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MOROCCO

No to Islamic products

In contrast to what has been widely reported elsewhere, Islamic Finance *news* can now exclusively reveal that Bank Al-Maghrib, the Central Bank of Morocco, will not be releasing Islamic products.

The bank's governor has instead authorized the launching of Shariah compliant products by commercial banks. The Central Bank has allowed for the introduction of Ijarah, Musharakah and Mudarabah products to increase the rate of banking in the country.

Meanwhile, the government of Morocco has ratified private sector deals worth MD19.38 billion (US$2.3billion), a strategy which has shown a marked increase in foreign direct investments.

UK

Budget brings level playing field

The UK government will equalize the tax treatment of Islamic and conventional debt securitizations. The move is hoped to boost Sukuk issuance by local companies. Issuers of Islamic bonds were previously denied tax deductibility on the premise of the absence of interest paid to bondholders.

Chancellor Gordon Brown commented:

"These changes will ensure that British Muslims get competitive financial services and the City remains at the forefront of developments in financial markets around the world."

MALAYSIA

AmIslamic signing what?

AmIslamic will be hosting a signing ceremony at the KLCC Convention Center on the 27th March. Although no details have been disclosed regarding the tri-party "distribution agreement" with Takaful Ikhlas and FWU, it is clear that AmIslamic will launch a new Takaful product at this event.

FWU is "valued for its international product and process innovation, and in creating and delivering 'white label' family Takaful investment-linked plans" (see the Meet the Head featuring Sohail Essa Jaffer, partner in the international business development of FWU Group, published in Islamic Finance *news*, Vol. 4, issue 3).

AmIslamic could possibly be working on a Takaful product with "an internet-based point of sale and administration system available to both the bank's distribution partner and the Takaful product provider."

SYRIA

Crossing the Euphrates

Global House Group of Bahrain (Global) will launch an Islamic bank in Syria in the coming months. The bank will be worth US$500 million, with Global House Group as its main partner.

Global has already procured US$250 million for the bank – half of the anticipated capital. Dr Ahmed Bin Hussein Al Dawsary, chairman of the board of directors for Global House, stated that the bank's key shareholders would eventually determine the final amount of the group's initial contribution to the scheme. He added that that several banks, some large financial institutions from the GCC, and several businessmen from Syria and across the Gulf have expressed their commitment to contribute to the bank's capital.

Dr Ahmed explained that Global has been eyeing the Syrian market since the country lowered its fences to foreign investors.

In this issue

Editor's Note

Shariah law states that marriage is a legal bond and social contract between a man and a woman. Males and females are equal in value, while the diferrences between the sexes are recognized, with each having different rights, obligations and distinct roles. Marriage is a (non-compulsory) social obligation and acts as a moral safeguard to society. It establishes a family – the fundamental unit of any society. When entering into a marriage certain rules must be abided by for the union to be valid: commitment and acceptance; Mahr (gift) from the husband to the wife; and publicity with a minimum of two witnesses present.

A merger and acquisition (M&A) exercise can be seen as analogous to a marriage. The man is the stronger partner whilst the wife is the weaker or smaller partner. It should be entered into with total commitment and full knowledge of what is involved. It is not like buying a new piece of clothing, where you can go back to the seller to exchange it if you change your mind and decide that it just does not suit you.

As with the moral safeguard in a marriage, a M&A helps to absorb unexpected shocks and reduces risks: for example, an unsolicited or hostile takeover.

Both partners must fully understand the demands of the union (and we are talking both marriage and M&As here) to make it last. However, if one or both partners do not have or lose the ability – whether physically or spiritually – to maintain the relationship, or they find they are no longer compatible, Shariah law clearly states how to exit the marriage, or divorce (Talaq).

Whilst divorce is reluctantly permitted in Islam, it is not approved of or recommended. A break-up leaves deep emotional scars not just for the two partners, but for everyone with a link to the couple. The Mahr, which is the personal property of the wife from the beginning of the union, becomes useful to assist her financially. Furthermore, the ex-husband is required by Shariah law to support financially the ex-wife until she remarries, and the children until they become financially independent.

It is also interesting to note that the partners can reconcile within a stipulated period after the first divorce. What is even more interesting is that each couple is allowed to divorce the same partner three times and reconcile twice, as Shariah law has been amended to take into consideration the imperfections of man.

As you may have guessed, amongst other topics, this week's issue focuses on M&A within the Islamic finance industry.

Nora Salim, Editor

MALAYSIA

World Government Bond Index

Malaysia will enter the World Government Bond Index (WGBI) in July, if it is eligible to do so. According to Bank Negara Malaysia, Malaysia would be the 23rd country to join the WGBI. Joining the Index would attract more global long-term institutional investors.

With total outstanding bonds increasing to RM415.9 billion (US$120.5 billion) in 2006 from RM157.3 billion (US$45.5 billion) as at the end of 1998, the Malaysian market is said to have developed into one of the most sophisticated in the region.

Robust growth in Sukuk issuance has been backed by an increase to RM30 billion (US$8.67 billion) in 2006, reaching 40.1% of total bond issuance. Outstanding Malaysian Sukuk currently represents 67% of total global Sukuk, at US$46.8 billion as of January 2007.

Bank Negara Malaysia also encouraged the entry of new players into the Islamic financial industry to accelerate development. Increased competition should lead to greater consumer benefits in terms of improved business efficiency, product development and service quality – creating a more dynamic market.

With an increased diversity of players, Bank Negara projects the development of the Islamic banking and Takaful sector to pick up in terms of debt capital markets, private banking and wealth management.

Malaysia is currently host to 11 Islamic banks, six of which are Islamic subsidiaries, two domestic Islamic banks and three foreign players.

UAE (Abu Dhabi)

The sky's no limit

Etihad Airlines is seeking borrow US$1.26 billion to finance the acquisition of new aircraft, including four Airbus A340-600s.

The airline is currently open to both Islamic and conventional leasing, having completed a third deal on the 9th March 2007. The facility involved a US$400 million Islamic finance lease, and was used to acquire four A340-500 aircrafts.

Etihad has begun talks with international banks and will meet with local banks before the end of March. The acquisition of planes will commence between July and November.

UK

EIIB reveals results

The European Islamic Investment Bank (EIIB) charted a total operating income of £7.8 million (US$15.3 million) last year, up 104% from 2005. The bank's pre-tax profit also rose by 3% to £1.89 million (US$3.7 million), with an equity capital base of £186 million (US$366 million), up 67%.

According to Adnan Yousif, chairman of EIIB, the results reflect the bank's progressive build of transaction flow and effective utilization of capital to participate in secondary market Sukuk transactions. "We can be justifiably satisfied that in the last year we have substantially delivered on all the product and business milestones we set ourselves at the time of our launch," he disclosed.

UK

Clients fund buy-outs

HSBC will begin investing client money in private equity buy-outs of Islamic companies, having shown positive growth with the banks' funds.

Mahmoud Atalla, head of HSBC Amanah's Islamic buy-out unit, is confident that returns from Islamic private equity buy-outs will match the conventional market, due to the increasing number of growing companies seeking Islamic investors. Mahmoud affirmed: "Islamic private equity has been slow to start, so its potential to outperform is that much greater."

HSBC launched its Islamic private equity unit in 2005 with US$50 million of its own funds to invest in European companies. The bank's collection has amounted to US$500 million in 2007, after identifying the US$1 billion potential pool of high net worth and institutional money it could attract.

SUDAN

Al Salam's promise

Al Salam Bank Sudan reported profits of US$28.2 million in 2006. Depositors' share totaled US$7.1 million, with net shareholders' profits standing at US$11.5 million and proprietorship rights at US$139 million; charting a 7% growth from 2005.

According to Hussein Mohammed Al Meeza, deputy chairman and managing director, the bank aims to improve its ranking from currently being included in the best 30 banks in the country. The bank will diversify its Islamic banking services to meet the burgeoning demand locally and regionally.

Hussein added: "Sudan is at the threshold of a huge construction and development stage."

2007 is expected to bring higher market penetration and expansion to benefit Al Salam Bank Sudan's shareholders.

GLOBAL

The Swiss expand

In light of growing demand for Islamic banking investments, Credit Suisse has revealed plans to expand its portfolio. Fares Murad, the global head of Credit Suisse's Islamic Investments, briefed Islamic Finance *news* on Credit Suisse's current standing and future plans.

Credit Suisse is addressing Islamic finance at a global level, Fares elucidated: "Currently, we offer Islamic products from our global platform with Murabahah out of London, Zurich and Singapore, Shariah compliant real estate capabilities, trusts offering in conformity with the Shariah, as well as various Shariah compliant portfolio management capabilities covering BRIC, Asia Eastern Europe, and the main markets of the world." Fares also affirmed the bank's commitment to Islamic banking, adding that: "Credit Suisse has long recognized the importance of Islamic finance and has specialists dedicated to providing Shariah compliant solutions for structured finance, investments and asset management on a global basis."

When asked why Credit Suisse has chosen the Shariah path, Fares explained: "We recognize the importance of Islamic finance and we believe that the demand for Shariah compliant investment opportunities will increase. Credit Suisse is well positioned. Furthermore, Credit Suisse has the capability to deliver a Shariah compliant investment strategy that has been developed in conjunction with three prominent Shariah advisors to ensure Islamic standards are met. They also act within an oversight capacity to ensure all investments are Shariah compliant."

The bank has registered its Al Buraq fund in the UAE and Switzerland, with global jurisdictions set to follow.

PAKISTAN

Shariah advisors limited

The State Bank of Pakistan (SBP) has ruled that Shariah advisors in Pakistan work for only one bank or financial institution.

Shariah advisors can only advise on Islamic mutual funds within the same Islamic banking institutions, and may not hold more than 5% or be employed in exchange companies, stock exchange and corporate brokerage houses.

The State Bank of Pakistan (SBP) also stated the need for Shariah advisors to submit declarations of fidelity and secrecy, according to section 33-A of the banks' ordinance.

However, despite this tightening of rules for practicing Shariah scholars, the SBP also widened the scope of educational qualifications for Shariah advisors. A Bachelors Degree with a minimum of 2nd class and sufficient understanding of banking and finance, and a postgraduate degree in Islamic jurisprudence, LLM Shariah from any university will be accepted. The SBP also announced the acceptance of the Shahadat-ul-Aalmia Degree issued by any recognized Board of Madaris for Shariah advisors in Pakistan. These relaxed standards are only to be applied at the discretion of the SBP, however.

KAZAKHSTAN

Alliance facility oversubscribed

Alliance Bank JSC's US$150 million syndicated Wakalah restricted with commodity Murabahah financing facility has successfully closed. The closing heralded the largest investor base for an Islamic financing facility for a Kazhakstani bank, involving 19 banks, two of which are new to the country's market.

The transaction was launched at US$50 million to a group of invited banks. The facility comprised of two tranches – Tranche A with a maturity of 370 days and Tranche B with a maturity of two years. The banks were invited to participate in one or both tranches at their discretion.

The syndication was three times oversubscribed upon closing. Alliance Bank chose to increase the facility to US$150 million, with US$85 million in Tranche A and US$65 million in Tranche B. Proceeds from the facility will be used to promote and finance Alliance Bank's Islamic trade finance activities.

Calyon and Abu Dhabi Islamic Bank (ADIB) were the syndication's mandated lead arrangers, with Calyon acting as bookrunner and Wakil, and ADIB as Shariah advisors.

UAE

Citibank's new interest

Citibank will distribute the full range of Deutsche Bank's DWS investment products, including the DWS Noor Islamic Funds.

Sanjoy Sen, Citibank's UAE country business manager commented: "The DWS Investments tie-up is a further reiteration of this big step of providing unique and sophisticated Islamic products to investors in the UAE that complement our existing Shariah compliant investment product range." He also affirmed Citibank's stand on Islamic banking and support for the UAE via the appointment of a national segment head.

The minimum investment for the DWS Noor Islamic Fund is US$5,000. Investors will also have the opportunity to participate in IPOs and invest in diverse regions and sectors.

DWS Noor Islamic comprises the DWS Noor Precious Metals Securities Fund, DWS Noor Global Select Equity Fund, DWS Noor China Equity Fund, DWS Noor Japan Equity Fund and DWS Noor Asia Pacific Equity Fund.

MALAYSIA

Microlink bags one

Malaysia's Ministry of International Trade and Industry (MITI) recognized Microlink's services in the industry at the recent Industry Excellence Awards 2006. 179 companies vied for top prizes in product excellence, export excellence for merchandise, export excellence for services, quality management, and brand excellence. 25 other companies were contested in the sub-categories.

Microlink's subsidiary Microlink Worldwide bagged the "Export Excellence Award (Services) 2006" award for the company's overseas exported goods. This win reflects Microlink's growth overseas, especially in the Middle East and North Africa region (MENA).

UAE

Bonds away!

The Ras Al Khaimah Investment Authority (RAKIA) will sell US$400 million in Sukuk by July. Proceeds from the bond's sales will be used to finance the construction of a cluster of man-made islands off the coast of Ras Al Khaimah.

RAKIA is currently in talks with Credit Suisse to arrange the Sukuk. It plans to spend Dh600 million (US$163.4 million) this year to complete the construction of the islands, which will house hotels, residential developments and leisure projects, including a theme park.

Ras Al Khaimah aims to cash in on its tourism and development sectors, raking in investments worth Dh50 billion (US$13.6 billion) by 2009. In related news, RAKIA also plans to borrow, in a partnership, up to US$1.4 billion in a syndicated bank loan to build a US$2 billion aluminum smelter and refinery in India. The project is due to commence this year.

CAYMAN ISLANDS

Arabic in the Caymans

An Arabic language facility has been set up by the General Registry of the Cayman Islands Government to enable the issuance of registrations and certificates in both Arabic and English.

The General Registry also affirmed its long-term stance of catering to Islamic finance structures. "This customization of our Registry service for a market of growing importance to us is an indication of our commitment to innovation and quality, and we look forward to expertly catering to Islamic finance structures for the long term," said Deborah Drummond, deputy financial secretary (financial services) of the Cayman Islands Government.

The Cayman Islands is fast becoming the leading offshore jurisdiction for Islamic finance structures, having recently domiciled the structuring of Dar Al Arkan Real Estate Development's US$600 million Sukuk, which closed in February 2007.

UAE (Dubai)

Markaba financing

Dubai Bank has launched MARKABA auto financing and SOUK goods financing to facilitate the purchase of goods and automobiles in the UAE.

Through MARKABA and SOUK, Dubai Bank will purchase a commodity from its authorized dealer and sell it back to the customer at an agreed profit rate. The scheme aims to moderate profit mark-up and inform customers of installment details upon closing.

MARKABA and SOUK will offer a long repayment period of up to 60 months, no early settlement fees, relaxed eligibility, affordable repayments, fixed competitive profit rates and no down payment. Customers can also choose to finance the commodities' insurance.

Adnan Chilwan, head of marketing and product development, affirmed: "With MARKABA auto financing and SOUK goods financing, customers can benefit from taking immediate possession of cars, goods, consumer equipments, electronics, furniture and other basic necessities of their choice while spreading their capital expenditure over a period of time."

BAHRAIN

Ithmaar's on a roll

Ithmaar Bank has approved a cash dividend payout of US$47.7 million, or US$0.135 per share. The 138% hike in distribution is in tandem with Ithmaar's net profit surge from US$37.6 million to US$183.8 million in 2006.

Ithmaar's shareholders also approved the transfer of US$130 million into the bank's retained earnings account and US$16.8 million to the statutory reserve. A 4:1 split of the bank's shares will also be mobilized, bringing the nominal value of the shares to US$0.25 each and increasing the number of tradable shares fourfold.

MALAYSIA

Aseambankers arrange gold

Gold and Jewelry retailer Tomei Consolidated has mandated Aseambankers Malaysia as lead arrangers and principal advisor for its RM100 million (US$28.5 million) Sukuk.

The issue comprises Murabahah Islamic commercial papers (ICP) and medium-term notes (IMTN). The notes have received short-term ratings of MARC-1 and long-term ratings of A. Tomei will be allowed to issue the ICP in various tenors of below 12 months and the IMTN between one to six years. Proceeds from the Sukuk will be used to fund future investments, working capital and existing debt. (Please see Deal Tracker on page 21 for more information on this Sukuk.)

MALAYSIA

Food financing

CIMB Islamic Bank has affirmed that it supports fundraising by multinational and local companies for halal food-related ventures. The halal industry, including food and financial, is currently worth US$1.5 trillion.

Chief executive officer Badlisyah Abdul Ghani stated: "By the middle of this year, we will launch all our 383 branches nationwide for people to access financing for the halal industry." He also pointed out the cost-effectiveness in raising Islamic funds compared to conventional financing.

The World Halal Forum 2007 will be held in Kuala Lumpur on the 7th and 8th May.

GLOBAL

Dow Jones' new index

Dow Jones Indexes and Citigroup Corporate and Investment Banking will launch the Dow Jones Citigroup Sukuk Index on the 2nd April 2007. The launch will see seven issues from the Islamic Development Bank, Solidarity Trust Services, BMA International Sukuk, Qatar Global Sukuk, Malaysia Global Sukuk, Sarawak Sukuk and Dubai Global Sukuk being tracked.

The index will serve as a benchmark for investors seeking exposure to Shariah compliant fixed income investments, and increase secondary market trading. Apart from Shariah compliance, bonds looking to be included on the index will have to comply with AAOIFI standards for tradable Sukuk.

Upon induction, Dow Jones Indexes and Citigroup will apply market-based criteria including a minimum maturity of one year, a minimum issue size of US$250 million, and an explicit or implicit rating of at least BBB-/Baa3 by leading rating agencies.

PAKISTAN

Open to suggestions

The State Bank of Pakistan (SBP) has issued its Draft Instructions and Guidelines for Shariah Compliance in Islamic Banking Institutions (IBIs). This is to boost Pakistani banks' Shariah compliance framework. The draft issued on the 16th March 2007 is open to public consultation for 15 days.

The guidelines encompass Shariah compliance, internal Shariah audit, investment in shares, policies for profit distribution with profit and loss-sharing account holders and financial reporting and general disclosure.

The draft guidelines also specifically permit Mudarabah, Musharakah, Diminishing Musharakah, equity participation in the form of shares in a corporate entity, Ijarah, Murabahah, Musawamah, Istijar, Salam and Istisnah. According to the draft, Tawarruq may also be used in exceptional cases, requiring specific prior approval from SBP.

IBIs are also expected to follow financial reporting standards for Islamic modes of financing issued by the Securities and Exchange Commission of Pakistan.

KUWAIT

Global GCC fund

Global Investment House (GIH) has launched a US$350 million Islamic fund. The fund, which will invest in Gulf Arab companies, aims to maximize returns for investors.

The 15-year Global GCC Islamic Fund will have a minimum subscription of US$25,000. It will be managed by AlRayah Consultancy, which will ensure Shariah compliance in all transactions and activities.

GIH's assets under management totaled US$7.2 billion in 2006.

UAE (Dubai)

Tanaro towers

Emaar Properties has revealed the Tanaro residential tower, located across from Emaar Business Park. The 24-storey building will house units ranging from 445 to 1,610 square feet.

Dubai Islamic Bank, Amlak and Rakbank will offer home financing for the apartments, including studio units and one, two and three-bedroom apartments.

Sales will commence on the 24th March 2007.

MALAYSIA

Islamic arm mobilized

Public Bank's Islamic banking subsidiary will commence operations by the end of 2007 or early 2008.

Leong Kok Nyem, general manager of Public Bank, affirmed: "We are at the stage to set up all the systems." The new subsidiary is expected to offer customers a full range of banking services and Islamic products.

Net income from Public Bank's Islamic banking operations grew by 9.3% to RM428 million (US$122.46 million) in 2006; contributing 9.5% to the group's total net income.

The bank is also looking to expand overseas with the setting up of 10–15 more branches in Hong Kong and a minimum of five in Cambodia. Public Bank, however, will not delve into M&A activities, and will instead expand by organic growth domestically and internationally. Public Bank's co-chairman, Thong Yaw Hong explained: "We will especially focus on expanding our international operations in Hong Kong, China and Indochina as part of our strategy to be competitive."

The bank's international operations contributed 14% of the group's pre-tax profit of RM2.42 billion (US$692.32 million) in 2006.

MALAYSIA

KFH won't quit

Kuwait Finance House Malaysia (KFH) wants a 49% stake in RHB Islamic. Managing director K. Salman Younis is confident that the acquisition is in line with KFH's organic growth strategy in Malaysia. "We have been given the mandate by our group chairman to execute our organic growth strategy. If something comes along, we will look at it," Salman added.

The bank's organic strategy also encompasses building its branch network via placement in major cities throughout Malaysia and introducing more products. Salman also disclosed plans for a plantation fund to invest in small companies in Malaysia and Indonesia.

KFH has also expressed interest in the Southern Johor Economic Region, and has received approval from its Kuwaiti cousins to commence talks with the government.

KUWAIT

Shariah compliant oil

Afkar Holding Company is seeking licensing for three major petrochemicals projects from the Public Authority for Industry of Kuwait.

Afkar is currently targeting investments ranging between KD10 million (US$34.58 million) and KD50 million (US$172.92 million) in the petrochemical sector, and between KD5 million (US$17.29 million) and KD15 million (US$51.88 million) in industrial services. Saleh M. Al-Yousef, chairman and managing director of Afkar affirmed: "We are focusing on investments that meet world-class specifications and the provisions of Islamic Shariah law."

Afkar's investments will have a distribution of 44% in petrochemicals, 28% in industrial services and 28% in supporting services. The company's focus is set on the Gulf region, India, Turkey and China.

Gulf Investment House, Afkar's issue manager, will directly invest 10–20% in Afkar's capital. The company's strategic partners include Commercial Real Estate Company, holding 15%, Kuwait Finance House with 10% and Jiblah Holding Company with 5%.

GLOBAL

River meanders into Islamic finance

Charles River Development (CRD) is an upcoming player among technology service providers for Islamic assets.

CRD's Charles River Investment Management System (CRIMS) ensures Shariah compliance by allowing clients to maintain restriction lists according to specific investment portfolios. The system can also create a single rule which allows numerous restrictions across multiple portfolios.

According to Noripah Kamso, chief executive of CIMB-Principal Asset Management, CRIMS allows CIMB to meet its customers' needs. CRD's Asia-Pacific managing director, Cameron Field, affirmed: "As demand for Shariah funds grow, our clients are increasing their reliance on these tools to create and manage funds that comply with stated guidelines and compete with mainstream products."

UAE (Dubai)

Conyers Dill reception

Conyers Dill & Pearman, the offshore law firm, will be holding their inaugural Offshore Law Seminar & Reception on Tuesday, the 17th April at the Emirates Towers Office Building in Dubai.

Speaking at the seminar will be Roger Burgess, Robert Briant and Rick Finlay – managing partners of the firm's Dubai, British Virgin Islands and Cayman Islands offices respectively. The seminar will focus on offshore corporate law with discussions on: investment funds, infrastructure financing, securitizations, onshore/offshore stock exchange listings and insurance structures.

For more information or to register, contact Tracey Stokes in Dubai by email on: Tracey.Stokes@conyersdillandpearman.com.

PAKISTAN

Emirates in Pakistan

Emirates Global Islamic Bank (EGIB) has launched another branch in Pakistan's Lahore district.

On top of EGIB's current range of Shariah compliant savings, current and term deposit accounts, trade and Islamic financing, the bank plans to establish an asset management company and launch Shariah compliant funds by the end of 2007. EGIB also has plans to list on Pakistan's Stock Exchange via an initial public offering in 2008.

UK

The name's Bond. Islamic Bond.

The sale of James Bond's car of choice Aston Martin for £479 million (US$1.2 billion) to a leveraged buy-out consortium (LBO) will be Shariah compliant. West LB will arrange £225 million (US$437.1 million) of quasi-debt finance to back the LBO.

David Testa, WestLB's executive director, believes this is the first time Islamic finance has been used for an LBO in the UK. The LBO's Shariah compliance is credit to its two key financiers – Investment Dar and Adeem Investment Company. The finance package will initially be structured similar to a syndicated bank loan, with total debt of 4.5 times pre-tax, interest and depreciation.

WestLB expects to syndicate the Aston Martin LBO finance among Islamic banks in the Gulf and UK, as well as European banks. Londoner Dave Richards, a motor-racing entrepreneur, is the consortium's organizer.

MALAYSIA

New market competitor

Maybank plans to set up a stand-alone Islamic bank. Amirsham Aziz, chief executive of the bank, has confirmed the bank's application for an Islamic banking license. It is speculated that Maybank's Islamic bank will commence operations within the next month, immediately after receiving approval from Bank Negara Malaysia.

Amirsham also revealed the bank's plans to expand its overseas operations. The accretion is expected to contribute 30% to the group's total revenue by 2010. The locations in sight include Indonesia, Vietnam and Cambodia.

MALAYSIA

Ratings coined

Rating Agency Malaysia (RAM) has reaffirmed the Royal Mint of Malaysia (RMM)'s RM46 million (US$13.1 million) Murabahah multi-options notes issuance facility at a long-term rating of A2 and a short-term rating of P2.

The main driver behind this reaffirmation is RMM's mandate by Bank Negara Malaysia as Malaysia's sole minter of circulation coins. Underpinned by healthier rates and robust coin orders from Bank Negara, RMM registered RM22.09 million (US$6.28 million) in revenue in November 2006, compared to RM17.66 million (US$5.04 million) in December 2005.

RMM's pre-tax, interest and operating profit also saw a RM2.83 million (US$808,288) hike in 2006 from 2005. RMM is projected to generate between RM10 million (US$2.85 million) and RM11 million (US$3.14 million) a year, providing enough protection relative to its debt load.

These ratings are moderated by RMM's relatively limited growth potential, with the majority of its income derived from Bank Negara.

MALAYSIA

Missed SCOD has no impact

Rating Agency Malaysia (RAM) will not change its ratings on Ranhill Powertron despite its missed power purchase agreement scheduled commercial operations date (SCOD).

Ranhill Powertron's RM540 million (US$155.7 million) Islamic medium-term notes program is rated AA3. Ranhill's Projects' Independent Check Engineer (ICE) has estimated that conversion works are likely to be completed in June 2007, which is still within the 6-month delay that had been applied to the IPP's stressed-case projected cashflow.

Ranhill Powertron's ability to withstand the delay is underpinned by the revenue earned from its ongoing open-cycle operations.

BAHRAIN/UK

Albaraka stable

Standard & Poor's has assigned ratings of BBB-/A-3 to the Albaraka Banking Group.

The bank possesses a stable outlook, which is based on the group's endeavor to implement common risk management practices, address asset quality problems in Egypt and extract larger economies of scale.

The rating is, however, moderated by the group's lack of a strong local presence, its challenging business model as a decentralized player operating in numerous markets, and just adequate asset quality. To raise its ratings, the group will have to develop its customer franchise, enhance profitability and control risks, and increase cohesiveness with its parent bank. Albaraka Group's ratings face downgrading if its capitalization or liquidity comes under significant pressure.

MALAYSIA

Cagamas affirmed

Cagamas MBS' Sukuk Musharakah CMBS 2005-1-I has been affirmed at AAA. Profits from the Sukuk will fund Cagamas' purchase of a portfolio of Government Staff Islamic Home Financing (GSIHF) from the Malaysian government.

As at June 2006, the Sukuk was supported by a collateralization ratio of 140.17%, backed by RM2.7 billion (US$778.63 million) of outstanding GSIHF and RM171.98 million (US$49.6 million) of cash and permitted investments. Despite the seemingly high over-collateralization, a certain percentage is required to cover the negative spread between the profit rate earned on the GSIHF and the expected profit rates for the Sukuk.

The rating is based on the overall quality of the collateral pool and the credit support from the over-collateralization of Cagamas' residential mortgage backed securities.

THIS TIME LAST YEAR

- **Sharjah Islamic Bank**, as part of its effort to provide a premier service, opted to become **Datawatch Middle East**'s banking solution's pioneer customer.
- **Gulf Finance House, Commercial Bank** and **Abu Dhabi Investment** launched a US$173 million offering to be invested in residential properties in Berlin, Leipzig, Dusseldorf and Halle, amongst other locations in Germany.
- **European Islamic Investment Bank** became the first independent, Shariah compliant investment bank to be authorized and regulated by British authorities, under Part IV of the UK Financial Services and Markets Act 2000.
- **Public Mutual** launched the PB Islamic Bond Fund, a fund aimed at providing annual income to investors through investments in Islamic debt securities.
- **National Bank of Kuwait** launched the first Islamic investment fund specifically targeted to its Al-Thahabi customers.
- **Emirates Islamic Bank** officially opened its new full-service Jebel Ali Free Zone branch to serve the industrial area and local residents.
- Saudi investment firm **Al Tawfeek** launched a US$100 million Islamic private equity fund for investment in Middle Eastern and North African countries.
- **Bin Shahib & Associates** became the first UAE-based law firm to be registered by the **Dubai Financial Services Authority** to operate in the **Dubai International Financial Center** as an ancillary service provider.
- **Hong Leong Bank** announced the commencement of Takaful operations in October, initially offering at least two products.
- **Syarikat Takaful Malaysia** expressed its target to capture 10% of the total brokerage market by 2010.
- The **BMA** planned to establish an **International Takaful Association**.

Are Mergers in the Islamic Banking Industry a Choice?

By Shabnam Mohamad Mokhtar

The oft-quoted statistics about the huge and growing size of Islamic finance highlight the immense potential in this industry. The current size of global Islamic assets is estimated to be US$400 billion, growing at a rate of 15–20% per annum. Indeed, Standard and Poor's Rating Services believes that the potential market for Islamic financial services is close to US$4 trillion (i.e. the industry has exploited only 10% of its full potential thus far). However, the crucial question is: Will current Islamic banks be able to reap the benefit of the potential market?

Looking only at the total current asset size of Islamic banks may draw us to make an inaccurate conclusion. Professor Dr Mohammed Ariff has drawn a comparison between the current state of the Islamic banking industry and the global banking position in order to attain a more rational standpoint. He highlighted that the combined total Islamic banks' asset size is only half a percent of the world's banking assets, and the capital base of all Islamic banks represents less than half a percent of the world's banking capital base. Dr Humayon Dar, the vice-president of Dar al-Istithmar, quotes another example to help shed more light on the issue. He said that the largest Islamic bank, Bank Melli in Iran, only has US$22 billion in total assets, compared to the US$1.28 trillion total assets of the largest bank in the world, Mizuho Financial Group of Japan. With these comparisons, we can deduce that currently Islamic banks actually minute in size.

> "Acquisitions within most Muslim countries by foreign banks are likely to counter resistance"

Comparing the infant Islamic banking industry to the matured giant of conventional banking may seem unfair. However, if the current Islamic banks aspire to harvest the potential benefit of the industry, they have to consider expanding from a tiny bank in their homeland to a larger corporation with bigger muscles in order to compete in the global banking arena and withstand the onslaught of competition from globalization.

Why are mergers inevitable?

Asad Sultan, an industry financier, put his argument on the topic in a very practical manner. He said: "Consolidation is a must, else the Islamic banking industry will remain an oddity on the fringe of the banking community, or more likely will be little more than one amongst many specialized product lines offered by the global banks." He quoted the Pakistan's PTCL US$2.6 billion asset-backed bridge financing to illustrate his points. HSBC was the lead arranger of this facility, and every other participant in the syndicate was a global commercial bank – Citi, Deutsche and Barclays.

Another example is the fist Islamic global bond, worth US$600 million, launched by Malaysia as a model. The lead arranger and the book-runner was again HSBC (Dubai-based HSBC Amanah Finance to be exact). HSBC then appointed ABC Islamic Bank, Abu Dhabi Islamic Bank, Dubai Islamic Bank, the Islamic Development Bank and Bank Islam Malaysia as co-managers. Despite the fact that the Global Sukuk was 51% subscribed by Gulf institutions and accounts, no Islamic bank or regional bank had the capability of lead arranging and acting as a sole book-runner for such an issue.

What is the reason behind these phenomena? The answer is straightforward. Asad pointed out that the current Islamic banks' capital is too small to support significant transaction sizes, i.e. the Islamic banks do not have the balance sheet to bid for these transactions. In addition, the Islamic banks also lack the expertise and experience in arranging such transactions.

The giants have one thing in common – economy of scale. Economy of scale means that bigger corporations can produce goods and services more cheaply because they are able to cut their costs. Simply, this means efficient banking. The large banks are efficient because they have the capability to minimize their costs and thus quote more competitive prices. With financial liberalization around the corner, where countries are required to open up their financial markets to further the entry of foreign banks, just imagine the stiff competition that the Islamic banks will face. Keeping their fingers crossed and hoping that customers will choose an Islamic bank for religious reasons will not do much good for the industry.

The answer lies in consolidation and strategic alliances. Dr Humayon Dar said that an active mergers and acquisitions (M&A) market would serve as real impetus to the growth of size of Islamic banks. He highlighted that the conversion of conventional banks into Islamic banks in a number of Muslim countries will pave way for M&A. "The process of conversion is witnessing growth at present and it may take a while before a wave of M&A may emerge in Islamic banking" he said.

Al-Omar and Iqbal, in a research paper, said that in order to operate in global markets, Islamic banks have to make strategic alliances with other banks. They suggested that Islamic banks should build bridges between existing Islamic banks and those conventional banks that are interested in banking on Islamic principles. The Port, Customs & Free Zone Corporation (PCFC) Sukuk, worth US$3.5 billion, and the Nakheel Development Sukuk, worth US$3.52 billion, issued in the UAE last year demonstrated such alliances – they were jointly arranged by Dubai Islamic Bank and Barclays Capital.

The current wave of M&A

Professor Rodney Wilson, the director of postgraduate studies at the University of Durham, gave his overall view about the wave of M&A in the Islamic banking industry. He highlighted that there will be consolidation in the Islamic banking industry in the long term, however in the next two or three years it is unlikely that there will be any mergers. Professor Rodney said: "Acquisitions within most Muslim countries by foreign banks are likely to counter resistance," citing a number of cases to support his point.

Dubai Islamic Bank (DIB) has set up an office in Tehran due to increasing trade between Iran and Dubai, however he said it is unlikely that the Central Bank of Iran would let DIB acquire one of Iran's state-owned banks. In the Kingdom of Saudi Arabia, no foreign takeovers of existing banks are allowed, although some international banks

continued...

Are Mergers in the Islamic Banking Industry a Choice? *(continued...)*

are establishing offices in the Kingdom. Some positive developments in Saudi Arabia include new local Islamic banks established, such as Al-Jazira and Al-Bilad. In addition, the largest conventional bank in the Kingdom, National Commercial Bank, is also aiming for full conversion within five years.

> "The UAE is the most likely place where mergers will take place because the banking system is very fragmented there. The increasing function of the UAE as a single market will eventually lead to M&A activities"

Professor Rodney said that the presence of Kuwait Finance House in Malaysia is not to establish or acquire a retail network; rather its role is to identify investment opportunities for the funds raised in the oil-rich Gulf. "The UAE is the most likely place where mergers will take place because the banking system is very fragmented there. The increasing function of the UAE as a single market will eventually lead to M&A activities there," he added. The former National Bank of Sharjah in the UAE has also fully converted into an Islamic bank and renamed itself as Sharjah Islamic Bank.

The current trend seems to be more focused on conversion, rather than M&A, for now. This observation is in line with Dr Humayon's comment that the Islamic banking industry is more likely to witness the conversion of conventional banks into Islamic ones in the short term and then M&A later on.

Are mergers always good?

Pillof and Santomero, from Wharton Business School, summarized in a paper that mergers may bring benefits to the parties via value gains in the form of efficiency improvement (cutting costs or increases in revenue), increased market power (bigger market share) and heightened diversification (in terms of geography and products). However, they concluded that most academic research studying the value gain of merger activity found no improvement on average in either the performance of the bank or improvement in the shareholder's value.

If, after merging, banks are able to minimize their costs, this may be reflected in the transmission of the efficiency gain to the public in the form of a more favorable deposit pricing and improved service quality. However, empirical research shows that higher market concentration (through the larger market share of each bank) raises the loan rate to small business and reduces the deposit rate of the consumer market. Thus, mergers may be beneficial for corporate customers, but harmful to small retail customers. Mergers also entail some risks in terms of the synergy of the new entity. Time is needed for the harmonization of operation practices and the integration of branches. Mergers are about marrying two cultures. Managing employee and customer relationships in the post-merger era is the biggest challenge in the process.

Conclusion

The points raised above show an intriguing gap between the empirical findings relating to M&A and the actual practice in the industry. Although the majority of academic research found no value gain from merger activity and an unfavorable effect on small retail customers, the wave of M&A in the banking industry (especially in the conventional sector) continues unabated. The Islamic banking industry has yet to follow this trend, however sooner or later it will face the "consolidate or perish" paradox. As the threat of globalization heightens, Islamic banks will have no option but to merge or they will have to forgo the dream of harvesting the US$4 trillion potential market.

Having said that, M&A require careful planning and implementation. The mere joining of two banks is not enough. Careful selection of merger and alliance partners is important to ensure the creation of synergy in the new entity. The regulators have a role to play to ascertain whether Islamic banks will successfully ride the M&A wave to incorporate a few global Islamic banks with the muscle to compete with the giants in the global banking arena. The regulators should also consider the adverse effects of M&A on competition and small retail customers. This in turn will help the proper development of a strong, mature market that focuses on both high-end customers and mass retail consumers.

Mergers and Acquisitions – Effects on the Malaysian Market

By Ahmad Lutfi Abdull Mutalip and Mohd Herwan Mohammad Hussin

The activities of some Islamic banks in Malaysia, especially the foreign banks, in the mergers and acquisitions (M&A) arena over the past year have been quite encouraging. These activities have been further spurred on by the introduction of a new ruling by Bank Negara Malaysia (BNM) at the end of last year.

Under this new ruling, parties intending to enter into negotiations for the acquisition or disposal of an aggregate interest of 5% or more shares in a financial institution licensed under the Banking and Financial Institutions Act, 1989 (BAFIA), the Islamic Banking Act, 1983 (IBA) or the Development Financial Institutions Act, 2002 (DAFIA) can now submit their intentions with more than one party simultaneously.

The new ruling revokes the previous ruling which disallowed multiple-party talks between potential buyers and target banks or financial institutions at the same time.

The recent M&A activities first gained momentum when Dubai Financial, a wholly owned subsidiary of Dubai Investment Group – a member of Dubai Holding – subscribed for 690.19 million shares in Bank Islam Malaysia (BIMB), the first Islamic bank in Malaysia, in October 2006. This subscription represented 40% of the enlarged share capital of BIMB. Three new directors and one alternative director representing Dubai Financial were also appointed to the board of directors of BIMB.

In addition, Dallah AlBaraka, a Saudi conglomerate and one of the largest companies in the Middle East, attempted to acquire a stake in RHB Islamic Bank (RHB Islamic), a unit of the Malaysian company RHB Capital. However, for various reasons, RHB Islamic announced in November last year that it had broken off talks with Dallah AlBaraka.

Recently, a Kuwait Finance House Malaysia (KFH)-led consortium entered into the bidding war with Employees Provident Fund (EPF), EON Capital and Primus Pacific Partners for the acquisition of a 32.8% stake in RHB from Utama Banking Group (UBG). RHB owns 64.61% shares in RHB Capital, which in turn owns 70% of the shares of RHB Bank, which is the fourth largest banking group in Malaysia. Although the KFH-led consortium was seen by many as the frontrunner to win the bidding war, EPF finally turned the table on this consortium and won the bidding war. (See Islamic Finance *news*, Vol.4, issue 11, pages 1 and 14).

KFH, despite losing the bidding war, nevertheless continued to express its interest in holding equity participation in RHB. KFH managing director, K Salman Younis, when asked recently said: "Yes, if we are approached and offered [an equity in RHB], we will look at it positively." He further said: "We hope to have a role to play should EPF sees synergies in partnering with KFH."

What is more interesting to note is that EPF is also looking for strategic partners in RHB, one of which is rumoured to be KFH. KFH recently reiterated that it is committed to creating value and transferring its knowledge in Islamic banking and finance to its operations in Malaysia. KFH also aims to create a mega Islamic bank based in Malaysia.

It is the belief of many that the aim of the Malaysian government to position Malaysia as an international Islamic financial center (MIFC) can be realised if a mega Islamic bank is established in Malaysia. For this, more foreign players are needed to make Malaysia a truly international center, so the current flurry of M&A activities in the country must be encouraged and extended.

It is undeniable that with economic globalization, companies look to grow through M&As and seek to establish themselves not only beyond geographical boundaries but also to engage in new business ventures. It is imperative that companies seeking to expand their horizons appreciate the nature of cross-border investments and the risks and liabilities of doing business overseas. Despite the many negative stories that we hear of companies venturing to do business abroad, opportunities also abound for those who take reasonable precautions in doing the necessary groundwork before embarking on such ventures.

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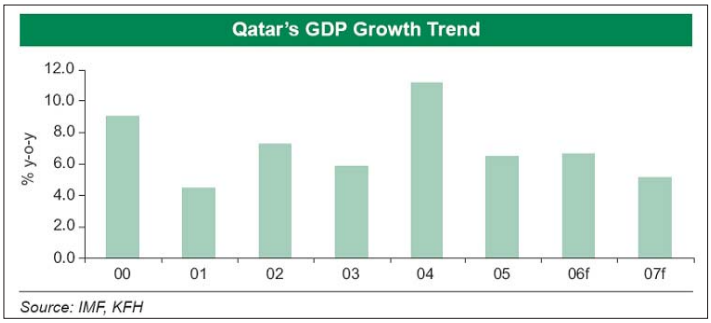
The Growth Story of Qatar

By Nora Salim

Qatar was the second-most vibrant economy in the Gulf after the UAE last year. Qatar is expected to lead the pack in terms of real gross domestic product (GDP) growth in 2007, rising by 8.6% as the country boosts its natural gas production by 42% on top of the 8.9% increase of 2006. The country is also expected to be able to sustain its economic growth of 7.5% in 2006 into this year. What drives the Qatari economy forward is the rapidly expanding natural gas sector and related industries, which continue to lead the economic diversification efforts and provide momentum for reshaping the economy.

Henry Azzam, Dubai International Financial Exchange (DIFX) chairman and founder of Amwal Invest in Jordan, in his report on the economic outlook of Qatar, has said that inflation in most of the GCC countries is expected to retreat in 2007 as supply bottlenecks ease, especially in the housing markets of the UAE and Qatar, and Qatar's inflation is likely to drop from 8% to 6% in 2007. Inflation rates in the GCC countries have been inching up in the last five years from a low of 0.8% in 2002 to 4% last year. "The rate is projected to edge slightly lower to 3.6% in 2007," opines Henry.



Although economic performance is still relatively dependent on oil revenues, the contribution of LNG has increased significantly over the past few years. The share of the oil and gas sector in the overall GDP stood at 60% in 2005, according to the Planning Council, while Qatar National Bank (QNB) estimates show that the oil and gas sector will continue to hold a prominent share in the overall GDP and is expected to be sustainable at 60% in 2007. This is largely due to the rally in oil prices and production and the increased production of natural gas and related industries.

Baljeet Kaur Grewal, chief economist of Kuwait Investment House Malaysia, believes that Qatar is fundamentally sound and but is slightly conservative with her forecast. "This phenomenal growth trend is expected to continue; however, we predict the growth to moderate somewhat to a real rate of 5.2% in 2007."

As for sectors, Baljeet noted that the oil and gas sector grew at a rate of 46.3% in 2005, driven by spiraling oil prices, far outstripping the non-oil sector which recorded a growth rate of 18.8%. In 2007, the oil and gas sector is predicted to moderate to 14.8%. Growth in the non-oil and gas sector is expected to show strong performance at 20.4% in 2007.

Qatar's rapid economic growth has enabled it to become one of the wealthiest countries in the world, as measured by GDP per capita. In 2005, Qatar's GDP per capita reached a record level of US$49,655. The Qatar National Bank (QNB) estimates contained in its third quarter ending September 2006 state that GDP per capita will balloon to US$64,495 by 2007.

Qatar is ranked third (after the UAE and Saudi Arabia) in terms of foreign direct investments flow, receiving US$2 billion of foreign investments in 2006. Most of the funds went towards the traditional energy sector; however, an increasing amount is invested in electronics, minerals and processing sectors, as well as tourism and property development.

There is evidently rising demand for Islamic financing in Qatar. Last year, the capital market proved its sophistication and took a bold step forward when the Qatar Real Estate Investment Corporation (QREIC) issued the first ever corporate Sukuk, worth US$375 million. QREIC is listed on the Doha Securities market and its major client is Qatar Petroleum, which is also QREIC's major shareholder. The transaction structure, which had features not previously seen in a Sukuk, is said to pave the way for future Sukuk financing structures not just in Qatar but in the entire Gulf region.

Qatar also issued the maiden global sovereign-rated bond for the Middle East. Due in 2010, the US$700 million Qatar Global Sukuk was issued in 2003 and saw the partnership of Qatar International Islamic Bank (QIIB) with HSBC.

The country's most recent significant Islamic finance deal involved the funding of a residential office project of the Qatar Awqaf Authority (Waqf) by Qatar Islamic Bank (QIB). The project, worth QR145 million (US$39.84 million), is in the district of Ben Imran and is due to be completed in 18 months. The funding comprises Istisnah and specified Ijarah contracts.

The banking industry in Qatar comprises 16 banks, of which three are Islamic banks, one is an industrial bank and there are branches or subsidiaries of seven foreign banks. The latest to be established was Al-Rayyan which held the biggest IPO in the first quarter of 2006. (See accompanying story on Qatar on page 13).

Whilst Qatar may be only a tiny state (it measures about 11,400 meters square), its fiscal position, arising from strong export earnings, is solid. Backed by the government's commitment to improve the investment climate, the economy is – to say the least – improving steadily. In the last couple of years there has been a rapid rise in Qatar's Islamic finance industry, which comes with the blessing of the central bank. The call is for issuers to continue innovating in order to capitalize on the prosperity of the country, as evidently there is an appetite for Shariah based finance instruments from investors.

Next Forum Question

Islamic bonds or Sukuk issued in the year ending 14th March 2007 was just US$16.6 billion, despite a 46% growth from the previous year. What is still lacking in this market and how can this be rectified?

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@RedMoneyGroup.com before Wednesday 28th March 2007.

Tapping the Riches of Qatar

By Nora Salim

In the fast-growing Qatari market, the banking sector is becoming increasingly competitive and challenging, as foreign banks increase their presence in the market. Many in the industry are familiar with Qatar's banking scene being dominated by the big banks, which have a clear competitive advantage over the smaller banks on account of their strong brand equity and distribution coverage, quite apart from sheer size, reach and coverage.

The banking players

Three of the 16 banks operating in Qatar are Islamic banks. The large banks such as the Qatar National Bank (QNB), Doha Bank (DB) and the Commercial Bank of Qatar (CBQ) dominate the industry. QNB enjoys a market share of approximately 43% of total banking assets, followed by CBQ and DB with market shares of 17% and 11%, respectively. Qatar Islamic Bank (QIB) and the Qatar International Islamic Bank (QIIB) have a combined market share of around 12%, while the third Islamic bank is Al-Rayyan Bank, established just last year.

The banking sector in Qatar has in recent years witnessed some mergers and acquisitions (M&A). International Bank of Qatar (IBQ) is a transformation of Grindlays Qatar Bank (GQB). The National Bank of Kuwait (NBK) now owns 20% equity in IBQ, following a merger exercise in 2004. Another commercial bank, Ahli Bank QSC – formerly Al-Ahli Bank of Qatar – is 40% owned by Bahrain's Ahli United Bank (AUB). The restructuring took place through a private placement worth US$201 million in 2004.

There are a number of Islamic financial institutions providing Shariah compliant retail products and brokerage services apart from QIB, QIIB and Al-Rayyan. These include First Finance Company, Investment House, Al Jazeera Islamic Company and Islamic Financial Securities.

The government of Qatar plays a key role in the structure of the banking sector, remaining the largest borrower and depositor. QNB, being 50% owned by the government, gets the lion's share of state-related business. The other commercial banks enjoy less of a share of state-related business, as they have to compete strongly on the deposit front and also focus more on developing their retail banking businesses. The lack of opportunities in corporate banking, because of the small base of private sector corporates, compels these banks to continue focusing on big ticket government projects and also on retail banking. The main focus areas of foreign banks are trade finance activities, foreign currency operations and corporate advisory services

Qatar is becoming a favored destination for investors. The banking system is developing rapidly and banking products found in the international markets are now available in Qatar. The country has in place all the regulations that allow banks within the GCC to operate locally. There are also banks negotiating with the Qatar Central Bank (QCB) to open branches in the country.

The implementation of the World Trade Organization (WTO) accord may result in more mergers and acquisitions (M&As) in the banking sector. This would seem to be the logical path for small banks that alone are not economically feasible to operate and do not have the balance sheet size to support large-scale transactions or to remain competitive.

Islamic banking

Islamic banking has begun to make significant inroads into the domestic banking system in the past couple of years. For the first time, commercial banks were given QCB approval to set up fully compliant Islamic branches in Qatar. Many conventional Qatari banks are now venturing into Islamic banking via a window within the conventional bank as a strategy to tap the increasing importance of Islamic finance and also the wealthy Qatari market. This trend is being seen across the GCC and Middle Eastern regions, where there is a particular concentration of Islamic financial institutions.

QIB is a leader in Qatar's Islamic banking, particularly in the area of real estate financing. It has pioneered various financing tools using Istisnah, Musharakah and Ijarah contracts. QIB's assets leapt by QR14.9 billion (US$4.1 billion) last year and it declared a 70% distribution of its cash profits last February. The bank has just sealed a deal comprising Istisnah and specified Ijarah contracts with the Qatar Awqaf Authority (Waqf) as funding for a combined residential office project which is expected to be ready within 18 months.

"The bank is currently witnessing a distinctive metamorphose in its banking and financing activities targeting to ensure the bank's pioneering role in Islamic banking in Qatar and upgrading its share in the national economy by increasing its stake in the local market," commented QIB's CEO, Salah Al Jaidah, at the signing ceremony of the deal. "The leading role Qatar Islamic Bank plays is in the national economic and urban development through its participations in funding a number of macro projects ranging from infrastructure, health, education and other fields," he added.

Meanwhile, QIIB has reorganized its senior management recently. (See Moves, page 21.)

A significant development in domestic banking was the entry of a commercial bank into the mutual fund arena. QNB became the first bank in Qatar to establish a mutual fund: named the Al Watani Fund, it is targeted at both locals and expatriates, be they individual, high net worth or institutional investors. The QCB also accepted the application of Al Ahli Bank to provide Islamic banking services by establishing two independent Islamic branches. These moves by Qatari banks will further change the face of the banking sector in Qatar.

The year 2006 proved to be a prosperous year for Qatari banks. Going by their interim results, Qatari banks (excluding the International Bank of Qatar) reported a hefty 58.1% jump in net profits to QR2.82 billion (US$775 million) in the first half of 2006, against QR1.78 billion (US$489 million) in the first half of 2005. During the same comparative period, total assets were 19.4% higher at QR130.8 billion (US$35.9 billion), compared to QR109.5 billion (US$30.1 billion) as at the end of 2005. Customer deposits rose by 16% during the first half of 2006 to reach QR89.3 billion (US$24.5 billion), with loans and advances increasing by 17.9% to reach QR74.9 billion (US$20.6 billion). Total shareholders' equity reached QR24.2 billion (US$6.7 billion) as at June 2006.

continued...

Tapping the Riches of Qatar *(continued...)*

Stable outlook

Moody's has awarded a stable outlook for the financial strength ratings of Qatari banks. Moody's analyst Constantinos Kypreos said in his report: "This reflects the strong operating environment and the country's high level of prosperity, which has brought new and better quality banking opportunities. Qatari banks are also gradually developing and enhancing their franchises by expanding their product ranges – especially in retail and Islamic banking – and via geographical diversification." The current engines of growth for all Qatari banks are retail and Islamic banking. "The growing prosperity of the population is leading to an increasing demand for personal and retail banking services, and the banks are investing heavily to strengthen their capabilities in the area," adds Constantinos.

While Moody's cautions against the increased risk of non-performing loans (NPLs), with the banks having adopted an aggressive lending stance – lending up to 80 times a customer's monthly salary with a tenor of 15 years – the banks' management support their position by stating that such loans are only disbursed to selected high net worth Qataris.

Following QCB's decision to allow conventional banks to set up Shariah compliant Islamic branches, all three rated Qatari banks have set up Islamic windows under the QNB Al-Islami, Doha Islamic and Al-Safa Islamic Banking brands. The product ranges on offer have expanded to include Tawarru', Ijarah, Sukuk, Istisnah, visa cards and cash management services.

Challenges

Qatari banks operate in an increasingly challenging environment as the cost of funds increases and select foreign multinational banks are already setting up offices in the Qatar Financial Center (QFC). The carrot dangled to foreign banks is a low tax regime with only a 10% charge on profits following a three-year tax holiday. The foreign banks are also allowed 100% ownership and profit repatriation. The presence of such foreign banks could potentially add another dimension of competition from institutions that are often larger and able to offer more sophisticated products and services.

QCB is making an effort to exercise prudential control and supervise Qatari banks, in addition to harmonizing banking regulations with international standards. Since mid-2005, banks have been required to report their capital adequacy under the Basel II provisions; real estate lending has been restricted to borrowers who provided a minimum of 35% equity; and Islamic financial services authorization was widened to allow commercial banks to offer Islamic products. However, potential exists for improvement in banking supervision and risk assessment.

Conclusion

The banking industry in Qatar is changing its façade as Islamic banking plays a more and more meaningful role. The government and regulatory authorities are also lending their support in taking Islamic finance to a new dimension. Conventional and Islamic banks will have to be more competitive and innovative with the products they offer to whet the appetite of the prosperous retail clients and grabbing the lucrative big ticket items. Given that 95% of Qatar's population is Muslim and there is huge potential for the industry to progress further in the not-so-distant future.

Islamic Finance *news* hears the opinions of Muhammad Ikram Thowfeek, Head of Corporate Strategy at Al Safa Islamic Banking, Commercial Bank of Qatar

What is your comment on the current state of the Islamic finance industry in Qatar?
Islamic finance today is not a country-based or regional-based success story, but a global success story where no government, no regulator, no financial institution or active market player can ignore the enormous potential and growth opportunities of the Islamic finance industry. Qatar is one of the prominent players in the GCC market, offering opportunities to all stakeholders in the Islamic finance industry, especially with the establishment of the Qatar Financial Center (QFC) and the initiatives to set up new Islamic banks.

The results of Islamic banks in the past year offer quite remarkable reading compared to their conventional counterparts. Therefore, it is quite evident that the Islamic finance industry will make a difference not only gearing up to compete on an equal footing with its conventional counterparts, but also in making an impact on both the local and the regional markets by capitalizing on the economic boom in the country.

Can Islamic finance become more prominent in Qatar?
Islamic finance can be more prominent in Qatar, mainly due to the proactive approach of the government to uplift the country in all major areas and the initiatives taken by it to spend US$130 billion on infrastructure and revenue-generating projects. This in itself provides enough room for Islamic bankers to tap into for a major stake in such investment opportunities.

The appetite for Islamic finance is strong and appealing not only in Qatar, GCC or the Asian markets, but globally.

How supportive is the government and regulators of Islamic banking and finance?
From the initiatives taken by the government and regulators, it is quite evident that there is much support to nurture the industry and, most definitely, Islamic finance can expect to be a force to be reckoned with in the coming 5–10 years.

Are there more foreign banks taking an interest in Islamic banking in Qatar?
Over the last two years the major conventional banks have been given the option to operate Islamic banking windows and/or independent Islamic banking branches by the regulators and it has been very successful, given the demand for Islamic finance offerings. Foreign banks are yet to come in a big way, but with the establishment of the QFC, the option is open for foreign players to tap into the market with proper strategic alliances.

Is there any further comment you'd like to on the industry?
Being in the Islamic finance industry over the last 15 years and working for some of the major banks in Kuwait, Bahrain, Abu Dhabi and Qatar – I still believe that only 20% of the growth potential is being tapped and the rest is wide open to capitalize – this could be by the global conventional players, existing Islamic bankers or new entrants. What is important today is to portray Islamic finance as a distinct alternative to the conventional banking system; otherwise Islamic finance will be seen as just another type of product/service under the conventional banking umbrella.

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

Name: Stella Cox
Position: Managing director
Company: DDCAP Group (Dawnay, Day & Co and Dawnay Day Global Investment)
Based: London
Age: 42
Nationality: British

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

I joined the Middle East and Islamic Financial Services team at the British investment bank, Kleinwort Benson, in 1984. Ultimately, I progressed to be the head and director responsible for Islamic finance and Middle Eastern institutional business.

In 1998 I was invited to join Dawnay, Day as a partner, with responsibility for establishing a new subsidiary to support and expand Dawnay, Day's Islamic financial market activity. Currently, I head a team of 32 individuals providing intermediary and facilitation services to Islamic institutional clients globally.

What does your role involve?

Apart from my responsibility for the strategic growth and development of our business and people, reporting directly to our shareholders ICAP Private Group (IPGL) and Dawnay, Day, I retain my passion for being involved in originating and structuring transactions.

What is your greatest achievement to date?

My greatest achievement is having created the excellent team of financial sector professionals working with me at DDCAP Group.

Which of your products/services deliver the best results?

Our firm's position in the Islamic financial services industry is quite unusual as our position is one of an intermediary, providing support and assistance to our clients. Although we enjoy a solid reputation for our broking services, in many asset classes we are not a broker in the conventional sense, as Shariah stipulations in regard to asset ownership and transfer of title preclude this. Otherwise, we try to offer our clients complete coverage and service solutions:

- Our investment asset focus for Islamic clients includes commodity, structured trade, real estate, quoted and private equity.
- We provide asset facilitation services to over 150 third party institutions, funds and private offices.
- We facilitate wholesale, structured investment opportunities for Islamic and other institutional clients and we have assisted clients with placement of over US$25 billion in asset-based transactions.
- Working with conventional and Islamic banks, we have arranged over US$3.5 billion of Shariah compliant finance during the past year.

What are the strengths of your business?

Our strength is in the size, depth and diversity of our business segments. Our directors have worked specifically in Islamic finance for over two decades and this is complemented and supported by a wealth of expertise from colleagues with experience across the financial and investment world. We are not solely a broker, fund manager or advisory house, but combine our abilities across all of these disciplines in an endeavor to provide a bespoke service to clients.

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

Our success is, again, due to our people and our diverse capability but, most importantly, the long-term commitment and support of our clients – some have had active transactional relationships with us for 25 years. This, we believe, gives us a genuine long-term appreciation of the market and its trends and stages of development.

What are the obstacles faced in running your business today?

Presently the obstacles typically relate to our aspirations for international expansion and anticipating the timeline needed to overcome the regulatory and administrative hurdles that are a feature of global business today.

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

It is an interesting time both home and abroad. In the UK we have a number of licensed Islamic banks, with more pending, and the British government is proactively supporting the development of the domestic Islamic financial sector, as well as London's potential as a hub for global Islamic financial activity, particularly in the capital markets space. Internationally, there are huge opportunities and the cross-border flows of capital between the Middle East and Asia have already resulted in significant enhancement in the standardization of Islamic financial practice in certain product areas across both markets.

Overall, I can see a marketplace poised for rapid growth in assets, capability and technology. My only cautionary note, based upon some recent and planned innovations, is that we must remain mindful of the core values of Islamic finance and the expectations of market participants, not just at wholesale level, but through to the ultimate retail consumer, as we strive for future development.

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

We are immersed in such a period of expansion and development of Islamic finance at present, that we are all experiencing significant change and review of product, process and Shariah validation. Ensuring that significant change is fully and sufficiently embraced throughout the Islamic financial industry during this rapid stage of growth is essential to ongoing sustainability and all major market participants should seek the best opportunities to work towards this common aim.

Dawnay, Day is a privately owned group operating in select markets around the world specialising in property investment and fund management, financial services and principal investments. Dawnay, Day companies are members of the London Stock Exchange, the London Investment Banking Association, the London Metal Exchange, London Platinum and Palladium Market and the Alternative Investment Management Association.

DIB Sukuk Company

Sukuk Musharakah

INSTRUMENT	Sukuk Musharakah
ISSUER	DIB Sukuk Company
PRINCIPAL ACTIVITIES	The DIB Sukuk Company was incorporated in the Cayman Islands as an exempted company with limited liability, and in accordance with the Companies Law. The registered office of the issuer is at the offices of Maples Finance, Cayman Islands. DIB Sukuk Company was formed solely to participate in the transactions contemplated in the transaction documents.
BOARD OF DIRECTORS	(From Maples Finance) Guy Major – senior vice-president, Carlos Farjallah – vice-president, Stephen O'Donnell – senior vice-president.
DATE OF LISTING	Application will be made to list the certificates on the Dubai International Financial Exchange (DIFX) and the London Stock Exchange.
ISSUE SIZE	US$750 million
MATURITY	Scheduled for 2012
PAYMENT SCHEDULE	The certificates will be issued in minimum denominations of US$100,000 and integral multiples of US$10,000 in excess thereof.
AUTHORIZED PAID-UP CAPITAL	The authorized and issued share capital of the issuer is US$50,000, consisting of 50,000 shares with a par value of US$1 each; of which 250 shares are fully paid-up and issued. The issuer's entire issued share capital is held by Maples Finance under the terms of a trust for charitable purposes.
IDENTIFIED ASSETS	DIB will be the managing agent of the co-owned assets, which include the original leased and Musharakah assets.
RISKS RELATED TO ASSETS	No investigation or enquiry will be made, and no due diligence will be conducted in respect of any co-owned assets. Only limited representations will be obtained from DIB in respect of the co-owned assets. In particular, the precise terms of the co-owned assets or the nature of the assets leased or sold will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by DIB to give effect to the transfer of the co-ownership interest in the co-owned assets). No steps will be taken to perfect any transfer of the co-ownership interest in the co-owned assets or otherwise give notice to any lessee or obligor in respect thereof. Obligors and lessees may have rights of set-off or counterclaim against DIB in respect of such co-owned assets.
OBLIGOR	Dubai Islamic Bank
ARRANGERS/ MANAGERS	Barclays Bank, Citigroup Global Markets and Standard Chartered Bank.
AUDITOR	Ernst & Young
LEGAL ADVISORS	Denton Wilde Sapte and Allen & Overy acted for both the issuer and the obligor.
METHOD OF ISSUE	The certificates will be issued in registered global form without coupons attached. They will be represented by interests in the global certificate deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Other than in certain limited circumstances, definitive certificates evidencing holdings of certificates will not be issued.
PURPOSE OF ISSUE	The proceeds of the issue of the certificate will be used by the issuer to purchase from DIB, as seller, a set percentage of the seller's undivided right, title and interest in the original leased and Musharakah assets, pursuant to the purchase agreement.
RATING	A1 foreign currency rating from Moody's Investors Services.

Takaful news
www.islamicfinancenews.com

PAKISTAN

Second license issued

Takaful Pakistan (TP) has become the second company to be licensed as a Takaful operator in the country.

TP is held by a consortium of six institutions domiciled in the Emirates and in Pakistan, with an excess of capital of PKR120 million (US$1.97 million), at PKR200 million (US$3.3 million).

Takaful Pakistan's main shareholder is the Housing Building Finance Corporation, which holds a 29% share, followed by the Emirates' Group, which includes the Emirates Global Islamic Bank, with a 51% stake. Takaful Pakistan issued its first policy to the president of Pakistan Bank on the very day of its licensing.

MALAYSIA

Healthy collections

Malaysia's insurance and Takaful sector posted combined premiums and contributions of RM26.6 billion (US$7.66 billion) in 2006.

This 6.8% hike is set to grow further as interest rates decline and consumers become accustomed to the high cost of living. Growth was also mainly backed by investment-linked business, which charted a yearly growth rate of 89% to RM3.4 billion (US$979.69 million) in 2006. Investment-linked products also accounted for more than 40% of new business as at the end of 2006.

The life insurance and family Takaful sector, new business premiums and contributions saw a boost of 13.5% to RM8.4 billion (US$2.42 billion) last year. Overall, the Takaful industry saw total assets grow by 17.9%, making up 6.1% of the insurance industry total.

PAKISTAN

Takaful here to stay

Razi-ur-Rahman Khan, the new chairman of the Securities and Exchange Commission of Pakistan (SECP), is encouraging feedback from companies in order to help grow the country's Takaful sector.

He commented: "Takaful is here to stay, and it's a reality. We [the SECP] want to address the bottlenecks. We want a much more open dialogue with our industry partners and look at every area to move forward to make this a reality."

Pakistan's Takaful framework was established 18 months ago, and there are now two fully fledged operations in the country, with at least five more to come. The insurance regulator now wants the industry to engage in discussions regarding how to best promote the growth of Takaful. Protection of the public interest and being business-friendly are both key concerns of the SECP.

There has been recent debate as to whether conventional companies should be allowed to operate Takaful windows in the country. Pakistan and Malaysia do not have such an allowance, as opposed to Indonesia, which currently has 38 such windows in operation.

INDONESIA

Commission un-Islamic

The National Shariah Board of the Indonesian Conference of Islamic Clergies (DSN-MUI) is debating the issuance of a new fatwa to cap the commission rate derived from Takaful sales.

According to Muhammad Hidayat, a member of DSN-MUI's executive body, the present commission rate of 50–70% is un-Islamic; he believes there should be a maximum 30% limit instead. "Premiums received should be invested, as per Wakalah and Mudarabah principles on which the contract between the policyholders and insurers are based on," he added.

BAHRAIN

AXA's new acquisition

AXA Insurance Gulf has acquired a 10% stake in United Insurance Company (UIC). UIC is the sole insurance provider for vehicles crossing the King Fahad Causeway.

AXA procured 150,000 in shares from four shareholders including Bahrain National Holdings, Bahrain National Insurance, Bahrain Kuwait Insurance and the Al Ahlia Insurance Company.

SAUDI ARABIA

IPOs galore

Five Saudi Arabian companies are looking to raise SR266 million (US$70.9 million) via initial public offerings.

The Saudi United Company for Cooperative Insurance, Arabian Shield Insurance and the Saudi IAIC will offer up 40% each, with SABB Takaful and Assurance Saudi Fransi (ASF) putting up 35% and 31% respectively.

The move is in tandem with Saudi Arabia's decision to liberalize the insurance sector upon the condition that firms apply for Takaful licenses and offer their shares to the public.

GLOBAL

Catastrophically below average

Swiss Re reported a dip below the long-term trend in losses due to natural catastrophes and man-made disasters in 2006. US$15.9 billion out of the US$48 billion in losses were covered by insurance companies.

Insurers have modified individual catastrophe stimulation models due to 2004/2005's record losses and increasingly unpredictable weather. In 2006, natural catastrophes affected mainly developing countries with low property values, resulting in comparatively light economic losses. Only 30% of total economic losses were covered, due to low insurance penetration. Insurers predict that the effects of global warming will aggravate the loss situation. According to climatologists, shifting climate zones could lead to weather events previously restricted to extreme regions spreading to other parts of the world.

Wakalah bil Ujara in Islamic Insurance

By Abdul Ghoni

Three models or contracts are commonly used in Islamic insurance globally. These are the non-profit model of Tabarru' or Hibah, Mudarabah and Wakalah. In addition to these models, which form the normal practice of many Islamic insurance companies all over the world, there are also other models which can be used, based on modifications of all three models.

In general there are two contracts currently used in Takaful operations:

- Tabarru' contracts (non-commercial) between participants eliminate the elements of riba and gharar that are present in conventional insurance and the risk transfer becomes risk sharing. Tabarru' comprises Hibah, Sadaqah, Wasiyah, Waqf, Ijarah, Qard, Kafalah and debt free. In addition to the above factors included in a Tabarru' contract, it has been stated that there can also be ar Rahn (mortgage) and ash Shuluh (peace) between the disputing parties. Hence, we can conclude that the contracts between the participants are more accurately called Tabarru' bil Hibah, not just Tabarru'. This is due to the fact that a Tabarru' contract tends to mean that the contract only involves Waqf, Wasiyah, Qard or other Qard Tabarru'.
- Tabarru' (non-commercial) and Tijarah (commercial) contracts between participants and operators where Tabarru' includes Wakalah, Kafalah and Wadiah. There are also modifications of Tabarru' and Tijarah such as Bil Ujara, Mudarabah and Musharakah.

Given the variety of contracts or combinations of contracts that can be used between Takaful operators and participants, these contracts can be divided into four general categories as follows:

- Fixed fee up-front for managing risk.
- Fixed fee up-front for managing the investment.
- Incentive fee at the end of the contract period for managing risk.
- Incentive fee at the end of the contract period for managing the investment.

Generally, the Mudarabah contract has dominated the contracts used by Takaful operators around the world. This contract, as introduced into Takaful, dates back to 1900–1901, when Muhammad Abduh issued two fatwa with respect to legalizing insurance practice acccording to Islamic principles. These fatwa have permitted life insurance.

Developments in the Islamic insurance industry, particularly in Indonesia, however, have begun to see activities related to participants' investments, in addition to activities based on insurance underwrting. The latest trend is the use of the Wakalah bil Ujara contract, which now accounts for 90% of all contracts used in Takaful, compared to the less competitive Mudarabah contracts.

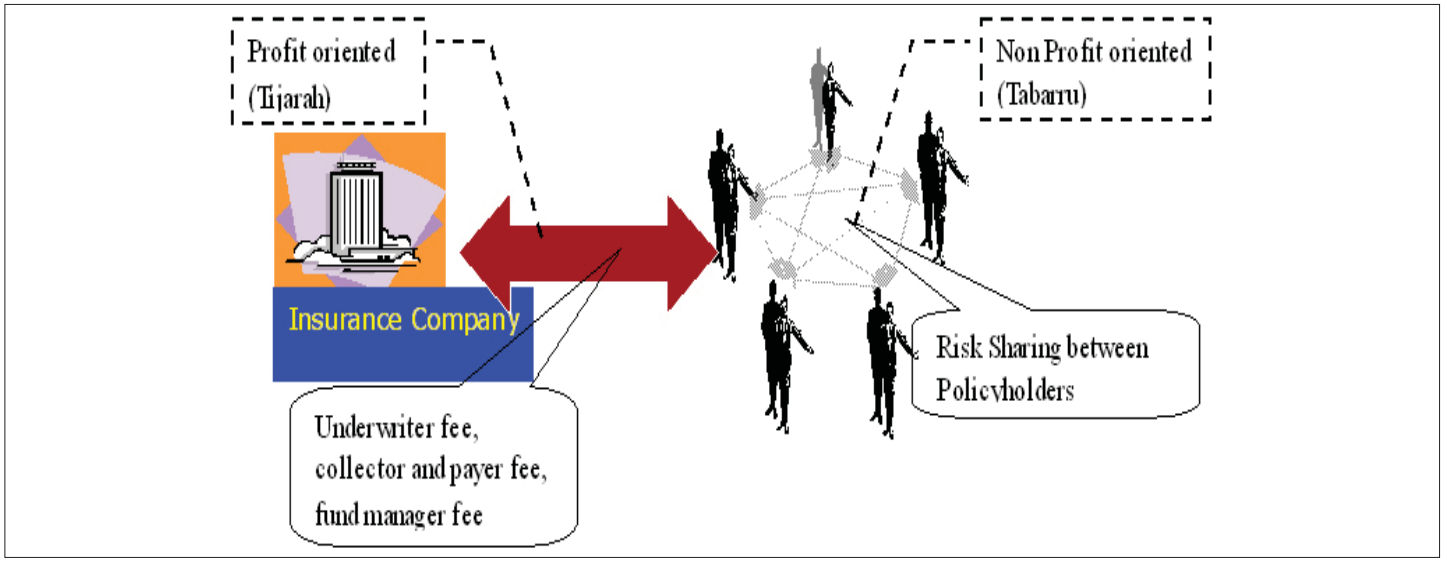
> "The Wakalah bil Ujara contract now accounts for 90% of all contracts used in Takaful"

On the 23rd March 2006, the Indonesian Shariah Advisory Board issued Fatwa No. 52/DSN-MUI/III/2006. This related to the Wakalah bil Ujara contract in Islamic insurance and reinsurance practice, where the participants give the operators the right to manage their contributions, settle claims, underwrite, manage the portfolio risk, market and invest their funds, in return for a fee.

From Chart I (overleaf) it can be seen that the Islamic insurance operator receives a fixed fee for managing risk and investing the pool of Tabarru' funds, plus an incentive fee allocated from the surplus at the end of the contract period, provided there is a surplus. In case an operating deficit arises, Qard Hassan is applied – and the operator will return the funds to the participants in installments.

Chart II (overleaf) illustrates how the Takaful insurance operator receives a fee in return for managing risk and investing the pool of

continued...



Wakalah bil Ujara in Islamic Insurance *(continued...)*

Chart I shows the mechanism of manging general Takaful under the Wakalah bil Ujara contract based on underwriting activities.

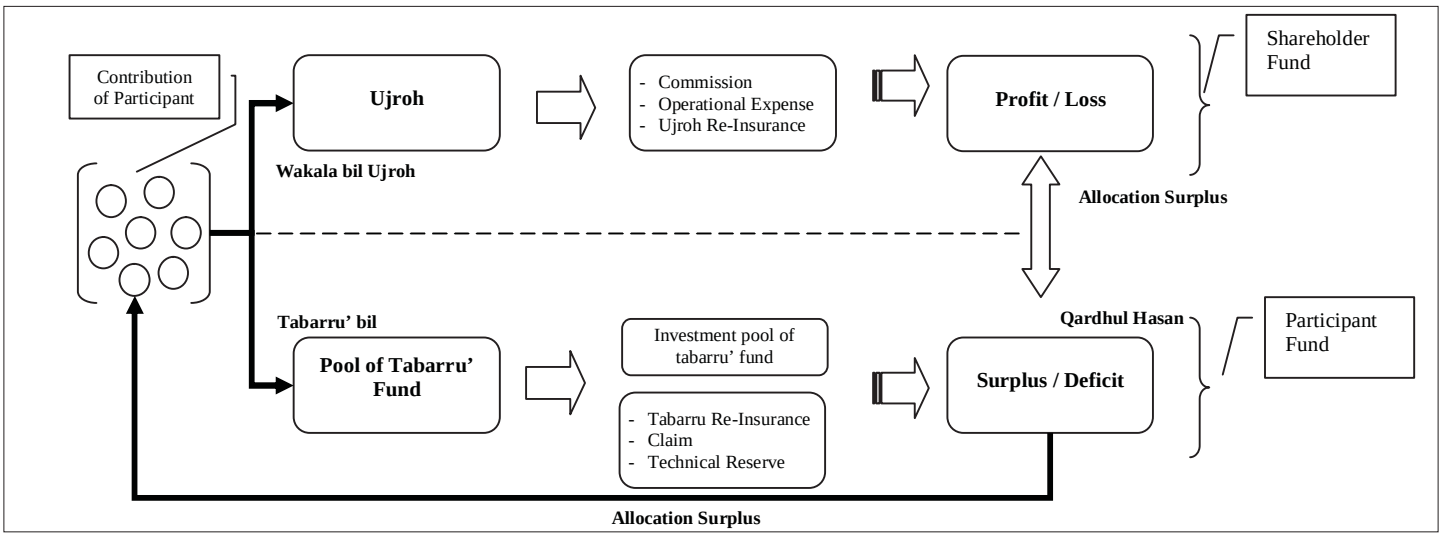
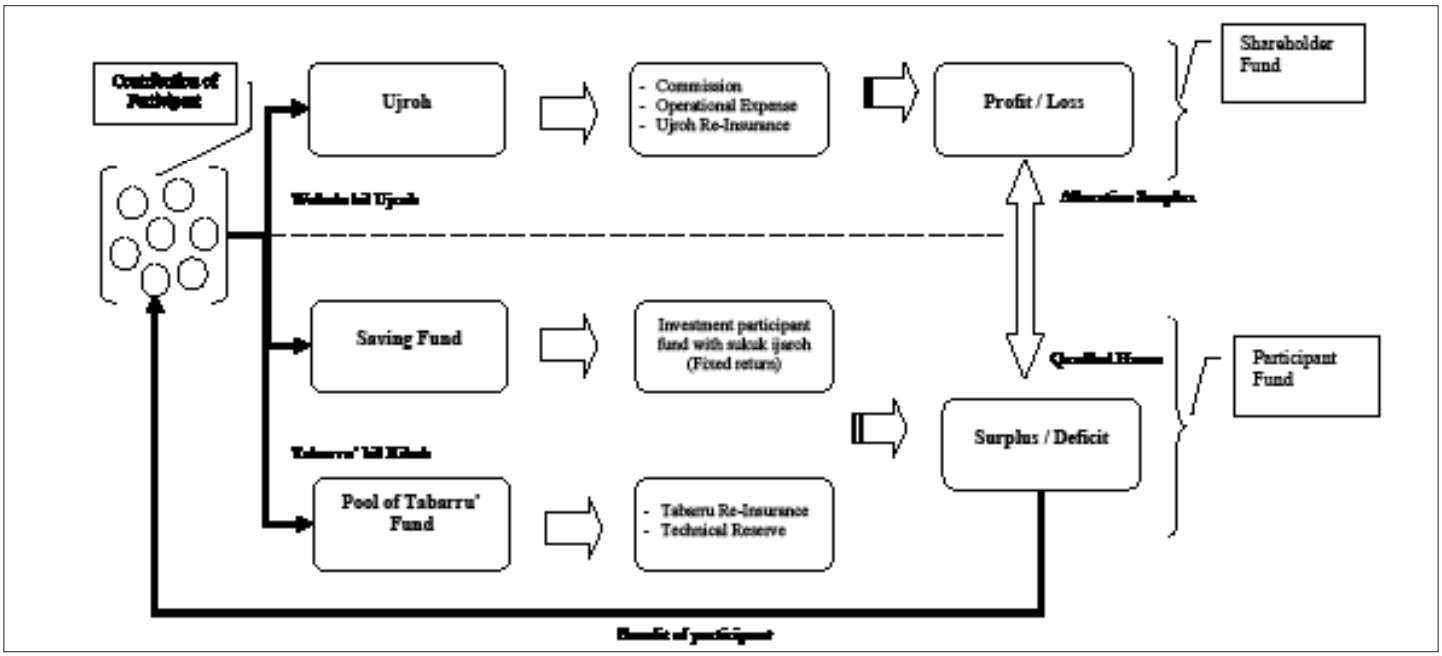


Chart II shows the mechanism of managing Takaful based on the Wakalah al Ujara contract in investment Takaful.



Tabarru' funds and savings, in addition to an incentive fee from the allocation of any surplus at the end of the contract period. If an operating deficit occurs, the operator will return the funds to the participants in installments, in a similar way to the operation of underwriting activities in a Takaful business where Qard Hassan applies. Wakalah al Ujara in relation to a fixed return on investment, such as the Indonesian government Sukuk, is expected to expand rapidly in 2007, with a more attractive and competitive exchange rate against the US dollar.

Concluding remarks

In general, while operators and participants can use either Wakalah or Mudarabah contracts for Takaful, the Tabarru' contracts seem more favorable for participants based on the concept of co-operation. Wakalah contracts make more business sense and offer better returns to the operators. Wakalah is more promising and more favorable for both operators and participants when compared to Mudarabah contracts, based on the Indonesian experience.

Indonesia now has over 40 Takaful operators, which has brought product innovation and contracts. The latest company to be launched – in September 2007 – is a type of life insurance investing in Sukuk, which will be bring the Indonesian Islamic finance portfolio to its next phase of growth, and in particular develop Islamic insurance.

The author is vice-president of Shariah Business INSCO Group. After working in accounting for 10 years, he moved into the Indonesian Takaful industry and has written a book on Islamic insurance. He can be contacted via email at: aghoni@tugu.com or by telephone at: +6281 2861 4148.

ITHMAAR – Bahrain

Kenneth C. Borda has joined Ithmaar Bank's board of directors.

Mr Borda currently serves as chief executive officer of Deutsche Bank for the Middle East and North Africa region. He has also acted as Deutsche's chairman of the Asia-Pacific (excluding Japan). Mr Borda's tenure at Deutsche Bank spans 18 years, having held key management posts, including regional CEO of the Asia-Pacific, based in Hong Kong, and CEO Australia and New Zealand, based in Sydney.

QIIB – Qatar

Abdulbasit Al Shaibei and Mohsen Mustafa have been re-designated from general manager to chief executive officer and deputy general manager to deputy chief executive officer, respectively, of Qatar International Islamic Bank (QIIB).

QIIB has also created a new position of general manager for banking services, covering retail and corporate banking. Jamal Al Jamal has been appointed to this position.

The re-shuffle is in line with QIIB's global and local expansion activities.

FLB – Bahrain

Khalid Kanoo is now the chairman of First Leasing Bank (FLB). He replaces Khalid Janahi.

Prior to his move, Mr Kanoo was chairman of the Bahrain Chamber of Commerce and Industry and has been active with the Economic Development Board, the Arab Business Council, the Bahrain Stock Exchange and the American Chamber of Commerce in Bahrain.
Mr Kanoo is currently a partner and group managing director of the Yusuf bin Ahmed Kanoo Group of Companies.

SHAMIL BANK – Bahrain

Mohamed Hussain, chief executive of Shamil Bank, will now also serve on the bank's board of directors.

Mr Hussain has spent over seven years with Shamil, having previously been its deputy chief executive and group head for corporate banking. He was also general manager of Islamic Investment Company of the Gulf, senior vice-president of Smith Barney Inc, director for marketing and corporate finance for the Bahrain International Bank and assistant vice-president of the Gulf International Bank.

Mr Hussain also currently advises on the board of directors for Meezan Bank, Eskan Bank, Emerging Markets Partnership, First Leasing Bank, Bahrain Institute of Banking and Finance and the Human Resources Development Fund.

Mr Hussain has a degree in Economics and Finance from the University of Aleppo, Syria.

AL SALAM – Bahrain

Paul Gill is now the executive director (SVP) and head of real estate investment at Al Salam Bank. Prior to joining Al Salam Bank, he held various senior executive positions with Australia's Lend Lease, Asia-Pacific's Bovis and Dubai's Majid Al Futtaim Investments. His experience spans over 26 years.

Mr Gill is a chartered professional engineer and property development specialist. He holds a first class honors degree in Building Technology from the University of Manchester.

Deal *tracker*

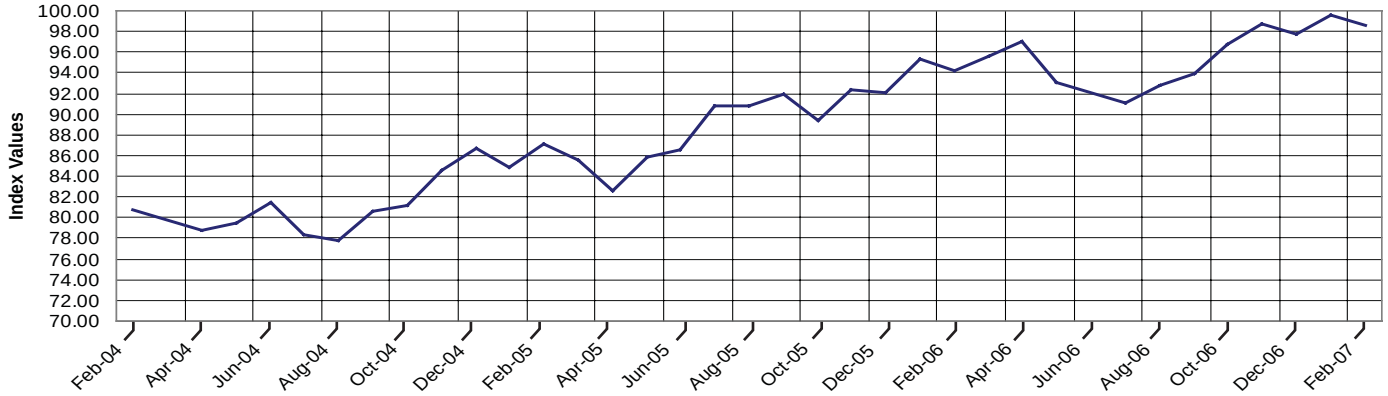
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
Saudi Electric Company	US$4,000	Sukuk
MTC	US$1,200	Sukuk
Prolintas	US$170.70	Senior Ijarah/Junior Musharakah
Tomei Consolidated	US$28.5	Islamic Commercial Papers
Sui Southern Gas Co.	US$49	Islamic Commercial Papers
JBIC	US$250 – US$350	Sukuk
Dynamic Communication	US$143.4	Istisnah/ MTN program
GLOMAC	US$50.18	Murabahah MTN program
Indonesia Comnets Plus	US$11.02	Sukuk Murabahah
Karachi Shipyard	US$69.19	TBA
Kwantas	US$69.19	Murabahah/ Off CP/MTN program
Malaysia International Shipping	US$286.30	Sukuk Murabahah
Gamuda	US$256	ICPs/ IMTNs
Islamic Development Bank	US$142.40	Ringgit denominated Sukuk
AMMB Holdings	US$114.20	Sukuk
ADIB	US$408.50	Sukuk
Moccis	US$108.80	Sukuk Murabahah/ 2 Tranches/ 6 Series
Moccis	US$51.50	TBA
MTD Infraperdana	US$71.50	Murabahah (CP/MTN program)
Sabah Ports	US$22.90	Bai Bithaman Ajil
Sabah Ports	US$20	MTN Murabahah
Orient Technology Indonesia	US$120	Islamic and conventional bonds (TBA)
Tiong Toh Siong Holdings	US$24.20	Sukuk Ijarah
FACB Industries	US$22.80	Murabahah
FACB Industries	US$42.80	Bai Bithaman Ajil
Tiong Nam	US$83.40	Sukuk Ijarah
Indonesia	TBA (in IDR)	Sukuk Ijarah
Lahore SunCity	US$250	Sukuk Musharakah
Polytama	US$21,725	Sukuk Ijarah
Prasarana	US$568.70	TBA
Tele-flow	US$25.6	Murabahah partially underwritten; Islamic MTN

For more details on these deals visit
www.islamicfinancenews.com

Eurekahedge North America Islamic Fund Index



Annualized returns for all funds (as of 23rd March 2007)

	FUND	MANAGEMENT COMPANY	12 Month Return (%)	FUND DOMICILE
1	AlAhli Emerging Markets Trading Equity Fund	The National Commercial Bank	42.72	Saudi Arabia
2	Markaz Islamic Fund	Kuwait Financial Center	28.43	Kuwait
3	Al Dar Securities Fund	ADAM	26.52	Kuwait
4	AlAhli Islamic Asia Pacific Equitybuilder Certificates	The National Commercial Bank	26.07	Germany
5	AlAhli Saudi Trading Equity Fund	The National Commercial Bank	23.05	Saudi Arabia
6	IPB Syariah	Kresna Graha Sekurindo	19.07	Indonesia
7	AlAhli Islamic Global Equitybuilder Certificates	The National Commercial Bank	18.79	Germany
8	AlAhli Islamic Europe Equitybuilder Certificates	The National Commercial Bank	17.26	Germany
9	SBB Dana Al-Ikhlas	SBB Mutual	17.17	Malaysia
10	Crescent Global Equity Fund	Oasis Global Management Company (Ireland)	16.76	Ireland
	*Eurekahedge Islamic Fund Index**		*2.67*	

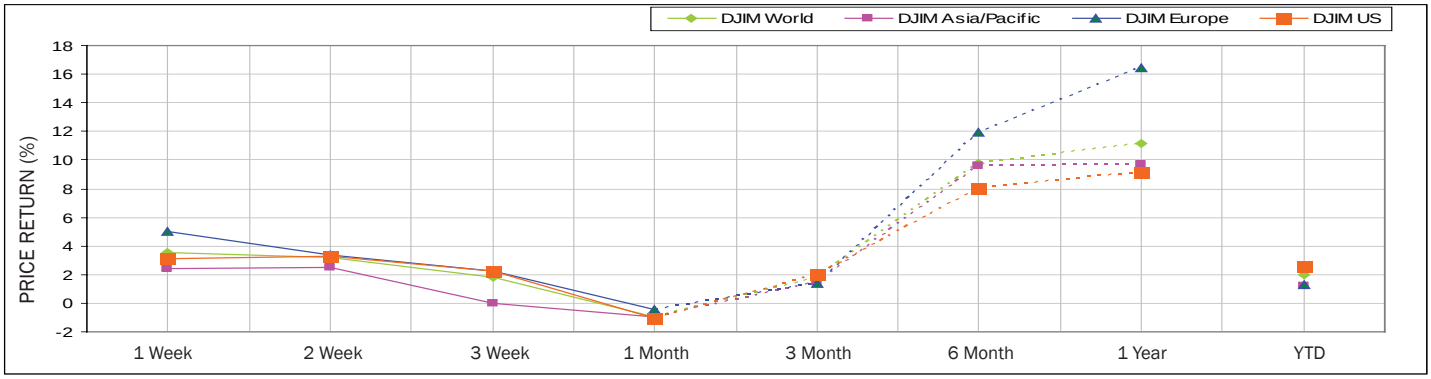
Annualized Standard Deviation for all funds (as of 23rd March 2007)

	FUND	MANAGEMENT COMPANY	Sharpe Ratio (%)	FUND DOMICILE
1	AlAhli Euro Murabahat Fund	The National Commercial Bank	0.13	Saudi Arabia
2	TA Islamic CashPlus Fund	TA Investment Management	0.30	Malaysia
3	Alliance Islamic Money Market Fund	Alliance Capital Asset Management	0.33	Malaysia
4	Al Muthanna Islamic Money Market Fund	First Investment Company	0.33	Kuwait
5	Lifetime Dana Fayyad	CIMB-Principal Asset Management	0.33	Malaysia
6	AlAhli Diversified Saudi Riyal Trade Fund	The National Commercial Bank	0.33	Saudi Arabia
7	AlAhli Diversified US Dollar Trade Fund	The National Commercial Bank	0.39	Saudi Arabia
8	Solidarity Leasing Fund	Solidarity Funds Company	0.45	Bahrain
9	AlAhli Saudi Riyal Trade Fund	The National Commercial Bank	0.49	Saudi Arabia
10	AlAhli International Trade Fund	The National Commercial Bank	0.49	Saudi Arabia
	*Eurekahedge Islamic Fund Index**		*8.38*	

** Based on 86.53% of the NAV returns for February 2007 as at 22 March 2007.*

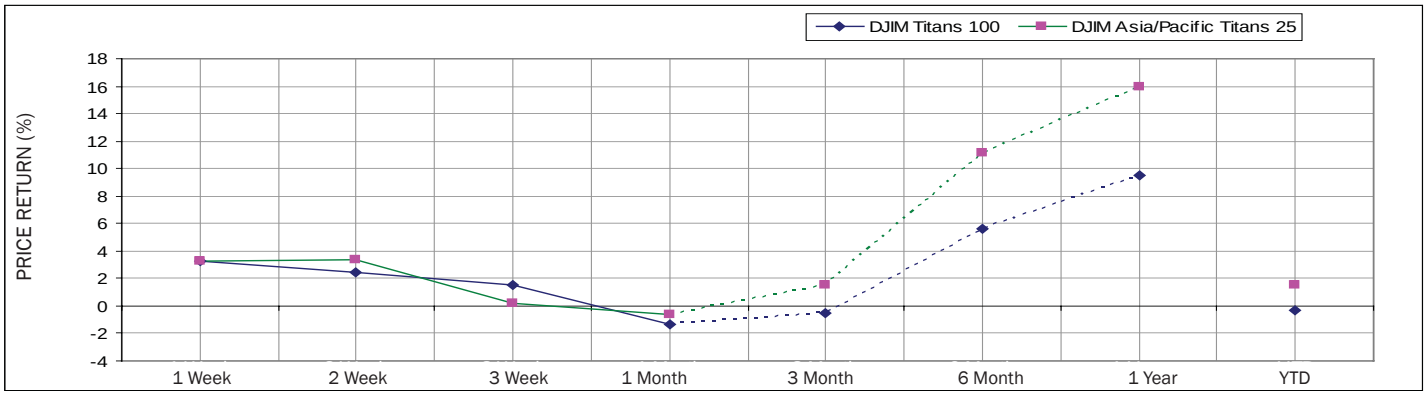
Data as of the 21st March, 2007

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	3.5	3.22	1.85	-0.96	1.79	9.8	11.13	2.02
DJIM Asia/Pacific	2.4	2.53	-0.04	-0.94	1.43	9.64	9.7	1.19
DJIM Europe	5	3.41	2.21	-0.43	1.38	11.93	16.46	1.32
DJIM US	3.08	3.24	2.24	-1.03	2.01	8.06	9.13	2.55

PERFORMANCE OF DJ TITANS INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	3.27	2.49	1.56	-1.31	-0.54	5.63	9.48	-0.27
DJIM Asia/Pacific Titans 25	3.24	3.34	0.18	-0.65	1.52	11.13	15.98	1.57

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2385	17202.22	14560.2	6.1	1.51	416.93	0.02	2.86	0
DJIM Asia/Pacific	946	3145.78	2242.75	2.37	0.6	80.57	0.02	3.59	0
DJIM Europe	358	4536.71	3623.77	10.12	3.04	196.14	0.24	5.41	0.01
DJIM US	737	8150.16	7752.59	10.52	2.95	416.93	0.29	5.38	0
DJIM Titans 100	100	7306.91	6643.52	66.44	47.75	415.28	1.18	6.25	0.02
DJIM Asia/Pacific Titans 25	25	900.59	621.85	24.87	18.11	65.75	8.16	10.57	1.31

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

RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT

AS AT 21st March 2007

Key Benchmarks Trend (by volume)	Rating	This week close (RM)	14 March 07 (RM)	7 March 07 (RM)	28 February 07 (RM)
Private Debt Securities					
RANTAU IMTN 0% 14.08.2013 – MTN 2	AAA (RAM)	104.40	104.18	104.02	103.69
RANTAU IMTN 15.03.2011 – MTN 1	AAA (RAM)	101.42	101.39	101.06	101.03
JEV IMTN 0% 12.11.2015	AA3 (RAM)	117.38	114.00	113.88	113.32
RANTAU IMTN 0% 15.03.2012 – MTN 3	AAA (RAM)	100.18	N/A	N/A	N/A
PUTRAJAYA IMTN 5.200% 25.01.2018	AAA ID (MARC)	105.05	105.96	105.79	105.71
Government Investment Instruments					
PROFIT-BASED GII 1/2007 15.03.2010	N/A	99.98	N/A	N/A	N/A
PROFIT-BASED GII 3/2006 15.11.2016	N/A	100.85	100.75	100.49	100.35
PROFIT-BASED GII 24/2005 08.12.2010	N/A	100.16	100.40	100.28	100.20
Quasi Government					
IFC 2.880% 13.12.2007	N/A	99.5	99.39	99.36	99.35

SPREAD VS GII (in b.p.)

	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.51	3.56	3.58	3.62	3.67	3.74
Cagamas	0.09	0.11	0.17	0.24	0.26	0.3
Khazanah	0.04	0.04	0.07	0.1	0.11	0.15
AAA	0.26	0.31	0.39	0.55	0.66	0.78
AA1	0.41	0.47	0.56	0.74	0.89	1.06
A1	1.39	1.54	1.74	2.1	2.45	2.83

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves

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

TOP ISSUERS OF ISLAMIC BONDS — MARCH 2006 – MARCH 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Malaysia	Malaysia	Islamic Sukuk	3,591	4	19.6	Malaysian Government bond
2	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	19.3	Barclays Capital, Dubai Islamic Bank
3	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	13.8	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
4	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	975	2	5.3	CIMB, AmMerchant
5	ADIB Sukuk	UAE	Sukuk Ijarah	800	1	4.4	HSBC
6	Dubai Islamic Bank	UAE	Sukuk Musharakah	750	1	4.1	Barclays Capital, Citigroup, Standard Chartered Bank
7	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	4.1	CIMB Investment, HSBC Amanah, UBS
8	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	4.1	CIMB Investment
9	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	510	10	2.8	Cagamas, AmMerchant, Aseambankers Malaysia
10	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	2.5	Deutsche Bank
11	Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	416	1	2.3	Aseambankers Malaysia
12	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	308	20	1.7	AmMerchant, Bank Muamalat Malaysia, MIMB, RHB Sakura
13	Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	1.4	Aseambankers Malaysia
14	SIB Sukuk	UAE	Musharakah Sukuk	225	1	1.2	HSBC
15	Putrajaya Holdings	Malaysia	Murabahah MTN	221	5	1.2	Alliance Merchant Bank, CIMB, RHB Sakura
16	Tabreed 06 Financing Corp	UAE	Sukuk Istisnah	200	1	1.1	CIMB, HSBC Bank Malaysia, Dresdner Kleinwort Wasserstein
17	KMCOB Capital	Malaysia	Murabahah MTN	178	4	1.0	CIMB Investment, United Overseas Bank (Malaysia)
18	East Cameron Gas	US	Asset-backed Sukuk	168	1	0.9	Merrill Lynch International
19	AmIslamic Bank	Malaysia	Subordinated Sukuk Musharakah	113	1	0.6	AmMerchant
20	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	0.6	AmMerchant, Bank Muamalat Malaysia, MIMB
	Total of issues used in the table			**18,282**	**264**	**100.0**	

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TOP ISSUERS OF ISLAMIC BONDS — SEPTEMBER 2006 – MARCH 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	29.1	Barclays Capital, Dubai Islamic Bank
2	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	20.9	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
3	Malaysia	Malaysia	Islamic Sukuk	1,821	2	15.0	Malaysian Government bond
4	ADIB Sukuk	UAE	Sukuk Ijarah	800	1	6.6	HSBC
5	Dubai Islamic Bank	UAE	Sukuk Musharakah	750	1	6.2	Barclays Capital, Citigroup, Standard Chartered Bank
6	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	6.1	CIMB Investment
7	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	570	1	4.7	CIMB
8	SIB Sukuk	UAE	Musharakah Sukuk	225	1	1.9	HSBC
9	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	208	10	1.7	RHB Sakura, MIMB, Bank Muamalat Malaysia, AmMerchant
10	KMCOB Capital	Malaysia	Murabahah MTN	178	4	1.5	CIMB Investment, United Overseas Bank (Malaysia)
11	AmIslamic Bank	Malaysia	Subordinated Sukuk Musharakah	113	1	0.9	AmMerchant
12	Syarikat Pengelar Air Sungai Selangor	Malaysia	Murabahah MTN	103	19	0.9	United Overseas Bank (Malaysia)
13	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	100	4	0.8	Cagamas, AmMerchant, Aseambankers Malaysia
14	NICBM Sukuk	Kuwait	Sukuk Musharakah	100	1	0.8	Kuwait Finance House, Standard Bank
15	Perwaja Steel	Malaysia	Murabahah MTN	84	7	0.7	RHB Sakura
16	Mukah Power Generation	Malaysia	Sukuk Mudharabah	83	10	0.7	RHB Islamic
17	OCBC Bank (Malaysia)	Malaysia	Mudharabah Islamic Bond	55	1	0.5	OCBC Bank (Malaysia)
18	Glomac Regal	Malaysia	Murabahah MTN	31	2	0.3	Alliance Investment
19	Sarawak Power Generation	Malaysia	Sukuk Musharakah	30	11	0.2	RHB Islamic
20	Aeon Credit Service (M)	Malaysia	Bank Guaranteed MTN	17	2	0.1	Aseambankers, Bank of Tokyo-Mitsubishi UFJ (Malaysia), CIMB Investment
	Total of issues used in the table			**12,114**	**113**	**100.0**	

ISLAMIC BONDS		MARCH 2006 – MARCH 2007		
	Manager or Group	Amt US$ m	Iss.	%
1	Malaysian Government bond	3,591	4	19.6
2	Barclays Capital	2,853	4	15.6
3	CIMB	1,997	48	10.9
4	Dubai Islamic Bank	1,760	2	9.6
5	HSBC	1,452	8	7.9
6	AmInvestment Bank	969	41	5.3
7	Aseambankers	849	25	4.6
8	Abu Dhabi Investment	843	1	4.6
9	Credit Suisse	843	1	4.6
10	Deutsche Bank	460	1	2.5
11	Standard Chartered	400	18	2.2
12	RHB	314	62	1.7
13	United Overseas Bank	282	36	1.5
14	Citigroup	250	1	1.4
15	UBS	250	1	1.4
16	Merrill Lynch & Co	168	1	0.9
17	Bank Muamalat Malaysia	123	31	0.7
18	Alliance Investment	120	11	0.7
19	MIDF-Sisma Securities	117	27	0.6
20	EON	114	30	0.6
	Total of issues used in the table	**18,282**	**264**	**100.0**

ISLAMIC BONDS		SEPTEMBER 2006 – MARCH 2007		
	Manager or Group	Amt US$ m	Iss.	%
1	Barclays Capital	2,853	4	23.6
2	Malaysian Government bond	1,821	2	15.0
3	Dubai Islamic Bank	1,760	2	14.5
4	CIMB	1,416	29	11.7
5	HSBC	1,031	3	8.5
6	Abu Dhabi Investment	843	1	7.0
7	Credit Suisse	843	1	7.0
8	Standard Chartered	334	8	2.8
9	Citigroup	250	1	2.1
10	United Overseas Bank	192	23	1.6
11	AmInvestment Bank	174	12	1.4
12	RHB	165	31	1.4
13	Cagamas	100	4	0.8
14	Oversea-Chinese Banking Corp	55	1	0.5
15	Bank Muamalat Malaysia	52	10	0.4
16	EON	52	10	0.4
17	Kuwait Finance House	50	1	0.4
18	Standard Bank Group	50	1	0.4
19	Alliance Investment	31	2	0.3
20	MIDF-Sisma Securities	18	6	0.2
	Total of issues used in the table	**12,114**	**113**	**100.0**

ISLAMIC BONDS BY COUNTRY	MARCH 2006 – MARCH 2007		
	Amt US$ m	Iss.	%
Malaysia	9,472	251	51.8
UAE	8,485	8	46.4
US	168	1	0.9
Kuwait	100	1	0.5
Indonesia	21	1	0.1
Pakistan	18	1	0.1
Saudi Arabia	18	1	0.1
Total	**18,282**	**264**	**100.0**

ISLAMIC BONDS BY COUNTRY	SEPTEMBER 2006 – MARCH 2007		
	Amt US$ m	Iss.	%
UAE	7,825	6	64.6
Malaysia	4,189	106	34.6
Kuwait	100	1	0.8
Total	12,114	113	100.0

ISLAMIC BONDS BY CURRENCY	MARCH 2006 – MARCH 2007		
	Amt US$ m	Iss.	%
US dollar	9,521	12	52.1
Malaysian ringgit	8,722	250	47.7
Indonesian rupiah	21	1	0.1
Pakistan rupee	18	1	0.1
Total	**18,282**	**264**	**100.0**

ISLAMIC BONDS BY CURRENCY	SEPTEMBER 2006 – MARCH 2007		
	Amt US$ m	Iss.	%
US dollar	7,925	7	65.4
Malaysian ringgit	4,189	106	34.6
Total	**12,114**	**113**	**100.0**

DATE	EVENT	VENUE	ORGANIZER
March			
22nd – 24th	Islamic Finance World North America	Canada	Terrapinn
26th – 27th	Takaful Conference	Singapore	Asia Insurance Review
26th	10th Meeting of the IFSB Council	Kuala Lumpur	IFSB
26th	5th General Assembly of the IFSB	Kuala Lumpur	IFSB
26th – 29th	Global Islamic Finance Forum	Kuala Lumpur	Bank Negara & 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 Shari'ah Issues in the Islamic Financial Services Industry"	Kuala Lumpur	IFSB
29th	The London Islamic Financial Services Summit	London	City & Financial Conferences
April			
2nd – 5th	International Islamic Finance Forum	Dubai	IIR Middle East
17th – 19th	Inclusive Islamic Financial Sector Development	Brunei	IRTI
19th	Seminar on Regulation of Islamic Capital Markets	Kuala Lumpur	IFSB
24th – 26th	Enhancing Islamic Financial Services for Micro and Medium Sized Enterprises	Brunei	CSM
24th – 26th	Structured Products World 2007	London	Terrapinn
25th	Sukuk: Exploring the Phenomena	Dubai	Middle East Business Forum
May			
2nd – 6th	Islamic Finance Summer School	Durham	Durham University
6th – 7th	World Islamic Funds & Capital Market Conference	Bahrain	Mega Events
7th – 8th	World Halal Forum 2007	Kuala Lumpur	Kaseh Dia
15th – 16th	4th Islamic Financial Services Board Summit: "The Need For A Cross-Sectoral Approach to the Supervision of Islamic Financial Services"	Dubai	IFSB
17th – 18th	3rd International Conference on Islamic Banking, Finance and Insurance	Ottawa	Ansar Financial Group
21st – 22nd	Commodity Investment Week 2007	Dubai	Terrapinn
22nd – 24th	Islamic World Finance North America 2007	Toronto	Terrapinn
27th – 29th	3rd World Islamic Economic Forum	Kuala Lumpur	ASLI
29th – 30th	32nd Islamic Development Bank Annual Meeting	Senegal	IDB
June			
3rd – 6th	Funds Middle East	Madinat Jumeirah	Terrapinn
25th – 27th	Islamic Finance and Investment World Europe 2007	London	Terrapinn
25th – 27th	3rd International Islamic Finance Forum 2007	Kuala Lumpur	IBC Asia
July			
2nd – 6th	Islamic Markets Program	Kuala Lumpur	Securities Commission
August			
13th – 14th	MIF Forum 2007	Kuala Lumpur	Islamic Finance Events

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