Islamic Finance news

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UAE (Dubai)

US$2.5 billion Sukuk launched

A US$2.5 billion Sukuk has been launched by Nakheel Group for financing the general corporate activities of the Group.

Dubai Islamic Bank and Barclays Capital are the lead underwriters and joint book runners for the offer. Investors have the right to subscribe up to a certain number of shares for any future Qualifying Public Offering (QPO) of shares in any entity of the Nakheel Group, undertaken before the redemption of the Sukuk. Additional yields will be paid on redemption of the Sukuk when either no QPO occurs, or if the size of QPO falls below a certain threshold.

"Along with Dubai Ports, Nakheel is one of our key strategic companies and forms part of Dubai World, a world-class holding company and growth engine for the Emirate. With its three iconic Palm developments and 17 landmark projects worth more than US$30 billion under development, Nakheel has always been at the forefront of Dubai's expansion. This latest innovative Sukuk transaction will be another footprint of Dubai World in the capital markets," said Sultan Ahmed bin Sulayem, chairman of Dubai World and Nakheel.

Cyrus Ardalan, vice-chairman and head of Middle East, Central Europe, Russia and North Africa Investment banking at Barclays Capital, commented: "This is another landmark investment banking regional transaction which we are delighted to have been able to arrange with DIB for Nakheel, further to the ongoing strong partnership between the organizations. The innovative Islamic structure of this pre-QPO Equity Linked Sukuk and its size will enable the Nakheel Group to further support its ambitious business plans." (See Term Sheet for this Sukuk on page 10.)

PAKISTAN

Central Bank to issue more licenses

The Central Bank of Pakistan is considering two more licenses for fully fledged Islamic banks, on top of the four existing Islamic banks. "We are focusing more on improving the quality of Shariah compliant products instead of launching new products," said Islamic banking department director at the State Bank of Pakistan, Pervez Said.

The share of Islamic banking in the total banking sector has grown to 1.5% in Pakistan. The Central Bank is now concentrating on improving Shariah standards in Islamic banking and in this regard many steps are being implemented. The country needs trained human resources in Islamic banking, he added.

BAHRAIN

UIB posts US$34.9 million profit

Unicorn Investment Bank (UIB) has announced strong results for the nine months ended on the 30th September 2006. Net profits of US$34.9 million amount to the bank's best performance since its May 2004 launch. Earnings, at US$64.1 million, shot up 249% from US$18.4 million for the same period last year.

UIB maintains a steady growth strategy in building its businesses and the 249% surge in operating income more than offset the 57% growth.

Shareholder's equity more than doubled over the same time to US$270.9 million, following the bank's successful round of capital raising in July 2006. Total assets rose from US$149.4 million at the end of December last year to US$299.2 million as at the 30th September 2006.

The enhanced capital base will fund further organic and inorganic business growth and support the bank's strategy of offering clients a fully integrated range of competitive Shariah compliant products and services globally.

In this issue

NEWS BRIEFS

AZERBAIJAN

IDB to boost OIC Islamic banking

The Islamic Development Bank (IDB) will assist with the development of global Islamic banking in Organization of the Islamic Conference (OIC) countries.

This strategic thrust, aimed at fostering the growth of the Islamic financial services industry, is part of a 10-year joint plan with the Kuala Lumpur-based Islamic Financial Services Board (IFSB).

Group President Dr Ahmad Mohammad Ali said that the IDB is working with several countries to implement Islamic banking laws and regulations, as most countries lack a proper legal framework to work within.

UAE (Abu Dhabi)

UNB launches syndicated term loan

The general phase of the syndication for the US$450 million, 5-year syndicated term loan facility has been launched by Arab Banking Corporation, Bank of Tokyo-Mitsubishi UFJ, Citigroup, Commerzbank AG, ING Wholesale Banking and Raiffeisen Zentralbank Osterreich Aktiengesellschaft on behalf of Union National Bank (UNB).

These companies have joined the initial lead arrangers in the senior phase as mandated lead arrangers ahead of general syndication. The senior phase has been successfully closed with a select group of banks including the Bank of New York, BayernLB, Calyon, DBS Bank, Deutsche Bank, AG KBC Bank NV, Mizuho Corporate Bank, Qatar National Bank, Sanpaolo Imi Bank Ireland and Standard Chartered Bank.

Union National Bank, will use the US$450 million for financing general corporate purposes and refinancing for a period of five years. The repayment of the total outstanding facility will be issued on the final maturity date.

Taking on the roles of joint bookrunners are Citigroup, Commerzbank AG, ING Wholesale Banking, and Raiffeisen Zentralbank Österreich Aktiengesellschaft. The Bank of Tokyo Mitsubishi UFJ will be facility agent, with Arab Banking Corporation as documentation agent.

UNB is a public joint stock company headquartered in Abu Dhabi and operates as a commercial bank with a network of 44 branches, all of which are located in the UAE.

KUWAIT

IIRA to audit Rasameel

Rasameel Structured Finance Company has appointed the Islamic International Rating Agency (IIRA) to carry out independent evaluations of their credit rating, corporate governance rating and Shariah quality rating for the company.

Rasameel, supervised by the Central Bank of Kuwait, specializes in Islamic securitization, raising, structuring and distribution of Islamic debt through financial engineering and asset restructuring.

Rasameel's vice-chairman and CEO Issam Al Tawari stated that the reason for IIRA's appointment was to ensure the company's investors and clients of Rasameel's financial standing and also to expedite Rasameel's development within the Islamic capital market.

Rasameel intends to become a key player in the securitization sector through a diversified portfolio of Shariah compliant predictable cash flow generating assets and securities to private and institutional investors looking for the most competitive Islamic investment products.

IIRA's CEO Jamal Abbas Zaidi said that the IIRA aims to play a critical role in the development of the financial market by providing their clients a detailed assessment of the risk profile of entities, their compliance with Shariah and corporate best practices.

NEWS BRIEFS

UAE (Dubai)

Millennium funds for emerging markets

Private equity funds worth US$5 billion are being lined up by Millennium Finance, whose partners are Dubai Islamic Bank and Dubai World Bank, for investment in high growth industries in emerging markets.

Energy, financial services, property, health, media and telecommunications companies in the Middle East, Africa and Asia are expected to benefit from this fund.

PAKISTAN

SSGC commences Sukuk sales

Pakistan's second largest gas company Sui Southern Gas Co. (SSGC) has commenced the sale of PKR1 billion (US$16.6 million) in five-year Islamic bonds in the domestic market. The bonds will be linked to the six-month Karachi interbank offered rate.

This bond sale forms part of a PKR4 billion (US$66 million) financing package awarded to SSGC by a consortium of banks comprising ABN-AMRO, Standard Chartered, Bank Al-Falah and Dubai Islamic Bank and led by the National Bank of Pakistan.

The company explained that the Sukuk bond and the financing package will be used to fund SSGC's planned capital expenditure of around PKR10 billion (US$164.6 million) during the current financial year.

The proposed Sukuk is the second of its kind in Pakistan this year, after the Water and Power Development Authority sold a Sukuk worth PKR8 billion (US$131.7 million) in February.

BAHRAIN

Standby Commodity Murabahah

A 3-year US$100 million Standby Commodity Murabahah financing facility has been launched by Gulf Finance House (GFH).

Raiffeisen Zentralbank Österreich (RZB) and WestLB are joint lead arrangers, co-underwriters and joint book runners for this facility. WestLB also acts as the investment agent. The transaction shores up GFH's efforts to capitalize on the success of its investment business model and widen its investor base in line with seven years of sturdy growth and uninterrupted profitability.

"The Gulf Finance House business model is based on strategic investments in developing economies exhibiting strong growth across the MENA region and into other key markets abroad. Prudent planning and intelligent fund exits have enabled GFH to create a strong private client investor base. This Murabahah financing arrangement offers institutional investors the opportunity to participate in the success of GFH," commented GFH chief executive officer, Esam Janahi.

QATAR

Qatari Awqaf Authority launched

The Qatari Awqaf Authority has been launched in order to take over the activities of the Awqaf department at the Qatari Ministry of Awqaf and Islamic Affairs.

Investments of the endowment funds will be managed by the authority according to Shariah principles.

NEWS BRIEFS

KUWAIT

Profit rate swap deal launched

Standard Chartered recently executed a US$150 million 3-year deal with Kuwait-based Aref Investment Group. This follows the success of the profit rate swap deal between Standard Chartered and Bank Muamalat in Malaysia.

The Islamic profit rate swap allows both parties to exchange a series of profit payments in a single currency for another series of payments in the same currency. The deal was one of the largest derivative deals done using a unique Spot/Spot commodity trading mechanism.

Afaq Khan, chief executive for Standard Chartered Islamic Banking, said: "This is a significant step for Standard Chartered in building capacity and capability in Islamic banking, both regionally and globally."

With a paid-up capital of KD43.85 million (US$150 million), Aref is a Kuwaiti closed shareholding company organized under the laws of Kuwait. It was established in 1975 and listed on the Kuwait Stock Exchange.

Fred Lee, managing director and head of global markets in the UAE for Standard Chartered, said: "Profit rate swaps are a significant step in broadening the range of Islamic capital market instruments and demonstrate Standard Chartered's commitment to be the leading provider of Islamic banking products."

PAKISTAN

WIEF round up in Pakistan

Joint policymaking efforts to enhance the economies of Muslim countries and diverse issues affecting the Muslim world were on the agenda of the 2nd World Islamic Economic Forum (WIEF).

Held on the 5th November at the Jinah Convention Center, the forum was entitled "Unleashing the Potentials of Emerging Markets," and was jointly organized by the Pakistani government, WIEF Foundation and the Asia Strategic and Leadership Institute (ASLI) Malaysia.

Government officials from 57 countries, along with about 800 intellectuals and business leaders, attended the forum. Among top leaders who spoke at the forum were Indonesian President Susilo Bambang Yudhoyono, Prime Minister Abdullah Ahmad Badawi of Malaysia, King Abdullah of Jordan and Egyptian Prime Minister Ahmad Nazis.

The Prime Minister of Pakistan Shaukat Aziz inaugurated the meeting, which was addressed by President Pervez Musharraf.

EGYPT

BIsB seeks Egyptian bank

Bahrain Islamic Bank (BIsB) is keen to acquire an interest in Cairo-based Arab Investment Bank (AIB). BIsB is seeking the Central Bank of Egypt's approval to conduct a due diligence study on the above-mentioned bank.

AIB is a small bank with a paid-up capital of US$40 million which operates 13 branches dealing mainly with the public sector. Two of its branches are involved with Islamic banking.

Chairman Najib Al Humaidi of Efad Holdings, the major shareholder of BisB, is positive that approval will be granted, as the Central Bank of Egypt has been considering the sale of AIB to another banking institution. Acquiring an existing bank is the easiest way to join the Egyptian banking sector, given that the Central Bank is not enthusiastic about issuing new banking licenses. A banking presence in Egypt appeals to Efad as it plans to finance and facilitate investments worth E£10 billion (US$1.75 billion) in the country.

NEWS BRIEFS

PAKISTAN

2nd WIEF declaration

The 2nd World Islamic Economic Forum (WIEF) has declared that an Islamic free trade area will be launched to uplift the Ummah. The Organization of the Islamic Conference (OIC) countries have been asked to offer their full support to the WIEF and its activities and program.

An encouraging environment for business, investments and economic growth through regular meetings, consultations and smart partnerships with the private sector is also supported. OIC countries have been urged to accelerate sub-regional co-operation, leading to the establishment of an Islamic free trade area. An effective framework to facilitate the movement of entrepreneurs, capital and trade flows within and between the OIC countries and to promote and intensify Islamic banking, finance and insurance is to be made.

Kuala Lumpur has been selected as the venue for the 3rd WIEF, scheduled for the 7th–9th May 2007.

MALAYSIA

PFM to launch first Islamic product

Prudential Fund Management (PFM) will launch its first Islamic product in West Asia by the first quarter of next year.

PFM is part of Prudential plc, an international financial group providing retail financial products and services, and fund management to customers worldwide. Mark Toh, its chief executive officer, said: "We are already in discussion with several parties concerning fund management activities in the West Asian countries."

Prudential's only experience in Islamic products is in Malaysia where its insurance arm, Prudential Assurance, has come out with Shariah products and PFM with some mutual Islamic fund products. Mark Toh has identified Malaysia as Prudential's Islamic financial hub, given the established framework on Shariah regulations, Islamic banking and Takaful in the country.

Prudential is getting fund managers with international experience to start up the funds. "Very soon by the first quarter of next year, we expect to launch our first product in West Asia. Right now we are managing about RM300 million [US$82.26 million] in Shariah mutual funds in Malaysia," he said.

On the challenges faced by Malaysia to ensure competitiveness as a global financial hub, Toh said what was important was to have regulations with flexibility for money to flow into the region and a pro-market government.

UAE (Dubai)

Deutsche signs agreement with DIFX

Deutsche Bank will provide buy and sell prices in two listed companies on the Dubai International Financial Exchange (DIFX).

These companies are Gold Fields and Kingdom Hotel Investments. This agreement will help strengthen links between the exchange and other financial organizations, says Naseer Alshaali, chief operating officer of DIFX.

MALAYSIA

TAIB expects 8–12% returns

TA Investment Management (TAIM) is optimistic of 8–12% returns from its newly launched TA Asia-Pacific Islamic Balance Fund (TAIB).

TAIM's CEO Simon Chew projects a 60% chance of TAIB gaining 8–12% returns within the next five years. TAIB is TAIM's response to the investing public's heightened concern with Shariah compliance and the limited prospect of local investors making offshore investments, due to the higher levels of risk present.

TAIB's portfolio will comprise a balanced mix of Islamic equity and fixed income instruments while protecting investors from the volatility of equities markets. As it is not purely equities-based, TAIB is the very first Islamic foreign unit trust fund of its kind in Malaysia.

UK

Durham Islamic Finance Program

Durham University has launched the Durham University Islamic Finance Program under the directorship of Professor Rodney Wilson.

The research-driven program should consolidate Durham's position as the leading center for postgraduate research on Islamic economics and finance. The university already offers research-based MA and PhD degrees.

The program will involve the organization of an annual summer school in Islamic finance, following on from 2006's successful event. Next year's school will take place on the 2nd–6th July.

The university will also sponsor international conferences on Islamic economics and finance, publishing the best of the papers presented. Durham University is co-sponsoring, with the International Islamic University of Malaysia, a conference on Islamic finance in Kuala Lumpur on the 23rd–25th April.

The work of staff and research students involved with the program will also be published.

UAE (Abu Dhabi)

Aldar requests approval for Sukuk

Aldar Properties is seeking approval from the UAE Ministry of Economics to issue an Islamic bond and/or debentures early next year to finance a number of large-scale projects.

Aldar will offer US$1.5 billion worth of bonds that may be converted to shares. Its chief financial officer Shafqat Malik said: "Issuing a Shariah compliant bond in particular will give Islamic finance investors an opportunity to participate in the issue and will allow us to take advantage of the current liquidity in the Islamic finance market."

Once the Ministry gives the green light, Aldar will seek its shareholders' approval for the Sukuk and/or debentures issue.

Aldar Properties is a premier real estate development, management and investment company headquartered in Abu Dhabi.

NEWS BRIEFS

SWITZERLAND

Sanad Sukuk debut

The world's first GCC open-ended Sukuk fund will be launched in Zurich on the 14th November. Sanad Sukuk will boost secondary market activities to at least US$100 million, from US$60 million last year.

Sanad Sukuk chairman, Sheikh Mohammed Abudawood, its executive director, Mark Mortimore, and John A Sandwick, managing director of Encore Asset Management in Geneva, will be at the launch of this new fund, which will take place during the International Islamic Finance Forum (IIFF Europe).

MALAYSIA/PAKISTAN

Banking and construction accords

A Memorandum of Understanding (MoU) to share knowledge and expertise in Islamic finance was signed between Pakistan's National Institute of Banking and Finance (NIBAF) and Malaysia's International Centre for Education in Islamic Finance (INCEIF).

The MoU will form a framework of co-operation for mutual benefit between NIBAF and INCEIF in promoting and undertaking research, development, training and education in Islamic finance. Both countries will be able to tap into each other's perspectives of the industry as well as the pool of market practitioners, Shariah scholars, university professors, regulators and other service providers.

INCEIF chairman and Bank Negara governor, Dr Zeti Akhtar Aziz, and Pakistan's Central Bank governor, Dr Shamshad Akhtar, signed this MoU on behalf of their respective governments.

An agreement whereby Malaysia will provide financial and technical assistance on road construction was also sealed between Pakistan's National Highway Authority and Malaysia's Minconsult International.

UAE (Dubai)

Innovative product from DIB

Dubai Islamic Bank (DIB) has announced a Shariah compliant 3-year capital protected DFM (Dubai Financial Market) note.

The 3-year capital protected DFM note has a minimum investment of US$10,000 and offers investors protection on their capital while participating in an array of stocks on the Dubai Financial Market. DIB will offer a maximum potential return of 12% per annum. The stocks will include a series of most actively traded stocks such as Emaar, Amlak, Dubai Investment Company, Tamweel and DIB. The note has received a fatwa from the Dar Al Istithmar Shariah board and will be open for a limited period until the 30th November 2006.

Naveed Ahmad, head of investments of wealth management at DIB, said: "We feel that this product has all the features our investment clients are looking for, short investment tenor, capital protection with the potential of maximum returns of 12% per annum, and a partner in DIB who can protect as well as smartly invest. If you combine the features of the product with the current valuations of the DFM stock market and the selection of stocks, the product is quite exciting. For those customers who have a more aggressive view of the regional stock market, we continue to offer our Al Islami GCC Equity Mutual Fund."

BAHRAIN

GFH exits GAF with excellent returns

Gulf Atlantic FZ (France) (GAF) has yielded a return averaging 47.5% over three years for its private clients. Its lead manager, Gulf Finance House (GFH), has exited the fund following the successful placement of four properties under GAF's portfolio to Qatar Islamic Bank (QIB).

"The exit was timed to meet the investment term set out in the private placement memorandum," said Peter Panayiotou, deputy CEO and chief investment officer of GFH. The GAF fund was launched in 2003 and aimed to provide GFH clients with an opportunity to earn a consistent quarterly cash dividend.

Earlier this year, GFH also sold off its Gulf Atlantic Real Estate UK portfolio to Deutsche Bank.

BAHRAIN

Record performance for Ithmaar Bank

Ithmaar Bank's combined net profit for the nine months ending in September was a solid US$161.7 million. This was in comparison to US$20 million in the same period last year. This performance was a continuation of Ithmaar's best-ever half-year performance of US$33.2 million, and more than quadrupled the full-year profit of US$37.6 million for 2005.

Operating profit was impressive at US$47.6 million, an eightfold increase from US$5.9 million last year. Group total equity also shot up by 289% to US$985 million, from US$253 million at the beginning of the year.

Net asset value per share was healthy at US$2.11, 28% higher than US$1.65 at the end of December 2005. The bank's assets reached US$5 billion, including US$1.8 billion in investment accounts under management, compared to US$1.4 billion at the end of December.

The bank will continue to explore investment opportunities across a broad spectrum of businesses and geographic areas, said a spokesperson from the bank: "As a Bahrain-based institution, the bank is committed to capitalizing on compelling opportunities in the Kingdom, while expanding its horizons in line with the Ithmaar's new global outlook. We have a strong pipeline of high quality investments with significant potential lined up, which we will be announcing in weeks and months ahead."

QATAR

US$700 billion plan for GCC

An estimated US$700 billion worth of development projects in the GCC are being planned, mostly in the private sector. Ernst and Young partner Rajeev Singh said that the projects are mostly in the oil and gas sectors, petrochemicals, power, water and sewage, with healthcare and education not too far behind.

Islamic financing constitutes 20–35% of project finance transactions in the region, despite the area being dominated by foreign banks (with the exception of Saudi Arabia).

"Deals are increasing in size, as well as complexity," Rajeev Singh said. He indicated that challenges facing Islamic finance include a lack of uniform standards, prices, complicated tax and accounting, a lack of risk management tools and risk associated with assets.

NEWS BRIEFS

QATAR

IIBQ to increase Islamic banking share

Qatar Islamic Bank (QIB) is set to launch the Islamic Investment Bank of Qatar (IIBQ). Capitalized at US$1 billion, IIBQ is licensed by Qatar Financial Center (QFC).

CEO Salah Mohammed Jaidah of QIB said that this move has already been indicated to the Doha Securities Market (DSM).

The Islamic banking sector has shown robust growth in the country and targets a market share of 50%, from 30% currently. Jaidah also commented that any new product should be well structured to meet market demands before it is launched. QIB will lead and bring alternative solutions for the financial needs of Qatar.

QATAR

Spending boom in Gulf infrastructure

Huge liquidity and a drastic increase in Islamic investment funds will support heavy infrastructure spending in the region. This boom comes amidst spiraling oil prices. Salah Mohamah al-Jaidah, CEO of Qatar Islamic Bank (QIB), told participants at the World Islamic Infrastructure Finance Conference (WIIFC) in Doha that infrastructure projects will amount to US$360 billion this year.

Sukuk investments, which accounted for 81% of total new bonds issued in the first half of 2006, will benefit from this spending spree.

As for the Far East, QIB is looking into opportunities particularly in Indonesia and Brunei. A US$100 million joint venture with Malaysia, through Asian Finance House (AFH), will be launched in the first quarter of 2007. Its European Finance House (EFH) is currently going through the regulatory processes in London and is expected to take off early in 2007. EFH will aim to help investors in the European markets via non-Islamic and Shariah compliant products.

PAKISTAN

Fully fledged Islamic bank

A consortium of Pakistani businessmen is keen to launch an Islamic bank in Pakistan. MAB construction company chairman, Zahir Shah, said that the Islamic bank is expected to be operational by the end of next year and to be launched with Rp1 billion (US$16,470).

Meanwhile, all branches of the State Bank of Pakistan have been directed to open an Islamic window.

SAUDI ARABIA

US$1 billion Sukuk for refinery?

Saudi Aramco and ConocoPhillips plan a US$1 billion Sukuk to finance construction of a refinery in Jubail. Riyad Bank has been appointed as advisor for the Sukuk to help finance construction of the refinery. The 400,000 barrel-a-day joint venture refinery will cost US$6 billion.

Conditions for the bond sale will be decided before April. “If you launch a project, the asset is not yet there during the construction phase, so there’s no underlying asset,” said Inam Ghazali, senior corporate finance officer at Riyad. No further details were revealed about the Sukuk sale.

PAKISTAN

Proposal for Islamic Economic Union

The establishment of an “Islamic Economic Union” has been suggested by Pakistan’s Prime Minister Shaukat Aziz. Such a union would venture into multilateral free trade agreements as well as promoting the free flow of capital, labor, goods and services. Together the countries could create a world class market to attract international capital, which will finance growth and development.

The Organization of Islamic Conference (OIC) and the Islamic Development Bank (IDB) need to be repositioned and reinvigorated to achieve the goals of setting up an “Islamic Economic Union,” the Prime Minister stated.

“We [Muslims] make up 19% of the world’s population but only 6% of its income. Our share in global trade is barely 7–8%, while only 13% of our total trade is amongst us and no Muslim nation is among the group of developed industrialized countries,” Prime Minister Shaukat Aziz said.

The Muslim world is rich in human capital as well as physical resources and has immense potential for growth, progress and prosperity.

QATAR

Al Safa responds to Shariah demands

Al Safa Islamic Bank, a division of Commercial Bank, plans to come out with a full range of products in corporate and retail banking, according to its CEO Mohamed Mandani. “There is a lot of demand for Shariah compliant products. In the last one-and-a-half years of our operation, we have felt it.”

Shariah compliant products, he said, were most sought after in corporate financing, refinancing and real estate.

Al Safa is also studying the possibility of launching more branches, to include branches outside of Doha. The bank currently has four full service branches.

AZERBAIJAN

International Investment Conference

An international investment conference was held on the 8th and 9th November in Baku, Azerbaijan. Jointly organized by the Ministry of Economic Development and the Islamic Development Bank, the conference focused on raising awareness of investment opportunities and promoting networking between local businessman and prospective investors.

QATAR/GERMANY

Sukuk funds for German real estate

An Islamic bond worth US$300 million will be sold by a French subsidiary of Qatar Islamic Bank (QIB). Osama El-Razek, executive manager of QIB’s Shariah audit department, revealed that proceeds from the Sukuk due at the end of January 2007 will be invested in German real estate.

Trowers & Hamlins, a London-based law firm, estimated that Gulf companies sold US$4.59 billion worth of bonds in the first half of the year, more than double those issued in the same period of last year.

NEWS BRIEFS

MALAYSIA

10% loans growth for Penang CIMB

Following the merger between Southern Bank (SBB) and Bumiputera Bank (BCB), CIMB Bank is targeting 10% loans growth in its Penang operations next year.

CIMB executive vice-president Tan Leng Hock revealed that CIMB Bank will introduce more Islamic banking products after the merger. SBB had strong ties with small and medium-sized enterprises, while BCB was strong in the manufacturing sector. "CIMB Bank has an 18% share of the SMEs business in Penang," Tan said.

CIMB Bank would also retain 130 business banking managers from SBB and BCB to ensure continuity in services. "In Penang, we are retaining 50 business banking managers in four centers located on the mainland and the island."

Tan said the merger, which began in June, had not slowed down deposits and loans growth at CIMB Bank. "In fact, our deposits grew by 3% while loans increased 5%. This was beyond our expectation. We also managed to keep attrition to the minimum," he added.

MALAYSIA

Microlink up to CMMI Level 3

Microlink Solutions Malaysia has become a CMMI Level 3 company. Microlink is now part of an influential group of organizations worldwide that have proven and sustainable process management for their products and services after being assessed as a CMMI Level 3 company.

The CMMI or Capability Maturity Model Integration Framework is internationally recognized as one of the most rigorous models for ensuring best practices in addressing the development and maintenance of products and services. CMMI is compatible with the ISO/IEC 15504 Technical Report for Software Process Assessment (ISO 98).

"CMMI was one of the key achievement areas that we had been targeting to ensure that we continually improve on the quality of our products and services. Our commitment in achieving CMMI Level 3 reinforces our continuing quest to be the foremost global IT solutions provider for Islamic financial services," said Edward Phong, Microlink's chief executive officer.

QATAR

QIB expands operations in Asia

Qatar Islamic Bank (QIB) is expanding its Asian operation by opening offices in Indonesia, Singapore and Brunei. QIB owns 70% of the Asian Finance Bank in Kuala Lumpur.

Chief executive Salah Jaidah said: "We are going for something that will distinguish us from the local banks." It will begin with representative offices being launched, then possibly seeking to turn them into branches.

"The local banks have been successfully tapping the retail market so we're going to go for more structured finance. That includes corporate finance, advisory services and investment products," Jaidah added. He, however, did not elaborate on when the offices will be opened.

UAE (Abu Dhabi)

NBAD branches into Islamic finance

National Bank of Abu Dhabi plans to add branches and start a private banking and Islamic finance unit to tap growing Arab wealth, its chief executive has said.

Twenty branches will be opened next year in the UAE by the Abu Dhabi government-controlled bank. This shows an increase of one-third compared to 2005. Outlets will be added in Kuwait, Bahrain and Oman as oil-producing Gulf Arab states prepare to create a single currency by 2010, Michael Tomalin said. "Gulf Arab countries are coming together and we want to be a regional player."

NBAD plans to open a unit next year that complies with Islamic principles. The UAE Central Bank has already approved the lender's application and NBAD may open as many as four branches in the UAE. "The Islamic market is growing very fast and we want to provide our clients with services that meet their needs," Tomalin said.

NBAD will also expand its network in Egypt, where the government is selling banks and foreign lenders are growing their business, Michael said. National Bank of Kuwait opened its first branch in Saudi Arabia this year, acquired a lender in Qatar and is considering purchases in Egypt and Jordan.

QATAR

New Investment fund launched

A new investment fund launched by Qatar National Bank (QNB) called Al Watani 4 has been fully subscribed. This amounted to QR2.2 billion (US$604.2 million) and took place through private placements with major institutions in the state.

Al Watani 4 is the latest investment opportunity offered by QNB for a series of investment funds after the Al Watani Fund for Qatari investors: Al Watani 2 for individual and institutional non-Qatari investors; and Al Watani 3 with a total subscription of QR3 billion (US$824 billion). QNB's acting chief executive Ali Shareef al-Emadi said: "Al Watani Fund 4 would target shares on the Doha Securities Market (DSM)."

Al-Emadi said the new fund reflects Qatar's bright economic prospects and responds to a large number of investors opting for funds managed by a professional team, as opposed to dealing directly with the market.

"This fund is expected to yield excellent returns due to Qatar's economic boom and the large planned expenditure on projects in the near future which will have a positive impact on the activities and prospects of DSM listed companies."

All the necessary regulatory approvals for Al Watani 4 from Qatar Central Bank and the Ministry of Economy and Commerce have been obtained.

MALAYSIA

RM3 billion GII for tender

Tender for RM3 billion (US$822.28 million) worth of Shariah compliant Government Investment Issue (GII) 10-year Scripless Securities Series No. 3 of 2006 will be open until 14th November with an issue date of the 15th November, maturing on the 15th November 2016.

The first profit payment is due on the 15th May 2007 and thereafter profit will be payable every half year on the 15th November and the 15th May. Profit rate will be fixed based on the weighted average yield of the successful bids of the auction.

NEWS BRIEFS

BAHRAIN

160% rise in assets for Khaleeji

Khaleeji Commercial Bank has registered outstanding financial results of BD2.1 million (US$5.57 million) for the third quarter of this year, with net profits for the period ended 30th September 2006 up to BD7.2 million (US$19.1 million). This represnts a 160% increase compared to 2005. The first nine months of 2006 saw total income rise by 143% to BD10.3 million (US$27.32 million) from BD4.3 million (US$11.41 million) in 2005.

UAE (Dubai)

DFM goes Shariah

Dubai Financial Market (DFM) is on its way to becoming Shariah compliant. DFM states that the move aims to tap demand from local and international companies for a listing on a Shariah compliant stock market.

"The [conversion to] Shariah compliance is a result of pent up demand for Islamic products and services worldwide, and is in sync with Dubai's pole position as the Islamic financial hub in the world," said DFM director general Essa Kazim.

MAKKAH

Alharamain, Ajyad offer syndication

Shariah compliant property investment opportunities will be presented by Alharamain in conjunction with Ajyad in Makkah Mukarramah.

The investments start at US$719 with a 7-year return. Ajyad will combine investors who do not wish to acquire an entire partial ownership deed into syndicates who will, as a group, purchase property in Makkah as an investment, hence allowing even the smallest investor to enjoy this opportunity.

PAKISTAN

Baitul-Mal Sukuk

State Bank of Pakistan governor, Dr Shamshad Akhtar, disclosed that the Central Bank has submitted a scheme to launch a Shariah compliant Baitul-Mal Sukuk to the Ministry of Finance. These Sukuk will replace the present short-term borrowing financial instruments of federal government.

She also said that the Central Bank is inking a 5-year roadmap to promote Islamic banking in the country and will establish a finance academy in the country to promote training in the field of finance-related matters.

THIS TIME LAST YEAR

BIMB Investment Bank announced a profit of US$9.7 million for the first nine months of 2005, against last year's loss of US$3.7 million for the same period. This marks 12 months of profitability for the bank; the **Islamic Bank of Thailand** announced plans to raise its capital three-fold from US$24.37 million to US$73.116 million to support business expansion; it was announced that a commercial banking unit of **Kuwait Finance House** would open in **Bahrain Financial Harbor** simultaneously with the opening of the **Financial Center** at the end of 2006; **Dubai Islamic Bank**, advised by **Denton Wilde Sapte**, capitalized US$1.9 billion for property investment company **Al Burj Real Estate**; it was revealed that two brokerage firms, one an Islamic trading firm, would be launched by Qatar firm **Dlala** with an initial capital of US$13.73 million; **Dow Jones** announced it would introduce new indices to the Islamic market index, without specifying the exact number; Bahrain-based **Ahli United Bank** said it was preparing a US$100 million bond issue, which would be lead managed by **BNP Paribas**; **Gulf Finance House** achieved US$92 million in the first nine months of 2005, an increase of 93%. The bank's assets also increased 81%; **RHB Islamic Bank**, which received its license in March, opened its first new marketing center in Kota Bharu, after receiving approval from **Bank Negara Malaysia**; **Venture Capital Bank** appointed Abdul-Latif Janahi to be CEO; **Tugu Re** stated that it would open an Islamic division early in 2006, becoming the final Indonesian reinsurer to do so, as encouraged by the **Association of Indonesian Islamic Insurance**; new company **Emirates Global Islamic Bank** appointed Syed Tariq Husain to be the bank's first CEO, ahead of its plans to commence operations in Pakistan early in 2006.

NEWS BRIEFS

RATINGS NEWS

BAHRAIN

Moody's raises ratings on BBK

Moody's Investors Services has upgraded the Bank of Bahrain and Kuwait (BBK)'s long-term credit rating to A3 from Baa1 with a positive outlook. The US$1 billion medium-term deposit note program on BBK's ratings and any debt issued under it were also upgraded to A3 with a positive outlook.

The bank's financial strength rating is currently D+, reflecting BBK's solid commercial banking franchise in Bahrain, as one of the top three banks in the kingdom. This results from the strong performance by CrediMax, BBK's credit card subsidiary and the leading credit card issuer in Bahrain. This further supports the strength of BBK's retail banking franchise.

MALAYSIA

RAM rates Memory Tech

The long-term rating of A2 for Memory Tech's RM320 million (US$87.77 million) Bai Bithaman Ajil Islamic Debt Securities has been reaffirmed by Rating Agency Malaysia (RAM) with a negative outlook.

The BaIDS are backed by a corporate guarantee from Memory Tech's holding company, Megan Media Holdings. These ratings show the strength of Megan Media's business and financial profiles, while the negative outlook follows RAM's concerns about the group's rising debts to support its capital spending and the volatile nature of the industry.

Megan Media is the largest contract manufacturer for optical data-storage media in South-East Asia. RAM's rating could be downgraded if the group's debt protection measures weaken and/or its profit margins continue to deteriorate. However, the outlook may be revised to stable if the group improves its debt-servicing aptitude.

UAE (Dubai)

S&P rates Takaful Re

Standard & Poor's Rating Services has assigned its BBB long-term counterparty credit and insurer financial strength ratings to Dubai-based Takaful Re. According to S&P, "The ratings on TRL reflect its strong capitalization, supportive shareholder base, conservative investment portfolio, and flexible cost base due to the outsourcing agreement in place."

The stable outlook on TRL reflects the expectation that the company will continue to be supported by its major shareholder, Arab Insurance Group. Standard & Poor's expects TRL's business flow prospectively to strengthen, and to at least track the direct market growth of about 20% per year in the next 1 to 2 years.

UAE (Abu Dhabi)

Moody rates ADIB

Abu Dhabi Islamic Bank (ADIB) has been issued ratings of A2/Prime-1 foreign currency issuer and D financial strength with a stable outlook by Moody's Investors Services.

The rating follows the bank's ample financial fundamentals and its significant expansion in an ongoing competitive environment.

MALAYSIA

MPG's AA3 and A2 ratings

Ratings of AA3 and A2 have been assigned to Mukah Power Generation (MPG)'s Senior Sukuk Program of up to RM665 million (US$181.79 million) and Junior Sukuk Program of up to RM285 million (US$77.91 million) by Rating Agency Malaysia (RAM). Both the ratings have a stable outlook.

These ratings are the result of the Junior Sukuk's higher level of subordination vis-à-vis its structural features, as well as its projected debt coverage.

The Senior Sukuk's rating is supported by the project's satisfactory counterparties, the Senior Sukuk's robust cashflow protection measures, as well as the project's strategic importance to Sarawak. These strengths are, however, moderated by the overriding construction risks given the project's greenfield status, amongst other concerns.

Nakheel Development Limited

Equity-linked Pre-QPO Sukuk

INSTRUMENT	SUKUK
ISSUER	Nakheel Development Limited
PRINCIPAL ACTIVITIES	A development company based in Dubai, UAE. Their portfolio includes the waterfront developments The Palm, The World and Dubai Waterfront.
SENIOR MANAGEMENT	Sultan Ahmed Bin Sulayem – Executive Chairman, Chris O'Donnell – Chief Executive Officer
ISSUE SIZE	US$2.5 billion (subject to increase)
DATE OF ISSUE	Tuesday 7th November 2007
MATURITY	3 Years
CO-OBLIGORS	Nakheel Holdings 1 LLC, Nakheel Holdings 2 LLC and Nakheel Holdings 3 LLC, the co-obligors are directly wholly owned by Nakheel World, a company directly wholly owned by Dubai World. The co-obligors directly wholly own Nakheel Co LLC (currently being transformed into a PJSC).
GUARANTOR	Dubai World is wholly owned by the Government of Dubai. The Government of Dubai is not providing a guarantee in respect of the Sukuk.
SECURITY TYPE	Trust Certificates (Sukuk Ijarah) (Sukuk) in registered global form.
TRANSACTION STRUCTURE	Sukuk proceeds to purchase a 50-year long-term leasehold interest in land situated at Dubai Waterfront from Nakheel Holdings 1 LLC. Issuer to lease the land to Nakheel Holdings 2 LLC for a term of 3 years for developing purposes. Upon redemption, the issuer will have the right to require Nakheel Holdings 1 LLC to purchase the remaining leasehold interest in the land from the issuer. The purchase amount payable by Nakheel Holdings 1 LLC will be an amount sufficient to enable the issuer to pay all amounts due to Sukuk holders on redemption.
USE OF PROCEEDS	To be applied towards capital injection into Nakheel Co PJSC and, depending on the final Sukuk issue amount, the purchase of land or other assets from Nakheel Co PJSC.
QPO YIELD	[ ]% per annum (equivalent to 3-year US$ swap + margin)
PERIODIC DISTRIBUTION (LEASE RENTAL)	50% of the QPO Yield, paid semi-annually. Amounts received by the issuer from Nakheel Holdings 2 LLC under the lease shall be used to pay the periodic distribution.
REDEMPTION PRICE	At redemption, Sukuk holders will receive: (i) 50% of the QPO Yield; plus (ii) Short-QPO Yield (if any); plus (iii) Sukuk Issue Amount.
QPO SUBSCRIPTION RIGHTS ALLOCATION AT A DISCOUNT TO QPO PRICE	Upon each QPO occurring prior to redemption of the Sukuk, holders of the Sukuk shall be attributed rights to subscribe up to 30% of the shares offered in the QPO at a discount of 5% to the QPO price, such rights to subscribe in the aggregate of the QPOs being limited to an aggregate of 25% of the Sukuk issue amount. The value of the subscription rights in any QPO is the value of the subscription rights.
QPO LOCK-UP	Subject to certain exceptions, 34% of the QPO shares allocated to the holder of a Sukuk following the exercise of its subscriptions rights will be delivered at the QPO settlement date, 33% will be delivered 1 month following the QPO settlement date and the remaining 33% will be delivered 2 months following the QPO settlement date.
LOOK BACK RIGHTS	If a QPO occurs within 12 months of redemption, those holders of Sukuk who held the Sukuk on maturity will receive subscription rights as if they had held the Sukuk at the time of the QPO. Any Sukuk holder who elects to exercise look back rights shall be required to reimburse the pro rata proportion of the Short QPO Yield paid at redemption.
DENOMINATION	Minimum denominations of US$100,000 and integral multiples of US$1,000.
SECURITY PACKAGE	1. Registered mortgage over land situated at Dubai Waterfront ("Security Asset(s)") with a minimum estimated market value as of [August 2006] equal to at least [ ]% of the Sukuk issue amount. The co-obligors shall have the right to substitute the security assets in whole or in part, provided any as set substituted is replaced with an asset of at least equal or higher value. 2. Share pledge over Nakheel Co PJSC ordinary shares with a minimum value (based on book value of equity), as of [30th June 2006], equal to at least [ ]% of the Sukuk issue amount.
LISTING	Application will be made to list the Sukuk on DIFX
SELLING RESTRICTIONS	US: Reg S (Cat 2), UK, UAE, Bahrain, Kuwait, Saudi Arabia, Qatar, DIFC, Italy (no sales)
CLEARING	Euroclear and Clearstream
JOINT BOOKRUNNERS	Barclays Capital and Dubai Islamic Bank PJSC

Interest, Usury and Riba According to Different Religions

By Shahzad Afzal Khan

The word "riba" in Arabic literally means an "increment" or "addition." In Islamic Fiqh the term riba has a special meaning as an unjustified increment in borrowing or lending money, paid in kind or in money above the amount of the loan, as a condition imposed by the lender or voluntarily by the borrower.

Usury and interest

Until a few hundred years ago any extra amount demanded by a lender in addition to his capital was called usury. Early European philosophers such as Plato (427–347 BC) and Aristotle (384–322 BC) condemned the practice of taking usury. Aristotle compared money to a barren hen which laid no eggs – a piece of money cannot beget another piece of money, he held. The Roman Empire, in its early stages, prohibited the charging of usury. The Christian Church prohibited all usurious transactions. The famous incident in Jerusalem where Jesus Christ chased away the moneylenders from the Temple was kept alive in Church preaching. Although usury was practised all over Christendom and elsewhere, the Church was consistent and vehement in its condemnation of usury.

However, by the end of the thirteenth century several factors appeared which considerably undermined the influence of the orthodox Church. Eventually, the reformist group led by Luther (1483–1546) and Zwingli (1484–1531), agreed to the charging of interest on the plea of human weakness. According to Encyclopaedia Britannica:

> "In old English law, the taking of any compensation whatsoever was termed usury. With the expansion of trade in the 13th century, however, the demand for credit increased, necessitating a modification in the definition of the term. Usury then was applied to exorbitant or unconscionable interest rates. In 1545 England fixed a legal maximum interest; any amount in excess of the maximum was usury. The practice of setting a legal maximum on interest rates was later followed by most states of the United States and most other western nations."

Thus, beginning in the mid-sixteenth century, the prohibition on usury (in the old sense) was legally removed in all western countries. The environment in which it took place, as evidenced by the above quotation, is noteworthy – expansion of trade and demand for credit. Borrowers were mainly rich merchants, and they used the short-term credit for buying and selling goods. The moneylenders were lending their own money and/or that of their wealthy clients. The borrowers knew how much they could make using a given amount of credit, and they paid the lenders a portion of this profit. This supplied the justification for demanding the extra amount.

But this justification for "limited interest" under a particular circumstance was, in the course of time, stretched out and applied in general. Support was forthcoming on other grounds too. For example, Sir Francis Bacon (1561–1626) advocated: "Since of necessity men must give and take money on loan and since they are so hard of heart that they will not lend it, otherwise there is nothing for it, but that interest should be permitted."

The new "moderate" form of usury – interest – was legal and "moral;" economic theories were developed with this limit and justification as the base. Theories found their way into textbooks, more theories were developed, and interest became an integral part of economic theory. In practice, the theory was applied universally, whether the original conditions which justified the extra payment existed or not.

Theories of interest

Shaikh Mahmud Ahmed, in his book *Towards Interest-free Banking*, presents and disputes many of the theories of interest:

> "leaving out some notable exceptions, like Bohm Bawerk's *Capital and Interest*, significant parts of Keynes' *General Theory* and parts of Harrod, Hawtey and Kurihara, questioning the validity of interest, bulk of the effort of economics has been to justify it, yet not a single argument advanced in favour of this institution has a leg to stand on. All theories of interest evolved till the time of Bohm Bawerk, including those resting on productivity, abstinence and demand and supply concepts, were unanswerably repudiated by him. Yet economics continues whipping these dead horses, without evolving any persuasive answers to his criticism."

He also takes other theories, including time preference, liquidity preference, deposit mobilization, scarcity of capital, and rationing capability of interest, and proves them untenable.

The Islamic position on interest

The Holy Book of Islam, the Quran, prohibits the demanding and receiving of interest in the following terms:

> "O ye who believe! Devour not usury, doubling and quadrupling [the sum lent]. Observe your duty to Allah that you may be successful." (Quran, 3:130)
>
> "O ye who believe! Observe your duty to Allah, and give up what remaineth [due to you] from usury, if ye are [in truth] believers.
>
> And, if you do not, then be warned of war [against you] from Allah and His Messenger. And, if ye repent, then ye have your principal [without interest]. Wrong not, and you shall not be wronged." (Quran, 2:278–279)

The Holy Prophet (pbuh) has prohibited the accepting of riba, the paying of riba, and the recording and witnessing of it in the following terms:

> "Jabir (ra) said that Allah's Messenger (pbuh) cursed the acceptor of interest, its payer, and the one who records it; and the two witnesses; and he said: They are all equal." (Sahih Muslim, hadith no. 3881)

In banking and finance, our concern is with money and money loans. Therefore what is relevant to our discussion here is only riba al Nasiah,

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and there has never been any doubt or differences of opinion as to what this meant. The Quran has prohibited the taking of this kind of riba in the strongest possible terms. Its authorised interpreter – the Prophet (pbuh) – has said that accepting, paying, recording and witnessing it are all equally prohibited. On the other hand, the Quran also says, "then ye have your principal [without interest]," thus entitling the lender to the full return of his capital. Therefore, in order to comply with the prohibition fully and without a shade of doubt, and in order not to infringe the right of the lender, a simple but comprehensive definition is popularly adopted – in money matters, any addition to the principal sum is riba. This also accords with the definition of usury in other faiths.

> "O ye who believe! Devour not usury, doubling and quadrupling [the sum lent]. Observe your duty to Allah that you may be successful"

Today, a fixed deposit in a bank is considered an investment because it earns a return, and a loan is considered an asset by the bank for the same reason. But they are both interest-earning loans. Whatever the purpose, money is available only as a loan at interest. The lenders (both the depositors and the bank) are not really concerned about whether the money was invested in any productive activity or consumed; neither is their return related to the result of any productive activity in which their capital was used. Even when the loan was intended for consumption or the investment resulted in loss, the pre-determined interest must be paid. In contrast to this position, in the Islamic tradition, the distinction between investment and lending had been clearly recognized and provided for. However, unfortunately in modern times, its importance does not seem to have been fully appreciated and acted upon.

The Quran recognizes two different sets of purposes for which money is needed, and notes the two techniques used by capital-owners to cater to these needs. But the techniques must match the purposes. The need of entrepreneurs for capital is recognized, and in order to cater to this need, investment of capital in productive employment is encouraged, but it must be done on a profit and loss sharing basis. Borrowing and lending (for productive or non-productive purposes) are also recognized as legitimate needs and techniques, but they should be done on the basis of mutual help – without loss or profit to either party.

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Positioning Malaysia as an Islamic Financial Center

By Jennifer Chang

In line with the Malaysian Government's efforts to promote Malaysia as an Islamic Financial Center (MIFC), the 2007 Budget announcements on the 1st September 2006 provided substantial tax incentives in the area of Islamic finance. The new incentives give an opportunity for Malaysia to capitalize on an influx of liquidity, particularly from the Middle East. Middle Eastern investors are looking into modes of financing and investment that not only provide similar returns compared to conventional financing and investments, but are also in compliance with Islamic religious principles.

As the demand for Islamic financing products increases globally, more and more countries are realizing the potential of Islamic finance. In seeking to develop this market niche, the Malaysian Government has provided numerous tax incentives to support regulatory policies in ensuring the country's role as a leading Islamic financial center in the region.

Islamic banking and Takaful business

Islamic banking as a whole showed commendable growth in 2005, with profitability and assets surpassing for the first time RM1 billion (US$272.4 million) and RM100 billion (US$27.24 billion) respectively. The Islamic banking industry also welcomed foreign participants into its fold with the issuance of three new Islamic banking licenses to foreign Islamic financial institutions from the Middle East.

Islamic insurance, or Takaful, is also fast gaining popularity. Malaysia is the forerunner in terms of Takaful activities in South-East Asia. Recently, Bank Negara Malaysia (BNM) granted six new Takaful licenses.

As part of the strategy to boost the country as MIFC, BNM announced that foreign and local banks and Takaful operators will be granted new conditional licenses to undertake a full range of Islamic banking and Takaful businesses in international currencies.

Complementing this regulatory policy, the 2007 Budget, which was announced on the 1st September 2006, proposed substantial tax incentives to boost the Islamic banking and Takaful industry in Malaysia. Some of the major proposals are as follows:

1. Tax exemption of Islamic banks and Takaful companies

- 10-year tax exemption for Islamic banks and Islamic banking units licensed under the Islamic Banking Act 1983 on income derived from Islamic banking business conducted in international currencies, including transactions with Malaysian residents.
- 10-year tax exemption for Takaful companies and Takaful units licensed under the Takaful Act 1984 on income derived from Takaful business conducted in international currencies, including transactions with Malaysian residents.

This incentive is effective from year of assessment 2007 to year of assessment 2016.

2. Exemption from withholding tax

Currently, paragraph 33 of Schedule 6 to the Income Tax Act 1967 provides tax exemption on:

> "Income of any person not resident in Malaysia for the basis year for a year of assessment, in respect of interest derived from Malaysia (other than such interest accruing to a place of business in Malaysia of such person) and paid or credited by any person (whether the same person or not) carrying on the business of banking or finance in Malaysia and **licensed under the Banking and Financial Institutions Act**."

Technically, this tax exemption would only apply to normal conventional banks and their Islamic windows, and not to Islamic banks licensed under the Islamic Banking Act 1983.

To streamline tax treatment on profits received by foreign non-resident customers from all financial institutions, it was proposed that profits received by non-residents from financial institutions established under the Islamic Banking Act 1983 – and other financial institutions approved by the Minister of Finance – be exempt from tax as well.

It has also been confirmed by the 2007 Budget that any profits paid out by an Islamic bank to foreign non-resident customers need not be subject to tax in Malaysia, thus providing equal treatment with conventional bank foreign customers. This means that there will be no withholding tax on profit payments made by all licensed banks in Malaysia to non-resident customers.

This proposal was effective from the 2nd September 2006.

3. Facilitation of financing transactions

Currently, the definition of partnership for tax purposes is very wide and includes all types of partnership. Hence any type of partnership, unless specifically excluded, would have to file tax returns. Such tax treatment does not promote financing transactions such as Musharakah or Mudharabah, since it would technically mean that tax returns have to be submitted for each transaction.

In recognizing and promoting Islamic financing structures based on the concept of Musharakah or Mudharabah, it has also been proposed that such financing transactions need not file partnership tax returns. The effective date is from year of assessment 2007.

Funds and fund management

It is important to recognise the role of the fund manager in promoting and growing the fund management industry, as well as attracting funds from customers. To this effect, the 2007 Budget provides for the following points listed below.

1. Tax exemption of fund managers

A 10-year tax exemption to local and foreign companies managing funds of foreign investors established under Shariah principles and approved by the Securities Commission (SC). This incentive is effective from year of assessment 2007 to year of assessment 2016.

It is hoped that this tax incentive will attract fund managers to establish operations in Malaysia specifically for managing funds based on

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Shariah principles. If reputable fund managers set up in the country, more Shariah funds and products will be created and marketed to foreign investors, making Malaysia the hub for attracting Shariah monies for reinvestment around the region.

2. Real Estate Investment Trusts (REITs)
REITs have also been provided with a further boost through several tax initiatives:

- So long as a REIT distributes at least 90% of its income to investors, the REIT will not have to pay tax.
- Distributions to certain investors will be subject to reduced tax for five years, namely:
  - ☐ non-corporate investors, including resident and non-resident individuals who receive dividends from REITs listed on Bursa Malaysia, will be subject to a final withholding tax of 15%; and
  - ☐ foreign institutional investors, especially pension funds and collective investment funds, who receive dividends from REITs listed on Bursa Malaysia, will be subject to a final withholding tax of 20%.

  Corporate investors (resident and non-resident) will continue to be subject to normal corporate income tax at 28% (to be reduced to 27% from year of assessment 2007).

Islamic capital market

The Islamic capital market has emerged as a significant area of growth in Malaysia, representing a viable and competitive alternative to the conventional market. This is especially so for investors who are inclined towards investing and utilizing products that conform to Shariah principles.

The 2007 Budget announced several tax incentives, including those outlined below.

1. Tax treatment of SPVs established solely for the purposes of issuing Islamic bonds

Under Islamic financing transactions, a special purpose vehicle (SPV) is established purely to channel funds and facilitate the issuance of the Islamic bonds or funding. Although the SPV is merely a "pass through" vehicle in substance, the SPV is still required to submit a tax return and comply with all the administrative requirements of Malaysian tax legislation.

It is proposed that SPVs created specifically to facilitate Islamic funding become part of a scheme approved by the SC to be treated as "pass through" vehicles and are thus not required to comply with the administrative requirements under the Income Tax Act 1967. There are, however, certain requirements and conditions which need to be clarified.

This measure is effective from year of assessment 2007 onwards.

2. Extension of tax deduction on issuance costs of Islamic securities
Currently, expenses incurred from the issuance of Islamic securities based on leasing (Ijarah), progressive sales (Istisnah), profit sharing (Mudharabah) and profit and loss sharing (Musharakah) are allowed as tax deductions. This is provided for in the following regulations:

- Income Tax (Deduction for Expenditure on Issuance of Islamic Securities) Rules 2005.
- Income Tax (Deduction for Expenditure on Issuance of Islamic Securities Pursuant to Istisnah Principle) Rules 2005.

These incentives will expire in year of assessment 2007.

To ensure that Islamic securities continue to be competitive, it has been proposed that tax deductions on the expenses incurred in the issuance of Islamic securities based on Ijarah, Istisnah, Mudharabah and Musharakah be extended for another three years to 2010.

These incentives will also be accorded to all Islamic securities products approved by the SC.

3. Other

Other tax initiatives include:

- Pre-commencement expenses of an Islamic stockbroking business will be allowed as a tax deduction so long as the business is commenced within two years of the SC approval.
- Further stamp duty exemption of 20% on instruments used in Islamic financing products approved by the Shariah Advisory Council of BNM or the SC for a period of three years. This means that Islamic transactions will suffer 20% less stamp duty compared to conventional financing instruments.
- SPVs established solely for the purpose of the issuance of Islamic bonds need not be subject to tax or tax administrative procedures.

Human capital

In encouraging Malaysians to explore Islamic finance as a career choice, tax relief not exceeding US$1,362 (RM5,000) per annum is also provided for on Islamic finance courses approved by BNM or SC at local institutions.

Conclusion

The 2007 Budget has certainly provided the much-needed fiscal incentives to spur the growth of the Islamic finance industry in this region.

With the stage all set, it is now up to the Government and the players to profile Malaysia internationally and to position the country as an international Islamic financial center.

Jennifer Chang is a senior executive director at Pricewaterhouse-Coopers Taxation Services.

Shariah Injunctions on Futures Contracts

By Dr Mohamed Ali Elgari

It has been claimed that futures contracts are not recent discoveries, but in fact go back to the 16th century. It is a known fact that futures have been traded on the Chicago Board of Trade since 1865. Their importance, however, is quite contemporary. Therefore, the classical Islamic jurists did not address the subject of futures contracts directly.

The relevant Shariah injunctions on futures trading are mainly sales contract, Salam contract, contract in suspense and exchanging debt for debt.

Sales contracts

Sales contracts might involve the exchange of money for goods (Bai) or the exchange of money for money (sarf). It is an established rule in Shariah for the second category of contracts that such an exchange must be on-the-spot. Neither the sold currency nor the price (the other currency) may be different. Such a rule is based on authentic narrations from the Prophet Muhammad (pbuh), and therefore is not a subject for reinterpretation.

Salam contract and deferred payment sale

Shariah does recognize the need for inter-temporal transactions. Shariah compliant exchange contracts can be on-the-spot, where both the price and the items sold are instantaneously exchanged.

The items can also be forward, where the price or the item sold is deferred for future delivery. Bai Bithaman Ajil (BBA) is an example of a deferred payment sale, while the Salam contract is an example of a sale contract where the delivery of goods is deferred.

However, both BBA and the Salam contract are a far cry from modern futures transactions. An exchange contract in Shariah is an agreement where two parties exchange a price for a priced item (goods or services). The contract itself must always create rights and obligations immediately, resulting in a complete or partial delivery of the object of the contract. It is thus not permitted to engage in contracts that only create mutual obligations that are to be disposed of in the future.

Contracts in suspense

A contract is definitive when the offer and acceptance are both categorical and the contract is validly concluded. A contract is suspensive when the offer and acceptance are kept in suspense, i.e. for future effect. The latter is not permitted in Shariah, particularly in sale contracts. Hire contracts, to the majority of scholars, may be suspensive.

Contracts in suspense are relevant to futures because in the latter there is only offer and acceptance but no contract is concluded. Effectively, futures are similar to sale contract in suspense.

Exchanging debt for debt

Debt obligations (such as receivers) are not to be sold except in very restrictive cases where it would not lead to usurious transactions, for example when the debt obligation is not money but a commodity. Debt is sold in deferred payment.

Shariah objections to conventional futures contracts

Focusing specifically on the form of contemporary futures contracts, we can identify certain flaws that can be summarized as follows:

1. A commodity bought for future delivery must – if it is to be acceptable from a Shariah point of view – be on a Salam basis. As part of the requirements of Salam, the full price must be paid immediately at the time of contracting. This is based on an authentic narration from the Prophet (pbuh) and hence is not subject to reinterpretation. An essential part of the futures program, as practiced in organized markets, is that sellers and buyers only pay a small percentage of the total price and even then such percentage is paid to the clearing house and not to the counterpart. Therefore, a futures contract will not be accepted on a Salam basis.

   One may ask why we insist on Salam. The point is that when the sold item in a sale contract is not identified but only described, it becomes a "debt obligation" on the seller, similar to any other debt. Such sale contract must be on Salam basis, for Salam is the exchange of money (price) for a well described (but not definite) item. Had the sold item been in existence at the time of sale and can be exacted by the parties – such as a car or a house – the buyer will then take the risk of that item, not the credit risk of the seller. It should be apparent, therefore, that we have no alternative but to apply the rules of Salam to futures if they are to be acceptable from a Shariah point of view.

2. Even if the futures contract can be adopted into the Salam model of sale (i.e. the parties consent to pay the full price at the time of contracting), there remains another problem. To the majority of jurists a commodity bought on Salam basis cannot be disposed of by sale before the actual delivery. When a forward (or future for that matter) contract is effected, the buyer must wait until delivery to be able to sell the same. This is not what happens in the futures market. Commodities in the organized futures markets are bought and sold several times before actual delivery, otherwise the market will fail to provide liquidity, which is an essential part of the mechanism. But from a Shariah perspective, even in standard sale contracts, it is not permitted that the buyer sells before actual receipt of the purchased items.

These two objections fly in the face of conventional futures and make it virtually impossible to accept conventional futures contracts.

Towards Shariah acceptable futures trading

It is an established economic fact that risk sharing and inter-temporal smoothing are essential elements of welfare in any society. It is also an established Shariah fact that the main objective of the Islamic Shariah is the good and welfare of Muslim society. Therefore, it is unthinkable that Shariah will lack the ways and means to provide the necessary facility for Muslims' legitimate needs in the realm of finance and investment.

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Shariah Injunctions on Futures Contracts *(continued...)*

We know already that all the modes of partnership in Shariah are geared toward risk participation. Not only that risk sharing is the most important element in the principles of Mudarabah and Musharakah, but also that when the form of contract of such partnership is altered to shield one partner from risk, the contract becomes null and void, for it no longer serves the basic purpose of risk/reward sharing. In fact, the main reason for the prohibition of interest is because a loan contract shifts the commercial risk of the profit generating venture to the borrower. Hence, the other party deserves to get no share of such a profit, which is essentially a reward for risk taking.

However, it is one thing to say that risk sharing is a legitimate objective, but quite another to say that risk per se can be the subject of an exchange contract. Speculators have no commercial interest in the commodities being exchanged in futures markets. Rather, they make money out of the "purchase" and "sale" of risk. Unlike the need for hedging against risks, speculation is a deplorable activity. The point is how can we distinguish hedgers who have a legitimate need from speculators? Unfortunately, there is no practical way.

Inter-temporal smoothing is a legitimate objective. It is a built-in component in every contract that bridges present to future. Shariah does not lack such a facility. As a matter of fact, Salam itself is an inter-temporal smoothing device.

Furthermore, one major effect of futures trading is creating the means whereby relevant and useful economic information is internalized into the market mechanism. This is not only in line with Shariah, but it is a requirement for all exchange contracts. It is because of this that a number of contracts become void or prohibited when they are made a means to conceal information from the other party.

Having said all that, is it sufficient to say that a conventional futures contract is not permissible from the Shariah point of view? The answer is negative. We must venture into developing a Shariah acceptable form of futures contract.

At this stage, however, we can only set the foundation for future research tasks and set the agenda for other works to follow.

First, the need for hedging risks is a legitimate one from a Shariah point of view. Efforts to design new instruments for this purpose that are in line with Shariah requirements should be encouraged.

Secondly, such legitimate needs are found in the realm of the production of real assets and services. Therefore interest rate, currency and stock index futures have no place in an Islamically valid futures market.

Thirdly, we have always assumed that a futures contract is actually a sale contract. Therefore, we have insisted that it should abide by the Shariah acceptable rules for such contracts. However, there are those who think that futures are not actually a sale contract but a promise to buy and sell. In his book *International Investments* (3rd edition), Bruno Solnik described futures as "simply a commitment to buy or sell." This area must be explored from the Shariah point of view.

Certainly a binding commitment is a contract. The fact of the matter is that such commitment is not binding. Neither buyer nor seller is obliged to receive or deliver. He is only required to compensate the other party for any damage caused by such commitment, i.e. the difference in price. This perspective actually takes the whole matter to a different chapter in the jurisprudence of contracts.

In a momentous decision, the Islamic Jurisprudence Academy of the Organization of the Islamic Conference (OIC) has established a distinction between a contract and a binding promise to buy (or sell). Based on the Malki school of thought, a promise to purchase is not a purchase contract. Yet it creates an obligation on the promising party to compensate the other for any loss caused by not honoring one's promise. The profit generated would be that of compensation.

Fourthly, building a model of futures trading on the basis of the Salam contract should not be excluded altogether. The requirement in a Salam contract to pay the full price when the contract is transacted will clearly reduce the possibilities for speculators and hedgers. As for liquidity, some classical jurists differentiated between food and non-food items in the case of Salam. To the majority of the Maliki scholars, the sale of Salam-based goods before actual receipt is acceptable for non-food items. These possibilities must be explored.

The author is a Professor of Islamic economics at King Abdulaziz University, Jeddah, Saudi Arabia.

Meet the Head

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

Name: Ahmad Zaini Othman

Position: Chief Executive Officer

Company: AmIslamic Bank

Based: Kuala Lumpur, Malaysia

Nationality: Malaysian

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

I joined the AmBank Group through its commercial banking arm in 1996. Ever since then I have been responsible for overseeing corporate banking, which included the Islamic banking operations of the bank, among many other responsibilities in the dual-banking environment.

I spent 22 years in the banking and corporate sector and my experience includes merchant banking, commercial and retail banking, project financing, capital markets, loan rehabilitation and trade finance.

What does your role involve?

In short, my responsibility is to oversee the Islamic banking business of the group that resides under AmIslamic Bank.

I was the program principal in the program management office, responsible for driving the AmBank Group Islamic Banking subsidiary set-up, which culminated in the launch of AmIslamic Bank on the 1st May 2006. As CEO, I am responsible for managing the entity.

What is your greatest achievement to date?

My greatest achievement has been to bring the group's Islamic banking division to the forefront and aggressively building the Islamic financing assets from a mere RM500 million (US$137.14 million) to over RM10 billion (US$2.74 million) in less than six years.

Which of your products/services deliver the best results?

As at September 2006 personal financing brings in total financing of more than RM1 billion (US$274.3 million); hire purchase-i brings in total financing of more than RM6 billion (US$1.65 billion); and the al-Taslif card-i card base is more than 200,000 cards.

What are the strengths of your business?

Our strengths include group infrastructure/network; group understanding and support for the Islamic banking business; a strong product development team; and the operational philosophy of true Islamic banking.

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

A large network: more than 170 AmBank and AmIslamic Bank shared branches; 13 years of experience in offering Islamic banking via AmBank; loyal customers; and an extensive product range – everything is under one roof.

What are the obstacles faced in running your business today?

I see them more as challenges rather than obstacles. Some of them are to come up with the right business model to do true business in the realm of Islamic finance; the growing movement of Islamic banking towards global presence; regulatory, risk management and operational framework to cater to the business models for equity type of financing/participation under the Musharakah/Mudharabah concepts and leasing structures; legislative framework to accommodate Islamic finance business; dynamism and sustainability of the present Islamic business model in the medium to long-term period to remain relevant; manpower issues; the need to create more products (innovative); and the ability to implement a truly independent Islamic banking entity.

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

I believe that Islamic financial institutions will essentially operate in a truly universal banking concept. There will be more product innovations in the area of equity structures; a clear distinctive pathway from conventional banking; and finally the growth of the industry will be phenomenal, with Islamic institutions and non-Islamic institutions pushing for development.

All of these will become a reality not through a single effort, but through the combined force of the Islamic banking community, i.e. the regulators, players and the international community. By 2010, I believe that the industry could achieve more than the 20% target. As for now, the industry has achieved 12% of its total financing.

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

I would like to see a focus on equity financing, given that the focus of most other players has been debt financing, while equity or specialized business is given less attention. The industry should aim to enter into partnerships and joint ventures in different projects and businesses, i.e. taking stakes in projects as part of the offerings.

Currently 95% of transactions are debt-based financing, thus another 5% can make up for Musharakah, which encourage the bank to participate in the business itself. At the moment we are developing and planning to develop the right business model and, moving forward, we feel that there is a big business industry for Musharakah.

AmIslamic Bank

AmIslamic Bank has a long and distinguished history in Islamic banking, serving banking needs of industries and individuals via the AmBank Group Islamic Banking, which was established in 1993. In 2001, the Islamic banking operation of AmBank and AmFinance was consolidated and AmIslamic Bank was established.

Takaful news
www.islamicfinancenews.com

KUWAIT

PREMIA for Al Safat

Al Safat Takaful Company (STC) has selected PREMIA to automate its General and non-Life insurance business.

PREMIA is an integrated insurance management solution from 3i Infotech, a global provider of IT solutions and services. This selection is based on PREMIA's advanced capabilities to provide seamless integration across all main heads of insurance activity. It also provides greater convenience of transaction processing, allows faster interaction and ease of information access.

"Our aim is to become one of Kuwait's leading Takaful companies in the next few years and to support our aggressive growth plans, we were looking for an innovative insurance risk solution," said AbdulAziz Al-Mansoor, chairman and managing director of STC.

SAUDI ARABIA

IAIC plans more branches

Salama Takaful Group's subsidiary, Saudi IAIC, aims to open eight branches in Saudi Arabia in the coming months, adding to its current six branches. It is among the first of the 13 insurers who were granted licenses in October by the regulator, the Saudi Arabian Monetary Agency (SAMA), under the kingdom's new insurance laws.

The additional product of medical insurance has been added to its Takaful offerings, after receiving approval from the Saudi Medical Insurance Board.

Saudi IAIC will acquire the insurance portfolio and operations of Bahrain IAIC, which will go into run off. The company, which has a paid-up capital of SR100 million (US$26.7 million), plans to float 40% of its equity in an initial public offering within two months.

OMAN

Oman Insurance Association launched

The Oman Insurance Association has been launched to strengthen co-operation amongst the ever-increasing number of market players.

Taher Talib Al Henraki, CEO of Dhofar, the largest insurance company in the Sultanate, said that the association would act as bridge between the regulator and the market. It will not interfere with market competition, which he believes is good as long as every insurance company acts responsibly. About 20 Omani insurers are expected to join, although membership of the association is not compulsory.

BAHRAIN

Solidarity link up with FIC

An agreement has been signed between Bahrain-based Solidarity and Federal Insurance Company of Labuan to jointly offer speciality lines of Takaful insurance.

Solidarity said the alliance will focus on writing directors' and officers' liability, professional liability, fidelity bond and financial institution bond policies.

Solidarity chief executive officer Sameer Al Wazzan commented: "There has been phenomenal growth in the financial services sector in the Middle East, particularly in the GCC. This rapid growth also poses risks that drive the need for enhanced corporate governance. Insurers play a key role in meeting corporate governance standards and mitigating risk, providing stability to the sector and comfort to consumers at large."

Solidarity shareholders have increased the company's authorized capital from US$300 million to US$500 million, and its paid-up capital to US$150 million. The firm is also in the process of raising the paid-up capital to US$275 million.

BAHRAIN

MAA Holdings buys stake in Solidarity

MAA Holdings (MAAH) will acquire a 5% stake in the Solidarity Takaful company for RM27.75 million (US$7.5 million), thus making its debut into the Bahrain Takaful insurance market.

This acquisition will provide an opportunity for MAAH to invest in Solidarity at parity with founding shareholders before the upcoming recapitalization. The acquisition would enable MAAH to take a stake in the rapidly growing company, which had aggressive growth plans across the Gulf region and beyond.

MAAH will also benefit from the proposed US$125 million capital increase of Solidarity through a private placement and proposed listing on the Bahrain Stock Exchange.

UAE (Dubai)

SALAMA posts 30% growth

SALAMA Islamic Arab Insurance Co. has achieved record profits for the third quarter of 2006, achieving a profit level three times that made for the same period in 2005.

Dh110 million (US$29.95 million) was made in 2005, which makes these recent third quarter profits a 30% increase over the entire annual profits of last year.

SALAMA was listed on the Dubai stock exchange in September 2005, and the company's paid-up capital was increased to Dh1 billion (US$272.2 million). SALAMA now has six Takaful companies, providing services in 70 countries around the globe through Tunisia-based BEST Re.

MALAYSIA

Takafulink by PruBSN

Takafulink, a Shariah compliant investment-linked plan, has just been launched by Prudential BSN Takaful (PruBSN).

The service will allow customers to adjust their protection and savings according to their needs. It is also designed to help families plan their savings with multiple investment-linked options. It will also return 100% surplus back to its participants.

PruBSN chief executive officer Mohamad Salihuddin Ahmad said the new product would create "a significant business" for the company. "We believe that with the launching of the product, our aim of being the top three Takaful operators in the local market will be realized soon," he said.

The Growth of Takaful in Sri Lanka

By Amana Takaful Insurance

Well known as the tear drop of the Indian Ocean, Sri Lanka is a comparatively small country in term of size. However, it is enriched with beauty, splendor and vibrant markets in many spheres. One of the most successful industries in Sri Lanka is insurance. At the end of 2005, the estimated gross written premium (GWP) was over LKR30 billion (US$300 million). This, however, does not reflect the actual capacity of the market, which is believed to be worth many times that amount. The question now arises as to the identity of these untapped resources – and that is where Takaful comes into the picture.

The population of Sri Lanka is around 21 million, consisting mainly of Buddhists. The Muslim population forms 8% of this total. The Muslim identity in Sri Lanka has traditionally, from the time the Arabs landed in the country, been a business identity. Today it is believed that Muslims hold 30%–40% of the country's businesses.

This supplies the reason for the gap between underwritten premiums and the insurance sector's actual market value. Muslims have generally avoided insurance because of its non-Islamic structure. Thus there has always been a need to address this issue and seek permissible alternatives.

Takaful became a necessity with the commencement of Islamic financing. The pioneering efforts by Amana Investments drew attention to the need for Islamic banking, and the Sri Lankan government took steps to amend the Banking Act to facilitate the concept. It is indeed satisfying to note that many conventional banks in Sri Lanka are now focusing their attention on Islamic structures. Amana Takaful Insurance is a subsidiary of Amana Investment, the country's pioneering Islamic finance institution. Takaful Malaysia is also a major shareholder and a technical support provider.

Takaful entered the Sri Lankan market in 1999 with the establishment of Amana Takaful Insurance. Primarily this was to target the niche market of Muslims who were not obtaining insurance. It was thus important to address the permissibility of Takaful in terms of Shariah and the operational aspects. This was not an easy task given the fact that any form of insurance was regarded as unacceptable. It was a process of creating awareness among the public and educating them on the concept and its acceptability. The task was twofold in that on the one hand we had to make inroads into the insurance industry, and on the other we had to convince our Muslim brothers to accept Takaful.

The Takaful concept is licensed under the Insurance Act, as there are no special regulations for Takaful in Sri Lanka. However, the authorities have taken a positive approach to the concept and are pursuing efforts to give it the identity it requires in terms of Takaful operations, particularly in relation to investments.

Being very much part of the insurance industry, Amana Takaful Insurance is part of a very competitive, tariff-free market. The level of insurance penetration is around 10% and to hold a slice of the market share is no meager task. As a relative newcomer with a unique concept, Amana Takaful Insurance has been able to attract attention through its tremendous rate of growth, introduction of innovative products and its unique approach to the entire concept of insurance. The company has ventured into some areas which conventional insurers have not. Amana Takaful Insurance introduced the "Mobiler" – the only cover for mobile phones in Sri Lanka. This was not a case of taking a risk, but offering an important segment of the market a product that they need. With the right systems and precautions in place, this product brought in a wave of inquiries.

As evidenced by statistics, the average growth in Sri Lanka is around 30%. However, Amana Takaful Insurance tops the list with a growth of over 100%, a trend that has been maintained since inception.

> "Today it is believed that Muslims hold 30%–40% of the Sri Lanka's businesses"

Many see this as proof of the effectiveness of the system. A few leading insurance companies are in the process of introducing Takaful products, hoping to capture the Muslim market, which many believe is the contributory factor. Surprising as it may seem, 30% of Amana Takaful's total portfolio is from non-Muslim clients, and this percentage is growing. Although it is true that we have been able to attract a portion of the non-insuring market, our actual success comes from those who have experienced insurance and have converted to Takaful.

That section of the market sees Amana Takaful Insurance as a new dimension to insurance, built on trust and mutuality. Strictly adhered to Shariah guidelines are not an impediment but rather an improvement, and the business values that the system upholds earns it a great deal of respect.

There is a demand for this system and it needs to be further encouraged. There is greater potential not only in Sri Lanka but regionally as well.

Amana Takaful Insurance took the initial step of going into the Maldives by setting up Amana Takaful Maldives. This venture is proving to be highly successful. We have also been receiving indications of interest from some quarters in India. We need to take this process forward, and a collective effort would undoubtedly prove successful Insha Allah.

Amana Takaful was set up in 1999 in collaboration with Takaful Malaysia, the largest Takaful operator in the world. From inception, the company has catered for both Family and General Takaful Insurance. Amana Takaful was also the very first insurance company in Sri Lanka to pioneer the process of refunding the surplus premium at the end of the term. Having secured a triple digit growth every year, Amana Takaful has become a significant player in the field of insurance today.

MOVES

UBS – Singapore

Eddie Gan has been appointed as the new head of private banking for Singapore by UBS. Prior to his current appointment, Mr Gan headed the private banking division at DBS and also ANZ Private Bank.

ISTITHMAR – UAE (Dubai)

Omar Anabtawi has been appointed as director of investment placements at Istithmar.

He brings on board 16 years of experience in financial markets and wealth management in leading and financial institutions. His most recently held position was at Abraaj Capital, Dubai.

Nick Hornung, who is head of Istithmar's legal department, has been appointed as director and senior legal counsel. Previously Mr Hornung was a managing associate solicitor with international law firm Linklaters, based in London, Singapore and Hong Kong, where he specialized in cross-border mergers and acquisitions, private equity transactions, joint ventures and IPOs.

RASMALA – UAE (Dubai)

Khaled Sifri has taken on the role of partner and board member at Rasmala Investments. Mr Sifri brings along his wide experience in regional investment banking. Prior to his appointment he was the managing director of investment banking at Shuaa Capital.

BIMB – Malaysia

Mashitah Osman has been appointed as director for Bank Islam Malaysia's newly set up corporate investment banking division.

Mashitah was formerly the head of Islamic finance/first senior president at RHB Sakura Merchant Bankers.

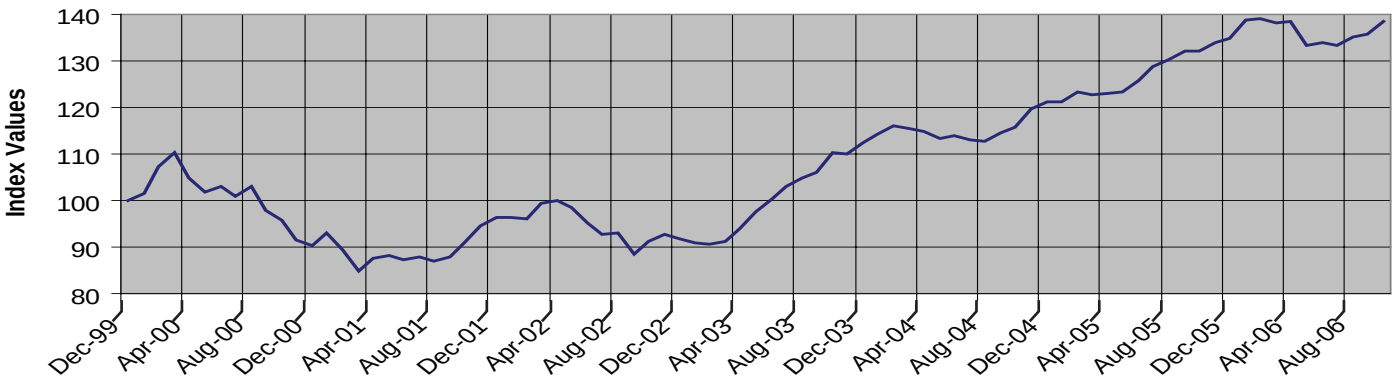
Next Forum Question

Would a global Shariah council, with local branches facilitating local understandings, eliminate the need for in-house Shariah Boards and the expense of external advisors?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@islamicfinancenews.com before Wednesday 15th November.

Eurekahedge Islamic Funds Page

Eurekahedge Islamic Fund Index



Eurekahedge Islamic Fund Index (as of 9th November 2006)

	FUND	MANAGEMENT COMPANY	Sept Returns (%)	FUND DOMICILE
1	Kotak Indian Shariah Fund	Kotak Mahindra (UK)	5.58	Mauritius
2	AmOasis Global Islamic Equity	AmInvestment Management	5.15	Malaysia
3	Takaful Asia-Pacific Fund	HSBC Insurance Singapore	3.88	Singapore
4	Faisal Islamic Bank of Egypt Mutual Fund	Hermes Fund Management	3.28	Egypt
5	Al Darij Investment Fund	National Investments Company	3.26	Kuwait
6	Egyptian Saudi Finance Bank Mutual Fund	Hermes Fund Management	3.19	Egypt
7	Zajil - Service & Telecommunications Fund	National Investments Company	3.12	Kuwait
8	NTUC Amanah Equity Fund	State Street Global Advisors	2.68	Singapore
9	ASBI Dana Al-Mubin (previously ASBI Tabung Pertama)	BIMB UNIT Trust Management (BUTM)	2.52	Malaysia
10	Alfanar U.S. Large Cap	W.P. Stewart Asset Management	2.40	British Virgin Islands
	*Eurekahedge Islamic Fund Index**		*0.45*	

Eurekahedge Global Islamic Fund Index (as of 9th November 2006)

	FUND	MANAGEMENT COMPANY	Sept Returns (%)	FUND DOMICILE
1	AmOasis Global Islamic Equity	AmInvestment Management	5.15	Malaysia
2	BNP Islamic Equity Optimizer	BNP Paribas Asset Management	1.37	Luxembourg
3	Al Dar Fund of Funds	ADAM	1.08	Kuwait
4	Emirates Islamic Global Balanced Fund	Emirates Bank International PJSC	0.77	Channel Islands
5	AlAhli Healthcare Trading Equity Fund	The National Commercial Bank	0.35	Saudi Arabia
6	Emirates Dynamic Liquid Fund	Emirates Bank International PJSC	0.32	Channel Islands
7	AlAhli Islamic Global Equitybuilder Certificates	The National Commercial Bank	0.31	Germany
8	AlManarah Conservative Growth Portfolio	The National Commercial Bank	0.31	Saudi Arabia
9	AlAhli Small Cap Trading Equity Fund	The National Commercial Bank	0.29	Saudi Arabia
10	AlManarah Medium Growth Portfolio	The National Commercial Bank	0.24	Saudi Arabia
	*Eurekahedge Islamic Fund Index**		*0.61*	

Contact Eurekahedge

To list your fund or update your fund information: islamicfunds@eurekahedge.com

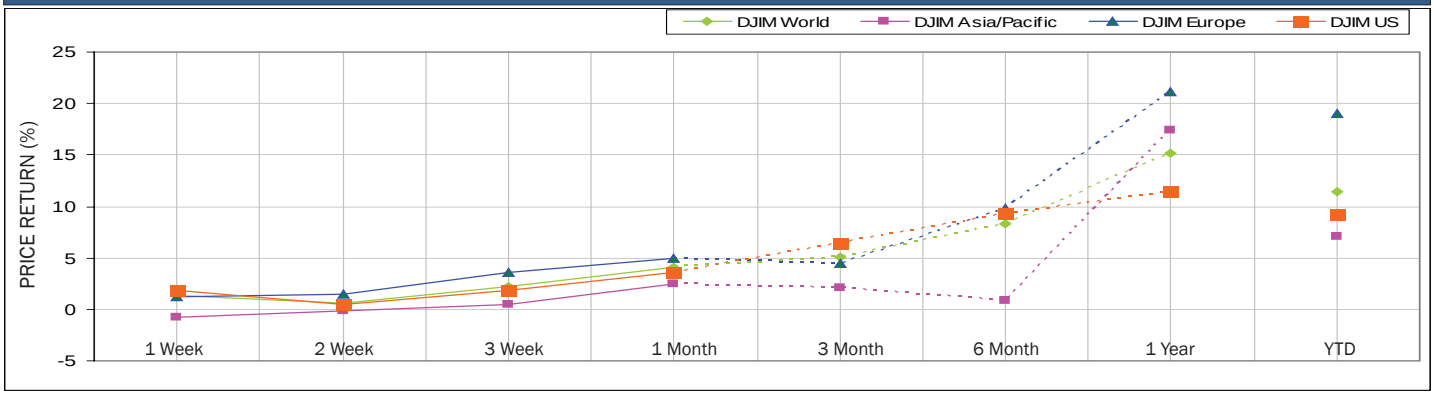
For further details on Eurekahedge: information@eurekahedge.com

Tel: +65 6212 0900

DOW JONES ISLAMIC MARKET INDEXES

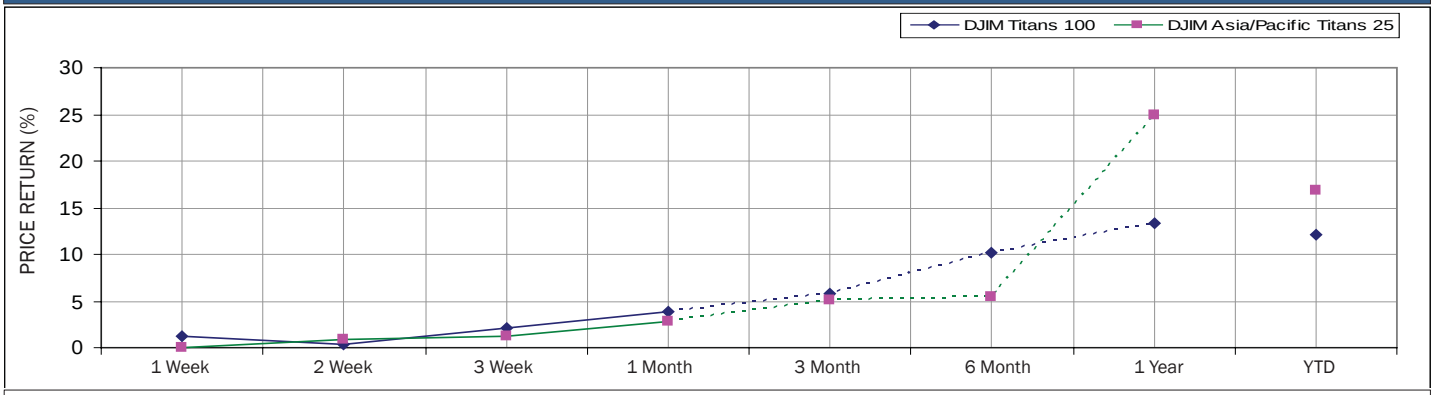
Data as of the 8th November, 2006

PERFORMANCE — PRICE RETURN (%)



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	1.36	0.65	2.27	4.12	5.1	8.32	15.15	11.41
DJIM Asia/Pacific	-0.79	-0.12	0.53	2.48	2.08	0.83	17.45	7.09
DJIM Europe	1.26	1.45	3.54	4.98	4.41	9.87	21.2	19.04
DJIM US	1.79	0.46	1.86	3.56	6.49	9.37	11.49	9.15

PERFORMANCE — PRICE RETURN (%)



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	1.17	0.38	2.13	3.78	5.71	10.17	13.28	12.11
DJIM Asia/Pacific Titans 25	0.05	0.83	1.26	2.89	5.13	5.51	24.92	16.92

DESCRIPTIVE STATISTICS

		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2285	16129.02	13847.63	6.06	1.4	440.7	0.01	3.18	0
DJIM Asia/Pacific	906	2823.25	2055.51	2.27	0.53	89.87	0.01	4.37	0
DJIM Europe	327	3934.9	3176.49	9.71	2.59	225.3	0.12	7.09	0
DJIM US	735	8144.2	7760.69	10.56	2.66	440.7	0.17	5.68	0
DJIM Titans 100	100	7386.39	6754.24	67.54	47.3	440.7	8.88	6.52	0.13
DJIM Asia/Pacific Titans 25	25	843.41	588.83	23.55	17.74	62.13	8.88	10.55	1.51

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

Bondweb MALAYSIA

MALAYSIAN ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT

AS AT 8th November 2006

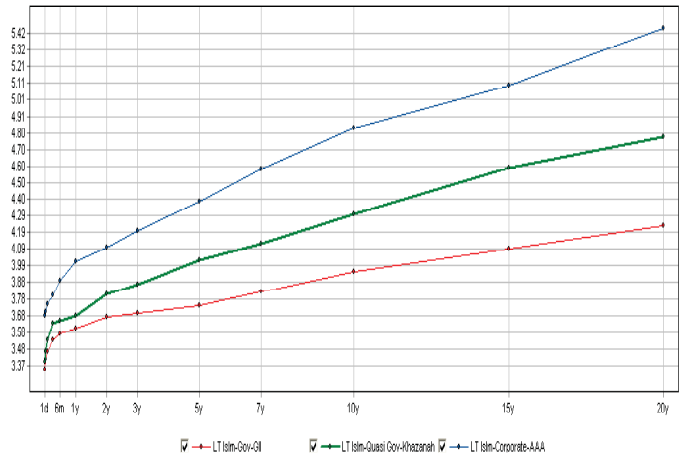
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	01 November 06 (RM)	25 October 06 (RM)	18 October 06 (RM)
Private Debt Securities					
RANTAU IMTN 15.03.2011 – MTN 1	AAA (RAM)	100.74	100.91	100.51	100.51
RANTAU IMTN 0% 14.08.2013 – MTN 2	AAA (RAM)	103.66	103.79	103.08	103.09
PLUS IMTN 0% 08.10.2021 – TRANCHE 2	AAA (RAM)	45.19	45.65	45.28	44.32
PLUS 0.00000% 17.06.2019 – SERIES 4	AAA (RAM)	52.37	53.53	51.60	50.79
PLUS IMTN 0% 09.10.2020 – TRANCHE 1	AAA (RAM)	48.30	49.57	47.93	47.05
Government Investment Instruments					
PROFIT-BASED GII 1/2006 14.04.2009	n/a	100.48	100.52	100.30	100.30
PROFIT-BASED GII 2/2006 14.07.2011	n/a	103.83	103.90	103.33	103.45
PROFIT-BASED GII 3/2006 15.11.2016	n/a	n/a	n/a	n/a	n/a
Quasi Government					
KHA4/99 1B 0-CP 7YR 18.12.2006	n/a	99.63	99.54	99.47	99.40
CAGABAIS 12/2006 0% 08.08.2008	AAA (RAM)	100.80	100.68	100.26	100.26
CAGABAIS 13/2006 0% 10.08.2009	AAA (RAM)	101.34	101.30	100.49	100.51

SPREAD VS GII (in b.p)

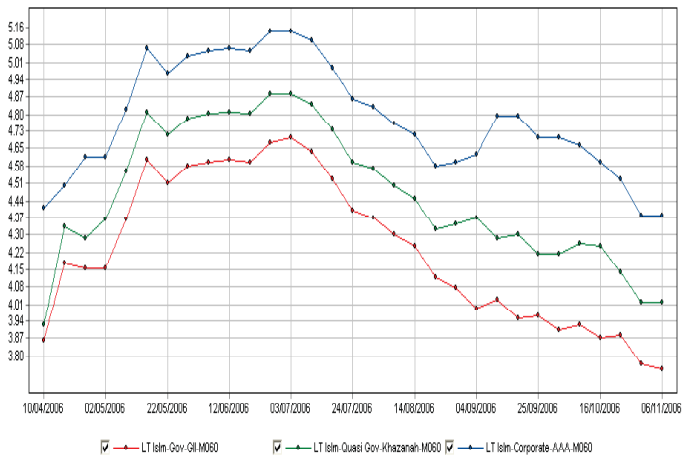
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.6	3.67	3.69	3.74	3.83	3.95
Cagamas	0.13	0.19	0.23	0.33	0.34	0.43
Khazanah	0.08	0.14	0.18	0.28	0.29	0.35
AAA	0.3	0.36	0.39	0.47	0.51	0.57
AA1	0.47	0.5	0.58	0.71	0.83	0.96
A1	1.25	1.35	1.54	1.81	2.13	2.47

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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



ISLAMIC FINANCE LEAGUE TABLES

TOP ISSUERS OF ISLAMIC DEBT — NOVEMBER 2005 – NOVEMBER 2006

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	PCFC Development	UAE	Convertible Sukuk	3,500	2	25.2	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	1,771	2	12.7	Malaysian Government bond
3	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	1,003	14	7.2	Cagamas, AmMerchant, 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 (PLUS)	Malaysia	Sukuk Musharakah MTN	743	18	5.3	CIMB Investment
7	Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	681	2	4.9	Aseambankers
8	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	3.3	Deutsche
9	Putrajaya Holdings	Malaysia	Murabahah MTN	456	9	3.3	Alliance, CIMB, RHB Sakura
10	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	435	30	3.1	AmMerchant, Bank Muamalat Malaysia, MIMB, RHB Sakura
11	Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	1.9	Aseambankers
12	Senai Desaru Expressway	Malaysia	Bai Bithaman Ajil Islamic Debt Facilities	249	26	1.8	Aseambankers
13	SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	1.6	HSBC
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 Bank (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, MIMB
20	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	0.8	CIMB, HSBC
	Total of issues used in the table			**13,913**	**307**	**100.0**	

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ISLAMIC FINANCE 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	19.4	Malaysian Government bond
2	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	1,003	14	11.0	Cagamas, AmMerchant, Aseambankers
3	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	999	2	11.0	CIMB, AmMerchant
4	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	8.2	CIMB Investment, HSBC Amanah, UBS
5	Projek Lebuhraya Utara Selatan (PLUS)	Malaysia	Sukuk Musharakah MTN	743	18	8.1	CIMB Investment
6	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	5.0	Deutsche
7	Putrajaya Holdings	Malaysia	Murabahah MTN	456	9	5.0	Alliance, CIMB, RHB Sakura
8	Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	416	1	4.6	Aseambankers
9	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	308	20	3.4	RHB Sakura, MIMB, Bank Muamalat, AmMerchant
10	Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	2.8	Aseambankers
11	SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	2.5	HSBC
12	Tabreed 06 Financing Corp	UAE	Sukuk Istisnah	200	1	2.2	CIMB, HSBC, Dresdner Kleinwort Wasserstein
13	WAPDA First Sukuk Co	Pakistan	Sukuk Ijarah	134	1	1.5	Citibank (Pakistan), Jahangir Siddiqui & Co, MCB
14	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	1.2	AmMerchant, Bank Muamalat, MIMB
15	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	1.2	CIMB, HSBC
16	BNM Sukuk	Malaysia	Sukuk Ijarah	107	1	1.2	Malaysian Government bond
17	NICBM Sukuk	Kuwait	Sukuk Musharakah	100	1	1.1	Kuwait Finance House, Standard Bank
18	Penang Bridge	Malaysia	Redeemable Secured Serial Sukuk Istisnah	96	6	1.0	CIMB
19	Perwaja Steel	Malaysia	Murabahah MTN	84	7	0.9	Standard Chartered
20	Dura Palms	Malaysia	Sukuk Ijarah	77	4	0.8	Avenue Securities
	Total of issues used in the table			**9,119**	**214**	**100.0**	

ISLAMIC FINANCE LEAGUE TABLES

ISLAMIC DEBT		NOVEMBER 2005 – NOVEMBER 2006		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Malaysian Government bond	1,878	3	13.5
2	CIMB	1,839	59	13.2
3	Barclays Capital	1,750	2	12.6
4	Dubai Islamic Bank	1,750	2	12.6
5	Aseambankers	1,239	49	8.9
6	AmMerchant	1,213	52	8.7
7	HSBC	749	11	5.4
8	Cagamas	592	8	4.3
9	Deutsche	460	1	3.3
10	RHB	370	69	2.7
11	Standard Chartered	275	43	2.0
12	UBS	250	1	1.8
13	United Overseas	237	19	1.7
14	Alliance Investment	187	15	1.3
15	Bank Muamalat	166	42	1.2
16	Affin Merchant	152	28	1.1
17	EON	145	40	1.0
18	MIDF-Sisma Securities	79	18	0.6
19	Avenue Securities	77	4	0.6
20	Dresdner Kleinwort	67	1	0.5
	Total of issues used in the table	**13,913**	**307**	**100.0**

ISLAMIC DEBT		YEAR–TO–DATE		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Malaysian Government bond	1,878	3	20.6
2	CIMB	1,699	42	18.6
3	AmMerchant	1,171	41	12.8
4	Aseambankers	839	21	9.2
5	HSBC	674	7	7.4
6	Cagamas	592	8	6.5
7	Deutsche	460	1	5.0
8	RHB	279	45	3.1
9	UBS	250	1	2.7
10	Alliance Investment	187	15	2.1
11	Standard Chartered	150	17	1.6
12	Bank Muamalat	123	31	1.4
13	EON	114	30	1.2
14	United Overseas	90	13	1.0
15	MIDF-Sisma Securities	79	18	0.9
16	Avenue Securities	77	4	0.8
17	Dresdner Kleinwort	67	1	0.7
18	Standard Bank Group	59	2	0.6
19	Kuwait Finance House	50	1	0.5
20	Citigroup	45	1	0.5
20	Jahangir Siddiqui & Co	45	1	0.5
20	MCB Bank	45	1	0.5
	Total of issues used in the table	**9,119**	**214**	**100.0**

ISLAMIC DEBT BY COUNTRY	NOVEMBER 2005 – NOVEMBER 2006		
	Amt US$ m	**Iss.**	**%**
Malaysia	9,237	297	66.4
UAE	4,385	5	31.5
Pakistan	152	2	1.1
Kuwait	100	1	0.7
Indonesia	21	1	0.2
Saudi Arabia	18	1	0.1
Total	13,913	307	100.0

ISLAMIC DEBT BY COUNTRY	YEAR–TO–DATE		
	Amt US$ m	**Iss.**	**%**
Malaysia	7,943	206	87.1
UAE	885	3	9.7
Pakistan	152	2	1.7
Kuwait	100	1	1.1
Indonesia	21	1	0.2
Saudi Arabia	18	1	0.2
Total	9,119	214	100.0

ISLAMIC DEBT BY CURRENCY	NOVEMBER 2005 – NOVEMBER 2006		
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	8,487	296	61.0
US dollar	5,253	8	37.8
Pakistan rupee	152	2	1.1
Indonesian rupiah	21	1	0.2
Total	13,913	307	100.0

ISLAMIC DEBT BY CURRENCY	YEAR–TO–DATE		
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	7,193	205	78.9
US dollar	1,753	6	19.2
Pakistan rupee	152	2	1.7
Indonesian rupiah	21	1	0.2
Total	9,119	214	100.0

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
November			
12th – 14th	Structured Products World MENA	Dubai	Terrapinn
13th – 14th	4th International Islamic Banking & Finance Conference 2006	Kuala Lumpur	Monash University (KL)
13th – 16th	The International Islamic Finance Forum Europe	Zurich	IIR Middle East
16th	Islamic Banking Conference 9th Euro Finance Week	Frankfurt	Maleki Group
19th – 20th	1st International Confrence – Banking & Finance	Libya	IBC Gulf Conferences
19th – 21st	Trade Finance Middle East	Dubai	Terrapinn
20th – 21st	Middle East Capital Markets	Dubai	MEED Conferences
22nd – 23rd	The 2nd International Convention on Takaful & Re-Takaful	Kuala Lumpur	IBFIM
25th – 29th	Kuala Lumpur International Islamic Finance Expo	Kuala Lumpur	CERT
December			
7th – 8th	International Leadership Summit in Islamic Finance	Kuala Lumpur	IFSB
9th – 11th	The World Islamic Banking Conference & Exhibition	Manama	Mega Events
12th	Labuan – IOFC The Investment Route to Asia	Kuala Lumpur	Redmoney
16th – 18th	The Islamic Real Estate Finance IREF 2006	Jeddah	ICG
21st	Roundtable Discussion on Debatable Shariah Risk Mitigation Techniques	Sudan	IFSB
January			
24th – 25th	5th Annual Islamic Banking & Finance Summit	London	Euromoney
February			
12th – 13th	Marketing Islamic Banking Products Conference	Kuala Lumpur	ABF Asia
13th – 14th	Islamic Finance Asia 2007	Singapore	IQPC

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