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BRUNEI

HSBC impatient

HSBC Brunei is awaiting changes to the mandated ownership structure for Islamic banks in Brunei, which will influence the setting up of its Islamic banking unit.

Brunei currently demands a split equity ownership for foreign banks planning to set up in the country.

Rosdi Amin Yaakub, deputy CEO of HSBC, elucidated: "The existing law only allows 50% of non-Bruneians to participate; the other half must be government owned. This is a difficult situation for us as a group."

Brunei's Ministry of Finance is still drafting new guidelines for establishing an Islamic bank in Brunei, which is expected to be finalized by the end of the year or by the first quarter of 2008. HSBC has repeatedly expressed interest in setting up HSBC Amanah operations in Brunei.

KUWAIT

Amanah to reap IPO

Shariah compliant Amanah Warehousing will start selling 60% of its shares next week in an initial public offering to raise KD31.5 million (US$111.7 million).

The logistics company will sell 300 million shares at KD1.05 (US$3.72) each. The IPO is set to close on the 17th September. Amwal has been appointed the IPO's lead manager.

MIF 2007 NEWS

MIF Forum 2007

The Malaysian Islamic Finance (MIF) Issuers & Investors Forum 2007, held in Kuala Lumpur on the 13th and 14th August and organized by RedMoney Group, saw 800 industry practitioners and key players attending.

Dr Zeti Akhtar Aziz, governor of Bank Negara Malaysia (BNM), delivered a keynote address entitled: "Malaysia as a Global Sukuk Center: Towards Greater Vibrancy of the Malaysian Sukuk Market", affirming the Malaysian government's bid to promote Malaysia as a center of Islamic finance. Bank Negara Malaysia's efforts have been further propelled by the establishment of the MIFC, to facilitate efficient Sukuk issuances, transactions and to provide information on the country's latest Islamic finance initiatives and developments.

In her speech, Dr Zeti highlighted Malaysia's efforts to boost the local Sukuk market via liberalization of foreign exchange administration rules, allowing multilateral and multinational financial institutions to issue both ringgit and non-ringgit denominated instruments, while being domiciled within the country. Commercial banks and investment banks licensed under the Banking and Financial Institutions Act 1989 (BAFIA) have also been allowed to establish International Currency Business Units to carry out Islamic banking business under their existing entities. Dr Zeti cited Khazanah Nasional's landmark Sukuk Musharakah as a prime example of a hybrid issuance with convertibility features common to conventional equity-linked transactions.

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Securities Commission director, Dr Nik Ramlah, also expressed optimism about Malaysia's attractiveness as an Islamic capital market hub to foreign institutions in her keynote address on the second day of the forum.

MIF2007 Issuers & Investors Forum

The two-day forum saw key local and international speakers including Dr Humayon Dar, CEO of BMB Islamic, Badlisyah Abdul Ghani, CEO of CIMB Islamic, Michael Zamorksi, managing director of the Dubai Financial Services Authority, Lovell's superstar partner Rahail Ali, and many others articulate their thoughts on the GCC and Malaysian Islamic markets, Sukuk, regulations, product and market development, as well as successfully raising Islamic capital. Abdulkader Thomas, CEO of Shape Financial Corporation, was the event moderator.

MIF 2007 NEWS

Foreign money welcome

Bank Negara Malaysia (BNM) has allowed commercial and investment banks to set up international currency business units (ICBUs) to undertake international currency business under Islamic finance in Malaysia.

BNM had previously only allowed the applications to conduct Islamic banking business in international currencies via a division set up for Malaysian Islamic banks licensed under the Islamic Banking Act 1983.

"Commercial and investment banks licensed under the Banking and Financial Institutional Act 1989 are allowed to establish ICBUs to carry out Islamic banking business under their existing entities," BNM Governor Dr Zeti Akhtar Aziz affirmed in her keynote address at the MIF Forum 2007. To date, eight financial institutions have been approved to set up ICBU units in Malaysia.

"There is also a positive response from the local and foreign institutions to establish international Islamic banks, international Takaful operators as well as ICBUs to undertake international currency business in Malaysia," she added.

"In promoting Malaysia as an international Islamic financial center we aim to develop the country into a center for the origin, distribution and trading of Sukuk to provide further impetus to the development of an increasingly vibrant and progressive bond market in Malaysia as well as in the Asia," she concluded.

MIF 2007 NEWS

We are ready

Malaysia is poised to become an attractive Islamic capital market investment destination. This is according to Securities Commission (SC) director Dr Nik Ramlah, giving her keynote address on the second day of the MIF Forum 2007. This is in tandem with market expectations of more intermediaries setting up in Malaysia.

Dr Nik affirmed: "Efforts are currently being intensified to attract more foreign intermediaries to set up in Malaysia. The roles played by these intermediaries have expanded dramatically in recent years. Intermediaries now engage in a broad range of complex financial transactions and operate in various market segments – banking, insurance and capital markets. They now also underwrite complex financial transactions, provide specialized over-the-counter hedging and risk management products, and advise on sophisticated transaction structures."

On the other hand, she said that Malaysian intermediaries have also taken steps to strengthen their position by forging strategic alliances with foreign counterparts and venturing into regional markets to acquire the necessary skills and expertise in terms of new products and overseas investments. Similarly, a number of Islamic financial institutions from the various GCC countries are already operating in Malaysia.

According to Dr Nik, the SC views Malaysia's Islamic capital market as a high value-added, well-established segment. "We now set our sights on the next phase, which is to propel Malaysia's ICM to the global arena through forging stronger alliances and linkages with other Islamic centers. This requires even greater commitment from the private and public sectors working in partnership – to invest in intellectual capacity and capabilities for product origination and distribution," she concluded.

MIF 2007 NEWS

Investing petro-dollars

During a panel session themed "Emerging Islamic Markets – Southeast Asia and GCC" at the MIF Forum 2007, panelists affirmed a growing interest among GCC countries in Asean countries.

The GCC countries' liquidity pool is targeting investments in Asean countries, particularly Malaysia, Indonesia and Singapore, as mature markets like Europe and North America have been slowing down.

Panelists Ahmed Hariri, Islamic Development Bank director for Malaysia, Nur Advisors senior consultant Isaac Fokuo, Global Investment House head of research Faisal Hassan, Islamic Bank of Asia CEO Vince Cook and FWU Group managing director Sohail Jaffer highlighted that GCC investors were looking at opportunities in real estate, infrastructure and private equity funds, as well as the capital markets.

Hassan said that Islamic products in Malaysia could be a good source of retail investment for GCC companies, adding that: "There are also Malaysian firms actively looking at investing and setting up businesses in the GCC countries. GCC investors are more likely to be interested in direct investments and taking up strategic stakes in companies."

Fokuo is also confident of African economies with healthy oil reserves looking to invest in Malaysia.

MIF 2007 NEWS

Salman denies buy

"At this point in time, there is nothing happening. There is no offer on the table from anyone. But if there is any offer, we will be interested," affirmed the managing director of Kuwait Finance House Malaysia (KFHM), Salman Younis.

Speaking to reporters at the sidelines of the MIF Forum 2007, Salman denied recent allegations of a potential re-bid for RHB Islamic. According to reports earlier this week, KFHM was apparently in talks with the Employees Provident Fund to buy 35 to 50 branches of RHB Islamic Bank.

During his panel discussion on the outlook for the Malaysian Islamic sector, Salman said that the country had progressed far in terms of Islamic banking and that its many incentives were pushing the rapid growth. "Islamic banking is here to stay and grow further. KFHM came here three years ago and we are seeing the results of the many steps the government has taken to improve the sector. There is more to come in the form of investment. We are very happy with the outlook for Islamic finance in Malaysia."

Salman also called for the establishment of mega banks to conduct Islamic finance services, adding that globally there were less than 10 large Islamic banking groups. "There are too many small players and the Islamic banking system is fragmented. The government must encourage the establishment of mega banks. This could be achieved by way of requiring higher capitalization of about RM500 million (US$142.65 million), or making foreign Islamic banks that take up a stake in local banks to increase Islamic finance offerings. This should be done over the next three to five years," he asserted.

MIF 2007 NEWS

Optimistic about ETFs

Bursa Malaysia chief executive officer Yusli Mohamed Yusoff acknowledged the tremendous growth of the Islamic capital market over the past few years during his luncheon address at the MIF Forum 2007.

Yusli affirmed that 86% of all securities listed on Bursa Malaysia are classified as Shariah compliant, accounting for approximately RM591 billion (US$168.47 billion) or 64% of total market capitalization. He also affirmed that the securities were all recognized by the Malaysian Securities Commission's Shariah Advisory Council. There are 100 currently available, with a total net asset value of RM9.2 billion (US$2.62 billion), compared to RM97 million (US$27.65 million) in 1993.

Yusli also revealed that Bursa Malaysia is working closely with the Government parties to list the first Islamic Exchange Traded Funds (ETFs) by the end of the year. "I believe the Islamic ETF will provide added diversity to our offerings, bridging gaps between us and global Islamic markets," he added.

MALAYSIA/SAUDI ARABIA

Majority buy

The Malaysian government has acquired a 70% stake in the Islamic Development Bank. This was confirmed by deputy finance minister Dr Awang Adek Hussein. The value of the deal, however, was not revealed.

GLOBAL

IMF on Islamic banking

According to an International Monetary Fund (IMF) paper, Islamic banking is expected to breach western markets. However, this could be hampered by the lack of hedging tools and the necessary integration with the global financial system.

The IMF Working Paper stated: "Islamic banking has been making headway into an increasing number of western countries. This is a trend that is likely to carry on, as oil exporting nations continue to accumulate wealth, GCC and South-East Asian Islamic financial markets develop further and companies in western nations keep competing to attract international investors."

Analyzing hedge funds, the paper stated: "Overseeing the risks concentration and its potential impact on Islamic financial institutions should become a daily task for the regulatory authorities." The paper also added that disparity will discourage cross-border use of Islamic products and constrain its growth potential."

IMF suggested that in jurisdictions where Islamic finance is still nascent, regulators and financial institutions should comply with the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

UAE

DIB expands

Dubai Islamic Bank (DIB) has opened two new branches in Dubai, increasing its total UAE-wide branch network to 41.

The newest branches are located on Oud Metha Road in Oud Metha, Dubai, and an exclusive ladies branch "Johara," in Abu Hail, Dubai.

PAKISTAN

Bogus banks

The State Bank of Pakistan (SBP) has warned banks and development financial institutions against marketing Islamic products without a license. Such institutions have also been ordered to refund any recoveries made or penalties imposed by banks from their clients within the next 15 days.

A circular issued by the Islamic Banking Department of SBP read: "All banks not authorized by issuance of an Islamic banking license from SBP are directed under Section 41 of the Banking Companies Ordinance, 1962, not to offer products in the name of Shariah compliant products and services without first obtaining an Islamic banking license from SBP in terms of IBD Circular number 2 of 2004 as amended from time to time."

The Central Bank said that failure to comply with these instructions might invoke penal action under the provisions of Banking Companies Ordinance, 1962.

UAE

No Sukuk for Aldar?

Aldar Properties plans to fund its US$60 billion project portfolio comprising building programs via Islamic financing. However, the developers have put Sukuk on hold. "We're looking at all the options now but I doubt it will be a Sukuk, However it will definitely be an Islamic instrument as all our facilities have an Islamic content," revealed chief executive Ronald Barrott.

Barrott also affirmed the company's confidence in deflecting US sub-prime mortgage worries. To further illustrate the company's confidence, Barrott stated: "We will be making strategic acquisitions overseas in the real estate business or related businesses."

Aldar shares have risen up to 75% since the start of 2007, compared with the Abu Dhabi Securities Market, which charted a 17% growth.

INDONESIA

Socially responsible cardholders

Bank Danamon Syariah and Baznas Dompet Dhuafa have signed an agreement on the allocation of zakat and the charity funds generated from the Dirham Card – Indonesia's first Shariah compliant card.

While the Dirham Card offers the full functionality and benefits of a conventional credit card, the relationship between transacting parties follows the regulations set out under Shariah. Danamon requires its Dirham Card holders to maintain a mandatory goodwill investment and manages a charity fund generated from its Shariah card business activities, for example from late payment fees, which will be used to fund charity activities.

The Dirham Card is a product of the collaboration between Bank Danamon and Mastercard. The uniqueness of the Dirham Card lies in the contract which it uses – Ijarah, Kafalah and Qard.

EGYPT

Approaching with trepidation

It was reported earlier this week that Islamic banking is struggling to take off in Egypt. Analysts believe this could be because the government has a misguided perception of it being linked to religious fundamentalism. This is despite keen interest from banks such as EFG-Hermes.

Islamic banks in Egypt currently hold a market share of 5%.

UAE

DP World: "Hold your horses!"

DP World has denied talks of a possible US$2 billion IPO. The company revealed that it has not decided to sell shares in an initial public offering and has stated that funding options are still open.

The IPO rumors were linked to DP World's parent entity Ports, Customs and Free Zone Co (PCFC)'s US$3.5 billion sale of partially convertible Sukuk in January 2006 to fund the US$6.8 billion acquisition of P&O. The DIFX-listed Sukuk will mature in January 2008, giving investors the option of converting 30% of their securities into any IPO by PCFC subsidiaries.

Should DP World decide against an IPO, investors will be entitled to a higher yield of 10.125%: 3% higher than an equity offering.

UAE

Istithmar and Barneys

Istithmar private equity and alternative investment house, headquartered in Dubai, has revised its offer to acquire Barneys New York from Jones Apparel Group Inc. The group has upped its purchase price to US$942.3 million under competitive terms in the share purchase agreement.

Istithmar will receive a break-up fee of US$34.7 million if its offer is not accepted.

CHINA/QATAR

Increasing Chinese interest

Doha Bank has launched its representative office in Shanghai, following increased interest from Chinese companies in different sectors in the state of Qatar.

The Shanghai representative office is expected to further strengthen the financial and economic bridges between the two countries.

BAHRAIN

Shamil lowers stake

Shamil Bank has lowered its stake in Meezan Bank from 26% to 7%. Shamil's sale of 19% ownership of the institution gained a 17% internal rate of return and an average annual return of 46% over the last 10 years.

Shamil has expressed its confidence in the timeliness of its disposal of part of its stake in Meezan.

QATAR

IBQ halts bid

The International Bank of Qatar (IBQ) will no longer pursue its US$6.1 billion bid to acquire Ahli United Bank (AUB).

Tamdeen Investment Company, Ahli's second-largest shareholder, had rejected IBQ's bid earlier this month. The sale would have marked the biggest cross-border takeover of a Gulf company. Other investors from Qatar, as well as from Egypt and Jordan, have also expressed interest in an AUB acquisition.

INDIA/SINGAPORE

Grameen spreads the word

Founder of Grameen Bank, Nobel Laureate Muhammad Yunus, has mentioned the possibility of setting up a branch in Singapore to cater to the needs of the low income groups deemed uncreditworthy by conventional banks.

Although popularly dubbed the Bank of the Poor, Yunus hopes to change Grameen Bank's reputation by 2015 to Bank of the Former Poor. 64% of Grameen's borrowers crossed the poverty line last year.

MALAYSIA

Al Rajhi's second home

Similar to Kuwait Finance House Malaysia, Al Rajhi Bank Malaysia aims to promote Malaysia's My Second Home program by tapping into its customer base of over 3 million in Saudi Arabia.

The bank's chief executive officer Ahmed Rehman said the bank was confident of playing a role in attracting more Arabs to purchase properties in Malaysia.

"We believe our bank can work with bodies like the Penang Development Corporation to produce brochures on the Malaysia My Second Home program for our customers in Saudi Arabia. We have 400 branches in Saudi Arabia serving over 3 million customers. I am sure there is a percentage of them who would be interested in owning a home in Malaysia," he opined. Ahmed was speaking at the opening of Al Rajhi Bank's first Penang branch.

SAUDI ARABIA

Approved!

The Saudi Basic Industries Corporation (Sabic) has received approval from the Saudi Capital Market Authority to increase the size of its Sukuk to a maximum of SR8 billion (US$2.13 billion).

The previous license issued on the 9th July had fixed the upper limit at US$1.33 billion.

Sabic launched its second Sukuk earlier this month, to be available to investors in Saudi Arabia and the GCC.

BAHRAIN

New record for GCC Sukuk

Issuance of corporate Sukuk in the GCC is expected to set a new record this year, surpassing the US$9 billion record set in 2006. To date, US$6.3 billion worth of Sukuk has already been issued.

The bullish outlook is underpinned by increasing Gulf mergers and acquisitions, company expansion, strong western demand for exposure to the booming Gulf economies and rising demand from Muslims for investments that comply with their beliefs.

This is in contrast to the shaky global credit market, which has been sparked by recent downgrades of US sub-prime loans. Some Gulf borrowers have delayed or postponed tapping the debt market until the jitters subside.

"Given the conditions of the wider market, there are companies that might postpone issuance, but I'm fairly confident the US$9 billion of last year will be met," said Philipp Lotter, senior credit officer at Moody's Dubai office.

UAE

Tajir tie-up

Dubai Islamic Bank has entered a joint venture with Al Tajir Real Estate to provide Islamic financing options to prospective customers of Al Tajir's Fortunato development.

At an estimated Dh320 million (US$87.13 million), the development aims to be a self-sustaining community, and is located centrally at Jumeirah Village-South. Launched in May this year, the construction work for the community will commence in September 2007 and is expected to be completed by mid-2009.

Al Tajir Real Estate has existing tie-ups with leading mortgage providers for up to 90% loan options, including Abu Dhabi Commercial Bank.

Market Rumours

Two foreign and one local Islamic bank are believed to have applied for Islamic banking licenses in Thailand, with at least one new player expected to emerge in the country by 2008.

SWITZERLAND

Halal power

EnergyMixx will use Islamic financing for its investment in renewable energy power ventures.

The expansion of its existing portfolio will involve obtaining renewable energy power plants financed by Islamic debt capital market instruments. The deal is being advised by Faisal Private in Geneva, with Vinson & Elkins acting as international legal counsel to EnergyMixx.

Artur Dela, the chairman of EnergyMixx, commented: "Sukuk will play a decisive role in the financing of our projects." The focus is on the Middle East, seeking both investors and opportunities to invest in the growing number of renewable energy projects in the region.

TURKEY

Shunning foreigners?

The Turkish Banking Regulation and Supervision Agency BDDK has blocked the sale of a 50% stake in AlternatiefBank to Greece's Alpha Bank for the same reasons it rebuked the sale of Turkish Adabank to The International Investor earlier this month (see Islamic Finance *news*, Vol. 4, issue 33).

This confirms a tougher position on envisaged acquisitions of Turkish banks by foreigners as international ownership of the banking system increases, as announced by chief regulator Tevfik Bilgin in August last year.

The BDDK is considering bids from ING Group to buy Oyak Bank for US$2.67 billion and Saudi Arabia's National Commercial Bank to purchase 60% of Turkiye Finans Participation Bank for US$1.08 billion.

MALAYSIA

Islamic banking contributes

AMMB Holdings has seen a 52% profit hike to RM181.1 million (US$51.68 million), as at the 30th June 2007.

Islamic banking operations, net interest income, fee-based income, investment and trading income, as well as general insurance businesses, boosted revenue to RM1.58 billion (US$450.96 million) from RM1.32 billion (US$376.75 million) in 2006.

AMMB, whose funds are managed by AmInvestment, also attributed its improved asset quality to a 0.5% decline in non-performing loans to 5.7%, due to liquidity in the property market. The company plans to tap into Shariah compliant securities to cater to growing demand in Malaysia for local and international issuances.

GLOBAL

Sub-prime effects hit

BNP Paribas has frozen three European funds exposed to volatile US sub-prime mortgage markets. Other companies, including Goldman Sachs and Renaissance Technologies, have also been affected, with the performance of their quantitative hedge funds reflecting the fledging markets.

Industry experts have shown concern, with some forecasting a snowball effect and markets expected to hit an all-time low come July 2008.

NIGERIA

Platinum banking

Platinum Habib Bank (Bank PHB) has introduced Islamic banking products, having integrated Shariah into its conventional banking system.

Francis Atuche, managing director of Bank PHB, affirmed that the interest-free products are part of the bank's innovative drive to make banking services available to previously segmented Muslim customers. Despite the country's healthy markets, Nigeria's Islamic banking systems have been relatively neglected to date.

Bank PHB's Shariah compliant products include its Hajj target, investment, deposit and current accounts, three of which require a minimum of N2,000 (US$15.83) while its current account will need N10,000 (US$79.18) to operate.

KUWAIT

NBK's win

The National Bank of Kuwait (NBK) has beaten its rivals in a bid to take over the AlWatany Bank of Egypt.

Other contenders included EFG Eurobank of Greece and the Commercial Bank of Kuwait. In its biggest ever acquisition, NBK will fork out US$522 million or US$11.23 per share to enter the most populous Arab nation.

The acquisition price values AlWatany at US$1.02 billion, a 39% premium above the closing price of AlWatany on the 13th August, and way above expectations of the Saudi stock market. NBK hopes to increase its stake in AlWatany to at least 90%.

MIDDLE EAST/UK

S&P's Islamic Pan-Arab Indices

Standard & Poor's (S&P) has launched three new Shariah compliant indices covering the Pan-Arab region and publicly traded property companies in developed and emerging markets. Each Shariah compliant index provides investors with an investable portfolio while adopting explicit selection criteria defined by Shariah regulations.

The S&P Pan-Arab Shariah Index includes 129 stocks from listed companies in 11 countries – Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE.

The S&P/Citigroup Global Property Shariah Index represents and measures investable publicly traded property companies from developed and emerging markets. It will host 130 companies from 26 countries with an adjusted market capitalization of US$231 billion. Countries represented include the US (19.54%), Australia (19.19%), China (11.14%), Hong Kong (10.53%) and Japan (9.8%).

The S&P/Citigroup World Property Shariah Index, a sub-set of the S&P/Citigroup Global Property Shariah Index, includes property companies from the developed markets only. It has 89 companies from 16 countries with an adjusted market cap of US$191 billion. Countries included in the index are the US (23.63%), Australia (23.21%), Hong Kong (12.74%), Japan (11.85%) and France (10.59%).

All S&P Shariah Indices are screened by Ratings Intelligence Partners.

EGYPT/SAUDI ARABIA

EFG's Kingdom interest

EFG-Hermes, currently managing US$2 billion worth of assets in Arab equities, is looking to raise its Saudi Arabian holding.

The bank increased its Saudi allocation from 0 to 15% at the start of the year and expects strong oil revenues to boost profits and share prices. A spokesperson from the company also revealed plans to target telecommunication operators and banks.

QATAR

QIB gets real

A real estate fund targeted at the London and Asian property markets is soon to be launched by Qatar Islamic Bank (QIB). This is part of its strategy to achieve 25% growth in its current year's bottom line.

Asian Finance Bank, QIB's Malaysian "arrangement bank," is considering funding projects worth US$200–300 million. According to QIB'S CEO, Salah al-Jaidah, the fund would depend on the projects, where normal equity participation size is US$150 million. He implied that there was further leverage to invest up to US$500–600 million.

He also said that QIB is working with other investors to set up a bank – capitalized at US$1 billion – in Sudan by next year. "It will be a fully fledged bank," adds Salah. The establishment stage is expected to be completed by next year, subject to approvals from the regulatory authorities.

Finally, QIB is planning to open its European Finance House by this year, as well as contemplating such entities across the world as part of efforts to strengthen its global operations.

MALAYSIA

Unhealthy alliances

England Optical Group's RM60 million (US$17.11 million) Murabahah commercial papers program has been rated P2 and placed on RAM Ratings' Rating Watch with a negative outlook.

This rating action is premised upon RAM Ratings' uncertainty vis-à-vis corporate governance issues, with an increase in related party transactions. These include England Optical settling the financial obligations of related companies and funding start-up costs of their business ventures. The company also engages these companies to oversee business-related activities, such as the procurement of supplies and wholesale transactions.

MALAYSIA

Developing auto parts

Malaysia Rating Corporation (MARC) has placed automotive parts maker EP Manufacturing (EPM)'s RM150 million (US$42.78 million) Murabahah notes issuance facility (MUNIF) and RM120 million (US$34.23 million) MUNIF, both rated at MARC-2ID, on MARCWatch with developing outlook.

This was pursuant to Bank Negara Malaysia's instruction to Abrar Discount, which underwrote RM32 million (US$9.12 million) of EPM's RM150 million MUNIF, to cease operations.

MARC was concerned that the rollover of EPM's RM150 million (US$42.78 million) MUNIF at its respective maturities, may be affected by the closure of Abrar, giving rise to refinancing risks. However, the company is confident of rolling over its short-term debts.

QATAR

BBB+ for Alqaria Sukuk

The US$300 million trust certificates (Sukuk) issued by Qatar Alaqaria Sukuk Company, due 2012, have been assigned a BBB+ senior unsecured rating by Fitch Ratings. Alqaria is the special purpose vehicle established by Qatar Real Estate Investment Company for the issuance of the Sukuk.

This rating follows a review of the final terms and conditions of the Sukuk, confirming information received when Fitch assigned the expected rating of BBB+ on the 6th June 2007.

UK

Moody's Way

In its special comment entitled: "Understanding Moody's Approach to Unsecured Corporate Sukuk," Moody's has provided an extensive fundamental overview of the regional Sukuk market, the common types of Sukuk transactions seen to date and Moody's approach to rating them. Despite early signs of an emerging market for Shariah compliant securitization, most Sukuk to date have been issued on an unsecured basis, noted Moody's.

According to Philipp Lotter, senior credit officer at Moody's Dubai office and author of the report, the analysis extends to areas that are unique to Sukuk structures, namely the legal enforceability of the purchase undertaking and other related documents, given the greater layers of legal documentation that support a Sukuk transaction. "However, Moody's does not opine upon compliance with Shariah or any other applicable law, leaving that to the more qualified scholars."

KAZAKHSTAN

S&P is worried

Standard & Poor's (S&P)'s long-standing concerns over the ever-increasing international indebtedness of banks in Kazakhstan have been heightened in recent weeks following tightening liquidity and widening risk premiums, due to the recent global credit squeeze.

Concerns about Kazakh banks' growing reliance on international investor sentiment have been a key rating factor that have maintained even Standard & Poor's highest ratings on Kazakh banks in the speculative grade category, while the sovereign has been assigned investment grade ratings of foreign currency BBB/stable/A-3 and local currency BBB+/stable/A-2. S&P, however, does not plan to take any immediate rating actions on Kazakh banks.

MALAYSIA

Sinking ship

PSSB Ship Management (PSM)'s RM40 million Bai Bithaman Ajil Islamic Securities (BAIS) have been rated A+ID with negative implications by Malaysian Rating Corporation (MARC).

The negative MARC Watch placement follows breaches in PSM's BAIS covenants.

THIS TIME LAST YEAR

- The **Islamic Development Bank** considered granting a US$1.5 billion loan to Iran.
- **Ithmaar Bank** purchased 136.97 million shares in **Shamil Bank** for US$410 million.
- **Qatar Islamic Bank** received orders for over double the stock it offered in a share sale.
- **Kuwait Finance House** was in the midst of finalizing a Sukuk for a Chinese state-owned company.
- Debt-ridden **Perwaja Steel** announced plans to sell US$109.23 million in Sukuk.
- **Standard Chartered** bought an 80.9% stake in Pakistan's **Union Bank** for US$413 million.
- **Al Islami Financial Services** opened its first branch exclusively for women in the UAE.
- **Mashreqbank** revealed plans to launch its independent Islamic finance subsidiary, **Badr Al Islami.**

MIF 2007 Issuers and Investors Forum

Following the phenomenal success of the inaugural Malaysian Islamic Finance conference last year, Malaysia has once again successfully hosted the MIF Issuers and Investors Forum on the 13th and 14th August 2007 at the Mandarin Oriental, Kuala Lumpur.

Dr Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

MIF 2007 focused on Malaysia's role as the dominant force in Islamic finance and how it could function to link the Middle East and Asian countries. Keynote addresses were delivered by Dr Zeti Akhtar Aziz, the governor of Bank Negara Malaysia, and Dr Nik Ramlah, senior executive director of the Securities Commission. On the first day, the issuers day, there were about 450 attendees with approximately 19% international participants. While the second day – the investors day – witnessed the attendance of 420 participants including 24% international delegates. The delegates for both days came from over 35 countries across the globe.

Dr Zeti's keynote address highlighted five major trends that have a significant bearing on the future development of the global Sukuk market:

1. The bond market is becoming a vital tool to meet the funding requirements for both the public and private sectors in emerging market economies. Thus, the development of the Sukuk market will provide opportunities for the corporate sector, government agencies, multinational corporations and multinational development institutions to raise funds through the issuance of Sukuk to meet their financing requirements.
2. The demand for Sukuk significantly exceeds supply. This significant demand has been spurred by high levels of surplus savings and reserves in Asia and in the Middle East.
3. There is a great number of global players such as investment banks, Islamic banks and securities firms that are involved in the issuance of Sukuk in the international financial markets.
4. The established international financial centers have shown their interest in playing an active role in promoting the development of the Sukuk market, including enacting the appropriate legislative provisions.
5. The evolution of the regulatory and supervisory paradigm has witnessed significant global shifts in the approach to regulation and supervision across many countries.

Dr Zeti also highlighted the potential of the Malaysian Sukuk market and its linkages with other international Islamic financial systems. "This would facilitate greater cross-border flows and not only contribute towards enhancing greater international economic and financial integration, and the global growth, but also towards financial stability in the international financial system," she said.

The panelists on the issuers day discussed various topics that focused on the effect of the US sub-prime market on Sukuk issuance, the benefit of rating, the need to establish institutional investors (Takaful and pension funds) and also Japan's interest in issuing its first Sukuk. The sub-prime market credit crisis in the US has indirectly caused issuers to pay attention to the timing of the issuance. "The sub-prime market does impact the bond market. In the Islamic space there were a few transactions cancelled because the issuer felt the time was not right to go into the market. In my opinion, the current credit crises will bring some bad and good news. The bad news is, the issuer will face more covenants and a thin pricing. Nonetheless, there is considerable amount of liquidity in the market and the Sukuk issuance will keep on continuing," said Salman Younis, the managing director of Kuwait Finance House (Malaysia).

Day 1, session 1 panelists

Rating brings various benefits to the issuer – most important being the ability of the issuer to reach a wider investor base. According to Yakub Bobat, the managing director of HSBC Amanah (Malaysia), most of GCC Sukuk issuance came from well recognized GCC companies that did not require rating due the excess liquidity available. However, as the market is developing and with the current credit crunch, it is vital to have rating in order to reach investors other than just GCC investors. Yakub added that most companies avoid rating due to cost considerations. Rafe Haneef, the head of Islamic at Citigroup Asia, said that rating would be extremely helpful to determine the best price of issuance. "If an issue is not rated, the investors would have to do their own credit analysis and will come up with different pricing due to different method used. When rating is done, then its easier to make a peer comparison. For example if we are given a BBB rating, we can look at the trading price of other BBB securities to determine our price," he exemplified.

Michael Zamorski
Managing Director, Supervision, DFSA

In discussing the non-existence of a secondary trading market for Sukuk, the limited number of Sukuk issuances currently is said to play a role in non-trading, because if the Islamic banks sell the Sukuk that they invest in, then they do not have a replacement asset. Besides increasing the mass of issuance, Rafe Haneef highlighted that it is important to develop institutional investors (Takaful and pension funds) because these are the type of investors that will be interested in the fixed income, longer term Sukuk, because they need more conservative and stable investment avenues. "In the GCC region, most issuance are floating rate notes (FRN) that will attract financial institutions. If we look at Malaysia, more fixed income securities are issued in order to attract the institutional investors. Thus there is a global need to establish more Takaful and pension funds if we

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would like to see more longer term Sukuk issuance and trading in the secondary market," he concludes.

Last but not least, the final session of the issuers day witnessed how Japan is seriously interested in the Islamic finance market. Tadashi Maeda, the director general of Japan's planning and co-ordination division, said: "The size of the Muslim community in Japan is neglible, therefore the move of Japan to enter the Islamic finance industry is a strategic move rather than a commercial one. We are aiming to play a key role in Asian Islamic finance. Japan has been buying oil and gas from the Middle East, thus we would want to use Islamic finance instruments to fund these transactions," he enlightened.

Dr Nik Ramlah Mahmood
Senior executive director, Securities Commission

Dr Nik Ramlah Mahmood, the senior executive director of Malaysia's Securities Commission, highlighted during her keynote address on the investor's day that the single most important catalyst for the development of the Islamic capital market products and services in Malaysia was the establishment of the Shariah Advisory Council (SAC) at the Securities Commission. "Not only is the SAC able to respond to inquiries and proposals from the industry, often times, the SAC is also able to make pronouncements to encourage innovation from industry. The guidelines issued by the SC such as those on Islamic unit trusts, Islamic REITS and Islamic securities, always attract considerable interest from across the globe," Dr Nik enlightened.

Dr Nik also added that in order to encourage the structuring of new and innovative products, the government have introduced tax incentives for the use of globally accepted Shariah structures. "In relation to this, the government has provided tax incentives on expenses incurred on Sukuk issuance under the Shariah principles of Musharakah, Mudarabah, Istisnah and Ijarah because the issuance of Islamic securities based on these Shariah principles is expected to draw greater interest from foreign investors, particularly from the Middle East since these principles are more well-known in the international market," she elucidated.

Among other issues that were discussed on the investor's day included the benefit of investing in Malaysia, the investment opportunities prevalent in the market and also the challenges that exist in the Islamic finance industry. Daud Vicary Abdullah, the chief operating officer of Asian Finance Bank, said that the biggest advantage that Malaysia has is a clear articulation of plans by the government. "The Malaysian government has in a place the Financial Sector Master Plan that has been carefully planned and executed. This creates and connects the environment in a financial system – namely the banking, Takaful and money market. Malaysia also has a strong legal, tax and regulatory environment."

According to Daud, sectors that will bring about a lot of opportunities in the Islamic banking industry include traditional sectors like real property and infrastructure and more recent industries such as transportation (shipping and aircraft). Keith Driver, CEO of HSBC Amanah Takaful, highlighted that Malaysia and Indonesia have the most potential for growth. "If we analyze the population structure of these countries, the majority is made of a young population. However, these younger generation are not attracted to buy insurance. What do we need to sell to them? We need to come out with a product to cater for this segment. Nonetheless, this younger generation will eventually get older and there is our future prospective client for Takaful. That's why there is high growth in these markets."

Day 2, session 1 panelists

It was also agreed that Indonesia's market represents the awakened giant. However, efforts to improve on the regulatory framework are vital before development can take place in Indonesia. Besides Indonesia, India is also looking into developing its Islamic financial system. According to Taher Badshah, the investment advisor of Kota Mahindra Investment, India has promising opportunities because it has strong economic growth and quite a large Muslim population (10% of the population is Muslim). "There is no Islamic banking available to the Indian population, however we have a strong equity market. A large number of Shariah compliant corporations are based in India. That's why we are currently looking at Shariah compliant investment fund activities. For the time being we are issuing funds for investors outside of India. Eventually we will develop investment products for the local Muslims investors," he highlights.

The discussion on the second day revolved around challenges facing the Islamic finance industry. These include the need to modify the expectations of an investor. Currently, investors come into the market with the expectation of making high returns but only taking a low risk. This is where consumer education could play a role. An acute problem in Islamic finance at present is the issue of human capital. We lack qualified and experienced Islamic bankers, investment bankers, marketing teams, fund managers, lawyers, etc. This is where education and training plays a vital role to narrow the gaps in the workforce. Improvement of the regulatory framework is also fundamental to bring the industry forward because sometimes the law of the land acts as the impediment of the industry. Last but not least, there is a vital need to work towards Shariah harmonization.

Concluding the two-day event, Abdulkader Thomas, the event chairperson, wrapped up the forum with an interesting thought. "Islamic finance has concentrated a lot on real estate projects. There were concerns raised from the audience that Islamic banks are over-exposing themselves on real estate. Despite that fact, the investment in real estate keeps on growing. Why? It's due to our demographic factor. I will describe in simple three words – youth, vigor and shortage. Most emerging economies have a young population who are dynamic and there is a shortage of supply of real estate. Thus, the real estate investment will continue for some time in the future."

Exclusive Interview with Dheerasak Suwannayos, Acting President of the Islamic Bank of Thailand

By Nora Salim

"The complete takeover by the Islamic Bank of Thailand of the Islamic banking operations of Krung Thai Bank last year has been very positive for us," declares Dheerasak Suwannayos, the acting president of the Islamic Bank of Thailand (IBT). Following the announcement by the Bank of Thailand (BOT) in 2000 that allowed commercial banks to open up Islamic banking units within the bank, Krung Thai Bank began to operate Shariah banking within the bank in 2001. After the enactment of the Islamic Bank of Thailand Act 2002, Thailand saw the establishment of its first fully fledged Islamic bank, the Islamic Bank of Thailand (IBT), in 2003. In 2005, IBT reached a benchmark when it acquired the Islamic banking operations of Krung Thai Bank. "Before the merger we only had nine branches and thereafter we expanded to a network of 26 branches," he added. "Given that most of the Muslim population in Thailand is in the southern region, ten of these branches are located in the southern part of Thailand."

The other positive impact of the merger has been on the bank's products, Dheerasak believes: "IBT is now able to offer 27 Shariah compliant products from just a few when it first started operations."

Presently, the Islamic Bank of Thailand's assets total THB11 billion (US$339 million), although Dheerasak acknowledges that this is a very tiny amount, as it is not even one percent of the total assets in the Thai banking system, which reach THB6.4 trillion (US$197 million).

"IBT is regulated by the Central Bank (Bank of Thailand – BOT) and the ministry of finance," says Dheerasak. "We not only have to abide by the Islamic Bank of Thailand Act 2002, but also the Commercial Banking Act BE 2505." BOT is responsible for monetary policy and regulating commercial banks in Thailand, and as such it is in a better position to supervise the operations and activities of Islamic banks.

New Thai Islamic banks on the horizon?

On the progress of the industry, Dheerasak agrees that Islamic banking in Thailand has moved much slower than expected and especially so when compared to its neighbor Malaysia. "If we compare to Malaysia, we are definitely much slower," says Dheerasak, "yet we do not want to compare ourselves with Singapore as they are not going for retail banking." However, Dheerasak believes that Thailand is in a much better position than Indonesia: "At least we are seeing the high officials from government encouraging Islamic banking."

Dheerasak reveals that many Islamic bankers from overseas have paid visits to high ranking officials at the ministry of finance in Thailand. These include visitors from the Abu Dhabi Islamic Bank, Dubai Islamic Bank and Emirates Islamic Bank. For the moment the visits appear to be primarily for marketing purposes.

Apart from this, a number of institutions – both local and foreign – may be seriously looking into establishing Islamic banking operations in Thailand. A fully fledged Islamic bank requires a minimum paid-up capital of THB5 billion (US$154 million). A second or even a third player in the Islamic banking industry in Thailand is a possibility in the coming year. With a Muslim population of 9 million, the prospects seem enormous, as the demand for alternative banking increases.

> "A second or even a third player in the Islamic banking industry in Thailand is a possibility in the coming year"

As for the potential issues that a prospective institution that wants to set up Islamic bank might face, Dheerasak believes, "There should be no problem to open a second Islamic bank in Thailand as IBT has cleared the path for them."

Nonetheless, where taxation is concerned, it appears that Islamic banks that pay the same 30% corporate tax as conventional banks will have to apply separately for further tax breaks from the ministry of finance if they wish for tax incentives similar to what is available over the border in Malaysia.

Political climate is another factor that has played a crucial role in the sluggish path of Islamic banking in Thailand. The political unrest and unresolved turmoil prevailing in the south of the country is well known. The conflict in Thailand's southern provinces, which started in 2003, has yet to be effectively addressed and resolved by the government.

Moving on to the specific areas that Islamic finance institutions might consider tapping in Thailand: "There is obviously huge demand for Islamic finance structures," declares Dheerasak, and "many in the private sector are already asking their financial advisors to look into raising finance Islamically." Corporate finance has potential for Islamic finance, particularly in infrastructure and, admits Dheerasak, "Thailand wants to tap the petrodollars, just like many nations in the world."

Public understanding

"A lot of people still do not understand and are confused about what Islamic banking is about. Many non-Muslims think that they cannot bank with an Islamic bank as it is meant only for Muslims. As such advertisement must deliver the principles clearly," opines Dheerasak.

As for middle and upper management's understanding of the Islamic banking system and products, Dheerasak states that there is a lot to be

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Interview with Dheerasak Suwannayos *(continued...)*

done towards educating professionals in the industry. "Even though many of them are aware of Islamic banking and Islamic banking products, they seem unsure or confused about the mechanics of many Shariah compliant finance structures and transactions. There is also quite a bit of confusion caused by the varying opinions among Shariah scholars from across the world." Thus it would make sense that IBT has "received many invitations from institutions to give lectures on Islamic banking and what products and services we can offer."

> "What we can do is promote Islamic banking in the sense of its clarity and transparency on the contracts a customer enters into"

In an effort to promote Islamic banking, the First Thailand Islamic Finance Conference will be held in Bangkok on the 6th September. Several practitioners in Islamic finance from Malaysian banking institutions and legal firms are expected to speak at the forum, in addition to Dheerasak himself.

Government support

Dheerasak believes that it is only a matter of time before Thailand sees a sovereign Islamic bond, with major infrastructure projects in the pipeline. "If Thailand wants to move ahead in Islamic finance, the areas of opportunities would be in infrastructure or project finance. Thailand requires THB230 billion (US$7.22 billion) for five subways, THB150 billion (US$4.71 billion) for 53 aircrafts and THB250 billion (US$7.85 billion) for railway double tracking," he explains, "and there is yet to be financing for these projects."

Clear policy from the government that they want to promote Islamic banking is required if the industry wants to accelerate its growth to move to the next platform. In terms of support and assistance for Islamic banking, Dheerasak opines: "From the government's side, the industry could do with some tax reforms for Islamic banks to work properly. There is also a need to harmonize the interpretation of Shariah laws and sharing of knowledge." He also feels that the market needs to be more open, rather being restrained.

Moving forward with IBT

IBT's strategy in the near term is associated with Thailand's aim of becoming a halal food hub of the world. The target market is the MENA region. "We can finance companies, be it local or from MENA, which want to venture into the manufacturing of halal food products by way of Shariah financing," he adds.

In terms of expanding the branch network, setting up a branch is a small cost – about THB5 million (US$154,000) – as opposed to a head office, which can easily cost THB400 million (US$12.3 million). Dheerasak is aiming for 40 IBT branches within the next three years. This number is made possible by setting up branches through Provincial Islamic Associations, which number around 34 throughout the country.

When asked his opinion on partnering with a well-known conventional name in banking to move Islamic banking faster in Thailand, "I would prefer to partner with an Islamic bank or institution, not conventional," he reveals, as a "conventional bank as a partner may not be advantageous or helpful due to the different banking principles and product structures. "We want a partner which can provide us with an expansion of our services, products and experience."

In any case, Dheerasak is confident that a 4–5% growth rate can be sustained by the bank over the next few years. He does not feel that the industry should move at the fast pace evidenced elsewhere in the world. "We will not be able to cope if the Islamic finance industry in Thailand grows faster that this."

As for other Shariah compliant products like insurance, to operate a Takaful operation, a separate license is needed and the IBT is not allowed to operate in the Takaful sphere under its present operation, as a separate entity is required. There are currently four Takaful operators in Thailand.

Although Thailand lacks any special feature for promoting Islamic banking, "what we can do is promote Islamic banking in the sense of its clarity and transparency on the contracts a customer enters into."

Dheerasak's closing words are that "I'd like to see more players in the Islamic finance market." Judging by his enthusiasm, and if we remove the uncertainty in the southern provinces, Thailand may indeed see another Islamic banking player within the next year and its Islamic banking industry might actually take off.

Displaced Commercial Risk, Alpha and Capital Adequacy Ratio

By Shabnam Mokhtar

Capital adequacy ratio plays a vital role in banking supervision. It generally refers to the level of capital that a bank has in place, compared to the risky assets it carries in the portfolio. A simplified version of the capital ratio is represented by the formula below:

$$\text{Capital Ratio} = \frac{\text{Capital}}{\text{Risky Asset}}$$

Why are regulators concerned about how much capital a bank has? Since banks hold public funds (and these funds are guaranteed), it is important to ensure that banks have enough capital to absorb losses that may occur so they can continue operations. If not, banks may find themselves going into bankruptcy, thus causing the public to lose confidence in the system. Therefore, capital adequacy ratio is used as a regulatory mechanism to avoid systemic risk. Regulators specify the minimum capital that banks must maintain (i.e. adequate capital).

> “Capital adequacy ratio is used as a regulatory mechanism to avoid systemic risk”

Risky assets generally refer to the assets of the bank weighted according to its risks. Certain categories of asset carry a higher risk compared to other categories. For example, in the case of a conventional bank, a loan to a private corporation is more risky than investment in T-bills. Risks in the portfolio could take the form of credit risk, market risk or operational risk, to name but a few.

Islamic financial institutions (IFIs) face the same regulatory mechanism, so they are also required to maintain a minimum capital ratio. Due to the different nature of operation of IFIs, they face additional and unique risks compared to conventional banks. Without going into a detailed discussion of the risk weights of various financing contracts (for example, Mudarabah financing to private commercial enterprises may attract a 400% risk weight according to the simple risk weight method, or between 90% and 270% risk weight according to the slotting method), this article attempts to shed light on one unique risk faced by the IFI; the displaced commercial risk and its implication on the capital adequacy ratio.

Displaced commercial risk

What is displaced commercial risk (DCR)? Let’s first look at a set of definitions from the Islamic Financial Services Board (IFSB)’s Capital Adequacy Standard, the assistant governor of Bank Negara Malaysia, Muhammad Ibrahim, and also from Dr V Sundararajan, the director of Centennial Group.

> “DCR refers to the risk arising from assets managed on behalf of investment account holders which is effectively transferred to the IFI’s own capital because the IFI forgoes part or all of its mudarib’s share on such fund.”
> *(Modified from para 76 of IFSB’s Capital Adequacy Standard.)*

> “DCR is the risk of incurring losses following a decision by an IFI to forgo its share of income from Mudarabah investment account in order to meet the market rate of return on comparable deposits/investments, for example fixed deposits with similar tenor.”
> *(Muhammad Ibrahim, assistant governor of Bank Negara Malaysia.)*

> “DCR refers to the additional risk borne by shareholders in order to pay out to investment account holders a return that matches the market benchmark rates, even though the return on the assets invested with investment account holders funds’ could be lower or even be negative at times.”
> *(Dr V Sundararajan, director of Centennial Group.)*

What do all these definitions have in common? Well, it revolves around the Mudarabah investment account and losses borne/income forgone by the IFI. Let’s take one step back and analyze the Mudarabah investment account concept. In a Mudarabah investment, the rab al maal (the capital provider, i.e. the investment account holders) has to absorb any losses that occur in the Mudarabah investment not due to the negligence of the mudarib (the entrepreneur – the bank). In addition, the profit sharing is based on actual profit realized from the investment and the principal sum of the investment, together with the profit that is not guaranteed by the IFI.

> “If banks strictly follow the Mudarabah contract, the investment account holders bear the full risk of losses in investments”

The original concept is clear – losses are borne by the investment account holder. However, when the concept is put into application, a different story emerges. “DCR arises from the way the IFI determine the returns to investment account holders. If banks strictly follow the Mudarabah contract, the investment account holders bear the full risk of losses in investments, however, sometimes banks are under commercial pressure to pay out returns to investment account holders that match market benchmark rates, even if their own profits turn out to be low or negative,” Dr Sundararajan highlighted one reason for the occurrence of DCR.

Simply, DCR refers to risks that an IFI absorb losses/forgoes its share of profit to ensure that the investment account holders enjoy the market return on a similar investment. An industry observer noted that DCR causes the rate of return paid to the investment account holder to be smoothed at the expense of the profits attributable to the IFI’s shareholders. He also highlighted two reasons for the existence of DCR. “Such a situation would most often arise as a result of rate of return risk (otherwise referred to as profit rate risk), where the investment

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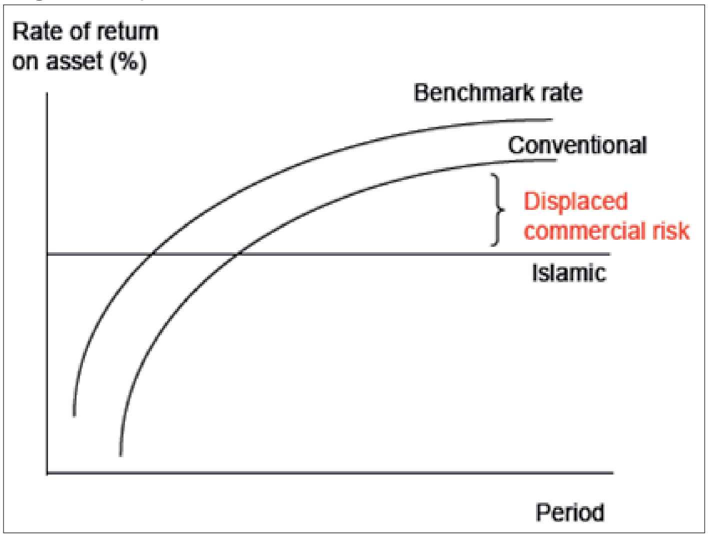
Displaced Commercial Risk, Alpha and Capital Adequacy Ratio *(continued...)*

account's funds are invested in assets such as Murabahah or Ijarah with a relatively long maturity; at a rate of return which no longer meets current market expectations (depicted in Diagram 1 below). In addition, DCR might also arise in respect of other market risks (such as price risk) or credit risk when an IFI wishes to protect its investment account holder from the effects of the poor overall performance of a portfolio of assets under its management.

Diagram 1: Displaced Commercial Risk



Source: Adopted from Muhammad Ibrahim's presentation at GIFF

One is tempted to ask a follow-up question on this issue – Why not let the investment account holder absorb the losses? That is the original concept of Mudarabah and it would avoid all this additional, unique risk that the IFI faces. Theoretically, the IFI has the option of not undertaking DCR, however in practice it faces the risk of losing its customers when it does so. "The IFI decides to undertake the DCR as a measure to mitigate potential outflow of deposits or investment funds from the IFI," Muhammad provides a practical reasoning.

Now, with a clear understanding of DCR, one must ask – what has DCR got to do with capital adequacy – our initial topic of discussion? As Dr Sundararajan puts it: "Risk is measured by unexpected losses that could arise in the banking operations and banks hold capital to cover these unexpected losses. If IFIs strictly follow the Mudarabah contract, investment account holders bear the full risk of losses in investments, and hence banks hold capital only for risks on assets funded by current account deposits and other liabilities. However, with DCR there is additional unexpected losses, and hence additional capital will be required."

If we relate Dr Sundararajan's explanation to the capital ratio above, the denominator of the ratio (i.e. the risky asset) should exclude assets funded by the investment account holders, because with the original concept of Mudarabah, the risks on assets financed by the investment account holders is borne by them. As this exclusion results in a smaller denominator, the IFI will have a higher capital ratio. However, when DCR exists, the IFSB's Capital Adequacy Standard allows the regulators to require IFIs to include a specific percentage of assets financed by the investment account holder in the denominator of the capital ratio. This percentage is known as Alpha.

Relationship between Alpha and DCR

Basel II and the IFSB standards differentiate three kind of risks in arriving at the risk weighted assets – the credit risk, the market risk and the operational risk. According to the IFSB Capital Adequacy Standard, the investment account holders should absorb the credit and market risk while the IFI absorbs the operational risk. With the risk of DCR, the IFI also absorbs a portion of the market and credit risk in the investment asset. According to Muhammad, this portion of credit and market risk absorbed by the IFI is Alpha and it could be used to estimate DCR. The larger the Alpha, the larger is the estimate of DCR to be undertaken by the IFIs (i.e. the larger credit and market risk is absorbed by the IFI).

"In theory, the investment account holders would absorb the entire losses from credit and market risks arising from the profit sharing investment account, while the IFI only bears the operational risk arising from its own negligence or breach of contracts. This implies that Alpha would be zero (i.e. no credit and market risks absorbed by the IFI). However, in practice, most IFIs forgo their share of income from the Mudarabah contracts, and to a certain extent absorb principal losses arising from credit and market risk exposures. This decision/action exposes the IFIs to the DCR and hence, Alpha would be greater than zero," Muhammad elucidates.

Dr Sundararajan relates Alpha to the capital ratio. "If Alpha is zero, assets funded by investment account holders are not subject to capital requirements, because investment account holders bear all risk of losses (like a pure investor), and DCR is zero. If Alpha is one, all assets funded by investment account holders are subject to capital requirements, because investment account holders are being effectively treated as if they are conventional depositors receiving a market rate of return. There is a positive relationship between Alpha and the DCR – the lower the DCR, the lower is the value of Alpha, and hence the lower is the capital requirements." Table 1 summarizes the relationship between the variables.

Table 1: Relationship between Alpha, DCR and capital requirement

Alpha	DCR	Capital requirement
Zero	Zero	Asset funded by the investment account holder should be excluded from risk weighted asset (i.e. no additional capital required).
One	One	All assets funded by the investment account holder should be included in the risk weighted asset (i.e. full additional capital is required).

How is Alpha measured currently? Is it left to the discretion of the IFI or is there a regulatory Alpha in place? "Currently some supervisory authorities have fixed the Alpha at some level – for example Bahrain 50%; Dubai 33%; while most Central Banks sets the Alpha at 0%. However this is done purely arbitrarily. IFSB is planning some work with member countries to develop guidelines to estimate Alpha and the guidance should be forthcoming in due course," Dr Sundararajan enlightens.

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Displaced Commercial Risk, Alpha and Capital Adequacy Ratio *(continued...)*

Managing DCR

DCR is a practical problem and currently IFIs have two avenues to manage it – using the profit equalization reserve (PER) or the investment risk reserve (IRR). "The PER and IRR are reserves set aside from profits available for distribution to investment account holders. These reserves belong to investment account holders, but not paid out to them," said Dr Sundararajan.

How do the reserves play a role in managing DCR then? Generally, these reserves are set aside when profits are good and used to pay out market returns to investment account holders even when the profits are low or negative (smoothing the income). "If these reserves were sufficient to manage the payouts to investment account holders, there would be no need to sacrifice shareholder profits in order to maintain investment account holders' return. Hence, if PER/IRR were sufficient, there would be no DCR," Dr Sundararajan adds.

Is there are any difference between PER and IRR, one could ask. The Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI)'s standard – FAS 11: Provisions and Reserves – explains the difference between the two:

- PER is the amount appropriated out of Mudarabah income before allocating the mudarib share.
- IRR is the amount appropriated out of income of the investment account holders after allocating the mudarib's share.

What does that mean? The stages outlined below illustrate the difference between the two via a simple example:

Stage 1: Let us say the total profit before distribution to shareholders and investment account holders is US$110,000.
Stage 2: Deduct PER, at say US$10,000. Therefore the total profit available for distribution to both shareholders and investment account holders is US$100,000.
Stage 3: Assume the agreed profit ratio is 70:30, then investment account holders will get US$70,000.
Stage 4: Before distributing to the investment account holder, the IFI may deduct further for IRR, US$5,000.
Stage 5: Therefore, the investment account holders will get US$65,000.

"In the case of Malaysia, they do not have IRR and therefore the investment account holder will get US$70,000," our industry observer adds. Muhammad provides further explanation with another illustrative example. PER is accumulated over time from a portion of the investment account holders' and the IFI's share of income from the Mudarabah investments. The objective of PER is to smooth future income to investment account holders. Hence, if the amount utilized from PER involves only the portion contributed by investment account holders, PER can be used to manage the exposure of the IFIs to DCR. However, if the amount utilized also includes the amount contributed by the IFI, the IFI has actually incurred such loss arising from the DCR. Let's consider the following example:

Assume that the PER stands at US$100,000, comprising equal (50:50) contributions by the investment account holders and the IFI. The rate of return on investment is 3%, lower than the market rate paid on fixed deposit of 4%. In order to increase the rate of return to the investment account holder to 4%, we assume that the IFI needs to utilize US$30,000 from PER.

Since the amount needed to increase the rate of return to investment account holders is still within the amount contributed by the investment account holders in the PER (US$50,000), the IFI manages to avoid incurring the loss arising from the DCR. The IFI only starts to incur such a loss if the amount needed to increase the return to investment account holders exceeds US$50,000 (i.e. the investment account holders' portion of the PER).

"Unlike PER, Investment Risk Reserve (IRR) is accumulated from a portion of investment account holder's income only. The objective of IRR is similar to PER, which is to smoothen income to investment account holders. Since IRR is contributed by investment account holders only, the use of IRR to smoothen income to investment account holders during 'rainy days' seems to imply that the IFI would not be exposed to losses arising from the DCR. However, this is not true when the amount required to match market return exceeds the IRR amount. Under such a situation, the IFI may be forced to use shareholders' funds to meet the gap (hence, start to incur the loss)," Muhammad clarifies.

Dr Sundararajan highlights another difference between PER and IRR. "Under the Shariah rules, PER cannot be used to cover losses, and can be used only to smooth returns that are positive. If there are losses, the IRR, if available, can be used to cover the losses, and bring the payout to a positive level. Thus, to avoid negative returns to investment account holders, an IFI has to build sufficient volume of IRR in good times."

Conclusion

DCR, Alpha and capital adequacy are complex issues that arise in the regulatory framework of IFIs. DCR simply refers to the risk that the IFI needs to absorb losses/forgo its income to ensure the investment account holders enjoy market rates of return. Alpha is an estimate of DCR and when Alpha is larger than zero, assets financed by the investment account holders must be included in the denominator of the capital ratio (risky asset), which will require more capital. The IFI currently utilizes the PER and IRR to manage the DCR. The idea behind PER and IRR is to save a portion of income in good times for use during rainy days. If these reserves are sufficient, then the IFI will not face DCR.

Supervisory Implications of Islamic Finance in the Current Regulatory Environment

This is an extract from the book Islamic Finance: The Regulatory Challenge *edited by Simon Archer and Rifaat Ahmed Abdel Karim. This extracted chapter was authored by Hari Bhambra.*

Introduction

The strength of a financial industry is based on the confidence investors have in it. One of the main factors contributing to confidence in a financial center is its regulatory system, which seeks to promote that very confidence. Islamic finance needs to ensure that its customers have confidence in it to ensure that this fledgling industry can continue to grow and remain a permanent part of the global financial system.

Islamic finance raises a number of unique risks. These risks have regulatory ramifications. This chapter seeks to address the fundamental question of how, if at all, these issues can be addressed within the current regulatory environment.

Globalization of finance and the rapid integration of Islamic finance into mainstream finance raise a number of challenges for regulators across the world.

The supervisory implications of regulating Islamic finance have two facets: first, regulation in a wholly Islamic jurisdiction; and second, regulation of both Islamic finance and conventional finance. This chapter will focus on the second facet, the supervisory implications of regulating both Islamic and conventional finance. This opens two further questions: (a) whether a single regulator can regulate both conventional and Islamic finance; and (b) the rather different question of whether it is possible for a single integrated regulatory approach or regime to apply to both conventional and Islamic finance.

Perhaps one of the greatest challenges faced by regulators is that of aligning the international standards adopted across the global financial system with the fragmented standards and practices that have emerged across the Islamic financial services industry, which has until recently been working as a niche industry, somewhat detached from mainstream finance.

Similarly, regulators of Islamic finance in wholly Islamic financial systems face their own share of concerns to ensure that Islamic financial institutions remain sound and stable, particularly as such institutions may have limited risk management capabilities.

Some critics argue that Islamic finance cannot be fully understood within a conventional financial system that is based on the mechanism of interest, a mechanism that violates the very essence of Islamic finance. The purpose of this chapter is to assess the reality of this view.

Is integration of regulatory requirements for Islamic finance and conventional finance possible?

Having identified the issues and risks arising from Islamic finance, the next step is to determine what degree of integration of regulatory standards is possible, and whether such integration is an appropriate step for regulators to take when devising the regulations for the supervision of Islamic firms.

Often, a regulator that adopts an integrated approach to regulating both industries may be criticized for discriminating against Islamic firms by imposing conventional standards on Islamic finance without adequate consideration of the unique risks and issues that arise.

Perhaps it is more a matter of semantics than discrimination. A regulatory framework which imposes the same systems and controls,

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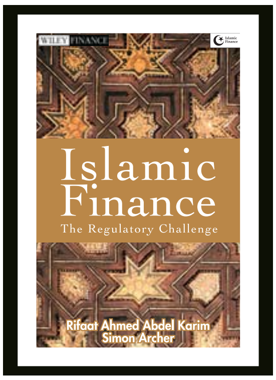
ISLAMIC FINANCE: THE REGULATORY CHALLENGE



Author/Editors: Simon Archer and Rifaat Ahmed Abdel Karim
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Islamic financial systems are obviously coming of age. More and more books are being published on Islamic finance. And importantly, they are increasingly focusing on specific areas, rather than giving broad overviews of what Islamic finance is. *In Islamic Finance: The Regulatory Challenge*, Simon Archer and Rifaat Ahmed Abdel Karim have brought together a variety of experts to talk on the key regulatory issues currently facing Islamic financial systems.

The book aims to provide readers interested in the international financial services and their regulation with an in-depth evaluation of recent developments in the Islamic banking system. It addresses the need for banks to develop common Islamic international accounting and auditing standards that harmonize the differences between Shariah rulings, standardization of acceptable banking practices, the development of standardized financial products, and the role of the Shariah boards in establishing common rules regarding the permissibility of financial instruments and markets.

As Islamic banking systems continue their dramatic expansion into global financial markets, this book is useful reading for regulators, supervisors, governments and scholars who have to deal with the regulatory implications. It shows that while the challenges may seem daunting, they are certainly manageable.

Supervisory Implications of Islamic Finance in the Current Regulatory Environment *(continued...)*

conduct of business, and disclosure and prudential requirements across conventional and Islamic firms may be seen as imposing conventional standards without due consideration for Islamic finance.

> "Is it possible for a single integrated regulatory approach or regime to apply to both conventional and Islamic finance?"

However, if there is modification within such standards, then it is clearly possible to unify and integrate regulation, as some regulators around the world have already chosen to do. Some regulators may refer to such modification as a segregation of regulatory requirements, while others will refer to it as part of an overall integrated regulatory regime, resulting in the same regulatory approach being applicable, addressing the same risks and perhaps in the same manner, but semantics may cause one regulatory approach to be perceived to provide segregated regulatory requirements.

There are clearly circumstances where certain international standards and codes are capable of application to both Islamic firms and conventional firms, such as fitness and properness, and personal account dealing standards that can apply both to individuals within firms and also be extended to those Shariah scholars who are appointed by Islamic firms. Needless to say, there are, of course, areas where internationally recognized standards do require modification in order to reflect the specificities of Islamic finance, but the critical issue is to understand when such a modification is required, rather than modifying for the sake of it. To have a separate regime for Islamic finance, as in some jurisdictions, may only serve to duplicate common areas of regulation and lead to an increase in the costs of regulation, which in turn may not make such markets competitive. In this spirit, the IFSB has developed standards on capital adequacy and risk management for Islamic financial institutions that build on existing authoritative pronouncements intended for conventional financial institutions and adapts or complements these where necessary for application in Islamic finance.

Taking the Dubai Financial Services Authority as an example, it does indeed apply the same requirements across both industry sectors, but it has made additional changes and modifications in a number of areas within its overall integrated framework to reflect and accommodate the specificities of Islamic finance.

Some core elements of regulation are capable of extension to Islamic firms, such as systems and controls and disclosure requirements. In respect of regulatory systems and controls requirements, all regulated firms should have strong systems and controls in place to manage their business and the associated risks. Additionally, for Islamic firms, the systems and controls should have defined the internal Shariah systems, which provide an invaluable regulatory tool to at least quantify the extent of Shariah compliance prevalent within the firm without the need to assess finite points of Shariah. From a regulatory perspective, deviations from Shariah rulings become matters of systems and controls breaches, not religious matters.

In respect of disclosure obligations, all firms, including Islamic firms, must provide regulatory and transaction data to their customers at appropriate intervals. Islamic firms should also provide enhanced disclosure for specific Islamic contracts to ensure that customers understand the products as well as the risks involved. For example, specific disclosure requirements for PSIAs (profit-sharing investment accounts) should be in place to ensure that customers clearly understand the profit and loss-sharing obligations under the relevant Islamic contract.

In an attempt to address some of the risks unique to Islamic firms, regulators have in some jurisdictions sought to modify regulatory requirements to address the specific risk profiles of certain Islamic contracts – for example, PSIAs. In the context of PSIAs, displaced commercial risk can be addressed by applying the DCR (Displaced Commercial Risk) charge promulgated by the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) or the more developed approach in the IFSB Standard (Islamic Financial Services Board Standard). In respect of fiduciary risk, additional systems and controls can be imposed on the individual mudarib that is responsible for the day-to-day management of the PSIA monies, and standards of fitness and propriety should be equally applicable to this individual as one would expect to see applied to investment managers in conventional finance. The mudarib's conduct should also fall within the scope of any regulatory reviews or risk assessments, to at least ensure that the mudarib has operated within the objectives set by the customer.

Finally, with PSIAs, enhanced disclosure, or in certain jurisdictions that lack transparency, basic transaction and regulatory data – that is, "periodic statements" – ought to be provided to account holders both at the outset of the relationship and on an interim basis, providing relevant information in respect of the account. The provision of relevant, timely data will enable customers to make informed decisions in respect of the financial products and services being offered to them, and may facilitate an alignment of practice and standards across the industry – for example, a customer who at the outset of the relationship is well informed about the risks and obligations arising under a PSIA, and periodically informed about the investment performance, may serve to mitigate the extent to which the Islamic firm as mudarib is exposed to DCR. In this context, the IFSB is developing a standard on transparency and market discipline consistent with Pillar 2 of the New Capital Accord (Basel II) but adapted to the specificities of Islamic finance.

In respect of Shariah non-compliance risk, the implementation of Shariah systems and controls provides a tangible regulatory solution to an otherwise politically and religiously sensitive regulatory problem. Further guidance on the regulatory review process for Islamic financial institutions, consistent with Pillar 2 of Basel II, is being developed in the form of a standard by the IFSB.

In light of the above, it is possible for integrated regulatory standards and regulatory frameworks and concepts, albeit with due modifications, to apply to both industries. Some specialized guidance for the Islamic financial services industry that does not exist in the international standards of, inter alia, the Basel Committee on Banking Supervision

continued...

Supervisory Implications of Islamic Finance in the Current Regulatory Environment *(continued...)*

(BCBS) and International Organization of Securities Commissions (IOSCO) is being provided by the useful work of both AAOIFI and now the IFSB.

Conclusion

Islamic finance is becoming part of mainstream finance; as such, in order to optimize this position, the greater the consistency and standardization of regulations, the greater will be the opportunity to compete in the global financial system. Unification of standards is becoming increasingly important with the onset of Basel II. Islamic firms, as well as conventional firms, can use this opportunity to overhaul internal practices, particularly risk measurement and management capabilities.

As this chapter has discussed, it is possible, and desirable, for a conventional regulator equipped with adequate regulatory tools (disclosure, regulatory and prudential reporting, policy development capability, powers to inspect and investigate, combined with adequate powers of enforcement) to provide an integrated regulatory structure, with justified modifications to reflect the specificities of Islamic finance, to apply across the industry and create a level regulatory platform. It is therefore not a question of whether the regulator is a conventional regulator, or is regulating a purely Islamic market. The issue is the ability of the regulator to identify, understand, and have the regulatory powers and inclination to address the specificities of Islamic finance. The mission of the IFSB is to provide standards and guidelines to assist regulators and the Islamic financial institutions under their authority to do precisely this.

As finance and regulation becomes more global, standardization of financial techniques and financial services regulation is not only encouraged at the international arena, but is desirable in the interests of fairness and competitiveness. Creating a level playing field in the form of consistent regulation is necessary for the functioning of an open financial market. To have unwarranted differentiation in regulatory standards could adversely affect the Islamic financial services industry.

Islamic financial institutions and regulators of Islamic finance are working with the IFSB and other agencies to make the necessary adjustments to international standards in order to reflect the needs and risks of the Islamic financial services industry. The starting point for making change at an international level is to implement the existing standards (as far as possible) at a domestic level. Islamic firms and practitioners should welcome the application of international standards to their business, rather than see it as an imposition of inapplicable conventional standards.

Islamic finance is firmly a feature of mainstream finance. It must be supported, and support itself, to ensure that it retains its foothold in the industry.

Hari Bhambra currently works for the Dubai Financial Services Authority (DFSA), where she has been one of the key developers of the regulatory framework for Islamic finance for the DFSA. She has over 7 years' experience in financial services, from both a regulatory and industry perspective. She has also worked with Goldman Sachs International in London.

Key Trends in Islamic Funds

By Rajeev Baddepudi and Bernardo Vizcaino

This the final installment of a series from Eurekahedge on Islamic funds. The first and second parts were published in Islamic Finance news, Vol. 4, issue 31, page 18 and issue 32, page 18, respectively.

Industry comparisons

The asset class mix
As the number of available products continues to flow in, we investigate whether the mix of Shariah compliant offerings (in terms of asset classes) matches the mix offered at the conventional level. We thus collate the asset class mix of Islamic funds by geographical region and compare this to a global portfolio of conventional mutual funds. We use statistics from the Investment Company Institute (ICI), which surveyed over 61,000 mutual funds across the globe, and together with our data we produce a heat map, as shown in Table 1 below.

The prominence of equity funds is felt across all regions (from 49% to 67% penetration), but this is no different to the proportion found on the conventional side (42%). In order to maintain comparability, we choose to analyze the proportions based on total number of funds – as opposed to using proportions based on asset size. On the other hand, money market funds also seem to be well received – particularly in Global and Middle East mandates (at 27% and 14% respectively, well above the conventional 6%). Also noticeable in the Others category is the popularity of European and North American real estate products, as well as Middle East multi-manager portfolios.

In terms of deficiency, fixed income and balanced products seem to be lacking in all but one of the geographies. While the Asia-Pacific seems to offer the closest match to conventional markets, it is the unresolved acceptance of Malaysian Sukuk that might limit the appetite for the fixed income and balanced offerings found in the region.

Islamic funds and socially responsible funds
A direct comparison with socially responsible investing (SRI) funds is not entirely appropriate, but key issues can be extracted by putting the two industries side by side. While there are over US$21 trillion invested in conventional mutual funds across the globe, SRI funds represent a mature and well-developed subset. On the other hand, Islamic funds are still young, with assets under management between US$50 and US$70 billion and third party figures indicating the total assets in the Islamic finance industry stand at US$800 billion.

With regards to SRI, there is US$179 billion allocated into approximately 250 SRI mutual funds in the US alone, and total socially responsible assets in the US market are estimated to be as high as US$2.29 trillion. The European market is not too different in structure, although smaller in size, at about €1.03 trillion (US$1.382 trillion) in total assets, with a smaller amount (over €24 billion (US$32.21 billion)) allocated across 400 SRI mutual funds.

> "Money market funds also seem to be well received – particularly in Global and Middle East mandates (at 27% and 14% respectively, well above the conventional 6%)"

Quite revealing is the fact that most SRI assets are placed not in mutual funds but rather in managed accounts or discretionary portfolios, with the figure highest in the US (92%) and still significant in Europe (79%). Thus an analysis of Shariah compliant investments would require a further survey of private mandates as well, especially if the percentage is anywhere near the figures found in the SRI space.

The predilection for discretionary mandates in SRI is also due to the institutional source of these allocations. Assets from US Public Pensions compose 81% of all SRI managed accounts, whereas in Europe 94% of all assets in SRI mutual funds originate from institutional investors. Islamic funds can draw a parallel to SRI in that they have market potential at this level (in particular from the pension plan equivalent: Takaful).

Nonetheless, what can be considered as an SRI and/or ethical investment has proven difficult to define. In fact over 80% of the SRI

Table 1: Asset class mix

	Investment geography						
Classification	**Asia-Pacific**	**Europe**	**Global**	**Middle East**	**North America**	**Total**	**Conventional**
Equity	51%	67%	54%	49%	63%	52%	42%
Fixed income	13%	0%	1%	5%	0%	7%	22%
Balanced	15%	7%	8%	7%	0%	10%	20%
Money market	10%	0%	27%	14%	8%	13%	6%
Others	11%	27%	10%	26%	29%	18%	10%

Green: Within 10% boundary *Blue: Below 10% boundary* *Red: Above 10% boundary*

Source: Eurekahedge, Investment Company Institute (ICI)

continued...

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

screening criteria is focused only on tobacco and alcohol exclusion. This figure is even higher in private mandates, which predominantly focus purely on tobacco exclusion. Overall, the SRI industry predominantly follows a dual screening approach (positive and negative screens) coupled with additional social components or activist criteria (but to a lesser degree). This is in contrast to Islamic funds, which rely entirely on negative screening (in terms of non-permissible industries and financial ratio exclusion).

Another favorable trend in SRI is the demand for more complex ethical mandates (not just a tobacco-screening exercise). It is here where Islamic funds differ the most, since they follow a well-defined set of guidelines (in fact they are relatively more standardized than SRI, despite having several schools of thought) and the screening criteria remains exclusionary.

Islamic funds and conventional funds
Comparing the performance metrics of Islamic funds against SRI funds (or any other group of funds) carries many caveats, and it has been avoided for a variety of reasons (in particular the low overlap of investment geographies and mandates). An alternative approach could compare tracking errors (analyzing SRI funds versus an SRI index, Islamic funds versus an Islamic index, etc). This could allow an assessment of both populations, but is not feasible since SRI data and SRI indices are not immediately available.

A less optimal but nonetheless interesting alternative is to consider whether a naïve investor could build two fund portfolios (one Islamic and another conventional) and expect similar returns from both. We thus select funds at random from our Islamic funds database to collate a sample of 30 (a somewhat similar experiment to the one that selected stocks from the pages of the *Wall Street Journal*). This method also allows us to incorporate analysis of not only equity funds, but also the other asset classes (fixed income, money market and balanced funds).

Two groupings are used (15 Middle East funds and 15 Asia-Pacific funds), eliminating all other mandates, as previous analysis has proven them to be highly correlated (ie North American, European and Global) and therefore would either bias the results to an expected outcome or require a larger sample size. The random sample yields almost the same asset mix discussed in the previous section: 18 equity (60%), five money market (17%), four fixed income (13%) and three balanced (10%) funds.

For each Islamic fund, an equivalent conventional counterpart is sought in terms of geographical mandate, type of instrument traded and with a full performance track record for 2006. The focus is on 2006 returns since there is greater market depth (the fund universe is larger than five years ago) and efficiency (the test can be extended to analyze volatility, monthly returns or any other available data point).

This creates two sets of data that are "matched" and not independent of each other (the random choice of the Islamic fund influences the choice of the conventional fund). This is a matched paired test that allows comparing two random samples.

Three tests are carried out using a 95% level of confidence, first analyzing the 15 funds in each region separately and then all the 30 funds. In all three cases, the data consistently support the hypothesis that the populations do not differ (Ho: $\mu 1 - \mu 2 = 0$). In other words, Islamic funds neither under-perform nor out-perform their conventional counterparts (as this is a two-tailed test), but rather offer an ambivalent choice to investors.

> "Total socially responsible assets in the US market are estimated to be as high as US$2.29 trillion"

While the analysis is a compromise on the data, we hope it encourages further tests of comparability (by extending the sample size, zooming in further on specific mandates or geographies, etc). The test could be done for each asset class separately (e.g. only fixed income or only balanced funds), by specific geography (e.g. only Kuwaiti or only Indonesian funds) and the sample size can be increased by analyzing monthly or daily data, where available.

However, we again note that an investor would be interested to analyze a mixed portfolio. Thus at a minimum we can conclude that an investor could have started 2006 by building a naïve portfolio of Islamic funds and observed on par performance against a similarly naïve conventional portfolio.

In closing

Islamic funds are maturing, not only in terms of track records and fund manager expertise, but also in terms of data transparency, industry consolidation, investor familiarity and overall market penetration. Increased levels of information are helping in the understanding and quantification of the total market opportunity. Recent Islamic bank mergers and acquisitions also suggest a repositioning from established players, especially as we observe the recent entry of global investment banks into the fray (further evidence of the confidence in terms of the underlying market potential).

Nonetheless, the new entrants still lag behind in terms of the depth of their client networks, whereas some well-established names are only recently exploring their existing clients' appetite for Islamic products (hence increasing their Islamic share of wallet). On the other hand, local and regional players are looking for more innovative products and structures, away from plain vanilla solutions. Ultimately, a compromise seems to be the partnership between specialized institutions and Islamic banks, where they are able to amalgamate the best of breed products with a readily accessible investor base.

Tests explained

Comparing two populations head-on is not feasible since the data must be assumed to be independent of each other. The alternative is to use the difference between the pairs analyzed (denoted by Di, where Di = Islamic fund return minus conventional fund return). Since the sample size is small ($n < 30$), this prescribes the test statistic to be used (student t-distribution) and the degrees of freedom are either 29 (d.f. = $n - 1$) for the full portfolio or 14 for the regional portfolios.

continued...

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

Table 2: Matched pairs test of Middle East funds (Islamic vs conventional)

Mandate	Fund	2006 returns (Islamic)	2006 returns (conventional)	Di
GCC/MENA Equity	1	-13.55	-21.00	7.45
Regional Fixed Income	2	4.59	4.57	0.02
Saudi Equity	3	-51.91	-50.95	-0.96
Regional Equity	4	-10.31	-8.11	-2.20
Saudi Equity	5	-37.53	-44.62	7.09
GCC Equity	6	-29.03	-36.64	7.61
Kuwait Money Market	7	3.39	-7.07	10.46
Kuwait Money Market	8	7.21	5.90	1.31
GCC Equity	9	-37.53	-44.10	6.57
GCC/MENA Equity	10	5.42	6.18	-0.76
Egypt Equity	11	6.04	11.30	-5.26
Kuwait Equity	12	-14.97	-5.88	-9.09
Kuwait/GCC Equity	13	-10.55	-18.65	8.10
GCC Equity	14	-50.83	-43.70	-7.13
Saudi Equity	15	-58.49	-55.95	-2.54
Mean	μ	-19.20	-20.58	1.38
Standard Deviation	σ	23.30	23.48	6.15

Source: Eurekahedge

We extend the same analysis to Asia-Pacific funds (n = 15), with the data summarized below in Table 3. Here the test statistic is again computed (-1.87) and this is within the same two-tailed boundary (critical values of -2.1447 and 2.1447), which concludes that there is no statistical difference between the 2006 returns of Islamic and conventional funds in this geographical region.

Table 3: Matched pairs test of Asia-Pacific funds (Islamic vs conventional)

Mandate	Fund	2006 returns (Islamic)	2006 returns (conventional)	Di
Asia-Pacific Equity	1	3.47	26.20	-22.73
Asia Equity	2	17.28	11.44	5.84
Malaysia Money Market	3	0.32	2.53	-2.21
Malaysia Balanced	4	15.72	14.04	1.68
Asia-Pacific Equity	5	7.03	21.48	-14.45
Indonesia Equity	6	18.32	40.81	-22.49
Indonesia Balanced	7	42.82	44.80	-1.98
Malaysia Fixed Income	8	2.59	4.86	-2.27
Malaysia Money Market	9	0.66	1.18	-0.52
Malaysia Fixed Income	10	4.20	5.05	-0.85
Malaysia Fixed Income	11	5.26	0.94	4.32
Malaysia Equity	12	20.90	15.86	5.04
Malaysia Equity	13	9.51	14.95	-5.44
Malaysia Balanced	14	7.78	17.28	-9.50
Malaysia Money Market	15	2.59	2.79	-0.20
Mean	μ	10.56	14.95	-4.38
Standard Deviation	σ	11.18	13.72	9.10

Source: Eurekahedge

The third test collated all 30 funds together to use a greater sample size (n = 30), with the data summarized below in Table 4.

The test statistic is (-1.01) and this is within the two-tailed boundary (critical values of -2.0452 and 2.0452), which arrives at a similar conclusion as the two previous tests.

Table 4: Matched pairs test of Middle East and Asia-Pacific funds (Islamic vs conventional)

Mandate	Fund	2006 returns (Islamic)	2006 returns (conventional)	Di
Asia-Pacific Equity	1	3.47	26.20	-22.73
Asia Equity	2	17.28	11.44	5.84
Malaysia Money Market	3	0.32	2.53	-2.21
Malaysia Balanced	4	15.72	14.04	1.68
Asia-Pacific Equity	5	7.03	21.48	-14.45
Indonesia Equity	6	18.32	40.81	-22.49
Indonesia Balanced	7	42.82	44.80	-1.98
Malaysia Fixed Income	8	2.59	4.86	-2.27
Malaysia Money Market	9	0.66	1.18	-0.52
Malaysia Fixed Income	10	4.20	5.05	-0.85
Malaysia Fixed Income	11	5.26	0.94	4.32
Malaysia Equity	12	20.90	15.86	5.04
Malaysia Equity	13	9.51	14.95	-5.44
Malaysia Balanced	14	7.78	17.28	-9.50
Malaysia Money Market	15	2.59	2.79	-0.20
GCC/MENA Equity	16	-13.55	-21.00	7.45
Regional Fixed Income	17	4.59	4.57	0.02
Saudi Equity	18	-51.91	-50.95	-0.96
Regional Equity	19	-10.31	-8.11	-2.20
Saudi Equity	20	-37.53	-44.62	7.09
GCC Equity	21	-29.03	-36.64	7.61
Kuwait Money Market	22	3.39	-7.07	10.46
Kuwait Money Market	23	7.21	5.90	1.31
GCC Equity	24	-37.53	-44.10	6.57
GCC/MENA Equity	25	5.42	6.18	-0.76
Egypt Equity	26	6.04	11.30	-5.26
Kuwait Equity	27	-14.97	-5.88	-9.09
Kuwait/GCC Equity	28	-10.55	-18.65	8.10
GCC Equity	29	-50.83	-43.70	-7.13
Saudi Equity	30	-58.49	-55.95	-2.54
Mean	μ	-4.32	-2.82	-1.50
Standard Deviation	σ	23.49	26.15	8.17

Source: Eurekahedge

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

Formulae:

$$D_i = X_i - Y_i \text{ for } i=1, 2, \ldots, n$$

If $E(X_i) = \mu X$ and $E(Y_i) = \mu Y$ then

$$E(D_i) = E(X_i) - E(Y_i) = \mu X - \mu Y$$

$$\mathrm{var}(D_i) = \mathrm{var}(X_i) + \mathrm{var}(Y_i) - 2\mathrm{cov}(X_i,Y_i)$$

The coefficients for the last formula are not necessary, instead we let var (Di) = s2D

Hypothesis:
The null hypothesis states that the performance of the two populations does not differ:

$$H_0: \mu 1 = \mu 2 \text{ , ie } \mu 1 - \mu 2 = 0$$

This is tested against the alternative hypothesis:

$$H_1: \mu 1 \neq \mu 2 \text{ , ie } \mu 1 - \mu 2 \neq 0$$

Test statistic:
To test H0 : $\mu 1 = \mu 2$ versus H1 : $\mu 1 \neq \mu 2$ use D where D ~ N ($\mu 1 - \mu 2$, s2D / n)

$$t_{n-1} = \frac{D - (\mu x - \mu y)}{sD / \mathrm{SQRT}(n)}$$

If H0 is true then $(\mu 1 - \mu 2) = 0$

Results:
This is a two-tailed test with a 95% level of confidence (p = 0.05), using a student t-distribution.

If the observed value statistic is greater than the critical value, then we must reject Ho.

TEST 1: D = 1.38, sD = 6.15, n = 15. t-statistic: 0.87
critical values: (-2.1447, 2.1447)

TEST 2: D = -4.38, sD = 9.10, n = 15. t-statistic: -1.87
critical values: (-2.1447, 2.1447)

TEST 3: D = -1.50, sD = 8.17, n = 30. t-statistic: -1.01
critical values: (-2.0452, 2.0452)

Calculations:
The first test is performed on Middle East funds (n = 15), with the data summarized in Table 2. A test statistic is computed (0.87) and this is within the two-tailed boundary (critical values of -2.1447 and 2.1447), which concludes that there is no statistical difference between the 2006 returns of Islamic and conventional funds in this geographical region.

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.

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?

It has indeed been a torrid time for markets in conventional debt securities, driven by the woes of the US sub-prime mortgage market. Sukuk have so far been unaffected, as most are highly rated, and we have yet to see the emergence of "junk" Sukuk. The real asset backing of Sukuk gives some assurance to investors in the event of a default, but it is not of course the asset that generates the return on the Sukuk, but rather it depends on the issuer's ability to meet their contractual obligations. This partly, but not wholly, depends on the profitability of the project the funds are used for, the most direct relationship with profitability applying in the case of Musharakah Sukuk.

It is important not to be complacent about what is happening in conventional debt markets. The cost of debt is being driven up, which will be reflected in the pricing of new Sukuk. This may result in a decreased willingness to issue Sukuk. Many analysts had been predicting that new Sukuk issuance in 2007 would exceed US$50 billion.

The fragile state of the conventional debt market will inevitably have an adverse effect on Sukuk, and in my view new issuance is more likely to be in the US$35–40 billion range, an increase over 2006, but not as much as might have occurred had the conventional bond and floating rate note markets been more buoyant.

PROFESSOR RODNEY WILSON: Director of Postgraduate Studies, Durham University

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If these "asset-based debt obligations" – also called Sukuk – were structured right with the right collateralization, creditworthiness of the underlying company and asset and cash flow segregation, yes, they offer a far superior product that may command a premium in today's market.

DR YAHIA ABDUL-RAHMAN: Shariah Supervisor and Founder, LARIBA

It is the "asset basis" of Sukuk which confers a major degree of protection for investors in times of uncertainty. Moreover, if a Sukuk structure truly shares risks between investors and users of investment in accordance with Islamic values, then a "default" simply cannot arise.

The irresistible force of economic growth – mandated by the inexorable mathematics of compound interest upon a deficit-based money supply – is coming up against the immovable object of the lack of availability of liquid fuels to support it.

A new global financial settlement will be necessary, and "asset-based" structures like Sukuk will, I believe, be central to it.

CHRIS COOK: Principal, Partnerships Consulting

Definitely. That is why the appreciation of Islamic finance will be vital because the nature of Islamic finance has always been based on revenues attaching to real and physical assets. Hence, the ongoing debate about ensuring that the asset used in a particular Islamic transaction must be based on real and tangible assets.

MOHAMED RIDZA: Partner, Mohamed Ridza & Co

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While Sukuk is a notable development in Islamic capital markets, allowing governments (e.g. Qatar, Malaysia and Pakistan), corporates (e.g. DPFC and Nakheel) and financial institutions (e.g. the IDB and Sharjah Islamic Bank) to raise funds using a bond-like Islamic structure for either the expansion of an existing business or for a new project, it is, however, not a panacea for all the problems associated with a conventional bond.

It is not completely correct to perceive Sukuk as a 100% secure debt, as there is now an increasing number of Sukuk which are not issued on an existing asset. Sukuk Musharakah (DPFC) and Sukuk Mudarabah (Aabar) are two of many examples. In the case of the DPFC Sukuk, the issuer contributed assets worth about US$1.5 billion, while US$3.5 billion was raised through Sukuk. In the case of Aabar, the issuer's contribution was nil, as it was a Mudarabah in which US$460 million was contributed by Sukuk holders.

Although both of these and other such transactions are tightly documented, safeguarding the interests of Sukuk holders, it is not correct to say that such bond-like structures are safer than their conventional counterparts. The recent turmoil in equity markets, following unrest in the credit markets, is testimony to the fact that when a crisis ensues, God chooses to remain a spectator, rather than intervening, whether it is a conventional market or an Islamic one.

DR HUMAYON DAR: Chief Executive Officer, BMB Islamic

There are fundamental reasons why markets have reacted in the way they have done, which are partly independent of the value of the underlying security, of which many are asset and real estate-backed.

Nevertheless, credit markets have seen a return to differentiating the risk curve; margins shifting to reflect the scale and volatility is part of that process in a free market. Overwhelmingly, the high profile volatility at least is convulsing the packaged or bundled portfolios where there are many loans combined (and sometimes only pieces of loans), which distances the holders from the underlying borrower and forces a reactionary mentality in rating and re-rating the portfolios based on arm's length views of the credit lending process and legitimacy of recovery.

In contrast, the current state of Sukuk development is such that very few international instruments are traded actively, let alone bundled in packaged portfolios; although this is not difficult to envisage in line with Shariah, such as a REIT. In Malaysia there is an active local Sukuk scene but these are short-dated and many are unrated. As such, for Sukuk the underlying risk of default remains a more direct connection between instrument holder and issuer and can be evaluated in a more straightforward manner, as with other single issuer instruments: listed, unlisted, conventional, or otherwise.

So, yes, they can be more stable than the portfolio products (at this juncture of the cycle), but the question is not necessarily comparing apples with apples. In other ways an aggregated portfolio offers different advantages such as geographic and counterparty diversification, features which are highly valued by "income" investors. Where there is a revaluation of the underlying assets, Sukuk investors can also be left with less than they started with in a default scenario.

It is important to acknowledge that the exit strategies differ, as does the timeframe in recovery in default, which can take considerably longer or be more subject to "firesale pricing" in a single asset-backed product. Therefore the nature of the products also offers their own exit mechanisms, which investors know.

While the activity can be dramatic indeed and demonstrate a challenge to stability in many respects, this is the nature of the market cycle, which has largely ignored or at least discounted risk due to excess liquidity for some considerable time.

KEITH DRIVER: CEO, HSBC Amanah Takaful (Malaysia)

Next Forum Question

With the continuing increase in the number of Islamic banks, how do these new players differentiate themselves in order to gain a foothold in their chosen markets?

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 29th August 2007.

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

Name: R. Lakshmanan

Position: Chief Executive Officer

Company: Sakana Holistic Housing Solutions

Based: Manama, Bahrain

Age: 38

Nationality: Indian

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

I came to the Gulf in the mid-1990s and I soon got the chance to join Alliance Housing Bank, the first private mortgage institution in Oman. Then, I moved to Amlak Finance, the first mortgage finance institution in the UAE, and was involved in the institution's conversion from a private to a public company through an IPO and also the conversion from a conventional to an Islamic provider – even though most of the customers were non-Muslims.

In early 2006, I became chief executive officer (CEO) of Sakana (a 50:50 joint venture between Shamil Bank and the Bank of Bahrain & Kuwait (BBK)), a start-up company and the first financial institution in Bahrain to be formed in partnership between an Islamic and a conventional bank. It has been a series of firsts for me.

What does your role involve?

Being the first official employee of the company and the CEO, I have had to establish everything from scratch. As such, I have a truly hands-on style and am involved in the recruitment of all our staff, as well as contributing to the technical and operational side of the business. My day is extremely varied.

What is your greatest achievement to date?

Establishing Sakana within a very short timespan, bearing in mind that Bahrain is an evolving mortgage market, and as such we are in some way helping to write the rules of the game.

Operating in a relatively small market which is highly competitive, we are even in competition with our parent companies.

Which of your products/services deliver the best results?

Relatively speaking, Bahrain's mortgage market is still young. As with any new concept, customers want reassurance and, with this in mind, we developed all of our products and services around the theme of simplicity. I believe this has driven demand for our core home finance product.

What are the strengths of your business?

Our specialist mortgage focus allows us to offer a wider variety of home financing solutions than other local institutions – we were among the first in the Gulf to offer a 30-year mortgage, and to have a real estate agency operating from a financial institution. Our unique selling points in the local market include offering the longest mortgage term, the highest percentage financing of property value, and no pre or early repayment penalties. We use an advisory rather than a finance-orientated approach with our customers.

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

We have highly respected shareholders and an extremely knowledgeable board of directors. Sakana's team members are young, energetic and willing to learn. All this adds up to satisfied customers who have offered us their testimonials and spread the word around the market, leading to more new business.

What are the obstacles faced in running your business today?

We are a small company with big ambitions. Our capitalized value is small, so growing the business while at the same time keeping costs under tight control presents a challenge.

Operating in a highly competitive business while trying to achieve acceptable returns to shareholders in a short time frame is a test of our business acumen.

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

Making inroads into countries outside of the Muslim world and becoming an increasingly popular alternative mode of financing for individuals and organizations that do not necessarily have an Islamic connection.

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

There are many, but most importantly we need to keep up with the pace of change in the Islamic financial sector. Also, we must build customer confidence and consider how we can aim for standardization of practices across the board.

Sakana
Holistic Housing Solutions حلول إسكانية متكاملة

Sakana Holistic Housing Solutions was formed through a 50:50 partnership between the Bank of Bahrain & Kuwait (BBK) and Shamil Bank, two of Bahrain's leading banks. Sakana combines the values of humanism and spirituality with quality and innovation, meeting market needs for economic and environmental sustainability. It brings innovative and encompassing real estate solutions to the housing and real estate sector.

Gulf Finance House Sukuk

INSTRUMENT	Sukuk certificates
ISSUER	GFH Sukuk, with the benefit of a liquidity facility provided by Gulf Finance House.
PRINCIPAL ACTIVITIES	The issuer is a limited liability special purpose vehicle (SPV) established in the Cayman Islands.
BOARD OF DIRECTORS	SPV company directors
DATE OF ISSUE	9th July 2007
DATE OF LISTING	Admission of the program: 12th July 2007 First issue of Sukuk certificate: 26th July 2007 at US$200 million
ISSUE SIZE	Up to US$1 billion
IDENTIFIED ASSETS	Shares in investment companies
LEAD ARRANGER	Dresdner Kleinwort and HSBC Bank.
DEALERS	Dresdner Kleinwort, HSBC Bank, Emirates Islamic Bank and Emirates Bank International.
LEGAL COUNSEL	Dechert (co-arrangers)
TRUSTEE	HSBC Trustee (CI)
METHOD OF ISSUE	Euroclear/Clearstream
PURPOSE OF ISSUE	General corporate purposes
LISTING	London Stock Exchange
TENOR	Five years, to be issued in one tranche per year.
PAYMENT SCHEDULE	The Sukuk is secured by a charge over a floating pool of assets and is priced competitively. The initial price guidance given by Gulf Finance House was not widened, reflecting the strong investor confidence in the bank's Sukuk issue.
PURPOSE OF ISSUE	Proceeds from the Sukuk will be used to fund the investment bank's medium-term strategic investment portfolio, comprising its investments in the equity of Khaleeji Commercial Bank in Bahrain and QInvest in Qatar.
STATUS OF SUKUK	The Sukuk issue follows the success of Gulf Finance House's secondary listing of US$275 million of global depositary receipts (GDR) on the London Stock Exchange early this month. Although no new shares have been issued, the GDR exercise has allowed international investors to invest in a liquid instrument backed by GFH shares. The transaction was completed despite Middle Eastern banks withdrawing Sukuk issuances due to shaky US sub-prime markets.
RATINGS	Rated BBB- with a stable outlook by Standard & Poor's.

SYRIA

Arab Insurance Institute

Syrian authorities will establish the Arab Insurance Institute to teach and train insurance experts in order to meet the expected growth of the country's insurance. This follows the government's decision to open the market for foreign players last year. The institute will be set up as a shareholding company to be owned by Syrian and international insurers.

There are currently 12 insurers operating in Syria with combined premiums of SYP900 million (US$17.9 million) as at the end of June 2007.

MALAYSIA

Family Takaful from HLTM

Hong Leong Tokio Marine Takaful has launched its new regular contribution investment-linked Family Takaful scheme, i-Save, offering both protection and savings. Participants will receive coverage benefits for death or total permanent disability, as well as the full value of units.

The contribution amount for the scheme is as low as RM100 (US$25), with participants able to opt for the sum covered to be between five and 50 times their annual contribution, depending on their age.

A portion of the contribution will be allocated for investment in funds of the individual's choice, either a Shariah compliant income or balanced fund.

TURKEY

Luring international marts

Currently, 60% of the Turkish market's reinsurance coverage is provided by the international market, with growing foreign interest in the direct market.

Total premiums have more than doubled during the last five years, rising from TRY3.7 billion (US$2.2 billion) in 2002 to TRY9.6 billion (US$7.1 billion) in 2006. The growth was mainly attributed to non-life premiums, at a 29% growth, representing 86% of the total market in 2006.

GCC

TI for Garmco

Takaful International (TI) will now insure the assets and property of The Gulf Aluminium Rolling Mills Company (GARMCO) until 2010. The company won the tender over four other local insurance companies.

GARMCO awarded TI the tender due to the company's transparency, best technical insurance conditions, as well as its most competitive covering price.

ICELAND/UAE

Nordic interest

The Dubai Financial Services Authority (DFSA) has entered into a MoU with the integrated banking, insurance and securities regulator of Iceland, the Financial Supervisory Authority (FME).

The MoU will see the expansion of Icelandic financial institutions into the Dubai International Financial Center, and provide comprehensive and equivalent standards for information sharing and cooperation between the DFSA and the FME.

As Iceland's single financial services supervisory authority, the FME supervises credit institutions, financial services providers, insurance companies and re-insurance companies, as well as the securities market in Iceland.

SAUDI ARABIA/TAIWAN

Learning from the Chinese

Saudi Arabian officials have concluded a six-week familiarization program in Taiwan, covering policies, administration and operational issues essential to the proposed implementation of the Cooperative Health Insurance scheme in Saudi Arabia.

Saudi Arabia selected Taiwan due to its robust national insurance system and the country's publicly funded health insurance program, which is similar to Saudi Arabia's needs.

Fahad Jalwi Lzahr, Saudi Arabia's director general of health insurance, also revealed both countries' plans to launch a series of cooperative projects, including a training program on healthcare and insurance information systems, on-the-job training and graduate studies in both the healthcare and health insurance fields.

MALAYSIA

Takaful Malaysia looks abroad

Takaful Malaysia is considering possible joint ventures with major foreign insurers keen on tapping into the Malaysian Takaful markets.

Group managing director Hassan Kamil affirmed: "We have been approached by three to four major European insurers which have expressed interest to begin Takaful operations in the country, as Takaful is a much sought-after license in Malaysia."

The company is looking especially to grow in Indonesia, and is currently talking to an Indonesian bank on the selling of a stake of Takaful Malaysia's subsidiary, Syarikat Takaful Indonesia – to be confirmed by the end of this year.

Takaful Malaysia has also revealed plans to collaborate with the UK, having received requests from regulators to meet with potential investors. Talks are, however, still in their infancy.

Locally, the company aims to boost its middle management team in all areas, including operations, information technology, finance and actuary.

Building a Global Tabarru' Pool of Funds

By Abdul Ghoni

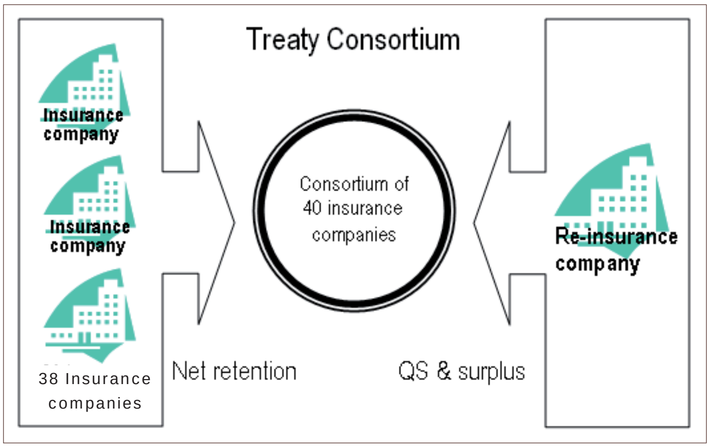
Shariah compliant insurance in Indonesia

In the past five years, the Islamic insurance market in Indonesia has grown at a strong pace. With just two operators at the industry's inception, the number of players has been on an increasing trend to reach the 40 now present in the Indonesian market. This number is expected to exceed 100 by 2010. The growth has been triggered by the increase in Islamic banking, together with the approval of the government allowing conventional insurance companies to open up Islamic windows. Another factor – office channeling – has contributed to the wide network, as well as to the reach of the Islamic insurance industry being at par with that of conventional insurance. Islamic insurance is now able to service almost the whole of Indonesia with a suite of Shariah compliant insurance solutions.

The above developments augur well for the industry. Nonetheless there is a critical issue facing the Islamic insurance industry in Indonesia. The Islamic insurance operations that have been established thus far have a small total market capitalization, hence a small risk acceptance capital. This has to a large extent stalled the progress of the industry and delayed the journey of Shariah compliant insurance to the next platform.

Pooled consortium

The limitation in risk capacity for Shariah units could be improved by increasing the risk closure capacity through operating as a consortium. The total capital of 40 Islamic insurance units and/or operations of Shariah compliant insurance in Indonesia could be pooled together so as to accumulate net retention, and hence form a basis to develop treaty consortium. Each Shariah unit could then accomplish a capacity of between 10-fold and 40-fold higher than what each could normally achieve if it was operating on its own.



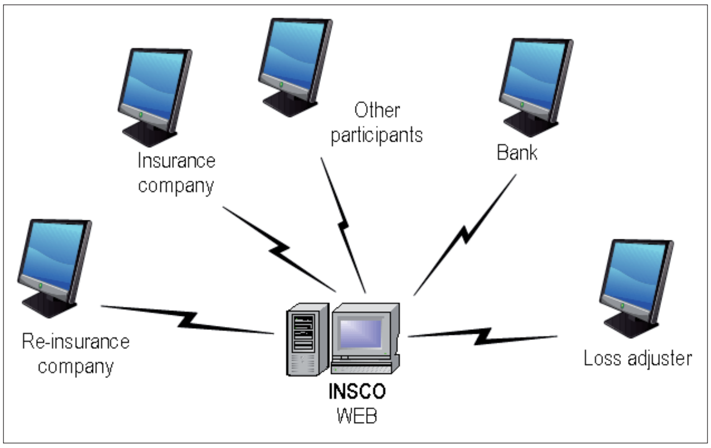
Basic philosophy

Shariah compliant insurance is based on the concept of participants helping each other to mitigate future risk. From this basic concept, it can be deduced that funds that are distributed (hibah) to help participants are a gift or tabarru' fund and are not from operating income. The manager or operator of the Takaful operation in this case only acts as a representative or waqil of the participants in managing the tabarru' fund. The operator deserves a fee for managing the risk and investing the fund. In comparison, premiums from policyholders act as operating income for conventional insurance companies.

This concept also implies that the tabarru' fund under Islamic insurance is a trust fund. As such, the climate in which Takaful operates is one that promotes service toward risk management and investment of the fund, unlike conventional insurance, which is facing the stiff competition of tariff wars and discounts on premiums.

Insco experience

The Insco group has a subsidiary operating as an insurance broker developing cooperation as a tripartite consortium between Islamic insurance and Islamic banks, utilizing a web-based expert insurance system technology. Through this technology, administration of settlement, reinsurance, claims, finance and report, be it between participant, insurance company, reinsurer or third parties, such as the loss adjuster, the repair workshop and the hospital.



Conclusion

The strength of an Islamic insurance operator should not be viewed from the perspective of its capital, assets or the amount of premiums collected, but rather the size of its pool of tabarru' fund. The bigger the size of accumulated tabarru' fund, the stronger the Islamic insurance provider is.

To expedite the accumulation of tabarru' fund, formation of a consortium is recommended between the Islamic insurance operators. This is to enlarge the operator from just a small industry to one that can overtake the capitalization of conventional insurance. As is done at INSCO, an effective strategy is the development of the tabarru' fund through web-based expert insurance system technology.

The author is director of Shariah business at the Insco Group. Following 10 years of experience in accounting, he moved into the Indonesian Takaful industry and has written a book on Islamic insurance. He can be contacted via email at: ghoni@insco.co.id.

HSBC – Middle East

HSBC Bank Middle East Jordan has appointed Ahmed Abu Eideh as the bank's senior manager for commercial banking. He succeeds Nabil Bitar, who has been promoted to a more senior position within HSBC Jordan.

Mr Eideh's role at HSBC will include building and integrating client-focused commercial banking services via developing and maintaining strong client relationships, promoting new product propositions, attracting, developing and retaining quality personnel and enhancing utilization of the commercial banking portfolio.

Mr Eideh brings with him 15 years of experience and knowledge of relationship management in commercial banking.

AFS – Middle East

Shankar Sharma has been promoted to CEO of the Arab Financial Services Company (AFS), replacing Rasool Hujair. He was previously chief financial officer of the company.

Mr Sharma has over 20 years' experience in the financial sector, focusing on the Middle East region.

Prior to his role as CFO, he held a senior management role at the National Commercial Bank, Saudi Arabia, for five years and spent four years in a leading European Bank in Canada.

DIB – UAE

Marwan Al Ghaith has been appointed branch manager of Dubai Islamic Bank (DIB)'s newly opened Oud Metha branch. He has extensive experience in the industry and has held various positions within DIB.

Safiya Abdullah has been appointed branch manager of the ladies branch, "Johara" in Abu Hail. She joined DIB in 2000 and she has several years of experience in banking, during which she has held diverse senior positions at Standard Chartered Bank and Lloyds Bank.

DEUTSCHE – Global

Controversial financial stalwart Alan Greenspan has joined Deutsche Bank as a consultant to its investment bankers and their clients. He was previously chairman of the US Federal Reserve.

Mr Greenspan will work with Peter Hooper, Deutsche's chief economist for the Americas, who served under Mr Greenspan during his tenure at the US Federal Reserve.

RHB CAPITAL – Malaysia

Fresh from its Employees Provident Fund (EPF) buyout, RHB Capital has revealed that it will revamp its line-up, including the post of CEO, before the end of the year.

Watch this space for the latest RHB moves.

KOTAK REAL ESTATE – India

Zikas Chimakurthy has joined Kotak Real Estate as a partner from Kotak Investment Bank. He had previously set up the bank's real estate coverage group.

DLA PIPER –UK

Stephen Marais is leaving Denton Wilde Sapte after 11 years to join DLA Piper as a partner for finance and projects. At DLA Piper, he will work with Michael Burton, UK head of finance and projects.

Mr Marais has advised banks on Murabahah financing, negotiating contracts and lease agreements and advising on settlement arrangements following borrower insolvency.

MORGAN STANLEY – UAE

Morgan Stanley has established an equity research team in Dubai to cover the Middle East and North Africa (MENA) region.

The team will be lead by Sean Gardiner, who has been with the firm since 2000 and currently heads up the Europe, Middle East and Africa (EMEA) telecom research team. He will be relocating from London to Dubai and will continue to cover EMEA telecoms. Mr Gardiner will be joined by three new hires: Mai Attia, Marwa el Sheikh and Tammam el Barbir.

Mai Attia joins Morgan Stanley as a vice-president and will cover stocks in the construction, building materials and real estate sector across the MENA region. Mai has covered the sector since July 2000 and last worked at EFG in Egypt.

Marwa el Sheikh, vice-president, joins the firm from Citi to cover financial companies across the region. She was previously at EFG Hermes in Cairo and Dubai and has covered Egyptian, Kuwaiti and UAE banks.

Tammam el Barbir joins from EFG Hermes investment banking and will also cover financial stocks. Previously, he worked in equity research for EFG Hermes, covering the Saudi, Omani and UAE banks.

CITIGROUP – Asia

Piyush Gupta, ex-country officer for Malaysia, has been promoted to handle the group's South-East Asia regional markets and investment banking business. His new post will cover Singapore, Malaysia, the Philippines, Indonesia, Thailand, Vietnam and Brunei.

Mr Gupta succeeds Catherine Weir, who moves to London to take over as the chief executive of Citi's wealth management business for Europe, the Middle East and Africa.

IDB – Saudi Arabia

Bahraini finance minister Sheikh Ahmed bin Mohammed Al Khalifa has been elected as chairman of the Islamic Development Bank (IDB). His appointment was decided by the bank's board of governors at a recent meeting held in Dakar, Senegal.

Deal tracker

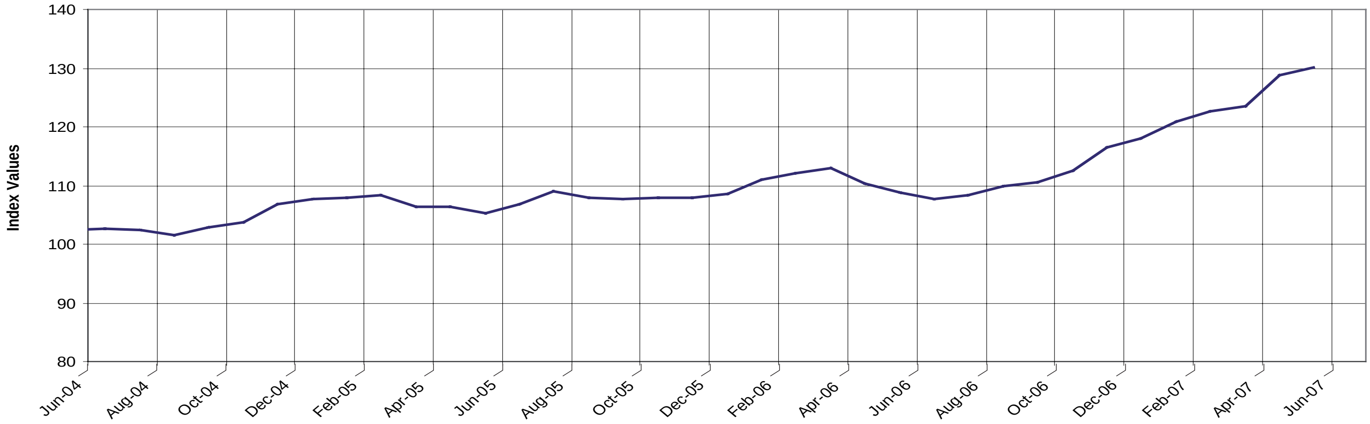
Keeping you abreast of the world's upcoming Shariah compliant deals

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 Asia Pacific Islamic Fund Index



Monthly returns for Developed Markets funds (as of 16th August 2007)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Alfanar Europe	TT International	4.63	British Virgin Islands
2	HSBC Amanah Pan-European Equity Fund	HSBC	2.94	Ireland
3	Al Rajhi International Small Capitalisation Fund	Al Rajhi Banking & Investment	2.43	Saudi Arabia
4	Al Rajhi Global Equity Fund	Al Rajhi Banking & Investment	2.36	Saudi Arabia
5	UBS Islamic Fund – Global Equities (US$)	UBS Islamic Fund Management Company	1.78	Luxembourg
6	NTUC Amanah Equity Fund	State Street Global Advisors	1.26	Singapore
7	AlAhli Europe Trading Equity Fund	The National Commercial Bank	1.14	Saudi Arabia
8	Al Rajhi European Equity Fund	Al Rajhi Banking & Investment	1.06	Saudi Arabia
9	Takaful Sinaran Fund	HSBC Insurance Singapore	0.65	Singapore
10	Global Equity Fund (Musharakah)	Riyad Bank	0.46	Saudi Arabia
	*Eurekahedge Developed Markets Islamic Fund Index**		*0.21*	

Monthly returns for Emerging Markets funds (as of 16th August 2007)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Samba Real Estate Fund	Samba	18.83	Saudi Arabia
2	SBB Dana Al-Faiz	CIMB Wealth Advisors	14.65	Malaysia
3	SBB Dana Al-Azam	CIMB Wealth Advisors	10.24	Malaysia
4	CMS Islamic Balanced Fund	CMS Trust Management	8.92	Malaysia
5	DWS Noor China Equity Fund (Class A)	DWS Noor Islamic Funds	8.18	Ireland
6	DWS Noor Asia-Pacific Equity Fund (Class A)	DWS Noor Islamic Funds	7.89	Ireland
7	Al Naqaa Asia Growth Fund	Banque Saudi Fransi	7.75	Saudi Arabia
8	Markaz Islamic Fund	Kuwait Financial Centre	6.83	Kuwait
9	Takaful Asia-Pacific Fund	HSBC Insurance Singapore	6.59	Singapore
10	Al Fursan Fund	Banque Saudi Fransi	6.36	Saudi Arabia
	*Eurekahedge Emerging Markets Islamic Fund Index**		*0.54*	

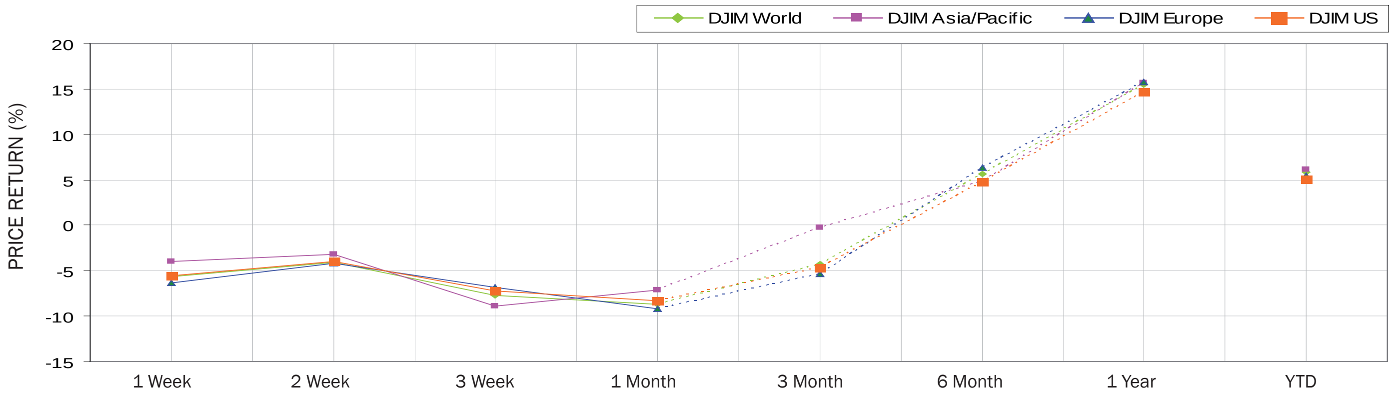
EUREKAHEDGE

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

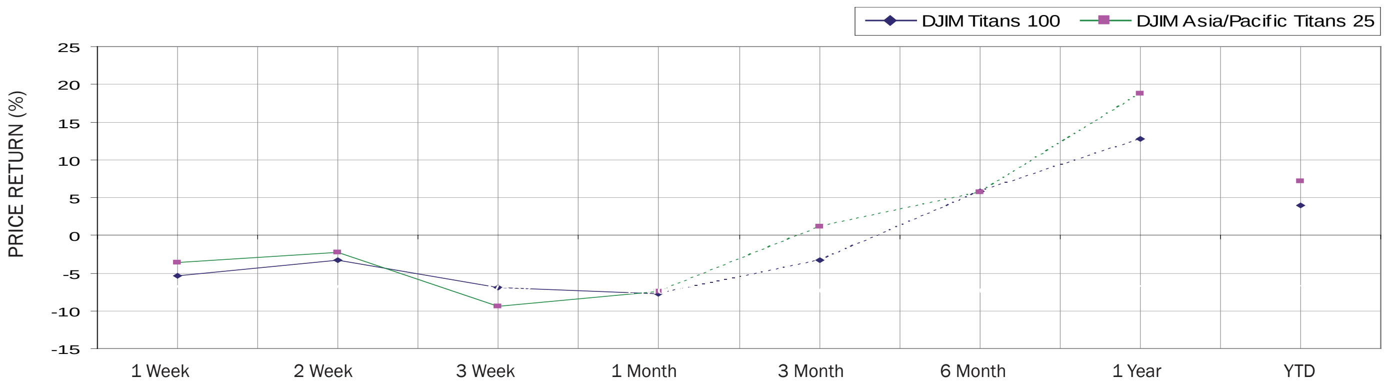
Data as of the 15th August 2007

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-5.68	-4.09	-7.68	-8.70	-4.26	5.63	15.52	5.80
DJIM Asia/Pacific	-4.03	-3.21	-8.94	-7.10	-0.27	4.88	15.65	6.17
DJIM Europe	-6.30	-4.22	-6.84	-9.20	-5.38	6.37	15.78	5.44
DJIM US	-5.57	-3.96	-7.22	-8.30	-4.64	4.75	14.70	5.07

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	-5.34	-3.24	-6.93	-7.70	-3.31	5.87	12.74	3.96
DJIM Asia/Pacific Titans 25	-3.63	-2.26	-9.37	-7.44	1.16	5.72	18.83	7.18

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2422	17997.28	15244.12	6.29	1.51	465.09	0.02	3.05	0
DJIM Asia/Pacific	1004	3555.14	2536.79	2.53	0.64	91.88	0.02	3.62	0
DJIM Europe	353	4485.00	3595.58	10.19	2.91	207.18	0.25	5.76	0.01
DJIM US	728	8668.28	8180.81	11.24	3.04	465.09	0.24	5.69	0
DJIM Titans 100	100	7991.82	7296.19	72.96	53.19	442.18	14.72	6.06	0.20
DJIM Asia/Pacific Titans 25	25	1145.19	841.24	33.65	23.76	82.64	14.72	9.82	1.75

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

RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT

AS AT 16th August 2007

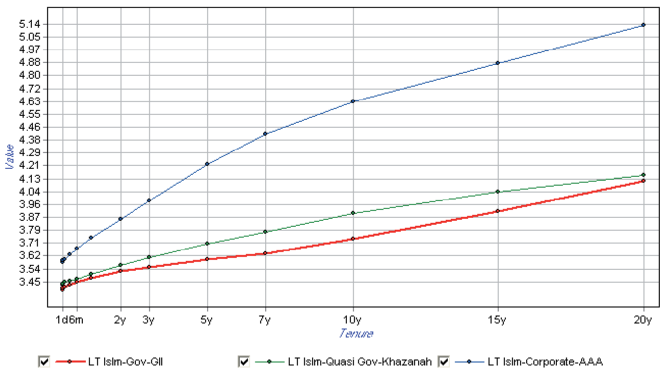
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	8 August 07 (RM)	1 August 07 (RM)	27 July 07 (RM)
Private Debt Securities					
RANTAU IMTN 15.03.2011 – MTN 1	AAA (RAM)	101.14	101.36	101.30	101.51
MALAKOFCRP JUNIOR SUKUK 30.04.2057	A2 (RAM)	102.57	100.04	100.04	100.88
HARUM IMTN 5.000% 17.03.2011	AA-ID (MARC)	102.47	102.48	102.49	102.71
SIMEDARBY IMTN 21.12.2009 – MMTN 2	AAA ID (MARC)	101.11	101.14	101.01	101.14
Quasi Government					
CAGABAIS 13/2006 0% 10.08.2009	AAA (RAM)	101.32	101.48	101.49	101.46
KHA3/99 1.15B 0CP 10Y 18.09.09	N/A	92.60	92.76	92.70	92.63
KHAZANAH 0% 08.12.2016	N/A	69.49	69.56	69.50	69.45
SILTERRA CAP 3.900% 06.06.2014	N/A	99.95	100.11	100.06	100.12

SPREAD VS GII (in b.p.)

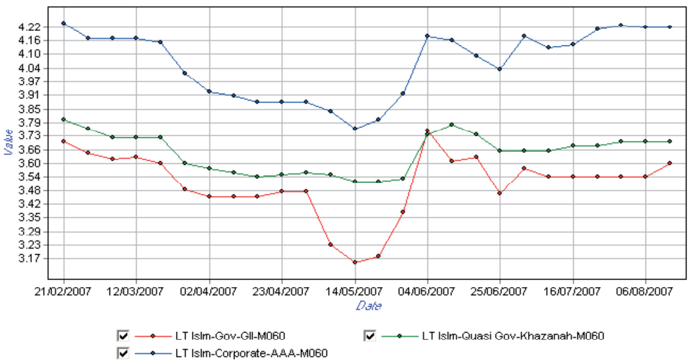
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.48	3.52	3.55	3.60	3.64	3.73
Cagamas	0.15	0.19	0.23	0.34	0.43	0.48
Khazanah	0.02	0.04	0.06	0.10	0.14	0.17
AAA	0.26	0.34	0.43	0.62	0.78	0.90
AA1	0.41	0.49	0.58	0.77	0.93	1.08
A1	1.51	1.67	1.82	2.17	2.49	2.88

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	11.2	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Sukuk	2,686	3	8.5	Malaysian Government bond
3	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	8.0	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	6.3	CIMB Investment
6	DP World Sukuk	UAE	Sukuk Mudarabah	1,496	1	4.7	Barclays Capital, Citigroup Global Markets, Deutsche Bank, Lehman Brothers
7	Saudi Electricity	UAE	Sukuk	1,333	1	4.2	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	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	2.7	Deutsche Bank (Malaysia), JP Morgan, CIMB
11	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	2.7	Citi, CIMB Investment
12	ADIB Sukuk	UAE	Sukuk Ijarah	800	1	2.5	HSBC
13	DIB Sukuk	UAE	Sukuk Musharakah	750	1	2.4	Barclays Capital, Citigroup Global Markets, Standard Chartered
14	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	2.4	CIMB Investment, HSBC Amanah, UBS
15	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	2.4	CIMB Investment
16	Golden Belt 1 Sukuk	Saudi Arabia	Sukuk Manafaa	650	1	2.1	BNP Paribas
17	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Residential Mortgage Backed Securities	620	7	2.0	HSBC, CIMB, AmMerchant
18	DAAR International Sukuk	Saudi Arabia	Sukuk Ijarah	600	1	1.9	ABC Islamic Bank, Arab National Bank, Standard Bank, Unicorn Investment Bank, WestLB
19	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	570	1	1.8	CIMB
20	Silterra Capital	Malaysia	Government Guaranteed Sukuk Ijarah	530	1	1.7	CIMB Investment, HSBC, Citibank
	Total			**31,529**	**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	10.8	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
2	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	2,133	1	9.1	HSBC Saudi Arabia, Riyad Bank
3	Nucleus Avenue (M)	Malaysia	Sukuk Musharakah MTN	1,994	9	8.5	CIMB Investment
4	Malaysia	Malaysia	Sukuk	1,862	2	7.9	Malaysian Government bond
5	DP World Sukuk	UAE	Sukuk Mudarabah	1,496	1	6.4	Barclays Capital, Citigroup Global Markets, Deutsche Bank, Lehman Brothers
6	Saudi Electricity	UAE	Sukuk	1,333	1	5.7	HSBC Saudi Arabia
7	Dubai Sukuk Centre	UAE	Sukuk Mudarabah	1,248	1	5.3	Deutsche Bank (London), Goldman Sachs International
8	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Ijarah	1,000	1	4.3	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	3.6	Deutsche Bank (Malaysia), JP Morgan, CIMB
10	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	3.6	Citi, CIMB Investment
11	DIB Sukuk	UAE	Sukuk Musharakah	750	1	3.2	Barclays Capital, Citigroup Global Markets, Standard Chartered
12	Golden Belt 1 Sukuk	Saudi Arabia	Sukuk Manafaa	650	1	2.8	BNP Paribas
13	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Residential Mortgage Backed Securities	620	7	2.6	HSBC, CIMB, Aseambankers
14	DAAR International Sukuk	Saudi Arabia	Sukuk Ijarah	600	1	2.6	ABC Islamic Bank, Arab National Bank, Standard Bank, Unicorn Investment Bank, WestLB
15	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	570	1	2.4	CIMB
16	Silterra Capital	Malaysia	Government Guaranteed Sukuk Ijarah	530	1	2.3	CIMB Investment Bank, HSBC, Citibank
17	NIG Sukuk	Kuwait	Sukuk Mudarabah	475	1	2.0	BNP Paribas, Citigroup Global Markets, National Bank of Kuwait, Standard Chartered, WestLB
18	Cagamas	Malaysia	Bithaman Ajil Islamic Securities/Mudarabah MTN	454	9	1.9	Cagamas, Aseambankers, HSBC, CIMB
19	Lebuhraya Kajang – Seremban	Malaysia	Sukuk Istisnah	413	12	1.8	AmInvestment
20	EIB Sukuk	UAE	Musharakah Sukuk Trust Certificates	350	1	1.5	Emirates Islamic Bank, Standard Chartered
	Total			**23,461**	**189**	**100.0**	

ISLAMIC BONDS — AUGUST 2006 – AUGUST 2007

	Manager or Group	Amt US$ m	Iss.	%
1	HSBC	4,800	31	15.2
2	CIMB	4,552	67	14.4
3	Barclays Capital	3,353	6	10.6
4	Malaysian Government bond	2,686	3	8.5
5	Dubai Islamic Bank	2,255	6	7.2
6	Citi	1,668	6	5.3
7	Deutsche Bank	1,393	18	4.4
8	Riyad Bank	1,066	1	3.4
9	BNP Paribas	845	3	2.7
10	Abu Dhabi Investment	843	1	2.7
11	Credit Suisse	843	1	2.7
12	AmInvestment	796	52	2.5
13	Standard Chartered	723	27	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	0.9
20	Kuwait Finance House	297	9	0.9
	Total	**31,529**	**313**	**100.0**

ISLAMIC BONDS — JANUARY 2007 – AUGUST 2007

	Manager or Group	Amt US$ m	Iss.	%
1	HSBC	3,503	26	14.9
2	CIMB	3,464	42	14.8
3	Malaysian Government bond	1,862	2	7.9
4	Citi	1,668	6	7.1
5	Barclays Capital	1,593	4	6.8
6	Deutsche Bank	1,393	18	5.9
7	Riyad Bank	1,066	1	4.5
8	BNP Paribas	845	3	3.6
9	Abu Dhabi Investment	843	1	3.6
10	Credit Suisse	843	1	3.6
11	Standard Chartered	710	19	3.0
12	Goldman Sachs & Co	624	1	2.7
13	AmInvestment	565	35	2.4
14	Dubai Islamic Bank	495	4	2.1
15	Aseambankers	455	20	1.9
16	Lehman Brothers	299	1	1.3
17	JP Morgan	283	1	1.2
18	Arab Banking	263	2	1.1
19	Arab National Bank	263	2	1.1
20	Unicorn Investment Bank	263	2	1.1
	Total	**23,461**	**189**	**100.0**

ISLAMIC BONDS BY COUNTRY — AUGUST 2006 – AUGUST 2007

	Amt US$ m	Iss.	%
Malaysia	13,183	282	41.8
UAE	10,929	10	34.7
Saudi Arabia	5,716	5	18.1
Kuwait	875	4	2.8
Qatar	300	1	1.0
Pakistan	210	6	0.7
Total	**31,529**	**313**	**100.0**

ISLAMIC BONDS BY COUNTRY — JANUARY 2007 – AUGUST 2007

	Amt US$ m	Iss.	%
Malaysia	9,761	163	41.6
UAE	6,384	6	27.2
Saudi Arabia	5,716	5	24.4
Kuwait	775	3	3.3
Qatar	300	1	1.3
Pakistan	210	6	0.9
Total	**23,461**	**189**	**100.0**

ISLAMIC BONDS BY CURRENCY — AUGUST 2006 – AUGUST 2007

	Amt US$ m	Iss.	%
US dollar	16,454	22	52.2
Malaysian ringgit	11,283	279	35.8
Saudi Arabian riyal	3,466	2	11.0
Pakistan rupee	210	6	0.7
Total	**31,529**	**313**	**100.0**

ISLAMIC BONDS BY CURRENCY — JANUARY 2007 – AUGUST 2007

	Amt US$ m	Iss.	%
US dollar	11,059	16	47.1
Malaysian ringgit	8,611	161	36.7
Saudi Arabian riyal	3,466	2	14.8
Pakistan rupee	210	6	0.9
Total	**23,461**	**189**	**100.0**

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DATE	EVENT	VENUE	ORGANIZER
August			
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 – 14th	3rd Annual Achieving Operational Excellence in Banking Summit	Dubai	Fleming Gulf
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
9th – 11th	Global Halal & Islamic Business Forum	Abu Dhabi	IIR Middle East

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