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MALAYSIA

Cagamas hits big time

All-round success for Cagamas MBS (CMBS) yesterday as its residential mortgage-backed securities of RM2.41 billion (US$694.72 million) nominal value attracted a book size of RM9.10 billion (US$2.6 billion) from a diverse group of domestic and offshore investors, giving an over-subscription rate of close to four times.

Approximately 51.9% of the bids came from institutional investors, with the remaining coming from government agencies (22.6%), asset management companies (13.9%), insurance companies (11%) and corporates (0.6%) (see Islamic Finance *news*, Vol. 4, issue 31, page 1 for more details).

Despite market jitters in the US sub-prime debt market, investor confidence in the domestic asset-backed securities market was seen from both local and foreign fixed income investors.

SINGAPORE

Trust withdrawn

Arcapita Bank has withdrawn the proposed S$300 million (US$198.29 million) IPO of Arcapita Unit Trust in Singapore. The strengthening of private markets for wind and water assets has caused a widening of the valuation gap between private and public markets, thus disrupting public market expectations. Arcapita thus believe that divesting assets via a listing would be sub-optimal at present.

The IPO had already been registered with the Monetary Authority of Singapore, and was slated to be the first Shariah compliant business to list in the country.

MAURITIUS

Getting down to business

The Mauritian ministry of finance has passed the 2007/2008 bill on tax measures, which encompasses Islamic banking services.

Rama Sithanen, the country's minister of finance, elucidated: "Mauritius has a great opportunity to diversify its financial sectors and provide foreigners with new services in the fields of wealth management and investment. Existing and new banks will be able to provide such services."

Rama added that Shariah compliant institutions are now able to carry out activities under the existing regulations and legal framework for conventional banks.

GLOBAL

All-time Sukuk high

According to latest reports, the global Sukuk market is valued at US$24.5 billion as at the end of June 2007. This marks a 75% growth over last year.

The Malaysian Sukuk market experienced a growth rate of 71.4%, while the international markets have expanded by 83.3% over the last year. Sovereign Sukuk issues also grew by 521% to US$4.4 billion, with Malaysian ringgit-denominated Sukuk accounting for 70% of the market.

In this issue

MALAYSIA

Islamic financial planning

The Financial Planning Association of Malaysia (FPAM) and the Islamic Banking and Finance Institute Malaysia (IBFIM) have received a RM1.15 million (US$331,524) grant from the Capital Market Development Fund (CMDF) to jointly develop a certification program for Islamic financial planning (IFP).

FPAM and IBFIM are, however, still developing the program's course materials, which will consist of six modules over an 18-month period. The grant is expected provide a boost to the program, with course materials now hoped to be ready by the end of the year.

The IFP expects to draw up to 1,000 enrolments in 2008.

GLOBAL

Shariah driven, not just compliant

Asif Mumtz, regional head of HSBC Amanah Middle East, has called for a more proactive regulatory framework to enhance and innovate Islamic financial products. Asif said: "While customer pull, replication mentality and the doctrine of necessity have so far been the main drivers for growth, innovation is required to shift from Shariah compliant products to Shariah based solutions."

Apart from standardization, Asif stressed: "The evolution of the business model is also central to industry development. While the window model has enabled growth of Islamic finance, dedicated Islamic finance entities could be the ultimate model that will take the industry to new heights. Equally important, consolidation to create stronger and competitive Islamic finance providers will also help the industry to grow and build capacity."

Technology plays an integral role in innovation, with Islamic banks needing to break away from conventional banking systems to process Islamic transactions. Asif opined that the use of such systems will have a negative impact on customer experience and Shariah credibility.

Asif concluded: "Key enablers to drive innovation include the development of human assets, which remain one of the key challenges that the industry has to face up to. The future of Islamic banking depends on the training and development of talented professionals. Academic input to formulate a visionary framework for the industry is also mandatory to innovation. In sum, we need to work on effecting a change in mindset from Shariah compliant to Shariah driven products and services."

UK

Cass's new curriculum

Cass Business School, part of The City University, London, has launched its EMBA program for the Middle East region, offering three alternative specializations in Islamic finance, energy and general management and finance.

The program will be taught part-time over a two-year period and will involve the same content as Cass's London-based EMBA, with its first intake set for September 2007.

Dubai International Finance Center (DIFC) governor Dr Omar bin Sulaiman commented: "The boom witnessed in the region has opened the doors to hundreds of thousands of job opportunities, and there is a dearth of qualified professionals in the financial sector. The EMBA from Cass Business School is expected to fill this gap since executives will now have the option to study and work at the same time."

Classes will be delivered by Cass academics who will visit Dubai over a weekend each month. The school's online learning platform – CassLearn – will also be used for online tutorials, group discussion and research.

BAHRAIN/CHINA/INDIA

Courting South-East Asia

AlBaraka Banking has revealed plans to spend up to US$300 million to attract customers in India and China.

Adnan Ahmed Yousif, AlBaraka's CEO, affirmed: "The fund will be spent in four years building the business in Asia and used for acquisitions or to provide capital for our subsidiaries there." The bank is in full gear to compete with conventional banks offering Islamic services in the region, including Standard Chartered, ABN Amro and HSBC.

Western investors have been looking to China and India to diversify capital, as can be seen by Barclays' interest: it intends to start a wealth management team in India this year.

GCC/TURKEY

Political strength backs economy

Turkey's increasing political stability, boosted by the recent win for prime minister Recep Tayyip Erdogan from the Justice and Development Party, has spurred GCC interest in the country. More banks are now following in the footsteps of Citigroup and Dexia, investing in Turkish finance houses.

The National Bank of Kuwait (NBK) is the most recent bank to acquire a 40% stake in the Turkish Bank, a subsidiary of the Turkish Banking Group. This follows the National Commercial Bank (NCB)'s foray into the Turkish market via its 60% equity stake in Turkiye Finans Katılım Bankası (Turkiye Finans) for US$1.08 billion.

In related news, Kuveyt Turk – Turkey's third largest participation bank by assets – is planning a 20% initial public offering, in line with its bid to list on the Turkish stock exchange. Kuvety Turk is 62% owned by Kuwait Finance House and 9% by the Islamic Development Bank, and currently has assets worth TYR3.2 billion (US$2.5 billion). No banks have been appointed to lead the offering.

INDIA

Bank of Punjab goes halal?

The Bank of Punjab (BOP) is on a massive expansion drive to boost its local presence in Pakistan. Apart from growing its network via branches, BOP also plans to tap the Islamic banking market by opening three Islamic subsidiaries this year. The bank is currently awaiting regulatory approval.

BOP has also expressed interest in opening overseas branches, targeting Afghanistan, Central Asia and India.

The last three years saw BOP chart a 98% banking average compared to the entire sectoral growth of 26%. The bank has grown its network from 266 domestic branches to 271 since 2005.

In related news, BOP is in the process of acquiring a stake in the Punjab Provincial Cooperative Bank (PPCB), an agriculture-focused bank. The acquisition is set to add 150 branches to BoP's operation, with management planning to relocate 50% of PPCB's network beyond the Punjab region.

INDONESIA

IDB explores Java

The Islamic Development Bank (IDB) has revealed plans to finance infrastructure projects in Jakarta, totaling US$100 million. According to Yusof Khan, a representative from the IDB's head office, the bank is looking into Jakarta's monorail project and the enlargement of its waste water and garbage treatment installations.

Many, however, feel that Indonesia is unprepared for Islamic infrastructure financing due to lack of Shariah compliant regulations for financing and bonds. Governor Sutiyoso is skeptical: "IDB can provide large amounts of funds but I am pessimistic we can benefit from them because it is our experience that we could not use even Dubai funds because we still lack a law that regulates Shariah bonds."

Yusof, however, stressed that the IDB financing scheme is independent, and not subject to regulatory conditions of the countries it finances. He affirmed: "It is not a problem whether we must back up the financing scheme first or have to wait for the enactment of a Shariah law."

HONG KONG/MALAYSIA

Collaborating to the top

Hong Kong sees Malaysia as a strategic partner in getting its Islamic finance operations off the ground. The country's financial secretary John C. Tsang is optimistic: "Islamic finance is an additional instrument any major financial center should have to deepen and broaden the markets. At the end of the day, people are looking for the best returns and this is one way of doing it."

Tsang will also be meeting Bank Negara Malaysia's Governor Dr Zeti Akhtar Aziz to further discuss Islamic financing prospects, and gain assistance in the legal and accounting sector.

Hong Kong is one of Asia's most vibrant markets, with high liquidity and investment prospects. The country is already working with Malaysia to implement a delivery versus payment (DVP) arrangement to coordinate payment and delivery of securities.

GCC/UAE

Control inflation, please

According to the National Bank of Dubai (NBD), banks are likely to adopt inflationary targeting to control inflation in GCC countries. The NBD stated: "GCC countries must make changes in the exchange rate policy and ensure Central Bank independence. These preconditions are absolutely essential to achieve better results."

Among the steps to consider are the inflation targeting policy (ITP) and a review of the current exchange rate regime to ensure the independence of Central Banks. NBD also noted: "Central Banks in the region need to have autonomy to pursue a clear mandate to achieve low and stable inflation. The Central Banks must also have effective instruments, analytical capacity and a reasonable understanding of how monetary policy affects inflation, in order to respond in a timely manner to inflation pressures."

Innovations in the financial markets have also meant that traditional monetary targeting has become less reliable. Consequently, inflation targeting is considered a more practical – or a less risky – alternative than targeting a monetary aggregate. Moving to a more flexible exchange rate, such as one based on a trade-weighted basket of currencies rather than one pegged against the US dollar, would offer policy makers a number of advantages, according to the report. They include allowing the Central Bank a greater number of monetary tools with which to set policy.

ITP has been successfully adopted by 24 countries, including 16 emerging market economies, and has so far provided policy credibility and flexibility, resulting in low and stable inflation, anchoring inflation expectations and better growth with increased resilience to shocks.

As at the end of 2006, Qatar and the UAE recorded inflation rates of 11.8% and 9.3% respectively, up from 8.8% and 8% in 2005.

EUROPE

The ABN race

Fortis has gained shareholder approval to raise €13 billion (US$18 billion) to up its bid for ABN Amro, as part of a takeover consortium with the Royal Bank of Scotland and Santander of Spain.

The three banks have offered up to €71 billion (US$98 billion) mostly in cash to take over ABN's Dutch operations, pitting themselves against Barclays' €65 billion (US$89.72 billion) offer.

ABN's management have announced a shareholder meeting on the 20th September to discuss the competing offers, which they are set to decide before the bids expire in October. Despite a 20% dip in shares, analysts are confident of a Fortis win due to the bank's commitment to contribute up to €24 billion (US$33.12 billion), thus placing it as one of Europe's largest rights issues.

UAE

EIB's profits rocket

Emirates Islamic Bank (EIB) has recorded a 48% hike in net profits to Dh76 million (US$20.6 million), from Dh51 million (US$13.88 million) in the first half of 2006. This excludes depositors' shares.

The bank's total income grew to Dh401 million (US$109.91 million) from Dh207 million (US$56.36 million), reflecting a 94% growth. Income accretion also contributed to a 126% increase in depositors' share profits compared to Dh167 million (US$45.47 million) last year. EIB's net assets grew by 26% to Dh11.4 billion (US$3.1 billion) from December 2006.

EIB's performance is on the back of its debut international Sukuk International offering under its new Dh1.3 billion (US$353.99 million) Sukuk issuance program.

MALAYSIA

Talented bankers

Demand is rising for Islamic bankers in Malaysia. According to headhunters at Talent2, the Malaysian market is hungry for executive leaders – CEOs and general managers in investment banking, Islamic banking, corporate finance, engineering, IT, enterprise sales, shared services, retail and healthcare. Malaysia has also seen the biggest offshore demand for candidates in Islamic banking, oil & gas and manufacturing.

On the Islamic banking side, TALENT2 International director for South Asia, Leigh Howard, opines: "No headhunter would disagree that in the last few years Islamic banking has been a high growth area both domestically and overseas. Malaysian candidates have been in strong demand as well. However, employers must structure their talent acquisition in a more sophisticated manner. In many industries, particularly in the services sector, people are a company's dominant competitive advantage yet recruitment and human resource departments languish as a back office function."

Leigh also added that more foreign talent could increase diversity and balance losses in the Malaysian job market, while a curriculum makeover in schools to support less traditional courses should be encouraged to diversify the job market.

GLOBAL

For frontier equity markets

Standard & Poor's (S&P) has launched the S&P/IFCG Extended Frontier 150 Index – the first fully investable index for frontier equity markets.

The new index, which contains the largest and most liquid stocks from over 30 developing markets in Asia, Eastern Europe, the Balkans, the Baltics, Africa, the Middle East, Latin America and the Caribbean, will offer exposure to markets previously not considered investable by most fund managers due to size and lack of liquidity.

The new index will draw on data from the S&P Emerging Markets Database, and was launched with constituents from 26 countries, representing an adjusted market capitalization of US$193.3 billion. Colombia, Kuwait, Nigeria, the UAE and Qatar have the highest country weightings in the new index, while Pakistan has the largest number of stocks included. EMAAR Properties, Arab Bank and Kuwait Finance House are among the index's top 10 constituents.

To be included on the index, companies must have a minimum float-adjusted market capitalization of US$50 million and a value traded of at least US$25 million over the preceding six months. The index uses a modified market capitalization scheme to ensure that no country has a weight greater than 15% and no security represents more than 10% of the index.

AFRICA/INDIA

StanChart crosses continents

Standard Chartered (StanChart) wants to show that it is serious about Shariah.

Peter Sands, CEO of StanChart, has affirmed the bank's interest in expanding its Islamic products to cover hedging solutions and Islamic treasury risk management, on top of its recently launched Saadiq account in the Middle East and South-East Asia. Sands also expressed interest in the Indian and African continents, citing large Muslim populations as potential motivation.

The bank reported a 30% leap in interim pre-tax profits to US$1.98 billion, due to overall growth in consumer and wholesale banking. Its Chinese business has more than doubled, with the bank expecting to grow its staff to 1,400 by the end of 2007. Operating profits before impairment for wholesale banking rose 32% to US$1.19 billion, boosted by growth in global markets business.

StanChart shares rose by £0.68 (US$1.38) to £16.38 (US$33.36) as at the 7th August 2007.

UAE

Lawyers together again

After poaching Denton Wilde Sapte (DWS)'s all-star Islamic finance team led by Rahail Ali, law firm Lovells now finds itself on the same side of table as DWS.

Rahail Ali was reunited with his Lovells colleagues when both law firms were mandated lead roles on Qatar's recently launched ALAQARIA Sukuk, worth US$300 million.

The DWS team was led by Matthew Sapte, banking and finance partner, while Rustum Shah led Lovells' team. This is DWS's second Sukuk, following Tamweel's US$210 million issuance in July.

Rahail Ali and his team left in May this year to set up Lovells' Dubai office.

BAHRAIN

Developing the halal way

The Central Bank of Bahrain (CBB) and the Economic and Social Commission for Western Asia (ESCWA), strategic partners for the upcoming "Regional Forum on the Role of Islamic Financial Institutions in Financing for Development," have received sponsors for the upcoming forum, set for the 5th and 6th September in Bahrain.

The Abu Dhabi Islamic Bank (ADIB), Al Baraka Banking Group, Bahrain Financial Services Development, Gulf Finance House (GFH), Kuwait Finance House (KFH) and Shamil Bank have pledged their support to the UN–ESCWA and CBB initiative. The forum will feature prominent local, regional and international experts, focusing on key issues in the Islamic financial market, such as the role of Islamic financial institutions in project finance, venture capital and the role and impact of Sukuk as an instrument for development finance.

Those interested in registering can contact: mice@batelco.com.bh.

MIDDLE EAST

S&P on securitization

Standard & Poor's has released a report entitled "Structured Finance in the Middle East: Promising Indicators for Development," covering legal frameworks for the securitization market in the Middle East.

According to S&P, the trend towards developing financial centers such as the Dubai International Financial Center (DIFC) and the Qatar Financial Center was a positive factor for the broader securitization market. The DIFC, with a zero tax rate on profits, no restrictions on foreign exchange and the possibility of 100% foreign ownership, adds liquidity to the market by easing access for foreign investors. The regulator has based its legal framework on those of Europe, North America and the Far East, making laws more familiar to international structured finance bankers and investors.

As a result, Standard & Poor's has seen growing interest and increasing numbers of enquiries as confidence in this form of financing grows, although volumes are expected to be relatively small in the short term. S&P is, however, confident of Middle Eastern originators turning to securitization to fund their business activities.

QATAR

Tadamon Towers

Qatar Islamic Bank (QIB) will finance the construction of Tadamon Islamic Bank (TIB)'s headquarters in Sudan, at an estimated cost of US$13 million.

TIB is set to have an approved capital of US$1 billion and a paid-up capital of US$500 million, and will involve strategic partners from Qatar and the Middle East. Although not much has been disclosed, it was revealed that a specialized company is currently preparing the financial plan for the establishment and operation of the new bank, while invitations have been extended to Qatari financial establishments, leading entrepreneurs and businessmen to participate as founders of the bank. TIB further reinforces Qatari interest in Sudan.

QATAR/SYRIA

Hybrid bank

Qatar National Bank (QNB) and its Syrian partners have received preliminary approval to establish a Qatari–Syrian bank.

QNB will hold 49% of the new establishment, while Syria's Saving Bank, Popular Credit Bank and the General Institution of Social Insurance will hold a 3%, 2.5% and 10% stake respectively. The balance of the shares will be on offer in Syria.

UAE

Refinancing with DIB

Dubai Islamic Bank (DIB) has launched the Al Islami Home Refinance, allowing customers to convert equity gain from individual property into assets. The product is available to existing property owners in the UAE with freehold land, regardless of mortgage.

DIB will offer financing of up to 85% of the property's value, throughout a 25-year tenure. This facility is also available for property that has yet to be delivered.

QATAR

Al Waseela reopens

Commercialbank's Al Waseela funds have been re-opened for subscription, following their prior success between the 16th April and the 15th July 2007. The funds previously gained returns of 16%, and were launched at par at QR10 (US$2.74) per unit, with a net asset value of QR11.69 (US$3.21) and QR11.65 (US$3.20) for the Q-Class and F-Class notes respectively.

Investors are guaranteed interest of 8% per year on their fixed deposit for five months when they invest a minimum of QR100,000 (US$27,468) – which is currently the highest interest rate payable on fixed deposit in Qatar. On the five-month fixed deposit of QR50,000 (US$13,734), an investor can earn QR1,666.67 (US$457.81) as guaranteed interest. The fund also offers two asset portfolios comprising cash and equities.

60% of the fund has been invested in the Doha Securities Market, with minimal exposure to non-Qatari markets. The Al Waseela Fund is sponsored by The Commercial Bank of Qatar and managed by EFG-Hermes Financial Management (Egypt).

UAE

Borse Dubai

The Dubai government will consolidate its shares in the Dubai International Financial Exchange (DIFX) and the Dubai Financial Market (DFM) in a new holding company – the Borse Dubai.

The new company is expected to facilitate trade for the DIFX and the DFM, allowing both companies to explore joint opportunities in the region. Essa Kazim, chairman of the DFM and now Borse Dubai, affirmed: "Both exchanges will share best practices, maintaining operational efficiency at international standards. Borse Dubai will boost confidence among issuers, investors and intermediaries who will benefit from a presence in both exchanges, as well as a broader and more varied range of services."

DIFX and DFM will, however, continue to be regulated by the Dubai Financial Services Authority and the Emirates Securities and Commodities Authority respectively.

UAE

Amlak in control

Amlak Finance will become a founding shareholder of the Egyptian Mortgage Refinance Company (EMRC) via Amlak Finance & Real Estate Investments in Egypt.

The move reaffirms Amlak's commitment towards the Egyptian mortgage sector. It will also see EMRC acting as a source of long-term funding by handling Egyptian securitizations and developing the country's mortgage industry.

TURKEY

The International Investor refused

The International Investor (TII)'s bid to buy Turkey's ADABANK has been denied by the Turkish Banking Regulation and Supervision Agency DBBK. This was premised upon TII's lackluster financials, despite winning a bid for ADABANK in July 2006 for YTL45.1 million (US$35 million).

TII had planned to convert conventional ADABANK into a participation bank, and subsequently invest US$200 million into Turkey's property market. ADABANK is a relatively small bank, with assets worth YTL45.5 million (US$35.98 million), and currently operates from its sole central office of 60 employees.

This is the second time a foreign bidder has been denied a banking purchase in Turkey, following Dubai Islamic Bank's failure to acquire MNG Bank for US$160 million in 2006.

UAE

K&S on a roll

King & Spalding (K&S) has represented companies in two major financings of late – GulfCap Group's US$446 million acquisition of Dalma Energy and Pramerica Real Estate Investors' Shariah compliant majority stake buy in the European Business Center, worth US$110 million.

Pramerica's debut Middle Eastern financing was funded by the Hypo Real Estate Bank International, and structured Islamically by K&S on a non-recourse basis, while the Dalma Energy acquisition marked the firm's fifth major Middle Eastern transaction in two months – totalling US$1 billion.

Partner Jawad Ali led the K&S team in both transactions. (See Islamic Finance *news*, Vol. 4, issue 27 for a Meet The Head feature on Jawad.)

GCC

Ethics-driven economy

It was reported earlier this week that Islamic finance has become the main driver of GCC markets, with investors fuelling market potential and choosing Shariah compliant companies over conventional ones.

Surprise candidate Kuwait has also begun to make its name in the sector, steadily tracking countries such as Bahrain and Dubai. According to Global Investment House (GIH)'s Shariah index, 41 out of 79 listed Shariah compliant companies are Kuwaiti, with the total market value reaching US$37.2 billion as at end of July 2007.

QATAR

QIB branching out

Qatar Islamic Bank (QIB) will open a new branch on the C Ring Road in Qatar, having signed contracts with the Al Khayareen Trading & Contracting Group and the Arab Engineering Bureau to construct the branch.

The new branch is set for completion in 15 months, and will reflect the bank's new identity. The C Ring Road branch will add to QIB's current total of 16 branches across the country.

QATAR

Barwa financing

Gulf International Bank (GIB) has launched Barwa Real Estate Company's Murabahah financing facility of US$600 million. Initially set at US$500 million, GIB saw oversubscription up to US$725 million, leading them to increase the size of the facility to US$600 million.

The facility will have a one-year tenor, with an annual two-year extension option.

ABC Islamic Bank, First Gulf Bank, Islamic Bank of Asia/DBS Bank, Raiffeisen Zentralbank Österreich Aktiengesellschaft and Samba Financial Group acted as the deal's mandated lead arrangers, while Arab Bank and Maybank acted as lead arrangers, alongside the British Arab Commercial Bank as arranger.

Barwa Real Estate Company is one of the largest publicly listed real estate developers in Qatar, and ranked among the Middle East's top 20 real estate developers with assets of QR11.4 billion (US$ 3.13 billion) as at the 30th June 2007.

UAE

EIB on the Lake

Emirates Islamic Bank (EIB) will provide home financing to potential buyers of Emaar's Ghadeer Townhomes. Sales of the gated community at The Lakes will commence on the 11th August.

EIB's home finance of up to 96% of the townhouse's value will be available on the launch day.

MALAYSIA

Steady power

Mukah Power's RM665 million (US$192.24 million) senior and RM285 million (US$82.39 million) junior Sukuk Mudarabah have had their ratings confirmed at AA3 and A2 respectively, with a stable outlook.

Mukah Power – an independent power producer – is supported by the favorable terms of its power purchase agreement with SESCO, as well as stable counterparties and economics, and strong support from the Sarawak state government.

The ratings are, however, moderated by overriding construction risks given the project's greenfield status, coupled with the company's exposure to single-counterparty risk vis-à-vis SESCO, as well as the possibility of further disruptions. As at the 25th April, the project was 6.48% behind schedule, against the planned 62.54% completion.

MALAYSIA

Murabahah on watch

Malaysian Rating Corporation (MARC) has assigned an A issuer default rating to Englotech Holdings' RM50 million (US$14.42 million) Murabahah medium-term notes. However, the notes have been placed on MARC's rating watch with negative implications.

The negative watch is based on Englotech's inability to sustain a low finance-to-net tangible assets ratio, thus impeding the company's financial flexibility and limiting avenues for alternative sources for working capital.

MALAYSIA

United Growth is stable

RAM Ratings has assigned an AA2 rating to United Growth's proposed RM800 million (US$231 million) Sukuk Musharakah, with a stable outlook.

United Growth is a special purpose company specifically set up as a funding vehicle to raise the proposed Islamic medium-term notes, and is a wholly owned subsidiary of UEM Group.

BAHRAIN

AUB is developing

Ahli United Bank (AUB) has received long-term and short-term counterparty credit ratings of A- and A-2, respectively, with a developing outlook, from Standard & Poor's.

The ratings are premised upon AUB's leading commercial position in Bahrain, its strategic location in the GCC compared to other Middle Eastern countries, improving financials and strong asset quality. In the long run, AUB is expected to receive strong government backing, along with a one-notch uplift above its stand-alone rating.

The developing outlook reflects potential rating actions affected by a major change in AUB's ownership, in light of the bank's US$6.1 million takeover bid from the International Bank of Qatar.

UAE

TAQA outperforms

The Abu Dhabi National Energy Company (TAQA) has been afforded ratings of AA-/A-1 for its long-term and short-term senior unsecured debt for its US$1 billion CP program.

Standard & Poor's expects strong government support to affect TAQA's ratings, as the company is a key player in the Emirate's economy – despite any formal guarantee.

MALAYSIA

IOI reaffirmed

RAM Ratings has reaffirmed IOI Corporation's RM300 million (US$86.54 million) Murabahah commercial papers/medium-term notes at AA2/P1, with a stable outlook.

The ratings are boosted by IOI's steady income backed by its plantation land bank, land held for development and investment properties, with a collective net book value of more than RM3 billion (US$865.57 million).

However, RAM views IOI's management as having a large risk appetite in terms of business expansion, with current debt standing at RM3.66 billion (US$1.05 billion). The cyclical industries in which the group operates in are also subject to price volatility, global demand for and supply of palm oil and other crops, and demand risk.

THIS TIME LAST YEAR

- **The State Bank of Pakistan** revealed that Islamic banking licenses may be granted to new applicants.
- **Bank Negara Malaysia** revealed measures designed to attract foreign investors to Islamic banking in Malaysia.
- **CIMB** revealed it would set up an Islamic finance banking business in Thailand.
- **Standard Chartered Malaysia** introduced an Islamic hedging tool.
- **Qatar Islamic Bank** received orders for over double the stock it offered in a share sale.
- **GFI Group** opened a new Islamic banking and finance broking desk in London.
- **Al Salam Bank Bahrain** posted net profits of US$11.1 million since its operations began.
- **Kenya Commercial Bank** launched the KCB Amana Account.

Malaysia: Turning the Vision into Reality

By Nora Salim

The Islamic capital market has been growing rapidly over the past few years. Although estimates vary, there is little dispute that annual global growth is consistently in double digits.

As at the 31st May 2007, figures published by the Malaysian Securities Commission revealed that the 875 Shariah compliant securities accounted for 84% of those listed on the local stock exchange, Bursa Malaysia. These had a market capitalization of RM685.1 billion (US$198.3 billion), 26% higher than at the end of 2006. This implies that the share of Shariah compliant or Islamic securities was 65% of total market capitalization.

In comparison, as at the end of last year, there were 859 Shariah compliant equities listed on Bursa Malaysia, accounting for 83.6% of the total number of equities listed. These Shariah compliant equities had a market capitalization of RM544.7 billion (US$155.5 billion) and represented 64.2% of total market capitalization. (Please see "Bright Prospects for Malaysian Equities" published in Islamic Finance *news*, Vol. 4, issue 3.)

> "The share of Shariah compliant or Islamic securities was 65% of total market capitalization"

The Kuala Lumpur Composite Index (KLCI), in tandem with the uptrend in global bourses this year, reached an intra-day high of 1,392.18 on the 24th July. The recent decline in the Malaysian market is believed to be sentiment-driven, triggered by the US sub-prime market meltdown. Meanwhile, the Kuala Lumpur Shariah index (KL Shariah) reached its highest point of 198.53 points on the 31st May. Notwithstanding the ups and downs of the market, with an innovative product spread and support from legislation and the Central Bank, Malaysia has captured the imagination of investors and banks to become a key hub for Islamic capital markets in this region.

Malaysian landscape

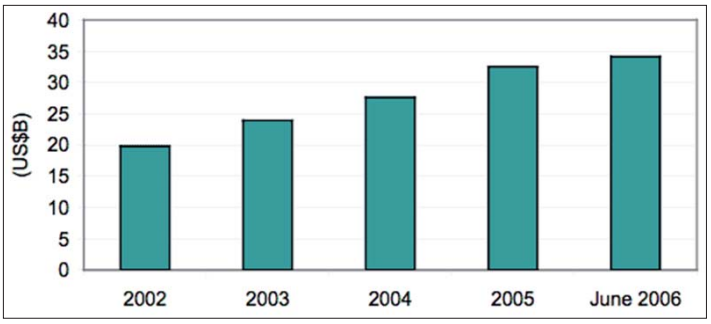
Malaysia operates a dual banking system and is a recognized hub of Islamic finance both regionally and globally. The country's pioneering efforts have led to the development of many innovative products and have also inspired other Islamic markets to follow the Malaysian example. An important factor contributing to Malaysia taking the lead in Islamic finance is its liberal attitude towards the practices of Islamic banking, as well as its acceptance of Islamic regulatory practices in Islamic banking.

Bank Negara Malaysia's Financial Sector Masterplan envisions that the Islamic banking and Takaful industry landscape will evolve in parallel to conventional banking and insurance, constituting 20% of the banking and insurance market share by 2010, making an effective contribution to the financial sector of the Malaysian economy. As at the 31st December 2006, Malaysia's Islamic banking and finance assets accounted for 12% of the total assets of the industry.

High level of government support

One of the primary reasons that Malaysia has been able to establish itself as an Islamic finance hub is its high level of regulatory support in setting Islamic finance standards. Beginning with the introduction of the Islamic Banking Act in 1983, Bank Negara Malaysia has continued to implement policies that actively promote the growth of Islamic finance. Two examples of this can be seen through the government's issue of non-interest-bearing paper, as well as the founding of the Islamic interbank money market.

Islamic financial assets in Malaysia from 2002 to June 2006



Source: Bank Negara Malaysia, 2007

Non-interest-bearing government paper

Realizing that Bank Islam, established in 1983, would not be able to hold government securities or T-bills that paid interest, the government introduced a non-interest-bearing paper which Bank Islam viewed as a loan to the government. A dividend committee, with representatives from the major financial and economic government bodies, was formed to regularly declare rates of return. The rate was determined by a variety of economic factors such as macroeconomic conditions, the rate of inflation and the returns of similar instruments. No fixed formula was set in place, and this practice continues today.

Islamic interbank money market

In 1994, the interbank money market was established, allowing interbank trading of Islamic financial instruments such as Mudarabah interbank investments (MIIs). The program allowed for Islamic banks in need of funds to obtain them from other Islamic banks by issuing profit-sharing certificates for a fixed investment period, from overnight to one year. The profit-sharing ratio is determined in advance, and the principal is repaid at the end of the loan period.

Attracting conventional foreign banks

The Malaysian government provides foreign banks with tax breaks on their Islamic operations and limits the foreign ownership of local Islamic banks to 49%. However, foreign investors can own 100% of the institution if the Islamic financial institution conducts foreign currency business.

It can be seen from the table below that Middle Eastern financial institutions have jumped at the opportunity to be involved in the Malaysian scene, taking active steps to establish operations in Malaysia.

continued...

Malaysia: Turning the Vision into Reality *(continued...)*

Financial institution	Details
Dubai Investment Group	Acquisition of 40% of Bank Islam for about US$240 million in 2006
Kuwait Finance House (Malaysia)	Establishment of independent operations in February 2006
Al Rajhi Bank	Establishment of independent operations in 2006
Qatar Islamic Bank (70%), RUSD Bank (20%) and Global Investment House (10%)	Establishment of Asian Finance Bank (AFB) in February 2007

Islamic versus conventional

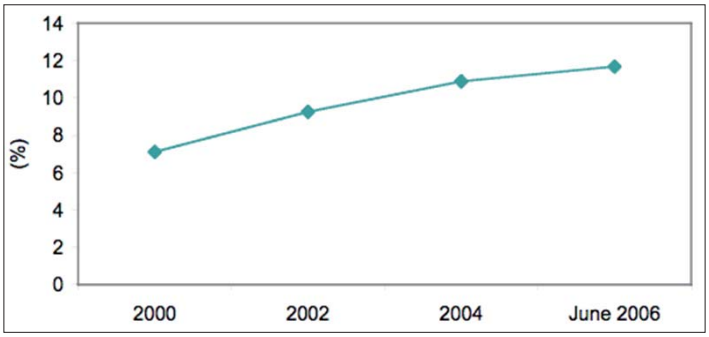
The steady growth of Islamic finance as a part of Malaysia's financial industry has ensured its place as a major player in the Malaysian market. The growth in Islamic banking, in particular, has been so significant that the major Malaysian banks are looking to break out of their current Islamic windows operations and establish stand-alone subsidiaries with a greater scope of services, including investments and private banking.

> "In 2006, the total value of Malaysian Sukuk issues was US$11.7 billion"

Islamic deposits and loans

In terms of Islamic deposit taking and lending, Malaysian banks have also been able to rapidly grow business. Islamic deposits and loans have been increasing due, in part, to the effort banks have put into educating their customer base on Shariah compliant products. The majority of banks providing Islamic products have a detailed and easy-to-read overview of Islamic finance, as well as a breakdown of each of their Islamic products.

Islamic assets as a share of total financial assets (2000 – June 2006)



Source: Bank Negara Malaysia, 2007

Sukuk market

In 2006, the total value of Malaysian Sukuk issues was US$11.7 billion. Reflecting the market's penchant for Shariah compliant financial instruments, Sukuk issues remained fairly dominant this year. In the first half of 2007, RAM Ratings published the ratings of 13 new corporate Sukuk programs, with an aggregate value of more than RM23 billion (US$6.7 billion). Of this, RM12.6 billion (US$3.6 billion) had already been issued as at the end of June, taking up 91% of the entire Sukuk market.

With the continued growth of the Sukuk market, it is only a matter of time before other Malaysian and foreign financial institutions actively seek to take a bigger piece of the Sukuk pie.

continued...

TOP ISSUERS OF ISLAMIC BONDS

	Issuer or Group	Instrument	Amt US$ m	Iss.	%	Manager
1	Malaysia	Sukuk	2,686	3	20.9	Malaysian Government bond
2	Nucleus Avenue	Sukuk Musharakah	1,994	9	15.5	CIMB
3	Rantau Abang Capital	Sukuk Musharakah	975	2	7.6	CIMB, AmInvestment Bank
4	Cherating Capital	Exchangeable Sukuk	850	1	6.6	CIMB, Deutsche Bank, JP Morgan
5	Rafflesia Capital	Exchangeable Trust Certificates	750	1	5.8	CIMB, HSBC Amanah, UBS
6	Projek Lebuhraya Utara Selatan	Sukuk Musharakah	743	18	5.8	CIMB
7	Cagamas MBS	Sukuk Musharakah	620	7	4.8	HSBC, CIMB, Aseambankers Malaysia
8	Silterra Capital	Sukuk Ijarah	530	1	4.1	CIMB, HSBC Bank Malaysia, Citibank
9	Cagamas	BBA Securities	489	10	3.8	AmInvestment Bank, Cagamas
10	Jimah Energy Ventures	Istisnah	437	20	3.4	RHB Investment Bank, Malaysian International Merchant Bankers, Bank Muamalat Malaysia, AmInvestment Bank
11	Lebuhraya Kajang – Seremban	Sukuk Istisnah	413	12	3.2	AmInvestment Bank
12	MBB Sukuk	Subordinated Sukuk	300	1	2.3	HSBC, Aseambankers Malaysia, UBS
13	Kuala Lumpur Sentral	Sukuk Musharakah	208	7	1.6	HSBC Bank Malaysia
14	Mukah Power Generation	Mudarabah/Istisnah	193	24	1.5	RHB Islamic Bank
15	KMCOB Capital	Murabahah	178	4	1.4	CIMB, United Overseas Bank (Malaysia)
	Total		**12,877**	**283**	**100.0**	

Source: Dealogic

Malaysia: Turning the Vision into Reality *(continued...)*

TOP MANAGER OF ISLAMIC BONDS				
	Manager or Group	Amt US$ m	Iss.	%
1	CIMB	4,500	66	34.9
2	Malaysian Government bond	2,686	3	20.9
3	AmInvestment Bank	1,464	55	11.4
4	HSBC	923	23	7.2
5	RHB Investment Bank	481	84	3.7
6	Aseambankers Malaysia	382	20	3.0
7	UBS	350	2	2.7
8	Deutsche Bank	327	15	2.5
9	United Overseas Bank	319	40	2.5
10	JP Morgan	283	1	2.2
11	Cagamas	217	7	1.7
12	Citi	177	1	1.4
13	Standard Chartered Bank	135	18	1.0
14	Bank Muamalat Malaysia	121	28	0.9
15	EON Bank	109	20	0.8
	Total	**12,877**	**283**	**100.0**

Source: Dealogic

CIMB is the Sukuk leader, having arranged seven issues, followed by AmInvestment with four issues and HSBC Malaysia with three Sukuk.

> "Deutsche Bank Research predicted an average annual growth rate for the country of 5.5% between 2006 and 2020 – a higher rate than most other Asian nations"

Where to from here?

The Islamic banking industry is still developing at a rapid pace. We can expect to see Islamic finance issuers actively innovating Islamic financial products. It is only a matter of time before innovative investment products such as bonds, derivatives, hedging and specialized investment vehicles enter the market. Increasing standardization of Islamic banking products is also in the pipeline.

In the Asian region, the continued growth of Islamic finance is evidenced in Pakistan, Indonesia and, more recently, Singapore; all are pushing the development of their Islamic banking practices in order to replicate Malaysia's success. Just this week, the financial secretary of Hong Kong on his first visit to Malaysia expressed interest in learning more about Islamic finance.

Also this week Malaysia has been touted as one of Asia's "growth stars" by Deutsche Bank Research. Deutsche predicted an average annual growth rate for the country of 5.5% between 2006 and 2020 – a higher rate than most other Asian nations, including the rapidly growing China. Deutsche predicted that the world economy would increasingly look to the region, and to Malaysia in particular. Professor Norbert Walter, Deutsche Bank Group's chief economist, also touched on the much-debated shortage in human resources – which particularly affects the Islamic finance industry. He expressed his confidence that Malaysia's young population and the country's understanding of the issue in question would mean that the problem would be adequately resolved going forward.

Going global has not come out of the blue for Malaysia. The Ninth Malaysia Plan, which has extended the Islamic capital market agenda beyond the Capital Market Plan of 2001, is testament to Malaysia's serious intentions of taking the Islamic capital market global. The Malaysia International Islamic Financial Centre (MIFC) agenda, launched last year, signifies the confluence of the vision and strategies, and all policy and regulatory initiatives with respect to taking the entire Islamic financial services forward. The Islamic capital market of Malaysia has entered into its next phase of development and Malaysia is well positioned to meet the increasing challenges of international competition and financial globalization.

Interview with John Doyle, Deputy Chief Investment Officer of UOB Asset Management

By Eurekahedge

OSK–UOB Unit Trust Management (OSK–UOB) manages the OSK–UOB Muhibbah Income Fund, a Shariah compliant global balanced fund which invests up to 60% in Malaysian Islamic debt instruments and money market instruments, and up to 40% in Shariah compliant securities of and securities relating to companies that have dividend and/or growth potential.

OSK–UOB is a joint venture between OSK Group and the UOB Group in Singapore. It commenced operations in 1996 with the launch of its maiden fund, the OSK–UOB Equity Trust. Since then, it has launched 26 other unit trust funds. The total fund size under its management as of the 30th June 2007 is in excess of RM2.9 billion (US$837 million). From 1998 to 2007, OSK–UOB has won 21 awards from The Edge-Lipper Malaysian Unit Trust Awards and Standard & Poor's Investment Funds Award.

UOB Asset Management (UOBAM) is the external fund management company. A subsidiary of United Overseas Bank, UOBAM has grown to be one of the largest local investment houses in Singapore, with total assets under management of over S$25.8 billion (US$17.05 billion) as at the 31st May 2007. UOBAM also has a business presence in Malaysia, Taiwan, Thailand and Brunei.

As at the 22nd June 2007, the OSK–UOB Muhibbah Income Fund had generated returns of 1.89% since its launch (12th March 2007). The fund currently stands at RM73 million (US$21.07 million). We put some questions to John Doyle, the deputy chief investment officer of UOB Asset Management, about this fund.

With regards to the fund and fund manager, how is their approach different from others and what is the overall proposition for investors?

Overall proposition

This product is designed to have a stable and defensive profile which can be a core investment product for investors.

The investment portfolio contains companies that are less interest rate sensitive as they have no exposure to the financial sector and are out of the loop of the global cycle. The companies' characteristics are that they are stable, have low gearing and strong cash flow, which could translate to higher dividends.

The demand for Islamic debt securities is increasing over time. These securities managed to capture a wider pool of investors, including those from the GCC. This translates to better market liquidity, lower yield curve and thus higher total returns. Islamic securities have managed to outperform conventional securities for most of the period.

Fund manager

UOBAM is the external investment manager responsible for the foreign (equity) portion of the portfolio. We have over 20 years' experience and a strong track record in managing global equity portfolios.

The underlying investment philosophy is a bottom-up, fundamentally driven approach. We believe that long-term investment performance can be achieved by employing a rigorous research process to identify companies that are undervalued and that can generate superior returns. In addition a top-down process to review asset allocation adds value to the portfolios.

How frequently are your allocations revised? How liquid is the fund's portfolio and what is the typical holding period of an investment?

The allocations are reviewed quarterly and when there is a change in outlook or fundamentals. The revisions are made based on the reviews. (See the question on asset allocation below for more details.)

Unit trust investments are medium to long-term investments. The fund holds about 5% in cash or equivalents, up to 40% in global Islamic equities and up to 60% in Malaysian Islamic debt securities with a medium-term tenure.

In accordance with the mandate of the fund, we take a medium to long-term view with our investments. Securities are held as long as they remain attractive in terms of valuations, yield and/or growth. A target price or a fair value is set for each security invested in and we will take profit on a security when it has reached its fair value.

From an investor's perspective, they enjoy a regular stream of income which could contribute towards fulfilling part of their liquidity needs.

The fund is designed to provide "regular income from bonds and stocks' dividends, and potentially capital gains." How are these opportunities identified?

The process is largely bottom up. For the fixed income portfolio, the manager performs credit and valuation analysis to identify the risk/cheapness of a particular issue. The manager focuses on yield at an acceptable risk premium to generate regular income while constantly searching for undervalued securities for potential upgrade.

For the equity portion, the research team supports the manager by making bottom-up stock recommendations. These recommendations are aggregated into model portfolios for each major region, which support the firms' global equity products. The manager ensures that the Shariah model portfolio includes securities that are members of the Dow Jones Islamic Index or have approval from the Shariah board. This model portfolio is used to drive the live portfolio.

The OSK–UOB Muhibbah Income's allocations are composed of up to 60–100% Malaysia Islamic fixed income securities and up to 40% global Islamic equities. How are these weights determined and how often are they reviewed?

This fund is intended to be a stable, income-yielding fund with the potential for capital gains in the medium to long term. The fixed income portion is given a slight tilt to provide regular income and stability and to provide an adequate downside cushion in times of an unexpected or severe downturn in equities.

We take into account the macro environment and global economic conditions in positioning the fund's asset allocation. Top-down

continued...

Interview with John Doyle *(continued...)*

perspectives provide some value-added tilts to the portfolios. The top-down assessment of the markets and asset allocation involves a detailed quarterly review of market conditions, risks and valuations to arrive at return expectations across asset classes, regions and sectors in order to establish internal targeted allocations for the portfolios.

In the event that the manager is of the view that equities are attractive in terms of valuations and supported by strong fundamentals, some weight may be shifted away from Islamic debt securities in favor of equities and vice versa. Such flexibility helps to safeguard the investment portfolio.

The fund's financial screens are pivotal elements in the security selection process. How frequently do you perform this analysis and how often would you turnover the fund's portfolio?
Financial screens are run at several levels. At the research level, analysts will run their own sector screens to help generate bottom-up ideas to incorporate into their model portfolio. A second screen is run against the firms' global model portfolio to ensure Shariah compliance in order to compile a global Shariah equity model portfolio. There is no hard and fast rule with respect to portfolio turnover; it is more or less a residual factor to the research process. In general, the firms' global equity funds typically have turnover rates of between 60–100% depending on market conditions.

You have identified three key sectors for the fund: energy, healthcare and technology. What are the key opportunities and challenges associated with investing in these markets? How does your fund manage these?
The three sectors referenced enable us to achieve a fair degree of diversification across sectors that have lower correlation with one another. This enables us to control absolute risk or volatility at the broader portfolio level.

In the case of each sector, there will be differing factors that create opportunities which the analysts will seek to take advantage of. For example in energy, the sector is broadly benefiting from higher oil and refined product prices. The analyst is currently seeking to identify companies with stronger reserve and production growth as well as higher exposure to refining to take advantage of current market conditions. Each sector will be influenced by its own specific factors, which over time will change.

Could you give an example of a typical trade in your fund and the rationale behind it?
We do not have any typical trade, however, we do have typical style characteristics in our investments that should generally dominate. You will tend to see a focus on companies with market leadership, strong growth prospects and better-than-average profitability. Specific trades will be largely driven by changes to our research recommendations, which are bottom-up driven.

Compared to funds that are using similar strategies, are there any differences between your strategy and theirs? What is your element of differentiation?
We will restrict our comments to our fund/strategies.

We are style-agnostic, focusing on finding quality companies at reasonable valuations. These companies should be able to deliver long-term total returns of 15% per annum. Our systematic analysis of companies has consistently generated out-performance, largely attributable to stock selection.

Our portfolio managers are also research analysts for their respective sectors, for which they conduct in-depth company research. Company visits are key in our research work. Secondary sources of information from industry studies, sell-side research, attendance at seminars and conferences provide further data. There is a consistent and high level of interaction among sector specialists.

Our portfolio managers perform fundamental and valuation analysis of companies within their coverage. Specifically they:

- have a thorough understanding of a company's businesses, its earnings and cash flow dynamics;
- are familiar with the industry the company is involved in and monitor developments in the industry as they affect the company's operations and prospects;
- assess the quality of the management and its corporate governance practices;
- value the company's securities based on a sound and thorough understanding of its businesses, growth prospects and competitive position;
- monitor the company's progress and stock performance and update the relevant parties of such developments; and
- recommend securities for inclusion into, or exit out of holdings as and when appropriate, giving justifications.

How is the fund structured to comply with Shariah principles? How often is this reviewed?
The manager receives monthly updates from Dow Jones, which includes all details for the Dow Jones Islamic Index. Any investments made should be from within the benchmark or with the specific approval of the Shariah board. Existing holdings are reviewed monthly to ensure that any changes to the benchmark that may result in a holding becoming non-Shariah are rectified to align with the new policy.

For fixed income instruments, the manager selects from a list of approved Islamic securities issued in the local debt market. All Islamic issuance will have their independent Shariah advisors appointed to ensure that the structuring of the debt issuance complies with Islamic principles. In addition, the Islamic principles used in the structuring need to be disclosed in the Information Memorandum.

Is Shariah compliance considered as part of your investment strategy (ie stock selection, industry screening, etc) or risk management approach (ie audit review, corporate policy, etc)?
Absolutely. As described above, the portfolio manager reviews the portfolio to ensure Shariah compliance. Similarly, the firms' compliance teams will conduct an independent check for compliance.

Overall, what have been the key challenges in developing this offering?
In terms of delivering a global Shariah compliant equity product, there have been no major issues/changes to the firms' research process. However, the model portfolio construction process does differ in accordance with benchmark considerations, and the portfolio management process is designed with additional elements to ensure compliance with Shariah principles, namely via the introduction of a screen for compliance.

Ijarah Financing in Malaysia

By Mahadzir Ahmad

Ijarah is a term of Islamic fiqh. Basically the term Ijarah means to give something on rent, and is used in two instances, as follows:

(i) To employ the service ('amal) of a person on wages given to him as a consideration for his hired service. This is called Ijarah al-a'mal (employment).
(ii) To transfer the usufruct (manfa'ah) of a particular property to another person in exchange for a rent payable to the owner of the property. This is called Ijarah al-manafi' (leasing).

In Islamic finance generally, Ijarah refers to leasing.

Types of Ijarah

Ijarah or leasing can be divided into operating and financial. Operating Ijarah is a lease agreement that does NOT include a promise that the legal title of the leased asset will pass to the lessee at the conclusion of the lease. Financial Ijarah is a lease that concludes with the legal title of the leased asset being transferred to the lessee at the end of the lease.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) refers to a financial lease as Ijarah Muntahia Bittammleek and recognizes four ways to transfer the legal title: (1) as a gift; (2) for a token consideration; (3) for a price equivalent to the remaining Ijarah instalments; and (4) through the gradual transfer of legal title of the leased asset.

Ijarah practices in Malaysia

Ijarah is widely practiced by Islamic banks in Malaysia. The two most common products to adopt the Ijarah concept in their implementation are Islamic hire purchase (HP-*i*) and Sukuk Ijarah. HP-*i* is primarily used to finance motor vehicle purchases and Sukuk Ijarah is a type of Islamic bond used to raise funds in the capital market.

Hire purchase-*i*, also known as Ijarah Thumma Bai, comes under the purview of the Hire Purchase Act 1967. According to Bank Negara Malysia, "the Ijarah principle in Ijarah Thumma Bai underlines that the finance company as the rightful owner of the asset will bear a reasonable risk." But in practice, Islamic banks have successfully reduced the "reasonable risk" to the risk of non-payment only. In this respect, the risk borne by the Islamic banks in HP-*i* is no different from that of conventional financiers. While this can be hailed as a superb risk management feat by Islamic banks (but truly, all praises go the regulator who specified such practices!), the current inequities do not bode well for Islamic finance. Lest we forget, Islamic finance is about establishing a just financial system.

Sukuk Ijarah case study – ABS Logistic

To illustrate the practice of Sukuk Ijarah, we shall look at the RM300 million (US$86.55 million) 10-year issue by ABS Logistic (ABS) completed in May this year.

ABS is a special purpose vehicle (SPV) whose primary functions in general are to: (1) acquire assets identified for lease; (2) administer the assets including leasing the assets to an identified lessee; and (3) issue the Sukuk to finance the assets.

Other than the SPV, from the above three other parties can be identified: the seller of the assets, the lessee and the subscriber to the Sukuk. In this case, the seller is Tiong Nam Logistics Holdings, the lessee is Tiong Nam Logistics Solutions and the subscribers are Deutsche Bank and Hong Leong Islamic Bank (HLIB).

According to ABS termsheet: "the role of the subscribers will be to subscribe or procure subscription, on a best effort basis, for 100% of the Sukuk to be issued. The issue of the Sukuk is conditional upon 100% of the Sukuk being fully subscribed. Once the yield to maturity and final issue size is finalized, Deutsche Bank (Malaysia) and HLIB will inform the Securities Commission prior to the issuance of the Sukuk."

The practice of Sukuk Ijarah is almost identical to asset-backed securitization. The differences lie in the details. For example, each Sukuk (trust certificate) represents an undivided beneficial ownership in the assets, and not simply to evidence indebtedness. Additionally, the sale of the assets to the SPV is structured as a "true sale," meaning there is no buy-back agreement with any of the parties.

Apart from issuing Sukuk, ABS will also collect rental from the lessee for periodic distribution to the Sukuk holders. At the maturity of all Sukuk issued, which coincides with the end of the lease period, the lessee has the option but not the obligation (call option) to purchase the leased assets. If the call option is not exercised, the trustee for the Sukuk holders will initiate proceedings to sell the assets to third parties.

The interests of Sukuk holders in this case are represented by Pacific Trustees, an independent trustee, to ensure that ABS performs and discharges its duties and obligations under the Sukuk scheme.

The proceeds from the asset sale will be used to redeem the Sukuk and each Sukuk holder will get back their initial investment, thus completing the investment cycle.

Conclusion

Despite the far-from-perfect state of HP-*i* currently, the successful application of the classical Ijarah al-manafi' concept to the Sukuk Ijarah scheme is an innovation that Islamic finance proponents can be proud of.

Yes, of course one can find fault in the current practices of Sukuk Ijarah if the details are studied critically, but Sukuk Ijarah is proof that modern-day securitization schemes can be free from ribawi practices.

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Case Study – Dar Al-Arkan Sukuk Ijarah

By Naveed Khan

On the 31st July 2007, the Labuan International Financial Exchange (LIFX) saw its first listing by a Saudi corporation. The US$1 billion trust certificates listed were issued by Dar Al-Arkan International Sukuk Company (DAAIS) (the issuer) a limited liability company incorporated in the Cayman Islands. This is by far the largest Sukuk to be listed on LIFX and it was structured according to Shariah principles.

ABC Islamic Bank, Arab National Bank, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank, Kuwait Finance House (Malaysia) and Unicorn Investment Bank were the mandated joint lead managers and joint bookrunners of the transaction. Unicorn Investment Bank was also the Shariah and structuring advisor. AmInternational (L) is the LIFX listing sponsor for the Sukuk.

Background

Established in 1994, Dar Al-Arkan Real Estate Development Company (Dar Al-Arkan) is one of the largest residential real estate developers in Saudi Arabia. Dar Al-Arkan aims to provide affordable, international standard housing solutions to middle income families across Saudi Arabia. The company has been assigned a corporate rating of A- by Capital Intelligence. Dar Al-Arkan is headquartered in Riyadh and has branch offices spread across Yanbu, Khobar, Madinah, Makkah and Jeddah. Its specialty is in land sale and development, building residential units and real estate investment in Saudi Arabia. The top three major shareholders of Dar Al Arkan are Abdullatif Al Shelash, Abdulaziz Al Shelash and Global Investment House through its Global Opportunistic Fund I.

In 2006, Dar Al Arkan began constructing 6,000 residential units, the first phase of its plan to build 65,000 residential units in the Kingdom by 2009. These first units consist of the Al Qasr project in Riyadh (4,000 residential units on 816,000 square meters), Al Tilal in Madinah (500 residential units) and Al Abrar Towers in Makkah (500 residential units). The company has also begun the Shams Al Riyadh Project, to consist of 8,000 multi-sized apartments at an expected cost of SR6 billion (US$1.6 billion) and Al Mashaer Towers, to consist of seven 12-floor towers.

Transaction overview

Structure

The transaction was structured as a 5-year Sukuk Ijarah. Under a purchase agreement, certain assets which have been pre-identified were sold to Sukuk Al Asoul Company, a limited liability company incorporated in the Kingdom of Saudi Arabia (Saudi SPV). (Please see the chart overleaf.)

Purchase and RERT agreements

The Saudi SPV purchased from Dar Al-Arkan the title to certain land and developments within the Shams ArRiyadh Zone 1, Shams ArRiyadh Zone 2 and Al Maseef compound, each located on the outskirts of Riyadh (the property).

Saudi SPV then sold to the issuer, DAAIS, the rights and interests in and to the property, allowing the issuer to bear the related risks and rewards. Proceeds from the issuance of the certificates are used to pay the aggregate purchase price of the Sukuk assets to Saudi SPV according to the terms of the RERT agreement.

> "This is by far the largest Sukuk to be listed on LIFX and it was structured according to Shariah principles"

Sukuk assets

The Sukuk assets initially comprised certain rights and interests over the property. These include the right to appoint a servicing agent in relation to the property. Neither the lead managers nor the listing sponsor are responsible for the value of the Sukuk assets. Dar Al-Arkan has the option to substitute the property, in certain circumstances, in whole or in part on any periodic distribution date.

The substitute Sukuk asset will comprise Saudi SPV's rights and interests arising out of the substitute property. Certificate holders are not in any way materially prejudiced should such substitution occur.

Lease

Under the terms of the lease agreement, the property comprising the Sukuk asset is leased for a term of five years, comprising 20 consecutive lease periods of three months each. The rental payment equals the periodic distribution amounts payable on the periodic distribution date.

Servicing agency agreement

Dar Al-Arkan in its capacity as the servicing agent will, among other things, be responsible for the performance of and/or payment in relation to major maintenance and structural repair, proprietorship taxes (including zakat) and insurances on the property and/or Sukuk assets.

Obligor purchase undertaking

As the obligor, Dar Al-Arkan purchased the property or substitute property at the exercise price, following the issue of a notice from Saudi SPV.

SPV purchase undertaking

The SPV obligor purchased the Sukuk assets at the exercise price of an aggregate of US$1 billion plus any due but unpaid periodic distribution amount.

Obligor purchase undertaking

The SPV obligor and the guarantor constitute direct, unconditional and unsubordinated obligations of each of those parties.

Guarantee

Dar Al-Arkan guarantees the payment obligations of the SPV obligor.

continued...

Case Study – Dar Al-Arkan Sukuk Ijarah *(continued...)*

Covenants agreement
The terms of a covenants agreement (between the issuer, Saudi SPV, shareholders of Saudi SPV and the custodian) stipulate that:

(a) Saudi SPV acts according to the instructions of the issuer and/ or the transaction administrator;
(b) Arab National Bank as the custodian acts as agent and representative of the certificate holders, holding the title deeds to the property and substitute property; and
(c) Saudi SPV and its shareholders will sell the property or any substitute property they hold, to satisfy any obligations owed by Dar Al-Arkan or Saudi SPV under any of the transaction documents.

Administration agreement
As the administrator, Maples Finance manages the business of the issuer in and from the Cayman Islands.

Summary of the Sukuk Ijarah

The US$1 billion trust certificates closed on the 16th July 2007, where the issue price was 100% of the aggregate principal amount of the certificates. The redemption is scheduled for the 16th July 2012. The periodic distribution date falls on the 16th day of each January, April, July and October commencing upon the periodic distribution date in October 2007.

Certificate holders receive a distribution based on a formulation including LIBOR. Should the lessee default on any payments, there is a late payment charge. The late payment charge is donated to The Red Crescent Society or any chosen charity that is Shariah compliant.

Use of proceeds

The US$1 billion funds raised by this Sukuk Ijarah will be used to finance residential developments across the Kingdom of Saudi Arabia. The proceeds of the issue of the certificates will be used by the issuer to purchase the Sukuk assets in accordance with the terms of the RERT agreement.

Governing law and jurisdiction

The declaration of trust, the transaction administration deed, the agency agreement, the costs undertaking and the certificates will be governed by English law and subject to the non-exclusive jurisdiction of the English courts.

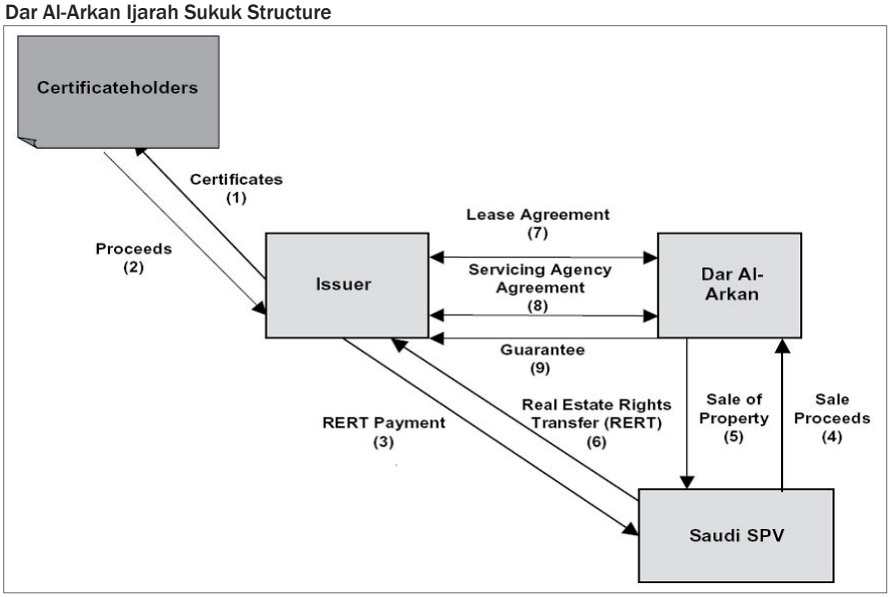
The purchase agreement, the RERT agreement, the lease agreement, the servicing agency agreement, the obligor purchase undertaking, the SPV purchase undertaking, the property substitution undertaking, the Sukuk assets substitution undertaking, the covenants agreement and the guarantee will be governed by Saudi law and subject to the non-exclusive jurisdiction of the Committee for the Settlement of Banking Disputes established in Saudi Arabia and operating under the aegis of the Saudi Arabian Monetary Agency (the SAMA Committee), or, in the event that the SAMA Committee declines jurisdiction, any other Saudi Arabian court or adjudicatory body.

The Sukuk certificates are redeemable in full at the redemption amount, which equals US$1 billion and any due but unpaid periodic distribution amount.

Success story

The Dar Al-Arkan International Sukuk trust certificates issuance attracted diverse investors from across the Middle East, Europe and South-East Asia. The overwhelming response saw the issue being oversubscribed and raised almost US$1.5 billion. The developer had last March issued its maiden US$600 million Sukuk, the first Saudi Arabian corporate Sukuk offered in the international markets, and was listed on the Dubai International Financial Exchange.

Dar Al-Arkan Ijarah Sukuk Structure



The stages of the Sukuk structure outlined in the above diagram are as follows:

(1) Issuer issues certificates.
(2) Issuer receives proceeds of issue from certificate holders.
(3) Issuer pays RERT payment to Saudi SPV.
(4) Saudi SPV uses RERT payment received from issuer in (3) to pay Dar Al-Arkan for property.
(5) Dar Al-Arkan sells property to Saudi SPV.
(6) Saudi SPV sells Sukuk assets to issuer under RERT agreement.
(7) Issuer leases Sukuk assets to Dar Al-Arkan.
(8) Dar Al-Arkan acts as servicing agent in relation to the property/ Sukuk assets.
(9) Dar Al-Arkan guarantees payment obligations of Saudi SPV under SPV purchase undertaking.

The author is the managing director of ABC Islamic Bank, Bahrain. Further enquiries can be emailed to: naveedkhan@arabbanking.com.

Mudarabah as a Fuel to Growth

By Shabbir Kazmi

Background

Mudarabah is akin to a partnership, where one party – the rab al maal – provides financing to another – the Mudarib – for the purpose of carrying on a business. The Mudarib is the working partner who manages the business.

Mudarabah can be divided into two categories:

1. Mudarabah al Muqayyadah (restricted Mudarabah) is where the rab al maal specifies a particular business or place of business which he invests in for the Mudarib.
2. Mudarabah al Mutlaqah (non-restricted Mudarabah) is where the rab al maal affords full freedom to the Mudarib to undertake any business the latter so wishes. However, the Mudarib is not allowed to provide finance to anyone without the consent of the rab al maal. The Mudarib is authorized to do what is normal in the course of business, but anything beyond the normal routine of the business concerned will require permission from the rab al maal. The Mudarib is also forbidden to have another partner or Mudarib, or mix his own investments in the Mudarabah concerned without having first obtaining the rab al maal's consent.

Mudarabah companies offering Shariah compliant financial products and services are prominent in Pakistan. Having initiated the Islamization of the Pakistani economy in 1980 with the recognition of the Mudarabah concept in the corporate sector, the Mudarabah Companies and Mudarabah (Flotation and Control) Ordinance was promulgated in June 1980. The first Mudarabah was a specific purpose Mudarabah and was floated. The two types of Mudarabah practiced in Pakistan are:

1. a multipurpose Mudarabah with more than one objective; and
2. a specific purpose Mudarabah with a particular purpose.

Corporate structure

The Mudarib establishes a Mudarabah Management Company (MMC) with the approval of the registrar of Mudarabah. The Mudarib then applies to make a public offer of Mudarabah funds to the rab al maal via a prospectus, following registration of the MMC.

Essentially the MMC is the Mudarib and can establish a series of Mudarabah for different business ventures with the approval of the registrar of Mudarabah and the religious board, bearing in mind that each Mudarabah is separate and distinct from each other and also from the MMC.

Role of Mudarib

A Mudarib in Pakistan manages Mudarabah ventures and charges a maximum of 10% of the annual profit of the Mudarabah, in addition to dividends on his minimum investment in the venture.

Profit and loss sharing

To validate a Mudarib, the parties agree right at the beginning on the definite proportion of profit that each is entitled to. This is based on mutual consent, as no specific proportion is defined under Shariah law. In the case of the absence of a predetermined distribution ratio, the profit is then shared equally.

Neither the Mudarib nor the rab al maal is allowed to allocate a specific dollar amount of profit to any party, nor can profit be tied at a specific rate to the capital. For example, they cannot agree to the Mudarib getting Rs10,000 (US$165) of the profit or the rab al maal receiving a 15% share of the capital. However, proportionate sharing of the profit is allowed, such as 40% Mudarib and 60% rab al maal.

Religious board

The role of the religious board includes:

- examining and reviewing the prospectus of the Mudarabah; and
- certifying that the business undertaken by the Mudarabah complies with Shariah principles before the public offer is made.

Performance

Last year six new Mudarabah were given permission to commence operations in Pakistan. The diversity of business interest of the new entrants reflects the enormous potential enjoyed by the sector.

For the year ended on the 31st December 2006 there were 25 Mudarabah companies with assets totaling Rs24.2 billion (US$400 million) and paid-up capital of Rs6.45 billion (US$106 million). Their results were attractive, with net profit of Rs820 million (US$13.6 million) on the back of Rs4.81 billion (US$79.5 million) in income.

Out of 25 Mudarabah, 18 distributed dividends ranging from 5–52%. Two Mudarabah enhanced their paid-up capital by issuing bonus shares. The total dividend payout for the year 2006 amounted Rs745 million (US$12.3 million). The top three dividend-paying Mudarabah were First Imroz Mudarabah, Fayzan Manufacturing Mudarabah and First Habib Mudarabah.

Conclusion

Mudarabah has played a major role in the development of the Pakistani economy. We have witnessed Mudarabah playing the role of a key intermediary in the financial scene of Pakistan and having created a market niche for itself in the corporate sector. Certainly, there is further room to grow and develop the sector, given the increasing demand for Islamic products.

Shabbir Kazmi is news editor and producer of *SunBiz Pakistan*. He was formerly the editor of special projects with the *Pakistan & Gulf Economist*. During his 15-year association with the media, he was twice (in 1993 and 1996) declared runner-up for the Pan Asia Journalism Award sponsored by Citibank in Pakistan. He can be contacted by email at: shkazmipk@yahoo.com.

Key Trends in Islamic Funds

By Rajeev Baddepudi and Bernardo Vizcaino

This the second installment of an ongoing series from Eurekahedge on Islamic funds. The first part was published in Islamic Finance news, Vol. 4, issue 31, page 18. Future issues of the newsletter will continue this series.

Performance

Descriptive statistics

The GCC stock markets have managed to rebound by 21% from a rather difficult 2006, yet the Asia-Pacific has remained the least volatile of regions (with a standard deviation below 12%). Fixed income funds seem to be on par across the board (although market depth is fast increasing with a huge number of Sukuk issuances). Finally, both balanced and money market funds seem to favor global strategies when considering their risk-adjusted returns.

Table 1: Islamic funds – annualized returns

	Investment geography				
Classification	Asia-Pacific	Europe	Global	Middle East	North America
Equity	4.73%	2.92%	0.31%	21.03%	0.68%
Fixed income	3.48%	n/a	n/a	2.82%	n/a
Balanced	3.01%	n/a	7.23%	7.08%	n/a
Money market	3.17%	n/a	3.02%	4.78%	n/a

Source: Eurekahedge

Table 2: Islamic funds – annualized standard deviation

	Investment geography				
Classification	Asia-Pacific	Europe	Global	Middle East	North America
Equity	11.61%	12.63%	14.66%	13.73%	13.26%
Fixed income	2.27%	n/a	n/a	1.46%	n/a
Balanced	10.37%	n/a	3.49%	8.11%	n/a
Money market	2.13%	n/a	0.51%	0.60%	n/a

Source: Eurekahedge

Active vs passive equity indices

We further focus on equity-only funds by considering our Islamic fund equity indices and analyzing their performance against broader Islamic stock indices. More specifically, we compare returns data from third party stock indices (such as Dow Jones Islamic and Al Madar) against those from the Eurekahedge Islamic Fund Equity Indices (based on the returns data of 140 constituent equity-focused Islamic funds). We break down our analysis into the following mandates: a composite index of all equity funds, developed markets (North America and Europe), Middle East/Africa and the Asia-Pacific.

Table 3: Correlation statistics of Islamic sub-indices

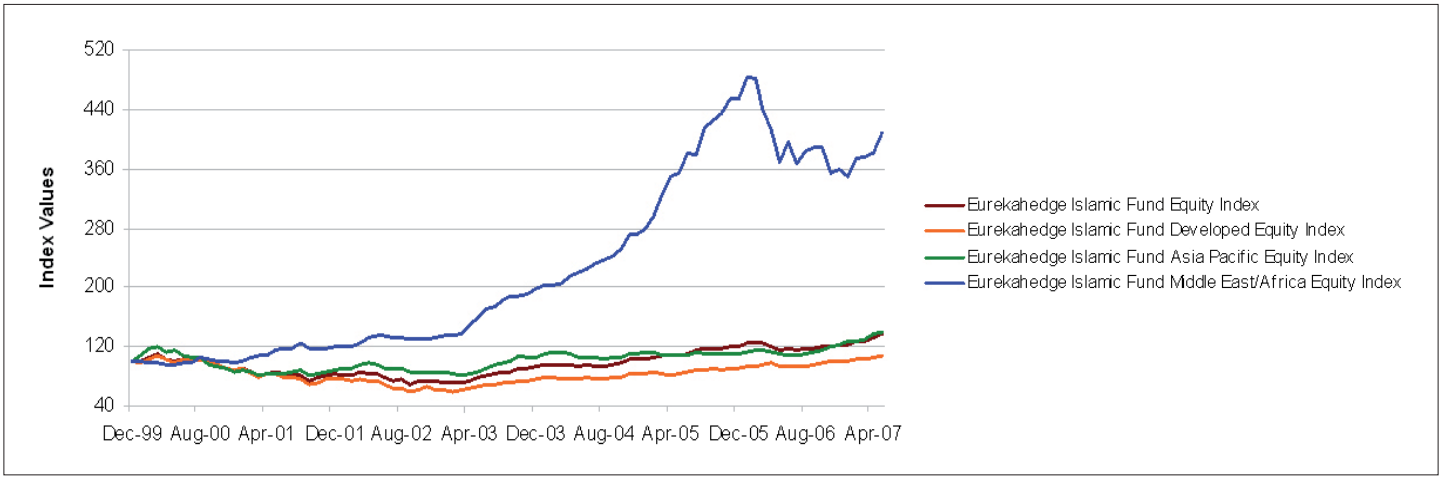
	DJIM World Index	DJIM World Developed Index	Almadar GCC Sharia Index (Middle East)	DJIM World Asia-Pacific Index
EH Islamic Fund Equity Index	0.901	0.902	0.378	0.790
EH Islamic Fund Developed Markets Equity Index	0.949	0.967	0.132	0.786
EH Islamic Fund Middle East/ Africa Equity Index	0.181	0.180	0.854	0.261
EH Islamic Fund Asia-Pacific Equity Index	0.564	0.535	0.110	0.527

Source: Eurekahedge, Dow Jones, Al Madar

Table 3 above compares the correlations between our Islamic fund equity indices and their respective underlying equity markets, to give a

continued...

Figure 1: Comparative index performance



Source: Eurekahedge

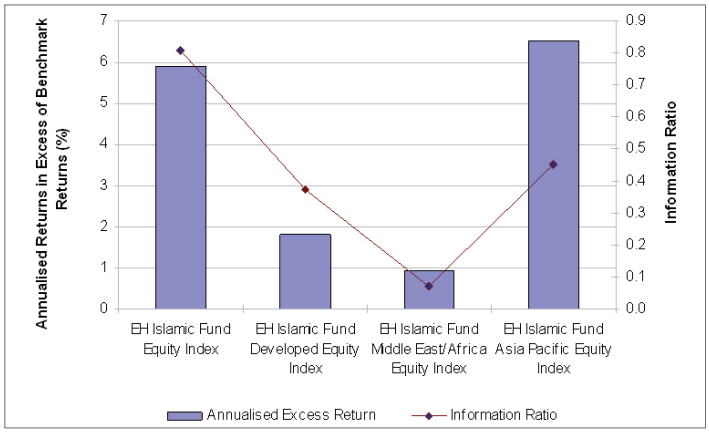
Key Trends in Islamic Funds *(continued...)*

rough initial estimate of how closely related they are. As can be seen, the composite Islamic fund index, its developed markets component and, to a lesser extent, the Middle East/Africa component, are all highly correlated with the corresponding equity market benchmarks. The same, however, cannot be said for the Asia-Pacific component (0.527). On the face of it, this suggests that Islamic fund equity allocations in Asia are more actively managed than their counterparts in other geographic mandates, especially given the fact that they have seen superior returns over the period compared (see Figures 1 and 2). That said, we believe that a closer scrutiny of country-specific equity benchmarks (more specifically, Malaysia and Indonesia), would enable further scrutiny of this hypothesis.

The analysis continues by comparing the total returns generated by each of the aforementioned Eurekahedge indices over the last six years (Figure 1). At first glance, allocations to Middle East/Africa have significantly outperformed those into Asia and the developed markets. A comparison of risk-adjusted returns for the same set of indices (Figure 2), however, tells a different story.

Using the same benchmark equity indices as in Table 3 above, the excess (annualized) returns and the information ratio of each of the Eurekahedge indices is compared (as seen in Figure 2). Among the regional mandates, both excess and risk-adjusted returns are the strongest in the Asia-Pacific Index – a reflection of the region's strongly positive markets. This also ties back to the brisk fund launch activity observed in the past few years.

Figure 2: Comparative index returns on a risk-adjusted basis



Source: Eurekahedge, Dow Jones

The above discussion tests whether active management (by investing in an Islamic fund manager) provides any excess returns over passive management (by investing in the components of a broad Islamic equity index). Based on the above analysis, we believe that this is indeed the case and Islamic fund managers are very well able to deliver alpha.

EUREKAHEDGE

Bernardo Vizcaino is the research manager of specialized funds at Eurekahedge, having joined the company in August 2005 as part of their marketing and research business, and has led the development of Eurekahedge's Islamic funds platform. He can be contacted by telephone at: + 65 6212 0901 (ext. 801) or by email at Bernardo@eurekahedge.com.

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

Name: Michael J. Zamorski

Position: Managing Director, Supervision

Company: Dubai Financial Services Authority

Based: UAE (Dubai)

Age: 52

Nationality: American

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

I retired as director of the US Federal Deposit Insurance Corporation's Division of Supervision in 2006, after a 29-year career in prudential bank supervision, where I was responsible for the safety and soundness oversight of 5,500 banks. I joined the Dubai Financial Services Authority (DFSA), the independent sole regulatory authority for authorized firms in the Dubai International Financial Center (DIFC), in April 2006. The DIFC is located in a 110-acre financial free zone in Dubai. The DFSA has assembled a team of experienced, internationally respected regulators who have set up a regulatory system that meets the highest international standards. The DFSA's 135 authorized firms include most of the world's largest financial services companies.

What does your role involve?

I am responsible for the DFSA's supervision of authorized firms. This is done through a program of regular on-site risk assessments of firms' activities and compliance with laws and regulations. Supervised entities include banks, insurance companies and other financial services providers such as operators of mutual funds and hedge funds, investment banks and asset management companies. The Islamic finance activities of these entities are subject to special licensing criteria and ongoing supervision.

What is your greatest achievement to date?

Successfully transforming the Federal Deposit Insurance Corporation's bank examination and risk assessment process to a risk-based approach – that is, focusing resources on identifying and controlling the most significant risks to prevent the development of problem banks. This experience has been very beneficial in developing DFSA's approach to risk-based supervision.

Which of your products/services deliver the best results?

Our supervised firms' feedback is that our on-site risk assessment process is beneficial and constructive. We evaluate firms' capital adequacy, risk levels, effectiveness of corporate governance, compliance with laws and regulations, internal controls, anti-money laundering initiatives and efforts to prevent terrorist financing. Avoiding problems and detecting and arresting incipient problems helps to prevent reputational or financial damage to supervised firms.

What are the strengths of your business?

We have a highly capable and experienced team whose members have accomplished track records. Team members are drawn from respected regulatory bodies in the UK, Australia, the US, Canada, Germany, Hong Kong and other jurisdictions, bringing diverse views and experience to strategic decisions and problem solving. Also, the DFSA has made a concerted effort to avoid unnecessary process and bureaucracy.

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

The DFSA started out as a new regulator in September 2004. As a new regulator, we had no "legacies" and were able to develop a regulatory regime from a "clean slate."

I mentioned above that we have assembled a highly talented team. DFSA leaders emphasize that results (versus process) orientation and individual and team performance is rewarded based on results that align with the organization's priorities and strategic objectives.

What are the obstacles faced in running your business today?

The success of the DIFC has created a demand for talented people, so recruiting and retaining top quality staff is a priority not only for authorized firms, but also for the DFSA. We also have a focus on continuous learning so our team can constantly update their skills to stay abreast of the developments in the industry we supervise.

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

I see the industry continuing to expand, with Kuala Lumpur, Dubai and others solidifying their position as regional hubs, as demand for Islamic finance products increases.

The DIFC will continue to be a leading center for Sukuk issuance. London and other large international financial centers will provide strong competition as they continue their efforts to become centers of Islamic finance activity.

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

A larger pool of qualified Shariah scholars may accelerate the product approval process and make it easier for firms to respond to market demand.

The Dubai Financial Services Authority (DFSA) is an independent regulator for the Dubai International Financial Center (DIFC). The DFSA authorizes, licenses and registers institutions and individuals interested in conducting financial and ancillary services in or from the DIFC. The DFSA also supervises regulated participants and monitors their compliance with the laws, regulations and rules that apply, while enforcing legislations that have been administered.

Alam Maritim Resources Sukuk Ijarah and Murabahah

INSTRUMENTS	(1) Sukuk Ijarah medium-term notes (MTN) facility of up to RM500 million (US$144.3 million). (2) Murabahah commercial papers (CP)/MTN facility of up to RM100 million (US$28.86 million).
ISSUER	Alam Maritim Resources (AMRB)
OBLIGORS	(1) Alam Maritim (M) (AMSB) (2) Alam Maritim (L) (AMLI)
PRINCIPAL ACTIVITIES	Both AMSB and AMLI are wholly owned subsidiaries of AMRB. AMRB's principal activity is as a investment holding company. AMRB's subsidiaries are mainly involved in the provision of marine transportation support services and offshore facilities, construction, installation and underwater services for the oil and gas industry.
BOARD OF DIRECTORS	Captain Ahmad Sufian @ Qurnain Abdul Rashid, Azmi bin Ahmad, Shaharuddin Warno @ Rahmad, Mohd Abd Rahman Mohd Hashim, Ab Razak Hashim, Mohamad Idris Mansor, Hj Ab Wahab Hj Ibrahim and Ahmad Hassanudin Ahmad Kamaluddin.
DATE OF LISTING	20th July 2007
ISSUE SIZES	(1) MTN – RM300 million (US$86.58 million) (2) CP – RM40 million (US$11.53 million)
DATES OF ISSUE	(1) MTN – 6th July 2007 (2) CP – 27th July 2007
MATURITIES	(1) MTN – 2022 (15 years) (2) CP – 2014 (7 years)
PAYMENT SCHEDULE	Quarterly
AUTHORIZED PAID-UP CAPITAL	RM81.3 million (US$23.46 million), as at the 31st December 2006.
IDENTIFIED ASSETS	12 vessels in the Alam Maritim Group Fleet which are Shariah compliant.
JOINT LEAD ARRANGERS	Aseambankers Malaysia and Standard Chartered Bank Malaysia.
LAW	Law of Malaysia
FINANCIAL ADVISORS	Aseambankers Malaysia and Standard Chartered Bank Malaysia.
TRUSTEE	Equity Trust (Malaysia)
UNDERWRITERS	Aseambankers Malaysia and Standard Chartered Bank Malaysia.
SHARIAH ADVISOR	Maybank Shariah Committee
METHOD OF ISSUE	Via a bought deal
PURPOSE OF ISSUE	(1) MTN – to refinance AMRB's existing bank borrowings and to finance the acquisition of new vessels. (2) CP – to meet AMRB's working capital requirements and/or to part finance the acquisition of new vessels to be identified.
RATINGS	(1) The MTN have been awarded AA issuer support by the Malaysian Rating Corporation (MARC). (2) The CP have been awarded a MARC-1 issuer default rating by MARC.

MALAYSIA

Risky business? Not here

Standard & Poor's (S&P) believes that Malaysia's Takaful market sees less industry risk when compared to the GCC region, and is boosted by Bank Negara Malaysia's Financial Sector Masterplan.

However, competitive pressure – mainly in pricing – is expected to affect the Malaysian market earlier than the GCC, especially in the general Takaful sector. S&P analyst Jelena Bjelanovic elucidated: "The historical stability and profitability of the Takaful market is attracting more and more Takaful operators to Malaysia, and the market expectations of growth in gross contributions of about 15% to 20% per year are broadly in line with our expectations."

S&P's report is entitled: "Established Regulatory & Legal Environment Gives Malaysian Takaful Market the Edge over Gulf Cooperation Council, but Competition will Hit Earlier."

UAE

Booming times

The UAE insurance sector is booming, as illustrated by Oman Insurance's US$272 million premium accretion last year, a first in the UAE.

With 28% growth over the last year and hitting US$2.7 billion in premiums, the UAE is now the largest insurance market among GCC countries.

QATAR

AXA for Qatar Petroleum

AXA Insurance Gulf has won the healthcare insurance bid for Qatar Petroleum (QP). The insurer will now manage a comprehensive insurance scheme for QP and its subsidiaries in association with QP Captive Al Koot Insurance and Reinsurance Company.

The health insurance scheme will be implemented in phases over the next few months and will be effective from November onwards, covering up to 12,000 employees and 23,000 of their dependants.

AXA will also provide QP and the oil and gas industry with a network of clinics in Qatar and across the world. In addition, it will offer its regional claims management service and AXA PPP's worldwide expertise.

BAHRAIN

Takaful certification

The Bahrain Institute of Banking and Finance (BIBF) will introduce the world's first formal Takaful qualification. The stand-alone program will be internationally recognized and is set to be the first of its kind.

The new qualification will be backed by the UK-based Chartered Insurance Institute (CII), while BIBF, endorsed by CII, will develop the curriculum and hold the exams for students.

The institute plans to train more young Bahrainis in financial risk, hoping to address the dearth of qualified professionals in risk management in the country.

INDIA/SAUDI ARABIA

Hokair JV

The Al Hokair Group has inked a joint venture agreement with the Life Insurance Corporation of India (LIC) and New India Assurance to form a composite insurer, Saudi India Company for Cooperative Insurance (SICCI).

The Al Hokair Group holds a 29% stake in SICCI while LIC, along with its subsidiary, LIC International, holds a 20.4% stake. The remaining 10.6% stake is held by New India Assurance. The new entity has already issued the mandatory IPO for 40% of its shares to locals before commencing operations, raising SR40 million (US$10.7 million).

The company is, however, still awaiting licensing from Saudi Arabia's Ministry of Commerce and Industry.

GLOBAL

Allez SwissRe!

Profits for insurer SwissRe saw a 45% increase to CHF1.2 billion (US$1 billion), with revenue growing by 17% to CHF7.95 billion (US$6.64 billion) following the company's US$7.4 billion acquisition of GE reinsurance.

The company expects to maintain its results for this year, abnormally large catastrophe claims aside.

UAE

SALAMA is healthy

SALAMA has charted net profits of Dh33.6 million (US$9.14 million), compared to Dh32 million (US$8.71 million) for the same quarter in 2006 – a 5% growth rate. The volume of insurance premiums in the first half of 2007 reached Dh462 million (US$125.78 million), compared to Dh310 million (US$84.40 million) in the first half of 2006 – a 50% accretion.

The volume of business of SALAMA's subsidiaries has also grown, but these were not recorded in the company's quarterly results due to the need to build reserves for insurance operations.

The company revealed that the current market position and the maintaining of a conservative reserving policy created a slight increase in Best Re's loss reserves of 5%, but did not affect the group's first half results.

Exclusive Interview with Haji Syed Moheeb Syed Kamarulzaman, President and Chief Executive Officer of Takaful IKHLAS

"We have a mixed group controlling the market share. As new players enter the market, we are witnessing intense competition," admits Syed Moheeb Syed Kamarulzaman, the president and chief executive officer of Takaful IKHLAS. "The new ones not only go after the new market segments but at the same time, take away the share of existing operators."

"Two things happen when new players enter the market," he continues, "The new entrants bring innovative ideas and existing players, in guarding their turf, revamp their operations and processes while learning from the competitors."

Takaful is a burgeoning market at present – premiums for Takaful in Malaysia are expected to reach RM7 billion (US$2 billion) by 2010, constituting 20% of the RM35 billion (US$10 billion) insurance market. The question is can the Takaful industry increase that much from the current RM1.7 billion (US$500 million) in four years? Syed Moheeb does not seem too concerned, reflecting the confidence of other Takaful operators. "This figure is more possible than probable. The growth will be partly driven by new operators which are bank affiliated."

The Takaful industry in Malaysia currently consists of nine operators, all at different stages of development, with Takaful IKHLAS being one of the new ones, having been in the market for over five years.

Takaful IKHLAS, a subsidiary of MNRB Holdings (MNRB) and formerly known as Malaysian National Reinsurance, had within its first three years of operations established a strong presence in the provision of Islamic financial protection services. It has adopted the Wakalah system and employs Tabarru' and Wakalah contracts. The products offered are wide ranging within the general, family and group Takaful divisions.

From day one, Takaful IKHLAS prepared itself to compete in a dynamic and aggressive environment. "On our drawing board, we mapped out three areas of continuous focus: technology is crucial in our business as it ensures the company is benchmarked by quality; we have also been able to 'fit square pegs into square holes' where hiring is concerned. As for branding and reputation, Takaful IKHLAS was at the top of the mind of 60% of respondents in an unaided response for a baseline market survey conducted in December 2006."

Takaful IKHLAS has earned a superior reputation for its fast turnaround against motor claims and because claimants are assured of getting original parts from the auto repair shops.

Evidently the results of Takaful IKHLAS speak for themselves. Premium income grew from RM7 million (US$2 million) in the 9 months during its first year of operations, to RM67 million (US$19 million) in the second year and RM224 million (US$65 million) in 2006. "We are confident of achieving premiums of RM320 million (US$92 million) this year," Syed Moheeb opines.

When asked how Takaful IKHLAS is taking advantage of the current boom in Islamic finance, Syed Moheeb says: "Our reputation for being fair to those whom we deal with, and also the technology that we have invested in have enabled us to penetrate and compete in the market." He disclosed that 40% of the business for Takaful Ikhlas comes from banks.

He also spoke on another vital factor in the industry: "What is important is to ensure that knowledge and education are disseminated and sustained throughout the organization." In this respect, Takaful IKHLAS is ahead, as the company offers its staff opportunities to widen and deepen their knowledge by sponsoring courses related to Takaful and Islamic finance.

Syed Moheeb agrees that Bank Negara Malaysia has been a driving force in supporting the growth of Takaful. "Bank Negara obviously has long-term vision and knows exactly what the industry needs. As operators we have to ensure that what we deliver is Shariah compliant," he resolves.

The attractiveness of Takaful to the participants – Muslims and non-Muslims alike –is not just to provide financial help in the event of a misfortune, but the "mutual guarantee" allows participants to get back any surplus from the fund pool. "This works as long as the service quality is there and at par with conventional insurance and that premiums paid are not higher," says Syed Moheeb.

On external growth factors, Syed Moheeb says: "Operators should innovate particularly in the area of distribution. Many have the impression that there is little potential to tap the rural market due to affordability." However, experience during the recent exhibition in rural areas by investment houses indicates otherwise. He cites that there were local people in attendance who were carrying large amounts of cash and "pleading" with the officers manning the booths to help them to invest the money.

Another important factor is ease and convenience. For example, operators could seek the help of mosques and town councils to promote the Takaful products, in addition to employers effecting monthly deductions.

Internal factors to growth are that the products must be competitively priced; infrastructure needs to be built up, as currently Shariah finance can be more expensive due to a lack of economies of scale; operators have to perform a balancing act where initial losses will be incurred before the long-term gain in market share; and human resources should not focus on Islamic finance or Takaful alone, but both must coexist.

continued...

Exclusive Interview with Haji Syed Moheeb Syed Kamarulzaman *(continued...)*

On the status of the Takaful industry generally, Syed Moheeb comments: "Globally the Takaful industry is more developed in Malaysia. Whilst Indonesia comes a close second with some 30 Takaful windows, they are not fully developed and have no focus. Bank Negara Malaysia does not allow conventional insurers to operate Takaful windows."

> "Globally the Takaful industry is more developed in Malaysia. While Indonesia comes a close second with some 30 Takaful windows, they are not fully developed and have no focus"

"As for the Middle East, the approach to Shariah is quite different compared to Malaysia, where we try out new incentives as long as Shariah compliance is present," confides Syed Moheeb. "In the Middle East, the approach has been a bit more conservative. Malaysia tends to be more entrepreneurial and there is nothing wrong with being commercial," he continues, "and consciousness on Takaful in the Middle East region improving where we are beginning to see legislative improvements by the day, such as that in Bahrain and also Saudi Arabia."

The fact that every major insurance group globally is moving into Takaful is testament to its potential. This includes companies such as Hannover Re, AIG, Allianz and possibly others are planning to do the same. Syed Moheeb admitted to feeling honored at this move.

On the potential risks faced by Islamic insurance operators, Syed Moheeb reveals that Takaful IKHLAS has a very intense approach to risk management. "We utilize a corporate risk score card report which identifies risks on one hand whilst control is through required action."

The penetration rate for insurance in Malaysia currently stands at about 40%, whereas for Takaful it was 6.1% last year. However, Syed Moheeb pointed out that in reality the rate is much higher due to group schemes, which in effect consist of many "hidden" individual policies. It would be useful if the statistics could be broken down into urban and rural penetration, he commented. "We want to bring in more customers, especially the Malays, to the market. We are looking at ways of attracting them by offering creative products and services which suit their lifestyle and finance," he said.

With respect to current incentives for Takaful operators, Syed Moheeb seems apprehensive and does not believe that Takaful operators should rely on these, or even ask for more. As a matter of fact, too much support given to them could stifle the growth of the industry, he believes. His concern is that "Malaysians tend to be too focused on incentive and subsidy. Instead, operators need to form their own backbone and be independent in order to generate more revenue."

Infrastructure investments and agents who are IT savvy are two important requirements in this market. "Rather than incentives, operators should be given tax relief for these expenditures. This will encourage Takaful operators to further innovate products which are not just a different view of conventional products but are distinct by themselves," he argues.

On the challenges facing Takaful operators, Syed Moheeb states: "Apart from not selling enough policies, there are just not enough of these [Shariah compliant] instruments available for investment by Takaful funds, and for which the returns must match that of conventional funds."

As for the agency network, particularly new entrants, the initial requirement to get new recruits is somewhat aggravated by affordability. In addition to increasing distribution, there is also a need to enhance the productivity of agencies. Another issue is that Takaful operators are disallowed from guaranteeing. One more factor is Bank Negara Malaysia's restriction for Takaful operators on the illustration of up to five years' earnings only. Conventional insurance companies are allowed to show earnings of up to 30 years. This demonstrates that the playing field is not level.

> "Malaysians tend to be too focused on incentive and subsidy. Instead, operators need to form their own backbone and be independent in order to generate more revenue"

Life products are long term, but Islamic bonds are short-term instruments, therefore it would be good, Syed Moheeb believes, if institutions or corporations and the government could help in creating more long-term bonds. Presently, conventional insurance reaps 7–8% returns from their investments, whereas Takaful receives only 4–5%.

The future for Takaful IKHLAS

The company's objective and strategies to strengthen its position in the Takaful industry include "looking for strategic partners." The company hopes to find partners among local and foreign Islamic finance institutions to explore opportunities in untapped markets and support its plans to expand locally as well as overseas. Syed Moheeb said that a few Takaful operators, particularly those from West Asia, as well as financial institutions locally and abroad, had approached Takaful IKHLAS. They were subsequently requested to seek Bank Negara Malaysia approval to proceed with talks.

When asked about future plans, there is no doubt that going international, sooner or later, is on the cards. It is Bank Negara Malaysia's aspiration to see Malaysian companies become global players. Takaful IKHLAS has been preparing itself to be a global

continued...

Exclusive Interview with Haji Syed Moheeb Syed Kamarulzaman *(continued...)*

player as its infrastructure can support an international system. To achieve its aim of becoming the preferred provider of Islamic insurance products and services in Malaysia, Takaful IKHLAS leveraged on IT in order to pursue a mix of conventional and alternative distribution channels that provide enhanced customer satisfaction and increased market share.

> "It is necessary for us to be a billion dollar company fast, if not there is just no point to be in this business, size obviously matters in order to have economies of scale"

Global IT services provider 3i Infotech, in association with Takaful IKHLAS, has improvised the PREMIA insurance management solutions suite, which is now four times more powerful than before. PREMIA is designed to proficiently perform all the functions of an insurance company such as underwriting/policy administration, claims management, reinsurance and accounting. It covers various business classes such as property, general liability, workers compensation, commercial auto, business owners' policy, marine cargo, personal auto, homeowners, health, liabilities and related areas.

Still looking to the future: "It is necessary for us to be a billion dollar company fast, if not there is just no point to be in this business," opines Syed Moheeb, and "size obviously matters in order to have economies of scale." He also believes in doing more things for Takaful participants, ensuring the risk fund is large enough to cover claims and allowing ample assets to go into various portfolios. As such, "in growing the business, the partner must be able to provide us the quantum leap."

Just like any other players in the Islamic finance industry, Takaful providers are believed to face competition from within the same market, as well as from conventional insurance companies. When asked how he tackles this situation, Syed Moheeb says: "We take conventional firms as partners not competitors. As a matter of fact, we have a common understanding with 5–6 other players."

This seems to be consistent with Takaful IKHLAS' tagline: "Progressive, Innovative, IKHLAS." Ikhlas, according to the Islamic faith, implies sincerity or honesty, being true in one's thoughts and relationship with the Almighty. Syed Moheeb would like to see this tagline "enhanced and embedded" on the backdrop of a dynamic and competitive market requiring new technology, relevant knowledge and awareness.

Syed Moheeb anticipates that the industry will grow by 25% year-on-year over the next three years, at least. Growth can be expected to emanate from new players as well as from the pioneering operators.

His concluding remark is that "competition breeds innovation," and his dream is for "Malaysia to be a Takaful Mecca."

Next Forum Question

Global credit markets have endured a torrid week. In such market conditions, do Sukuk, with returns coming from the revenues of real, physical underlying assets, offer investors a more secure, resilient investment opportunity than conventional equivalents?

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 15th August 2007.

Takaful Methodology and Review Summary, Part 2

This is the final section of a two-part summary of Fitch Ratings' "Exposure Draft – Takaful: Rating Methodology and Review," the agency's proposed ratings methodology for Takaful and re-Takaful firms, which was released last week. The first part can be found in last week's issue of Islamic Finance *news.*

Industry review

This category of assessment includes a review of:

(1) the competitive environment in the sector, expected market development and customer loyalty;
(2) reputational and strategic risk;
(3) the effectiveness of the business model; and
(4) the regulatory, legal and accounting framework. In considering this environment, the agency views the following areas as often being essential to the review, and would expect to discuss these scenarios with a Takaful firm to be rated:

- What happens if the Takaful fund suffers unexpected losses and cannot pay claims?
- What happens if the Takaful operator suffers unexpected losses and cannot meet its obligations?

The agency will also consider the perceived effectiveness of the regulatory regime, including the quality of supervision, capital requirements and risk management. The accounting environment is important but the agency expects that this disclosure will generally be supplemented by additional information supplied to Fitch by the Takaful business.

Organizational review

The ability of a Takaful operator or fund to source additional resources if required is a key consideration for any kind of insurer. The financial strength of a parent organization is especially important for Takaful windows or subsidiaries of established insurers. Where the Takaful firm is part of a group, Fitch will use its group rating methodology. "Fitch's Approach to Rating Insurance Groups", published on the 19th June 2007, to assess whether any uplift (or drag) is applicable to the rating of the Takaful fund.

Operational review

This section of Fitch's analysis will be largely similar to the agency's approach to conventional insurers and considers items such as underwriting expertise, brand and franchise value, distribution capabilities, market share, business mix and administrative capabilities. Of particular importance for the assessment of the Takaful fund will be an assessment of the products offered to determine the level of risk that is associated with them. The agency will also assess the Takaful business model that is used and the agreed fees or split of profits between the Takaful fund and the operator. In some cases, participants may be required to provide additional funds to meet losses arising. However, Fitch will usually give minimal credit for such potential additional capital due to the difficulties associated with enforcement in such cases. The likely scenario if the Takaful fund were to experience difficulties is also assessed.

Management review

The review of management and corporate governance is one of the most challenging, but also one of the most important, areas of Fitch's review. This is as true for a Takaful firm as for any other form of insurance enterprise, but there are also additional corporate governance considerations to take into account. If there is a separation of assets between the Takaful operator and the Takaful fund, this can lead to heightened principal–agent challenges (i.e. challenges arising from one party managing the interests of another where the incentives are not fully aligned). Both Wakalah and Mudarabah contracts offer protection to the operator from downside risk and, in the absence of mitigating factors, could potentially encourage greater risk to be taken by the Takaful operator.

Financial review

Investments

Fitch will not certify that investments are Shariah compliant, but nevertheless the investment review represents an important part of the overall analysis. Investment restrictions associated with Shariah may have a credit impact given the limited availability of Sukuk investments and the consequent difficulty of investing in high quality assets, while avoiding investment concentrations.

In addition, in some cases (although certainly not all), there appears to be a relatively high proportion of equity investments compared to conventional insurers, which increases the importance of assessing the risk associated with these instruments. Fitch will also consider the extent to which investments are held with related parties. Such investments may be made on "soft" terms and can lead to a low quality of investment assets.

The liquidity of investments is also a key area to consider, given that many of the Takaful firm's investments may not be listed.

Reserving

As with any insurer, Fitch will consider the adequacy of current reserves. The agency would expect to establish this after making enquiries about the reserving process, the techniques applied and the historical reserving experience, as well as reviewing any available evidence such as external reserve studies. This review will establish whether there is a particular confidence level targeted for reserves and whether claims reserves are set on an undiscounted or discounted basis.

Fitch also aims to ascertain the extent to which contingency or equalization reserves exist. Such reserves will be treated as part of available capital, in line with the agency's usual treatment of such reported liabilities.

Reinsurance

The issues with reinsurance are to some extent similar to those regarding investments. Reinsurance is always an important area for Fitch, and so the agency will attempt to gain information on the structure of the reinsurance program and the extent to which it can be relied on to offset risk. In the case of Takaful firms that are using re-Takaful providers, there may be pressure to compromise

continued...

Takaful Methodology and Review Summary, Part 2 *(continued...)*

security in return for gaining Shariah compliance. Equally, there may be a concentration of risk in the hands of a small number of re-Takaful firms, or in some cases the re-Takaful firm used may have less pricing expertise than that of other conventional alternatives. Each of these would have credit implications which Fitch would take account of in its review.

Profitability
As with mutual insurance companies, assessments of profitability can be complicated for Takaful firms given that in some cases they will not seek to maximize their profits. Another challenge is to establish a reasonable rate of return. Fitch looks to establish the surplus that has been, and is likely to be, generated by the Takaful fund, as well as the way that this surplus is liable to be distributed (or retained) by the fund over time.

The profitability of the Takaful operator can be assessed based on the funds that are employed in the business and by comparison to both absolute levels of return and that of similar operations. When assessing this profitability, the agency will consider results both before zakat and after. In effect, zakat is looked upon in a similar way to taxation.

Capitalization and financial flexibility
Fitch's approach to capitalization will vary to some degree according to the applicable legislation and the degree to which capital within the firm is available to participants. However, the agency believes that it is always important to understand the capital position of both the Takaful fund and the operator (where these exist) so as to establish the source of financial strength for the firm.

For mutual Takaful firms with no segregation of assets within the society, these non-commercial Takaful firms are very similar to conventional mutual insurers in structure, although they aim to ensure that their investments and products, for example, are compliant with Shariah principles. In these cases, Fitch will assess capitalization using its own capital model, together with regulatory benchmarks. If a company has an in-house capital model available, then the agency would also assess this model as part of its procedures, in line with its published methodology.

For firms that do have a separate Takaful operator and Takaful fund, Fitch would review capitalization from several perspectives:

(1) assessment of the Takaful fund;
(2) assessment of the Takaful operator; and
(3) assessment of the overall firm (the consolidation of Takaful fund and operator).

Other considerations
Fitch currently expects that it will be relatively rare for it to rate a Takaful firm where policyholder assets do not have recourse to shareholder assets. For exceptions to this, Fitch would generally expect strong capitalization within the Takaful fund itself or a highly demonstrable willingness to pay, for example established through the use of the agency's group rating methodology. Where there is no recourse to shareholder assets, Fitch would increase its focus on the capitalization of the Takaful fund and make an assessment as to the potential benefit that the fund may gain from the Takaful operator. As previously noted, where the rating is entirely reliant on the willingness to pay, Fitch may not be able to rate the policyholder obligations.

In order to assess the willingness of a Takaful operator to provide support, the agency would consider factors such as how "core" the Takaful operations are to a larger group and potentially the degree of overlap between the shareholders of the Takaful operator and the Takaful participants.

Other capitalization factors
Many Takaful firms either choose or are required to build up capital within the participants' fund. This can be achieved either through allocating a certain percentage of the profits to build up as surplus, or by building up contingency or equalization reserves.

Such actions serve to reduce the dependency of the Takaful fund on the resources of the operator and in time would be expected to improve the returns on capital to the shareholders of the operator. Although these reserves are frequently very low at the moment, given the relatively short track record of many Takaful firms, Fitch expects them to become increasingly significant in the future, and to become an important element of many Takaful firms' business model.

Finally, it should be noted that Takaful firms may have more limited access to funding, given the fact that they are not usually able to issue hybrid debt. However, given the size of most of these operators, this difference is currently more theoretical than actual in the majority of cases.

Enterprise risk management (ERM)
Enterprise risk management for a Shariah compliant firm can present additional challenges compared to a conventional insurer, given the potential for risk concentrations and the more limited risk mitigating instruments that are available. Against this, Fitch will weigh the potentially offsetting impact of product design; together with the cooperative nature of Takaful firms which may in some cases reduce risk appetite.

The question of enterprise risk management is particularly pertinent for the larger multinational insurers and reinsurers that have opened up Takaful subsidiaries or windows. For smaller Takaful players, the dominant issues surounding ERM may concern the quality of information that is provided to the board, as well as its timeliness.

Other factors
Many Takaful firms have a limited operating history given the large number of relatively recent start-up companies. Fitch can and does assign ratings to start-up operations based on a close inspection of the business plan, management team and business environment. However, the agency believes that such operations are usually subject to greater risks than those that have been operating for some time and are therefore more established in their market with a seasoned portfolio. As a result, firms that have a short operating history would usually have a higher credit risk compared with a more mature operation. Such elements can be offset to a greater or lesser extent by an experienced management team, other business strengths and by group support.

continued...

Takaful Methodology and Review Summary, Part 2 *(continued...)*

Conclusion

The agency considers that non-commercial (mutual) Takaful societies which do not have segregated funds can be rated in a similar way to conventional mutual players, albeit with different emphasis on some areas of Fitch's standard rating approach. However, for commercial insurers in particular, careful consideration is required of the legal environment, the contractual status of obligations, the business model used, as well as the applicable regulations. For all Takaful firms, Fitch will take into account investment concentrations where these exist, potential corporate governance issues and, in some cases, relatively short operating histories. Against these issues, the agency will balance the firm's risk appetite and the impact of product design as well as other risk mitigation techniques that have been employed by management. Fitch expects that only the strongest Takaful firms are likely to be able to achieve investment grade ratings.

The agency expects that for most commercial Takaful firms at the present time, the availability of shareholders' assets to help meet participant's claims will play a substantial role in establishing suitable protection for participants. Fitch therefore considers that it will generally be important for a rated firm to be able to demonstrate the availability to participants of shareholders' funds in the event of financial stress.

Possible methods of demonstrating the availability of shareholder assets to participants include, but are not limited to:

- suitable legislation being in place allowing participants recourse to the assets of the Takaful operator in the event of a winding-up;
- suitable wording of contracts as well as memoranda and articles of association to have the same effect as the method above; or
- credit for some part of shareholders' assets may be available to the extent that these assets have already been loaned to the Takaful fund. In order to receive credit, this loan would either have to be subordinated to the interests of policyholders and have suitable restrictions on repayment, or else have a suitable mechanism for conversion into a donation.

In order for full credit to be given to future loans, rules would usually have to be in place so that either a suitable Qard Hassan would be compulsory even following a winding-up of the operation, or suitable triggers should be in place to require such loans to be made pre-winding-up. In the case of a compulsory Qard Hassan, the agency would need to be confident that the compulsion would be legally effective.

Fitch is conscious of the important differences that exist between Takaful firms and conventional insurers. The agency believes that the industry has a bright future ahead as long as the industry's challenges, including those relating to legal and regulatory development, are addressed.

FitchRatings KNOW YOUR RISK

Fitch welcomes comments on its proposed methodology and review. Comments should be provided in writing by the 12th September 2007 to takaful@fitchratings.com. Following the review period, Fitch will publish a final "Takaful methodology" criteria report and a separate "Takaful Review" special report incorporating the feedback received.

DBS – HONG KONG

Shirley Chan has been appointed as senior vice-president for DBS, heading its Credit Advisory Group. She comes from Nomura Hong Kong where she was initially part of the credit research group and subsequently its securitization team. Prior to Nomura, Ms Chan served a six-year tenure with Moody's Investors Services.

Ms Chan will be based in Hong Kong and report to Clifford Lee, managing director and head of fixed income in Singapore.

LEHMAN – Asia

George Sun leaves Bear Stearns to head up Lehman's credit product sales team for Asia, excluding Japan. He will oversee the marketing of Lehman's credit products, collateralized debt obligations and high-yield debt. Mr Sun will be based in Singapore.

CVC CAP – Hong Kong

Ex-Citigroup Asia chairman, Francis Leung, has joined CVC Capital Partners in Hong Kong as senior advisor. He will focus on developing investment opportunities in China.

ITHMAAR – UAE

Michael McKinlay has been appointed executive director of private equity for Ithmaar Bank.

Mr McKinlay – a British national – had founded and led Stormberg Partners WLL, a GCC-based advisory firm directed at the chairmen and CEOs of leading family groups in the region. He has also spent 15 years at wealth management start-ups, working for Credit Suisse and HSBC, and has established operations in Saudi Arabia, Switzerland, Jersey and the UAE.

Mr McKinlay is an experienced commercial banker, having spent 10 years as a transactional commercial banker with JP Morgan, primarily in positions of country leadership.

BNP PARIBAS – Asia

More top level reshuffles are taking place with Francois Cristofari moving from Sydney to Shanghai and Didier Mahout transferring from Belgium to Australia.

Mr Cristofari has been CEO of BNP Paribas in Australia and New Zealand for the past three years, and will now become head of China, based in Shanghai. He will report to Mignonne Cheng, head of North and East Asia.

In addition, Brooks Addington will now head BNP's Japanese equities trading at its global execution services division. He will report to Pierre Rousseau, the bank's global head of equity brokerage. Prior to BNP, Mr Addington acted as vice-president and Tokyo branch manager at E*Trade Financial.

MORGAN STANLEY – Japan

Hideo Misawa is now the executive director of Morgan Stanley's Japanese bonds sale team. He was hired along with Rei Karasawa from Deutsche Securities, Takefumi Goto from Credit Suisse and Noriyuki Fukuda from Nikko Citigroup.

BEAR STEARNS – Global

Bear Stearns' top management has undergone a reshuffle following the resignation of Warren Spector, ex-president, chief operating officer (COO) and member of the executive committee and board of directors.

Effective immediately, Alan Schwartz is now the bank's sole president, while Samuel Molinaro Jr. is the COO, in addition to his current role as chief financial officer. Jeffrey Mayer, co-head of the bank's fixed income division, has been inducted as a member of the executive committee.

Mr Schwartz has been with Bear Stearns for 30 years, having previously served as executive vice-president and head of investment banking. Mr Molinaro has been with the bank since 1986, previously as chief financial officer and a member of the executive committee. Mr Mayer, who joined the bank in 1989, was previously head of the mortgage department, and was subsequently promoted to co-head of the global fixed income division.

SOLIDARITY – Bahrain

Waleed Hashim, a Solidarity legal and compliance senior manager, has been made a certified compliance officer by the Board of Standards of the American Academy of Financial Management (AAFM).

Waleed was elected, admitted and licensed to the charter, board certification, designation and membership credentials of the AAFM, and is now a fellow of the AAFM.

BORSE DUBAI – UAE

Essa Kazim, chairman of the Dubai Financial Market (DFM), has been appointed chairman of the newly established Borse Dubai. He was elected chairman of the DFM board last January.

CALYON – Bahrain

Tarek Bachnak has joined Calyon Global Islamic Banking in Bahrain as assistant director. He will report to Saad Rahman, and will be responsible for structuring and executing Islamic finance deals for the bank.

Mr Bachnak comes from Gulf International Bank, where he was assistant vice-president in Islamic banking, covering corporate, FI, project finance and sovereign relationships throughout the GCC.

Prior to his post at GIB, Mr Bachnak was with Arab Banking Corporation in loan syndications and ABC Islamic Bank as a relationship officer for Bahrain, Saudi Arabia and the UAE.

EFG Hermes – GCC

EFG-Hermes has appointed Monica Malik, who joins its research department as senior economist. She will cover economies across the Middle East region, with a specific focus on the Gulf Cooperation Countries.

Ms Malik brings with her over 13 years of extensive experience conducting economic and private sector research at institutions including Standard Chartered Bank and Dun & Bradstreet. She holds a PhD in Middle Eastern economics from the University of Durham, UK.

Deal *tracker*

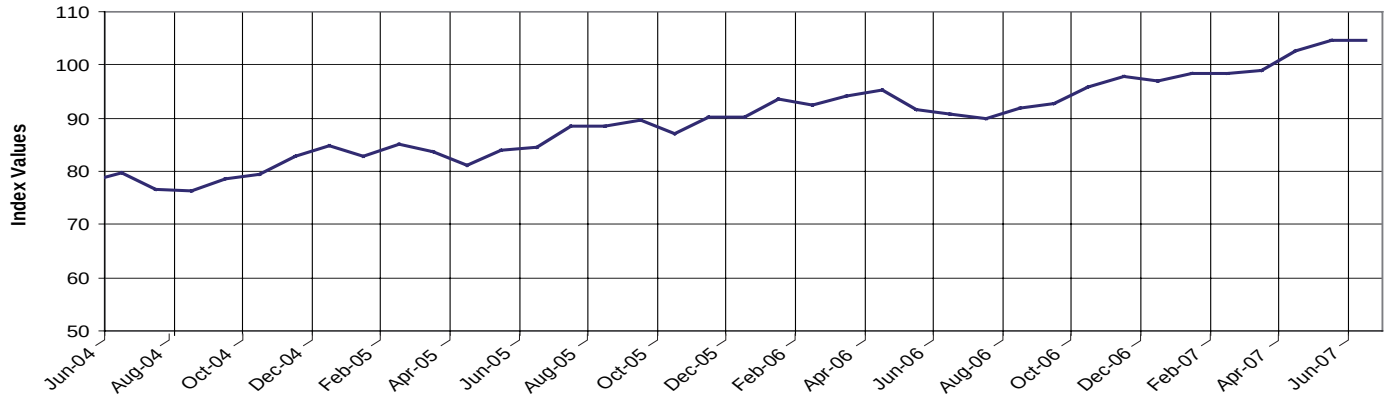
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
UEM Group	US$230.66	Musharakah MTN
Sunway Infrastructure	US$579.56	BBA restructuring
Perusahaan Listrik Negara	US$33.97	Ijarah
Dubai Financial	TBA	Sukuk
Thani Investments	US$100	Sukuk
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)

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

Eurekahedge North America Islamic Fund Index



Annualized returns for ALL funds (as of 8th August 2007)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Samba Real Estate Fund	Samba	53.17	Saudi Arabia
2	Zajil – Service & Telecommunications Fund	National Investments Company	52.87	Kuwait
3	Al Fursan Fund	Banque Saudi Fransi	52.06	Saudi Arabia
4	AlAhli Emerging Markets Trading Equity Fund	The National Commercial Bank	42.75	Saudi Arabia
5	TRIM Syariah Saham	Trimegah Securities	41.84	Indonesia
6	Danareksa Indeks Syariah	Danareksa Investment Management	40.35	Indonesia
7	Al Darij Investment Fund	National Investments Company	39.66	Kuwait
8	DWS Noor China Equity Fund (Class A)	DWS Noor Islamic Funds	37.71	Singapore
9	Tijari Islamic Fund	Commercial Bank of Kuwait	36.82	Kuwait
10	Symmetry Islamic Fund	Frater Asset Management	36.48	South Africa
	*Eurekahedge Islamic Fund Index**		*4.21*	

Annualized Standard Deviation for ALL funds (as of 8th August 2007)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Amwal Islamic Money Market Fund	Kuwait & Middle East Financial Investment Company	0.14	Kuwait
2	Al Rajhi Commodity Fund Euro (Mudarabah)	Al Rajhi Banking & Investment Corporation	0.14	Saudi Arabia
3	AlAhli Euro Murabahat Fund	The National Commercial Bank	0.15	Saudi Arabia
4	Boubyan Financial Fund US$	Boubyan Bank	0.15	Kuwait
5	Euro International Trade Finance Fund (Al Sunbula)	Samba	0.15	Saudi Arabia
6	Prudential Islamic Income Fund	Prudential Fund Management	0.23	Malaysia
7	Emirates Dynamic Liquid Fund (Retail Shares)	Emirates Bank International	0.25	UAE
8	Boubyan Financial Fund	Boubyan Bank	0.30	Kuwait
9	MAAKL Al-Ma'mun	MAAKL Mutual	0.33	Malaysia
10	AlAhli Diversified Saudi Riyal Trade Fund	The National Commercial Bank	0.34	Saudi Arabia
	*Eurekahedge Islamic Fund Index**		*7.30*	

EUREKAHEDGE

Contact Eurekahedge

To list your fund or update your fund information: islamicfunds@eurekahedge.com

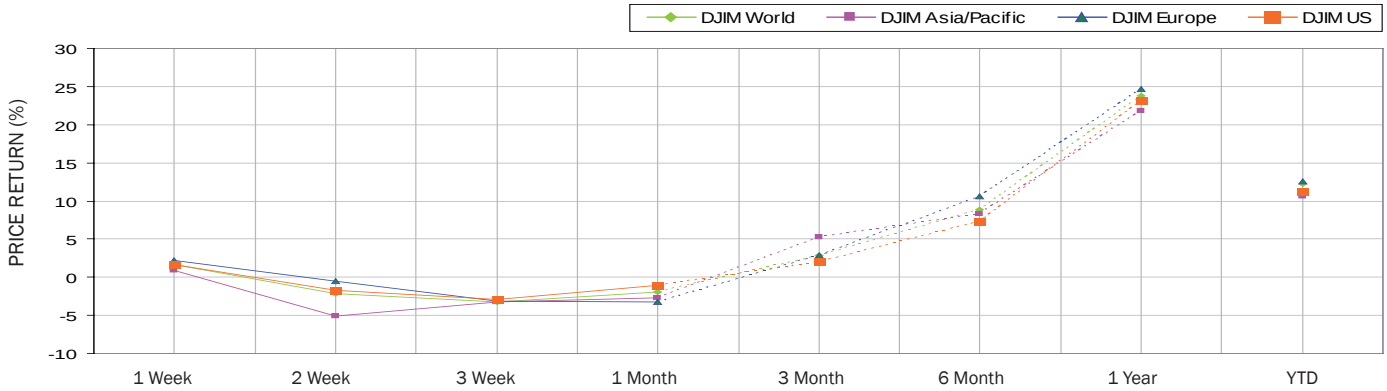
For further details on Eurekahedge: information@eurekahedge.com

Tel: +65 6212 0900

EUREKAHEDGE

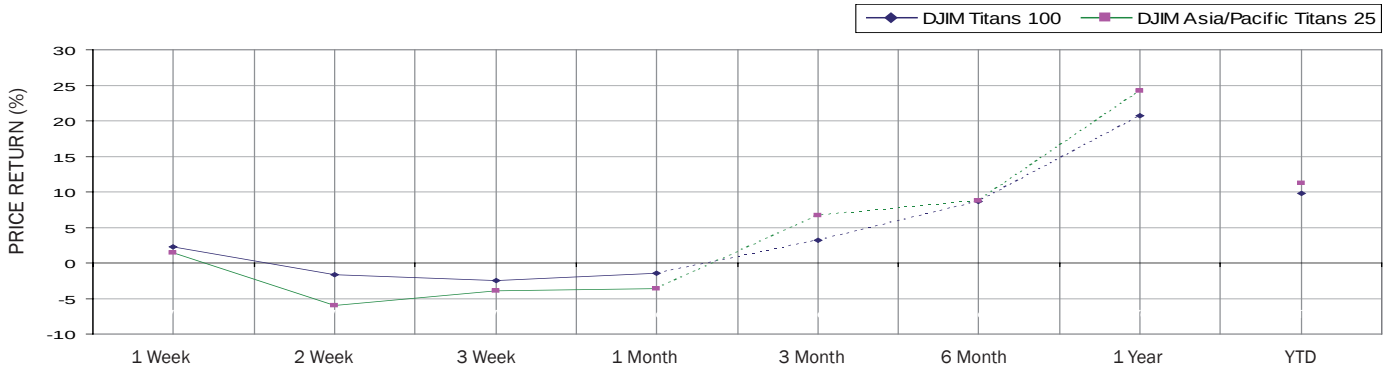
Data as of the 8th August 2007

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	1.69	-2.12	-3.19	-1.97	2.85	8.91	23.75	12.18
DJIM Asia/Pacific	0.86	-5.11	-3.19	-2.72	5.22	8.31	21.79	10.63
DJIM Europe	2.22	-0.57	-3.09	-3.27	2.83	10.59	24.65	12.53
DJIM US	1.71	-1.74	-2.89	-1.02	2.00	7.38	23.08	11.27

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	2.22	-1.68	-2.50	-1.42	3.16	8.68	20.70	9.82
DJIM Asia/Pacific Titans 25	1.42	-5.96	-3.96	-3.61	6.70	8.79	24.25	11.22

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2424	19102.35	16170.69	6.67	1.59	500.45	0.03	3.09	0
DJIM Asia/Pacific	1004	3722.72	2648.61	2.64	0.69	106.15	0.03	4.01	0
DJIM Europe	353	4782.49	3836.87	10.87	3.03	218.40	0.25	5.69	0.01
DJIM US	729	9189.68	8666.49	11.89	3.21	500.45	0.25	5.77	0
DJIM Titans 100	100	8443.56	7707.70	77.08	56.13	475.79	14.12	6.17	0.18
DJIM Asia/Pacific Titans 25	25	1191.15	872.92	34.92	25.04	95.47	14.12	10.94	1.62

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 8th August 2007

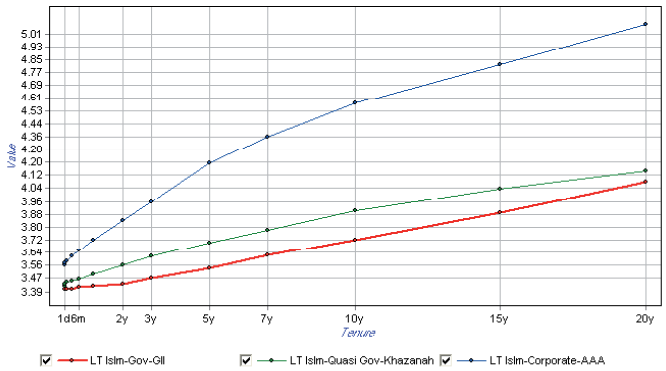
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	1 August 07 (RM)	27 July 07 (RM)	18 July 07 (RM)
Private Debt Securities					
RANTAU IMTN 15.03.2011 – MTN 1	AAA (RAM)	101.40	101.30	101.51	101.65
PLUS 0.00000% 16.06.2017 – Tranche 2	AAA (RAM)	62.99	63.73	64.05	63.93
MALAKOFCRP IMTN 5.983% 30.04.2015 – MTN 003	AA3 (RAM)	102.56	103.64	106.25	105.61
MALAKOFCRP IMTN 6.083% 29.04.2016 – MTN 004	AA3 (RAM)	102.73	103.99	106.87	105.94
P NIAGA 0.000% 26.10.2007	AA ID (MARC)	100.75	100.78	100.87	100.93
Government Investment Instruments					
PROFIT-BASED GII 2/2007 15.06.2017	N/A	101.90	101.63	101.63	101.83
PROFIT-BASED GII 1/2005 16.03.2015	N/A	105.41	105.07	105.07	105.17
GII 1/2003 0.00000% 31.03.2008	N/A	97.79	97.78	97.74	97.66
Quasi Government					
KHA1/05 1B 0-CP 5Y 18.01.2010	N/A	91.62	91.54	91.47	91.63
SILTERRA CAP 3.900% 06.06.2014	N/A	100.11	100.06	100.12	100.24

SPREAD VS GII (in b.p.)

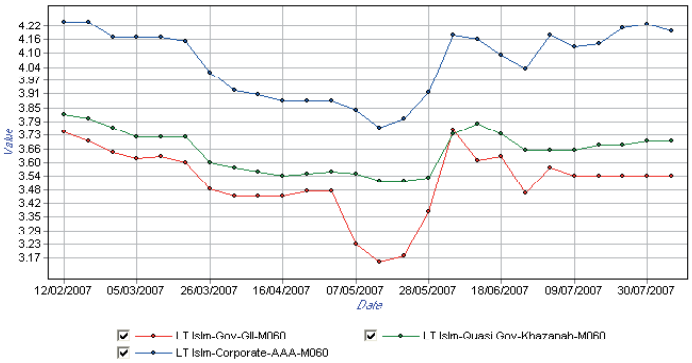
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.43	3.44	3.45	3.47	3.57	3.66
Cagamas	0.20	0.27	0.33	0.47	0.50	0.55
Khazanah	0.07	0.12	0.16	0.23	0.21	0.24
AAA	0.29	0.40	0.51	0.73	0.79	0.91
AA1	0.46	0.57	0.68	0.90	0.98	1.10
A1	1.56	1.75	1.92	2.30	2.56	2.95

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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



TOP ISSUERS OF ISLAMIC BONDS — AUGUST 2006 – AUGUST 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	11.3	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Sukuk	2,686	3	8.6	Malaysian Government bond
3	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	8.1	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
4	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	2,133	1	6.8	HSBC Saudi Arabia, Riyad Bank
5	Nucleus Avenue (M)	Malaysia	Sukuk Musharakah MTN	1,994	9	6.4	CIMB Investment Bank
6	DP World Sukuk	UAE	Sukuk Mudarabah	1,496	1	4.8	Barclays Capital, Citigroup Global Markets, Deutsche Bank, Lehman Brothers
7	Saudi Electricity	UAE	Sukuk	1,333	1	4.3	HSBC Saudi Arabia
8	Dubai Sukuk Centre	UAE	Sukuk Mudarabah	1,248	1	4.0	Deutsche Bank (London), Goldman Sachs International
9	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Ijarah	1,000	1	3.2	ABC Islamic Bank, Arab National Bank, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank, Kuwait Finance House, Unicorn Investment
10	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	975	2	3.1	CIMB, AmMerchant
11	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	2.7	Deutsche Bank (Malaysia), JP Morgan, CIMB
12	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	2.7	Citi, CIMB Investment
13	ADIB Sukuk	UAE	Sukuk Ijarah	800	1	2.6	HSBC
14	Dubai Islamic Bank	UAE	Sukuk Musharakah	750	1	2.4	Barclays Capital, Citi, Standard Chartered
15	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	2.4	CIMB Investment, HSBC Amanah, UBS
16	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	2.4	CIMB Investment
17	Golden Belt 1 Sukuk	Saudi Arabia	Sukuk Manafaa	650	1	2.1	BNP Paribas
18	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Residential Mortgage Backed Securities	620	7	2.0	HSBC, CIMB, AmMerchant
19	Silterra Capital	Malaysia	Government Guaranteed Sukuk Ijarah	530	1	1.7	CIMB Investment, HSBC, Citibank
20	Cagamas	Malaysia	Bithaman Ajil Islamic Securities/Mudarabah MTN	454	9	1.5	Cagamas, Aseambankers, HSBC, CIMB
	Total			**31,202**	**313**	**100.0**	

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TOP ISSUERS OF ISLAMIC BONDS — JANUARY 2007 – AUGUST 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Aldar Funding	UAE	Exchangeable Sukuk Mudarabah	2,530	1	11.2	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
2	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	2,133	1	9.4	HSBC Saudi Arabia, Riyad Bank
3	Nucleus Avenue (M)	Malaysia	Sukuk Musharakah MTN	1,994	9	8.8	CIMB Investment
4	Malaysia	Malaysia	Islamic Sukuk	1,862	2	8.2	Malaysian Government bond
5	DP World Sukuk	UAE	Sukuk Mudarabah	1,496	1	6.6	Barclays Capital, Citigroup Global Markets, Deutsche Bank, Lehman Brothers
6	Saudi Electricity	UAE	Islamic Sukuk	1,333	1	5.9	HSBC Saudi Arabia
7	Dubai Sukuk Centre	UAE	Sukuk Mudarabah	1,248	1	5.5	Deutsche Bank (London), Goldman Sachs International
8	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Ijarah	1,000	1	4.4	ABC Islamic Bank, Arab National Bank, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank, Kuwait Finance House, Unicorn Investment Bank
9	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	3.8	Deutsche Bank (Malaysia), JP Morgan, CIMB
10	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	3.7	Citi, CIMB Investment
11	Dubai Islamic Bank	UAE	Sukuk Musharakah	750	1	3.3	Barclays Capital, Citi, Standard Chartered
12	Golden Belt 1 Sukuk	Saudi Arabia	Sukuk Manafaa	650	1	2.9	BNP Paribas
13	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Residential Mortgage Backed Securities	620	7	2.7	HSBC, CIMB, Aseambankers
14	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	570	1	2.5	CIMB
15	Silterra Capital	Malaysia	Government Guaranteed Sukuk Ijarah	530	1	2.3	CIMB Investment, HSBC, Citibank
16	Cagamas	Malaysia	Bithaman Ajil Islamic Securities/Mudarabah MTN	454	9	2.0	Cagamas, Aseambankers, HSBC, CIMB
17	Lebuhraya Kajang – Seremban	Malaysia	Sukuk Istisnah	413	12	1.8	AmInvestment
18	National Industries Group	Kuwait	Sukuk Trust Certificates	375	1	1.7	BNP Paribas, Citigroup Global Markets, National Bank of Kuwait, Standard Chartered, WestLB
19	EIB Sukuk	UAE	Musharakah Sukuk Trust Certificates	350	1	1.5	Emirates Islamic Bank, Standard Chartered
20	MBB Sukuk	Malaysia	Subordinated Sukuk Trust Certificates	300	1	1.3	HSBC, Aseambankers, UBS
	Total			**22,661**	**187**	**100.0**	

ISLAMIC BONDS		AUGUST 2006 – AUGUST 2007		
	Manager or Group	Amt US$ m	Iss.	%
1	HSBC	4,834	32	15.5
2	CIMB	4,552	67	14.6
3	Barclays Capital	3,353	6	10.7
4	Malaysian Government bond	2,686	3	8.6
5	Dubai Islamic Bank	2,255	6	7.2
6	Citi	1,648	6	5.3
7	Deutsche Bank	1,393	18	4.5
8	AmInvestment	1,201	53	3.8
9	Riyad Bank	1,066	1	3.4
10	Abu Dhabi Investment	843	1	2.7
11	Credit Suisse	843	1	2.7
12	Standard Chartered	738	28	2.4
13	BNP Paribas	725	2	2.3
14	Goldman Sachs & Co	624	1	2.0
15	RHB Investment	481	84	1.5
16	Aseambankers	461	22	1.5
17	UBS	350	2	1.1
18	United Overseas Bank	319	40	1.0
19	Lehman Brothers	299	1	1.0
20	Kuwait Finance House	297	9	1.0
	Total	**31,202**	**313**	**100.0**

ISLAMIC BONDS		JANUARY 2007 – AUGUST 2007		
	Manager or Group	Amt US$ m	Iss.	%
1	HSBC	3,503	26	15.5
2	CIMB	3,464	42	15.3
3	Malaysian Government bond	1,862	2	8.2
4	Citi	1,648	6	7.3
5	Barclays Capital	1,593	4	7.0
6	Deutsche Bank	1,393	18	6.1
7	Riyad Bank	1,066	1	4.7
8	Abu Dhabi Investment	843	1	3.7
9	Credit Suisse	843	1	3.7
10	BNP Paribas	725	2	3.2
11	Standard Chartered	690	19	3.0
12	Goldman Sachs & Co	624	1	2.8
13	AmInvestment	565	35	2.5
14	Dubai Islamic Bank	495	4	2.2
15	Aseambankers	455	20	2.0
16	Lehman Brothers	299	1	1.3
17	JP Morgan	283	1	1.3
18	Kuwait Finance House	247	8	1.1
19	RHB Investment	218	38	1.0
20	Cagamas	217	7	1.0
	Total	**22,661**	**187**	**100.0**

ISLAMIC BONDS BY COUNTRY	AUGUST 2006 – AUGUST 2007		
	Amt US$ m	Iss.	%
Malaysia	13,656	284	43.8
UAE	10,929	10	35.0
Saudi Arabia	5,116	4	16.4
Kuwait	675	3	2.2
Qatar	300	1	1.0
Pakistan	210	6	0.7
Total	**31,202**	**313**	**100.0**

ISLAMIC BONDS BY COUNTRY	JANUARY 2007 – AUGUST 2007		
	Amt US$ m	Iss.	%
Malaysia	9,761	163	43.1
UAE	6,384	6	28.2
Saudi Arabia	5,116	4	22.6
Kuwait	575	2	2.5
Qatar	300	1	1.3
Pakistan	210	6	0.9
Total	**22,661**	**187**	**100.0**

ISLAMIC BONDS BY CURRENCY	AUGUST 2006 – AUGUST 2007		
	Amt US$ m	Iss.	%
US dollar	15,654	20	50.2
Malaysian ringgit	11,756	281	37.7
Saudi Arabian riyal	3,466	2	11.1
Pakistan rupee	210	6	0.7
Total	**31,202**	**313**	**100.0**

ISLAMIC BONDS BY CURRENCY	JANUARY 2007 – AUGUST 2007		
	Amt US$ m	Iss.	%
US dollar	10,259	14	45.3
Malaysian ringgit	8,611	161	38.0
Saudi Arabian riyal	3,466	2	15.3
Pakistan rupee	210	6	0.9
Total	**22,661**	**187**	**100.0**

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DATE	EVENT	VENUE	ORGANIZER
August			
13th – 14th	MIF Forum 2007	Kuala Lumpur	Islamic Finance events
27th – 29th	International Conference on Islamic Capital Markets	Jakarta	Muamalat Institute
28th – 29th	Global Islamic Banking, Investment and Takaful Summit 2007	Pakistan	Nexxus Worldwide
29th – 30th	3rd International Convention on Takaful and ReTakaful 2007	Kuala Lumpur	IBFIM
30th	2007 INCEIF Global Forum	Kuala Lumpur	INCEIF
September			
3rd – 4th	5th International Islamic Finance Conference 2007	Kuala Lumpur	Monash University
4th	The Islamic Finance Summit	Geneva	Economist Conferences
4th – 5th	Inaugural Islamic Finance Summit Indonesia	Jakarta	Euromoney Seminars
5th – 6th	1st Global Middle East Insurance Summit	London	MiddleEast Insurance Review
5th – 6th	Regional Forum on the Role of Islamic Finance Institutions in Development Finance	Bahrain	MICE Management
5th – 6th	2nd Annual Arab Asian Financial Forum (AAFF) Malaysia	Kuala Lumpur	Cedar Hills Event Management
19th – 20th	Understanding Islamic Finance: From Capital Markets to Real Estate	Switzerland	Financial Events International
October			
22nd – 23rd	Product Development Forum in Banking & Finance	Dubai	Fleming Gulf Conferences
24th – 25th	Islamic Finance in North America	New York	IQPC
30th – 31st	Africa Islamic Finance Conference	South Africa	IBC Gulf
31st – 1st	Islamic Financing Instruments Asia 2007	Kuala Lumpur	Asia Business Forum
November			
4th – 5th	The World Islamic Infrastructure Finance Conference	Doha	Middle East Global Advisors
4th – 7th	Middle East Islamic Banking & Finance Summit 2007	Dubai	Association & Communications Events
12th – 15th	Islamic Funds World 2007	Dubai	Terrapinn
12th – 15th	Islamic Finance and Investment World Africa 2007	South Africa	Terrapinn
18th – 21st	Private Equity World MENA 2007	Dubai	Terrapinn
19th – 22nd	4th Kuala Lumpur Islamic Finance Forum 2007	Kuala Lumpur	CERT
20th – 21st	International Islamic Finance Congress	Dubai	Dome Exhibitions
26th – 27th	Asia Capital Markets Forum	Hong Kong	Euromoney
26th – 28th	Private Equity World Espana 2007	Spain	Terrapinn
27th	3rd Seminar on the Regulation of Takaful	Cairo	IFSB
27th – 28th	National Conference in Islamic Finance 2007	Terengganu	University Darul Iman Malaysia
December			
5th – 6th	Islamic Financial Services Forum: The European Challenge	Germany	IFSB
8th – 10th	The 14th World Islamic Banking Conference	Bahrain	Middle East Global Advisors

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