# Islamic Finance news

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## GLOBAL

### New Sukuk rules set to boost bond market

Last year, the market saw many Sukuk scheduled for issuance being held back following a statement by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) that 85% of the Sukuk issued in the GCC last year were non-Shariah compliant.

After many deliberations, AAOIFI issued a new set of rules early this month on the sale of Islamic bonds, which, among others, demand that investors become the legal owners of those assets rather than nominal holders.

The new ruling also does not permit tradable Sukuk to represent either revenue streams or debt, save in the case of a trading or financial entity that is selling all of its assets, or a portfolio that includes a standing financial obligation such as that the debt was incurred indirectly.

While the new guideline will probably help investors sleep better at night, safe in the knowledge that their money is "parked" within the limits of Islamic law, industry players believe that the new rules will be tougher to comply with, especially with the current structure.

AAOIFI hopes that the new guideline, which takes effect immediately, will promote more profit sharing and losses between issuers and investors.

(Also see IFN Reports on page 12)

## UAE

### ADIA's wealth fund top the chart

The Abu Dhabi Investment Authority (ADIA) is the world's largest sovereign wealth fund, reveals Deutsche Bank research. It stated that ADIA has a total of US$900 billion worth of assets under management.

Some of the wealth is expected to trickle into the Islamic finance sector. Earlier, ADIA had announced it may invest more into Islamic bonds mainly in Kazakhstan and Turkey.

Meanwhile, in the No.2 spot is the Singapore Investment Corporation with assets worth US$330 billion, while Norway's Government Pension Fund-Global (GPFG) came in third with US$322 billion in assets.

SWFs worldwide are managing assets worth US$3.2 trillion, according to the research. In the Middle East, Saudi Arabia's various funds have assets worth US$300 billion under management; Kuwait Investment Authority, US$250 billion; Libya Oil Reserve Fund, US$100 billion; Qatar Investment Authority, US$60 billion; and Iran's Foreign Exchange Reserve Fund, US$15 billion.

## BAHRAIN

### Abaad reveals financial results

Abaad Real Estate Company, the real estate subsidiary of Bahrain Islamic Bank, has announced the financial results for the year ended the 31st December 2007. In its first full year of operation, Abaad recorded total revenue of BHD2.1 million (US$5.57 million) and a net income of BHD1.5 million (US$4 million), representing a return on capital of 14.7%. Abaad CEO Ahmed Yusuf said it is working closely with strategic partners to finish the master plans for several upcoming projects.

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## BAHRAIN

### Sukuk conference in Manama

The first international conference for Islamic Sukuk aimed at emphasizing the role of the Islamic finance industry began in Manama on Tuesday. It also stressed the role of Sukuk in fulfilling individual and corporate investment needs.

Central Bank of Bahrain deputy governor Anwar Khalifa al Sadah affirmed that issuances from Bahrain, the first country to issue Islamic Sukuk on a global level, are worth over US$1 billion, followed closely by Malaysia.

## MALAYSIA/UAE

### Forum on opportunities in Labuan

A forum on investment opportunities in Labuan International Business & Financial Centre (Labuan IBFC) was held in Dubai on Monday.

Panel members from Labuan IBFC presented investment opportunities on a comprehensive range of products and services such as offshore company registration, Islamic banking, leasing, Takaful and reTakaful products, Islamic capital market, fund management, Islamic trust administration and the Labuan International Financial Exchange.

## LEBANON

### Bank Audi, EFG-Hermes in discussions

Bank Audi on Tuesday confirmed reports that it is holding direct talks with Cairo-based EFG-Hermes "on possible combination of the two institutions". Bank Audi emphasized that the discussions are at a very preliminary stage and that no agreement has been reached as yet.

Bank Audi, one of the two largest banks in Lebanon, recorded a net profit of US$201 million in 2007, an increase of 22.5% compared to 2006. Total assets of the bank rose to US$17.2 billion from US$14.2 billion.

EFG-Hermes Asset Management manages both institutional funds and dedicated portfolios with diverse strategies. These include sector and country specific mandates, Shariah compliant funds and portfolios as well as a variety of money markets and fixed income strategies.

## UAE

### Emaar Properties AGM

Global real estate firm Emaar Properties recently held its 10th annual general meeting at the Dubai International Convention Centre. Among others, the agenda included the proposed cash dividend of 20% of the nominal value of shares.

In 2007, Emaar recorded net profits of AED6.57 billion (US$1.79 billion), 3% higher than previous year net profit of AED6.37 billion (US$1.74 billion). Emaar's annual revenue for 2007 is AED17.56 billion (US$4.78 billion), an increase of 25% compared to AED14 billion (US$3.81 billion) in 2006.

Last year, it appointed Citigroup as lead manager and sole arranger of its debut US$1 billion Musharakah Islamic syndication. The five-year facility will primarily be used to finance Emaar's large-scale international projects and complete its multi-billion projects in the UAE.

## UK

### Islamic finance not exclusive

The Islamic finance market — which offers Shariah compliant products — is set to continue to grow, according to Lloyds TSB media relations manager Emile Abu-Shakra.

He said the bank already offers a range of Islamic products, including mortgage and current accounts, business and student accounts, which is not exclusive to the Muslim community.

Although Islamic finance products "are designed with Muslims in mind and are designed to meet the needs of Islamic principles", there is nothing to stop anyone else using them, if they fulfill their financial needs, he added.

## US

### Islamic finance experts meet in Chicago

Chicago, which is fast becoming a focal point in the Islamic finance sector in the US, hosted its first Islamic finance conference last week.

Entitled 'Opportunities for Growth in the Modern Financial Age', the seminar explored a variety of topics including Shariah compliant financial and investment vehicles for both consumers and institutions.

"The seminar was an outstanding opportunity to gather many principal players in the industry, and discuss the successes, challenges and opportunities in Islamic finance," said Fawad Butt, founder and managing partner of Zeus Capital Advisers, the organizer.

## QATAR

### QIB studying expansion opportunities

Qatar Islamic Bank (QIB) is evaluating opportunities to acquire a conventional Egyptian bank and convert it into an Islamic bank, said a spokesman. It is also applying for a banking license in Turkey.

QIB is said to be seeking to acquire at least two Egyptian banks to give it access to the underdeveloped Islamic banking sector in the country. The spokesman adds QIB is seeking to expand organically in Turkey because of a lack of acquisition opportunities there.

## MALAYSIA

### StanChart profit up 24%

Pre-tax profit of Standard Chartered Bank Malaysia rose 24% to RM810 million (US$254.8 million) for the year ended the 31st December 2007 from RM653 million (US$205.5 million) a year earlier, bolstered by gains in its wholesale and consumer units as well as a larger Islamic financial services division.

On an after-tax basis, profit for the year rose 18.9% to RM533.2 million (US$168 million) from the RM448.5 million (US$141 million) posted a year earlier.

Revenue grew 14.3% to RM1.6 billion (US$503 million) in 2007 from RM1.4 billion (US$440.5 million) a year earlier. In US dollar terms, revenue climbed 24% to US$459 million from US$371 million while profit before tax was up 33% to US$236 million from US$178 million.

## SAUDI ARABIA

### SEC to split powerhouse

There is a plan to overhaul and privatize Saudi Arabia's power sector which could see power generation assets of the Gulf's largest utility by market value, Saudi Electricity Company (SEC), being split into four separate units.

Abdullah Shehri, deputy governor at Saudi Arabia's electricity regulator, said privatization would help bring the massive investment the power sector needs.

SEC has been struggling to find cash to meet the growing power demand. Last year, it signed subscription agreements for a SAR5 billion (US$1.34 billion) Sukuk, which was then the largest ever to be issued by a Saudi entity.

Power demand is rising rapidly in the world's top oil exporter of more than 24 million people, as record oil revenues fuel economic expansion in the vast desert state.

## NIGERIA

### Lotus Capital's halal fund

Nigeria's pioneer Islamic investment company Lotus Capital has come up with a halal investment fund targeted at investors interested in ethical wealth creation, said managing director and CEO Hajara Adeola.

Adeola, who spoke at a workshop organized to sensitize the Kano community on the Shariah compliant investment fund, said the fund would invest in securities of companies quoted on the Nigeria Stock Exchange and any recognized foreign and local securities exchange excluding those prohibited by Islamic law.

The fund will only invest in asset classes in accordance with Islamic finance. Adeola said asset allocation for the Lotus Capital Halal Investment Fund will be determined by the fund manager to facilitate the achievement of the fund's long-term investment objectives within established risk parameters.

## MALAYSIA

### Litrak mulls debt refinancing plan

Lingkaran Trans Kota Holdings (Litrak) may return RM1 (US$0.31) per share through a capital repayment exercise after it refinances existing debts to free up more cash flow for shareholders.

Analysts expect Litrak to undertake a capital repayment exercise after it proposed last Friday the issuance of up to RM1.55 billion (US$488 million) in Islamic debt papers under a Sukuk program. The new debt issue is meant to refinance the highway concessionaire's existing borrowings and redeemable unsecured loan stocks of RM1.2 billion (US$378 million) and to fund working capital and other operational purposes.

Analysts said the proceeds from the Sukuk issue would fully retire Litrak's existing debts that were taken to fund the construction of the Damansara-Puchong Expressway. Given the strong traffic flow at the LDP, the Sukuk bond issue would allow Litrak to extend the repayment tenure of its debts, while freeing up more immediate cash flow for shareholders.

## UAE

### Ajman leads investments race

Statistics show that Ajman has eclipsed other emirates on attracting foreign investments into the UAE. Foreigners now own 33% of development projects established in the booming city, compared to 11% in the other emirates, according to the latest statistics released by the Ajman Chamber of Commerce and Industry.

Attributing the economic success now notched by the emirate to the all-encompassing plan adopted by the government, economic analysts estimated Ajman's annual investment growth rate at an average of 6.7%.

Last month, the family-ruled Ajman announced plans to raise AED550 million (US$149.8 million) in an initial public offering to create an Islamic lender as demand for belief-based bank services surges.

## KUWAIT

### KFH reveals strategy

Kuwait Finance House (KFH) is counting on a workforce with leading abilities capable of carrying the responsibility of the Islamic financial business. This is the bank's strategy, revealed CEO and managing director, Bader Abdul Muhsen Al-Mukhaizeem.

The strategy takes new dimensions and variants according to the challenges of every phase and the nature of the goals, Bader said after honoring three "future leaders" who had completed an extensive scientific program on leadership, management and decision-making at Harvard University in the US.

## MALAYSIA

### HLB targets US$79 million in premiums

Hong Leong Bank is confident that its latest bancassurance product, Hong Leong Cancer Protection Plan (HLCPP), will be well received.

HLCPP provides continuous cover for cancer from the point of diagnosis in the very early cancer stage up to the advanced stage. The protection plan offers 300% of the sum assured against cancer and 100% of sum assured against death and permanent disability.

The group is targeting RM250 million (US$79 million) in conventional and Takaful insurance premiums this year.

## SRI LANKA

### A new branch for Amana

Amana Investments opened another branch in Kurunegala last week, bringing the total number to 13.

"We are delighted to bring our services to the people of Kurunegala and enable them to experience a fair, just and equitable mode of investing and financing based on Shariah principles," said managing director Faizal Salieh at the opening ceremony.

## BAHRAIN

### LMC is arranger for A'ayan Sukuk

A'ayan Leasing and Investment Company is to launch its US$200 million to US$250 million Sukuk, for which Bahrain's Liquidity Management Centre (LMC) will act as the mandated arranger, structuring adviser and placement agent.

The Sukuk issue has been structured as an Islamic trust Sukuk offering based on the securitization of selective high-quality income generating asset pools originated by Kuwait-based A'ayan to be mutually agreed upon by the two parties.

## UAE

### Mashreq syndicated loan for Omantel

Oman Telecommunications (Omantel) has appointed UAE-based Mashreq to arrange a US$205 million syndicated loan to finance the acquisition of Pakistan's World Call Telecom.

"This financing process constitutes a new stage in the development of the company. It ushers Omantel's entry into the international financing market for investment in the telecommunications sector," said Omantel's CEO Mohammed bin Ali Al-Wohaibi.

## KENYA

### Gulf African Bank set to gain foothold

Islamic banking is set to take off in Kenya with Gulf African Bank (GAB), the country's first full-fledged Islamic bank, targeting the country's estimated nine million Muslims.

With two branches and expansion plans underway, CEO Salim Abdalla is confident that the bank model is a sure winner. GAB offers corporate banking, housing finance, car finance, retail banking products as well as other services that comply with Shariah.

Another Islamic bank, First Community Bank, which has links with Kuwaiti investors, is yet to commence operations as a full-fledged Islamic bank despite obtaining a license last year.

## SAUDI ARABIA/UAE

### Etihad Etisalat gets nod for ISP buy out

Etihad Etisalat, the Saudi subsidiary of UAE telecoms company Etisalat, has received regulatory approval for its SAR1.5 billion (US$400 million) bid to take over Internet service provider Bayanat.

Saudi Arabia's Communications and Information Technology Commission has approved Etihad Etisalat's purchase of 99% of Bayanat, six months after the telecoms company made its bid. The two companies jointly operate a WiFi network in Mecca and Medina.

Etihad Etisalat, which trades as Mobily, provides the network infrastructure and Bayanat provides access to the Internet at wireless hotspots throughout both cities.

Last year, Mobily raised SAR10.78 billion (US$2.88 billion) in an Islamic financing deal syndicated by ABN Amro Bank, Banque Saudi Fransi, Calyon, Citigroup, National Bank of Abu Dhabi, The National Commercial Bank, Samba Financial Group and Saudi Hollandi Bank.

## US

### Northern Trust offers Shariah screening

Investment management, asset and fund administration, fiduciary and banking solutions provider Northern Trust Corporation said on Tuesday that it will expand its services, which include Shariah screening.

In addition to corporate governance rankings and the 10 socially responsible investment restrictions currently available on Compliance Analyst, Northern Trust has extended its agreement with RiskMetrics Group to offer additional screening capabilities.

## EGYPT

### AUB's year-end 2007 results

Ahli United Bank (Egypt) posted a net profit increase of EGP146.8 million (US$26.8 million) compared to EGP200,000 (US$36,536) in 2006, net interest income of EGP179.8 million (US$32.84 million), a 38% increase over the same period in 2006 and net operating income of EGP282.3 million (US$51.6 million), an increase of 34% over the previous corresponding period in 2006.

Total assets grew from EGP4 billion (US$730.7 million) in 2006 to EGP5.8 billion (US$1.06 billion) by the 31st December 2007.

Loans to customers increased from EGP1.4 billion (US$256 million) to EGP2.5 billion (US$457 million), an increase of 134% compared to December 2006.

## UAE

### Islamic share trading standards issued

The Shariah board of the Dubai Financial Market (DFM) issued on Wednesday the first Islamic standards for trading shares of DFM companies. The establishment of such standards is in line with DFM becoming the first Islamic financial market in the world.

The first standards include details about the trading of DFM-listed companies' shares in accordance with Shariah law, as well as practical implications for brokers stemming from these regulatory changes.

The standards are divided into five sections and cover the following; definitions of terms and criteria; implications for brokers and investors; guidelines for compliance for conventional firms; conventional income guidelines; and general rules and regulations.

## UAE

### Al Rajhi Cement secures Murabahah

Al Rajhi Cement Holding (ARCH) has closed a US$60 million Murabahah facility as part of its long-term strategic plan to finance its growth, leveraging on the region's increased demand for cement. The facility is funded by Noor Islamic Bank (NIB).

"Our company's ambitious plans to develop cement assets in the region required a new approach to financing. Working with our arrangers and NIB, we have been able to lay the grounds for a strategic financing plan that will support our growth," said ARCH chairman, Omar al Rajhi.

The facility was arranged by Siraj Capital (Dubai) and Al Aoun Capital (Jordan) with Potentia (Dubai) acting as financial adviser.

## BAHRAIN

### Calyon takes charge of Sukuk

Calyon has just closed a US$350 million Sukuk for the Ministry of Finance, Kingdom of Bahrain, through the Central Bank of Bahrain. It was appointed sole arranger and underwriter on the transaction, which attracted firm interest at 2.5 times the target issue amount.

This was the first Sukuk issue from the government of Bahrain since 2004 and represents an important new benchmark issue from a prime name in this rapidly growing market. The issue, which carries an "A" rating from S&P and Fitch, exemplifies the commitment to the development of the Islamic capital market.

Simon Eedle, head of Islamic banking at Calyon, emphasized the importance of this transaction for the market, and expressed his satisfaction at Calyon being appointed sole arranger for this extremely prestigious financing.

## MALAYSIA

### Alliance Financial looks to Shariah

Alliance Financial Group (AFG) plans to have an Islamic banking subsidiary in place by early April so as to be in a better position to develop its own branding under the Islamic banking banner. Additionally, it wants to explore opportunities for strategic tie-ups to introduce niche Islamic financing products.

AFG will focus on consumer banking, commercial banking, and small and medium-sized enterprises to grow the Shariah banking business.

## UAE

### Young turks awarded by Mawarid

Independent financial institution Mawarid Finance will be sponsoring the "Second Young Businessmen Forum" from the 23rd to 28th March. It is organized by the Ras Al Khaimah Economic Development Authority.

"Mawarid Finance has lots of products and Islamic financial solutions suitable for small and medium projects. Many experts in different fields at Mawarid will be able to advise participants on the growth of their business, in addition to defining the company's financial solutions and available facilities for this sector, especially for promising Emarati youth," said Rehab Lootah, Mawarid's head of business development and corporate communications.

## BAHRAIN

### BMB Islamic now associate member

BMB Islamic, a leading Shariah structuring and Islamic finance advisory firm, has been admitted into the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

AAOIFI secretary-general Dr Mohammed Nedal Al Chaar said the association looked forward to cooperating with BMB Islamic in its endeavors on formulation of Islamic finance standards and development of the industry.

## UAE/US

### DMCC teams up with Shariah Capital

The Dubai Multi Commodities Centre (DMCC) has applied for a license to set up a UAE investment company, DMCC Asset Management (DCAM).

Once in place, DCAM is expected to team up with US-based advisory company Shariah Capital Inc to form a joint venture (JV) entity. DMCC said the JV will develop and manage a range of Shariah compliant investment products focused on commodities.

It also revealed plans to acquire a 4.99% stake of Shariah Capital as part of the JV deal for DCAM, after which DMCC's CEO David Rutledge is expected to be nominated to Shariah Capital's board.

## UAE

### Barwa, First Finance take stakes

Barwa Real Estate and First Finance have become founding shareholders of First Leasing, a new leasing venture in Qatar.

Barwa, which had bought 20% of London's Shard of Glass skyscraper, owns 21% of First Leasing. First Finance owns QAR45 million (US$12.4 million) of First Leasing's capital, representing a 16% stake.

Barwa has signed a letter of intent with Germany's Hochtief to start the construction work on the Barwa Commercial Avenue, located in Mesaimeer area.

## MALAYSIA

### HLIB to arrange Sarawak Energy Sukuk

Hong Leong Islamic Bank (HLIB) has won a deal to arrange a RM3 billion (US$949 million) Sukuk sale for Sarawak Energy, beating 13 other contenders, said HLIB managing director Khalid Mahmood Bhaimia. The Sarawak state electricity producer and distributor plans to use the money to finance the construction of a 900MW hydropower plant in Murum.

## MALAYSIA

### Khazanah Sukuk listed on LFX

Labuan International Financial Exchange (LFX) has listed its third exchangeable Sukuk by Khazanah Nasional. The US$550 million exchangeable trust certificates were issued via its Labuan incorporated special purpose vehicle, Paka Capital.

The Sukuk, due in 2013, is exchangeable into ordinary shares of Parkson Retail Group (Parkson), a company listed on the Hong Kong Stock Exchange and the largest department store operator in the People's Republic of China.

This issuance is Khazanah's first Sukuk exchangeable into a stock listed outside Malaysia. It is unique in that it allows Sukuk holders to have Khazanah's credit as downside protection while enjoying the benefits of the favorable Chinese retail consumption growth potential.

## GCC

### Bank stocks rule market capitalization

Banking stocks continue to dominate the universe of listed companies in the Gulf Cooperation Council (GCC) countries in terms of value, in part due to the role of financial institutions in recycling a considerable portion of these countries' oil wealth and liquidity.

This dominance could decline going forward with a growing number of more diverse companies obtaining stock market listings, although this is dependent on certain market, regulatory and institutional developments taking place, said Moody's vice president Anouar Hassoune in a special report.

He added that apart from financial institutions, the key sectors in the GCC are the hydrocarbon and infrastructure sectors and the trade and property sectors are reluctant to cede controlling power through listings.

"This situation — combined with banks' rapid growth in size and burgeoning need for capital in the context of growing oil wealth and liquidity — explains why banks account for around one-third of stock market capitalization in the GCC, though a smaller proportion in terms of numbers of listed entities," said Anouar.

## MALAYSIA

### Islamic money market fund makes debut

CIMB-Principal Asset Management on Monday launched the CIMB Islamic Money Market Fund, a Shariah compliant fund that invests in short-term money market instruments maturing in less than a year.

As a tax-efficient alternative to traditional bank deposits, the fund seeks to provide potentially higher returns and allows investors to withdraw their cash anytime without penalty.

Noripah Kamso, CEO of CIMB-Principal Asset Management, said the fund gives investors a place to invest with minimal risk. The market instruments include Islamic accepted bills, Islamic negotiable instruments of deposit, Islamic repurchase agreements (Repo-I) as well as other Islamic fixed income instruments and placements of Islamic deposits with licensed financial institutions, all of which are highly liquid.

## GCC

### Gulf braces for yet another US rate cut

Reeling under record inflation, the GCC is preparing to weather additional pressure with the US Federal Reserve expected to slash interest rates by up to 75 basis points when it meets on Tuesday.

Gulf states will be forced to follow US monetary policy to prevent bets on a revaluation of their dollar-pegged currencies, further stoking inflation and renewing calls for countries to follow Kuwait in ditching its dollar peg. The US is slashing rates in an effort to stimulate its lagging economy, while the Gulf should be raising rates to combat inflation.

## UAE

### Taqa net profit rose 113%

The Abu Dhabi National Energy Company (Taqa) reported a 72% jump in revenues to AED8.3 billion (US$2.26 billion) last year, up from AED4.8 billion (US$1.3 billion) in 2006. Profit exceeded AED1 billion (US$272.4 million), while revenue from the electricity and water business grew by 49% to AED4.7 billion (US$1.28 billion) from AED3.2 billion (US$871.7 million) in 2006. This excludes supplemental fuel sales in both years. Net profit (after minority interests) grew 113% to AED1 billion.

Taqa plans to set up to US$6 billion in bonds this year which may be Islamically structured.

## MALAYSIA

### CIMB taps Chinese market

CIMB Group is leveraging on its Islamic banking expertise in its CIMB Islamic Bank unit to carve a niche for itself in China. Group CEO Nazir Razak said establishing in China is part of the group's strategic thrust to be a regional outfit which requires it to venture beyond Southeast Asia.

On Monday, CIMB subsidiary Bumiputra-Commerce Holdings acquired a 19.99% stake in Bank of Yingkou, a bank based in China, to be the bank's largest stakeholder. It acquired the stake via a subscription of 141.2 million shares worth RM156.2 million (US$49.17 million).

Nazir said the group would act as a link between government-linked companies and other Malaysian businesses looking to partner with Chinese firms.

## SAUDI ARABIA

### Landmark Saudi riyal Sukuk closed

Saudi Hollandi Bank has closed a SAR250 million (US$67 million) Islamic bond, the first Saudi riyal denominated Sukuk issue by a private company in the Saudi market.

This was a debut issue for Taajeer Company for Vehicles, Equipment & Real Estate, which is a rapidly growing leasing company in the kingdom. Saudi Hollandi Bank (SHB) acted as the sole lead manager and bookrunner in this landmark deal.

The innovative Sukuk is based on a Shariah compliant structure known as Sukuk al-Istithmar, which was approved by the Shariah board of SHB. The Sukuk is a floating rate note with tenure of five years.

## GLOBAL

### Sukuk sales to pick up soon

The Sukuk market is expected to experience double-digit growth this year despite suffering slow growth the past six months due to unfavorable market conditions, said Standard & Poor's (S&P).

In a report released this week, S&P pointed out that some Sukuk were postponed when liquidity dried up and credit spreads widened. "But once market conditions return to normal, we expect issuance to resume double-digit growth," said the ratings agency.

(Also see Market Report on page 20)

## BAHRAIN

### BCCI assets hit US$74 million

The total assets of the Bahrain Chamber of Commerce and Industry rose to BHD28.1 million (US$74.53 million) last year, up from BHD18.6 million (US$49 million) in 2006.

Total expenditure increased from BHD1.27 million (US$3.37 million) in 2006 to BHD 1.58 million (US$4.19 million) last year and the surplus last year dropped to BHD1.25 million (US$3.32 million) from BHD1.58 million in 2006.

## MALAYSIA

### MCIS Zurich appoints Shariah council

MCIS Zurich Insurance appointed a five-member Shariah advisory council to provide internal consultations to the management. It will be headed by former state Mufti Prof Dr Mohammad Yusoff Hussain.

Other members include Malaysia's renowned Shariah scholars Ismail Yahya, Dr Shofian Ahmad, Assoc Prof Mostafa Kamal Mokhtar and MCIS board member Mustapha Md Nasir.

## UK

### Another lawyer says 'aye' to budget

The UK 2008 budget, in which the British government promised to examine the possibility of a sovereign Sukuk and to take legal powers to finance legislation to facilitate any potential Sukuk issuance, is a boost for the Islamic finance industry.

Senior lawyer Benjamin Macfarlane told Islamic Finance *news* that the commitment toward the issuance of a sovereign Sukuk, even during the current liquidity crunch, reflects well on the UK financial market.

Macfarlane is part of the scoping committee set up by the UK's Chartered Insurance Institute to explore Takaful in the country.

## KUWAIT

### Noor Financial seeks foreign partner

Noor Financial is on the hunt for a foreign partner with whom it can extend its global market reach. The Kuwaiti investment firm may also consider selling a stake of up to 20% to an international bank.

Managing director Naser Al Merri said negotiations with potential partners will start in the third quarter.

## MALAYSIA

### HSBC Islamic ops expand

HSBC Malaysia will be expanding into Islamic cash management and expects double-digit growth for its Islamic banking business this year.

HSBC Bank managing director Eddie Norton said global payments and cash management business — both conventional and Islamic — this year remain an important component to its business proposition to local companies and corporations in Malaysia.

The bank is also continuing discussions with Bank Negara Malaysia with regard to the location of its Islamic bank branches and expected a "number of branches" to be set up by year end.

## UAE

### Tackle inflation, GCC urged

Arabian Gulf governments who pegged their currencies to the US dollar may have to reconsider the policy in order to tackle inflation, which has hit the region following the persistent US subprime woes.

Leading economic experts attending the third Middle East IPO summit in Abu Dhabi on Monday said Arab countries must make tackling inflation a core target of monetary policy.

In spite of positive indications that Middle East markets have escaped serious impact from a global slowdown so far, "there is uncertainty in the markets that needs to be addressed one way or the other", said Christian Mouchbahani, Middle East and North Africa CEO of investment bank and institutional securities firm, Jefferies.

"Inflation needs to be tackled and it is not clear that channeling liquidity into real estate and stock markets will be enough," he said at the summit during a discussion by a panel of economic experts on the state of the regional equity capital markets.

By pegging their currencies to the dollar, most Gulf governments have, in effect, delegated monetary policy to the US Federal Reserve, Mouchbahani added.

## OMAN

### Billion-dollar healthcare city in the works

Oman's Majan Development Company is planning to develop a healthcare city near Muscat with an estimated investment of between US$774 million and US$1.03 billion.

Kuwait-based Gulf Investment House (GIH) senior manager Bashar Al Tuwaijri said an international consultancy agency has conducted market research for the project in the GCC region. GIH has initiated the project with a 20% stake in MDC.

Bashar said construction will begin next year on a build-operate-transfer (BOT) basis. MDC, which has a paid-up capital of OMR25 million (US$65 million), was formed by a group of investors in the Gulf region to develop real estate projects in Oman.

It is 20% owned by GIH, 10% by Commercial Real Estate, 10% by Sharjah Islamic Bank, 30% by other non-Omani investors and 30% by pension funds and other institutional investors in Oman.

## SAUDI ARABIA

### Zain plans Bahrain IPO

Mobile operator Zain (formerly Mobile Telecommunications Co) is preparing an initial public offering (IPO) in Bahrain before June.

It was reported that Zain, the third-largest Arab telecoms company by market value, had not yet decided on the volume of the IPO. A spokesman for Zain said the company's Bahrain license included a clause to have an IPO on the Manama bourse but it still needed some time to prepare and get approval for some listing exemptions.

In 2006, Zain signed two Islamic syndicated facilities totaling US$7.39 million to operate Saudi's third mobile network.

## UAE

### Dewa inks US$3 billion power contracts

Dubai Electricity & Water Authority (Dewa) has signed deals for six mega projects worth AED12 billion (US$3.26 billion) for boosting the production capacity and construction of reservoirs and substations.

The deals came a month after Dewa closed the syndication of its US$2 billion one-year Islamic loan, which was arranged by ABN Amro, Dubai Islamic Bank's investment arm Millennium Capital and Standard Chartered.

Saeed Mohammad Al Tayer, managing director and CEO of Dewa, said the projects are linked to production of electricity, water desalination and reservoirs, main substations, and diesel fuel oil pipeline with major companies.

## OMAN

### BankMuscat mulls Saudi securities firm

BankMuscat has applied to Saudi regulators to set up a company dealing in securities. The Omani lender announced the plan in a statement that was published on the Doha bourse. It, however, did not provide details.

## MALAYSIA

### BIMB net profit down

BIMB Holdings posted net profit after zakat and taxation of RM31.87 million (US$10 million) in the second quarter ended the 31st December 2007, sharply lower than RM706.17 million (US$222 million) recorded in the previous corresponding quarter.

The company told Bursa Malaysia the lower earnings were due to the absence of extraordinary gains of RM631.5 million (US$199 million) from the dilution of interest in Bank Islam Malaysia.

However, revenue rose 18.1% to RM340.7 million (US$107.4 million) from RM288.41 million (US$90.9 million) before. Earnings per share stood at 3.58 sen compared with 125.44 sen.

Compared with the preceding quarter ended the 30th September 2007, BIMB said net profit fell due to a reduction of RM53.4 million (US$16.84 million) in write-backs on non-performing financing and also the RM17.54 million (US$5.53 million) drop in revenue from the depositors' and shareholders' funds.

## QATAR

### CBQ restructures, plans acquisitions

Commercial Bank of Qatar (CBQ) has created a new structure to manage operations in Qatar, Oman and the UAE while helping the lender expand regionally.

Qatar's second-largest lender by market value has a 35% stake in National Bank of Oman and 38% in Sharjah-based United Arab Bank and manages both lenders.

CBQ has seen "the need to adopt an enhanced organizational structure to support (its) dynamic regional growth", the lender said.

## KUWAIT

### Another billion-dollar project for KFH?

It has been reported that Kuwait Finance House (KFH) is set to win a real estate deal in Bahrain worth US$1.5 billion. The deal is said to include the construction of malls, hotels and recreational clubs on an area of five sq km on a build-operate-transfer basis for 50 years.

Meanwhile, KFH's international investment department, Emad al-Monee reveals that the finance house was preparing a US$100 million financing deal in Singapore. The project would fund the building of a petrochemical plant with the government of Singapore and an Indian-Singaporean joint-venture.

## ASIA

### Noor, Ikarus consider US$220 million deal

Kuwait-based Noor Financial Investment and Ikarus Petroleum are considering investments of about US$220 million in Singapore and India. Noor's managing director Naser Al Marri said his company was acting as the financial adviser to Ikarus to acquire a 10% stake in the US$2 billion Jurong petrochemical plant project in Singapore.

Project investors include Swiss-based commodity trader Glencore, South Korean refiner SK Energy, Chinese polyester producer Jiangsu Sanfangxiang Industrial Group and Jurong Energy Corporation.

## EUROPE

### Shariah banking spurs Europe

Global real estate adviser DTZ said that there is a rising wave of investment from the Middle East into European properties on the back of a growing Islamic banking and finance sector. In its *European Quarterly* report, the real estate expert said the UK remains a favored destination for Middle Eastern investors with 52% of the market.

However, there appears to be some appetite to invest in Central and Eastern Europe, along with France and Germany, through the flexibility of the UK's Shariah compliant real estate investment funds which continue to be a major factor in determining the destination of investment.

Despite short-term uncertainties, European office properties are expected to remain a popular asset class that will continue to perform well in the medium and longer term; as will prime retail in capitals and major regional cities. The report identifies Moscow and Istanbul as offering potential for continued yield compression.

## OMAN

### BankMuscat upgraded

Fitch Ratings has upgraded Oman-based BankMuscat's individual rating to B/C from C, and affirmed its other ratings at long-term Issuer Default at A-, with a stable outlook, short-term IDR at F2, and Support of 1. The bank's support rating floor has also been affirmed at A-.

The upgrade in individual ratings reflects the continued growth in BankMuscat's regional franchise, as well as significantly increased capitalization following the share placement with Dubai Financial Group last November.

## MALAYSIA

### Oilcorp slick at MARC-2ID/A-ID

Malaysian Rating Corporation (MARC) has affirmed its MARC-2ID/A-ID ratings on Oilcorp's RM70 million (US$22 million) Murabahah Underwritten Notes Issuance Facility/Islamic Medium-Term Notes Facility (MUNIF/IMTN). The outlook on the ratings is stable.

The ratings reflect Oilcorp's average business profile, underscored by its continuous dependence on the oil and gas sector, which saw a doubling of its order book in the period under review.

The ratings are, however, moderated by the strain on its liquidity arising from negative operating cash flows over the last four years; due to a prolonged delay with respect to its Middle East project.

## MALAYSIA

### Alliance Financial Group reaffirmed

RAM Ratings has reaffirmed the long- and short-term ratings of Alliance Financial Group's RM300 million (US$94.4 million) Commercial Papers/Medium-Term Notes (CP/MTN) Program, at A2 and P1, with a stable outlook.

According to RAM, the company's credit fundamentals are underpinned by the strength and stability of the dividend income from its core subsidiary, Alliance Bank Malaysia. The group's long- and short-term financial institution ratings were previously affirmed at A1 and P1 respectively, with a stable outlook in August 2007.

## MALAYSIA

### AmIslamic gets an A1

RAM Ratings has upgraded the long-term financial institution rating of AmIslamic Bank, from A2 to A1, while maintaining the short-term rating at P1.

At the same time, the long-term rating of the bank's RM400 million (US$126.28 million) subordinated Sukuk Musharakah (2006/2016) has been upgraded from A3 to A2. Both long-term ratings have a stable outlook.

## MALAYSIA

### Oxbridge maintains negative outlook

RAM Ratings has reaffirmed the enhanced long- and short-term ratings of A1(s) and P1(s) for Oxbridge Height's Islamic Medium-Term Notes Facility of up to RM104 million (US$32.75 million) and Murabahah Underwritten Notes Issuance Facility of up to RM50 million (US$15.7 million). The negative outlook on the long-term rating has been maintained.

## JORDAN

### Jordan Islamic Bank assigned rating

Fitch Ratings has assigned ratings to Amman-based Jordan Islamic Bank for Finance and Investment (JIB) of long-term Issuer Default (IDR) at BB-, short-term IDR at B, individual rating at C/D, support of 3, and support rating floor at BB-. All ratings have a stable outlook. The IDRs and individual rating of JIB reflect its strong franchise in Islamic banking in Jordan, good profitability and strong funding base.

## LEBANON

### Banks look overseas for brighter future

The ratings on Lebanon were lowered to CCC+/Stable/C on the 31st January 2008, reflecting the current political impasse experienced in the country. According to Standard & Poor's (S&P), the Lebanese government's high indebtedness, fiscal deficit, and fragile political stability pose a serious threat to any bank in the system. The main impediment for Lebanese banks is the high direct exposure to the risks inherent in operating in the republic.

## THIS TIME LAST YEAR

- The **British University in Kuwait** considered offering an Islamic finance program due to open in 2008.
- **Emirates Global Islamic Bank** officially commenced operations in Pakistan.
- The **Australia and New Zealand Banking Group** successfully partnered with Malaysia's **AmBank Group** for an equity stake acquisition of 24.95% in AMMB.
- The **Kuwait Real Estate Bank** became the country's third Shariah compliant bank.
- **ABN Amro** commenced talks to acquire 93.4% of Pakistan's **Prime Bank**.
- The **National Company for Cooperative Insurance (NCCI)** formed a Shariah committee to oversee all of NCCI's regulations, laws and programs.
- **Dubai Bank** launched Sanad, its Shariah compliant personal financing solution.
- Calls were made for the establishment of an electronic Sukuk trading market to increase liquidity.

MALAYSIA

## Bank Islam does a U-turn on NPFs sale

Bank Islam Malaysia's week began on a low, with a local Malaysian financial daily exposing the bank's plans to sell its massive amount of non-performing financings (NPFs) worth RM2.16 billion (US$679.74 million) in an effort to clear its books by the 30th June. The bank's net NPF ratio stood at 10.88%, 6% higher than the industry's average.

According to the report, a source close to the bank had identified a number of buyers in April 2007, and had already commenced an exclusive due diligence with a prospective buyer in June. The buyer was an unnamed special purpose vehicle which was to convert the bank's NPFs into cash or bonds, in a bid to reach zero NPFs.

However, on Wednesday, Bank Islam's finances had made a miraculous turnaround. The bank is no longer selling its NPFs as it is no longer imperative, according to managing director Zukri Samat.

During a press conference on Wednesday, Zukri summarized the bank's financial performance, stating that NPFs had already fallen to RM1.95 billion (US$613.63 million) as at the 31st December 2007, while net NPF ratio declined to 8.8%. Total assets had also climbed 11% higher to RM21.15 billion (US$6.65 billion) as at the end of December.

Zukri had also refuted earlier plans to dispose of or "carve out" its NPFs despite the earlier due diligence completed in December. He went on to explain that the objective of carving out the NPFs was to strengthen the balance sheet to enable the bank to grow its business unencumbered.

However, he stressed, with the sustained and strong earnings growth over the last six quarters, and a significant reduction in NPFs to a manageable level, the "carve-out" is no longer necessary.

Bank Islam's finances have been riddled in tumult, most recently in 2005, when it saw losses of up to RM480 million (US$151 million). Its then managing director Noorazman Aziz had launched an investigation with the Malaysian Anti Corruption Agency and Bank Negara Malaysia to probe the losses. The losses had also been linked to the bank's high non-performing loans (NPFs).

According to Noorazman then, rogue companies which had ceased to exist after assuming the loans were the main cause for the losses. Bank Islam's high NPFs were also attributed to high NPFs from its Labuan offshore unit. Its parent company, BIMB Holdings, had also announced a net loss of RM465.44 million (US$146.43 million), mainly due to provisions totaling RM774 million (US$243.5 million).

Apart from its finances, Bank Islam had also sparked controversy earlier this year with its contentious logo launched in August 2007, which to some read "Ban Islam", instead of "Bank Islam", due to the positioning of a stylized "K" in the word "Bank".

The bank's corporate logo restructuring had set the bank back by an estimated RM54 million (US$16.98 million). However, due to much furor from stakeholders, the bank has — if you look very closely! — changed its logo from a stylized "K", to a crescent embracing the word "Islam" (see photo). Although the logo enhancement is anticipated to be a subtle move by the bank, it is expected to be relaunched during the bank's 35th anniversary in the middle of this year.

2007

2008

The bank's logo rationale reads: "The strength of Bank Islam lies in the word 'Islam'. In this word rests the bank's commitment to advocate a banking system based on Shariah principles. The Bank Islam logo incorporates a 'crescent' embracing the word 'Islam', signifying the bank's unwavering commitment to uphold Shariah principles in all our values, activities and transactions."

In its press statement dated the 27th February, the bank stated that it had enhanced its logo following feedback from customers and stakeholders on its corporate rebranding exercise.

"The enhancement is a response to feedback gathered from our customers and stakeholders who found it difficult to clearly read the stylized "K" as K in the logo.

"As a responsible bank, Bank Islam decided to eliminate the possibility of the logo being misinterpreted by certain quarters."

Although the total cost of enhancing its current logo has not been revealed, the figures for incorporating its new logo are expected to be less than RM10 million (US$3.14 million), according to sources close to the bank. Perhaps the sale of a percentage of its NPFs could fund the revamp.

*By Nazneen Halim*

GLOBAL

## AAOIFI spells out dos and don'ts in Sukuk

Last November, as billions of oil money continued to pour into the Sukuk (which remains the most popular investment tool in Islamic finance) market, Sheikh Muhammad Taqi Usmani dropped a bombshell — something that drew the instant attention of issuers, investors and rating agencies all over the world.

The renowned and much respected Shariah scholar, who chairs the board of of scholars at the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), announced that as much as 85% of Sukuk in the market might be non-Shariah compliant, basically since they violate the risk-sharing aspects of this Islamic compliant investment tool.

His statement led to a flurry of discussions, debates and questions. Early this month, AAOIFI then released the much awaited fatwa on tradable Sukuk.

From the three-page text, which is posted on the organization's official website, we believe that these guidelines sought to update and clarify traditions and consensus that had already been agreed upon.

Although the guidelines were technically not "new", it is good to remind ourselves to always be aware of the basic requirements that can be misinterpreted when we consider other elements like tax and legal jurisdiction in structuring the products.

Reading the text hereunder, it should be pointed out that all observations are subjected to the already existing AAOIFI standards that are applicable. The new advisory had discussed the following:

> **Transfer of title** — The tradable Sukuk must represent ownership for Sukuk holders, with all of the rights and obligations that accompany ownership, in real assets, whether tangible or usufructs or services, that may be possessed and disposed of legally and in accordance with the Shariah. The manager of a Sukuk issuance must establish the transfer of ownership of such assets in its books, and must not retain them as its own assets.

> **No debt or revenue streams permitted** — It is not permissible for tradable Sukuk to represent either revenue streams or debt. Such is only permitted when in the case of a trading or financial entity that is selling all of its assets, or a portfolio that includes a standing financial obligation such as that debt was incurred indirectly, incidental to a physical asset or a usufruct.

> **(Profit Equalization) Reserve** — It is not permissible for the manager of Sukuk, regardless of whether the manager acts as a Mudarib (investment manager), Sharik (partner) or a Wakeel (investment agent), to undertake to offer loans to Sukuk holders when actual earnings fall short of expected earnings.

It is permissible, however, to establish a reserve for the purpose of covering such shortfalls to the extent possible, on condition that the same be mentioned in the prospectus. There is no impediment to the distribution of expected earnings on account of or to obtaining project financing on the account of the Sukuk holders.

> **End of Sukuk term relating to the promise to acquire assets from the Sukuk holders** — It should be understood that the Sukuk manager acts as guarantor of [investor] capital at its nominal value in cases of negligence or mala fides or non-compliance with stated conditions, regardless of whether the manager is a Sharik, Wakeel or Mudarib.

It is not permissible for the Mudarib, Sharik or Wakeel to agree to purchase assets from Sukuk holders, or from whoever represents them, for a nominal value of those assets at the time the Sukuk are extinguished at the end of their tenors.

It is permissible, however, to agree to purchase the assets for their net value, or market value, or fair market value, or for a price agreed to at the time of their purchase.

> "Although (AAOFI) guidelines were technically not 'new', it is good to remind ourselves to always be aware of the basic requirements that can be misinterpreted...in structuring the products"

If, however, the assets of a Sukuk Musharakah, Mudarabah or Wakalah are of lesser value than assets leased by means of a lease ending in possession (Ijarah muntahiya bittamlik), then it will be permissible for the Sukuk manager to agree to purchase those assets at the time the Sukuk are extinguished for the remaining lease payments on the assets, by considering these payments to be the net value of those assets.

It is permissible for the lessee in a Sukuk Ijarah to agree to purchase the leased assets when the Sukuk are extinguished for their nominal value, as long as the lessee is not also an investment partner, manager or agent.

> **Shariah Supervisory Board responsibilities** — Shariah supervisory boards must not consider their responsibility to be over when they issue a fatwa on the structure of Sukuk.

Rather, they must review all contracts and documentation related to the actual transaction, and then oversee the ways that these are implemented in order to be certain that the operation complies at every stage with Shariah guidelines and requirements as specified in the Shariah standards, and that the investment of Sukuk proceeds and what those proceeds are converted to takes place in accordance with one [or another] of the approved Shariah methods of investment.

The advisory ends with a friendly but urgent reminder to all Islamic financial institutions to decreate their exposure to debt-related operations and to increase their operations on true partnerships and the sharing of profit and loss.

*By Paul Wouters, adviser to Bener Law Office, Istanbul*

# First Habib Modaraba Sets the Standard in Pakistan

*By Shabbir H Kazmi*

**A closer look at the Mudarabah sector reveals an interesting story. Among the Muslim countries, Pakistan enjoys the distinction of being the first (as early as the 1980s) to make an organized and regulated move toward Islamization of its financial system using Mudarabah.**

Since then, the sector has undergone many phases of development, experimentation and consolidation. With the introduction of new business models by some of the late entrants, reemergence of a stronger and more vibrant sector seems certain.

First Habib Modaraba (FHM) is a multipurpose and perpetual Mudarabah that is listed on all the stock exchanges operating in Pakistan. It commenced operations in March 1985 with an initial capital of PKR25 million (US$408,357).

By adopting an innovative strategy, prudent approach and maintaining a diversified investment portfolio, FHM has registered substantial growth year after year. It attained a total equity base of around PKR3 billion (US$49 million) and an asset base of approximately PKR5 billion (US$82 million) by the 30th June 2007.

FHM is one of the enterprises under the Habib Group. The group has diversified business interests in, among others, assembly of Toyota and Daihatsu automobiles, commercial banks, an insurance company and interests in one of the biggest and fastest-growing chain of retail outlets, which it established in collaboration with a global player.

Recently, FHM attained the status of "observer member" of the Islamic Financial Services Board. It is the only entity to enjoy this status among the entire Mudarabah and non-banking financial companies sectors of Pakistan.

## Trade secrets

To understand FHM's business model and the secret behind its success, we talked to managing director and CEO Muhammad Shoaib (pic), who is also chairman of Modaraba Association of Pakistan. While he acknowledges the growing competition, Shoiab is confident that the phenomenal growth of Islamic banking in Pakistan bodes well for the sector and offers opportunities for attaining synergy.

Though some of the critics are a little skeptical of the outlook for the sector, Shoaib who has more than 20 years experience in Mudarabah believes that improvement in the regulatory framework has accelerated the process of Islamization in the country. At present, Pakistan has Islamic banks, Islamic mutual funds and Takaful operators. All these entities are contributing toward the growth trajectory of the domestic Islamic financial market.

> "The favorable regulatory environment is also helping the Mudarabah sector explore new business ventures and facilitating closer cooperation with Islamic banks, funds and Takaful operators"

The favorable regulatory environment is also helping the Mudarabah sector explore new business ventures and facilitating closer cooperation with Islamic banks, funds and Takaful operators.

In Shoaib's opinion, adherence to sound policies and a stringent credit approval system have contributed to the financial strength of FHM, which has maintained its "A" category credit rating for the last 10 years.

Pakistan Credit Rating Agency (PACRA), one of Pakistan's reputed credit rating agencies, has assigned ratings of "A1+" for the short term and "AA" for the long term. "A1+" is the highest level of PACRA's rating for the short-term rating.

*continued...*

**Growth analysis of First Habib Modaraba**

| | | | | | (PKR mil) | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Leased assets | 1,115,600 | 1,413,279 | 1,723,616 | 2,047,013 | 2,744,844 | 3,185,142 |
| Paid-up capital | 252,000 | 252,000 | 252,000 | 504,000 | 504,000 | 504,000 |
| Reserves | 221,636 | 219,756 | 384,499 | 822,802 | 1,291,312 | 1,993,691 |
| Equity | 423,236 | 471,756 | 636,499 | 1,326,802 | 1,795,312 | 2,497,691 |
| Gross revenue | 567,045 | 743,624 | 842,544 | 1,013,621 | 1,206,401 | 1,502,963 |
| Profit before tax | 65,057 | 69,565 | 71,278 | 101,774 | 141,078 | 149,310 |
| Profit after tax | 65,057 | 69,565 | 71,278 | 101,774 | 141,078 | 149,310 |
| Total assets | 1,259,573 | 1,592,586 | 2,131,818 | 2,657,047 | 3,889,845 | 5,000,902 |
| Earning per share | 1.29 | 1.38 | 1.35 | 1.42 | 1.40 | 1.48 |

## *First Habib Modaraba Sets the Standard in Pakistan (continued...)*

PACRA was established in 1994 as a joint venture of international credit rating agency IBCA, International Finance Corporation and the Lahore Stock Exchange. The key points supporting PACRA's rating of FHM are:

- Low expectation of credit risk emanating from a capacity for timely payment of financial commitments.
- Strong capital structure and sustained outstanding asset quality.
- Continued ability to maintain its performance and following effective risk management policy.
- The strong equity and asset base, currently the highest in the Mudarabah sector.
- Enjoying "A" category rating in the last several years.

Over the last 22 years, FHM has achieved considerable growth in size while maintaining a solid asset portfolio and a sound capital base as well as rewarding stakeholders with handsome returns. Some of the milestones achieved during this period are regular payment of dividend since inception, maintaining "A" category rating for the last 10 years and an unblemished lease. Up until 2007, not a single advance went delinquent.

It is also a seven-time recipient of the best performing award from Modaraba Association of Pakistan since 1999, and was awarded the "Corporate Excellent Certificate" by Management Association of Pakistan.

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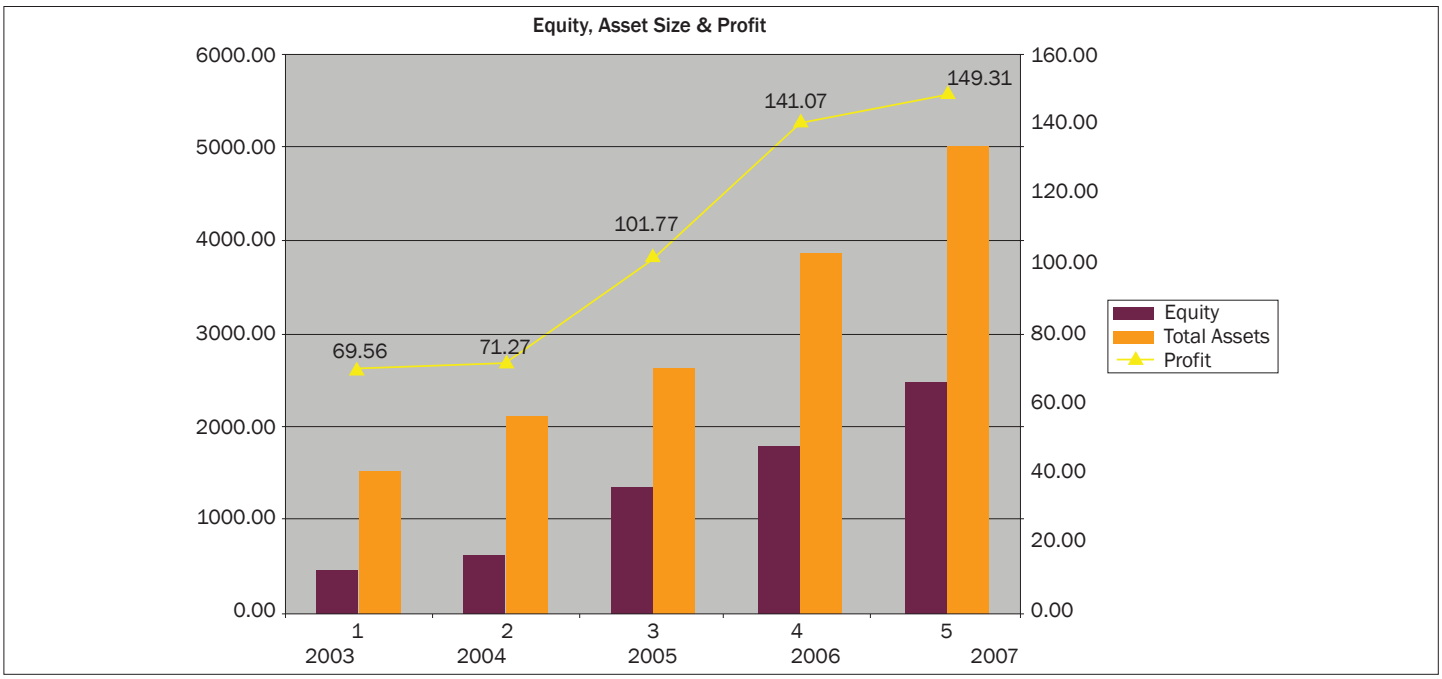
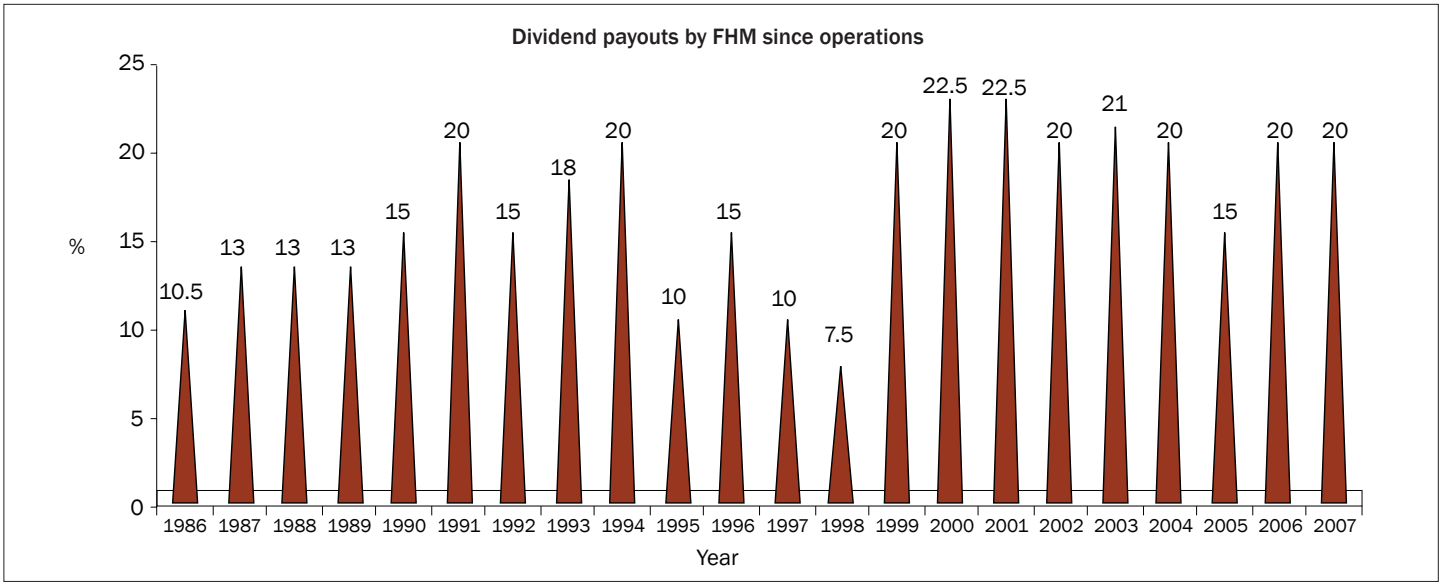


## *First Habib Modaraba Sets the Standard in Pakistan (continued...)*

The Securities and Exchange Commission of Pakistan and the State Bank of Pakistan are encouraging collaboration among the various stakeholders.

Shoiab believes that significant achievements will be visible very soon. The level of close contact between the association and the regulators can be gauged from the fact that the review and redrafting of the model agreements for simplification and standardization purposes in the Mudarabah sector have been completed.

### Successful years ahead

Besides, with the help of the regulators and its Shariah adviser, the Modaraba Association has developed seven new Islamic modes of finance that are pending approval.

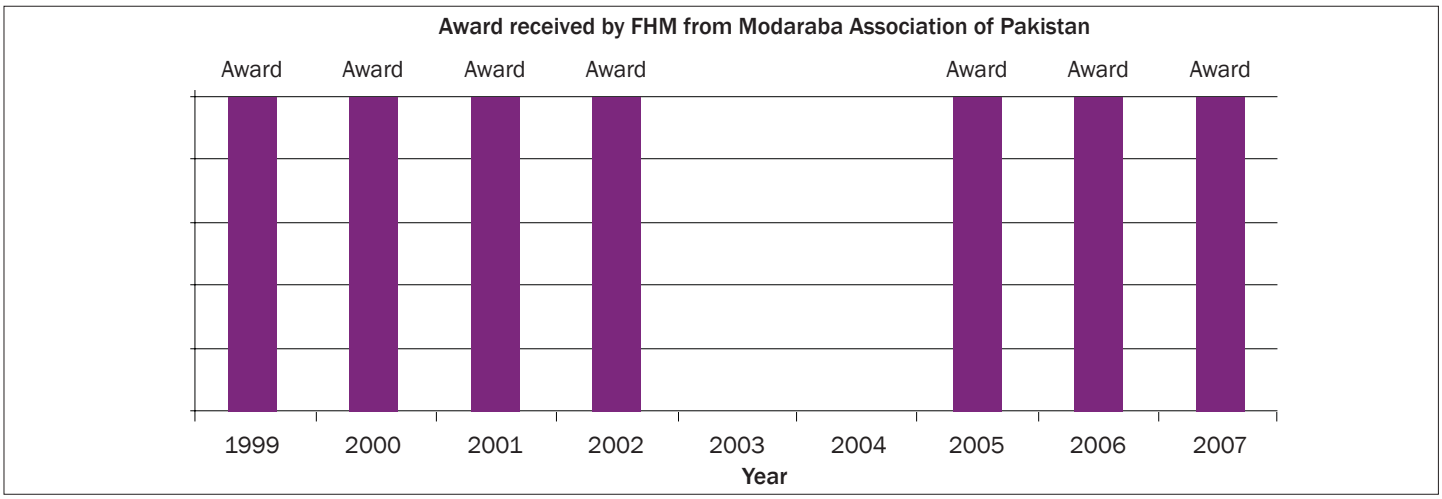
"It is encouraging that during the last financial year, IPOs (initial public offerings) of two new Mudarabah were successfully made through stock exchanges.

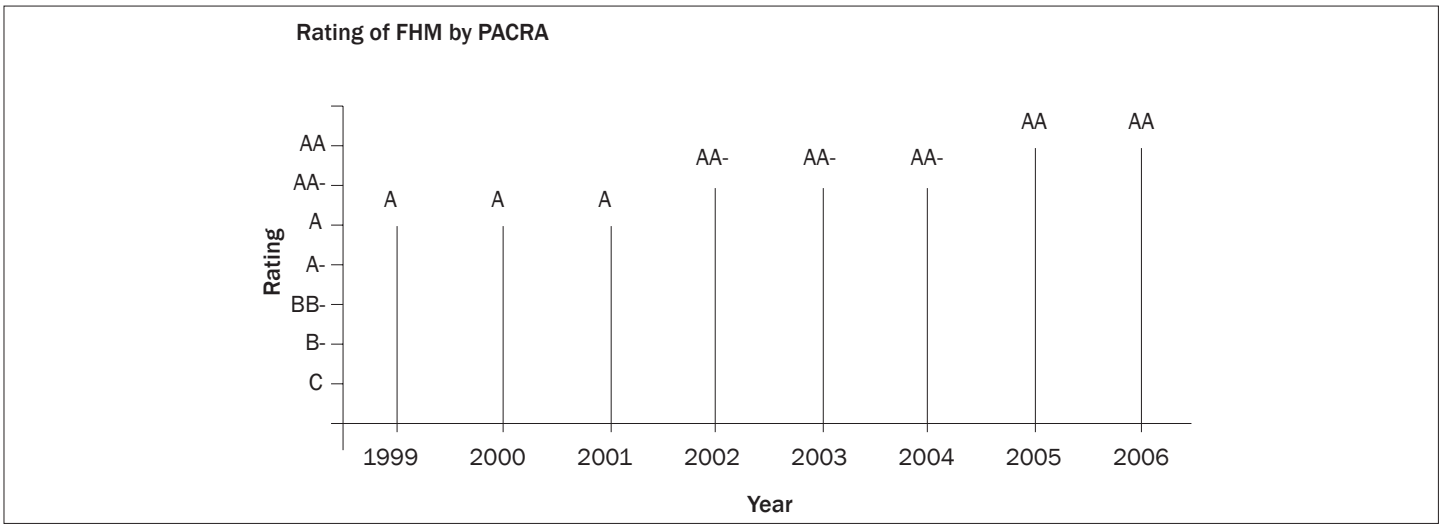
First Allied Rental Modaraba was established with a paid-up capital of PKR300 million (US$5 million) and First Treet Manufacturing Modaraba with a capital of PKR43 million (US$702,374)," said Shoaib who recently completed his postgraduate program in Islamic banking from the Center of Islamic Economic in Karachi.

The business models signify the diversity and capacity of Mudarabah to undertake multiple activities. In addition to these two, approval for four new Mudarabah is pending, i.e. Modaraba Al-Makatib, Modaraba Al-Tameer, Modaraba Al-Souk and Total Modaraba.

It is encouraging that after a long and quiet period, six new Mudarabah have entered the sector, which marks a clear recognition of the potential and revival of the sector.

Shabbir H Kazmi is head of supplements with a financial daily based in Pakistan. During his 15-years association with the media, he was twice (1993 and 1996) declared runner-up for Pan Asia Journalism Award sponsored by Citibank in Pakistan. He can be contacted via email at shkazmipk@yahoo.com



# UBL Fund Managers Shows Its Diversity

*By Eurekahedge*

**UBL Fund Managers Limited (UBLFM) is a wholly owned subsidiary of United Bank Limited. It was the first asset management company to be launched by a bank in Pakistan.**

UBLFM has been operating since 2002 and is currently ranked No. 1 both in terms of assets under management (AUM) in fixed income schemes and AUM of private sector open-end mutual funds (out of 35 existing companies). UBLFM has a management quality rating of AM2 Minus from JCR-VIS Credit Rating.

To learn more, Eurekahedge spoke to Khashe Ahmad Lodhi, head of Islamic funds at UBLFM. Prior to this, he was vice-president in the investment banking division at Pakistan Kuwait Investment (Pak Kuwait), where he was instrumental in the formation of an asset management company and a brokerage company. He was also a director in these companies.

Khashe has first-hand knowledge and experience of both the fixed income and equity markets. He started his career in 1993 with Crescent Investment Bank as a fixed income dealer in the treasury and funds management department.

In 1996, he moved to the equities side as a dealer in the capital markets department. Later, he became chief dealer and head of capital markets and managed a fund of over PKR6 billion (US$98 million). He has also worked for Mashreq Bank Pakistan, Crescent Commercial Bank and PICIC.

Khashe is an MBA holder from the Institute of Business Administration (IBA). He is also a visiting faculty member of IBA and has taught courses in finance including portfolio management.

**UBLFM has developed the United Composite Islamic Fund (UCIF) as well as the United Islamic Income Fund (UIIF). How is their approach different from others and what is the overall proposition for investors?**

UCIF is an open-ended fund that offers investors an opportunity to invest in a diversified portfolio of Shariah compliant investments with the objective of maximizing medium- to long-term returns for a given level of risk. The investments in the fund are diversified both in terms of securities within an asset class as well as across asset classes.

UCIF is a composite fund that invests in both equities and fixed income instruments. On the equities side, the fund can invest in all Shariah compliant companies listed on KSE-100 Index. On the fixed income side, it can invest in all Shariah compliant fixed income securities. The fund can also invest in Shariah compliant equities and fixed income securities outside Pakistan.

The benchmark of UCIF is 50% Dow Jones-JS Pakistan Islamic Index plus 50% of the average fixed income Shariah compliant deposit rate of different Islamic banks. The rationale behind this benchmark is that it totally encompasses both the equities and fixed income portions of the fund.

UCIF is the only composite fund in the mutual fund industry in Pakistan. It offers the unique features of both equity and fixed income to its unit holders. Being a composite fund, UCIF offers a leeway to the fund manager to continuously switch its investments between equities and fixed income, depending on the available return while keeping in mind the associated risk. This helps the fund manager in enhancing the return of the fund for a given level of risk.

On the other hand, UIIF, an open-end mutual fund, endeavors to provide attractive returns to investors by investing in Shariah compliant income instruments while taking into account capital security and liquidity considerations. The fund can invest in all Shariah compliant fixed income securities within and outside Pakistan.

The benchmark is the average of six-month placement rates of three Islamic banks. The rationale behind this benchmark is that it reflects the major portion of investments of the fund in the absence of significant asset classes. The benchmark is likely to change as the Islamic market further develops and more investment opportunities in diversified asset classes become available.

UIIF offers the following two types of units:

a) Income units, which are suitable for investors who desire a source of regular income while also aiming to preserve capital.
b) Growth units, which are suitable for investors who seek capital appreciation as their funds are automatically re-invested.

**How would you characterize the investment/management style that governs UBL funds? What do you bring to your Shariah compliant offerings that are different from the rest?**

- **UCIF**

The investment philosophy of UCIF is medium risk to medium return and buy-and-hold. On the equities side, a fine blend of value, growth and dividend stocks is maintained in the fund so as to diversify the portfolio and minimize risk. On the fixed income side, the fund aims to maximize annual income for the investors while preserving the capital.

- **UIIF**

The investment philosophy of UIIF is to maximize annual income for the investors and to preserve the capital while keeping exposure in a blend of short-, medium- and long-term income instruments. The fund aims to outperform the benchmark as well as its peer income group funds.

**With regard to your equity fund (UCIF), what sort of a selection/ filtration process does a stock go through before you invest in it? What kind of research do you put into selecting stocks and the sectors at large?**

On the equities side, the fund manager, in close liaison with the research analysts, identifies securities that offer a blend of value, growth and dividends as well as significant upside in their values as compared to their fair values.

Research analysts carry out thorough research and detailed credit evaluations and, based on that research, give their recommendations to the investment committee (IC).

*continued...*

## UBL Fund Managers Shows Its Diversity (continued...)

The final approval rests with the IC and the fund manager invests after the final approval. If a security is trading at a discount of up to x% to its fair value, it becomes a 'buy'.

A universe of approximately 50 listed companies is maintained with updated earnings and valuation expectations.

**How concentrated is the UCIF portfolio? And to what extent do you plan on diversifying it, in terms of number of stocks as well as across sectors?**
UCIF portfolio is well diversified both in terms of securities within an asset class as well as across asset classes. As at the 31st December 2007, the equities section of the UCIF portfolio had 24 scrips that represented 14 different sectors of the KSE-100 Index.

As at the 31st December 2007, the net assets of the fund were PKR1.05 billion (US$17.23 million) and the following were the top 10 scrips in the portfolio as a percentage of net assets:

| SCRIP | % of net assets |
|---|---|
| Fauji Fertilizer | 7.66 |
| Oil & Gas Development | 5.83 |
| Pakistan Telecommunications | 4.94 |
| Meezan Bank | 3.76 |
| Fauji Fertilizer Bin Qasim | 3.47 |
| Indus Motors | 3.03 |
| DG Khan Cement | 2.92 |
| Pakistan Petroleum | 2.90 |
| Pakistan State Oil | 2.89 |
| Pakistan Oilfields | 2.70 |

Going forward, the fund manager will keep on diversifying by adding more scrips that offer significant upside in their values as compared to their fair values. If a security is trading at a discount of up to x% to its fair value, it becomes a 'buy'.

**What is the typical holding period for a stock in UCIF? How often are these allocations revised, and what is the turnover rate for the overall portfolio?**
UCIF is a long-term fund and usually holds stocks for a minimum period of one to three years. Stocks are only offloaded earlier; in the case of the following scenarios:

a) If a security is trading at a premium of up to x% to its fair value, it becomes a 'sell'.
b) Dismal financial results of the company; due to any reason that can further affect the future performance of the company.
c) Change in government regulations that can affect the price of the scrip.
d) Increase in price risk, market risk, settlement risk or liquidity risk.

Stock and sector allocations in the fund are revised in IC meetings which are held on a regular basis (at least once every quarter). In case of extreme circumstances, the allocations are also revised through IC approvals by circulation.

**With regard to your income fund (UIIF), what are the target levels of return and volatility? How is this risk-return performance evaluated, considering the limited number of Shariah compliant benchmarks and peer groups?**
The investment philosophy of the fund is medium risk — medium return and buy-and-hold.

The aim of the fund is to maximize annual income for investors and to preserve the capital while keeping exposure in a blend of short-, medium- and long-term income instruments.

The fund aims to outperform the benchmark as well as its peer income group funds without taking undue risks.

The benchmark of UIIF is the average of six-month placement rates of three Islamic banks. The rationale behind this benchmark is that it reflects the major portion of investments of the fund in the absence of significant asset classes.

The benchmark is likely to change as the Islamic market further develops and more investment opportunities in diversified asset classes become available.

**The UIIF was launched recently and follows the worldwide spotlight on fixed income allocations (in particular with regard to Sukuk). What are the essential components to develop a successful Sukuk investment program?**
Any new Sukuk investment proposal is thoroughly reviewed taking into account the following:

a) Purpose of Sukuk issue
b) Sukuk structure and pricing
c) Background of sponsors
d) Company profile
e) Cash flow analysis of the company
f) Principal repayment structure
g) Industry analysis
h) Credit rating
i) Security provided
j) Shariah compliance
k) Secondary market for the Sukuk
l) Risk mitigation.

**Given that the fund has a short track record, what are the key characteristics that make the UIIF a viable investment? Does the rationale work for both local as well as for overseas investors?**
Even though UIIF was launched in October 2007 and does not carry a long track record, it is a product of UBLFM, which carries the following strengths:

- Successful brand name of parent company, 'United Bank Limited'
- Professional fund management team
- Strong in-house research expertise
- Experienced finance, operations team
- Strong corporate and retail sales team
- Strong risk management systems
- Investment centers across Pakistan
- Sale of units of UBL funds in GCC through UBL branches

*continued...*

## UBL Fund Managers Shows Its Diversity (continued...)

- Proposed sale of units outside Pakistan in US dollar-denominated funds.

Also, in the case of UIIF, the following are the added advantages for both local as well as foreign investors:

- Quality assets in the portfolio
- Growth in fund size
- Better comparative returns vis-à-vis benchmark and peers
- UIIF offers income units as well as growth units for the investors.

**Given your expected risks and returns for your portfolios, what sort of an investor-profile are the funds ideally suited for?**

The target markets are:

- Provident funds/pension funds/gratuity funds
- Islamic banking and non-banking financial institutions
- Takaful companies
- High net worth individuals looking for Shariah compliant income
- Islamic foundations, trusts, etc.

**How do the funds manage risks — those associated with targeting one specific market segment or otherwise? Do the fund allocations retain geographical flexibility? If so, what would be a typical breakdown invested in and outside of Pakistan?**

The following risks are continuously monitored by the investment management and risk management and compliance departments:

- Market risk
- Liquidity risk
- Settlement risk
- Credit risk
- Concentration risk
- Return risk
- Government regulation risk
- Voluminous purchase/redemption of fund units risk
- Value at risk (VaR).

The fund manager and senior management have ready access to the management information system reports. They continuously monitor the fund for risk management and compliance.

- **Stop-loss limits**
  To proactively manage risk, there are stop-loss limits for the trading portfolio of the funds. The stop-loss limits are determined after taking into consideration the current market conditions and macro variables. The limits are decided before the trading hours and are duly approved by the CEO and chief risk officer (CRO).

- **VaR limits**
  Recently, a separate risk management department was been put in place in UBLFM and the risk team is working toward the development of VaR risk limits to mitigate the risks in a proactive manner. There will be three layers of risk monitoring for both debt and equity transactions:

- Trade risk monitoring
- Stock market risk monitoring (KSE-100, KSE-30 and IC Basket)
- Portfolio risk monitoring (both debt and equity instruments).

Some of the following tools are already in use and others are being worked upon to measure risk:

- **Z-Score analysis**
  A predictive model created by Edward Altman in the 1960s, it combines five different financial ratios to determine the likelihood of bankruptcy among companies.

  Generally speaking, the lower the score, the higher the odds of bankruptcy. Companies with Z-Scores above 3 are considered healthy and, therefore, unlikely to enter bankruptcy. Scores in between 1.8 and 3 lie in a grey area.

  The risk team uses the Z-Score analysis for credit evaluations and equity investments.

- **Ratio analysis**
  All financial ratios are calculated for each investment proposal and a periodic review is carried out of investments in all asset classes. These ratios include income ratios, profitability ratios, net operating profit ratios, liquidity ratios, working capital ratios, bankruptcy ratios, long-term analysis, coverage ratios, total coverage ratios and leverage ratios.

- **Risk indicators**
  The risk team is also working toward the development of risk indicators for each fund which will be as follows:

- Skewness
- Kurtosis
- Beta (already being reported in the monthly fund manager report)
- Alpha
- Standard deviation
- Downside deviation
- Sharpe Ratio(already being reported in the monthly fund manager report)
- Sortino Ratio
- Treynor Ratio
- Tracking error
- Tracking error VaR
- Portfolio VaR for each fund
- Fund VaR (already being reported in the monthly und manager report)
- Benchmark VaR
- Stress testing techniques by applying maximum shocks to portfolios.

All these indicators are prepared or are in the process of being developed by the risk team and are reviewed by the CRO and the risk committee.

UCIF and UIIF are both in the process of starting investments in the international markets and the risk management and compliance department has already started working on the risk management tools.

**How are the two funds structured to comply with Shariah principles? How often is this reviewed, and by whom?**

All investments in UCIF and UIIF are made under the strict supervision of the Shariah Advisory Board (SAB), which comprises Maulana Hassan Kaleem and Maulvi Najeeb Khan.

*continued...*

## *UBL Fund Managers Shows Its Diversity (continued...)*

**Maulvi Muhammad Hassaan Kaleem**

- Shariah adviser to AlBaraka Islamic Bank
- Shariah board member of Pak Kuwait Takaful
- Shariah council member of Inter Securities Islamic Fund
- Completed Takhassus Fil Ifta and Alimiyyah from Dar-ul-Uloom Karachi, run by Justice Mufti Taqi Usmani.

**Mufti Muhammad Najeeb Khan**

- Shariah adviser to Habib Bank Zurich Islamic branch Karachi
- Specialization in Islamic jurisprudence/Islamic finance (Takhassus/PhD equivalent)
- Completed specialization in Islamic jurisprudence majoring in Islamic finance, under Justice Mufti Taqi Usmani
- Completed Almia certificate in Arabic and Islamic sciences (Master's equivalent in Arabic and Islamic sciences).

### Shariah review

The fund management team identifies investment opportunities, and after initial due-diligence, forwards the same to the SAB for a review from the Shariah angle.

If the SAB approves the proposed investment, then a thorough review and due diligence is made before sending the proposal to the IC for final approval. Investments are made after the final go-ahead from the IC.

The fund management team reviews all the investments in the fund after announcement of their periodic financial results and sends its recommendations to the SAB.

The fund management team and the SAB also review all investments on a continuous basis for any deviations from Shariah angle and immediate actions are taken accordingly.

**What is the investor make-up like for each of the funds? What types of investors have shown interest in the UIIF since its launch?**

| | UCIF (%) | UIIF (%) |
|---|---|---|
| Commercial bank | 63.41 | 61.24 |
| Corporate | 5.51 | 5.29 |
| Individual | 20.68 | 22.72 |
| Insurance company | 2.26 | 5.15 |
| Others | 8.14 | 5.60 |
| | **100** | **100** |

Other investors who have shown interest in UIIF include gratuity funds, pension funds, provident funds, investment banks, leasing companies and non-governmental organizations.

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# Huge Market Awaits Sukuk

*By Standard & Poor's Ratings Services*

**The Sukuk market more than doubled in 2007 to exceed US$60 billion — continuing its explosive growth since 2001, when it totaled less than US$500 million.**

In this round-up of developments in the Sukuk market, Standard & Poor's Ratings Services (S&P) expects growth of this Islamic financial instrument to remain on the same impressive trajectory and issues outstanding to top the symbolic US$100 billion mark in the next few years, fueled by huge investment and financing needs — notably in countries of the Gulf and Asia.

That said, Sukuk are becoming a global phenomenon, attracting more issuers from a larger pool of countries than ever before. This type of financing is set to continue providing issuers with non-bank alternatives to longer-term funding. Sukuk growth, nevertheless, has been slowed in the past six months by unfavorable credit market conditions.

Some Sukuk were postponed when liquidity dried up and credit spreads widened. But once market conditions return to normal, we expect issuance to resume double-digit growth.

Most Sukuk issued last year were Ijarah (lease financing) or Musharakah (venture capital financing) varieties, but in the future, we believe other types will become more common. To date, S&P rates 22 Sukuk, the bulk of which are Ijarah or Musharakah and carry credit enhancements.

The US dollar continues to be the currency of choice for Sukuk issuers, but has been declining in favor over the past five years. Corporates and entities involved in project finance are the main issuers, with banks coming in second. Corporates find that Sukuk are an alternative to financing their business or their projects, and financial institutions are increasingly turning to Sukuk to sustain strong lending growth with stable funding sources and to curb maturity mismatches.

S&P's role is to provide market participants with independent and objective opinions about the creditworthiness of issuers or issues — Shariah compliant or conventional. Our ratings represent opinions only about creditworthiness and do not address Shariah compliance. Over the past decade, we have refined our methodology to take into account the distinguishing features of Shariah compliant issuers and issues.

## Sukuk market to exceed US$100 billion

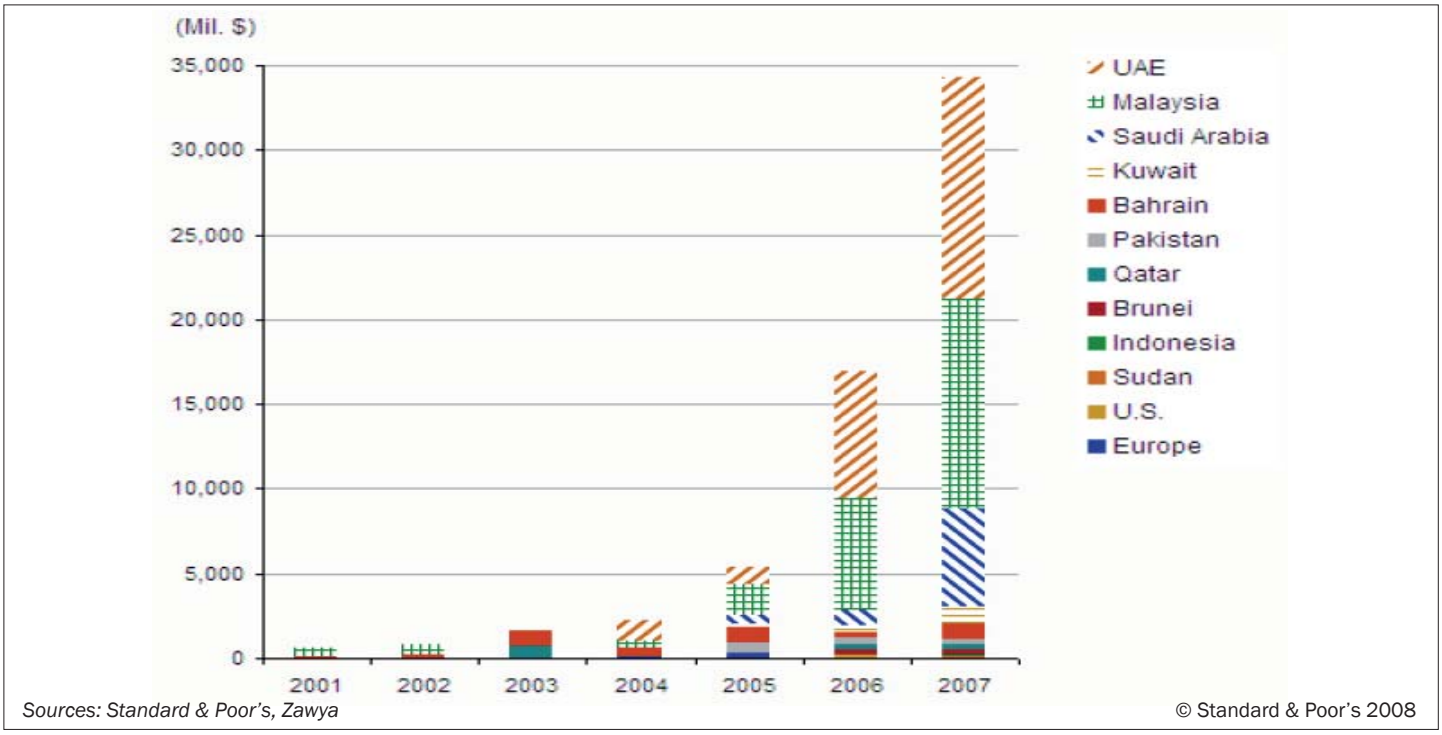
Assuming credit market conditions return to normal, S&P expects the Sukuk market to top the symbolic mark of US$100 billion in the next couple of years. Sukuk issuance is taking off for several reasons. One is because of the support from regulators and governments in the Gulf and Asia in the development of Islamic finance, including the Sukuk market.

The massive infrastructure projects in the Gulf, estimated in excess of US$1.6 trillion, will also be a boon to the Sukuk market as these projects are going to require huge amounts of funding. Because of their rapid increase in residential real estate lending, banks in the Gulf are scrambling to balance their loans with stable funding.

Issuers are looking to Sukuk as an alternative way to tap cash-rich investors from the Middle East or Muslim Asia, who are attracted by Shariah compliant products.

*continued...*

**Chart 1: Sukuk Issuance by Country**




*Sources: Standard & Poor's, Zawya*

## *Huge Market Awaits Sukuk (continued...)*

We don't believe that growth of the Sukuk market will be stunted by the recent debate among Shariah scholars about the Shariah compliance of Sukuk issued so far. As we've said, our ratings on Sukuk are opinions only about credit quality — not about whether they are Shariah compliant.

That said, we believe the current debate is likely to introduce more standardization and encourage innovation in this field — particularly the emergence of Sukuk that are solely backed by assets and do not benefit from "credit enhancements" or third-party guarantees and associated features that add to a Sukuk's creditworthiness.

S&P sees great potential for Sukuk to help fund mortgage lending — through asset-backed Sukuk. Residential real estate lending by banks has been booming in the countries of the Gulf Cooperation Council (GCC) — comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE — over the past couple of years.

As a result, financial institutions in the Gulf are experiencing widening mismatches between the longer-term maturities on the loans they extend and the shorter-term financing that backs them.

Consequently, they need greater access to longer-term funding. The environment therefore seems more fertile for the emergence of securitization — Islamic and conventional. There have already been some Islamic asset-backed transactions, such as the Caravan I Limited (not rated) issued in Saudi Arabia in 2004 and backed by a portfolio of auto Ijarah.

As the region becomes more familiar with securitization techniques, the Sukuk market is set to benefit from a wave of opportunities and innovation. But there are some challenges that could hinder growth of securitization — whether Shariah compliant or not.

In particular, the legal environment remains uncertain and largely untested by actual cases, and there are concerns about the legal transfer of title and foreclosure in case of default. These issues have to be resolved before asset-backed transactions, including those compliant with Shariah, take off.

The Sukuk market is attracting more issuers from a larger number of countries (see Chart 1), in a trend that is set to continue. In 2001, only four Sukuk were issued from Bahrain and Malaysia. In 2007, more than 100 Sukuk were issued from 10 countries. In the future, we expect emerging markets to join the club, such as the UK, Japan, Indonesia and Sudan.

The UAE and Malaysia continue to be the two main locomotives of Sukuk issuance. In 2007, more than US$25 billion of Sukuk — or about three-quarters of all Sukuk issued that year —originated from these two countries.

We expect them to continue to be the giants in the market, thanks to their regulators' support of the development of Islamic finance and the UAE's status as the Middle Eastern gateway to global investors.

In 2007, about three-quarters of the Sukuk issued globally were Ijarah and Musharakah structures. There are 14 ways to structure Sukuk, according to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

But so far, issuers are using only seven structures: Ijarah, Musharakah, Mudarabah, Murabahah, Istisna, Salam (presale of future delivery of goods or commodities) and Manfa'a (assets usufruct selling).

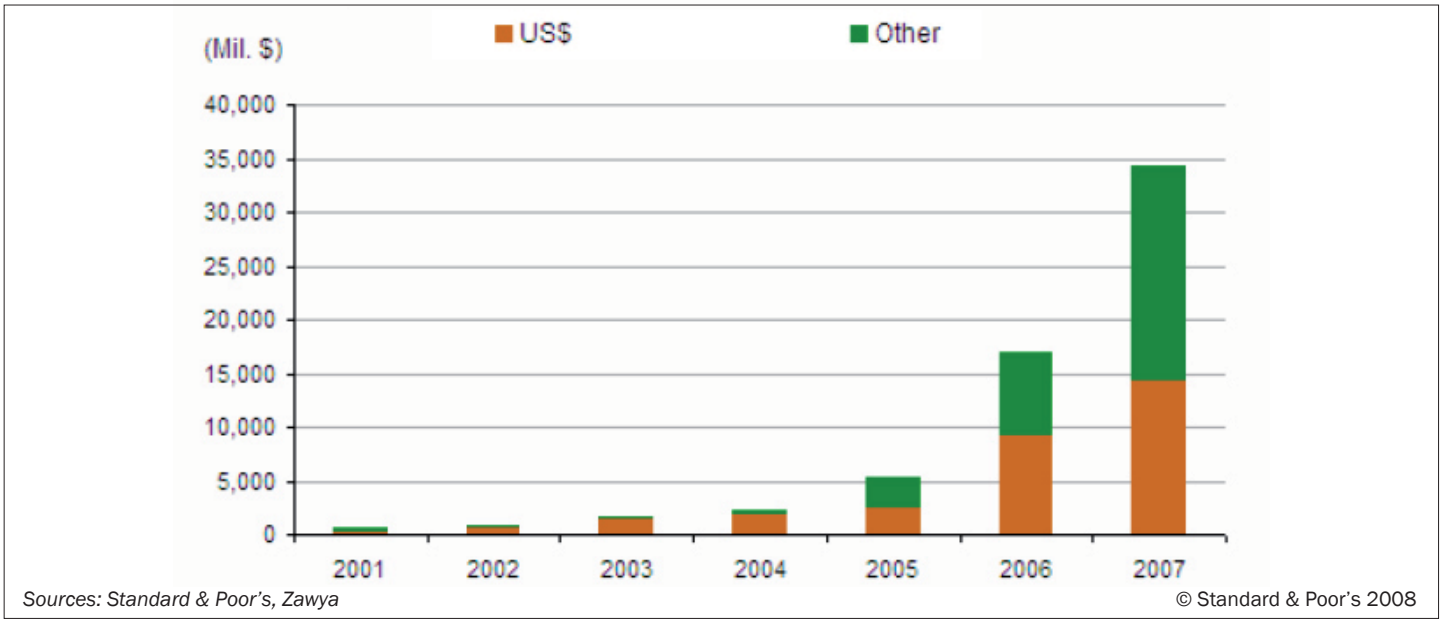
To determine the creditworthiness of a Sukuk, S&P distinguishes among three types:

- *Sukuk with full credit enhancement mechanisms*

Under this structure, Sukuk receive an irrevocable third-party guarantee, usually by a parent or original owner of the underlying assets. The guarantor must provide shortfall amounts in case the

*continued...*

**Chart 2: Sukuk Issuance by Currency**



## *Huge Market Awaits Sukuk (continued...)*

issuing vehicle, usually a special purpose entity (SPE), cannot make payment.

The ratings on this type of Sukuk are largely dependent on the creditworthiness of the guarantor or the entity providing the credit enhancement mechanisms, as well as the ranking of the guarantee — usually senior unsecured — among other financial obligations of the guarantor.

- *Sukuk with no credit enhancement mechanisms*

Under this structure, Sukuk resemble asset-backed securities. The pool of underlying assets serves as the sole basis for coupon and principal payment. The ratings on these Sukuk would largely be based on the ability of the underlying assets to generate sufficient cash to meet the SPE's obligations in a timely manner. S&P ratings would be based on the performance of the underlying assets under different stress scenarios along with the expected value of these assets at maturity.

- *Sukuk with partial credit enhancement mechanisms*

This structure combines features of both of the first two categories, with a third-party guarantee absorbing limited shortfalls from an otherwise asset-backed transaction. Our ratings approach depends on our estimate of the capacity of the underlying assets to meet the SPE's financial obligations, as well as the terms of the guarantee and the creditworthiness of the guarantor.

Most Sukuk that have been issued so far fall into the first category. The recent debate by Shariah scholars regarding the Shariah compliance of Sukuk stands to encourage innovation in Islamic finance and acts as a catalyst for the second and third types of Sukuk. To date, the 22 Sukuk rated by S&P all have full credit enhancement features and therefore fall into the first category.

### Local currencies gaining favor

The US dollar was the currency of choice for Sukuk issuers from 2002 to 2007, but has been declining in favor of local currency-denominated Sukuk. The percentage of US dollar-denominated Sukuk declined to 41.8% in 2007 from 85% in 2002 (refer to Chart 2, previous page). The other major currencies of issuance in 2007 were the Malaysian ringgit, the UAE dirham and the Saudi Arabian riyal.

The decline in US dollar issuance mainly reflects the currency's weakness in the past 18 months compared with other major currencies, as well as the huge amount of liquidity in the Gulf that Sukuk issuers want to tap. In addition, Sukuk issued out of Malaysia are typically denominated in ringgit.

We expect a significant share of Sukuk issuers to continue to depend on the US dollar, mainly because they are financing projects — notably infrastructure projects — in the Gulf where the costs in most cases are denominated in foreign currencies, especially for raw materials. However, we also expect more local currency issuance whenever the pool of the underlying assets is denominated in local currency — especially when genuine asset-backed Sukuk take off.

Growth of the Sukuk market is being fueled mainly by corporates — including those involved in project finance — and financial institutions. Although corporates find that Sukuk are an alternative for financing their business or their projects, banks are turning to these financial instruments to sustain growth with stable funding sources and curb maturity mismatches.

Financial institutions and governments or government-related bodies were the first to issue Sukuk, and accounted for 58% and 42% of total issuance in 2003. The corporate sector took the lead in 2005 and, since then, has been the biggest contributor to the growth of Sukuk market. In 2007, issues by financial institutions grew strongly, accounting for 26.2% of total Sukuk, and they will likely continue to be big issuers.

> "Although corporates find that Sukuk are an alternative for financing their business or their projects, banks are turning to these financial instruments to sustain growth with stable funding sources and curb maturity mismatches"

Furthermore, S&P believes that asset-backed Sukuk issued by financial institutions in the Middle East have great potential, owing to their increasing need to tap the international markets to feed their impressive growth, notably in the residential real estate segment.

### A role to play

Our role is to provide market participants with independent and objective opinions about the creditworthiness of issuers or issues — including those involving Sukuk. We do not comment on the degree of compliance with Shariah of a particular issue or issuer.

Our long-standing expertise in Islamic finance will continue to serve the development of the sukuk market, which is set to remain strong. Our ratings do not constitute a recommendation to sell, buy or hold a particular security — whether it is Shariah compliant or not.

Instead, our ratings help investors make informed decisions and issuers to benchmark their creditworthiness against that of their peers. Over the past 10 years, S&P has continued to refine its methodology to take into account the distinguishing features of Shariah compliant issues and issuers.

STANDARD &POOR'S

The article is part of a report entitled "The Sukuk market continues to soar and diversify, held aloft by huge financial needs". Standard & Poor's is a leading provider of financial market intelligence. For further information, contact Matthew McAdams via email at matthew_mcadams@standardandpoors.com

# Investing in Islamic Structured Products

*By Neil D Miller, Dean Naumowicz and Aziza Atta*

**Islamic structured products are financial instruments that create cash flow or delivery obligations linked to the performance of a defined underlying benchmark that is compliant with the principles of Shariah (such as equity markets, indices and commodities).**

For example, a Dow Jones Islamic Market (DJIM) index-linked note has a return linked to the performance of the DJIM index. The greater the return of the DJIM during the tenure of the note, the better the return on the DJIM index-linked note.

An Islamic structured product can be structured as a security, a bilateral contract or even a deposit.As the products and their applications vary, we shall use the generic term "Islamic structured products".

The techniques involved are often at the cutting edge of the product development world and while, in each case, we and our clients have worked with renowned scholars to seek Shariah approval for the specific product concerned, there can be no guarantee that future developments or changing attitudes will not require further adaptations of the techniques involved.

For now, we would argue that there is no such thing as a standard Islamic structured product.

A common feature and benefit of many Islamic structured products is the protection of some or all of the capital invested by the investor. A capital protected product provides for the protection of a portion (sometimes even up to 100%) of the invested capital usually by way of a purchase undertaking (Wad).

Many clients have used a Wad structure to link an investment or deposit with the performance of financial markets with little or no capital risk for an investor.

With respect to some structures, there is currently a great deal of scholarly discomfort regarding the fixed price repurchase of an issuer's assets by an originator (in the context of Mudarabah, Musharakah and Wakalah; not for Ijarah).

The purpose of the purchase undertakings is to ensure that an investor can recoup its capital investment on the occurrence of certain events such as insolvency, early redemption or on maturity.

Sheikh Muhammad Taqi Usmani, one of the most eminent scholars in the Islamic finance industry and chairman of the Shariah Council of the Accounting and Auditing Organization for Islamic Financial Institutions, recently wrote a paper discussing the issue of purchase undertakings.

His main point of contention with regard to purchase undertakings is that they move away from the concept of profit and risk sharing, which is a critical feature of more traditional Islamic finance instruments.

Investors who are committed to investing in a Shariah compliant structure should be willing to accept that receipt of any income and the eventual return of their capital invested are contingent on the performance of the relevant underlying assets.

The existence of a purchase undertaking arguably eliminates the risk-sharing aspect of such structures since the return of capital can be guaranteed which could, in effect, decouple the performance of the structure from the performance of the underlying assets.

## Islamic structured products in practice

The Islamic finance team at Norton Rose has been involved in a number of transactions relating to Islamic structured product transactions. For instance, we advised UBS on the initial multi-million US dollar issue of its Shariah compliant commodity-linked investment certificate.

"Investors who are committed to investing in a Shariah compliant structure should be willing to accept that receipt of any income and the eventual return of their capital invested are contingent on the performance of the relevant underlying assets"

This is thought to have been the first Shariah compliant product that was linked to commodities.

In addition, the ability to trade this product was a real innovation in the Islamic finance industry. The linkage to commodities is a natural one, given the requirement under Shariah law for investments to be linked to a tangible asset.

Norton Rose has also been leading the way in the development of structured Shariah compliant wealth and asset management products. There has historically been a shortage of such instruments because of the difficulties in ensuring that they are sufficiently linked to the underlying asset class.

We recently advised Citigroup on the creation of a suite of Shariah compliant hedging products. Established Shariah techniques have been utilized and rearranged in a novel security-based structure that enables the client to offer a comprehensive range of hedging instruments.

In particular, fixed to floating; floating to fixed and currency swap transactions can all now be offered.

The product has been utilized in a number of transactions for clients in Middle East jurisdictions. Several institutions have been trying to solve the hedging problems in Islamic finance over the last three years or so and of course, the IIFM/ISDA initiative continues.

*continued...*

## *Investing in Islamic Structured Products (continued...)*

In the meantime, we have worked with clients to devise several different hedging solutions. The structures utilized in the development of the suite of products for Citigroup have been innovative.
As mentioned in the first paragraph, Islamic structured products can be financial instruments in which an underlying structure is created to facilitate the required cash flows and deliveries. Shariah compliant swap transactions are a good example of such a financial instrument in practice.

While conventional swap transactions may be used to hedge certain risks or to speculate on changes in a market, Shariah compliant swaps are only used to effect prudential risk mitigation.

The manner in which a transaction is structured depends on the cash flows and deliveries required by counterparties. In any event, the stream of cash flows involved in Shariah compliant swaps will be created through the use of fully funded transactions (unlike conventional transactions, which often calculate cash flows using notional principal amounts).

For example, where a fixed profit leg is being exchanged for a floating profit leg, the underlying transactions may involve a term Murabahah to create the cash flows under the fixed profit leg and a revolving series of Murabahah to create the cash flows under the floating profit leg.

To reduce counterparty payment risk, installment payouts under the fixed profit leg of the swap are set off against the maturity payments of each revolving Murabahah under the floating profit leg of the swap.

Market participants are trying to develop a common approach to the structure and documentation of such transactions. In the current market, the exact manner in which such transactions are structured and documented varies considerably, depending on the precise commercial terms involved and the way in which an institution reduces counterparty credit risk.

Uncertainty (gharar) is a vitiating factor in Islamic contracts. Any products that provide greater certainty by removing the peril of gharar for the transacting parties are therefore desirable under Shariah.

There is a growing view that transactions and products that have the effect of prudential risk mitigation are acceptable, as opposed to transactions entered into for purely speculative reasons.

"To reduce counterparty payment risk, installment payouts under the fixed profit leg of the swap are set off against the maturity payments of each revolving Murabahah under the floating profit leg of the swap"

The work of several Islamic economists supports this contention. The range of this type of product has expanded recently, and there appears to be a willingness to explore areas that have not necessarily been universally accepted.

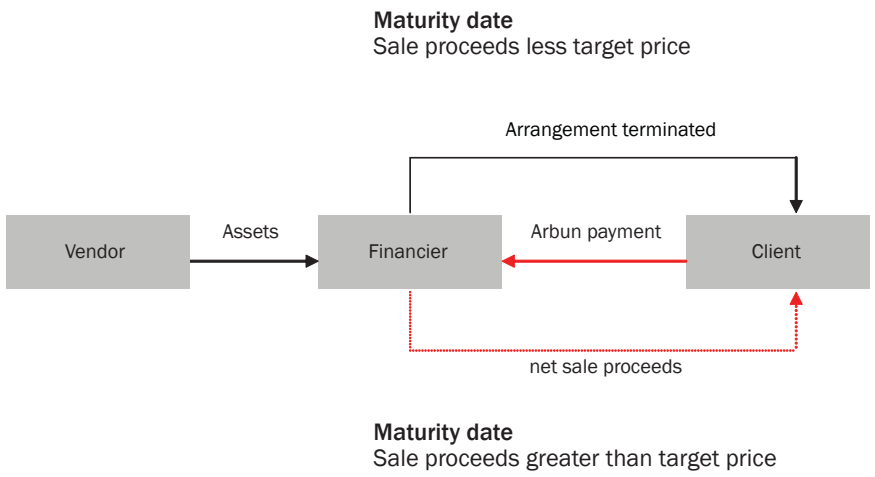
Arbun (downpayment) is an example of a product that is not generally accepted by all of the four main schools of Islamic jurisprudence but which has nonetheless been deployed.

Arbun provides clients with structured, documented products that hedge against future price fluctuations in commodities and equities (see below table). Under an Arbun arrangement, the following happens:

1. The client contracts to buy assets from a financier for an agreed price (the target price) for delivery on an agreed date;
2. The client makes a partial payment (for example, 10%) of the purchase price immediately by way of deposit;
3. The client is entitled not to complete the purchase of the assets, but if he decides not to do so, he forfeits the deposit;
4. If, on the maturity date, the market price is higher than the

*continued...*

*Arbun (downpayment) hedging product*



*Investing in Islamic Structured Products (continued...)*

target price, the assets are purchased by the client and resold by the financier as agent of the client. The sale proceeds are distributed to the client net of the outstanding purchase price; and

5 If, on the maturity date, the market price is lower than the target price, the contract can be terminated and the client forfeits the deposit (in all probability having acquired the assets elsewhere for a lesser sum).

## Exchange-traded funds (ETFs)

Norton Rose has also acted for Barclays Global Investors, which launched three Shariah compliant ETFs on the London Stock Exchange (pic) in December 2007 as sub-funds of the European Exchange Traded Fund Company plc (the fund).

> "Market developments such as the ongoing crisis in the conventional credit markets have encouraged those involved to show more interest in the development of innovative and alternative financial products that will give investors a good return while managing risk"

The three products — iShares MSCI World Islamic, iShares MSCI Emerging Markets Islamic and iShares MSCI USA Islamic — provide exposure to emerging and international markets and US shares.

Each product aims to provide investors with a total return, taking into account both capital and income returns, which reflects the return of the MSCI World Islamic Index, MSCI Emerging Markets Islamic Index or the MSCI USA Islamic index (the indices).

In order to achieve the investment objective, the fund will invest, in a manner consistent with Shariah, in a portfolio of securities that consists of the component securities of the indices.

The Shariah panel appointed is responsible for ensuring that the operation of the sub-funds is in compliance with Shariah. The investments of the fund will be listed or traded on regulated markets.

The securities included in the sub-funds are deemed to be compliant with Shariah by a board appointed by MSCI, which will review them on a quarterly basis to contemplate changes as a result of market changes or other events (e.g. delisting, bankruptcy or corporate actions).

The portfolios will focus more on basic materials and technology and will avoid alcohol, media and armaments etc.

The fund will undertake the required changes to its investments in line with the Benchmark Index. The ETFs will be distributed through brokers and private client banks globally with particular growth expected in the Middle East and Asia-Pacific.


## Growing interest

Islamic structured products can be an attractive addition to a client's portfolio and for the time being, there is the flexibility to tailor an investment structure to meet the specific financial objectives of the investor.

Interest in these products has been growing exponentially in recent years, possibly because they offer several benefits. These generally include tax-efficient access to fully taxable investments, favorable returns and reduced risk.

However, Islamic structured products continue to be a topic of discussion and speculation among Islamic investors, scholars and practitioners.

Market developments such as the ongoing crisis in the conventional credit markets have encouraged those involved to show more interest in the development of innovative and alternative financial products that will give investors a good return while managing risk.

There is no doubt that there will be some disagreement as to the level of compliance of some of the structures with Islamic principles, but the reality is that most stakeholders in the industry realise that in order for the industry to develop, structures will need to be devised and improved upon as the scope of Islamic jurisprudence (fiqh al muamalat) is applied to a wider range of investment products.

NORTON ROSE

Neil D Miller is partner and global head of Islamic finance, Dean Naumowicz is partner, derivatives and structured products while Aziza Atta is an associate with the Islamic finance group at Norton Rose. References are available on request from the writers.

## In your view, what is hampering the growth of Islamic finance in the west?

Durham University

Retail Islamic banking has been slow to start and expand in the west partly because as conventional banking provision is so well developed, the entry of new institutions is difficult in overcrowded financial markets. Muslims in the west are aware of Shariah compliant finance, but even among the pious, there remains much skepticism over the products offered.

It is in the UK that Islamic banking is most developed, with the Financial Services Authority playing a supportive role. The Banque de France was less interested, but there were signs of fresh thinking on the issue at a conference in December.

It is likely that retail Islamic banking will be available for France's five million Muslims by 2009. In the fragmented financial system of the US, Islamic finance remains on the fringe, but there is Shariah compliant housing finance in California and the mid-west, although the low take-up largely reflects the attitudes of American Muslims rather than any official discouragement.

London remains the major center for Islamic cross-border business in the west, partly because of its role in providing treasury services for Islamic banks in the Gulf. It is likely to emerge as a center for Sukuk, given the UK government's support. Expect slow but steady growth of Islamic finance in the west.

The time horizon is decades, not years.

***PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University***

THE ISLAMIC BANK OF ASIA
البنك الإسلامي الآسيوي

A number of factors — inter alia; limited pressure for change, complex legal, tax and regulatory frameworks to adjust, doubts around certainty of execution, the operational process required and ongoing risk management; and, in some cases, the possible accusation of undue religious-based favoritism.

Each of these on their own would be a significant obstacle. Their combination makes the recent progress made by the industry even more remarkable. These issues also highlight the need for long-term sustainable cross-industry/government commitment and determination.

Imagine, however, how quickly this might change if, say, a larger percentage of investments from Muslim countries were to be directed towards Shariah compliant transactions. This could easily alter the supply and demand balance sufficient to bring in many new players and markets. Look how Malaysia's Islamic banking industry has developed following this type of government support.

***VINCE COOK: CEO, The Islamic Bank of Asia***

THE ISLAMIC FOUNDATION UNITED KINGDOM | العربي

I think economists and market makers should pay attention to learning the basic philosophy of Islamic finance. The first reason is that it offers a set of values and beliefs. Because the free exercise of religion is one of those values and beliefs, we need to understand Islamic finance principles or we cannot hope to break down the barriers that may exist in the secular law of the west and may well fetter ethical people including Muslims who seek to freely practice their faith.

The second reason is that we in the west operate within market economies and that Muslims and other ethical people are a growing population within those economies — we need to understand the needs to be served.

The third reason is that Islamic finance principles may be imported into the west because they may well lead to an improvement at their institutions, especially in the areas of ethics and appropriateness, where we have been challenged lately.

Moreover, regulatory hurdles, competition from conventional banks, and lack of adequately qualified and trained personnel exacerbate the situation.

***DR ABUL HASSAN: Research fellow, Islamic Economics Unit, The Islamic Foundation***

UM FINANCIAL.com

The education of Islamic finance in the grass root western Muslim population is growing slowly. The Muslim community in the west is very observant to halal meat but the same has not transferred to Islamic finance. With more awareness and targetting the grass root we will see Islamic finance grow in the west.

***OMAR KALAIR: CEO and President, UM Financial***

*continued...*

BENER LAW OFFICE
Istanbul – Turkey

Islamic finance encounters several problems in Europe.

First, even in predominantly Muslim countries, most of the time the industry is still shaping up and has only reached the first stage of the innovation phase. Europe therefore is not that far behind.

Furthermore, finance is event and market-driven. When the regulations or regulators are not yet ready for the introduction of the new products on the local European markets, there is a big chance the deal could be pushed to more receptive environments or lapse due to changing needs and market conditions.

The industry needs key players who are willing to invest their time to create awareness and knowledge of the European finance industry and legislative bodies. The industry also needs a conjuncture of good market conditions and key players willing to "push" the envelope.

The market is ready for it (witness the eagerness for Sukuk subscription by European players), but only needs to gain momentum.

***PAUL WOUTERS: Partner, Bener Law Office***

Today, Islamic banking is growing at a remarkable pace in the west. This growth is fueled by increasing demand for Shariah compliant products and services from Muslims living in the west. However, much still needs to be done at different levels by the banks, regulators and governments.

Banks in the west need to focus on customers' needs by offering a complete menu of Shariah-based products and services that are easy to understand, competitive and tailored to the needs of their target audience — issuance of corporate or government Sukuk alone will not give the required depth needed for steady growth. The current lack of Shariah compliant products for walk-in customers and businesses is one of the main hindrances in the growth of Islamic banking.

One issue that often shadows the credibility of the banks offering Shariah compliant products is the placement of untrained staff dealing with the Islamic banking customers that are unable to differentiate the products features with the interest-based offerings, therefore focus and special attention is needed to train and develop human resource.

Another important factor is the perception management, many banks offering 'Shariah compliant' products are only doing it for 'profit motive and to tap the market' without believing in the ethical and economic superiority of the Islamic banking system over the interest based system. This creates another doubt in the mind of the customers over the degree of Shariah compliance observed by these banks.

Moreover, the customers are now realizing that having a Shariah Board and product fatwas are not enough but the key thing is implementation of these fatwas and Shariah guidelines and having effective controls to ensure proper implementation. This can be addressed by enhancing the Shariah audit and compliance framework at the bank level and by enforcing the AAOIFI guidelines on audit and governance by the regulators.

Governments also need to create level playing fields for Islamic banks operating in the west by making the required amendments in the banking laws and legal framework.

***AHMED ALI SIDDIQUI: Vice-president and manager, product development and Shariah compliance, Meezan Bank, Karachi, Pakistan***

It is deeply regrettable, but a combination of the 'war on terror' and fairly pervasive racism has probably irrevocably tarnished any financial products labeled as 'Islamic'.

Nevertheless, the evolving 'credit crash' appears to be unraveling much of the 'western' financial system, and in particular will probably see credit intermediation in the same 'deep- freeze' as continues to be the case in Japan.

I have long believed that true Islamic finance — and I do not mean the Islamic veneer currently applied to unIslamic credit intermediation — is capable of filling the vacuum.

In order to do so, it seems to me that 'ethical finance' is a perfectly good way of describing the necessary range of financial products.

***CHRIS COOK: Principal, Partnerships Consulting***

*continued...*


Islamic finance is undoubtedly experiencing remarkable growth in Muslim countries and is attracting increasingly significant interest in the west. At this point in time, the UK's Financial Services Authority has licensed four Islamic banks, and at least one more is imminent. Interest in Islamic financial solutions is generally high, with the demand coming from Muslims as well as non-Muslims.

Over the past few years, the UK government has made amendments to the Finance Act to allow Islamic finance products to be treated in a similar fashion for tax purposes as conventional products. However, some issues still exist such as double stamp duty for properties that are subject to Sukuk. In the 2008 budget, it was announced that further measures to avoid double taxation for alternative investments will be taken in the 2009 Finance Bill, which will open up opportunities for banks and corporates to issue Sukuk in the UK.

At present, there are no marketable, liquid instruments available to Islamic financial institutions, which puts them at a disadvantage in comparison to the Islamic windows of conventional banks when it comes to accessing and managing liquidity in the market at any time and particularly at times of market stress. This is where the issue of a UK government Sukuk will have a major positive impact on the Islamic financial market.

In short, while knowledge is improving and coverage is increasing, there is still much to do — tax and regulation wise — before Islamic finance becomes more comparable to conventional finance in terms of scope and depth.

***DR NATALIE SCHOON: Head of product management, Bank of London and The Middle East***

## Next Forum Question

**The Shariah committee of AAOIFI has tightened rules on the issuance of Sukuk, following the statement that most of the securities may not be Shariah compliant. How will the new resolution affect 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@RedMoneyGroup.com before Wednesday, 2nd April 2008.

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

| | |
|---|---|
| Name: | Momodou M Jobe |
| Position: | Director, investment and corporate banking |
| Company: | Arab Gambian Islamic Bank |
| Based: | Banjul, The Gambia |
| Age: | 56 |
| Nationality: | Gambian |

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

I started my banking career as an assistant projects officer at the (now-defunct government-owned) Gambia Commercial and Development Bank in the mid-1970s. While there, I underwent a professional qualification course by the Associate Chartered Institute of Bankers (ACIB), London.

In 1985, I transferred to the National Investment Board of The Gambia as a financial analyst. Between 1989 and 1993, I worked for the Gambia Produce Marketing Board and Gambia Livestock Marketing Board. I was then reassigned to the National Investment Board, where I quickly rose to the positions of financial controller and head of the offshore business center.

In 1995, I was transferred to the Ministry of Finance and Economic Affairs to head the financial services unit. I resigned in November 1996 to join the new Arab Gambian Islamic Bank as investment manager. In 2007, the post was upgraded to director of investment and corporate banking.

### What does your role involve?

I supervise the operations of the investment and corporate department, which include all activities from pre- to post-finance operations. I am responsible for the coordination of resource mobilization, funds management, credit analysis, business advisory and consultancy services. I also serve as a company secretary and ad hoc secretary to various board committees.

### What is your greatest achievement to date?

As one of the pioneers of Arab Gambian Islamic Bank, I actively participated in its establishment as an Islamic financial institution. I spearheaded the setting up of operations of the investment department. The bank is now one of the most successful Islamic banks in the West Africa sub-region.

In 2005, I was also part of the team which submitted a comprehensive report to the Central Bank and Department of State for Finance and Economic Affairs of The Gambia. Among the recommendations we made was introducing Islamic treasury bills and bonds and Takaful in Gambia.

Two years later, the Central Bank of The Gambia floated the three-month Sukuk Al Salaam, which is now in full operation. Prior to this, the government passed an Act in 2005, enabling the establishment Takaful in Gambia which started its practice in 2007.

### Which of your products/services deliver the best results?

Several Islamic banking products/services are provided to bank customers and others. Among them are Mudarabah, Musharakah and Murabahah products. The Murabahah financing facility is the most popular and delivers the best results.

### What are the strengths of your business?

The Gambia is a predominantly Muslim country, with Muslims constituting over 90% of the population. As the first and only Islamic bank in the country, the faithful Muslim population is our significant strength. Other strengths are the diverse business of the board of directors, committed and well-qualified personnel and highly motivated and dedicated staff.

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

There is a strong teamwork with good public relation qualities. Customers enjoy easy access to all levels of staff and prompt and proper attention is always accorded to their requirements. Decisions are always taken on time.

### What are the obstacles faced in running your business today?

The Gambian Islamic is just 10 years old and the only Islamic bank in an economy where conventional banking is deeply rooted. It takes a lot of time and effort to enlighten the banking public on Islamic banking advantages and values. The main obstacles we face include under-capitalization since there is no capital market in the country and private floating may not attract many shareholders; and insufficient branch network in the country.

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

I see Islamic financial institutions growing in number, size and assets in the next five years and thereafter.

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

Islamic financial institutions need to be more proactive in the economies of the Islamic Umma. There is a need to redirect the funds of the Islamic financial institutions to the needy developing Muslim countries.

**ARAB GAMBIAN ISLAMIC BANK**

Arab Gambian Islamic Bank was incorporated under the Companies Act 1955. It commenced operations in January 1997, carrying on banking business in all its departments and branches in accordance with Shariah principles and practices with a view to making profit for its shareholders and depositors and to contribute to the socio-economic development of The Gambia. Visit www.agib.gm


# Red Sea Gateway Terminal Company

| | |
|---|---|
| INSTRUMENT | Ijarah Mawsufah Fi Al Dhimmah (forward lease) |
| ISSUER | Red Sea Gateway Terminal Company |
| PRINCIPAL ACTIVITY | Container handling |
| SHAREHOLDERS | Xenel Industries, Sisco, Tusdeer and City Island Holding |
| DATE OF IJARA AGREEMENT | 3rd December, 2007 |
| ISSUE SIZE | SAR900 million (US$240.3 million) |
| TENOR | 16 years (door-to-door) |
| MARGINS | Construction (three years) — SIBOR +125 bps<br>Post-construction —SIBOR + 100 bps |
| RENTAL PAYMENT SCHEDULE | Six monthly sculpted payments |
| IDENTIFIED ASSETS | Fixed assets, including RTG cranes, quayside cranes, terminal buildings and facilities |
| MANDATED LEAD ARRANGERS | Al Rajhi Banking and Investment Corporation and The Standard Bank of South Africa |
| LEAD ARRANGER | Banque Saudi Fransi |
| LEGAL COUNSEL | Allen & Overy |
| FINANCIAL ADVISER | Al Rajhi Banking and Investment Corporation and The Standard Bank of South Africa |
| SHARIAH ADVISER | Shariah Board of Al Rajhi Bank |
| PURPOSE OF ISSUE | Procurement of capital assets |

## MALAYSIA

### MAA in talks with AmAssurance

Following approval from Bank Negara Malaysia, MAA Holdings is to begin negotiations on the sale of a stake in its Takaful insurance business (MAA Takaful) with Malaysian lender AMMB Holdings, via its AmAssurance unit.

However, no details were available on the level of equity stake involved in MAA Takaful.

Apart from MAA Takaful, MAA is also offering to sell a stake in its wholly owned insurance subsidiary, MAA Assurance Alliance.

## UAE

### Huge opportunities for products

The ratio of insurance premiums in the Muslim world is around 1% of the gross domestic product (GDP) compared to the international ratio of around 7.5%. George Oommen, executive director of insurance at the Dubai International Financial Centre (DIFC), said the per-capita expenditure on insurance in the Muslim world is around US$40 annually compared to the international rate of US$550 per year.

He said the low penetration of insurance in the Muslim world — particularly in the Middle East — creates big opportunities for insurance and reinsurance companies to offer new and varied products, especially Takaful and Shariah compliant products.

## QATAR

### AKHI proposes Islamic unit

Al Khaleej Insurance and Reinsurance (AKHI) informed the Doha Securities Market on Tuesday of its intention to establish a wholly owned unit with a capital of QAR25 million (US$6.87 million).

The insurer said its existing Islamic insurance operations would be transferred to the proposed company, Qatar Takaful Insurance, but did not give details.

## SYRIA

### Companies queue up in Syria

Several Takaful companies, including Kuwaiti companies, will join the Syrian insurance market next April. Relevant authorities are helping the companies ensure they start operations as soon as possible.

The Syrian Cabinet's presidency agreed on giving licenses to the Kuwaiti Al-Oqaila, Nour companies and the Syrian Islamic Company and approved initially Aman Insurance Company. The total capital of the four companies is appoximately US$120 million.

Eleven traditional insurance companies have activities in Syria, including the Kuwaiti Syrian Insurance Company.

## GLOBAL

### Shariah products help Prudential

While Prudential is looking at ways to expand the group's range of Takaful products, it is also seeking untapped markets with scope for rapid growth.

CEO of Prudential Corporation Asia Barry Stowe identified Egypt as one such market. He is also keen to build on the Pru experience in Indonesia, where 25% of all sales in the fourth quarter of 2007 were Shariah compliant products.

Half of the sales involved non-Muslim customers, he said, adding that consumers are attracted to the simplicity of the products and their ethical stance to investment. Profits from Pru's Asian operations broke through GBP1 billion (US$2.01 billion) for the first time last year and now match those achieved by the insurer's traditional UK operations.

## UAE

### DIFC wants to be Takaful gateway

The Dubai International Financial Centre (DIFC) is positioning itself as the gateway for insurance companies to tap into "a fertile new market for the insurance industry".

Speaking at the World Insurance Forum at DIFC last week, DIFC governor Dr Omar Sulaiman said the rate of global growth of Takaful is outstripping that of conventional insurance.

While the global average annual premium growth rate stands at about 2.5% in the wider Middle East, the Takaful market segment is growing by 20% a year.

"Takaful premiums in the GCC states are increasing by a phenomenal 40% a year. There are more than 60 Takaful companies operating in 23 nations. Worldwide Takaful premiums are estimated to be in excess of US$2 billion, representing roughly 9% of the global insurance market. Recent projections show that the industry could be worth as much as US$7.4 billion by 2015," said Omar.

## QATAR

### Healthcare policy boon

The insurance market in Qatar will be boosted by state plans for compulsory insurance and by the expected economic growth in Qatar, said its minister of finance and acting minister of economy and commerce, Yousef Hussein Kamal.

He expects the insurance market in Gulf Arab countries to grow more than 10% annually over the next three years and Qatar aimed to be a regional center for the industry.

Yousef said that new products have been tailored to the Islamic market, adding that Takaful will be a major contributor to overall insurance growth in the Middle East because it is more culturally tailored and acceptable than conventional insurance products.

# Pak-Qatar Takaful Tapping Corporate Sector

*By Shabbir H Kazmi*

**Pak-Qatar General Takaful (Pak-Qatar Takaful) is a dedicated Takaful company specializing in general Takaful business in Pakistan. It is committed to developing comprehensive Takaful products catering to the diverse financial protection needs for the people of Pakistan.**

The company is backed by significant paid-up capital of PKR307 million (US$4.9 million) and a strong group of shareholders of international repute. The shareholders are:

- Qatar Islamic Insurance Company
- Qatar International Islamic Bank
- Qatar National Bank
- The Amwal Group, Qatar's leading investment banking asset management and wealth management firm
- Masraf Al Rayan
- Doha Bank
- Fawad Yousuf Securities

The group has simultaneously invested in Pak-Qatar Family Takaful to the tune of PKR500 million (US$8 million), which is testament to their strong commitment. The main sponsor for both the companies is Shaikh Ali bin Abdullah Thani Al Thani, a member of the royal family of the State of Qatar.

Pak-Qatar Takaful is currently helmed by CEO M Vaqaruddin, who has some 27 years' experience in general insurance operations as well as in sales and marketing. He had worked for high-profile companies like Insurance Company of North America and Commercial Union from British Aviva Group before it shut down its Pakistan operations. The chartered insurer had also held various senior positions in leading international insurance companies before joining Pak-Qatar Takaful in February 2007.

According to Vaqaruddin, Pak-Qatar Takaful was incorporated in Pakistan in 2006, but was granted a license as a Takaful provider in August 2007.

The sponsors of Pak-Qatar Takaful have invested a total of PKR800 million (US$12.73 million; PKR300 million [US$4.78 million] in General Takaful and PKR500 million for the Family Takaful company) to date. The group set up both the companies simultaneously to ensure that a complete solution is provided to their participants.

Commenting on the general development of Takaful in Pakistan, Vaqaruddin said that being a new market in the country, it had initially introduced products that are already well-known in the conventional market, such as motor, fire, marine and engineering protection. The most popular Takaful product is, of course, motor coverage.

However, Pak-Qatar Takaful is trying to break away from the norm and penetrate the corporate sector, which has yet to recognize Takaful. Vaqarrudin said the company is trying to persuade multinationals and international companies to consider Takaful products for financial protection.

"So, we hope to provide the Takaful needs of the Islamic banks and Islamic branches of conventional banks. We are trying to rope in business enterprises to consider Takaful for protection. As and when our pool size increases and we are able to have a bigger capacity, we shall go for large commercial businesses."

However, he admitted that this was quite a challenging task as decision-making in the multinational corporations required approval from their respective head offices overseas.

Vaqaruddin also hopes to tap into the rural areas, adding that it is one of the company's long-term goals. "This can be done by opening branches in rural areas. We shall face less competition there," he said.

Following its inception in 2007, Pak-Qatar Takaful immediately started to run awareness campaigns on the benefits of Takaful. Apart from marketing Pak-Qatar Takaful in the electronic and print media, the provider is also making presentations before selected audiences and individual groups. He said raising awareness is a mounting challenge in itself especially when it involves rural areas, which may require a personal touch.

To date, public response to the campaign has been positive and Vaqaruddin believes that will be translated into action soon, adding that one of Pak-Qatar Takaful's current marketing strategies is to penetrate the rural population using short messaging service, or SMS.

Touching on Pakistan's Takaful regulations, the MBA holder said Takaful rules were framed in 2005 by the Securities and Exchange Commission of Pakistan (SECP), which regulates the country's insurance and Takaful industry.

He said these Takaful rules are being revisited by a committee set up by the SECP. In view of the limited experience that the local Takaful companies has, the rules need to be amended to make way for a standard regulatory regime for all Takaful operators in the country.

Vaqaruddin pointed out that the current Takaful rules provide that window operations for conventional insurance interested in offering Takaful products can only be considered after five years from the date of promulgation of these Takaful rules.

"If conventional insurers are allowed to open windows immediately, this may deter foreign investors, who will no longer be interested in making any further investment in Pakistan as their confidence will be shaken."

Another challenge for the local Takaful industry is human resource. To date, Takaful companies have recruited workers who had worked in conventional insurance companies, said Vaqaruddin.

"These workers come with the conventional frame of mind. It is difficult to retrain them. So, we need to put in a lot of effort to change their mindset," said the CEO.

Efforts are being made to overcome this problem, he added, including setting up an in-house training scheme for new employees.

Shabbir H Kazmi is head of supplements with a financial daily based in Pakistan. He can be contacted via email at shkazmipk@yahoo.com

## BEAR STEARNS — HONG KONG

US investment bank Bear Stearns has hired Darius Yuen as a senior managing director and head of equity capital markets for Asia, based in Hong Kong. This comes following reports that Yuen had resigned as co-head of regional equity capital markets at BNP Paribas.

He will join his new employer in May. Yuen will be reporting directly to John Moore, who was appointed as the bank's first Asia CEO last September.

## COMMERCIALBANK — UAE

Commercialbank has appointed Michael Azmi-Loe as its new CEO, following the announcement of a new regional group structure aimed at supporting its alliance with National Bank of Oman and United Arab Bank.

Azmi-Loe joined Commercialbank as chief risk officer in March 2006. In March 2007, he became deputy CEO, overseeing the risk and finance business units and the Al Safa Islamic Bank.

## TAQA — UAE

The Abu Dhabi National Energy Company (TAQA) has appointed Carl Sheldon as general counsel. The US and UK qualified lawyer has more than 25 years of experience in private practice in New York, Frankfurt and London.

Sheldon spent 17 years with Allen & Overy and was most recently a partner at A&O in New York. He will join TAQA on the 1st April.

## ENOC — UAE

In a recent move aimed at consolidating ENOC's position as market leader, industry veteran Saif Humaid Al Falasi was appointed as group general manager.

Saif has more than 26 years of experience in spearheading exploration and production processes in the region. He holds a Bachelor of Science in petroleum engineering from Louisiana Tech University in the US.

## GULF BANK — Kuwait

Abdullatif Mohammed Al-Hamad is the new general manager of corporate banking at Gulf Bank. He will lead the division from his current role as deputy general manager.

The graduate in international business from the San Diego University, California, had also worked as a senior manager at the bank from 1994 to 1998.

## GBCORP — Bahrain

Arshan Merchant has been appointed the new head of internal audit. He previously held senior roles at Addax Bank and other investment banks in the GCC, following his maiden appointment as chartered accountant at KPMG.

Merchant has 10 years of experience in risk-based internal audits, financial reporting standards and implementing Shariah standards and Islamic principles.

## MARC — Malaysia

Nor Zahidi Alias is senior vice-president and chief economist of Malaysian Rating Corporation (MARC). Zahidi will oversee macroeconomic research and analysis with focus on domestic fiscal and monetary policy issues and outlook as well as that of other major economies.

Prior to joining MARC, he was head of research/economist at MCIS-Zurich Insurance.

## NORTON ROSE — UAE

Norton Rose has recruited partner Karl Rogers in Dubai. He will head up a regional structured products practice, work Norton Rose had been covering from the UK. Rogers will initially lead a team of three banking associates based in Dubai and Bahrain.

He specializes in derivatives and structured finance and will focus on advising investment banks, sovereign wealth funds and financial institutions in the Middle East and North Africa.

## TANMIYAT GROUP — Middle East

Tanmiyat Group, a leading real estate and investment firm in the Middle East, has appointed Firas P Wanli as chief financial officer.

Prior to his appointment, Firas was CFO of Investment Dar, the largest Islamic investment and finance company in Kuwait, a position he held from 2003 onwards.

## TABREED — UAE

Khadem Abdulla Al Qubaisi was named the new chairman of Tabreed during its annual general meeting held last week. Khadem is managing director of International Petroleum Investment Company.

Waleed Al Mokarrab, chief operating officer of Mubadala Investment Company, will serve as vice-chairman.

## GOVERNMENT OF MALAYSIA — Malaysia

The recent Malaysian general elections saw new faces in the cabinet line-up, including the appointment of ex-Maybank CEO Amirsham Aziz as head of the economic planning unit.

Zaid Ibrahim, managing partner at Zaid Ibrahim & Co, was also sworn in as minister in the Prime Minister's Department.

## UBS — Germany

UBS' board of directors will propose the appointment of David Sidwell at its annual general meeting on the 23rd April as a non-executive member.

Sidwell left Morgan Stanley, where he was chief financial officer and a member of the management committee, in December 2007. He was chief financial officer of the investment bank until March.

## AL FAJER PROPERTIES — UAE

Sheikh Maktoum bin Hasher Al Maktoum, chairman of Dubai International Holding Company and CEO of Al Fajer Group, is the new president of Al Fajer Properties, a leading property developer in the UAE.

# Deal *tracker*

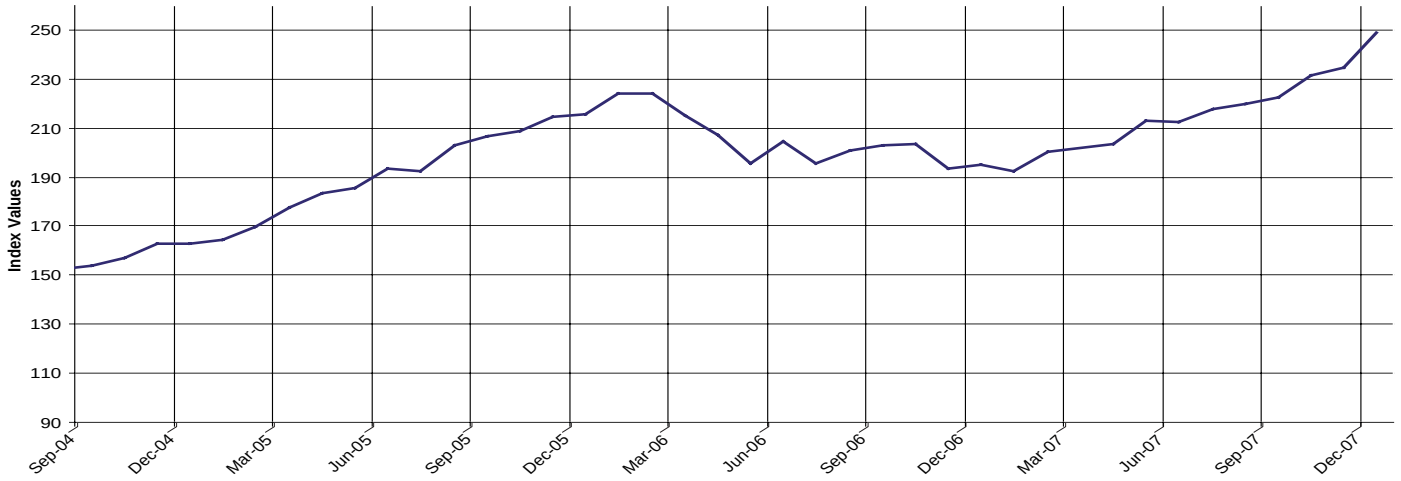
*Keeping you abreast of the world's upcoming Shariah compliant deals*

Another **Islamic Finance** *news* exclusive

| ISSUER | SIZE (million) | INSTRUMENT |
|---|---|---|
| Pakistan Government | TBA | TBA |
| Pakistan International Airlines | US$1,086,609,140 | Ijarah |
| Pak Elektron | US$1,997,443,272 | Diminishing Musharakah |
| Pace Pakistan | US$31,959,092 | Diminishing Musharakah |
| Westports | US$251.15 | Musharakah MTN |
| Adhi Karya | US$10.95 | Mudarabah |
| Al Aqar KPJ REIT | US$73.77 | Ijarah; CP/MTN |
| Al Noor Sugar Mills | US$7.99 | Diminishing Musharakah |
| BHCB | US$1,881,600,350 | Islamic/Conventional CP/MTN |
| FACB Industries | US$25.11 | Murabahah; CP/MTN |
| FACB Industries | US$32.96 | BBA |
| Glomac | US$18.83 | Murabahah MTN |
| Haisan | US$62.79 | Ijarah |
| Hong Leong Industries | US$156.97 | Musharakah CP/MTN |
| IJM Corp | US$251.15 | TBA |
| Indonesia Comnets Plus | US$10.95 | Murabahah |
| Javedan Cement | US$15.98 | Diminishing Musharakah |
| Kwantas | US$20.41 | Murabahah; CP/MTN |
| Lahore Suncity | US$250 | Musharakah |
| Liberty Power | US$191.75 | Diminishing Musharakah |
| Megan Media Holdings | US$100.47 | 6 Series Bonds |
| Moccis Trading | US$119.31 | Murabahah |
| Naim Cendera | US$156.99 | Musharakah CP/MTN |
| National Industrial Parks | US$31.96 | Ijarah |
| Orient Petroleum | US$31.96 | Diminishing Musharakah |
| Pendidikan Industri | US$47.1 | BBA |

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

## Eurekahedge Middle East/Africa Islamic Fund Index




### Monthly returns for Asia Pacific funds (as of 18th March 2008)

| | FUND | MANAGEMENT COMPANY | Performance Measure | FUND DOMICILE |
|---|---|---|---|---|
| 1 | Al Rajhi India & China Equity Fund | Al Rajhi Banking & Investment Corporation | 10.63 | Saudi Arabia |
| 2 | CIMB Islamic Small Cap Fund | CIMB Wealth Advisors | 10.04 | Malaysia |
| 3 | Prudential Dana Dinamik | Prudential Fund Management | 9.91 | Malaysia |
| 4 | OSK-UOB Dana Islam | OSK-UOB Unit Trust Management | 8.93 | Malaysia |
| 5 | Amanah Saham Wanita (ASNITA) | Avenue Invest | 8.16 | Malaysia |
| 6 | AmIslamic Growth | AmInvestment Management | 7.61 | Malaysia |
| 7 | CIMB Islamic Enhanced Index Fund | CIMB Wealth Advisors | 7.54 | Malaysia |
| 8 | CIMB Islamic Equity Fund | CIMB Wealth Advisors | 7.47 | Malaysia |
| 9 | AmIttikal | AmInvestment Management | 7.20 | Malaysia |
| 10 | CIMB Islamic DALI Equity Growth Fund | CIMB Wealth Advisors | 7.18 | Malaysia |
| | ***Eurekahedge Asia Pacific Islamic Fund Index**** | | ***1.54*** | |

### Monthly returns for Middle East/Africa funds (as of 18th March 2008)

| | FUND | MANAGEMENT COMPANY | Performance Measure | FUND DOMICILE |
|---|---|---|---|---|
| 1 | Al Rajhi Local Shares Fund | Al Rajhi Banking & Investment Corporation | 22.12 | Saudi Arabia |
| 2 | Amanah Saudi Industrial Fund | The Saudi British Bank | 21.06 | Saudi Arabia |
| 3 | Al Qasr GCC Real Estate & Construction Equity Trading Fund | Banque Saudi Fransi | 20.68 | Saudi Arabia |
| 4 | Bakheet Saudi Trading Equity Fund | Bakheet Investment Group | 20.46 | Saudi Arabia |
| 5 | Jadwa Saudi Equity Fund | Jadwa Investment | 20.41 | Saudi Arabia |
| 6 | Riyad Equity Fund 2 | Riyad Bank | 20.06 | Saudi Arabia |
| 7 | Saudi Equity Fund (Al Raed) | Samba | 19.49 | Saudi Arabia |
| 8 | AlAhli Saudi Trading Equity Fund | The National Commercial Bank | 18.50 | Saudi Arabia |
| 9 | Jadwa GCC Equity Fund | Jadwa Investment | 18.13 | Saudi Arabia |
| 10 | AlAhli GCC Trading Equity Fund | The National Commercial Bank | 17.90 | Saudi Arabia |
| | ***Eurekahedge Middle East/Africa Islamic Fund Index**** | | ***6.02*** | |

EUREKAHEDGE

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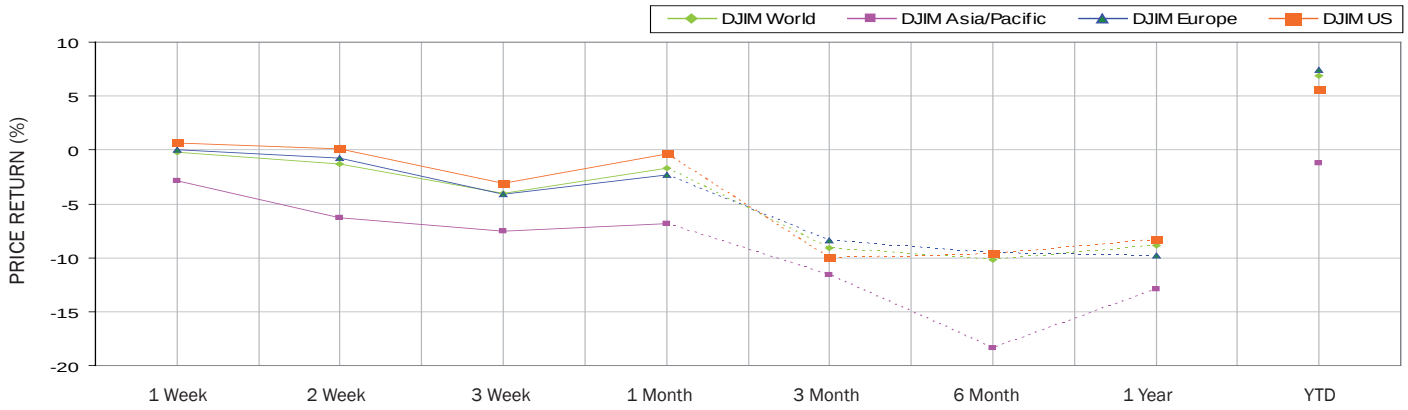
EUREKAHEDGE

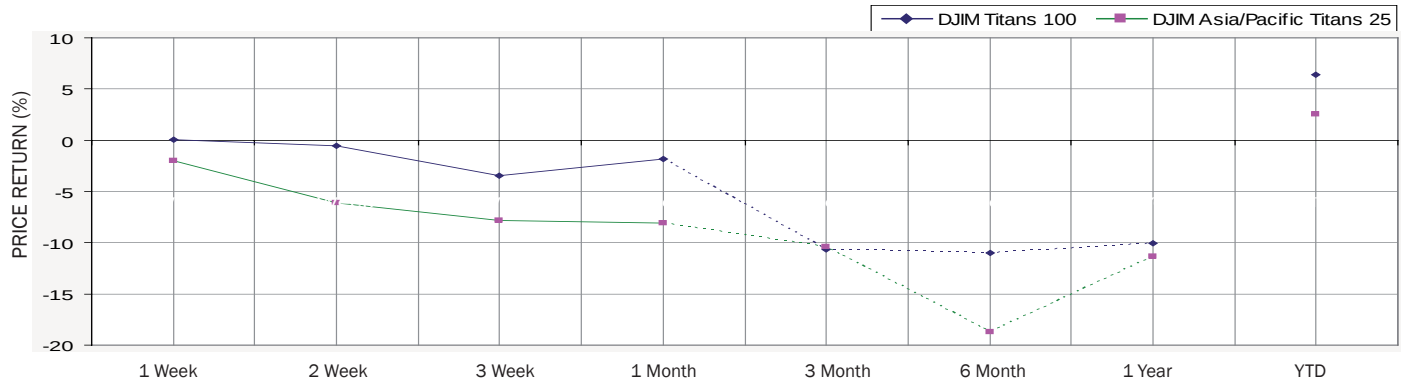
Data as of the 18th March 2008

## PERFORMANCE OF DJ INDEXES




| INDEX | PRICE RETURN (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 Week | 2 Week | 3 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD |
| DJIM World | -0.17 | -1.27 | -4.02 | -1.72 | -9.11 | -10.22 | -8.86 | 6.87 |
| DJIM Asia/Pacific | -2.84 | -6.26 | -7.55 | -6.86 | -11.56 | -18.40 | -12.93 | -1.19 |
| DJIM Europe | 0.05 | -0.75 | -4.09 | -2.30 | -8.42 | -9.57 | -9.80 | 7.45 |
| DJIM US | 0.67 | 0.11 | -3.06 | -0.36 | -10.00 | -9.64 | -8.32 | 5.52 |

## PERFORMANCE OF DJ TITANS INDEXES




| INDEX | PRICE RETURN (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 Week | 2 Week | 3 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD |
| DJIM Titans 100 | 0.07 | -0.58 | -3.47 | -1.83 | -10.63 | -11.04 | -10.06 | 6.40 |
| DJIM Asia/Pacific Titans 25 | -2.03 | -6.10 | -7.80 | -8.07 | -10.43 | -18.70 | -11.36 | 2.55 |

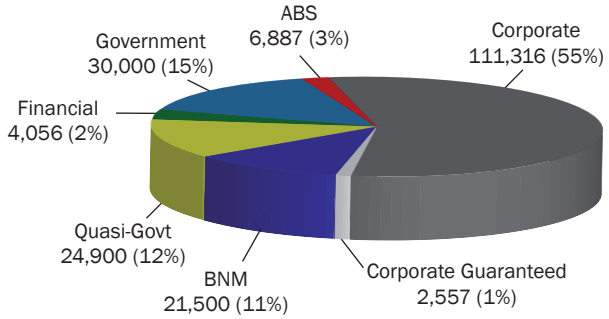
| DESCRIPTIVE STATISTICS | | Market Capitalization (US$ billions) | | | | | | Component Weight (%) | |
|---|---|---|---|---|---|---|---|---|---|
| Index | Component number | Full | Float adjusted | Mean | Median | Largest | Smallest | Largest | Smallest |
| DJIM World | 2626 | 19008.70 | 15538.05 | 5.92 | 1.22 | 483.37 | 0.01 | 3.11 | 0.00 |
| DJIM Asia/Pacific | 1116 | 3574.27 | 2374.9 | 2.13 | 0.49 | 111.04 | 0.01 | 4.68 | 0.00 |
| DJIM Europe | 386 | 5061.68 | 3825.79 | 9.91 | 2.59 | 198.63 | 0.21 | 5.19 | 0.01 |
| DJIM US | 747 | 8614.68 | 8122.37 | 10.87 | 2.62 | 483.37 | 0.15 | 5.95 | 0.00 |
| DJIM Titans 100 | 100 | 8028.48 | 7230.1 | 72.30 | 45.23 | 458.23 | 11.43 | 6.34 | 0.16 |
| DJIM Asia/Pacific Titans 25 | 25 | 1133.62 | 762.1 | 30.48 | 23.62 | 79.44 | 11.43 | 10.42 | 1.50 |

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

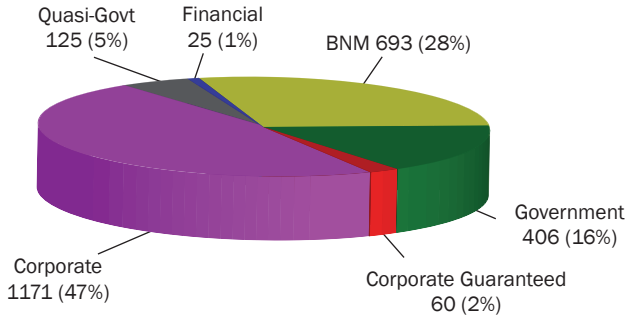
## RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT AS AT 18th MARCH 2008
## MOST ACTIVE BONDS TRADED BETWEEN 13th MARCH and 18th MARCH 2008

| Stock Name | Last Traded Price | Last Traded Yield | Total Volume Traded Last 7 | % w-o-w Price Change | Last Week Closing Price |
|---|---|---|---|---|---|
| BNMNI B4 (68D - 91D) | 98.35 | 3 | 350 | | |
| BNMN-IDB 73/2007 91D 27.03.2008 | 100.03 | 3.57 | 348.18 | 0.27 | 99.76 |
| BNMN-IDB 18/2008 182D 11.09.2008 | 103.25 | 4.23 | 315 | -0.20 | 103.46 |
| BNMNI B7 (172D - 211D) | 97.53 | 3.38 | 200 | | |
| BNMNI B9 (262D - 311D) | 99.82 | 4.15 | 200 | -0.29 | 100.11 |
| CAGAMAS IMTN 3.830% 13.03.2009 | 99.91 | 3 | 77.2 | | |
| PROFIT- BASED GII 3/2007 14.09.2012 | 70.43 | 4.06 | 70 | 0.64 | 69.98 |
| BNMN-IDB 2/2008 90D 10.04.2008 | 100.95 | 4.05 | 67 | -0.17 | 101.12 |
| PROFIT-BASED GII 1/2007 15.03.2010 | 100.77 | 4.6 | 50 | 1.65 | 99.13 |
| KHAZANAH 0% 08.12.2016 | 96.71 | 3.35 | 50 | | |
| BNMN-IDB 16/2008 182D 04.09.2008 | 123.06 | 4.73 | 50 | 0.38 | 122.59 |
| BNMN-IDB 34/2007 273D 20.03.2008 | 100.13 | 4.16 | 45 | 0.2 | 99.93 |
| RANTAU IMTN 0% 14.08.2013-MTN 2 | 99.41 | 4.01 | 45 | 0.07 | 99.34 |
| BNMN-IDB 17/2008 273D 11.12.2008 | 100.61 | 4.1 | 40 | 0.45 | 100.16 |
| WESTPORTS IMTN 0% 07.03.2013 (TRANCHE- 3) | 100.05 | 4.15 | 35 | 0.05 | 100 |

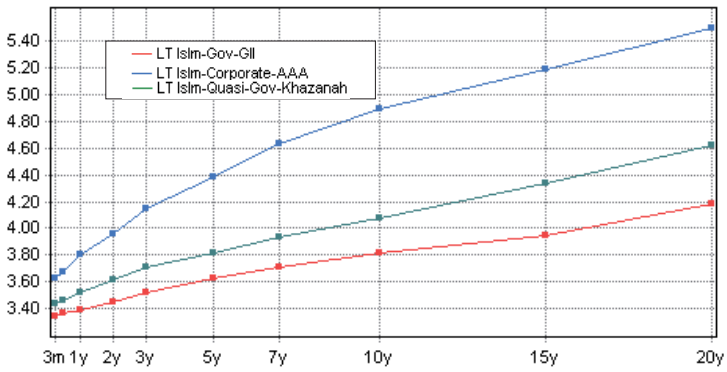
**Outstanding Bond by Issuer Class as at 18th March 2008 (RM'000)**



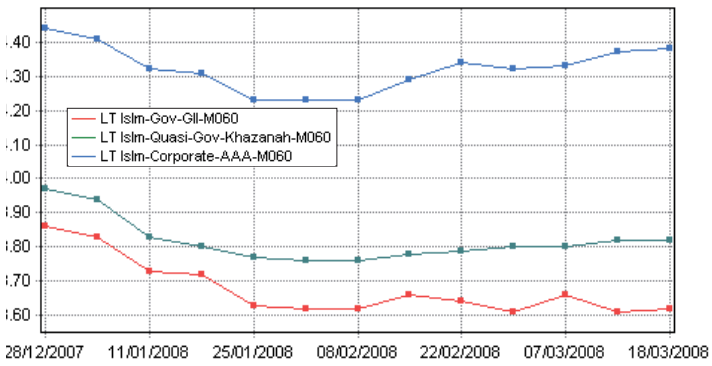

**Bond Traded Amount by Issuer Class as at 18th March 2008 (RM'000)**




**YTM Curves as at 18th March 2007**




**5 YR YTM Historical Chart (week closing, last 3 months)**



TOP ISSUERS OF ISLAMIC BONDS — MARCH 2007 – MARCH 2008

| | Issuer or Group | Nationality | Instrument | Amt US$ m | Iss. | % | Manager |
|---|---|---|---|---|---|---|---|
| 1 | Binariang GSM | Malaysia | Sukuk Musharakah | 4,509 | 9 | 13.1 | CIMB, RHB Investment, Aseambankers, ABN Amro, AmInvestment, OCBC Bank (Malaysia) |
| 2 | Saudi Basic Industries | Saudi Arabia | Sukuk Istithmar | 2,133 | 1 | 6.2 | HSBC Saudi Arabia, Riyad Bank |
| 3 | JAFZ Sukuk | UAE | Sukuk Musharakah | 2,043 | 1 | 5.9 | Barclays Capital, Deutsche Bank (London), Dubai Islamic Bank, Lehman Brothers International (Europe) |
| 4 | Dar Al-Arkan International Sukuk | Saudi Arabia | Sukuk Ijarah | 2,000 | 2 | 5.8 | ABC Islamic Bank, Arab National Bank, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank, Kuwait Finance House, Unicorn Investment |
| 5 | Nucleus Avenue (M) | Malaysia | Sukuk Musharakah MTN | 1,994 | 9 | 5.8 | CIMB |
| 6 | Malaysia | Malaysia | Sukuk | 1,867 | 2 | 5.4 | Malaysia Government bond |
| 7 | DP World Sukuk | UAE | Sukuk Mudarabah | 1,496 | 1 | 4.4 | Barclays Capital, Citigroup Global Markets, Deutsche Bank, Lehman Brothers |
| 8 | Saudi Electricity | UAE | Islamic Sukuk | 1,333 | 1 | 3.9 | HSBC Saudi Arabia |
| 9 | Dubai Sukuk Center | UAE | Sukuk Mudarabah | 1,248 | 1 | 3.6 | Deutsche Bank (London), Goldman Sachs International |
| 10 | Projek Lebuhraya Utara Selatan | Malaysia | Sukuk Musharakah | 1,067 | 10 | 3.1 | CIMB |
| 11 | Dana Gas Sukuk | UAE | Sukuk Mudarabah | 1,000 | 1 | 2.9 | JP Morgan |
| 12 | Cherating Capital | Malaysia | Exchangeable Sukuk | 850 | 1 | 2.5 | Deutsche Bank (Malaysia), JP Morgan, CIMB |
| 13 | Hijrah Pertama | Malaysia | Sukuk Ijarah | 847 | 2 | 2.5 | Citigroup, CIMB |
| 14 | Nakheel Development 2 | UAE | Sukuk Ijarah | 750 | 2 | 2.2 | JP Morgan |
| 15 | Golden Belt 1 Sukuk | Saudi Arabia | Sukuk al Manafaa | 650 | 1 | 1.9 | BNP Paribas |
| 16 | Cagamas MBS | Malaysia | Sukuk Musharakah Islamic Residential Mortgage Backed Securities | 620 | 7 | 1.8 | Standard Chartered, National Bank of Pakistan |
| 17 | Cagamas | Malaysia | Bithaman Ajil Islamic Securities/Mudarabah MTN | 568 | 6 | 1.7 | Cagamas, Aseambankers, HSBC, CIMB |
| 18 | Khazanah Nasional | Malaysia | Exchangeable Sukuk | 550 | 1 | 1.6 | CIMB, Deutsche Bank, UBS |
| 19 | National Bank of Abu Dhabi | UAE | Exchangeable Sukuk | 545 | 1 | 1.6 | Morgan Stanley, Credit Suisse |
| 20 | Silterra Capital | Malaysia | Sukuk Ijarah | 530 | 1 | 1.5 | CIMB, HSBC, Citibank |
| | **Total** | | | **34,391** | **329** | **100.0** | |



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TOP ISSUERS OF ISLAMIC BONDS — DECEMBER 2007 – MARCH 2008

| | Issuer or Group | Nationality | Instrument | Amt US$ m | Iss. | % | Manager |
|---|---|---|---|---|---|---|---|
| 1 | Binariang GSM | Malaysia | Sukuk Musharakah | 4,509 | 9 | 54.7 | CIMB, RHB Investment, Aseambankers, ABN Amro, AmInvestment Bank, OCBC Bank (Malaysia) |
| 2 | Projek Lebuhraya Utara Selatan | Malaysia | Sukuk Musharakah | 1,067 | 10 | 12.9 | CIMB |
| 3 | Khazanah Nasional | Malaysia | Exchangeable Sukuk | 550 | 1 | 6.7 | CIMB, Deutsche Bank, UBS |
| 4 | National Bank of Abu Dhabi | UAE | Exchangeable Sukuk | 545 | 1 | 6.6 | Morgan Stanley, Credit Suisse |
| 5 | Central Bank of Bahrain | Bahrain | Ijarah Sukuk | 350 | 1 | 4.2 | Calyon |
| 6 | Menara ABS | Malaysia | Sukuk Ijarah | 307 | 8 | 3.7 | Citibank |
| 7 | Manfaat Tetap | Malaysia | Sukuk Mudarabah | 230 | 1 | 2.8 | Affin Investment |
| 8 | Westports Malaysia | Malaysia | Musharakah MTN | 140 | 3 | 1.7 | OSK Investment |
| 9 | DRIR Management | Malaysia | Sukuk Ijarah | 102 | 9 | 1.2 | United Overseas Bank (Malaysia), HWANGDBS Investment |
| 10 | Al-Aqar Capital | Malaysia | Sukuk Ijarah | 73 | 3 | 0.9 | AmInvestment |
| 11 | Syarikat Bekalan Air Selangor | Malaysia | Bai Bithaman Ajil Islamic Bond | 71 | 4 | 0.9 | HSBC, CIMB, Bank Islam Malaysia |
| 12 | Alam Maritim Resources | Malaysia | Sukuk Ijarah | 61 | 4 | 0.7 | Aseambankers, Standard Chartered |
| 13 | Gamuda | Malaysia | Sukuk Musharakah and Sukuk Murabahah | 55 | 1 | 0.7 | AmInvestment Bank, CIMB Investment Bank |
| 14 | Pendidikan Industri YS | Malaysia | Al-Bai Bithaman Ajil Islamic Bond | 46 | 11 | 0.6 | Affin Investment |
| 15 | Pace Pakistan | Pakistan | Musharakah Islamic bond | 32 | 1 | 0.4 | BankIslami Pakistan, Pak-Brunei Investment |
| 16 | Sunway City | Malaysia | Murabahah MTN | 29 | 3 | 0.4 | HSBC |
| 17 | KNM Capital | Malaysia | Murabahah and Mudarabah MTN | 28 | 2 | 0.3 | Aseambankers |
| 18 | Mukah Power Generation | Malaysia | Mudarabah and Istisna Islamic Bond | 25 | 4 | 0.3 | RHB Islamic Bank |
| 19 | Sarawak Power Generation | Malaysia | Musharakah MTN | 16 | 8 | 0.2 | RHB Islamic Bank |
| 20 | Boon Koon Group | Malaysia | Murabahah MTN | 3 | 1 | 0.0 | AmMerchant |
| | **Total** | | | **8,246** | **88** | **100.0** | |

| ISLAMIC BONDS | | MARCH 2006 – MARCH 2008 | | |
|---|---|---|---|---|
| | Manager or Group | Amt US$ m | Iss. | % |
| 1 | CIMB | 6,001 | 75 | 17.5 |
| 2 | HSBC | 3,838 | 38 | 11.2 |
| 3 | Deutsche Bank | 2,230 | 21 | 6.5 |
| 4 | JP Morgan | 2,033 | 4 | 5.9 |
| 5 | Malaysia Government bond | 1,867 | 2 | 5.4 |
| 6 | Citigroup | 1,725 | 13 | 5.0 |
| 7 | AmInvestment | 1,410 | 61 | 4.1 |
| 8 | Barclays Capital | 1,310 | 4 | 3.8 |
| 9 | Aseambankers | 1,295 | 36 | 3.8 |
| 10 | Dubai Islamic Bank | 1,165 | 7 | 3.4 |
| 11 | Riyad Bank | 1,066 | 1 | 3.1 |
| 12 | Standard Chartered | 953 | 31 | 2.8 |
| 13 | RHB Investment | 926 | 68 | 2.7 |
| 14 | BNP Paribas | 845 | 3 | 2.5 |
| 15 | Lehman Brothers | 810 | 2 | 2.4 |
| 16 | Oversea-Chinese Banking | 683 | 16 | 2.0 |
| 17 | Goldman Sachs | 624 | 1 | 1.8 |
| 18 | ABN Amro | 620 | 8 | 1.8 |
| 19 | Kuwait Finance House | 390 | 9 | 1.1 |
| 20 | Morgan Stanley | 382 | 5 | 1.1 |
| | **Total** | **34,391** | **329** | **100.0** |

| ISLAMIC BONDS | | DECEMBER 2007 – MARCH 2008 | | |
|---|---|---|---|---|
| | Manager or Group | Amt US$ m | Iss. | % |
| 1 | CIMB | 2,712 | 24 | 32.9 |
| 2 | AmInvestment | 723 | 13 | 8.8 |
| 3 | Aseambankers | 681 | 15 | 8.3 |
| 4 | RHB Investment | 661 | 20 | 8.0 |
| 5 | ABN Amro | 620 | 8 | 7.5 |
| 6 | Oversea-Chinese Banking | 620 | 8 | 7.5 |
| 7 | Calyon | 350 | 1 | 4.2 |
| 8 | Citigroup | 307 | 8 | 3.7 |
| 9 | Affin Investment | 276 | 12 | 3.4 |
| 10 | Credit Suisse | 272 | 1 | 3.3 |
| 11 | Morgan Stanley | 272 | 1 | 3.3 |
| 12 | Deutsche Bank | 183 | 1 | 2.2 |
| 13 | UBS | 183 | 1 | 2.2 |
| 14 | OSK Asia Securities | 140 | 3 | 1.7 |
| 15 | HSBC | 53 | 7 | 0.6 |
| 16 | HWANGDBS Investment | 51 | 9 | 0.6 |
| 17 | United Overseas Bank | 51 | 9 | 0.6 |
| 18 | Standard Chartered | 30 | 4 | 0.4 |
| 19 | Bank Islam Malaysia | 24 | 4 | 0.3 |
| 20 | BankIslami Pakistan | 16 | 1 | 0.2 |
| | **Total** | **8,246** | **88** | **100.0** |

| ISLAMIC BONDS BY COUNTRY | MARCH 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysia | 17,591 | 283 | 51.2 |
| UAE | 8,276 | 14 | 24.1 |
| Saudi Arabia | 6,116 | 5 | 17.8 |
| Kuwait | 775 | 3 | 2.3 |
| Pakistan | 667 | 17 | 1.9 |
| Bahrain | 550 | 2 | 1.6 |
| **Total** | **34,391** | **329** | **100.0** |

| ISLAMIC BONDS BY COUNTRY | DECEMBER 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysia | 7,319 | 85 | 88.8 |
| UAE | 545 | 1 | 6.6 |
| Bahrain | 350 | 1 | 4.2 |
| **Total** | **8,246** | **88** | **100.0** |

| ISLAMIC BONDS BY CURRENCY | MARCH 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysian ringgit | 15,891 | 280 | 46.2 |
| US dollar | 11,664 | 24 | 33.9 |
| Saudi Arabian riyal | 3,466 | 2 | 10.1 |
| Emirati dirham | 2,587 | 2 | 7.5 |
| **Total** | **34,391** | **329** | **100.0** |

| ISLAMIC BONDS BY CURRENCY | DECEMBER 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysian ringgit | 6,769 | 84 | 82.1 |
| US dollar | 900 | 2 | 10.9 |
| Emirati Dirham | 545 | 1 | 6.6 |
| **Total** | **8,246** | **88** | **100.0** |

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| DATE | EVENT | VENUE | ORGANIZER |
|---|---|---|---|
| **March** | | | |
| 16th – 19th | Securitization World MENA 2008 | UAE | Terrapinn |
| | 3rd Middle East IPO Summit | Abu Dhabi | IIR Middle East |
| 24th – 25th | 3rd International Conference on Islamic Banking and Finance: Risk Management, Regulation and Supervision | Pakistan | IFSB |
| 26th | 2nd Public Lecture on Financial Policy and Stability | Pakistan | IFSB |
| 27th | 5th International Seminar on Challenges Facing the Islamic Financial Services Industry | Pakistan | IFSB |
| | Interactive Session on Financial Health of Islamic Financial Services | Pakistan | IFSB |
| | National Islamic Capital Market Forum | Kuala Lumpur | Securities Commission |
| 30th | Infrastructure Finance Forum 2008 | Dubai | IIR Middle East |
| **April** | | | |
| 2nd | Singapore IFN Forum 2008 | Singapore | Islamic Finance Events |
| 7th - 9th | International Ras-Al-Khaimah | UAE | Financial Events International |
| 14th - 15th | The World Takaful Conference | Dubai | MEGA Events |
| 15th - 16th | Asian Life Insurance Summit | Vietnam | MiddleEast Insurance Review |
| 19th - 20th | 8th Harvard University Forum on Islamic Finance 'Innovation and Authenticity' | Massachusetts | Harvard Law School, Islamic Legal Studies Program |
| 21st - 22nd | 9th Asian Conference on Bancassurance & Alternative Distribution Channels | Kuala Lumpur | MiddleEast Insurance Review |
| 22nd | Islamic Capital Markets | UK | ICG Events |
| 28th - 29th | 2nd Middle East Bancassurance Conference | Bahrain | MiddleEast Insurance Review |
| 30th | Hong Kong IFN Forum 2008 | Hong Kong | Islamic Finance Events |
| **May** | | | |
| 7th | Jakarta IFN Forum 2008 | Jakarta | Islamic Finance Events |
| 8th - 9th | 2nd Asian CFO Summit | Singapore | MiddleEast Insurance Review |
| 13th - 14th | 5th IFSB Summit: Financial Globalization of Islamic Financial Services | Jordan | IFSB |
| 20th - 23rd | Islamic Finance World North America 2008 | US | Terrapinn |
| 21st | Karachi IFN Forum 2008 | Pakistan | Islamic Finance Events |
| 25th - 29th | Private Equity Forum | Dubai | IIR Middle East |
| 26th - 27th | The World Islamic Capital Markets Conference | Bahrain | MEGA Events |
| | The World Islamic Funds Conference | Bahrain | MEGA Events |
| **June** | | | |
| 2nd - 5th | Funds World Middle East 2008 | Dubai | Terrapinn |
| 3rd | Cairo IFN Forum 2008 | Egypt | Islamic Finance Events |
| 15th - 19th | Sukuk World Middle East | Dubai | IIR Middle East |
| 24th - 26th | Islamic Finance & Investment World Europe 2008 | UK | Terrapinn |

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Company-Wide Subscription Rate: US$2,500

## Company Index



## Country Index