0.8	Affin	
19 Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	0.8	AmMerchant, Bank Muamalat Malaysia, Malaysian International Merchant Bankers	
20 Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	0.8	CIMB, HSBC	
Total of issues used in the table			13,815	296	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	19.9	Malaysian Government bond	
2 Cagamas	Malaysia	Bithaman Ajil Islamic Securities	1,003	14	11.3	Cagamas, AmMerchant, Aseambankers	
3 Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	999	2	11.2	CIMB, AmMerchant	
4 Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	8.4	CIMB Investment, HSBC Amanah, UBS	
5 Projek Lebuhraya Utara Selatan (PLUS)	Malaysia	Sukuk Musharakah MTN	743	18	8.4	CIMB Investment	
6 Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	5.2	Deutsche	
7 Putrajaya Holdings	Malaysia	Murabahah MTN	456	9	5.1	Alliance, CIMB, RHB Sakura	
8 Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	416	1	4.7	Aseambankers	
9 Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	2.9	Aseambankers	
10 SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	2.5	HSBC	
11 Tabreed O6 Financing Corp	UAE	Sukuk Istisnah	200	1	2.2	CIMB, HSBC, Dreer Kleinwort Wasserstein	
12 WAPDA First Sukuk Co	Pakistan	Sukuk Ijarah	134	1	1.5	Citibank (Pakistan), Jahangir Siddiqui & Co, MCB	
13 Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	1.2	AmMerchant, Bank Muamalat Malaysia, Malaysian International Merchant Bankers	
14 Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	1.2	CIMB, HSBC	
15 BNM Sukuk	Malaysia	Sukuk Ijarah	107	1	1.2	Malaysian Government bond	
16 NICBM Sukuk	Kuwait	Sukuk Musharakah	100	1	1.1	Kuwait Finance House KSC, Standard Bank	
17 Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	100	10	1.1	RHB Sakura, Malaysian International Merchant Bankers, Bank Muamalat Malaysia, AmMerchant	
18 Penang Bridge	Malaysia	Redeemable Secured Serial Sukuk Istisnah	96	6	1.1	CIMB	
19 Perwaja Steel	Malaysia	Murabahah MTN	84	7	0.9	Standard Chartered Bank Malaysia	
20 Dura Palms	Malaysia	Sukuk Ijarah	77	4	0.9	Avenue Securities	
Total of issues used in the table			8,890	201	100.0		

Islamic Finance news LEAGUE TABLE DATA – IS IT CORRECT???

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ISLAMIC LEAGUE TABLES

ISLAMIC DEBT		OCTOBER 2005 - OCTOBER 2006		
Manager or Group	Amt US\$ m	Iss.	%	
1	CIMB	2,046	68	14.8
2	Malaysian Government bond	1,878	3	13.6
3	Barclays Capital	1,750	2	12.7
4	Dubai Islamic	1,750	2	12.7
5	Aseambankers	1,239	49	9.0
6	AmMerchant	1,128	31	8.2
7	HSBC	749	11	5.4
8	Cagamas	592	8	4.3
9	Deutsche	460	1	3.3
10	RHB	286	49	2.1
11	Standard Chartered	275	43	2.0
12	UBS	250	1	1.8
13	United Overseas	237	19	1.7
14	Alliance Investment	170	14	1.2
15	Affin Merchant	152	28	1.1
16	Avenue Securities	129	7	0.9
17	Bank Muamalat	82	22	0.6
18	MIDF-Sisma Securities	77	17	0.6
19	Dresdner Kleinwort	67	1	0.5
20	EON	62	20	0.4
Total of issues used in the table	13,815	296	100.0	

ISLAMIC DEBT		YEAR-TO-DATE		
Manager or Group	Amt US\$ m	Iss.	%	
1	Malaysian Government bond	1,878	3	21.1
2	CIMB	1,699	42	19.1
3	AmMerchant	1,117	30	12.6
4	Aseambankers	839	21	9.4
5	HSBC	674	7	7.6
6	Cagamas	592	8	6.7
7	Deutsche	460	1	5.2
8	UBS	250	1	2.8
9	RHB	227	35	2.6
10	Alliance Investment	170	14	1.9
11	Standard Chartered	150	17	1.7
12	United Overseas	90	13	1.0
13	MIDF-Sisma Securities	77	17	0.9
14	Avenue Securities	77	4	0.9
15	Bank Muamalat	71	21	0.8
16	Dresdner Kleinwort	67	1	0.7
17	EON	62	20	0.7
18	Standard Bank Group	59	2	0.7
19	Kuwait Finance House KSC	50	1	0.6
20	Citigroup	45	1	0.5
20	Jahangir Siddiqui & Co	45	1	0.5
20	MCB	45	1	0.5
Total of issues used in the table	8,890	201	100.0	

ISLAMIC DEBT BY COUNTRY		OCTOBER 2005 - OCTOBER 2006		
	Amt US\$ m	Iss.	%	
Malaysia	9,139	286	66.2	
UAE	4,385	5	31.7	
Pakistan	152	2	1.1	
Kuwait	100	1	0.7	
Indonesia	21	1	0.2	
Saudi Arabia	18	1	0.1	
Total	13,815	296	100.0	

ISLAMIC DEBT BY COUNTRY		YEAR-TO-DATE		
	Amt US\$ m	Iss.	%	
Malaysia	7,714	193	86.8	
UAE	885	3	10.0	
Pakistan	152	2	1.7	
Kuwait	100	1	1.1	
Indonesia	21	1	0.2	
Saudi Arabia	18	1	0.2	
Total	8,890	201	100.0	

ISLAMIC DEBT BY CURRENCY		OCTOBER 2005 - OCTOBER 2006		
	Amt US\$ m	Iss.	%	
Malaysian ringgit	8,389	285	60.7	
US dollar	5,253	8	38.0	
Pakistan rupee	152	2	1.1	
Indonesian rupiah	21	1	0.2	
Total	13,815	296	100.0	

ISLAMIC DEBT BY CURRENCY		YEAR-TO-DATE		
	Amt US\$ m	Iss.	%	
Malaysian ringgit	6,964	192	78.3	
US dollar	1,753	6	19.7	
Pakistan rupee	152	2	1.7	
Indonesian rupiah	21	1	0.2	
Total	8,890	201	100.0	

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
November			
4 th – 6 th	The Islamic Real Estate Finance IREF 2006	Jeddah	ICG
5 th – 6 th	The World Islamic Infrastructure Finance Conference	Doha	Mega Events
7 th – 8 th	Second Pakistan Islamic Banking & Money Market	Karachi	Islamic Capital Partners
12 th – 14 th	Structured Products World MENA	Dubai	Terrapinn
13 th – 14 th	4 th International Islamic Banking & Finance Conference 2006	Kuala Lumpur	Monash University (KL)
13 th – 16 th	The International Islamic Finance Forum Europe	Zurich	IIR Middle East
16 th	Islamic Banking Conference 9 th Euro Finance Week	Frankfurt	Maleki Group
19 th – 20 th	1 st International Conference - Banking & Finance	Libya	IBC Gulf Conferences
19 th – 21 st	Trade Finance Middle East	Dubai	Terrapinn
20 th – 21 st	Middle East Capital Markets	Dubai	MEED Conferences
22 nd – 23 rd	The 2 nd International Convention on Takaful & Re-Takaful	Kuala Lumpur	IBFIM
25 th – 29 th	Kuala Lumpur International Islamic Finance Expo	Kuala Lumpur	CERT
December			
7 th – 8 th	International Leadership Summit in Islamic Finance	Kuala Lumpur	IFSB
9 th – 11 th	The World Islamic Banking Conference & Exhibition	Manama	Mega Events
21 st	Roundtable Discussion on Debatable Shariah Risk Mitigation Techniques	Sudan	IFSB

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