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MALAYSIA

Bonds priced

Fresh from the launch, Cagamas has priced its Islamic residential mortgage-backed securities (RMBS) at RM2.11 billion (US$621.26 million). The RMBS achieved a record yield, with a 3.93% average. It is the first Islamic RMBS with a 20-year tranche.

The deal was oversubscribed by four times at the time of pricing, building a book of RM9 million (US$2.64 million). The six-day roadshow for the deal encompassed Kuala Lumpur, Singapore and Hong Kong, allowing Cagamas to meet the bulk of key Islamic investors in the region. (See Islamic Finance *news*, Vol. 4, issue 19 for more details.)

SWITZERLAND

Going west

The National Bank of Abu Dhabi (NBAD) has established an independent, wholly owned subsidiary in Switzerland. The bank will operate under the moniker NBAD Private Bank (Suisse). It is the first bank in the UAE to have been granted a full Swiss banking licence.

The private bank will operate under Swiss banking rules and comply with Swiss regulations, including those on banking confidentiality.

NBAD's Swiss unit will have an initial capital of Dh301 million (US$81.95 million), and will offer a full range of private banking and trade finance services. It aims to target wealthy Arabs with accounts and holiday homes in Switzerland.

KUWAIT

Keeping it local

HSBC Kuwait cannot apply for an Islamic banking license, Nick Nicolaou, CEO of HSBC Kuwait, revealed to Islamic Finance *news*, due to the strict regulations imposed by the Central Bank of Kuwait (CBK).

Nick explained that CBK's regulations state that foreign Islamic banks are not allowed to set up Islamic banking units in Kuwait, and can only operate conventionally. Even local banks, he explained, cannot operate Islamically if there has been no application for a specific Islamic banking license.

There are currently two fully fledged Islamic finance bodies in Kuwait – the Kuwait Finance House and The International Investor.

THAILAND/MALAYSIA

Sawadikap!

CIMB Group has launched its flagship presence in Thailand. CIMB-GK Securities (Thailand) currently hosts THB300 million (US$9.01 million) worth of shareholders funds, despite only being new. The bank currently has 35 employees, of whom 33 are Thai.

CIMB Group has had a research presence in Thailand since July 2005. The group acquired a stockbroking license enabling it to provide securities broking, dealing, underwriting as well as corporate advisory services, in 2006.

In this issue

SAUDI ARABIA

Part two

Saadiq, Standard Chartered's Islamic finance brand, has been launched in the Middle East, along with StanChart's first Islamic credit card. Saadiq was previously launched in April in Malaysia, with the introduction of Saadiq and the Saadiq Account-I.

The Saadiq Visa Gold credit card operates on a fixed-fee structure, where customers pay a fixed monthly maintenance fee instead of an interest fee. The Gold card will initially only be available in the UAE, before being rolled out globally.

Commenting on the card, Owen Belman, StanChart's head of consumer banking for the UAE and Oman said: "Internationally recognized, Shariah compliant and with an annual fee comparable to that of a conventional credit card, the Saadiq Gold credit card offers customers complete peace of mind. It offers them true flexibility and freedom to access interest-free credit card services wherever they are in the world."

The card was designed to meet Middle East Shariah standards.

UAE

Branching out

As part of its expansion plan, Union National Bank (UNB) launched two branches in Al Ain. The new branches are located in the Hili and central districts.

KAZAKHSTAN

Shariah success?

Kazakhstan is ready for Islamic banking. According to economists, Islamic finance will proliferate, provided the requirements of Shariah law can be matched to the country's tax and finance legislation.

Many perceive Islamic banking to work in a similar way to conventional standards, with Mudassir Siddiq of the Islamic Development Bank commenting: "There are some misconceptions that a secular country's legal system has to change fundamentally in order for Islamic financial services to work. In actual fact, Islamic banking standards are to a large extent based on common standards. The difference is that Islamic finance has a large ethical component, making business more ethically driven."

Kazakhstan is, however, looking to review its legal system to match Islamic standards.

BAHRAIN

Revolving Murabahah

ABC Islamic Bank has launched a US$100 million 5-year amortizing syndicated revolving Murabahah for the International Leasing & Investment Company (ILIC). The facility was fully underwritten by ABC Islamic.

Prior to the launch, ABC Islamic was joined by Boubyan Bank, Gulf International Bank, The Islamic Bank of Asia and Raiffeisen Zentralbank Österreich Aktiengesellschaft acting as mandated lead arrangers.

UAE

Expand, expand, expand

Amlak Finance is targeting regional expansion, with mortgage lending providing the prime focus. The company is committed to replicating its success in the UAE in other regional markets, including Egypt and Saudi Arabia. Amlak is also looking to offer mortgage and consumer finance products in Morocco, Turkey, Pakistan and Syria.

In light of the fact that Amlak was the worst performing stock on the Dubai index for 2007, Nasser Al Shaikh, chairman of Amlak, assured: "We have learned from our mistakes and now the focus will be on our core businesses. The company will be refocused on home financing and Islamic consumer financing."

MALAYSIA

Islamic banking contributes

HSBC Bank Malaysia has hit a record high in its first quarter financials. The bank saw a 48.2% hike in pre-tax profits to RM308 million (US$90.66 million). Income from Islamic banking operations grew by 75.8%, mainly through consumer credit and improved profit margins.

HSBC Malaysia's total assets also grew by RM6.9 billion (US$2.03 billion), at 19.1%, mainly attributed to growth in customer deposits from effective marketing campaigns. Other operating income was up 23.3% to RM203 million (US$59.76 million), due to higher foreign exchange profits credit to the strengthening of the Malaysian ringgit and further liberalization of the Central Bank's foreign exchange administrative rules.

BAHRAIN/SAUDI ARABIA

Ewaan Capital

The International Investment Bank and the Islamic Corporation for the Development of the Private Sector will set up an asset management company in Saudi Arabia.

Dubbed Ewaan Capital, the company will have a paid-up capital of US$13.3 million. Its services will include capital markets activities, fund management, investment banking and advisory services.

GLOBAL

Noor Islamic Funds

Citibank has entered into a distribution arrangement with DWS Investments, the global mutual fund arm of Deutsche Bank. Now, Citibank will offer the full range of DWS investment products which also include the Shariah compliant DWS Noor Islamic Funds.

The DWS Noor Islamic Funds were developed to meet the specific needs of retail and institutional Islamic investors. The DWS Noor family of funds includes: 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.

The minimum investment is US$5,000. Investors will be able to invest in all regions and sectors, including the option to participate in IPOs.

PAKISTAN

Ready for take off!

Pakistan's Islamic finance sector is growing rapidly, according to Shamsad Akhtar, governor of the State Bank of Pakistan (SBP).

Shamsad emphasized that Pakistan's growth is accelerated compared to most countries, which have had a 10-year head-start. Shamsad affirmed: "At the pace at which it is growing we believe it will be a very important segment of the market." She also expressed her belief that Islamic finance will be able to bring more people into the financial system, especially those in remote areas.

Islamic financing now constitutes 3% of Pakistan's total banking sector in terms of asset and deposit base.

US/MALAYSIA

Cross-border wealth

US-based Calyx Financial has signed a memorandum of understanding with Muamalat Invest, the asset management arm of Malaysia's Bank Muamalat, to develop and distribute Islamic investment funds.

The deal will give Calyx Financial a foothold in the Islamic financial market. Douglas Clark Johnson, chief executive and chief investment strategist of Calyx Financial commented: "We're partnering with Muamalat Invest to bring to market a series of globally derived private placement vehicles. These funds will be uniquely relevant to client portfolio needs and in line with local market regulation. Our project plan calls for a new investment program each quarter."

The relationship will focus initially on Calyx Financial's Islamic Strategist program – the first ever globally sourced, multi-asset class fund-of-funds designed for Islamic investors. The product will be available to Malaysian institutions through a restricted investment program that includes an Islamic bond component to comply with capital controls.

UK/KUWAIT

Sell-off

Global Securities House and the London-based Islamic Asset Management have sold the assets of the jointly sponsored Al Bait UK Real Estate Fund for US$116.5 million.

The fund's portfolio of properties comprised a balance of office, mixed use and industrial assets across the UK. Acquired in 2003, the portfolio has been sold to the Pan-European Islamic Real Estate Fund.

BAHRAIN/ FRANCE

Cool French

Arcapita Bank and Dalkia, a French energy firm, will develop district cooling projects in the GCC. The company will focus on Saudi Arabia, Bahrain, Kuwait and Qatar.

Arcapita and Dalkia currently have two projects worth US$200 million, with Arcapita holding an 85% stake. The two companies plan to invest up to US$1 billion in joint ventures over the next three years.

UAE/KUWAIT/MALAYSIA

KFH research launched in Dubai

Kuwait Finance House Group (KFH) has officially launched its Research arm on an international scale. The Research arm was initially officiated in 2006, with the induction of Baljeet Kaur Grewal as KFH Malaysia's head of research and chief economist.

This launch in Dubai was officiated over by Mohd Razif Abdul Kadir, deputy governor of Bank Negara Malaysia (BNM). Mohd Razif represented Zeti Akhtar Aziz, governor of BNM, who had to return to Malaysia at the last minute to attend to her ill mother.

KFH is the first Islamic bank in the world to establish an in-house research team, and the first global Islamic research team domiciled in Malaysia. The team comprises of industry experts devoted to generating and sharing knowledge on Islamic finance and capital markets within the Middle East and Asia.

KFH's research arm aims to provide insightful, objective and decisive research designed to enable clients to make informed investment decisions and is the core of the value proposition offered to clients. KFH's initiative is also a testament to the bank's economic integration between the Middle East and Malaysia.

Salman Younis, managing director of KFH Malaysia, affirmed: "Our commitment is that wherever the KFH Group is present, we would like to contribute towards the development of Islamic banking in the region. It has been Kuwait Finance House's declared position that we will continuously seek deal flows not only from the Gulf region to Asia, but also vice versa, in order to further strengthen the two way deal flow and encourage stronger bilateral trade relations."

Salman concluded: "For economic prosperity to be widely shared in the Islamic context, it must be founded upon progress in the areas of research and innovation and institutional capacity building."

UAE

Steel financing

Emaar Industries and Investments (EII) has bought a 60% stake in Mammut Building Systems (MBS), a leading manufacturer of steel buildings.

The investment is set to fuel regional expansion and double MBS's Dh500 million (US$136.13 million) turnover in less than a year. MBS plans to up its value to Dh1 billion after its expansion.

KUWAIT

Airline in pipeline?

Investment Dar and Kuwait Finance and Investment (KFIC) could be setting up a joint passenger airline. The chairmen of KFIC and Investment Dar are slated to discuss the venture further.

Investment Dar recently acquired British car makers Aston Martin, and is now offering up its stake for US$1 billion. (See News Briefs, Vol. 4, issue 19, page 4.)

UK

London Sukuk Summit

The landmark London Sukuk Summit is scheduled to take place on the 20th and 21st June 2007. The summit will see Dr Zeti Akhtar Aziz, governor of Bank Negara Malaysia, deliver the main keynote address.

The UK's Treasury is keen on issuing Sukuk and growing the Islamic finance sector in the country and is currently conducting a study to see how the British government could issue Sukuk in the wholesale sterling market.

Ian McCartney, UK Minister of Trade & Investment, is also slated to address delegates on the latest moves to promote London as a hub for Islamic finance and trade. Richard Thomas, managing director of Global Securities House (UK) will inform the delegates of the objectives and remit of the newly formed Islamic Financial Services Sub Committee, UKTI FSSAB, of which he is chair.

The Sukuk Summit intends to increase the number of issuances and syndications structured out of London and highlight the importance of South-East Asia.

PAKISTAN

In full gear

Bank Islami Pakistan has opened its eleventh branch in Islamabad. The bank plans to have 28 branches by the end of 2007.

100% Shariah compliant, Bank Islami intends to introduce biometric ATMs, electronic news boards, and internet and phone banking as part of its expansion plan.

UAE

Twin financing

First Gulf Bank Real Estate Department has launched a twin-tower real estate project in Dubai's Business Bay master development.

The Westburry Square development will include residential, retail and commercial units built over 900,000 square feet. It is slated for completion in the last quarter of 2009.

KUWAIT

Going global

Global Investment House (GIH) has launched the open-ended Global Islamic Fund of Funds (GIFF). The fund is set to invest in local and international Shariah compliant accounts.

The fund aims to provide long-term capital appreciation with minimal risk, via investments in a diverse basket of Islamic instruments. Sameer Al-Gharaballi, executive vice-president of Global affirmed: "The fund's strategy is to invest the majority of assets in a core of carefully selected Islamic funds that complement each other in risk and return."

GIFF will also invest in low-risk instruments to minimize portfolio volatility, and is open to new tools and opportunities that will arise in the future. Badria Al-Humaidhi, GIH's senior investment analyst, is confident: "The fund aims to diversify its exposure in the global markets to minimize the risks associated with any one market as well as setting risk parameters to ensure that the fund is not overly exposed to any one market or sector."

The fund's minimum subscription is set at US$25,000, with a monthly subscription frequency and quarterly redemptions after the lock-up period. AlRayah Consultancy will work with GIH to confirm GIFF's Shariah compliance.

SAUDI ARABIA

Optimistic despite dip

The Saudi British Bank (SABB) saw a 37.5% decline in net profits for its first quarter, ending on the 31st March 2007. SABB's net profits fell from SR986 million (US$262.89 million) in 2006 to SR616 million (US$164.24 million). The dip is attributed to SABB's commitment to strengthening its core banking business and customer service infrastructure in this quarter.

The bank's operating income stood at SR1.03 billion (US$274.62 million), down by 27.7% compared to the same quarter in 2006. Its cost base was also 16% lower at SR62 million (US$16.53 million). However, John Coverdale, managing director of SABB, affirmed that the bank saw a rise from its 2006 final quarter profits of SR31 million (US$8.26 million).

SABB's overall credit quality remains sound due to liquid market conditions maintaining high deposit levels. The IPO of the bank's insurance arm, SABB Takaful, was also well received in 2006, after the issuance of its operating license. "Once fully operational, SABB Takaful will offer a comprehensive range of Shariah compliant Takaful products for personal and corporate customers, and will represent a key step in SABB's evolution into a financial services group," Coverdale added.

BAHRAIN

Conventional debt

Gulf International Bank (GIB) has signed a US$1.2 billion syndicated term loan facility. The facility, which was initially launched on the 2nd April 2007, was oversubscribed to US$1.46 billion.

Speaking to Islamic Finance *news*, Ali Al Qaseer, GIB's head of international financial institutions, revealed that GIB is looking into syndicating an Islamic debt facility in the near future.

UAE

Femme power

Sharjah Islamic Bank (SIB) has established "Durra" to encourage female involvement in the Islamic banking sector. "This organization is the next natural stage in a world that demands quality and excellence regardless of sex or background," Noura Al Noman of the Supreme Council for Family Affairs stated.

Durra aims to provide a fully integrated platform for women to network and develop professionally in the Islamic sector. It aims to allow women in the industry to interact, share knowledge and ideas, as well as best practices. Durra aims to establish offices around the world, particularly in Australia, South America and Europe.

There are currently 117 women working as branch managers in UAE's Islamic banks, compared to the 419 men in the 948 Islamic outlets.

SAUDI ARABIA

New car salesmen?

Al Rajhi Bank has opened eight car showrooms across Saudi Arabia in line with the bank's car financing drive.

Al Rajhi's operations manager Saud Al-Ghunaim affirmed: "The bank now provides a unique service under which customers can visit the showrooms, select cars of their choice and obtain finance at the same time."

The showroom is set to be a one-stop-shop for car purchasers, with the bank's primary target being its existing customers and prospective car buyers.

UAE

Subject to demand

The number of Islamic banks set up in the UAE will be regulated by market demand. UAE's deputy ruler of Dubai and minister of finance, Shaikh Hamdan Rashid Al Maktoum, has confirmed that Islamic and conventional banks will be regulated equally, and given the same opportunities for licensing.

Amlak and Tamweel are hopeful of adding to the list of UAE Islamic banks, but their licenses are still pending approval from the Central Bank of Dubai.

AFRICA

Temenos T24

Kenya Commercial Bank (KCB) will now utilize Temenos Group's T24 system in all of its 131 branches across Kenya, Tanzania and Sudan, spanning 675,00 accounts. The system will support KCB's Islamic banking, retail, corporate and wealth management operations. T24 is also set to improve KCB's cost-to-income ratio and enhance the bank's positioning.

KCB, along with Pricewaterhouse Coopers, chose Temenos over 26 other providers, including i-flex, Misys and Tata Consultancy Services. T24 will replace KCB's 10-year-old TC3 system, and its other under-performing ancillary systems.

T24 utilizes Oracle's database, and will work alongside ARC, a front office software product to support its Islamic services, and support customer retention and cross-channel selling.

KCB's future plans include expansion into Uganda and Rwanda, and an increase its customer accounts to over two million by 2012.

PAKISTAN

Corporate Social Responsibility

Emirates Global Islamic Bank (EGIB) has signed a memorandum of understanding with the Friends of Burns Center.

The ISO9001-2000 certified center offers state-of-the-art facilities, including operation theaters, 24-hour emergency treatment facilities, intensive care units, clinical laboratories, pharmacy, radiology, physiotherapy and dialysis facilities at no cost. It also won an Environmental Excellence Award in 2005.

EGIB plans to become a key player in the Islamic banking sector by offering competitive banking products and enhancing its corporate social responsibility drive.

QATAR

Transcending religion

International Islamic is bent on gaining non-Muslim clients. The bank will soon mobilize its products and services specifically to attract non-Muslims.

Abdulbasit Al-Shaibei, CEO of International Islamic, is optimistic: "Islamic banking is not for Muslims alone. It is value-based banking based on Shariah, revolving around interest-free banking which will appeal to all sections of the society." However, he added that the bank needed to fortify its foundations before catering to such demands.

"If you need to properly service Indians, Pakistanis or Filipinos, you require staff that understand their culture and properly identify with them," Abdulbasit added. The bank intends to train its staff to accommodate to different cultural needs. Countries like Malaysia and the UK already domicile customers, employees and shareholders who are non-Muslim, Abdulbasit elucidated.

International Islamic, previously known as Qatar International Islamic Bank, plans to expand with two more branches and more ATMs in Qatar by end of 2007. The bank posted net profit of QR105 million (US$28.84 million) for the first quarter, ending on the 31st March 2007, up 5% from 2006.

MALAYSIA/SAUDI ARABIA/UAE

First international Commodity Murabahah

Bank Negara Malaysia (BNM) has signed a commodity Murabahah agreement with the Saudi Hollandi Bank. The Saudi Hollandi Bank is the first Islamic bank outside of Malaysia to sign such an agreement with the Central Bank.

The program is part of BNM's initiative to increase the product innovation and liquidity management of Islamic financial institutions. BNM has executed the commodity Murabahah program with Kuwait Finance House Malaysia, Al Rajhi Bank Malaysia, Bank Muamalat Malaysia, Asian Finance Bank, RHB Islamic Bank, CIMB Islamic Bank and EON CAP Islamic bank.

UAE

Consistency, please!

More work needs to be done to eliminate the obstacles impeding the growth of Islamic finance. The governor of UAE's Central Bank, Sultan Nasser Al Suwaidi, has called for more Islamic instruments to regulate the short-term liquidity in Islamic banks.

The banks need to be more transparent in differentiating between dividends paid to investors and shareholders, Sultan stressed. He also added that Islamic bodies need to increase electronic coordination to enable more cooperation between banks, including the creation of common ATM machines and point of sale switches.

"We should also try to improve the efficiency of our financial infrastructure arrangements on a state level to help the flow of capital, investments, trade and tourism transactions between our countries," Sultan commented.

There is growing need for GCC Central Banks to coordinate a response to any US interest rate cut, should it arise, as the dirham is currently pegged to the US dollar, and there are no prospects of a de-pegging.

UAE

IPO scare

The UAE's largest IPO issue yet – at Dh3.17 billion (US$863.07 million) – was 10 times oversubscribed upon closing, despite initially being met with weak demand.

Deyaar had still to process the thousands of share applications which were still flowing in on closure. Total subscribers amounted to 50,000, when tallied during the last minute rush. Pre-closing however, Deyaar, a 100% subsidiary of Dubai Islamic Bank, was expecting a low turnout, having received only four applications a day for its initial public offering at some branches.

The IPO, offering up 55% of Deyaar's share capital at Dh1 (US$0.27) per share, is open to UAE and GCC nationals. It has two tranches – the first for 635.6 million shares, and the second for 2.6 billion shares. The first tranche is for investors subscribing a minimum of 10,000 shares and a maximum of 50,000 shares. The second tranche is open to subscribers interested in 55,000 shares and above.

The IPO's receiving banks and institutions include the Dubai Islamic Bank, National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, Union National Bank, First Gulf Bank, National Bank of Fujairah, Mashreqbank, Emirates Bank, Dubai Bank, Arab Bank, Sharjah Islamic Bank, Dubai Commercial Bank, Commercial Bank International and Standard Chartered Bank.

Refunds and allocations for subscribers in the UAE will commence on the 30th May 2007.

BAHRAIN

Country showcase

The Central Bank of Bahrain (CBB) and Bahrain Financial Services Development of the Economic Development Board are working together to promote Bahrain's edge in Islamic banking at the Bahrain Country Showcase.

The showcase, held on the 14th May, highlighted Bahrain's strengths and initiatives in Islamic finance to a group of potential investors and stakeholders. The regulatory and market development initiatives and environment, including cost, infrastructure and the Bahrain economy were also be put forth.

The Bahrain Country Showcase is in tandem with the Fourth Islamic Financial Services Board Summit, themed "The Need for A Cross-Sectoral Approach to the Supervision of Islamic Financial Services."

MALAYSIA

Simon says

Malaysia is at the forefront of Islamic finance, according to several Islamic countries that are keen to learn from Malaysia. Bahrain, Qatar and the UAE are eager to emulate the Malaysian Islamic banking system.

Nor Mohamed Yakcop, second finance minister of Malaysia, elucidated: "We have proven that we could develop our country using our own formula without sidelining any quarters. Although we've gone through several crises, our economy remains resilient without having to seek aid from the World Bank."

Islamic banking was introduced in Malaysia in 1983.

UK/QATAR

European Finance House

Qatar Islamic Bank (QIB) will set up an Islamic bank in London with an authorized capital of £50 million (US$98 million). The bank has applied to the Financial Services Authority (FSA) in the UK and is awaiting its license.

QIB's London-based unit will be dubbed the European Finance House (EFH), and is due to commence operations in 2007. According to Salah Mohamed Jaidah, CEO of QIB, "This will be a boutique investment bank targeting Islamic financial institutions. It will provide liquidity management services, creating Sukuk of different maturities, and trade finance." EFH also has private banking and asset management services on its list.

EFH's current agenda however, is to issue up to US$250 million in Sukuk.

In related news, QIB expects a profit accretion of 25% this year, to bounce back from the first quarter's 4.7% dip. In addition to QIB's London plan, the bank will also expand to Sudan and Pakistan. On home ground, QIB will set up in the Qatar Financial Center and add 15 more branches to its current 20-strong network over the next three years.

MALAYSIA

Finding the missing link

CIMB Islamic Bank is targeting RM1 billion (US$293.32 million) in financing to qualified business banking clientele for 2007. The bank has fortified its commitment to the Islamic sector with its 55 business centers ready to cater to Shariah needs.

CIMB Islamic also recently entered into a strategic alliance with the Halal Industry Development Corporation (HDC) to jointly develop the halal industry. At the same time, the bank identified Islamic finance as the missing link in the halal market economy.

Badlisyah Abdul Ghani, CEO and executive director of CIMB Islamic, elucidated: "Most halal industry players are financing their activities using conventional riba-based financial instruments. Less than 5% are actually using Islamic finance. Halal must be wholesome and cannot just be at product level. It must also include how business is managed."

CIMB Islamic is fully supportive of the Malaysian government's initiative to position Malaysia as an International Islamic Financial Center, while HDC is bent on establishing Malaysia as an international halal hub. Badlisyah also mentioned that halal certification could also include the requirement for Shariah compliant funding and financing of the Halal business operations.

At the recently organized World Halal Forum, CIMB Islamic revealed that it had already identified potential deals amounting to over RM100 million (US$29.39 million).

EGYPT/BAHRAIN

Fostering links

The Central Bank of Bahrain (CBB) and the Central Bank of Egypt (CBE) have signed a deal to increase ties between the two. The deal will see an exchange of information for training, supervision and technical expertise.

BAHRAIN

Smooth exit

Shamil Bank has made a successful partial exit of its US$50 million United States Development Opportunities Fund I Limited (USDOF I). The exit materialized via the disposition of its Virginia assets within the USDOF I portfolio.

USDOF I – a Mudarabah fund – allowed investors to invest in two condominium projects in Fairfax, Virginia, and Miami, Florida, in the US. The funds, which were subscribed in December 2005, projected a 17% internal rate of return over two years.

Upon its exit from Virginia, Shamil Bank will pay investors close to 55% of their invested capital; 9% more than the bank's expectations during subscription.

Ahmad Tayara, Shamil's head of investment banking explained: "When the assets were acquired, interest rates in the US were still relatively low and the demand for condominium units surged. Later on and in order to curb potential inflation risk, the Fed decided to hike up interest rates."

Shamil Bank converted part of its Virgina-based asset into a luxury apartment block, and put it up for rent. It is now focusing on the sale of the condominium units of its Florida-based asset. On an asset basis, its investors realized close to an 18% internal rate of return.

GCC

Positive predictions

The GCC is expected to see US$585 billion in combined current account surplus for the period between 2005 and 2007. The record amount is set to surpass China and Japan's economies, at US$521 billion and US$437 billion respectively.

The Institute of International Finance (IIF) also reported a rise in GCC assets by US$400 billion since the beginning of the decade, with assets now exceeding US$1 trillion. The majority of the assets are held by state investment funds.

IIF also forecasts the purchase of more than US$450 billion in foreign assets by the GCC up to the end of 2007. However, the IIF stated: "Given the already robust official foreign assets of the oil producers, with their individual capital accounts in surplus, this is not surprising. With little information available, it is difficult to pinpoint the size of the international portfolios of government agencies, let alone their rate of growth."

Things are obviously looking up for the GCC, as Lehman Brothers also reported that GCC countries have become leading international investors, for both portfolio and direct investments.

OMAN

We're not gonna take it!

Alliance Housing Bank (AHBK) of Oman has rejected a US$205 million takeover bid from Bank Muscat. AHBK considers the bid too low.

Bank Muscat offered AHBK US$0.97 per share, at 2.61 times its book value. Akbar Habib, chief executive of Oman National Investment Corporation, which has a 20% stake in Alliance, offered: "We have another bid from a local bank that is offering more favorable terms."

NETHERLANDS/UAE

Possible market beckons?

The Netherlands is interested in mutual investments with Dubai and the UAE, on the back of Dh2.3 billion (US$626.2 million) in non-oil trade achieved in 2006.

According to Menno Snel, deputy general for tax and customs at the Ministry of Finance in the Hague, the Netherlands also has potential to become a halal food transport hub, catering to the 35 million consumers.

Dubai's non-oil trade was boosted by 9% at Dh532 billion (US$144.85 billion) in 2006 due to the country's tax-free policy. The Dutch government has also reduced taxes to 25.5% – significantly lower than European Union standards – and abolished tax on interest rates, royalties and employment gains. Income derived from governmental bodies of the UAE and the Netherlands is also slated to see zero dividends.

MALAYSIA

No more third parties

Malaysia is set to establish a branch of the International Islamic Trade Finance Corporation (ITFC). The ITFC is a trade financing agency under the Islamic Development Bank (IDB).

The ITFC wants to see more trade between member and non-member countries, and to ease trade financing without the input of a third party. Malaysia's induction as a member of the ITFC is in line with the recently passed International Islamic Trade Finance Corporation Bill 2007. The ITFC will also act as the sole agent for trade financing in the Organization of the Islamic Conference (OIC) member countries, eliminating the need for IDB-appointed agencies.

Malaysia will use the US dollar in ITFC operations, as opposed to the ringgit, due to its financial strength. To qualify as a board member of the ITFC, Malaysia will need to invest US$30 million in the corporation's fund.

OIC countries comprise 49% of the ITFC, with 51% made up by IDB members.

PAKISTAN

First for the Dutch

ABN Amro has opened its first Islamic banking branch.

The new Pakistan branch aims to tap into the PKR100 billion (US$1.65 billion) in Islamic assets, and expand the current 3% share of Pakistan's Islamic banking industry.

Jeroen Drost, ABN Amro's chief executive for Asia, affirmed that ABN selected Pakistan as its first choice for Islamic banking due to rising demand for Shariah compliant assets. "We are now seeing demand for [Islamic] financial products and services among our core mid-market client base, and we are responding to that demand through dedicated branches. We are optimistic about the potential, and it will be a multitude of what you see today," he added.

ABN plans to add two more exclusive Islamic banking branches and between six to eight Islamic banking windows. ABN Amro also plans to expand its Islamic banking branches to Dubai, Indonesia and Malaysia.

PHILIPPINES

Any takers?

The 21st May 2007 will see the first and only Islamic bank in the Philippines succumb to privatization. Al Amanah Islamic Bank of the Philippines (AIIBP) was established in 1991.

Al Amanah saw a positive response from the Muslim public upon its opening, with total deposits initially standing at PHP367,350 (US$7,780) in 35 accounts. Bank deposits then leapt by 13 times to PHP4.91 million (US$104,575) in 311 accounts as at the 31st May 1991.

In a region of 3.5 million Muslims, statistically, Al Amanah would have survived as a stand-alone Islamic bank. Islamic Finance *news* got an exclusive with the Central Bank of the Philippines (CBP) to fill in the blanks and forecast the fate of Islamic banking in the Philippines.

In terms of bidders for Al Amanah, the CBP divulged: "The Privatization & Management Office published the Invitation to Bid for a 90% stake of Al Amanah's authorized capital in the national broadsheets. Submission by interested parties of the Expressions of Interest was open from 2nd to 13th April 2007, however, to date, the CBP has not been informed of any interested bidders." How much the bank will make will depend on the volume of un-issued shares sold, based on the amount of the winning bid's price per share, the CBP added.

AIIBP's Privatization Committee, comprising the department of finance, AIIBP representatives, privatization and management office and the Philippine Deposit Insurance Corporation has been mandated to oversee the financials. CBP also revealed that the inevitable re-shuffle in management will be 100% subject to the new owner's discretion.

On the economic viability of a standalone Islamic bank in the Philippines, the CBP was candid: "There is no legal framework at the moment allowing the entry of another Islamic bank into the Philippine banking system. The Al-Amanah Islamic Investment Bank of the Philippines was created pursuant to Republic Act 6848. On the other hand, the General Banking Law of the Philippines provides that the organization, ownership and capital requirements, powers, supervision and general conduct of business of Islamic banks shall be governed by special laws."

MALAYSIA

Talent, you say?

Standard Chartered (StanChart) will expand its staff by 25–30% by 2011. StanChart is also eyeing an Islamic banking license to cater to market demands. With a current 1,900 permanent employees and six expatriates, the bank intends to up its human capital to cater to its plans to open an additional 20 branches within the next eight years.

Rahmat Hashim, human resource country head said that Malaysian talent developed by StanChart Malaysia are recognized internationally, and hired by global StanChart offices. The group currently has over 200 Malaysians working at managerial level and above in the group operations across the globe, with a Malaysian CEO heading its Thailand operations.

To expand its talent pool, StanChart launched its International Graduate program in 1999 and the Banking Apprentice program in 2005 to develop local and international graduates on a global scale.

KUWAIT

Halal expansion

The International Investment Group (IIG) based in Kuwait will sell Sukuk Mudarabah worth US$150 million. The five-year convertible bonds will be used to fund IIG's expansion plans.

IIG has launched a roadshow to market the Sukuk at a periodic distribution equal to the three-year US dollar mid-swap rate. The rate will be determined at the time of pricing. The Sukuk will have a margin of 1.5–2%, and an initial exchange premium range of 35% to 45% based on the volume weighted average price of IIG's ordinary shares as at the 15th May until pricing. It has a five-year tenure, but will be redeemable from July 2010.

The Sukuk will be issued by IIG Funding, a special purpose vehicle established in Jersey. Sukuk-holders will have the right to exchange the Sukuk into shares or a cash-equivalent amount, adherent to its terms and conditions. Its issue price will be set at 100% of the aggregate principal amount.

IIG has applied for listing on the Professional Securities Market of the London Stock Exchange and on the Dubai International Financial Exchange. Its shares are currently listed and traded on the Kuwait Stock Exchange. Barclays Capital is the Sukuk's sole lead manager and bookrunner.

UAE

In the mood to expand

The National Bank of Dubai (NBD) has opened its second Sharjah branch, located in the Samnan area. NBD currently has 40 branches in the UAE, a branch in London, one in Qatar, as well as a representative office in Tehran.

SAUDI ARABIA

Serious about Shariah

In a bid to grow its Islamic finance practice, Allen & Overy (A&O) will establish an associated office in Riyadh, Saudi Arabia, headed by Julian Johansen. The law firm will be associated with Riyadh-based Abdulaziz AlGasim Law Firm.

Abdulaziz AlGasim Law Firm is a local Saudi legal firm known for its expertise and specialization in Islamic finance, corporate matters, capital markets, and cooperative insurance in the Saudi law context.

Commenting on the collaboration, Abdulaziz Al Gasim, managing partner of Abdulaziz Al Gasim Law Firm said: "We are pleased to be in association with Allen & Overy and we consider the association to be a powerful combination of our firm's experience in the field of Islamic finance, Saudi law and Islamic Shariah with that of Allen & Overy's worldwide offices and all of their esteemed clients."

A&O are slated to commence their Saudi Arabian operations in July. (See also Moves, page 25.)

UAE

Just Mashreq

Mashreqbank has re-branded itself to Mashreq. As part of this re-branding the bank has a new logo, in line with its corporate expansion to include business for Islamic finance, high net worth customers and small and medium-sized enterprises.

Abdul Aziz Al Ghurair, CEO of Mashreq, revealed: "We are changing while we are at the height of our performance, to make sure we maintain our market leadership. We are opening the way to a new level of modern banking in an increasingly competitive market environment."

Mashreq's re-branding is the result of a three-year market research program, employee feedback, and defining business goals and objectives. Mashreq has created specific business segments, including Mashreq Gold – a mass affluent tier proposition, a dedicated banking unit for small and medium-sized enterprises, and Badr Al Islami, an Islamic finance company.

Market Rumours

Kuwait International Bank – focusing on real estate – plans to set up in Kuwait this year.

MALAYSIA

Promising profits

Affin Holdings gained RM88.8 million (US$26.1 million) in pre-tax profits for the first quarter ending on the 31st March 2007, marking a 28% rise. Affin's revenue also increased to RM504.41 million (US$148.25 million), from RM427.38 million (US$125.6 million) in the first quarter of 2006.

Affin Bank's pre-tax profits rose to RM71.2 million (US$20.93 million) from RM64 million (US$18.81 million) in the same period last year, RM19.1 million (US$5.61 million) of which was derived from Islamic banking. Lower loan loss provisions and a dip in impairment losses on securities also contributed to the earnings. Affin Investment Bank's pre-tax profit for this period rose to RM23.2 million (US$6.82 million), up from RM11.6 million (US$3.41 million).

BAHRAIN

Sea financing

Marina West and Reef Real Estate Finance Company have signed an MoU confirming Reef Real Estate as Marina West's first Islamic mortgage finance provider.

Under the agreement, Reef will offer Ijarah "lease to own" contracts, with tenures of up to 25 years, to cover property values of up to BD350,000 (US$928,406) per customer. Dr Khalid Abdulla, CEO of Reef, affirmed: "Reef's Islamic financing services will be offered under terms and conditions which benefit the consumer, through a process that ensures the buyers are provided with top level specialist assistance. Throughout the entire ownership process, customers will be advised by Reef's team of real estate finance advisors."

US/UAE

Across the Atlantic

Shariah Capital can now operate from the Dubai International Financial Center (DIFC). The DIFC license means that Shariah Capital's reach now extends to the US, the UAE and the UK.

Eric Meyer, chairman and CEO of Shariah Capital elucidated: "We came to the DIFC because it is an important gateway between East and West and because of its commitment to become a global leader in Islamic finance. Our goal is to align ourselves with institutions like the DIFC that have the foresight and the resources to push to the forefront of this industry."

Shariah Capital will use its DIFC placement to develop Shariah compliant products including liquidity management instruments, principal protection vehicles, Sukuk, equity indexes and exchange traded funds, real estate investment trusts and global real estate funds and private equity strategies.

Next Forum Question

The Asian and Middle Eastern markets are ideally matched to cooperate with each other when it comes to Islamic financing. However, we've not yet witnessed the level of activity between these regions many expected. What needs to change before we see acceleration in transactions between the two?

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 23rd May 2007.

UAE

Different rating standards?

Emirates Islamic Bank (EIB)'s Sukuk has received differing preliminary ratings from Standard & Poor's (S&P) and Moody's Investors Services.

S&P assigned a preliminary long-term rating of A, and short-term rating of A-1 with a positive outlook. S&P based these ratings on EBI's guarantee, and EBI's A/A-1 counter-party credit ratings. If the periodic payments from the co-owned assets were insufficient to meet the required periodic amounts payable to Sukuk-holders, EIB and Emirates Bank International (EBI) will provide the necessary amount to make up any shortfall and meet the issuer's obligations toward Sukuk holders.

Moody's, on the other hand, assigned an A1 rating to the upcoming Sukuk, due in 2012. Under Moody's EIB is rated A1/Prime-1 for long and short-term foreign currency deposits and C- BFSR. Similar to S&P, however, Moody's ratings are premised on EBI's backing.

The Sukuk will be launched by a special purpose vehicle, EIB Sukuk Company, domiciled in the Cayman Islands. EIB Sukuk Company will then enter into a master purchase agreement with Emirates Islamic Bank and bank on EBI guarantee.

GCC

Good times all around

Standard & Poor's (S&P) has raised the ratings of three government-related GCC banks. The National Bank of Kuwait (NBK), National Bank of Abu Dhabi (NBAD) and Qatar National Bank (QNB) have all seen their long-term ratings raised from A to A+, and short-term ratings affirmed at A-1. All banks have a stable outlook.

The upgrades are backed by the banks' robust financial performance despite a dip in local economic momentum. S&P assigned long-term ratings higher than the banks' stand-alone ratings with the confidence that the banks will receive government aid if necessary. NBK's rating is one notch higher, while NBAD and QNB's ratings are two notches higher than the standard.

MALAYSIA

CIMB upgraded

Fitch has revised CIMB Bank's ratings. The bank's long-term foreign currency issuer default rating (IDR) has been downgraded from positive to stable, while other ratings have been affirmed. The affirmed ratings include a long-term foreign currency IDR at BBB+, short-term foreign currency IDR at F2, individual at C, support at 2, subordinated notes program at BBB and deposits at A-.

CIMB Investment Bank's long-term foreign currency IDR have also been integrated with CIMB Bank's, seeing an upgrade to BBB+ from BBB, with a positive outlook. Its subordinated notes have also been upgraded to BBB, with its support rating affirmed at 2.

The positive outlook on CIMB Bank reflects its increased diversification following its merger with Southern Bank, and expected improved contributions from its consumer banking unit. CIMB's balance sheet is expected improve via its growing revenue synergies.

MALAYSIA

Hong Leong stable

Rating Agency Malaysia (RAM) has reaffirmed Hong Leong Industries (HLI)'s RM250 million (US$73.53 million) Bai Bithaman Ajil Islamic debt securities (BaIDS) at A1 with a stable long-term outlook.

HLI's ratings are backed by the solid business fundamentals of its main subsidiaries, via its strong cashflow-generating abilities. This has in turn provided a stable stream of dividend income to HLI. The company's balance sheet is also robust, at a consolidated lease-adjusted gearing ratio eased to 0.9 times as at June 2006. HLI's balance sheet is a testament to its resilience towards the cyclical nature of the manufacturing industry.

Its ratings, however, are moderated by the cyclicality of its semiconductor division, which faces recurring capital expenditure requirements; and uncertainty over potential sanctions. The sanctions are subject to the patent infringement lawsuit filed by Amkor Technology in the US. The group's German motorcycle operations are also struggling as a result of its 2006 restructuring.

THIS TIME LAST YEAR

- **Affin Bank** officially launched **Affin Islamic Bank**.
- **KASB** chose **Misys Equation** to grow its retail banking business.
- **Amanah Capital** collaborated with **Deutsche Bank** to launch the Al Hosin Fund.
- **JS Finance** announced Modaraba Al Makatib, its first real estate Mudarabah business.
- The **Dubai International Financial Center** targeted 20% of the world's investment funds.
- The **Bahrain Monetary Agency** announced regulatory reforms to modernize and strengthen licensing frameworks.
- **Amana Investments** collaborated with **PATH Solutions** to acquire iMal.
- **Dubai Bank** launched Muhafez, a Shariah compliant investment certificate.
- **Abu Dhabi Islamic Bank** launched e-ADIB.
- **Bemo Securitization** closed the first ever Shariah compliant oil and gas securitization at US$165.67 million.
- **The Islamic Development Bank** doubled its capital to US$40 billion.
- **The National Bank of Dubai** obtained approval from the **Central Bank of UAE** to set up an Islamic finance company

Islamic Banking in South Africa

By Ahmed Moola

The African continent often evokes images of poverty, adventure and wildlife. All of these images are based on reality, but there is far more to Africa and the world is now realizing the size of that African opportunity across all metrics, and investing in the significant business opportunities which it offers.

One such investment was the purchase of the leading retail bank in South Africa by Barclays International in 2004. This was at the time the largest foreign direct investment in South Africa and Barclays has since worked hard to deliver value from that investment. It introduced a new approach to credit cards and customer value management and, in March 2006, supported the launch of Absa Islamic Banking, based on research undertaken on the potential of both the local and the African markets. South Africa is home to a million Muslims, which only represents 2% of the population, but together they contribute significantly to the country's gross national product (GNP). There are 400 million Muslims in the rest of Africa, so the Islamic banking opportunity on the continent for Absa and Barclays is significant.

The initial research undertaken into the feasibility of adding an Islamic banking offering to the traditional banking product mix demonstrated the value of delivering niche products to meet the needs of a very diverse client base. The addition of Shariah compliant products also protects the current client base from competitors and disintermediation, it was discovered, while contributing to the achievement of targeted results. Islamic banking adds a new dimension to the offerings of all of the traditional divisions of the bank, while demonstrating commitment and delivery of value to a market that had not previously been able to bank.

Prior to the establishment of Islamic banking within the Absa Group, Muslims in South Africa had the choice of one niche Islamic bank with an extremely small footprint, or limited Islamic products from another major bank. These offerings had not been successful in attracting the majority of South African Muslims to Shariah compliant banking, and most are still now using conventional banking products. This is thought to be a legacy of the history of South Africa, where Muslims were not used to having a choice about the manner in which they conducted their financial affairs.

The first imperative of the new Absa operation in South Africa was the establishment of a Shariah supervisory board. This exercise was pursued with great vigour and the results of that early focus can be seen in the fact that, after only six months in operation, Barclays in the UAE was offering an innovative, Shariah compliant investment product developed by the Absa Islamic Banking team in South Africa. More products are now being explored.

The Shariah supervisory board oversaw the development of a range of products for the local market, including a check account, contractual savings and discretionary saving with a transactional capability, as well as Shariah wills for the personal market. Vehicle and asset finance is offered to both business and personal clients, while transactional accounts and surplus cash management are available to the business market and structured term deposits to institutions and companies.

In addition to this basic product range, the executive team of Absa Islamic Banking rose to the challenge of developing a structured R100 million (US$14.39 million) trade in response to the needs of a particular client at the end of 2006. This entirely new offering, which was delivered in less than two months from approval by the Shariah supervisory board, is a demonstration of the aggressively responsive approach being followed in South Africa. It was recognized by **Islamic Finance** *news* as the 2006 Deal of the Year in South Africa (see Vol. 4, issue 3, page 8).

Currently 58% of the South African Muslim population banks conventionally. Conventional banks in South Africa have or are intending to launch Islamic banking as part of their customer retention strategy, as there is a definite tendency in South Africa for Muslim customers to move to Islamic banking.

The need for Islamic banking products is not yet being fully met in any sector of the market. The demands of business are not yet being matched with appropriate Islamic banking products, leading to limited take-up of those products that are available. Similarly, the need for private banking services has not been appropriately addressed, so private banking clients are still using conventional banking services. As an illustration of this, although all three Islamic banking institutions in South Africa currently offer savings and check accounts and vehicle and asset finance, only one offers a petrol card, one offers trade finance and two offer mortgage bonds, Islamic wills and unit trusts. None currently offer an Islamic credit card, personal loan, or finance for working capital.

Asset management companies that offer Shariah compliant products have to some degree been successful in capturing the unit trust/ mutual fund market.

Islamic banks face a number of challenges in the South African market. Competition is expected to increase significantly during 2007, although education and awareness remain major challenges for all institutions in the Islamic banking market. Geographic footprint is a challenge for niche players in the market. The lack of good geographic spread impacts their ability to reach clients, access appropriate staff, as well as their ability to provide a banking infrastructure in more than a restricted footprint. The current lack of industry expertise is the result of the fact that this sector is in its infancy in South Africa and, as competition increases, the challenge of satisfying the demand for Islamic banking skills will increase.

The slow early uptake of products in South Africa has evolved into a growing demand as more and more customers become aware of the product range and feel comfortable with the products and the robustness of the process.

The South African Islamic banking market is set to expand at a rapid rate as new players identify the opportunities in the country. Those banks which are already established from a product, skills set and customer relationship perspective are well positioned to lead the field.

ABSA

The author is managing director at ABSA Islamic Bank and can be contacted by email on: ahmeedmoo@absa.co.za.

UAE Stock Market - Just Taking a Breather

By SHUAA Capital Research

The year 2007 is expected to be a relatively good one for the UAE stock market. The backdrop of favorable valuation parameters at current levels compared to both the market's own history and to regional and global peers, will prove to be a core driver for the market in this year. Fundamental indicators will be the rule of the game, in the absence of extra-fundamental factors. The core price earnings (PE) ratio of the market and underlying earnings should become more relevant as one-off earnings – which had such a clear impact on 2005 and to some extent into 2006 – start to dissipate in favor of more sustainable operating income.

Core market drivers

Market valuation
At the peak of the market in 2005, the market PE ratio had reached all-time highs of over 40 times 12 months trailing earnings, based on a high component of low-quality non-recurring earnings from high asset price exposure. By the end of 2006, the market PE ratio had retracted to less than 13 times of much higher quality and sustainable earnings. At current levels, the market is trading at the lower end of its historic PE trading range, despite prospects of strong core earnings growth in 2007. This to us represents a compelling case for exposure to the market in 2007. We believe that many investors will share this view as the year progresses.

Earnings on track
The aggregate earnings of UAE-listed companies can be expected to record a positive growth rate in 2007, on the back of almost flat but higher quality earnings last year. The main earnings drivers will include general economic activity, high population growth, higher infrastructure spending, higher contributions from regional and foreign subsidiaries and stable asset prices. The highest growth will come from the real estate, construction and construction materials sector, the non-banking financial and the services sectors. Banking and telecom sectors will also witness a strong year. (See the accompanying article in this issue – Cash Rich and Geared Up to Go – on page 16.) In all, aggregate earnings are forecast to grow by around 14% in 2007 compared to the preceding year. This will not only improve valuation parameters even further in 2007, but will also assure positive new flows for the year.

Macro and internal liquidity drivers
The macro economic environment in the UAE is expected to remain positive this year and beyond, supporting a recovery in the stock markets in 2007. Beyond the direct impact of the continued broad economic growth on corporate performance, we believe that the rude health of the economy will assure that the period of pain in the equity markets will only be brief, and a recovery will be both justified and sustained. Now that the froth has been wiped out of the market, the period of recovery will be initiated early in 2007.

Liquidity, a key historic driver in the UAE market, continues to pile up, despite relatively high inflation. A trio of massive government and economic surpluses and capped interest rates will continue to fuel growth in money supply. This accumulation will be sufficient to support the locally driven arm of a potential market recovery, as liquidity finds its way back into the market after the market proves that it has stabilized.

Alternative drivers
International institutional investors – perhaps the most important wild card greatly impacting the market in 2007, which has until now been obscure – may well be on their way into the market to participate more actively. While interest in the UAE market has been gradually developing from new sources, active broad-based participation – on the scale witnessed in most conventional EMEA emerging markets such as Russia, Turkey or even Egypt – has yet to be seen. What the market needs is a fresh pool of liquidity and new perspective – simple but compelling – to see increased activities.

At this juncture, the UAE would offer a sizeable and liquid equity market by emerging market standards, both to conventional emerging markets funds and other alternative funds. This happens at a time when valuations are at historic lows and below emerging market averages, underpinned by sustainable economic growth, which is among the highest in the world. Profitability growth will remain in double-digit territory, and core earnings drivers are overwhelmingly positive.

There is, however, the potential upside risk to the currency in which the stocks are traded. While the UAE market remains absent from representation on the main emerging equity market benchmarks, namely the MSCI Emerging Market Index, it represents a compelling non-correlated off-benchmark bet. If this argument manages to find many takers in the global institutional investor scene for the rest of this year, then the flows that will result may prove to be the ultimate catalyst for a convincing recovery in the market this year.

Primary market activity

There were no signs that appetite and public reception for initial public offerings in the UAE had been suppressed in 2006, despite the collapse in listed equity prices over the year. Capital-raising activity remained buoyant as a record US$2.17 billion was raised through six public offerings across the three exchanges in the UAE, including the Dubai International Financial Exchange (DIFX). This total exceeded the previous record of US$1.83 billion raised in 2005 through eight public offerings.

Secondary capital raising was also strong, at US$1.6 billion, but was dwarfed by the US$8.37 billion raised on the secondary market in 2005. In total over US$3.77 billion of new equities were raised through public markets in the UAE during the year, corresponding to around 3% of the total market capitalization at the end of 2006.

Secondary market offerings

Nine listed companies raised new equities amounting to US$1.6 billion in the market in 2006. The vast majority of these were commercial banks that had missed out on the capital-raising spree witnessed the previous year. The commonly followed and encouraged practice of offering existing shareholders a deep discount to market prices ensured that they would fully subscribe to the offerings. However, in a down market, the reaction is contrary, as the discounts are merely perceived as a strategy to draw out much-needed liquidity.

continued...

UAE Stock Market - Just Taking a Breather *(continued...)*

What's in store for 2007?

The outlook for the primary market in the UAE remains strong this year. 2007 bodes well for the market as we expect to witness yet another record set for equity raising via public offerings, while secondary market offerings will recede further. In total, we expect over US$5 billion in public offerings, and under US$1 billion in rights issues. Conventional and convertible bond issuance will take precedence over new equity issuance by listed companies.

The premises for these expectations are:

- Announced and likely offerings for the year easily meet our target number, and include such potentially sizeable offerings as DP World, Nakheel and Emirates Post.
- Privatization efforts in the country have barely scratched the surface, and privatization through the public markets is by far the favored route. We expect substantial privatizations, primarily in Abu Dhabi and Dubai, to hit the market in 2007.
- Public offerings of private companies have been artificially hindered by non-conducive stipulations on offering size and valuation. These are under review, and favorable revision can be expected. The timing of implementation of the new law has been notoriously difficult to predict, but if it is introduced in 2007 it is likely to ignite a substantial backlog of private company offerings, similar to what we are witnessing currently in Saudi Arabia.
- The Dubai government support for the prospects of the DIFX may drive a number of offerings in 2007, primarily to list on the global exchange.
- We expect the secondary market to recover somewhat in 2007, which would alleviate some apprehension by issuers about public reception to their offerings.

Things to watch out for

While the case for equities recovering by 20% by the equity benchmark this year is quite convincing, there are impending risks. Potential developments warrant close monitoring as they may have a detrimental effect on the performance of the market going forward. These risks include:

- A steep decline in global oil prices that might act as a dampener on infrastructure spending, headline economic growth figures and general investor sentiment.
- A worse than expected deterioration in commercial banks' asset quality, as the effects of the 2006 market crash swell, or if the real estate market suffers a crash.
- A worse than expected softening in the real estate market, especially in Dubai, which may result in contagion into the equity markets, and bad debts on the banks' books.
- Continued inflationary pressures, especially if the US dollar continues to slide.
- The curse of the Middle East is chronic instability in evolving forms, and the main geopolitical risk affecting the Gulf for 2007 is deterioration in the nuclear stand-off between Iran and the UN or the US.
- It would also be wise to monitor volatility in the Saudi Arabian market for risk of contagion.

Putting it behind US

The UAE market suffered from a severe retraction in 2006, which in our opinion was attributable to:

- Unsustainably high valuations at the market peak (despite the underlying growth) as well as earnings quality issues.
- Prominence of speculative activities driven by retail players utilizing a high degree of leverage.
- Substantial liquidity draws due to massive primary market and secondary market equity issuances in 2005 and early 2006.
- A closed cycle of liquidity, as minimal foreign or non-GCC participation was witnessed in the market.
- Higher local interest rates in 2005 and 2006, driven by a tightening monetary policy in the US.
- The general decline witnessed by other major regional markets.

Conclusion

This year is expected to be a positive one for the UAE stock market after the correction last year weeded out speculative play. Economic and earnings fundamentals will be the drivers to market recovery. Rising interest from foreign investors can be looked forward to. We also expect to witness yet another record year for the primary market in the UAE in 2007, as both the pipeline of and general appetite for public offerings in the country remain strong.

SHUAACAPITAL PSC

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Cash Rich and Geared Up to Go

By SHUAA Capital Research

Most UAE banks have significantly boosted their capital in the past two years to take advantage of the excess liquidity in the economy and to secure the funding necessary to fuel their ambitious expansion strategies. The capital raised has not been fully utilized yet, as evidenced by the high capital adequacy ratios, which are in the 20s for most UAE commercial banks. The Central Bank requires banks to maintain a minimum capital adequacy ratio of 12%, meaning that banks still have ample room for further capital utilization. This excess capital is set to enable banks to implement their expansion strategies, which include branch expansion, infrastructure and project financing, Islamic banking, as well as international expansion.

Islamic banking is set to continue to grow at a faster rate than conventional banking in the region. Many commercial banks such as the Emirates Bank International (EBI) and Abu Dhabi Commercial Bank (ADCB) are either setting up or significantly expanding Islamic banking subsidiaries. This will not only provide them with a blended revenue stream, but also increases competition in the sub-sector once demand starts to slow down. Dubai Islamic Bank, the largest and first Islamic bank in the UAE, is already seeing its cost to income ratio rise, given insufficient revenue growth being generated in the short term to make up for the large expansion-related capital expenditures. Going forward, further product innovation is forthcoming, especially within the wholesale and investment banking segments of Islamic banking.

Capital market-related drivers

Regional stock markets have witnessed a major boom to bust cycle over the past few years. In the process, the market's depth improved with significant initial public offering (IPO) activity and a surge in trading volume. The strong market conditions in 2005 helped banks to boost their income through a number of stock market-related drivers, including brokerage and asset management fees, gains on proprietary investments and income from financing clients' purchase of securities for both the primary and secondary markets. In 2006, the severe downturn in the local stock markets impacted UAE banks' performance in different ways.

While banks continued to generate significant income on the back of leveraging IPO subscriptions, several banks reported losses on proprietary investments and witnessed their brokerage and asset management income fall significantly.

Brokerage

In 2007, brokerage activity is set to benefit from what we expect to be another strong year in terms of primary market activity in the UAE. Brokerage income has been under pressure in 2006, brought on by a host of factors: a 17% decline in annual trading values in 2006, a 50% reduction in brokerage fees effective August 2005 and the entrance of several new brokerage firms to the market. The surge in trading volumes in 2005 had significantly benefited almost all UAE banks with brokerage operations. At that time, the trading value for the Dubai Financial Market (DFM) and Abu Dhabi Stock Market (ADSM) jumped around sevenfold from US$18 billion in 2004 to US$139 billion in 2005.

Asset management

Income from management fees declined significantly in 2006 as the market took a severe downturn, with the SC UAE Index down 42% for the year. In 2007, the UAE stock market is expected recover, enhancing both assets under management (AUM) and income from management fees. There are currently six UAE banks offering proprietary asset management to their clients, while at least three more banks are setting up asset management operations. Banks with proprietary asset management, such as National Bank of Abu Dhabi (NBAD), Emirates Bank International (EBI) and Mashreq, had reported substantial management and performance fees in 2005, due to the surge in the local stock market and liquidity flush in the country.

> "Many commercial banks are either setting up or significantly expanding Islamic banking subsidiaries"

Proprietary investments in listed equities

A number of UAE banks made substantial gains on their proprietary investments in listed equities both in the UAE and regionwide. Investment gains accounted for 19% of total income for listed commercial banks in 2005. Gains turned to losses in 2006 and listed UAE banks reported investment losses that wiped out 5% of total income in the first nine months of 2006. Banks' proprietary investments in securities (fixed income and equities) represented 13% of total assets as at the 30th September 2006. It is important to note that the National Bank of Dubai (NBD) and NBAD – which have above average direct investments exposure – invest primarily in high rated fixed income securities, as opposed to listed equities.

The golden goose

Income from funding IPO subscriptions was the only stock market-related income that maintained its strong contribution to total banking income in 2006. Thus IPOs have been entitled the goose laying the golden eggs. The UAE is almost unique in this phenomenon, as a pre-funding requirement to subscribe to local offerings coupled with a pro rata allocation of offered shares resulted in very strong demand for funding IPO subscriptions, and highly inflated subscription rates.

While a strong flow of IPOs can be expected in 2007, the level of oversubscriptions is likely to decline, as is the contribution of IPO-related income to total income. In 2006, six IPOs in the UAE amounted to Dh7.92 billion (US$2.16 billion), compared to Dh6.69 billion (US$1.82 billion) the previous year. The level of oversubscription, however, declined from the peak of 188 times in 2005 to 111 times in 2006. UAE banks generated massive income on the back of high oversubscription levels. The fees and interest charged by commercial banks on funding IPO subscriptions are estimated to account for almost one-fifth of total income in 2006.

continued...

Cash Rich and Geared Up to Go *(continued...)*

Impact of stock market downturn on asset quality
Non-performing loans are set to grow as borrowers start missing payments due to poorly performing investments. However, most banks are already over-provisioned and the underlying economy continues to be robust. It is worth noting that the Central Bank of the UAE capped share purchase financing to 70% of the market value of shares. Even with the 43% decline in the local stock market in 2006, many positions remain well collateralized from the banks' point of view.

Recent developments in the banking industry

Abu Dhabi Commercial Bank (ADCB)
ADCB is planning to either set up a separate Islamic banking subsidiary or to acquire an existing Islamic bank. In addition, the bank is looking for opportunities to expand into India and China to capture a share of the growing investments between these two countries and the UAE. ADCB is also keen to create a presence in other GCC markets by offering non-banking activities such as brokerage, as this would allow it to bypass the administrative and legal marathon currently required to obtain banking licenses in these markets.

Emirates Bank International (EBI)
Corporate banking accounted for 54% of EBI's operating income in nine months of 2006. This segment also includes a large amount of business with the government, which accounts for 19% of loan exposure. Retail comes in second at 27%. Islamic banking accounted for almost 9% of operating income in nine months of 2006, compared to almost 5% for the full year 2005. Islamic banking has the potential to contribute an even larger share, given its rapid growth and management's plans to increase its focus on this part of the business.

EBI intends to expand its sources of funds through medium-term loans and tier-two capital. This will enable it to fund its expansion program and to alleviate its currently tight liquidity. Management is set to expand the Islamic banking business with its subsidiary Emirates Islamic Bank, boosting its offerings and branch network. It also plans to increase its investment banking and regional exposure by entering the Saudi market, where it already has commercial brokerage operations. Finally, the bank will continue to leverage its position in public sector infrastructure and project financing.

Branch expansion is set to be typical of other major UAE banks, with the exception of Islamic banking. Emirates Islamic Bank should have a minimum of 18 branches by the end of the year and is targeting significant expansion in the future. EBI's most significant regional expansion is in its plans for the key Saudi market. EIB is the only foreign bank with an active brokerage business in Saudi Arabia. The bank is also applying for an investment banking and asset management license in order to boost its offering within the country.

New funding sources are planned to ease the bank's funding constraints, positively impacting the bank's liquidity position and allowing for further project finance lending.

Dubai Islamic Bank (DIB)
Together with local branch expansion mostly in the UAE, DIB is also increasing its international exposure – there are current forays into Pakistan and Sudan and plans for the Saudi, Qatari and Turkish markets. DIB's Pakistani subsidiary is set to increase its branch network from eight to 70 by the end of 2007. DIB also has many general and related investments, such as a 20% share of UAE mortgage lender Tamweel and a 25% share in Islamic Insurance and Reinsurance (AMAN).

> "Income from funding IPO subscriptions was the only stock market-related income that maintained its strong contribution to total banking income in 2006"

Investment banking is a segment that is undergoing significant innovation and therefore has a lot of potential. DIB, a leader in arranging such issues, is expected to put together another US$10 billion Sukuk issuance within the next year. Islamic funds worth US$10 billion raised last December will be invested in Shariah compliant companies.

Given our expectations for the sector, we expect DIB's balance sheet growth to slow down in 2007, but to still grow at a higher rate than commercial banks. The costs of the expansion will continue to put pressure on earnings growth in the short term, but these investments should be the primary growth driver for the longer term.

First Gulf Bank
The bank will need to find new drivers in order to optimize the use of its capital. Areas being considered to fully utilize its capital are real estate and international expansion. Expansion of the branch network is also in the pipeline. The bank is set to expand overseas, given the relatively saturated UAE banking sector, having set up a department to oversee regional expansion, and establishing its first representative office in Singapore. Acquisitions will be next, with markets outside the GCC as targets. There is also the prospect of a capital raise.

National Bank of Abu Dhabi (NBAD)
As the bank with one of the largest brokerage and asset management operations in the country, NBAD's future strategy will focus on organic growth rather than on the acquisition of regional financial institutions. The bank has a large international branch network, including 20 in Egypt, and the most recent one in Kuwait will focus on corporate banking and high net worth individuals. A private banking operation targeting GCC families has just opened up in Switzerland. NBAD is targeting a 5% market share in an area that is currently dominated by international players.

The bank is also planning to launch an Islamic financial services company offering the full range of Islamic investments, due to start operations this year.

Tamweel
Tamweel, one of the two leading mortgage finance companies in the UAE, plans to issue US$300 million in internationally rated asset-

continued...

Cash Rich and Geared Up to Go *(continued...)*

backed securities. This will reduce the tenor mismatch, reduce cost of funds and enable Tamweel to optimize leverage from its balance sheet. The strategy for the future is geographical expansion into other Emirates and other GCC markets.

> "NBAD is also planning to launch an Islamic financial services company offering the full range of Islamic investments, due to start operations this year"

Tamweel has broad-based partnership agreements with over 75 different real estate developers, including Emaar Properties, a significant shareholder of its main competitor Amlak.

Tamweel renewed its request to the UAE Central Bank for an Islamic banking license in September 2006.

Amlak Finance
Amlak has diversified from just financing properties developed by Emaar to include other real estate developers. Amlak and Tamweel collectively hold around 70% of the market, where the home loan market size is estimated at around Dh11 billion (US$3 billion), representing around 2% of GDP. There is further room for growth in real estate as the sector typically represents between 15% and 30% of GDP in other emerging economies.

Unlike its competitor Tamweel, which solely relies on home financing, Amlak has a diversified retail finance portfolio including auto, yacht and shares investment. Amlak is targeting Saudi Arabia and Egypt this year to take advantage of its parent firm's real estate developments there. Amlak has already entered into a joint venture with Saudi Arabia's Dallah Al Baraka Group to establish an Islamic finance company. Similar to its rival, Amlak has applied for an Islamic banking license in order to enable it to receive deposits and gain access to cheaper funds.

Conclusion

With total assets of Dh852 billion (US$232 billion) as at the 31st December 2006, the UAE banking sector is the second largest in the GCC after Saudi Arabia. Most of the large banks in the UAE are poised for expansion regionally either by setting up branches or by acquiring stakes in existing banks. This should diversify their income and provide them with access to less competitive markets relative to the UAE. Islamic banking is set to continue to grow at a faster rate than conventional banking in the region.

SHUAACAPITAL PSC

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The Glass Has Yet to Become Full

By Sabri Abdul Cader

Varing claims have been made on the subject of the current growth rate of the Islamic finance industry. Estimates and projections such as: the Islamic finance industry is growing at an annual rate of 10–15%, 15–20% or 40–50%, with more than 200, 300 or 400 Islamic financial institutions spread throughout the world, and with a market value of approximately US$260 billion, US$500 billion, or, more recently, the US$4 trillion that is expected to be reached by 2010.

Irrespective of what the actual statistics are, what is quite evident is that the Islamic finance industry is growing. Looking at it from another perspective, the exponential growth in the global Sukuk market is a major contributor to such estimations on the entire Islamic finance industry.

All of these ambitious growth figures come from one core source – the excess liquidity that is seeking Islamic finance investment and financing avenues, resulting from oil revenue in the Middle East region.

Today, the GCC markets are enjoying a period of extraordinary growth reminiscent of that of the 1970s' oil boom, but this time the concentration is on construction, infrastructure, services, tourism and economic diversity, as well as a greater private sector role. However, even with such a concentration on developing various aspects of the economy, still there is excess liquidity looking for somewhere to park outside of these countries, leading to institutions from other regions and global banks tapping into these vast liquid funds via Islamic finance propositions.

If you take the top 10 global banks today, six of them are involved in Islamic banking and finance. Why is this so, one might ask. Is it to convert the entire global banking system into an Islamic banking outfit? Certainly not. Instead it is primarily to capitalize on the enormous growth potential and opportunities in the Islamic finance industry, thereby increasing the bottom line and bringing benefits to all the stakeholders of the institution.

The appetite for Islamic finance is indeed high and appealing not only in the GCC or Asian markets, but globally. The key driver is excess liquidity coming from the oil boom and some divestitures from outside.

The growth potential of Islamic finance has yet to be fully explored. The notion that Islamic finance is confined only to Muslims needs to be rectified, as Islamic finance must be portrayed as a system suited for all of mankind. This can only be done by a collective effort between existing players in the Islamic finance industry and those who have the intention to enter the Islamic banking and finance markets. This can be done through organizing seminars, workshops, public lectures, publication of articles in media and conferences.

Educating the masses, organizing workshops and seminars on the fundamentals of Islamic finance through to the latest product innovations, such as the issuance of Sukuk to help fund large infrastructure and revenue-generating national projects around the globe, at the organization's own expense, in some cases, is a bold decision. The lack of an Islamic capital market alternative in some countries implies the vast opportunities that are out there; these initiatives have to begin so that the industry can move forward to the next stage.

> "The growth figures come from one core source – the excess liquidity that is seeking Islamic finance investment and financing avenues, resulting from oil revenue in the Middle East region"

Given this backdrop, a new breed of professional Islamic bankers is being developed to bridge the gap, in whatever ways possible, between the demand and supply of qualified and experienced Islamic bankers to fill the almost 30,000 opportunities in the industry globally by 2010.

There are obviously problems faced by any institution when marketing or promoting products and services in an industry that is new to the local market. However, the biggest challenge is operating in an environment where there is a lack of awareness among the masses, key government ministries and regulatory authorities as to what Islamic banking and finance is all about. This problem is exacerbated in the case of First Global when the enormous industry's growth potential – where the western global banks and the East Asian emerging market players are tapping into this industry on the realization that opportunities exist to uplift their own country by coming out with Islamic finance propositions – remain unclear to many parties in Sri Lanka.

What is happening now is countries such as the UK, with multi-ethnic societies and where the Muslim population is a minority, have entered Islamic finance. The objective of coming out with an Islamic finance proposition is to tap into the riches of the Middle East and certainly has nothing to do with converting the entire nation to Islam.

The perception of Islamic finance in the minds of laymen, professionals, bankers, regulators, investors, entrepreneurs, scholars, teachers and the business community needs to be addressed. This must be a collective attempt to bring about the correct perception of the Islamic finance industry.

An enormous potential for Islamic finance exists through tapping into the excess pool of liquidity in the Middle East, as is currently being done by many Asian counterparts. Indeed, Islamic finance should be

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The Glass Has Yet to Become Full *(continued...)*

portrayed as a solution to many problems countries are encountering – funding revenue-generation projects and infrastructure projects, supporting SME and micro finance projects, creating new employment opportunities through new entities, supporting the corporate sector through structuring Islamic finance solutions. In a nutshell, the sector will, to some extent, provide solutions to some of the economic ills of a country if looked at from a broader and value-neutral perspective.

Many countries in the East Asian region, for instance, have given enough incentives to attract Islamic financial institutions, tweaking their regulatory frameworks in a complementary way to government initiatives and/or the law of the respective country.

Lagging behind this race will cause many to miss out on the large pools of liquid funds that are looking for investment avenues outside the Middle Eastern region. This will thus obstruct the benefits for the country.

Moreover, Islamic finance will support SME initiatives and micro finance projects to uplift the poor in certain countries. The main objective of Islamic finance is not to make the rich richer, but to give financial support to the middle-income groups and the poor, while providing reasonable returns to investors and shareholders.

In conclusion, the important message to the leaders, decision-makers and policy-setters is that the answer to such problems as inflationary issues, unemployment problems, strikes and labor unrest, underdeveloped capital markets, lack of funding for infrastructure and revenue-generating projects, the non-existence of a solid micro finance and SME framework to support the needy – is to consider Islamic finance as a solution to some of these economic ills.

Moreover, they must enter into Islamic finance wholeheartedly to nurture and support the well-being of the country and its entire nation (irrespective of what religion or race they belong to). The incorrect notion that Islamic finance is confined to Muslims only must be removed from the thinking of leaders of those countries where the Muslim community is minority and the notion that Islamic finance is for everyone must be encouraged.

The author is chief operating officer of First Global Group and can be contacted by email on: sabri@firstglobal-group.com. Founded in 1999, First Global Investments evolved into First Global Group, Sri Lanka. The company is involved in Islamic finance, investment solutions and education.

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

Name: Fauzi Saad (CFA)

Position: Managing Partner

Company: 3i Capital Group

Based: Dubai

Age: 42

Nationality: Malaysian

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

I co-founded 3i Capital Group in 1997 after years of working in the industry. After graduating from the US, I worked for a number of world class financial institutions in the areas of venture capital and private equity.

What does your role involve?

As managing partner, I am responsible for setting the goals and objectives of the organization. Working with the three other partners, one in each continent, provides us with unmatched depth of expertise and knowledge of the financial world and its dynamics. For instance, this year the group launched Enmaa' as a global Shariah compliant public mutual fund in order to fill a huge vacuum in the Gulf region. Working with organizations such as HSBC Bank, Emirates Islamic Bank and others provides us with strong credibility, along with a tremendous platform for steady growth.

What is your greatest achievement to date?

To be where we are today is my greatest achievement to date. It is like a building a pyramid where each block is a stepping stone into a higher level. I also take pride in the team of partners and professionals in our organization who support the growing need to provide the best service we can provide to our investors.

Which of your products/services deliver the best results?

Our focus is on two areas. One is investment banking, where we help companies to raise capital through different means to continue to grow. The second is asset management, where we provide the public with mutual funds aimed at achieving capital growth with minimal risk.

What are the strengths of your business?

First, the team. The four partners' tremendous experience and diversified background really are unmatched. The partners are: Yousef Amin (London), Tarek Heiba (US) and Dr Akram Yosri (New York/Dubai).

Secondly, the advisors: Anwar Ibrahim, former deputy prime minister of Malaysia and finance minister, and others on the board.

Thirdly, the strategic partners such as HSBC Bank, Emirates Islamic Bank and The National Investor, amongst others.

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

Our group enjoys a wealth of expertise that lies in two key areas: investment banking and asset management. On the investment banking side, we work with companies not only seeking capital, but also seeking a clearer direction.

We do this on a strictly confidential basis and, in many cases, we play the role of an arranger for large private offerings. Also, the fact that we have a presence in the Pacific rim (Malaysia) and the Middle East (Dubai) provides us with tremendous access to opportunities.

What are the obstacles faced in running your business today?

First is adapting to market conditions and secondly, consumer demands. Volatility in the current market conditions require that we move with caution, but at the same time with aggressiveness.

Also, we find that today's investor is more demanding of profitability and at the same time not as willing to accept risks as in the past. However, we believe that we have found the formula to achieve both objectives at the same time.

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

There is no doubt that this industry will witness unprecedented growth in the next five years. We see signs of that already. The big financial institutions are committing tremendous resources in that direction, and we believe that others will follow suit.

We also see ourselves well positioned to be one of the innovative leaders in the industry.

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

For one thing, the industry as a whole needs to be better positioned by extending the breadth and depth of its product offerings.

Secondly, institutions need to reach out to the market in a more aggressive way at the retail level. For example, our recently launched Shariah compliant fund Enmaa' is the first public fund of its kind in the UAE. It's hard to believe that is the case, but it is.

There is a tremendous opportunity for growth provided that the industry moves in the right direction.

3i Capital Group

3i Capital Group was founded in 1997 as an asset management and investment banking boutique with a focus on innovative product offerings and complex deal-making.

The group has advised and managed in excess of US$2 billion in assets. The firm's client list includes multi-billion dollar international companies as well as banking institutions in the US, Europe, the Far East and the Middle East.

Arcapita Bank

INSTRUMENT	Commodity Murabahah facility
ISSUER	Arcapita Bank
PRINCIPAL ACTIVITIES	Arcapita is headquartered in Bahrain and also has offices in Atlanta, London and Singapore. Arcapita sources high quality alternative investments from around the world, which it distributes among its network of institutional investors and high net worth investors around the Arabian Gulf. The bank has an equity base in excess of US$900 million and operates under an investment banking license granted by the Central Bank of Bahrain. Arcapita has completed investments with a total transaction value of over US$18 billion in its four lines of business: corporate investment, real estate investment, asset-based investment and venture capital.
BOARD OF DIRECTORS	Atif A. Abdulmalik (CEO)
ISSUE SIZE	US$1.1 billion
DATE OF CLOSING	April 2007
MATURITY	5 year bullet repayment
TERM	The commodity Murabahah structure was reviewed and accepted by Arcapita's Shariah supervisory board and is governed by English law.
PROFIT RATE	3 month US$ Libor plus 85 basis points per annum. The facility generated a total demand of more than US$1.3 billion, closing at US$1.1 billion from its initial launch amount of US$500 million.
MANDATED LEAD ARRANGERS AND UNDERWRITERS	Barclays Capital, DBS Bank, European Islamic Investment Bank, Standard Bank, Standard Chartered Bank and WestLB, London branch.
BOOKRUNNERS	Barclays Capital, Standard Chartered Bank and WestLB.
FACILITY AGENT	WestLB
COMMODITY SUPPLIER	Dawnay, Day & Co.
MANDATED LEAD ARRANGERS (PRIOR TO LAUNCH OF GENERAL SYNDICATION)	ABN Amro Bank, The Arab Investment Company, Badr Al-Islami, Mashreqbank, Bank of America, Chase Bank, CIMB Bank, London branch, Citigroup, Credit Suisse, Deutsche Bank, Dresdner Bank, London branch, Fortis Bank, HSBC Bank, ING Wholesale Banking, JP Morgan, Kuwait Finance House Group, Maybank, Mizuho Corporate Bank, Morgan Stanley, Natixis, Riyad Bank, The Royal Bank of Scotland and Societe Generale Corporate & Investment Banking.
SENIOR CO-ARRANGERS	BAWAG, Boubyan Bank and HSH Nordbank Luxembourg.
CO-ARRANGERS	AKA Ausfuhrkredit-Gesellschaft (Frankfurt main), Alpha Bank, Bank of Ireland (Dublin), Bank of Taiwan (Singapore) Burgan Bank (Kuwait), Chinatrust Commercial Bank (offshore banking), Doha Bank, Hua Nan Commercial Bank (London), Islamic Development Bank and Union Tunisienne de Banques.
MANAGERS	Affin Bank, Bank Muamalat Malaysia, Bank of Overseas Chinese, Banque du Caire (Abu Dhabi), First Commercial Bank (Singapore), Land Bank of Taiwan (offshore branch), The Shanghai Commercial and Savings Bank (offshore branch) Tunis International Bank and Union de Banques Arabes et Françaises.
PURPOSE OF SYNDICATION	Proceeds from the facility have been used to prepay, in full, Arcapita's US$210 million multicurrency ArcSukuk due in 2010, and utilized for general corporate purposes. The syndicate of participating banks will form a core relationship banking group for Arcapita for future financing requirements.
RATINGS	Arcapita has an investment grade credit rating of BBB/A-2, with a stable outlook, from Standard & Poor's.

PAKISTAN

Takaful on the way!

Pakistan will soon introduce Takaful under its Shariah compliant Takaful Rules 2005. Takaful companies for life and general insurance will be allowed to operate with a minimum paid-up capital of PKR500 million (US$8.23 million) and PKR300 million (US$4.94 million) respectively.

The companies will be monitored by a three-member Shariah board and the Securities Exchange Commission of Pakistan (SECP). It will also be made mandatory for 10% of the companies' paid-up capital to be deposited with the State Bank of Pakistan.

BAHRAIN

Don't stop me now!

The success of the Middle East insurance market will be judged by how fast local markets adapt to cashing in on opportunities. This can be achieved by surpassing stiff underwriting competition and attracting more human capital, as well as increasing professionalism, the Central Bank of Bahrain (CBB) governor has said.

Governor Rasheed Al Maraj also noted that the establishment of regional offices of international multinational corporations will boost the insurance landscape by providing more regulatory flexibility.

GCC

Great potential

The GCC region offers significant potential for insurers, seeing that it is the 13th largest economy in the world. The GCC's current account also has a larger surplus than China.

In terms of insurance, the GCC market has a slew of untapped product areas, including infrastructure projects, medical and pensions. The governor of the Central Bank of Bahrain, Rasheed Al Maraj, affirmed: "New players can help make the insurance cake bigger as it is not a zero sum game."

INDONESIA

The tariff war

Indonesian Takaful insurers are fighting a tariff war in a competition that mirrors the conventional side of the industry. The rivalry is especially stiff for property and transport insurance.

Syakir Sula, chairman of the Islamic Insurance Society, has called for the setting up of a consortium to further prevent complications. The Association of Indonesian Shariah Insurances has also been mandated to develop an ethical code on premium rates for small covers.

Takaful insurers have been urged to compete with the conventional industry, and to surpass conventional complications.

BRUNEI

Diamond services

In a bid to up its customer service, Takaful BIBD has launched Takaful Diamond Services. Set to be a corporate and preferential client unit, the service will include personal reminders for policy renewal, business transactions, exclusive seating, transactional services and membership cards.

Takaful BIBD will also market its Fire Takaful, Takaful Cahaya Mata for children and Car Financing Protector via the new service.

QATAR/GCC

Unchartered territory

Al Khaleej Insurance & Reinsurance Company (AKHI) wants to establish a Takaful company in the GCC. It is still unknown who the company will cooperate with, its capital base, the date of commencement or the shareholders to be involved.

Standard & Poor's expects the GCC Takaful market to grow by 24 times to US$4 billion in the medium term. Takaful is expected to fill the yawning gaps in the insurance market, provided awareness is increased regarding the sector. Areas such as retail remain relatively untapped.

SAUDI ARABIA

Floating shares

Saudi Arabia's Capital Market Authority (CMA) has granted permission for seven insurance companies to offer up 40% of their shares to the public. Of these, only Al Ahli Takaful will not sell 40%.

The other companies – Sanad for Cooperative Insurance and Reinsurance, Saudi Arabian Cooperative Insurance Company, Saudi–Indian Cooperative Insurance, Gulf Union Cooperative Insurance, Al Ahlia Cooperative Insurance and Allied Cooperative Insurance – will offer up 35.44 million shares in total. The IPO will commence between the 19th and the 28th May.

According to the CMA, Al Ahli Takaful, which has a capital base of SR100 million (US$26.7 million), will instead float 26.45% of its shares.

UAE

Staying healthy

All UAE nationals, expatriates and visitors can now have a health insurance plan. The government has appointed a temporary health insurance policy committee to set standards, regulations and conditions for insurance companies to provide the health insurance services. The body will also assure compliance with related legislations and rules.

Apart from specifying the conditions and services offered and setting premiums, the committee will suggest rules, standards and procedures to settle disputes arising from policy implementation.

SAUDI ARABIA

NCB to launch IPO

The National Commercial Bank (NCB) has signed an agreement to launch Al Ahli Takaful (ATC)'s initial public offering.

The IPO will have a share capital of SR100 million (US$26.66 million), consisting of 10 million shares with a nominal value of SR10 (US$2.66) each. NCB will hold 30% of the shares, with other investors holding 43.55% and the remaining 26.45% being formed by the IPO.

Khalid Allagany, general manager of ATC, affirmed: "Our mission is to create a world class Saudi Takaful company based on Islamic values and principles, combining NCB's local knowledge and cultural understanding of the Kingdom and its peoples with the technical expertise of our partners. We also want to fulfill the needs and expectations of our customers and shareholders."

UAE

Significant increase

Takaful Re has seen a whopping 400% growth in gross written contributions for 2007, amounting to US$9.2 million. This hike is attributed to a good response from Middle East and North African markets.

As at the 31st March 2007, Takaful Re reported a first quarter net profit of US$1.3 million, compared to US$500,000 in 2006. The company's investment income also doubled to US$1.4 million, from US$700,000 in the same quarter in 2006.

Takaful Re's achievement is considered especially good in light of its conservative underwriting policy and the highly competitive market.

GCC

What the industry needs

Sameer Al Wazzan and Ashraf Bseisu, CEO and general manager of Solidarity, respectively, highlighted the challenges in the Takaful industry at the recent Annual Middle East Insurance Forum.

The duo affirmed that a solid infrastructure via the development of market intelligence and professional academic capacities are needed to penetrate different markets. Solidarity also confirmed its commitment to addressing challenges and draft industry expectations in the coming quarters.

SRI LANKA

Law in the way?

Amana Takaful will be suspending all activities related to its proposed bonus issue. The company received a letter from the Colombo Stock Exchange instructing it to suspend its activities, as the new company law has rendered bonus issues redundant. According to the law, firms looking to issue more shares to shareholders will now have to split their shares.

The new company law came into effect on the 3rd May, after the bonus issue was declared.

MENA

Harmonization, please!

Middle East and North African (MENA) governments have been urged to harmonize insurance regulations and legal frameworks to increase insurance penetration.

The MENA region currently sees less than 10% insurance penetration. Although countries like Bahrain and Jordan have well-developed frameworks, many in the region still do not have any insurance laws.

Takaful: The Impact of Recent Natural Catastrophes

By Shuib Samsudin

Islamic Banking & Finance Institute Malaysia (IBFIM) recently held a discussion entitled IBFIM's Great Finance Debate among insurance and Takaful operators on the impact of the recent natural catastrophes to hit the region. This article is a report on that event.

"There is evidence showing that global warming has contributed to the climate changing condition." – Aminuddin Md. Desa, CEO of Mayban Fortis.

Both worldwide, regionally and nationally, the world has been hit by what some say is an increase in natural disasters over recent years. December 2005 saw the tragic Asian tsunami, and Malaysia this year witnessed sudden floods engulf the southern state of Johor. In light of such events, IBFIM's half-day discussion proved to be an excellent platform for the industry, as it was the first time industry players had sat down together and presented their views on the situation. Four prominent industry personalities gave their thoughts, setting the tone for a discussion that was attended by close to 70 participants.

"The question of the need for proper coverage among the population must be addressed quickly, as the current climate model is going for a change" said Syed Moheeb Kamarulzaman, president/CEO of Takaful Ikhlas, who moderated the session. Currently, a concentration of natural disasters is to be found in the Asia-Pacific region, with the region registering a percentage equivalent to 75% of globally registered disasters.

It is crucial that a larger percentage of the population becomes better prepared and educated. It is in this respect that the government should play its role in creating a disaster management system such as FEMA (Federal Emergency Management Agency) in the US and Resilience in the UK. These particular entities play a centralized role in providing a proper emergency management system during a crisis. Currently in Malaysia that role is played by the National Security Division of the Prime Minister's Office.

Swiss Re reported that out of US$48 billion in economic losses reported in 2006, only 33% – or US$15.9 billion – was insured. Unfortunately the data collected for Malaysia is still inadequate. According to a report by the *New Straits Times* in March 2007: "The recent floods in December and January may cost insurance firms about RM100 million [US$29.4 million] in claims". But in the same report it was stated that the flood cost the Government an estimated RM1.5–2 billion (US$441–588 million).

"There is a need for a structured response in managing catastrophes, especially here in Malaysia," said Dr Hj Ahmad Ghiti Mohd Daud, regional director for AAO Pana Insurance Brokers. The overall response to managing catastrophes falls not only on the Government, but also the public and the roles that insurance, Takaful, reinsurance and re-Takaful companies can play.

"We should learn from our past experiences, especially from large-scale catastrophes such as Hurricane Katrina" says Qin Lu, general manager of Swiss Re Kuala Lumpur. "Preventive measures must be in place to weather future events. Using Cat bonds as a tool might help in keeping up with the reserves needed."

However, conventional Cat bonds are non-Shariah compliant because of the existence of gharar (uncertainty) in the instrument. "The need for coverage for natural disasters is a matter of dire necessity and the same argument can be used to make it compulsory," said Dr Aznan Hassan, a member of the Shariah Advisory Council of Bank Negara Malaysia. "As an alternative to a risk transfer mechanism, the usage of derivatives is still debatable. However, for Takaful and re-Takaful operators the utilization of the Waqf model may assist in developing the pool of funds needed in managing such catastrophes," continued Dr Aznan Hassan.

> "The need for coverage for natural disasters is a matter of dire necessity and the same argument can be used to make it compulsory"

"In dispensing these funds, a special purpose vehicle is required in order to distribute it in a timely and accurate manner and also to prevent abuse and misuse of funds" said Dr Hj Mohd Ghiti. The Government may need to set up special entities whose main function is to manage and distribute such funds to the victims.

The answer now lies with the public. Currently the demand for such coverage is low, due to the lack of awareness of the existence of such products. "Another factor we should consider is the premium pricing for such coverage. Thus we require more data on how we could strategically price it, as it must be fair to all parties," said Aminuddin. Adding preventive measures to mitigate economic and human loss is essential in determining the estimated loss. This would contribute greatly to calculating the premium or contribution needed by the insurance and Takaful industry.

For Takaful operators to underwrite such a risk will prove difficult because the pool of funds needed to undertake such risk is huge. A claim being made could lead to some operators declaring insolvency. However, if the operators worked together to create a special fund based on the Waqf model, it would greatly reduce the potential of insolvency among Takaful operators, as well as providing a much-needed service to the public.

The author is from the Institute of Banking & Islamic Finance Malaysia and can be contacted by email on: shuib@ibfim.com.

JP MORGAN – Saudi Arabia

Mohammad Al Tuwajiri will leave HSBC to join JP Morgan Saudi Arabia as managing director and senior country officer. He will be in charge of building client relationships, setting strategic direction and providing leadership for JP Morgan's Saudi Arabia practice.

Mr Al Tuwajiri was previously with SABB–HSBC in Saudi Arabia, where he was group treasurer and board member of HSBC Investment Bank. Mr Al Tuwajiri had been with the bank for 12 years.

SOLIDARITY – Bahrain

Sayed Jawad Mohamed Shubber, assistant general manager for information technology and business development at Solidarity, has graduated from the Gulf Executive Development Program (GEDP).

Held at the Darden University of Virginia, US, the program is a four-week residency involving case studies and projects to enhance executive skills and decision making.

HSBC – Malaysia

Deputy chairman and CEO of HSBC Malaysia, Zarir J. Cama, will bid farewell to his role in June. Mr Cama will be leaving for a more senior post at HSBC London, where he will report directly to the group CEO Michael Geoghegan.

Before he leaves, however, Mr Cama is hopeful that Bank Negara Malaysia will approve HSBC Malaysia's application for a full Islamic banking license. HSBC's Islamic banking assets now stand at 14% – 2% higher than industry standards.

LEHMAN BROTHERS – UAE

In conjunction with the firm's Dubai and Qatar moves, Lehman Brothers has welcomed Saad Djebbar, Hamed Kazim, Taruq Almutlaq and Nader Hamed Sultan onto its Middle East advisory board. The board is set to accelerate the growth of its Middle Eastern financial services.

ALLEN & OVERY – Saudi Arabia

Julian Johansen of Allen & Overy (A&O) will be relocated from the UAE to Saudi Arabia, in line with the establishment of A&O's associate office.

Mr Johansen's legal experience spans Islamic finance, banking, project finance, capital markets and general corporate work. Julian previously worked in Saudi Arabia for two years, and is fluent in Arabic.

UNION OF ARAB BANKS – Bahrain

Renowned banker Adnan Ahmed Yousif has been elected as the chairman of the board of directors for the Union of Arab Banks. Outgoing chairman, Dr Joseph Tarabiah, has successfully completed his term.

Adnan, who is also the president and the chief executive officer of Albaraka Banking Group (ABG), will represent bankers in Bahrain for a three-year tenure. He is a prolific international banker with more than 30 years' experience in international and Islamic banking and was a founding member of ABG. As an active participant in Albaraka, he also holds several key positions in the group's subsidiaries.

STATE BANK OF PAKISTAN – Pakistan

Tariq Sayeed Saigol is a new addition to the State Bank of Pakistan (SBP)'s central board of directors. He is replacing Dr Wasim Azhar, who has come to the end of his term. Mr Saigol will serve a three-year tenure.

In addition, Mohsin Aziz will remain on the SBP's central board, after extending his term for an extra three years.

STANDARD CHARTERED – Singapore

Leonard Feder will now run the global financial markets unit of Standard Chartered in Singapore. He quit as the co-head of Bear Stearn's prime brokerage unit last week.

Mr Feder will conduct strategic oversight of the bank's financial market products and services, and report in to Mike Rees, CEO for wholesale banking.

LINKLATERS – Global

Simon Thompson has been appointed global chief operating officer of Linklaters. He has been promoted from director of information systems and strategy. Mr Thompson is filling a role that has been vacant for the past three years. He will be responsible for the non-fee earning business services within Linklaters, and also for ensuring the implementation of the firm's leadership strategy.

Mr Thompson will now sit on the firm's executive committee, chaired by Tony Angel. Mr Angel, however, is slated to step down in January 2008, making way for Simon Davies.

HLIB – Malaysia

Khalid Mahmood Bhaimia is now the chief operating officer of Hong Leong Islamic Bank (HLIB). He will be working alongside HLIB CEO David Vicary Abdullah.

Mr Bhaimia was previously CEO of RHB Islamic, where he was responsible for transforming RHB's Islamic window into a stand-alone bank. His experience in the Islamic finance industry spans 16 years, and his roles have included CEO of Dallah Albaraka (Europe), and senior positions at Gulf Bank, Citibank Middle East and Hong Kong.

Mr Bhaimia is expected to bring HLIB and the Hong Leong Tokio Marine Takaful businesses to the next level.

ITHMAAR – Bahrain

Ahmed A. Rahim is now Ithmaar Bank's new managing director for its Group Support division.

Ahmed was previously Shamil Bank's general manager for Group Support, and has had 28 years' experience in the banking industry, namely at the National Bank of Bahrain (NBB). At the NBB, he filled the role of manager for foreign exchange and funding, chief internal auditor and assistant general manager for corporate services.

Islamic Bank of Britain – UK

The Islamic Bank of Britain is thought to be looking for a new director of marketing following the departure of sales and marketing director Alun Williams late last year.

Deal *tracker*

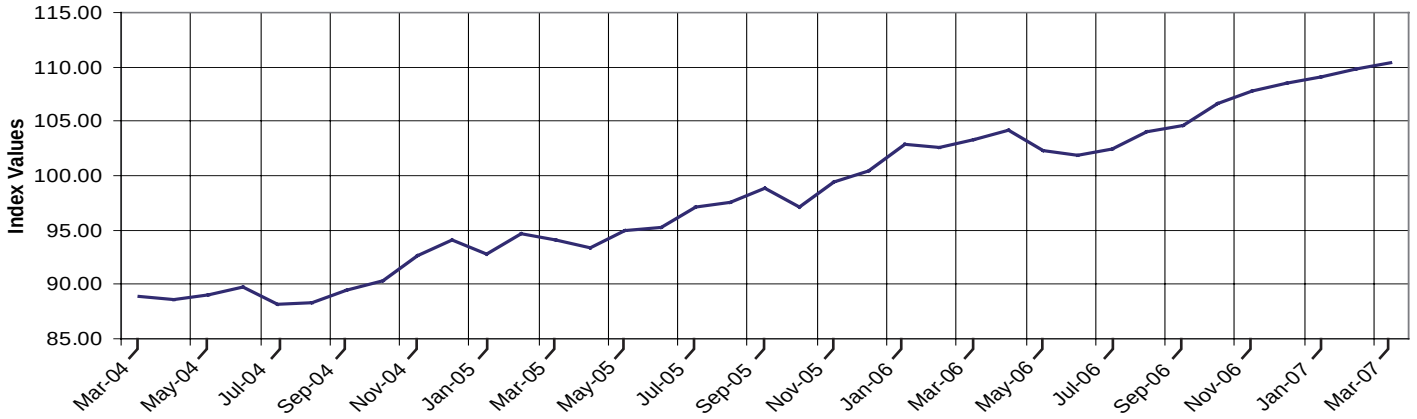
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
Al Imtiaz Investment	US$75–150	Sukuk
Haisan Resources	US$58.79	Sukuk Ijarah
IJM Corporation	US$511.60	Sukuk Istisnah
Ras Al Khaimah Investment Authority	US$400	TBA (Sukuk)
ARAPESONA	US$56.9/US$19.9	ICP/MTN
Bank Syariah Mandiri	US$3.25	Subdebt
Cagamas	US$584.60	TBA
Gamuda	TBA	Murabahah or Musharakah
Saudi Electric Company	US$4,000	Sukuk
MTC	US$1,200	Sukuk
Prolintas	US$170.70	Senior Ijarah/Junior Musharakah
Tomei Consolidated	US$28.50	Islamic Commercial Papers
Sui Southern Gas Co.	US$49	Islamic Commercial Papers
JBIC	US$250 – US$350	Sukuk
Dynamic Communication	US$143.40	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
MTD Infraperdana	US$71.50	Murabahah (CP/MTN program)
Sabah Ports	US$22.90	Bai Bithaman Ajil
Orient Technology Indonesia	US$120	Islamic and conventional bonds (TBA)
Tiong Toh Siong Holdings	US$24.20	Sukuk Ijarah
FACB Industries	US$22.8/US$42.8	Murabahah/ Bai Bithaman Ajil
Tiong Nam	US$83.40	Sukuk Ijarah

For more details and the full list of deals visit
www.islamicfinancenews.com

Eurekahedge Islamic Fund Index



Monthly returns for Global funds (as of 17th May 2007)

	FUND	MANAGEMENT COMPANY	March 07 Return (%)	FUND DOMICILE
1	Zajil – Service & Telecommunications Fund	National Investments Company	13.27	Kuwait
2	Markaz Islamic Fund	Kuwait Financial Centre	8.55	Kuwait
3	Al Safwa Investment Fund	National Investments Company	8.21	Kuwait
4	Al Darij Investment Fund	National Investments Company	7.15	Kuwait
5	Tijari Islamic Fund	Commercial Bank of Kuwait	7.10	Kuwait
6	Danareksa Indeks Syariah	Danareksa Investment Management	7.09	Indonesia
7	ING Ekuiti Islam Fund	ING Funds	6.99	Malaysia
8	Al Rajhi GCC Equity Fund	Al Rajhi Banking & Investment Corporation	5.90	Saudi Arabia
9	Al Dar Securities Fund	ADAM	5.63	Kuwait
10	Frater Islamic Equity Fund	Frater Asset Management	5.28	South Africa
	*Eurekahedge Islamic Fund Index**		*0.62*	

All Islamic Funds

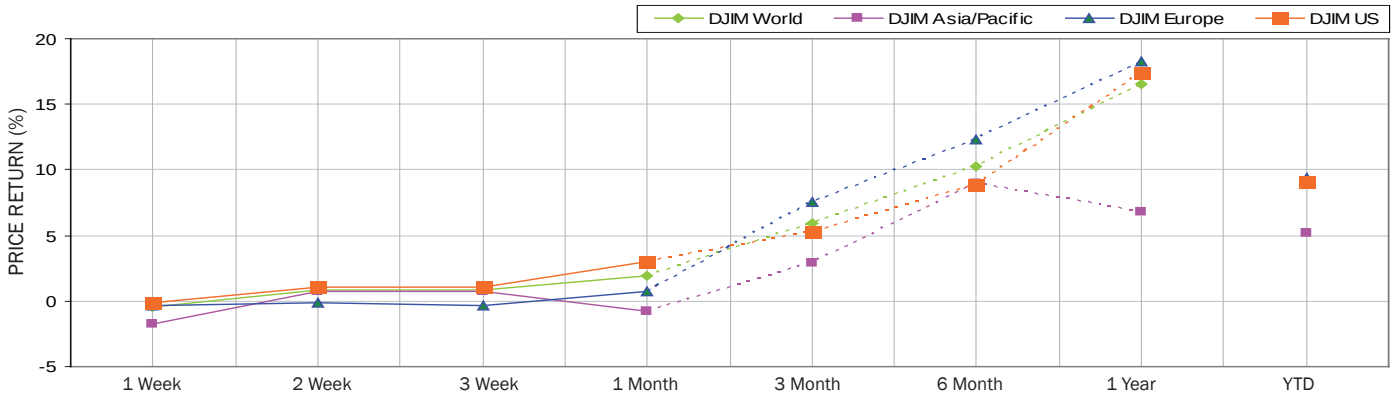
Monthly returns for all funds (as of 17th May 2007)

	FUND	MANAGEMENT COMPANY	March 07 Return (%)	FUND DOMICILE
1	Al Dar Fund of Funds	ADAM	3.88	Kuwait
2	BNP Paribas Islamic Fund Equity Optimiser	BNP Paribas Asset Management	3.17	Luxembourg
3	Crescent Global Equity Fund	Oasis Global Management Company	2.94	Ireland
4	DWS Noor Global Select Equity Fund	DWS Noor Islamic Funds	2.63	Ireland
5	Citi Islamic Portfolio Equity B	Citi Islamic Portfolios	2.60	Luxembourg
6	Citi Islamic Portfolio Equity A	Citi Islamic Portfolios	2.54	Luxembourg
7	EasyETF DJ Islamic Market Titans 100	AXA Investment Manangers	2.19	France
8	Takaful Global Fund	HSBC Insurance Singapore	1.59	Singapore
9	Emirates Islamic Global Balanced Fund	Emirates Bank International	1.49	Channel Islands
10	DWS Noor Precious Metals Securities Fund	DWS Noor Islamic Funds	1.41	Ireland
	*Eurekahedge Global Islamic Fund Index**		*0.45*	

Geographic Mandate = Global

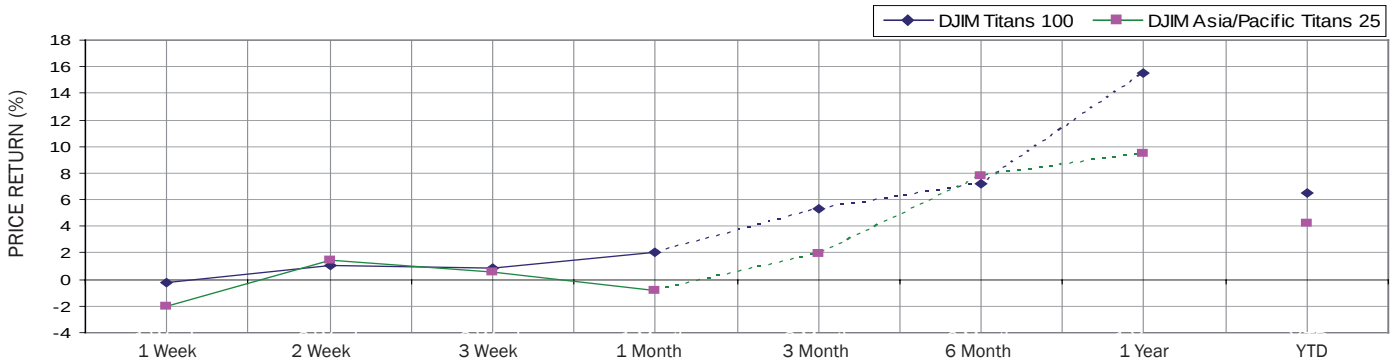
Data as of the 16th May, 2007

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-0.41	0.89	0.85	1.92	5.89	10.3	16.53	9.07
DJIM Asia/Pacific	-1.7	0.73	0.77	-0.73	2.93	9.01	6.79	5.14
DJIM Europe	-0.3	-0.11	-0.35	0.79	7.54	12.35	18.32	9.44
DJIM US	-0.17	1.1	1.09	2.96	5.28	8.89	17.45	9.09

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	-0.25	1.01	0.84	2.06	5.35	7.22	15.51	6.46
DJIM Asia/Pacific Titans 25	-2	1.45	0.52	-0.84	1.97	7.78	9.45	4.24

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2367	18305.65	15524.24	6.56	1.61	463.73	0.01	2.99	0
DJIM Asia/Pacific	945	3277.46	2341.12	2.48	0.6	89.24	0.01	3.81	0
DJIM Europe	356	4860.57	3882.87	10.91	3.25	214.02	0.29	5.51	0.01
DJIM US	725	8636.8	8230.12	11.35	3.13	463.73	0.26	5.63	0
DJIM Titans 100	100	7788.69	7091.97	70.92	48.02	461.9	1.07	6.51	0.02
DJIM Asia/Pacific Titans 25	25	920.14	638.22	25.53	18.19	72.83	7.38	11.41	1.16

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 16th May 2007

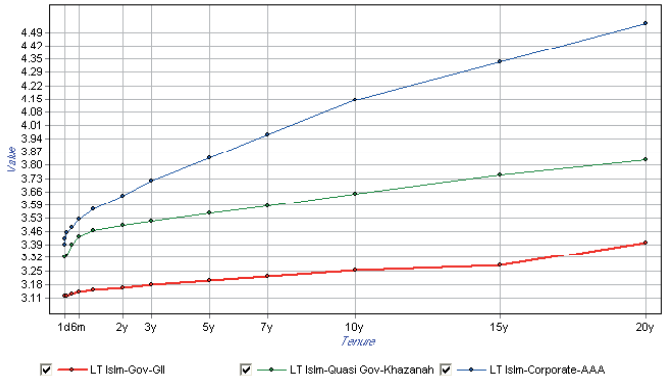
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	9 May 07 (RM)	2 May 07 (RM)	25 April 07 (RM)
Private Debt Securities					
RANTAU IMTN 0% 14.08.2013 – MTN 2	AAA (RAM)	105.94	105.84	105.80	105.76
RANTAU IMTN 0% 15.03.2012 – MTN 3	AAA (RAM)	101.57	101.27	101.23	101.23
RANTAU IMTN 15.03.2011 – MTN 1	AAA (RAM)	102.40	102.16	102.21	102.29
NAB IMTN 6.182% 28.04.2017 – MTN 005	AA3 (RAM)	109.17	107.96	110.36	N/A
NAB IMTN 6.682% 29.04.2022vvvv – MTN 007	AA3 (RAM)	111.94	110.44	114.95	N/A
Government Investment Instruments					
PROFIT-BASED GII 3/2006 15.11.2016	N/A	104.70	104.01	102.58	102.54
PROFIT-BASED GII 1/2007 15.03.2010	N/A	101.05	100.96	100.36	100.37
PROFIT-BASED GII 1/2006 14.04.2009	N/A	101.25	101.17	100.89	100.92
Quasi Government					
CAGABAIS 13/2006 0% 10.08.2009	AAA (RAM)	101.91	101.83	101.83	101.93
IBRD 0.00000% 12.05.2010	N/A	100.22	99.77	99.66	99.66
KHA1/04 1.15B 0-CP 5Y 18.9.2009	N/A	92.29	91.88	91.92	91.88
KHA1/05 1B 0-CP 5Y 18.01.2010	N/A	91.31	91.19	90.80	90.74
KHAZANAH 0% 08.12.2016	N/A	71.01	71.03	70.32	70.53

SPREAD VS GII (in b.p.)

	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.14	3.15	3.17	3.13	3.13	3.13
Cagamas	0.37	0.43	0.45	0.54	0.59	0.65
Khazanah	0.23	0.30	0.33	0.38	0.43	0.47
AAA	0.46	0.52	0.58	0.74	0.86	1.04
AA1	0.60	0.69	0.77	0.97	1.13	1.34
A1	1.54	1.78	1.98	2.42	2.82	3.27

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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

TOP ISSUERS OF ISLAMIC BONDS — MAY 2006 – MAY 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	18.3	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	2,638	3	13.7	Malaysian Government bond
3	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	13.2	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
4	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	975	2	5.1	CIMB, AmMerchant Bank
5	ADIB Sukuk Co	UAE	Sukuk Ijarah	800	1	4.2	HSBC
6	Dubai Islamic Bank	UAE	Sukuk Musharakah	750	1	3.9	Barclays Capital, Citigroup, Standard Chartered
7	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	3.9	CIMB Investment Bank, HSBC Amanah, UBS
8	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	3.9	CIMB Investment
9	Golden Belt 1 Sukuk Co	Saudi Arabia	Sukuk Manafaa	650	1	3.4	BNP Paribas
10	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	627	13	3.3	Cagamas, AmMerchant Bank, Aseambankers Malaysia
11	Cagamas MBS	Malaysia	Sukuk Musharakah	620	7	3.2	AmMerchant Bank, CIMB, HSBC
12	Nucleus Avenue (M)	Malaysia	Cumulative Non-Convertible Islamic Junior Sukuk	496	1	2.6	CIMB Investment
13	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	2.4	Deutsche Bank
14	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	308	20	1.6	AmMerchant Bank, Bank Muamalat Malaysia, MIMB, RHB Sakura
15	MBB Sukuk	Malaysia	Subordinated Sukuk Trust Certificates	300	1	1.6	HSBC, Aseambankers Malaysia, UBS
16	SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	1.2	HSBC
17	Putrajaya Holdings	Malaysia	Murabahah MTN	211	5	1.1	Alliance Merchant, CIMB, RHB Sakura
18	Kuala Lumpur Sentral	Malaysia	Sukuk Musharakah	208	7	1.1	HSBC Bank Malaysia
19	Tabreed 06 Financing Corp	UAE	Sukuk Istisnah	200	1	1.0	CIMB, HSBC Bank Malaysia, Dresdner Kleinwort Wasserstein
20	KMCOB Capital	Malaysia	Murabahah MTN	178	4	0.9	CIMB Investment, United Overseas Bank (Malaysia)
	Total of issues used in the table			**19,277**	**287**	**100.0**	

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TOP ISSUERS OF ISLAMIC BONDS — JANUARY 2007 – MAY 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	19.6	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
2	Malaysia	Malaysia	Islamic Sukuk	996	1	14.1	Malaysian Government bond
3	Dubai Islamic Bank	UAE	Sukuk Musharakah	750	1	5.8	Barclays Capital, Citigroup, Standard Chartered
4	Golden Belt 1 Sukuk Co	Saudi Arabia	Sukuk Manafaa	650	1	5.0	BNP Paribas
5	Cagamas MBS	Malaysia	Sukuk Musharakah	620	7	7.7	HSBC, CIMB, Aseambankers Malaysia
6	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	570	1	4.4	CIMB
7	Nucleus Avenue (M)	Malaysia	Cumulative Non-Convertible Islamic Junior Sukuk	496	1	3.8	CIMB Investment
8	MBB Sukuk	Malaysia	Subordinated Sukuk Trust Certificates	300	1	2.3	HSBC, Aseambankers Malaysia, UBS
9	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	229	10	2.9	AmMerchant Bank, RHB Islamic Bank, MIMB, Bank Muamalat Malaysia
10	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	217	7	1.7	Cagamas, AmMerchant Bank, Aseambankers Malaysia
11	Kuala Lumpur Sentral	Malaysia	Sukuk Musharakah	208	7	1.6	HSBC Bank Malaysia
12	MTD InfraPerdana	Malaysia	Murabahah MTN	174	8	1.3	AmInvestment Bank, CIMB Investment, United Overseas Bank (Malaysia)
13	ABS Logistics	Malaysia	Sukuk Ijarah	88	14	0.7	Deutsche Bank (Malaysia), Hong Leong Islamic Bank
14	Kuala Lumpur Kepong	Malaysia	Sukuk Ijarah	88	1	0.7	Aseambankers Malaysia, CIMB Investment Bank
15	Sabah Ports	Malaysia	Bai Bithaman Ajil Islamic bond	23	8	0.3	Bank Muamalat Malaysia, MIDF Amanah Investment Bank
16	Aeon Credit Service (M)	Malaysia	Bank Guaranteed Musharakah MTN	17	2	0.2	Aseambankers Malaysia, Bank of Tokyo-Mitsubishi (Labuan), CIMB
17	Sui Southern Gas	Pakistan	Sukuk	16	1	0.2	Dubai Islamic Bank, Standard Chartered Bank (India)
18	KNM Capital	Malaysia	Murabahah and Mudharabah Islamic bond	10	2	0.1	Aseambankers Malaysia, AmMerchant Bank, HSBC Bank Malaysia
19	Poh Kong Holdings	Malaysia	Murabahah Islamic bond	9	2	0.1	Aseambankers Malaysia, CIMB
20	Symphony House	Malaysia	Murabahah Islamic bond	7	2	0.1	Affin Bank, CIMB
	Total of issues used in the table			**8,017**	**89**	**100.0**	

ISLAMIC BONDS				MAY 2006 – MAY 2007
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Barclays Capital	2,853	4	14.9
2	CIMB	2,648	58	13.7
3	Malaysian Government bond	2,638	3	13.7
4	HSBC	1,808	22	9.4
5	Dubai Islamic Bank	1,768	3	9.2
6	AmInvestment Bank	1,033	51	5.4
7	Abu Dhabi Investment	843	1	4.4
8	Credit Suisse	843	1	4.4
9	BNP Paribas	650	1	3.4
10	Aseambankers Malaysia	531	29	2.8
11	Deutsche Bank	504	15	2.6
12	Standard Chartered Bank	409	19	2.1
13	UBS	350	2	1.8
14	United Overseas Bank	337	43	1.8
15	RHB Investment Bank	274	54	1.4
16	Citigroup	250	1	1.3
17	Cagamas	217	7	1.1
18	Merrill Lynch & Co	168	1	0.9
19	Bank Muamalat Malaysia	167	39	0.9
20	Kuwait Finance House	154	8	0.8
	Total of issues used in the table	**19,277**	**287**	**100.0**

ISLAMIC BONDS				JANUARY 2006 – MAY 2007
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	CIMB	1,389	24	17.3
2	Barclays Capital	1,093	2	13.6
3	Malaysian Government bond	997	1	12.4
4	Abu Dhabi Investment	843	1	10.5
5	Credit Suisse	843	1	10.5
6	BNP Paribas	650	1	8.1
7	HSBC	411	15	5.1
8	Aseambankers Malaysia	366	15	4.6
9	Standard Chartered Bank	258	2	3.2
10	Citigroup	250	1	3.1
11	Cagamas	217	7	2.7
12	AmInvestment Bank	120	20	1.5
13	Kuwait Finance House	104	7	1.3
14	UBS	100	1	1.2
15	Bank Muamalat Malaysia	69	18	0.9
16	United Overseas Bank	58	8	0.7
17	EON Bank	57	10	0.7
18	RHB Investment Bank	57	10	0.7
19	Deutsche Bank	44	14	0.5
20	Hong Leong Islamic Bank	44	14	0.5
	Total of issues used in the table	**8,017**	**89**	**100.0**

ISLAMIC BONDS BY COUNTRY			MAY 2006 – MAY 2007
	Amt US$ m	**Iss.**	**%**
Malaysia	9,800	272	50.8
UAE	8,485	8	44.0
Saudi Arabia	668	2	3.5
US	168	1	0.9
Kuwait	100	1	0.5
Pakistan	35	2	0.2
Indonesia	21	1	0.1
Total	**19,277**	**287**	**100.0**

ISLAMIC BONDS BY COUNTRY			JANUARY 2007 – MAY 2007
	Amt US$ m	**Iss.**	**%**
Malaysia	4,071	85	50.8
UAE	3,280	2	40.9
Saudi Arabia	650	1	8.1
Pakistan	16	1	0.2
Total	**8,017**	**89**	**100.0**

ISLAMIC BONDS BY CURRENCY			MAY 2006 – MAY 2007
	Amt US$ m	**Iss.**	**%**
US dollar	10,471	14	54.3
Malaysian ringgit	8,750	270	45.4
Pakistan rupee	35	2	0.2
Indonesian rupiah	21	1	0.1
Total	**19,277**	**287**	**100.0**

ISLAMIC BONDS BY CURRENCY			JANUARY 2007 – MAY 2007
	Amt US$ m	**Iss.**	**%**
US dollar	4,230	4	52.8
Malaysian ringgit	3,771	84	47.0
Pakistan rupee	16	1	0.2
Total	**8,017**	**89**	**100.0**

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DATE	EVENT	VENUE	ORGANIZER
May			
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
18th – 19th	The 2nd International Islamic Financial Markets Conference	Bahrain	Islamic Finance events/IIFM
25th – 27th	Islamic Finance and Investment World Europe 2007	London	Terrapinn
25th – 28th	3rd International Islamic Finance Forum 2007	Kuala Lumpur	IBC Asia
July			
2nd – 3rd	International Islamic Banking & Finance Forum 2007	Singapore	Marcus Evans
2nd – 6th	Islamic Markets Program	Kuala Lumpur	Securities Commission
August			
13th – 14th	MIF Forum 2007	Kuala Lumpur	Islamic Finance events
November			
27th – 28th	3rd Seminar on the Regulation of Takaful	Cairo	IFSB

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