Islamic Finance news

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SAUDI ARABIA

Muslim world to see US$1.2 trillion inflow for projects

The Islamic Development Bank (IDB) expects its 56 member countries to invest US$1.2 trillion in infrastructure development over the next 10 years mainly in the telecommunications, transport and water and power sectors. It estimates about US$675 billion to be taken up by telecommunications and power projects, almost half of that in the Gulf Cooperation Council states.

The IDB sees about US$290 billion going into expanding and upgrading air, sea and land transport infrastructure with about half of it for Muslim countries in Asia.

Another US$115 billion is to be invested to expand and upgrade water and sanitation services, with about 60% of it for Arab and African states.

The private sector is expected to provide much of this financing, the bank said.

(Also see IFN Reports on page 11)

MALAYSIA

Faisal Bank to use Malaysia as launch pad

Faisal Private Bank has favored Malaysia to establish itself in the Southeast Asian region in the Islamic private banking market.

Its investment banking head, Giovanni Perin, said a representative office will be opened soon that will be used as a platform to enter markets such as Singapore and Indonesia.

Faisal has obtain an approval from the Swiss Federal banking Commission to open its representative office in Malaysia and was currently in the process of getting a nod from Malaysia's central bank.

Faisal, which is 79.6% owned by Bahrain-based Ithmaar Bank, will target private and corporate clientele in the US$1 million to US$15 million investment bracket.

Faisal currently have two local institutional clients, whose funds are mainly invest in real estate and equity in Asia.

Faisal's representatives were in Kuala Lumpur this week to showcase their Central Eastern Europe Real Estate Fund.

(Also see IFN Reports on page 12)

AFRICA/SAUDI ARABIA

Islamic fund targets Africa

Investec Asset Management and Jadwa Investment are co-launching a new Shariah compliant fund to invest in African equity markets, making it the first fund in the Middle East to specialize in Africa. The fund aims to raise more than US$100 million in its first year.

Investec is a Johannesburg-based investment company that specializes in African and frontier investments. It will manage the fund and oversee the stock selection. Riyadh-based Jadwa is responsible to raise the funds and advise whether stocks are Shariah compliant.

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UK

Habib Bank opens London's third branch

Habib Bank opened its third branch in London to bring to six its branches in the UK. Shahid Malik, British junior minister for international development who opened it, called the expansion a great boost to the bank's exceptional performance around the globe.

He reiterated the government's support for Islamic banking and the launch of Islamic bonds and Shariah compliant services to cater to the need of Muslim population in the country. The bank also plans to launch a visa debit card service in the future.

UAE

Elfina promotes India's Shariah scheme

Elfina Financial Investment Consultancy, the investment arm of the House of Patels, is willing to promote and support the distribution of Reliance Money's Shariah compliant portfolio management schemes and other similar financial products in the country.

Elfina and House of Patels chairman Asgar Patel said Reliance Money will work with Parsoli Corporation in India to ensure Shariah compliancy in all its financial products. Parsoli is listed on the Bombay and Ahmadabad stock exchanges and is a corporate member of the National Stock Exchange of India.

Reliance Money is a wholly owned subsidiary of Reliance Capital, part of India's Anil Dhirubhai Ambani Group.

MALAYSIA

Shariah fund declares final distribution

Public Bank's wholly-owned subsidiary, Public Mutual, has declared final distribution for the Public Islamic Equity Fund and seven of its other funds. The bank's Islamic fund has a final gross distribution of RM6.50 (US$2) for the year ended the 31st May 2008.

Public Mutual is the largest private unit trust company in Malaysia.

SAUDI ARABIA

Al Ahlia reports losses

Al Ahlia Insurance Company for Cooperative Insurance has posted a preliminary financial result for the first three months of 2008, with SAR10.73 million (US$2.9 million) in net losses, and losses per share at SAR1.07 (US$0.28).

The company is awaiting approval on its insurance policies from Saudi Arabian Monetary Agency (SAMA).

KUWAIT

Abyaar's earnings expected to increase

According to a report, Abyaar Real Estate Development is hopeful that its earnings will increase by 80% this year, said Marzooq Rashed Al Rashdan, the company's vice chairman and managing director. The shareholders of Abyaar have also approved the US$180 million Sukuk issuance that will probably be marketed in July, he added. Marzooq also noted that the Sukuk will be used to finance its new projects and expansion plans.

GCC

GCC moves toward monetary union

A draft agreement has been approved by the GCC central bankers for monetary union and a regional central bank is likely to be set up by next year, a Gulf official said. The central bank governors have scheduled another meeting in August to conclude the framework for the single currency.

Naser Al Kaud, deputy assistant secretary-general of the GCC Secretariat, called the agreement a major step toward achieving monetary union for the GCC countries except for Oman, which opted out last year.

With the hope that the monetary union will be operational next year, Naser said, the officials governing the central banks have agreed to most of the important terms in the draft. The efforts to push forward the single currency plan lighten the pressure on the GCC to revalue their currencies against the dollar, he added.

UAE

Sukuk traders to relocate

Deutsche Bank will move its Sukuk traders to Dubai from London to penetrate the region's economic growth and developing secondary market, said the bank's managing director and regional head of Middle East structuring and global markets, Geert Bossuyt. He felt the move makes perfect sense since most issues are in the region and part of the secondary market is in the GCC.

INDONESIA

Taxes on government Sukuk removed

Taxes on Islamic bonds issued by the government have been removed, Indonesia's finance ministry director-general for government debt Rachmat Waluyanto said. Whether similar action will be taken for corporate bonds depends on the changes being made to the value-added tax law, he added.

SAUDI ARABIA

Falcom gets green light

Falcom Financial Services has been given the go-ahead to launch its Falcom IPO Fund by Saudi Arabia's Capital Market Authority. Falcom is a Shariah compliant investment bank with five branches in Saudi Arabia.

UAE

CBB approves Islamic Buyout Fund

Global Investment House (GIH) and Dubai Islamic Bank's (DIB) Shariah compliant buyout fund, worth US$500 million, has been given the green light by the Central Bank of Bahrain (CBB). GIH and DIB, as well as Millennium Capital, are the seed investors, and they will contribute 13% of the fund's capital. GIH will act as the investment manager while Millennium Capital will be the fund's investment adviser.

The Islamic Buyout Fund was formed to acquire controlling positions together with the existing Global Buyout Fund, or act independently in Islamic buyout opportunities in MENA, Turkey as well as South and Southeast Asia regions. It has a target of 20% for internal rate of return.

MENA

Islamic banks becoming tech savvy

Islamic banks are ahead of conventional banks in the West when it comes to deploying technology in their business, said Mohamed Goneid, the business development manager for the Middle East and Gulf regions at Temenos. Middle East banks used to look to the West and adopt what they were doing, but the situation is reversing now, he added.

Swiss-based Temenos is the provider of integrated modular core banking systems. The company aims to provide cutting-edge products with its Islamic banking systems.

QATAR

Sukuk to fund carbon credit exchange

Talks are under way between Doha Bank, JPMorgan Chase and Morgan Stanley to help sell the bank's Sukuk worth US$1 billion, possibly in the first quarter of 2009, said the bank's CEO, Raghavan Seetharaman.

According to him, the issuance was delayed from this October to ensure that all necessary regulatory approvals are in place and that it is cost-effective. The Sukuk will be used to fund the Gulf's first carbon credit exchange, said Raghavan.

QATAR/UAE

Doha Bank's expansion plans

Doha Bank is looking into acquisition and investment opportunities in line with its expansion plans, said Shaikh Abdul Rehman bin Mohammed bin Jabor Al Thani, its managing director. The bank recently raised its capital by 15% to QAR1.2 billion (US$330 million) after the oversubscription of last month's rights issue, which gives Doha Bank the funds to go forward with its plan, he added.

Abdul Rehman said the bank will not focus on retail banking as there are a lot of banks offering retail services and products, but more on corporate and trade finance.

Doha Bank also opened a branch in Dubai, making it the first Qatari bank to start its operations in the Emirates.

MALAYSIA

Bank Muamalat launches new products

Bank Muamalat has launched its Muamalat General Investment Account (GIA) and ONEReach Savings Account-i, and expects to collect between RM300 million (US$92 million) and RM500 million (US$153 million) in deposits, said senior vice-president Azaddin Ngah Tasir. A four-month deposit drive began this week.

The bank also hopes to get similar amounts of deposits for the Muamalat Truly Refreshing Home Financing-i Drive 2008, its home financing campaign, launched at the same time. The main objective, Azaddin said, is to boost the bank's sales in its secondary market, which covers sub-sales, refinancing and purchase of completed properties.

JORDAN

Fairfax buys Arab Orient's shares

Fairfax Financial Holdings has bought about 20% of Arab Orient Insurance Company's shares for US$10 million. Prem Watsa, chairman and CEO of the insurance firm, described this as a part of its strategy to partner with the world's best insurance and reinsurance corporations. The Jordan Kuwaiti Bank owns 65% of Arab Orient, which is listed on the Amman Stock Exchange.

The Fairfax group is a Canada-based financial services holding company which focuses on property and casualty insurance and reinsurance as well as investment management.

PAKISTAN

Banks' liquidity base raised

The State Bank of Pakistan has decided to raise the country's statutory liquidity requirements from 5% to 7% of total time and demand liabilities.

Its governor, Shamshad Akhtar, also said the bank is seriously studying its role as an Islamic finance hub. She felt that well-developed Shariah compliant money, capital and foreign exchange markets will benefit both borrowers and investors and could also enhance the stability of Islamic finance institutions.

UAE

Network signs agreement with Al Hilal Bank

Network International, UAE's largest payment services provider for credit and debit cards, is to handle most of Al Hilal Bank's processing including its debit card management, ATM switching and an integrated credit card management system as well as fraud monitoring, dispute handling and card personalization.

Its chairman, Abdulla Qassem, said the company secured the deal in competitive bidding and added that the UAE implementation will be used as a model for expansion to other countries.

This is Network's first step into Islamic banking. Network is an Emirates NBD subsidiary.

JORDAN

Oversubscription for Amlak's IPO

The subscription of Amlak Finance Jordan's initial public offering (IPO) was oversubscribed, netting JOD145.61 million (US$205.4 million), 11 times more than the targeted JOD13.75 million (US$19.4 million).

Lead manager Jordan Investment Trust (Jordinvest) said refunds have begun. The IPO makes up 25% of the capital in Amlak Finance Jordan, previously known as Inwan Investment.

MALAYSIA

Tabreed elects bank as corporate trustee

National Central Cooling (Tabreed) has appointed the Bank of New York Mellon as the corporate trustee of its mandatory exchangeable Sukuk issuance worth AED1.7 billion (US$462.82 million). The deputy CEO of Tabreed, Karl Marietta, expressed confidence that the bank will meet its servicing needs.

The bank will act as the delegate trustee, principal paying agent, exchange agent, transfer agent, replacement agent, calculation agent and registrar for the Islamic bonds issuance.

BAHRAIN

Family Office launches Islamic fund

Investment firm The Family Office (TFO) is launching a multi-strategy Islamic fund to serve Middle Eastern Muslim clients interested in investing in a wide mix of strategies. The company is looking at raising up to US$100 million. TFO specializes in multi-family wealth services.

MALAYSIA

MRCB Southern Link proposes Sukuk

MRCB Southern Link, involved in a highway project, plans to issue RM845 million (US$258.33 million) secured senior Sukuk and RM199 million (US$60.83 million) junior Sukuk, collectively worth RM1.04 billion (US$318 million). Funds raised will be used to develop the proposed Eastern Dispersal Link Expressway (EDL) tolled-road project.

MRCB Southern Link is a unit of MRCB Lingkaran Selatan, which is the concessionaire for the EDL. The proposed senior and junior Sukuk were assigned 'AA3' and 'A2' ratings respectively by RAM Ratings.

EGYPT/UAE

DPW plans Egypt economic zones

DP World (DPW) is said to be close to gaining approval to create economic zones along Egypt's Red Sea coast. This follows its acquisition of a controlling stake in the company that runs Sokhna Port on the Gulf of Suez's west coast.

The zones are likely to be adjacent to the port and come under Economic Zones World, a DPW unit that creates, develops and manages the group's global free zones, economic zones and activity-specific business and industrial zone operations.

SRI LANKA

LOLC launches Shariah financing

Lanka ORIX Leasing Company (LOLC), a financial solutions provider in Sri Lanka, this week launched a range of Shariah compliant financial products. LOLC is regarded as a vital contributor towards the growth of the Sri Lankan financial services sector, with fully owned subsidiary Lanka ORIX Finance allowed to mobilize Shariah compliant deposits.

LOLC chairperson Rohini Nanayakkara noted that a niche market like Islamic financing has a premium position and huge potential even in non-Islamic countries like Sri Lanka. LOLC will offer Shariah compliant services which will be supervised by the Shariah supervisory board.

BAHRAIN

KHCB's shares listed on BSE

Khaleeji Commercial Bank (KHCB) CEO Ebrahim H Ebrahim said its shares were listed on the Bahrain Stock Exchange and trading began on the 12th June. The bank is also looking into cross-trading on other exchanges in the GCC region, he added.

KHCB's transition to a listed company is a big step for the bank that will enable it to diversify its shareholder base and provide liquidity to its existing ones, Ebrahim added.

UAE

Shuaa expands into Kuwait

UAE's biggest investment bank, Shuaa Capital, will be opening an asset management office in Kuwait before its financial year ends on the 31st March, CEO Iyad Duwaji said. It is in the process of acquiring a legal entity and a license to operate in the Gulf state as Shuaa Capital Kuwait, he added.

The company is also looking into brokerage opportunities but is unable to proceed due to the limited number of licenses in Kuwait. Shuaa Capital is reported to be planning to delist from the Kuwaiti Stock Exchange.

SYRIA

SIIB opens several branches

The Syrian International Islamic Bank (SIIB) has opened several new branches with a capital of SYP5 billion (US$97 million). It attracted SYP16 billion (US$309 million) in investment deposits, triple its paid-up capital, said the bank's director-general, Abdel-Qader al-Dwik.

Qatar contributed 49% of the bank's paid-up capital while the remaining 51% is owned by Syrian and Qatari investors. The formation is expected to strengthen the financial, economic and banking relationship between the two countries, added Abdel-Qader.

SIIB has set up the Syrian Islamic Insurance Company, which is also a collaborative effort between investors from Syria and Qatar. The establishment of a financial brokerage company is underway.

MALAYSIA

Alliance signs MoU with Okachi

Okachi Malaysia has been appointed as the commodity trader of Alliance Islamic Bank's new fixed deposit product, Alliance Fixed Investment-i (AFI).

The product is the first in Malaysia which uses commodities traded on the Tokyo Grain Exchange and Central Japan Commodity Exchange for deposit placement, said the bank's CEO, Yahya Ibrahim. It provides an alternative investment source for Islamic deposits from government bodies and large corporate depositors, and can help improve the bank's liquidity position, he added.

AFI is based on the Tawarruq structure. Customers can place a minimum of RM1 million (US$306,762) and up to RM100 million (US$30.6 million) for tenures between one and 60 months. Alliance Islamic is looking to raise US$30.6 million in deposits for the product by the end of this month, said Yahya.

MENA/UK

Hawkamah, SII to work together

The Hawkamah Institute for Corporate Governance has signed an MoU with the Securities and Investment Institute (SII) on working together in promoting financial market integrity through corporate sector and governance reforms.

Both institutions will also cooperate in improving the governance practices of firms in the private and public sectors.

QATAR/TURKEY

QIB eyes Turkish market

Qatar Islamic Bank (QIB) has begun talks with a Turkish bank to expand into the country as part of its strategy to take advantage of opportunities for growth, said the bank's CEO, Salah al-Jaidah. In a report, he described Turkey as a well-regulated market that has the capacity to provide a bridge between Europe and Central Asia. The report did not name the Turkish bank.

Salah also said that QIB is considering Egypt as its North African base, and that an MoU has already been signed for a new bank in Kazakhstan. Two hubs have been set up by QIB internationally; Europe Finance House located in the UK and Asian Finance Bank in Malaysia, he added.

INDONESIA

RNCOS reports on Indonesia

RNCOS, an India-based industry research company, has added a new market report to its gallery, titled "Shariah Banking System in Indonesia". It provides extensive research and analysis on the Islamic banking market in the country, as well as opportunities and forecasts. The report also provides an overview of the key financial players in Indonesia, including Bank Muamalat Indonesia, Bank Danamon Sharia and HSBC Amanah.

BAHRAIN

Abaad raises capital to US$67 million

Abaad Real Estate, Bahrain's property investment firm has increased its paid-up capital to BHD25 million (US$67 million).

According to company chairman Shaikh Hisham A Rahman Al Khalifa, the increase in the paid-up capital could strengthen the company's competitive ability within the region and help Abaad in establishing its presence in the real estate market.

Abaad was established in the first quarter of last year with a paid-up capital of BHD10 million (US$27 million) and is a wholly-owned subsidiary of Bahrain Islamic Bank.

BAHRAIN/KUWAIT

Bahrain, Kuwait state funds are A1

Bahrain and Kuwaiti sovereign funds are the best in transparency in the Gulf region, according to the independent Sovereign Wealth Fund Institute. Both Bahrain Mumtalakat Holding Company and Kuwait Investment Authority topped the score on the Institute's Linaburg-Maduell Transparency Index.

The UAE's Investment Corporation of Dubai (ICD) ranked third, followed by Saudi Arabian Monetary Agency, Abu Dhabi Investment Council and the RAK Investment Authority.

The Linaburg-Maduell Transparency Index is based on 10 essential principles that depict sovereign wealth fund transparency to investors. These include the provision of percentage ownership of company holdings, financial returns and geographic locations of holdings as well as the provision of clear strategies and objectives.

MALAYSIA

IFSB, IIF co-organize conference

Bank Negara Malaysia will play host to a conference themed 'Enhancing the Resilience and Stability of the Islamic Financial System', which will be co-organized by the Islamic Financial Services Board (IFSB) and the Institute of International Finance (IIF).

The conference is organized due to the increasing interest shown in Shariah compliant finance. It will provide a platform for discussions on the strength of the structure of the Islamic financial system in the face of a crisis, said Rifaat Ahmed Abdel Karim, IFSB's secretary general.

It is scheduled to be held on the 20th and 21st November this year.

UAE

SALAMA ties up with Oasis Crescent

SALAMA Islamic Arab Insurance (SALAMA) has tied up with Oasis Crescent, allowing the public to access to the funds from the fund management company through SALAMA's products for a minimum of AED200 (US$54.45) per month, said Noel D'Mello, SALAMA's head of family Takaful. This is part of the insurance firm's move to making quality and affordable Takaful products and services accessible to the people of UAE, he added.

SALAMA is the largest Takaful and reTakaful group in the world with a capital of AED1.1 billion (US$300 million).

KENYA

FCB chooses Path Solutions

Path Solutions has announced that the First Community Bank (FCB), Kenya's first full-fledged Islamic bank, has gone live using its iMAL Islamic Banking & Investment System, after only four months from the date the project kicked off. Raida Hafez, the company's project director, said that the quality and commitment of both parties has ensured that the implementation process runs smoothly.

FCB's head of business technology and project manager, Hassan Muhammud said that Path Solutions was chosen as it understood the bank's business model, and for its flexibility.

Path Solutions is the leading provider of high-quality integrated Shariah compliant software products and services to the Islamic banking industry globally.

UAE

DIFC to release research project

Dubai International Financial Centre (DIFC) will release a research project on Islamic finance standardization this year, said Nasser Al Shaali, CEO of DIFC Authority. He said that the report will not only apply to the UAE or GCC, but will have a global appeal.

DIFC with several undisclosed partners will formulate the standards for different Islamic transactions.

BAHRAIN

GFH announces launch of GARE II

Gulf Finance House (GFH) has announced the launch of its Shariah compliant UK commercial property fund, the Gulf Atlantic Real Estate II (GARE II). Prior to its launch, a study on the UK commercial property market was conducted by GFH's real estate fund management team, which identified a buying opportunity in the market following significant falls in value during the last six months.

Leading UK chartered surveyors, Knight Frank has been appointed as the strategic adviser to the fund, said Alan Durrant, GFH's head of asset management.

UAE

Daman's CEO calls for stronger rules

The CEO of the National Health Insurance Company (Daman) is calling for a stronger regulation in the insurance sector so as to secure a strong insurance market in the region.

Michael Bitzer said that the mushrooming of new insurance companies has positively increased the competition among insurance companies, but the unrealistic low premiums these companies offer may pose an immediate risk to the market.

KUWAIT

BKME gets green light to be Islamic

The Bank of Kuwait and the Middle East (BKME) has won initial approval to transform into an Islamic bank. Following the approval, the bank has one year to complete the license, or it will lose the permission, said Sheikh Salem Abdul-Aziz Al-Sabah, governor of the Central Bank of Kuwait.

BKME submitted the application for the Islamic license in September last year.

UAE

ADIB to discuss Burooj

Abu Dhabi Islamic Bank (ADIB) will be meeting on the 16th June to discuss raising the capital of its wholly-owned Burooj Properties, which was initially proposed by the executive committee. The committee also proposed to set up companies to affiliate with the bank.

Burooj was established in October 2005, and was created from ADIB's former real estate department.

UAE

Dewa increases Sukuk by 16%

Due to the high demand for its Islamic bonds, Dubai Electricity & Water Authority (Dewa) has decided to increase the size of its Ijarah-structured Sukuk sale by 16%, from AED2.75 billion (US$749 million) to AED3.2 billion (US$871 million).

It was previously reported that Barclays Capital, Citigroup, Dubai Islamic Bank and Emirates NBD had been selected to participate in the issuance.

KUWAIT

Al-Muthana plans an Islamic fund

Al-Muthana Investments plans to issue a new Shariah compliant fund for public subscription with a revolving capital of between KWD5 million (US$19 million) and KWD50 million (US$189 million). The Muthana GCC Islamic Banks Fund will have a minimum subscription of 1,000 units with a nominal value of KWD1 (US$4) each. Return is projected at 15% to 20% annually.

Company general manager Abdul Aziz Naser Al Marzouk said a maximum of 47,500 units will be issued for subscription by Kuwaiti, GCC and Arab citizens, resident and non-resident expatriates, as well as Kuwait, Gulf and foreign companies located in and outside the country.

The fund aims to provide investment opportunities in the GCC Islamic banking sector's company shares. Al Muthana is a subsidiary of Kuwait Finance House and was incorporated in 1999.

QATAR

Capivest launches new company

Capivest Bank, Ali Iskandar Al Ansari & Sons and Shaikh Mohammed Suhaim Al Thani have formed a multi-million dollar investment company, AIAP Qatar. The private shareholding company will focus on the transportation of construction materials, leasing of heavy equipment as well as a service center for these equipment. Nabil Mohammed Hadi, CEO of the bank, said the company was formed to support the construction boom in the country.

AIAP Qatar is fully Shariah compliant. Expansion plans are underway and branches are expected to be established in other GCC countries, the MENA region and possibly in the international markets as well.

KUWAIT

NBK profit to grow 20%

The National Bank of Kuwait (NBK) is confident that its profit will grow by up to 20% in the first half of this year. Its CEO, Ibrahim Dabdoub, said that expanding abroad has provided the bank with different sources of income, with foreign branches contributing 20% of NBK's income. Ibrahim said he expects this to increase to 50% by 2015.

The bank recently launched the Islamic Global Real Estate Securities Fund, which is already investing in Asia, Europe and the US. The fund aims to achieve long-term capital growth through Islamic real estate portfolios, said NBK Capital's head of wealth management, Nabil Maroof.

SAUDI ARABIA

New intra-trade financing

Trade among the Organization of the Islamic Conference (OIC) can be enhanced with the adoption of the OIC-Trade Preferential Scheme (OIC-TPS), said Malaysia's deputy finance minister Ahmad Husni Mohamad Hanadzlah.

He suggested that the TPS be used in place of the non-trade barriers (NTBs) scheme which ought to be removed as it hinders intra-trade financing by the Islamic Development Bank's (IDB) International Islamic Trade Finance Corporation (ITFC). At present, intra-trade between OIC member countries accounts for only 10% of their total trade.

Ahmad Husni proposed that IDB discuss the adoption of the new scheme with member countries and encourage them to participate actively.

The ITFC was established last year to further consolidate and enhance IDB's trade financing activities.

BAHRAIN

CBB, LMC launch Islamic instrument

The Central Bank of Bahrain (CBB) will launch a new Islamic financial instrument, the Islamic Sukuk Liquidity Instrument (ISLI), which was developed by the bank and the Liquidity Management Centre (LMC).

The instrument is designed to enable Islamic as well as conventional financial institutions holding dirham-denominated CBB Sukuk Ijarah to participate in transactions that will give them access to short-term liquidity. It is expected to complement the Sukuk offered by the central bank.

CBB has committed considerable resources to make ISLI an efficient product, said Ahmed Abbas, CEO of LMC. It also demonstrates CBB's commitment to the Shariah compliant finance industry and is expected to enhance the country's position as a leader in the Sukuk market.

LMC is a Bahrain-based organization that provides asset sourcing, structuring and market making capabilities.

JAPAN

FSA submits law amendments

The country's Financial Services Agency (FSA) has tabled in Parliament changes to Japan's banking law designed to allow banks to offer Islamic products through subsidiaries.

Tadashi Maeda, director general and special adviser for energy & resources at the Japan Bank for International Cooperation (JBIC), is positive that the amendments will be adopted in the current session of the Diet, which ends on the 20th June. Upon its approval, he foresees local banks offering Islamic products to Japanese customers within three years. At present, such offers can only be made to the international markets as tax issues deter its presence in the domestic market.

Maeda also touched on the delays over JBIC's Sukuk issuance, attributing this to disagreements regarding the bond's structure. The bank, he added, is developing ties with several institutions such as Bank Negara Malaysia and the Islamic Development Bank, and sees major growth in Shariah compliant finance in Asia over the next few years.

BAHRAIN

Shamil makes US$24.4 million

Shamil Bank made a net profit of US$24.4 million in its first quarter ended the 31st March 2008. Though this was less than the US$28.4 million in the first quater last year, it is still regarded as very good because the corresponding quarter's profit was driven by a large one-off banking transaction. Its total assets stood at US$2.39 billion and the earnings per share at US$2.70.

The bank is expecting significant growth this year due to the launch of several Shariah compliant retail and investment vehicles, said its chairman, Mohamed Abdulla Al Anqari. Relationships with the sister companies in the Ithmaar banking group are also being strengthened as this will benefit Shamil in the long run, he added.

Shamil is the Islamic banking subsidiary of Ithmaar bank.

UAE

Aldar's five-year Sukuk priced

Aldar Properties has priced its AED3.75 billion (US$1.02 billion) five-year Sukuk Ijarah at three-month Emirates Interbank Offered Rate (EIBOR) plus 175 basis points. The Sukuk received overwhelming response within the GCC as well as internationally, and was arranged by Abu Dhabi Commercial Bank, Barclays Capital, Credit Suisse, Dubai Islamic Bank, First Gulf Bank, Lehman Brothers, National Bank of Abu Dhabi, and Noor Islamic Bank.

The closure follows the success of its 2007 US$2.53 billion exchangeable Sukuk, which was also the firm's first Sukuk issuance, said Aldar's CFO, Shafqat Malik. He added that the transaction was popular locally as well as internationally.

Last month, Standard & Poor's Rating Services had given the Sukuk an 'A-' rating.

BAHRAIN

BIsB's first Islamic savings account

Bahrain Islamic Bank (BIsB) has launched the first ever Shariah compliant savings accounts in the country. The launch of Tejoori savings account is part of the bank's strategy to offer more choices for its customers, said general manager of retail banking, Abdul Rahman Turki.

The name Tejoori, which means save in ancient India, was chosen after an internal competition held by the bank, Abdul Rahman added. To attract more customers, he said, the bank offers up to US$750,000 in prizes, 30 days after opening an account.

KUWAIT/SYRIA

Dar sells Cham Bank shares

Investment Dar has agreed to sell its 12.5% stake in Syria's Cham Bank to the Commercial Bank of Kuwait (CBK) for US$7 million. The deal has been finalized but is awaiting approval from the authorities in Kuwait and Syria.

In March, CBK had announced its plan to increase its stake in Cham Bank to 30% from 10%.

EGYPT/UAE

Bank signs e-bank guarantee

Egypt-based Banque Misr has signed an agreement with the UAE's ministry of finance to provide electronic bank guarantee service and e-registration of bank guarantee. Faisal Ali Al Mansouri, the revenue administration director of the ministry, said the guarantee letters will be issued electronically for the ministry of labor through the e-dirham system which is managed by the ministry of finance.

Faisal Ali represented the ministry while Abu Dhabi branch manager Farid Kamal Aldin signed for Banque Misr.

QATAR

QIB to finance tower development

Qatar Islamic Bank (QIB) has signed a lease finance agreement to underwrite the Samriya Twin Tower project worth QAR450 million (US$124 million) with the project developer, Mouawadd Edde Contracting. This proves that QIB has the capability to help boost the country's innovative initiatives to improve its economy, said the general manager of QIB's real estate department, Salah Al Hail.

The tower will be constructed in the New Doha district and is expected to be completed by the second half of 2010.

KUWAIT

Al Madina to sell shares

Al Madina for Finance and Investment is seeking as much as KWD48.3 million (US$182 million) from selling its 175.72 million shares to shareholders. The shares will be priced at KWD0.275 (US$0.07), and will be offered between the 22nd June and 7th July 2008.

MALAYSIA

Proposed Sukuk issuances are rated

MRCB Southern Link's proposed secure senior Sukuk and junior Sukuk, worth RM845 million (US$258.33 million) and RM199 million (US$60.83 million) respectively, have been rated 'AA3" and 'A2' by RAM Ratings. Outlook on both are stable. MRCB Southern Link is a unit of highway concessionaire MRCB Lingkaran Selatan.

RAM said the ratings are reflective of the relationship between the issuer and concessionaire as well as the project economics of the proposed Eastern Dispersal Link Expressway (EDL) in Johor Bharu. Demand risk is minimized significantly due to the actual traffic volumes as an indicator to future performance, said the agency.

UAE

Gulf Re gets positive rating

AM Best has assigned an 'A-' financial strength rating and an issuer credit rating of 'a-' to Gulf Reinsurance. Outlooks on both ratings are stable. The company is likely to maintain a strong, risk-adjusted capitalization in its first few years of operation, said the rating agency. Gulf Re was formed early this year with an initial capital of US$200 million, provided on an equal basis by Gulf Investment Company and Arch Capital Group.

MALAYSIA

Emas Kiara's issuance rating removed

MARC has removed the ratings on Emas Kiara Industries' partially underwritten Murabahah notes issuance facility/Islamic medium-term notes issuance facility (MUNIF/IMTN) from MARCWatch Developing.

The 'AID/MARC-2ID' rating, which was placed last December, has been removed following Emas Kiara's announcement that it has aborted its proposed acquisition of a 51% stake in Carimin.

Emas Kiara is the leading geosynthetic manufacturer and solutions provider in Malaysia while Carimin is involved in manpower supply, structural fabrication and construction work in the oil, gas and petrochemical industry.

SAUDI ARABIA

Moody's: SABB is stronger

The bank financial strength rating (BFSR) on Saudi British Bank (SABB) has been upgraded to C+ from C by Moody's Investors Service. This translates into a baseline credit assessment of A2. Its global local currency rating was also reaffirmed at Aa3 and foreign currency deposit rating at A1/P-1.

The BFSR is reflective of SABB's ability to capitalize on Saudi's healthy economic condition, improved government finances and a nominal GDP growth of 80% over the last five years. It is also a testament of the bank's well-established franchise across the kingdom and its relationship with HSBC Holdings, which has a 40% stake in SABB as well as a technical services contract.

Moody's noted, however, that the rating is constrained by its large borrower and funding concentrations, lending growth that may affect future asset quality, lack of geographical diversification and the increased competition within the investment banking sector.

MALAYSIA

RAM rates country's banking system

RAM Ratings has changed the outlook on the Malaysian banking system to 'developing' from 'stable', and will be monitoring the industry's fundamentals over the next few quarters. The rating agency feels the banking system can endure the pressures from the overhaul of Malaysia's subsidy structure prompted by the impact of fuel costs and electricity tariffs.

QATAR

QNB's ratings are raised

Capital Intelligence (CI) has raised the long-term and short-term foreign currency ratings of Qatar National Bank (QNB) to 'AA-' and 'A1+' respectively, with a stable outlook. The previous ratings were 'A+' for long-term and 'A1' for short-term. Its support rating is affirmed at '1'.

The ratings are reflective of QNB's strong capital, satisfactory liquidity as well as growth in customer deposits and gross income, CI said. The support rating reflects the state's 50% share in the bank.

THIS TIME LAST YEAR

- The **Sukuk Exchange Center (Tadawul)** received an operations license from the Central Bank of Bahrain.
- **Qatar Islamic Bank** launched its new identity in line with the bank's 25th anniversary.
- **Shamil Bank** launched the Shamil Navigator Mudarabah, a 100% capital protected note exposed to 18 Islamic stocks selected from the **Dow Jones Islamic Index**.
- **Standard Chartered** revealed plans to double its private banking units to 20 by 2011, targeting Asia and the Middle East.
- **Lembaga Tabung Haji** was commissioned to build a RM150 million (US$44.14 million) commercial building for the Federal Territory's Islamic Religious Council.
- The **First Community Bank** became the first Kenyan commercial bank to receive an Islamic banking license.
- **Istithmar** launched a new business initiative **Imdaad** to manage the group's commercial, residential and industrial facilities.
- **Al Rayan Bank** arranged a US$530 million Mudarabah facility for **Barwa Real Estate**.

GLOBAL

Projects galore in Muslim states

Prospects have brightened for Islamic finance providers with the Islamic Development Bank (IDB) seeing some US$1.2 trillion going for infrastructure development in the Muslim world over 10 years.

The amount translates into about US$1,000 each for the more than 1 billion people in the member states of the Organization of the Islamic Conference (OIC).

The IDB sees much of the funds being provided by the private sector, with the bank itself expecting to pump in up to US$25 billion in the development projects that will span the telecommunications, transport, water and power sectors.

It estimates about US$675 billion to be taken up by telecommunications and power projects in the Muslim countries, almost half of that in the Gulf Cooperation Council (GCC) states.

Another US$290 billion is seen to be invested in expanding and upgrading air, sea and land transport infrastructure with Asian Muslim countries accounting for 50% of the amount.

A further US$115 billion will go towards expanding and improving water and sanitation services, with Arab and African members of IDB making up about 60% of the investment.

According to the IDB vice-president for operations, Dr Amadou Boubacar Cisse, the IDB will focus on power, transport and water projects. Climate change adaptation and mitigation is expected to stimulate further demand for investment in cleaner energy, energy efficiency as well as water storage infrastructure and flood protection measures.

"Similarly, the ongoing concern over global food security is expected to trigger a new wave of major drainage and irrigation schemes in IDB member countries to achieve greater food security through sustainable agricultural development underpinned by sound water resources management," he said.

Last year, the IDB provided about US$2 billion of financing for infrastructure projects in more than 30 countries in Africa, Asia, Europe and the Middle East.

Some of the funds for the infrastructure projects could also come from Japan, as its government has indicated a desire to cooperate more closely with IDB in infrastructure development, especially in Africa.

The environmental dimension of the new projects are likely to be taken into consideration, with Dr Nahed Taher, CEO of Gulf One Investment Bank, stressing on the need to pay attention to this factor.

She noted that project developers could seek carbon finance opportunities being offered under the Kyoto Protocol's Clean Development Mechanism that basically allows developed countries to invest in projects that reduce emissions in developing countries as an alternative to more expensive emission reductions in their own countries.

By S Sivaselvam

THE PHILIPPINES

Slow but steady growth

The Philippines is very slowly but surely moving forward in the Islamic finance industry. Recent reports of last month's acquisition of Al-Amanah Islamic Investment Bank by the Development Bank of Philippines (DBP) are testament to this.

Following the purchase, DBP now controls an 80% stake in Al-Amanah, making it the majority stakeholder in the country's only Islamic bank. It initially held only 10% of the Shariah bank's shares.

DBP also plans to buy out the remaining 100,000 shares from the Social Security System and the Government Service and Insurance System, which each has 50,000 shares.

DBP will invest about PHP1.3 billion (US$30 million) in Al-Amanah and plans to use the latter as its vehicle for Islamic banking activities. It will first recapitalize Al-Amanah, which had a deficit of PHP300 million (US$6.7 million) in 2007. Last year, the central bank –– Bangko Sentral ng Pilipinas (BSP) — had given final approval for the state-run DBP to acquire Al-Amanah.

Al-Amanah CEO Jamie Panganiban told Islamic Finance *news* that DBP is expected to acquire all of the outstanding shares in Al-Amanah, which would then allow it to focus on infrastructural development in the region and the areas not currently served by the state-owned bank.

Panganiban said DBP intends to establish Al-Amanah as the settlement bank for all Islamic originated grants, donations, remittance, loans and payments to Muslims in the country, who make up 15% of the population. He added that BSP had approved DBP's business plan and mandated Al-Amanah to offer full Islamic banking and financial services within five years.

When asked the reason for DBP not establishing its own Islamic bank, Panganiban replied that as congressional (charter) approval is required to set up such an entity, there is no other window for another Islamic bank, making Al-Amanah the only licensed Islamic bank in the archipelago.

Panganiban said DBP's acquisition would enable Al-Amanah, a universal bank, to engage in investment banking services.

"So, the Islamic bank would venture into capital markets focusing on debt issuance, underwriting and distribution while also taking on microfinancing following DBP's model, with the focus being on the Muslim community," he said.

Al-Amanah's interim CEO has denied reports that the bank will issue Sukuk worth between US$900 million and US$1 billion. "For now, Al-Amanah is focusing on rehabilitation and its business plans in order to return profitable operations," he said.

Panganiban said although the Philippines government has yet to come up with incentives for the development of Islamic finance, BSP was closely monitoring it. "Certainly, the success of Al-Amanah will pave the way for more and active Islamic financial services," he said.

By Raphael Wong

AFRICA

Africa fertile for Islamic finance

Financial institutions dealing in Islamic finance are targeting several countries in Africa to seek out new markets. A case in point is Saudi Arabia's Jadwa Investment which is teaming up with Investec Asset Management of South Africa to co-launch a new Shariah compliant fund to invest in African equity markets. Becoming the first fund in the Middle East to specialize in Africa, the Jadwa Africa Equity Freestyle Fund aims to raise more than $100 million in its first year.

Investec is a Johannesburg-based investment company that specializes in African and frontier investments. It will manage the fund and oversee the stock selection. The agreement not only builds on Investec Asset Management's acknowledged expertise in frontier markets, particularly Africa, but will also give Investec Asset Management access to the Saudi market.

Targeting Saudi investors who are looking to capitalize on Africa's renaissance, the fund will offer investors access to the investment opportunities available in South Africa and other major African markets. It is the first Shariah compliant Africa fund offered by any institution in the region and will invest in listed companies spanning the African continent.

Hendrik du Toit, CEO of Investec Asset Management, said: "This partnership fits into our broader strategy over the longer term to introduce more specialist Shariah compliant products to our clients. It also allows Investec Asset Management to tap into the Saudi investor base."

Fadi Tabbara, Head of Asset Management and CIO of Jadwa Investment, said: "Africa has experienced tremendous economic and political reform and is now reaping the benefits of its increasingly positive business environment. We believe it is the opportune time to invest in the continent."

On another front, the Tanzanian government has allowed Kenya Commercial Bank (KCB) to operate its Amana Islamic suite in that country. It will be promoting loan products in line with the conditions set by the National Muslim Council of Tanzania. KCB-Tanzania's head of retail banking, Gloria Nyambok, said this includes forming an Amana Banking Advisory Board to oversee the products, as well as the appointment of Shariah compliance officers. KCB has operated since 1997 in Tanzania, where more than half of the population comprises Muslims.

Last week, South Africa's Stanlib announced a Shariah compliant equity fund to invest in Islamic equities in the African region outside South Africa. The Ireland-registered open-ended fund is on a road show in the Gulf region. The bank targets to raise $250 million. The fund is to be invested in 16 African equities markets. Also targeted are unlisted companies whose turnover and profits are largely from Africa. It is aiming at 15% to 20% return, without a performance fees charge.

"There is a large pool of Shariah compliant assets in Africa. As Africa is one of the last frontiers of assets with low correlation to the Western markets, it provides great opportunities for Gulf investors," said the fund's portfolio manager, Ashraf Mohammad.

By S Sivaselvam

MALAYSIA

Malaysia is Faisal Private Bank's choice

Faisal Private Bank, the first Islamic private bank based in Switzerland, has picked Malaysia to launch itself in the South East Asian region in the Islamic private banking market.

Its investment banking head, Giovanni Perin, said a representative office, concentrating on the branding and marketing of the bank as well as follow up services of its existing clients, will be opened as early as August and used as a platform to enter markets such as Singapore and Indonesia.

He said the Swiss Federal Banking Commission has approved Faisal's application to open a representative office in Malaysia and it is awaiting the approval of Malaysia's central bank.

Asked on the bank's choice of Malaysia, Perin said it was coincidental. "We had a contract with a client in Malaysia at a time when it was beginning to open its door to foreign investment about three years ago. We thought it was a good occasion to come in and see what opportunities were available.

Coming here, we felt welcomed, with people having great interest in us and all this was done very publicly," he said, adding that Faisal currently has two local institutional clients whose funds are mainly invested in real estate and equity in Asia.

Perin also said Faisal is confident of the huge potential in South East Asia especially Malaysia, Singapore and Indonesia. "We like to distinguish ourselves from other banking institutions which tend to open their offices in Singapore. We will attract our clients from here instead," he added.

A major factor that sets Faisal apart from the other personal banks is its personalized service to its affluent private and institution clients with US$1 million and US$15 million reserves to park. He said such a service distinguishes it from the bigger organizations which tend to normally focus on higher end affluent clients with US$50 million and above. "We are confident that there is a whole market to exploit here," he added.

Perin said Islamic private banking is seeing considerable growth due to the sufficient quantity and quality of products available in the market. "Now there are enough products available in the market to have an Islamic private bank operation where you can allocate your assets in a systematic way and allows you take exposure and every risk according to the profile of individual client. This was not possible five years ago," he said, adding that the products are even more transparent now.

Faisal, which is 79.6% owned by Bahrain-based Ithmaar Bank which has subsidiaries and affiliates including Shamil Bank and Solidarity, one of the biggest takaful companies in the world that has a 25% stake in Malaysia's MAA Takaful.

Faisal's representatives were in Kuala Lumpur this week to also showcase their Central Eastern Europe Real Estate Fund, which focuses on real estate mainly in Bulgaria, Romania and Poland.

By Raphael Wong

UAE Islamic Banking Sector

By Global Investment House

The banking sector in the UAE depicts a rosy backdrop amidst a flourishing economy, riding high on the sky-scraping oil prices. With strikingly low interest rates harboring curiosity from willing borrowers, bank lendings have so far witnessed colossal volumetric growth which is expected to remain intact going forward, as long as the current situation persists.

Supplemented further by limited exposure to the US subprime and related structured investment products, nominal provisioning needs, adherence to best risk management practices and support and commitment from affluent sponsors regarding capital enhancement as and when required, we see no reason why the banking sector may not prosper.

Visualizing this, we have seen a large number of banks both local and foreign mushrooming over the last few years. The UAE therefore has a remarkably high number of banks to serve a population of around 4.5 million and an economy with an annual GDP of approximately US$190 billion. As of September-2007, UAE had 22 local banks, 27 foreign banks, two specialized banks and 65 representative offices of other foreign banks.

> "The UAE therefore has a remarkably high number of banks to serve a population of around 4.5 million and an economy with an annual GDP of approximately US$190 billion"

Growth has been unprecedented

The bottom-line of the banking sector has grown with a sublime 2003-2007 Compound Annual Growth Rate (CAGR) of 49%. The swelling bottom line has been attributed to effective deposit mobilization paving the way to meet the robust demand for credit.

With M2 growth averaging 27% year-on-year (y-o-y) for 2004-2006 and reaching 42% y-o-y in 2007, the deposit growth has closely followed suit and grown by a similar 27% y-o-y on average for the 3-year period ended 2006.

With a 29% y-o-y growth exhibited by the banking sector in 2007 and a 7.4% year to date (YTD) (annualized 30%) growth in the first quarter of 2008, the surge in banking deposits is expected to continue in the current year.

Deposit growth in turn has expanded the required capacity to lend, which, coupled with the demand for capital, has led to escalating growth in loans and advances, which averaged 34% y-o-y for 2004-2006. For 2007, the loans growth rate has gone beyond its due trajectory and exhibited a rate of 40% y-o-y.

In the first quarter of 2008, advances have already shown an escalation on 10% YTD which translates into an annualized growth of 39% y-o-y. Similarly, the total assets of banks operating in the country have grown by 43.4% y-o-y to reach AED1.23 billion (US$335.6 million) in 2007to become the largest amongst the GCC countries.

Proportion of personal loans still highest and still intact

Personal loans reign over the total loans to residents, with a lion's share of 25% followed by construction and wholesale trade with approximately 11% share each. This bodes well for the banks in two ways. Firstly, it shows that the demand for personal loans is still very much intact and is growing in leaps and bounds, closely in line with the growth in overall credit off-take to residents.

Secondly, since personal loans always have a higher yield than loans to the corporate, therefore coupled with high volumetric growth, this translates into higher interest/commission income for the banks.

Moreover, a major change was observed in the proportion of wholesale trade which reduced to half (in September 2007) of what it used to be in 2003, followed by construction, the proportion of which also reduced, though by a lower 300pps. In total, credit to residents grew in 2003-2006 at a CAGR of 34% and with a growth of 22% YTD till September 2007.

Biggest banking merger

Emirates Bank International (EBI) and National Bank of Dubai (NBD) completed their merger in October 2007. The new bank which is known as Emirates NBD had a total asset base of AED253.8 billion (US$69.1 billion) at the end of 2007, which is a little over 20% of the total assets of the sector, and reported a profit of AED2.8 billion (US$762.3 million) for 2007.

Emirates NBD is now the dominant retail player in UAE with 114 branches and the largest banking entity in the MENA region surpassing the Saudi-based National Commercial Bank in total assets. Experts believe that the merger has been a good strategic fit with NBD having a strong presence in mortgages and private banking and EBI having a strong high net worth customer base.

After the merger, EBI shareholders own 66.3% while NBD shareholders have 33.7% of the share capital in Emirates NBD. The Dubai government, which had stakes in both banks, now has a 56% stake in the new entity.

Continuing investment in the banking sector

Considerable investing activity is still being witnessed in the banking sector. Beside the Emirates NBD merger during 2007, Commercial Bank of Qatar (CBQ) raised its stake in Sharjah-based United Arab Bank (UAB) to 34.7%. Also, Emirates International Investment Company acquired a controlling stake in Abu Dhabi Islamic Bank (ADIB) via a convertible bond. Later, ADIB also bought a controlling stake in Egypt's National Bank for Development.

Dubai Financial Group bought a significant stake in the Greek Marfin Financial Group, which has several banking assets around the world.

continued...

UAE Islamic Banking Sector (continued)

Overseas expansion offered opportunities for both geographic and revenue diversification as competition in the local market intensified.

Performance of UAE banks in 2007

Banks in the UAE have benefited from the rapid economic expansion currently happening in the UAE. The total bank assets and profits increased by 43% and 24% respectively in 2007. The return on equity (ROE) at 22% for 2007 has also improved by over 18% from the previous year. The return on assets (ROA) has come down marginally to 2% at the end of 2007 from 2.2% in the previous year. The banking sector's balance sheet continues to remain strong with the regulatory capital adequacy ratio (CAR) at 14.4% at the end of 2007.

There are also concerns that the UAE banks may be heavily exposed to a long-anticipated downturn in the real estate sector. Although mortgages still account for a relatively small part of bank loan portfolios (7.8% at the end of September 2007), the indirect exposure (personal loans for business and consumption purposes comprising 22.7% of the total credit) could be significant.

UAE Islamic banking

Islamic banking makes rapid strides

Islamic banks have become an increasingly important part of the UAE system, making rapid strides along the way. Islamic banks have increased their share of total bank assets, from 8.8% at the end of 2002 to 13.4% at end of the first quater of 2008 (as per recent newspaper reports). A range of Shariah compliant products was introduced in the market and Islamic products like Ijarah and Murabahah have become common in property transactions. The region has witnessed Sukuk attracting large investor volumes with subscriptions exceeding planned issuance, even in large-sized mandates.

The significance of Islamic banking was further underlined as a few of the major banks formed Islamic banking wings or in some cases converted themselves into Islamic banks.

For instance, EBI formed Emirates Islamic Bank by converting its subsidiary, Middle East Bank. New issuance of licenses include Abu Dhabi-based Al-Hilal bank in 2007 and Ajman bank in 2008.

Major Islamic Banks

Bank	Symbol	Company Type	Growth 2007 YoY	Notes
Abu Dhabi Islamic Bank	ADIB	Listed	35%	-
Dubai Islamic Bank	DIB	Listed	60%	-
Sharjah Islamic Bank	SIB	Listed	50%	National Bank of Sharjah until February 2005
Emirates Islamic Bank	EIB	Listed	103%	Middle East Bank until September 2004
Dubai Bank	-	Private	101%	Established 2002 (September)
Al Hilal Bank	-	Private	-	Established 2007 (starts operations in June 2008)
Ajman Bank	-	Private	-	Established 2008 (February)
Noor Islamic Bank	-	Private	-	Established 2006

Source: Zawya

Share in profits rising

With the inclusion of more Islamic banks (IB) into the system coupled with the improving profitability of the existing IBs, the share in profits of IBs in total banking profits for UAE has increased from 10% in 2003 to 13% in 2006 and is expected to improve further going forward. This can be gauged from the fact that profits of IBs have been rising with a 4-year CAGR of 68% and may very well continue.

Share in assets and deposits following suit

The assets of the Islamic banks have witnessed tremendous growth over the last few years, echoing the immense demand for Shariah compliant products emanating from the residents. Such is the demand that many foreign banks like Standard Chartered and HSBC have opened Islamic banking windows and are offering Shariah compliant products and services.

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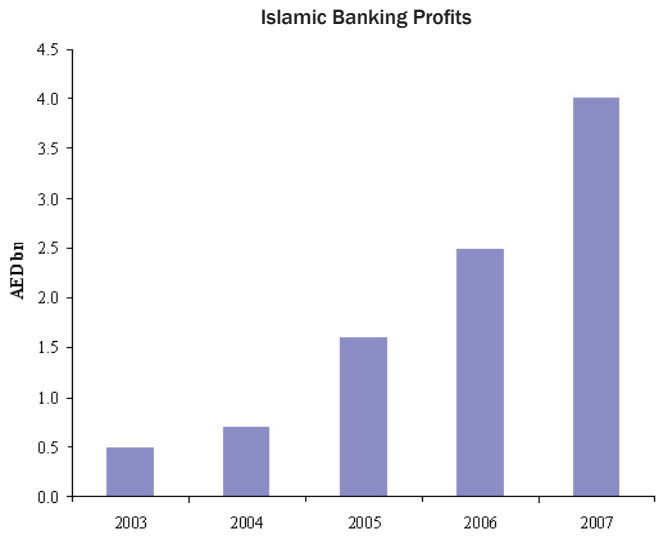
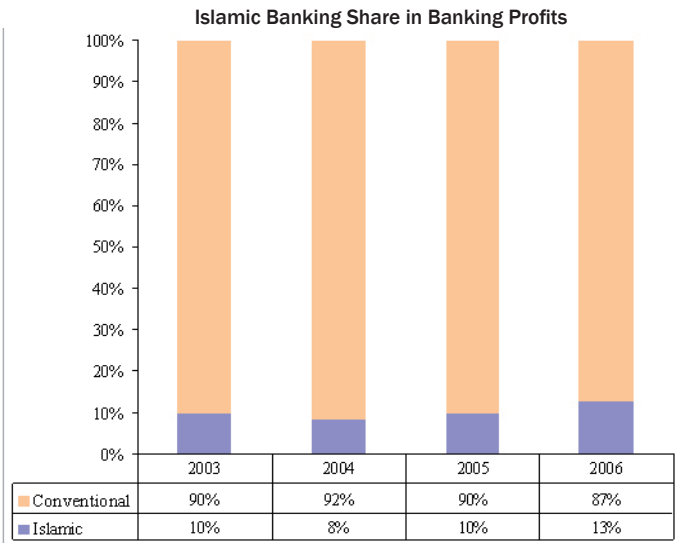




Source: Zawya, Global Research

UAE Islamic Banking Sector (continued)

Deposits too witnessed a similar swell in volumes with the market share of Islamic banks consistently increasing against the conventional banking system. Deposit collection therefore saw a 22% YTD increase in June 2007 and grew at a 2003-2006 CAGR of 44%.

The conversion of Dubai Bank and National Bank of Sharjah (currently SIB) to Shariah compliant banking and the entry of Noor Islamic Bank, Al Hilal Bank and Ajman Bank are just other indicators of how the growth in and significance of Islamic banks is being perceived by the insightful investors.

The addition of fresh players into this scenario also works as a self-fulfilling prophecy as it ignites the curiosity of other investors (followers) which ultimately adds to the size of this niche segment, making it grow further; literally by leaps and bounds.

Performance of listed banks in the stock exchange

The listed UAE banking sector as a whole has performed very well on the Abu Dhabi Stock Market (ADSM) with a 45% y-o-y appreciation in the prices of the banking scrip.

Albeit this increase is slightly inferior to the growth in the index which grew 60% y-o-y during the period, it is nevertheless substantial. Interestingly, the index movement and that of the sector exhibit very similar trends, establishing the fact that both move in tandem (very high correlation of 91%) and that the banking sector having a major weight in the index may very well be the primary driver behind the index.

Performance of listed Islamic banks

While the banking sector exhibited healthy price appreciation, Islamic banks too made their presence felt by matching the banking sector's performance, the only exception from our peer group being Sharjah Islamic Bank (SIB). SIB, with it awe-inspiring performance, beat the sector and the index and made its investors 70% richer in the process.

This was followed by ADIB which grew by a remarkable 30% y-o-y. DIB, which outperformed the banking sector till mid April 2008, lost ground to the sector performance and hence exhibited a 26% y-o-y return. All in all, Islamic banks mostly performed well during the last one year, revealing the interest expressed by investors in this particular banking niche.

Islamic banking outlook

Going forward, we expect the Islamic banking segment to maintain its growth trajectory with volumes being the main drivers. Credit demand is anticipated to emanate from across the board including corporate and consumer/personal loan seekers. Changing demographics and the increase in expatriate population will drive personal loan demand while infrastructure development, growing interest in the manufacturing sector, need for accommodation and further development of tourism-linked industries are seen as the demand-pushers for corporate loans. With DFM and the ADSM expected to grow further, fee based income and capital gains will consequentially follow suit and fuel the bottom line further.

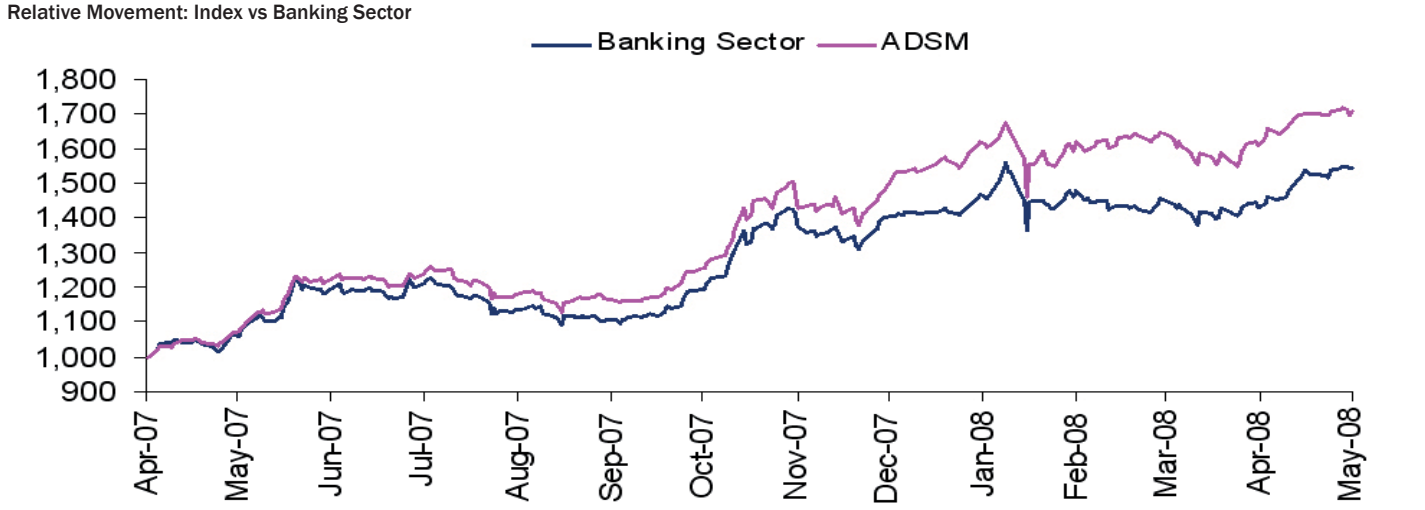
Demand for Sukuk and issuance of other innovative instruments for Islamic financing will promote the generation of advisory/arrangement fee income.

With growing awareness of Islamic banking products and aggressive steps in marketing and relationship building carried out by the Islamic banks, we see these banks offering stiff competition to their conventional counterparts in the race for market share.

On the basis of the mentioned growth drivers, we believe that the Islamic banking assets, in tandem with the collective assets of ADIB, DIB and SIB, will rise at a 2007-2011 CAGR of 21%. Furthermore, on similar grounds, we also expect the Net Commission Income and the bottom line of Islamic banks to grow at a 2007-2011 CAGR of 26% and 21% respectively.

The article above is a summary of a 84-page report by Global Investment House, a Kuwaiti investment company licensed by the Central Bank of Kuwait. For more information contact Naveed Ahmed at nahmed@global.com.kw.

Relative Movement: Index vs Banking Sector



Source: Zawya, Global Research

Bright Future for UAE's Islamic Banking Sector

By Raphael Wong

Emirates Islamic Bank (EIB), which began its operations in 2004, recorded a net profit of AED148.6 million (US$40.46 million) in the first quarter of this year, up 253% from the same period last year. In less than four years of its inception, the bank has managed to position itself as one of leading financial players in the UAE banking sector.

Dr Mabid Ali Al-Jarhi, head of training at EIB and a financial expert, released an economic report in March on the Islamic financial climate in the UAE. Islamic Finance *news* obtained his views based on the report.

Since the UAE delved into Islamic banking in 2002, how much growth has its banking sector seen? What about EIB?
The first (private) Islamic bank was established in the UAE in 1975, namely the Dubai Islamic Bank (DIB). The launch of other Islamic banks followed in other countries. It operated alone until 1996 when Abu Dhabi Islamic Bank was established. By the end of 2008, eight Islamic banks will occupy the Islamic banking market, in addition to several Islamic finance companies.

Between 2000 and 2007, conventional banking assets grew at an average 22.4% per year while Islamic finance assets grew at an average 40.4%. EIB started operations in August 2004 and till last year, its assets have grown at 93% per year compared to the 50% for other Islamic banks, making it fastest growing bank in the world.

Are there existing laws and regulations in UAE that have helped the Islamic banking sector? How?
The UAE Central Bank treats Islamic banks under Federal Law No 6 of Islamic Banks and Financial Institutions 1985. The law sets requirements for Islamic banks and allows them to provide finance using Islamic modes of finance which often involve purchase and sale/lease of goods and assets as well as establishing subsidiaries or taking equity in existing firms.

In addition, Islamic banks' financial operations are not subject to double taxation. Beyond this, the Central Bank takes a neutral position on Islamic finance and allows competition between Islamic and conventional finance activities.

The market share of Islamic finance in the UAE could reach 20% by the end of 2008. We estimate it to approach 50% by 2020. With such an increase in size, we are expecting the UAE Central Bank to mandate AAOIFI accounting standards and the IFSB regulatory standards for all Islamic banks and financial institutions.

How has Islamic banking fared compared to the conventional sector to date?
Islamic finance has delivered better performance than conventional finance. The Islamic finance assets, deposits, profits and equity have grown on average at a much higher rate than conventional finance during 2000-2007. The following table compares average growth rates for the two sectors.

Figures clearly show that that the performance of the Islamic finance sector was superior. This seems incredible, especially since the UAE's conventional banking is well established, highly efficient and competitive.

Table 1: Average growth rates for the UAE Islamic and conventional finance sectors, 2000-2007

	Conventional	Islamic
Asset	22.4%	40.4%
Deposits	21.0%	39.3%
Equity	17.2%	39.1%
Profit	24.7%	58.9%

What are the main challenges the UAE Islamic banking sector faces? Are these challenges unique to the UAE or are prevalent in the GCC countries?
Islamic finance faces important challenges in the UAE in particular and in the Gulf region in general. There is increased competition where currently there are four Islamic banks in the UAE whose assets totaled around AED156 billion (US$42.5 billion) by the end of 2007.

Increased competition will eventually prove to be a positive element in the Islamic finance industry. The standard of performance of Islamic banks will continue to excel in growth and will immensely improve in terms of profitability and efficiency.

However, Islamic banks will face serious consequences regarding human resources as well as product quality. Islamic banks do not have a joint plan for human resource development. Consequently, they would vie for the current staff members as well as staff in conventional banks.

Also, there are products of ill repute which are a collection of products that have been designed outside the consensus of Shariah scholars. Such products expose Islamic banks to grave reputation risk.

In the Gulf area, Tawarruq seems to be the most common product of ill repute and is known to raise serious Shariah issues. Contrary to the common impression that individual Tawarruq is acceptable, it is prohibited by one of two sections of the Hanafi, Hanbali and Maliki schools. Therefore, the majority of Fuqahah did not approve it.

Contrary to common belief, organized Tawarruq, known to old Fuqahah as Eina, was also declared unlawful by the Makkah Fiqh Academy in two landmark decisions (2003, 2008). Therefore, Tawarruq itself can be the black hole that will destroy Islamic finance.

The UAE has had one of the best economic environments for Islamic finance. However, globalization has exposed it to several sources of danger. Inflation, coupled with recession that began in the US, is quickly spreading to Europe and Southeast Asia.

Recession in the US has not so far reached the UAE shores. It will all depend on how severely the recession will influence the demand for crude oil. Political factors, mainly instability and American-led wars in the world, have caused uncertainties followed by active speculation in oil futures. This, so far, has shielded the oil price from the influence of recession.

continued...

Bright Future for UAE's Islamic Banking Sector (continued)

Your report states that the entry of four new Islamic banks into the country will strengthen the banking sector by making it more efficient. What is the current level of the banking sector in UAE? Has it reached international standards?
Ideally, an Islamic bank with an international outlook should have an equity that at least approaches US$1 billion and assets that are at least three times its equity. The four established Islamic banks fulfill these conditions, with one remark.

The EIB may have modest equity but it is a member of the largest banking group in the Gulf. This compensates for the size of equity. The new Islamic banks are starting at the right size. Given the relatively active market for Islamic finance, they should reach the required asset threshold within two to three years.

Currently the return on assets is significantly higher for Islamic banks than for conventional banks. The rate of return on equity for both groups is very similar. The same applies for the expenditure/income and asset ratios.

Given the fact that Islamic banks in the UAE are emerging institutions compared to conventional banks, they rank very high in profitability and efficiency. They are expected to become an important component of the world financial market.

How will competition from more banks improve efficiency?
Tougher competition faced by Islamic banks both among themselves and from conventional banks can lead to significant improvement in services as well as economies of scale. In addition, strong competition over human resources will raise salaries and motivate Islamic banks to direct more attention towards human resource development.

Eventually, we will find educational institutions adjusting their curricula to cater to the requirements of the industry. The type of training that is currently predominant, which depends on ad hoc methods of mostly unqualified trainers, will gradually disappear in favor of more structured and systematic training programs delivered by trainers with PhD in Shariah and economics.

Will the UAE's Islamic banking sector be affected by the slowdown in major economies globally?
Islamic banking is not expected to be seriously affected by the current economic slowdown and its repercussions. Islamic banking is deeply involved in the economic development of the Gulf and South East Asian countries, in addition to Turkey and Pakistan.

Such countries have active sectors that will continue to require financing. The liquidity of Islamic banks is well shielded against debt problems usually associated with economic downturns, for example, the subprime debt problem.

The reason is that Islamic banks do not trade in debt. Those high profile financiers that market debt instruments of questionable quality will not find listening ears in Islamic banks. In addition, since Islamic banks deal directly with the real sector and carry some of its risks, their profit rates are much higher than prevailing interest rates.

This represents another shield that keeps the current economic crisis outside their door. One must remember, the problems faced by conventional finance usually ride on conventional financial instruments. Such instruments are taboo to Islamic banking.

Your report mentioned that there were mixed feelings about tying the dirham to the dollar and whether the current exchange rate between the two currencies is sustainable in the short run. Can you elaborate on this? And how will this affect the banking sector in the UAE?
The dollar peg has increasingly become a liability to the economies of the Gulf countries. Such pegging should have been replaced by a peg to a basket of currencies or managed float a long time ago.

However, political pressure from the US ties the hands of most Gulf countries. The cost is high as when a small country ties its currency to the dollar, it has to follow the monetary policies set by the Federal Reserve.

Such policies do not suit a small developing country. In addition, as the Federal Reserve reduced interest rates to stem recession, the Gulf countries lost billions of dollars on their holdings of US government securities. The losses are heavy from every corner.

In addition, bankers' sixth sense tells them that the exchange rates between the dollar and the Gulf currencies are increasingly unsustainable. They behave as if a revaluation is imminent. This introduces an additional but significant element of uncertainty to the market. Eventually, central banks will bow to market forces and revalue their currencies in face of the dollar, but when?

Conventional banks usually hedge their foreign exchange risks using conventional means. Islamic banks have to resort to other means to mitigate the risk resulting from their dollar holdings.

Fortunately, by nature, Islamic banks' dealings in local currencies dominate their activities and therefore provide a better shield against dollar exposure. Some central banks may allow dollar-domestic currencies swaps to help conventional banks mitigate their risks. This means that when revaluation comes, central banks will pay the full cost.

Your report also spoke about the Central Bank playing a role in setting corporate governance rules for the respective banks' Shariah boards. What is the current practice and how has this affected the UAE's banking sector in general? How can standardizing the rules improve the sector?
Central banks have kept their distance from setting governance rules for Shariah boards. This has opened the door for non-specialists to pose as Shariah scholars. They are known to issue opinions outside the realm of Fiqh. The reason is that they have not and cannot master the methodology of seven Islamic schools of thought. Mastering such skills requires rigorous academic studies with a minimum of a PhD in Shariah.

Thanks to non-specialists, we now have products of ill repute that could destroy the whole Islamic finance industry. Central banks can set simple rules that provide for three requirements for members of Shariah board: a PhD in Shariah, graduate of one of the top ten religious universities, and obtain a maximum number of Shariah board memberships for each scholar. In addition, each Shariah board

continued...

Bright Future for UAE's Islamic Banking Sector (continued)

should have at least one member with a PhD in monetary and financial economics.

You have come out strongly against the use of Tawarruq citing it as a product of ill repute and even going to the extent of saying it could destroy Islamic finance. Can you elaborate on this? How will this affect the banking sector in the UAE?
The paradigm of Islamic finance is to provide equity-based or sales-based finance but never to provide outright cash. Selling (present) cash for future cash is riba and cannot be condoned. Some non-specialists have misconstrued Tawarruq as a legitimate Islamic finance product. Tawarruq is an act of buying present cash for future cash. Commodities come in-between as camouflage.

When a customer comes to the bank and asks for cash, declaring that he is not interested in goods or services, and when the bank agrees to provide him with what he wants, a tacit agreement is formed. Such agreement from a Shariah point of view is a riba contract. It is null and void according to Shariah.

The other contracts usually used in Tawarruq, including Murabahah, Wakala and sale contracts, may be legitimate by themselves, but when used to implement an unlawful riba contract, they become automatically void and null.

The fact that Tawarruq must be considered as non-Shariah compliant must be accepted without question, as the Fiqh Academy of the World Muslim League in Makkah Al-Mukarramah has issued two decisive fatwas in this regard. This to my opinion closes the door to further discussion.

What is your outlook on the future of the banking sector in the UAE?
I am optimistic with regard to the Islamic finance industry in the UAE. The number of Islamic banks will reach eight before the end of 2008. The market share of Islamic finance will reach one fifth of the whole finance industry by then.

Within five years, I expect the UAE Islamic finance sector to be the largest of any other country in the world. It will be supported by the Dubai Financial Market which has been launched as an Islamic financial market. The competition for the world's center of Islamic finance could then be decisively won by the UAE.

One element in my optimism is that four Islamic banks as well as some Islamic finance companies are committed against Tawarruq. The UAE public is becoming more aware of products of ill repute.

The four new banks that may fall into the trap of such products could soon find themselves isolated. They will have to find qualified members for their respective Shariah boards to protect their reputation, merge with other Islamic banks that have Shariah credibility or exit peacefully.

The UAE Central Bank will positively respond to the increased size of the Islamic finance industry. I expect it to make AAOIFI accounting and auditing standards and IFSB regulatory standards mandatory. It will eventually set proper governance rules for Shariah boards. In short, the outlook for Islamic finance in the UAE is bright. It is an asset that all of us, Islamic banks, customers and regulators, can work together to keep it ahead.

Derivatives in Islamic Finance

By Matthew Sapte

The Islamic finance industry is undergoing a process of developing Shariah compliant products that will match the suite of conventional financial products and services in the market. The industry's efforts to create Shariah compliant derivatives as part of this process has raised several challenges and highlighted areas of uncertainty that need to be addressed.

Underpinning the principles of Shariah is the basic concept of the 'proper use' of money, which demands that it be invested in real goods and transactions where the user receives a return through sharing risk. Shariah principles allow a person to reduce or limit the scale of the risk by various means but strictly prohibit generating a return from transactions or investments where there is no risk at all.

In view of this basic rule, there are several specific considerations in derivative transactions:

- **Prohibition on riba**: Commonly defined as interest, it also covers any return that arises through the use of money over a period of time. In other words, an investment's return should be linked to profit actually generated from the use of a Shariah compliant asset.

- **Prohibition on gharar**: There should be no uncertainty as to the existence, deliverability, quantity or quality of the subject of a transaction. This includes a prohibition on the sale of an asset which does not exist when the corresponding agreement is entered into, although there are certain exceptions such as Salam or Istisna.

- **Prohibition on maysir**: Pure speculation is not acceptable in a contract, and a transaction must involve genuine commercial risk.

- **Prohibition on haram**: This is often defined as the prohibition of unethical investments, including investments in alcohol, pork-related and tobacco businesses as well as investments in businesses that generate interest, such as conventional banks and insurance companies.

The debate over derivatives

The main challenge facing the creation of Shariah compliant derivative products is the lack of universally approved template documents. There are in fact no standardized documents for any structures in the Islamic finance industry and this reflects the fact that Shariah scholars hold a wide range of views on key issues.

In a recent paper by Sheikh Yusuf Talal DeLorenzo ('The Total Returns Swap' and the 'Shariah Conversion Technology' Stratagem) the creation of compliant derivative products was discussed under the proviso that:

> *"... due consideration must be given to not only the literal structure of products and processes but also to their consequences for the future of Islamic finance..."*

Sheikh Yusuf raises concern over structures that are presented as Shariah compliant but where underlying non-compliant assets are being used to bring returns — in particular, the use of indices from non-compliant baskets of assets.

The key question is whether Shariah boards need to analyze the overall intention of parties and to consider all underlying documents in a structure, or whether it is acceptable merely to examine the documents relating directly to the investors. If this more rigorous approach is generally adopted, then it is possible that some derivative structures (which incorporate conventional strategies) could be called into question.

Examples of derivative transactions

Until these questions are decided upon and generally-accepted templates are produced, structurers, arrangers and investors will need to document derivative transactions using bilaterally negotiated documents. These are approved on a case-by case basis and can take some time to be documented and executed.

However, new products continue to be developed and current Shariah compliant derivatives tend to use one or a combination of the following structures:

- ***Arbun*** — a contract for the purchase of an asset in which the buyer deposits money in advance with the seller as part payment.
- ***Salam*** — a contract for the purchase of a commodity for deferred delivery, in return for immediate payment.
- ***Murabahah*** — a contract for the purchase of a commodity for immediate delivery in return for a price calculated on the basis of a disclosed cost price and an agreed profit mark-up. The purchase price is often paid on a deferred basis.
- ***Musawamah*** — a contract for the purchase of an asset in return for a sale price agreed upon by the parties without reference to the underlying cost price.
- ***Waad*** - a unilateral promise or undertaking.

By way of example:

► **Structured deposits**

Certain deposit products have been structured on the basis of Murabahah agreements.

A (seller) and B (purchaser) enter into a Murabahah agreement for the sale and purchase of a specified commodity. On the relevant trade date, A buys the commodity from a third party broker (on the spot payment and delivery basis) for US$100 (cost price) and immediately sells it to B under the Murabahah agreement (on the spot delivery but deferred payment basis). B then sells the commodity on the trade date to a third party broker. In summary:

- title to the relevant commodity passes from third party broker to A, from A to B and from B to a third party broker on the trade date.
- A pays the third party broker US$100 for the commodity on the trade date but is due to be paid a deferred sales price (that is, US$100 plus an agreed profit mark-up, typically agreed in advance) by B on the deferred payment date (for example, 30 days following the trade date).

continued...

Derivatives in Islamic Finance (continued)

- B receives US$100 from a third party broker on the trade date for the sale of the commodity.

Profit mark-ups are sometimes linked to the performance of a stand-alone index or benchmark, and these structures have been used to give depositors (A, in this case) a return based on these. In addition to questions of the index's or benchmark's Shariah compliance, key issues to consider include:

- Has title to the commodity effectively passed among the parties?
- What ownership risks are A and B assuming?
- What representations are implied when the commodity is sold, and can these be effectively disclaimed?
- What are the tax consequences?
- How can the insolvency risk of the third party broker(s) be minimized?

► Profit rate swaps

Some profit swaps have been based on:

- **Parallel Murabahah structures.** Under the first Murabahah agreement, A (seller) and B (buyer) agree to the purchase and sale of a specified commodity for a cost price of US$100 and an agreed profit mark-up, calculated on the basis of, (i) the cost price, (ii) an index (for example, LIBOR) and (iii) the number of days in the relevant period.

  Under the second Murabahah agreement, B (seller) and A (purchaser) agree to the purchase and sale of a different commodity for, say, a cost price of US$100 and an agreed profit mark-up, calculated on the basis of (i) the cost price, (ii) a fixed percentage rate and (iii) the number of days in the relevant period.

  Provided the deferred payment date under both transactions falls on the same day and the parties can achieve a net settlement of the offsetting deferred sale prices, A and B will have effectively swapped fixed and floating payment flows on a notional US$100. Although there can be no commitment to do so at the outset, the parties can effectively 'roll' the hedge by entering into further Murabahah transactions on each deferred payment date.

- **Offsetting Waad structures.** Under the first Waad, A (as obligor) unilaterally undertakes to purchase Shariah compliant assets when called upon to do so by B (the beneficiary of the first Waad). The purchase price payable on exercise is agreed by the parties upfront (for example, by reference to a formula — say, US$100 plus the product of (i) US$100, (ii) an index (for example, LIBOR) and (iii) a certain number of days). Upon exercise, A and B enter into a separate sale and purchase agreement, and the purchase price is payable by A to B.

  Under the second Waad, B (as obligor) undertakes to purchase completely different Shariah compliant assets from A (the beneficiary of the Waad). Again, the purchase price payable on exercise is agreed by the parties upfront (for example, by reference to a formula — US$100 plus the product of (i) US$100, (ii) fixed percentage and (iii) a certain number of days). Upon exercise, B and A must enter into a sale and purchase agreement, and the purchase price is payable by B to A.

  If A and B exercise their rights under both Waad at the same time, and the corresponding payment dates under the related sales and purchases fall on the same date, A and B will have effectively swapped fixed and floating payment flows on a notional US$100.

  A key point to bear in mind when comparing with a parallel Murabahah structure is that A and B may agree to multiple exercise dates and to enter into multiple sales and purchases when called upon to do so for an agreed term under the relevant Waad.

In addition, the parties will need to consider the impact of any early termination and/or failure to 'roll' a transaction, as well as the financial consequences of these. In short, will the parties be able to replicate a close-out amount calculation (as they would if documented under a conventional ISDA Master Agreement), and if so, how?

► Currency exchange agreements

Provided certain criteria are met, currencies can be exchanged or sold, and accordingly some currency exchange arrangements have been structured under a Waad. For example:

- A would unilaterally grant a Waad in favor of B to exchange the specified currencies when called upon to do so. A key point to bear in mind is that no binding agreement between A and B comes into existence when the Waad is granted.
- When B wishes to exercise its rights and exchange currencies (at the pre-agreed rate), it would be required to send an exercise notice to A, providing full details of the amount and the date of the exchange.
- A completely separate agreement must then be entered into between A and B to reflect that particular sale of currencies.

One way to mitigate difficulties caused by separate sale and purchase agreements would be to investigate whether a duly acknowledged exercise notice would be sufficient to satisfy the Shariah requirement for a separate sale and purchase agreement. Also, the relevant settlement mechanics need careful thought as to whether it is practically possible to exchange the specified currencies on the same day as the entry into the particular sale and purchase agreement.

These structures all have their limitations and uncertainties. The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) recently urged Shariah boards to review all documentation relating to structures and Sukuk. The consequences of the recent AAOIFI statements, as well as the various debates that these have provoked, will ensure that scholars continue to closely analyze derivatives documents and structures. The market will continue to grow and innovate but market participants should be prepared for a greater level of scrutiny and disclosure requirement for these transactions.

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Malaysia's Take on Derivatives in Islamic Finance

By Raphael Wong

Derivatives in Islamic finance have long been debated by Shariah scholars globally. The objections of these scholars differ in their individual interpretation of the Shariah principles as well as their understanding of the derivatives instruments. Many claim these instruments to be gharar (contractual uncertainty) and hence considered impermissible. However, some feel that in principle, futures and option contracts may be compatible with Shariah principles but disagree with the exploitation and speculation practiced by certain parties.

Malaysia is no stranger to the Islamic derivatives market. Finding itself adrift in the sea of uncertainty, it began establishing itself as one of the major players in the derivatives market. The Shariah Advisory Council (SAC) of Malaysia's Securities Commission created a first by resolving that the futures contract on crude palm oil is permissible and adheres to Shariah principles.

This was followed by the approval of stock index futures contracts as well as trading subject to them being Shariah compliant, as well as resolution of the issue of single stock futures, stating that as long as the underlying stocks were Shariah compliant, it was permissible. In 2004, CIMB Islamic Bank was recognized for developing the world's first Islamic Derivative product.

Malaysia also introduced the first global Islamic Derivative Master Agreement (IDMA) documenting Islamic derivative transactions in steps to develop Islamic hedging products that are used to mitigate risks. IDMA is regarded as an important catalyst for future linkages between financial markets that offer Islamic financial market instruments as it incorporates several of the market conduct's best practices.

Last week, the 12th Malaysian Banking Summit in Kuala Lumpur had a session that catered to Islamic banking. The speakers were CIMB Islamic Bank CEO Badlisyah Abdul Ghani and RHB Islamic Bank CEO Jamelah Jamaluddin, with Hong Leong Islamic Bank managing director Khalid Mahmood Bhaimia as the moderator. Below is an excerpt of the rather animated discussion, which among others highlighted the derivatives market in Malaysia.

***Khalid*: There has been a lot of interpretation of Shariah on what can be hedged and what cannot be hedged. Some enlightened scholars have come out with copycat conventional products and say it can be done while some others are more conservative. How do Islamic banks in this market place with such volatility go forward?**

Badlisyah: Many people are confused over the claim that speculation is disallowed under Shariah. This is totally wrong. What is prohibited is gharar or uncertainty in documentation. So when you do documentation, just as in common law, you must ensure that the documentation is certain. So the document must clearly state what you are buying and selling, who you are transacting with, where you are transacting, are the goods deliverable, etc.

When it comes to hedging products, these can be used to speculate. From a Shariah perspective, you are required to mitigate risk. There is nothing in this world that says you cannot mitigate risk under Shariah. The question therefore is to what degree can you mitigate the risk? Do you limit it or exclude it completely?

Some say that if you exclude risk, it will defeat the Musharakah or Mudarabah contract because you are supposed to share profit and risk. We have to look at the other side of the coin. When I invest in a Mudarabah or Musharakah transaction, I am investing the depositors' money in particular products and I am supposed to get my client to trust a mudarib (agency) by managing his money well. So I need to mitigate the risk of my depositor. If possible, I will zero-ize the risk and there is nothing under the Shariah that says you cannot.

This is where a lot of people get confused. To us, there is nothing wrong with even excluding risk by having a purchase undertaking. This is the current contention that the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has regarding the Musharakah Sukuk in the market where there is an element of a purchase undertaking on the part of the issuer where he undertakes to purchase the portion owned by the investor. Some scholars are saying the investors are not taking any risk but if you look anywhere in the Quran or the Hadis, you will not find anything that says you cannot do so.

Jamelah: So long as it is not as speculative like that of the US subprime, where there are no fundamentals, to the best of your abilities you want to make sure that whatever money entrusted to you by your depositors works in accordance to what they want to achieve, which is a profit. I don't think there is anything wrong with that.

I do understand there are different Shariah interpretations on risk mitigation but we must remember one thing: our competition is always to draw clients from what they are used to, conventional banks, to Islamic banks. So we must make sure we give them better if not equal returns than what the conventional banks offered to these depositors in the past.

***Khalid*: So is there no difference between conventional and Islamic banking?**

Badlisyah: When you look at it that way, yes, there is no difference because when you look at the time Islam was established, conventional banking had already existed. Among the things prohibited in Islam are riba (interest), gharar (uncertainty in documentation), mashir (gambling) and other activities that are considered haram.

By analyzing business activities, the principles of economy, business management as well as looking at all the text books and comparing that with Islamic principles, you will realize that about 90% of it is effectively taken from the Quran and the Hadis. When you talk to people, they seem to prefer compartmentalizing Islamic banking by saying that its activities are restricted, like a small box within a big box, with conventional banking being the bigger box because it has more leeway.

However, from a Shariah perspective, we see everything outside of the big box as being permissible, that Islamic finance is outside the big box.

continued...

Malaysia's Take on Derivatives in Islamic Finance (continued)

***Khalid*: So, is betting on the rise and fall of the US dollar then permissible?**

Badlisyah: If it is based on information that you know, you are convinced because you have talked to experts such Nikkei and you have made a full judgment, then there is nothing wrong. But there is a fine line you have to look at. The difference between conventional and Islamic banking is the contract that you enter into at the time of the transaction.

An Islamic financial transaction is a trade contract. If you do financing in Islamic banking, effectively the indebtedness arises from trade activities. Examples include doing co-financing when you are buying and selling property and with the construction of a power plant, you are entering a contract to construct a power plant, but in conventional banking, you are entering into a contract of a lender and borrower. It is an I-O-U contract.

The economic effect is the same the conventional structure is where the indebtedness arises from the borrower's money while in the Islamic structure it derives from trade money. So the indebtedness can be for the same amount as well as for the same period of time but how you give rise to that indebtedness would be based on a contract required under Shariah. So if you can see it from that perspective, then conventional is the same as Islamic. Fundamentally, it is the same from an economic perspective but from a contract perspective and principle perspective, it is very different.

Jamelah: The fine difference between conventional banking practice and Islamic banking practice is that you cannot do anything with trading or speculating if you do not have the available asset or subject matter. The reason you enter into a specific transaction is always by way of contract.

***Khalid*: Are you saying we have all the tools available as in the conventional bank for mitigating every risk in Islamic banking?**

Badlisyah: We do not have all of the tools as yet. The hedging tools and the derivative products for the Islamic financial market were only introduced about two years ago and it will take some time before we have a tool for every single risk known. Give us some time to develop these products and once we have these in place that are Shariah compliant, you will see the growth rate jump exponentially.

The conventional tools cannot be used because the contract that you enter into will be wrong. The contract we structure has to comply with Shariah principles so the hedging tools will be Shariah compliant and have the same economic effect as the conventional ones but how it is entered into will be different.

***Khalid*: So can you envision having futures, forwards and options in Islamic products?**

Badlisyah: I think at the moment only CIMB has them already. We also have the Forex swap and the currency swap. The other players may or may not have it but ours is a product approved by the Central Bank of Malaysia and available in the market. It will be just a matter of time before the other banks take it on because of the demand from their customers.

Qatar a Role Model for the Muslim World?

By Dr Saad Al-Harran

The Muslim world acknowledges that it is in a state of disarray financially, politically and socially. It is looking for a leader with long-term goals to help ease its difficulties by firstly achieving economic prosperity and wealth creation for his own citizens and secondly, by inculcating other nations with hope and aspiration by providing them financial assistance through the circulating of wealth to achieve social justice.

In Islam, an individual is seen as an integral part of the totality of mankind, emphasizing a two-way relationship between the individual and society. Similarly, in Islamic finance and society, each complements the other.

Sadly, over the last three decades the investments have focused on mega buildings and expensive hotels plus short-term financing in different parts of the Muslim world, especially in the affluent economies, but minuscule investment in human development resources.

> "Qatar has invested a large amount of its oil and gas revenue in research and development and this has attracted many Arab and non-Arab scientists"

Qatar's new direction: Islamic finance with social responsibility

Qatar has made a positive impact among the Arab countries as well as the Muslim world. Indeed, the neutral stance of its leadership on many Arab issues has made Qatar well respected way beyond the Arab world.

Its leadership, led by the emir, Sheikh Hamad bin Khalifa Al-Thani, has become the country's driving force for economic development with a long-term vision.

Qatar has invested a large amount of its oil and gas revenue in research and development and this has attracted many Arab and non-Arab scientists. And the Doha debates series not only presents opposing views on some of the hottest topics in the Muslim world but also encourages the audience to question both sides.

The Qatar leadership needed to place more emphasis on "hands-on experience," and vocational training institutions was the answer provided to help stem the increase in unemployment among the youth in the country.

This is in contrast to much of the Muslim world where many academic institutions produce unemployable graduates who become a big burden to the government and the country.

To advance its role as a caring and sharing nation, the focus of the investment should therefore be on human capital development as that is what Islamic finance with social responsibility is all about.

If Qatar today is keen to further diversify its economy away from oil and gas, then investment in agriculture is the solution. To internationalize its commitment, Qatar can invest in Sudan, Tunisia and Morocco and thus help ease the financial pressure on these economies. With the food crisis and demand for rice plantations, farming has huge potential.

> "It is small nation with big ideas; it deserves to be the role model for the rest of the Muslim world"

Qatar's opportunity to serve

It is a challenging time for the Muslim world, and Muslims have a moral responsibility to open their minds and hearts to understand and appreciate human suffering.

The Muslim world has to create leaders, not followers, to lead rather than to be led by others, and find solutions to problems through internal channels rather than put the blame on others.

Qatar's success stories in the economic arena as well as the media are well documented and highly respected. It is a small nation with big ideas; it deserves to be the role model for the rest of the Muslim world.

The banking penetration in the country has been increasing over the last few years - the ratio of credit deployment to gross domestic product (GDP) grew to 49.6% at the end of 2006 from 42.8% at the end of 2004, and in 2007 it is estimated to have reached 69.1%.

Such an achievement in the banking industry has resulted in its growing prominence in Islamic finance, especially within the Gulf Cooperation Council (GCC) region.

This has encouraged many Qatari banks to venture into Islamic banking as a window within the conventional banks, but the challenge is not having too many windows within traditional banking.

What Qatar can offer is its financial backing to countries which have innovative business ideas but lack funds. Hence, it should promote Islamic finance with social responsibility to position itself as a good player in the field.

Dr Saad Al-Harran is a senior lecturer at the Department of Business and Management, Faculty of Business, Economics and Policy Studies (FBEPS), Universiti Brunei Darussalam (UBD). He has more than 26 years of experience in Islamic microfinance. The views expressed are his and do not reflect those of the FBEPS, UBD.

With the sovereign wealth funds' debate continuing, what role do you envisage them playing in the development of the global Islamic finance industry?

Durham University

Sovereign wealth funds are becoming increasingly significant, especially those of oil and gas exporting countries such as Kuwait, Qatar and Abu Dhabi, but at present they do not use Shariah screens to determine their investment allocation. Fund policy is very conservatively determined and it is unlikely that any of these funds will convert to being exclusively Shariah compliant in the coming years.

However, some experimentation with the use of Shariah screens is possible to "test the waters". The Kuwait Investment Authority has expressed an interest in Islamic finance, for example, and has included a component of this in its graduate training program for recruits. I would expect to see other funds follow similar policies, and it will be interesting to see how the new Saudi fund operates, although admittedly its initial capital is rather limited.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University, School of Government and International Affairs, UK

BENER LAW OFFICE
Istanbul – Turkey

The SWF will look for appropriate and diversified portfolio allocation with competitive return on investment. Though lucrative opportunities in the conventional sphere will be abundant and enticing, there should be agreement to have a reasonable spread of the investments within the Islamic world to sustain and boost economic growth further.

As far as Islamic finance is concerned, this could be a portion for micro finance, investment of human resources (schooling and study) and joint participation at solid mega- and investment banks.

PAUL WOUTERS: Partner, Bener Law Office

BLME BANK OF LONDON AND THE MIDDLE EAST

The amount of money accumulating in the sovereign wealth funds of oil producing countries is growing significantly as a result of the increasing oil prices. At the moment, these funds appear to invest heavily in conventional financial instruments. However, given that the vast majority, if not all, of the population of these countries is Muslim, it would be logical that a significant amount of these funds is invested in Islamic financial assets. As a result, this will increase the amount available globally for Islamic investments which will help the industry grow.

However, given the nature and purpose of sovereign wealth funds which are often related to social security, the funds will have to ensure that their investment policy is prudent. At this point in time, the amount of Islamic assets available for investment is still relatively limited, which will leave a lot of these funds untapped for the Islamic financial markets until such a time that more viable alternatives become available.

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

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Hong Leong Islamic Bank

In GCC, sovereign wealth funds have sponsored mega Islamic banks with capitals in billions of US dollars. ADIA, DIC, etc have helped set up Islamic banks. Khazanah has just invested in a large reTakaful company.

Unfortunately, Islamic institutions cannot absorb big amounts of capital fast due to lack of scale today.

KHALID MAHMOOD BHAIMIA: Managing director, Hong Leong Islamic Bank, Malaysia

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Next Forum Question

Tawarruq is generally described as reverse Murabahah where an item is bought on a deferred payment basis and immediately resold for cash to a third party to obtain cash without resorting to an interest-based loan. This product is gaining ground but some say it raises serious Shariah issues. Is it really a product of ill repute and are there alternatives to it?

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, 25th June 2008.

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

Name: Azmi Mohd Ali

Position: Senior partner, Azmi & Associates

Based: Kuala Lumpur

Age: 47

Nationality: Malaysian

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

I started my career with Petronas, the Malaysian national oil corporation, having won its scholarship to pursue my law degree at Universiti Malaya. In 1990, I was lured into private practice. I moved to another law firm in 1995, where I started a corporate commercial department, building it up to 19 attorneys within 4½ years. Our firm was established only in September 2000.

What does your role involve?

I am responsible for strategy development, which involves incorporating the latest developments in technology and best practices.

I am also responsible for the expansion of the organic and non-organic growth of the firm; maintaining, renewing and reviewing strategic alliance arrangements; as well as developing new contacts and cultivating potential strategic partners.

What is your greatest achievement to date?

I reckon that would be, among others, being consistently named as one of the leading lawyers for corporate and M&A (merger and acquisition) in Malaysia since 2001 to date by Legal 500, and being named as a leading capital market/corporate finance by IFLR (International Financial Law Review) for three years since 2006.

In 2001, I negotiated membership in TerraLex, the second-largest independent law firm grouping in the world. This culminated in the creation of an entity with a market capitalization of US$13.5 billion, making it one of the top three-largest companies listed on Bursa Malaysia. It is also the largest merger in the corporate history of Malaysia.

Which of your products/services deliver the best results?

Our main specialty is cross-border acquisitions, cross-border investments and cross-border litigation management. Over the last two years, we have had the privilege of attending to numerous Islamic transactions involving Islamic banking and product development. These include advising leading investment banks in Malaysia on the issuance of up to RM2.5 billion (US$763 million) Murabahah commercial papers, and another RM1 billion (US$305 million) medium-term notes/commercial papers by a company involved in shipping.

What are the strengths of your business?

In respect of competitiveness, it is through our association with TerraLex that Azmi & Associates is able to tap into the talent and expertise of a massive pool of lawyers worldwide to assist Malaysian clients in doing business in over 100 countries, efficiently and cost-effectively.

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

In a nutshell, the success of our firm has been driven by many factors, but three stand out - investment in human capital, investment in technology, strategic management planning processes for our firm, internally or with the help of external management and consultants, and global best practices

What are the obstacles faced in running your business today?

Starting a business is not without obstacles. In fact, the whole process of entrepreneurship seems like overcoming one challenge after the other. Going blindly into the business: Passion is not enough; you need to know what you are getting into.

False confidence: Even if you think you know something, think again. The adage 'a little knowledge is a dangerous thing' is so true in entrepreneurship.

Lack of faith in yourself: The lack of belief that you can achieve growth and success while having fun is the number one killer of any business. Believe in yourself first, and your ideas and success will follow.

Burden of being the boss: If you don't do a task, it won't get done (unless you can already afford employees). Work may sometimes spill over and cut into your family life.

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

It is hoped that Islamic finance can be provided through multiple and more convenient channels that will in turn expand the scope and reach of services. Islamic finance will flourish with its international dimension gaining greater significance. The Islamic financial system in Malaysia has become among the most comprehensive and active in the world. Accompanying this development has been the strengthening of the regulatory framework and the Shariah governance practices.

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

We want Islamic finance to be better accepted among European banks, the emerging markets of Japan, China and other Western countries. The Islamic financial system provides solutions and best practices, for instance, in respect of liquidity where demand of financing is met. Muslim lawyers should come to the forefront and become the phase-setter, through culmination of experience, deep understanding of the operation of the global financial legal system and to infuse the integration of Islamic system in order to show the supremacy of the Islamic banking system.

Tanjung Langsat Port's Sukuk and MCP/MMTN

INSTRUMENT	Sukuk Musharakah and Musharakah commercial paper/ Musharakah medium term notes (MCP/MMTN) programs
ISSUER / OBLIGOR	Tanjung Langsat Port (TLP)
PRINCIPAL ACTIVITIES	Develop, control, administer and otherwise operate and maintain Tanjung Langsat Port.
BOARD OF DIRECTORS	Muhammad Ali Hashim (chairman), Johari Mohamed, Yahya Abdul Ghani, Lukman Abu Bakar, Kamaruzzaman Abu Kassim, Mazlan Othman.
ISSUE SIZE	RM250 million (US$76.33 million) in six tranches for Sukuk Musharakah; RM135 million (US$41.25 million) for MCP/MMTN.
DATE OF ISSUE	16th May 2008
MATURITY	12 years from the date of the first issue for the Sukuk; up to seven years for the MCP/MMTN.
AUTHORIZED/PAID-UP CAPITAL	As at the 31st December 2007, authorized capital is RM50 million (US$15.2 million) comprising 50 million ordinary shares of RM1 (US$0.30) each; paid-up capital is RM40 million (US$12.17 million) comprising 40 million ordinary shares of RM1 (US$0.30) each.
LEAD ARRANGER	MIDF Amanah Investment Bank
LAW	The laws of Malaysia
LEGAL COUNSEL	Adnan Sundra & Low for the lead arranger and Abdul Haris, Norhayati & Co for the issuer.
FINANCIAL ADVISER	Capital Intelligence Advisors
TRUSTEE	Equity Trust (Malaysia)
SHARIAH ADVISER	Mohd Daud Bakar
PURPOSE OF ISSUE	Proceeds from the Sukuk will be used for: i) repayment of existing borrowings. ii) expansion of Tanjung Langsat Port and the construction of storage tanks. iii) funding of the Profit Reserve, to be deposited in the Finance Service Reserve Account. iv) fees and expenses in relation to the Sukuk. v) for capital expenditure and working capital requirements of TLP.
RATING	AA-IS for Sukuk Musharakah and MARC-1ID/AA-ID for MCP/MMTN, assigned by MARC.

BNP PARIBAS — UAE

Philippe Aroyo has been named as the bank's new head of territory for the UAE. He will be responsible for speeding up the growth of BNP Paribas's business in the Emirates by extending client coverage and strengthening the ties with UAE's business community.

Aroyo has been with the bank since 1989. He was previously head of territory for Kuwait.

AON — Middle East

Aon Risk Services has elected Christof D Bentele as the chief commercial officer of Aon Middle East, with immediate effect. He will be responsible for managing the client facing operations and business development.

Bentele joined the company in 2000, and has 20 years of experience in the insurance industry.

UBS — Switzerland

The Swiss bank has named Liam Beere and Pat Guerin as joint heads of mergers and acquisitions (M&A) in Europe, Middle East and Africa in an ongoing drive to rebuild its loss-making investment bank. They succeed Tom Cooper, who will become a vice-chairman within the bank's M&A unit.

UBS — UK

Nick Reid and Tim Waddell have been appointed as the joint heads of UK investment banking division of the Swiss-based bank. They succeed Hew Glyn-Davies, who is set to become vice-chairman of the investment banking department.

BARCLAYS CAPITAL — Hong Kong

The investment banking arm of Barclays named Wensheng Peng as director and head of its China research team. Peng will be based in Hong Kong and was previously with the Hong Kong Monetary Authority.

Barclays also named Howell James as corporate affairs director. He was the cabinet office's permanent secretary for government communications.

DUBAI BANK — UAE

The bank named its new management team recently, with Fadel Al Ali as the non-executive chairman and Salaam Al-Shaksy as the new CEO.

Fadel is also executive chairman of Dubai Holding. He was previously CEO and CFO of the company and had spent 16 years with Citigroup in the UAE.

Salaam was CEO of Dubai Islamic Investment Group and had a stint in the Bank of Dhofar as CEO and was vital in the repositioning of the bank after its, merger with Majan International Bank. He has more than 21 years experience in senior management in commercial banking as well as investment banking in Oman and Dubai.

MORGAN STANLEY — India

The asset manager said it has appointed Anthony Heredia as CEO of its Indian mutual fund unit.

CITIGROUP — Vietnam

Citigroup is said to have appointed Brett Krause as its new country head in Vietnam as the US bank expands its reach into the fast-growing emerging market.

STANDARD & POOR'S — EMEA

The unit of McGraw-Hill Companies named Tony Angel as executive managing director and head of its Europe, Middle East and Africa (EMEA) business. Angel was with Linklaters' managing partner for 10 years.

ADIH — UAE

Abu Dhabi Investment House (ADIH) has announced two senior appointments in its effort to broaden offerings and strengthen investor services.

Rizwan Qureshi is the new head of risk management while Wael Mattar is head of the investment advisory group. They will be working with teams in the Abu Dhabi, Bahrain and Geneva offices.

COMMERCIAL BANK INTERNATIONAL — UAE

Douwe J Oppedijk has been named as CBI's new CEO by its board of directors. It said he was chosen due to his track record in leading financial organizations, strong qualities and diverse experience.

Oppedijk was previously the CEO, and subsequently acting managing director, of Saudi Hollandi Bank.

CBB — Bahrain

Anwar Khalifa Al Sadah recently retired as the deputy governor of the Central bank of Bahrain (CBB).

He had served the bank for 27 years, and helped strengthened the country's position as a leading Islamic finance center. He is reportedly moving to Al Salam Bank.

Deal *tracker*

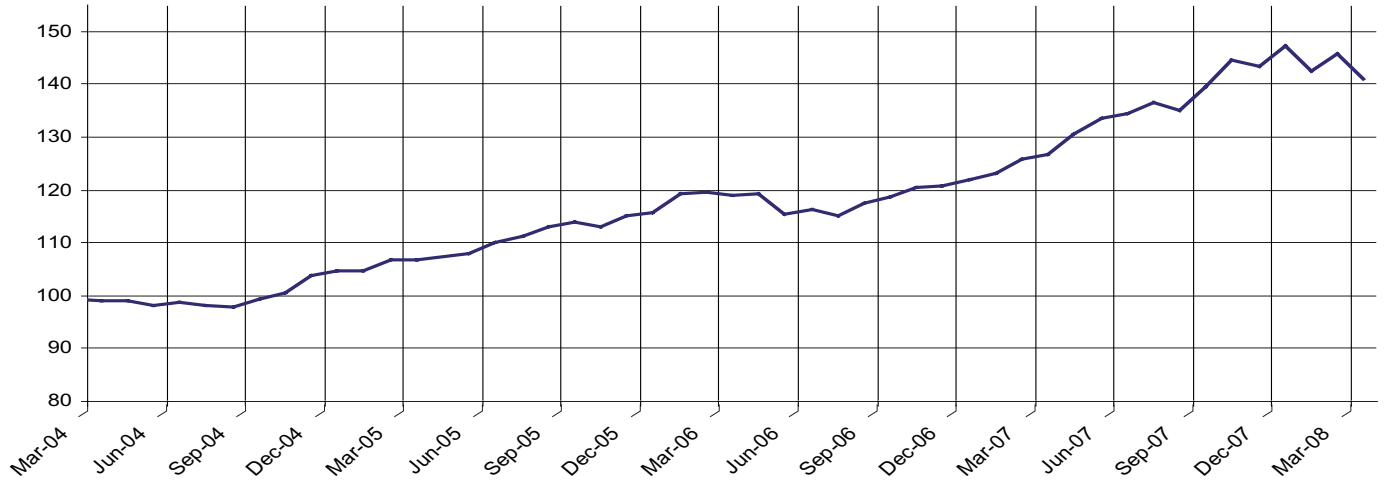
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
Dewa	Minimum US$500	Sukuk
Philippines	Up to US$1 billion	Sukuk
BTA Bank	Up to US$150	Sukuk
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	up to US$2 billion	Ijarah
Orient Technology Indonesia	US$120	Islamic and conventional
Perisai	up to US$47.03	2 tranches in 6 series
Ranipur Sugar	US$7.96	Diminishing Mushakarah
Pak Elektron	US$1.9 billion	Diminishing Musharakah
Al Noor Sugar Mills	US$7.99	Diminishing Musharakah
FACB Industries	US$25.11	Murabahah; CP/MTN
Glomac	US$18.83	Murabahah MTN
First Fidelity	US$2.9	Diminishing Musharakah
Aneka Gas	US$26.5	Ijarah alongside US$8.5 million worth of conventional bonds
Prolintas	US$187	US$93.5 million senior Ijarah, US$93.5 million junior Musharakah
Monetary Authority of Singapore	TBA	Sukuk

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

Eurekahedge Islamic Fund Index



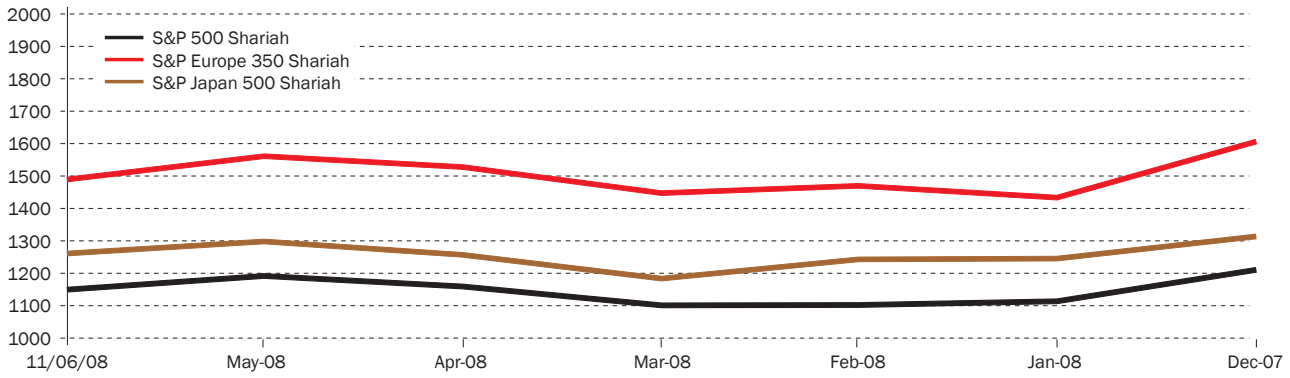
YTD returns for ALL funds (as of 11th June 2008)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	United Islamic Income Fund	UBL Fund Managers	10.98	Pakistan
2	Apex Dana Al Kanz	Apex Investment Services	9.73	Malaysia
3	Thahabi Ijarah Fund I	Wafra Investments Advisory Group	7.88	Kuwait
4	Islamic Ijarah Fund IV	Wafra Capital Partners	7.61	Kuwait
5	Markaz Real Estate Fund	Kuwait Financial Centre	6.71	Kuwait
6	Banque Misr Fund No. 4	HC Securities & Investment	5.01	Egypt
7	UTP-Islamic Fund	JS Investments	4.46	Pakistan
8	Tijari Islamic Money Market Fund	Commercial Bank of Kuwait	4.12	Kuwait
9	Meezan Islamic Fund	Al Meezan Investment Management	3.25	Pakistan
10	Al Meezan Mutual Fund	Al Meezan Investment Management	3.14	Pakistan
	*Eurekahedge Islamic Fund Index**		***-3.13***	

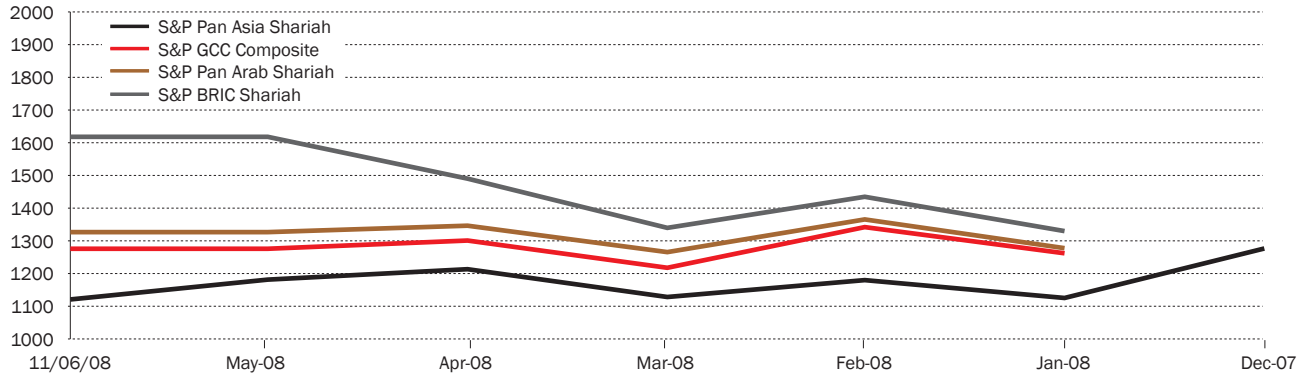
Sharpe ratio for ALL funds (as of 11th June 2008)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Thahabi Ijarah Fund II	Wafra Investments Advisory Group	30.93	Kuwait
2	Islamic Ijarah Fund VI	Wafra Capital Partners	28.20	Kuwait
3	United Islamic Income Fund	UBL Fund Managers	27.46	Pakistan
4	Tijari Islamic Money Market Fund	Commercial Bank of Kuwait	24.52	Kuwait
5	Amwal Islamic Money Market Fund	Kuwait & Middle East Financial Investment Company	22.36	Kuwait
6	Boubyan Financial Fund US$	Boubyan Bank	11.57	Kuwait
7	Atlas Pension Islamic Fund - Debt Sub Fund	Atlas Asset Management	9.14	Pakistan
8	Atlas Pension Islamic Fund - Money Market Sub Fund	Atlas Asset Management	9.10	Pakistan
9	BIG Dana Muamalah	Bhakti Asset Management	8.18	Indonesia
10	Boubyan Financial Fund KWD	Boubyan Bank	8.15	Kuwait
	Eurekahedge Islamic Fund Index*		***0.09***	

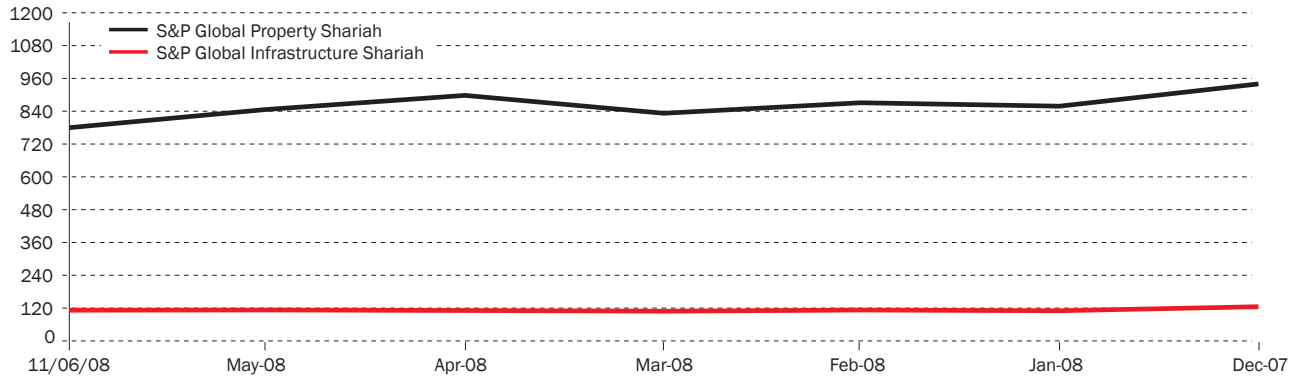
S&P Shariah Indices Price Index Levels



Index Code	Index Name	11/06/08	May-08	Apr-08	Mar-08	Feb-08	Jan-08	Dec-07
SPSHX	S&P 500 Shariah	1149.51	1191.671	1159.136	1101.027	1102.059	1113.559	1210.401
SPSHEU	S&P Europe 350 Shariah	1489.44	1561.127	1527.614	1447.319	1469.692	1433.380	1605.956
SPSHJU	S&P Japan 500 Shariah	1261.043	1298.106	1256.791	1183.592	1242.786	1245.302	1313.474



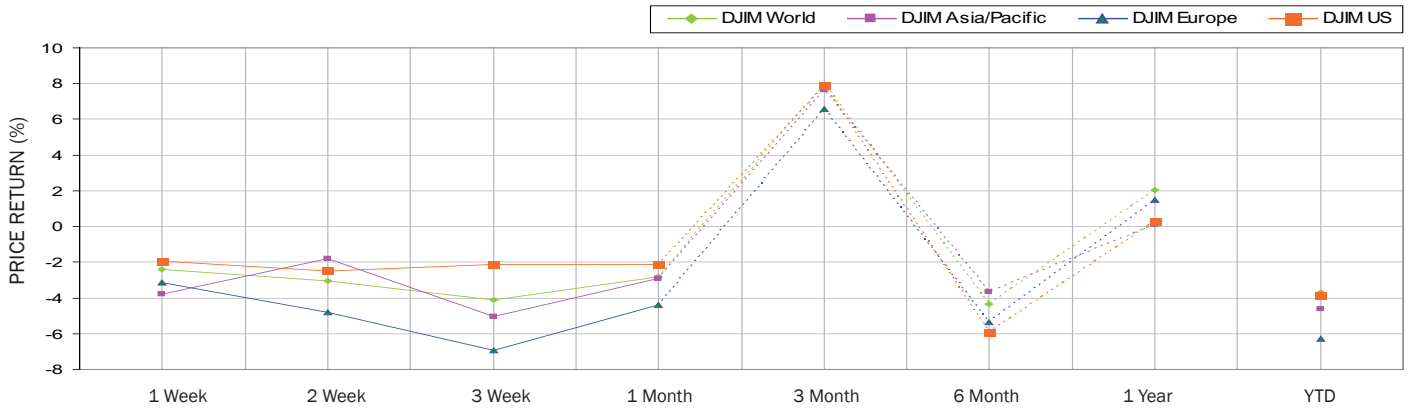
Index Code	Index Name	11/06/08	May-08	Apr-08	Mar-08	Feb-08	Jan-07	Dec-07
SPSHAS	S&P Pan Asia Shariah	1120.78	1181.396	1213.284	1128.294	1179.878	1125.301	1276.625
SPSHG	S&P GCC Composite Shariah	1275.791	1275.791	1300.94	1217.617	1341.97	1261.967	
SPSHPA	S&P Pan Arab Shariah	1326.664	1326.664	1346.319	1265.531	1365.488	1277.606	
SPSHBR	S&P BRIC Shariah	1618.083	1618.083	1490.222	1339.677	1434.744	1329.801	



Index Code	Index Name	11/06/08	May-08	Apr-08	Mar-08	Feb-08	Jan-07	Dec-07
SPSHGU	S&P Global Property Shariah	779.895	846.205	897.914	832.467	870.938	858.447	939.792
SPSHIF	S&P Global Infrastructure Shariah	112.266	113.133	111.336	108.755	112.966	110.419	125.143

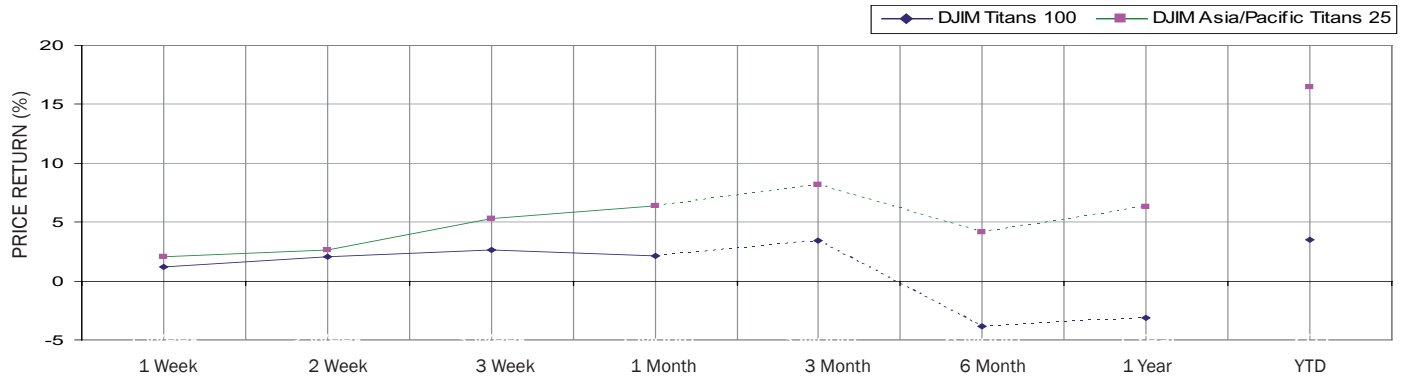
Data as of the 11th June 2008

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-2.4	-3.05	-4.11	-2.8	7.98	-4.35	2.06	-3.71
DJIM Asia/Pacific	-3.77	-1.79	-5.06	-2.93	7.64	-3.67	0.08	-4.63
DJIM Europe	-3.16	-4.8	-6.93	-4.37	6.58	-5.36	1.48	-6.28
DJIM US	-1.93	-2.48	-2.11	-2.14	7.87	-5.92	0.28	-3.89

PERFORMANCE OF DJ TITANS INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	-2.43	-3.38	-4.59	-3.42	4.96	-8.51	-0.55	-7.56
DJIM Asia/Pacific Titans 25	-3.93	-1.14	-4.9	-2.91	11.14	1.56	7.99	1.07

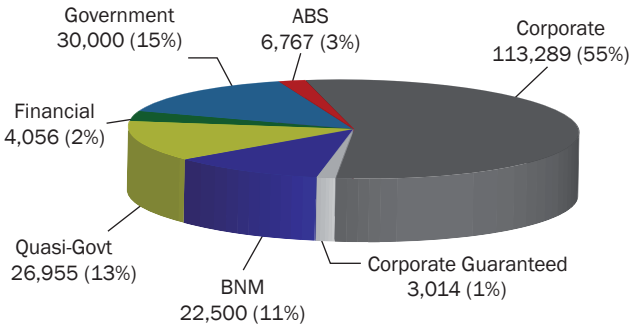
DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2618	20244.07	16396.24	6.26	1.32	476.9	0.01	2.91	0
DJIM Asia/Pacific	1118	3929.89	2625.04	2.35	0.54	137.9	0.01	5.25	0
DJIM Europe	389	5282.45	3933	10.11	2.59	219.24	0.17	5.57	0
DJIM US	727	8966.79	8442.06	11.61	2.91	476.9	0.11	5.65	0
DJIM Titans 100	100	8226.56	7355.3	73.55	46.86	427.48	11.39	5.81	0.15
DJIM Asia/Pacific Titans 25	25	1269.61	860.97	34.44	26.36	89.82	11.39	10.43	1.32

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

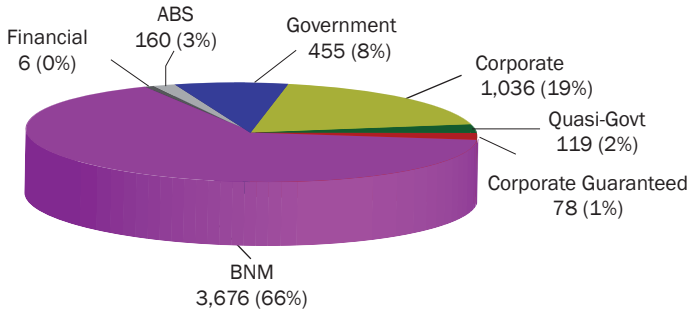
RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT AS AT 11th JUNE 2008
MOST ACTIVE BONDS TRADED BETWEEN 5th JUNE and 11th JUNE 2008

Stock Name	Last Traded Price	Last Traded Yield	Total Volume Traded Last 7	% w-o-w Price Change	Last Week Closing Price
BNMN-IDB 13/2008 273D 27.11.2008	98.37	3.57	500		
BNMN-IDB 17/2008 273D 11.12.2008	98.23	3.57	500		
BNMN-IDB 42/2008 273D 12.03.2009	97.38	3.55	500		
BNMN-IDB 40/2008 182D 04.12.2008	98.31	3.54	420		
BNMN-IDB 41/2008 182D 11.12.2008	98.27	3.56	400		
BNMN-IDB 39/2008 91D 04.09.2008	99.2	3.54	300		
RANTAU IMTN 0% 15.03.2012 - MTN 3	97.7	4.78	230	-1.44	99.13
BNMN-IDB 31/2008 273D 05.02.2009	97.67	3.57	200		
BNMN-IDB 74/2007 182D 26.06.2008	99.85	3.52	184		
BNMN-IDB 34/2008 182D 13.11.2008	98.49	3.57	120		
MITB 6/2008 364D 24.04.2009	96.91	3.57	120		
RANTAU IMTN 15.03.2011-MTN 1	99.46	4.6	110	-0.9	100.36
BNMN-IDB 20/2008 272D 18.12.2008	98.18	3.54	100		
PROFIT-BASED GII 3/2006 15.11.2016	95.41	4.48	100	-2.7	98.06
BNMN-IDB 10/2008 182D 14.08.2008	99.39	3.54	98.6		

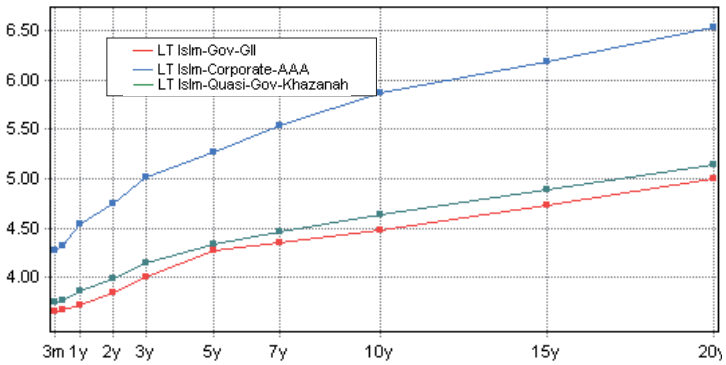
Outstanding Bond by Issuer Class as at 11th June 2008 (RM'000)



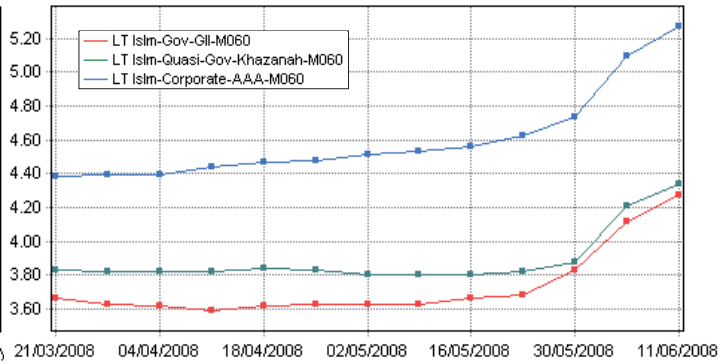
Bond Traded Amount by Issuer Class as at 11th June 2008 (RM'000)



YTM Curves as at 11th June 2008



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



TOP ISSUERS OF ISLAMIC BONDS — JUNE 2007 – JUNE 2008

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Binariang GSM	Malaysia	Sukuk Musharakah	4,509	9	13.0	CIMB Investment, RHB Investment, Aseambankers, ABN Amro, AmInvestment, OCBC Bank (Malaysia)
2	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	3,466	2	10.0	Calyon, HSBC Saudi Arabia
3	Malaysia	Malaysia	Sukuk	2,494	3	7.2	Malaysian Government bond
4	Jafz Sukuk	UAE	Sukuk Musharakah	2,043	1	5.9	Barclays Capital, Deutsche Bank (London), Dubai Islamic Bank, Lehman Brothers International (Europe)
5	DP World Sukuk	UAE	Sukuk Mudarabah	1,496	1	4.3	Barclays Capital, Citigroup Global Markets, Deutsche Bank, Lehman Brothers
6	Saudi Electricity	UAE	Sukuk	1,333	1	3.8	HSBC Saudi Arabia
7	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	1,163	11	3.3	CIMB Investment
8	Sukuk Funding (No.2)	Saudi Arabia	Sukuk Ijarah	1,021	1	2.9	Abu Dhabi Commercial Bank, Barclays Capital, Credit Suisse Securities (Europe), Dubai Islamic Bank, First Gulf Bank, Lehman Brothers International (Europe), National Bank of Abu Dhabi
9	Dana Gas Sukuk	UAE	Sukuk Mudarabah	1,000	1	2.9	JPMorgan
10	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
11	Nakheel Development 3	UAE	Sukuk Ijarah	980	1	2.8	Dubai Islamic Bank, NBD Investment Bank, JPMorgan
12	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	2.4	Deutsche Bank (Malaysia), JPMorgan, CIMB Investment
13	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	2.4	Citibank, CIMB Investment
14	Nakheel Development 2	UAE	Sukuk Ijarah	750	2	2.2	JPMorgan
15	DEWA Funding	UAE	Sukuk Ijarah	749	1	2.2	Barclays Capital, Citigroup Global Markets, Dubai Islamic Bank, Emirates Bank International
16	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	616	3	1.8	CIMB Investment, AmInvestment
17	Khazanah Nasional	Malaysia	Exchangeable Sukuk	550	1	1.6	CIMB Investment, Deutsche Bank, UBS
18	Cagamas	Malaysia	Sukuk Murabahah	547	5	1.6	HSBC, CIMB Investment, Aseambankers
19	National Bank of Abu Dhabi	UAE	Exchangeable Sukuk	545	1	1.6	Morgan Stanley, Credit Suisse
20	NIG Sukuk	Kuwait	Sukuk Mudarabah	475	1	1.4	BNP Paribas, Citigroup, National Bank of Kuwait, Standard Chartered, WestLB
	Total			34,764	**307**	**100.0**	

For all enquires regarding the above information, please contact:

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Email: Catherine.Chu@Hk.Dealogic.com
Phone: +852 2804 1223; Fax: +852 2529 4377

TOP ISSUERS OF ISLAMIC BONDS — MARCH 2008 – JUNE 2008

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	1,333	1	15.7	Calyon, HSBC Saudi Arabia
2	Sukuk Funding (No.2)	Saudi Arabia	Sukuk Ijarah	1,021	1	12.1	Abu Dhabi Commercial Bank, Barclays Capital, Credit Suisse Securities (Europe), Dubai Islamic Bank, First Gulf Bank, Lehman Brothers International (Europe), National Bank of Abu Dhabi
3	Nakheel Development 3	UAE	Sukuk Ijarah	980	1	11.6	Dubai Islamic Bank, NBD Investment Bank, JPMorgan
4	DEWA Funding	UAE	Sukuk Ijarah	749	1	8.8	Barclays Capital, Citigroup Global Markets, Dubai Islamic Bank, Emirates Bank International
5	Malaysia	Malaysia	Sukuk	627	1	7.4	Malaysian Government bond
6	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	616	3	7.3	CIMB Investment, AmInvestment
7	Tabreed 08 Financing	UAE	Istisna & Ijarah exchangeable Sukuk	463	1	5.5	Morgan Stanley
8	National Central Cooling (Tabreed)	UAE	Convertible Sukuk	463	1	5.5	Morgan Stanley
9	Lingkaran Trans Kota	Malaysia	Musharakah MTN	457	13	5.4	Aseambankers
10	Central Bank of Bahrain	Bahrain	Ijarah Sukuk	272	1	3.2	Calyon
11	Rak Capital	UAE	Sukuk Ijarah	190	1	2.2	Standard Chartered
12	Villamar Sukuk	Bahrain	Sukuk Musharakah	163	1	1.9	Al Rajhi Banking & Investment, Merrill Lynch International
13	Almana Sukuk	Qatar	Mudarabah Sukuk	138	1	1.6	Gulf International Bank
14	Salam Bounian Development Sukuk	Qatar	Sukuk Musharakah	133	1	1.6	Qatar National Bank, Commercial Bank of Qatar, Qatar Islamic Bank
15	Aras Sejagat	Malaysia	Ijarah Islamic bond	110	1	1.3	Bank Islam Malaysia, Kuwait Finance House (Malaysia)
16	Cagamas	Malaysia	Sukuk Murabahah	96	2	1.1	HSBC, CIMB Investment, Aseambankers
17	Projek Lebuhraya Utara Selatan	Malaysia	Musharakah MTN	96	1	1.1	CIMB Investment
18	Gamuda	Malaysia	Musharakah & Murabahah MTN	92	1	1.1	CIMB Investment
19	Tanjung Langsat Port	Malaysia	Sukuk Musharakah	78	6	0.9	MIDF Amanah Investment
20	Jimah Energy Ventures	Malaysia	Istisna MTN	76	10	0.9	AmInvestment, RHB Investment, MIMB, Bank Muamalat
	Total			8,464	**76**	**100.0**	

ISLAMIC BONDS			JUNE 2007 – JUNE 2008	
	Manager or Group	Amt US$ m	Iss.	%
1	CIMB	4,176	52	12.0
2	HSBC	3,887	20	11.2
3	Malaysian Government bond	2,494	3	7.2
4	JPMorgan	2,360	5	6.8
5	Citi	1,810	13	5.2
6	AmInvestment	1,672	56	4.8
7	Barclays Capital	1,518	5	4.4
8	Aseambankers	1,499	40	4.3
9	Deutsche Bank	1,494	5	4.3
10	Dubai Islamic Bank	1,374	7	4.0
11	Morgan Stanley	1,308	7	3.8
12	Riyad Bank	1,066	1	3.1
13	Lehman Brothers	1,031	3	3.0
14	Calyon	1,016	2	2.9
15	Standard Chartered	875	31	2.5
16	RHB Capital	852	62	2.5
17	Oversea-Chinese Banking	683	16	2.0
18	Emirates NBD	622	3	1.8
19	ABN Amro	620	8	1.8
20	Credit Suisse	526	3	1.5
	Total	34,764	**307**	**100.0**

ISLAMIC BONDS			MARCH 2008 – JUNE 2008	
	Manager or Group	Amt US$ m	Iss.	%
1	Morgan Stanley	926	2	10.9
2	HSBC	669	2	7.9
3	Calyon	666	1	7.9
4	Dubai Islamic Bank	660	3	7.8
5	Malaysian Government bond	627	1	7.4
6	CIMB	591	7	7.0
7	Aseambankers	568	17	6.7
8	Emirates NBD	514	2	6.1
9	AmInvestment	383	15	4.5
10	Barclays Capital	333	2	3.9
11	JPMorgan	327	1	3.9
12	Standard Chartered	280	2	3.3
13	Citi	187	1	2.2
14	Gulf International Bank	163	1	1.9
15	Abu Dhabi Commercial Bank	146	1	1.7
16	Credit Suisse	146	1	1.7
17	First Gulf Bank	146	1	1.7
18	Lehman Brothers	146	1	1.7
19	National Bank of Abu Dhabi	146	1	1.7
20	Malaysian Industrial Development Finance	106	14	1.3
	Total	**8,464**	**76**	**100.0**

ISLAMIC BONDS BY COUNTRY		JUNE 2007 – JUNE 2008	
	Amt US$ m	Iss.	%
Malaysia	15,637	252	45.0
UAE	10,627	18	30.6
Saudi Arabia	5,799	4	16.7
Pakistan	702	19	2.0
Bahrain	550	2	1.6
Kuwait	475	1	1.4
Total	34,764	**307**	**100.0**

ISLAMIC BONDS BY COUNTRY		MARCH 2008 – JUNE 2008	
	Amt US$ m	Iss.	%
UAE	3,948	6	46.6
Malaysia	2,527	59	29.8
Saudi Arabia	1,333	1	15.7
Total	8,464	**76**	**100.0**

ISLAMIC BONDS BY CURRENCY		JUNE 2007 – JUNE 2008	
	Amt US$ m	Iss.	%
Malaysian ringgit	14,237	250	41.0
US dollar	8,144	19	23.4
Emirati Dirham	6,698	9	19.3
Saudi Arabian Riyal	4,799	3	13.8
Total	34,764	307	100.0

ISLAMIC BONDS BY CURRENCY		MARCH 2008 – JUNE 2008	
	Amt US$ m	Iss.	%
Emirati Dirham	4,111	7	48.6
Malaysian ringgit	2,527	59	29.8
Saudi Arabian Riyal	1,333	1	15.7
Total	8,464	**76**	**100.0**

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DATE	EVENT	VENUE	ORGANIZER
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15th - 17th	TradeTech Middle East 2008	Dubai	WorldWide Business Research
15th - 19th	Sukuk World Middle East	Dubai	IIR Middle East
18th - 19th	Malaysian Islamic Capital Market Conference 2008	Kuala Lumpur	Bursa Malaysia
23rd - 26th	4th International Islamic Finance Forum 2008	Hong Kong	Informa
24th - 26th	Islamic Finance & Investment World Europe 2008	UK	Terrapinn
25th - 26th	Sukuk Summit	London	ICG Events
July			
1st - 3rd	Islamic Finance: The India Opportunity	India	IQPC
8th	The World Islamic Banking Conference	London	MEGA
14th - 16th	2nd International Takaful Summit	London	IBFIM
22nd	Innovative Product Development	UK	IGG Events
23rd - 24th	Islamic Real Estate Asia 2008	Kuala Lumpur	IQPC
August			
11th - 13th	MIF 2008 Issuers & Investors Forum	Kuala Lumpur	Islamic Finance Events
25th - 28th	Islamic Finance & Investment World 2008	South Africa	Terrapinn
October			
12th - 16th	Middle East Retail Banking Forum	Dubai	IIR Middle East
14th	Middle East Hedge Funds 2008	Switzerland	Jetfin Events
15th	New York IFN Forum	New York	Islamic Finance Events
17th	London IFN Forum	UK	Islamic Finance Events
20th - 21st	Islamic Real Estate Investment	TBA	Naseba
21st	Islamic Private Equity	UK	IGG Events
26th - 30th	Saudi Insurance Summit	Saudi Arabia	IIR Middle East
28th	Istanbul IFN Forum	Turkey	Islamic Finance Events
November			
3rd	The World Islamic Infrastructure Finance Conference	Qatar	MEGA
9th - 10th	BankTech Middle East Congress	Dubai	Naseba
11th - 13th	Islamic Funds World 2008	Dubai	Terrapinn
12th	Karachi IFN Forum	Karachi	Islamic Finance Events
19th	Brunei IFN Forum	Brunei	Islamic Finance Events
December			
1st - 3rd	World Islamic Banking Conference	Bahrain	MEGA
14th - 18th	Debt Capital Markets Summit	Dubai	IIR Middle East

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