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PHILIPPINES

US$1 billion Sukuk for Manila railway

The Philippines is planning to issue Sukuk worth up to US$1 billion to raise funds for Metro Railway Transit (MRT) in 2009. The government plans to acquire the MRT, owned by Metro Manila, to save on future costs. The Sukuk will most likely mature after five years. Roberto Juanchito Dispo, executive vice president of First Metro Investment, said Al-Amanah Islamic Bank will lead the issuance while First Metro, Malaysia's CIMB Group and Jeddah-based Islamic Development Bank (IDB) are expected to provide assistance.

The Development Bank of Philippines who is in the process of taking over Al-Amanah Islamic Bank will be doing the bridge financing.

(Also see IFN Reports on page 12)

UAE

Micro-finance to help the poor

Professor Muhammad Yunus, founder of Grameen Bank who brought micro-financing to world attention, revealed that the bank has issued US$5.1 billion of loans to 5.3 million borrowers, and has maintained a high rate of 99% successful repayment. Grameen Bank offers riba free loans of US$15 with no time limit for repayment to the poor.

The Nobel Peace Prize winner, who spoke on Islamic finance and micro-finance at the recently concluded International Islamic Finance Forum in Dubai, said micro-finance was introduced to bridge the gap between the rich and the poor and to promote growth of a whole society, not just a privileged few.

Muhammad and Grameen Bank won the prize in 2006 for their work in developing the economic and social standards in Bangladesh through loans to people with no financial security.

Recently, Muhammad Yunus introduced a new term to the business lexicon: social business. He laid out the framework for two social business models and urged others to adopt them in the fight against global poverty. The second social business model is one which is profit-driven, but owned and operated entirely by the poor, who receive all company profits.

(Also see IFN Reports on page 13)

KAZAKHSTAN

BTA may borrow US$400 million

BTA, one of Kazakhstan's largest banks, plans to borrow up to US$400 million abroad through securitization and an Islamic bond issue. The global liquidity squeeze has put a stop to large-scale market borrowing by most Kazakh banks, ending a period of rapid credit expansion in central Asia's biggest economy.

But Roman Solodchenko, CEO of BTA, said the bank saw some viable alternatives to unsecured Eurobonds and syndicated loans, the main form of borrowing by Kazakh banks before the credit crunch.

"We plan to raise a total of US$250 million from the securitization of car loans and mortgages," said Solodchenko, adding that BTA is looking into Sukuk, the issuance of which could raise another US$100 million to US$150 million.

(Also see IFN Reports on page 12)

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CANADA

EDC in talks for Shariah facility

Export Development Canada (EDC) is in talks with Islamic Development Bank (IDB) to create a Shariah compliant financing facility. The move is part of EDC's strategy to partner with the Gulf's local banks in providing Islamic solutions to buyers of Canadian products and participate in Sukuk issued by companies who do trade with Canadian suppliers.

EDC is targeting 15% growth this year through partnerships with corporations and financial institutions in the Gulf.

MALAYSIA

Ingress not in default, says CEO

Ingress Corporation, whose RM160 million (US$51 million) Sukuk Ijarah was placed under rating watch by Malaysian Rating Corporation (MARC) last week, has reiterated that it has not defaulted on the bond.

Ingress executive vice chairman and group CEO Rameli Musa said the auto parts maker was preparing a financial proposal to address the issues of a possible default, as claimed by Sukuk trustee CIMB Trustee.

MARC's move to place Ingress' Sukuk, which were issued by Ingress subsidiary Ingress Sukuk in 2004, under MARCWatch Developing came after CIMB Trustee issued a notice to Ingress for non-compliance of financial covenants. Following the notice, Ingress was required to rectify its non-compliance of covenants within three months from the date of the notice of the 26th March. When asked if Ingress would meet with the Sukuk holders to explain the situation, Rameli said no date had been decided.

Based on Ingress' unaudited financial statements for FY08, its cash stood at only RM8.45 million (US$2.69 million) at end-FY08, a massive plunge of 59% from RM20.82 million (US$6.62 million) at end-FY07. Its net loss widened to RM10.96 million (US$3.48 million) in FY08 from RM5.86 million (US$1.86 million) in FY07.

(Also see Ratings News on page 10)

ASIA

Malaysia sets example

Malaysia sets an example of how regulatory action can be beneficial for the Islamic banking industry to other East Asian countries, where Islamic banking growth is inconsistent, according to a report by Moody's Investors Service.

There has been extensive development of the regulatory and legal framework to improve the industry in Malaysia over the last three decades, and Islamic banking has so far accounted for 15.4%, or US$62 billion, of the country's entire banking assets. Sixty per cent of its population is Muslim.

Indonesia's Islamic banking market accounts for only 2% (US$2 billion) of its entire assets, but with more than 200 million Muslims, it has big long-term potential. Brunei's market is growing as well, though the markets in Philippines, Singapore and Thailand are still small.

The report took note of two challenges that Islamic banking faces: how to manage its fast growth, and how to handle the competition with conventional banking.

MALAYSIA

Affin eyes China expansion

Affin Islamic Bank is hoping to penetrate China's Islamic banking market as soon as possible following its alliance with Hong Kong's Bank of East Asia. Lodin Wok Kamaruddin, managing director of the bank's parent company, Affin Holdings, said the group is looking into options to enter the market.

The group is also planning a regional expansion through Affin Bank. It is currently weighing its options in Southeast Asia, namely Vietnam, Thailand and Indonesia, although no timeframe has been set.

Affin has also expressed interest to allow foreign investors in as part of its plan to diversify operations.

KUWAIT

Second biggest profit for KFH

Kuwait Finance House (KFH) posted its second-biggest profit ever in the first quarter as demand for Shariah compliant services grows.

Net income in the three months to the 31st March surged almost 43% to KWD73.4 million (US$276 million), compared with KWD51.4 million (US$194 million) in the year-earlier period.

While the bank did not provide an explanation for the rise, its assets advanced 38% to KWD9.41 billion (US$35 billion), it said. "They are taking advantage of the growth in Islamic banking in the region and Malaysia," said Faisal Hasan, head of research at Kuwait's Global Investment House, which had expected Kuwait's largest lender by market value to post a first-quarter profit of KWD60 million (US$226 million).

UAE

CBD profit rises to US$73 million

Commercial Bank of Dubai (CBD) reported 22% growth in the first quarter to AED267 million (US$73 million) compared to AED218 million (US$60 million) in the previous corresponding period.

The core banking profit increased by 32% to AED222 million (US$46 million) vis-a-vis AED168 million (US$60.5 million) for the first quarter of 2007. Net interest income for the period was AED246 million (US$67 million), a 28% increase over last year's figures. Fees and commission grew by 35%.

MALAYSIA

BNM: Mechanism is Shariah compliant

Bank Negara Malaysia confirmed that the rounding mechanism to the nearest five sen for all payments made over the counter, which took effect on the 1st April, is Shariah compliant.

The central bank's Shariah Advisory Council decided on this based on three reasons: the move was in the public interest, the difference between actual and rounded amounts of payment is insignificant, and there's no harm to all parties involved.

UAE

DFM board: Dividend not compliant

The Shariah board of Dubai Financial Market (DFM) announced that 3.66% of the cash dividend given to its shareholders was not Shariah compliant. The dividend was distributed following the approval during DFM's annual general meeting last month.

Hussein Hamid, chairman of the Shariah board suggested that shareholders donate the amount, deducted from their total dividend, to charity.

QATAR

Mackeen's capital increased

Mackeen Real Estate Investment and Development has increased its capital from QAR100 million (US$27 million) to QAR500 million (US$137 million).

The company will seek another capital increase late this year or early 2009.

Mackeen, in which Qatar International Islamic Bank has a majority 49% stake, has recorded a net profit of more than 15% and achieved great success since its inception four months ago.

MALAYSIA

Tabung Haji links up with banks

Lembaga Tabung Haji depositors can now use Bank Islam and Bank Rakyat ATMs and cash deposit machines to perform banking transactions. Tabung Haji does not have its own ATM due to high cost, said Ismee Ismail, the group's CEO and managing director.

He said that the group wants to improve service for its 4.5 million active account holders by offering more ways for them to do their business. Depending on the response, the ATM service may be extended to other banks as well.

INDONESIA

Equitra Amanah launched

Fortis Investments and HSBC Amanah Syariah have announced the launch of Fortis Equitra Amanah, a new fund that will invest in Islamic bonds, securities and shares.

Eko Pratomo, president director of Fortis Investments' Indonesian office, said that by the end of the year, the fund is expected to raise IDR200 billion (US$21.98 million).

KUWAIT

WIEF on 29th April

Make a date with the 4th World Islamic Economic Forum, a three-day event to be held for in Kuwait City starting 29th April.

Featuring the theme "Islamic Countries: Partners in the Global Development", the forum will serve as a platform for the exchange of cutting-edge ideas among entrepreneurs within and outside the region.

It will cover topics such as Islamic leadership, investment opportunities in the GCC countries, and the role of investment in closing the poverty gap.

MALAYSIA

Public Bank posts 50% increase in profit

Public Bank posted a net profit of RM717.39 million (US$226.47 million) in the first quarter, up 50.64% from US$150.34 million in the year-earlier period. Revenue increased 22.82%, to US$833.45 million from the previous US$678.82 million.

The bank attributed the increase of net income to its Islamic banking operations, which rose to 17.3%, or US$47.32 million, and a 92.8% increase in higher operating income to US$84.7 million. Also contributing to the improvement for the period ended the 31st March were total deposits from customers, to US$8.8 billion, or 23.9%.

Although loans are growing, the bank still managed to increase asset quality, with a decrease in non-performing loans from US$498.79 million to US$416.75 million, by 16.7%.

OMAN

BMI launches premier service

Bahrain-based BankMuscat International (BMI) has launched Sapphire, a designer premier banking service for affluent individuals.

The tailor-made solution offers benefits such as a dedicated relationship manager to ensure seamless day-to-day banking, reduced bank charges and preferential pricing on loans as well as term deposits.

BMI plans to introduce Sapphire suites and dedicated tellers in selected branches, regular social events and investment seminars.

GLOBAL

Standardization still the issue

Moody's Investors Service this week revealed that fragmented opinion as well as a lack of technical and contractual standardization remain key challenges to the global Islamic finance industry, despite its doubling in growth compared to conventional markets.

"Building in prospective views is not an easy task in such a young industry," said Moody's, adding that it, however, expects the Sukuk market to become more complex, more structured, larger, more diversified and more liquid as it evolves.

Moody's expects liquidity in the Sukuk market to improve gradually as the variety of Sukuk issuances widens. Not only are volumes expected to exceed US$150 billion by the end of the current decade, but the nature, geographic location and credit quality of future issuers are also expected to considerably evolve and diversify, it said.

US

Murtha Cullina wins Edible deal

Law firm Murtha Cullina represented Edible Arrangements International in Connecticut for its Islamic working capital facility provided by Bank of London and The Middle East.

The transaction was led by Midhat H Syed (co-chair of Murtha's Islamic finance practice) and Umar F Moghul, with assistance from attorneys Robert V Giunta and Paul G Hughes.

MALAYSIA/UAE

Possible tie-up talks have begun

According to a report, three government-linked companies based in Abu Dhabi are in talks with the Employees Provident Fund (EPF) to buy an equity stake in Malaysia Building Society (MBS). EPF has a 52.9% equity in MBS.

The main reason for the possible tie-up is to develop some MBS-owned lands without EPF coming up with the funds. MBS had high non-performing loans 10 years ago due to abandoned projects, and the tie-up could restore the company's position.

QATAR

More foreign investment in Al-Rayan

Qatari bank Masraf Al-Rayan has increased its foreign investment ceiling to 49% from 39%. Bourses around the Gulf region are loosening their restrictions following the market crash in 2006.

The Qatar stock exchange and other markets in the UAE have held roadshows to attract more foreign investors last year.

UAE

Tamweel agrees to finance MotorCity

Tamweel and Union Properties have reached an agreement to provide financial support for Green Community MotorCity and UPTOWN MotorCity. The two are new automobile and motor sport-themed residential projects in Dubailand.

CEO of Union Properties, Simon E Azzam, said the MotorCity development is a great opportunity to further expand the financial activities of both parties.

QATAR

IFSC posts record profit

Islamic Financial Securities Company (IFSC) reported a record first quarter net profit of QAR5.38 million (US$1.5 million) compared to a net loss of QAR890,000 (US$245,000) for the previous corresponding period, reflecting a quantum increase of 704%.

Gross income rose to QAR7.7 million (US$2.1 million) from QAR1.7 million (US$467,000) as at the 31st March 2007, reflecting an impressive growth rate of 352%.

SAUDI ARABIA

SAMBA profit hits a low note

SAMBA Financial Group announced a drop of 5.4% in its first quarter profit due to a decline in bourse-related revenues.

Saudi Arabia's second-largest lender by market value made SAR1.2 billion (US$320 million) in net profit, or SAR1.33 (US$0.35) per share, in the three months to the 31st March, against SAR1.27 billion (US$340 million), or an adjusted SAR1.41 (US$0.38) per share, in the year-earlier period.

UAE

Mortgage market will leap to US$7 billion

Islamic banking and finance expert Sabahuddin Azmi said the UAE mortgage market will triple from its current value of AED20 billion (US$5.4 billion) to AED64 billion (US$7.4 billion) within the next three years, with more than 60% of home financing being Shariah compliant.

Currently, Amlak Finance and Tamweel dominate the market. Each holds 35% and 25% of the overall share of the market. Sabahuddin was speaking at the International Ras Al Khaimah Family Office and Investment summit recently.

AFRICA/MIDDLE EAST

Islamic stocks gain ground

Equity markets in Morocco, Egypt and Nigeria delivered the highest returns in the first quarter of 2008 for Islamic investors, said global index provider Standard & Poor's. Shariah compliant stocks in Morocco generated 34.45% on total return, followed by Egypt (18.93%) and Nigeria (13.42%).

However, Shariah-friendly equity markets in Turkey, China and India saw the largest declines in the same quarter. Turkish stocks fell by 26.67% on a total return basis, S&P said, while China dropped 26.57% and India gave negative returns of 26.43%.

MALAYSIA

Securitization can still grow

The interest shown by GCC countries can increase the growth of Islamic securities in Malaysia, said Deloitte Touche Tohmatsu, an international audit and advisory firm. Ng Meng Kwai, a partner at Deloitte, noted that the country's position as the largest Sukuk issuer globally makes it attractive for investors.

Deloitte's managing director for Asia-Pacific securitization, David Pulido, said that the basic structure of Malaysian securities — unlike the more complex ones in the US, for instance — adds to the appeal.

Ng added that securitization is attractive as it is a cheaper way of raising funds and minimizes the risk of exposing too much of certain asset classes' credit.

KOREA

Revision of laws to accommodate Shariah

The Financial Services Commission (FSC) of Korea plans to revise existing finance laws so as to allow local banks to penetrate markets in Islamic countries.

Jun Kwang-woo, chairman of FSC, has given his word to ease up on the regulations so that the country can join non-Islamic nations such as China and the UK in Shariah compliant financial activities. Under the revision, banks will be allowed to provide commission-based consultancy on their products and services which currently they are not allowed to do.

GHANA

First Islamic bank by December

Ghana could see its first Islamic bank begin operations by the end of the year. Its Ministry of Finance and the Bank of Ghana have consented to the formation of the first such financial institution in the country.

Shariah advisory firm Dar Al Istithmar and MCA International Consult have come up with a proposal outlining the introduction of the bank. Professor Thomas Kubi, a strong advocate, said there is huge potential for Islamic banking and finance in Ghana.

SAUDI ARABIA

ANB's net income rises on loans

Arab National Bank, the sixth-largest publicly traded lender by assets in Saudi Arabia, said first-quarter profit rose by 5% as lending increased. Net profit was US$179 million, from US$171 million for the previous corresponding period.

Net income advanced to SAR672 million (US$179 million), or SAR1.03 (US$0.40) per share, from SAR643 million (US$172 million), or SAR0.99 (US$0.26) per share, in the previous corresponding period, the bank said.

Total operating income increased by 5% in 2008 to US$279 million compared to US$265 million for the previous corresponding period while total operating expenses increased by 6% to US$100 million compared to US$94 million.

SAUDI ARABIA

Al Rajhi reports steady growth

Al Rajhi Bank reported a 2.1% increase in its first-quarter profit for this year, bringing the total to SAR1.6 billion (US$427.24 million) against SAR1.57 billion (US$419.22 million) in the previous corresponding period. Its paid-up capital was also increased by 11.1% through a bonus share issue. Net income from investment rose by 11.5%, and there was an 18% increase of net income from banking. This was the bank's strongest profit increase since December 2006.

Al Rajhi also reported a 26.9% return of equity, 25.1% of deposits to US$27.08 billion, 25.6% net assets (US$38.18 billion) and 15.6% shareholders' equity (US$6.41 billion).

Expansion plans in Malaysia and Kuwait hindered the bank's chances of a higher profit, said Ibrahim Al-Alwan, deputy CEO of KSB Capital. KSB projected that Al Rajhi would report an increase of SAR1.6 billion.

UAE

Dow Jones sets up base in Dubai

Global index provider Dow Jones Indexes has opened an office in Dubai, its first in the Middle East. It will provide client support, manage client relations, promote and support Dow Jones Indexes' conventional as well as Shariah compliant products, and develop new licensing opportunities in the Middle East and North Africa region.

The office will offer integrated index solutions based on the entire range of Dow Jones Indexes, including the Dow Jones Islamic Market and the European Dow Jones STOXX index.

MALAYSIA

Easier way to perform Umrah

AmIslamic Bank hopes to sign up 50,000 new members this year for its Islamic credit card, Al-Taslif, through a partnership with Syarikat Rahman Brothers Travel & Tours (SRBTT).

Under an agreement between the two parties, Al-Taslif card holders will be able to perform Umrah through SRBTT and enjoy a zero per cent easy payment plan, which will end next March.

AmIslamic CEO Ahmad Zaini Othman said that other holiday packages can be offered as well, which can be done through affiliations with tourism companies.

UAE

Two new Essdar units in DIFC

The Dubai Financial Services Authority has granted newly established Essdar Capital two licenses to operate two entities in the Dubai International Financial Centre.

Essdar Capital will offer advisory and financial services, including arrangement of securitized, hybrid and subordinated debt. Its asset management unit, Essdar Capital Managers, will provide investment opportunities in its funds business to institutional and private investors in key industry sectors such as infrastructure, commercial and residential real estate as well as consumer finance.

BAHRAIN

AAOIFI moves to enhance compliance

The Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) plans to issue a global compliance certificate to remove any violation of the Shariah law, as well as make securities more attractive for future investors and increase the credibility of the investments, said secretary general Mohamad Al-Chaar.

Last year, Sheikh Mohamed Taqi Usmani, who heads AAOIFI's board of scholars, had been quoted as saying that 85% of the Sukuk sold so far are not fully Shariah compliant.

Sixteen banks have expressed interest in having their products certified, but at a cost, said Mohamad. It starts at US$2,500 for current or savings account.

Banks, he noted, need to have their own advisory boards, and as for possible inconsistencies, these will probably be minimal as several members of the advisory boards are also employees of Islamic banks.

(Also see IFN Reports on page 11)

PAKISTAN

AlBaraka goes foreign

The State Bank of Pakistan (SBP) has approved in-principle the conversion of AlBaraka Islamic Bank from a foreign bank to a locally registered bank. The bank will hold a paid-up capital of US$80 million.

Muhammad Isa Al-Mutaweh, CEO of Bahrain-based AlBaraka Islamic, has stated the bank's commitment to acquiring first-hand knowledge of the economic and banking climate and opportunities in Pakistan, and exploring avenues of further reinforcing the AlBaraka's commitment to economic development in the country.

BAHRAIN

ABC Islamic profit up

ABC Islamic Bank posted net profit of US$6.8 million for the first quarter of 2008, an increase of 98.5% over the previous corresponding period.

Total income reached US$8.34 million (2007: US$4.62 million), while fee income of US$2.33 million increased by 123% over the same period last year.

Operating expenses of $1.5 million increased only by 29% for the same period of last year, attributable to additional staff hired to develop the Bank's growing business lines.

UAE

Amlak inks Wakalah deal with EIB

Real estate finance company Amlak Finance has inked an AED1.4 billion (US$381 million) syndication facility with Emirates Islamic Bank (EIB). The Wakalah facility is primarily intended to support Amlak's real estate investments.

The transaction of this magnitude with a respected industry powerhouse such as EIB is an important milestone for Amlak, said Arif Al Harmi, CEO of Amlak Finance.

"We have aggressive growth plans for 2008 and beyond. We will continue our strategy to focus on our core business and competencies, real estate financing and investments," said Arif.

UAE

Dubai Bank sees 300% jump in profit

Dubai Bank has reported a 300% jump in first-quarter net profit, from AED32.9 million (US$9 million) to AED131.5 million (US$36 million). The Islamic bank, 30%-owned by Emaar Properties, attributed this to demand for Shariah compliant loans.

Bank assets increased by 53%, reaching AED14.4 billion (US$4 billion) as at the 31st March 2008.

KUWAIT/MALAYSIA

Microlink and TWC to work together

Malaysia's Microlink Worldwide and Kuwait's Technology World Company (TWC) have inked a joint venture agreement to create a Kuwait-based Islamic banking systems provider, Microlink MENA.

In the joint venture, Microlink will be providing the financial products while TWC will be facilitating access to banks and financial institutions' costumers.

UK

Shariah compliant pub in Oldham

Azizur Rahman and Muzahid Khan have come up with the perfect solution for Muslim men who want to wind down after a long day at work — a halal pub. The duo launched Halal Inn last December in Oldham.

The pub serves fruit juices and carbonated drinks instead of alcohol, and plays Islamic music rather than loud rock n roll. The usual games of darts and snookers are available, in addition to karam, an Indian version of billiards.

The pub is still finding its footing, but Rahman and Khan are positive on the success of such pubs in areas with significant Muslim communities.

MALAYSIA

Consolidation of AmInvestment funds

In a bid to enhance competitiveness under the universal banking platform, AmInvestment Bank has transferred its fund-based activities to AmBank (conventional business) and AmIslamic Bank (Islamic banking).

The bank said the move, which took effect on the 12th April, would enable it to maintain market leadership and enlarge its existing balance sheet.

HONG KONG

Airport operator mulling Sukuk

In a recent report, a source said that Hong Kong Airport Authority plans to issue Sukuk as one of the ways to raise capital. However, this is still at an early stage, and nothing has been decided as yet on the amount and timeframe.

The operator of Hong Kong's international airport has been exploring ways to raise funds for some time. It had plans to list on the local bourse in 2006, but this fell through.

BAHRAIN/TURKEY

Shamil Bank raises US$90 million

Shamil Bank has raised a US$90 million Shariah compliant fund that will be used to invest in Turkey's residential and real estate projects.

The Shamil Bosphorous Mudarabah is projected to yield a 60% return of investment over three years. The total cost is approximately US$450 million.

Abdul Hakin Al Mutawa, head of investment and private banking at Shamil, said the Islamic fund will provide exposure to Turkey's real estate market and hopes to attract investors from the Gulf region.

UAE

Positive performance from Daman funds

The Daman Second Emirates Fund, launched in April 2007, yielded gross performance returns of 23.66% in its first year of operations, while the Daman Islamic Fund which began in June 2007 earned a gross return of 11.03%, according to an announcement by UAE-based Daman Investments.

Both funds distributed AED1 for its first quarter dividend. The ex-dividend net asset values for the Daman Second Emirates and Daman Islamic on the 1st April 2008 were reported at AED119.66 (US$32.58) and AED108.28 (US$29.48) per unit, respectively.

KUWAIT

Revenues at NBK up 30%

The National Bank of Kuwait (NBK) saw an increase of 28% in net income in the first quarter, to KWD82 million (US$309 million). Revenues were up 30% to KWD134.3 million (US$506 million).

The bank attributed the performance to strong growth in its business lines and its regional expansion.

UAE

Reem gets the go-ahead

Reem Finance has received approval from the central bank in Abu Dhabi to start operations. With AED400 million (US$109 million) in paid-up capital, the bank plans asset finance to provide Islamic financial services in addition to its main focus on property, corporate and consumer lending.

BAHRAIN/TUNISIA

IBB's IPO a success in Tunisia

Bahrain's International Investment Bank (IIB) has proclaimed its initial public offering (IPO) of Artes a success. It opened on the Tunis Stock Exchange at a share price of TND13 (US$11.22) and a nominal value of TND10 (US$8.63). Artes is the exclusive distributor of Nissan, Dacia and Renault in the country.

Aabed Al Zeera, CEO of IIB, said the IPO is the largest to be offered on the stock exchange in a decade. The bank and its investors had previously acquired an equity stake of 13.19% in Artes, marking its first investment in Tunisia and the car distribution segment.

KUWAIT

Noortel targeting to raise US$203 million

Noortel, the telecom unit of Kuwaiti investment firm Noor Financial, is looking to raise KWD53.9 million (US$203 million) in an initial public offering to finance acquisitions, a company executive said.

The firm, which is teaming up with France Telecom to expand in the Gulf Arab region, started selling shares last week and is looking to close the sale on the 5th June. The share sale is open to institutions and individuals through Kuwait Finance House and would increase Noortel's capital to KWD100 million (US$376 million).

The company is expected to list on both the Kuwait Stock Exchange and the Dubai International Financial Exchange.

UAE

ADCB Islamic to set up finally

It has been revealed that Abu Dhabi Commercial Bank (ADCB) will set up an Islamic unit by the fourth quarter this year. The project is behind schedule —operations were to have commenced by end-2007.

"ADCB shall launch its Islamic banking services unit based on a double-fold strategy; through the provision of Sukuk, in addition to the establishment of small and medium-sized enterprises," the bank said in an earlier statement.

The announcement follows ADCB's winning bid for a 25% stake in the much coveted RHB Capital in Malaysia.

MENA

S&P and Hawkamah measure CSR

Standard & Poor's (S&P) and the institute for corporate governance, Hawkamah, have created a series of environmental corporate governance and sustainability indices for equity markets in the Middle East and North Africa.

The S&P-Hawkamah ESG MENA indices are expected to include stocks from 11 markets initially and will raise the profile of local companies that perform well along the three parameters of environmental, social and corporate governance responsibility.

The development of the indices will be modeled on the S&P ESG India index, a project originated last year by S&P, India's credit rating company CRISIL and KLD Research and Analytics, with partial financial support of the International Finance Corporation (IFC).

The joint project was presented this week by S&P and Hawkamah at a DIFC workshop in Dubai.

UAE

Algebra Capital launches new fund

Dubai-based Algebra Capital has launched a new fund focused on Middle East and North Africa corporate credit and local currency markets.

The Beta Mena Fund aims to raise US$300 million and will be initially offered in dirhams and dollars. Other regional currencies such as the Saudi riyal and Qatari riyal will be offered in the near future.

UAE

Tabreed mandates banks to sell Sukuk

National Central Cooling Company (Tabreed) has authorized several banks to sell convertible Sukuk worth AED1.1 billion (US$299 million), which is set to mature by 2011. Standard Chartered, Morgan Stanley and National Bank of Abu Dhabi were elected as joint lead managers for the issuance by the Dubai-listed company, with StanChart taking the additional role of sole bookrunner and structuring agent.

The certificates will be listed on the London Stock Exchange and offered to investors in the Middle East, Europe and Asia in denominations of AED10,000 (US$2,722.50). The minimum subscription is AED500,000 (US$136,124.80). The capital raised will be used to fund the cooling plant and distribution system in the country.

BAHRAIN

KFH to divest investments

Kuwait Finance House (KFH) has revealed plans to sell several of its investments in Bahrain in the coming week.

KFH was also reported to be planning a real estate investment in Bahrain worth US$1.5 billion. The plan will consist of several commercial and residential projects on an area measuring 5,000 sq km. The deal is, however, pending the outcome of studies.

KUWAIT

CBK on course for 20% growth

The Commercial Bank of Kuwait (CBK) is on track for 20% earnings growth in 2008 following the disposal of a stake in a Bahraini bank and first-quarter profit on strong foreign exchange gains.

Net income in the first three months rose to KWD34.1 million (US$128.4 million) compared to KWD28 million (US$105.64 million) in the previous corresponding period. Return on average assets was 3.22%, while return on equity reached 32.12%. Both are well above the respective 2.87% and 21.7% recorded previously.

It has also been revealed that the CBK is in the final process of buying a majority stake in an unidentified Yemeni lender, to narrow competition in the region. The bank is expected to raise its stake in the Syrian-based Islamic lender, Cham Bank.

CBK is still considering expanding into Egypt although it is no longer interested in bidding for Banque du Caire, of which the government wants to sell as much as 67% its stake.

QATAR

Salam Bounian commits to Gulf projects

Salam Bounian Development is to invest up to US$1.5 billion in Gulf real estate projects and could sell Sukuk as part of funding plans.

The developer, a unit of Salam International, will seek to finance projects using 70% from equity and 30% from debt, said Issa Abu Issa, CEO of Salam International.

Salam International was also "looking at mergers and acquisitions", said Abu Issa, declining to elaborate further.

MALAYSIA

Litrak Sukuk stable

Lingkaran Trans Kota's (Litrak) Sukuk Musharakah Islamic Medium-Term Notes I program valued up to RM1.15 billion and Medium-Term Notes II program (up to RM300 million [US$95 million]) has been assigned AA2 long-term ratings by RAM Ratings. The outlook is stable.

A P1 rating was also given to the company's Islamic Commercial Papers Program (up to RM100 million [US$32 million]). The three issuances will be used for Litrak's various financing and refinancing issues.

The positive ratings are reflective of Litrak's debt-protection measures and the strict nature of its financing documents to protect investors' interests. Lebuhraya Damansara-Puchong, to which Litrak holds the concession rights, strong financial conditions supports the ratings as well. Despite this, problems such as raise in toll rates and other regulatory and public pressures could jeopardize the ratings.

MALAYSIA

Evermaster Group downgraded

Malaysian Rating Corporation (MARC) has removed its MARCWatch Negative ratings on Evermaster Group's RM50 million (US$16 million) Bai Bithaman Ajil Islamic Debt Securities (BaIDS) and RM40 million (US$13 million) Murabahah Multi-Option Notes Issuance Facility (MONIF), where they had been placed on the 13th July 2007, and downgraded its long- and short-term ratings on the BaIDS and MONIF from A-ID to BBB+ID and MARC-2 ID to MARC-3 ID, respectively. The ratings carry a negative outlook.

The downgrades reflect the deterioration in EGB's financial risk profile. The negative outlook reflects the company's dependence on the success of debt refinancing initiatives and/or shareholder advances to address its near-term debt maturities. The ratings could be lowered again if there is insufficient progress in the next two months with respect to its immediate liquidity requirements.

INDIA

ICIEC gets Aa3

The Islamic Corporation for the Insurance of Investment and Export Credit's (ICIEC) insurance financial strength was rated 'Aa3' by Moody's Investors Service. The outlook is stable.

MALAYSIA

IIRA withdraws Takaful Malaysia rating

The 'AA' (SQR) rating assigned by the International Islamic Rating Agency (IIRA) to Syarikat Takaful Malaysia has been withdrawn as there was no renewal of the rating agreement. As such, Takaful Malaysia's right to use the rating has been revoked.

UAE

S&P assigned BB to Tabreed's Sukuk

Standard & Poor's Rating Services has assigned a long-term debt rating of 'BB' to Tabreed 08 Financing's convertible Sukuk Ijarah issuance. Tabreed is the special purpose vehicle for UAE's National Central Cooling.

The Sukuk will be used to finance a cooling plants' construction, and will be governed by an Istisnah and lease agreement.

MALAYSIA

Ingress' Sukuk Ijarah downgraded

Malaysian Rating Corporation has assigned the RM60 million (US$18.93 million) Sukuk Ijarah issue by Ingress Corporation an AIS rating on its MARCWatch Developing. This is given due to non-compliance of financial covenants issue pertaining to the Sukuk. Ingress needs to fix the issue within three months following the notice by CIMB Trustee.

MARC will closely monitor the developments and will make assessments in the future, should it need any.

THIS TIME LAST YEAR

- The **Islamic Bank of Thailand** voiced aspirations to list on the Thai Stock Exchange by the end of 2010.
- **Dow Jones Indexes** began talks with the Malaysian **Securities Commission** and **Bursa Malaysia** to establish an Islamic-based exchange-traded fund to be domiciled in Malaysia.
- Twenty-six banks including **First Gulf Bank**, **Mashreqbank**, **National Bank of Abu Dhabi**, **National Bank of Dubai**, **Standard Chartered**, **WestLB**, **CIMB Bank** in London, **HSBC Bank** Middle East, **KfW IPEX-Bank**, **Banque du Caire** in Dubai, **Barclays Bank** in Dubai, **Doha Bank**, **Rabobank International** and **Union National Bank** syndicated a US$405 million term loan facility for the **Investment Group and FAL Oil Company**.
- **Magna Prima** and **Kuwait Finance House Malaysia** signed a RM61 million (US$17.71 million) Murabahah facility to part finance the acquisition of land from landowners **TM Facilities**.
- **Maybank** issued up to US$300 million in US dollar subordinated Sukuk.
- **Bahrain Islamic Bank** reported a 37% increase in net profits for the first quarter of 2007, at BHD5.2 million (US$13.79 million).
- **Bahrain Islamic Bank** and the **Bank of Bahrain and Kuwait** acted as placement agent for a BHD4.8 million (US$12.73 million) international commodity Murabahah agreement for the **Al Khaleej Development Company**.

GLOBAL

Much ado about AAOIFI advisory

For better or worse, the new Sukuk advisory issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) two months ago has made its impact on the Islamic finance industry.

There are mixed feelings on the advisory, which was issued following a statement last year by Sheikh Muhammad Taqi Usmani, chairman of the AAOIFI Shariah board, that 85% of Sukuk sold in the Middle East were non Shariah compliant.

With the likes of Badlisyah Abdul Ghani, CEO of CIMB Islamic — who had not only shrugged off the advisory but also questioned the relevancy of AAOIFI to the industry — there seemed to be a need for supporters of AAOIFI to make their views known.

Recently, AAOIFI secretary general Mohamad Al-Chaar stressed the need to establish a standard practice worldwide as it can boost investors' confidence. In announcing the institution's plan to issue certification approval of all securities-related Islamic products, Mohamad made it clear that AAOIFI is very relevant to the industry.

He revealed that 16 banks have already agreed to participate in its efforts to standardize securities issuances and had made the necessary moves to get their products certified. He, however, declined to name the banks.

Dr Mohd Daud Bakar, president and CEO of International Institute of Islamic Finance (IIIF), said that while individuals are free to form their own opinion, the statement dismissing AAOIFI as irrelevant was made "out of context".

"AAOIFI is a standard setting body which is reputable on its own merit to issue standard guidelines in accounting and auditing. They have done a great job in streamlining to bring competition to a common standard, which is very useful to the industry," the renowned Shariah adviser told Islamic Finance *news*.

He added that AAOIFI is doing its best in issuing the standard and although the ultimate decision to adopt the standard ultimately rests with bankers, regulators and market players, it does not mean that AAOIFI is irrelevant. Such negative perception is "out of proportion", he contended.

"The organization can never solve all issues that arise but it can assist in minimizing complications faced by the industry," said Mohd Daud, who is also Bank Negara's Shariah Advisory Council chairman.

He also said that institutions like AAOIFI need not worry about becoming irrelevant so long as they remain independent, neutral and objective in their decisions.

Syed Musa Alhabshi, principal consultant in IIIF and a colleague of Mohd Daud's, concurred. "An organization can come up with the standard, but lenders need to participate in the standard to make the practice workable."

He stressed that the effort to establish standardization for the industry is a two-way street.

With regard to the new Sukuk advisory, Mohd Daud hoped that it will encourage Islamic finance houses to shift from asset-based securitization to real or asset-backed securitization, which he described as 'the darling of the west".

While aware of complaints on the new advisory, Mohd Daud said the industry should take it as a challenge and move on instead of continuing to debate on whether it's good or bad.

"We do not have that many asset-backed securities, especially not our Sukuk," he said. "Real securitization can solve the problem of purchase undertaking. Sukuk needs to be more original, and the slowing down of the current Sukuk market should be taken as a challenge for Shariah advisers, scholars and regulators to re-evaluate the Islamic bond."

If we go by the statements made by Mohd Daud and Syed Musa, AAOIFI's efforts in issuing certificates for securities products should be lauded.

> "The organization (AAOIFI) can never solve all issues that arise but it can assist in minimizing complications faced by the industry"— Mohd Daud Bakar

Mohamad of AAOIFI said the certification will not result in an overlap of roles between the Shariah boards of the respective banks.

He said the banks will still need to maintain their own Shariah board to scrutinize the details of their products and services before applying for the certification. He also gave an assurance that discrepancies and conflict of opinions will not be rampant as AAOIFI's scholars also work for various renowned Islamic banks.

Their move, according to a report, is to ensure that all Islamic finance products and services are truly what they say they are — Islamic and Shariah compliant.

It was reported that the fee to issue the certificate starts at US$2,500 for savings and current accounts, while the minimum payment for a Sukuk sale certification is US$7,000.

Securities issuers have the option to make the necessary changes and re-submit their contract should the AAOIFI board find the securities to be non-compliant, and will need to make extra payments but at a lower rate.

What will come out of AAOIFI's certification move remains to be seen. Its success or failure seems to hinge entirely on the board's efficiency in producing a workable common practice outline that satisfies most of those — if not all — involved in the Islamic finance industry.

But for now, the decision to produce the certificate brings a ray of hope for a standard that does not differ depending on which part of the world the securities are from. And maybe then, critics such as Badlisyah will be convinced.

By Elmira Azlan

KAZAKHSTAN

Islamic finance in the pipeline

Kazakhstan's Islamic finance market is in its infancy and even that is an understatement. Until recently, Islamic finance activities in the country had been almost unheard of. But the country has been taking steps to change the situation and its Regional Financial Center of Almaty City (RFCA) has made developing and attracting Islamic financing one of its main priorities.

Adil Nurgozhin, director of RFCA's marketing and advertising department, said that there is little understanding of Shariah compliant finance. The financial institutions are currently involved in the Islamic industry can only claim to have basic knowledge of the principles of the industry.

But they are willing to learn, he added, given the huge market waiting to be tapped as 60% of the 15 million population are Muslim. That alone provides an insight of what future demand can be like for Islamic products and services.

Adil told Islamic Finance *news* that the country hopes to launch its own Islamic finance tools one day but recognizes it would take a lot of effort to realize this plan. One obstacle it is currently facing concerns the country's laws and regulations, which do not support Shariah compliant finance development.

"A working group consisting of representatives from governmental bodies, lawyers and the business community is working on legislative amendments that will essentially allow the formation of Kazakhstan's own financial instruments in the market," Adil said.

But for now, more attention is being paid to getting foreign capital to invest in the local market, Adil said.

In regard to Kazakhstan's interest in the Middle East and East Asia capital market, Adil said that interest is natural as it fits Kazakhstan's foreign policy of multi-vectoral economic cooperation.

"Nursultan Nazarbayev, president of Kazakhstan, has made official visits to Oman, the UAE and Qatar, and several trips to Singapore as well," he said, adding that the president and a group of business delegates are also scheduled to visit other countries in East Asia.

When asked about the Shariah compliant sectors that Kazakhstan can offer foreign Islamic investors, Adil replied: "We are looking into raising investments for the tourism, banking, construction and technology sectors."

Indeed, countries that make up Central Asia like Kazakhstan and Uzbekistan, which has also shown interest to develop halal financing, will provide healthy competition to the increasing number of new markets in Islamic finance.

With success stories from Malaysia, the Middle East and most recently, the UK, surely it won't be impossible to see world-class Shariah compliant financing facilities and instruments in the region.

By Elmira Azlan

THE PHILIPPINES

Maiden Sukuk to be a big hit?

After much controversy surrounding the Philippines' Islamic finance sector, what with the 90.8% buyout of Al-Amanah Investment Bank (the country's sole Islamic bank) by the Development Bank of Philippines (DBP), along with perpetual political instability in the South, a Sukuk is perhaps the last thing one would expect out of the country.

However, in this age of surprises, the Filipino government this week revealed plans to issue up to US$1 billion in Sukuk to provide mid-term funding for Metro Manila's Metro Railway Transit (MRT) program. The government will use proceeds from the Sukuk to acquire the 17km MRT line.

At press time, representatives from both the DBP and First Metro could not be contacted. However, it is understood that a number of banks, including CIMB from Malaysia, Islamic Development Bank in Jeddah, and First Metro Bank in the Philippines will be involved in the five-year deal.

DBP will be carrying out the deal's bridge financing. The Sukuk is expected to be launched in the first quarter of 2009, and should gain direct access to Middle East liquidity via its investor base.

Assets for the Sukuk issue are expected to be derived from the MRT assets from DBP's bridge financing facility, which will be bought back by the Filipino government.

The funding of MRTs has become somewhat popular in Southeast Asia, with initial talks to tap petrodollars for this sort of project originating in Jakarta in April last year.

However, Dubai Islamic Bank (DIB), the initial proponent of the US$650 million project, pulled out, faulting the lack of an Islamic Banking and Sukuk Bill as the main reason. With the Sukuk and Islamic Banking Bill passed by the Indonesian Parliament last week, it would be interesting to see if DIB will once again emerge as prime bidders.

If the Filipino Islamic finance landscape ran anything parallel to Indonesia, then the reigning laws would definitely be a main concern. In an exclusive with the Islamic Finance *news* last year, the Central Bank of Philippines revealed that there is no current legal framework that allows the entry of another Islamic bank into the Philippine banking system, pursuant to the Republic Act 6848.

The organization, ownership and capital requirements, powers, supervision and general conduct of Islamic banks will be governed by special laws.

The Sukuk issuance slated for 2009 will then definitely be a race between the setting of "special laws" and the acquisition of sufficient funds for a major project. However, with the government directly involved this time around, perhaps we won't see the derailing of a similar project in the same region.

By Nazneen Halim

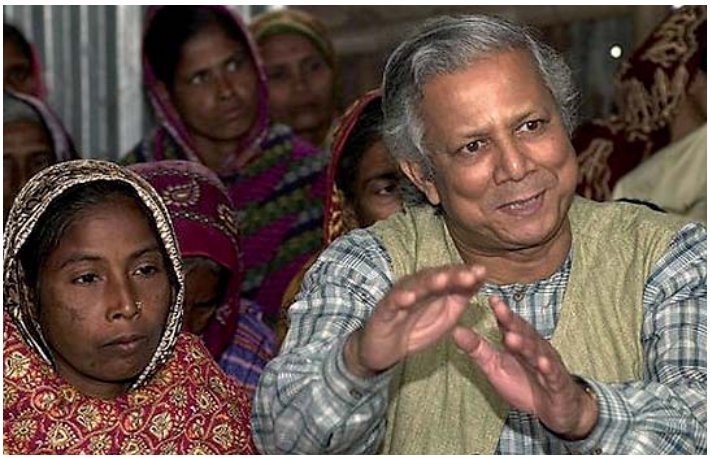
GLOBAL

Move over Sukuk, 'Hello, micro-finance'

If Nobel Peace Prize-winning and founder of Grameen Bank Muhammad Yunus has his way, the new buzzword for the Islamic finance industry will no longer be Sukuk but microfinance. And if the statistic and numbers are to be believed, microfinance will soon come into vogue among commercial banks and investors.

According to a recent study, the micro-finance sector is growing rapidly. The number of lenders is rising by 25% a year, and the stock of foreign capital investment trebled to US$4 billion from 2004 to 2006.

And the number is set to rise. In February, the economics professor-turned-banker set his sights on the US, saying that the country presents a ripe market for Grameen because there is a large population with no access to the formal banking system. Federal Deposit Insurance Corporation reported that about 28 million Americans do not have any relationship with a financial institution.



On top of that, high-profile banks like Calyon have jumped on the bandwagon pledging moral and monetary support to Grameen in promoting micro-finance to fight global poverty.

But the present penetration is just the tip of the iceberg as there are billions of poor people out there who are in need of monetary assistance. Dr Abul Hassan, the coordinator of the Islamic economics unit in UK-based Islamic Foundation, said Islamic banking has not reached the grassroots level in the Islamic world.

"This is because many banks have tried to implement the western banking model in the Islamic world with little or no modification. Therefore, there is need of genuine Islamic Shariah compliant banking system to cover the poor and weak people," he told Islamic Finance *news*.

When asked if Islamic Development Bank should play a larger role in advocating micro-finance, the lecturer said various policies have been attempted in the last few decades to mitigate the menace of poverty but the problem continues to plague large segments of humanity in general.

"After having an insight into the causes of poverty, Islamic Development Bank (IDB) has prepared many policies and action plans aimed at reducing it. Micro-finance is one of the means in poverty alleviation. So far as I read the policies-related matters, IDB is now emphasizing micro-finance too," Abul Hassan said.

He said fighting poverty is not as easy as it seems, adding that poverty is a complex phenomenon and can be studied both from micro and macro perspectives.

"While macroeconomic policies affect the overall growth and development of economies, distribution of income in the society determines the overall poverty levels. At the micro-level, poverty is linked to the entitlements that individuals have to different sources of income."

He said Islamic banks should be educated to understand the role of Zakat and Awqaf in order to understand the pressing need to fight poverty.

He explained that Zakat is one of the fundamentals of Islam that has direct economic implications and requires Islamic banks to distribute a part of their wealth among the specified heads in order to alleviate poverty and achieve economic emancipation.

"Similarly, Waqf is a voluntary charitable act that has wide economic implications. These institutions were able to solve the problems of poverty and extend social services in the classical times. Islamic bankers should investigate and prepare an action plan — how these institutions can be used in contemporary times to alleviate poverty in Muslim societies."

When asked if micro-finance and Islamic finance are intrinsic to each other, Abul Hasan said poverty alleviation should be one of the mottos of the Islamic banking.

"Like conventional banking, Islamic banking system is working within corporate sector. They are not charitable organizations. At the same time, Islamic banking is not conventional banking but they have social commitments and corporate social responsibilities (CSR) within the Islamic value system."

He, however, stressed that the entire responsibility of poverty alleviation should not be left to the Islamic banks in the Muslim world.

"Many developing countries have adopted poverty reduction strategies or policies for the overall development and reduction of poverty. Zakat and Awqaf should be incorporated into such development strategies."

"If used effectively, they can play an important role in the redistribution of opportunities and assets enabling the poor to become productive. There is a need for Zakat and Awqaf institutions to coordinate the micro-finance and micro-enterprise activities with various similar organizations to produce am impact on the poor."

He proposed that Islamic financial institutions try to structure the institution of Zakat and Awqaf in such a way that they will play their designated roles.

With the rising price of oil and the high liquidity in the Middle East, which is currently the leader in the Islamic finance and banking industry, there should be no problem in funding such efforts. Any takers?

By Arfa'eza A Aziz

Uzbekistan: The Pearl of the East

By Ansher Capital

Located in the heart of Central Asia, Uzbekistan comprises 42% of the population of the region. It is the only country in Central Asia that has common borders with other neighboring states including Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan.

Being at the crossroads of the main regional transportation and telecommunication corridors, Uzbekistan instantly connects Europe with South and Southeast Asia. It is the main gateway for foreign investors to tap one of the largest and fastest-growing markets in the region.

Contribution to growth of industrial production in 2007	
Logging, woodworking, pulp and paper	36.1%
Machinery and metal working	29.0%
Consumer goods	18.8%
Chemical and petrochemical	18.4%
Food	14.7%
Building materials	14.5%
Fuel	10.1%
Metallurgy	5.0%
Electrical power	1.9%

Source: State Statistics of Uzbekistan

Ready to compete

Uzbekistan achieved stellar gross domestic product (GDP) growth of 9.5% in 2007. Industrial production grew by 12.1%, agricultural production by 6.1% and exports by 40.7%. The consumer price index (CPI) was at 6.8% and growth of investments as a result of the introduction of modernization programs into the economy was recorded at 23%. Foreign direct investment (FDI) accounted for 83%.

Increase in the value-added industry at 6.6%, telecommunications 15.1%, and trade at 22.1% largely contributed to GDP growth. The total share of these three industries accounted for about 44% in GDP. Moreover, external trade turnover reached US$11 billion, an increase of 27% compared to 2006.

This year, the State agency on Statistics of Uzbekistan projects GDP growth of 8%, and inflation at 6% to 8%. The government has given priority to the development of fuel, energy, ferrous and non-ferrous metallurgy, chemical and petrochemical, light industry and the construction materials industries. It also plans to explore new mineral-resource bases and develop highly efficient, energy-saving technologies.

Continuation of privatization programs is seen as an essential step in the modernization of non-performing companies and enhancement of their overall competitiveness. This should enhance the country's overall competitiveness in global markets and give further impetus to robust economic development in coming years.

Structure of investments in fixed capital	
	% of total volume
Production branches	70.1
Fuel and energy	20.4
Transportation and communications	22.8
Metallurgy	6.5
Agriculture	3.3

Source: State Statistics of Uzbekistan

US$5.4 billion for economic development

Recent growth rate of foreign investments reached 35%. Of the total volume of investments into fixed capital, 70.1% was used in production branches and 29.9% in non-production branches. The government intends to invest US$5.4 billion in national economic development in 2008.

FDI is expected to account for US$1.5 billion and will be directed to finance 80 investment projects. Some US$1.4 billion will be channeled to finance an additional 30 projects during the year. The government fund for reconstruction and development, a US$5 billion sovereign wealth fund of Uzbekistan, intends to inject US$800 million for the development of the construction sector.

Interest from Gulf countries toward investment opportunities in Uzbekistan has been strong in recent years. Arabic Coordination Group (ACG) members signed an agreement with the Uzbek government to provide US$798 million to finance investment projects in the country.

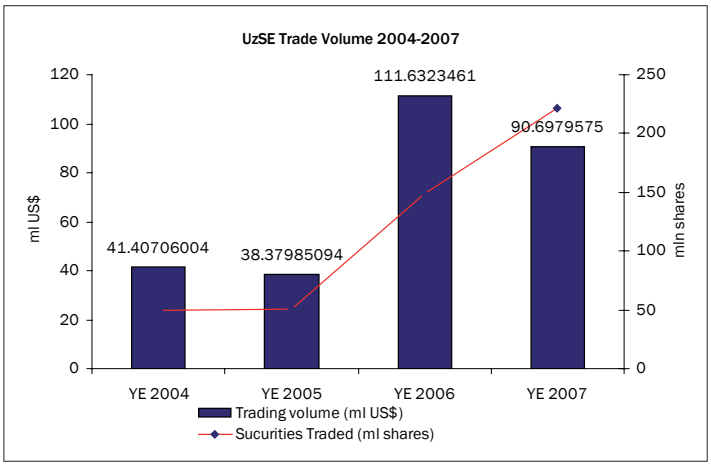
continued...

Key Indicators of Uzbekistan	2002	2003	2004	2005	2006	2007
GDP (US$ bil)	9.7	10.1	12.0	14.3	17.0	20.2
GDP per capita, current prices (US$)	383.2	395.7	465.2	546.2	642.5	744.8
GDP growth (%)	4.2	4.4	7.7	7.0	7.3	9.5
Inflation (%)	5.9	6.4	6.9	7.6	8.6	6.8
Agricultural output (% of GDP)	34.5	33.1	31.1	28.1	24.1	21.7
Industrial output (% of GDP)	22.2	23.5	25.2	28.7	22.1	24.0
Services (% of GDP)	43.4	43.4	43.7	43.2	39.5	42.5
Foreign direct investments (US$ mil)	65.0	70.0	187.0	88.0	164.0	–
Trade balance (US$ mil)	276.4	760.8	1037.0	1.317	1993.9	–
Population (mil)	25.2	25.6	25.8	26.2	26.5	27.1

Source: ADB and State Agency on Statistics of Uzbekistan

Uzbekistan: The Pearl of the East (continued...)

Both sides approved 17 investment projects to be initiated with the funding from ACG members. Twelve investment proposals assume attracting loans worth US$449.6 million and five investment projects assume US$298.3 million for the implementation of five projects. The largest volume of the loan resources worth US$340 million will be directed to finance five projects in water irrigation in the agricultural sector.



Capital markets promise growth potential

The local capital markets are in the infancy stage, with a limited presence of foreign portfolio investors. There are over 1,925 joint stock companies tradable on the local stock exchange. According to the Federation of Euro-Asian Stock Exchanges, an association of 22 stock exchanges in emerging markets of Europe and Asia, recent market capitalization of the Uzbekistan Stock Exchange reached US$2.52 billion, representing 12.4% of GDP. While many emerging markets are increasingly overvalued, Uzbek equities offer one of the best places to find value investments.

Banking sector of Uzbekistan: Main indicators as at the 1st February 2008 in US$	
Assets	7.19 bil
Loans to real sector	3.69 bil
Deposits to corporates	2.19 bil
Deposits to individuals	771 mil
Total market capitalization	1.16 bil

Source: Bank News

The banking sector showed tremendous growth during 2007. The total asset value of Uzbek banks reached about US$7.2 billion comprising 40% of GDP. The loan portfolio of the commercial banks has increased 770% since 2000, and is expected to increase by 60% on average annually. The aggregate market capital reached US$1.16 billion, up 40% year-on-year.

Today, the national banking sector is represented by 29 commercial banks: three state banks, 10 private banks, 11 joint-stock banks and five foreign co-owned banks. Many Uzbek banks are traded at a price-to-book (P/B) ratio of 1.2 to 1.5. In comparison, the P/B of Kazakh banks averages 2.5 while that for Ukrainian banks exceeds 4.0. This indicates growth potential for bank shares.

Banking Penetration Rate in Uzbekistan			
Indicators	**2005**	**2006**	**2007**
GDP (US$ bil)	14.3	18.1	21.6
Deposits (US$ bil)	1.9	2.5	3.0
Deposits/GDP	13.1%	14.0%	13.8%

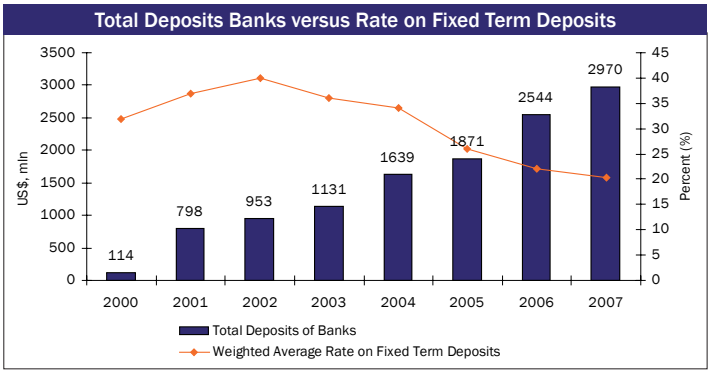
Banking Penetration Rate in Kazakhstan			
Indicators	**2005**	**2006**	**2007**
GDP (US$ bil)	57.1	81.0	102.1
Deposits (US$ bil)	19.4	37.1	53.4
Deposits/GDP	34.0%	45.8%	52.3%

On the 21st February 2008, the Uzbek president signed a decree on additional measures to liberalize conditions and ensure guarantees of deposits in commercial banks.

In accordance with the decree, a client who opens a bank account between the 1st April 2008 and 1st April 2009 can make deposits in national and foreign currency without providing proof of the source of the capital.

Money can be deposited into individual accounts as well as accounts held by others, while the funds can be transferred from the foreign banks of the depositor's account or just be made in cash. The new reform is expected to further boost confidence and trust in the banking sector both from the domestic and foreign investors' side.

Recently, Islamic Development Bank (IDB) extended a credit line worth US$15 million to three commercial banks. The credit line is open for 10 years with a two-year grace period. The financing is intended for the investment projects of small and medium-sized enterprises in the industrial and agricultural sectors.



A land rich in minerals and metals

Over 2,700 mineral deposits, 100 different natural resources, and 194 hydrocarbon fields are being utilized in the national economy. Uzbekistan boasts the world's fifth-largest gold reserves (2,100 t) and 10th largest gold producer (87 t). It is also the seventh largest producer of uranium (2,260 tU), third largest in gas reserves (1,86 trillion c.m.) among the CIS countries, and a substantial producer of tungsten and molybdenum products, refractory metals and monocrystals.

continued...

Uzbekistan: The Pearl of the East (continued...)

- ***Oil and gas forecasted to grow 40%***

Uzbekistan's oil and gas industry is characterized by 190 specialized oil and gas enterprises and 80,000 skilled and experienced personnel. The republic produces 60 billion c.m. of gas, eight million tons of liquid hydrocarbons, 197,000 tons of liquefied gas, 173,100 tons of sulphur and 125,000 tons of polyethylene production per annum.

With natural gas reserves of 5.9 trillion c.m., Uzbekistan is ranked the third-largest natural gas producer in the post-Soviet region and one of the top 10 natural gas-producing countries in the world.

There are five main oil-and-gas regions in Uzbekistan: Ustyurt, Bukhara-Khiva, southwest Hissar, Surkhandarya and Ferghana. Uzbekistan produces natural gas from 52 fields, with 12 major deposits — including Shurtan, Gazli, Pamuk, Hauzak — assuring over 95% of domestic natural gas production.

Uzbekistan has depleted only 21% of its known hydrocarbon reserves. This is the lowest level in the region compared with Turkmenistan (61%), Tajikistan (60%) and Kyrgyzstan (41%). This trend indicates room for future development of the industry. According to state oil and gas utility Uzbekneftegaz, hydrocarbon resources are expected to increase from 75 to 112 million tons, and natural gas from 60 to 85 billion c. m. between 2008 and 2020.

- ***Poised to benefit from commodities boom***

Muruntau gold mine is considered the world's largest open pit gold deposit with over 120 million ounces (4,000 t) of gold. Proven reserves are about 2,100 t, and total resources are about 3,350 t. There are 41 gold deposits but only nine are under development with current annual production of 87 t.

Almalyk Mining and Metals Plant, the leading producer of copper, processes about 25 Mt/y of copper ore. Its annual metal output is estimated to be worth more than US$220 million, with 68% of production going for export. The plant's modernization program for 2002-10, which will cost about US$347.5 million, is expected to increase refined copper output to 102,000 t/y by 2010.

Uzbekistan has commercial coal reserves of approximately 3,000 Mt, including 1,000 Mt of bituminous coal. Its current annual coal requirement is 4 Mt. The republic plans to invest US$254 million in the coal sector by 2010, with 90% going toward upgrading the Angren mine and raising annual output to 7.8 Mt. Stripping will increase from 11.2 Mm3/y to 62.7 Mm3/y. Mine operating costs should fall from US$10.38/t to US$7.85/t.

- ***Spectacular performance of real estate markets***

The year 2006 was the most remarkable for the Uzbek real estate market. Property prices skyrocketed over 200%, the highest growth rate recorded among CIS cities. This trend continued in 2007 although at a much slower pace. On average, housing unit prices grew by 55% in 2007, with considerable growth share falling to the first quarter of 2007, which saw a 27.5% rise.

Relatively low rates of residential construction, coupled with the upturn of housing demand in its capital Tashkent by the population of other Uzbek regions, have become a reason for the attraction of residential real estate. In 2008, the real estate market should see an upswing of offerings in the primary market and a price bulge of 40% to 50 % compared to 2007.

The country's commercial real estate, however, remains in the early stages of development. There are two sales outlets per 1,000 Tashkent residents, while the city has just six up-to-date trading centers. In the next five years, there will be rapid development of local trading networks and inflow of foreign players.

Future outlook

- A key strategic priority of Uzbekistan will be sustaining robust economic growth at 7% to 8% per annum, keeping the inflation at 6% to 8% and increasing the contribution of economic growth by 2015.

- Uzbekistan is expected to increase investments in the economy as a proportion of GDP up to 24% and share of small businesses up to 52% by 2010.

- The republic will continue reforms in the banking sector involving the greater capitalization of banks, increasing the resource base of banks for issuing loans, and increasing the amount of mortgage loans.

- Priority directions for the development of capital markets include encouraging more industries for the Uzbek stock exchange listing, upgrading the complex software system leading to more transparency and efficiency of equities market operations.

- It is expected that the agricultural contribution to GDP will steadily decline and the share of industrial production will rise by 2015. The economy will continue its transformation from an agriculture-based into a manufacturing-based economy. Within this period, the agricultural growth rate will decline by about 5% and the industrial growth rate will accelerate by 14.2%.

- Uzbekistan is expected to increase the share of the industrial sector in GDP up to 25.5% and services sector up to 49% by 2010. Growth rate of exports will be at 17% to 18% and the exports structure will steadily shift from raw materials to high value-added product exports. As a result of a continuous technological innovation, Uzbekistan intends to raise its international competitiveness in global markets.

All Eyes Trained on Turkey

By Paul Wouters

The chief prosecutor of the Turkish Supreme Court of Appeals, Abdurrahman Yalçınkaya, submitted on the 14th March an indictment to the Constitutional Court aiming to shut down the governing Justice and Development Party (AK Party), on the grounds that it had become a focal point of "anti-secular activities".

The indictment also proposed suspending the party membership of 71 members for five years — including President Abdullah Gül and Prime Minister Tayyip Erdoğan. One of the elements that appear to have been withheld by the chief prosecutor would be a speech delivered by Erdoğan in Malaysia, where he is said to have commented that as a moderate Islamic country, Turkey could serve as an example for the alliance of civilizations.

The Turkish Constitutional Court announced that it will hear the case. The decision was taken unanimously with 11/11 votes. The case against Gül, who supposedly only can be tried for treason, was approved with 7/11 votes.

The case has shocked the world, especially since the AK Party has been the most moderate and democratic party of its kind in Turkish history. Only seven months ago, it came to power through democratic elections, claiming 47 % of the popular votes. Strong disapprovals were specifically noted from the European Union, which announced that the accession talks could be hindered, if not endangered, should the AK Party be disbanded.

The government appears not to have been influenced by the ongoing proceedings and is set to continue the present modernization of the Turkish judicial and economical environment. A mini democracy reform package has been put forward and the calm leadership of the governing AK Party prevented any overheated reactions.

It may be expected that — though some further violent confrontations by opposing activist groups and individuals might be launched in the months to come — the government will succeed in controlling the situation.

The indictment appears to be construed in a very broad way and not focused on specific facts or allegations. Therefore, surprises might pop up at any time and the outcome of the litigation cannot be predicted for sure. The AK Party is preparing for its defense and also for a change in the Turkish Constitution that would make the ban of political parties more difficult in future and that will lift the difficulty of such closures to European standards.

Key figures in participation banks

		TOTAL (DECEMBER 2007)	TOTAL (DECEMBER 2006)	Change in (%)
		Amount	Amount	
FUNDS COLLECTED	YTL	7,863	5,259	50%
	FX	6,971	5,979	17%
	TOTAL	14,834	11,237	28%
LOANS		14,889	10,492	42%
PROBLEM LOANS (NET)		225	129	74%
TOTAL ASSETS		19,477	13,730	42%
TOTAL SHAREHOLDERS'S EQUITY		2,376	1,560	52%
PROFIT (NET)		539	391	38%

Source: BRSA Monthly Bulletin No 34

The participation banks are not expected to be hindered by or involved in the present discussions and their growth will most probably follow the general Turkish market fluctuations as usual.

General

During 2007, the business volume of Turkish participation banks increased by 30% to 35%. Similar growth is expected in 2008, said Osman Akyüz, CEO of the Turkish Participation Banks Association.

The sector is waiting impatiently for the much needed Sukuk regulations. Considering the present global credit crunch and the consequences thereof, lots of good opportunities already have been missed.

- Albaraka Türk

Albaraka Türk has absorbed the initial public offering (IPO) from 2007 in good order and was able to raise the net profits by 50% in 2007 over the previous year to TRY85 million (US$65 million).

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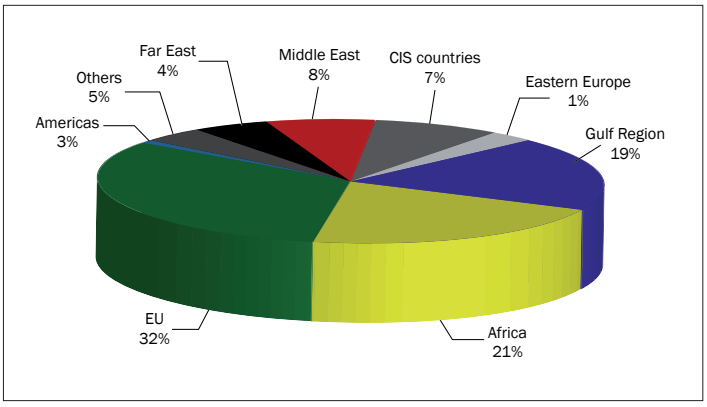
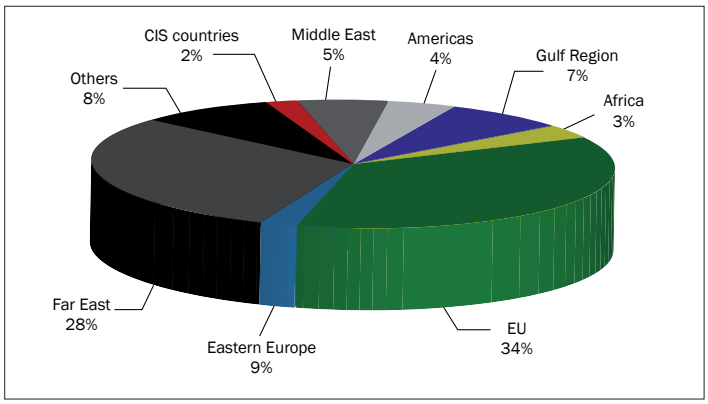
Export distribution



Import distribution



Source of graphs: Albaraka Türk

All Eyes Trained on Turkey (continued...)

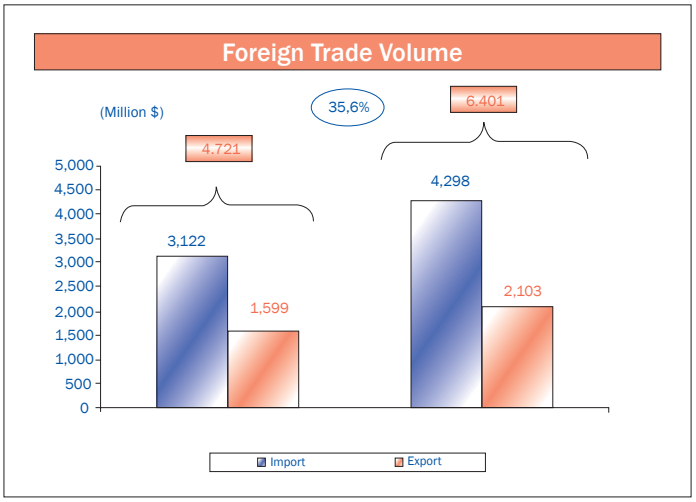
Total assets increased by 48% to TRY3.7 billion (US$2.82 billion), and total loans increased by 44% to TRY2.85 billion (US$2.2 billion). Deposits saw an increase of 39%, reaching TRY3 billion (US$2.3 billion).

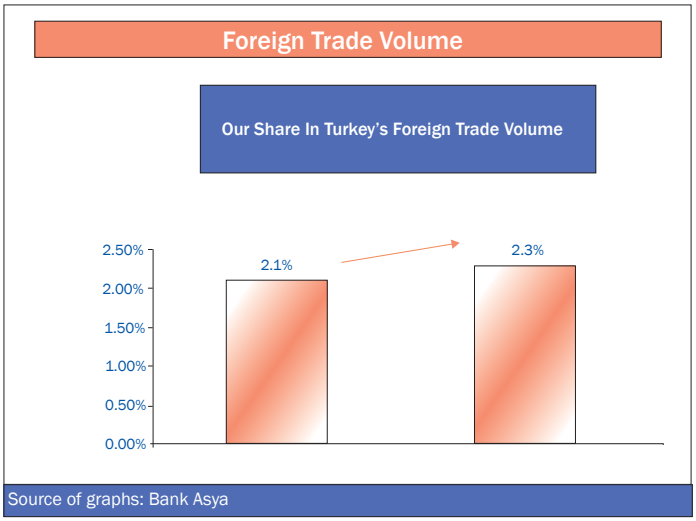
- Bank Asya

Publicly listed since 2006, Bank Asya increased its net profit in 2007 to TRY221 million (US$168 million), a 51% increase as compared to 2006.

The capital equity of Bank Asya increased by 35% to TRY854 million (US$651 million) and that its total assets reached TRY6.26 billion (US$4.77 billion), a 50% increase as compared to 2006.

Deposits in the bank increased by 47% to TRY4.7 billion (US$3.6 billion).





Source of graphs: Bank Asya

- Kuveyt Türk

The Kuwaiti-Turkish joint-capital participation bank increased its profits in 2007 by 109%, totalling TRY74.1 million (US$56.4 million), compared to the preceding year.

Kuveyt Türk CEO Ufuk Uyan explained that the bank had reached a historically high profitability rate and aimed to grow total assets by 59%, to TRY6 billion (US$4.6 billion), and by 63% in loans extended to TRY5 billion (US$3.8 billion) in 2008.

As at end-2007, Kuveyt Türk had around 1,800 employees. This figure will reportedly increase to 2,189 this year. Twenty-five new branches are expected to be opened, bringing the total number to 113.

Due to the ongoing uncertainty in the global financial markets, the IPO that was planned earlier this year has been delayed. A new date has not yet been fixed.

- Türkıye Finans

Still privately owned, Türkiye Finans aims for 30% growth in assets in 2008, 27% growth in capital and 46% growth in loan issuance. The goal for TRY203 million (US$155 million) in profit before taxes could be hindered by the raise in the value-added tax imposed on leasing transactions at the beginning of 2008.

Yunus Nacar, CEO of Türkiye Finans, said leasing was one of the primary tools used by participation banks in financing new investments: "This

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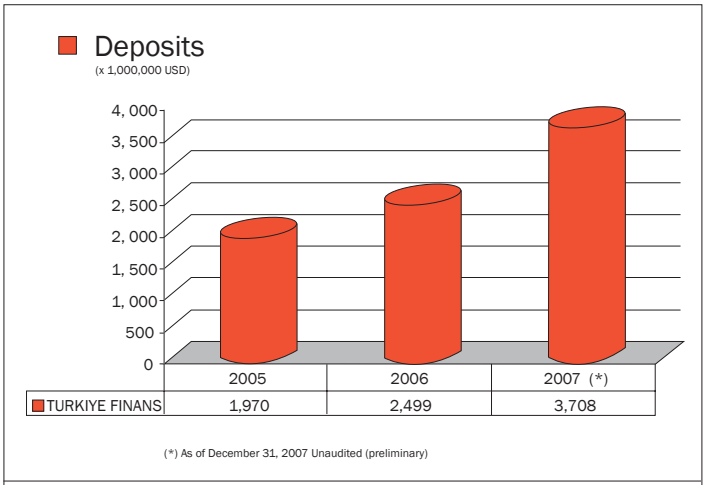

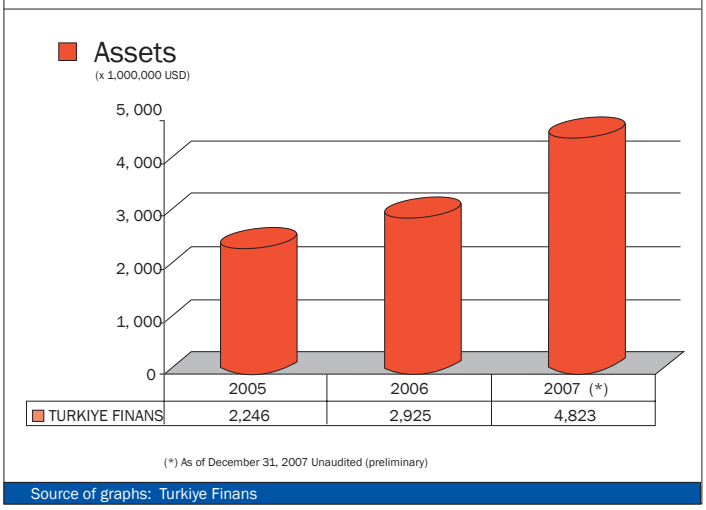

All Eyes Trained on Turkey (continued...)

latest regulation [tax raise] not only blocks the usage of an important financial tool, but also decreases the accessibility of loans with 48 to 60-month long maturity periods for small entrepreneurs."

The bank aims to increase the number of branches by 27% from 138 to 175 and intends to add another 1,000 employees to its 2,500 workforce.

Thanks to outstanding performance in previous years, the bank has attracted the attention of foreign investors and received no fewer than 15 merger and acquisition proposals.

After it had agreed to sell a 60% stake to Saudi Arabia-based National Commercial Bank (NCB) in July 2007 and the transaction was approved by the Turkish banking regulator BDDK early March 2008, the actual handover was completed at the end of the same month.

CEO of NCB Abdulkarim Abu Al-Nasr stated that the partnership with both the Boydak and Ülker groups would offer great opportunities. There is growing global interest in interest-free banking and still much more potential that can be tapped in Turkey.

Besides access to larger financial resources and business accomplishments, the cooperation is expected to result in a substantial transfer of know-how and a fast implementation of the latest IT banking techniques.

Türkiye Finans expects to increase its number of branches by 27%

- Qatar Islamıc Bank, Turkısh Bank

Just last month, Qatar Islamic Bank filed an application for a license to run a participation bank (Islamic bank) in Turkey. It would be the fifth license of its kind, not to mention a valuable addition to the market.

The partnership talks between the National Bank of Kuwait (NBK) and Turkish Bank, established in 1982, have ended positively. NBK, a leading financial player in the Gulf Cooperation Council, will buy 40% of Turkish Bank's shares for US$160 million.

Turkish Bank is a conventional bank and will not apply for a license as a participation bank.

Positive prospects

Political turmoil aside, the most interesting news will be generated from the result of the renegotiation of the ongoing stand-by program of the International Monetary Fund that will soon expire.

That program has dominated Turkish financial policy for a long time now and resulted, coupled with sound economical reforms, in the exceptional growth and stability in Turkey these past few years.

> "Though every economy will be affected more or less by the present credit crunch, the Turkish economy — and certainly the Turkish participation banks — appears to be relatively safe"

Among the alternatives for a replacement are post-program monitoring and a precautionary stand-by program that does not include funding. This will most probably result in the continuation of the present policies and will further sustain growth amid the present turmoil in the global financial markets.

Turkey will be able to obtain the remaining loans from the IMF and if the latest review is approved by the IMF executive board, US$3.6 billion in loans will be released.

IMF expects Turkey's gross domestic product (GDP) to grow by 4% in 2008 and 4.3% next year. According to the just released IMF "World Economic Outlook" report, Turkey's rate of inflation based on consumer prices might be estimated to be 7.5% this year and 4.5% in 2009.

The expectation on the current-account deficit for 2008 is 6.7% of GDP and 6.3% for 2009.

Though every economy will be affected more or less by the present credit crunch, the Turkish economy — and certainly the Turkish participation banks — appears to be relatively safe.

All in all, subject to further developments in the closure case, this results in stable to slightly positive prospects for Turkey during 2008 and well into 2009.

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More Shariah Compliant Software Needed

By Sunil Mundhra

The last few years have seen rapid growth in Islamic banking and finance services around the globe. GCC and Southeast Asian countries are the pioneering forces for Islamic banking and finance.

Though estimates vary, there is little dispute that annual global growth is consistently in the double digits. Islamic finance assets under management are currently valued at more than US$400 billion.

As Islamic banking matures, the industry is seeing a shift from products that merely imitate conventional ones — Shariah compliant products — to completely new, Shariah-based products.

Being one of the fastest-growing financial markets, the burgeoning global Islamic banking market is expected to attract more players, further boosting demand for technology solutions that support banking operations, procedures and products that are Shariah compliant.

However, despite the growing demand for them, credible solutions have until recently been thin on the ground, due to the complex accounting and operational policies which have been placed in accordance to Islamic banking. This led to lack of standardization on what can be considered as Shariah compliant.

Increasing competition among incumbent and new players presents challenges not only in terms of fighting for market share and creating innovative products, but also in terms of technology.

After all, a solution that's capable of providing support for banking processes and products built on Islamic principles is critical to the credibility of any offering and could help a financial institution internationalize its business and ensure its longevity in this market.

Lack of accepted standards

Unlike conventional banks, a central tenet that Islamic banking is built on is the prohibition of usury. As a result, Islamic banking solutions need to accommodate the various forms of Shariah compliant financing such as Murabahah and the accounting practices associated with them.

Murabahah (short-/medium-/long-term finance) is one of the most commonly used modes of financing by Islamic banks and financial institutions. It is a particular kind of sale where the seller expressly mentions the cost of the sold commodity he has incurred, and sells it to another person by adding some profit thereon.

Thus, Murabahah is not a loan given on interest; it is a sale of a commodity for cash/deferred price. Today, in Islamic banks across the globe, over 66% of all investment transactions are through Murabahah.

Adding to the difficulties in creating software tailored to accommodate all the various forms of Shariah approved financing is the lack of accepted standards on what constitutes Shariah compliance.

Islamic banks generally have a Shariah board comprising local Islamic scholars, who provide interpretations of the Quran and assist in designing products and processes that comply with Islamic law. But, as interpretations can vary according to country and region, it can be hard for new market players to decide what can be considered a truly Shariah compliant banking system.

This, in turn, has posed an obstacle to software vendors targeting the Islamic banking market as it requires them to have an in-depth understanding of Islamic banking needs so that their solutions can cater to the specific and complex requirements.

"Adding to the difficulties in creating software tailored to accommodate all the various forms of Shariah approved financing is the lack of accepted standards on what constitutes Shariah compliance"

Flexible modular system

Islamic banks ideally require software that can be implemented quickly, offers complete Shariah compliance, can support Islamic banking functions locally and globally and has an accounting backbone to support back-office functions with straight-through processing capabilities. In addition, a web-based interface and new communication channels in accordance to latest technologies will boost the volumes of business.

The software must support Islamic banking functions such as savings and current accounts (Wadiah), investment accounts (Mudarabah), Ijarah, Islamic trade financing, Islamic treasury, Islamic equity financing, general ledger, customer profiles, remittances, telebanking, Internet banking and ATMs.

A highly flexible modular system could be the way to go for both established and new banks, given the lack of standardization on Shariah compliance. As their businesses grow and their offerings widen or change, modular components that integrate smoothly with an existing IT system would be efficient, cost-effective and necessitate faster implementation.

An advanced and modular IT system could help create a strategy to meet the existing and future business and technological requirements of banks, providing value for those IT investments of banks.

Most of the existing Islamic IT banking systems are based on conventional banking. IT solutions specific to the Islamic banking market didn't exist in the early days. Banks then were able to depend largely on manual processes to execute simple products, as product offerings were slim.

But with the development of the market the need has arisen for applications that can capture market and customer data and handle

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More Shariah Compliant Software Needed (continued...)

accounting processes. To achieve high operational efficiency and reduce time to market new products, Islamic banks need to procure banking software specific to Islamic banking methodology.

Despite the current advances in technology, patched-together and tweaked conventional systems continue to exist at many banks. While these systems help the banks get by, they aren't as speedy and efficient as a modern one that's built for the Islamic banking market would be.

> "A system that helps cut time to market for new products and can build a customer relationship management package to win new customers and retain existing ones will be much sought-after"

IT staff at these banks would be hard pressed to analyze market data from endless perspectives in order to help management arrive at business decisions in the current competitive atmosphere.

Conventional banks seeking to offer Islamic banking products, which may have poured in vast amounts of money into a conventional "core" banking system, could be tempted to make their investment go further by incorporating an Islamic banking platform.

But the functions of a conventional banking system that's altered slightly to perform like an Islamic banking system would be limited and its cost would likely be equal to — if not more than — purchasing a new system.

Moreover, modifications to a conventional system to take into account Islamic calculations and parameters without using Shariah principles as a rule base don't signify a truly Shariah compliant system.

Banks are waking up to the need for an IT system that can help them compete effectively, realizing they require systems that perform more than basic automation. A system that helps cut time to market for new products and can build a customer relationship management package to win new customers and retain existing ones will be much sought-after.

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Islamic Finance Making Strides in Southeast Asia

By Christine Kuo

Islamic banking is a relatively young industry globally, with the first modern Islamic banks only emerging in the 1970s. Nonetheless, after more than 30 years of development, the segment has not only taken root in the Gulf Cooperation Council (GCC) countries but also in certain Asian countries — most notably in Malaysia.

In Southeast Asia, Islamic banking services are offered in Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. In Malaysia, Islamic banking assets have grown to account for 15.4% (about US$62 billion) of system assets.

Beyond Malaysia, however, Islamic banking is still insignificant. In Indonesia, for example, the segment's market share is less than 2% (US$3 billion). Meanwhile, the Philippines, Singapore and Thailand each have just one small Islamic bank.

In Brunei, although Islamic banks' shares of total assets have already reached 36%, their absolute size is small (US$4 billion). There are no Islamic banks in other Southeast Asian markets.

Landscape of Islamic banking in Southeast Asia at end-2007

Countries	Major participant(s)	Market penetration
Brunei	• Bank Islam Brunei Darussalam	• 36% market share • Approximately US$4 billion in assets
Malaysia	• Eleven Islamic banks, seven Islamic banking units of conventional banks and one development bank	• 15.4% market share • Approximately US$62 billion in assets
Philippines	• Development Bank of the Philippines, which acquired Al-Amanah Islamic Investment Bank of the Philippines in 2005	• Market share and asset size insignificant
Indonesia	• Three Islamic banks and 26 Islamic banking units of conventional banks	• Less than 2% market share • Approximately US$3 billion in assets
Singapore	• The Islamic Bank of Asia (established only in 2007)	• Market share and asset size insignificant
Thailand	• Islamic Bank of Thailand	• Market share and asset size insignificant

** Note: Islamic banking assets in Malaysia include Islamic assets held by development financial institutions*
Sources: Moody's, central banks of respective countries

While conventional banking dominates the region and is expected to continue doing so, the major financial centers of Hong Kong, Singapore and Tokyo have all announced their interest in developing Islamic banking segments and facilitate capital flow of Islamic funds. This is similar to the strategy adopted by London.

Such interest reflects the recognition of the growing importance of Islamic finance, and the reality that capturing international flows of Islamic asset management and capital market businesses will further cement their positions as financial hubs.

This increasing interest among financial centers, together with their international linkages, is contributing toward creating a more integrated international Islamic system. Such centers have the potential infrastructure and the ability to facilitate product offerings to bridge regional and international financial linkages.

In addition, the increasing acceptance of Islamic assets as an alternative asset class by conventional clients has also brought a greater number of market participants, which will help enlarge and deepen the Islamic finance market. The involvement of these financial centers focuses on investment banking and institutional asset management. While their development has been preliminary thus far, we expect this trend to continue.

MALAYSIA

A proactive government is needed to cultivate the necessary operating environment to encourage the growth of an Islamic banking sector. This includes establishing the legal, Shariah and regulatory framework to support a diverse range of market players and products. The capital market also needs to be developed and supported by an adequate secondary market.

In Malaysia, separate Islamic legislation and banking regulations exist side by side with the conventional banking system as a result of a series of government measures focusing on institutional development in the 1980s and 1990s.

In the last decade, the Malaysian government has made additional efforts to develop Islamic financial markets and to liberalize the Islamic financial system. As a result, it has embarked on numerous initiatives including the establishment of three foreign Islamic banks, the launch of the Malaysia International Islamic Financial Center initiative, and the introduction of more Islamic money market and capital market instruments.

Today, Malaysia has an active Sukuk market with ringgit-denominated Sukuk representing 66% of global Sukuk outstanding as at the 31st December 2007. Tax reforms have also been undertaken to ensure neutrality in treatment between conventional and Islamic financial products. Moreover, in recent years, there has been a trend to introduce additional tax incentives to promote the use of Islamic finance.

We believe the Malaysian experience over the last three decades demonstrates how instrumental the regulator can and needs to be in order to develop the Islamic banking sector. The regulator's capability and determination in this regard define the respective performances of Islamic banking sectors in the region.

Islamic banking services in Malaysia are offered through three types of governance structures: (i) stand-alone Islamic banks; (ii) Islamic banking windows within conventional banks; and (iii) Islamic banking subsidiaries of conventional banks.

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Islamic Finance Making Strides in Southeast Asia (continued...)

The industry started in 1983 when the first stand-alone full-fledged Islamic bank was established. However, Islamic banking services did not become widely available until Islamic windows were allowed to be established within conventional banks. Many of these Islamic windows have, in recent years, been converted into subsidiaries and this trend continues today.

- Stand-alone Islamic banks as niche players

Two of the most well-established Islamic banking institutions in the country are stand-alone Islamic banks, namely Bank Islam Malaysia (established in 1983) and Bank Muamalat Malaysia (established in 1999). These two are among the largest Islamic banking institutions in the country in terms of assets, and they provide an alternative to clients who prefer Islamic banks that are not part of conventional banking groups.

- Islamic banking windows important to expand nationwide footprint

To disseminate Islamic banking on a nationwide basis, with as many players as possible and to be able reach all Malaysians, the regulator decided in 1993 to allow the existing banking institutions to offer Islamic banking services utilizing their existing infrastructure and branches.

The option has proved to be the most effective and efficient mode of increasing the number of institutions offering Islamic banking services at the lowest cost and within the shortest time frame. As a result, local conventional banking groups started offering Islamic banking services by establishing Islamic windows within their conventional branches.

- Conversion from windows to subsidiaries near completion

As Islamic banking businesses grow, some banks have chosen to incorporate their Islamic banking businesses. With a separate legal entity, it is easier to form strategic alliances with potential partners who are interested only in forming partnerships with other Islamic banking businesses. Also, a separate Islamic banking subsidiary gives an impression of a stricter segregation of Islamic funds, which appeals to more religious clients.

The regulator has actively encouraged conversion of Islamic windows to Islamic subsidiaries with the result that all Islamic banking windows within domestic banking groups will have converted to Islamic subsidiaries by the end of 2008. This will bring the total number of licensed Islamic banks in the country to 16. It includes four new Islamic subsidiaries that will commence or have already commenced operations in 2008.

- Sector may need to consolidate over medium term

We think the shift from the windows model to clear segregation of separate legal entities under wider groups will be a powerful contribution to better visibility. In fact, today's Islamic banking sector is largely run on the subsidiary model, with the exception of seven investment banks and a couple of foreign banks that still offer Islamic banking services through the windows structure.

Nevertheless, 16 full-fledged Islamic banks is a considerable number. This is especially so in view of the total size of the market in the country and that the conventional banking sector consolidated from over 50 players to nine banking groups not long ago as part of the government's financial sector master plan.

Some players intend to use Malaysia as a hub to grow Islamic finance in the region. Still, we expect some Islamic banks to find this market too competitive and the sector will consolidate over the medium term.

> "The Malaysian household sector accounted for 61% of total financing in the Islamic banking sector as at the end of 2007"

Increasingly wide range of products

There are more than 100 Islamic financial products and services currently offered by the banks. According to data from Bank Negara Malaysia (BNM), these products use various Islamic concepts such as Mudarabah, Musharakah, Murabahah, Bai Bithaman Ajil, Ijarah, Qard, Istisna and Ijarah Thumma Bai.

Product categories have also expanded over recent years to include deposit, investment, financing, trade finance and card services. The most popular financing products are house financing and hire purchase for vehicles. This should not come as a surprise, given the natural fit of these products with Shariah principles.

The household sector accounted for 61% of total financing in the Islamic banking sector as at the end of 2007. The nature of the business is nonetheless evolving from a retail and trade financing focus to the financing of other commercial business activities.

In terms of contracts, Bai Bithaman Ajil, Ijarah Thumma Al-Bai and Murabahah are the mostly widely used Islamic structures. These three accounted for 38%, 30% and 11% of total financing respectively, as at the end of 2007. Over the last 12 months, we have seen strong growth in almost all types of contracts. Murabahah and Ijarah Thumma Al-Bai contracts were especially popular; these two accounted for 73% of the increase in outstanding financing over the one-year period.

Mudarabah and non-Mudarabah funds are equally important, accounting for 49% and 51% respectively of customer deposits. Of Mudarabah funds, general investment products have clearly larger outstanding amounts compared with special investment products, which suggests that customers intend to delegate decisions on how to invest funds to banks.

Unlike GCC customers, who focus more on equity investment and term deposits (including Shariah compliant Mudarabah-based profit-sharing investment accounts), Malaysian customers tend to have comparatively lower risk appetites and, therefore, keep the bulk of their household and institutional assets in deposits and deposit-like products. This explains why many Mudarabah funds are substantially similar to deposit products of conventional banks in terms of payout.

Until now, the banking business activities of Islamic banks have largely been based on traditional banking businesses; most Islamic banking products are also variants from conventional banking products. As conventional banking products continue to evolve and Islamic banks

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Islamic Finance Making Strides in Southeast Asia (continued...)

gain experience in structuring more complicated Shariah compliant products, we will continue to see new Islamic banking products come on the market.

While still a small industry in Malaysia with a total of just US$1.7 billion in assets, we expect the Takaful segment to continue to grow rapidly in line with the Islamic banking sector, as many banks are adopting the bancassurance model and offering Takaful products as part of their banking platform. The addition of Takaful products not only enables Islamic banks to bind customers with more financial services but also generate fee income for these banks.

Competing with conventional banks

The challenge for Islamic institutions is to provide not just Shariah compliant products but also competitive returns. Malaysia, Moody's believes, is a case in point. Based on discussions with several industry players, Moody's understands that a significant portion of Islamic banking customers are non-Muslims. Even most Muslim customers compare pricing and services offered by Islamic banks with those of conventional banks.

These two phenomena suggest that Islamic finance is increasingly viewed as an alternative means of financing and investment and, more importantly, Islamic banks are competing directly with their conventional banking peers.

Assuming that a third to a quarter of Islamic banking assets (which we think is a reasonable range) are contributed by non-Muslim customers, this would suggest that more than 80% of the Muslim population in Malaysia still bank with conventional banks. Since Islamic banking assets have grown at double-digit rates over the past five years, one conclusion that might be drawn is that it could be relatively straightforward to grow Islamic banking assets simply by converting conventional banking assets into Islamic ones.

This is not without challenges, however. Firstly, not all Muslims seek Islamic banking. In the Gulf countries where the population is almost entirely Muslim, the market shares of Islamic banks are still not high (even though they are fast growing in several markets).

Percentage of Muslim population and penetration of Islamic banks in selected countries (end-2006)

Country	% Muslim population	Market share of Islamic banks (%)
Saudi Arabia	100	26
Bahrain	98	7
Kuwait	85	28
Oman	100	0
Qatar	100	13
UAE	96	13
Malaysia	60	12

Sources: Moody's, central banks of respective countries

Moreover, while customers may initially choose a bank based on faith, continued business growth and client retention will hinge on Islamic banks' ability to provide competitive pricing if their customers are rate sensitive.

Are customers rate sensitive? A study on movements of Islamic rate of returns and conventional interest rates (as reported on page 70 of BNM's 2006 annual report) provides some interesting evidence. The study explores the extent to which prices differ between Islamic and conventional banking systems.

> "While customers may initially choose a bank based on faith, continued business growth and client retention will hinge on Islamic banks' ability to provide competitive pricing"

The findings show in the interbank market the profit rates in the Islamic money market have been generally slightly lower than those in the conventional money market. Nonetheless, movements in the Islamic profit-sharing rates closely follow changes in conventional money market interest rates.

In addition, the base financing rates of two major Islamic banks (Bank Islam and Bank Muamalat) indicate they move fairly closely with the base lending rates of conventional banks.

We also note most banking groups offer similar pricing for conventional and Islamic banking products because their customers will engage in arbitrage if this is not so.

It becomes clear that as Islamic finance modernizes, customers are keen not only on the Islamic nature of the financial instruments offered, but also on the returns offered and how they compare with other financial products. The significant business contribution from non-Muslim population in Malaysia makes pricing even more important for Islamic banks to retain their clients. The challenge for Islamic institutions is therefore to provide not just Shariah compliant products but also competitive returns.

Consistent time-series statistics on Malaysia's Islamic banking sector are not available. However, according to BNM's Financial Stability and Payment Systems Report 2007, Islamic banking assets have expanded at an annual average rate of 19.3% since 2003 to constitute 15.4% of assets of the total banking system as at December 2007. This growth rate is somewhat higher than the conventional banking sector, as the entire commercial banking sector (including Islamic banks) has grown at 16% during the same period.

The growth momentum in this sector is expected to continue with the commencement of operations by wholly owned foreign Islamic banking institutions and an increasing number of Islamic subsidiaries of domestic banking groups.

In line with strong asset growth, profitability of Islamic banking institutions is improving although it is still somewhat lower than that of conventional banks. In fact, Islamic banks reported a slightly higher

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Islamic Finance Making Strides in Southeast Asia (continued...)

margin on average in 2006. But they still earned less fee income and their overhead cost structure was less favorable. This is because they have yet to reach sufficient economies of scale and need to invest in systems and training.

> "Islamic banking subsidiaries may also find themselves competing against their parents. Those banks with substantive shareholders other than their parents are likely to be particularly affected by this issue."

Islamic banking subsidiaries not as profitable

A further study on the profitability of nine Islamic banks shows that their profitability is generally less favorable and more volatile than the sector average that includes Islamic banking windows of conventional banks. This suggests the Islamic window is a better business model in terms of profit.

Two possible explanations are that conventional banking parents help absorb some of the cost for their Islamic window operations, and also that a separate legal entity necessarily involves extra cost. Also, several Islamic banks are start-up companies; therefore, it takes time for them to report stable performance.

In light of the keen competition from conventional banks and the need to continue to invest, we do not expect the profitability of Islamic banks to catch up with conventional banks over the next couple of years. However, given time the sector profit should improve, supported by asset growth and improving economies of scale.

Opportunities and challenges

Malaysia aspires to position itself as an international Islamic financial center. BNM's financial sector master plan envisions that the Islamic banking landscape will evolve in parallel to conventional banking, constituting 20% of the banking market share by 2010, making an effective contribution to the financial sector of the Malaysian economy.

So far, the growth of Islamic banking assets have outpaced that of conventional banks, leading to impressive and constant rise in their combined market shares, from 6.9% in 2000 to 15.4% as at the end of 2007. If this trend continues, the country will be well on its way to reach the 20% market share target in years to come, if not by 2010.

We believe that the incentives provided by the regulator will remain necessary if the growth of the sector is to continue. The growing population will also help.

Moreover, Islamic banks have been catching up with their conventional banking counterparts in terms of pricing and product offering. Furthermore, the public's increasing awareness of Islamic banking services will also attract non-Muslim customers.

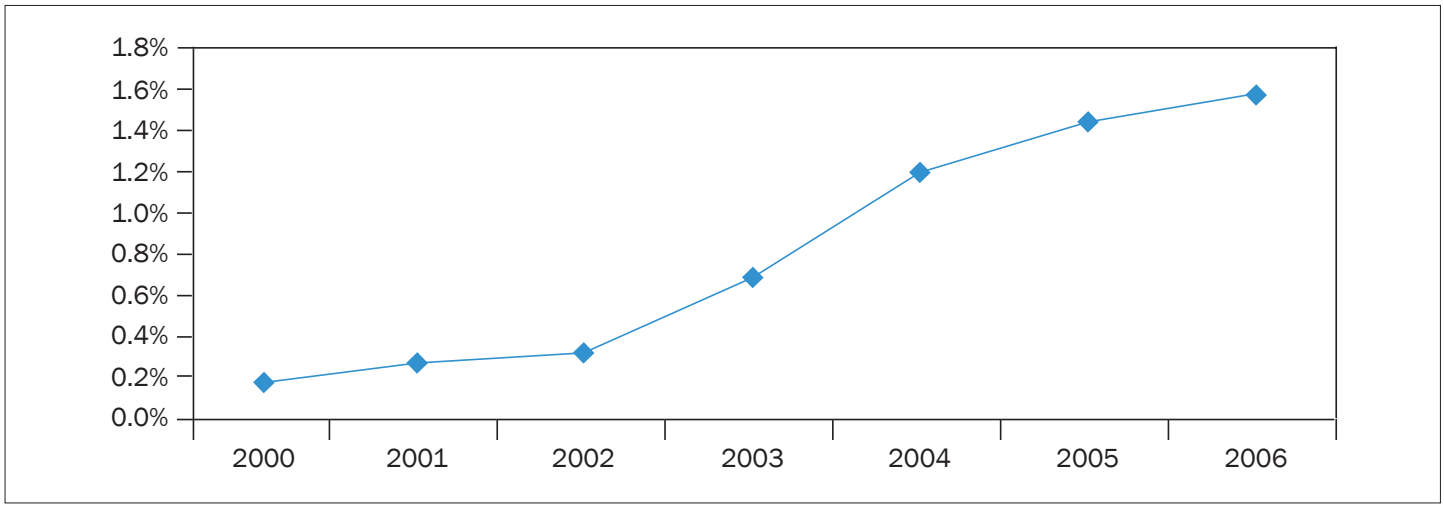
But there are also challenges. Islamic banks will need to continue to take market from conventional banks to sustain high growth, and conventional banks are not resting on their laurels but improving their own products and services.

Islamic banking subsidiaries may also find themselves competing against their parents. Those banks with substantive shareholders other than their parents are likely to be particularly affected by this issue.

Another perhaps more daunting challenge for Islamic banks is to manage growth. Like any company experiencing rapid growth, these banks will need to cope with issues such as system and infrastructure upgrades and talent cultivation and retention. Competition for talent has been particularly intense in the field of Islamic finance in recent years.

continued...

Indonesia: Share of Shariah assets to total banking system



Source: Bank Indonesia

Islamic Finance Making Strides in Southeast Asia (continued...)

Additionally, they need to address risk issues specific to Islamic financial institutions. These issues include investment concentration as a result of the limited scope of eligible asset classes, higher costs for managing liquidity (as Murabahah contracts make it necessary for commodity brokers to be involved), concentration of liabilities (due to a limited range of possible funding sources and imbalanced funding continuums), displaced commercial risk and other non-financial risks.

> "For Islamic banks in Southeast Asia, we think their average BFSRs are likely to be lower than their conventional banking peers in the same country"

Moody's believes Islamic banks in Malaysia can deal with these challenges as long as they are not under too much pressure to pursue aggressive asset growth, as it would take time to develop risk professionals within their institutions and appropriate tools to manage risk.

INDONESIA

Islamic banking market share in Indonesia was about 1.58% as at the end of 2006 in terms of assets. The 2007 data is not yet available, but we believe its market share should remain below 2% as of the end of 2007. This market share has steadily increased over the last few years, up from just 0.17% in 2000.

Although market share of Islamic banking assets appears low, the amount of Shariah assets has in fact grown very rapidly over the last few years, even outperforming fast-growing conventional banking assets. This indicates increasing awareness and acceptance of Islamic finance by customers.

The absolute size of Islamic banking assets in Indonesia is, however, still small while the pace of development has lagged far behind neighboring Malaysia.

At present, there are three Islamic commercial banks in Indonesia: Bank Syariah Mega Indonesia, Bank Muamalat Indonesia and Bank Syariah Mandiri. In addition, there are 26 banks with Islamic divisions (as at January 2008) while a few other conventional banks are contemplating establishing Islamic banking subsidiaries.

Given that there are already a good number of banks involved in Islamic business, we do not think a lack of Islamic banking units will be a critical issue in the sector's development. Rather, the slow changes in the related regulations and institutions are likely to prove the main reason for relatively slower growth.

Nonetheless, a few important changes seem to be gathering momentum, including the Shariah banking law plus laws on tax neutrality and Sukuk issuance. Indonesian legislators recently passed a new bill on Islamic Shariah debt on the 10th April 2008, paving the way for the government to sell its first Islamic bond.

Moody's believes that the passage of these laws and regulations will lay the necessary legislative groundwork for the sector's long-term growth.

If the Indonesian government is able to establish the framework to develop its Islamic financial markets similar to Malaysia, we see no reason why Islamic banking in Indonesia cannot increase its market penetration to a level at least as high as that of Malaysia over time.

Ratings of Islamic banks

Moody's assigns ratings to banks globally, irrespective of their form or nature, and that includes Islamic banks. In assigning ratings to banks, Moody's first evaluates a bank's intrinsic safety and soundness to derive a Bank Financial Strength Rating (BFSR), and then factors in potential support from the relevant providers to derive its ratings for deposits and debts. This analytical framework is common to all types of banks.

For Islamic banks in Southeast Asia, we think their average BFSRs are likely to be lower than their conventional banking peers in the same country. This is mainly because Islamic banks are typically smaller and therefore lack the franchise or economies of scale enjoyed by conventional banks. Additionally, they tend to have a less favorable risk positioning as a result of concentration in assets and liabilities and more challenges when managing liquidity and risk.

In addition, despite cheaper funding costs and higher customer loyalty on average, their financial performance could be affected by the higher operational constraints due to the need to comply with Shariah law, in addition to the regular banking laws and regulations. These constraints affect their returns through higher expenses associated with product structuring and compliance costs.

Nonetheless, deposit and debt ratings of Islamic banks could be significantly higher than the levels indicated by their BFSRs, thanks to support from parents and/or regulators.

If the Islamic bank's parent is a banking group itself, it may extend operational support to its subsidiary in addition to capital and liquidity support. The stronger the parent, the more willing they are; and the greater the incentive for them to provide support, the greater the rating lift these Islamic banking subsidiaries are likely to receive.

On systemic support, Moody's firstly determines whether the countries in which the Islamic banks are domiciled are high-, medium- or low-support countries. We then apply the appropriate level of support based on the importance of the respective bank to the system.

Therefore, for Islamic banks with strong parents and/or for those in high support countries, a rating lift could be multiple notches. For instance, Abu Dhabi Islamic Bank of the UAE has a D BFSR, which translates into a baseline credit assessment of Ba2, but its local and foreign currency issuer ratings are six notches higher at A2. Similarly, Al Rajhi Bank of Saudi Arabia has a C BFSR, which translates into a baseline credit assessment of A3, but its local and foreign currency deposit ratings are two notches higher at A1.

Moody's Investors Service

Christine Kuo is vice president/ senior analyst at Moody's Taipei. She can be contacted at +886 2 2757 7125. This is an excerpt from a "Special Comment" report by Moody's Global Banking dated April 2008.

Calyon, the Core of Islamic Finance Development

By Arfa'eza A Aziz

Calyon, the corporate and investment arm of French-based Crédit Agricole Group, needs no introduction in the finance industry. Having dabbled in Islamic finance since the mid-1980s, Calyon decided to set up a dedicated global Islamic banking department team in Bahrain in 2004.

The Islamic finance team, currently led by Simon Eedle, covers a variety of products for corporate and institutional clients and offers financing and capital market products, investment and hedging vehicles, as well as retail investment and insurance products.

Within a short time of its establishment, Calyon has become a key player having been mandated as lead arranger for the industry's largest deals amounting to billions of dollars. Its long list of achievements includes the US$2.9 billion syndicated term loan for Mobily, MTC's US$1.2 billion Murabahah facility and the Mada Leletisalat US$2.5 billion deal.

Its latest activity was acting as the sole arranger and underwriter for a US$350 million Sukuk (Islamic bond) for the Ministry of Finance of Bahrain. The bond issued by the Central Bank of Bahrain was the first by the government in four years.

The bond, which was listed on the London Stock Exchange, attracted firm interest and was oversubscribed by 200%. Eedle, who has led the Islamic finance global team since day one, told Islamic Finance *news* that the entire issue was sold in the Middle East.

"More than half were Bahrain-based, which is normal, while the rest are from the Gulf as a whole. Most are bought by 'buy and hold' investors. So, we haven't seen any significant trading in the secondary market," he said.

Asked whether the bond will see active trading in the secondary market soon, Eedle replied this was highly unlikely as there is little movement in the secondary market due to the ongoing global credit crunch which was instigated by the US subprime woes.

Problems in secondary market

He said one of the main problems in the secondary market is the severe shortage of the US dollar. "The constant speculation against the currency peg here created the shortage of dollars. The credit crisis and the shortage of dollars led to most investible bonds being launched in local currency and not in dollars. As we can see, many of the recent issuances in the Middle East have been launched in dirham because they know that that's where the liquidity is."

Be that as it may, Eedle expressed confidence that the region's Sukuk market will improve. "The Middle East has enjoyed strong growth in the past five years and we are expecting a significant growth in 2008. That hasn't happened for several reasons, one of which is the global credit crisis.

"Although the region is insulated from the crisis to a certain extent, the issuers don't want to pay the new price of credit in the market. A lot of people want to issue Sukuk but they are either delayed or are waiting for the market to improve," said the seasoned banker.

He then pointed out that there is huge amount of financing that needs to be done in the region and it will be done "sooner or later".

"Whether it's done conventionally, Islamic or through the loan or bond market, the Sukuk market must grow because the balance sheets of western banks are under a lot of pressure because of the leveraging that is done in the market. So, we have to look at market solutions because the banks won't be able to take up the loan on their own as they had in the past," he added.

Eedle also said that the statement by the Accounting and Auditing Organization for Islamic Financial Institutions that 85% of the Sukuk issued in the region was not Shariah compliant did not help matters.

"Recently, Islamic Finance *news* raised the issue and there was a good response from a participant, which is that this (the entire controversy) is a lot of noise but it holds little significance," he said, referring to CIMB Islamic CEO Badlisyah Abdul Ghani's statement urging the industry to move on from the criticism.

"I don't think this is a significant issue... yes, certainly there are some Sukuk, the Shariah compliance of which you can question but I don't think it's a major factor. However, it has not helped the industry."

Now, for the second stage...

Despite being bullish about the Islamic bond market, Eedle stopped short of predicting when things will improve. "Well, I haven't got a crystal ball," he quipped.

He stressed that the crisis is "quite severe" and that it would take the industry some time to improve. "The most important issue here is to see the pressure come off the currency peg and have a more normal market in dollars. As I mentioned earlier, there is so much 'squeeze' in the dollar market and yet so much liquidity in the domestic currency."

Speaking on the latest development in Calyon's Islamic finance team, Eedle said that having focused on building the infrastructure and developing new products in the first stage, his team is looking forward to the second stage, which is securing more deals.

continued...

Calyon, the Core of Islamic Finance Development (continued...)

"This year is going to be much more about doing deals and working with clients to come out with solutions, I think that one of the main areas that is going to be hot is asset management.

"There are a range of tools available to hedge the risk Islamic banks and investors hold. The violent movement in the foreign interest rate market, coupled with the possibility of the currency repeg... the players have to put a lot more focus on asset liability management."

Eedle expects to see higher growth of real asset-based or asset backed businesses in various sectors including oil and gas, project finance and reserve base lending.

"The other area that will create attraction is equities — be it asset management, private banking or whether offering structured investment opportunities with underlying Shariah equities."

The team is also looking to boost activities in their Kuala Lumpur, Jakarta and Indonesia offices. "I think 2008 is about ramping up the products that we have developed. I'm quite bullish about the prospect especially in the capital market's side of the business."

As for the banking sector, Eedle said that growth has been incredible but expressed his concern that the Islamic banking bubble may soon burst if no concrete action is taken to stem the number of banks.

"We've got so many Islamic banks in the region and I can't help feeling that by the end of 2008, there's going to be a reassessment of the profitability and that will eventually encourage a re-visit into the industry as I don't think we can afford to have so many Islamic banks in the future.

"At the moment, we survive because there is plenty of money out here and what we really need for the industry is much bigger Islamic banks that can compete with the western banks."

He said it is important for the Islamic finance industry to have stronger banking entities, adding that, acquisition and mergers can be a tool for this.

Eedle also outlined Calyon's plan to enhance its Islamic finance activities in Indonesia, which he described as one of the industry's "biggest opportunities in the next decade".

Despite the ongoing legal, political and credit problems in Indonesia, Eedle thinks prospects there are too attractive to ignore.

"It's a fairly difficult country to deal compared with other countries like Malaysia. But I believe it has big prospects. It's got natural resources, good strong trade ties with India, China and the Gulf as well. So, I am very bullish on Indonesia... we will be much aggressive on building an Islamic finance business there."

The bank is also looking to expand its Islamic finance activities in Africa and Egypt, where Crédit Agricole has a strong banking base. But the Middle East will still be its main focus because "that is where the money is".

Money-making activities may be Calyon's main activity as it is with any other bank. But it is not its only concern, said Eedle, who stressed the need for the industry to go back to the "roots" of Islamic finance to help the poor.

"We (Crédit Agricole) recently tied up with Grameen to actively support the development of micro-finance. There is little profitability there but it is very important for international banks to help the cause," said the banker.

The group had agreed to assist 2006 Nobel Peace Prize winner Professor Muhammad Yunus, founder and managing director of Grameen Bank, in his efforts to promote micro credit and has pledged EUR50 million (US$80 million) for the purpose.

Do you think faith-based banking will overtake conventional banking someday?

Although Islamic banking is more developed than banking specifically related to other religions, the notion that religious beliefs are irrelevant for conventional banking is incorrect. Secularization should not be seen as a long-term trend, but rather as part of a cycle.

Far from being secularized, I suspect the western world will be much more religious by the end of the 21st century than it was at the beginning. Religion is already playing a growing role in China and India, and clearly throughout the Muslim world, faith is stronger than ever.

Banking and finance cannot be isolated from the clients being served, whose beliefs matter. Investors want to accumulate wealth, but that is not their sole goal and certainly not the most important factor in their lives. Bank clients are concerned with returns and the costs of their funding, but most people also care about moral and ethical issues, even though they may not use ethically designated products.

What I envisage is conventional financial institutions becoming more and more aware of faith issues. All the leading conventional banks already offer Islamic financial products. We may eventually see products emerge for those of other faiths.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

I think that faith-based banking and financing methods, training on social responsibility, honor and trust and values will slowly be implemented in the conventional banking system.

After all, the FIRST riba-free banker in soul, thought, action and spirit was portrayed by James Stewart in the well-known Frank Capra Christmas movie, It's a Wonderful Life.

DR YAHIA ABDUL RAHMAN: Founder, the LARIBA System

The interesting point here is that conventional banking IS 'faith-based'.

The very word 'credit' is actually Latin for 'he believes', and the current banking system consists of credit issued by 'credit institutions' (i.e. banks) and supported by a small amount of 'regulatory capital' set by the Bank of International Settlements in Basel.

So, conventional banking is indeed almost entirely 'faith-based', and we are seeing now, I believe, the collapse of that faith, following an inflection point which may come to be seen as the point of 'peak credit'.

I believe that it is new forms of 'asset-based' banking which will come to overtake conventional banking, and necessarily this will be sooner, rather than later. Bankers will come to act as service providers rather than intermediaries in respect of new forms of 'unitized' and 'asset-based' investment on the one hand, and mutualized credit creation on the other.

Such an 'asset-based' financial system would, of course, be entirely consistent with Islamic values, unlike the current 'faith-based' system currently in decline.

CHRIS COOK: Principal, Partnerships Consulting

The Islamic industry's first aim or target should be to formulate, in true form, a parallel transparent, robust, ethical financial system with unified/adopted standards and, more importantly, reaching a size of, say, US$50 trillion.

Once this is achieved, then perhaps the question will emerge. Mind you, the conventional system has taken centuries to develop.

IJLAL ALVI: CEO, International Islamic Finance Market

continued...

Not in the near future. Let's not confuse our wishes with reality. All Islamic banking assets are less than one large conventional bank's assets.

KHALID MAHMOOD BHAIMIA: Managing director, Hong Leong Islamic Bank

Faith-based banking is not a new phenomenon, but rather one that has been around for a long time. Every religion has an impact on society, and many religious beliefs have found themselves incorporated in the banking system for at least some time during the history of finance.

Faith-based banking does not just appeal to those of a particular religion, either. The application of principles of fairness and justness is attractive to a large and diverse investor and depositor base, regardless of their religion.

On the other hand, faith-based banks are typically small compared to their conventional counterparts, with only a fraction of the balance sheet size. Although interest in faith-based and socially responsible investing exists, it is expected to remain a subset within the conventional mainstream financial markets.

"Faith-based banking does not just appeal to those of a particular religion, either. The application of principles of fairness and justness is attractive to a large and diverse investor and depositor base, regardless of their religion."— *DR NATALIE SCHOON*

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

In a few markets and segments it will, but not globally.

AFAQ KHAN: CEO, Standard Chartered Saadiq

Faith-based banking shall overtake conventional banking due to it being acceptable to a larger audience. Today, for example, in the UAE and Malaysia, faith-based banking is growing at a phenomenal rate since it offers features and services that are the same as or better than conventional banking model.

In the UAE, it is expected that 60% of new mortgages will be Islamic. In Canada, a major meat supplier recently converted its entire slaughter process to halal methods in order to serve the Muslim market and the conventional market with the same product. With Muslim community wealth increasing over time, many conventional banks are converting products to be Shariah compliant to be able to serve the growing market.

OMAR KALAIR: CEO and president, UM Financial Canada

Next Forum Question

What more can the Islamic finance industry do to promote micro-financing, and what products are required?

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, 30th April 2008.

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

Name:	Simon Eedle
Position:	Global head, Islamic banking
Company:	Calyon — Crédit Agricole CIB
Based:	Bahrain
Age:	46
Nationality:	British

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

My original training was in accountancy, and I started in the banking industry more than 20 years ago. I have worked for Calyon for the last 18 years in a variety of roles in the Middle East, Asia, Europe and North America.

Before taking on this role, I was head of fixed income markets for the bank in NY, covering both North and South America. The bank took a decision in the second half of 2006 that we needed to strengthen considerably the bank's offer in Islamic banking, and I took on this role at the beginning of 2007.

What does your role involve?

I am globally in charge of developing the Islamic business within Calyon. To ensure that there is no competition with existing business lines, we took the decision not to be a separate profit center, but to be complementary by providing a dedicated structuring, Shariah compliant, documentation and front-to-back deal execution service.

We also work as specialists with relationship managers in the origination and distribution of Islamic products. The strategy is both defensive and offensive; we need to be able to offer an Islamic solution when demanded by a client to ensure that we do not lose existing revenue streams where we have traditionally been market leaders, such as project and other structured finance, but also we need to develop new products and revenue streams to meet the new demands of this fast-growing investor base.

What is your greatest achievement to date?

Building a team virtually from scratch in less than a year, in what was and still is a very difficult market with so many new entrants. We have strong expertise in Islamic finance combined more than 30 years of experience within the team, but also very strong knowledge of the underlying products, especially in capital markets. Probably the most rewarding part is to see the young people we have taken new into this business blossom after putting in so much hard work and enthusiasm.

Which of your products/services deliver the best results?

Our job is to deliver whatever products and services are demanded by our clients, so we do not focus just on what are perceived as high-margin solutions. We have always had a strong name in the GCC region for financing, and we now are leaders in this space with structures for Islamic clients who need to raise money for investment.

What are the strengths of your business?

Undoubtedly, the advantage of a global institution is its ability to use the resources of the firm on a global basis, and Calyon has long had a footprint in the Muslim countries of the Middle East and Southeast Asia. We can also leverage on the strength of the firm in terms of balance sheet, product innovation and infrastructure.

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

The mandate of Calyon is predominantly to serve clients ranging from the largest corporate institution, to the farmers who were the original clients of Crédit Agricole when it was formed.

Interestingly, the tie-up with Grameen to start the Grameen Crédit Agricole Microfinance foundation shows we still believe that banking is a product that should be available to all, which is very much in line with the principles and spirit of Islamic finance.

What are the obstacles faced in running your business today?

The main obstacles are mostly within the bank, where the education on Islamic finance is an ongoing process despite the massive media attention that has been paid to the development of the industry.

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

Exponential growth in assets caused both by a growing number of Muslims who want to conduct their banking activities in a Shariah compliant fashion, but also the strong economic growth in the Muslim countries and especially the GCC with the high price of oil. We will also see continued innovation in terms of product development, including genuinely new products that are much more aligned with true risk taking and the share of rewards or losses.

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

Standardization of products and documentation. We seem to have many workgroups and professional bodies working on this, with painfully slow progress so far with so many different positions to take into account.

For me, the solution is for the major banks in the market to solve the problem between them, and this will happen as the products developed become more widely known and traded, and less proprietary.

CALYON CRÉDIT AGRICOLE CIB

Calyon has been active in Islamic banking since the mid-1980s. It set up a dedicated global Islamic banking department team in 2004 based in Bahrain.

CBB International Ijarah Sukuk

INSTRUMENT	Ijarah Sukuk
ISSUER	CBB International Sukuk Company
OBLIGOR	Ministry of Finance, Kingdom of Bahrain
DATE OF LISTING	March 2008
ISSUE SIZE	US$350 million
DATE OF ISSUE	6th March 2008
MATURITY	Five years
COUPON	US$ LIBOR + 75 bps pa
PAYMENT SCHEDULE	Bullet at maturity
IDENTIFIED ASSETS	Land
SOLE BOOKRUNNER AND LEAD ARRANGER	Calyon Crédit Agricole
SENIOR CO-MANAGERS	Abu Dhabi Commercial Bank, Arab Banking Corporation and National Bank of Bahrain
CO-MANAGERS	Albaraka Banking Group, Bank of Bahrain and Kuwait, Emirates Bank, Kuwait International Bank and National Bank of Kuwait
LISTING/LAW	English law — listed on London Stock Exchange
FINANCIAL ADVISERS	Lovells (investors) and Norton Rose (issuer)
UNDERWRITERS	Calyon
TRUSTEE	Citicorp Trustee Company Limited
SHARIAH ADVISER	Calyon's Shariah board
RATINGS	A/A (Fitch/Standard & Poor's)

UK

BIIH to start operations soon

British Islamic Insurance Holdings will start operations within weeks, said a consultant, once it receives approval from the UK's Financial Services Authority.

The Gulf-owned company will be the first in the UK to issue Takaful. It will start with selling car insurance. BIIH estimates the Islamic car insurance market to be worth US$1 billion in the country.

MALAYSIA

Third reTakaful operator approved

Khazanah Nasional has in-principle approval to set up an Islamic reinsurance unit with Dubai Islamic Investment and Singapore's Asia Capital Reinsurance Group (ACR), said sources familiar with the development.

The company, ACR Retakaful, will be set up with a capital of US$100 million. It is the third Malaysian reTakaful operator after MNRB Retakaful and Munich Re.

Khazanah and the Dubai Group will each hold a 40% stake in the company, with the balance held by ACR.

ACR Retakaful will be headed by Zainal Abidin Mohd Noor, the former CEO of Etiqa Insurance, the insurance arm of Malayan Banking.

QATAR

QIIC settles largest claim to date

Qatar Islamic Insurance Company recently settled a life Takaful claim amounting to QAR1.1 million (US$302,297), following the death of its policyholder.

It is the insurer's largest individual payout since the introduction of the Aman Takaful Debt Protection Plan in 2001. The plan exempts dependants or heirs from having to settle outstanding bank loans taken by the deceased before his death.

A senior executive said the payment was made within two weeks of receiving the claims settlement request from the bank, and that it was testament to QIIC's strong financial condition.

MALAYSIA

Takaful Ikhlas revenue exceeds target

For the year ended the 31st March 2008, Takaful Ikhlas reported total revenue of RM430 million (US$137 million), surpassing the initial forecast of RM320 million (US$102 million).

Chairman Sharkawi Alis is targeting RM520 million (US$165 million) for the coming year.

PAKISTAN

Car owners gain access to tracker

Meezan Bank and Pak-Kuwait Takaful have signed an agreement to provide a free tracker facility and comprehensive Takaful coverage to the bank's Car Ijarah customers.

The agreement marks the first strategic alliance between Meezan and a Takaful company to promote their product offerings as a combined package for Meezan Car Ijarah customers.

The joint offering features the combined competitive advantages of both institutions to make available a strong and unique Islamic car financing and Takaful proposition.

GCC

Takaful sector lacks talent

Ernst & Young recently released its inaugural Takaful report 2008, stating that retaining and attracting human capital remains the main challenge in the industry.

According to the report, other factors that will hinder growth are fragmented and undercapitalized landscape, limited reTakaful capacity, problematic asset management and lack of local solution offerings and local distribution channels.

(Also see Takaful Report on page 34)

UAE

Comprehensive products from SALAMA

SALAMA Islamic Arab Insurance Company has launched a range of Takaful products. They include savings and protection plans as well as plans combining both elements for individuals and families. The family Takaful products include retirement, children's education and mortgage protection plans.

SALAMA's focus is on the comfort and relief of its customers, and has ensured that their practices and products offered benefit them to the fullest.

UAE

DNIR, Arabtec ink contract

Dubai National Insurance & Reinsurance has entered into a medical insurance contract with Arabtec Holdings, covering their 40,000 employees.

The scheme encompasses various clinics, hospitals and pharmacies across the UAE and provides medical care at employees' camps on a regular basis. It also provides life insurance coverage for members.

Industry Poised for Further Growth

By Sameer Abdi

Takaful can be considered a Shariah compliant form of conventional cooperative insurance. A parallel can be drawn from the table below, which compares Takaful to cooperative insurance and proprietary insurance. Of the three, Takaful involves the lowest risk toward the participant, with the issuing company bearing responsibility in the case of any shortfalls.

The Takaful industry is poised for significant growth as demand increases and industry enablers are further aligned. An overview of the global Takaful industry follows the chain of supply, demand and facilitation.

Global Takaful industry

Demand
- Economic growth
- Increase in GDP per capita
- Youthful demography
- Increasing awareness of Takaful
- Greater desire for Shariah compliant offerings
- Increase in asset-based, Shariah compliant financing

Supply
- Fragmented landscape
- Undercapitalized
- Limited reTakaful capacity
- Problematic asset management
- Local solution offerings
- Local distribution channels

Facilitation
- Compulsory protection
- Licensing and increased competition
- Better regulation
- Greater role for private sector participation
- Increased market-led initiatives

However, despite the enticing provisions emanating from Takaful, insurance in Muslim countries remains underdeveloped, with Muslim-majority regions (mostly OIC countries) still displaying an underdeveloped insurance sector.

Life insurance is underdeveloped in several existing Takaful markets, particularly those in the Middle East.

The underdevelopment of insurance in OIC countries can be attributed to a number of factors, with the most prominent being religion, followed by cultural, regulatory and fiscal, as well as demographic constraints (see below).

However, Takaful is also picking up outside the predominantly Muslim markets, as illustrated in the UK, India and other parts of the world due to efforts made by regulators and market players. Below are the current burgeoning markets and emerging players:

The UK: facilitative regulatory initiatives and mature insurance market, considered a gateway to Muslim populations in continental Europe.

Malaysia: an established Islamic financial services industry with a high density of life business.

Indian sub-continent: region characterized by large Muslim populations and low insurance density. India will become attractive once the Islamic finance framework is defined.

Indonesia: large Muslim population with very low insurance density.

continued...

Religious	Shariah sensitivities have led to injunctions against conventional forms of insurance. This has severely restricted demand, particularly for personal and life products lines.
Cultural	An extended family system has historically acted as the primary source of financial support to the dependent population, particularly the elderly.
Regulatory and fiscal	The insurance sector has historically lacked regulation (and, in some instances, been closed), which has discouraged insurance operators from writing business and subsequently led to reduced customer awareness.
	A lack of fiscal incentives aimed at encouraging savings, together with a high level of state support, has annulled the creation of corporate pension plans and reduced demand for private sector annuity and savings products.
Demographic	Legislation aimed at increasing private sector savings is a response to ageing populations where retirement is outpacing taxable workforce expansion. Countries with a youthful population and rapidly expanding workforce do not yet face these

Industry Poised for Further Growth (continued...)

North Africa: future growth market with majority Muslim populations; however, lacks facilitative regulatory framework.

Sudan: facilitative regulatory environment that has allowed the Takaful industry to flourish.

Middle East: majority Muslim population with rapid economic growth. KSA and Kuwait the two largest GCC markets in terms of Takaful premiums.

A total of 133 Takaful operators existed in 2006, with the GCC accounting for the highest regional concentration in the world (see chart below).

Growth in the Takaful sector has also largely outpaced that witnessed in respective insurance sectors, with Sri Lanka showing the highest edge in Takaful over conventional insurance, at 50%, followed by the Middle East, Malaysia, Bangladesh, Lebanon and Egypt. However, countries such as Indonesia and Saudi Arabia are still lagging behind conventional marts at a 5% average.

Among the growth drivers behind the anticipated boom in Takaful are demographic fundamentals of predominantly Muslim consumers, economic development and the high liquidity backing the Islamic financial services sector.

The preference for Islamic offerings is also reflected in increased Shariah compliant financing and Shariah compliant funds, particularly in the GCC and Asia regions.

A recent interview with the senior management of an undisclosed Takaful operator last March showed the clear-cut and direct relationship that should intrinsically exist between Islamic finance and Takaful, when he stated: "The rule is quite simple — everything that gets financed, first gets insured. So if it gets Islamically financed, it should be Islamically insured."

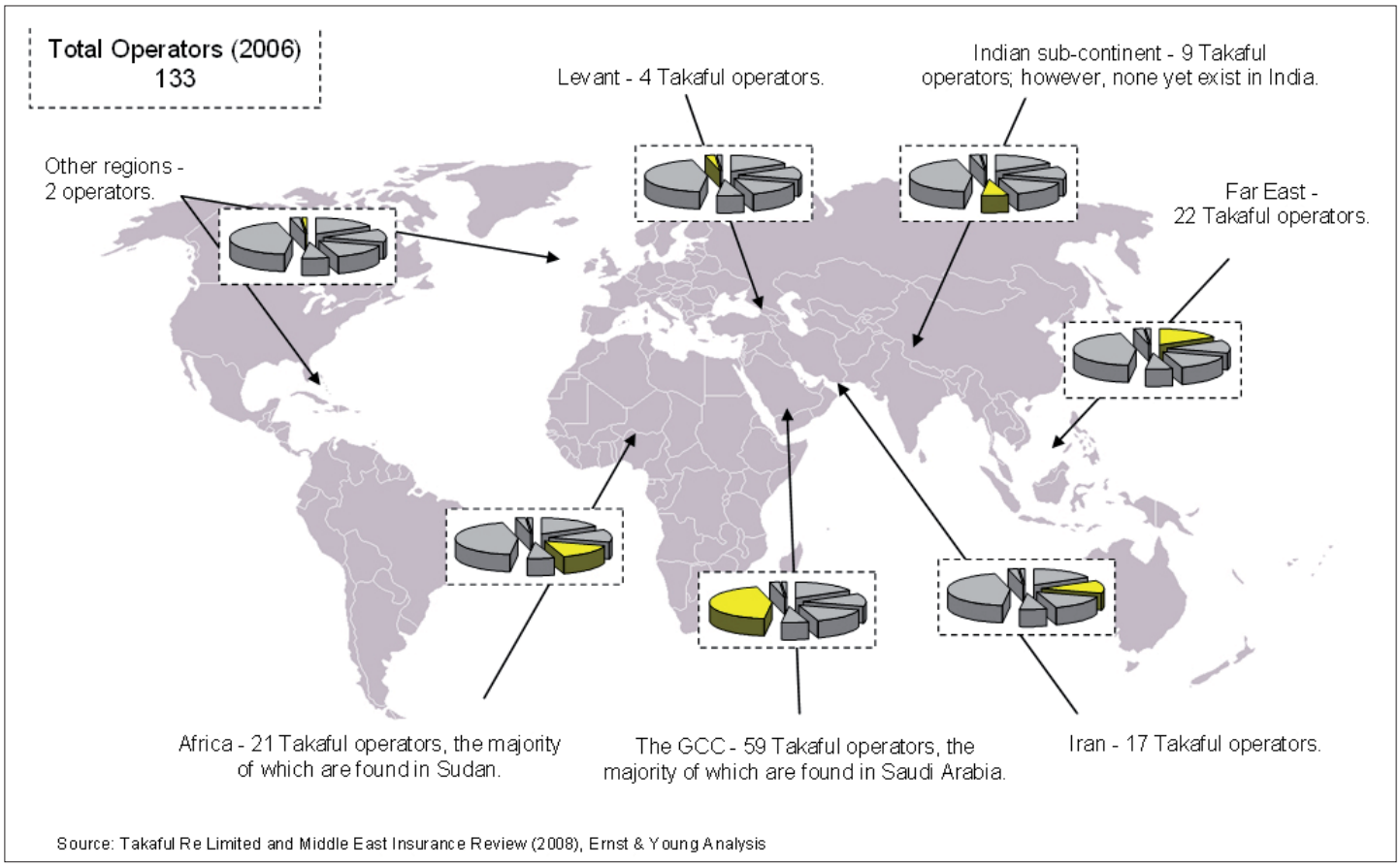
However, it is not as straightforward, as some have voiced out: "Currently, Takaful businesses are not focused on the industrial market segment. Most still do not possess the technical underwriting abilities, and most likely do not have access to the specialized insurance required. They are not risk takers. They don't have the balance sheets to do much fronting, let alone any risk taking."

Industry experts have also highlighted six areas that are expected to offer the most impact on future profitability and growth (see chart on next page).

Successful distribution strategies also need to consider the importance of corporate relationships and bancaTakaful. Skewed asset allocation with an overemphasis on listed equities and short-term placements with financial institutions also pose a hindrance to the Takaful industry.

The suggested model of distribution should first be split into family and general Takaful, with equal emphasis given to Sukuk and listed equities at 40% apiece for general Takaful, and 55% allocation to listed equities for family Takaful.

continued...



Source: Takaful Re Limited and Middle East Insurance Review (2008), Ernst & Young Analysis

Industry Poised for Further Growth (continued...)

ReTakaful

The capacity for reTakaful has also been increasing, but the availability of rated, reputable operators remains limited.

> "The ability of the Takaful industry to tap extrinsic demand, particularly that created by Islamically-financed assets, is dependent on access to multiple, rated reTakaful pools to manage risks"

The ability of the Takaful industry to tap extrinsic demand, particularly that created by Islamically-financed assets, is dependent on access to multiple, rated reTakaful pools to manage risks. Without such pools, Takaful operators are unlikely to sustain their double-digit growth rates in the future.

Existing reTakaful operators/pools

	Tokio Marine Ret	Hannover Re	MNRB ReTakaful	Takaful Re	ARIL
Capital (US$ mil)	25	53	150	125	14.1
Rating (S&P)	AA	A	A-	BBB	NR

As the industry develops and expands, issues relating to corporate governance and risk management are also surfacing:

Surplus contributions	Sharing of surpluses with policyholders
Standardization	Standardization of operating models and contracts
Solvency II	Costs and complexities of introducing Solvency II
Catastrophic events	Industry remains untested in catastrophic scenarios

Current growth trends and industry watchers point toward a US$10 billion to US$15 billion industry (in per annum contributions) within 10 years, but not without addressing the critical factors which include lack of human resources, products, limited distribution, asset management, reTakaful and governance and risk.

ERNST & YOUNG
Quality In Everything We Do

Sameer Abdi is partner of the Islamic Financial Services Group at Ernst & Young. The above is a comprehensive summary of E&Y's inaugural World Takaful Report 2008.

Summary of Discussions with Senior Management from the Takaful industry:
"In order of priority, which factors are most likely to effect the future profitability of your institution?"

"I think at the end of the day, to run a commercial enterprise, people will always look at price, product, distribution, and quality of the service."
– Interview, Senior Management, Takaful Operator (March, 2008)

ARAB STRATEGY FORUM — UAE

Media expert Dr Sulaiman Al-Hattlan has been appointed CEO of the Arab Strategy Forum (ASF), a gathering of government officials, decision makers and intellectuals. The forum aims to promote constructive dialogue on major global issues that affect the Arab world.

Sulaiman was editor-in-chief of *Forbes Arabia*, prior to assuming the role of chairman, Forbes CEO Middle East Forum.

BANK ALJAZIRA — Saudi Arabia

Khaled Al Wadghiri was appointed as CEO of Bank AlJazira effective the 6th March. Former CEO Zied Tarek Aba Al-Khayel will continue as co-CEO.

BARCLAYS — Middle East

Barclays has appointed Roger Jenkins chairman of investment banking and investment management (IBIM) for the Middle East.

This new position will be in addition to his existing roles as CEO of Barclays Private Equity, principal investments and structured capital markets and a member of IBIM's executive committee.

BLME — UK

London-based Bank of London and The Middle East (BLME), has engaged Prof Mahmood Faruqui as senior adviser. Mahmood has extensive experience in advising banks on strategy, governance and Shariah aspects of product structuring and documentation.

Mahmood has been a board member of and adviser to Habib Bank, Alfaysal Investment Bank, Faysal Bank, Faysal Islamic Bank of Bahrain, Dar-Al-Maal Islami (DMI) Geneva and Habib Bank AG Zurich.

CALYON — Asia

The investment banking unit of Crédit Agricole has appointed Frederic Laine to head its fixed-income markets business for Asia outside of Japan. Laine will lead the development and strategy of fixed-income markets products including interest rate derivatives, foreign exchange, commodities, debt and credit markets, structured credit markets and treasury.

CLIFFORD CHANCE — Saudi Arabia

Mohamed Hamra-Krouha, a partner in Clifford Chance Dubai, has relocated to Riyadh, where the firm has a strong association with Al Jadaan & Partners Law Firm. The move took effect on the 1st March 2008.

Mohamed has worked on projects in the Middle East and Africa.

DIFC AUTHORITY — UAE

The Dubai International Financial Centre (DIFC) Authority has appointed Abdulla Mohammed Al Awar as managing director. His main responsibilities will include attracting licensees to operate in the DIFC across the financial services sectors as well as supporting firms and activities.

DEUTSCHE BANK — Singapore

Dr Chua Hak Bin will join Deutsche Bank next week as Asian investment strategist for its private banking unit. The former economist at Citigroup has worked as an economist at DBS and at the Monetary Authority of Singapore.

GENERAL RE CORP — US

Joseph Brandon has resigned as chairman and CEO of General Re Corp, a reinsurance unit of Berkshire Hathaway, effective 14th April 2008. Franklin Montross, president of General Re, will take over.

Brandon was once considered a leading candidate to replace the 77-year-old Warren Buffett at Berkshire's helm.

MICROLINK MENA — Kuwait

Adel Buaijan is CEO and chairman of the newly formed Microlink MENA, a joint venture between Malaysia's Microlink Worldwide and Technology World Company of Kuwait.

MORGAN STANLEY — UAE

Morgan Stanley has recruited three bankers for its Dubai office, advising sovereign wealth funds and private equity firms in the Middle East and North Africa region.

Dennis Cornell, Hugo Parson and Hani Ramadan will report to the region's chairman David Law.

Cornell, who will lead the team, was a senior coverage banker in Morgan Stanley's financial sponsors group in New York. Parson has worked in the bank's leveraged and acquisition finance group in London. Hani was with the financial sponsor group at UBS, where he spent the last two years covering Middle East markets from London and Dubai.

OCBC — Malaysia

OCBC Bank has appointed Jeffrey Chew Sun Teong as deputy CEO. He will continue to have overall responsibility for all corporate and commercial customer relationships in Malaysia as head of business banking.

Chew remains a director of OCBC Advisers and OCBC Capital.

OMAN AIR — Oman

Darwish bin Ismail Al Balushi is acting CEO of Oman Air. The secretary-general of the Ministry of Finance, who is also a member of the airline's board of directors, was appointed following the sudden demise of CEO Ziad al Haremi last week.

DBS — Singapore

Rajan Raju is the new head of consumer banking. He replaces Edmund Koh, who has joined Carlyle Group. Rajan was DBS's managing director for South and Southeast Asia.

The bank has also appointed managing director Andrew Ng as head of treasury and markets.

Deal *tracker*

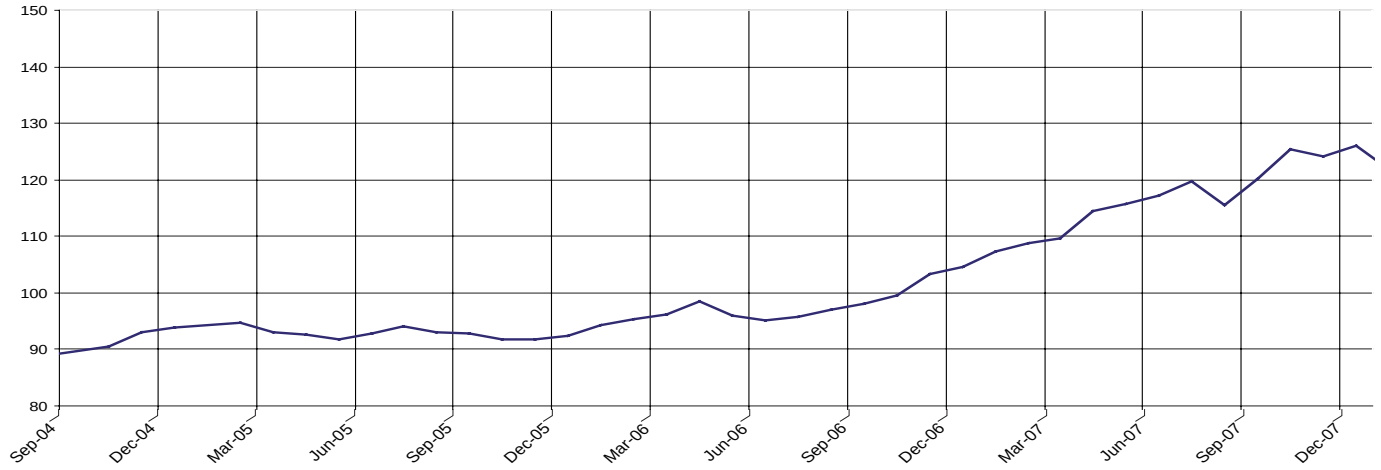
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
Bahrain Central Bank	US$500	Sukuk
Qatar Islamic Bank	US$300	Sukuk
Barwa Real Estate	US$800	Sukuk
Doha Bank	US$1 billion	Sukuk Ijarah
RAK Properties	US$2 billion	Sukuk
Tabreed	Up to US$500	Sukuk
Dubai International Financial Center	US$200	Sukuk
Amlak Finance	US$260	Sukuk
Al-Rajhi Cement Investment	US$595	Sukuk
Al-Zamin	US$11.15	Mudarabah
Muhibbah Engineering	US$125.41	Mudarabah
Indonesia	TBA	Ijarah
Orient Technology Indonesia	US$120	Islamic and conventional
People's Leasing Co.	up to US$9.27	Ijarah
Perisai	up to US$47.03	2 tranches in 6 series
Ranipur Sugar	US$7.96	Diminishing Mushakarah
Pakistan International Airlines	US$1.08 billion	Ijarah
Pak Elektron	US$1.9 billion	Diminishing Musharakah
Adhi Karya	US$10.95	Mudarabah
Al Noor Sugar Mills	US$7.99	Diminishing Musharakah
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
Javedan Cement	US$15.98	Diminishing Musharakah
Kwantas	US$20.41	Murabahah; CP/MTN
Lahore Suncity	US$250	Musharakah
Moccis Trading	US$119.31	Murabahah
Naim Cendera	US$156.99	Musharakah CP/MTN
National Industrial Parks	US$31.96	Ijarah

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

Eurekahedge Asia Pacific Islamic Fund Index



Monthly returns for Developed Markets funds (as of 16th April 2008)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Islamic Ijara Fund IV	Wafra Capital Partners	7.61	Kuwait
2	Islamic Certificate on European Real Estate Altiplano	ABN Amro Bank NV	2.04	Not disclosed
3	Islamic Al Yusr Certificate on the ABN Amro US Opportunities Fund A	ABN Amro Bank NV	1.81	Not disclosed
4	Alfanar US Capital Value	Apex Capital LLC	0.58	British Virgin Islands
5	Solidarity European Real Estate Fund	Solidarity Funds Company BSC ©	0.45	Bahrain
6	Al Madar US Index Fund	Almadar Finance & Investment	-4.03	Bahrain
7	Amana Income	Saturna Capital Corp	-4.87	United States
8	Amana Growth	Saturna Capital Corp	-5.83	United States
9	iShares MSCI USA Islamic	Barclays Global Investors	-6.88	Ireland
10	Noor Islamic US Equity Mid Cap Fund	Noor Financial Investment Company	-7.28	Kuwait
	Eurekahedge Developed Markets Islamic Fund Index*		***-4.67***	

Monthly returns for Emerging Markets funds (as of 16th April 2008)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	HwangDBS Dana Fahim Fund	Hwang-DBS Investment Management	26.45	Malaysia
2	Mawarid Industrial and Petroleum Services Fund	National Investments Company	12.09	Kuwait
3	Al Huda Islamic Fund	Al Ahlia Investment Company	11.11	Kuwait
4	Markaz Islamic Fund	Kuwait Financial Centre	9.65	Kuwait
5	Tijari Islamic Fund	Commercial Bank of Kuwait	8.92	Kuwait
6	United Islamic Income Fund (UIIF)	UBL Fund Managers	8.54	Pakistan
7	Al-Durra Islamic Fund	Global Investment House	7.99	Kuwait
8	Al Darij Investment Fund	National Investments Company	7.57	Kuwait
9	Al Safwa Investment Fund	National Investments Company	7.32	Kuwait
10	Tharwa Islamic Fund	Tharwa Investment Company	7.27	Kuwait
	Eurekahedge Emerging Markets Islamic Fund Index*		***-3.11***	

EUREKAHEDGE

Contact Eurekahedge

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

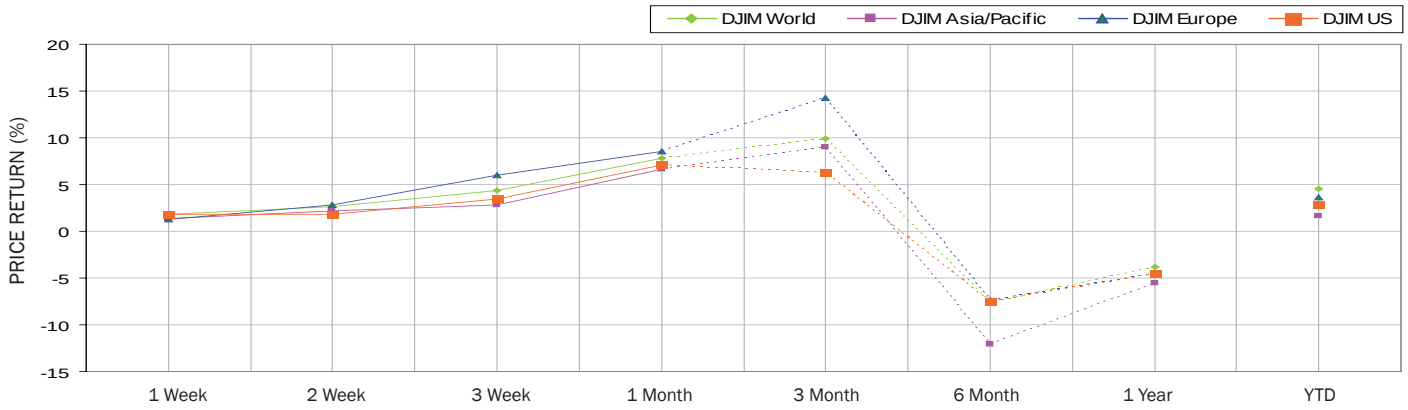
For further details on Eurekahedge: information@eurekahedge.com

Tel: +65 6212 0900

EUREKAHEDGE

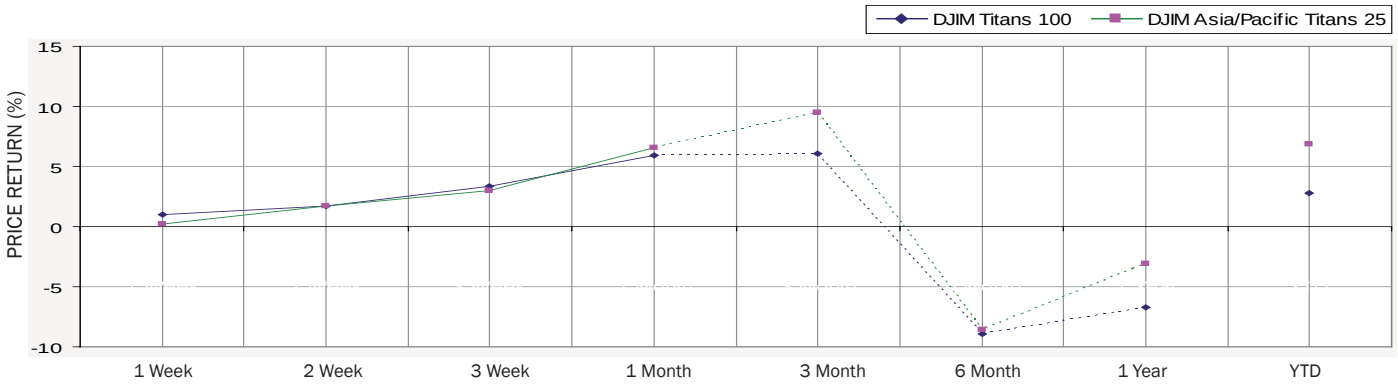
Data as of the 16th April 2008

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	1.86	2.62	4.39	7.82	9.90	-7.60	-3.85	4.54
DJIM Asia/Pacific	1.35	2.2	2.86	6.62	8.96	-12.09	-5.53	1.68
DJIM Europe	1.30	2.81	5.97	8.54	14.25	-7.36	-4.56	3.60
DJIM US	1.84	1.81	3.41	7.09	6.31	-7.55	-4.59	2.79

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	1.03	1.75	3.37	5.91	6.04	-8.92	-6.72	2.80
DJIM Asia/Pacific Titans 25	0.23	1.75	2.99	6.58	9.49	-8.59	-3.08	6.85

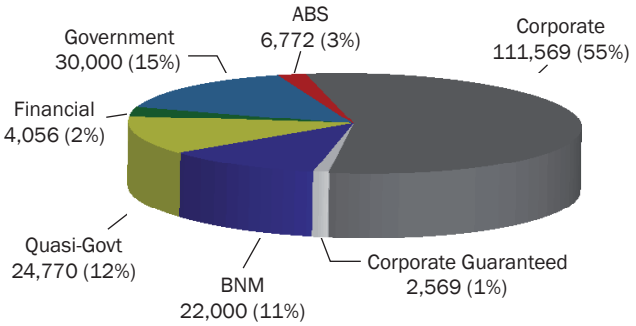
DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2633	20307.65	16410.23	6.23	1.32	499.93	0.02	3.05	0.00
DJIM Asia/Pacific	1122	3949.47	2600.51	2.32	0.52	134.88	0.03	5.19	0.00
DJIM Europe	392	5377.62	4019.67	10.25	2.7	210.31	0.22	5.23	0.01
DJIM US	732	8931.29	8404.19	11.48	2.82	499.93	0.15	5.95	0.00
DJIM Titans 100	100	8334.93	7422.20	74.22	47.50	448.13	10.91	6.04	0.15
DJIM Asia/Pacific Titans 25	25	1268.33	825.63	33.03	24.78	87.85	10.91	10.64	1.32

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

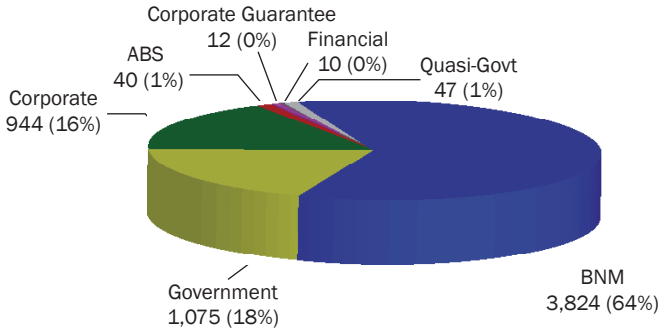
RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT AS AT 16th APRIL 2008
MOST ACTIVE BONDS TRADED BETWEEN 10th APRIL and 16th APRIL 2008

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)	99.22	3.35	1050		
BNMN-IDB 73/2007 91D 27.03.2008	99.21	3.33	600		
BNMN-IDB 18/2008 182D 11.09.2008	100.01	3.6	455	-0.06	100.07
BNMNI B7 (172D - 211D)	97.64	3.25	410		
BNMNI B9 (262D - 311D)	98.85	3.33	380		
CAGAMAS IMTN 3.830% 13.03.2009	98.37	3.35	300		
PROFIT- BASED GII 3/2007 14.09.2012	98.72	3.33	210		
BNMN-IDB 2/2008 90D 10.04.2008	100.16	3.48	205	-0.10	100.26
PROFIT-BASED GII 1/2007 15.03.2010	97.79	3.35	179.4		
KHAZANAH 0% 08.12.2016	49.75	5.25	170	2.39	48.59
BNMN-IDB 16/2008 182D 04.09.2008	96.72	3.33	160		
BNMN-IDB 34/2007 273D 20.03.2008	97.72	3.35	125		
RANTAU IMTN 0% 14.08.2013-MTN 2	100.03	3.4	120	-0.01	100.04
BNMN-IDB 17/2008 273D 11.12.2008	100.43	3.45	120	-0.08	100.51
WESTPORTS IMTN 0% 07.03.2013 (TRANCHE- 3)	99.2	3.38	110		

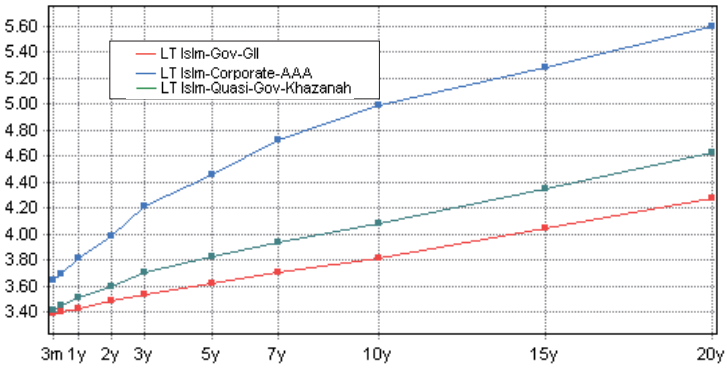
Outstanding Bond by Issuer Class as at 16th April 2008 (RM'000)



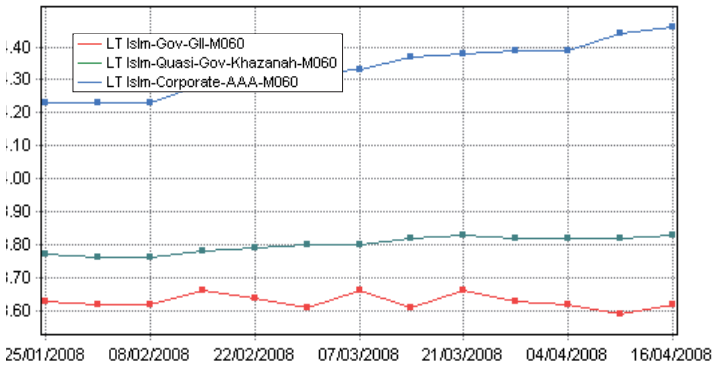
Bond Traded Amount by Issuer Class as at 16th April 2008 (RM'000)



YTM Curves as at 16th April 2008



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



TOP ISSUERS OF ISLAMIC BONDS — APRIL 2007 – APRIL 2008

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Binariang GSM	Malaysia	Sukuk Musharakah	4,509	9	13.3	CIMB, RHB Investment, Aseambankers, ABN Amro Bank, AmInvestment, OCBC Bank (Malaysia)
2	Malaysia	Malaysia	Islamic Sukuk	2,494	3	7.3	Malaysia Government bond
3	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	2,133	1	6.3	HSBC Saudi Arabia, Riyad Bank
4	JAFZ Sukuk	UAE	Sukuk Musharakah	2,043	1	6.0	Barclays Capital, Deutsche Bank (London), Dubai Islamic Bank, Lehman Brothers International (Europe)
5	Nucleus Avenue (M)	Malaysia	Sukuk Musharakah MTN	1,994	9	5.9	CIMB
6	DP World Sukuk	UAE	Sukuk Mudarabah	1,496	1	4.4	Barclays Capital, Citigroup, Deutsche Bank, Lehman Brothers
7	Saudi Electricity	UAE	Islamic Sukuk	1,333	1	3.9	HSBC Saudi Arabia
8	Dubai Sukuk Centre	UAE	Sukuk Mudarabah	1,248	1	3.7	Deutsche Bank (London), Goldman Sachs International
9	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	1,067	10	3.1	CIMB
10	Dana Gas Sukuk	UAE	Sukuk Mudarabah	1,000	1	2.9	JP Morgan
11	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Ijarah	1,000	1	2.9	ABS Islamic Bond, Arab National Bank, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank (UK), Kuwait Finance House, Unicorn Investment Bank
12	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	2.5	Deutsche Bank (Malaysia), JPMorgan, CIMB
13	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	2.5	Citigroup, CIMB
14	Nakheel Development 2	UAE	Sukuk Ijarah	750	2	2.2	JPMorgan
15	Golden Belt 1 Sukuk	Saudi Arabia	Sukuk 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	1.6	CIMB, HSBC, Citibank
	Total			**34,025**	**322**	**100.0**	

For all enquires regarding the above information, please contact:

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Phone: +852 2804 1223; Fax: +852 2529 4377

TOP ISSUERS OF ISLAMIC BONDS — JANUARY 2008 – APRIL 2008

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Malaysia	Malaysia	Islamic Sukuk	627	1	17.5	Malaysia Government bond
2	Khazanah Nasional	Malaysia	Exchangeable Sukuk	550	1	15.4	CIMB, Deutsche Bank, UBS
3	National Bank of Abu Dhabi	UAE	Exchangeable Sukuk	545	1	15.2	Morgan Stanley, Credit Suisse
4	Lingkaran Trans Kota Holdings	Malaysia	Musharakah MTN	457	13	12.8	Aseambankers
5	Central Bank of Bahrain	Bahrain	Ijarah Sukuk	350	1	9.8	Calyon
6	Manfaat Tetap	Malaysia	Sukuk Mudarabah	230	1	6.4	Affin Investment
7	Westports Malaysia	Malaysia	Musharakah MTN	140	3	3.9	OSK Investment Bank
8	Salam Bounian Development Sukuk	Qatar	Sukuk Musharakah	138	1	3.8	Qatar National Bank, Commercial Bank of Qatar, Qatar Islamic Bank
9	Al-Aqar Capital	Malaysia	Sukuk Ijarah	73	3	2.0	AmInvestment
10	Syarikat Bekalan Air Selangor	Malaysia	Bai Bithaman Ajil Islamic Bond	71	4	2.0	HSBC, CIMB, Bank Islam Malaysia
11	PT Indosat	Indonesia	Ijarah Islamic bond	62	1	1.7	PT Mandiri Sekuritas, PT Danareksa Sekuritas
12	Alam Maritim Resources	Malaysia	Sukuk Ijarah	61	4	1.7	Aseambankers, Standard Chartered
13	Gamuda	Malaysia	Sukuk Musharakah and Sukuk Murabahah	55	1	1.5	AmInvestment, CIMB
14	Pendidikan Industri YS	Malaysia	Al-Bai Bithaman Ajil Islamic Bond	46	11	1.3	Affin Investment
15	KNM Capital	Malaysia	Murabahah and Mudarabah MTN	42	3	1.2	Aseambankers
16	Pace Pakistan	Pakistan	Musharakah Islamic bond	32	1	0.9	BankIslami Pakistan, Pak-Brunei Investment
17	Sunrise	Malaysia	Murabahah MTN	32	1	0.9	CIMB
18	Sunway City	Malaysia	Murabahah MTN	29	3	0.8	HSBC
19	Pak Elektron	Pakistan	Islamic Sukuk	17	1	0.5	AMZ Asset Management, Arif Habib Rupali Bank, Askari Investment Management, Bank of Punjab, First Dawood Investment Bank, Pak-Brunei Investment
20	Eden Housing	Pakistan	Islamic Sukuk	11	1	0.3	Al-Meezan Investment Management, BankIslami Modaraba Investments, First Dawood Investment Bank, National Fullerton Assetment Management, Trust Investment Bank
	Total			**3,574**	**59**	**100.0**	

ISLAMIC BONDS		APRIL 2007 – APRIL 2008		
	Manager or Group	Amt US$ m	Iss.	%
1	CIMB	5,975	68	17.6
2	HSBC	3,634	30	10.7
3	Malaysia Government bond	2,494	3	7.3
4	Deutsche Bank	2,162	20	6.4
5	JPMorgan	2,033	4	6.0
6	Citigroup	1,800	13	5.3
7	Aseambankers	1,665	49	4.9
8	Barclays Capital	1,385	4	4.1
9	AmInvestment	1,352	53	4.0
10	Riyad Bank	1,066	1	3.1
11	Standard Chartered	945	30	2.8
12	RHB Capital	926	68	2.7
13	Lehman Brothers	885	2	2.6
14	BNP Paribas	845	3	2.5
15	Dubai Islamic Bank	714	4	2.1
16	Oversea-Chinese Banking	683	16	2.0
17	Goldman Sachs	624	1	1.8
18	ABN Amro	620	8	1.8
19	Morgan Stanley	382	5	1.1
20	Credit Suisse	381	2	1.1
	Total	**34,025**	**322**	**100.0**

ISLAMIC BONDS		JANUARY 2008 – APRIL 2008		
	Manager or Group	Amt US$ m	Iss.	%
1	Malaysia Government bond	627	1	17.5
2	Aseambankers	532	21	14.9
3	Calyon	350	1	9.8
4	Affin Investment	276	12	7.7
5	Credit Suisse	272	1	7.6
6	Morgan Stanley	272	1	7.6
7	CIMB Group	266	7	7.4
8	Deutsche Bank	183	1	5.1
9	UBS	183	1	5.1
10	OSK Asia Securities	140	3	3.9
11	AmInvestment	103	5	2.9
12	HSBC	53	7	1.5
13	Commercial Bank of Qatar	46	1	1.3
14	Qatar Islamic Bank	46	1	1.3
15	Qatar National Bank	46	1	1.3
16	PT (Persero) Danareksa	31	1	0.9
17	PT Bank Mandiri (Persero)	31	1	0.9
18	Standard Chartered	30	4	0.8
19	Bank Islam Malaysia	24	4	0.7
20	Pak-Brunei Investment	19	2	0.5
	Total	**3,574**	**59**	**100.0**

ISLAMIC BONDS BY COUNTRY	APRIL 2007 – APRIL 2008		
	Amt US$ m	Iss.	%
Malaysia	18,014	274	52.9
UAE	8,276	14	24.3
Saudi Arabia	5,116	4	15.0
Kuwait	775	3	2.3
Pakistan	679	18	2.0
Bahrain	550	2	1.6
Total	**34,025**	**322**	**100.0**

ISLAMIC BONDS BY COUNTRY	JANUARY 2008 – APRIL 2008		
	Amt US$ m	Iss.	%
Malaysia	2,420	52	67.7
UAE	545	1	15.2
Bahrain	350	1	9.8
Total	**3,574**	**59**	**100.0**

ISLAMIC BONDS BY CURRENCY	APRIL 2007 – APRIL 2008		
	Amt US$ m	Iss.	%
Malaysian ringgit	16,614	272	48.8
US dollar	10,502	23	30.9
Saudi Arabian riyal	3,466	2	10.2
Emirati dirham	2,587	2	7.6
Total	**34,025**	**322**	**100.0**

ISLAMIC BONDS BY CURRENCY	JANUARY 2008 – APRIL 2008		
	Amt US$ m	Iss.	%
Malaysian ringgit	1,870	51	52.3
US dollar	1,038	3	29.0
Emirati dirham	545	1	15.2
Total	**3,574**	**59**	**100.0**

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DATE	EVENT	VENUE	ORGANIZER
April			
19th - 20th	8th Harvard University Forum on Islamic Finance 'Innovation and Authenticity'	Massachusetts	Harvard Law School, Islamic Legal Studies Program
20th - 23rd	Securitization World MENA 2008	Dubai	Terrapinn
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
19th - 20th	Islamic Finance Forum Series	Dubai	Interactive Events
20th - 23rd	Islamic Finance World North America 2008	US	Terrapinn
20th - 21st	The PEI Islamic Alternative Assets Forum: London 2008	London	PEI Media
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
26th - 28th	4th Annual Middle East Project Finance Conference	Dubai	Fleming Gulf
26th - 29th	The International Islamic Finance Leadership Summit	Turkey	IQPC
June			
2nd - 5th	Funds World Middle East 2008	Dubai	Terrapinn
3rd	Cairo IFN Forum 2008	Egypt	Islamic Finance Events
15th - 17th	TradeTech Middle East 2008	Dubai	WorldWide Business Research
15th - 19th	Sukuk World Middle East	Dubai	IIR Middle East
23rd - 26th	4th International Islamic Finance Forum 2008	Hong Kong	Informa
24th - 26th	Islamic Finance & Investment World Europe 2008	UK	Terrapinn
July			
22nd	Innovative Product Development	UK	IGG Events
August			
11th - 13th	MIF 2008 Issuer & Investors Forum	Kuala Lumpur	Islamic Finance Events
October			
8th	London IFN Forum	UK	Islamic Finance Events

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