# Islamic Finance news

A REDmoney Product

Vol. 3, Issue 5 6th March 2006




## SINGAPORE

### Singapore pushes Islamic banking

Singapore's Islamic finance industry is set to grow as the city state targets large funds and foreign high net worth individuals.

The competition between Malaysia, Indonesia and Singapore for a slice of the Islamic finance action is hotting up, but Tharman Shanmugaratnam, Deputy Chairman of the Monetary Authority of Singapore (MAS), said: "There's a niche for Singapore to tap the high-end market." Over the last two years Singapore has been using its position as an Asian financial centre to promote its Islamic financial services.

Malaysia's CIMB is at an "advanced stage" of introducing an Islamic unit trust in Singapore in the first half of 2006, and has also been in talks with the MAS to develop its Islamic finance business in the city state.

As Singapore revises its regulatory framework to accommodate Shariah compliant finance, CIMB expects to offer more products there (see article on page 10).

## MALAYSIA

### Khazanah in biggest Islamic debt sale

Malaysia's largest corporate offering of Shariah compliant securities will be sold by Khazanah Nasional immediately.

The state-run investment firm will sell US$2.69 billion (RM10 billion) of Islamic commercial papers and long-term bonds, although the specific projects and amounts of debt to be sold initially was not identified by the company.

It is believed that Khazanah plans to raise US$809.52 million (RM3 billion) through a combination of commercial papers and bonds maturing in more than one year over a seven-year shelf program, and another US$1.89 billion (RM7 billion) through longer maturity bonds from a 25-year program.

CIMB is the lead arranger for the sale, which will be sold through a special purpose vehicle Rantau Abang Capital (see Ratings Update).

## MALAYSIA

### StanChart's high hopes for CMP

Standard Chartered Bank (StanChart) expects 30% of new corporate deposits and 10% of new corporate financing to come from its Islamic alternative deposit and financing product – Commodity Murabahah Programme-i (CMP).

StanChart's Head of Islamic Banking, Azrulnizam Abdul Aziz, described the CMP, launched in November 2005, as a globally accepted Shariah based alternative deposit and financing product. CMP also provides multi-currency financing and expands Islamic banking solutions to liquidity management, Azrulnizam added.

"We are talking to a number of companies as well as Islamic financial institutions in the country that have expressed interest in the product. StanChart hopes to finalize discussions with some of them soon," he said.

**Inside Islamic Finance News:**

# NEWS BRIEFS

## UAE (Dubai)

### NBK Capital gets DFSA licence

NBK Capital, the investment and merchant banking subsidiary of National Bank of Kuwait (NBK), has been licensed by the Dubai Financial Services Authority (DFSA) as an authorised firm in the Dubai International Financial Centre (DIFC).

"The licence to operate at the DIFC is a significant strategic milestone for NBK Capital, positioning it among the world's leading financial institutions operating in the DIFC and is in line with NBK Capital's strategy to expand its investment banking and private equity offering to clients in the Gulf and the Middle East regions," NBK Capital Chief Executive Officer and board member George Nasra said, adding that the group would be leveraging NBK's 54 years of experience and regional presence and its reputation as Kuwait's leading bank.

## BAHRAIN

### StanChart profits surge

Standard Chartered Bank has reported a record annual pre-tax profit increase of 19% to US$2.68 billion for 2005. Total assets showed an increase of 46% to US$215 billion.

The bank's Asian operations continue to report strong growth, and it has expansion plans for the fast-growing markets of India and China.

## UAE (Dubai)

### Deutsche Bank in DIFC

The Dubai International Financial Centre (DIFC) is now host to Deutsche Bank's Dubai branch, after the bank officially launched its new office there.

Deutsche Bank is a founding member of the Dubai International Financial Exchange (DIFX) and was the first to list products when it launched in September 2005.

## MALAYSIA

### RHB Islamic contributes to Capital profit

RHB Capital's profit for the financial year ended on the 31st December 2005 was boosted by income from its Islamic banking business, now led by RHB Islamic Bank.

Income from Islamic banking amounted to US$39.85 million (RM147.7 million) and this sector continues to offer bright prospects for the company, encouraged by increasing demand for Islamic financial services.

RHB Capital's net profit for the year was US$85.21 million (RM315.8 million), with RHB Bank remaining as the Group's largest profit contributor, achieving 69% of the Group's total profit.

## UAE (Dubai)

### EFG-Hermes in DIFX

Investment bank EFG-Hermes UAE has become the first regional institution to join the Dubai International Financial Exchange (DIFX) as a broker.

The company's Chief Executive Officer Mustafa Abdel-Wadood commented: "The DIFX is great news for us and our investors and announces a new era for the financial industry in the region. The possibilities will be tremendous as the market establishes a broad breadth of product range."

This new membership does prompt the question whether the investment bank will perhaps now offer Islamic wealth management.

# NEWS BRIEFS

## MALAYSIA

### Islamic banking delivers profits for Affin

Affin Holdings Group has posted a pre-tax profit of RM331.4 million for the year ended on the 31st December 2005.

Affin Bank, with a pre-tax profit of RM229.4 million (a 27.7% increase on 2004), was the major contributor to the Group's profit, with its improved performance being attributed to Islamic banking income and higher net interest income on the enlarged loan base from the merger with Affin-ACF Finance.

## JORDAN

### New Islamic finance company in Jordan

Jordan's Investment House for Financial Services (Investhouse) has finalized the first stage in establishing a US$70.02 million (JD50 million) Islamic financing company in the country.

## UAE (Abu Dhabi)

### Remote trading in Al Ain

Al Islami Financial Services (IFS) will launch its first remote trading office in Al Ain to provide Shariah compliant brokerage services to buy and sell securities listed on the Dubai Financial Market and the Abu Dhabi Securities Market.

IFS is a subsidiary of Dubai Islamic Bank, and the bank's Chief Operating Officer, Saad Abdul Razak, commented: "The opening of IFS's new office in Al Ain is a result of the increase in the demand for advanced brokerage services, especially with the growth of financial markets in the UAE in both the volume and the value of transactions."

## BAHRAIN

### Good results for KFH

Kuwait Finance House (KFH)'s net income for the year ending on the 31st December 2005 rose considerably by 46% to US$40.2 million (from US$28 million in 2004), representing a 27% return on average equity for 2005. Total assets increased by 47% to US$687 million.

## UAE (Dubai)

### IIIF sponsors revealed

The sponsors of the 9th International Islamic Finance Forum (IIFF) have been named as follows: Al Tawfeek Company (platinum sponsor), Oasis Group (gold sponsor), Path Solutions (gold sponsor), HDG Mansur (silver sponsor), Nur Advisors (silver sponsor) and Solidarity (Takaful Sponsor).

The IIIF – organized in association with the Saudi Economic Development Company (SEDCO) and Dow Jones – has also confirmed that Dr Mohammed Khalfan Bin Khirbash, Dubai's Minister of State for Finance and Industry and Chairman of Dubai Islamic Bank, will make the opening address, and the keynote speech will be given by Dr Omar Bin Sulaiman, Director General of the Dubai International Financial Centre.

The IIIF, which will discuss asset management, socially responsible investing, prospects for Islamic retail finance, Islamic jurisdictions, Islamic securitization and investment banking, among other topics, is being held from the 19th–23rd March 2006 in Dubai.

## MALAYSIA

### Boustead profits soar 60%

Boustead Holdings posted a net profit rise of 60% to US$51.54 million (RM191 million) for the year ended on the 31st December 2005.

Contributing to this result was the completion of Malaysia's largest Islamic plantation Asset Backed Securitization transaction, which saw the group unlocking the value of its various plantation assets to gain US$43.71 million (RM162 million). In addition, Boustead's finance and investment division, plantation, property and trading divisions also contributed to this strong financial performance.

The company will make a dividend payment of 12% for the year, bringing a total distribution of 32%, translating into a yield of 8.6%.

## SINGAPORE/MALAYSIA

### OCBC in aggressive expansion

OCBC has revealed its new five-year strategic direction – New Horizons II – which involves an aggressive growth strategy, especially into Malaysia, China and Indonesia. A 10% earnings per share growth has been targeted by the bank, which hopes to sustain a return on equity of over 12%.

In the meantime, over the border OCBC Bank (Malaysia) posted a 53% leap in net profit to US$111.98 million (RM415 million) for 2005, which it attributed to a 9% growth in average interest earning assets and an improved net interest margin of 16 basis points.

Income from Islamic banking rose 52% to US$12.14 million (RM45 million), primarily thanks to a 61% growth in outstanding financing. The Islamic banking division achieved US$647.63 million (RM2.4 billion) in assets, US$539.69 million (RM2 billion) in customer deposits, and US$377.77 million (RM1.4 billion) in outstanding financing at the 31st December 2005 (see the article on Islamic banking in Singapore at page 10 of this issue).

## UAE (Dubai)

### Pensions specialists in DIFC

International pensions specialists Carey Pensions and Benefits have received Dubai Financial Services Authority approval to operate as an Ancillary Service Provider in the Dubai International Financial Centre (DIFC).

Managing Director Jane Duchemin commented: "I see the GCC countries as being at a crossroads in their infrastructure development. The retention of skilled labour is becoming an important issue for employers in the region as specific skill shortages arise. Initiatives such as Dubai International Financial Centre are bringing in a new class of international financial institutions to the region, adding to the demand for finance professionals.

"The region's employers will therefore need to find ways to provide medium to long-term benefit for their key employees. In the global market place, the world's economies compete for the same intellectual capital and developments in the basic components of remuneration packages reflect the expectations of the skilled worker. The finance sector is already finding that due to increased competition there are not enough professionals in the market. The increased competition has brought about much movement in the labour market so employers will need some way of maintaining the loyalty of key personnel."

# NEWS BRIEFS

## BAHRAIN

### US$1 billion capital for Albaraka

The IPO of Albaraka Banking Group, to be issued in the third week of April, will lead to a substantial increase in the group's capital to US$1 billion from its current level of about US$550 million.

Albaraka's Al Amin Bank recently posted a record profit of US$46.9 million for 2005 –an increase of 140.9% and the highest in its 19-year history. Total income increased 131.3% from US$21.76 million in 2004 to US$50.3 million.

Strategic initiatives of 2005 that contributed to these results included acquiring high quality assets such as the issue of Sukuk in Pakistan and Kuwait and entering into bilateral agreements with a number of Islamic and international banks.

## UAE (Dubai)

### FTSE to develop DIFX indices

Global index provider the FTSE Group (FTSE) has signed an agreement to develop a range of Shariah compliant and conventional equity indices with the Dubai International Financial Exchange (DIFX).

FTSE and the DIFX will work together to create a series of indices intended to become benchmarks for the performance of all significant Middle Eastern markets. They will facilitate the creation of exchange traded index derivatives that will list and trade on the DIFX.

Donald Keith, Deputy Chief Executive of the FTSE Group, said: "FTSE is honoured to bring its international indexing expertise to this exciting new market. Our experience across Europe and Asia, including developing indices in accordance with Islamic investment principles, provides the basis from which we can create an index family to capture the specific requirements of DIFX's new market."

## UAE (Dubai)

### DIFC wants to be hub

The Dubai International Financial Centre (DIFC) wants to become the accredited hub for managing the region's huge wealth – estimated at US$1.5 trillion – in the near future.

Speaking at the semi-annual meeting of the International Business Law Consortium, the director of DIFC, Habib Al Mulla, said: "The DIFC was basically established due to the lack of a general legal framework that is accredited globally, and because there isn't an integrated financial centre in Dubai in which there are many separated stock exchanges. Moreover, the centre was established to be the main hub in the region that provides attractive institutional financial services that are capable of accessing the region's wealth."

## QATAR

### Doha Bank sees 114.4% boost

Doha Bank has posted a net profit of US$217.04 million (QR789.9 million) in 2005, representing an increase of US$115.79 million (QR421.5 million) and a growth rate of 114.4%.

The bank's Board of Directors has proposed the distribution of 80% bonus shares – eight shares for every 10 ordinary shares held – which will bring the bank capital to US$342.84 million (QR1.248 billion).

Chairman Sheikh Fahad bin Mohammed said that the bank continued to introduce segment-focused innovative products and services, including Islamic banking services.

## QATAR

### Record Commercialbank performance

Commercialbank achieved record net profits of US$205.89 million (QR749.5 million) in 2005, an increase of 117% over 2004. Total assets grew 71% to US$6.09 billion (QR22.2 billion).

A cash dividend of 40% of the issued capital, and a bonus share of 50%, will be recommended to the shareholders. This will have the effect of increasing the bank's capital to US$385.08 million (QR1,401.6 million).

Hussain Al Fardan, Commercialbank's Managing Director, said: "In April, we launched Al Safa Islamic banking services, the first in Qatar from a conventional bank. Following Commercialbank's strong tradition of innovation, Al Safa was the first Islamic bank to develop Islamic Letters of Credit and Letters of Guarantee specially tailored for our corporate clients. In addition to providing the traditional Islamic banking services, Al Safa also pioneered two new Shariah compliant products: Tawarruq, a new personal finance facility, and Ijarah, a new leasing service enabling customers to finance property purchase and construction."

"We opened three new conventional branches and four new Islamic branches to ensure that we continue to make our products and services available with maximum convenience for our customers in Qatar. We plan to invest significantly in more new branches over the next two years."

## UAE (Dubai)

### GCC IPOs to increase

The GCC expects to see 116 IPOs in 2006 and 2007, compared to only 25 in 2005. These should raise US$13.5 billion for regional companies, over double the US6.2 billion raised in 2005.

Speaking at an IPO seminar, Karim El Solh, Chief Executive Officer of Gulf Capital, said: "There are 116 IPOs in the pipeline, and of those, 60 have already assigned a manager and will be going to the market soon. Another 18 IPOs have assigned a manager without deciding on the details of the offering, while the remaining 38 have announced their intention to conduct an IPO."

## BAHRAIN

### World's largest Islamic bank licensed

The world's largest Islamic bank, Al Masref, has been awarded a licence by the Bahrain Monetary Agency. Al Masref, which will have a paid-up capital of US$10 billion and an authorized capital of US$20 billion, is expected to be listed on the Bahrain Stock Exchange.

Arab investors are believed to be paying 50% of the capital while the other US$5 billion will be offered for underwriting to investors in the area.

## KUWAIT

### Green light for Jaber Islamic Bank talks

Kuwait's parliament has approved the establishment of a new Islamic bank and fund in the name of late Amir of Kuwait, His Highness Sheikh Jaber Al-Ahmad Al-Jaber al Sabah.

The motion to debate a law proposal by a number of members concerning the foundation of the Jaber Islamic Bank and the Jaber Fund for Present Generation was unanimously passed. These two financial institutions will be debated on the 15th May 2006.

# NEWS BRIEFS

## UAE (Sharjah)/KUWAIT

### Joint banking services

Sharjah Islamic Bank (SIB) and Kuwait Finance House (KFH) have been negotiating to launch joint banking services, expand investment cooperation and build strategic relationships in Islamic banking sectors.

Chief Executive Officer of SIB, Hussein Al Qezmi, discussed the level of cooperation and advancement in the Islamic banking industry with Badr Al Mukheizim, Chairman of the Kuwait Finance House. They also examined exchanging expertise in human resource training and development programs, as well as organizing joint training programs.

SIB and KFH may also share their experience in terms of services offered and the development of technological services such as ATMs, phone and Internet banking.

Hussein Al Qezmi commented: "Islamic banks in the region have to establish a level of cooperation among them, build a network that is able to face future challenges and compete with big international banks especially in light of globalization and free markets. They need to become an example that other banks can follow."

## UAE (Sharjah)

### Share splitting approved

Sharjah Islamic Bank's shareholders have approved the financial statements of the bank for the year ending on the 31st December 2005.

They also gave the green light to distribution of a 10% bonus share and 15% cash dividend at the bank's 30th AGM. Each share will be turned into 2.5 shares with a nominal value of US$0.27 (Dh1).

Sharjah Islamic Bank had a good year, recording a net profit increase of 161% to reach US$50.67 million (Dh186.1 million).

## BAHRAIN

### Al Salam IPO over-subscription confirmed

Further to the report in the last issue of Islamic Finance *news* that Al Salam Bank's IPO would be several times over-subscribed, it has now been confirmed that the IPO did close 63 times over-subscribed.

The largest in Bahrain's history, the Al Salam bank IPO offered 35% of its paid-up capital in the form of 42 million ordinary shares to investors. Public subscription opened for residents of UAE and Bahrain on the 5th February 2006 and collected over US$7.16 million (BD2.7 billion) within a fortnight.

## UAE (Dubai)

### Shariah board for Emaar

Emaar Properties has appointed a Fatwa and Shariah Board to monitor whether the company's operations comply with Islamic jurisprudence.

These appointments form part of Emaar's ongoing efforts to ensure standards and transparency across the company's projects and operations.

The Shariah Board members, who are all Islamic Shariah grand scholars experienced in all aspects of Shariah law, are: Dr Hussain Hamid Hassan, Dr Mohamed Abdulhakim Za'air, Dr Ajeel Jasem Al Nashmei and Dr Abdul Rahman Al Atram.

## QATAR

### Qatar Islamic Bank in top ten

Qatar Islamic Bank (QIB) is within the top ten Islamic banks in the world, announced the bank's General Manager, Salah Al Jaidah.

Speaking at a press conference to announce plans for an e-business conference to be held in Doha, Salah Al Jaidah revealed that QIB was eighth among world Islamic banks in terms of deposits in 2003, ninth in terms of assets and tenth as regards shareholder number. It is estimated that there are 285 Islamic banks and financial institutions in 40 countries around the world, managing more than US$200 billion in assets.

QIB is sponsoring a two-day symposium on e-business in Islamic banking, an event which is being organized by the General Council for Islamic Banks and Financial Institutions, which will focus on the future of Islamic banking and finance by promoting the use of information technology.

QIB is keen to promote the use of modern banking technology in Islamic banks and financial institutions to enable them to gain the competitive edge in providing globalized services and products, Al Jaidah said.

## UAE (Dubai)

### DIB results approved

The financial results for 2005 of Dubai Islamic Bank (DIB) were approved at an AGM on the 25th February. The AGM also approved the distribution of a bonus share dividend of 20% and a cash dividend of 20% (see Islamic Finance *news*, News Briefs, issue 3).

Dr Mohamed Khalfan bin Khirbash, UAE Minister of State for Finance and Industry and Chairman of DIB, said: "DIB's achievements in 2005 included cementing our position as the world's premier Islamic finance house with a string of transactions, culminating in the issuance of the world's biggest ever Sukuk for PCFC last month. This followed the ground-breaking gold-backed Sukuk we produced for DMCC, and other international transactions."

## BAHRAIN

### BMA booming

In 2005 32 new licences were issued by the Bahrain Monetary Agency (BMA), bringing the total number of financial institutions authorised by BMA to 366 – 24 for banks and banking related institutions, seven for insurance and insurance-related operations and one for a capital market broker.

Included in the companies granted licences in 2005 was UAE-based Eamar Properties, which established the Islamic Al Salam Bank, one of the biggest Islamic retail banks in Bahrain in terms of capital size.

The BMA also granted an investment banking license to Venture Capital Bank, a specialist Islamic investment bank, and Yazi Investment Bank, with a paid-up capital of US$100 million.

The BMA signed a Memorandum of Understanding in September with the Tokyo Commodity Exchange (TOCOM) to develop an institutional framework to enable financial institutions in Bahrain to conduct Shariah compliant transactions on the TOCOM.

# NEWS BRIEFS

## BAHRAIN

### CIPA to improve Islamic finance accountants' skills

The Certified Islamic Professional Accountant (CIPA) qualification has been launched in Bahrain by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The first and only professional qualification scheme for accountants in the Islamic finance industry, CIPA will provide candidates with theoretical concepts and practical applications of a range of areas in Islamic finance, including Islamic economics and the financial system, Shariah and Islamic finance, accounting and auditing standards and risk management in Islamic finance.

Offered in Malaysia as well as Bahrain, candidates will undertake self-study and attend a five-day training course before sitting an examination.

## UAE (Abu Dhabi)

### ADIH debut results

Abu Dhabi Investment House (ADIH) has posted a net profit of US$10.89 million (Dh40 million) in its first quarter of operations. This translates into a net profit of 20% of ADIH's paid-up capital of US$54.45 million (Dh200 million).

## UAE (Sharjah)

### Dana Gas to become Islamic

Dana Gas has announced that it will become a fully Shariah compliant company, and is currently in discussions and receiving proposals from a number of Islamic banks and Shariah compliant financial institutions in the region, and globally, in order to implement this policy as soon as possible.

The natural gas company will conduct all of its treasury management, fund investment, depository and accounting activities in accordance with Islamic jurisprudence.

## SAUDI ARABIA

### US$100m Islamic venture capital firm

Plans have been revealed for an independent US$100 million venture capital investment company, which will invest in venture capital opportunities and SMEs in Saudi Arabia.

The Saudi Arabian General Investment Authority and Venture Capital Bank have joined with international investment house Global Emerging Markets to establish the venture capital investment company

The company's objective is to provide growth capital and late-stage financing to venture capital opportunities and SMEs, in compliance with Shariah principles.

## UAE

### AMLAK to finance Royal Oceanic

Shariah compliant home finance company Amlak Finance has been named as the finance provider for the Marina property Royal Oceanic, which is being developed by Star Group Global.

For Royal Oceanic, Amlak is offering finance up to 90% on a private development over a span of 25 years at a promotional rate of 6.9%.

## SAUDI ARABIA

### Islamic accommodation to open in 2007

Le Meridien Hotel Towers Makkah is nearing completion and is on course to open in January 2007. With 1,350 apartments contained in eight hotel towers, the Shariah compliant accommodation provides an opportunity for Muslims worldwide to visit Makkah every year and stay in their own apartments at affordable prices.

With the offer of 25 years' pre-paid partial ownership deeds in the project, owners can swap their accommodation with any other international Meridien Hotel Group property.

## JORDAN

### Bank by SMS

Jordan Islamic Bank has launched SMS banking services using the Fastlink network. Customers who use Fastlink as a mobile phone provider will be able to carry out 14 banking services through their mobile phone.

Fastlink is part of the MTC Group, the largest mobile operator in the Middle East and parts of Africa, boasting the largest mobile customer base in Jordan.

SMS banking provides individuals with a flexible means of staying connected with their financial institutions, where clients can obtain any information relating to their bank accounts, including transactions and standing balances, in addition to receiving news alerts and marketing messages about their bank.

## BAHRAIN

### GFH capital increase approval

Gulf Finance House (GFH) has approved the Board's recommendations to increase the bank's capital through a rights issue and to pay a US$90 million record dividend to shareholders, following 2005's excellent results. GFH recently posted a net profit for 2005 of US$140 million, an increase of 147% over 2004 (see Islamic Finance *news*, Issue 3, News Briefs).

Dr Fuad Al-Omar, Chairman of the GFH, said: "The approval for the increase in capital will pave the way for the bank to implement its ambitious expansion plans across the regional and global markets. It comes at the right time when the bank has announced exceptional financial results and has developed plans to enter new markets."

## BAHRAIN

### Financial Trustees Bill

The Shura Financial Committee has re-amended the Financial Trustees Bill, which has been passed by the Chamber of Deputies, without the words "Islamic regulations" in the management of trusts' funds.

The committee head, Jamal Fakhro, told the council that there was no need to include the phrase "Islamic regulations" in the bill because Bahrain was an Islamic country and took guidance from Islam for its legislative activities.

The Chamber has, in almost all cases, passed such bills, stressing "dealing with Islamic banks only" or "Islamic regulations," but the Shura removes such amendments.

# NEWS BRIEFS

## MALAYSIA

### Goldman Sachs in Islamic fund

Amanah Raya will team up with investment banking giant Goldman Sachs to launch its first offshore Islamic fund, worth US$250 million, said Managing Director Ahmad Rodzi Pawanteh.

Amanah Raya is still in negotiations with Goldman Sachs on matters relating to packaging the product. The proposed joint venture is aimed at promoting Amanah Raya's Islamic funds internationally.

Managing US$1.1 billion (RM4 billion) worth of funds, Amanah Raya hopes to achieve a net profit of US$7 million (RM26 million) for the financial year ending on the 31st December 2006.

## UAE (Dubai)

### Tamweel issues approved

Tamweel has been given the green light for its conversion into a public joint stock company, paving the way for an IPO to increase Tamweel's capital from the current US$122.5 million (Dh450 million) to US$272.2 million (Dh1 billion).

An issue size of US$149.7 million (Dh550 million) will be offered to the public. Shares will be priced at US$0.27 (Dh1).

## NIGERIA

### IDB may assist air operators

The Islamic Development Bank (IDB) has expressed interest in providing finance for air operators in Nigeria to acquire new aircraft.

Director General of Nigerian Civil Aviation Authority, Dr Harold Demuren, said the aviation authorities and operators had a fruitful discussion with the officials of the IDB and expressed the hope that the country would benefit from the bank's credit facilities.

## USA

### Shariah compliant hedge fund

US-based Gabelli Asset Management will launch a Shariah compliant hedge fund – Gabelli Shariah Merger Arbitrage Fund – sometime in March. Frederick Scholz, President of Gabelli's Alternatives Unit, said he would launch the portfolio to cater to the growing wealth in the Middle East market.

The fund requires a minimum US$1 million investment, with a management fee of 1% and performance fee of 20%. Shariah Capital will also have its own additional layer of fees to be determined.

"While some Middle East institutions have invested in traditional hedge funds, this only constitutes a fraction of the market," Scholz explained, noting that many institutions, including Saudi Arabia's National Commercial Bank and the National Bank of Dubai, recently moved to stricter provisions and could only invest in Shariah compliant vehicles.

To achieve Shariah compliance, Gabelli joined with Shariah Capital to develop software that screens out non-compliant companies.

## MALAYSIA

### KFH boosts sector

Malaysia's quest to become the region's Islamic banking hub got a welcome boost with the opening of Kuwait Finance House (Malaysia), the first fully licensed foreign Islamic bank to operate in Malaysia.

In the first phase of operations, the subsidiary of Kuwait Finance House (KFH) has introduced basic services such as current and savings accounts, general investment accounts and other banking services including foreign currency exchange, travellers' cheques and remittances.

KFH's Chairman Jassar Dakheel al Jassar said that in addition to Islamic banking, KFH also intends to encourage businesses from West Asia to invest in Malaysia, thus strengthening bilateral relations between Malaysia and the GCC.

The Malaysian Prime Minister Seri Abdullah Ahmad Badawi's commitment to the development of the Islamic financial industry was reflected by his presence at the official launch of KFH (Malaysia).

## BAHRAIN

### Benefits for BIsB staff

In a token of appreciation of the staff's contribution to Bahrain Islamic Bank (BIsB)'s success in achieving a 99% increase in profit in 2005, staff of the bank will enjoy benefits including life insurance, charge-free personal loans and health club membership, which no other banks in Bahrain provide.

"We are looking forward to the launch of several incentive schemes including the Smart Idea by which personnel will be able make suggestions for improving bank processes," BIsB Chief Executive Officer Yousif Saleh Khalaf stated.

## BAHRAIN

### Shamil finance for Ithmar IPO

Islamic commercial and investment bank Shamil Bank has introduced a Shariah compliant financing facility for Bahraini individuals interested in subscribing to the 150 million shares of Ithmar Bank's IPO.

Tariq Mohammed Bahar, Head of Retail Banking at Shamil Bank, said: "Through this offering, Shamil Bank will finance up to 50% of the amounts subscribed by the client, subject to a maximum amount of US$500,000 (Dh1.8 million)."

Meanwhile, it has also been reported that Ithmar Bank posted a net profit of US$36.5 million (Dh134 million) in 2005, reflecting an increase of 65% over US$22.1 million (Dh81.2 million) in 2004.

## SIERRA LEONE

### IDB loan for Sierra Leone Project

The Islamic Development Bank (IDB) and Sierra Leone signed a loan accord worth US$10 million to finance a project to increase and diversify animal and botanical production, as well as to fight poverty in the rural regions of the country.

IDB has so far allocated US$70 million for financing development projects in Sierra Leone. The aforesaid sum was used in financing 32 development projects in the sectors of education, health, roads, agriculture, water supplies and rural development.

# NEWS BRIEFS

## Ratings Update

## MALAYSIA

### Premium Nutrients Islamic debt rated

Malaysia Rating Corporation (MARC) has affirmed the MARC-2ID/AID ratings of Premium Nutrients' US$22.93 million (RM85 million) Murabahah Underwritten Notes Issuance Facility/Islamic Medium-Term Notes.

This is a reflection of Premium Nutrients' competitive position as an integrated producer of specialty fats, its diverse customer base and the issue structure. Moderating the ratings is the group's thin profit margin and susceptibility to the cyclical developments of raw material prices and higher energy cost. The company primarily processes palm oil into commodity products.

### Cagamas' AAA Islamic Securities

Rating Agency Malaysia (RAM) has assigned a long-term rating of AAA to Cagamas' issue of US$323.68 million (RM1,200 million) Cagamas Bithaman Ajil Islamic Securities (BAIS).

The high quality of Cagamas' assets, as well as the management's prudent guidelines governing its loan purchase operations and investments, have led to this rating, which also mirrors the exceptional quality of Cagamas' shareholders and its position as the only financial intermediary in Malaysia involved in the secondary mortgage market.

Proceeds from these Islamic securities will be used to finance Cagamas' purchase of Islamic hire purchase debts from financial institutions.

### Preliminary ratings for Rantau Abang Capital

Rantau Abang Capital's proposed US$809.16 million (RM3 billion) Islamic Commercial Paper/Islamic Medium-Term Notes Program has been awarded preliminary AAA/P1 ratings by Rating Agency Malaysia (RAM). The Agency has also given the company's proposed US$1.89 billion (RM7 billion) Islamic Medium-Term Notes Program a preliminary AAA rating. Both long-term ratings carry a stable outlook.

Rantau Abang Capital is a wholly owned subsidiary of Khazanah Nasional and these ratings are underpinned by Khazanah's credit strength and its role as the purchase undertaking obligor (see News Briefs).

### Cement Industries' Islamic debt affirmed

Malaysia Rating Corporation (MARC) has reaffirmed Negeri Sembilan Cement Industries' US$53.95 million (RM200 million) Bai Bithaman Ajil Islamic Debt Securities (BaIDS) rating at A+ID(bg).

The security provided by bank guarantees from AmMerchant and Bumiputra-Commerce was taken into account in allocating this rating.

MARC has also reaffirmed the MARC-2 ID/A-ID rating for the company's US$35.07 million (RM130 million) Murabahah Notes Issuance Facilities, reflecting improvements in the company's financial profile. Negeri Sembilan Cement Industries is the third largest integrated cement producer in Malaysia.

### UEM Builders' ratings unchanged

The ratings on UEM Builders' US$80.92 million (RM300 million) Murabahah Commercial Papers/Medium-Term Notes Facility, which currently stand at AA3/P1, will not be affected by the heftier provisions shown in the company's financials for 2005, Rating Agency Malaysia (RAM) has stated.

UEM Builders Group made a US$55.93 million (RM207.38 million) pre-tax loss last year, mostly due to higher provisions for its construction projects in Qatar. RAM said that the overall strong fundamentals of the Group have, however, remained intact, and the fact that the Group is controlled by Khazanah Nasional is a factor in its favour.

However, RAM may have to reassess the Group's ratings should further provisions be made.

### Public Bank retains ratings

Rating Agency Malaysia (RAM) has stated that the proposed acquisition of Hong Kong-based Asia Commercial Bank (ACB) by Public Bank will have no immediate impact on Public Bank's AAA/P1 ratings.

RAM believes that the US$593.38 million (HK$4.5 billion, RM2.2 billion) cash purchase, which would take place via Public Bank's Hong Kong subsidiary, JCG Holdings, is well within the bank's financial capacity.

The proposed acquisition of ACB, a full service commercial bank with a presence in China, will be financed through a combination of a one-for-two rights issue and a medium-term loan, fully underwritten by Public Bank.

### ACP Industries' acquisition

Rating Agency Malaysia (RAM) has lifted the negative rating outlook on ACP Industries' US$35.06 million (RM130 million) Murabahah Commercial Paper/Medium-Term Notes, placing the A3/P2 ratings on Rating Watch with a developing outlook.

This move is subsequent to ACP Industries' proposed US$23.74 million (RM88 million) acquisition of MTD Construction from MTD Equity, through the issuance of 88 million new ACP Industries shares.

MTD Construction's strong order book should benefit ACP Industries, diversifying its income to include construction projects in addition to construction-related manufacturing activities.

### CIMB's outlook looks up

CIMB's long-term general bank rating will remain at AA3, with the outlook being revised upward from stable to positive; the bank's short-term rating will also stay at P1, Rating Agency Malaysia (RAM) has confirmed.

The long-term positive outlook is premised on the opportunities arising from the bank's recent integration with Bumiputra-Commerce Bank, in addition to the establishment of GK-CIMB, which has helped CIMB develop business overseas.

The reaffirmed ratings are premised on CIMB's top market position, strong investment banking franchise, high profile deals and strategic regional presence.

# NEWS BRIEFS

## Ratings Update

### BAHRAIN

#### Fitch rates BBK

The former Bank of Bahrain and Kuwait – BBK – has been awarded a long-term rating of BBB+, a short-term rating of F2, an individual rating of C and a reaffirmed support rating of 2, with a stable outlook.

These ratings are a reflection of BBK's domestic franchise in Bahrain, its solid and increasing profitability, liquid balance sheet and adequate capitalization.

The high likelihood of support from Bahrain's government, if necessary, given the government's 32.3% share in the bank, lies behind the support rating.

BBK is a commercial bank with 17 branches in Bahrain, where it holds a 19% market share of deposits and 17% share of loans. It has a branch in Kuwait, a representative office in the UAE and two branches in India. BBK is owned by individual and institutional investors in Bahrain and Kuwait.

### UK

#### Full steam ahead for P&O takeover

The High Court in the UK has given Dubai Ports World the go-ahead to take over the British shipping company Peninsular and Oriental Steam Navigation Co (see Islamic Finance *news*, issue 4, News Briefs).

A US company Eller & Co made a last-minute objection to the US$6.8 billion (£3.9 billion) deal, arguing that a UAE company owning significant operations at six major US seaports could substantially harm its business. The judge said he took US concerns into account.

### BAHRAIN

#### Yazi Investment Bank set up

Bahrain Monetary Agency (BMA) has awarded a licence to a number of Saudi and Gulf investors to establish the Yazi Investment Bank.

This Islamic bank, with a capital of US$500 million, is expected to start operations in the second quarter of 2006 to manage direct investment funds and offer support investment services in the Gulf.

The project founder, Abdul Aziz Al-Mutlaq said: "Its activities will be in mergers, acquisitions, initial public offerings and private equity."

### UAE (Dubai)

#### UK agreement with DFSA

A Memorandum of Understanding has been signed between the Dubai Financial Services Authority (DFSA) and the UK's Financial Services Authority (FSA), cementing this important regulatory relationship.

The agreement has formalized cooperation and information sharing between the two regulators, both of whom rely on the quality of regulatory standards administered in the other's jurisdiction.

The DFSA was created using principle-based primary legislation modelled closely on that used in London and New York. The regulatory regime utilized at the DFSA operates to standards that meet or exceed those applying in the world's major financial centres.

### UAE (Abu Dhabi)

#### Good support for ADCB

Abu Dhabi Commercial Bank (ADCB)'s support rating of 1 has been reaffirmed by Fitch Ratings, mirroring the extremely high probability of support, should it be necessary, from the Abu Dhabi government, a 65% shareholder in the bank.

ADCB showed improved results in 2005, although it has also experienced rapid loan growth.

ADCB was formed in 1985 by the merger of Emirates Commercial Bank, Federal Commercial Bank and Khaleej Commercial Bank. The bank is active in retail, corporate, investment and private banking, as well as treasury and trade finance services.

### MALAYSIA/IRAN

#### Islamic finance cooperation

Malaysia may establish a jointly owned bank with Iran, if it follows up Iranian president Dr Mahmoud Ahmadinejad's proposal, made during his three-day visit to Malaysia.

Dr Ahmadinejad said that "Iran will assist to realize this idea. We will sit side by side and work together to tap the global market."

He also believes that: "Iran and Malaysia can be an ideal model for Islamic economic cooperation."

"There is no limitation to what we can do. We have many opportunities to multiply our speed of progress in the economy," he added.

### UAE (Dubai)

#### Superfund Investment HQ in DIFC

Having obtained its licence from the Dubai Financial Services Authority (DFSA) to operate as an authorized firm in the Dubai International Financial Centre (DIFC), Superfund Investment Group will open its first office in the Middle East in the centre.

Christian Baha, the founder of the Superfund Investment Group, stated that Dubai had recently become one of the most attractive financial centres of the world and the Middle East was extremely important for the capital market, particularly for managed futures funds. Superfund intends to offer its successful investment products to institutional and private investors throughout the whole region.

Including the new Middle East headquarters in Dubai, the Superfund Investment Group has offices in 14 countries around the world, among them New York, Chicago, Frankfurt, Tokyo, Hong Kong, Monaco and Liechtenstein.

### UAE (Dubai)

#### Al Mazaya lists in Dubai

Al Mazaya Holding Co has joined the other 31 companies and 47 securities to be listed on the Dubai Financial Market (DFM). Foreign investors are allowed to acquire 49% of the traded shares, as from the 20th February 2006.

Classified within the service sector, the company shares are given the trading symbol Mazaya that appears on DFM screens, trading systems and publications.

# COVER STORY

## Singapore as an Islamic Finance Hub – A Reality?

*By Zakariya Othman*

**In June last year Singapore's Senior Minister Goh Chok Tong initiated the first conference between Asia and the Middle East in Singapore as part of an effort to foster closer economic and political ties between the two regions. At that time he pledged to boost Singapore's status as an Islamic finance hub, a claim Malaysia had already made for itself.**

Is the expansion of its Islamic finance industry a reflection of Singapore's well-known "Kia-Su" mentality, simply to beat off competition from neighbouring Malaysia and Indonesia, or is it for real, leveraging from its expertise in capital markets, fund management and insurance to offer Islamic financial services as another suite of services? Islamic Finance *news* explores the reality.

As an international financial centre, Singapore is a full service centre with a broad range of intermediaries and products, including Islamic products that can meet the interest and demand from investors from the Middle East, besides the rest of the world.

> "Is the expansion of its Islamic finance industry a reflection of Singapore's well-known "Kia-Su" mentality, simply to beat off competition from neighbouring Malaysia and Indonesia, or is it for real?"

More than 700 local and foreign financial institutions are located in Singapore and offer a wide range of financial products and services. These include trade financing, foreign exchange, derivatives products, capital market activities, loan syndication, underwriting, mergers and acquisition, asset management, securities trading, financial advisory services and specialized insurance services. The presence of these leading institutions has contributed to the vibrancy and sophistication of Singapore's financial industry. In 2004, the World Economic Forum Global Competitiveness Report ranked Singapore among the top 10 most sophisticated financial markets in the world.

Singapore's advanced banking system, the transparent regulatory and credible English common law system have aided Singapore's development as a pre-eminent regional financial centre in Asia, which is also underpinned by the existence of an attractive business environment for financial institutions.[1]

It has been noted that Singapore is politically stable, it has the world's most competitive economy, the best rated legal system and is a leader in information technology. Like Switzerland, Singapore is neutral and has an international reputation as a safe and secure environment.[2]

Islamic finance is one of the fastest growing sectors in the global finance industry. With the US$300 billion Islamic market, growing at an annual clip of about 15%, Singapore is keen to get in on the act. It has become a priority for Singapore's Central Bank, as its Chairman, Senior Minister Goh Chok Tong, has pledged to boost Singapore's status as a centre for Islamic financial services.

"Singapore's proposition is that we are already an international finance centre in the region. We have a range of expertise in capital markets, fund management and insurance. We want to leverage on these expertise and capabilities to also offer Islamic financial services as another suite of services," said Mr Ng Nam Sin, Executive Director of the Monetary Authority of Singapore (MAS).

Asked if the proposition is a kind of competition with Malaysia, Mr Ng denied it, saying that as a financial centre, it would not be complete if Singapore did not offer Islamic financial services.

"Islamic finance is important for us in that respect and we are not trying to compete with Malaysia or other countries," he stressed.

Similarly, commenting on Singapore's efforts in positioning itself as a hub for Islamic finance, Malaysia's Central Bank Governor Tan Sri Dr Zeti Akhtar Aziz was reported as saying that the efforts would not be threatened by Malaysia's ambitions in the same field, believing that Singapore's plans would instead hasten the global development of Islamic banking and finance.

According to Dr Zeti, the Islamic finance sector remained largely untapped by South-East Asia, other than Malaysia, and as the market was very large greater activity would contribute to the development of Islamic banking and finance on a global basis.[3]

Compared to Malaysia, Islamic finance is in its infancy in Singapore, due largely to a lack of awareness and a small domestic market that has not attracted the major bankers. OCBC is the only active player in the banking sector, but it has failed to replicate in its country of origin, the success it has had in Malaysia, where it is the second foreign player in the field with some US$126 million (S$204 million) in Islamic banking loans.[4] HSBC Insurance is also offering Takaful products as an acceptable avenue for financial planning in accordance with Islamic principles for the local Muslim community.

Although Singapore's domestic market is small, its finance industry has some US$370 billion (S$600 billion) under fund management. The amount has been growing 20% each year for the past five years, giving Singapore an untapped advantage over Malaysia.

"The top 30 of the biggest fund managers in the world, the top private bankers in the world, are all based in Singapore and this creates a good base or foundation for the industry to grow," commented Mr Badlisyah Abdul Ghani, Group Head of Islamic Banking at CIMB.

He pointed out that Singapore was somewhat late in entering the field, when compared with Malaysia, but it had great growth potential. With that in mind, CIMB, ranked first among Islamic debt underwriters in the world last year, has announced it will launch an Islamic unit trust in the city state in the first half of 2006.

The Kuala Lumpur-based CIMB has been reported to have had serious discussions and talks with MAS to develop its Islamic finance

*Continued...*

# Singapore as an Islamic Finance Hub – A Reality? *(continued...)*

business in Singapore and is expected to offer more products as the country revises its banking framework to accommodate Islamic compliant financial offerings.

"We are quite excited that the Government has set up its framework for Islamic finance products," he said, adding that CIMB was studying to what degree it should introduce the full suite of products.

Expecting South-East Asia, the home to one-third of world's Muslim population, to gain from the increasing demand for Islamic financing products, Mr Badlisyah said he looked on the region itself as a hub for Islamic finance.

"Singapore, as the larger financial centre; and Malaysia, as the most developed financial centre for Islamic finance; Brunei, with deep pockets; and Indonesia, with fund needs for infrastructure. When you combine them, you have a sustainable hub," he concluded.

Giving the thumbs up to Singapore's regulatory approach of refining the existing regulations to accommodate Islamic finance, Mr Iqbal Khan, the Chief Executive Officer of HSBC Amanah, said fundamentally, Singapore had every reason to be successful in the Islamic finance industry as it engaged with the Islamic world in a positive and pro-active manner.

> "The top 30 of the biggest fund managers in the world, the top private bankers in the world, are all based in Singapore and this creates a good base or foundation for the industry to grow"

HSBC Insurance (Singapore), a member of the HSBC Group, has seen assets under management for its Takaful products that currently stand at USS$136 million (S$220 million), grow by between 10% to 20% per annum over the last 10 years. With about 23,000 policyholders for Takaful products, HSBC Insurance claims an 80% market share in Singapore.

It has also been reported that Singapore would target large funds and high net worth individuals outside the city state to develop its Islamic finance industry, as its local investor base is small.

"We're aiming principally for the large funds, the institutional players and wealthy individuals from the Middle East and other parts of the world. There's a niche for Singapore to tap the high end market," MAS's Deputy Chairman, Mr Tharman Shanmugaratnam, was quoted as saying in Parliament, adding that the Singapore Exchange was also looking at Islamic equity instruments to boost the fund management industry, targeting Muslim investors.

Singapore's efforts to develop Islamic finance should not be constrained by the fact that it is not a Muslim state, as Islamic finance is already taking off in many non-Muslim countries. Whilst only 15% of Singapore's population is Muslim, experience in other retail markets – such as Malaysia – shows that in excess of 70% of that customer base is non-Muslim.

Believing that the momentum for Islamic financial services to become an increasingly globally accepted form of financing will remain, Singapore sees the opportunity to offer Islamic financial services and has committed to developing a vibrant Islamic market. The MAS has conducted a review of its regulatory framework in relation to Islamic finance.

As many of the supervisory processes and prudential measures are common to both conventional and Islamic banking activities, MAS has opted to accommodate Islamic banking within the existing supervisory framework for banks. No fundamental changes to its supervisory framework will be made, but rules will be refined along the way to facilitate the development of Islamic finance.

In September 2005, MAS fine-tuned the regulations to facilitate banks in Singapore to offer financing based on the Murabahah concept. It now exempts activities of banks based on the Murabahah concept from the restrictions on banks conducting non-financial activities.

Since the announcement, several financial institutions have expressed interest in offering products in this space, with Standard Chartered Bank being the first to bring a deal to the market – a US$96 million (S$155 million) Islamic financing (Murabahah) facility for Baitak Asian Real Estate Fund. There has also been established a US$1.2 billion (S$2 billion) Shariah compliant real estate fund managed from Singapore.

In addition, MAS has looked at the tax treatment for Islamic transactions. Given the nature and structure of Islamic financial products, they tend to attract more tax than their conventional counterparts and MAS has therefore sought to level the playing field for Islamic transactions.

In 2005, the authority waived the imposition of double stamp duties in Islamic transactions involving real estate and accorded the same concessionary tax treatment on income from Islamic bonds that is afforded to conventional bonds.

At the recent budget announcement (see Table 1), Income Tax and Goods and Services Tax (GST) applications on some Islamic products were further clarified. Three Shariah compliant products were identified and it will be ensured that they do not incur more taxes due to the nature of their structuring. In addition, to level the tax playing field for Sukuk, remission will be granted on stamp duty on immovable property incurred under a Sukuk structure that is in excess of that chargeable in the case of an equivalent conventional bond issue.

The overall policy approach is to align the tax treatment of Islamic contracts with the treatment of the conventional financing contracts they are economically equivalent to. MAS assures that it will review tax treatments on other products as the industry develops further.

Apart from the tax reforms, a significant step in the development of Islamic finance in Singapore has been the launch of the FTSE-SGX Asia Shariah 100 Index (FTSE-SGX Shariah) on the 21st February this year. The index, the first in the series of FTSE-SGX Shariah Indices to be launched in Singapore, is made up of 100 Shariah compliant stocks. The US$ denominated index comprises stocks from Japan, Korea, Taiwan, Singapore and Hong Kong.

"FTSE-SGX Shariah will be used as a basis for the creation of financial products such as Exchange-Traded Funds and over-the-counter (OTC) trading instruments," said Linus Koh, SGX Executive Vice-President and the Head of Products and Services, adding that introducing Shariah compliant indices would add diversity in the exchange product offering.

*Continued...*

# Singapore as an Islamic Finance Hub – A Reality? *(continued...)*

Reiterating the country's commitment to Islamic financing, Mr Heng Swee Keat, Managing Director of MAS, said that the authority would continue to facilitate the growth of Islamic finance. Committed to deepening its knowledge and familiarity with Islamic financial services, MAS joined the Islamic Financial Services Board (IFSB) in December 2003 as an observer member, and has since stepped up its involvement to that of a full member in 2005.

Thus it can be seen that Singapore has established a highly credible brand name, which is of the utmost importance in the global banking and financial world, and is now positioning itself to be the nexus for the convergence of both the conventional and Islamic finance sectors in Asia, whilst Islamic finance is still in its infancy in Singapore. As former Prime Minister Goh stated, this full development will complete Singapore's status as a true international financial centre and so the vision of becoming an Islamic finance hub is not merely a reflection of the "Kia-Su" mentality which is often associated with Singapore.

**Table 1: Budget 2006**[5]

*Tax changes to promote the financial sector*
*Measures to promote Islamic finance products and services*

[1] Economic Review Committee, Sub-Committee on Service Industries, Financial Services Working Group, p. 28.
[2] Ibid.
[3] A. M. Vernardos, Islamic Banking & Finance in South East Asia. Its Development & Future (World Scientific Publishing, Singapore, 2005).
[4] Val Chua, "Wooing the Islamic Billion$". Today (Singapore), 24 September 2004.

| | **Overall policy approach for Islamic finance and tax treatment of qualifying financial products based on specified Islamic concepts.** |
|---|---|
| **Current Treatment** | With effect from the 1st January 2005, the double or triple imposition of stamp duties incurred on Islamic transactions which involve real estate, namely Murabahah contracts and Ijarah Wa Igtina contracts, is removed, and the amount payable from Islamic debt securities is accorded the same concessionary income tax treatment that is currently granted to interest income arising from conventional debt securities, subject to conditions. |
| **New Treatment** | *Overall policy approach*<br>The overall policy approach is to align the tax treatment of Islamic contracts with the treatment of the their conventional financing contract equivalents. To give the industry maximum flexibility for innovation whilst preventing any unintended tax consequences, tax rules are to prescribe for each specific Islamic finance arrangement.<br><br>*Tax treatment of qualifying financial products based on specified Islamic concepts.*<br><br>Murabahah concept<br><br>*Income tax*<br>Any gains or profits accrued and any expenses incurred in lieu of interest will be regarded as interest.<br><br>*GST*<br>For a loan used for the purchase of non-residential property, any mark-up on the selling price of the non-residential property by the bank to the buyer will be exempted from GST, and the bank will be allowed to claim GST on the purchase of the non-residential property from the vendor in full.<br><br>Mudarabah concept<br><br>*Income tax*<br>Any profit payable to a customer, in lieu of interest, by a qualifying financial institution, will be regarded as interest.<br><br>Ijarah Wa Igtina concept<br><br>*Income tax*<br>Any gains or profits accrued and any expenses incurred, in lieu of interest, will be regarded as interest.<br><br>*GST*<br>For a loan used for the purchase of non-residential property, any mark-up on the selling price of the non-residential property by the bank to the buyer will be exempted from GST, and the bank will be allowed to claim GST on the purchase of the non-residential property from the vendor in full.<br><br>Sukuk concept<br><br>*Stamp duty*<br>Stamp duty on instruments related to the transfer of immovable properties that is in excess of that chargeable in the case of an equivalent conventional bond issue may be remitted, subject to conditions. |

# INDUSTRY REPORT

## Finance Contracts: A Basic Introduction to the Islamic Approach

*By Paul Wouters*

### Introduction

**Islamic financing is booming as never before and thus it needs a good contractual framework. Not many people realize that traditional, western-style contracting can be transplanted into this environment, provided for the acceptance of a few basics.**

Islamic finance is based upon strict religious rules that are followed ethically by many of the traditional "green" investment funds. It is also asset-based finance: money has to be invested and profits have to be shared equitably.

Of course, besides investment there is also a need for consumption in the world. For this, Islamic finance offers the asset-based "commodity finance" with deferred payment. To make this easier to understand the bank does not provide an interest-linked credit line, but buys the object and sells or leases it to the client for a fixed, agreed-upon price. There are no galloping interest rates and no interest on top of interest. The all-inclusive price is fixed in advance.

There is a need for worldwide standardization in contract forms and clauses of accepted best practices and generally accepted Islamic finance techniques, certainly in areas that repeatedly cause problems and concern. This article provides an initial insight into the basic contracting tools that are used to obtain such goals.

### Basic rules

**Riba**
Riba or usury is inadmissible in Islamic finance. Riba has no exact equivalent in modern English, so every translation (including usury) is a poor one, as the meaning of the word riba is broader then "interest" only, covering any form of injustice, inequity and exploitation.

Certain commodities, including money, must be traded on the spot and at face value.

An important rule is that a loan of money is considered to be for free and charitable. Money is only a medium to help trade and a measure of value.

Consumption is interpreted by means of sales at a fixed price (mark-up included). Investment is understood as meaning partnership in profit and loss. According to Islamic finance, both profit and loss should be shared evenly and a pre-determined profit on capital is unjust and unacceptable, just as an interest rate or guarantee of capital return on investment is void.

**Maysir**
Maysir – speculation or gambling – is also illegal, so many banks feel unable to enter into the traditional derivative transactions such as futures, swaps, or options contracts.

Commodity sales where there is no intention of actual delivery, although selling at a profit, is also not allowed.

Speculators are presumed to be primarily interested in playing for private gains, regardless of the larger interest of (or cost to) society as a whole. Islam does not accept such speculative business.

**Gharar**
Gharar refers to uncertainty or risk. Any transaction where the subject matter, the price and quantity are not fixed in advance is gharar. To put it another way, the sale of probable items whose existence or characteristics are not certain is gharar.

*Note: derivatives and futures*
A problem arises for much of the contemporary derivative securities (forwards, futures, options) related to goods that are not yet in the possession of the seller (or even do not exist at the time of sale) and never may come into his possession (maybe even never come to exist at all) and that are not permitted. Because sometimes such products can be a real necessity for modern international trade, scholars are developing Shariah compliant alternatives.

**Halal**
All dealings should be permissible or lawful: pork, wine, gambling, pornography and armaments are unclean.

**Conditional sale and promise**
A conditional sale under any circumstances is void. Islamic contracting solves this problem using "promises." In commercial dealings there are two predominant teachings: normal commercial promises, which create a mandatory obligation and can be enforced in a court of law; and a restricted position where the promisor who breaks his word commits a tort, only giving title to direct losses.

**Doctrine of necessity and purification**
Traditional doctrine allows Muslims to enter into conventional contracts or do business with non-compliant parties as long as the Muslim strives for compliancy where possible. The amount of "impure" return on investment should be calculated and given to charitable causes or for small or personal investments.

### Contracts

**Murabahah**
The Murabahah contract is a simple sales contract where the client will ask the bank to acquire the commodity first and then sell it to him with deferred payment.

*Conditions*

- The object of the sale must exist at the time of sale and must be specified.
- The commodity subject to the sale must be owned by the seller and it must be in his constructive possession, meaning that the seller may not yet have taken the physical delivery of the goods, but all the rights, risks and liabilities thereof are already transferred to him by the previous owner.
- The sale must be immediate and absolute and the delivery must be certain.
- The sale must involve a third party. Where a client sells a commodity before it is acquired by him to a third party, with an immediate buy-back agreement (and deferred payment), although sometimes accepted, is often regarded as void.
- The commodity must have a value and the price should be determined and certain.

*Continued...*

## Finance Contracts: A Basic Introduction to the Islamic Approach *(continued...)*

Although the bank is obliged to sell the commodity at cost to the client, the bank may shift all the costs relating to the initial acquisition – such as transport, customs and taxes – to the client.

Mark up or profit is allowed if fixed and agreed beforehand. It can be calculated using the parameters of service and transaction cost, risk premium, inflation, overhead cost, profit, etc.

*Deferred payment*
Murabahah contracts can be a cash settlement or a deferred payment (Bai'mu'ajjal).

*Price and time of payment fixed*
The total price and the date of payment must be fixed in advance in a clear and unambiguous manner.

The price can be fixed with respect to a multitude of factors, including the use of LIBOR or any other interest-based reference as a benchmark only for its price-fixing element. Once the price has been fixed this way, it can no longer be influenced up or down. Islamic alternatives to this interest-based benchmark are now being developed and installed.

*Early or late payment*
As the price has been fixed, there is no rebate for early payment, unless at that time the creditor/bank voluntarily agrees this as an incentive to pay early.

Ijarah
Ijarah is best described as an Islamic version of the western-style lease.

- Transfer of usufruct only: the risk and liabilities associated with the use of the asset will be borne by the client.
- Naked ownership: all the risk and liabilities connected with the ownership of the assets rest with the owner/bank.
- Use for specific purpose: the user/client can only use the commodity for the purpose specified in the agreement.

The period of rent and the rental must be clearly defined, whether on prudential basis, or tied to inflation rates, or via review by a mutually acceptable third party (such as an international audit company).

The lease period starts from the actual delivery and any advance payments will be offset against actual rent payments.

Joint ownership is allowed through owners leasing out to a third party, although partial owners can only lease out to other joint owners.

Future products which do not yet exist at the time of the contract or are not yet owned by the seller can be subject to Ijarah. The owner/bank does not have to own the commodity when entering the contract.

The Ijarah can become a "Ijarah wa Iqtina" (financial lease) when the user/client has the right to acquire the commodity at the end of the lease period, mostly for a symbolic down payment.

The owner/bank can claim all of the expenses attached to the commodity which accrue to him as the legal owner thereof (taxes, duties, freight) from the user/client, but a contractual shift directly to the user/client is invalid.

Subsequent leases are allowed, if freely negotiated at the time of renewal.

Under sale and lease-back the client sells the asset to the bank and rents it back, but the ownership and attached risks rest the whole time with the bank.

# Finance Contracts: A Basic Introduction to the Islamic Approach *(continued...)*

### Salam

Another contract that is used for financing is the Bai Al Salam, the sale of future goods. Salam was originally intended to finance agricultural exploitations and it still most commonly is used for this reason.

- Future goods are allowed.
- Quantity, quality and time have to be specified.
- The commodity must be composed of units with homogenous characteristics which are traded by counting, measure or weighing.
- Payment must be on the spot.
- Instant buy-back is impermissible.

### Istisnah

Istisnah is the same as Salam except that it always links to manufactured commodities. The seller/manufacturer sells the commodity that he has yet to make to the buyer/bank.

The difference between Salam and Istisnah is that the payment of the price is not necessarily immediate and also individualized goods can be envisaged.

If the seller/manufacturer is acquiring the goods that he will use to make the commodity from the buyer/bank (and thus his only real contribution is his labour), then an Istisnah contract is not permissible and an Ijarah contract, or rent of labour, must be employed.

## Partnership agreements

Both Musharakah and Mudarabah are commonly used for project and investment development.

### Musharakah

A Musharakah is a joint business enterprise in which the partners undertake to share all the profits and losses of a venture. They agree at the outset the way the profit will be shared and a periodical advance for one or more partners will be set off (and if needed paid back) at the settlement of the accounts and profit later.

The profit sharing should be related to capital input, although it can be agreed that someone gets a bigger share, provided always that a partner who does not put labour into the Musharakah (silent partner) is always granted a ratio linked to his input in capital.

A fixed part or lump sum that is guaranteed to a partner is not allowed. Loss is always shared in relation to capital input and is unlimited.

Some business necessarily requires long-term investment, so early exit could seriously harm the partners. In this case a clause preventing early exit (unless the majority so agrees) could be justified and acceptable.

Buy-out clauses at market price or at historic value can be used in favour of one or more partners, so that the resting partner slowly buys out the exiting partner – sometimes used for investment purposes, where the bank invests together with a client, leases the asset to the client (through Ijarah) and slowly exits the project.

### Mudarabah

This is a special kind of partnership where a silent partner only invests money "rabb al-mal" and a working partner only invests labour "mudarib" (mostly the client who needs capital input from the bank). Basically the same rules apply as in Musharakah, although listed below are some specific prescriptions:

- Only the mudarib will manage the partnership for all matters that concern the normal course of business.
- The mudarib can suffer no loss, other then his labour, except for fraud, negligence, misconduct, wilful wrongdoing or contravention of his mandate.
- The mudarib is rewarded an agreed portion of the profit, whereas advances are allowed (to be set off at the end of the year and maybe leading to pay back).
- The profit sharing is linked to actual profit only.
- Rabb-al-mal risk is limited to capital.

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# MARKET REPORT

## The Importance of Good Corporate Governance in Islamic Banks in Malaysia

*By Elsa Satkunasingam and Bala Shanmugam*

*This is the concluding section of a two-part article on corporate governance in Malaysia and will examine the effect of political interference on corporate governance in Islamic banking. The first part appeared in the previous issue of* Islamic Finance *news.*

### Corporate governance and political interference

**Corporations in Malaysia, including the banking industry, have been subject to political interference and manipulation in the past – something that still continues, albeit on a less conspicuous level. The accusation levelled against Asian banks and companies is that this lack of accountability and transparency contributed to the 1997 Asian financial crisis. The Malaysian Code on Corporate Governance 2000 in part intended to address this problem by adopting some of the principles recommended by the Cadbury and Hampel Committees respectively. It is perfectly normal in most Asian countries to refer to foreign codes and then adapt the principles in those codes to accommodate the structure of companies and the regulatory bodies within that particular jurisdiction. The western models are usually used either because they are deemed superior, or have been tried and tested and proven reliable. It is hoped that with the proper codes and rules in place, Asian countries can avoid a recurrence of the crisis and regain investors' confidence.**

There has been meticulous study into how the rules should be implemented and the hoped-for effect, but very little is discussed about how the political culture of a country impacts upon the implementation of the rules. The Malaysian Code has not addressed one very important point, which is how to retain independence of the board from political influence? It is of no use to adopt the most sophisticated rules or codes and revamp the regulatory bodies if the approach by the authorities and companies within a particular jurisdiction is to subversively resist any move for greater transparency and accountability while paying lip service to the codes.

The 1990s heralded a new type of politics in Malaysia, defined by close relationships between businessmen and politicians, later dubbed "cronyism." Evidence showed that the politicians were involved in awarding contracts to businessmen, who returned favours. In some situations, politicians or their family members owned businesses and obtained government contracts easily. This was part and parcel of patronage politics practised within political parties in Malaysia very soon after independence. In Malaysia, it is believed that public funds were used to bail out cronies.

Central Bank was subject to political interference and those more willing to abide by Government policies replaced prudent governors. The independence of the Central Bank as a watchdog to curb excesses by the government was weakened. Several prominent companies such as United Engineers Malaysia were allowed to execute a reverse takeover of its parent company Renong, which was heavily in debt. The signal sent to investors was that the rules could be changed midway through the game and there was little heed paid to proper rules of corporate governance. It is widely believed that government-controlled public funds such as the Employees Provident Fund, Permodalan Nasional and Khazanah were used to bail out politically connected businesses. With hindsight it has been argued that this action and other similar actions were necessary to improve the Malaysian economy. Whatever the benefits may be from the economic and financial point of view, it cannot detract from the fact that corporate bailouts were carried out quite brazenly without proper explanation and seemingly to save "cronies" from disaster.

> "The Malaysian Code on Corporate Governance 2000 in part intended to address the problem of political interference and manipulation"

An example of the effect of the excesses of "cronyism" is when Halim Saad, the Chairman of Renong, was bailed out with funds amounting to US$626.77 million. Stock market rules were manipulated to serve the interests of the politically influential Halim. Many of his business practices were officially sanctioned. He is believed to have acted on political instructions to take over the Philippines National Steel Corporation with funds that came from "a syndicated loan amounting to US$800 million from Malayan Banking, Bank Bumiputra, Bank of Commerce and Rashid Hussein Bank, all of which breached their single customer limits." In addition, the national petroleum company Petronas bought over the Prime Minister's son's stock in a shipping company at a considerably higher price than it was worth at the time. Furthermore, Koperasi Usaha Bersatu (KUB), which belonged to the United Malay National Organisation (UMNO), the ruling party in Malaysia, obtained the bigger share in the sale of Sime Bank, which was virtually insolvent.

The imposition of capital controls made by the Malaysian government improved the economic situation, but due to the way that businesses were structured at the time, it also improved the position of politically connected businesses. A study conducted showed that firms that were connected to the politicians in power experienced better recovery and performance than firms that were connected to the former deputy Prime Minister Datuk Seri Anwar Ibrahim after he was removed from his position.

### Factors that contribute to poor corporate governance

What factors are required to implement the Code on Corporate Governance in a proper manner? There must be a fundamental shift in the attitudes of those involved in implementing the Code, even at the policy level. Currently the Securities Commission of Malaysia and in the case of listed companies, the KLSE, are the watchdogs to ensure that the Code is applied and that over time principles of good governance become the norm. If the Commission or Exchange is subject to

*Continued...*

# The Importance of Good Corporate Governance in Islamic Banks in Malaysia *(continued...)*

political interference then it is unlikely that the Code or any other measures to ensure good governance will be implemented properly.

The presence of "cronyism" and unbridled capitalism in the last decade can be attributed to a powerful executive where political interference in securities regulation became the norm. How was this allowed to happen when Malaysia inherited the British common law system which believed in separation of powers and a balance of power between the legislature, executive and judiciary? One of the reasons could be because Malaysia is a country that largely (although not wholly) follows the rule of political law, where the political process and the legal process in a legal system are not separate.

Legal systems governed by the rule of political law often claim that they ascribe to democracy but inevitably democratic processes are not the dominant pattern. Political relationships define the legal system and there is no real conception of formal law binding the government. Governments pay lip service to principles of democracy and separation of powers is not practised, purportedly because it will not maintain stability. Very few legal systems today are depicted completely by the rule of political law. It does, however, serve the purpose of identifying the underlying assumptions in that legal system.

The legal system in Malaysia reflects the rule of political law at differing levels. Such legal systems do not have independent courts and are characterized by high levels of political involvement in the judicial system, high levels of police coercion, highly bureaucratized public decision-making processes, drastic governmental intervention in economic policies and legal cultures that are heavily influenced by foreign models among its characteristics. The rule of political law is one reason behind the close relationships between businesses, governments and banks. There are no checks and balances to prevent it from occurring, thus allowing a powerful executive to flourish.

The political situation in Malaysia attaches more risk to investments under Mudarabah accounts than would be the case in a western society, where accountability and transparency are demanded and adhered to more often than in the east, where Asian countries feel that it is justified to limit individual freedom in the interests of the economy and political stability. In Malaysia, the defence mechanism is to make the troublesome and delicate issues taboo and not available for public discussion. There are several statutes such as the Sedition Act 1948 (Revised 1969) (Act No 15), the Internal Security Act 1960 (Act No 87), the Official Secrets Act 1972 (Act No 88) and the Official Secrets (Amendment) Act 1989 (Act No 660) which impose penalties on people who discuss taboo subjects. This is probably one of the reasons why many Malaysians chose to keep silent when politicians abused their power by initiating corporate bailouts and pressuring banks into making loans beyond their capacity. The banking sector was also not independent of politicians who interfered with Central Bank's recommendation of sound financial practices to serve their political interests or those of their cronies.

## The effect of poor corporate governance on Islamic banks

Islamic banks are in a more vulnerable position than conventional banks if the excesses of cronyism are unchecked in future. There are two reasons for this. In the late 1970s and through the 1980s there was great expansion of the state sector. Bank Bumiputera Malaysia was one the state enterprises, together with its subsidiary Bank Bumiputera Malaysia Finance (BMF). Political supporters of the ruling party were rewarded with directorships on the boards of such state corporations, despite their lack of experience and at times lack of

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Published every other Monday (25 issues per year)

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Individual Annual Subscription Rate: US$360
Company Wide Subscription Rate: US$1,450

**A RedMoney Publication**: RedMoney Sdn Bhd, Suite A, 7/F, Bangunan Angkasa Raya, Jalan Ampang, 50450, Kuala Lumpur, Malaysia.
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# The Importance of Good Corporate Governance in Islamic Banks in Malaysia *(continued...)*

integrity. In 1981, BMF lost US$669.5 million to three property developers in Hong Kong. The managers of BMF were found to have had very cordial relations with those developers and had made many loans that were not properly secured and at times even without proper documentation. The result of the losses was to "virtually wipe out shareholders' funds." If Mudarabah accounts had operated at that point in time it would have wiped out depositors' savings, as well as them bearing the brunt of losses in entrepreneurship.

> "Islamic banks are in a more vulnerable position than conventional banks if the excesses of cronyism are unchecked in future"

The second reason for the extra vulnerability of Islamic banks is that the Mudarabah scheme, if applied strictly, permits entrepreneurs to trade with investors' money without personal liability on their part for losses incurred. This type of investment will be the main target of politically connected businesses. It requires no stretch of the imagination to realise that should another situation like the Asian financial crisis occur, it would be easier to apply pressure on Islamic banks to grant loans to bail out politically connected corporations, especially since the funds in such banks have increased tremendously in the new millennium.

In the aftermath of the Asian financial crisis, there was an increase in resolve to implement good corporate governance in order to restore public confidence and obtain much-needed foreign direct investment. The general election in 1999 resulted in the Barisan Nasional government losing seats to the opposition, mainly Parti Se Islam Malaysia (PAS). This was seen as a reaction to the excesses of the ruling government. Under the New Economic Policy, the government practised a policy of encouraging bumiputra businesses to increase equity holdings and certain businessmen were identified as corporate role models. There was a blurring of lines between government policy and cronyism. It was argued that bumiputra businessmen were given contracts to achieve the aims of the New Economic Policy. Yet these same businessmen were seen to be close to certain politicians and benefited from their patronage.

The evidence indicates that close relationships between government and businesses have continued, albeit on a less conspicuous level. It is unclear whether the government is still awarding contracts to certain bumiputra businessmen as part of the New Economic Policy in Malaysia, or whether it is a continuation of cronyism with new faces replacing the old.

Even while the Code was in the process of being drafted and implemented, corporate bailouts of Perusahaan Otomobil Nasional (Proton), Malaysia Airline System and Indah Water Consortium were carried out. These actions could be interpreted as mopping-up operations of messes created prior to 1997, or reflecting that cronyism is still flourishing in Malaysia. Recent accusations of cronyism and corruption made against the former leader of the Malaysian Chinese Association Dr Ling Liong Sik have not yet been investigated. The Corruption Perception Index in the post-financial crisis period is no different from the Index before the crisis occurred. This does not necessarily reflect that cronyism still exists at high levels, but does indicate that corruption does exist in much the same manner as in the pre-crisis period.

While the government refuses to acknowledge that absolute transparency and accountability are essential to long-term growth and development, good corporate governance principles will not be implemented properly. This makes a mockery of the Code on Corporate Governance, which is seen as equivalent to "law in books" and not "law in action." Although certain parts of the Code have been incorporated in the KLSE listing requirements, the past manipulation of corporate practices casts a shadow over it.

## Conclusion

The crucial question at this point is: "How has this changed?" If Islamic banks in Malaysia experience phenomenal success in the future, they may become the target of politicians in future as an alternative to the cash-rich Petronas. Depositors may in time lose their profits and may, in a worst case scenario, even lose their deposits where the government is unable to make good the unilateral guarantee that it has given. This has not happened in Malaysia, but it could happen in future under a new generation of politicians. Until these politicians recognise that "Islam" is not a term that can be applied to a financial service but to a way of life and attitude, it would be a misnomer to use the term "Islamic" banks.

> "In the aftermath of the Asian financial crisis, there was an increase in resolve to implement good corporate governance in order to restore public confidence and obtain much-needed foreign direct investment"

The Prime Minister of Malaysia has called for more accountability and transparency and raised massive support for the Barisan Nasional ruling party in the elections carried out in March 2004. He is seen as a firm leader who has the political will to reduce corruption and cronyism and he is obviously supported, as the election results and analyses indicate. However, whether he will be able to control the various party "warlords" who have reigned supreme for many years, and the patronage politics remains to be seen. Should he succeed, the Malaysian Code on Corporate Governance can be implemented smoothly, together with supportive regulations by various bodies such as the KLSE. The customers in Mudarabah-type accounts in Islamic banks will only have to bear risks normally attached to such accounts and not risks imposed by unruly politicians. Until then, perhaps Islamic banks and banks offering Islamic services should not operate Mudarabah-type accounts, or should operate them in a conventional manner by requesting collateral from entrepreneurs who wish to obtain loans from these banks.


The authors are from Monash University Malaysia.

# Islamic Finance forum

## Are present Islamic finance accounting principles and guidelines effective (and flexible) enough?

PROFESSOR RODNEY WILSON
*Director*
*University of Durham*

The staff at the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has worked hard over many years to develop a set of accounting standards for Shariah compliant finance, and they should be commended for their efforts. The dilemma, however, for Islamic banks, as Anouar Hassoune and Farouk Soussa point out in their excellent article in the last issue of Islamic Finance *news*, is that if AAOFI standards are adopted, this makes comparison with conventional banks using IFRS standards difficult, if not impossible.

Ultimately the issue is whether Islamic banks see other similar institutions internationally as their peers, or instead have a national perspective, that focuses on their local conventional counterparts. The dilemma is even greater for conventional banks offering Shariah compliant services, most of which do not use AAOIFI standards, as that would involve dual, and possibly inconsistent, financial reporting.

There are no easy solutions to these problems. The major contribution of AAOIFI has been to highlight the fact that many Islamic products are distinctive in financial as well as legal terms, and should to be treated differently, with implications for capital adequacy and the calculation of financial ratios.

The debate is certain to continue, but those interested should look at the recommendations of Hassoune and Soussa, which involve a dual standard approach. This would be more costly, with additional auditing fees, but is preferable if both national comparisons with conventional banks are to be made, as well as international comparisons within the Shariah compliant sector.

## Next Forum Question

### Is limitation of liability Islamically acceptable, and if so, why?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 100 and 300 words to Christina Morgan, Islamic Finance *news* Manager at: Christina.Morgan@IslamicFinanceNews.com before Tuesday 14th March.

Takaful news
www.islamicfinancenews.com

## SAUDI ARABIA

### New insurance licences available

Saudi Arabia's Council of Ministers is expected to issue 22 new insurance company licences within the next few weeks and the Saudi Arabian Monetary Agency (SAMA) has posted rules to enable foreign insurance companies to operate in the Kingdom.

Current SAMA regulations require joint stock companies to float 30% of their shares for public subscription upon entering the market. Insurance companies must also have a minimum capital of US$26.7 million (SR100 million) and reinsurance companies need to have US53.4 million (SR200 million), in order to ensure the companies are financially sound.

The SAMA website lists the following companies as having submitted applications to the Ministry of Commerce and Industry for approval: AXA Cooperative Insurance, Tokio Marine & Nichido Assurance Saudi Franci, Saudi United Cooperative Insurance, Saudi-Indian Insurance Company, United Cooperative Assurance Company, BUPA Arabia, Al Ahli Takaful Company, Saudi National Insurance Company, SABB Takaful, Arabian Shield Insurance Co, Al Rajhi Company for Cooperative Insurance and Al-Alamiya Insurance Co.

## UAE (Dubai)

### GCC nationals to hold SALAMA shares

Nationals from any GCC state can now become shareholders of the world's largest Takaful and re-Takaful provider, further to SALAMA Islamic Arab Insurance Company becoming the first insurance company from the UAE to receive regulatory approval to offer up its shares. In the first week of trading over 1 million SALAMA shares were bought by non-UAE nationals.

The UAE government recently ruled that GCC nationals would be treated as locals in the country's stock markets and, in January 2006, the shareholders of SALAMA voted to extend equity ownership to GCC nationals.

SALAMA's Chairman Sheikh Khaled bin Zayed bin Saqr Al Nehayan commented: "By being the first to ratify the GCC Summit decision to allow Gulf nationals to trade on any of the region's stock markets, the government has taken an important step towards the establishment of a common market. It will also ensure greater liquidity on the country's exchanges."

"The fact that the company's activities are set to grow substantially over the next 12 months makes SALAMA a very attractive investment opportunity. Our strategy is to expand SALAMA's geographic reach and to diversify its income stream and product base to position the company to take advantage of the many emerging opportunities in the Takaful and re-Takaful markets," he continued. In January the insurance company revealed that it was eyeing expansion into Malaysia and Pakistan (see Islamic Finance *news*, issue 1, Takaful News Briefs).

In another development, further to SALAMA's agreement with MedNet in January, Health Takaful has now been launched in the UAE (see Islamic Finance *news*, Takaful News Briefs, issue 1).

## QATAR

### New ventures for QIIC

Qatar Islamic Insurance Company (QIIC) will launch three major joint ventures in 2006, Chairman Sheikh Thani bin Abdullah Al Thani revealed at the company's AGM.

QIIC is already a promoter of the world's largest Islamic reinsurance company, Takaful Re, and in 2005 co-founded Oman's first Takaful company, Al Madina Insurance.

## BAHRAIN

### Biggest ever profit for ARIG

Arab Insurance Group (ARIG) has posted a record profit of US$48.2 million for 2005, up 82% from US$26.5 million in 2004. The 2005 profit level represents a 19.5% average return on shareholders' equity.

ARIG achieved a 32% increase in gross premiums from the reinsurance business – up to US$173.7 million from US$131.3 million in 2004. Asian markets premiums leapt by 49% to US$52 million in 2005, from the 2004 level of US$34.9 million, predominantly based on the strength of ARIG's secure range investment grade BBB ratings from Standard & Poor's.

The Board of Directors have recommended the distribution of cash dividends to shareholders of 5% of the paid-up capital and one bonus share for every 10 shares held. With the bonus share issuance, ARIG's paid up capital will increase to US$220 million.

## MALAYSIA

### What the Takaful industry needs

Repeated calls were made for a regulatory framework for the Takaful industry at the 2nd Seminar on the Regulation of Takaful in Langkawi, Malaysia.

In his keynote address Dr Bassel Hindawi, Vice-Chairman and Director General of the Insurance Commission of Jordan, stated that a Supreme Shariah Judicial Authority, a legislative framework, good governance, capital adequacy and the nurturing of re-Takaful were all vital requirements for the Takaful industry to grow.

Meanwhile, the Deputy Governor of Bank Negara Malaysia, Datuk Zamani Abdul Ghani, said that Takaful needed improved connectivity of Islamic finance components, supported by a strong legal and regulatory framework, human resources development, international collaboration and co-operation, and the construction of strategic alliances with international Islamic financial institutions.

Last year's seminar recommended that a Joint Working Group be set up, which has subsequently reported that: "regulatory regimes developed for conventional insurance cannot necessarily be applied uncritically to Takaful." The Working Group comprises representatives from the Islamic Financial Services Board and the International Association of Insurance Supervisors. It is now working to provide benchmarks for regulatory issues, consumer protection and to support the development of the Takaful industry.

## MALAYSIA

### Takaful Malaysia target 20% growth

Syarikat Takaful Malaysia is targeting a 20% growth in premiums for 2006.

Chief Executive Officer Md Azmi Abu Bakar, speaking after the launch of a joint marketing program with Bank Islam Malaysia, revealed: "BancaTakaful is one of our strategies to achieve the growth, while others will be the public awareness campaign."

The joint program is to encourage new participation and renewal of Takaful Malaysia's Takaful Motor Scheme through Bank Islam branches, as well as 17 automobile financing centres nationwide under the concept of BancaTakaful (see Takaful Report on BancaTakaful, page 22).

Md Azmi also revealed that Takaful Malaysia will launch a one-stop call centre soon, although he would not provide details.

## UAE (Dubai)

### AMAN capital hike approved

Dubai Islamic Insurance and Reinsurance Company (AMAN) has received approval from the Ministry of Economy to increase its capital to US$54.45 million (Dh200 million) without any subscription fee.

AMAN achieved a massive net profit increase of 865% for 2004 (see Islamic Finance *news*, issue 3, Takaful News Briefs).

Hussain Al Meeza, Managing Director of AMAN, said: "Our impressive financial results for the year 2005 has stemmed from our significant achievements during the year, primarily in our trendsetting role of developing the Islamic Takaful Insurance sector in catering to a diverse range of customers. Our strategy has always been to offer innovative market-driven Islamic insurance products and services and this is truly reflected in our performance."

## KUWAIT

### Takaful consolidates Islamic finance industry

The development of the Takaful market in Kuwait aids consolidation of the structural integration of the Islamic financial industry, Abdullah Al-Maatouq, the Minister of Justice and Minister of Awqaf and Islamic Affairs has stated.

At the first Wethaq Takaful Insurance Co Islamic insurance conference in Kuwait, the Minister commented that "Islamic economy" was no longer an abstract idea or a theory, but was now being implemented throughout the world.

The Wethaq Director of Legal Advisory Dr Khalid Al-Mathkour added that Islamic insurance highlighted a number of issues that were in need of further study – insurance of debts, re-insurance, and the insured giving the insurer the authority to follow up with the party responsible for the accident – all issues under discussion at the conference.

# TAKAFUL REPORT

## BancaTakaful: A Partnership of Success

*By Asem Ahmad*

**BancaTakaful represents a strategy whereby Islamic banks and Takaful operators cooperate in more than one way to tap the financial markets. It could be defined as an arrangement between Islamic banks and Takaful operators by which banks can offer Shariah compliant Takaful products to their clients. Thus the Takaful industry could benefit from Islamic banks, through bancaTakaful agreements, as distribution channels for their products and services.**

### BancaTakaful models

There are three different models of bancaTakaful to be considered by Islamic banks and Takaful operators when entering into a bancaTakaful agreement:

- Selling Takaful products direct: according to this model, the Takaful operator would design the products and the bank's role would be confined to selling them through its counters to its clients.
- Selling jointly designed products: according to this model, Islamic banks and Takaful operators would design a set of products to suit the needs of the bank's clients and the nature of the bank's products.
- Islamic banks can establish their own Takaful subsidiaries: according to this model, Islamic banks could invest some of their funds in the Takaful market and establish their own Takaful providers. In this case, Islamic banks will have the responsibility to design the products, provide the experts and manage the whole operation. A successful example of this model is Bank AlJazira's Takaful Ta'āwunī division in Jeddah.

### Why bancaTakaful?

The financial strength of the Islamic banking industry should be used to provide support to the Takaful industry, and Takaful operators, on their part, should approach the Islamic banking industry to benefit from its successes. The idea of partnership between both industries is bound to boost their operations and improve their services.

So what are the benefits of bancaTakaful?

1. Banks usually have a massive database of clients, which includes all their personal and financial details. Through bancaTakaful, Takaful operators can benefit from such databases to design new products to suit the needs of Islamic banks' clients. Takaful operators lack such information, which is why it is not possible to them to fully understand the needs of the market and what products are most required.
2. Personalized service: since banks have direct contact with their clients, the types of Takaful products provided can be determined easily. Clients, in addition to their day-to-day financial requirements, can also get assistance for premium payments, policy surrender, transfer of policies and other services that Takaful operators would not usually provide.
3. Rural penetration: the existing wide network of banks in rural areas can be utilized for selling Takaful products. Takaful operators are mainly based in large cities and major financial centres, which makes it hard for them to reach those living in rural areas.
4. Gross selling products: banks commonly provide finance in the form of loans and mortgages, for example to buy a car or a house. Therefore it is always possible for banks to combine Takaful products and sell them as a package with their different types of loans and mortgages.

(Savings Accounts → Family Takaful Plan)

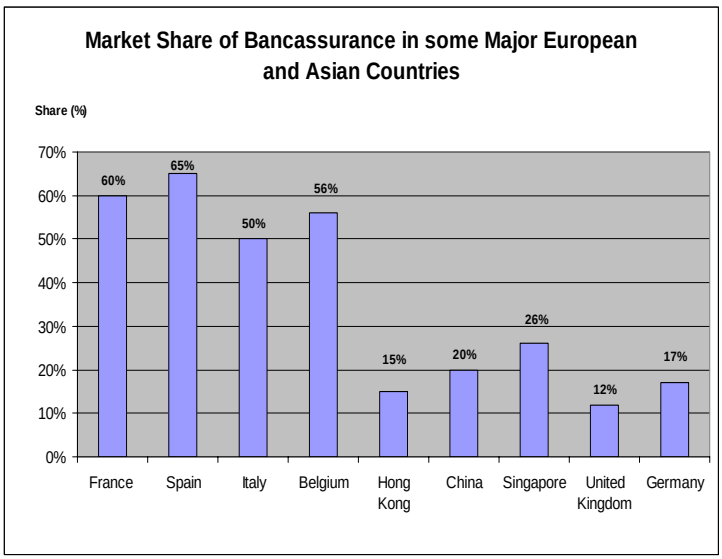
(Home Mortgage → Home Takaful Plan)

(Car Loan → Motor Takaful Plan)

(Education Loan → Education Takaful Plan)

Accordingly, bancaTakaful is a type of partnership that Takaful operators should consider and adopt. However, bancaTakaful should not be confined to Islamic banks, as Takaful operators can enter into bancaTakaful agreements with conventional banks, provided that all the requirements of the Shariah are adhered to by both parties. In fact, taking into consideration the strength of the conventional banking industry, the success of such a partnership is almost guaranteed.

More importantly, the concept of bancassurance, which is developed by the conventional banking and insurance industries, has proved to be very effective and profitable to both conventional banks and insurance companies. Today, bancassurance dominates a number of western markets, where it became a normal practice for banks to offer specially designed insurance products to their clients. The following chart is aimed at providing a general view on the market share of bancassurance operations in some European and Asian financial markets.




*Continued...*

# BancaTakaful: A Partnership of Success *(continued...)*

## Challenges

Adopting bancaTakaful is not a straightforward process, as it does pose a number of challenges to both Islamic banks and Takaful operators, among them:

- BancaTakaful could be seen as more associated with family Takaful products (long-term policies), rather than general Takaful products (short-term policies). Basically, both family Takaful products and bank products are aimed at asset accumulation and management by financial institutions.[1] However, except in Malaysia, family Takaful products and life insurance as a concept are still struggling to gain acceptance by Muslims because of disagreement on the legality of life insurance under the Shariah. Therefore, confining bancaTakaful to general Takaful products would provide some benefits to the Takaful industry, but the volume of success would be much higher when family Takaful products are included. (See charts below for the performance of life insurance in the Muslim world compared to other markets.)
- The lack of a regulatory framework for bancaTakaful operations could prove to be critical for its success. BancaTakaful needs to have its own regulatory framework and operational standards to become trustworthy and to ensure transparency.
- Shariah supervision is another challenge to bancaTakaful operations. It is possible to find Shariah experts in banking operations, and it is also possible to find Shariah experts in Takaful operations; however, it could prove to be extremely difficult to find a Shariah expert in both industries. Islamic banking and Takaful are completely different financial institutions, each governed by different rules and regulations, and each with different goals and objectives.

*Continued...*

# EVENTS DIARY

**Globalisation of Islamic Banking & Finance**
Park Royal Hotel, Kuala Lumpur
Wednesday, 8th – 9th March 2006
Organized by: Marcus Evans

**Islamic Project Financing**
JW Marriott Hotel, Kuala Lumpur
Monday, 13th – 14th March 2006
Organized by: The Asia Business Forum

**The 1st Islamic Banks & Financial Institutions Conference in Syria: "Islamic Banking's Horizions"**
Le Meridien Hotel, Damascus
Monday, 13th – 14th March 2006
Organized By: Al Salam for International Conferences & Exhibitions

**4th Banking, Insurance, Technologies & Exchange Exhibition BINTEX 2006**
Le Meridea Damascus, Syria
Monday, 13th – 14th March 2006
Organized by: Al Salam for International Conferences & Exhibitions

**2nd Seminar on Legal Issues in the Islamic Financial Services Industry, "Toward An Effective Legal Framework for Islamic Finance: Asset Securitization and Insolvency"**
The Landmark London Hotel, London, UK
Tuesday 14th – 15th March 2006
Organized by: IFSB

**1st GCC Capital Markets Forum**
Al Bustan Rotana Hotel Dubai
Friday 14th – 16th March 2006
Organized by: Saudi Law Training Centre

**International Islamic Finance Forum Middle East**
Dubai, UAE
Sunday, 19th – 22nd March 2006
Organized By: IIR Middle East

**Securitisation World MENA 2006**
The Jumeirah Beach Hotel, Dubai, UAE
Tuesday, 4th – 6th April, 2006
Organized By: Terrapinn

**7th Harvard University Forum on Islamic Finance, "Integrating Islamic Finance in the Mainstream: Regulation, Standardization and Transparency"**
Saturday, 22nd – 23rd April 2006
Harvard Law School, Massachusetts, USA
Organised by: Harvard Law School

**STEP Arabia Conference**
Emirates Tower Dubai
Tuesday, 25th – 26th April 2006
Organised by: STEP

**The World Islamic Funds & Capital Markets Conference & Exhibition**
Manama, Bahrain
7th – 8th May 2006
Organized by: MEGA Events

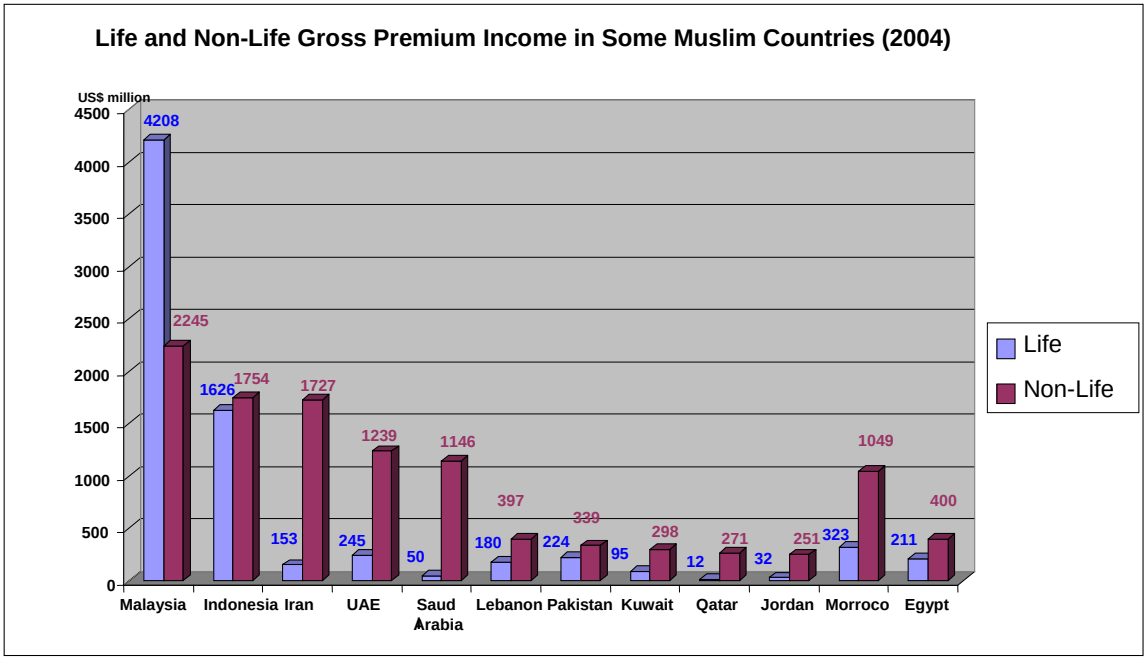
**3rd Islamic Financial Services Board Summit: Aligning the Architecture of Islamic Finance to the Evolving Industry Needs**
The Phoenicia Intercontinental Hotel Beirut, Lebanon
Wednesday, 17th – 18th May 2006
Organized By: IFSB

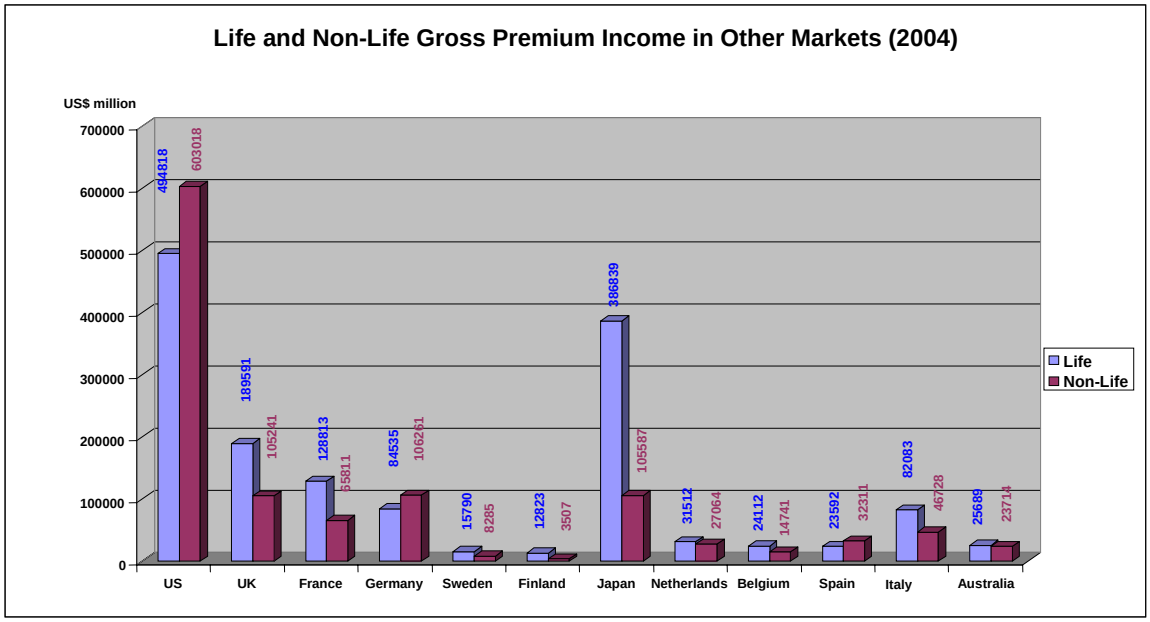
# BancaTakaful: A Partnership of Success *(continued...)*

Undoubtedly, the Takaful industry needs bancaTakaful to improve its services and expand its operations. However, bancaTakaful could fail to deliver its benefits if the above challenges are not addressed and solved by Islamic banks, Takaful operators and financial authorities in the Muslim world. A partnership between Islamic banks and Takaful operators has become a necessity in modern day financial markets. With many Muslim countries are already heading towards opening their markets to foreign competition as part of the free trade and free markets agreements, the Islamic financial industry in general needs to make its practices uniform and begin to forge partnerships between all its sectors in order to meet the stiff competition from the more powerful conventional financial industries.

The author has an LLB in Law and an LLM in International Commercial Law. He is currently studying for a PhD in Takaful at the University of Birmingham, UK. Email: asem_albasheer@yahoo.com.

[1] Life insurance products are very similar, from a technical standpoint, to savings and other products sold by banks, and are marketed as an alternative to these products. They are also fairly straightforward. This means that financial advisors have no difficulty in selling them and banks are not required to make a heavy investment in training. Gilles Benoist, "Bancassurance: The New Challenges" (2002) 27(3) *The Geneva Papers on Risk and Insurance*, p. 298.



# MOVES

## FIRST GULF BANK – UAE (Abu Dhabi)

First Gulf Bank's Board of Directors has elected Shaikh Hazza bin Zayed Al Nahyan to be the bank's Chairman. Shaikh Tahnoon bin Zayed Al Nahyan has been awarded the role of Vice-Chairman.

The Board includes: Ahmed Ali Al Sayegh, Dhafer Sahmi Al Ahbabi, Abdulhamid Saeed, Khaldoon Khalifa Al Mubarak and Khadem Abdullah Al Qubaisi.

The new Managing Director of the bank has been named as Abdulhamid Saeed.

## BANK MUAMALAT – Malaysia

Abdul Manap Abd Wahab has been promoted to Chief Executive Officer of Bank Muamalat.

Abdul Manap, who was previously the Chief Operating Officer of the bank, has over 20 years' experience in banking and finance. He holds a Bachelor in Business Administration from Ohio University in the US, as well as a Masters in Business Administration (Finance) from the University of Hull in the UK.

## CALYON – Asia

Jacques Beyssade had been appointed Head of Capital Markets for the Asia Pacific (excluding Japan) by Caylon.

Mr Beyssade is filling a newly created role as part of a company-wide restructuring program. He has previously worked in Caylon's Americas operations, as well as managing branches in Korea.

## MERRILL LYNCH – Asia

Merrill Lynch has appointed Ron Savino as Chief Operating Officer/Director for Asian prime brokerage. Mr Savino has previously worked for ING Wholesale Bank in Seoul and as a consultant to Goldman Sachs.

In addition, Melvyn Ford has been appointed as Managing Director in Asia in order to expand prime broking capabilities in Asia and Japan to include futures and fixed income.

## SECURITIES COMMISSION – Malaysia

Malaysia's Securities Commission has appointed the first ever woman to hold the position of Chairman. Zarinah Anwar will take up her new role from the 1st April 2006.

Zarinah is currently the Deputy Chief Executive of the Securities Commission, and takes over the Chairman job from Tan Sri Md Nor Yusof, who has been voted onto the board of directors of Khazanah Nasional, where he will also chair the executive committee.

## COMMERCE TIJARI – Malaysia

CIMB's Islamic banking subsidiary Commerce Tijari Bank has appointed Badlisyah Abdul Ghani to be Executive Director/Chief Executive Officer.

Previously Head of CIMB Islamic – which he was instrumental in establishing back in 2002 – Badlisyah is also Group Head of the Islamic Banking Division and a Member of the Group Management Committee of the CIMB Group.

Badlisyah holds a Law degree from the University of Leeds, UK, and has a wealth of experience and expertise in Islamic capital markets in South-East Asia and the Middle East.

## DIFC ISLAMIC FINANCE ADVISORY COUNCIL – UAE (Dubai)

The Dubai International Financial Centre (DIFC) has appointed Aref A. Kooheji as the first Chairman of its Islamic Finance Advisory Council.

Mr Kooheji is the current Chairman of the Liquidity Management Centre, where he has played a key role in the development of the Islamic capital market. He was a strategic contributor to the overwhelming success of the recent Dubai Ports World US$3.5 billion Sukuk offering.

## STANCHART – UAE

Standard Chartered Bank has appointed David Koay to be the new Head of Client Relationships in Wholesale Banking in the UAE.

Mr Koay comes to this role from his previous position with Standard Chartered Bank Malaysia, where he was Head of Global Corporates within the client relationships division.

In his new position Mr Koay will hold responsibility for enhancing the bank's client relationships business as part of the overall group wholesale banking strategy.

## CITIGROUP – Kuwait

Citigroup has appointed Raj Dvivedi to the role of Citigroup Country Officer for Kuwait.

Mr Dvivedi comes to the role from the position of Investment Finance Head at Citigroup Private Bank. He is an experienced banker with extensive and diverse experience in the Middle East in corporate finance and commercial banking, especially in business development, corporate risk management and operations.

Bondweb MALAYSIA

# MALAYSIA ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET: FORTNIGHTLY SNAPSHOT

AS AT 22th Feb 2006

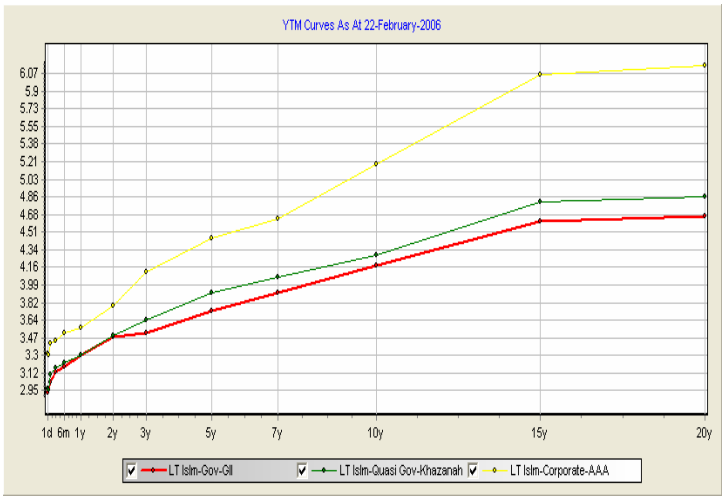
| Key Benchmarks Trend (by volume) | Rating | This week close (RM) | 15/02/2006 (RM) | 08/02/2006 (RM) | 01/02/2006 (RM) |
|---|---|---|---|---|---|
| **Private Debt Securities** | | | | | |
| PLUS 0.00000% 16.06.2017 – SERIES 2 | AAA (RAM) | 52.11 | 52.13 | 51.88 | 52.17 |
| HUBLINE 8.05% 24.12.2012 | A2 (RAM) | 105.07 | 105.40 | 104.40 | 104.57 |
| PUTRAJAYA RM80m 6.600% 05.07.2010 | AAA ID (RAM) | 108.66 | 108.92 | 108.71 | 108.91 |
| PLUS PRIMARY BONDS SERIES 6 – 30.05.2008 | AAA (RAM) | 103.76 | 103.54 | 103.94 | 103.89 |
| SAJH RM150m 25.10.2016 | AA-ID (MARC) | 114.13 | 114.91 | 115.92 | 116.15 |
| **Government Investment Instruments** | | | | | |
| PROFIT-BASED GII 24/2005 08.12.2010 | n/a | 99.93 | 99.96 | 100.04 | 100.22 |
| GII 1/2004 0.00000% 15.06.2007 | n/a | 95.71 | 95.65 | 95.60 | 95.62 |
| **Quasi Government** | | | | | |
| KHA2/03 1B 0-CP 5Y 18/9/08 | n/a | 91.21 | 91.41 | 91.27 | 91.19 |
| KLIA 0.000% 30.01.2016 PN | n/a | 125.75 | 125.78 | 126.27 | 126.59 |
| ADB 3.94000% 10.11.2009 | n/a | 99.96 | 99.96 | 99.98 | 100.01 |
| IFC 2.880% 13.12.2007 | n/a | 98.49 | 98.65 | 98.56 | 98.58 |

SPREAD VS GII (in b.p)

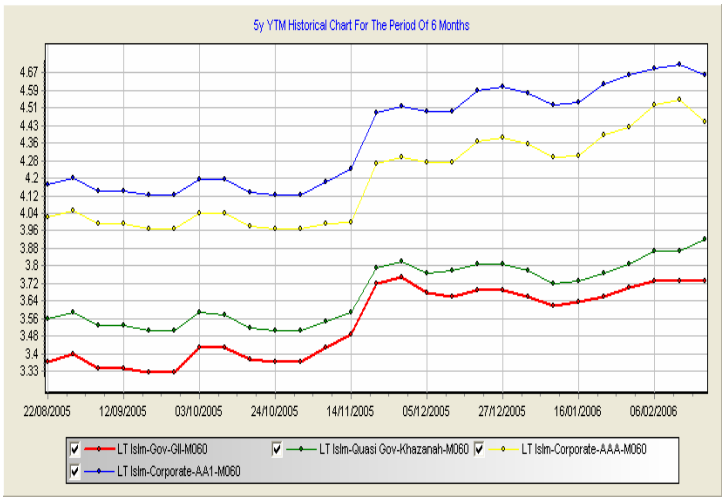
| | TENURE | | | | | |
|---|---|---|---|---|---|---|
| | 1-Year | 2-Year | 3-Year | 5-Year | 7-Year | 10-Year |
| GII | 3.3 | 3.48 | 3.52 | 3.73 | 3.91 | 4.18 |
| Cagamas | 0.29 | 0.31 | 0.46 | 0.41 | 0.42 | 0.33 |
| Khazanah | 0 | 0.01 | 0.12 | 0.19 | 0.16 | 0.11 |
| AAA | 0.27 | 0.31 | 0.60 | 0.72 | 0.73 | 1.00 |
| AA1 | 0.43 | 0.57 | 0.79 | 0.93 | 1.04 | 1.31 |
| A1 | 1.22 | 1.39 | 1.72 | 2.48 | 2.89 | 3.04 |

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves




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




Bondweb MALAYSIA

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Email: enquiries@bondweb.com.my

# ISLAMIC LEAGUE TABLES

## TOP 20 ISSUERS OF ISLAMIC DEBT — March 2005 – March 2006

| | Issuer or Group | Nationality | Instrument | Amt US$ m | Iss. | % | Manager |
|---|---|---|---|---|---|---|---|
| 1 | PCFC Development | UAE | Convertible Sukuk | 3,500 | 2 | 34.4 | Barclays Capital, Dubai Islamic |
| 2 | Emirates Airlines | UAE | Sukuk Al Musharakah | 550 | 1 | 5.4 | Dubai Islamic, HSBC, Standard Chartered |
| 3 | Cagamas MBS | Malaysia | Sukuk Musharakah Islamic Bond | 542 | 6 | 5.3 | CIMB, HSBC, ABN AMRO, AmMerchant |
| 4 | Cagamas | Malaysia | Bithaman Ajil Islamic Securities | 506 | 10 | 5.0 | Cagamas/AmMerchant |
| 5 | Islamic Development Bank | Saudi Arabia | Islamic Bond | 500 | 1 | 4.9 | Deutsche, HSBC |
| 6 | PLUS Expressways | Malaysia | Serial Bai Bithaman Ajil Islamic Securities | 349 | 4 | 3.4 | CIMB |
| 7 | Syarikat Bekalan Air Selangor | Malaysia | Bai Bithaman Ajil Commercial Papers/MTN | 273 | 4 | 2.7 | CIMB, Bank Islam Malaysia, HSBC |
| 8 | Maybank | Malaysia | Islamic Subordinated Bond | 265 | 1 | 2.6 | Aseambankers |
| 9 | Senai Desaru Expressway | Malaysia | Bai Bithaman Ajil Islamic Debt Securities | 249 | 26 | 2.4 | Aseambankers, Standard Chartered |
| 10 | Jimah Energy Ventures | Malaysia | Istisnah Islamic MTN Facility | 245 | 10 | 2.4 | AmMerchant, RHB Sakura, Malaysian International Merchant Bankers, Bank Muamalat |
| 11 | Putrajaya Holdings | Malaysia | Murabahah MTN | 235 | 4 | 2.3 | Alliance Merchant, CIMB, RHB Sakura |
| 12 | DRB-HICOM | Malaysia | Bai Bithaman Ajil Islamic Debt Securities | 209 | 11 | 2.0 | AmMerchant, Malaysian International Merchant Bankers |
| 13 | Konsortium Lebuhraya Utara-Timur (KL) | Malaysia | Redeemable Secured Serial Sukuk Istisnah | 207 | 9 | 2.0 | CIMB |
| 14 | Gold Sukuk dmcc | UAE | Islamic Sukuk Al Musharakah Issue | 200 | 1 | 2.0 | Standard Bank, Dubai Islamic |
| 15 | International Bank for Reconstruction & Development – World Bank | Supranational | Bai Bithaman Ajil Islamic Debt Securities | 200 | 1 | 2.0 | ABN Amro, CIMB |
| 16 | Musyarakah One Capital | Malaysia | Asset-Backed Sukuk Musharakah Issuance Program | 176 | 7 | 1.7 | CIMB |
| 17 | Special Power Vehicle | Malaysia | Bai Inah Islamic MTN Facility | 163 | 13 | 1.6 | Malaysian International Merchant Bankers, AmMerchant, RHB Sakura, Bank Muamalat Malaysia |
| 18 | Ranhill Power | Malaysia | Islamic MTN Programme | 142 | 12 | 1.4 | Aseambankers |
| 19 | Sistem Penyuraian Trafik KL Barat | Malaysia | Al Bai Bithaman Ajil Notes Issuance Facility | 136 | 5 | 1.3 | United Overseas Bank (Malaysia) |
| 20 | WAPDA First Sukuk | Pakistan | Sukuk Al Ijarah | 134 | 1 | 1.3 | Citibank (Pakistan), Jahangir Siddiqui & Co, MCB Bank |
| | Total of issues used in the table | | | 10,174 | 279 | 100.0 | |



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Phone: +852 2804 1223; Fax: +852 2529 4377

# ISLAMIC LEAGUE TABLES

## TOP 20 ISSUERS OF ISLAMIC DEBT — Sep 2005 – Mar 2006

| | Issuer or Group | Nationality | Instrument | Amt US$ m | Iss. | % | Manager |
|---|---|---|---|---|---|---|---|
| 1 | PCFC Development | UAE | Convertible Sukuk | 3,500 | 2 | 55.9 | Barclays Capital, Dubai Islamic |
| 2 | Cagamas | Malaysia | Bithaman Ajil Islamic Securities | 401 | 6 | 6.4 | AmMerchant/Cagamas |
| 3 | Syarikat Bekalan Air Selangor | Malaysia | Bai Bithaman Ajil Commercial Papers/MTN | 273 | 4 | 4.4 | CIMB, Bank Islam Malaysia, HSBC |
| 4 | Maybank | Malaysia | Islamic Subordinated Bond | 265 | 1 | 4.2 | Aseambankers |
| 5 | Senai Desaru Expressway | Malaysia | Bai Bithaman Ajil Islamic Debt Securities | 249 | 26 | 4.0 | Aseambankers, Standard Chartered |
| 6 | Putrajaya Holdings | Malaysia | Murabahah MTN | 235 | 4 | 3.8 | Alliance Merchant, CIMB, RHB Sakura |
| 7 | Konsortium Lebuhraya Utara-Timur (KL) | Malaysia | Redeemable Secured Serial Sukuk Istisnah | 207 | 9 | 3.3 | CIMB |
| 8 | Sistem Penyuraian Trafik KL Barat | Malaysia | Al Bai Bithaman Ajil Notes Issuance Facility | 136 | 5 | 2.2 | United Overseas Bank (Malaysia) |
| 9 | WAPDA First Sukuk | Pakistan | Sukuk Al Ijarah | 134 | 1 | 2.1 | Citibank (Pakistan), Jahangir Siddiqui & Co, MCB |
| 10 | Sime Darby | Malaysia | Al Murabahah CP/MTN Program | 133 | 1 | 2.1 | CIMB, HSBC |
| 11 | Golden Crop Returns | Malaysia | Sukuk Al Ijarah | 117 | 15 | 1.9 | Affin |
| 12 | BNM Sukuk | Malaysia | Sukuk Al Ijarah | 107 | 1 | 1.7 | Government bond/no bookrunner |
| 13 | Tenaga Nasional | Malaysia | Murabahah MTN Programme | 66 | 1 | 1.1 | United Overseas Bank (Malaysia), Aseambankers, Bank Muamalat, KAF Discount, AmMerchant, CIMB |
| 14 | Sarawak Gateway | Malaysia | Redeemable Secured Serial Sukuk Ijarah | 64 | 6 | 1.0 | CIMB, RHB Sakura |
| 15 | Harum Intisari | Malaysia | Murabahah Commercial Paper/MTN Program | 53 | 1 | 0.8 | HSBC Bank Malaysia |
| 16 | Sweetwater SPV | Malaysia | Serial Bai Bithaman Ajil Islamic Securities | 52 | 3.0 | 0.8 | Avenue Securities |
| 17 | Focal Quality | Malaysia | Sukuk Al Ijarah | 50 | 8.0 | 0.8 | OCBC |
| 18 | Sacofa | Malaysia | Istisnah Islamic Bond | 42 | 6.0 | 0.7 | CIMB, RHB Sakura |
| 19 | UEM Builders | Malaysia | Murabahah Commercial Paper/MTN Program | 27 | 1.0 | 0.4 | AmMerchant |
| 20 | Vastalux Capital | Malaysia | Sukuk Musharakah | 26 | 4.0 | 0.4 | KAF Discounts |
| | Total of issues used in the table | | | 6,260 | 132 | 100.0 | |

# ISLAMIC LEAGUE TABLES

| ISLAMIC DEBT | | MAR 2005 – MAR 2006 | | |
|---|---|---|---|---|
| | Manager or Group | Amt US$ m | Iss. | %Share |
| 1 | Dubai Islamic | 2,033 | 4 | 20.0 |
| 2 | Barclays Capital | 1,750 | 2 | 17.2 |
| 3 | CIMB | 1,412 | 52 | 13.9 |
| 4 | HSBC | 924 | 17 | 9.1 |
| 5 | Aseambankers | 542 | 40 | 5.3 |
| 6 | AmMerchant | 522 | 46 | 5.1 |
| 7 | Cagamas | 374 | 9 | 3.7 |
| 8 | Standard Chartered | 316 | 28 | 3.1 |
| 9 | RHB | 280 | 49 | 2.7 |
| 10 | Deutsche | 275 | 3 | 2.7 |
| 11 | United Overseas | 264 | 23 | 2.6 |
| 12 | EON | 206 | 34 | 2.0 |
| 13 | Bank Muamalat | 179 | 49 | 1.8 |
| 14 | Affin | 136 | 17 | 1.3 |
| 14 | Alliance | 132 | 14 | 1.3 |
| 16 | OCBC | 111 | 26 | 1.1 |
| 17 | Government bond/no bookrunner | 107 | 1 | 1.1 |
| 18 | ABN AMRO | 100 | 1 | 1.0 |
| 19 | Standard Bank Group | 100 | 1 | 1.0 |
| 20 | Bank Islam Malaysia | 91 | 4 | 0.9 |
| | Total of issues used in the table | 10,174 | 279 | 100.0 |

| ISLAMIC DEBT | | SEP 2005 – MAR 2006 | | |
|---|---|---|---|---|
| | Manager or Group | Amt US$ m | Iss. | %Share |
| 1 | Barclays Capital | 1,750 | 2 | 28.0 |
| 2 | Dubai Islamic | 1,750 | 2 | 28.0 |
| 3 | CIMB | 516 | 34 | 8.2 |
| 4 | Aseambankers | 400 | 28 | 6.4 |
| 5 | Cagamas | 269 | 5 | 4.3 |
| 6 | HSBC | 220 | 9 | 3.5 |
| 7 | AmMerchant | 170 | 3 | 2.7 |
| 8 | United Overseas | 147 | 6 | 2.4 |
| 9 | RHB | 138 | 18 | 2.2 |
| 10 | Affin | 136 | 17 | 2.2 |
| 11 | Standard Chartered | 125 | 26 | 2.0 |
| 12 | Government bond/no bookrunner | 107 | 1 | 1.7 |
| 13 | Bank Islam Malaysia | 91 | 4 | 1.5 |
| 14 | Alliance | 81 | 5 | 1.3 |
| 14 | OCBC | 73 | 15 | 1.2 |
| 16 | Avenue Securities | 52 | 3 | 0.8 |
| 17 | Citigroup | 45 | 1 | 0.7 |
| 18 | Jahangir Siddiqui & Co | 45 | 1 | 0.7 |
| 19 | MCB | 45 | 1 | 0.7 |
| 20 | KAF Discount | 40 | 7 | 0.6 |
| | Total of issues used in the table | 6,260 | 132 | 100.0 |

| ISLAMIC DEBT BY COUNTRY | MAR 2005 – MAR 2006 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | %Share |
| Malaysia | 5,029 | 269 | 49.4 |
| UAE | 4,250 | 4 | 41.8 |
| Saudi Arabia | 500 | 1 | 4.9 |
| United States | 200 | 1 | 2.0 |
| Pakistan | 134 | 1 | 1.3 |
| Indonesia | 61 | 3 | 0.6 |
| Total | 10,174 | 279 | 100.0 |

| ISLAMIC DEBT BY COUNTRY | SEP 2005 – MAR 2006 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | %Share |
| UAE | 3,500 | 2 | 55.9 |
| Malaysia | 2,627 | 129 | 42.0 |
| Pakistan | 134 | 1 | 2.1 |
| Total | 6,260 | 132 | 100.0 |

| ISLAMIC DEBT BY CURRENCY | MAR 2005 – MAR 2006 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | %Share |
| Malaysian ringgit | 5,229 | 270 | 51.4 |
| US dollar | 4,750 | 5 | 46.7 |
| Pakistan rupee | 134 | 1 | 1.3 |
| Indonesian rupiah | 61 | 3 | 0.6 |
| Total | 10,174 | 279 | 100.0 |

| ISLAMIC DEBT BY CURRENCY | SEP 2005 – MAR 2006 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | %Share |
| US dollar | 3,500 | 2 | 55.9 |
| Malaysian ringgit | 2,627 | 129 | 42.0 |
| Pakistan rupee | 134 | 1 | 2.1 |
| Total | 6,260 | 132 | 100.0 |

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