Islamic Finance news

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UK

CCH–EIIB agreement

CCH International has signed an agreement with the European Islamic Investment Bank (EIIB) for a pound sterling denominated financing facility.

The law firm also concluded a three-year agreement with Alphasteel of Wales to increase its funding base against company sales until 2010.

KENYA

All set for Gulf African

April 2007 will see Bank Muscat and Istithmar, along with a consortium of investors, opening an Islamic bank in Kenya. Bank Muscat will own 20% of the Gulf African Bank, while Istithmar will hold 30% and 10% will be held by the International Finance Corporation.

Gulf African will have a US$25 million start-up capital, and might expand to other African countries keen on Islamic banking. Chairman of Bank Muscat, Abdul-Malik Al Khalili, affirmed: "Africa is an attractive emerging market for the growth of Islamic finance. There is a lot of liquidity in the Gulf and we are making a bridge between the two."

Of Kenya's population, approximately 26% are Muslim.

SAUDI ARABIA

US$600 million Sukuk closed

Dar Al Arkan Real Estate Development's US$600 million Sukuk has closed. Priced at an initial US$425 million, the Sukuk was oversubscribed through strong response from European, South-East Asian and GCC markets.

The landmark three-year US$600 million Sukuk Ijarah is the first Sukuk issued by a Saudi corporate in the international capital market. ABC Islamic Bank, Arab National Bank, Standard Bank, Unicorn Investment Bank and WestLB AG acted as joint coordinators for the Sukuk.

Although it closed at US$600 million, the issue attracted close to US$700 million in subscriptions.

BAHRAIN

GIB's highest profits ever

Gulf International Bank (GIB)'s consolidated net income amounted to US$255.5 million for 2006, showing a 26% increase over 2005. The post-tax profits represented the highest profits garnered in GIB's history.

Consolidated total assets rose by US$1.9 billion to US$24.8 billion at the end of 2006, reflecting a significant growth in loans and advances, which increased by US$1.8 billion during the year to US$8.1 billion at the end of 2006. The increase was also attributed to further growth in the GCC loan portfolio, with the year-on-year hike reflecting the high level of liquidity prevailing in the GCC region.

Dr Khaled Al-Fayez, GIB's chief executive officer, explained:

"GIB has consolidated its position as the leading financier and arranger of specialized lending within the GCC, with particular focus on oil, gas, petrochemical, power generation, and manufacturing sector projects, as well as being the region's most active financial institution in the loan agency business. An increase in non-interest income reflected strong fee-based earnings derived from the Group's strategically important merchant banking activities, including asset and fund management and corporate advisory."

In this issue

EDITOR'S NOTE

When we talk about risk, we generally assume that it is negative. Some of the key words that relate to risk are loss, failure, threat, disaster, harm, danger, uncertainty and hazard. Risk is ever-present and unavoidable. It is hard to avoid, for example, our laptops from crashing, having a heart attack, losing money in an investment or getting involved in a car accident, just to name a few examples.

The core concept in Islamic finance is that risk must be fully apportioned or distributed among a broad base of participants. This is achieved by prohibiting fixing the value of obligations and rewards, thereby allowing valuations to reflect the true worth across time as economic realities change. It is a dynamic system, which mitigates the negative effects of constantly changing valuations in an economy. And it is in sharp contrast with conventional, interest-based systems, which fix the value of obligations and rewards for different enterprise participants in an economic regime of continuous valuation changes.

An option in modern day or practical Islamic finance is to enlist partners or investors who will share in both the risks and the rewards of the enterprise. The idea is risk-sharing related to the principle of liability.

As risk is unavoidable, central to risk management is the identification of the source of risk or the variables causing the risk and subsequently coming up with models or methods quantifying the risk.

Islamic fund managers around the world have begun practicing risk management techniques to incorporate Shariah principles. In a robust and fast-moving market, it is imperative not to forget to maintain a steady base of retail products while developing sophisticated high end products, as we would not want to see the Islamic finance market develop into an unsightly, unstable and what is more risky "inverted pear shape."

On the legal front, there have been some movements in the Middle East, where DLA Piper is moving further into Islamic finance with the opening of its Oman office, where a new partner has been appointed, after the appointment of another for its Dubai office.

Stanchart Malaysia is planning on a tenfold increase in its staff size in the next 10 months – from about 200 to 2,000 by the end of this year. Could the banking group be opening more branches or is there a new unit being set up?

Moving on, we look at how the UK plans to become a center for Islamic finance. Despite some shortcomings in the existing laws that have deterred the growth of Islamic finance in the country thus far, it will not be long before these laws work in harmony with the tax treatment of several Islamic financial instruments. The UK is to become the first western country to allow banks to sell Islamic bonds.

Nora Salim, Editor

NEWS BRIEFS

UAE (Dubai)

EIB's brokerage arm

Emirates Islamic Bank (EIB) has inaugurated the Emirates Islamic Financial Brokerage (EIFB).

The EIFB was set up to enable EIB's customers to trade in the Dubai Financial Market (DFM) and the Abu Dhabi Security Market (ADSM) while adhering to Shariah principles. EIFB is set to offer services comprising brokerage and e-trading, as well as professional consultancy services and dedicated brokers for high net worth relationships.

EIFB, which has plans to expand into Sharjah before long, has launched its online trading capability, enabling its investors to conduct the selling and buying of shares and the viewing of transactions, while utilizing statistical analysis and market index tracking tools.

The EIFB office will be co-located with EIB's Oud Metha branch.

UK

Islamic Finance MBA

Cass Business School will offer the world's first MBA course with Islamic finance elements. The Islamic finance part will be one of three alternative specializations – energy and general management and finance.

The new program will be taught over 24 months and will involve the same content as Cass's London-based Executive MBA, one of the highest-ranked EMBAs in the world. The MBA program is being launched in association with Dubai International Financial Center (DIFC).

BAHRAIN/FRANCE

Bonjour Francaise!

The International Investment Bank (IIB) has acquired a portfolio of real estates in France valued at US$105 million.

IIB will acquire a 90% stake in the portfolio, which is located in Paris and Lyon. The bank expects to leverage on strong demand and continued growth for office space in the commercial sectors.

IIB's asset manager partner, with extensive knowledge of Shariah compliant investments, will hold the remaining 10% in portfolio ownership. Projected internal rate of return on the investment is at 12% a year over a five-year tenure, with cash yields ranging from 8.6% to 9.2%.

This investment marks IIB's second European real estate endeavor.

BRUNEI

Fifth Sukuk sale

Brunei has sold B$90 million (US$59 million) worth of 91-day Islamic debt securities at a yield of 3.15%. This Ijarah bond is the fifth securities sale for Brunei.

The first Ijarah bond was issued by the Brunei government in April 2006.

NEWS BRIEFS

UAE (Dubai)

DIB's major financing

The Dubai Islamic Bank (DIB) expects to lead up to US$5 billion in financing transactions this year.

DIB's investment banking unit is geared to meet the needs of large projects and institutions within the UAE and globally, a market which is anticipated to be between US$4 billion to US$5 billion. DIB plans to raise its Sukuk across the Middle East, Europe, Asia and the US. At present the bank has raised a total of over US$15 billion in Islamic bonds, amounting to nearly 70% of total Emirates capital funding.

Moody's Investors Services projects Middle Eastern governments and companies to sell an increased number of Sukuk in the next five years, up 45% on the record US$16.8 billion of Sukuk sold worldwide in 2006.

BRUNEI

Islamic banking building

Universiti Brunei Darussalam (UBD) will have its own Center for Islamic Banking, Finance and Management (CIBFM) building by the end of 2008.

The project is anticipated to cost approximately B$14 million (US$9.12 million), covering an area of 50,000 square feet. CIBFM is expected to contribute significantly to the development of Islamic banking and finance in Brunei and internationally. In order to expand its international presence, the center will form core partners with renowned Islamic finance and conventional institutions.

Brunei's Ministry of Finance, together with the Islamic Development Board Jeddah and the Public Works Department, has worked on the drafting, planning and financing of the center.

UAE (Dubai)

Nucleus for DIB

Dubai Islamic Bank (DIB) has selected Nucleus Software's FinnOne CAS to manage its retail operations.

FinnOne CAS will allow easy access and instant information availability to DIB. The software also assures ease of all operations. Nucleus is looking to tap into the US$400 billion worth Islamic finance industry, having successfully consolidated its position as a technology leader in the Japanese, Middle Eastern, African and South-East Asian markets.

FinnOne will be implemented across DIB's 40 branches by the end of 2007. This will be Nucleus' first foray into Islamic banking.

SAUDI ARABIA

Trade Finance Corporation

The general assembly meeting of the International Islamic Trade Finance Corporation (ITFC) will be held on the 24th February 2007 in Jeddah.

The ITFC has a start-up capital of US$300 million, involving 56 Islamic Development Bank (IDB) member countries and heads of financial institutions. Dr Ahmed Mohammed Ali, president of the IDB Group, is optimistic: "This initiative will work to alleviate economic burdens and combating poverty in the least developed member countries. ITFC will provide more resources to the Islamic Development Bank to finance exports and investments and secure necessary guarantees that will facilitate greater trade exchange regionally."

The ITFC aims to increase the modest intra-trade volume among member countries of the Organization of Islamic Conference (OIC) while adhering to Shariah principles.

Its activities will include developing and financing inter-regional trade, launching specialized funds, streamlining the development effects of trade financing operations and upgrading the capabilities of member countries in the field of exports.

BAHRAIN

Time to consolidate

Al Salam Bank is looking to consolidate and to expand its operations globally. The bank is currently investigating Algeria and Sudan as part of its expansion plan.

2007 will see the rapid expansion of Al Salam's product portfolio and network via the introduction of its retail and investment banking services early in the year.

Al Salam declared a gross revenue of BD20.4 million (US$54.1 million) as at the 31st December 2006.

NEWS BRIEFS

UK

Barclays hits the big time

Barclays' pre-tax profits reached an all-time high of £7.14 billion (US$27.27 billion) for 2006.

The profits showed a 35% rise from 2005, coming out beyond analysts' expectations. Investment businesses Barclays Capital and Barclays Global Investors helped to offset losses seen in Barclaycard's operations, which saw a plummet by 40% to £382 million (US$744 million). Barclays Capital alone saw a 55% rise in pre-tax profits to £2.22 billion (US$4.3 billion) in 2006.

Barclays' investment arm, which domiciles its Islamic division, contributed to a majority of the pre-tax profits. Barclays acted as co-lead arrangers in two of 2006's largest Islamic financing deals – Nakheel and Dubai Ports, Customs and Free Zone Corporation (PCFC).

US

King & Spalding's big year

US law firm King & Spalding (K&S) has recorded worldwide revenues of US$582.4 million, and profits per partner of US$1.31 million. This represents a 13.2% and 25% increase, respectively, from 2005.

The firm, which domiciles 800 lawyers worldwide, attributes its success to diversity: "We have been successful because we provide our clients with the best legal advice, superior service and a deep understanding of their industries," commented K&S chairman Robert Hays.

K&S also named growing client demands for Islamic finance, energy, real estate, private equity, health care and international arbitration in the Middle East, Asian and North African region as amongst the firm's revenue contributors. K&S has recently opened a Dubai office to cater to growing Middle Eastern demand.

BAHRAIN

Shariah compliant oil economy

GCC countries are thriving in the construction and real estate industry due to recent oil price hikes.

Fahmi Ali Al Jowder, Bahrain's minister of works and housing, affirmed: "An increase in liquidity in the economy coupled with Bahrain's leading role in the emerging Islamic banking sector has spurred the development in the country." Bahrain currently hosts 34 out of 78 Islamic funds, propelling it foward in the race to become an Islamic finance hub.

Fahmi also sees fundamental changes taking place within the economy, with international and intra-regional capital flows occurring and foreign direct investment spurring medium-term development.

MALAYSIA

StanChart School of Trade

Standard Chartered Group (StanChart) is looking to expand its staff from 160 to 2,000 by the end of 2007. In tandem with these plans, StanChart Malaysia recently signed a memorandum of understanding with Universiti Teknologi Mara (UiTM) to establish an internship program dubbed "School of Trade."

The bank is set to invest RM1.5 million (US$429,543) in the three-year program.

Chief executive officer of StanChart Malaysia, Julian Wynter, affirmed the bank's confidence in the local economy in the coming 12–18 months. Wynter expects the trade and finance sector to grow further in Malaysia, adding that the bank is looking to increase its Islamic banking products.

NEWS BRIEFS

BRUNEI

BIBD takes the lead

In its bid to surpass other industry players, Bank Islam Brunei Darussalam (BIBD) has introduced the first entirely Shariah compliant investment certificate which is tradeable and marketable before its maturity date.

The BIBD Musharakah Musahamah and Al Bai, a short-term investment plan, possess a six-month maturity. The certificates stand to generate higher rates of return compared to conventional savings and investments of local banks.

As well as BIBD's new Shariah based derivative and structural investment products, the bank is currently cooperating with international financial institutions to gain technical know-how and technology transfer.

BANGLADESH

Maiden Sukuk endeavour

Bangladesh Bank (BB) governor Salehuddin Ahmad has disclosed a possibility of introducing Sukuk into the country.

Salehuddin believes that a successful Islamic banking venture requires specialized skills and a clear understanding of the profit-sharing methods of Shariah compliant financial transactions. "As a central banker, we need to find ways and means to integrate the dimension with the mainstream and apply rules and regulations and management mechanisms. These call for research and training in the field," he added.

The introduction of Islamic banking principles by various western banks has shown a positive result, indicating that Islamic banking systems can work effectively in both developed as well as developing nations. "Mentionable is that the products of this kind of banks can also include micro credits, SME loans and collateral-free credits," affirmed Salehuddin.

The governor, however, expressed concern over the long-term viability of Islamic banking institutions, as well as external and internal discrepancies revolving around regulation. "The Islamic banking system is not always spelt out in terms of rules, payment for loans, and delayed payment of loans," he concluded.

The governor was speaking at the inauguration of a three-day training program jointly organized by Prime Bank Training Institute, Islamic Finance Training and Red Money Group of Malaysia.

MALAYSIA

More time for KFH

The Kuwait Finance House (KFH)-led consortium and Utama Banking Group (UBG) will extend their negotiation period for the disposal of UBG's stake in Rashid Hussain (RHB). KFH and UBG have been in ongoing talks for the purchase of UBG's entire stake in the bank.

Both parties are in the final stages of arbitrating the sale and purchase agreement, subject to Bank Negara Malaysia's approval. KFH believes that its acquisition of RHB will place Malaysia at the forefront of Islamic banking in the region. The consortium has also pledged its commitment to create value for the RHB group and its stakeholders.

UAE (Dubai)/ GERMANY

DWS Fund distribution

Dubai Islamic Bank (DIB) will begin distributing products from Deutsche Bank's DWS Noor Islamic Fund range. The range comprises three mutual funds – the DWS Noor Precious Metals Securities Fund, DWS Noor Japan Equity Fund and DWS Noor Asia Pacific Equity Fund.

DWS is currently placed among the top 10 largest mutual fund managers, with over €248 billion (US$325.6 billion) under its global management. This deal is the first for DIB – Wealth Management: it represents the company's efforts to provide its customers with a diversified range of Islamic investment products.

The DWS Noor Precious Metals Securities Fund will invest in companies engaged in activities related to gold, platinum, silver and other precious metals. DWS Noor Japan Equity Fund will invest in listed Japanese companies, while the DWS Noor Asia-Pacific Equity Fund will provide access to the outstanding growth opportunities in Asia-Pacific's emerging economies.

The funds are strictly supervised by Deutsche's Shariah advisor, Dar Al Istithmar. They have a minimum investment of US$10,000 per fund for individuals and US$25,000 per fund for institutions.

NEWS BRIEFS

UAE (Abu Dhabi)

EIIC's selfless act?

Emirates International Investment Company (EIIC) will not reap earnings from its yet-to-be purchased Dh1.5 billion (US$408.4 million) Abu Dhabi Islamic Bank (ADIB) Sukuk.

EIIC intends to purchase the Sukuk to increase its shareholding in ADIB from 37% to 55%, as well as to boost ADIB's capital adequacy ratio, secure higher cash liquidity for financing and investment, and allow the bank to increase its profits and dividends. EIIC also sees the move as a boost for ADIB's investor confidence through the stablizing of its shares.

The ADIB Sukuk is expected to yield Dh100 million (US$27.2 million) a year on LIBOR average yield. EIIC also affirmed that it would not trade shares procured after the Sukuk's conversion in order to cushion share prices and liquidity.

PAKISTAN

Meezan's net assets

Al Meezan Investment Management has announced its 2006 half year end results for the Meezan Islamic Fund (MIF) and Meezan Balanced Fund (MBF).

As at the 31st December 2006, MIF's net assets stood at PKR3.512 billion (US$58.7 million), at PKR59.41 (US$0.97) per unit, ranking it top among Pakistani Islamic funds and open-end equity funds within the private sector. Net assets for MBF totaled PKR1.32 billion (US$21.7 million), at PKR11.07 (US$0.18) per unit.

Al Meezan Investments is currently Pakistan's sole provider of Shariah compliant investment solutions. In line with generating higher investor confidence, Al Meezan recently launched its Meezan Islamic Income Fund (MIIF) – also Pakistan's first. MIIF aims to generate a stable stream of income for its investors without compromising the safety of the principal invested.

UAE (Dubai)

Deyaar expands base

Dubai Islamic Bank (DIB)'s fully owned subsidiary Deyaar has increased its capital base by 56% to Dh1.56 billion (US$424.8 million). Deyaar also experienced a 192% hike in net profits for 2006.

This capital increase is in line with reinforcing its real estate portfolio investments. Chairman of Deyaar, Dr Mohammed Khalfan Kharbash affirmed: "The hike in capital heralds a new phase of growth for Deyaar. The company has grown steadily, with net profits rising from Dh75 million [US$20.42 million] in 2004 to Dh412 million [US$112.19 million] in 2006. It's time to build on this overwhelming success by widening Deyaar's presence both in the region as well as in international markets. The increase in capital creates a solid base, enabling Deyaar to augment resources required for its extensive growth plans."

On top of the company's 17 real estate projects launched across the UAE, Lebanon and Turkey, Deyaar has expressed intentions for strategic forays into Saudi Arabia, India, Kazakhstan and Turkey.

NEWS BRIEFS

RATINGS NEWS

MALAYSIA

RAM rates RHB Capital

In light of the tussle for RHB, Rating Agency Malaysia (RAM) has placed RHB Capital on Ratings Watch. RHB Capital's RM600 million (US$171.7 million) serial fixed-rate bonds and RM350 million (US$100.1 million) fixed-rate bonds have a rating of A2 with a positive outlook.

This action is attributed to RHB's proposal for a renounceable offer of up to 1.176 million ordinary shares in RHB Capital. RHB currently holds a 64.8% stake in RHB Capital.

At present, one of RHB's most pressing concerns is its US$265.2 million bonds, due in June 2007. In this respect, the proposed renounceable sale is anticipated to raise RM3.9 billion (US$1.11 billion), which would essentially address all of RHB's debt obligations, including inter-company loans from RHB Capital.

UAE (Dubai)

DIB Sukuk rated

Dubai Islamic Bank (DIB)'s US dollar floating-rate Sukuk trust certificates have been assigned a preliminary rating of A by Standard & Poor's Ratings Services.

The Sukuk's proceeds, due in 2012, will be used for DIB's general funding purposes, which will see the sale of a given percentage of a pool of assets to the issuer. The assets will be co-owned by DIB and the issuer.

This preliminary rating – based on draft documentation – follows DIB's long-term counterparty credit rating of A. DIB's ratings are premised upon the bank's robust and sustainable financial performance, improved capitalization, asset quality and diversification, as well as strong liquidity.

MALAYSIA

Cagamas' AAA

Cagamas' RM350 million (US$100.2 million) nominal value Bai Bithaman Ajil Islamic securities (BAIS) have been assigned a long-term AAA rating. This rating was given based on the unmatched quality of Cagamas' assets in terms of loans purchased with full recourse to the originators and management's compliance with investments and loan purchase agreements.

Proceeds from the BAIS will be used to finance Cagamas' purchase of Islamic debts from financial institutions. The BAIS will be redeemed at nominal value upon maturity.

MALAYSIA

Takaful arm contributes to MAA

MAA Holdings' RM120 million (US$34.3 million) Serial Bonds rating has been upgraded to A from A-, with a stable outlook. The upgrade is credit to the main subsidiary of MAA Holdings (Malaysian Assurance Alliance)'s robust financials, as well as the holding company's successful issuance of its RM200 million (US$57.3 million) commercial papers/medium-term notes program for debt repayment, working capital and business expansion. MAA Holdings' latest entity, MAA Takaful, is expected to contribute significantly to the holding company in the future.

On top of MAA's innovative investment products, the insurance industry's stringent underwriting and superior gross premium growth is viewed as favorable. However, the high concentration in the motor business moderates the rating, in light the automotive industry's current negative outlook, escalating motor claims and delayed tariff rate adjustment for compulsory motor coverage.

MALAYSIA

Penang Port upgrade

Penang Port's RM100 million (US$28.6 million) Islamic commercial paper/medium-term notes program (CP/MTN) has been upgraded to AA3 from A2. Its short-term rating has been reaffirmed at P1. All ratings carry a stable outlook.

Simultaneously RAM removed the Rating Watch (with a positive outlook) on these ratings. The Rating Watch was implemented in August 2006, to reflect a potentially stronger financial profile from the impending increase in Penang Port's tariffs.

The upgrade is premised on Penang Port's track record as an effective port operator, as well as its potential financial accretion with the upcoming implementation of a 30% average hike in port tariffs come the 1st March 2007. The increase in tariffs, anticipated growth and ongoing cost reductions within the company is expected to increase the Port's margins.

THIS TIME LAST YEAR

Pakistan's **Export Promotion Bureau** announced it would provide a complementary sectoral consultancy service to bankers to enhance their understanding of Islamic modes of financing for exporters; International law firm **Norton Rose** advised the finance parties on the US$1.01 billion multi-sourced financing for government-owned **Bahrain Petroleum Company**. The financing package included an Islamic lease facility of US$330 million and would be used for the upgrading of Bahrain's oil refinery; **Lloyds TSB** launched an Islamic current account to cater to the banking needs of the UK's 2 million Muslims; The US **University Bank**'s Islamic banking division was named an "Islamic Friendly Lender," one of just three US banks to obtain the title. The other two were **Devon Bank** and **HSBC**; **Al Zamin Leasing Modaraba** confirmed that it was seeking approval to convert to an Islamic bank with a paid-up capital of US$33.6 million, after securing approval from the **State Bank of Pakistan** and **Securities Exchange Commission of Pakistan**, in collaboration with **Saudi Bashair Holding**; Zailani Bin Mahmud and Abdul Ghani Bin Endut were appointed managers in the **CIMB Islamic** department; the **Securities and Exchange Commission of Pakistan** approved the application of registration of one Islamic insurance company; the Bangladesh government set up a committee to look at amendments to the present Insurance Act of Bangladesh to include clauses giving legal coverage to Takaful.

Risk Management Practices by Islamic Fund Managers

Shabnam Mohamad Mokhtar of **Islamic Finance** *news reports*

Fund managers face three types of risks in managing their portfolios – market risk, credit risk and liquidity risk. Market risk refers to the fluctuation in security prices due to economic factors, including interest rate and foreign currency fluctuation and also industry and firm-specific factors. Credit risk refers to counter-party default risk, while liquidity risk refers to the inability to sell off securities when needed (measured as the number of days taken to sell off a security). On top of these risks, Islamic fund managers face an additional risk – Shariah compliance risk. Islamic fund managers can only hold portfolios that consist of instruments that have been approved by Shariah advisors.

A fund manager's portfolio usually comprises an equity portfolio and a fixed income portfolio. The equity portfolio consists of shares traded on the exchange, while the fixed income portfolio consists of bonds and fixed income securities. Islamic funds also fall into the same categories of equity and fixed income funds. However, Islamic equity funds only hold stocks that have been screened for Shariah compliance by the relevant authority and Islamic fixed income funds contain only Islamic bonds (Sukuk) and commodity funds.

The risk exposure (market, credit and liquidity) varies between the equity and fixed income portfolios. An equity portfolio has a high market risk because share prices are volatile. However the credit risk in an equity portfolio is minimal because the stock exchange is the counter-party in the transaction and it has a very low default risk. The liquidity risk would depend on the trading activity of a stock. For a fixed income portfolio the credit risk is somewhat heightened because the counter-party is now the issuer of the bond or Sukuk. The credit rating of the issuer reflects the credit risk of the instrument. The market risk and the liquidity risk in a fixed income portfolio depend on the functioning of the secondary market of the Sukuk.

Risk management practices

According to Eric Hong, associate director of the quantitative strategy unit at CIMB Principal, CIMB applies identical risk management tools for its conventional and Islamic funds. CIMB has various investment products including an equity fund, bond fund, cash fund, warrant fund and Shariah fund. The Shariah fund invests 70% in Shariah compliant stock at Bursa Malaysia and puts the balance in cash, long and short-term Islamic debt securities, including guaranteed Murabahah notes, Bai Bithaman Ajil and Sukuk Ijarah.

Risk management in investment can be generally defined as the ability to predict losses and plan mitigation actions to minimize those losses. For equity portfolios, CIMB formulates a risk budget indicating how much risk a portfolio can tolerate. The budget is scrutinized via beta targets, tracking error and stock and sector exposure band.

Beta targets

Beta, in general, measures a stock's volatility, i.e. the degree to which its price fluctuates in relation to the overall market (measured by the composite index). For example a beta of 1 indicates that the security's price tends to move in tandem with the market. A beta greater than 1 indicates that the security's price tends to be more volatile than the market, and a beta less than 1 means it tends to be less volatile than the market. Therefore, beta targets provide fund managers at CIMB with a guideline on how much volatility (i.e. risk) they carry in their portfolios.

Tracking error

Tracking error is used to analyze how close a portfolio's return follows a benchmark return (usually an index return). For example, the Shariah fund at CIMB was set up with the objective to outperform the Kuala Lumpur Shariah Index (KLSI). Thus, fund managers can track how much their Shariah portfolio returns vary from the KLSI return. The tracking error is measured as the standard deviation between the portfolio return and the KLSI return, to help fund managers monitor their performance.

Exposure bond

Stock and sector exposure band, on the other hand, are limits set by CIMB on how much a portfolio can focus on specific stocks and specific sectors. It also provides guidelines on the targeted number of stocks/bonds that should be carried in a portfolio. These guidelines are important to ensure that fund managers achieve a well-diversified portfolio.

As for the fixed income portfolio, CIMB restricts single issuer limits to 10% of the market value of the portfolio. This means only 10% of the portfolio could consist of Islamic debt securities (IDS) from a particular issuer. This is important to ensure that fund managers do not oversubscribe to an issuance from a specific issuer. In addition, CIMB also puts a 10% ceiling on issue size limit, i.e. fund managers cannot subscribe to more than 10% of any issuance of IDS. These respective limits are imperative because the credit risk in a fixed income fund is heightened compared to an equity fund. These limits diversify the credit risk carried on a fixed income portfolio.

Global developments in Islamic fund management

Just as CIMB utilizes its in-house expertise on risk management, Gulf Finance House (GFH), a leading provider of Islamic investment services based in Bahrain, initiated a risk management system in 2004 to help the bank regularly monitor and assess the risk sensitivity of its investment portfolio. Some of the risk management tools made available through the development of the new system include internal rating methodologies for investments and credit, Value at Risk (VAR) and stress analysis.

VAR is an important risk management tool because it enables fund managers to predict the maximum likely loss over the next trading day across their entire trading portfolio (i.e. how much can I possibly lose

continued...

tomorrow?). VAR will help fund managers to arrive at an aggregate risk across different positions and risk factors. This means that fund managers could add equity risk to fixed income risk to arrive at a single portfolio risk. With an estimate of the overall loss of the portfolio, a fund manager can plan risk mitigation actions to better manage the portfolio.

While VAR may be appropriate for day-to-day monitoring and evaluation of risk against limits, it would not be able to predict losses during abnormal market movements, for example during a financial crisis. Therefore fund managers also need to conduct stress testing. In a stress test, fund managers first need to identify all the stress scenarios (political, regulatory and economic events) that may adversely affect the portfolio. For example, liquid markets can suddenly become illiquid markets when dealers stop answering their phones. In these market conditions, the maximum losses would be different and need to be re-calculated. The Monte Carlo simulation is one of the widely used tools to conduct stress testing.

US investment management company Saturna Capital Corporation is the investment advisor and administrator for the Amana Growth Fund (AMAGX) and the Amana Income Fund (AMANX). The growth fund typically invests in smaller and less seasoned companies than the income fund, which may lead to greater variability in the growth fund's returns. Saturna has also developed two Islamic indices, namely the Islamic 500 Index (based on the Sandard & Poor's 500 index) and the Islamic 1500 Index (based on the Russel 2000 index). These indices serve as a benchmark to measure the performance of Saturna's Islamic funds.

More recently, the European Islamic Investment Bank (EIIB), the first independent, Shariah compliant Islamic investment bank in the UK, announced the launch of a Shariah compliant real estate fund – the Pan-European Islamic Real Estate Fund – in December 2006. More Islamic funds are planned by EIIB, including a hedge fund, private equity asset classes and capital-protected structured products. EIIB is also developing a number of derivative and asset securitization products and expects further new issues to follow in the coming months.

What's in store for the future?

The Islamic fund industry is growing rapidly, with more than 150 products launched in the last three years. Initially the industry started with simple Shariah equity funds that held Shariah compliant stocks in established stock exchanges. Over the years, more sophisticated funds like balanced funds, private equity funds, exchange traded funds (EFT) and fixed income funds have emerged. The development of the industry has two main implications:

- New hedging products, which are scarce in the market, need to be developed. In conventional banking, these hedging products (future, forward, option, swap, etc) serve as risk mitigation tools. There is a pressing need for the Islamic banking and finance community to wake up to the risk management challenges and develop Islamic hedging products. This will enable the industry to offer more sophisticated funds to meet the demand of the growing industry.
- A point raised by Mark Smyth, managing director of Failaka International, in a recent article highlighted a very basic yet significant point for the Islamic fund industry to ponder – "Retail is the key." Mark pointed out that the development of the Islamic fund industry has resulted in a split between institutional (sophisticated, high-end products) and retail products. He said: "While there is nothing intrinsically wrong with this institutional/retail divide, it is an important issue to note. Surely, a new or resurgent industry can, and arguably must, develop both high-end and mass products. Both a 'top-down' and 'bottom-up' approach assures that, in time, all sectors of a diverse market are served."

Conclusion

While recent years have seen more sophisticated Islamic fund products being put forward, the basic retail product (the mutual fund) still lags behind in many Muslim countries. The development of a robust and mature market will be vulnerable if only the top end develops. Although advising retail clients regarding the risk and benefits of mutual funds is a long process, the US can be cited as a successful example – in 1980, less than 6% of US households owned any kind of common stock; however in 2005 nearly 50% owned shares. Mark Smyth recommends that the Islamic fund industry should not neglect the development of retail products, because there is still a large untapped Muslim retail investors' market out there. "For every Ferrari, there are thousands of Hondas, and for every Rolex there are thousands of Casios. Let us not forget our base."

Enterprise Risk Management and Corporate Governance

By Ramesh Pillai

The role of risk management has changed significantly since shareholders became key players in corporate management during the late 1980s. It continued to evolve during the 1990s, as stakeholders began to exert increasing influence due to environmental and ethical lobbies. The regulation of financial organizations, and especially banks, has evolved over the last decade to place new emphasis on formal risk management as a regulatory requirement and ensuring that all risks are managed in a structured manner throughout an organization. The standardization of risk assessment and reporting, as well as the measurement of risk using the economic capital concept, are important developments towards enhancing risk management.

This trend can be seen in the original Basel Capital Accord of 1988, which required all banks to relate risk to levels of capital in a standard, albeit simplistic way. The new Basel II proposals include, for the first time, an explicit capital charge for bank operational risks such as fraud and system failures. They also offer banks the opportunity to base their capital charges for credit risk on probabilities of default and economic capital concepts, rather than the basic systems of risk weightings adopted in the original Accord. The proposals are likely to open up bank risk management to increased scrutiny by the capital markets and investors, as well as to require banks to publish standard risk disclosures. These measures are a strong encouragement to banks to put in place defensible enterprise risk management (ERM) structures and strategies.

Risk management from the perspective of Islamic finance should take into consideration the specific characteristics of Islamic products such as Mudarabah and Musharakah. These use an equity portfolio type approach for capital adequacy. As for asset financing on the principles of Murabahah, Salam, Istisnah and Ijarah, for example, the risks may transform from credit risk to market risk and vice versa. As such, capital requirements should take into account both credit and market risks. Because credit risk in Islamic financing is less prevalent, it is likely to be more complicated. Bear in mind that the occurrences of risks can be at the pre-contract stage, during the tenure of the contract and after the contract period.

In a wider context, the increased competition brought forth by globalization is driving organizations towards integrating ERM into their businesses. This trend is seen in the current business environment, where good corporate governance is required by the market in necessitating a minimum level of transparency and voluntary disclosure of pertinent information, failing which the appropriate capital market discounting is effected by investors.

Good corporate governance requires that the board of directors maintains a sound system of internal controls to safeguard shareholders' investments and the company's assets. In meeting this requirement, principal risks faced by the organization need to be identified and thereafter mitigated through an appropriate system of internal control. This integral link between risk and control emphasizes the requirement for appropriate risk management in an organization. In this respect, ERM can be an effective operational business tool for good corporate governance, in addition to being a strategic tool for the organization in coordinating a strategic response to organizational risks.

> "Corporate governance is all about running a business efficiently, where risks and rewards are adequately balanced so that shareholders get an adequate return from their investments reflective of the underlying risks"

Best practices in ERM

ERM approaches the continuous management of risks across an organization in a structured, balanced and integrated way in order to achieve the optimal level of customer and shareholder value. As a strategic tool, ERM has been increasingly used in the management of uncertainty and the prevention of unfavorable outcomes.

In adopting an ERM approach in integrating risk into the organization, key stakeholders' support is crucial to ensure that the required change management to be implemented will be appropriately resourced and satisfactorily completed. Best practice recommends reinforcing this "top-down" approach with a "bottom-up" approach in integrating risk management into the organization's operations. This important link to bottom-up self-assessment reinforces the need to integrate and compare top-down strategic risk management processes with bottom-up control or risk self-assessments. Such self-assessment practices strongly reflect the fact in the ERM culture that the responsibility for management of risks lies with the line.

As corporate strategy embodies an organization's strategic plans, an effective ERM function would need to have a clear link to it. Integrating ERM with business strategy involves risk management reviewing the corporate strategy. This is to provide reasonable assurance that potential risks or obstacles will be identified, highlighted and addressed to the appropriate decision-makers in the organization. The ERM function adds further value to the organization's strategic planning by establishing processes to link strategic risk management with value creation to achieve competitive advantage.

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Enterprise Risk Management and Corporate Governance *(continued...)*

In facilitating an effective ERM implementation, a common risk language needs to be established across the organization. This is essential in ensuring the existence of consistent points of reference for communication and reporting, as well as for the application of risk management methods. Once a common risk language is established, the next step lies in setting out appropriate risk measurement standards.

The importance of risk measurement is reflected in the requirement for organization-specific scales in order to estimate how often specific events may occur, the magnitude of their consequences and the transition of measurement from qualitative perspectives to quantitative approximations. Risks, once measured, need to be reported to management on a timely basis to assist and facilitate the decision-making process. These reports should be suitably designed to highlight risk information pertinent to the various decision-makers in the organization. Risk reports form an integral part in the global review of organizational risks.

Risk management is most effective when the corporate culture encourages every individual to play a balanced role. Everyone should be aware of risks and bring significant risk issues to the management's attention. This risk culture, whereby responsibility for the management of risk lies with the line, is an integral component to an efficient ERM infrastructure.

Integrating ERM into the business

A good business plan should, in part, be based on a corporate governance framework that ensures good business practices through stewardship, leadership and control. The business plan should establish, at the outset, cohesive policies and procedures to ensure that risks are managed. It should also ensure that business objectives are met efficiently and effectively, taking into consideration the organization's governance framework. Business planning and risk management should not be separate activities.

An integrated ERM system entails a structure for the implementation of processes with clearly defined accountabilities and responsibilities. The ERM infrastructure aims to ensure that the management of risk becomes an integral part of the planning and management processes and general culture of the organization. Key roles and responsibilities in an ERM infrastructure may be viewed as follows:

KEY ROLES	RESPONSIBILITIES
Organization head	General oversight of risk management throughout the organization, which includes: • Defining the organization's risk appetite. • Ensuring that the organization has the risk management resources to support its business. • Establishing the organizational structure, roles and responsibilities for risk management, including the role of a chief risk officer. • Implementing an integrated risk measurement and management framework. • Establishing risk assessment and audit processes, as well as performance benchmarking. • Setting and enforcing the tone for risk management from the top, and providing appropriate opportunities for organizational learning.
Risk champion/ committee	• Ensuring that the risk management program is monitored and updated regularly. • Accepting responsibility for risk identification and accountability for those that have not been adequately identified or assessed. • Conducting or arranging appropriate training, as and when necessary. • Monitoring compliance.
Staff members	• Assisting the coordinator to identify and control risks in his/her area of responsibility. • Continuously reviewing the risks and controls of their operations to ensure effective management.

One of the ERM guiding principles is that risk is ubiquitous and exists at all levels of the organization and therefore needs to be managed accordingly. In this respect, ERM can only address the huge volume and diversity of risks involved if each and every member of staff is enlisted into the objectives of risk management. Rather than managing risks themselves, the risk management team helps the organization's business units and support functions to recognize their risks and establish appropriate processes for managing them. It is important to highlight the fact that this is not a one-off activity. Although it is possible to document the risks affecting an activity as well as the procedures and techniques for managing them, both the procedures for gathering the information and the information itself need to be updated continuously to reflect changes in the way that the activity is conducted. An example of processes and the requisite accountabilities in an ERM framework is as follows:

PROCESS	ACCOUNTABILITIES
Facilitate the conduct of a risk assessment assessing all major categories of risk and rating each risk identified.	Risk champion/committee
Sign-off on the risk register and risk management action plan.	Risk champion and organization head
Prepare structure of risk management implementation plan ranking key risk control strategies identified in accordance with the priority established during the risk assessment stage.	Risk champion/committee
Approve finalized risk management plan.	Organization head
Monitor performance on actions identified (training programs, new processes or procedures) through formal reporting to the organization head (monthly, quarterly).	Risk champion and relevant designated staff

Islamic financial institutions need to have in place a comprehensive risk management framework that covers: risk strategy, risk profiles of products, risk measurements for credit risk, equity investment risk, liquidity risk, rate of return risk and displaced commercial risk, risk reporting and risk system. The key principles in designing this framework that financial institutions should adhere to must incorporate compliance with Shariah laws, safeguarding the interest of investment account holders and general compliance with Basel requirements.

Overcoming the challenges in implementing ERM

In most organizations, there is already some level of risk management being practised, albeit under various functions and indirect

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responsibilities. Organizational risks, more often than not, are being monitored and addressed in a fragmented manner. Unless risks are managed on a global basis, there may not be adequate assurance to key stakeholders that organizational risks are being identified and appropriately managed. The concept of the risk champion being the focal point for the ERM process is important in order to achieve global risk overview and management.

ERM is likely to meet with more resistance than most management initiatives and it is unlikely that the benefits of ERM will be realized unless it is driven by a figure of sufficiently high authority within the organization. The risk champion has to be adequately empowered for effective management of organizational risks.

Another common obstacle in the implementation of ERM is organizational silos, which arise from the lack of understanding of the requirements for ERM. One way of overcoming such problems would be via management "buy-in," which could be achieved through an awareness program on the benefits of integrating ERM into the business. Setting the appropriate tone from the top, and effective cascading of stakeholders' support of the ERM infrastructure throughout all levels of personnel in the organization, could expedite the "buy-in" process.

Conclusion

Risks are common whether they are in the context of Islamic or non-Islamic/conventional financing. There is no way to avoid risk, but what is important is how to minimize or mitigate the damage. The risk management framework in Islamic finance goes beyond risk management in conventional finance, as it now includes Shariah risks, price manipulations, unfair price transactions, inadequate disclosure of information and freedom from gharar or detrimental acts.

Corporate governance is all about running a business efficiently, where risks and rewards are adequately balanced so that shareholders get an adequate return from their investments reflective of the underlying risks. It is also about directors' stewardship and their accountability to shareholders in terms of maintaining and enhancing shareholders' value. Effective risk management is an essential component of this equation. Cutting edge thinking advocates that a coordinated overall strategic approach to risk management is the way forward. This has resulted in the emergence and the importance of the concept of ERM.

ERM entails an organization being focussed on achieving its objectives and continuously prioritizing the allocation of its scarce resources. It also requires an appropriate tone being set from the top and being cascaded downwards throughout the organization in such a way that effective "buy-in" is achieved.

An organization which manages to strike an effective balance in its strategic planning process in the current business environment – where increased competition and globalization are creating increasing pressures on costs and margins – would have a competitive advantage. It is here that the establishment of an effective ERM framework is able to add value to any organization. It must be noted, however, that there is a certain amount of cultural change required and a slight paradigm shift in thinking within the organization in relation to the management of risks. However, the end benefits and end product would significantly outweigh any potential teething pains endured in the interim period.

Those that follow the traditional school of thought probably would not see any deficiencies in their current approach of the divergent management of risks within the organization, as opposed to a coordinated strategic approach as advocated by ERM. However, what is often overlooked are the benefits obtained from effective ERM, which enhance the minimization of risks as well as the maximization of opportunities. Hence, the profile of today's risk managers is not one of a "backroom boy," but rather of an informed and commercial manager, well aware of his corporate and civil responsibilities in today's demanding business environment.

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Risk Management of Islamic Financial Institutions

This article is an extract from the book An Introduction to Islamic Finance Theory & Practice, *by Zamir Iqbal and Abbas Mirakhor*

As the banking business has changed significantly in the last two decades, the nature of the risks faced by a financial institution has also changed. Whereas two decades ago, a financial institution was primarily faced with the credit and market risks only, today's financial institution is exposed to a whole array of new risks and this list is expanding every day. Several factors are responsible for this changed scenario. These factors are:

- **Increased market volatility:** Financial institutions first realized the importance of risk management after the breakdown of Bretton Woods system of fixed exchange rates, which led to significant volatility in the foreign exchange and interest rate markets. Since then, volatility in the markets and therefore the demand for risk management products have become a permanent feature of the markets.
- **Financial Innovations:** Financial innovations and rapid developments in the derivatives market have increased the complexity of managing financial institutions. Innovative products have appeared on both sides of the balance sheet and each new product brings its own unique risk/return profile, which ultimately impacts the risk profile of the institution. The risk and return characteristics of some of the new instruments are complex and are subject to highly volatile markets, exposing banks to new or higher degrees of risks.
- **Shift in Banking Business:** There has been a permanent shift in traditional banking business, as a result of which the business has moved away from traditional lending business and more towards fee-earning activities. Expanded role of money – and capital – markets has changed the nature of intermediation by moving it away from formal institutions to direct access to the market. Emergence of institutional investors like mutual funds has taken a significant share of the market from traditional banking business.
- **Increased Competition:** Competition in banking has increased, making the survival of small banks difficult. Small banks are unable to compete due to the increasing costs of doing business and the high costs associated with managing risks. A wave of consolidation of financial institutions was witnessed in industrial countries in the late 1990s and with larger-sized institutions, the need for risk management also became critical.
- **Regulatory Environment:** In the wake of a series of financial crises, from the Third World debt crisis of the 1980s to the East Asian crisis of the 1990s, there has been greater awareness of the need for coordinated regulation and supervision of financial institutions, with special focus on risk measurement and management and prudential capital requirements. There is emphasis on coordinated efforts at the global level, with a view to having harmonization of standards and promoting transparency in the system, as also to collaborate in the areas of combating money-laundering and financing of terrorism.

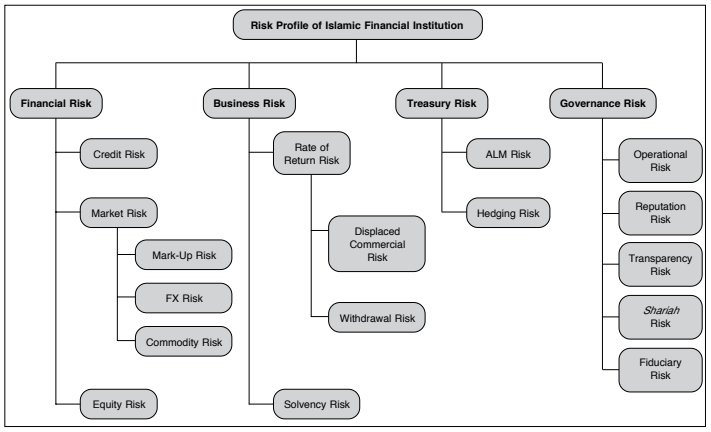
These developments have increased the need for risk measurement, management, and controls. A comprehensive framework of risk management is applicable equally to a conventional and an Islamic bank. Research and experience in the past two decades have resulted in a much deeper understanding of the issues relating to risk management and, consequently, well-established principles of risk management have emerged. The process of risk management is a two-step process. The first step is to identify the source of the risk, i.e. to identify the leading variables causing the risk. The second step is to devise methods to quantify the risk using mathematical models, in order to understand the risk profile of the instrument. Once a general framework of risk identification and management is developed, the techniques can be applied to different situations, products, instruments and institutions.

> "Similar to conventional banks, a robust risk management framework can also help Islamic banks reduce their exposure to risks, and enhance their ability to compete in the market"

Similar to conventional banks, a robust risk management framework can also help Islamic banks reduce their exposure to risks, and enhance their ability to compete in the market. Reduction in each institution's exposure will reduce the systemic risk as well. Therefore, it is necessary that Islamic financial institutions have in place a comprehensive risk management and reporting process to identify, measure, monitor, manage, report and control different categories of risks. This process should also pay special attention to compliance with Sharıah rules and principles.

Realizing the significance of risk management, Islamic Financial Services Board (IFSB) — a regulatory authority for Islamic financial services — issued a comprehensive standards document on risk management in December 2005. This document identifies and discusses different risks and lists fifteen guiding principles of risk management for institutions offering Islamic financial services. Some of the key principles are provided in this chapter.

Figure 10.1



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Risk Management of Islamic Financial Institutions *(continued...)*

Figure 10.1 presents an overview of the risk profile of operating an Islamic Financial Institution (IFI). Risks are grouped into four broad categories: financial, business, treasury, and governance risks. While these categories are also applicable to conventional finance, there are risks specific to Islamic banks and financial institutions, arising from the different nature of the intermediation, products and constitution of the balance sheet. This list focuses on the major risks, while several lesser risks are also applicable but not discussed here.

Financial Risks

Financial risks are the exposures that result in a direct financial loss to the assets or the liabilities of a bank. In the evolution of risk management discipline, financial risks were the first to appear in the discussion and policy making. Both conventional and Islamic financial institutions are exposed to credit and market risks but Islamic financial institutions are also exposed to equity investment risk.

Credit risk

Credit risk is commonly known as the potential risk that a counter party will fail to make payments on its obligations in accordance with the agreed terms. It also includes the risk arising in the settlement and clearing of the transactions. Credit risk is present in almost all of the instruments to varying degrees and there are many techniques to mitigate such risk. Traditional banking business based on lending operations is considered a credit risk business since the bank's ability to minimize credit risk is the source of its profitability. In case of Islamic financial institutions where lending is replaced with investments and partnerships, the importance of credit risk management becomes more critical. The unique characteristics of the financial instruments practiced by Islamic banks have special credit risks such as the following:

- In the case of Murabahah transactions, Islamic banks are exposed to credit risks when the bank delivers the asset to the client but does not receive payment from the client in time. In case of a non-binding Murabahah where the client has a right to refuse the delivery of the product purchased by the bank, the bank is further exposed to price and market risks.
- In Bai Salam or Istisnah contracts, the bank is exposed to the risk of failure to supply on time or to supply at all, or failure to supply the quality of goods as contractually specified. Such failure could result in a delay or default in payment, or in delivery of the product, and can expose Islamic banks to financial losses of income as well as capital.
- In the case of Mudarabah investments, where the Islamic bank enters into the Mudarabah contract as Rabbul-mal (principal) with an external Mudarib (agent), in addition to the typical principal – agent problems, the Islamic bank is exposed to an enhanced credit risk on the amounts advanced to the Mudarib. The nature of the Mudarabah contract is such that it does not give the bank appropriate rights to monitor the Mudarib (agent) or to participate in the management of the project, which makes assessment and management of the credit risk difficult. The bank is not in a position to know and decide how the activities of the Mudarib can be monitored accurately, especially if claims of losses are made. This risk is especially present in markets where information asymmetry is high and there is low transparency in financial disclosure by Mudarib.

Credit risk management for Islamic banks is further complicated by some additional externalities. Especially, in case of default by the counterparty, Islamic banks are prohibited from charging any accrued interest or imposing any penalty, except in the case of deliberate procrastination. This can be misused by the client who may delay the payment, since he/she knows that the bank will not charge any extra charge or payment. During the delay, the bank's capital is stuck in a non-productive activity and the bank's investors/depositors are not earning any income. Another example is where the bank's share in the capital invested through a Mudarabah or Musharakah contract is transformed into a debt obligation in case of proven negligence or misconduct of the Mudarib or the Musharakah's managing partner. As a result, the rules to recover a debt are applied, which are different from the rules of Mudarabah and Musharakah investment.

Risk mitigation techniques used by Islamic banks for credit risk are not very different from those used by conventional banks. Risk measurement can be done by maintaining good quality data on past performances of the counterparty and by determining the probability of default. In many developing countries where there are no formal institutions to maintain credit data, banks often rely on the client's track record with the bank. Often, information about the creditworthiness of the client is gathered through informal sources and through local community networks. However, in developed economies credit data is accessible through rating agencies and disclosures of public companies.

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Risk Management of Islamic Financial Institutions *(continued...)*

Using collateral and pledges as security against credit risk is a common practice among all Islamic banks. The bank might ask the client to post additional collateral before entering into a Murabahah transaction. In some cases, the subject matter of Murabahah is accepted as collateral. Posting collateral as security is not without difficulties, especially in the developing countries. Typical problems include the illiquidity of the collateral or the inability of the bank to sell the collateral, difficulties in determining the fair market value on periodic basis, and finally, the most important is the legal hindrances and obstacles in taking possession of the collateral. Due to weak legal institutions and slow processing, it becomes difficult for the bank to claim the collateral. In addition to collateral, personal and institutional guarantees are also accepted to minimize credit risk.

> "Islamic banks are further exposed to market risk due to the volatility in the values of tradable, marketable or leaseable assets"

Market risk

Market risk for a financial institution arises in the form of unfavorable price movements such as yields (rate of return risk), benchmark rates (interest rate risk), foreign exchange rates (FX risk), equity and commodity prices (price risk) which has potential impact on the financial value of an asset over the life of the contract. Islamic banks are further exposed to market risk due to the volatility in the values of tradable, marketable or leaseable assets. The risks relate to the current and future volatility of market values of specific assets due to different risk factors such as following:

Mark-up Risk: Islamic banks are exposed to mark-up risk as their mark-up rate used in Murabahah and other trade-financing instruments is held fixed for the duration of the contract while the benchmark rate may change. This means that the prevailing mark-up rate in the market may increase beyond the rate the bank had locked in a contract and therefore the bank is unable to take benefit of increased rates. This is especially applicable to the Murabahah contract where the mark-up rate is fixed at the time of contract. In the absence of any Islamic index of rate of return, Islamic banks often use LIBOR as the benchmark, which aligns their market risk closely with the movements in LIBOR rates.

Price Risk: In case of Bai Salam, Islamic banks are exposed to commodity price volatility during the period between the delivery of the commodity and the sale of the commodity at prevailing market price. This risk is similar to the market risk of a forward contract if it is not hedged properly. In order to hedge its position, the bank may enter into a parallel (off-setting) Bai Salam contract. In such cases the bank is exposed to price risk if there is default on the first contract and the bank is obligated to deliver on the second contract.

Leased Asset Value Risk: In case of an operating Ijarah, the bank is exposed to market risk due to reduction in the residual value of the leased asset at the expiry of the lease term or in case of early termination due to default, over the life of the contract.

FX Risk: Foreign exchange rate movement is another transaction risk arising from the deferred trading nature of some of contracts offered by Islamic banks as the value of the currency in which receivables are due may depreciate or the currency in which payables are due may appreciate.

Securities Price Risk: With an increasing market for Islamic bonds (Sukuk), Islamic banks invest a portion of their assets in marketable securities (Sukuk). However, the prices of such marketable securities are exposed to current yield levels in the market. Similar to a fixed-income security, the prices go down as yields go up and vice-versa. Islamic banks holding such securities will be exposed to volatility in yields, unless they hold the security till maturity. Furthermore, the secondary market for such securities may not be very liquid and therefore Islamic banks are exposed to distorted prices in an illiquid market.

Equity Investment Risk

Islamic financial institutions are exposed to equity investment risk in profit and-loss-sharing investments on the assets side. These include partnership based Mudarabah and Musharakah investments. Typical examples of equity investments are holdings of shares in the stock market, private equity investments, equity participation in specific projects or syndication investment.

This risk is somewhat unique to Islamic financial institutions, considering that conventional commercial banks do not invest on the basis of equity-based assets. Equity investments can lead to volatility in the financial institution's earnings due to the liquidity, credit and market risks associated with equity holdings. Although there is credit risk in equity-based assets as discussed earlier, there is also considerable financial risk of losing capital invested due to business losses.

Some of the distinct features of the equity investment risk are:

- The nature of equity investment requires enhanced monitoring measures to reduce informational asymmetries. These include proper financial disclosures, closer involvement with the project, transparency in reporting and supervision during all phases of the project from appraisals to completion. Therefore, Islamic banks need to play an active role in the process of monitoring, in order to mitigate the equity investment risk.
- Both Mudarabah and Musharakah are profit-and-loss sharing contracts and are subject to loss of capital despite proper monitoring. The degree of risk in equity investments is relatively higher than in other investments and, therefore, Islamic banks should take extreme care in evaluating and selecting the projects, in order to minimize any potential losses.
- Equity investments other than stock market investments do not have secondary markets and therefore an early exit is costly. Illiquidity of such investments can cause financial losses to the bank.
- Equity investment may not generate a steady income, and capital gain might be the only source of return. This unscheduled nature of cash flows can pose difficulties for the Islamic banks in forecasting and managing the cash flows.

UK: Cross-Border Investment Alternatives

By Mohammed Amin

Recent changes to the UK tax law are intended to facilitate Islamic finance, with a goal of equal tax treatment for Islamic finance products. This article will consider the practical application of Islamic finance to two common cross-border investment scenarios, namely the purchase of an investment property and the purchase of a trading company.

Assumptions

The analyses presented in this article are based on the assumption that an individual Arab investor who is resident in the Middle East intends to invest in the UK. The individual may either have enough funds to invest, or needs to borrow a part of the total investment from a bank. Two different investment categories are under consideration:

I. Investing in a UK property.
II. Investing in shares of a UK trading company.

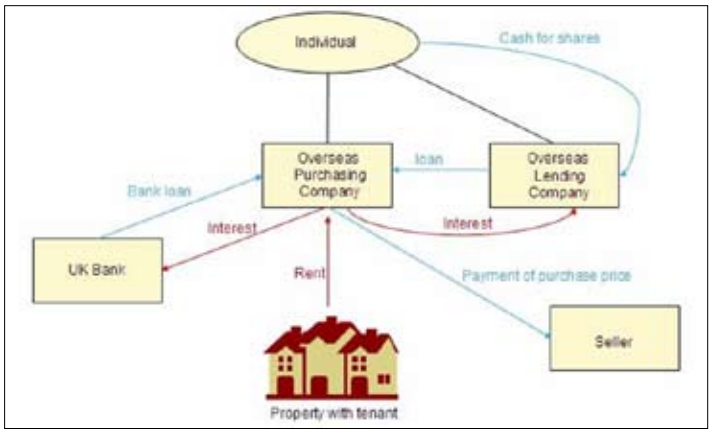
For simplicity, we assume that the individual is resident in a country with no local income tax and which has no double tax treaty with the UK. The above investment categories are further expanded into the types of financing – conventional and Islamic.

Option I: Purchase of UK investment property with conventional finance

When planning such an investment, the individual needs to consider some key points of UK tax law, such as:

- inheritance tax is charged on assets situated in the UK, even if the owner is resident and domiciled overseas;
- UK source rent is taxable at 22% when paid to recipients who are not UK resident;
- capital gains tax on the sale of investment property is charged on UK residents but not on non-resident investors.

Where conventional finance is used, one would typically end up with a structure like diagram 1, below.



This is intended to achieve the following benefits:

(a) If the individual dies, there should be no exposure to inheritance tax, since he or she owns two overseas companies, not a UK property.
(b) The overseas purchasing company should not pay UK capital gains tax if it sells the property at a gain, as it is not UK resident.
(c) The overseas purchasing company has financed 100% of the purchase price of the property by means of loans from the bank and the overseas lending company. The interest on these loans should be deductible before UK tax at 22% is charged on the net rental income post-interest. (This article does not address the UK transfer pricing rules that could limit tax relief on part of the borrowing from the overseas lending company, as third party property finance is often highly leveraged. Obviously, if the individual does not need external finance, the bank disappears from the structure.)

The location of the overseas lending company needs to be carefully chosen, as one would wish to reduce paying significant local taxes, but also to ensure that UK withholding tax is not being charged on the interest payments.

Option II: Purchase of UK investment property with Islamic finance

Replicating the benefits of the above structure is challenging if the individual wishes to be Shariah compliant. The finance from the bank can be replicated using diminishing Musharakah, referred to in UK tax law as diminishing shared ownership, as illustrated in diagram 2, below.

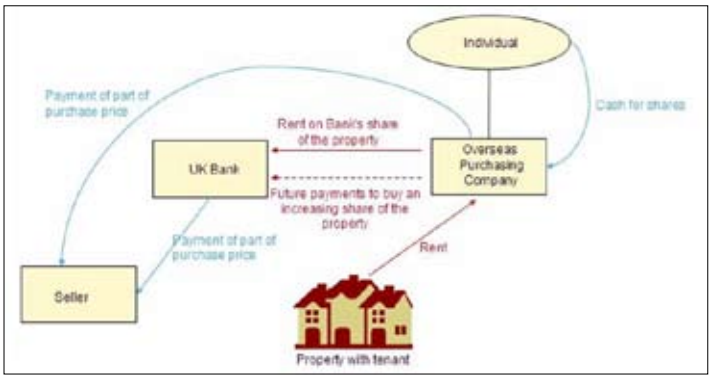


Diagram 2 shows the individual injecting his or her initial equity into the overseas purchasing company. The company and the bank subsequently purchase the property. Under the diminishing shared ownership contract, the overseas purchasing company will have the sole right (as between itself and its co-owner bank) to use the property, so the tenant will pay all of its rent to the overseas purchasing company. However, the overseas purchasing company is then obligated to pay rent to the bank on that part of the property which is owned by the bank. There is no necessary linkage between the rent per square foot that the tenant pays and the rent that is payable to the bank.

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There are a number of practical points to bear in mind when comparing diagram 2 with the conventional finance structure of diagram 1.

(a) The overseas purchasing company will eventually buy the bank's share of the property, either in small slices or as one purchase on an agreed date. The UK has a specific relief from Stamp Duty Land Tax (SDLT) for that purchase, provided the various statutory requirements are met.
(b) For Shariah compliance reasons, it is expected that the diminishing shared ownership contract between the bank and the overseas purchasing company requires the bank to share, to some extent, in falls in the value of the property. This is a risk that the bank did not have in diagram 1, for example because it could have a first charge on the property ranking ahead of the overseas lending company, and if necessary could require the individual to guarantee the overseas purchasing company's bank loan. As this is an extra risk for the bank, it is expected that the finance provided by the diminishing shared ownership contract would cost more than a conventional bank loan.
(c) In diagram 1, the overseas lending company was used to reduce UK taxes on the rent from that part of the property that was being paid for from the individual's own resources. Conversely, in diagram 2 the overseas purchasing company will be taxed on all the rent it receives, with a deduction for the rent that it pays to the bank. Arithmetically this will mean that it effectively pays tax on the rent from that part of the property purchased with money from the individual.

> "Is it permissible under the Shariah for one company that is owned 100% by one person to pay "interest" to another company, which is also wholly owned by that same person?"

With Islamic finance, it is not easy to replicate the tax planning that diagram 1 achieves for the individual's equity share of the building, as the UK tax law on Islamic finance requires the participation of a financial institution (defined in the Finance Act 2005). One idea is for the individual to finance 100% of the property using diminishing shared ownership, while placing his or her own money with the bank as a Shariah compliant deposit. While this may be tax efficient, the bank would be expected to charge for its increased participation in the structure – initially owning 100% while taking the deposit – so that the final result for the investor would be financially worse than diagram 1. One would also need to consider whether any provisions in the relevant tax law might apply to deny a tax deduction for any "excessive" finance routed through the bank in this manner.

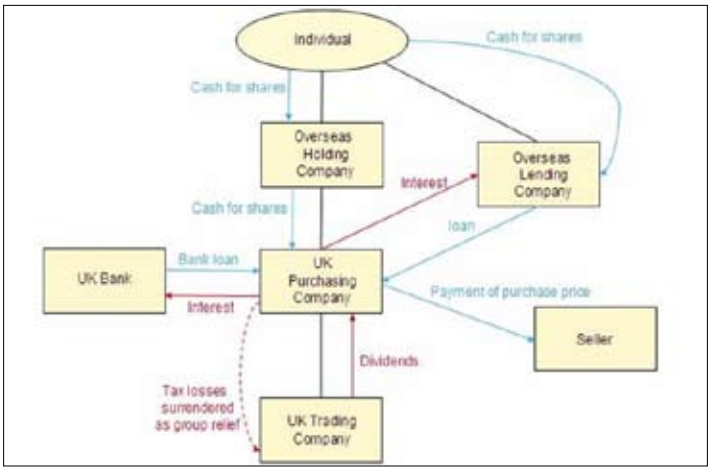
This train of thought gives rise to a Shariah question. Is it permissible under the Shariah for one company that is owned 100% by one person to pay "interest" to another company, which is also wholly owned by that same person? It can be argued in economic terms that the owner is only paying interest to him/herself with his/her own money, so essentially they are doing nothing wrong. Comments from Shariah scholars on this point would be welcomed.

Option III: Purchase of a UK trading company with conventional finance

The planning goals when purchasing a UK company are similar to those when buying a UK investment property:

(a) To obtain tax relief on external finance costs.
(b) To obtain the maximum tax relief for the part of the price paid from the individual's own funds.
(c) To avoid creating an exposure to UK inheritance tax.

One possible structure that could be used is illustrated in diagram 3.



continued...

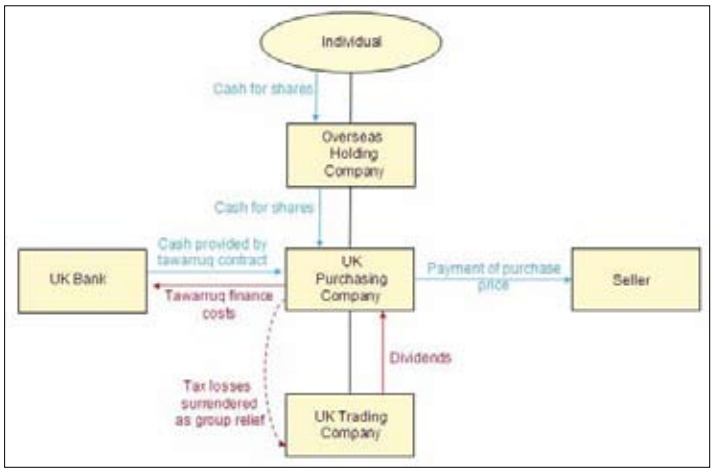
UK: Cross-Border Investment Alternatives *(continued...)*

When comparing this structure with diagram 1, the following points should be noted:

(a) The overseas holding company is used to avoid the individual owning an asset in the UK on which he or she could be charged for inheritance tax.
(b) A UK purchasing company is needed to obtain a UK tax deduction for the finance costs. In this structure it will have no taxable income, as the dividends from the UK trading company are not taxable when received by another UK company. It will have a tax loss from its interest expense, and this loss can be surrendered as group relief to the UK trading company to reduce that company's tax liability.
(c) The UK has rules to protect Government tax revenues against companies like the UK purchasing company being "thinly capitalized." Very briefly, the UK purchasing company needs to have a sufficient level of equity to support its interest-bearing liabilities, so that it does not exceed what it could borrow on an arm's length basis from third parties without any guarantees, explicit or implicit, from the individual or any companies he or she controls.

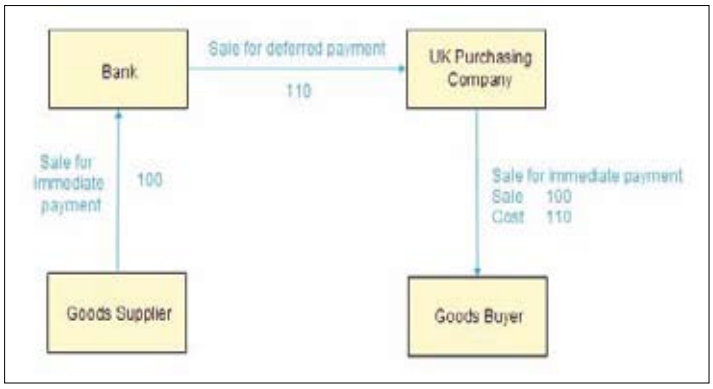
Option IV: Purchase of a UK trading company with Islamic finance

One possible structure to make this acquisition is illustrated in diagram 4, below.



This shows the same overall structural approach as with conventional finance, shown in diagram 3. However, the interest-bearing bank loan has been replaced by a Tawarruq contract.

Diagram 5 shows such a contract:



Here the goods would be something that can be purchased and re-sold very easily, such as copper in the commodity markets. The bank would purchase the requisite amount of copper and sell it to the UK purchasing company at a higher price, with payment being due in, say, two years time. However, the UK purchasing company can then re-sell that copper in the commodity market to generate immediate cash. That cash, along with the cash it received for issuing shares, is used to pay the seller to acquire the UK trading company. With the figures in diagram 5, the cost of finance illustrated is 5% per annum simple interest over the two years.

When the Tawarruq contract is completed at the end of the assumed two years, the UK purchasing company can, if necessary, roll over the finance by entering into another such contract. The following points need to be borne in mind when considering diagram 4.

(a) There is no obvious way of getting tax relief for that part of the purchase price that is being financed from the individual's own resources. The legislation in the Finance Act 2005 that gives the UK purchasing company relief for the cost of a Tawarruq contract requires its counter-party to be a financial institution. (The tax legislation does not refer to Tawarruq contracts by name, or indeed refer to Islamic finance at all. Instead, it defines certain types of contracts, and if a transaction falls within its definitions, then specified consequences such as tax relief for the finance costs follow.) Accordingly there would be no point in the individual setting up a company in diagram 4 to mirror the overseas lending company in diagram 3, as the UK purchasing company would not receive tax relief for the cost of a Tawarruq contract with such a company.
If there is scope (without making the UK purchasing company thinly capitalized), the individual could channel part of his or her funds to the UK purchasing company via a UK bank by making a Shariah compliant deposit with the bank while the bank enters into a larger Tawarruq contract with the UK purchasing company. However, as discussed above, this is likely to involve greater costs than the conventional finance approach outlined in diagram 3. Also as mentioned above, one would need to consider whether channelling such extra finance could cause any other adverse UK tax rules to be applied.
(b) A simple Tawarruq contract gives the UK purchasing company a fixed cost of finance over its life, whether that is two years or five years. However, it is possible that the UK purchasing company may have wanted a floating finance cost. One approach would be to enter into a series of shorter Tawarruq contracts, with the cost of finance being reset at each rollover date.

Conclusion

There have been various changes introduced into UK tax law – SDLT in 2003 and finance costs in 2005 and 2006 – which have made it possible for Muslims to carry out transactions similar to those possible with conventional finance. However, the tax rules are very detailed and, as illustrated in many cases, it is not always possible to replicate exactly what can be achieved with conventional finance. Although the UK is improving its legislation, it still does not offer equal tax treatment for Islamic finance products.

PRICEWATERHOUSECOOPERS The author is partner at PricewaterhouseCoopers (PwC) UK and leader of PwC's UK Islamic Finance Tax Network. He can be contacted by email at: mohammed.amin@uk.pwc.com.

New Trends in Islamic Funds

This is the first section of a two-part article on the trends in Islamic funds worldwide. This article will conclude in next week's issue of the newsletter.

By Bernardo Vizcaino

Introduction

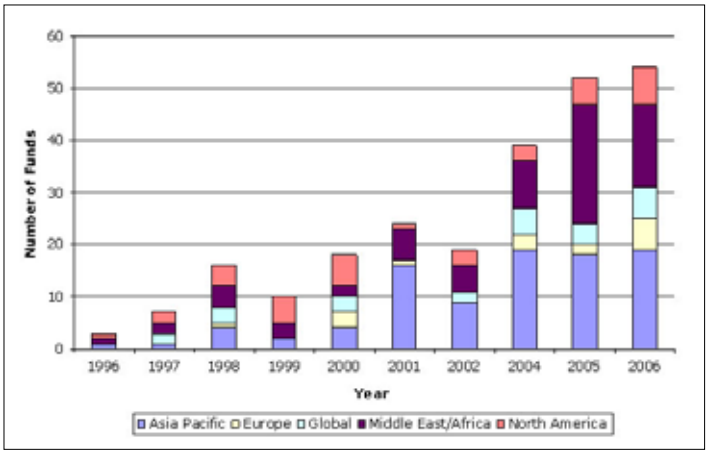
As the development of Islamic finance continues, it is increasingly possible to establish with greater certainty industry trends and product characteristics. While transparency remains a goal rather than an achievement, there are several tools and proxies available to achieve transparency. Thus Eurekahedge continues its effort of relying on quantifiable data in order to minimize the use of estimates and maximize the accuracy of our analysis.

We therefore extend our previous review of Islamic funds, with the focus now placed on new products, industry drivers, overall performance, regional characteristics and the behavior of these funds against the overall market. (The first review was published in four parts from Islamic Finance *news*, Vol 3, issues 36 to 39.) The following analysis relies on our research and coverage of Islamic funds, currently encompassing 351 Shariah compliant products across various asset classes (real estate, private equity, alternatives and mutual funds).

New product demand

The overall number of products available to investors has grown considerably over the last decade, as can be seen in Figure 1, with more than 150 products being launched in the last three years alone. The types of exposures have widened as well; on one hand established markets that make up the bulk of the product range have continued to flourish (namely the Middle East and Asia-Pacific), and at the same time less traditional exposures (where oddly enough North America and Europe can be categorized) have been introduced into the marketplace.

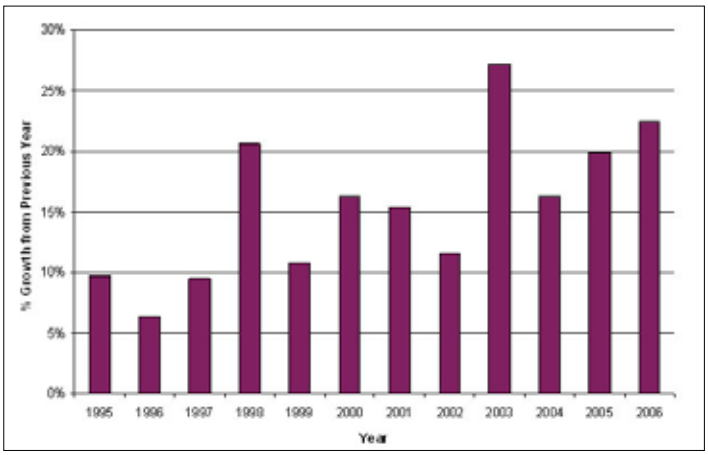
Figure 1: Fund launches by geographical mandate



Source: Eurekahedge

This change responds to the evolution of market players – the more established ones expanding regionally and the new entrants leveraging their expertise in their own markets. On the other hand, overall investor appetite is for diversification and exploration of new markets, so there is a demand for emerging markets (like India, Indonesia, etc) and more conventional markets (such as Canada, Japan, etc). This not only allows for a broader spectrum of products, but also introduces greater challenges in terms of demand for proper due diligence and the need for valid track records to lure investors.

Figure 2: Year-on-year growth



Source: Eurekahedge

Drivers of growth

The rate of growth of the industry has been a matter of guesswork, to say the least. We provided a proxy for this by focusing on year-on-year growth of the number of funds available (as opposed to asset growth).

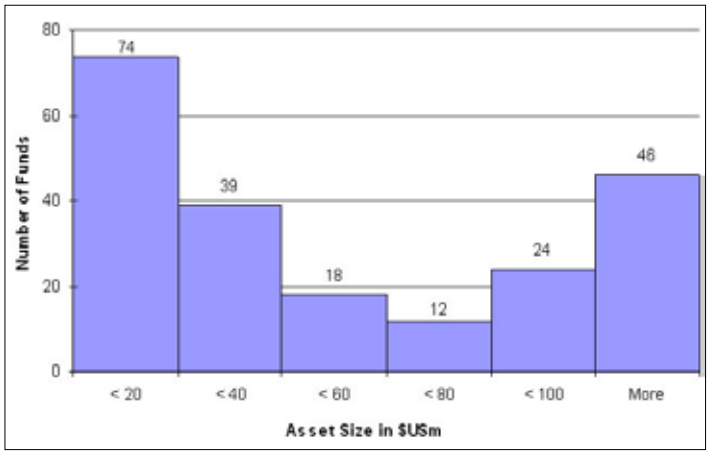
This is shown in Figure 2, and while we can ascertain an average growth rate of 15% over the last decade, this is only half of the story. Far more revealing is the fact that industry growth is preceded by years of strong fund performance (good years of growth are preceded by good years of returns), particularly in 1998 and 2003. Therefore viability can be argued as a strong driver for growth, since investors seem to demand more of these products after seeing the results – in the form of positive returns. This rate has not been constant though, but then again the last three years have shown a steady increase and stronger years cannot be ruled out.

As part of this industry expansion, there is an expectation that assets will start flowing into these products – either existing assets seeking to reallocate or new assets altogether. Figure 3 outlines the number of funds by asset size, where this reallocation could be taking place. There is an apparent dichotomy in terms of a grouping of funds of

continued...

less than US$40 million in size against another group above US$100 million in size.

Figure 3: Asset size of funds



Source: Eurekahedge

Regardless of the source, asset flows will be encouraged through intermediation products that can close the gap between these two camps. Fund of funds programs, both existing ones as well as others in the pipeline, are positioning themselves to do this. Diversification would be one reason, but due to the increasing number of products, the demand is also there for their expertise in terms of portfolio building and due diligence.

Fund performance

Eurekahedge takes a portfolio approach to consider an equally weighted Islamic fund index as the equivalent of a naïve portfolio of funds and compares it against a broad Islamic equity index (such as the Dow Jones Islamic Market World Index) as the equivalent of a naïve portfolio of equities. This allows us to contrast an active investment style against a passive investment style, as shown in Figure 4.

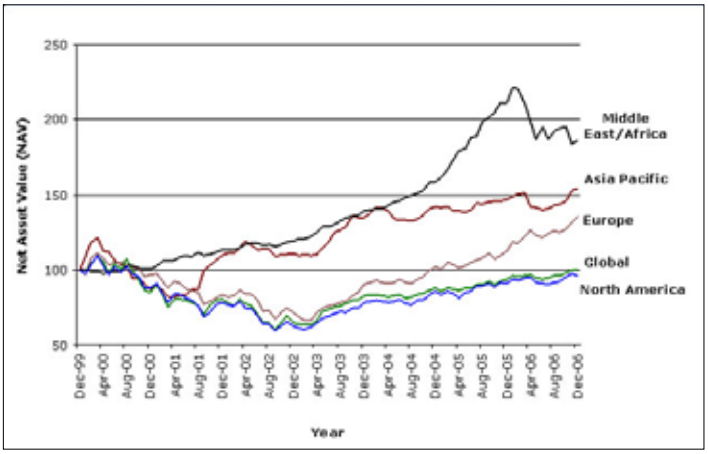
Figure 4: Islamic fund index

Source: Eurekahedge

Our analysis starts in January 2000 – as the arbitrary starting point for all of our indices – and illustrates how these funds have outperformed a global Islamic index over this period, and incidentally the conventional counterpart for this index as well. While this vindicates many pundits, further scrutiny is necessary in terms of analyzing regional indices as well as a comparison against conventional funds.

Nevertheless, the products now available offer exposures in very diverse markets and these exhibit distinct differences in terms of performance and correlation. We can observe this by deconstructing the index into its regional components, as seen in Figure 5. This does not mean one exposure is better than another, but instead an investor can reasonably expect to build a portfolio that is diversified globally (with an emerging markets flavor) to outperform the global stock market (compared to a global stock index), and do this by the added value of Shariah compliance (arguably an unquantifiable benefit to the investor).

Figure 5: Islamic fund sub-indices



Source: Eurekahedge

The author is from Eurekahedge, the world's largest independent hedge fund research company. Dedicated to the collation, development and continuous improvement of alternative investment data, it publishes research in hard copy directories and disseminates it through a variety of data products.

Meet the Head

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

Name: Irfan Siddiqui

Position: President and CEO

Company: Meezan Bank

Based: Pakistan

Age: 51

Nationality: Pakistani

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

I have held senior management positions with financial institutions in Pakistan and internationally, including Pakistan Kuwait Investment Company, Kuwait Investment Authority, Abu Dhabi Investment Company, Abu Dhabi Investment Authority and Coopers & Lybrand, London. I then pioneered Meezan Bank as founding chief executive officer (CEO) since the bank's inception in 1997.

What does your role involve?

As CEO of the bank, my role involves creating an overall synergy to our vision and mission statements and to ensure that the Meezan Bank team attains the shared common goals and values in our cause for promoting riba-free banking.

What is your greatest achievement to date?

The bank has grown six times in a period of just four years, which speaks of the response of the people of Pakistan. People have great faith in Islamic banking. They want to make investments and deposits based on Shariah law and with Shariah compliant products, so that they can earn halal profit. Our customer base includes top businessmen, top local and multi-national corporations, and many clients from small and medium-sized enterprises.

We are also the first bank which has financed exporters under the State Bank of Pakistan's Islamic Export Refinance Scheme on the basis of Islamic modes of finance.

It is also very encouraging to say that Meezan Bank has a very balanced portfolio, which is unique for a financing institution in Pakistan.

Which of your products/services deliver the best results?

Meezan Bank has made remarkable progress within a short span of four years. We have developed alternatives for the majority of conventional banking products. On the liability side we offer riba-free transaction accounts, such as our current account, rupee saving accounts, foreign currency accounts and karobari munafa account. Our riba-free term deposits are monthly Mudarabah certificates, dollar Mudarabah certificates, Meezan Aamdan certificates, Meezan Providence and the Certificate of Islamic Investment.

On the assets side the Murabahah product is the most actively used financing contract, which enables an Islamic bank to finance the acquisition of fixed capital assets and to meet the working capital needs of the customers. In addition, we offer a full range of trade finance transactions covering both imports and exports. In the area of consumer finance we are offering Car Ijarah, Pakistan's first Islamic auto leasing facility, and Easy Home, the nation's first Islamic mortgage. Alhamdolillah all these products conform to the tenants of Shariah.

What are the strengths of your business?

We have set clear goals for ourselves. Our core marketing strategy is to maintain a unique brand image of a dedicated, truly riba-free and professional Islamic bank.

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

Meezan Bank is recognized today as a truly dedicated Islamic bank in Pakistan and has the honor of having world renowned Shariah scholars and Islamic banking practitioners working at the bank.

What are the obstacles faced in running your business today?

There is certainly an awareness gap, but it is only a matter of time and education. We need to develop a positive mindset to teach and educate people. Meezan Bank is playing a key role in increasing awareness in this regard. Our marketing team regularly organizes seminars in collaboration with business and trade bodies and academic institutions, and I am happy to say that we are able to generate a very good response from such seminars. However, I believe that media, especially the print media, can play a big role in promoting awareness.

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

Today's Islamic banking sector represents around a 2.5% market share of the total banking industry in Pakistan. Our target is to have a 12.5% market share in the next five years.

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

I see Micro Financing becoming a prime area of focus in uplifting the economic conditions of the poor.

Meezan Bank was incorporated in 1997, beginning its operations as an investment bank. In 2002, Meezan Bank was granted Pakistan's first fully fledged commercial banking license dedicated to Islamic banking, by the State Bank of Pakistan. As an Islamic bank, Meezan strives to find commonalties with the conventional banking system, with absolutely no compromise on Shariah rulings.

ALDAR

ALDAR Properties

INSTRUMENT	Sukuk Mudarabah
ISSUER	Aldar Funding, a special purpose vehicle established in Jersey.
PRINCIPAL ACTIVITIES	Aldar Properties is a leading property development company, with strong investment and management capabilities. The company was established primarily to create world-class real estate developments for the nation of Abu Dhabi, while providing a stable and profitable investment portfolio for its investors. ALDAR is dedicated to achieving new standards of innovation, excellence and value in urban design and sustainable development, for the future benefit of Abu Dhabi's residents. The company is owned by leading Abu Dhabi institutions, founder shareholders and over 20,616 investors throughout the UAE. Aldar's principal corporate shareholders include: • Mubadala Development Company; • Abu Dhabi Investment Company; • Abu Dhabi National Hotels Company; • National Corporation for Tourism and Hotels; • The National Investor.
BOARD OF DIRECTORS	Ahmed Ali Al Sayegh (chairman), Nasser Ahmed Al Sowaidi (vice-chairman), Salem Mohamed Al Dhaheri, Mubarak Matar Al Hameeri, Khalifa Nasser Al Mansoori, Khaldoon Khalifa Al Mubarak and Abdullah Khalfan Al Rumaithi.
DATE OF LISTING	Not yet listed.
ISSUE SIZE	Up to US$2.53 billion.
MATURITY	10th November 2011.
COUPON	The profit rate used to calculate the periodic distribution amount is 5.767%, equivalent to a margin of 0.65% above the five-year US dollar mid-swap rate at the time of pricing.
PAYMENT SCHEDULE	Bullet payment.
IDENTIFIED ASSETS	Assets will be according to the Mudarabah agreement.
LEAD ARRANGERS	Barclays Capital, Credit Suisse and National Bank of Abu Dhabi.
LEGAL COUNSEL	Clifford Chance and Denton Wilde Sapte.
TRUSTEE	Deutsche Bank
SHARIAH ADVISORS	Sheikh Nizam Yaquby and Dr Abdul Sattar Abu Ghuddah.
METHOD OF ISSUE	On the closing date, Aldar (as obligor) shall grant – in its corporate capacity and not as the Mudarib – a purchase undertaking in favor of the issuer. To secure its obligations under the purchase undertaking, Aldar shall grant the issuer a mortgage over part of the land Aldar owns on or before the closing date. This mortgage will have an estimated market value of at least 120% of the aggregate principal amount of the Sukuk. Holders of the Sukuk have the right to exchange the Sukuk into ordinary shares of Aldar or a cash equivalent amount at the option of the issuer, as described in the terms and conditions of the Sukuk. The issue price is set at 100% of the Sukuk's aggregate principal amount and the conditions will provide that the Sukuk will be redeemed in cash at par on the 10th November 2011 if holders have not exercised their exchange right prior to the date falling 25 trading days prior to the maturity or up to the close of business on the 20th trading day before an early redemption at the option of the issuer. The issuer will have the option to redeem all or part of the Sukuk on or at any time after the 27th August 2009 and prior to the 3rd December 2009 by giving not less than 28 nor more than 32 business days' notice to the Sukuk holders. This applies if Aldar's share price is greater than 140% of the prevailing exchange price during no less than 20 out of any 30 consecutive trading days. On, or at any time after 3rd December 2009, the issuer may redeem the Sukuk (in whole or in part) provided that Aldar's share price is greater than 125% of the prevailing exchange price during no less than 20 out of any 30 consecutive trading days.
PURPOSE OF ISSUE	Proceeds of the Sukuk will be invested by Aldar – in its capacity as Mudarib – in accordance with the investment plan set out in the Sukuk's Mudarabah agreement.

PHILIPPINES

Is free trade for all?

In light of the proposed Asian Free Trade Agreement, Filipino insurers have been urged to consolidate in order to compete. Jose Cuisia, president of Philippine American Life and General Insurance, is certain that consolidation will strengthen the local industry as global players enter the market.

The Insurance Commission of the Philippines is also looking to implement new benchmarks to increase networking among local insurers.

SAUDI ARABIA

Huge market potential

Saudi Arabian health authorities anticipate mandatory healthcare insurance regulations will boost the market to SR30 billion (US$8 billion) by the end of 2007.

At present, only 4.7% of the Saudi population have insurance coverage. The new system is anticipated to cover over 1.1 million people, 10% of whom are Saudi nationals.

UAE (Dubai)

Takaful Re starts well

Takaful Re is off to a bright start, posting a net profit of US$1.26 million in its first operational period.

As at the 31st December 2006, the company recorded gross written premium of US$15 million. This was despite its late licensing in December 2005.

Takaful Re's encouraging profits are due to its strict underwriting and strategically focused market penetration. The company also managed to balance its policyholders' fund underwriting results in spite of a very conservative reserving policy in the highly competitive, soft Middle Eastern market. Takaful Re's conservative Islamic instrument investment policies also produced an investment income amounting US$5.4 billion.

UAE (Dubai)

New entrants to DIFC

Allianz Re, the reinsurance arm of the Allianz Group, will operate as an authorized firm in the Dubai International Financial Center (DIFC). The licence, which was granted by the Dubai Financial Services Authority (DFSA), adds to Allianz Re's diversified portfolio, which comprises Singapore, Labuan, Zurich and Dublin.

Klaus-Otto Bick, chief executive officer of Allianz Re, is optimistic: "We believe our strong track record in such areas as risk management, alternative risk transfer, underwriting and claims support will contribute to our success in the region. With our group of experienced staff working in our new DIFC office, we will make a significant contribution to the overall Allianz Group strategy, providing regional perspective and insight."

Also adding diversity to Dubai's reinsurance market is India's General Insurance Cooperation (GIC), which has upgraded its presence in the DIFC to become a fully fledged branch. GIC will provide reinsurance in the aviation, infrastructure, construction and oil and gas sectors.

BAHRAIN

Arig's drop

The Arab Insurance Group (Arig) reported a dip in profits from US$48.2 million in 2005 to US$30.4 million in 2006.

This dip, however, could not be attributed to company performance, as Arig recorded an improvement in performance in 2006, evidenced by a US$5.1 million increase of investment earnings in the year. The company's written gross premium decreased to US$166.3 million from 2005's US$173.3 million.

Arig's Takaful arm charted a written gross premium of US$15 million in 2006.

MALAYSIA

HSBC is keeping it fun

HSBC Amanah Takaful sees Takaful talent as its core business mover. In line with its bid to seek out talent, the HSBC group is set to launch several niche programs targeted to capture the right skill base across its business network.

HSBC has developed internationally recognized programs towards talent management including the identification, development and mapping of skills. Keith Driver, CEO of HSBC Amanah Takaful, elucidated: "Human capital is the single most important element in any service industry, in particular in a sector like Takaful, which I think still has a great deal of education in the public's mind. HSBC, as a group, has put in place initiatives towards taking the development of human resource and retention, as well as the attraction of quality staff on a global basis."

Keith, who believes in "keeping it fun," has a strategy of hiring young employees who are still learning and curious about the insurance industry.

MALAYSIA

Non-Muslims contribute

Malaysia's Takaful market is set to dominate a larger portion of the country's insurance sector, with 2007 seeing an increase in non-Muslim subscribers and new market players.

Nasser Yassin, executive secretary of the Malaysian Takaful Association, foresees Takaful enjoying a 9.5% slice of the Malaysian insurance pie, an increase from the current 5.5%, come the end of 2007. Nasser also projects the number of non-Muslim subscribers to Takaful to grow from 20–30% to 35% by the year end. Product diversification will also contribute to an increase in Takaful sales, he believes, with the industry poised to see growth in the family and life Takaful sectors.

BAHRAIN

Bigwigs go back to school

Allianz's top executives have attended a Takaful seminar organized by the Central Bank of Bahrain (CBB). During the seminar, CBB officials spoke on the growth and development of the Bahraini insurance and Takaful industry, the regulatory framework governing insurance and Takaful, as well as the bank's experience in developing the industry.

Potential Growth of Takaful in Europe

By Bassel Essam Hanbali

Financial saving is considered to be a virtuous trait for any member of society. Our way of life, and its current status, has turned us into consumer-driven nations, wanting to get rid of our money, as if we are plagued by the fact that money exists in our wallets. This has caused us to fall into financial problems, which hinder our flexibility, and thus we end up taking difficult financial decisions, due to our lack of saving or lack of funds, which hinders our future plans and goals. However, cultural and religious obligations play a major role in holding back the development of our individual financial situation due to the lack of products and plans that satisfy the principles of Islamic Shariah.

Today, with the current development of Takaful, individuals, families and businesses have the opportunity to help plan for their financial situation by utilizing methods that comply with the guiding principles of Islamic Shariah.

The global Takaful market

The global Takaful market is still in its relative infancy. However, regional economic growth and understanding of the concept of Takaful are major factors to the expansion of this Islamic financial system. In fact, there is now a greater awareness, from every social and business class, of the need for financial services, and a cultural and religious resistance towards conventional services, thus making Takaful the preferred option.

The reform of regulatory and legal bodies has also played a role in the rise of the Islamic system of insurance and assurance, Takaful. As the regulator of a leading financial hub, the Central Bank of Bahrain (CBB) (previously the Bahrain Monetary Agency (BMA)) has been at the vanguard of change, being the first country to standardize and regulate the practice of Takaful through a framework that takes into account the special nature of the Takaful model and the unique relationship between participants and shareholders. The Saudi Arabian Monetary Agency (SAMA) seems to have taken note of the efforts of the CBB and the subsequent strength of the Takaful industry in the Kingdom of Bahrain, and has introduced its own reforms to establish a dedicated insurance and Takaful authority in the Kingdom of Saudi Arabia.

The market in Europe

Several factors stand as proof of how far Islamic financial services have come in a short span of time in Europe. Strategic alliances between internationally recognized financial institutions to manufacture and distribute Takaful products in Europe are a sign of the potential growth of this unique Islamic system of financial services. Solidarity, the Bahrain-based Takaful company, newly signed an agreement with Chubb Federal Insurance, a top 10 US insurance provider, which allows Solidarity to meet the growing demand for specialty lines Takaful products.

Conferences taking place worldwide, and primarily in Europe, reiterate the growing importance of Islamic financial services and hence Takaful in the western world. Switzerland, the heart of Europe's private banking sector, now hosts the International Islamic Financial Forum to discuss the future of this industry and to help in creating a bridge between the east and the west. In a milestone event for the Islamic banking world, the Swiss Federal Banking Commission recently awarded Faisal Finance Switzerland a full banking license, making it the first private Islamic bank in Switzerland.

> "We need to adopt a two-pronged approach that places equal emphasis on regulating practices and on investing in human capital"

Crucially, strategic alliances, honoring licenses and Islamic financial conferences are evidence that Europe has recognized Islamic financial services as a legitimate, effective form of services on a par with conventional finance. It also signals that Europe has grasped the fact that Islamic banking and insurance have become increasingly important to Europe's growing Muslim and non-Muslim population, especially those seeking principled financial services.

Total assets worldwide in the Islamic financial sector is continually growing at an estimated annual rate of 15%. In terms of the insurance and re-insurance sector, HSBC has predicted that the Takaful market will be worth an estimated US$15 billion in the year 2015 – a five-fold increase on its current size. Industry professionals predict that a significant portion of this increase in the Takaful market will be generated in the western world, mainly the European market. The effects of globalization mean the world is becoming smaller and, as industry experts, we are all in effect citizens of a "global village." This has in turn affected the mindsets, opinions and attitudes of people all over the world and in particular the west; Europeans no longer perceive Takaful to be the exclusive domain of Muslims and have opened themselves up to new ways of thinking about insuring themselves and their families.

According to recent research by the European Islamic Investment Bank, between 70% and 80% of Sukuk are believed to be held by non-Islamic investors, a statistic which may reflect the fact that European investors now understand the opportunities and returns that can be gained from investing in the Islamic banking and Takaful sector.

In order for us to capitalize on the latent potential that exists for the Takaful market in Europe, we need to adopt a two-pronged approach that places equal emphasis on regulating our practices and on investing in human capital.

continued...

Potential Growth of Takaful in Europe *(continued...)*

Independent bodies like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are doing us an outstanding service by displaying to the western world our adherence to best practices and our efforts to regulate our systems and procedures.

> "There is now a greater awareness, of the need for financial services, and a cultural and religious resistance towards conventional services, thus making Takaful the preferred option"

In Robin Wigglesworth's report on "Takaful Rising", he talked about Europe as an equally profitable market for Takaful, especially with the significant population of wealthy and increasingly aware Muslims scattered across the European Union (EU). Furthermore, Sameer Al Wazzan, Solidarity's chief executive officer, has shared his interest in the 2.8 million Muslims residing in the UK market; his company is developing customized Takaful products that meet the UK's regulatory requirements and market needs. Besides, Salama, in January 2006, established the first Shariah syndicate at Lloyds with an initial underwriting capacity of US$72 million and has further plans to enter other western markets, such as the US, Canada and western Europe, in the near future.

Investing in human capital is crucial to ensuring that the Takaful market in Europe grows to optimum levels; we need to encourage and motivate students to pursue the study of business practices from an Islamic point of view and to identity its role in finance and humanity. An increase in our resources in terms of Islamic scholars and field experts will assist us in reaching a wider customer base and tapping new markets within Europe.

Conclusion

This is an exciting time for the Takaful market in Europe. To take advantage of this positive climate, financial services providers and Takaful companies need to approach the market in the most professional manner and create consumer confidence through the genuineness of their products and services. Educating the public about the concept, the products, and the benefits of this unique Islamic financial system will allow it to rise to the challenge of global competition, by unleashing the creativity and entrepreneurial flair of financial services manufacturers who share and believe in the Islamic financial system in general, and Takaful in particular.

In short, providers of family and general Takaful products need to apply best business practices in their operations, aiming to assist in the growth of the personal living standards of Muslim and non-Muslim communities through wealth creation and protection. As financial professionals, we are witnessing the birth of a new era of Islamic financial services taking place across the EU and beyond. The future for Takaful is bright and we look forward to seeing it grow in leaps and bounds year on year.

سوليدرتي SOLIDARITY

The author is head of corporate communications and marketing at Solidarity. He leads the company's international marketing team.

Next Forum Question

There has been a slew of government led training qualifications launched over the past two years. Will these directly assist in the growth of the Islamic finance industry?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@islamicfinancenews.com before Wednesday 28th February 2007.

MOVES

DLA PIPER – UAE (Dubai)

In tandem with DLA Piper's Islamic finance drive, Oliver Agha has been appointed as the law firm's Islamic finance partner.

Mr Agha, a US qualified lawyer, comes to the company from Clifford Chance, where he was head of projects for Al-Jadaan, Clifford Chance's Saudi Arabian law firm affiliate.

Mr Agha has worked on the most complex Islamic finance projects in Saudi Arabia. He has advised lenders on other major petrochemical project financings in the region; most recently on the structuring, documenting and negotiation of the Al-Waha project, the first greenfield project to be financed on an exclusively Islamic basis without any commercial bank debt.

Mr Agha will be based in Dubai, joining DLA's 25-strong lawyer base.

Bruce Mullins will also join DLA Piper as a partner. Mr Mullins will initially be based in Dubai until DLA's Oman office opens, where he will serve as managing partner. Mr Mullins' move is in tandem with DLA's Middle East expansion.

Mr Mullin has spent 10 years working with major ministries and officials of the Government of Oman. He has previously worked for Curtis, Mallet-Prevost, Colt & Mosle, where he was resident counsel and managing director of the Muscat office.

Mr Mullins will bring to DLA's Oman expansion his extensive contacts, experience ranging from privatization and infrastructure development projects across several sectors, including ports, shipping, LNG, tourism and utilities such as electricity, water, environmental waste and telecommunications.

SHUAA –UAE (Dubai)

Sameh Hassan has been appointed as SHUAA Asset Management's senior fund manager. He will be in charge of the company's Arab equity bottom-up strategy.

Mr Sameh will oversee SHUAA's first regional long-only bottom-up fund, as well as managing funds and investment mandates.

Mr Sameh brings with him 10 years of asset management experience. He was previously with Pequot Capital, where he was responsible for the company's MENA investments and served as a generalist for the company's flagship global long/short equity products.

AXA – Bahrain

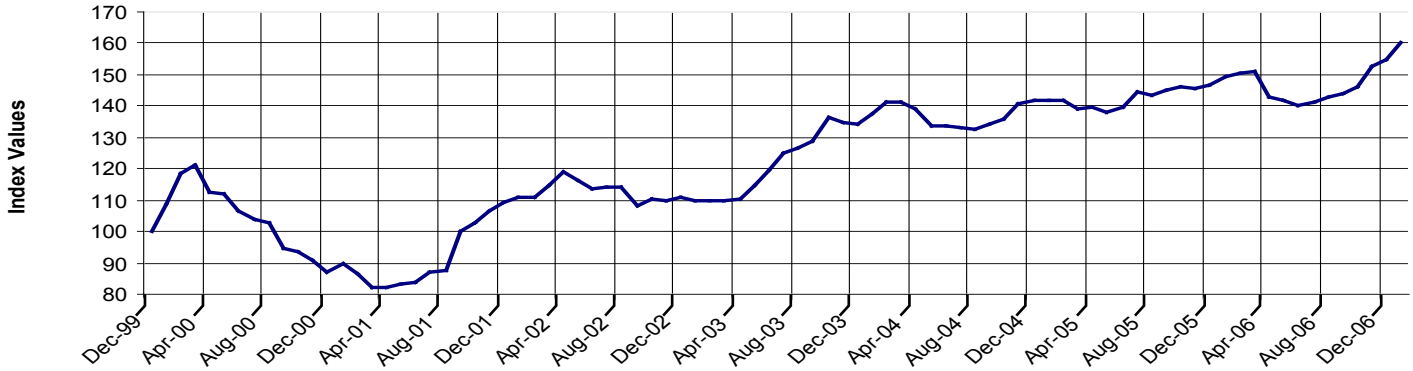
AXA Insurance Gulf has appointed Stephen Wagstaff as country manager for Bahrain. Mr Wagstaff's extensive experience includes working for British, South African and Australian insurance companies.

He has 21 years of experience in the general insurance line, 11 of which saw him domiciled in Saudi Arabia.

Mr Wagstaff takes over from Richard Morrison, who is now country manager for AXA UAE.

Eurekahedge Islamic Funds Page

Eurekahedge Islamic Fund Index and Sub-Indices



Top 10 Islamic Funds by Key Performance Statistics (as of 22nd February 2007)

	FUND	MANAGEMENT COMPANY	12 Month Return (%)	FUND DOMICILE
1	Alfanar US Capital Value	Apex Capital	3.30	British Virgin Islands
2	AlAhli Islamic Europe Equitybuilder Certificates	The National Commercial Bank	2.53	Germany
3	AlAhli Islamic US Equitybuilder Certificates	The National Commercial Bank	2.16	Germany
4	Alfanar US Large Cap	WP Stewart Asset Management	2.11	British Virgin Islands
5	Azzad Ethical Mid Cap Fund	Azzad Asset Management	1.94	US
6	Amana Income	Saturna Capital Corp	1.91	US
7	AlAhli US Trading Equity Fund	The National Commercial Bank	1.16	Saudi Arabia
8	Dow Jones Islamic Fund	Allied Asset Advisors	0.98	US
9	Amana Growth	Saturna Capital	0.82	US
10	Alfanar Investment Holdings	AIH Investment Management Company	0.81	Netherlands
	*Eurekahedge Developed Market Islamic Fund Index***		*1.16*	

Top 7 Islamic Funds by Key Performance Statistics (as of 22 nd February 2007)

	FUND	MANAGEMENT COMPANY	Sharpe Ratio (%)	FUND DOMICILE
1	BIG Dana Syariah Terproteksi	Bhakti Asset Management	1.73	Indonesia
2	AAA Syariah Fund	Andalan Artha Advisindo Sekuritas	1.29	Indonesia
3	AlAhli Emerging Markets Trading Equity Fund	The National Commercial Bank	0.41	Saudi Arabia
4	Kotak Indian Shariah Fund	Kotak Mahindra (UK)	0.22	Mauritius
5	AAA Amanah Syariah Fund	Andalan Artha Advisindo Sekuritas	0.06	Indonesia
6	Al Naqaa Asia Growth Fund	Banque Saudi Fransi	-1.07	Saudi Arabia
7	Rifan Capital Syariah Fleksi	Recapital Asset Management Co	-1.74	Indonesia
	*Eurekahedge Emerging Markets Islamic Fund Index****		*0.13*	

*** Based on 88.24% of the NAV for Jan-2007 as at 22 Feb 2007.*

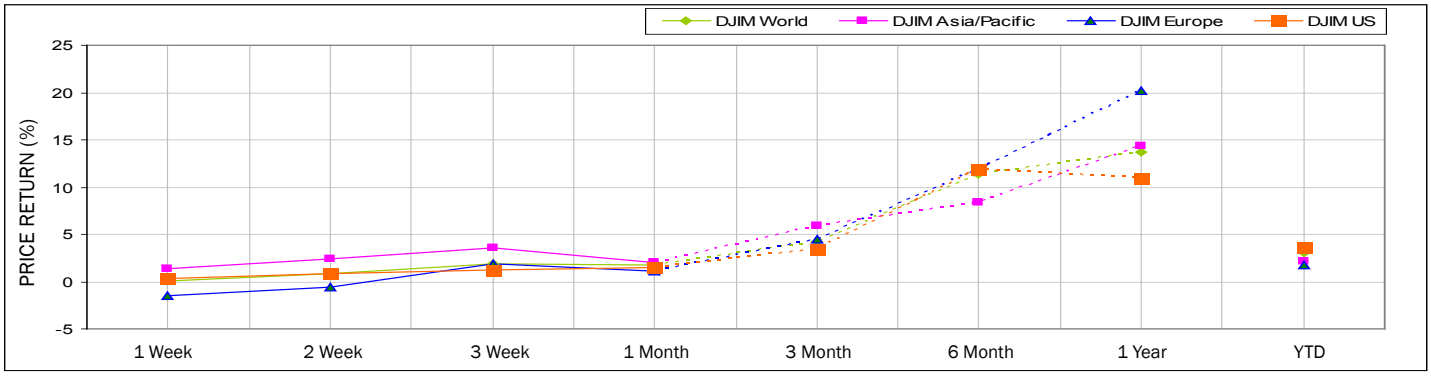
**** Based on 53.33% of the NAV for Jan-2007 as at 22 Feb 2007.*

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

DOW JONES ISLAMIC MARKET INDEXES

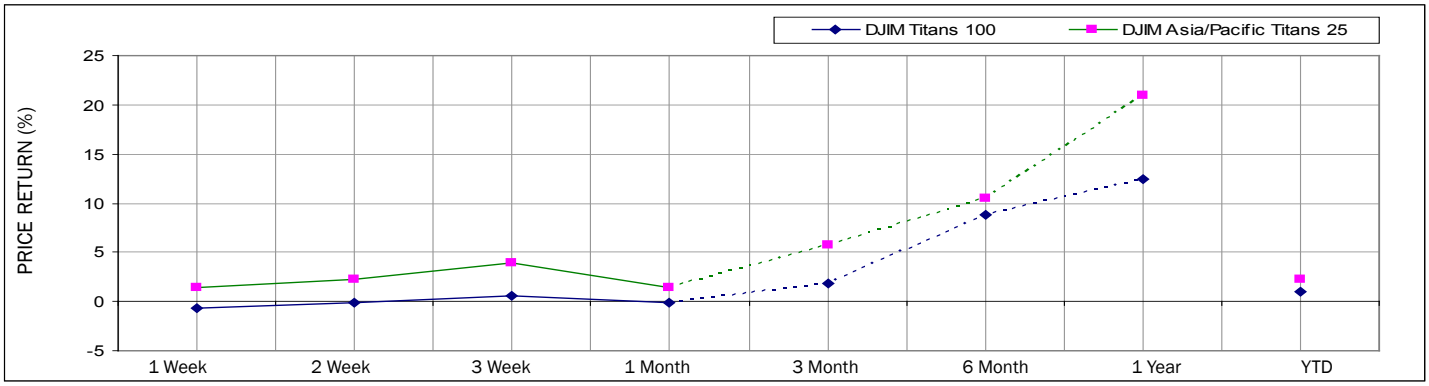
Data as of the 21st February, 2007

PERFORMANCE — PRICE RETURN (%)



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	0.09	0.87	1.92	1.69	4.17	11.4	13.65	3
DJIM Asia/Pacific	1.41	2.46	3.54	1.97	5.9	8.43	14.34	2.15
DJIM Europe	-1.51	-0.61	1.84	1.16	4.47	11.87	20.22	1.76
DJIM US	0.31	0.78	1.27	1.52	3.44	11.94	11	3.62

PERFORMANCE — PRICE RETURN (%)



Index	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	-0.61	-0.05	0.65	-0.11	1.77	8.85	12.49	1.05
DJIM Asia/Pacific Titans 25	1.41	2.2	3.9	1.41	5.71	10.53	20.93	2.23

DESCRIPTIVE STATISTICS

		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2275	17122.84	14623.75	6.43	1.53	436.12	0.02	2.98	0
DJIM Asia/Pacific	908	3121.69	2236.42	2.46	0.61	79.58	0.02	3.56	0
DJIM Europe	336	4142.57	3319.21	9.88	2.87	198.94	0.14	5.99	0
DJIM US	719	8538.02	8135.12	11.31	3.07	436.12	0.28	5.36	0
DJIM Titans 100	100	7505.48	6802.88	68.03	48.82	407.83	8.65	5.99	0.13
DJIM Asia/Pacific Titans 25	25	912.53	626.36	25.05	17.65	68.26	8.65	10.9	1.38

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

Bondweb MALAYSIA

MALAYSIAN ISLAMIC BOND UPDATE

Bondweb MALAYSIA

RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT

AS AT 21st February 2007

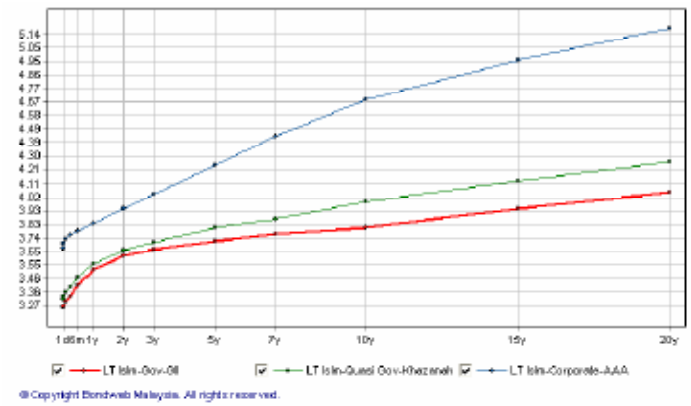
Key Benchmarks Trend (by volume)	Rating	This week close (RM)	14 February 07 (RM)	7 February 07 (RM)	31 January 07 (RM)
Private Debt Securities					
RANTAU IMTN 15.03.2011 – MTN 1	AAA (RAM)	100.92	100.85	100.59	100.59
RANTAU IMTN 0% 14.08.2013 – MTN 2	AAA (RAM)	103.53	103.43	103.15	103.15
DRB-HICOM 0% 26.07.2010	A+ ID (MARC)	90.69	90.79	90.74	92.47
JEV IMTN 0% 11.11.2016	AA3 (S) (RAM)	115.95	118.75	118.78	118.80
JEV IMTN 3106D 12.11.2013	AA3 (S) (RAM)	110.55	111.54	111.57	111.60
Government Investment Instruments					
PROFIT-BASED GII 2/2006 14.07.2011	N/A	103.78	103.57	103.47	103.51
PROFIT-BASED GII 3/2006 15.11.2016	N/A	100.19	103.47	103.51	103.74
Quasi Government					
CAGABAIS 13/2006 0% 10.08.2009	AAA (RAM)	101.52	101.58	101.55	101.56

SPREAD VS GII (in b.p)

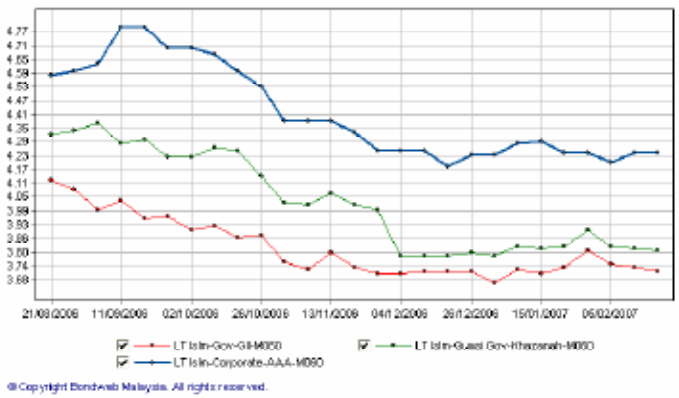
	TENURE					
	1Y	2Y	3Y	5Y	7Y	10Y
GII	3.52	3.62	3.66	3.72	3.77	3.81
Cagamas	0.1	0.09	0.13	0.2	0.23	0.31
Khazanah	0.04	0.03	0.05	0.09	0.1	0.18
AAA	0.32	0.32	0.38	0.52	0.67	0.88
AA1	0.46	0.47	0.54	0.72	0.87	1.08
A1	1.38	1.48	1.66	2	2.35	2.71

MYR ISLAMIC DEBT YIELD CURVES

YTM Curves



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



ISLAMIC FINANCE LEAGUE TABLES

TOP ISSUERS OF ISLAMIC BONDS — FEBRUARY 2006 – FEBRUARY 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	24.5	Barclays Capital, Dubai Islamic Bank
2	Malaysia	Malaysia	Islamic Sukuk	2,595	3	18.0	Malaysian Government bond
3	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	15.0	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
4	Rantau Abang Capital	Malaysia	Sukuk Musharakah MTN	999	2	6.9	CIMB, AmMerchant
5	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	734	9	5.1	Cagamas, AmMerchant, Aseambankers Malaysia
6	ADIB Sukuk	UAE	Sukuk Ijarah	800	1	8.3	HSBC
7	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	5.2	CIMB Investment, HSBC Amanah, UBS
8	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	5.2	CIMB Investment
9	Aabar Sukuk	UAE	Exchangeable Sukuk Mudarabah	460	1	3.2	Deutsche Bank
10	Maybank	Malaysia	Bai Bithaman Ajil Subordinated Bonds	416	1	2.9	Aseambankers Malaysia
11	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	308	20	2.1	AmMerchant, Bank Muamalat Malaysia, MIMB, RHB Sakura
12	Segari Energy Ventures	Malaysia	Sukuk Ijarah	258	6	1.8	Aseambankers Malaysia
13	SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	1.6	HSBC
14	Putrajaya Holdings	Malaysia	Murabahah MTN	211	5	1.5	Alliance Merchant Bank, CIMB, RHB Sakura
15	Tabreed 06 Financing	UAE	Sukuk Istisnah	200	1	1.4	CIMB, HSBC, Dresdner Kleinwort Wasserstein
16	KMCOB Capital	Malaysia	Murabahah MTN	178	4	1.2	CIMB Investment, United Overseas Bank (Malaysia)
17	East Cameron Gas Co	US	Asset-backed Sukuk	168	1	1.2	Merrill Lynch International
18	AmIslamic Bank	Malaysia	Subordinated Sukuk Musharakah	113	1	0.8	AmMerchant
19	Special Power Vehicle	Malaysia	Bai Inah Islamic MTN	110	10	0.8	AmMerchant, Bank Muamalat Malaysia, MIMB
20	Bank Pembangunan Malaysia	Malaysia	Murabahah MTN	109	1	0.8	CIMB, HSBC
	Total of issues used in the table			**16,901**	**268**	**100.0**	

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ISLAMIC FINANCE LEAGUE TABLES

TOP ISSUERS OF ISLAMIC BONDS — AUGUST 2006 – FEBRUARY 2007

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Nakheel Development	UAE	Convertible Sukuk Ijarah	3,520	2	33.0	Barclays Capital, Dubai Islamic Bank
2	Aldar Funding	Malaysia	Exchangeable Sukuk Mudarabah	2,530	1	23.7	Barclays Capital, Credit Suisse Securities (Europe), Abu Dhabi International Bank
3	Malaysia	Malaysia	Islamic Sukuk	824	1	7.7	Malaysian Government bond
4	ADIB Sukuk Co	UAE	Sukuk Ijarah	800	1	7.5	HSBC
5	Rafflesia Capital	Malaysia	Periodic Payment Exchangeable Trust Certificates	750	1	7.0	CIMB Investment, HSBC Amanah, UBS
6	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah MTN	743	18	7.0	CIMB Investment
7	SIB Sukuk Co	UAE	Musharakah Sukuk	225	1	2.1	HSBC
8	Jimah Energy Ventures	Malaysia	Istisnah Islamic MTN	208	10	2.0	RHB Sakura, MIMB, Bank Muamalat Malaysia, AmMerchant
9	KMCOB Capital	Malaysia	Murabahah MTN	178	4	1.7	CIMB Investment, United Overseas Bank (Malaysia)
10	AmIslamic Bank	Malaysia	Subordinated Sukuk Musharakah	113	1	1.1	AmMerchant
11	Syarikat Pengelar Air Sungai Selangor	Malaysia	Murabahah MTN	103	19	1.0	United Overseas Bank (Malaysia)
12	Cagamas	Malaysia	Bithaman Ajil Islamic Securities	100	4	0.9	Cagamas, AmMerchant, Aseambankers
13	NICBM Sukuk	Kuwait	Sukuk Musharakah	100	1	0.9	Kuwait Finance House, Standard Bank
14	Perwaja Steel	Malaysia	Murabahah MTN	84	7	0.8	RHB Sakura
15	Mukah Power Generation	Malaysia	Sukuk Mudharabah	83	10	0.8	RHB Islamic
16	OCBC Bank (Malaysia)	Malaysia	Mudharabah Islamic Bond	55	1	0.5	OCBC Bank (Malaysia)
17	Viable Chip (M)	Malaysia	Bai Bithaman Ajil Islamic Debt Securities	54	4	0.5	AmMerchant
18	Glomac Regal	Malaysia	Murabahah MTN	31	2	0.3	Alliance Investment
19	Sarawak Power Generation	Malaysia	Sukuk Musharakah	30	11	0.3	RHB Islamic
20	Kinsteel	Malaysia	Murabahah MTN	27	8	0.3	RHB Sakura, Standard Chartered Malaysia
	Total of issues used in the table			**10,656**	**126**	**100.0**	

ISLAMIC FINANCE LEAGUE TABLES

ISLAMIC BONDS		FEBRUARY 2006 – FEBRUARY 2007		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Barclays Capital	2,603	3	15.4
2	Malaysian Government bond	2,595	3	15.4
3	Dubai Islamic Bank	1,760	2	10.4
4	CIMB	1,717	46	10.2
5	HSBC	1,479	9	8.8
6	AmMerchant	1,266	42	7.5
7	Aseambankers	849	25	5.0
8	Abu Dhabi Investment Co	843	1	5.0
9	Credit Suisse	843	1	5.0
10	Deutsche	460	1	2.7
11	Cagamas	424	7	2.5
12	RHB	310	62	1.8
13	United Overseas	282	36	1.7
14	UBS	250	1	1.5
15	Merrill Lynch & Co	168	1	1.0
16	Standard Chartered	150	17	0.9
17	MIDF-Sisma Securities	126	31	0.7
18	Bank Muamalat Malaysia	123	31	0.7
19	Alliance Investment	117	11	0.7
20	EON	114	30	0.7
	Total of issues used in the table	**16,901**	**268**	**100.0**

ISLAMIC BONDS		AUGUST 2006 – FEBRUARY 2007		
	Manager or Group	**Amt US$ m**	**Iss.**	**%**
1	Barclays Capital	2,603	3	24.4
2	Dubai Islamic Bank	1,760	2	16.5
3	HSBC	1,297	5	12.2
4	CIMB	1,097	29	10.3
5	Abu Dhabi Investment Co	843	1	7.9
6	Credit Suisse	843	1	7.9
7	Malaysian Government bond	824	1	7.7
8	UBS	250	1	2.3
9	AmMerchant	231	17	2.2
10	United Overseas	192	23	1.8
11	RHB	179	39	1.7
12	Cagamas	100	4	0.9
13	Standard Chartered	98	15	0.9
14	OCBC	55	1	0.5
15	Bank Muamalat Malaysia	52	10	0.5
16	EON	52	10	0.5
17	Kuwait Finance House	50	1	0.5
18	Standard Bank	50	1	0.5
19	Alliance Investment	37	3	0.3
20	MIDF-Sisma Securities	18	6	0.2
	Total of issues used in the table	**10,656**	**126**	**100.0**

ISLAMIC BONDS BY COUNTRY	FEBRUARY 2006 – FEBRUARY 2007		
	Amt US$ m	**Iss.**	**%**
Malaysia	8,841	256	52.3
UAE	7,735	7	45.8
US	168	1	1.0
Kuwait	100	1	0.6
Indonesia	21	1	0.1
Pakistan	18	1	0.1
Saudi Arabia	18	1	0.1
Total	**16,901**	**268**	**100.0**

ISLAMIC BONDS BY COUNTRY	AUGUST 2006 – FEBRUARY 2007		
	Amt US$ m	**Iss.**	**%**
UAE	7,075	66.4	5
Malaysia	3,481	32.7	120
Kuwait	100	0.9	1
Total	**10,656**	**100.0**	**126**

ISLAMIC BONDS BY CURRENCY	FEBRUARY 2006 – FEBRUARY 2007		
	Amt US$ m	**Iss.**	**%**
US dollar	8,771	51.9	11
Malaysian ringgit	8,091	47.9	255
Indonesian rupiah	21	0.1	1
Pakistan rupee	18	0.1	1
Total	**16,901**	**100.0**	**268**

ISLAMIC BONDS BY CURRENCY	AUGUST 2006 – FEBRUARY 2007		
	Amt US$ m	**Iss.**	**%**
US dollar	7,925	74.4	7
Malaysian ringgit	2,731	25.6	119
Total	**10,656**	**100.0**	**126**

EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
February			
26th – 27th	Middle East Project Finance	Doha	Middle East Economic Digest
March			
3rd – 4th	The Second GCC Capital Market Forum 2007	Dubai	Gulf Research Center
4th – 5th	World Islamic Finance & Investment Conference	Kuwait	Mega Events
4th – 6th	Islamic & Conventional Securitization	Bahrain	BIBF
6th – 7th	Singapore International Waqf Conference	Singapore	CERT
7th	2nd Annual Failaka Islamic Fund Awards	Dubai	Failaka
7th – 9th	3rd World Islamic Economic Forum	Kuala Lumpur	ASLI
12th – 13th	2nd Islamic Banks and Financial Institutions Conference	Damascus	Al Salam
12th – 15th	Islamic Funds Asia	Kuala Lumpur	Terrapinn
20th – 21st	1st International Conference – Banking & Finance in Libya	Libya	IBC Gulf Conferences
22nd – 24th	Islamic Finance World North America	Canada	Terrapinn
26th – 27th	Takaful Conference	Singapore	Asia Insurance Review
26th	10th Meeting of the IFSB Council	Kuala Lumpur	IFSB
26th	5th General Assembly of the IFSB	Kuala Lumpur	IFSB
26th – 29th	Global Islamic Finance Forum	Kuala Lumpur	Bank Negara & IFSB
27th	4th International Seminar on Challenges Facing the Islamic Financial Services Industry	Kuala Lumpur	IFSB
27th	Interactive Session: "Recent Developments in the Islamic Financial Services Industry: Are They Adding Value To or Diluting the Industry?"	Kuala Lumpur	IFSB
28th – 29th	3rd Seminar on Legal Issues in the Islamic Financial Services Industry: "Surveys on Legal and Shari'ah Issues in the Islamic Financial Services Industry"	Kuala Lumpur	IFSB
29th	The London Islamic Financial Services Summit	London	City & Financial Conferences
April			
2nd – 5th	International Islamic Finance Forum	Dubai	IIR Middle East
17th – 19th	Inclusive Islamic Financial Sector Development	Brunei	IRTI
19th	Seminar on Regulation of Islamic Capital Markets	Kuala Lumpur	IFSB
24th – 26th	Enhancing Islamic Financial Services for Micro and Medium Sized Enterprises	Brunei	CSM
24th – 26th	Structured Products World 2007	London	Terrapinn
25th	Sukuk: Exploring the Phenomena	Dubai	Middle East Business Forum
May			
2nd – 6th	Islamic Finance Summer School	Durham	Durham University
6th – 7th	World Islamic Funds & Capital Market Conference	Bahrain	Mega Events
7th – 8th	World Halal Forum 2007	Kuala Lumpur	Kaseh Dia
15th – 16th	4th Islamic Financial Services Board Summit: "The Need For A Cross-Sectoral Approach to the Supervision of Islamic Financial Services"	Dubai	IFSB
17th – 18th	3rd International Conference on Islamic Banking, Finance and Insurance	Ottawa	Ansar Financial Group
21st – 22nd	Commodity Investment Week 2007	Dubai	Terrapinn
22nd – 24th	Islamic World Finance North America 2007	Toronto	Terrapinn
27th – 29h	3rd World Islamic Economic Forum	Kuala Lumpur	ASLI
29th – 30th	32nd Islamic Development Bank Annual Meeting	Senegal	IDB

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