Islamic Finance news

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UAE (Dubai)

No capital rise for ADIB

Abu Dhabi Islamic Bank (ADIB) is not likely to raise its capital nor allow foreigners to acquire shares in the bank in the short term, despite having secured shareholder approval to raise the share capital from Dh1 billion (US$272.25 million) to Dh3 billion (US$816.75 million) and allow foreigners to own up to 25% of the shares.

"We have got the approval but it will be done at the appropriate time to minimize any negative impact," said Chairman Mohammad Bin Humooda, noting that the proposed increase will be phased in over the next five years.

The proposed increase in share capital will be done through a rights issue and an issue of bonus shares.

MALAYSIA

Endowment fund for INCEIF

Malaysia's Central Bank, Bank Negara Malaysia, has initiated a RM500 million (US$135.3 million) endowment fund to support the operations of the International Centre for Education in Islamic Finance (INCEIF).

Central Bank Governor Tan Sri Dr Zeti Akhtar Aziz said the fund would allow the institution to tap the best human capital worldwide, adding that the establishment of INCEIF represented an investment in human capital to support the global development of the Islamic financial services industry.

The fast pace of innovation in the global financial services in general and in the Islamic financial services sector in particular, Dr Zeti explained, demanded new expertise and skills.

GLOBAL

IDB to double capital

The Islamic Development Bank (IDB) plans to increase its authorized capital to US$45 billion from the current US$22.5 billion. The plan is, however, still at the proposal stage and is expected to be taken up by the governor of the bank at the IDB board of governors meeting in Kuwait in May.

This increase is hoped to help better implement the programs under the recently launched IDB 1440H Vision, which is mainly focused on alleviating poverty, improving health and enhancing the quality of education in the Muslim world (see the last issue of Islamic Finance *news* for full coverage of the IDB 1440H Vision).

KUWAIT

Central Bank urged to expedite Sukuk law

The Central Bank of Kuwait and lawmakers have been urged to expedite the issue of Islamic Sukuk law to increase investment tools in the Islamic financial market.

Chairman of Rasameel Structured Finance Company Mansour Al-Mubarak said the Ministry of Commerce and Industry must strengthen its role in raising the quality and performance of the market by speeding up the establishment of an independent stock market authority assigned to regulate the exchange, to ensure transparency and justice and to promote trust among traders.

In this issue

Note from the Editor

The potential of the Takaful industry is arguably far greater than that of the banking sector, running into billions of dollars. Takaful is an essential part of the social protection needed for any society, whether it is an emerging market or a highly developed and sophisticated environment. Yet it is struggling to become established along the same lines as Islamic banking. While the Islamic banking industry is still reporting growth rates of around 15% per annum, the market penetration of Takaful is still woefully small, averaging less than 2% per capita income.

So the question is why that is so, when much has been said and written about the huge potential the sector is offering. Does it have to do with regulatory matters? It is not unusual to hear comments that some business regulations are an impediment, and not a facilitator, to business growth and expansion (see interview with Mr Mominul Islam Patwary on page 11).

The challenges faced by market participants, and indeed regulators, are not limited to developed or emerging markets. Nor are the impediments limited to Takaful participants. They cross the broad spectrum of Islamic financial institutions; sometimes there is a blurred line between regulatory and market impediments, and some co-exist.

Regulators must strive to meet international standards and best practices in order to promote within their own jurisdictions a sound Takaful industry. This, of course, extends to best practices on an international platform. Robust regulatory practices and standards are of fundamental importance in building and maintaining an efficient, fair, safe and stable Takaful market for the benefit and protection of all policyholders.

Currently, some regulators impose restrictions on the models (such as Wakala or Mudharabah) that Takaful operators can utilize. Harmonization must be strived for across the international Takaful platform.

Turning from the regulatory matters to the players themselves, are they really committed to selling their products? Amazingly, most of the Islamic banking and finance products offered around the world today are without a parallel Takaful wrap. Is this to imply that the interest prohibited in banking transactions is acceptable in Takaful? Unless there is no alternative, interest is interest, forever prohibited in Shariah.

Perhaps the most important ground for optimism for the future development of the Takaful industry is the introduction of regulations making it mandatory to have Takaful cover for all Islamic financing in Malaysia. Takaful coverage forms part of a financing package. For instance, if a bank offers Islamic mortgages, then it has to wrap the product with compulsory mortgage Takaful, which can be offered by the bank, or in co-operation with a Takaful operator. This Malaysian initiative will yet again set an important trend for others to adopt in the global industry.

This is a major development which other countries should emulate, especially to spur on their respective Islamic banking and insurance markets. It is unfortunate that in many of the GCC countries, Islamic mortgages do not have a compulsory Islamic insurance wrap. In fact, in many markets where Islamic mortgages are offered, including the UK, the US, the Middle East and South Asia, mortgages are usually combined with conventional building and contents insurance. In some markets Takaful may, of course, not be available.

The players and regulators must recognize that the Takaful industry is still in its formative years and, as such, many issues need to be resolved. Takaful has its rightful place in Islam, but years of misunderstanding and misconception have created a mental block against insurance in the Muslim culture. At the end of the day, like Islamic banking, Takaful will succeed if it can overcome the practical problems it faces today.

Zakariya Othman, Editor

NEWS BRIEFS

UAE (Dubai)

DIB starts ops in Pakistan

Dubai Islamic Bank (DIB) has started up operations in Pakistan with the opening of its first branch in Karachi. This will be the first of eight branches that are being planned by DIB Pakistan, a wholly owned subsidiary of DIB. Other branches will be located in Islamabad, Lahore, Rawalpindi and Faisalabad.

Pakistan's president General Pervez Musharraf said the brotherly ties between Pakistan and the UAE were cemented through trade and it was hoped that the relationship would be further grown with strong business links in the coming days, bringing the two countries still closer.

"Pakistan is one of the fastest growing economies in the world with a huge inflow of foreign investment and an exponential boom in the finance and banking sectors. This has been made possible through the stable and business-friendly policies of the government that have led to the emergence of Pakistan as an economically progressive nation on the world map," Saad Zaman, CEO of DIB Pakistan commented.

US

Lehman entering Middle East

Global investment bank Lehman Brothers is opening offices in Dubai and Qatar this year, so that half of its revenues will come from outside of the US.

Chief executive officer of Europe and Asia, Jeremy Isaacs, said he was excited about the increasingly active investors and record oil revenues in the Middle East, where there is over US$2.2 trillion of investable assets.

"The petrodollar is real and it is absolutely going to change the balance of the global economic power," Isaacs noted.

Lehman's non-US revenues currently stand at 39%, with around two-thirds of that generated in Europe. The international divisions were the main drivers of growth last year at New York-based Lehman Brothers, and Isaacs said the group was targeting Asia in general and Japan in particular for future investment.

BAHRAIN

GFH rights issue gets huge response

Gulf Finance House (GFH)'s US$188 million rights issue has attracted a huge response from shareholders. The rights offer of 136,155,079 shares will provide the bank with the funding to launch the next phase of expansion into the global markets.

GFH chief executive officer and board member Esam Janahi said the success of the rights issue comes against the backdrop of excellent financial results for 2005, when the bank's consolidated net profit rose by 147% to US$140 million, compared to US$57 million in 2004.

The proceeds from the issue will be used to finance GFH's growth plans both regionally and in other markets such as India, China, South-East Asia and Europe, explained Mr Janahi.

GFH's investment plans include extending the bank's geographical coverage and diversifying its income stream and asset base, enabling it to take advantage of new opportunities that are arising globally in capital markets, private equity, asset management and infrastructure development.

NEWS BRIEFS

QATAR

Doha Bank to go Islamic

Doha Bank's proposed amendments to its Articles of Association, authorizing the bank to set up Islamic banking branches, have received shareholder approval. The alteration of the nine articles will also empower the bank to open branches outside Qatar.

The bank has also unveiled its ambitious expansion plans, gearing up to open branches in India, Washington DC and London and representative offices in Singapore, China, Turkey and Japan.

Chairman of the bank's board, Sheikh Fahad bin Mohammed bin Jabor Al Thani, said that 2005 had been an excellent year for Doha Bank as it witnessed many achievements, including a rise in net profits by 114.4 % to reach QR789.9 million (US$217.02 million) from QR368.4 million (US$101.21 million) in 2004.

QATAR

QIB to launch Investment bank

Qatar Islamic Bank (QIB) has reiterated its plans to launch an Islamic investment bank with a capital of US$1 billion in collaboration with Gulf Finance House. The paid-up capital of the proposed bank will be US$500 million.

General manager Salah Al Jaidah said the proposed Islamic investment bank was to be known as Qatari Finance House and it would be set up within the framework of Qatar Financial Centre (QFC) laws. He stated that QIB's plans to launch the Asian Finance Bank in Malaysia were at the final stages, adding that steps were also being taken to launch a European finance house.

Managing director Abdul Latif bin Abdullah Al Mahmoud announced that QIB bank's net profit rose to QR511 million (US$140.4 million) in 2005, as against QR294 million (US$80.8 million) in the previous year, showing a growth of 74%. Assets increased to QR9.55 billion (US$2.62 billion), from QR7.74 billion (US$2.13 billion) in 2004, registering a rise of 23%, while deposits grew by 18% to reach QR6.87 billion (US$1.89 billion), from 5.82 billion (US$1.59 billion) in 2004.

Al Mahmoud also commented that proposals to distribute 50% bonus shares and 25% cash dividend for last year, as well as plans to float a 20% rights issue, have been approved.

MALAYSIA

Bank Islam bidder evaluated

Proposals by two West Asian parties bidding for a stake in Bank Islam are being carefully evaluated, said Lembaga Tabung Haji (LTH)'s chief executive officer Ismee Ismail, noting that the decision would be made by the end of June. LTH is the biggest shareholder of Bank Islam, with a 29.7% interest.

He explained that they were looking at all angles, especially the strengths of the foreign parties, and stressed that the bidder must add value to the bank.

The two bidders are Bahrain's Unicorn Investment Bank, which has partnered with Oman's largest commercial bank Muscat Bank and the Dubai Investment Group.

UK

Islamic funds initiated

Two funds with an initial capital of £250,000 (US$436,000) are set to provide UK businesses with capital within the limits of Islamic law. The separate funds, of £50,000 (US$87,000) and £200,000 (US$349,000) respectively, are being set up by the North London Enterprise Credit Union (NLECU) and Business Finance North West (BFNW), based in Bolton.

NLECU chief executive Peter Lovell said that research has revealed that a number of clients could not pay interest for ethical reasons. BFNW operations manager Sylvia Philips explained that the primary reason for setting up the fund was because the Islamic business community did not approach banks. The Islamic Bank of Britain and HSBC Amanah have offered to provide basic banking facilities to borrowers.

BFNW had so far received 17 applications and the final fund might amount to £200,000 (US$349,000). The deadline to draw down money from the UK Treasury is the 31st March.

UAE (Abu Dhabi)

ADIB's IPO approved

An extraordinary general meeting of Abu Dhabi Islamic Bank has approved a tripling of the bank's capital to US$814 million, and the sale of 30% of the shares in an initial public offering, as well as a 20% share dividend. Foreigners will be allowed to own up to 25% of share capital.

NEWS BRIEFS

QATAR

Commercialbank to go Islamic

Doha-based Commercialbank has launched a major new strategic initiative in Qatar by becoming the first conventional bank to apply for a licence and to introduce an Islamic banking service unit, Al Safa.

Managing director Hussain Al Fardan said that in the first nine months the new unit had already demonstrated its strong potential in both the corporate and consumer banking services of Commercialbank.

"We will continue to invest in the growth of Al Safa by increasing our branch network and the range of Islamic products and services," he said.

Al Fardan also disclosed that the 40% cash dividend distribution and 50% bonus shares proposals for 2005 had been approved. The bonus issue, he said, would raise the bank's capital to QR1.4 billion (US$384.6 million), from the existing QR934.38 million (US$256.7 million).

The bank achieved record net profits of QR749.5 million (US$205.9 million), an increase of 117% over 2004. Basic earnings per share reached QR8.77 (US$2.41), as against QR6.87 (US$1.89) in 2004. Assets grew by 71% to QR22.2 billion (US$6.1 billion) from QR12.9 billion (US$3.54 billion) in 2004.

LEBANON

IFSB to discuss financial architecture

Central Bank governors of countries like Indonesia, Jordan, Malaysia, Pakistan, Qatar and Singapore will be participating in the 3rd Islamic Financial Services Board (IFSB) Summit held under the patronage of Fuad Siniora, the Prime Minister of Lebanon and hosted by banque Du Liban.

The summit will address a medium-term vision for the industry from a ten-year masterplan framework; the role of the industry in economic development and stability; and the necessary adaptations in the architecture and infrastructure towards achieving the vision, thus maximizing the industry's contribution towards growth with stability. Haruhiko Kuroda, President of the Asian Development Bank (ADB), will give a keynote address at the summit.

UAE (Dubai)

Morgan Stanley opens in Dubai

Morgan Stanley has opened its office in the Dubai International Financial Centre (DIFC) – the group's first office in the Middle East and North Africa region.

John J. Mack, chairman and chief executive officer, said the Middle East region was an area of key strategic focus for the firm and establishing the office would enable the group to build on its long track record by enhancing the services it could offer clients in the region.

Morgan Stanley has been active in the Middle East region since the 1970s, providing a variety of investment banking, asset management and wealth management services.

UAE (Dubai)

New listing on DFM

The Dubai Financial Market (DFM) has announced the listing of a new open-ended fund, managed by the National Bank of Dubai, with a primary objective of seeking capital growth by investing in a portfolio of MENA Equities and Equity linked securities.

The initial subscription in the fund is Dh100,000 (US$27,225), with a subsequent subscription of Dh50,000 (US$13,613). The minimum client holding must remain at Dh100,000 (US$27,225) or above.

DFM Director General Essa Kazim said the recent listing brought the total number of listed funds on DFM to 11 and the total number of securities listed on the market to 50.

UAE (Abu Dhabi)

Al Hajri secures Islamic financing

Al Hajri International Group has secured Dh100 million (US$27 million) in funding from the Islamic Corporation for the Development of the Private Sector for its proposed new factory.

The factory – expected to be built at Mussafah Industrial Area – will manufacture 38,000 tonnes per year of jumbo roll paper, with production starting in two years' time.

The Islamic Corporation, an affiliate of the Islamic Development Bank (IDB), has funded projects totalling US$400 million in the last five years. The Al Hajri project is the sixth funding in the UAE.

NEWS BRIEFS

RATINGS UPDATE

MALAYSIA

Royal Mint Islamic debt facility affirmed

The Royal Mint of Malaysia (RMM)'s RM46 million (US$12.45 million) Murabahah Multi-Option Notes Issuance Facility's long-term rating of A2 and short-term rating of P2 with a stable outlook have both been reaffirmed by Rating Agency Malaysia (RAM).

These ratings mirror RMM's monopoly as the official minter of circulation coins in Malaysia and are supported by the structural features of the facility. However, RAM also took into account RMM's weak balance sheet and the business risks related to its porcelain manufacturing business – Royal Mint Porcelain Manufacturing.

Going forward, RMM's revenue from minting circulation coins is estimated to increase by 2.5 times, underpinned by its new minting charges.

ASIA

Credit quality improves slightly

The credit quality of rated companies in South and South-East Asia has improved slightly in the past six months as regional economies and fuel-dependent industries gained modest relief from relatively stable crude oil prices.

Standard & Poor's Ratings Services (S&P) said the outlook was expected to remain generally stable in the next six months, supported by improvement in regional economies and corporate financial performance.

"Nevertheless, near-term liquidity risk continues to affect companies that have limited access to financial resources," S&P credit analyst Greg Pau said, adding that those companies also faced the challenges of rising costs and increasing competition.

Most of the 18 upgrades over the last six months resulted from S&P's criteria revision on foreign currency ratings above sovereign: certain non-sovereign entities that are considered well-insulated from direct and indirect sovereign risks may achieve a foreign currency rating that exceeds the sovereign foreign currency rating. There were two downgrades and they reflected deterioration of the companies' financial profiles due to heightened refinancing risks.

Debt capital markets in South and South-East Asia remained active. S&P rated six new corporate bond issues totalling US$2 billion. "The market is expected to stay favourable in 2006, with US dollar interest rates likely to be peaking and liquidity remaining relatively strong," Pau noted.

Bond issues from Indonesia and other regional issuers – including the US$1 billion MTN program announced by India's NTPC – indicate prospects for new issuance could remain strong in the short to medium-term.

MALAYSIA

Celcom cancels program

The cancellation of Celcom (Malaysia)'s RM100 million (US$27.07 million) Al Murabahah Commercial Papers program on the 21st March 2006 means that RAM no longer has a rating obligation on the papers and thus the P1 rating is no longer valid.

However, Celcom does still have outstanding obligations on its RM1,100 million (US$297.77 million) Al Bai Bithaman Ajil Bond Issuance Facility, which currently hold an AA1 rating.

SINGAPORE

Temasek unaffected by StanChart buy

Standard & Poor's Ratings Services (S&P) has announced that its rating and outlook on Temasek Holdings is unaffected by the agreement to acquire an 11.55% interest in Standard Chartered, through its wholly owned subsidiary Dover Investments.

S&P believes that the purchase consideration of the acquisition can be accommodated through internally generated resources, without the need for Temasek to take on additional debt. The rating agency said that Temasek's rating continued to be underpinned by a well-diversified portfolio of cash flow generating investments, strong liquidity and cash flow coverage, despite increasing debt, as well as its strong shareholder, the government of Singapore.

NEWS BRIEFS

RATINGS UPDATE *(continued...)*

KUWAIT

BKME's ratings affirmed

Fitch Ratings has affirmed the Bank of Kuwait and the Middle East (BKME)'s ratings at issuer default BBB+ with a stable outlook, short-term F2, individual C and support 2.

The issuer default, short-term and support ratings reflect the high probability of support if necessary. In the first instance, this support is likely to come from the bank's majority shareholder Ahli United Bank. In the second instance, it may come from the Government of Kuwait which, through the Public Institution for Social Security, is the largest shareholder in AUB (20%) and holds a 10% stake in BKME.

The individual rating is premised on BKME's satisfactory profitability, asset quality and cost efficiency. It also reflects the bank's adequate capitalization and its relatively modest franchise.

SAUDI ARABIA

Fitch affirms IDB's rating

Fitch Ratings has affirmed the ratings of the Islamic Development Bank (IDB) at issuer default AA and short-term F1+, with the outlook remaining stable.

The ratings are based on the strong support from the bank's member countries, its extremely low leverage, high liquidity, and prudent risk management policies. The issuer default rating also takes into consideration the additional market funding that will be required by the development of IDB's operations over the next five years.

The IDB benefits from strong support from its 56 member countries. Given IDB's key role in providing finance to Organization of the Islamic Conference (OIC) countries, the willingness of members to continue to provide support is not in doubt. Nevertheless, the capacity to respond to a capital call is not as strong, as less than half of member countries are rated investment grade and the highest rated shareholder – Kuwait, with 12.4% of capital – is rated AA-.

According to its five-year strategic plan for 2005–2009, IDB has planned to raise US$4.7 billion. Although this will be accompanied by a substantial increase in both callable and paid-in capital in 2006, the growth in debt load will translate into higher gearing measures.

UAE (Abu Dhabi)

ADIB A- rated

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

The long-term Islamic debt rating, short-term and individual ratings reflect ADIB's sound asset quality and improving profitability. They also take into account its relatively short operating track record, especially under the current board of directors, rapid asset growth and declining capital ratios.

MALAYSIA

RAM assigns AA2 to Penang Bridge

Rating Agency Malaysia (RAM) has assigned a long-term rating of AA2 to Penang Bridge's RM695 million (US$188 million) Redeemable Zero Coupon Serial Sukuk Istisnah, with a stable outlook. Concurrently, RAM has also reaffirmed the AA2 rating of Penang Bridge's RM785 million (US$212.4 million) Al Bai Bithaman Ajil Facility (BaIDS), with a stable outlook. The RM695 million (US$188 million) Sukuk will be used to partially fund the widening of Penang Bridge.

These ratings are based on the company's healthy profitability, strong cash generating ability and stringent financial covenants, as well as the continually increasing traffic volume on the bridge, not to mention its strategic position as the sole link between Penang island and the mainland.

The structure of the Sukuk has minimized the impact on Penang Bridge's debt service coverage ratio throughout the tenure of the BaIDS. In addition, the government of Malaysia has requested Penang Bridge to undertake additional work on the bridge, which will be funded by a RM183.1 million (US$49.6 million) loan from the government, repayable between 2014 and 2020.

NEWS BRIEFS

RATINGS UPDATE *(continued...)*

UAE (Dubai)

Mashreqbank's programs ratings affirmed

Fitch Ratings has affirmed the ratings of Dubai-based Mashreqbank's euro medium-term note (EMTN) program at long-term A- and short-term F2 for senior unsecured debt, and BBB+ for subordinated debt. The EMTN program has increased in size to US$2 billion from US$750 million.

Fitch emphasizes that the above ratings are for the general program and it cannot be assumed that each individual issue under the program carries the applicable program rating. For example, in the case of indexed notes it is possible that the rating might deviate from the program rating.

UAE (Abu Dhabi)

UNB's ratings affirmed

Fitch Ratings has affirmed Abu Dhabi-based Union National Bank (UNB)'s ratings at issuer default A- with a stable outlook, short-term F2, individual C and support 2.

The issuer default, short-term and individual ratings reflect UNB's consistent profitability, satisfactory liquidity, improving asset quality and a stable customer deposit base. They also reflect the increasing pressure on margins, strong loan growth and fairly high corporate loan concentrations. The support rating reflects the high probability of support from the UAE authorities, should it ever be required.

UNB's 2005 results showed a significant improvement on 2004 with reported net income of Dh1.15 billion (US$310 million), equating to a return on equity of 31%.

MALAYSIA

AmMerchant Bank upgraded

Fitch Ratings has upgraded AmMerchant Bank's long-term Foreign Currency Issuer Default Rating (IDR) to BB+ from BB- and its individual rating to C/D from D.

The agency has also upgraded AmMerchant's deposit rating to BBB- from BB, to reflect the depositors' preference in Malaysia. Simultaneously, Fitch affirmed the short-term foreign currency IDR at B, and support 3. The outlook on all the ratings is stable.

These upgrades are in response to AmMerchant's improved credit profile, as reflected in its significantly reduced non-performing loan levels, supported by management efforts to improve the bank's risk management practices.

The rating action reflects AmMerchant's adequate capitalization and stronger profitability in the past two years, although Fitch also notes the inherent volatility in dependence on trading income.

BAHRAIN

AUB's outlook looks up

Fitch Ratings has amended Bahrain-based Ahli United Bank (AUB)'s rating outlook to positive from stable. Its ratings are affirmed at issuer default BBB+, short-term F2, individual B/C and support 2.

The new positive outlook reflects Fitch's view that an upgrade over a one- to two-year period is likely if the bank succeeds in strengthening its Tier 1 capital ratio and sustaining its profitability growth. Since its formation in 2000, AUB has made significant progress in expanding its franchise beyond its initial Bahraini and UK operations.

The issuer default, short-term and individual ratings are underpinned by AUB's healthy profitability, sound liquidity and good asset quality. They also take into account the bank's lower Tier 1 ratio, following its first-time consolidation of Bank of Kuwait and the Middle East.

NEWS BRIEFS

RETAIL NEWS

SAUDI ARABIA

IDB signs US$50 million deal

The Islamic Development Bank (IDB) and JP Morgan Chase & Co have signed a US$50 million trade finance agreement to promote trade in IDB member countries.

The agreement was made in the context of the efforts of the IDB to mobilize additional resources from financial markets to promote trade operations within IDB member countries.

IDB's vice president of trade and policy, Dr Syed Jaafar Aznan, said that the agreement reflected the credibility of the bank in the financial markets, noting that the IDB's trade finance programs for member countries totalled US$2 billion annually.

UAE (Dubai)

Amlak Finance to go Islamic

The UAE's biggest home finance company, Amlak Finance, has applied for an Islamic banking licence to help it reduce the cost of funds and broaden its product range.

Chief executive Mohammad Ali Al Hashimi said an Islamic banking licence would help Amlak to reduce the cost of funds through the cheaper savings and current accounts which banks had access to.

"We operate like a bank, we lend to our customers for up to 25 years but we cannot accept deposits from them," he explained, adding that Amlak had a strong customer base and an Islamic banking licence would help it to offer new products to them and boost overall shareholder value.

MALAYSIA

MBS offers Islamic financing

Malaysia Building Society (MBS) has introduced its latest Islamic property financing called MBS EZ-i, which uses both the market's fixed and floating rate mechanism. MBS EZ-i is a hybrid of its existing Property Financing-i and is based on the Bai Bithaman Ajil concept.

MBS chief executive officer Ahmad Farid Omar said its Islamic product boasted unique features and versatility as compared to other conventional and Islamic mortgage products, as it offered competitive rates throughout the mortgage tenure with rebates.

"Customers have an added protection because the Ceiling Profit Rate is capped and therefore customers can benefit from the low profit rate environment," he said, highlighting that MBSB EZ-i was targeted at both Muslim and non-Muslim house buyers.

"We anticipate this product to be a hit with its features that are distinctive and appealing yet flexible and applicable to our customers' preference and lifestyle," he stated.

BAHRAIN

Islamic banks property deals exempted

Individuals and companies purchasing properties through Islamic banks or any other financial organization might be exempted from paying real estate fees when they own the properties, according to a new parliamentary proposal.

In tabling the proposal, Deputy Jihad Bukamal pointed out that Islamic banking had been very active in Bahrain, especially in the real estate sector, following leasing and Murabahah schemes. However, he said the banks should be provided with more privileges to enhance their operations.

"Bahrain has been attracting Islamic banks and the proposal, if accepted, would only hasten the process and help Bahrain become the hub of Islamic banking in the region soon," he said, noting that the proposal was also expected to attract investments and further develop the real estate sector to enhance its contribution to the national economy. More importantly it would help curb illegal practices to avoid paying real estate fees.

NEWS BRIEFS

RETAIL NEWS *(continued...)*

UK

US$11.34 million loss for IBB

The Islamic Bank of Britain (IBB) has registered a £6.5 million (US$11.34 million) loss for the 2005 financial year. Its deposits grew at only 40% to £6.5 million (US$83.22 million) following the withdrawal of half of a single £14 million (US$24.43 million) deposit by a founding shareholder.

According to its chief executive officer Michael Hanlon, the Birmingham-based bank had set itself some specific targets, including internet banking as from next month, increasing branch numbers from seven to 12, moving into home loans with a third-party supplier, establishing "relationship banking" for rich people and small businesses, and launching an Islamic credit card.

"We also want to take the bank into continental Europe and move into Islamic insurance. This is based on the mutual principle and can be very profitable," said Hanlon.

UAE (Sharjah)

SIB appointed advisor to Council

Sharjah Islamic Bank (SIB) has been appointed advisor to the Sharjah Consultative Council, which will explore possible areas of co-operation and business development opportunities, especially in the area of Emiratization, customer service, project finance and community relations.

Hussain Al Qemzi, CEO of SIB, commented that the bank was honoured to be appointed, and it believed that any co-operation between the two organizations would be of great benefit to everyone.

"We look forward to pursuing this relationship further on a long-term basis," he commented.

MALAYSIA

MAAKL's new funds

MAAKL Mutual has launched its 15th and 16th new unit trust funds, namely the equity income-based MAAKL Dividend Fund and the Islamic balanced income-based MAAKL Al-Umran.

The issue price for both MAAKL Dividend and MAAKL Al-Umran is RM0.25 (US$0.07) per unit during the 21-day offer period, which started on the 28th March and runs to the 17th April 2006. The minimum initial investment is RM1,000 (US$275), and RM1,000 (US$275) for additional investment.

MAAKL Dividend is designed for investors who prefer a regular income stream, stable investment returns and potential for medium to long-term capital appreciation between three to five years, said MAAKL Mutual's chief executive officer Wong Boon Choy.

UAE (Sharjah)

SIB to provide financing

Sharjah Islamic Bank (SIB) has been appointed to provide Islamic financing for the Dh110 million (US$29.97 million) Sama Residence towers.

The financing, of up to 70% of the value of the chosen property, will be through Ijarah, the Shariah compliant financing scheme that allows installments over 12 years, after which the buyer owns the property.

Developed by Shamsi & Shamsi Holdings, prospective owners and investors can choose from a one-bedroom apartment worth Dh353,000 (US$96,180); a two-bedrooom flat for Dh635,000 (US$173,000); and a three-bedroom apartment for Dh895,000 (US$243,850).

THIS TIME LAST YEAR

Indonesia's **Bank Syariah Mega** declared plans to open a further 16 branch offices before the end of the year; Malaysia's **RHB Capital** teamed up with Dow Jones to establish and market the **Dow Jones-RHB Islamic Malaysia Index**; **ART Marine** teamed up with **AMLAK Finance** to offer financing facilities to buyers of their craft; Saudi Arabia's first timeshare property, the **Zam Zam Tower Complex**, was funded with Shariah compliant financing – Sukuk Al Ijarah and Sukuk Al Intifaa (timeshare bond); **Bank Islam Malaysia** announced an 8.5% increase in profits before tax and business zakat to US$25.79 million for 2004; Indonesia's largest Islamic bank, **Bank Syariah Mandiri**, recorded a 145% increase in Shariah financing to US$564 million in 2004; Saudi Arabia's new Islamic bank, **Bank AlBilad**, announced plans to open branches in the second half of 2005 and launch the Kingdom's first Islamic bond in 2006; Bahrain's **First Islamic Investment Bank** changed its name to **Arcapita Bank**; the **Islamic Bank of Brunei** announced it would give fellowship awards in Islamic banking and finance at the **University Brunei Darussalam**; **Affin Bank** had obtained approval in principle to undertake Islamic banking business via a new subsidiary; **Maybank Group** announced its expectation of achieving premiums of US$1.18 million within three months of the introduction of its Takaful Alif endowment education plan; **Bangladesh's Ministry of Commerce** received 11 applications to open Islamic life insurance companies; **Arab Insurance Group's** proposal for a new re-Takaful company was approved; and **Abu Dhabi National Takaful** received approval to be listed on the **Abu Dhabi Securities Market** and the **Dubai Financial Market**.

Islami Bank Bangladesh's executive committee chairman, Mr Mominul Islam Patwary, expresses his views to Islamic Finance *news*

By Zakariya Othman

The Bangladesh Bank has issued a guideline on Islamic banking which allows a commercial bank to form a separate company in order to operate Islamic banking. However, to most local bankers, the establishment of a legal framework is more urgent that mere guidelines by the Central Bank.

Since independence, a new trend in the Bangladeshi banking environment has seen some entrepreneurs actively working for the introduction of Islamic banking. Two professional bodies – the Islamic Economic Research Bureau and the Bangladesh Islamic Bankers Association – have taken practical steps for imparting training on Islamic economics and banking, and have arranged an international seminar on the topic, in addition to national seminars and workshops to mobilize local and foreign investors. These concentrated mainly on mobilizing equity capital for a prospective Islamic bank.

Due to the continuous and dedicated work of the above-mentioned groups and individuals, as well as active support from the government, Islamic banks were established in the early eighties and have been operating in Bangladesh for about one and half decades, alongside conventional banks.

Although there is no complete Islamic Banking Act to control, guide and supervise the Islamic banks in Bangladesh, some Islamic banking provisions have been incorporated into the amended Banking Companies Act 1991.

Bangladesh Bank did not set up a separate department to control, guide and supervise the operation of Islamic banks. Inspection and supervision of Islamic banking operations is conducted by Bangladesh Bank as per the general guidelines framed for conventional banks. So the task of ensuring implementation of Shariah principles in Islamic banks is left to the banks' own Shariah councils.

The role of Bangladesh Bank in supervising Islamic banks in accordance with Islamic Shariah is minimal. In observing the Shariah implementation status of an Islamic bank, Bangladesh Bank examines only the report of a bank's Shariah council. However, the inspectors of Bangladesh Bank are not familiar with the technicalities of the different operational methodologies of Islamic banking.

As such, Islami Bank Bangladesh (IBB)'s executive committee chairman, Mr Mominul Islam Patwary, stressed that the Central Bank's guideline on Islamic banking would surely play an important role in operational activities, but the enactment of an Islamic banking law is more necessary.

He stressed that in order to provide the legal foundations for the supervision of Islamic banks, it was necessary that either the general banking laws or specific laws relating to Islamic banks defined in detail the nature of those banks and their specific operating relationship with the Central Bank and other conventional banks, if applicable.

"Malaysia and Sudan, for instance, have Islamic banking laws, while in Bangladesh, Islamic banking has been performing for more than 22 years without any such law," he pointed out.

Highlighting the fact that the Central Bank should play a positive role in the promotion, regulation and supervision of all financial institutions, with the objective of helping them to become healthy and strong, he pointed out that Central Bank might have to review all existing laws and amend or reconstitute them in the light of Islamic teachings.

The reformed banking legislation should reflect the different needs of the Islamic financial system and not be mere amendments to the existing system, he said.

Expressing his regret at this situation, Patwary said although Islamic banks had become one of Bangladesh Bank's major sources of revenue, no legal framework for Islamic banks had yet been formulated.

The six commercial banks presently offering Islamic banking in the country are IBB, Al-Arafah Bank, Social Investment Bank, Exim Bank, Oriental Bank and Shahjalal Islami Bank.

Another area of concern raised by Patwary with regard to the new Islamic banking guideline was the Shariah supervisory council. Presently, Islamic banks have their own Shariah supervisory council, the highest body engaged in providing counselling on the Islamic rules of operating banking activities, ensuring that the Islamic bank operates in accordance with Islamic principles. This is based on the Islamic Development Bank's guidelines, which state that every Islamic bank must form a Shariah council to supervise all operational activities.

However, the new guideline is likely to make the formation of a Shariah supervisory council for Islamic banks optional, rather than mandatory, as a bank's board of directors will be liable to Central Bank for all the banking activities.

> "When the Shariah supervisory council is made optional, banks will not comply with the basic principles of Islam in operating the banking activities"

Terming the optional formation of Shariah supervisory council a "destructive move," Patwary said it was vital to have such a council to ensure absolute Islamic banking.

"When the Shariah supervisory council is made optional, banks will not comply with the basic principles of Islam in operating the banking activities," he said.

As for IBB, Patwary disclosed that the bank had a 10-member Shariah council consisting of Fuquhah, Islamic economists and a lawyer. The council, he said, gave decisions on Islamic issues, which were generally followed by the bank. He added that the council also conducted audits of bank branches each year on a selective basis and put forward reports identifying deviations and suggestions for the purification of banking transactions.

On the development of Islamic banking in Bangladesh, Patwary reiterated that the Central Bank should be the pivot of the Islamic banking system, because only through its conscientious and creative efforts and eternal vigilance can the Islamic financial and banking system function properly and achieve its objectives.

Central Bank "should be an autonomous government institution responsible for the realization of the socio-economic goals of the Islamic economy in the sphere of money and banking," he concluded.

The Need for Islamic Accounting

By Bala Shanmugam and Vignesen Perumal

This is the second section of a two-part article on accounting standards. The first part, which appeared in the last issue of Islamic Finance news, set out the history of accounting and examined conventional accounting standards. This week, the article will look at Islamic accounting and the need for standards in this sector.

Islamic accounting standards – an alternative

Before we even attempt to explain the basic principles of Islamic economics, the principles of economic liberalism from an Islamic view should be expressed. Adam Smith, the neo-classical school of economics, and more recent post-war economists such as Milton Friedman, considered the following principles while formulating theories:

- Private property rights.
- Individual sovereignty.
- Self-interest.
- Rationality.
- Self-regulating market.

Needless to say, economics as that part of man's activity which deals with the production of goods, the amassing of wealth, labour, work, trade and exchange of material objects, has been important in every civilization.

However, from the Islamic point of view, as in other traditional civilizations, economics was never considered as a separate discipline or distinct domain of activity. As a result, there is not even a word to describe economics in classical Arabic. As such, the term Iqtisad ("economic") – a fairly recent translation of the modern term "economics" in Arabic – has an entirely different meaning in classical Arabic. What it primarily means is moderation.

The Islamic economy is composed of three broad and basic components:

- The principle of multi-faceted ownership.
- The principle of economic freedom within a defined limit.
- The principle of social justice.

Hayashi states: "The traditional western double-entry accounting technology is well-suited to an orthodox, positivist society of any kind. It is not surprising that this is proving inadequate, as people are returning to more integrated world views, whether Islamic or otherwise."

What exactly is meant by Islamic accounting standards? Before one begins to answer this question, one has to understand the objectives of Islamic principles. The Holy Quran states: "In their wealth there is a known right for those who ask for it and those who have a need for it." This can be interpreted as wealth maximization not being the sole objective of economics in Islam. In fact, this distinction has been succinctly summed up by Crane:

> "Western economists generally cannot conceive of any measure that extends beyond the material world, whereas Muslims generally cannot conceive of any measure that does not."

The basic framework, then, for an Islamic financial system, is a set of rules and laws, collectively referred to as Shariah, governing economic, social, political, and cultural aspects of Islamic societies. Shariah originates from the rules dictated by the Quran and its practices, and explanations rendered (more commonly known as Sunnah) by the Prophet Muhammad. Further elaboration of the rules is provided by scholars in Islamic jurisprudence within the framework of the Quran and Sunnah.

The major reasons for Islamic transactions insisting upon an alternative framework for reporting are due to the existence of the following viewpoints and practices.

Prohibition of interest

Riba means "excess" and can be interpreted as "any unjustifiable increase of capital whether in loans or sales." More precisely, any positive, fixed, pre-determined rate tied to the maturity and the amount of principal (i.e. guaranteed regardless of the performance of the investment) is considered riba and is prohibited. The general consensus among Islamic scholars is that riba covers not only usury but also the charging of "interest," as widely practiced.

This prohibition is based on arguments of social justice, equality, and property rights. Islam encourages the earning of profits, but forbids the charging of interest because profits, determined ex post, symbolize successful entrepreneurship and creation of additional wealth, whereas interest, determined ex ante, is a cost that is accrued irrespective of the outcome of business operations and may not create wealth if there are business losses. Social justice demands that borrowers and lenders share rewards as well as losses in an equitable fashion and that the process of wealth accumulation and distribution in the economy be fair and representative of true productivity.

Risk sharing

Because interest is prohibited, suppliers of funds become investors instead of creditors. The providers of financial capital and entrepreneurs share business risks in return for shares of the profits.

Money as "potential" capital

Money is treated as "potential" capital – that is, it becomes actual capital only when it joins hands with other resources to undertake a productive activity. Islam recognizes the time value of money, but only when it acts as capital, not when it is "potential" capital. Iqbal and Amerah state productive assets as cash in hand and at the bank, stocks, shares, bonds and securities, inventories of finished goods intended for sale, fixed industrial assets, not directly because they are not surplus assets, but indirectly, based on input, earnings from rented buildings and land and net receivables (accounts receivable, less expected bad debts, minus accounts payable).

Prohibition of speculative behaviour

Islam discourages hoarding and prohibits transactions featuring extreme uncertainties, gambling, and high risks.

Sanctity of contracts

Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard.

Shariah approved activities

Only those business activities that do not violate the rules of Shariah, or Islamic law, qualify for investment. For example, any investment in businesses dealing with alcohol, gambling, and casinos would be prohibited. Some of the common terms used in Shariah principles in accounting are set out below.

Zakat

This term literally means purification and is the second most important duty of a Muslim. Its purpose is to eradicate poverty by redistributing wealth from the relatively well-to-do to the poor and needy. Zakat is

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not considered charity, but something that rightly belongs to the poor and needy. Thus zakat keeps wealth circulating in society constantly and thus creates a society based on mutual assistance and, if properly developed, guarantees a minimum level of living for all people.

Mudarabah
This can be described as trust financing. The bank acts as a partner, providing cash to the borrower and sharing in the net profits and net losses of the business. The loan is for an undetermined period, although the contract may be rescinded by either party.

Murabahah
Cost-plus trade financing. The bank, as a partner, provides financing for purchasing of goods, for a share in profits, once the goods are sold. The bank may or may not share any losses incurred. Repayment may either be in a lump sum or in installments.

Musharakah
Defined as participation financing. The bank provides part of the equity and part of the working capital for the business, and shares in the profits and/or losses.

Ijarah
Ijarah can be explained as rental financing or leasing. The bank purchases a piece of equipment and rents it to the business. Alternatively, for hire purchase contracts, the business partly purchases and partly rents the equipment.

Differences between conventional and Islamic accounting

In some ways Islamic accounting can be stated as a "wholesome accounting process" because it provides appropriate information, which is not necessarily limited to financial data to stakeholders, of an entity. According to some authors, using an Islamic accounting system will assure stakeholders that the entity is continuously run within the limits of the Islamic Shariah and that the entity delivers on its socio-economic objectives. As such Islamic accounting is considered a God-induced tool, which enables Muslims to evaluate their own accountabilities to God in relation to inter-human and environmental relations.

In essence it can be argued that an accounting system based on Islamic principles can be expected to be stable, owing to the elimination of debt financing and enhanced allocative efficiency.

Islamic accounting models will be more stable, since the term and structure of liabilities and assets are symmetrically matched through profit-sharing arrangements; no fixed interest cost accrues; and refinancing through debt is not possible. Allocative efficiency then occurs because investment alternatives are strictly selected based on their productivity and the expected rate of return. In addition, Islamic accounting models support the growth of entrepreneurship without greed.

The meaning of Islamic accounting becomes clearer when compared with the definition of conventional accounting. Conventional accounting according to the AAA (1966) definition is the identification, recording, classification, interpretation and communication of economic events to allow users to make informed decisions.

It can thus be seen that there is common ground in both definitions, which in essence is in the provision of information. However, this is only on the surface, as there exist numerous differences. For instance one must ask these questions:

1. What are the objectives of providing the information?
2. What is the type of information that has been identified?
3. How is the information measured, valued, recorded and communicated?
4. To whom will the information be communicated, i.e. who are the users?

As we know, conventional accounting seeks to allow informed decisions whose ultimate purpose is to efficiently allocate scarce resources available to their most efficient (and profitable) users by providing information in the market (FASB, 1978). However, in meeting this objective, the end result is for a profit, as the user either makes a buy, sell or hold decision on his investments.

On the other hand, Islamic accounting attempts to answer the above questions through its own merits. The aim is to enable users to ensure that the Islamic organization (whether a business, government or non-profit organization) abides by the principles of the Shariah in its dealings. By doing this it enables the assessment of whether the objectives of the organization are being met. At the simplest level, Islamic organizations (whether business or otherwise) differ from their conventional counterparts by having to adhere to certain Shariah principles, and also try to achieve certain socio-economic objectives encouraged by Islam.

However, this does not mean Islamic accounting is not concerned with money or profit. On the contrary, due to the prohibition of interest-based income or expense factors, profit determination is more important in Islamic accounting than conventional accounting. There is a difference, however, as Islamic accounting must be holistic in its reporting. Therefore its reporting includes both financial and non-financial measures with regard to economic, social, environmental and religious transactions.

Another salient point in conventional accounting is it mainly uses historic costs (or lower) to measure and value assets and liabilities. The accounting profession is now quite aware of the limitations of using such an assumption. However, despite recommendations for using current values rather than historic costs, this initiative was abondoned due to its complexity and presumed lack of objectivity.

However, current values can be used in Islamic accounting, at least for the computation of zakat, where current valuation is obligatory. The accounting period for zakat purposes is different from the conventional accounting period, as it is necessary to follow the Hijri'iah year and not the Gregorian year in the payment of zakat.

Another difference is that Islamic accounting may require a different statement altogether, mainly to de-emphasize its focus on profits via the income statement, as measured by conventional accounting standards. In fact, Baydoun and Willet have even suggested a Value Added Statement (VAS) to replace the Income Statement in Islamic corporate reporting. They argue that using a VAS encourages a co-operative environment in business (sidelining the greed motive), as opposed to a destructive, competitive environment.

Although the accounting profession has recognized various stakeholders as users of accounting information, it still considers that the main users are the shareholders and creditors of a company. This is based on FASB's definition, which dismisses a whole range of stakeholders under the term – "and others." Current practices in global financial markets have led some authors to believe that conventional accounting seems to be serving a select group of financiers consisting of wealthy individuals, banks and other financial institutions. Current accounting practices have been accused of helping a group of rich people get richer (Gray et al), a critical view indeed, as the profession more often

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The Need for Islamic Accounting *(continued...)*

than not justifies its monopoly on audit services by virtue of its practice of safeguarding public interest. Table 1 spells out the similarities and differences between conventional and Islamic accounting models.

Islamic accounting as a whole is able to serve the whole gamut of stakeholders. Its principles also suggest that it does not serve the interest of any particular group, but society as a whole, which can make corporations accountable for their actions and ensure they comply with Shariah principles. Consequently it will not harm others while making money ethically and achieving equitable allocation and distribution of wealth.

Table 1: Similarities and differences between Islamic and conventional accounting

Elements	Anglo-American Model	Islamic Model
Economic approach	Micro	Macro
Primary users	Investors and creditors	State, management, people
Accounting policy	Goal oriented	Value oriented
Asset valuation	Historical cost price	Current price
Income determination	Revenue–expense approach	Asset–liability approach
Time value of money	Yes	No
Time period	Yes	Yes
Primary focus	Income statement	Balance sheet
Theoretical concept	Entity theory	Proprietary theory
Going concern postulate	Based on income	Based on Islamic law
Fixed interest	Yes	No
Legalistic orientation	Common law	Religious law
Accounting ethics	Professional ethics	Religious ethics
Stock exchange market	Yes	Yes
Bonds	Yes	Yes with conditions
Accounting approach	Value approach	Event approach
Dichotomy of business and private morality	Yes	No

Source: Taheri (2003) http://islamic-finance-net/islamic-accounting/acctg6.html.

Improving conventional and Islamic accounting relations

Having noted the differences present in conventional and Islamic accounting systems, one wonders if there is thus a need to prepare two sets of accounts reflecting both calendar years and their respective principles. Shariah compliant financial instruments simply cannot be used in conventional systems, since the International Financial Reporting Standards (IFRS) are based on interest-based elements.

However, answering this question can be a difficult task. The reason being that conventional accounting is still widely used in western countries where Islamic banks and businesses operate, and to have separate accounting systems would be an immense task. Instead, Archer and Rifaat argue that the requirement be seen as complementary.

In this regard it is most fortunate that the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAOIBFI) was institutionalized in 1991. FAOIBFI was later renamed AAOIFI to reflect accounting standards that were based on Islamic Shariah. AAOIFI's goals were to utilize the identified recognition, measurement, presentation and disclosure requirements and to develop guidelines that catered for the specificities of Shariah contracts, but complemented transactions carried out by institutions offering IFRS.

In addition, AAOIFI has taken the lead where there is no IFRS available. AAOIFI spearheaded the development of four accounting standards for Islamic insurance companies, or what is known in Malaysia as Takaful insurance, before IASB issued its first exposure draft for insurance contracts.

Conclusion

From the above discussion there can be little doubt that the use of conventional accounting systems based on the Anglo-American model in Islamic countries is only suitable in a narrow context, and that mainly for political and economic reasons.

As Taheri argues, there is a need to study values and norms from Islam's perspective and their effects on accounting practices. Mueller, Gernon and Meek have described the Islamic accounting model as an emerging model.

However, in reality it must be noted that without the application of Shariah principles, implementing Islamic accounting is almost impossible. Factors that need to be considered include: Islamic economic items, of which social justice elements such as riba, zakat and Islamic ethics are considered important.

Unfortunately, some authors claim that the establishment of the AAOIFI is in name only, and that the entity lacks the clout to enforce such standards. Thus far the implementation of Islamic accounting according to AAOIFI in Muslim nations has been heavily dependent on the co-operation of accounting scholars in those countries. Moreover, a challenge that needs to be addressed is the lack of standardization of the Shariah provisions in IFRS-type contracts.

At the same time there are critics who argue that although AAOIFI's standards would complement the financial statements of institutions that use IFRS, they would also disadvantage these institutions at the international level. They argue that IFRS is becoming the lingua franca of financial reporting, and thus institutions that adopt AAOIFI's standards would need to prepare two sets of accounts, a costly affair.

In the final analysis, the states of the Organization of the Islamic Conference (OIC) should support the growth of Islamic accounting and remove such barriers that obstruct the development of Islamic accounting in a cohesive manner. Otherwise, Islamic accounting will not have the clout to be globally reckoned with or to make a lasting impact in the accounting world.

MONASH University Malaysia
A campus of Monash University at Sunway

The authors are from Monash University Malaysia.
References are available on request from the authors.

Industrialists in Nigeria Looking Forward to Islamic Banking

By Ahmad Abu Bakar

In Nigeria, the non-interest bank pioneered by Jaiz International plc (JIP) is being anticipated as a balm to the cut-throat interest rates being charged by conventional banks, with negative multiplier effects on the economy.

Chairman of the National Association of Small Scale Industrialists (NASSI) in Nigeria, Mr Duro Kuteyi, said that small-scale industrialists are eagerly awaiting the proposed advent of Islamic banking, which is purposely conceived to cater for the need of small-scale industrialists.

He was quoted as saying: "We are ready to work with them. We are even ready to sign a memorandum of understanding with them so that we can work together for the progress of the economy." NASSI boasts a membership of 150 industrialists comprising both Muslims and Christians.

Nigeria's proposed first Islamic bank is expected to commence operations before the end of 2006, subject to meeting the Central Bank of Nigeria's minimum operation capital requirements. At present, JIP is undertaking a private placement of 10.5 billion ordinary shares of N1 (US$0.00787) each at N1 (US$0.00787) per share. This exercise is expected to end by mid-April. A positive response to the ongoing private placement will bring the share capital of the company to N13 billion (US$102.26 million), from the N2.5 billion (US$19.68 million) it had earlier raised through an Initial Public Offering (IPO). It also intends to raise another N13 billion (US$102.26 million) through a public offering by the third quarter of 2006. According to the organizers, the fundraising exercise is with the view of meeting and even surpassing the N25 billion (US$196.84 million) minimum capital base stipulated by Central Bank for banks to operate in the country. Alhaji Mohammed Bintube, managing director of JIP, described the response to the ongoing private placement as impressive, saying: "with the looks of things, we may even surpass the target." According to Bintube, the offer appeals to both Muslims and Christians, as many Christians have been registering their interest.

The banking industry remains one of the fastest growing sectors in the Nigerian economy, with a consistent average annual growth rate of 33% in gross and net earnings since 1998. The sector also accounts for over 90% of total financial savings in the economy, with total assets and liabilities in excess of N4.48 trillion (US$35.27 billion), as cited in Central Bank of Nigeria's October 2005 report. According to the Nigerian Stock Exchange (NSE) official list as at the 31st December 2005, the banking sector accounted for over 51% of total market capitalization of the NSE; and between 1998 and 2004, recorded an average return on equity of over 35%. The industry has undergone significant changes over the past 18 months, ranging from number of products and services to ownership structure and depth and breadth of operations. There were 89 banks with over 3,300 branches operating nationwide prior to the governor of Central Bank's announcement – on the 6th July 2004 – of a new minimum capital base of N25 billion (US$196.84 million) for each bank.

No less than 25 of Nigeria's banks were, at best, marginal operators and the remainder, although sound, could not compete globally on account of their limited capital base. So in order to prevent potential financial crises, as well as to strategically position local banks in the emerging world economy, Nigeria's Central Bank increased the minimum capital base to N25 billion (US$196.84 million) and encouraged banks to consolidate and/or raise additional capital to ensure compliance. Following the expiration of the 31st December 2005 deadline, 25 banks have emerged on the Nigerian list of consolidated and recapitalized banks. It is expected that these banks will achieve their full potential and act as catalysts for economic development.

When JIP's share capital-raising endeavours are completed, the bank hopes to emerge as a minimum capital base compliant bank, joining the current list of 25 Nigerian banks as the only banking institution to offer non-interest based products and services.

Motivated by the rapid growth of non-interest banking globally and the strong demand for it amongst Nigerians – Muslims and non-Muslims alike – JIP was incorporated on the 1st April 2003 as a public limited liability company with the aim of establishing the first Islamic banking institution in Nigeria. The company applied to the Central Bank for a banking licence to establish a wholly non-interest bank, to be called Jaiz Bank International plc. It subsequently raised N2.5 billion (US$19.68 million) in November 2003 (in excess of the then N2 billion [US$15.75 million] capital requirement).

> "Small-scale industrialists are eagerly awaiting the proposed advent of Islamic banking"

Central Bank of Nigeria's appraisal of the application resulted in the issuance of formal approval to Jaiz by the apex bank with a commitment to issue a banking licence upon compliance with new minimum capital requirement of N25 billion (US$196.84 million). This gesture demonstrated Central Bank's willingness to accommodate promising alternatives to conventional financial institutions, as well as an abiding belief in the viability of non-interest banking, in addition to the ability of the sector to deepen the financial services industry. While Jaiz Bank International plc aspires to be the first wholly non-interest bank in Nigeria when it becomes operational, it is worthy of note that two conventional commercial banks have made vain attempts over the past few years to establish interest-free banking windows in order to tap into this market.

Finally, in recognition of the fact that Islamic banking is a new concept in Nigeria and thus currently lacking in the requisite skill set, the promoters of Jaiz established an alliance with the Islamic Development Bank (IDB) of Jeddah in 2004. An understanding was reached between the two institutions for IDB to provide management and technical support to Jaiz. As a first step towards actualizing this understanding, IDB recommended the Islami Bank of Bangladesh (IBB) to provide managerial and technical support for the proposed bank. Under the terms of the agreement, IBB will second five of its senior management team members to the bank, one of whom will act as the managing director and chief executive officer of the proposed bank.

It is to be hoped that the commencement of operations of JIB will trigger the beginnings of a long-awaited Islamic finance industry in Nigeria.

The author can be contacted by email on: bappahmed@yahoo.com.

Meet the Head

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

Name: Dr Humayon Dar
Position: Managing Director
Company: Dar Al Istithmar
Based: London
Age: 35
Nationality: British

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

My interest in Islamic banking and finance stems from my undergraduate days at the International Islamic University Islamabad, where I was taught by some pioneers in Islamic economics. That led me to do my PhD in an area related to Islamic finance, even though there was no adequate PhD supervision available at Cambridge University, where I did my doctoral studies. Since joining Loughborough University in 1998, I deliberately chose only one area for my research and that was Islamic economics, banking and finance. My stay at Loughborough University gave me worldwide recognition as an expert on Islamic banking and finance. In December 2004, I was approached by Deutsche Bank to help them set up Dar Al Istithmar as a global provider of Shariah advisory services for Islamic finance, which I accepted as a challenge. This is an interesting job and I am enjoying every bit of it.

What does your role involve?

Obviously my job is managerial in nature. I manage a team of in-house researchers, liaise with our academic research team at Oxford Islamic Finance (a subsidiary of Oxford Centre for Islamic Studies) and co-opt with our Shariah scholars. Although I am an economist by training, my current role is gradually transforming me into a "modern" scholar of Islam. I work with arguably the most distinguished jurists of our time, and spending time in their company is a great learning experience. Dr Hussain Hamid Hassan, who probably has the most intelligent juristic skills amongst his contemporaries, is chairman of our Shariah Supervisory Committee, and it is indeed a great pleasure working with him. I have also been fortunate to work with the top investment bankers in the world. Geert Bossuyt of Deutsche Bank, who is also a member of our Board of Directors, is a great mind. We have together developed some very sophisticated Islamic investment products. I must also mention here that Dar Al Istithmar benefits from the vision of Dr Khaled Elnaggar, another of our directors, who is the son of Dr Ahmed Elnaggar, founder of the modern Islamic banking and finance movement.

What is your greatest achievement to date?

As a typical Libra, I can never be satisfied with what I have done so far. I still have to achieve something for personal satisfaction.

Which of your products/services deliver the best results?

As I mentioned earlier, we have developed a new range of investment products for Deutsche Bank, which can replicate the risk–return profile of any conventional products in a Shariah compliant manner. This new range of products is pioneering in nature, giving Islamic investors access to the most sophisticated technology in a manner compatible with the requirements of Shariah.

What are the strengths of your business?

Ours is a unique business model. We combine the rigour of the professional world with the authenticity of academia. My team is undoubtedly the best qualified team in our line of business. We do not create artificial solutions for our clients; rather we go back to primary research to come up with solutions that match the requirements of our clients, without compromising on Islamic principles. No other Shariah advisory firm in the world has capacity to do this.

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

We believe in offering real value to our clients. Shariah advice is a difficult task. Due to the scarcity of Shariah scholars, it is extremely difficult for individual banks and financial institutions to seek Shariah advice in an efficient manner. Bankers do not have the time to spend on original research; this is what we do on their behalf. This has contributed to an increase in demand for our services.

What are the obstacles faced in running your business today?

We do not think that there are any real obstacles to providing Shariah advice if the emphasis remains on the efficient running of business. We know the ins and outs of our business, and have a well thought-out strategy to go forward. Obviously, small operational problems are part of life, but we do not think that there is a real hindrance to running a Shariah advisory business.

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

The Islamic finance industry will keep on growing, and will become a mainstream business in a number of Muslim countries. Those who remain dedicated to the cause of Islamic banking and finance will benefit from this growth. We are going to witness a day very soon when Islamic finance and its service providers will be market leaders in some of the Muslim countries in the Middle East.

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

Islamic finance must keep on changing for the benefit of the communities it is serving all over the world. More commitment to social responsibility is a must for the continuous success of Islamic banking and finance.

Dar Al Istithmar
دار الإستثمار

Dar Al Istithmar (DI) is a joint venture between Deutsche Bank, Russell Wood and Oxford Islamic Finance and was incorporated in the UK for the purpose of offering Shariah compliant solutions to institutions offering Islamic financial services.

With access to the resources of its parent companies – the financial expertise of Deutsche Bank, business links in the Middle East of Russell Wood and the academic strength of Oxford Islamic Finance – DI is well positioned to serve the Islamic finance industry in an efficient and Shariah compliant way.

DI aims at expanding frontiers of the Islamic finance industry through a continuous process of innovation in finance and Shariah advice. DI also serves as a think-tank for the Islamic finance industry.

DI is completely independent of its parent companies in its operations. It provides Shariah advice to any institution offering Islamic financial services.

Takaful news
www.islamicfinancenews.com

MALAYSIA

HLB Takaful to start in October

Hong Leong Bank (HLB) will start its Takaful operations in October, initially offering at least two products. HLB's group managing director, Yvonne Chia, declined to disclose the details of the new products.

She said HLB, together with its partners, were currently fine-tuning the business model for the yet-to-be unveiled joint venture company. HLB will have a 55% shareholding in the company, while the Singapore-based insurer Millea Asia and HLB's subsidiary, Hong Leong Assurance, hold 35% and 10% respectively.

The Millea group operates one of the world's largest insurance companies, Tokio Marine and Nichido. This joint venture is the latest tie-up following the company's participation in Takaful businesses in Saudi Arabia, Indonesia and Singapore.

Through the joint venture, HLB hopes to become a one-stop financial service provider of holistic solutions to customers, be it in conventional or Islamic banking or insurance.

UAE (Dubai)

AMAN declares bonus shares

Dubai Islamic Insurance and Reinsurance Company (AMAN) declared a distribution of 15% cash dividend and 15% bonus shares to its shareholders, on top of the distribution of 2% of its profits to policyholders for the first time in its short history.

"AMAN owes its stellar financial performance to the wonderful support it has received from all its stakeholders, including shareholders, customers, the administration and employees," said Sultan Saeed Al Mansoori, Minister of Governmental Sector Development and chairman of AMAN.

The company's net profit reached Dh82 million (US$22.33 million), which includes the profits of shareholders and policyholders. Profits of shareholders reached Dh72.65 million (US$19.75 million), while profits of policyholders reached Dh8.417 million (US$2.29 million). The value of insurance premiums paid increased by 77.5% to reach Dh95 million (US$25.86 million) by the end of 2005, as compared to Dh53.46 million (US$14.56 million) by end of 2004. Company assets grew by 144.9% to Dh258.06 million (US$70.26 million) in 2005, as compared to Dh105.38 million (US$28.69 million) in 2004.

BAHRAIN

Takaful International to pay dividend

Takaful International is to distribute BD500,000 (US$1.3 million) in cash dividends to shareholders, equivalent to 10% of its paid-up capital.

Takaful International's chairman Isa Abdulla Al Mannai said the company had successfully completed its 17th year in business and noted that a four-year strategic business plan had been drawn up to achieve a qualitative development in all the company's local and regional business activities.

"This is to take advantage of the pioneering role played by the company in the Takaful insurance business since its launch in 1989 as the first Takaful firm in Bahrain," he said.

Launching its new head office in the Seef district soon, Mr Al Mannai said the company would supervise the launch of several Takaful companies in the Arab world.

MALAYSIA/BAHRAIN

First Investment-linked Takaful products

Malaysian Assurance Alliance (MAA) hopes to launch its first Takaful investment-linked products in 2007 for the domestic and West Asian markets through collaboration with its joint venture partner, Bahrain-based Solidarity.

MAA chairman, Tunku Ya'acob Tunku Abdullah, said the Takaful investment-linked plan for the domestic market was expected to be launched six months after the company begins operations in June this year.

"Solidarity will sell our Takaful investment-linked products in the West Asian markets after 12 months of operation," he said.

The 75/25 Malaysian Bahraini joint venture Takaful company expects to rake up to RM130 million (US$35.18 million) in premiums in its first year, with the introduction of at least nine Takaful products in the first three months.

MALAYSIA

TM wants slice of brokerage mart

Syarikat Takaful Malaysia aims to capture 10% of the total brokerage market by 2010. Its director and chief executive officer Md Azmi Abu Bakar acknowledged that the brokerage sector contributed substantially to the growth of the company, which currently has 35 Takaful brokers.

"Last year, the brokerage sector contributed about RM124 million (US$33.55 million) to the company," he said.

However, Mr Md Azmi said that Takaful Malaysia was not putting a high target on the brokerage market because not all brokerage businesses match the company's needs, as most came from marine, aviation and liability sectors: "What we really want is the fire sector," he added.

Enjoying a 50% share of Malaysian Takaful market, Takaful Malaysia currently serves 7.3 million customers, with 60% from life insurance and the remaining 40% from general insurance.

Regulatory Impediments faced by Market Players in the Takaful Industry

By Kamsani Tati

Introduction

In a free market and open economy, it is not unusual to hear remarks to the effect that some business regulations are an impediment rather than a facilitator to business growth and expansion. There may be some truth to this in cases where rules are used primarily as a means to control and restrict activities, either directly by law or indirectly through fiscal or monetary policies. There are, however, many business regulations in place where the main objectives are to guide and supervise. In these cases, the regulations serve more to protect than to control.

In Islamic teachings, for example, the Shariah law, which consists of rules and regulations covering every facet of life, has been effective in protecting the rights of mankind, both Muslims and non-Muslims. To Muslims, the Shariah law is designed by the Almighty Allah and therefore is flawless and all-embracing. It is so comprehensive that it protects pets as well as wild beasts, and it also provides a way out in cases of extreme necessity, termed as "darurah."

History of Takaful

Takaful as a concept is not new. It can be traced as far back as the early part of the Prophet Muhammad's (peace be upon him) migration from Mecca to Medina. However, Takaful in the form it takes today is new, especially when compared with the insurance industry, which has been around for more than 150 years. The Takaful industry started in Sudan in 1979 and then in Malaysia in 1985.

Although Sudan can be considered to be the pioneering country in terms of Takaful, it has been the successful development and sustained growth of the Takaful market in Malaysia that has created the waves of interest in Takaful from other countries. Consequently, an encouraging number of Takaful companies have been established in various nations over the last five to ten years. Until recently, of all the Takaful markets, only Sudan and Malaysia introduced their own Takaful rules and regulations. In other countries, Takaful companies are still operating under the same conventional insurance rules and regulations of the country of operation.

History of insurance

The insurance industry, with more than a century's worth of history, has seen its rules and regulations evolve over time, constantly being updated with ongoing changes in order to remain relevant to the current market. The collaboration between various regulators through the International Association of Insurance Supervisors (IAIS) is thought to be a contributing factor to the successful implementation of the changes to and refinement of the insurance rules and regulations, thus contributing to the healthy conduct and viability of the insurance industry that exists in most markets today.

It is clear that the ability to effectively enforce the insurance rules and regulations is just as important, if not more so, than having a sound regulatory system.

Overview of insurance rules and regulations

In essence, the general objective of insurance rules and regulations in most countries is to develop a viable and progressive insurance market through various regulatory measures which include, but are not limited to, the following:

(a) Preserve the stability of the insurance industry
Regulators should implement a system that will allow them to identify problems and risks at an early stage, so that appropriate action can be taken before companies fail, as this has potentially damaging consequences on the systemic stability of the insurance industry and other linked financial sectors.

(b) Instill public confidence in the insurance industry
It is critically important for the regulators to supervise professionally the insurance industry so that the public has confidence that there are regulations in place to govern the ways that insurers conduct their business.

(c) Promote strong corporate governance standards in the management of insurance companies
Progressively, regulators are placing more accountability on the board of directors and senior management to have strong corporate governance in place. This is to encourage insurers to implement more effective management and risk mitigation measures.

(d) Ensure that consumers are well informed for decision-making
Regulators have an important role in ensuring that consumers are not disadvantaged by the information asymmetry that often exists between insurers and consumers. This can be achieved by promoting a disclosure-based regime (in life insurance selling); facilitating consumer education; and establishing affordable channels to resolve disputes in the event of market misconduct or mis-selling practices.

(e) Integrate supervision across borders and sectors
With increasing numbers of financial activities traversing different sectors such as banking, insurance and fund management, in addition to geographical boundaries, regulators have to ensure that companies are supervised in an integrated and consolidated manner. Hence closer collaboration between regulators of different jurisdictions and financial sectors is not uncommon today.

(f) Understand the business and risks of the insurers
Regulators are conscious that it is important for them to understand properly the business and risks of the insurers (this is not to be seen as micro-managing). This will put the regulators in a much better position to develop regulatory requirements which are perceived as both effective and business-friendly. Regulators can also focus on the key areas and work closely with insurers to address those issues.

It is important to note that having sound and prudent insurance rules and regulations means very little if regulators do not have the appropriate jurisdiction to enforce them, or do not have adequately

continued...

Regulatory Impediments faced by Market Players in the Takaful Industry *(continued...)*

trained staff. Having recognized that insurance rules and regulations have successfully managed to supervise and navigate the insurance industry of most markets to a healthy state, it would not be unreasonable to expect Takaful companies operating under similar rules and regulations to grow and sustain progress, simultaneously competing with insurance companies.

The immediate need

Although undoubtedly it would be appropriate for Takaful companies to work under the Takaful rules and regulations of the country of operation, it is, however, not a critical issue guaranteeing the success of the Takaful industry. Arguably the most critical and urgent issues currently facing Takaful companies include the following:

(a) Lack of staff with specialist knowledge
To prudently manage and develop the business successfully, Takaful companies must have staff with the appropriate level of knowledge, experience and business sense. Skilled and experienced insurance technicians and professionals seem to be lacking in the Takaful industry. Therefore companies must encourage and support their staff to go for continuous professional development, as this will benefit both the individual staff and the company.

(b) Limited Islamic investment opportunities
To be able to conform with Takaful principles, investment in Shariah compliant vehicles is crucial. The available avenues for investment have begun to expand in recent years with the availability of more diverse and innovative Islamic investment products. However, there is a need to further develop the Islamic investment market so that it can continue to grow jointly with the Takaful industry.

(c) Issues regarding Takaful models
Although in principle almost all Islamic scholars have accepted the concept of Takaful, there is still substantial and sometimes heated debate concerning the various models. It is time to realize that this is counter-productive for the industry. Whichever model we believe in, we should develop products, workflows and systems to ensure that the Takaful model we choose becomes so successful that it will become the chosen model for others to emulate.

(d) Uniformity of Shariah
Operational requirements dictate that all Takaful companies must have Shariah councils or advisors to guide and direct the business in Shariah compliance. At times differing Shariah views from different Islamic scholars and Takaful specialists emerge. This is not surprising, as Islam has four different schools of thoughts. However, this may also be caused by an insufficient depth of knowledge and understanding of the commercial issues of Takaful by the Shariah scholars and Takaful specialists.

Every effort must be made to ensure uniformity of Shariah views. The step taken a year ago by Bank Negara Malaysia to set up a National Shariah Board will certainly help the Malaysian Takaful industry in achieving uniformity of Shariah views.
(e) Avoid double standards
To most Islamic scholars life insurance is unacceptable, as it contains elements that are prohibited in Islamic teaching. Takaful, which is built around insurance concepts and principles, was developed in order to meet the demand from Muslims for insurance coverage. Hence it is the duty and responsibility of Takaful operators to ensure that their entire business operations stay within the Shariah parameters.

It is not surprising to note that at the front end, almost all Takaful operators market their products as Shariah compliant. However it is disturbing that at the back end, some Takaful operators have still not ensured that their processes are fully Shariah compliant. For example, some Takaful operators still choose to place some or all of their re-Takaful needs with conventional reinsurance companies, despite the availability of professional re-Takaful providers, which have been established purely to meet the needs of Takaful operators.

Recommendations

Establishing Takaful rules and regulations in all countries – whether Islamic or non-Islamic – where the Takaful industry is being developed may not be a viable option in the short term, as it takes time for the formulation and implementation of new governing laws. However, to overcome this the Islamic Financial Services Board (IFSB) may wish to consider establishing some standards for Takaful operators to adopt voluntarily.

Any Takaful operator that meets the standards stipulated can then be awarded the IFSB stamp of approval – "IFSB approved." This stamp of approval could thus become an internationally accepted benchmark by which all Takaful operators should operate.

To ensure a seamless transition towards Takaful rules and regulations, when implemented in the country of operation, below are listed some of the objectives by which the standards should be formulated:

(a) Preserve the stability of the Takaful industry.
(b) Instil public confidence in the Takaful industry.
(c) Promote strong corporate governance standards in the management of the Takaful operators.
(d) Ensure that consumers are well informed for decision-making.
(e) Integrate supervision across borders and sectors.
(f) Understand the business and risks of Takaful operators.

With the above objectives in mind, standards set will not act as an impediment, but will instead facilitate the growth of the Takaful industry.

The author is the chief executive officer of Tokyo Marine Nichido ReTakaful, Singapore.

This paper was presented at the 2nd Seminar on the Regulation of Takaful, organized by the Islamic Financial Services Board (IFSB) on the 23rd and 24th February 2006, in Langkawi, Malaysia.

MOVES

DIFX – UAE (Dubai)

The Dubai International Financial Exchange (DIFX) has appointed Per E. Larsson to be the second chief executive of the exchange.

Formerly head of the Sweden-based OM Group, Mr Larsson will succeed Steffen Schubert, who will step down in June 2006.

Mr Larsson has been active on the boards of a number of companies. He is chairman of Outsourced Supply Management, chairman of the label specialist Nilorn, a director of ORC Software and a director of the biotechnology company Appeartex.

FITCH RATINGS – UAE (Dubai)

Fitch Ratings has appointed Stephen de Stadler as head of business development for the Middle East. He will be based in the new Fitch office to be opened on the 1st April 2006 in the Dubai International Finance Centre. Mr de Stadler previously managed the agency's South Africa office.

Mr de Stadler will be replaced as managing director for Fitch Southern Africa by Tertius Smith, who will also retain his role as head of structured finance for South Africa.

NATIONAL BONDS CORPORATION – UAE (Dubai)

Hussain Hamid Hassan, a leading Shariah scholar, has been appointed chairman of the National Bonds Corporation's Fatwa and Shariah Supervisory Board.

The board will also include Dr Ajeel Jasim al Nashmi and Dr Muhammad Qaseem, two respected scholars in the field of Islamic finance.

UBS – Hong Kong

Ryan Chan has been appointed head of Asian credit derivatives structuring. He was formerly a vice president in credit structuring with Morgan Stanley.

DUBAI BANK – UAE (Dubai)

Mohammed Al Shaibani has been appointed chairman of Dubai Bank. Other appointments to the board include Mr Hamed Kazim, group chief financial officer of The Corporate Office, Mr Soud Ba'lawi, CEO of Dubai Investment Group, Mr Fadel Al Ali, chief financial officer of Dubai Holding, Mr Mohammed Abdel Rahim Al Jallaf and Mr Abdul Aziz Al Muhairi.

Mr Saeed Al-Tayer, General Manager of the Dubai Electricity and Water Authority, will remain as a member of the board.

TAKAFUL INTERNATIONAL – Bahrain

Takaful International has re-elected Isa Abdulla Al Mannai as chairman, and Hassan Ebrahim Kamal was elected to be vice-chairman. Meanwhile, Bara'a Al Qenaei, Yousif Saleh Khalaf and Adel Abdulla Al Mannai were all appointed as directors.

TURKEY BANK – Turkey

The nomination of the general manager of Albaraka Turk, Adnan Buyukdeniz, for the position of governor of Central Bank has been rejected by the Turkish president, Ahmet Necdet Sezer. Sezer also rejected the nominations of Mehmet Simsek and Birol Aydemir as vice-governors.

In the interim, the bank is being run by Deputy Governor Erdem Basci.

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EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
April			
4th – 6th	Securitisation World MENA 2006	Dubai	Terrapinn
9th – 10th	World Takaful Conference 2006	Dubai	Mega Events
22nd – 23rd	7th Harvard University Forum on Islamic Finance "Integrating Islamic Finance in the Mainstream: Regulation, Standardization and Transparency"	Massachusetts US	Harvard Law School
24th	Seminar on Challenges and Opportunities in Islamic Finance jointly organized with The World Bank	Washington DC	IFSB
25th – 26th	STEP Arabia Conference	Dubai	Barker Brooks Media
May			
7th – 8th	The World Islamic Funds & Capital Markets Conference & Exhibition	Manama	Mega Events
8th – 10th	The World Halal Forum	Kuala Lumpur	The Halal Journal
17th – 18th	3rd Islamic Financial Services Board Summit: Aligning the Architecture of Islamic Finance to the Evolving Industry Needs	Beirut	IFSB
June			
4th – 7th	Commodity Investment World Middle East	Dubai	Terrapinn
4th – 7th	Funds World Middle East	Dubai	Terrapinn
12th – 15th	The International Islamic Finance Forum Asia	Singapore	IIR Middle East
19th – 20th	Backroom Operations for Financial Institutions	TBC	ABF Asia
September			
5th – 6th	3rd Annual Asian Islamic Banking & Finance Summit	Kuala Lumpur	Euromoney Seminars
16th – 17th	Brunei Islamic Financial Services Forum hosted by the Ministry of Finance Brunei	Brunei	IFSB
17th – 18th	The World Islamic Real Estate Investment Conference	Dubai	Mega Events
26th – 28th	Islamic Funds World	Dubai	Terrapinn
November			
13th – 16th	The International Islamic Finance Forum Europe	Zurich or Geneva	IIR Middle East
December			
9th – 11th	The World Islamic Banking Conference & Exhibition	Manama	Mega Events

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Bondweb MALAYSIA

MALAYSIA ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET: FORTNIGHTLY SNAPSHOT

AS AT 24th Mar 2006

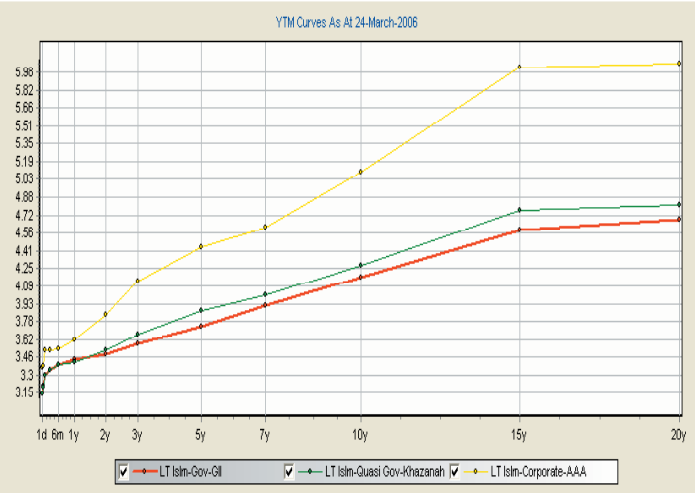
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	17 Mar 06 (RM)	10 Mar 06 (RM)	3 Mar 06 (RM)
Private Debt Securities					
PLUS 0.00000% 16.06.2017 – SERIES 2	AAA (RAM)	53.23	53.24	53.1	53
PLUS PRIMARY BONDS SERIES 6 – 30.05.2008	AAA (RAM)	103.50	103.44	103.55	105.29
PLUS 0.00000% 20.06.2011	AAA (RAM)	78.00	78.32	78.01	78.01
TTPC 0.000% 13.09.2013	AA3 (RAM)	121.43	121.47	121.19	125.08
TTPC 0.000% 13.09.2007	AA3 (RAM)	104.02	104.16	104.32	107.63
Government Investment Instruments					
GII 1/2004 0.00000% 15.06.2007	n/a	95.93	95.89	95.83	95.79
GII 2/2004 0.00000% 30.09.2011	n/a	81.26	81.31	81.20	81.19
PROFIT-BASED GII 1/2005 16.03.2015	n/a	102.76	102.51	102.29	104.46
PROFIT-BASED GII 24/2005 08.12.2010	n/a	100.03	100.01	99.97	100.87
Quasi Government					
KHA1/00 1.02B 0-CP 7YR 20/3/2007	n/a	96.72	96.67	96.60	96.53
KLIA 0.000% 30.01.2016 PN	n/a	126.54	126.03	125.53	126.42

SPREAD VS GII (in b.p)

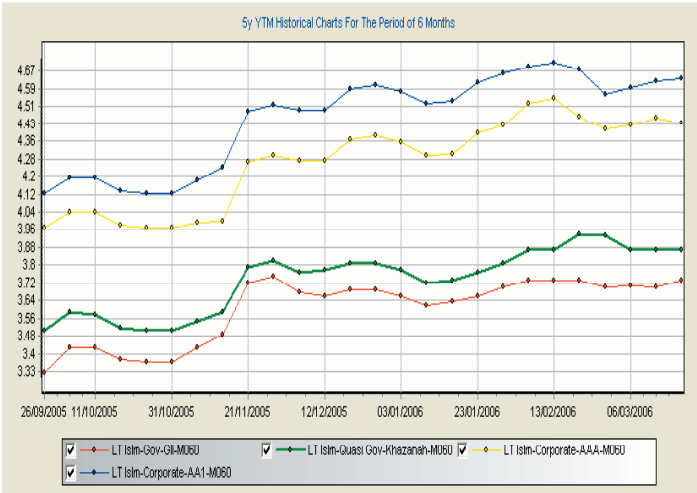
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.44	3.49	3.58	3.73	3.92	4.17
Cagamas	0.43	0.55	0.65	0.65	0.62	0.55
Khazanah	-0.02	0.03	0.08	0.14	0.09	0.1
AAA	0.16	0.33	0.55	0.66	0.59	0.52
AA1	0.31	0.45	0.63	0.89	0.87	1.2
A1	0.79	1.38	1.59	2	2.11	2.28

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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



ISLAMIC LEAGUE TABLES

TOP ISSUERS OF ISLAMIC DEBT — **MAR 2005 – MAR 2006**

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	PCFC Development	UAE	Convertible Sukuk	3,500	2	31.9	Barclays Capital, Dubai Islamic
2	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	777	11	7.1	Cagamas /AmMerchant
3	Rantau Abang Capital	Malaysia	Musharakah MTN	594	1	5.4	CIMB, AmMerchant
4	Emirates Airlines	UAE	Sukuk Al Musharakah	550	1	5.0	Dubai Islamic, HSBC, Standard Chartered
5	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Bond	542	6	4.9	CIMB, HSBC, ABN AMRO, AmMerchant
6	Islamic Development Bank	Saudi Arabia	Islamic Bond	500	1	4.6	Deutsche, HSBC
7	PLUS Expressways	Malaysia	Serial Bai Bithaman Ajil Islamic Securities	349	4	3.2	CIMB
8	Syarikat Bekalan Air Selangor	Malaysia	Bai Bithaman Ajil Commercial Papers/ MTN	273	4	2.5	CIMB, Bank Islam Malaysia, HSBC Bank (Malaysia)
9	Maybank	Malaysia	Islamic Subordinated Bond	265	1	2.4	Aseambankers
10	Senai Desaru Expressway	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	249	26	2.3	Aseambankers, Standard Chartered
11	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN Facility	245	10	2.2	AmMerchant, RHB Sakura, Malaysian International Merchant Bankers, Bank Muamalat Malaysia
12	Putrajaya Holdings	Malaysia	Murabahah MTN	235	4	2.1	Alliance, CIMB, RHB Sakura
13	DRB HICOM	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	209	11	1.9	AmMerchant Bank, Malaysian International Merchant Bankers
14	Konsortium Lebuhraya Utara Timur (KL)	Malaysia	Redeemable Secured Serial Sukuk Istisnah	207	9	1.9	CIMB
15	Gold Sukuk dmcc	UAE	Islamic Sukuk Al Musharakah Issue	200	1	1.8	Standard Bank, Dubai Islamic Bank
16	International Bank for Reconstruction & Development – World Bank	Supranational	Bai Bithaman Ajil Islamic Debt Securities	200	1	1.8	ABN Amro Bank, CIMB
17	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN Facility	163	13	1.5	Malaysian International Merchant Bankers, AmMerchant, RHB Sakura, Bank Muamalat
18	Ranhill Power	Malaysia	Islamic MTN Program	142	12	1.3	Aseambankers
19	Sistem Penyuraian Trafik KL Barat	Malaysia	Al Bai Bithaman Ajil Notes Issuance Facility	136	5	1.2	United Overseas Bank (Malaysia)
20	WAPDA First Sukuk Co	Pakistan	Sukuk Al Ijarah	134	1	1.2	Citibank NA (Pakistan), Jahangir Siddiqui & Co, MCB Bank
	Total of issues used in the table			**10,983**	**292**	**100.0**	

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ISLAMIC LEAGUE TABLES

TOP ISSUERS OF ISLAMIC DEBT — YEAR–TO–DATE

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Rantau Abang Capital	Malaysia	Musharakah MTN	594	1	33.0	CIMB, AmMerchant Bank
2	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	592	8	33.0	AmMerchant Bank /Cagamas
3	Putrajaya Holdings	Malaysia	Murabahah MTN	235	4	13.1	Alliance Merchant Bank, CIMB, RHB Sakura
4	WAPDA First Sukuk Co	Pakistan	Sukuk Al Ijarah	134	1	7.4	Citibank (Pakistan), Jahangir Siddiqui & Co, MCB
5	BNM Sukuk	Malaysia	Sukuk Al Ijarah	107	1	6.0	Government bond/no bookrunner
6	Medi Innovation	Malaysia	Murabahah MTN	27	6	1.5	Amanah Short Deposits
7	IJN Capital	Malaysia	Sukuk Musharakah	27	5.0	1.5	RHB Sakura
8	Harum Intisari	Malaysia	Murabahah Commercial Paper/MTN Program	27	1	1.5	HSBC Bank Malaysia
9	UEM Builders	Malaysia	Murabahah Commercial Paper/MTN Program	27	1.0	1.5	AmMerchant
10	Pharmaniaga	Malaysia	Murabahah Commercial Paper/MTN Program	9	3	0.5	RHB Sakura
11	Instacom SPV	Malaysia	Murabahah MTN	9	4	0.5	Utama Merchant Bank
12	Nam Fatt Corp	Malaysia	Murabahah Commercial Paper/MTN Program	7	1	0.4	Hwang-DBS Securities
13	Goodway Integrated Industries	Malaysia	Murabahah MTN	3	1	0.1	Amanah Short Deposits
	Total of issues used in the table			**1,798**	**37**	**100.0**	

ISLAMIC LEAGUE TABLES

ISLAMIC DEBT				MAR 2005 – MAR 2006
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Dubai Islamic	2,033	4	18.5
2	Barclays Capital	1,750	2	15.9
3	CIMB	1,560	48	14.2
4	HSBC	951	18	8.7
5	AmMerchant	819	47	7.5
6	Cagamas	645	10	5.9
7	Aseambankers	542	40	4.9
8	Standard Chartered	316	28	2.9
9	RHB	316	57	2.9
10	Deutsche	275	3	2.5
11	United Overseas	264	23	2.4
12	EON	206	34	1.9
13	Bank Muamalat	179	49	1.6
14	Affin Merchant	136	17	1.2
15	Alliance Merchant	132	14	1.2
16	OCBC	111	26	1.0
17	Government bond/no bookrunner	107	1	1.0
18	ABN AMRO	100	1	0.9
18	Standard Bank Group	100	1	0.9
20	Bank Islam Malaysia	91	4	0.8
	Total of issues used in the table	**10,983**	**292**	**100.0**

ISLAMIC DEBT				YEAR–TO–DATE
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Cagamas	592	8	33.0
1	CIMB	375	5	20.9
3	AmMerchant	324	2	18.0
4	RHB	115	12	6.4
5	Government bond/no bookrunner	107	1	6.0
6	Alliance Merchant	81	5	4.5
7	Citigroup	45	1	2.5
8	Jahangir Siddiqui & Co	45	1	2.5
9	MCB	45	1	2.5
10	Amanah Short Deposits	27	6	1.5
11	HSBC	27	1	1.5
12	MIDF-Sisma Securities	9	4	0.5
13	Hwang-DBS Securities	7	1	0.4
	Total of issues used in the table	**1,798**	**37**	**100.0**

ISLAMIC DEBT BY COUNTRY			MAR 2005 – MAR 2006
	Amt US$ m	**Iss.**	**%**
Malaysia	5,838	282	53.2
UAE	4,250	4	38.7
Saudi Arabia	500	1	4.6
United States	200	1	1.8
Pakistan	134	1	1.2
Indonesia	61	3	0.6
Total	**10,983**	**292**	**100.0**

ISLAMIC DEBT BY COUNTRY			YEAR–TO–DATE
	Amt US$ m	**Iss.**	**%**
Malaysia	1,664	36	92.6
Pakistan	134	1	7.4
Total	**1,798**	**37**	**100.0**

ISLAMIC DEBT BY CURRENCY			MAR 2005 – MAR 2006
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	6,038	283	55.0
US dollar	4,750	5	43.3
Pakistan rupee	134	1	1.2
Indonesian rupiah	61	3	0.6
Total	**10,983**	**292**	**100.0**

ISLAMIC DEBT BY CURRENCY			YEAR–TO–DATE
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	1,664	36	92.6
Pakistan rupee	134	1	7.4
Total	1,798	37	100.0

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