Islamic Finance news

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MALAYSIA

Islamic Finance Arbitration Rules

Malaysia's Central Bank along with the Securities Commission of Malaysia have concluded talks on Islamic Finance Arbitration Rules with the Kuala Lumpur Regional Center for Arbitration.

The Arbitration Rules are based primarily on the UNCITRAL Arbitration Rules with modifications made to meet the specificities of Islamic finance, both domestically and internationally.

The Islamic Finance Arbitration Rules also aim to serve as a mechanism for the resolution of any dispute, controversy or claim arising from the Shariah aspect of an Islamic banking business, Takaful, Islamic financial businesses, Islamic development financial business, Islamic capital market products or services or any other Shariah-based transaction businesses.

The Rules will also provide an avenue for referral to the Shariah Advisory Councils of Bank Negara Malaysia on Islamic finance matters under their preview and referral to Securities Commission, for Islamic finance matters concerning capital markets.

The Rules are slated for public launching in March 2007.

UK

Deutsche for Islamic banking

Deutsche Bank has published a White Paper outlining the investment structure facilitating the issuance of Shariah compliant securities. The White Paper aims to make Deutsche Bank's investment structure available to other financial institutions and alleviating current shortage of products, to become a quality benchmark via the use of academic resources to assist industry development and to establish the investment structure as a point of industry reference.

Geert Bossuyt, managing director and regional head of ME Structuring for Deutsche Bank commented: "Too often, 'innovation' is achieved by pushing the barriers and/or misusing Fatwa by taking them out of their context. Innovation ideally should be the result of a well documented and fundamental discussion on Shariah. Deutsche Bank wishes to encourage the use of academic resources to assist the industry in developing new products as this has not been a feature of the industry to date."

The White Paper's publication is in tandem with Deutsche Bank's interest in transparency and its attempt to boost the Islamic financial market.

SWITZERLAND

Dow Jones Islamic for ETF

The Dow Jones Islamic Market (DJIM) Titans 100 will serve as the basis of BNP Paribas Asset Management's Exchange Traded Fund (ETF), launched at the SWX Swiss Exchange.

The ETF, according to Lars Hamich managing director of STOXX Limited, reflects "Growing interest in the area of Islamic finance as well as a heightened overall demand for unique concepts and products in passive investing."

The DJIM Titans100 index is a blue-chip index tracking global top 100 Shariah compliant companies.

In this issue

NEWS BRIEFS

UAE (Dubai)

Enmaa' for all

The Dubai Growth Fund (Enmaa') Class A shares has been launched by the 3iC Group. Enmaa' is a shariah compliant open-ended public fund sized at US$100 million.

Enmaa' is the first of the Dubai Growth Fund's AED1 billion (US$272.2 million) three share classes. Emirates Islamic Bank PJSC will be the fund's receiving bank and also manage the process subscriptions and fund redemptions. Leading UAE asset managers, The National Investor, will act as Enmaa's portfolio manager. HSBC Bank Middle East is appointed as the fund's custodian and administrator.

The fund's primary investments will target high growth equities and pre-IPO opportunities in the Middle East as well as selected international markets. It will adhere to the Dow Jones Islamic Indexes criterion.

UAE (Dubai)

Merrill Lynch gets license

Merrill Lynch's Global Markets and Investment banking office will begin operations in the Dubai International Financial Center (DIFC).

Slated for 2007, the office will offer domestic and global clients a full suite of global markets and investment banking products. Merrill Lynch's Islamic finance capabilities will also receive a boost across the region, with the DIFC opening.

As at September 2006, Merrill Lynch launched the Dubai Investible Index (DII), the first investible index designed to track stocks listed on the Dubai Stock Exchange.

MALAYSIA

Issuers and Investors Forum

Islamic Finance Events will be hosting Malaysian Islamic Finance (MIF) 2007's Issuers and Investors Forum in August.

MIF 2007 will focus on Malaysia's role as a prominent player in the industry. Currently boasting the world's largest Islamic bond market, Malaysia is ideally placed as a launching pad for global industry outreach. The forum will also feature key regulators and associations from around the globe as per 2006, drawing on experience and expertise of the industry's elite.

Malaysian Islamic Finance was launched in March 2006 with the inauguration of the MIF Issuers and Investors Forum 2006, a joint collaboration between Malaysia's regulators: Bank Negara Malaysia, Securities Commission Malaysia, Labuan Offshore Financial Services Authority (LOFSA) and Bursa Malaysia.

Registration is now open at: http://www.malaysianislamicfinance.com/register2007.asp

UK

Challenges in Islamic finance

H.E. Rasheed M. Al Maraj, governor of the Central Bank of Bahrain recently addressed regulatory and standardization challenges. He attested: "We must continue to work and make progress in a number of critical areas: regulatory and accounting standards; corporate governance and conduct of business; and greater convergence in standard products and practices."

He also stressed on the need for high standards and effective compliance to gain global consumer confidence. Rasheed also called for strong disclosure and business conduct standards in Islamic finance, requiring a strong governance framework within institutions, placing emphasis on the fair treatment of customers.

The development of standard market practices and greater Shariah convergence was also on Rasheed's agenda: "As with regulatory and accounting standards, some diversity is inevitable, and indeed to be welcomed, where it reflects innovation. However, without greater standardization of core contracts, instruments and market practices, then efforts to develop more liquid markets are likely to be frustrated." He also added that standardization would alleviate pressure on Shariah scholars, where demand currently exceeds supply in expertise.

NEWS BRIEFS

PAKISTAN

More transparency please

The Islamic capital and money markets needs to be more well-developed and transparent, Central Bank of Bahrain's (CBB) banking supervision executive director Khalid Hamad stressed.

"In my view, all of us are partners in the development of the Islamic Financial Services Industry (IFSI) and it is our duty to work and ensure that Islamic business activities take place in an efficient, prudent and sound manner. At the same time, there has to be an adequate financial infrastructure to enable the market participants to conduct their business efficiently."

Hamad believes that a well developed capital and money market is core to a financial system. The industry also requires concerted efforts from regulatory bodies, market participants, legal, Shariah and development institutions.

Hamad was speaking at the International Islamic Financial Market's (IIFM) conference in Karachi, Pakistan themed 'Setting the foundation of a robust and sustainable Islamic financial market'.

BAHRAIN

DAAR's road show

The Dar Al Arkan Real Estate Development Company (DAAR) is on a road show to launch its Sukuk in Bahrain.

The US$425 million three year Sukuk Al Ijarah will be arranged by ABC Islamic Bank EC, the Arab National Bank, Standard Bank, Unicorn Investment Bank and WestLB AG. The Sukuk's structure has been approved by the Shariah board of Unicorn Investment Bank.

UAE (Dubai)

Emaar makes strides

Emaar Properties recorded a 35% growth in annual profits at US$1.73 billion for the year ended 31st December 2006.

The developer's earnings per share increased from AED0.85 (US$0.23) in 2005 to AED1.06 (US$0.29) in 2006. Emaar's growth is attributed to the company's international expansions and diversification strategies in line with its bid to become among the most valuable companies in the world.

Emaar's annual revenue experienced a 68% hike from AED8.36 billion (US$2.27 billion) to AED14 billion (US$3.81 billion).

QATAR

QIB's profits soar

Qatar Islamic Bank's (QIB) net profit almost doubled reaching QAR1.01 billion (US$277 million) as at end of 2006. The bank's earning per share increased from QAR4.5 (US$1.23) to QAR9.04 (US$2.48) in 2005 and 2006 respectively.

60% of QIB's operating profit was derived from lending, in light of the booming Qatari economy. The remaining 40% came from investments, mostly from the bank's real estate funds managed in Europe.

2007 will see QIB intensifying its business activities locally and globally. CEO of QIB, Salah Al- Jaidah added: "We have put in place a robust risk management system to maximize the profits". The bank is also planning retail outlets throughout the Al Meera Cooperative chain, in addition to its increase in branches from 14 to 20 by year end.

Al-Jaidah also affirmed the bank's structuring of real estate funds and undertaking of mortgage financing on top of its plans to launch more financial and investment products. The real estate products are slated to target projects in the Doha and Lusail region.

QIB is also set to mobilize US$1 billion in Sukuk this year.

INDONESIA

Banks' Indonesian interest

Al Baraqah Islamic Bank, Qatar Islamic Bank (QIB) and Al Salam Bank have been linked to the Indonesian market. There have been talks on the opening of Al Baraqah and QIB branches, with no set date.

Alwi Shihab, Indonesia's special envoy to the Middle East affirmed: "They will probably acquire local commercial banks and convert them into Shariah banks. They are very aware of the potential we have."

Indonesia's 200 million large Muslim population positions it at the forefront in terms of industry potential. However, the country has to calibrate its technical, legal, tax and accounting framework.

Indonesia is also planning its first Sukuk in the domestic market this year, once the bill regulating debt issue has been passed.

The Indonesian government is lobbying to the House of Representatives for a provision to eradicate value-added tax and goods sales tax for state Sukuk. The bid is in line with the government's aim to promote Sukuk to investors.

NEWS BRIEFS

UK/ BAHRAIN

MoU for standardization

The International Capital Market Association (ICMA) and International Islamic Financial Market (IIFM) have signed a memorandum of understanding to develop standardized contracts and documentation for Sukuk.

Khalid Hamad, vice chairman of the IIFM and executive director, Banking Supervision, at the Central Bank of Bahrain (CBB) attested: "This MoU will enable the IIFM and ICMA to address critical market issues, through shared expertise and through consultation with industry. I am positive that the exchange of ideas will result in much-needed innovative solutions for the long term benefit and growth of the Islamic finance industry."

The MoU will encompass best practices and common high standards to underpin the efficiency and soundness of the Islamic financial market activity. IIFM and ICMA will establish a joint working group to develop standardized contracts, language, practices for secondary market transactions and practices in trading of Sukuk and other Islamic financial instruments.

The Sukuk market is forecasted to surpass the US$150 billion mark by 2010.

BRUNEI

BIBD expands

Bank Islam Brunei Darussalam (BIBD) has opened a new branch in Tanjung Bunut. The location was selected based on the bank's dedication to customer-oriented service.

BIBD has also co-operated with the Brunei Shell Marketing and Treasury Department and Ministry of Finance to introduce the Electronic Indent Card. BIBD also signed an agreement with Royal Brunei Airlines to finance new aircrafts early this year. As at end of 2006, BIBD lead managed the issuance of the Brunei government's short-term Sukuk Al Ijarah valued at US$120 million.

UK/ BAHRAIN

GFH eyes UK

The Gulf Finance House (GFH) is tipped to go full speed ahead in UK property investments. Talks have also arisen on the bank's plans to be listed on the London Stock Exchange in early 2007. The listing could raise more than US$195million to finance its Europe bid.

GFH's UK expansion also included the completion of a US$300 million Shariah compliant revolving credit facility in London. The facility was oversubscribed by three times, and was supported by 30 European and Asian banks.

MALAYSIA

KFH's new plans

Kuwait Finance House Malaysia will introduce retail finance products across the country this year.

K. Salman Younis, managing director of KFH Malaysia has confirmed that the products will be rolled out in phases. This introduction is on the back of KFH's corporate and investment services provision. Commenting on the Islamic banking and finance industry in Malaysia, he added: "From now onwards, there will be a big increase in the composition of Islamic assets vis-à-vis of traditional banking."

KFH global achieved a profit of US$1.19 billion in 2006, up by 40% from 2005. KFH Malaysia has also been touted to show interest in government initiatives, following the bank's syndicated facility for the expansion of the Senai International Airport in Johor.

NEWS BRIEFS

QATAR

NAKILAT pays up

Qatar National Bank (QNB) will begin receiving payment from Qatar Gas Transport Limited (NAKILAT)'s shareholders from the 1st till 15th February 2007. NAKILAT's shareholders will also receive aid from QNB via QNB Al Islami to finance the remainder of the shares.

QNB Al Islami's Shariah advisory board authorized the financing of NAKILAT's IPO in vein of the bank's confidence in the Qatari economy. QNB will wholly finance the remaining value of the shares at QAR5 per share (US$1.37) which will apply to QNB customers and non-customers alike.

UK

New laws to boost Islamic finance

The British tax and regulatory system will be harmonized to accommodate Islamic financial instruments, propelling London as an Islamic finance hub. The tax regulations are expected to be revised during the summer legislative recess slated for mid-2007.

Sukuk is set to be at the top of the agenda, with the current market worth over US$40 billion. Economics minister Ed Balls affirmed, "Due to the transparent nature of special purpose vehicles required for Sukuk, they do not fit with the current tax rules for securitizations."

The 2007 finance bill is set to place Sukuk tax treatment within the UK securitization regime, on par with conventional bonds. The mechanism to guide tax treatments on diminishing Musharakah for capital gains and allowances will also be mobilized to set a benchmark for Shariah-compliant taxation. The move to harmonize conventional and Islamic instruments will also include the application of standard insurance rules for Takaful.

KUWAIT

NBK's big buy

The National Bank of Kuwait (NBK) has signed an initial agreement to purchase 52% of Jordan-based Union Bank for Savings and Investment (UBSI). The current stake for UBSI lies at US$161.2 million. NBK is currently awaiting approval from the Central Bank of Kuwait before continuing the talks.

In addition, NBK is also considering expansion to Egypt, on the back of its 75% acquisition of Credit Bank of Iraq and Qatar expansion.

BAHRAIN

Sukuk oversubscribed

The Central Bank of Bahrain's 69th issue of its Sukuk Al Salam was oversubscribed by 288%, receiving US$30 million in excess of its initial US$16 million issue.

The bonds which were issued on behalf of the Bahraini government will mature on 2nd May 2007, with an expected return of 5.34%.

THIS TIME LAST YEAR

Norton Rose advised **Dubai Islamic Bank** in relation to the purchase and Shariah compliant leasing of two Boeing 767 aircraft to **Condor Flugdienst GmbH**. The financing for the acquisition comprised a Shariah compliant structure integrating conventional debt with Shariah compliant equity; The **Dubai Financial Services Authority** was admitted as an Associate Member of the **Islamic Financial Services Board**, an international standard setting body of the regulatory and supervisory agencies; The **Islamic Development Bank** signed five agreements with Lebanon- extending a total of US$62 million in loans to the country. The loans were to finance projects overseen by the **Lebanese Council for Development and Reconstruction**, including a highway, three hospitals and three health centers; Turkish Islamic banks, known as special finance houses, sought to secure borrowings of between US$5 billion and US$10 billion from the Gulf.; Saudi Arabia's new **Al Bilad Bank** offered 30 million shares worth US$400 million, the equivalent to half its capital, in an IPO; UAE's **National Bank of Sharjah** reported a 16.4% year-on-year increase in net profit to US$19.4 million for 2004. The bank's board of directors met to approve a change in the bank's name and a rights issue to increase the bank's paid up capital to US$272 million; Datuk Dr Sheikh Awab Sheikh Abod was appointed President and CEO of **Affin Merchant Bank**; Bahrain's **Takaful International Co** teamed up with Lebanon's National Council for Health Tourism and the Lebanese company **K&M International Health Tourism** to provide healthcare services to its customers.

NEWS BRIEFS

RATINGS NEWS

FRANCE/ KUWAIT

Burgan Bank revised

Standard & Poor's (S&P) has revised Burgan Bank of Kuwait's outlook from stable to positive. Its BBB+ long term and A2 short term counterparty credit ratings have also been affirmed due to the bank's improving financial performance.

Standard & Poor's is confident with the systematic improvement of the bank's operations and the continued support of Kuwaiti government to Burgan Bank. Emmanuel Volland, credit analyst with S&P attested: "The positive outlook reflects Burgan Bank's improving profitability and risk governance framework, adequate capitalization, as well as the bank's proactive strategy to increase its relatively small market share in an increasingly competitive environment."

The bank's ratings are expected to rise if the bank increases its market share without experiencing negative impact on asset quality and capitalization, manages to diversify its revenue and continues its positive financial performance.

MALAYSIA

UEM Builders stable

Rating Agency Malaysia (RAM) has reaffirmed UEM Builders' long and short-term ratings of AA3/P1 for the group's RM300 million (US$85.7 million) Murabahah Commercial Papers/ Medium-Term Notes Facility (CP/MTN).

UEM Builders' government backing has enabled the group to establish itself in the local construction industry, propelling it ahead of other industry players. Healthy financials at a consistent RM3 billion (US$857.3 million) annually has also contributed to the rating affirmation.

The ratings are moderated by the cyclical nature of the construction industry as well as uncertainties in the group's foreign ventures. Trade financing lines have also been established to finance working capital. UEM Builders' effective debt stood at RM1 billion (US$285.7 million) as at 30th September 2006.

MALAYSIA

Abrar makes no immediate impact

The cessation of Abrar Discount Berhad's operations on 31st December 2006 has not impacted the ratings of The Royal Mint of Malaysia's RM46 million (US$13.1 million) Murabahah Multi Option Notes Issuance A2/P2 and IRIS Technologies A3/P2 RM40 million (US$11.4 million) Commercial Papers/ Medium-Term Notes Program (CP/MTN).

Abrar was the Facility, Issue, Paying Agent, Underwriter and Tender Panel member for Royal Mint's Murabahah, as well as underwriter for IRIS' CP/MTN. RAM has been informed of Royal Mint's refinancing options, which is projected to be adequately supported by the company's steady credit profile due to its market position as Malaysia's sole coin minter.

RAM will continue to watch the latest developments with regard to the cessation.

MALAYSIA

Sweetwater affirmed

Malaysian Rating Corporation (MARC) has affirmed Sweetwater SPV's RM195 million (US$55.7 million) Bai Bithaman Ajil Islamic Debt Securities (BaIDS) at A+ID with a stable outlook.

The rating is premised on Syarikat Pengeluar Air Selangor Holdings' operational and financial capabilities to distribute dividends to its shareholders and the payment of interest on loan stocks and redemptions; fuelling Sweetwater's BaIDS.
SSPV is a special purpose vehicle incorporated as a wholly owned subsidiary of The Sweet Water Alliance Sdn Bhd (TSWA) to undertake a fund-raising exercise via the procurement of a banking facility providing sufficient liquidity for the company in the next one year.

MALAYSIA

Putrajaya maintained

Putrajaya Holdings RM765 million (US$218.6 million) Nominal Value Bai Bithaman Ajil (BBA) Bonds Issuance Facility for Parcels A, B & Public Facilities Precinct 10 has been reaffirmed at AAAID. Its RM570 million Nominal Value of BBA Bonds Issuance Facility (Parcel C), RM850 million (US$242.8 million) Nominal Value of BBA Bonds Issuance Facility (Parcel D), RM850 million (US$242.8 million) nominal value of BBA Serial Bonds Issuance Facility (Parcels Wisma Putra & Deputy Prime Minister Residence (DPMR) and MOF Complex) (2003 – 2015); and RM1.5 billion (US$428.5 million) Murabahah Notes Issuance Facility (MUNIF) [Precinct 4G1-4G4 and Putrajaya Convention Centre, RM2.2 billion (US$628.5 million) Nominal Value Murabahah Medium Term Notes Programme (MMTN), and RM1.5 billion (US$428.5 million) Nominal Value Murabahah Commercial Papers and/or Medium Term Notes Programme (MUNIF) have also been reaffirmed at AAAID /MARC-1ID with a stable outlook.

The ratings reflect Putrajaya Holdings' robust cash flows and financials derived from consistent sub-lease rental collections from the Malaysian government. The bond's ratings are also a credit to Putrjaya Holding's shareholders' - Petronas and Khazanah Nasional's strong financial flexibility, with cash balances of RM848.8million (US$242.5 million) as at 30th June 2006 and an un-utilized credit lines of RM1.33 billion (US$380 million).

FRANCE/ KUWAIT

ABK gets a BBB+

Al Ahli Bank of Kuwait's rating has been upgraded to positive, with the bank's long-term BBB+ and short-term counterparty credit ratings of A-2 reaffirmed.

ABK's adequate financial profile and performance, good funding and liquidity profile, good capitalization and consistent strategy reflect the improved outlook. The ratings are moderated by the bank's limited size, Kuwaiti government's spending fluctuations, increased competition due to foreign bank presence and the economy's dependence on oil prices.

"The bank is expected to maintain an adequate financial profile and satisfactory capitalization in the medium-term," analyst Emmanuel Volland predicts.

Strong Regulatory Framework: A Vital tool for Islamic Banking

By Nafis Alam & Professor Bala Shanmugam

Developing a strong framework for governing, supervising, and regulating Islamic banks is a challenge faced by the Islamic finance industry today. The framework for governing, supervising and regulating Islamic finance institutions (IFIs) should contain important elements of capital standards, risk management practices and corporate governance. Apart from this, the IFIs also confront a number of other challenges. The most noticeable of these are lack of capital market instruments, system-wide implementation of Islamic banking system, lack of uniform standards of credit analysis, safeguarding of investment account holders and shortage of experts in Islamic banking areas.

Lack of standardization

At this point in time views are mixed and there is no common approach in supervising and regulating the IFIs. Some nations are of the view that Islamic banks should be subjected to a supervisory and regulatory regime of central banks that is entirely different from that of conventional banks. On the other hand, there are other nations that recognize the distinctiveness of Islamic banking activities yet support the view of treating Islamic banks under the same central bank supervision and regulatory framework as the conventional banks. The United Arab Emirates, Qatar and Malaysia are among the few countries that practice this form of central bank supervision and regulation.

Historically, the first attempt at Islamic banking undertaken in India can be traced back to the last decade of the 19th century. A prominent scholar from Hyderabad established an interest free institution named Anjuman Mowodul Ikhwan. In 1923, another institution named Anjuman Imada-e-Bahmi Qardh Bila Sud (Interest free credit society) was established in the locality by employees of the Department of Land Development.

In the 1950s, Pakistan initiated the establishment of modern banking based on Islamic laws. However, due to lack of deposits to support loans, this attempt soon met with failure. Currently, there are around 265 Islamic banks with a market capitalization in excess of US$13 billion. These banks have total assets estimated at over US$262 billion with financial investments exceeding US$400 billion. Deposits in Islamic banks are estimated to be over US$202 billion worldwide and the average annual growth rate of the Islamic banking industry ranged between 10-20% over the past decade.

Dual system

At present, Islamic banks in most Islamic nations and western countries – with the exception of Iran and Sudan - are operating under a dual banking mechanism. In a dual banking setting it is important to maintain harmonization of the regulatory infrastructure to provide a level ground for both the Islamic and conventional financial industry.

As such, there is a great need for the development of a well defined regulatory framework inclusive of legal and tax structure that will not position any of the financial players at a disadvantage. This will ensure that there is no opportunity for regulatory arbitrage in banking practices that makes one system more advantageous to the other in terms of product pricing. Thus the presence of a strong regulatory environment becomes more important when Islamic banks are operating under the dual banking system.

Managing risks

Emphasis of operational risk management and information disclosure that is normally the case in conventional banking is also crucial in the regulatory framework of Islamic banking. This importance arises from the specific nature of the risk profile in Islamic financial intermediation which relates to both profit and loss sharing (PLS) and non-PLS modes of financing. Investment risk is considered the most critical operational risk affecting PLS activities of Islamic banks. While PLS modes may shift the direct risk to investment depositors, it may expose Islamic banks to risks normally borne by equity investors rather than holders of debt. PLS modes involve banks in activities that go beyond conventional banking, such as the determination of profit- and-loss-sharing ratios on investment projects. Moreover, exposure of Islamic banks becomes more significant because of the lack of recognizable default on the part of the agent-entrepreneur in PLS contracts. This is with the exception of cases of negligence or mismanagement from the banks side.

Negligence in complying with regulations exposes financial institutions to banking risks which can eventually lead to a run on the bank. In addition, differences between the supervisory Shariah boards of individual financial institutions within each country as well as differences between the regulatory bodies in various countries may create global uncertainty as to the rules to be followed. An establishment of central regulatory body encompassing all the features of regulatory environment of the member states can be a solution to this issue. This central body can be set up on the model of the Islamic Financial Services Board (IFSB) in terms of regulatory and supervision standards.

Regulatory framework

A strong regulatory framework should also govern the appropriate disclosure from the IFIs. Information disclosure is more crucial in an Islamic environment than it is in a conventional banking system. This is due in part to the absence of protection for investment depositors. More public disclosure of information about banks' policies and strategies is necessary to enable depositors and creditors to monitor banks' performance. Adequate information in terms of investments portfolio and performance data is also necessary for supervisory authorities to exercise a more effective prudential supervision of the IFIs. This in turn will enable Islamic bank stakeholders to make reasonably informed investment decisions.

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Strong Regulatory Framework: A Vital tool for Islamic Banking *(continued...)*

A number of countries and institutions are already working towards the development of sound regulatory guidelines for the IFIs which can be accepted globally. This will help to bring the whole Islamic finance industry onto an equal platform. IFSB aims to promote the development of a prudent and transparent Islamic financial services industry and provides guidance on the effective supervision and regulation of institutions offering Islamic financial products. The IFSB has recently finalized standards on capital adequacy and risk management, and has made progress in developing standards on corporate governance. Once fully developed and accepted, these international standards will assist regulators and supervisors in their respective regions to formulate better regulatory policies for supervising Islamic financial institutions. This in turn will promote soundness, stability, and integrity among IFIs.

Appropriate framework for regulating and supervising Islamic banks is necessary in granting authorization for Islamic banking operations in the country. This process requires an innovative approach keeping in view the Shariah principles of Islamic finance, accounting and auditing standards recommended by AAOIFI and the international best practices in the industry. In this regard, Central Banks are working to develop sound regulatory frameworks within their jurisdictions.

Current practices

The State Bank of Pakistan has already started working to evolve such a framework. In this perspective, reference could be made to the experience of the Bahrain Monetary Agency (BMA). BMA has not only applied rigorous regulatory and transparency standards, but it has also pioneered a range of innovations designed to broaden the depth of Islamic banking markets and to provide Islamic institutions with wider opportunities to manage their liquidity and risk spectrum.

Central Banks should also ensure that Islamic banks, subsidiaries, windows or the branches operating parallel with the conventional banking practices are prototypes of commercial banks. Hence it should be doing all the functions that commercial banks normally do. In this aspect, Central Banks of Islamic banking practising countries can build the regulatory framework based on the model of the prudential information and regulatory framework (PIRI) regulations, - a model developed by BMA which covers capital adequacy, asset quality, management of investment accounts, corporate governance and liquidity management. PIRI is the first comprehensive framework created specifically to deal with Islamic banks. The increasing importance of this framework evolved because the regulation and supervision of Islamic banks under this model does not contradict Shariah law in any way.

In addition, we can also highlight the effectiveness of Malaysia in managing the Islamic banks under the dual banking system within a strong regulatory environment. IFIs and commercial banks are subject to the same supervision by Bank Negara Malaysia. Furthermore, commercial banks that are operating with Islamic windows are required to observe additional requirements, including observing minimum Islamic banking funds for its Islamic banking operations and maintaining an internal separation of accounting books. Bank Negara Malaysia has taken a further step requiring banking institutions to disclose the true and fair value of the Islamic banking operations in the form of balance sheet and profit and loss statements as part of the "Notes to the Accounts" in the principal financial statements of the banking institutions. This is to duly reflect the different risks associated with IFIs and the unique characteristics inherent in Islamic banking as compared to conventional banking.

Potential for regulatory development

It is therefore clear that there is potential to develop a strong regulatory system for Islamic banks. Often this process has been hampered by the dearth of knowledgeable regulators and supervisors. Regulators and supervisors should be fully equipped with the required knowledge and skills to be able to identify the risks involved in various Islamic financial transactions to effectively conduct supervisory oversight of the industry. Appropriate regulations and supervision are critical to alleviate the risks involved with IFIs. The monitoring of the Islamic banking institutions through effective supervision by the regulatory authority is very much needed to ensure that prudential requirements are observed by IFIs. Inadequate supervision and control and over exposure to risks are amongst the factors that could seriously weaken the Islamic financial system.

MONASH University Malaysia

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Indonesia prepares to move up a gear

By Nora Salim

Islamic banking is relatively small in the Indonesian banking industry. While the country has the largest Muslim population – about 85% of its 245 million people - banking according to Shariah principles started at a much later stage than its less populous neighbor Malaysia - population of about 23 million. "An important factor for the slow start had been due to the lack of knowledge regarding Shariah rulings against Gharar of its Muslim leaders," says Linda Gunawirawan, a researcher at Bank Muamalat in Indonesia.

Statistics just released by Bank Indonesia stated that as at 31st December 2006 assets of Islamic banking in the country totaled IDR26.7 trillion (US$2.93 billion). There are three Islamic commercial bank operations, namely Bank Muamalat Indonesia, Bank Syariah Mandiri and Bank Mega Indonesia.

Total financing by the Islamic banks amounted to IDR20.4 trillion (US$2.24 billion), the bulk of which went to the social services sector (IDR5.64 trillion [US$619.84 million]), business services sector (IDR5.46 trillion (US$600 million]) and construction sector (IDR3.04 trillion [US$334 million]). Murabahah is the favorite taking up 62% of the total financing while Mudarabah and Musharakah were 20% and 11.4%, respectively.

Meanwhile, of the total IDR20.7 trillion (US$2.27 billion) Islamic banking deposits, a good 52% or IDR10.8 trillion (US$1.19 billion) were from Mudarabah investment accounts.

"Recent efforts of the Shariah Bureau of the Central Bank are commendable," Gunawirawan added, "and Islamic financial institutions are developing more rapidly with the fervent support of younger professionals and intellectuals. There is a huge demand for Islamic banking products out there, particularly in certain parts of the country."

Although Islamic banking only made a mark in 1992 - through the introduction of legal foundations for Shariah banking operations by the government - Bank Indonesia has forecast that Islamic banking assets will expand more than twelve fold to US$18.2 billion by 2011. This represents between 5-9% of total banking assets from about 2% currently.

Bank Indonesia's deputy governor, Siti Fadjrijah, says that in order to increase the Islamic banking system stability, various efforts have been made such as doing studies on the concept of regulating the policy on the entry and exit of Islamic banks. Through the recommended policy, she expects strong support from the players who have expertise and high dedication in carrying on Islamic banking operations.

"There are some peculiarities in Islamic banking in Indonesia. Like most microfinance institutions in Indonesia, Islamic institutions are generally private for-profit institutions based on the intermediation of depositor funds secured on a competitive market. In this they are different from microfinance institutions in almost every other country in the world. They typically have no explicit social goal other than profit maximization and conformity with Islam, though in some cases a social element is present," adds Gunawirawan.

While there are a number of Islamic institutions such as Islamic savings and loan co-operatives, located in rural areas providing agricultural financing, Indonesian Islamic financial institutions focus on the urban population and are geared toward the financing of trading operations.

One area which is becoming an important influence in the development of Islamic banking is the government's issuance of more Islamic bonds in the market. Not only will this expand the Islamic investment alternative but also give a benchmark that can push the development of the other Islamic financial instruments and in the end will increase the efficiency of the management of Islamic bank liquidity.

Indonesia plans to market its first Sukuk this year. Director general of treasury at its finance ministry Rahmat Waluyanto said that a domestic issuance was probably first, with institutional investors, such as pension funds and insurance firms, likely to be interested.

Indonesia has yet to issue an Islamic bond as it first needs to complete the State Shariah Based Bonds Decree. A bill regulating the debt issue is awaiting approval by parliament. The last bond issued was US$2 billion worth of conventional sovereign bonds in March 2006.

The direction of Islamic banking became clearer for Indonesia in 2002, when The Blueprint for Islamic Banking Development in Indonesia was launched. The vision of the Blueprint is "A sound Shariah banking system that is competitive, efficient and compliant with prudential practices, and capable of supporting real economic sector through the implementation of share based financing and trades with real underlying transactions in the spirit of brotherhood and good deeds to promote well-being for all society."

In order to fulfill this mission, Bank Indonesia's objective is to create an environment suited for Shariah banking development that is compliant to Shariah principles and capable of supporting a real economic sector by:

- Conducting continual studies and research about conditions, opportunities and requirements for Shariah banking;
- Preparing the concept and conducting risk-based supervision that fit with its characteristics to maintain operational sustainability;
- Preparing institutional structure aimed at improving operational efficiency of the Shariah banking;
- Designing an appropriate framework for a sound entry and exit policy that is capable of maintaining systemic stability.

continued...

Indonesia prepares to move up a gear *(continued...)*

The deputy governor has stressed the importance of international co-operation, by Bank Indonesia, in regulating and developing Islamic banking as one of the efforts required to support the realization of a healthy, competitive banking industry which will comply with Islamic principles.

The deputy governor had said, in Bank Indonesia's report on the development of Islamic banking in 2005: "Further development in its Islamic banking regulations will provide a stronger legal ground for the development of Islamic banking which will in turn improve various regulations including tax, capital market, pilgrim's fund management and other related regulations."

True to these words, last November, new accounting rulings in the preparation and presentation of Islamic financial statements and Islamic accounting standards were published by the Indonesian Institute of Accountants (IIA). Another move to foster the growth of Islamic finance in Indonesia is on the aspect of regulatory framework of the Indonesian capital market. Two regulations on Shariah Securities were issued on the 23rd November by the Indonesian Capital Market and Financial Institution Supervisory Agency (Bapepam-LK). These were rulings on issuance of Shariah Securities and on the contracts allowed for the Issuance of Shariah Securities. (See page 11 and 18)

Indonesia has a more positive story now with increased investor confidence. The banking and financial services industry in Indonesia is set to face new challenges, especially on its commitment to make the bold change – from market competition to raising standards. The Islamic banking laws introduced in 1992 lacked a comprehensive and appropriate framework. Given its late start, Indonesia has yet to bring Islamic banking to its full potential. However, the recent initiatives are evidence that the industry is ready to move up a gear and become a key player both regionally and globally.

Indonesian Shariah Securities: New Business Opportunities and Major Regulatory Issues

By Timur Sukirno & Indri P Guritno

Introduction

The Indonesian capital market has been enhanced by recent developments on the regulatory front. Long overdue is the issuance of two regulations on Shariah Securities. On the 23rd November, 2006, the Indonesian Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) finally issued the Bapepam Rule No. IX.A.13 on Issuance of Shariah Securities ("Rule No. IX.A.13") and Bapepam rule No. IX.A.14 on Contracts Which Can Be Used for the Issuance of Shariah Securities in the Capital Market ("Rule No. IX.A.14").

These new rulings are significant as they would revolutionize the Indonesian Shariah capital market and take it to the next platform. These rulings include:

1) The adoption of the Fatwa of the Indonesian National Shariah Board as part of binding law for Shariah capital market players;
2) The introduction of new Shariah securities products which have never been issued in Indonesia before, such as Shariah equity securities, Sukuk, Shariah mutual funds and Shariah asset backed securities;
3) The introduction of new and high Shariah compliance standards for Shariah securities products and issuers, including limitations of business activities for Shariah compliant issuers, mechanism for purification of portfolios of Shariah mutual funds and the underlying assets of Shariah asset backed securities; and use of Shariah compliance as an essential element in Sukuk trustee agreements.

Indonesian Shariah Securities Products

An important part of rule No. IX.A.13 is to structure Sukuk in the form that is generally accepted in the international market. Initially, Indonesia only recognized Shariah bonds, but it was not clear if they were debt based securities or certificates of ownership over tangible assets.

However, rule No. IX.A.13 makes it clear that Sukuk are Shariah securities in the form of ownership certificates with the same value representing inseparable/undivided participation of:

- ownership of tangible assets;
- value of usufruct and services of assets of specific projects or investment activities; and
- ownership of assets of specific projects or investment activities.

This concept distinguishes Sukuk from debt based securities and therefore creates the possibility of a secondary market for Sukuk in Indonesia.

Besides Sukuk, the introduction of Shariah Asset Backed Securities brings new rules on securitization based on Shariah principles. To implement a high degree of Shariah compliance, Bapepam-LK upholds a strict policy for any investment manager and custodian bank that engages in the securitization process. This includes the policy to maintain the assets portfolio free from any assets that are deemed not to comply with Shariah principles and a sanction mechanism to ensure that the investment manager and custodian bank will comply with rule No. IX.A.13.

Potential Issues

Although these new Bapepam-LK rules provide an idealistic view of what Shariah compliant securities should become, there are still some potential issues that should be noted and improved:

1. There is no codification and unification of Shariah principles in the Indonesian legal system, including the capital market or in any financial sectors in Indonesia. Therefore, there are no assurances in using Shariah as the governing law.
2. There are no radical improvements for the tax treatment of Shariah securities products, as this issue is still pending at the Directorate General of Tax. Although a legal framework can be considered as a good step for the development of Islamic finance in Indonesia, a high tax jurisdiction is unlikely to attract potential investors. From our experience, the tax problem is always the main problem in structuring Shariah securities products.
3. In addition, due to recent amendments on the Indonesian Religious Court Law, the Religious Court has jurisdiction over dispute of Shariah economic/business activities. The new authority of the Religious Court brings about a controversial issue as it is not clear whether the parties can freely choose their jurisdiction to settle disputes concerning the issuance of Shariah securities in Indonesia.

The above problems need to be resolved as soon as possible, especially to give certainty and incentives for investors who are interested in Shariah compliant securities. Meanwhile, the current Bapepam-LK rules on Shariah securities will become the first step in establishing a sound legal framework for the development of Shariah Securities in Indonesia.

For further information, please contact Indri P. Guritno at indri.p.guritno@bakernet.com or Timur Sukirno at timur.sukirno@bakernet.com.

Mr. Sukirno is managing partner of HHP and has advised numerous bankers on various structures and security issues in project-related financing and also has advised foreign investors in Indonesia on joint venturing in a variety of industrial sectors including a plantation and pulp project. In recent times, his practice has also included debt restructuring and bankruptcy/insolvency cases.

Indri Guritno is responsible for a wide range of banking and finance matters, including drafting, providing advice and opinions in connection with loan and security documents, banking corporate matters, project finance and debt restructuring. She has provided advisory services in relation to fiducia law issues, pledge of shares issues and promissory notes.

Islamic Financial Products in Indonesia

By Bernardo Vizcaino, Eurekahedge

Being the world's most populous Muslim nation, Indonesia is certainly a market that gathers a lot of attention in this developing industry. There is considerable interest as it presents a sizeable marketplace (a population of 242+ million) and caters to the growing appetite for emerging market products (forecasted GDP growth of close to 6% for the next five years).

Indonesia has also recently revamped its regulatory framework through its supervisory body (Bapepam) as it pertains to these financial products and services. Indeed topics addressed by the regulator in the last 12 months alone range from capital adequacy in Shariah-based banking as well as conversion of commercial banks from conventional into Shariah-based operations.

Financial Institutions

There is roughly a dozen Islamic fund houses managing Shariah-compliant funds in the country (as seen in Table 1), with several more in the pipeline. They are also serviced by a variety of financial institutions providing other types of Islamic products – take for instance, the custodial services offered by Bank Niaga, Deutsche Bank and BNI. The number is indeed respectable but it must also be placed in context, in particular, when considered against the number of conventional products already in the market.

Table 1: Shariah-based Asset Managers in Indonesia

AAA Securities
BATASA
Bhakti Asset Management
BNI Securities
Danareksa
Insight
KRESNA Securities
Lautandhana Investment Management
Mandiri Securities
PNM Investment Management
Recapital Asset Management

However, it is interesting to note that for the most part, all of them are indigenous to the country and this in turn presents a rich source of local talents, as they have been able to develop Shariah products locally and independently from other markets. This is also a departure from other Islamic markets where local players are up face-to-face with either regional or global institutions that have established operations and are actively competing for market share. Indonesia certainly lives up to the expectations as an untapped marketplace.

Mutual Funds

The above fund houses have developed a rather young range of Shariah-compliant mutual funds. These have, on average, three to four years track records and a relatively small asset size (average not more than US$2 million) compared to their Malaysian or Saudi Arabian cousins – partly due to their focus on local investors. Table 2 below provides a sampling of these funds with some performance statistics. As emerging market products, they have certainly exhibited high volatility (with an average 8.96% standard deviation for the sample) although this risk has offered equally high returns (average of 19.87% year-to-date returns for these seven funds).

Equity and Fixed Income Securities

The above mutual funds are primarily equity based and operate in a stock market with a market capitalization of approximately US$81 billion (compared to Malaysia's US$181 billion and Kuwait's US$130 billion). The number of stocks remains relatively low with about 380 listed on the Jakarta Stock Exchange but it must be noted that not all of these are Shariah compliant (whereas Malaysia has more than 1,000 stocks with 886 of these being Shariah compliant).

Fixed income securities present a similar picture with a total of 161 listed bonds, with only a smaller portion being Shariah based. Table 3 reviews a shortlist of these bonds, which together have a notional amount of IDR2 trillion (US$220 million) (in contrast with the total value of issued bonds of IDR100 trillion [US$11 billion]).

Future Scope

Islamic finance in Indonesia distinguishes itself for being a homegrown industry and in certain respects has a more developed Islamic market

continued...

Table 2: Sample Shariah-compliant Mutual Funds

Fund Name	YTD (%)	Annualised Return	Ann. Std. Deviation	Inception Date
AAA Amanah Syariah	34.20	7.53	14.45	Jun-05
BIG Dana Muamalah	7.52	13.24	1.71	Jun-06
Insight I-Hajj Syariah	15.57	11.45	1.67	Jan-05
IPB Syariah	25.66	24.02	15.12	Dec-05
Lautandhana Syariah	9.88	11.14	1.58	Dec-05
PNM Amanah Syariah	18.52	0.15	18.96	Jan-04
PNM Syariah	27.77	11.81	9.23	Jan-04

Source: Eurekahedge

Islamic Financial Products in Indonesia *(continued...)*

than some of its neighbors (such as Brunei and Singapore). The local financial institutions are well positioned to take advantage of their expertise and match it with a foreign partnership (CIMB and Bank Niaga being examples of this).

The above also indicates there is considerable scope for these products to grow in their share of the market (for instance, Islamic bonds represent only 2% of the total), even more so if one considers the rich source of human capital and fresh regulatory perspective. As an emerging market in every sense of the word, Indonesia does face several challenges in terms of market and credit risk and transparency, but it does allow for substantial returns for those willing to take the extra step. Watch this space.

Table 3: Sample Shariah-compliant Bonds

Name of Securities (Bonds)	Issuer	Maturity Date
Syariah Mudharabah Indosat	Indosat Tbk	6-Nov-07
Syariah Mudharabah Berlian Laju Tanker	Berlian Laju Tanker Tbk	28 May-08
Syariah Mudharabah Bank Bukopin	Bank Bukopin	10-Jul-08
Syariah I Subordinasi Bank Muammalat	Bank Muamalat Indonesia	15-Jul-10
Syariah Mudharabah Ciliandra Perkasa	Ciliandra Perkasa	26-Sep-08
Syariah Mudharabah Bank Syariah Mandiri	Bank Syariah Mandiri	31-Oct-08
Syariah Mudharabah PTPN VII	Perkebunan Nusantara VII	26-Mar-09
Syariah Ijarah I Matahari Putra Prima	Matahari Putra Prima Tbk	11-May-09
Syariah Ijarah Sona Topas Tourism Industry	Sona Topas Tourism Industry Tbk	28-Jun-09
Syariah Ijarah Citra Sari Makmur I	Citra Sari Makmur	9-Jul-09
Syariah Ijarah Indorent I	CSM Corporatama	11-Nov-08
Syariah Ijarah Berlina I	Berlina Tbk	15-Dec-09
Syariah Ijarah I HITS	Humpuss Intermoda Transportasi Tbk	17-Dec-09
Syariah Ijarah Ricky Putra Globalindo	Ricky Putra Globalindo	7-Dec-10
Syariah Ijarah Indosat	Indosat	21-Jun-11
Syariah Apexindo Prama Duta	Apexindo Prama Duta	8-Apr-10

Source: Bank Indonesia

Islamic Finance forum

The larger Islamic finance transactions are almost exclusively lead managed by the world's mega banks. Will we soon see the smaller players in lead roles and what do they need to do to ensure big ticket success?

Most Islamic banks are primarily engaged in retail business and lack the capacity and expertise to get involved in investment banking operations such as Sukuk management on their own. For major Sukuk issues they wisely team up with major investment banks. The co-management involving Dubai Islamic Bank and Barclays Capital being a notable example. In Malaysia, CIMB Islamic is the market leader, but it can draw on the investment banking expertise of its parent, CIMB.

Co-management arrangements can be seen as a transitional step for Islamic banks, and a good way of acquiring expertise and experience. Within five years I would expect to see the major Islamic banks acting as sole managers for Sukuk issuance and providing advice on IPO's and mergers and acquisitions. Dubai Islamic Bank is likely to be the first to do it alone, but expect Al Rajhi and Kuwait Finance House to follow, although both the latter will most likely continue to focus on their profitable retail and real estate business rather than plunge too quickly into to the higher risk world of investment banking.

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

The title of Muhammed Saleem's new book - "Islamic Banking - a US300 billion deception" - says it all.

The mega banks essentially have a monopoly due to economies of scale in particular, but are wedded to a fundamentally un-Islamic "deficit-based" monetary infrastructure in a way that smaller players need not be.

It follows that smaller players could take a lead - as value-adding service providers, rather than value-extracting credit creators - in developing truly Islamic "asset-based" financing mechanisms rather than fighting over the crumbs from the table of the current Islamic Banking charade which Mr Saleem dissects.

CHRIS COOK: *Principal, Partnerships Consulting LLP*

It is a bit difficult for smaller players to take lead roles unless they have the placement capacity to handle the private placement exercise.

MOHAMED RIDZA: *Managing Partner, Ridza Law*

Deals are driven by balance sheet size that determines underwriting capacity, distribution capability (syndication) and track record. In the Middle East, given the tenors and project sponsors (often sovereign/semi sovereign), pricing is fine. Consequently, margins are only good in lead arranging and therefore given the above pre-requisites, the larger, international banks get the deals.

Islamic banks are challenged on two fronts - size and tenor - where only a few institutions have the necessary critical mass to manage the larger sized transactions.

We need to ask why the smaller banks would want to get involved in big ticket items. This is not where their competitive advantage lies. They would be better served focusing on local corporate and retail markets or developing niche investment banking operations.

This also underlines the need for consolidation in the industry and to create better capitalized institutions.

Finally, securitization can potentially add capacity to some of the smaller banks. They may be able to originate from their network and then churn the assets off their balance sheets. However, the regulatory environment in the region may pose some challenges here.

YAVAR MOINI: Executive Director, Global Capital Markets, *Morgan Stanley*

Next Forum Question

Do you agree that the current system of using Special Purpose Entities and ancient contract forms will eventually lead to the approval of products that follow the form but violate the substance of the Shariah?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@islamicfinancenews.com before Wednesday 14th February 2007.

Meet the Head

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

Name: Jonathan Silver

Position: Head of Middle East Practice

Company: Clyde & Co

Based: UAE, Dubai

Age: 54

Nationality: British

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

I did my articles with Clifford Turner (as Clifford Chance was then called) and came to head up one of their offices in the United Arab Emirates. I established my own practice in 1981 with a view to capitalize on the opportunities that seemed possible in the region. In 1989 I merged my practice with Clyde & Co, and we opened the first Clyde & Co office in Dubai in September of that year. The rest is history!

During the past 17 years the practice has changed beyond recognition. Particularly the past three years have seen unprecedented growth of our business - to the point where Clyde & Co is today demonstrably the dominant international commercial law firm in the GCC region with over 75 lawyers and growing.

What does your role involve?

I have overall responsibility for the Middle East offices of Clyde & Co in Dubai, Abu Dhabi and Qatar. We will be opening a branch within the Qatar Financial Centre by the end of next month.

In addition, I head-up the corporate and finance practice, which incorporates all the works performed in the Islamic Finance space.

What is your greatest achievement to date?

Remaining sane after all these years.

Fathering three children and surviving that.

Which of your products/services deliver the best results?

The business has expanded rapidly over the past three years across the board. We believe we offer unparalleled strength in-depth and are the only international law firm in the region with a full service offering - this means we have specialists in all areas and can call in in-house industry experts as needed. Our clients tell us that this, combined with our local history and knowledge, really makes a difference in getting results.

What are the strengths of your business?

Since we have developed a full-service local practice we are able to bring industry and other practice area experts into discussions to ensure that the service to our clients is appropriate. This would include construction, property, IP, IT, insurance and other issues which others may not be able to service.

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

The partners in the Clyde & Co Middle East offices work in a truly collegiate manner. There is no debate over side issues which seem to affect other partnerships, such as billings systems and personal rewards. The attitude here is that the best person(s) should perform the work based on skill set.

What are the obstacles faced in running your business today?

Meeting the needs of clients during the rapid expansion phase has been a major issue over recent years, particularly the recruitment of enough talent and ensuring that the infrastructure to support the offices can meet the requirements. Human resources are in scare supply locally and this has resulted in significant overseas recruitment which takes time and effort. We have established local training routes and would see this as providing an increasing proportion of required resources in the future.

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

We see increasing demand for Islamic financing as well as increasing variation in the type of Islamic products available and their application. Undoubtedly there is scope for project financing in the region to focus more on Islamic products, Islamic insurance, leases, etc.

The industry will mature and form a significant part of the global finance market. It will continue to develop and adapt, taking into account the change in global market conditions and tapping in to the rich and deep investor base that desires Shariah compliant investment opportunities.

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

More agreement and consistency in the interpretation and application of Islamic principles.

CLYDE&CO

Clyde & Co is a name that opens doors. Focusing on core sectors of insurance and reinsurance, marine, aviation and transportation, international trade & energy and corporate & commercial, the firm offers comprehensive legal services to clients around the globe.

Through its 18 international offices, Clyde & Co helps clients in over 120 countries break through the trade barrier.

BOON KOON GROUP

INSTRUMENT	Islamic Commercial Paper/ Islamic Medium Term Notes Program
ISSUER	Boon Koon Group
PRINCIPAL ACTIVITIES	Boon Koon Group is an investment holding company whilst its subsidiaries are principally involved in the manufacturing and assembly of commercial vehicles and the provision of its related services.
ISSUE SIZE	RM100 million (US$28.23 million).
DATE OF ISSUE	7th December 2006
TENOR	The Facility shall have an availability period and tenor not exceeding seven (7) years from date of the first issue.
METHOD OF ISSUE	The ICP and/or IMTN shall be issued without prospectus in the following manner: Tender issuance of the ICP and/or IMTN shall be affected by way of tender panel bidding whereby the tender panel members will be invited to bid competitively for the price and volume of the ICP and/or IMTN in computing the Purchase Price. The tenders shall be processed in accordance with the rules on FAST and shall be governed by guidelines pertaining thereto issued and to be issued from time to time by BNM. In accordance with FAST, allocation of the ICP and/or IMTN to bidders shall be in order of descending price bids. The Issuer may opt to terminate the issuance request in the event the tendered price bids being not acceptable to it. Private Placement: At the option of the Issuer, an issuance request may also be affected by way of private placement. The Issuer may accept an unsolicited offer for the ICP and/or IMTN or request the Facility Agent to make a direct or private placement of the ICP and/or IMTN. Issuance of the ICP and/or IMTN will be reported in FAST. Bought Deal at the option of the Issuer, the IMTN may also be issued on a bought deal basis.
LISTING STATUS	The ICP and/or IMTN will not be listed on the Bursa Malaysia Securities or on any other stock exchanges.
LEAD ARRANGER	AmMerchant Bank
LEGAL COUNSEL	Zaid Ibrahim & Co.
SHARIAH ADVISOR	Dr. Mohd Daud Bakar
RATINGS	The proposed ICP/IMTN Programme has been accorded an indicative short term rating of MARC-2 and an indicative long term rating of AID. long term rating of AID
BOARD OF DIRECTORS	Shasudin @ Samad bin Kassim, Goh Boon Koon, Goh Boon Leong, Lee Teoh Kee, Goh Boon Siew, Abd Ghani bin Ali Kadir, Tan Jin Sun, Goh Chin Aun, Ho Kok Loon, Ang Poh Gin, Murelidaran a/l M. Navaratnam, Amirul Rahman bin Abdul Rahim
AUTHORIZED PAID UP CAPITAL	RM100,000,000 (US$282,286.52)
TRUSTEE	Malaysian Trustees
REPORTING ACCOUNTANT	JB Lau & Associates

EGYPT

Maiden Takaful union

The International Insurance and Islamic Takaful Companies Union was successfully hosted by the Egyptian-Saudi Insurance House.

Attended by representatives from Sudan, Egypt, Jordan, Saudi Arabia, Bahrain, UAE, Lebanon and Qatar, the meeting saw amendments proposed to the Union Statute and work plan. The next meeting is scheduled for mid-2007, to be held in Doha, Qatar.

Khartoum, Sudan is the latest site to domicile the Union.

SYRIA

AOICS mobilized

The Arab Orient Insurance Company Syria (AOICS) will commence operations on the 15th February 2007.

The company, whose major shareholders include Arab Orient Insurance and the Al Futtaim Group, Dubai has a US$16.28 million start up. It aims to gain US$4 million in gross premiums in the first year of its Syrian endeavor.

UAE

Dip for insurers

UAE insurers experienced loss of more than 57% at AED2.85billion (US$775.9 million) in 2006. The loss was due to exposure to stock investments sensitive to stock market declines.

As at end of 2006, combined profits for the insurance sector stands at AED1.23 billion (US$334.9 million).

MALAYSIA

HSBC's latest acquisition

HSBC Insurance Asia has begun talks with Jerneh Insurance to acquire its non-life insurance portfolio.

Valued at HK$35 million (US$4.5 million), the portfolio comprises of 10,000 motor, medical, employee compensation and public liability insurance policies. Expected to be completed in the 1st quarter of 2007, the transaction is still awaiting regulatory approvals.

CEO of HSBC Insurance Asia Pacific, David Fried is confident: "We (HSBC) are well-placed to provide a good continuing service to Jerneh's customers who will have access to HSBC's wide range of insurance and financial services."

Accounting Differences in Islamic and Conventional Insurance

By Abdul Ghoni

The Indonesian Institute of Accountants (IIA) has published new accounting standards - the Exposure Draft for Conceptual Framework of Preparation & Presentation of Islamic Financial Statement and the Islamic Financial Accounting Standard (nos. 101 to 106) that took effect beginning November 2006. The new standards will affect all companies whose activities are in trading, manufacturing, financial services and other industries. Financial transactions – be it Islamic or conventional – will also come under the administration of the new standards.

One could not overlook AAOIFI (Accounting & Auditing Organization for Islamic Financial Institution) standards when we discuss about Islamic accounting standards. The Bahrain based standards have been the benchmark for Islamic financial institutions around the world. It completely covers the conceptual framework, general presentation and disclosure of financial statements made in Islamic contracts namely Murabahah (Financial Accounting Standard –FAS- No.2), Mudarabah (FAS No. 3) and Salam (FAS No.7).

With regards to accounting standards for Islamic insurance, AAOIFI has set standards on the preparation and presentation of financial statements (FAS No.12), allocation of surplus/deficit (FAS No.13), provision & reserves (FAS No.15) and contribution (FAS No.19). However, during the formulation of AAOIFI, accounting rules pertaining to Islamic insurance operations have yet to be fulfilled. Hence there are incomplete standards for Islamic insurance accounting in AAOIFI. It is important to note that AAOIFI has yet to set standards in relation to other Islamic insurance contracts such as Tabarru', Ujrah, Mudarabah and Wakalah contracts. AAOIFI also has not expressly developed the conceptual framework for Islamic insurance accounting.

Given the unprecedented growth seen in the Islamic finance industry today, the IIA accounting standards attempt to complement the AAOIFI standards by providing a more comprehensive coverage of Islamic financial transactions. Thus, it may serve as a blueprint for the Islamic finance industry in Indonesia, if not for the world, in the near future.

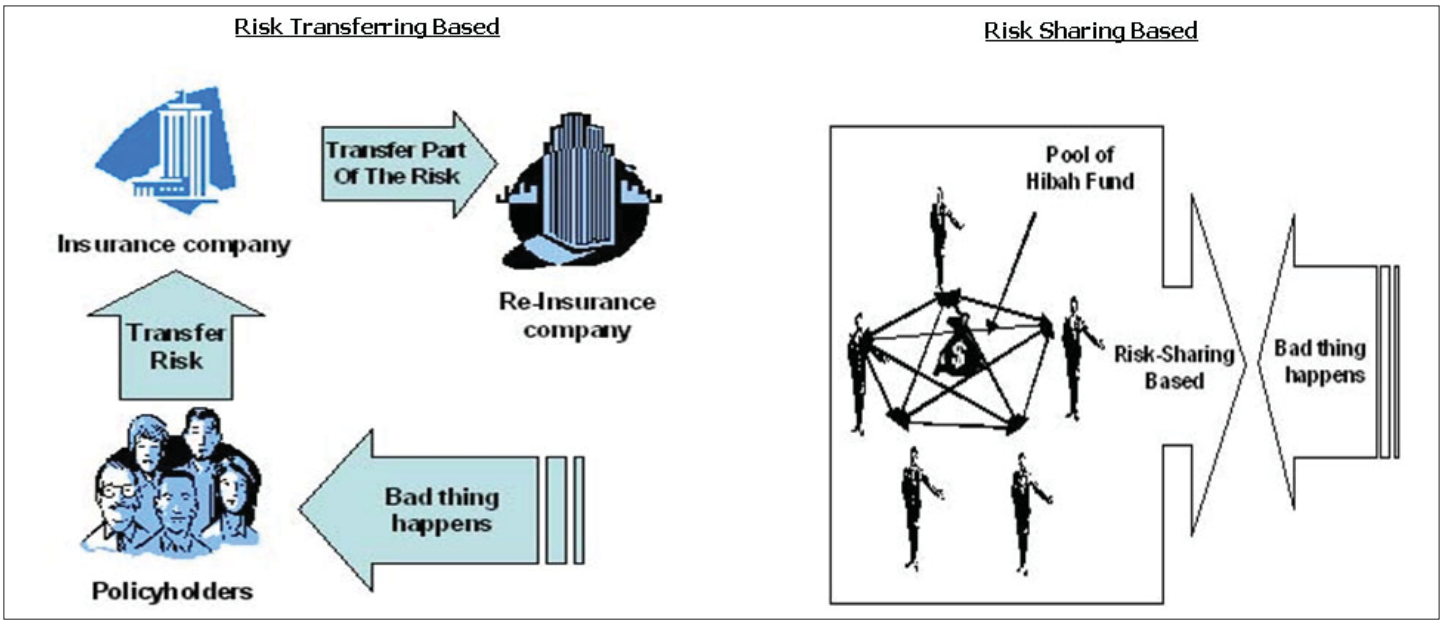
Business characteristics of Islamic insurance company

In the banking industry, capital markets and other financial institutions, the characteristics of financing and investment schemes whether Islamic or conventional are rather similar. The conventional system is interest related whilst the Islamic system is based on the sharing of profit and losses. As an intermediary, the business characteristics alone are not really distinguishable.

On the other hand, there are distinctive business characteristics differentiating between conventional insurance and Islamic insurance, as depicted by the illustration below. Conventional insurance is based on transferring risk from customer to insurance company whereas Islamic insurance is based on risk sharing among the participants. The Islamic insurance company only acts as the operator.

In conventional insurance the business itself is a singular entity. The premium collected is the property of the company. In comparison, Islamic insurance comprises of two entities - the participants' fund and the shareholders' fund. For example, there exists a Tabarru' account which is neither the property of the insurance company nor the property of the individual participant. Rather, it is a pool of donated funds (from the partcipants) that will be used to cover claims from all participants. The Islamic insurance company merely functions as an operator and does not shoulder the responsibility of the risk involved. It manages for coverage of deficit and surplus where the Qard Hasan or benevolent loan principle is applied.

continued...



Accounting Differences in Islamic and Conventional Insurance *(continued...)*

Qard is essentially a loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the principle amount as long as it is not stated in the contract. Islam views loans or Qard as a moral obligation to be given to borrowers free of charge, as a person seeks a loan only if he is in need of it.

There are a number of ways in which Islamic banks can give interest-free loans to their investment account holder; to all bank clients; or restricted to needy students and other economically weaker sections of the society. There are others who provide interest-free loans to small producers, farmers and entrepreneurs who cannot obtain finance from other sources.

Islamic insurance systems - such as the Ta'amin, Takaful or Tadamun – are efforts to protect and help each other among a number of people through investment. Investments are in the form of asset and/or Tabarru'. Tabarru' is defined as a contract where a participant agrees to donate a pre-determined percentage of his contribution to a Takaful fund, hence providing assistance to fellow participants. In this way he fills his obligation of joint guarantee and mutual help should another participant suffer a loss. This concept eliminates the element of Gharar from the Takaful contract.

Functions of Islamic insurance

Given the above explanation, the functions of Islamic insurance companies can be summarized as follows:

- The collector of Tabarru': gathers a pool of Tabarru' funds that is adequate to overcome existing risk, by the law of large numbers. This activity can be conducted through direct marketing or through third party agents or insurance brokers.
- An underwriter: solely acts as the risk manager. The risks being the responsibility of all participants through the Ta'awun concept. Ta'awun is mutual help where participants make donations with the intention of helping one another within the Takaful group. The elements involved in Ta'awun are mutual responsibility, mutual cooperation and mutual protection.
- A manager of claims: handles claim payments and services. The payment can be dealt with directly or through a third party such as the loss adjuster, the hospitals and the likes.
- An investment management company: manages the investment of the funds provided by the participants.
- An investor: invests his own funds or participates in Islamic or Shariah investment instruments.
- Social service provider: organizer of Zakah and charity fund.

Financial requirements

Islamic insurance system therefore requires the following financial statements to carry out the above-detailed functions smoothly:

1) Financial statement that communicates the activity of the Tabarru' fund (participant fund) along with its rights and obligations as reported in:

   a) Statement of balance sheet of participant fund
   b) Statement of revenue and expense of participant fund
   c) Statement of cash flow of participant fund
   d) Statement of surplus (deficit) of participant fund

2) Financial statement that expresses the Islamic insurance company as the operator of participant fund along with its rights and obligations which reported in:

   a) Statement of balance sheet of shareholder fund
   b) Statement of profit & loss of shareholder fund
   c) Statement of cash flow of shareholder fund
   d) Statement of changes in owners' equity

3) Financial statement that conveys the responsibility of Islamic insurance as organizer of zakah and charity fund.

Conclusion

The recent proposal by the IIA regarding accounting standards and preparation and presentation of Islamic financial accounting is a constructive move for the Indonesian insurance industry in general and Islamic insurance in particular. However, efforts need not stop here, as the industry needs further impetus to continue the strong growth seen in the Islamic finance industry in recent years. Efforts should be co-ordinated among practitioners, academicians, industry associations and regulators to further develop a wholesome Islamic insurance accounting standard.

The writer is vice president of Shariah business Insco Group. Following 10 years experience in accounting, he moved into the Indonesian Takaful industry and has written a book in Islamic insurance. He can be contacted via email at ghoni@tugu.com or by telephone at +628128614148.

MOVES

TATWEER- UAE (Dubai)

Khalid Al Malik has been elected as the CEO of Tatweer, a member of Dubai Holding. He replaces Saeed Al Muntafiq who will now herald as chairman of the board of Tatweer.

Tatweer currently manages a portfolio of nine market-leading companies within diverse economic sectors, comprising energy and healthcare, tourism and entertainment, and industry and knowledge.

Mr Al Malik previously served as senior vice president for the Knowledge and Industry division. He also played key role in the development of the Dubai Industrial City and Moutamarat.

SHUAA CAPITAL- UAE (Dubai)

Mohammed Ali Yasin has been appointed as the managing director of SHUAA Securities' brokerage arm. He will also be responsible for Emirates Securities in which SHUAA has a 90% stake.

Mr Yasin has lead Emirates Securities since 1998 in which the company grew from AED 1 million (US$272,273) in capital, 8 employees and one office to a phenomenal AED 120 million (US$27.22 million) in shareholder equity, more than 40 employees and 5 offices. Emirates Securities was ranked as one of the top three brokerage companies in the UAE in 2006.

MOODY's-Asia

Moody's Investors Service Asia has a new managing director. Jennifer Elliot will succeed Thomas Keller who will move to become the group managing director, global project finance and structured finance business development. Ms Elliott was previously chief human resources officer of Moody's.

Donald Carter has also been elected as the managing director and country manager for Moody's Canada.

ABRAAJ CAPITAL- MENASA

Investment firm, Abraaj Capital has announced three senior appointments. David Donaldson will become the new chief financial officer, with Jonathan Hall and Omar Lodhi appointed as executive directors.

Mr Donaldson brings with him over 20 years experience in finance and operational roles in investment banking in London, where he began his career with Salomon Brothers in 1986. He also brings in-depth experience in managing and implementing large-scale technology and process change programs in London, New York, Tokyo and Hong Kong.

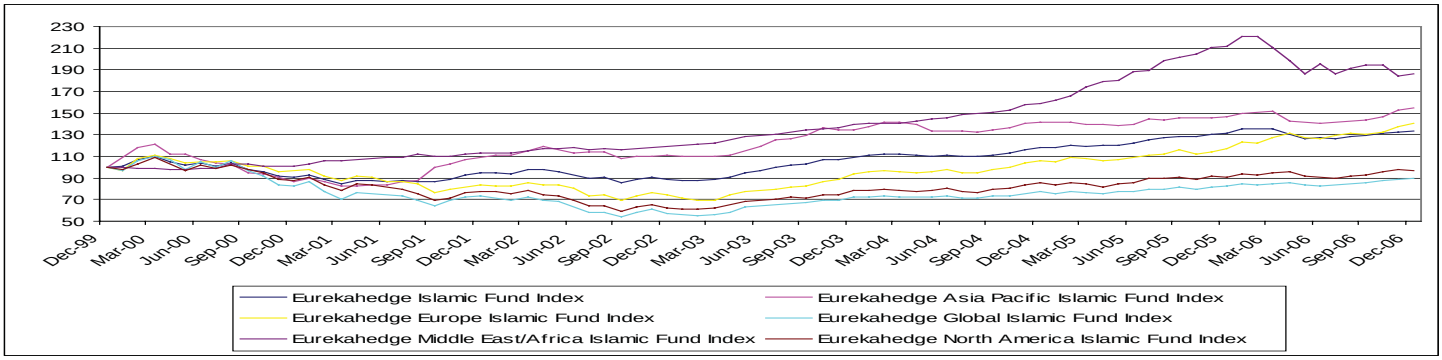
Mr. Donaldson, an ICAEW Qualified Chartered Accountant was previously chief operating officer at Piper Jaffray in London, a leading advisory bank in Biotechnology in the UK. He earned an MA in Jurisprudence from Oxford University.

Jonathan Hall and Omar Lodhi on the other hand provide extensive experience in private equity, corporate finance and investment banking. Mr Hall, who joined the firm in 2002, will be responsible for direct investments made by Abraaj and is on the board of several portfolio companies. He was previously with the Cupola Group in Dubai, HSBC in Hong Kong and PricewaterhouseCoopers in London and Tokyo. Mr Hall holds a BA in Japanese Studies from Cambridge University.

Mr Lodhi was previously with UBS Hong Kong, where he focused on Asian Infrastructure Advisory and Telecom Investment Banking; and at UBS in London, mostly responsible of buyout and restructuring opportunities within the European telecom sector. He is a graduate of the London School of Economics, with an Honour's degree in International Trade and Development, and the holder of an MBA from Harvard Business School.

Eurekahedge Islamic Funds Page

Eurekahedge Islamic Fund Index and Sub-Indices



Top 10 Islamic Funds by Key Performance Statistics (as of 30th January 2007)

	FUND	MANAGEMENT COMPANY	Annualised Return (%)	FUND DOMICILE
1	Al Dar Fund of Funds	ADAM	1.68	Kuwait
2	BNP Paribas Islamic Fund Equity Optimiser	BNP Paribas Asset Management	1.4	Luxembourg
3	Emirates Islamic Global Balanced Fund	Emirates Bank International PJSC	1.28	Channel Islands
4	Amanah Global Equity Index Fund	The Saudi British Bank	1.28	Saudi Arabia
5	AlAhli Small Cap Trading Equity Fund	The National Commercial Bank	0.97	Saudi Arabia
6	Citi Islamic Portfolio Equity B	Citi Islamic Portfolios SA	0.85	Luxembourg
7	Citi Islamic Portfolio Equity A	Citi Islamic Portfolios SA	0.85	Luxembourg
8	AlAhli Islamic Global Equitybuilder Certificates	The National Commercial Bank	0.7	Germany
9	AlManarah Medium Growth Portfolio	The National Commercial Bank	0.54	Saudi Arabia
10	Tricon Forfaiting Fund	Tricon Trade Management Limited	0.48	Bermuda
	*Eurekahedge Global Islamic Fund Index**		*0.76*	

** Based on 84.21% of the NAV for Dec-2006 as at 30-Jan-2007*

Top 10 Islamic Funds by Key Performance Statistics (as of 30th January 2007)

	FUND	MANAGEMENT COMPANY	Annualised Standard Deviation (%)	FUND DOMICILE
1	ASBI Dana Al-Falah (previously ASBI Dana Pendidikan)	BIMB UNIT Trust Management	6.52	Malaysia
2	Egyptian Saudi Finance Bank Mutual Fund	Hermes Fund Management	6.11	Egypt
3	Intrinsic Crescent Ethical MDA	Intrinsic Investmemt Management	5.66	Australia
4	Alliance Dana Adib	Alliance Unit Trust Management	4.62	Malaysia
5	Zajil - Service & Telecommunications Fund	National Investments Company	4.53	Kuwait
6	Mawarid Industrial and Petroleum Services Fund	National Investments Company	4.43	Kuwait
7	Faisal Islamic Bank of Egypt Mutual Fund	Hermes Fund Management	4.43	Egypt
8	TA Dana Optimix	TA Investment Management	4.41	Malaysia
9	Al Darij Investment Fund	National Investments Company	4.3	Kuwait
10	IPB Syariah	PT Kresna Graha Sekurindo Tbk	4.15	Indonesia
	*Eurekahedge Islamic Fund Index**		*0.93*	

** Based on 92.64% of the NAV for Dec-2006 as at 30-Jan-2007*

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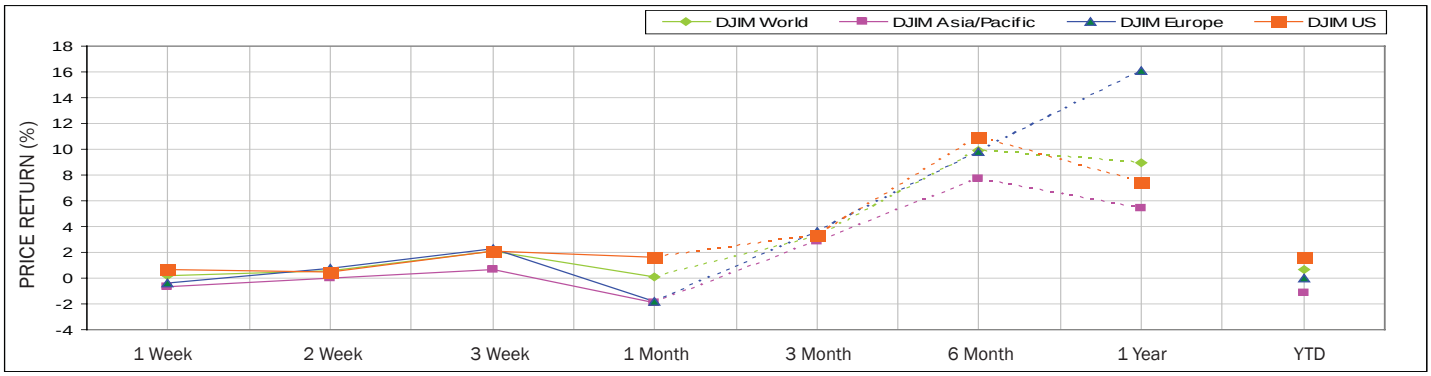
DOW JONES ISLAMIC MARKET INDEXES

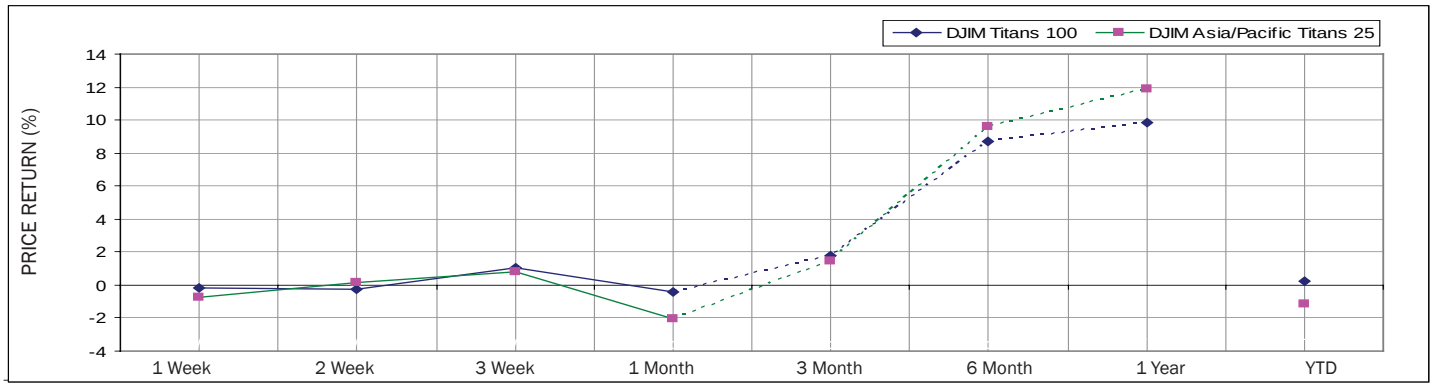
Data as of the 30th January, 2007

PERFORMANCE — PRICE RETURN (%)



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	0.17	0.6	2.12	0.06	3.28	9.9	8.96	0.66
DJIM Asia/Pacific	-0.64	0.01	0.67	-1.9	2.83	7.71	5.45	-1.11
DJIM Europe	-0.39	0.79	2.29	-1.8	3.63	9.8	16.05	0
DJIM US	0.63	0.45	2.06	1.62	3.29	10.94	7.47	1.62

PERFORMANCE — PRICE RETURN (%)



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	-0.16	-0.26	1.06	-0.39	1.76	8.69	9.82	0.22
DJIM Asia/Pacific Titans 25	-0.73	0.19	0.84	-2.07	1.49	9.57	11.9	-1.17

DESCRIPTIVE STATISTICS

		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2280	16718.12	14304.33	6.27	1.5	433.84	0.02	3.03	0
DJIM Asia/Pacific	909	3014.42	2166.74	2.38	0.58	75.88	0.02	3.5	0
DJIM Europe	337	4078.32	3266.17	9.69	2.73	205.81	0.14	6.3	0
DJIM US	721	8372.56	7984.91	11.07	2.91	433.84	0.27	5.43	0
DJIM Titans 100	100	7434.16	6746.93	67.47	47.15	405.7	7.92	6.01	0.12
DJIM Asia/Pacific Titans 25	25	875.6	605.54	24.22	18.09	60.18	7.92	9.94	1.31

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

Bondweb MALAYSIA

MALAYSIAN ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT

AS AT 30th January 2007

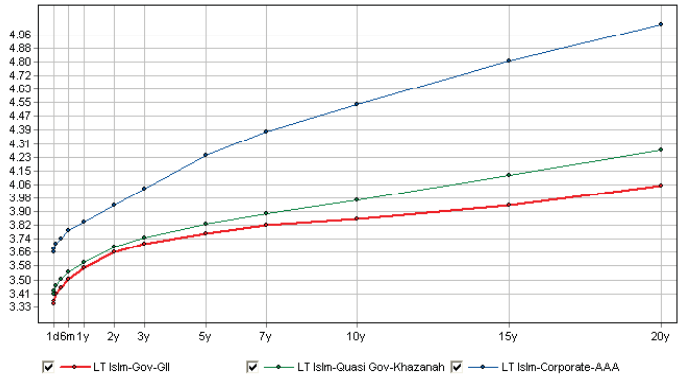
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	23 January 07 (RM)	16 January 07 (RM)	9 January 07 (RM)
Private Debt Securities					
PLUS IMTN 0% 08.10.2021 - TRANCHE 2	AAA (RAM)	48.81	48.51	48.74	48.84
MIECOCHIP IMTN - 5YR MAT 29.12.2008	A1 (RAM)	101.98	101.26	100.60	100.59
RANTAU IMTN 15.03.2011-MTN 1	AAA (RAM)	100.78	100.94	100.71	100.91
CELCOM 0.00000% 13.04.2007	AA1 (RAM)	100.9	100.95	101.04	101.12
JEV IMTN 0% 10.11.2017	AA3 (RAM)	123.05	122.61	122.64	122.61
Government Investment Instruments					
PROFIT-BASED GII 2/2006 14.07.2011	n/a	103.73	103.81	103.81	103.97
PROFIT-BASED GII 3/2006 15.11.2016	n/a	99.76	100.05	100.09	n/a
Quasi Government					
IBRD 0.00000% 12.05.2010	n/a	99.18	99.47	99.50	99.62
KHA2/03 1B 0-CP 5Y 18/9/08	n/a	94.12	94.22	94.08	94.05

SPREAD VS GII (in b.p)

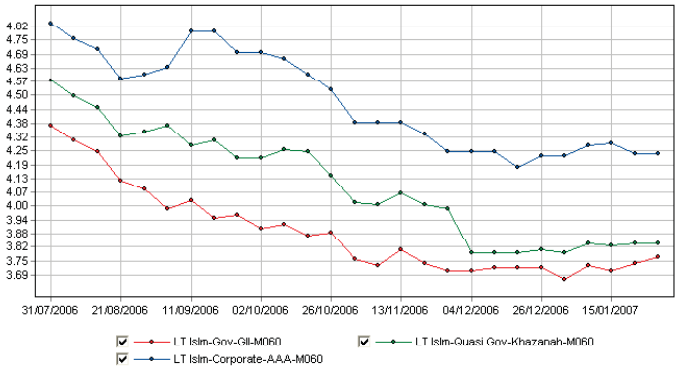
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.57	3.66	3.71	3.77	3.82	3.86
Cagamas	0.06	0.06	0.09	0.15	0.18	0.25
Khazanah	0.03	0.03	0.04	0.06	0.07	0.11
AAA	0.27	0.28	0.33	0.47	0.56	0.68
AA1	0.36	0.37	0.42	0.56	0.71	0.92
A1	1.33	1.44	1.61	1.95	2.3	2.66

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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



ISLAMIC FINANCE LEAGUE TABLES

TOP ISSUERS OF ISLAMIC BONDS — JANUARY 2006 – JANUARY 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	24.5	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	2,595	3	18.0	Malaysian Government bond
3	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	999	2	6.9	CIMB, AmMerchant Bank
4	ADIB Sukuk Co	UAE	Sukuk Ijarah	800	1	5.6	HSBC
5	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	5.2	CIMB Investment, HSBC Amanah, UBS
6	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	5.2	CIMB Investment
7	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	734	9	5.1	Cagamas, AmMerchant, Aseambankers
8	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	3.2	Deutsche
9	Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	416	1	2.9	Aseambankers
10	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	308	20	2.1	AmMerchant, Bank Muamalat Malaysia, MIMB, RHB Sakura
11	Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	1.8	Aseambankers
12	SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	1.6	HSBC
13	Putrajaya Holdings	Malaysia	Murabahah MTN	221	5	1.5	Alliance Merchant, CIMB, RHB Sakura
14	Tabreed 06 Financing Corp	UAE	Sukuk Istisnah	200	1	1.4	CIMB, HSBC, Dresdner Kleinwort Wasserstein
15	KMCOB Capital	Malaysia	Murabahah MTN	178	4	1.2	CIMB Investment, United Overseas Bank (Malaysia)
16	East Cameron Gas Co	US	Asset-backed Sukuk	168	1	1.2	Merrill Lynch International
17	AmIslamic Bank	Malaysia	Subordinated Sukuk Musharakah	113	1	0.8	AmMerchant
18	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	0.8	AmMerchant, Bank Muamalat Malaysia, MIMB
19	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	0.8	CIMB, HSBC
20	BNM Sukuk	Malaysia	Sukuk Ijarah	107	1	0.7	Malaysian Government bond
	Total of issues used in the table			**14,386**	**263**	**100.0**	

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ISLAMIC FINANCE LEAGUE TABLES

TOP ISSUERS OF ISLAMIC BONDS — JULY 2006 – JANUARY 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	39.7	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	824	1	9.3	Malaysian Government bond
3	ADIB Sukuk Co	UAE	Sukuk Ijarah	800	1	9.0	HSBC
4	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	8.5	CIMB Investment Bank Bhd, HSBC Amanah, UBS
5	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	8.4	CIMB Investment
6	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	405	1	4.6	CIMB, AmMerchant
7	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	272	3	3.1	AmMerchant
8	SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	2.5	HSBC
9	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	208	10	2.3	RHB Sakura, MIMB, Bank Muamalat Malaysia, AmMerchant
10	KMCOB Capital	Malaysia	Murabahah MTN	178	4	2.0	CIMB Investment, United Overseas Bank (Malaysia)
11	AmIslamic Bank	Malaysia	Subordinated Sukuk Musharakah	113	1	1.3	AmMerchant
12	Syarikat Pengelar Air Sungai Selangor	Malaysia	Murabahah MTN	103	19	1.2	United Overseas Bank (Malaysia)
13	NICBM Sukuk	Kuwait	Sukuk Musharakah	100	1	1.1	Kuwait Finance House, Standard Bank
14	Perwaja Steel	Malaysia	Murabahah MTN	84	7	1.0	RHB Sakura
15	Mukah Power Generation	Malaysia	Sukuk Mudharabah	83	10	0.9	RHB Islamic
16	Bank Muamalat Malaysia	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	68	1	0.8	HSBC, Standard Chartered Malaysia
17	Bayu Padu	Malaysia	Istisnah Serial Bonds	66	8	0.7	United Overseas (Malaysia)
18	OCBC Bank (Malaysia)	Malaysia	Mudharabah Islamic Bond	55	1	0.6	OCBC Bank (Malaysia)
19	Viable Chip (M)	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	54	4	0.6	AmMerchant
20	Instacom SPV Sdn Bhd	Malaysia	Murabahah MTN	34	7	0.4	Utama Merchant
	Total of issues used in the table			**8,858**	**135**	**100.0**	

ISLAMIC FINANCE LEAGUE TABLES

ISLAMIC BONDS		JANUARY 2006 – JANUARY 2007		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Malaysian Government bond	2,702	4	18.8
2	Barclays Capital	1,760	2	12.2
3	Dubai Islamic Bank	1,760	2	12.2
4	CIMB	1,716	44	11.9
5	HSBC	1,479	9	10.3
6	AmMerchant	1,266	42	8.8
7	Aseambankers	845	23	5.9
8	Deutsche	460	1	3.2
9	Cagamas	324	3	2.3
10	RHB	314	62	2.2
11	United Overseas	282	36	2.0
12	UBS	250	1	1.7
13	Merrill Lynch & Co	168	1	1.2
14	Standard Chartered	150	17	1.0
15	MIDF-Sisma Securities	126	31	0.9
16	Bank Muamalat Malaysia	123	31	0.9
17	Alliance Investment	120	11	0.8
18	EON	114	30	0.8
19	OCBC	83	11	0.6
20	Avenue Securities	77	4	0.5
	Total of issues used in the table	**14,386**	**263**	**100.0**

ISLAMIC BONDS		JULY 2006 – JANUARY 2007		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Barclays Capital	1,760	2	19.9
2	Dubai Islamic Bank	1,760	2	19.9
3	HSBC	1,331	6	15.0
4	CIMB	1,093	27	12.3
5	AmMerchant	908	21	10.2
6	Malaysian Government bond	824	1	9.3
7	United Overseas	259	31	2.9
8	UBS	250	1	2.8
9	RHB	179	39	2.0
10	Standard Chartered	132	16	1.5
11	OCBC	55	1	0.6
12	Bank Muamalat Malaysia	52	10	0.6
13	EON	52	10	0.6
14	Kuwait Finance House	50	1	0.6
15	Standard Bank Group	50	1	0.6
16	MIDF-Sisma Securities	48	9	0.5
17	Alliance Investment	37	3	0.4
18	Aseambankers	11	4	0.1
19	Bank of Tokyo-Mitsubishi (Labuan)	6	2	0.1
20	KAF Discount	3	2	0.0
	Total of issues used in the table	**8,858**	**135**	**100.0**

ISLAMIC BONDS BY COUNTRY	JANUARY 2006 – JANUARY 2007		
	Amt US$ m	**Iss.**	**%**
Malaysia	8,856	252	61.6
UAE	5,205	6	36.2
US	168	1	1.2
Kuwait	100	1	0.7
Indonesia	21	1	0.1
Pakistan	18	1	0.1
Saudi Arabia	18	1	0.1
Total	**14,386**	**263**	**100.0**

ISLAMIC BONDS BY COUNTRY	JULY 2006 – JANUARY 2007		
	Amt US$ m	**Iss.**	**%**
UAE	4,545	4	51.3
Malaysia	4,213	130	47.6
Kuwait	100	1	1.1
Total	8,858	135	100.0

ISLAMIC BONDS BY CURRENCY	JANUARY 2006 – JANUARY 2007		
	Amt US$ m	**Iss.**	**%**
Malaysian ringgit	8,106	251	56.3
US dollar	6,241	10	43.4
Indonesian rupiah	21	1	0.1
Pakistan rupee	18	1	0.1
Total	**14,386**	**263**	**100.0**

ISLAMIC BONDS BY CURRENCY	JULY 2006 – JANUARY 2007		
	Amt US$ m	**Iss.**	**%**
US dollar	5,395	6	60.9
Malaysian ringgit	3,463	129	39.1
Total	**8,858**	**135**	**100.0**

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
February			
12th – 13th	Marketing Islamic Banking Products Conference	Kuala Lumpur	ABF Asia
13th	Seminar on Risks, Rewards and the Role of Regulation in Islamic Investment in Real Estate	Jordan	IFSB
13th – 14th	Islamic Finance Asia 2007	Singapore	IQPC
14th – 15th	IREF Jordan 2007 Innovations in Islamic Real Estate Investments	Amman	ICG
March			
5th – 6th	BankTech Asia 2007	Kuala Lumpur	Knowledge Group
6th – 7th	International Waqf Conference 2007	Singapore	CERT
12th – 13th	2nd Islamic Banks and Financial Institutions conference	Syria	Al Salam
12th – 15th	Islamic Funds Asia 2007	Kuala Lumpur	Terrapinn
18th – 21st	Securitisation World MENA 2007	Dubai	Terrapinn
26th	Inaugural Lecture on Financial Policy & Stability	Kuala Lumpur	IFSB
27th	4th International Seminar on Challenges Facing the Islamic Financial Services Industry	Kuala Lumpur	IFSB
27th	Interactive Session: "Recent Developments in the Islamic Financial Services Industry: Are They Adding Value To or Diluting the Industry?"	Kuala Lumpur	IFSB
28th – 29th	3rd Seminar on Legal Issues in the Islamic Financial Services Industry: "Surveys on Legal and Shariah Issues in the Islamic Financial Services Industry"	Kuala Lumpur	IFSB
29th	The London Islamic Financial Services Summit	London	City & Financial
April			
2nd – 5th	International Islamic Finance Forum	Dubai	IIR Middle East
23rd – 25th	Islamic Finance Conference	Kuala Lumpur	Durham University & IIUM
May			
6th – 7th	The World Islamic Funds & Capital Markets	Bahrain	Mega Events
7th – 9th	3rd World Islamic Economic Forum	Kuala Lumpur	ASLI
22nd – 24th	Islamic Finance World North America	Canada	Terrapinn

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Account No: 2 14129 00 19527 7 (Malaysian Ringgit)
Account No: 6 14129 00 00574 3 (US Dollars)
Swift Code: RHBBMYKL
Bank Name & Address: RHB Bank, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

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