Islamic Finance news

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The World's Global Islamic Finance News Provider

MALAYSIA

MIF 2008 update

We are just SIX weeks away from the MIF 2008 – Issuers & Investors Forum. The annual MIF Issuers & Investors Forum is the industry's largest and most influential gathering and has received an excellent response from the global Islamic finance industry.

Notable speakers attending this event comprise Bank Negara Malaysia governor Zeti Akhtar Aziz, Securities Commission Malaysia chairman Zarinah Anwar and its managing director and executive director, enforcement Dr. Nik Ramlah, Shape Financial Corporation chief executive officer Abdulkader Thomas, and Badlisyah Abdul Ghani, CIMB Islamic Bank chief executive officer, to name a few.

Among the key topics include Islamic Securitization and Sukuk, the role of sovereign wealth funds, the development of the Takaful industry and investment linked products, risk management issues and the development of Islamic indexes.

Our sponsors are Dubai International Finance Centre, AmInvestment Bank Group, Aseambankers, CIMB Islamic, HSBC Amanah, RHB Islamic Bank, FTSE, HSBC Amanah Takaful, MNRB Retakaful and PricewaterhouseCoopers.

To participate in this FREE event, register online NOW at http://www.mifforum.com/register2008.php

UAE

ADCB plans Sukuk issue in Malaysia

Abu Dhabi Commercial Bank (ADCB) plans to issue Sukuk in Malaysia as part of its strategy to take advantage of the growing opportunities in Asia.

The bank is to issue RM3.5 billion (US$1.07 billion) senior unsecured medium-term notes, joining other Middle Eastern banks such as Islamic Development Bank and National Bank of Abu Dhabi, which have expressed interest in selling Islamic bonds in the country as well this year.

Professionals in the industry noted that Gulf companies are diversifying their investor base, and Islamic banks from the region are looking to raise more funds in Malaysia's Sukuk market due to the better regulatory framework and more liquid condition.

ADCB will also sell two-year bonds worth SG$145 million (US$106.1 million) in Singapore. Standard Chartered Bank is the sole book runner for the deal.

MALAYSIA

Cagamas boost for Islamic finance

Cagamas, the national mortgage corporation and securitization house, aims to actively contribute to the deepening and broadening of the Islamic capital market. Chairman Ooi Sang Kuang said it will embark on new initiatives to promote Malaysia as the center for global Islamic finance. He pointed out that Cagamas' efforts to increase the availability of Islamic finance instruments last year had produced results.

(Also see IFN Report on page 11)

In this issue

MALAYSIA

Country's stake in global Islamic finance

Up to 68.9% of the global outstanding Sukuk last year originated in Malaysia, said the country's Economic Planning Unit (EPU). The country also secured 27%, or US$1.7 billion, of the global Takaful premium.

According to the EPU, three Shariah compliant banks were among the 16 foreign banks which operated in Malaysia last year. The total assets of domestic banking groups increased from RM88.8 billion (US$27.8 billion) in 2005 to RM111.6 billion (US$34.3 billion) in 2007.

KUWAIT/SAUDI ARABIA

Private placement for Esdarat shares

Esdarat Holding has launched a private placement of 600 million shares to fund its investment in real estate development projects in Mecca by Al Makam, a subsidiary of Saudi Binladen Group.

The Shariah compliant private placement is expected to raise US$300 million and the initial public offering is expected to take place in 12 to 18 months. NBD Investment Bank is the financial adviser and lead placement agent on the deal. The development comprises a series of hotels, residences and commercial facilities situated in Ajiad, near the Holy Haram area in Mecca.

UAE

Abyaar begins shares sale

Abyaar Real Estate Development, which operates under the provisions of the Shariah, has begun a private sale of 10% of its shares. It plans for its shares to trade on the Dubai Financial Market to raise funds for its expansion plans. The sale is expected to raise AED53.4 million (US$14.5 million). No further details were given.

EGYPT/KUWAIT

Al Safat acquires 60% of Roots

Al Safat Investment has acquired a 60% stake in Egypt-based Roots Stock Brokerage for EGP38 million (US$7.1 million). Established in 1996, Roots has 10 branches with 16,000 clients and trades in securities on the Egyptian market.

Last week, Al Safat had announced that it had acquired 60% of Egypt National Drilling.

PAKISTAN

Islamic banks see better growth

Total assets in Islamic banking in Pakistan recorded an increase of 368% in the last three years, from PKR44 billion (US$648.17 million) in 2004 to PKR147 billion (US$2.16 billion) in December 2007. According to a report released on Wednesday, a 390% increase in total deposits was also reported, from US$441.93 million to US$2.16 billion.

On a year-to-year basis, deposits in Shariah compliant banking grew from US$801.37 million in December 2006 to US$1.55 billion in December 2007, an increase of 93%. Market share of the Islamic banking assets in the overall banking system increased to 4.3% last year from 2.9% in 2006.

INDONESIA

New Islamic finance regulatory body

An organization to regulate Islamic finance was launched by the Indonesian Banking Development Institute on Wednesday. The International Center for Development in Islamic Finance (ICDIF) will also provide certification programs, education and fee-based consultation for local and international professionals and institutions.

ICDIF is a collaborative effort between the Indonesian institute, the University of Kuwait and the Islamic Banking and Finance Institute Malaysia. The new center's director of Shariah, Arie Mooduto, said several entities from the Philippines, Korea, Egypt and Maldives have expressed interest in using ICDIF's services.

NIGERIA

Launch of more Islamic products

Intercontinental Bank has introduced several Islamic products to cater to the specific needs of its Muslim customers in the country. The products include Intercontinental Hajj Target Savings Account, Intercontinental Halal Savings Account and Investment (Mudarabah) Account.

The bank also launched Aspire, a account that aims to help students start saving during their campus years and help build a sound financial platform for their future.

INDIA

Islamic Index for more investments

A Shariah compliant investment index was launched on Wednesday to encourage more investments from Gulf countries. The India Islamic Index was developed by Indo Arab Economic Cooperation Forum, Institute of Objective Studies and Eastwind Capital Advisors.

It will be used by investors globally for portfolio management and benchmarking purposes, and also as the basis for structured products and other investment vehicles such as exchange-traded funds. The index is also beneficial for Indian banks and financial institutions planning to enter the Gulf markets.

BAHRAIN

CBB's Sukuk oversubscribed

The Central Bank of Bahrain's monthly short-term Sukuk Ijarah has been oversubscribed by 300%, said the bank. It received BHD15 million (US$40 million) for the BHD5 million (US$13.3 million) issue.

The Sukuk, which has a maturity of 182 days, has an expected return of 2.55%.

UAE

Boost in capital for Aldar

Aldar Properties has raised its capital by converting part of its previous Sukuk into 28.6 million new shares, bringing its total paid-up capital to AED2.5 billion (US$683 million). The property development company has asked the Abu Dhabi Securities Exchange to list the additional shares.

BAHRAIN/YEMEN

BIsB to raise stake in Yemeni bank

The Islamic Bank of Yemen for Investment and Finance has consented to Bahrain Islamic Bank (BIsB) raising its stake in the Yemeni bank from 2% to 30%. The value of the deal was not revealed.

BIsB had won shareholder approval in March to sell BHD250 million (US$663.3 million) worth of Sukuk to finance its expansion plans. Its chief executive, Mohammed Ebrahim Mohammed, also announced plans for a US$1 billion acquisition this year.

KUWAIT

Rasameel's net profit rises

Shariah compliant firm Rasameel Structured Finance saw its net profit increase to KWD2.17 million (US$8.18 million) for the financial year ended the 31st March 2008 from the previous financial year's KWD1.21 million (US$4.56 million).

Its total assets rose from US$119 million to US$179 million while total liabilities stood at US$50.53 million, up from US$1.2 million in the financial year that ended on the 31st March 2007. Total shareholders' equity went up to US$125.76 million from US$117.64 million. There were no dividends for the financial year just ended.

SAUDI ARABIA

New home financing firm formed

A new Shariah compliant home financing company, Dar Al-Tamleek, has been formed to meet future demand for more housing units in Saudi Arabia. The company's initial capital is set at SAR1 billion (US$267 million).

The company will be using the expertise of Guidance Financial Group, a US-based Islamic real estate financing firm, in carrying out its financial operations, said Ali Al-Zaid, chairman of Dar Al-Tamleek. It is to start providing its services to homebuyers through its Riyadh and Jeddah offices by the end of the third quarter of this year.

MALAYSIA

EONCAP Islamic plans stake sale

EON Capital (EONCAP) is planning to sell a strategic stake in its Shariah compliant banking unit, EONCAP Islamic Bank, to foreign investors, according to a report by an analyst at DBS Vickers. The report said the bank's largest stakeholder, Primus Pacific Partners, will make the sale this year to a Middle Eastern partner.

EONCAP Islamic started its operation in 2006 and has RM1 billion (US$306.45 million) and RM398 million (US$131.96 million) in authorized and paid-up capital respectively.

BAHRAIN

KCB in Indian logistics project

Islamic lender Khaleeji Commercial Bank (KCB) is in the final stages of a deal to set up a logistics service project in India, estimated to be worth more than US$400 million. It said the project will involve investors from the Gulf region. No further details were given.

UAE

Al Hilal starts operation

Al Hilal Bank began its operation on the 19th June, saying it has introduced a new approach to Shariah compliant banking by bringing its products and services into a shopping mall environment as part of its aim to become the region's leading bank. The 'financial mall' is divided into sections depending on the line of business and the requirements of customers.

Abu Dhabi Investment Authority director Eissa Mohamed Al Suwaidi serves as Al Hilal's chairman.

KUWAIT

Noor plans to up stake in Meezan

The managing director of Noor Financial Investment, Naser al-Marri, said the company will raise its 35% stake in Pakistan's Meezan Bank to 42% at a cost of around US$20 million. It is awaiting the green light from Pakistan's central bank, he added.

UAE

Millennium in US$5.44 billion deals

Dubai Islamic Bank said its investment banking arm, Millennium Capital, has arranged more than AED20 billion (US$5.44 billion) of Islamic bonds and other syndication transactions so far this year.

Bloomberg has ranked the bank second in the GCC Islamic Bonds League Table in the Bloomberg Underwriter Rankings released recently.

UAE

ETA plans for Sukuk

ETA Star Property Developers is looking to raise between US$100 million and US$150 million through Sukuk, said its executive director, Abid Junaid.

The Sukuk will be part of the company's strategy to raise up to US$400 million to enter Asian markets such as India, Laos, Vietnam and Malaysia. It also plans to raise up to US$250 million through a new fund aimed at investors in the Middle East.

MALAYSIA

KFH unit gets capital input

Kuwait Finance House Malaysia (KFHM) will expand its capital base by US$100 million to finance infrastructure projects in the country, said its managing director, K Salman Younis. Among the projects KFHM is committed to are the Iskandar Malaysia and Northern Corridor development regions.

Salman said this after signing an agreement with software provider Path Solutions to provide KFHM's treasury division with the iMAL Islamic Treasury solution. This has a 'straight through processing' feature which requires minimal human intervention and eliminates the manual processes involved in daily operations.

GCC

S&P's 7-day calculations

Standard & Poor's will implement 7-day calculations on its benchmark and investible equity indices for the Gulf Cooperation Council's (GCC) markets from the 16th August. S&P will become the first international index provider to offer full week calculations for the Gulf markets to investors.

S&P described this as its commitment to provide its clients with reliable and timely index data to enable them to measure the performance of listed companies, support issuance and trading of new index-linked investment products and further develop the exchange-traded funds in the GCC.

UAE

DIB, Nakheel form property firm

Dubai Islamic Bank (DIB) and Nakheel have agreed to establish Tashyed, a property joint venture company. Nakheel will provide development management and sales and marketing services while DIB supplies banking, mortgage and financial services expertise.

Their joint capital injection will be AED2 billion (US$544.52 million) for Tashyed to undertake landmark projects in Dubai on land bought from Nakheel. The managing director and CEO of DIB Group, Khaled Al Kamda, and Nakheel CEO Chris O'Donnell signed the agreement.

BRUNEI DARUSSALAM

Brunei issues 14th short-term Sukuk

Brunei Darussalam has sold a 91-day Sukuk Ijarah worth BN$28 million (US$20.5 million) at a yield of 0.88%. The country's government said the issue will mature on the 18th September this year.

This is Brunei's 14th short-term Ijarah-structured Islamic bond since its first offering in April 2006, and brings the accumulated amount to BN$1.1 billion (US$805.2 million). Brunei is issuing Sukuk to build a market in efforts to become a regional hub for Islamic finance.

MALAYSIA

Banks launch Islamic marine fund

AmanahRaya Investment Bank (ARIB) and Asian Finance Bank (AFB) have launched the Safeena Islamic Marine Fund to acquire and lease marine vessels, especially to oil and gas companies. The RM1 billion (US$300 million) closed-end fund will be offered to selected investors from the Middle East and Malaysia, said ARIB's CEO and managing director, Mohamed Azahari Kamil.

The Safeena Islamic Marine Fund was set up via a Labuan-incorporated company, Safeena (L). It targets up to 10% in annual dividend, with earnings to come from recurrent leasing income as well as capital appreciation if the company sells assets. The first vessel is expected to be purchased within three months, said Mohamed Azahari.

He added that the fund, to be jointly managed by AFB and ARIB, will possibly be listed once it has a strong track record, which will enable it to raise more money to acquire more vessels.

(Also see IFN Report on page 11)

UK

BLME closes transaction

The US$50 million syndicated Ijarah facility for shipping company Al Ghadeer Marine Shipping has been completed by Bank of London and the Middle East (BLME). Raised funds will be used to acquire a double-skinned bulk carrier, Sara V.

BLME was the arranger and adviser for the financing and was also responsible for structuring the transaction. Its Shariah Supervisory Board acted as the Shariah adviser.

This was Al Ghadeer's first international syndicated debt financing.

SINGAPORE

Central bank plans for Islamic REITs

The Monetary Authority of Singapore is looking into developing Islamic real estate investment trusts (REITs) to attract funds from wealthy individuals in Asia and the Middle East, said its executive director, Tai Boon Leong. The Middle East has a growing pool of liquidity, he added, that is suitable for investments in Asia.

Last year, Singapore had 19 publicly traded REITs and one property trust with a combined market capitalization of SG$27 billion (US$19.8 billion), said the central bank.

BAHRAIN

GBCORP contributes to fund

Global Banking Corporation (GBCORP) announced that it is now a key contributor to Bahrain's Waqf Fund for research, education and training in Islamic finance. The fund was established by the Central Bank of Bahrain and other Islamic financial institutions and has US$5.8 million capital as of March this year.

The move is part of GBCORP's ongoing corporate social responsibility strategy. Earlier this year, GBCORP sponsored the Bahrain Sports for All Association, a three-day event for sports fans in Bahrain and the GCC.

ASIA

Malaysia faces competition

Two Asian countries are vying to take over Malaysia's spot as the region's Islamic finance hub. Singapore is launching new Sukuk guidelines soon and is offering more incentives for investors interested in participating in Shariah compliant transactions. The island has also introduced a 5% concessionary tax rate on income from Islamic fund management, lending and Takaful, as well as setting up its first Islamic bank, the Islamic Bank of Asia.

Hong Kong, meanwhile, is reviewing its stamp duty to accommodate Shariah compliancy. It is constructing Islamic products with underlying Chinese assets and its airport authority has proposed to issue Sukuk. Both countries are leading Asian centers for conventional private banking and fund management.

MALAYSIA

Wasiyyah to expand nationwide

Under its new franchise program launched last week, Wasiyyah Shoppe plans to open 24 branches in Malaysia by December next year as part of its strategy to meet the growing demand for Shariah compliant wealth management services, said its CEO, Ariffin Sabirin.

The company also expressed confidence that the value of assets under its Hibah or Islamic private trust service will increase to RM500 million (US$153.4 million) in the financial year ending June 2009. Currently the Hibah service is managing around RM200 million (US$61.4 million) of assets for more than 1,200 clients.

The business has huge potential, said Ariffin, as 95% of the Muslims in Malaysia have yet to prepare any will.

MIDDLE EAST

ABN AMRO to go retail

ABN AMRO is looking into launching retail Islamic banking services in the Middle East by the second quarter of next year, said Sudhanshu Garg, the bank's director of equity derivatives.

He added that since starting its Islamic banking facilities in 2007, the bank has sold US$2 billion worth of Shariah compliant funds which puts ABN AMRO among the top four banks in the region. The bank plans to launch between five and 10 products every month, Sudhanshu noted, and at least 30 will be introduced during the second half of 2008.

JORDAN

KFH-Jordan buys into Deera

Kuwait Finance House - Jordan (KFH-Jordan) has acquired 28% of the shares in Deera Investment and Real Estate Development for US$33.9 million, said Zuheir Halawani, Deera's general manager. Both companies are creating five special purpose vehicles (SPVs) to implement five major projects in Amman with more than US$200 million in investments.

Deera is a public shareholding company in Jordan. The acquisition of the stake by KFH-Jordan, a subsidiary of KFH-Bahrain, increased Deera's paid-up capital to JOD40 million (US$56.42 million).

BANGLADESH

IFIL approves 15% dividend

Islamic Finance and Investment Ltd (IFIL) said investment last year rose by 14% to BDT2.15 billion (US$31.38 million), and its earned profit before tax stands at BDT62 million (US$904,216). It gave a 15% cash dividend.

IFIL is a non-banking financial institution and was established in 2001.

UGANDA

Country's first Islamic bank soon

The African country will have its first Shariah compliant bank in the next few months, said Ahmed Dagher, chairman of the National Bank of Commerce, who is also president of UAE-based International Investment House. He attributed the move to the growing interest in saving due to the growing economy.

The formation of the National Islamic Bank of Uganda was announced during the Organization of the Islamic Conference's (OIC) business forum.

MALAYSIA

BSN's investment arm launches new fund

Permodalan BSN has launched BSN Dana Al-Jadid, its first Shariah compliant unit trust fund. It aims to obtain capital appreciation and income distribution through investments in Islamic equity portfolios, debentures, money market instruments as well as other securities.

The fund size is 800 million units, priced at RM0.25 (US$0.08) per unit during the 21-day initial offer period from the 18th June, said the chairman of Bank Simpanan Nasional (BSN), Abdul Azim Mohd Zabidi. BSN is the parent company of Permodalan BSN.

SYRIA

Al-Sham, Al Salam ink MoU

Syria-based Al-Sham Holding and Al Salam Bank Bahrain have signed a MoU to launch several banking projects in Syria under the name Sham al-Salam.

Al-Sham Holding's deputy chairman Rami Makhlouf expects the move to help step up momentum in the Syrian banking sector as the country's economy is among the most promising in the MENA region.

Youssef Taqi, Al Salam Bank Bahrain's executive director, said the projects will create more than 200 job opportunities in Syria.

IRAQ/KUWAIT

CBK considers buying into Iraqi bank

Commercial Bank of Kuwait (CBK) is studying the prospect of buying a 50% stake in Iraq's Islamic bank, the Tigris and Euphrates Bank, for development and investment. The value of the possible investment has not been revealed.

The Baghdad-based bank was formed in 2005 with a capital of US$41.73 million.

IRAN/MALAYSIA

Amona signs deal with Iran

Malaysia's Amona Company has signed a one billion euro (US$1.5 billion) project to develop Iran's Resalat oilfield. Managing Director Mahmoud Zirakchiyanzadeh of the Iranian Offshore Oil Company (IOOC) said the work to increase the field's production from the current 8,000 bpd light crude oil to 47,000 bpd is estimated to take about 41 months to complete. The Resalat Field is 90 km offshore in the Persian Gulf.

In December last year, Iran had signed up another Malaysian company, SKS, for a US$16 billion project to develop the Golshan and Ferdows gas fields in Bushehr.

QATAR

QIIB uses latest banking solution

Application software and services company Misys said Qatar International Islamic Bank (QIIB) is now using Misys Equation 3.9, its latest retail banking solution that will help the bank expand its operations and provide better service to its customers.

The product is an integrated, real-time multi-currency banking system that helps companies deliver competitive products and excellent service to customers. It supports consumer and corporate banking within a single platform.

QIIB was incorporated in 1991 and has been using Misys products since day one.

TUNISIA/UAE

NIB opens Tunisian office

Noor Islamic Bank (NIB) has opened its first overseas office in Tunisia, focusing mainly on investment and corporate banking, as well as channeling investment opportunities from the GCC region to North Africa which includes Egypt, Libya, Algeria, Morocco, Tunisia and Mauritania.

The representative office, which will be headed by Sadok Attia, will act as a stimulant to the trade ties between UAE and Tunisia.

NIB was launched in January this year. The bank offers a diversified range of financial solutions such as consumer, corporate and investment banking services for small and medium-sized enterprises, as well as a wealth management service, Noor Infinity.

JAPAN/SAUDI ARABIA

Mizuho manages Islamic syndication

Mizuho Corporate Bank has lead-managed the US$3.85 billion syndicated Ijarah facility for a Saudi Arabian mining and refining phosphate ore project, making it the first Japanese bank to do so.

Also acting as lead managers for the facility were Banque Saudi Fransi, Riyad Bank and Al Rajhi Bank.

The project is estimated to be worth US$5.5 billion, with the remaining US$1.65 billion to be funded by organizations affiliated to the Saudi government. It is expected to be completed in early 2010.

BAHRAIN

Munshaat's syndication closed

ABC Islamic Bank has closed the US$100 million three-year syndicated revolving Murabahah facility for Munshaat Real Estate Projects Company.

Also participating in the syndication were BNP Paribas, Emirates Bank International, the Saudi British Bank, Abu Dhabi Islamic Bank, Libyan Foreign Bank, Arab Islamic Bank and Banque BIA.

This was Munshaat's first syndication, and the funds raised will be used for the development of prime properties in Mecca and Madina.

MALAYSIA

New Islamic mechanism

The palm oil-based commodity Murabahah the country plans to introduce next year is an Islamic commodity exchange that all local banks will use, said experts. Currently known as the Commodity Murabahah House (CMH) until a more appropriate name is found, it is an Islamic mechanism that can serve various purposes, such as facilitating the liquidity of some bank transactions using underlying assets.

Ahmad Shahriman Mohd Shariff, Citibank's head of regional Islamic structuring, expects at least 80% of the banks to use it.

The CMH will begin as a single-commodity ringgit-currency market. Once trading volume picks up, it will evolve into a multi-commodity multi-currency market and will be open to foreign banks internationally, said Aznan Hasan, the Shariah adviser for Bursa Malaysia.

Takaful news
www.islamicfinancenews.com

GLOBAL

Munich Re has ReTakaful concern

Many Takaful operators are not too concerned about Shariah compliance when re-insuring their risks, observed Ulrich Trumpp, Munich Re's chief executive for Greater China and Southeast Asia. He stressed that this must change, although it cannot happen overnight.

Trumpp pointed out that although reTakaful accounts for only a small portion of Munich Re's activities, nevertheless it is on top of the company's priority list. He added that the firm's reTakaful business in Malaysia is being used as a model for its operations in other countries.

He also emphasized on the need for Asian governments to work closely with insurance companies to protect public assets and utilities. Half of the natural disasters happen in Asia, but the insurance penetration is only at 11%.

One of the largest reinsurers in the world, Munich Re received a composite license from Bank Negara Malaysia in 2006 to operate a reTakaful business without any joint venture with local firms. It is the first foreign company to operate a reTakaful business in Malaysia.

PAKISTAN

PQFTL launches new products

Pak-Qatar Family Takaful Limited (PQFTL) has launched its first individual family Takaful products - the Share & Care Savings Takaful and ABC Education Plan, said CEO Pervaiz Ahmed.

Share & Care is for families to save smaller amounts of money to be accumulated into larger investments that can be used to purchase properties or for financial support in later years, while ABC is to help secure a child's education costs. Savings can start at a minimum of PKR1,250 (US$18.6). The Takaful product uses the Wakalah structure.

MALAYSIA

Etiqa to increase Takaful awareness

Etiqa Takaful plans to increase public awareness of the importance of Islamic life insurance in the country and will do so by focusing on training its staff, said CEO Mohd Tarmidzi Ahmad Nordin.

The Takaful segment currently makes up only about 7% of the overall insurance industry, he noted, as people refuse to think about death, and also because the sharply higher fuel prices have hit spending.

Etiqa Takaful is the Shariah compliant insurance arm of Mayban Fortis Holdings.

QATAR

QFCA plans insurance platform

Qatar Financial Center Authority (QFCA) is to set up the Qatar Insurance Platform (QIP), the first of its kind in the Middle East. It said several specialist companies are participating in the project, which is expected to go live in the fourth quarter of this year. No other details were provided, but more announcements will be made later.

The QIP is in line with the nation's intention to become the leading insurance center in the region. QFCA said the technology-based insurance trade fulfillment platform will help advance Qatar's insurance industry and bring together global insurers, reinsurers and brokers in carrying out insurance activities using the platform.

INDIA

GIC expands into Brazil, China

General Insurance Corporation (GIC) has signed a five-year agreement with Hannover Re to jointly develop a reinsurance business in India. GIC Re came into effect retroactively on the 1st April. The move could lead to GIC launching a reTakaful company during its current financial year.

GIC chairman and managing director Yogesh Lohiya said it also plans to open a representative office in Brazil during the present financial year and later in China as well under its strategy to expand its business globally.

KUWAIT

Al Safat to increase market share

Al Safat Takaful Insurance plans to capture the whole local Islamic reinsurance market next year from its current 70% share. It has also renewed its contracts with Hannover ReTakaful and other global companies, said its chairman and managing director, Abdulaziz Al Mansour.

MALAYSIA

Central bank allows stake talks

BIMB Holdings has received the green light from the central bank, Bank Negara Malaysia, to start discussions with Abu Dhabi-Kuwait-Malaysia Strategic Investment Corporation (ADKM) to sell up to 49% of its subsidiary, Takaful Malaysia.

The Islamic insurance company is looking for a partner as part of its strategy to expand regionally. It was reported last week that BIMB was planning to privatize Takaful Malaysia, a claim that it denied a day later.

Takaful Malaysia has operations in Labuan and Indonesia, and has more than 120 branches in Malaysia. It was the first Takaful company in Malaysia.

GLOBAL

Emerging markets: Rating eased

Credit Suisse has reduced the 'overweight' position on emerging markets from 15% to 5% due to the markets' high correlation with US interest rates and commodities, as well as the increasing inflation risk. The brokerage also said that growth in these markets is expected to slow between 6% and 6.5% from 7.5% last year, although they would remain more resilient than developed markets.

The brokerage said India, Hungary and Turkey are the most vulnerable among all emerging markets while Hong Kong, Singapore, Korea and Malaysia were named the best.

SOUTHEAST ASIA

Mixed outlook for banks

The outlook for banks in Southeast Asian countries is mixed with a moderate impact from the global credit crisis, said a Moody's Investors Service report, titled "Moody's Asia Banking Outlook".

Deborah Schuler, senior vice president of the rating agency, said that Cambodia, the Philippines and Thailand have a 'stable' industry outlook due to different factors: recovering public confidence in Cambodia's banking system, benefits of structural reforms in the Philippines, and Thailand's banks being strongly resilient to political risk.

Meanwhile, Indonesia, Malaysia, Singapore and Vietnam face a 'negative' industry outlook. Some of the common reasons, said Schuler, are the economic slowdown, rising inflation and impact on operating environments.

QATAR

CI upgrades Doha Bank

Capital Intelligence (CI) has upgraded Doha Bank's long-term foreign currency and financial strength ratings to 'A' from 'A-' and affirmed its support rating at '3'. These are reflective of the bank's sound asset quality and strong profitability, it said.

Its high credit quality, low credit risk and ability to meet its financial commitments on time also influenced the ratings. CI described the bank as the leading player in the retail and trade finance sectors, and currently building on the platform it has established.

MALAYSIA

MARC rates Cagamas MBS's Sukuk

Malaysian Rating Corporation's (MARC) long-term rating on Cagamas MBS's mortgage-backed Sukuk Musharakah (CMBS 2007-1-i) has been affirmed at 'AAAIS', said the rating agency.

MARC said the rating on the RM2.11 billion (US$647 million) Islamic bonds is testament to the satisfactory performance of the collateral pool, especially the low cumulative default rate and slightly lower-than-projected prepayment rate, which resulted in a modest increase in credit enhancement. It also incorporated the monitoring procedures used in respect of the securitized portfolio by Cagamas, the transaction administrator, it added.

BAHRAIN

'Overweight' for Ithmaar Bank

Securities & Investment Company (SICO) has given Ithmaar Bank an 'overweight' recommendation and a target price of US$0.92 per share, which represents a 33% upside to its current market price of US$0.69 per share.

It described the rating as reflective of Ithmaar's strong growth potential and the significant stakes it holds in several companies in the region. It also noted key risks that could affect the bank, such as the impact of the global credit crisis on its fundraising activities, rising competition, limited track record and the relatively new management team.

BAHRAIN

S&P affirms ABC's ratings

Arab Banking Corporation's (ABC) counterparty credit ratings have been reaffirmed by Standard & Poor's at 'BBB+/Stable/A-2'. The ratings are based on the support the bank would get from its principal shareholders in time of need, said the agency.

This, it said, was demonstrated by the increase in ABC's capital recently by US$1.11 billion through a rights issue of one billion of its shares. The completion of the issue was recognition of the shareholders' confidence in the bank's strategy in meeting the needs of its customers as well as shareholders despite the challenges in the financial industry, it added.

THIS TIME LAST YEAR

- **Dar Al Arkan Real Estate Development** listed its three-year US$600 million Sukuk Ijarah on the **Dubai International Financial Exchange**, making it the first Saudi Arabian company to do so.
- The **Commercial Bank of Dubai** was granted approval by the **Central Bank of Dubai** to set up an Islamic window.
- Islamic investment firm **Stehwaz Holding** revealed plans to list in Dubai or London before listing locally in Kuwait.
- **Shariah Capital** advised New York investment advisers **William D Witter** on Shariah compliant investment funds.
- The **National Commercial Bank**, in conjunction with **MasterCard Worldwide**, launched the world's first Titanium Islamic MasterCard credit card targeting the affluent Arab population.
- **Goldman Sachs** commenced business in the **Dubai International Financial Center**.

AUSTRALIA

Is Australia just a bystander?

Although the Islamic finance industry has expanded beyond its traditional centers of Malaysia and the Gulf Cooperative Council (GCC) countries, to Singapore and the UK among other countries, Australia has largely failed to capitalize on this lucrative industry despite impressive efforts by Muslim Community Co-operative (Australia) and others.

Part of the reason is that in order to accommodate Islamic finance products, legal and regulatory changes are needed. And with the exception of Victoria, the Australian federal and state governments have done virtually nothing in this regard. Compare this with the effort put in by the UK.

Realising the enormous potential for Islamic finance, the UK has become a major hub for Islamic financial products and services. Even British Prime Minister Gordon Brown put forward his ambition to make Britain the gateway for Islamic finance and trade.

He also went on to state that he wants to make London a global center for Islamic finance by offering regulatory and tax regime measures to support the creation of products targeted at Muslims.

And it has not been a case of all talk and no action. In the UK, the Financial Services Authority (FSA) is the most advanced of Western regulators and it has been very pro-active in spotting opportunities to facilitate Islamic finance products in the UK.

It recently authorized two full-fledged Islamic banks, the Islamic Bank of Britain and the European Islamic Investment Bank, and as of this year, most Islamic finance products now come under FSA regulation.

All of this makes sense when you consider that many Western countries are struggling with liquidity issues due to the sub-prime crisis. Compare that with an excess of liquidity in the Middle East due to high oil prices.

Arab banks are managing assets worth US$1 trillion, and they are looking for investment opportunities beyond the Arab world. Islamic finance structures are fast becoming a lucrative option for wealthy Muslim individuals and other institutional players seeking to diversify their portfolios through Islamic equity instruments abroad.

As long as efforts are not made by the Australian government and regulatory authorities to accommodate Islamic finance products, the country will be a bystander to what has become the fastest growing sector in the global finance industry.

By Imran K Lum

Lum is completing his PhD in Islamic Finance with the Center for Islamic Law and Society (CILS) at the University of Melbourne.

MALAYSIA

Sukuk success spurs infra firm

Due to the success of its RM1.04 billion (US$319 million) Istisnah Sukuk issue which closed on Monday, infrastructure developer Malaysian Resources Corporation Berhad (MRCB) is to continue to explore Islamic bonds to fund its projects in the near future.

"This will not be our last. We are exploring business opportunities and looking at funding options which will include tapping into Islamic bonds," chief financial officer Chong Chin Ann told Islamic Finance *news*.

He said Islamic bonds, apart from being able to capture a wider investor base, offer other benefits such as deductible tax expenses. "If there are sizeable projects, we will definitely explore Islamic bonds. Even for our working capital, we will look at Islamic instruments," he added.

The US$319 million Sukuk is issued by MRCB Southern Link. The Islamic bonds will fund the proposed Eastern Dispersal Link Expressway (EDL) in Johor Baru. MRCB Southern Link holds the concession for the EDL for 34 years. The construction of the expressway is expected to be completed in 42 months and Chong expects toll collection to start in 2012.

"The private placement Islamic bonds were fully subscribed by local institutional investors. The sales of the bonds were on bought deal basis," said a banker who was involved in the deal.

The joint lead arrangers of the Sukuk were CIMB Investment Bank and HSBC Bank Malaysia while RHB Investment Bank is the joint lead manager. Apart from the Sukuk, MRCB Southern Link has also raised a syndicated transferable term loan of up to RM220mil (US$ 67.6 million) to develop the EDL.

With the US$319 million Sukuk divided into two components, RAM Ratings has assigned ratings of AA3 and A2 to the US$259.46 million (RM845 million) secured Senior Sukuk and US$61.1 million (RM199 million) Junior Sukuk, respectively. The secured Senior Sukuk has a tenor of 18 years while the Junior Sukuk has a tenor of 20 years.

RAM Ratings said both long-term ratings have a stable outlook and the financial commitments on the Sukuk and term loan will be supported by back-to-back payments from the concessionaire once toll collections start. Noting that the security package ensures that the Sukuk holders have full and direct recourse to the concessionaire.

RAM Ratings also said the ratings were supported by the strong cash-generating ability of the concession asset. Based on a stress-case scenario, RAM Ratings expects the project to generate minimum and average senior finance service cover ratios (Senior FSCRs) of 1.19 times and 1.37 times (without cash balances), respectively, throughout the senior financing program.

By Dalila Abu Bakar

MALAYSIA

Islamic marine fund launched

Malaysia's first shipping fund, the Safeena Islamic Marine Fund, launched by AmanahRaya Investment Bank, Labuan (ARIB) and Asian Finance Bank (AFB) on Tuesday, is drawing strong interest from investors in the Middle East as well as the domestic market.

"We are getting encouraging interest from investors in Bahrain, Qatar, Abu Dhabi and Dubai as well as from some institutional investors in Malaysia," ARIB managing director and CEO Mohamed Azahari Kamil told Islamic Finance *news*.

The Safeena Islamic Marine Fund aims to raise US$300 million comprising equity participation of 30% and Islamic financing facilities of 70% to acquire a portfolio of quality vessels that provides a stable income stream. The fund, jointly managed by AFB and ARIB, is expected to yield an annual dividend of up to 10%.

The fund, which will participate in the global shipping and offshore sectors, provides opportunities for investors to enter the shipping industry as well as the marine infrastructure and support sectors which are important and fast growing sectors directly linked to global trade activities. It will focus on offshore vessels, bulk carriers and tankers that have firm medium to long term charter contracts serving the oil and gas, dry bulk, chemical and commodity markets such as coal, iron ore and palm oil.

The fund is structured as a Shariah compliant 10-year closed-end fund constituted via an incorporated entity, Safeena (L), domiciled in the tax haven of Labuan. It is a private fund and offered only to selected "sophisticated" institutional and retail investors locally and internationally to invest in a new class of Shariah compliant products and take advantage of the regional shipping industry growth.

Mohamed Azahari hopes to finalize the arrangements for the purchase of two to three vessels by next month. According to him, a roadshow has been scheduled in the middle of July to woo investors in Abu Dhabi, Qatar, Doha and Dubai. AFB is one of three foreign Islamic banks operating in Malaysia and is backed by a consortium of Middle Eastern financial institutions while AmanahRaya is a Malaysian government-owned trustee company.

MALAYSIA

New initiatives from Cagamas

Malaysia's national mortgage corporation and leading securitization house Cagamas in continuing to focus on Islamic markets this year will embark on new initiatives to promote Malaysia as the center for global Islamic finance. Cagamas aims to actively contribute to the deepening and broadening of the domestic Islamic capital market and will strongly support and act as a catalyst to the Government's aspiration to promote Malaysia as an International Islamic financial center.

"Capitalizing on our strengths, we will work on structuring Islamic financial solutions for the Islamic housing finance markets in Malaysia and the Asian region," said Cagamas chairman Ooi Sang Kuang. According to him, Cagamas' efforts to increase the availability of Islamic finance instruments in 2007 had already produced results. As at the 31st December 2007, 43% or RM4.16 billion (US$1.3 billion) of Cagamas' outstanding residential mortgage-backed securities were Islamic.

The company launched a RM60 billion (US$18.4 billion) 40-year conventional and Islamic commercial papers/medium term notes (CP/MTN) program, the longest and largest in Southeast Asia. Cagamas also issued RM2.11 billion (US$647 million) Sukuk Musharakah Islamic Residential Mortgage-Backed Securities. Apart from that, Cagamas issued RM2.41 billion (US$739 million) Conventional Residential Mortgage-Backed Securities. The company also entered into a joint venture agreement with the Hong Kong Mortgage Corporation for the development of the mortgage guarantee business.

Cagamas developed and launched several innovative products during 2007 including Cagamas' PWOR (purchase without recourse) scheme and Cagamas SME's introduction of the award-winning securitization of RM600 million (US$184 million) small and medium-sized enterprise (SME) loan which was the first synthetic securitization in Malaysia as well as Asia ex-Japan.

Cagamas posted a pre-tax profit of RM163 million (US$50 million) for its financial year ended the 31st December 2007, an increase of RM34 million (US$10.5 million) from the previous year. Its after-tax return per share at company level increased to RM0.78 (US$0.24) in 2007 from RM0.62 (US$0.19) in 2006. Shareholders' funds increased by 6.5% to RM1.53 billion (US$470 million) in 2007 while net tangible assets per share increased to RM10.1 (US$3.09) at the end of 2007 from RM9.45 (US$3) at the end of 2006. The company also completed an internal restructuring exercise which resulted in Cagamas Holdings becoming the holding company of Cagamas, Cagamas MBS, Cagamas SME and BNM Sukuk from the 2nd January 2008.

On its outlook for this year, Ooi said Cagamas will continue to play a leading role in providing greater scope for financial institutions to manage their balance sheets and support as well enhance the stabilization of the financial market. "We will continue to provide liquidity to, and enhance the depth and breadth of the capital markets. In addition, we act as an effective intermediary for the efficient allocation of capital and to facilitate risk management for the financial system."

Reports by Dalila Abu Bakar

Sri Lanka's Bright Future in Islamic Finance

By Ishrat Rauff and Iyman Uvais

Sri Lanka, an island state in the Indian Ocean about 28 km off India with a population of about 20 million and an estimated annual population growth rate of 1.1%, is ethnically, linguistically and religiously diverse, with Muslims making up about 7% of the population.

Sri Lanka is a lower-middle income developing nation with a GDP of about US$32 billion. Despite the decades old civil conflict, the economy has grown by an average of 5% since the 1990s. The country's actual GDP recorded impressive growth rates of 6.0%, 7.5% and 7.1% in 2005, 2006, and 2007 respectively. The country has a per capita income (nominal) of US$1,617 (2007), which is the second highest in South Asia, towering over regional powers such as India and Pakistan and lagging behind only the Maldives.

Islamic banking and finance in Sri Lanka

Islamic financial services were introduced in Sri Lanka in 1997 with the advent of Amana Investments. After a tentative start, the industry has grown at a phenomenal rate and the past decade has witnessed the entry of several players into this burgeoning industry. The demand for Islamic banking and finance (IBF) services has also resulted in revisions to the Banking Act, which took place in early 2005.

Institutions have used a variety of entry strategies into what many believe is still a fledgling market, but with great potential. Full-fledged providers of IBF services have been accompanied by licensed commercial banks offering such services through "Islamic Windows". These institutions offer a plethora of products and services which include Murabahah, Mudarabah, Musharakah and Ijarah. It is interesting to note that even Bank of Ceylon, which is a government-owned bank with the largest Assets under Management (AUM) of all financial institutions operating in Sri Lanka, has decided to enter the fray and will soon launch an "Islamic window".

The Takaful concept has also steadily gained acceptance in Sri Lanka and there are currently two operators, with at least one other company rumoured to shortly enter this sector. Amana Takaful, a subsidiary of Amana Investments, was the first Takaful service provider in Sri Lanka and enjoys a unique status as the sole provider of Islamic financial services to be listed on the Colombo Stock Exchange (CSE).

The Islamic financial services portfolio in Sri Lanka has also expanded to provide microfinance services. Although microfinance programs aimed at alleviating poverty are not a new phenomenon, a joint venture between a non-governmental organization and an Islamic financial institution structured on Shariah compliant lines was pioneering in its nature.

Significant milestones in the Islamic financial services industry in Sri Lanka in the recent past have included the launch of the "DJIM Amana Sri Lanka Index", a co-branded index between Dow Jones Indexes, USA and Amana Capital. in March 2007. This Index tracks companies listed on the CSE which are deemed compliant as per parameters prescribed by contemporary Shariah scholars.

Last year also saw the launch of the first equity fund which invests in listed equities which comply with these same criteria. This, too, was a joint venture between a conventional financial institution, which lent its experience in fund management, and an Islamic financial institution. The NAMAL Amana Equity Fund is also expected to be among the first to be listed on the CSE after the promulgation of rules that permit ETFs.

Key challenges

Some of the key challenges faced by Islamic finance service providers in Sri Lanka are the dearth of Shariah compliant investment opportunities, a regulatory environment that is just beginning to understand the idiosyncrasies of a market that even practitioners with considerable experience have yet to fully comprehend, a lack of Shariah scholars who have the combined experience of Islamic jurisprudence as well as complex finance to competently adjudicate on Shariah compliance, and a general lack of understanding among the public at large. A new challenge that is facing the industry is the exodus of qualified and able practitioners seeking the greener pastures of the Middle East.

The future

Despite the enormous strides that have taken place, the Islamic finance market in Sri Lanka is still very much in its infancy. It is estimated that market penetration levels are at about 10% of the estimated market size of around US$1 billion. The estimated market size would seem to be of miniscule proportions in comparison to other countries where individual institutions may issue Sukuks, for instance, that could exceed several billions of dollars. However, such a perspective would ignore the considerable potential that Sri Lanka offers in providing IBF services to the region.

Ample evidence of the potential for IBF in Sri Lanka could be found in the sheer numbers that constitute the Muslim populace of its neighbors in the South Asian region, all countries that enjoy very good relationships with Sri Lanka. For instance, the combined Muslim populations of India, Pakistan and Bangladesh are on par with that of the entire Middle East. Countries such as India, in particular, could witness a boom in IBF if a regulatory framework that accommodates IBF is introduced.

Therefore, while Islamic financial services have enjoyed almost exponential growth in Sri Lanka despite the various challenges that it faced in its incubation, the greatest opportunity that Sri Lanka offers is its proximity to its much larger neighbors, most notably India.

It is far more likely that India would opt to employ the services of organizations in Sri Lanka to develop its own market in this most dynamic of sectors. In fact, there is already evidence to support this assertion with large financial institutions in India engaging the services of Sri Lankan institutions to enter the Islamic finance industry. This trend is expected to become even more apparent in the next few years, which bodes well for the future of Islamic finance in Sri Lanka.

Amãna

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Towards an Islamic Finance-Friendly Sri Lanka

By Sabri Abdul Cader

After Islamic finance in Sri Lanka was pioneered in 1997 by Amana Investments, it was followed by other major players such as Ceylinco Profit Sharing Investment Corporation, MCB, ABC Investments, Peoples Leasing Company and, more recently, First Global Investments Holdings and LOLC which have since made a huge impact on the industry.

The amendment to the Banking Act No 30 of 1988 in March 2005 made it possible for Islamic financial institutions to operate within a legal framework. Hence, there exists adequate flexibility for new Islamic banks and financial institutions to be set up and for conventional banks to establish Islamic banking windows and launch Shariah compliant financial products. Based on this platform, MCB (formerly Muslim Commercial Bank, Pakistan) began its Islamic window operations in mid 2006.

> "The country has immense potential to become an Islamic banking hub for the South Asian region"

Sri Lanka's initiatives

In fact, Sri Lanka is one of the few predominantly non-Muslim countries including the UK and Thailand to have legislation in place for the Islamic banking sector. Sri Lanka is, however, unique in that, unlike the UK and Thailand which simply made provision to license Islamic banks under existing banking laws, it went so far as to amend its Banking Act to accommodate Islamic banking. All this is expected to contribute significantly to the growth of the industry in the coming years.

The Central Bank of Sri Lanka (CBSL) lately authorized Islamic banking to be carried out in commercial banks as a regulated and legal activity. However, a full-fledged Islamic bank has yet to emerge. CBSL is said to be studying Islamic banking and financing concepts in detail and it is expected that once issues relating to matters such as participation in government securities are sorted out and legislated in the Banking Act, full-fledged Islamic banks could commence operations.

Senior Muslim ministers and industry captains are known to be backing the move towards full-fledged Islamic banks in the country, arguing that this will not only facilitate greater local Muslim participation in the country's banking and finance industry but also has immense potential to tap the excess liquidity in Middle Eastern markets, where investors are increasingly looking towards the east to invest their monies. Indeed the country has immense potential to become an Islamic banking hub for the South Asian region, particularly in a context where neighboring countries have not been as enthusiastic in promoting the concept among their masses.

However, all this depends on the interest of the local banking authorities in actively promoting the industry in line with the growing demand for it both locally and globally. It is therefore imperative that the relevant government bodies, monetary authorities and the private sector team up to work towards this end.

The Muslims of Sri Lanka who have played a significant role in the economic life of the country are a largely mercantile and entrepreneurial community concentrated in the major urban centers whose wealth far exceeds their proportion of the population. Total Muslim assets in the country are estimated at about LKR100 billion (US$1,000 million) while that tapped by the Islamic financial institutions presently operating in the country is probably no more than LKR10 billion (US$100 million). In other words, what has been tapped so far is only the tip of the iceberg, indicating that the potential for Islamic banking and finance in the island remains vast. Sri Lankan Muslims are no doubt a religious lot and it is no exaggeration to state that they have long awaited the entry of a full-fledged Islamic financial institution that can provide them the opportunity to invest or deposit their monies in a Shariah compliant manner.

Besides, Islamic microfinance institutions are also keen to operate microcredit projects based on Shariah concepts such as Qard Hassan, particularly in the rural areas where there are small remote communities that need to be uplifted by means of such projects.

Major players in the provision of Islamic financial services

Islamic financial service providers currently active include Amana Investments Ltd, Ceylinco Profit Sharing Investment Corporation (CPSIC), Muslim Commercial Bank (MCB), First Global Investments (FGI) and ABC Investments. Islamic leasing services are offered by People's Leasing Company (a subsidiary of the state owned People's Bank of Sri Lanka) and most recently LOLC (a conglomerate in the financial services industry).

Amana Investments, which was established in 1997, currently leads the country's Islamic financial services market. It started off as a merchant bank as no provision existed for Islamic financial products in the then Banking Act which was essentially designed for the regulation of conventional banks. Merchant banks were also not specifically regulated by the Act, so there was nothing to prohibit an entity such as Amana from operating. It, however, applied for a commercial banking license as far back as 1997 as it wanted to be regulated as a full-fledged commercial bank solely providing Shariah compliant products and services.

Although it made some headway in this connection with the amendments to the Banking Act in 2005, it still awaits a commercial banking license. Amana Investments offers Musharakah, Mudarabah, Murabahah and Musawwamah.

Its subsidiary, Amana Takaful Ltd (ATL) which commenced operations in June 1999, is acknowledged as the market leader for Takaful services and counts among its clients both Muslims and non-Muslims. ATL is listed on the Colombo Stock Exchange. Another of its subsidiaries, Amana Capital, has teamed up with NAMAL, a local fund manager, to launch the NAMAL Amana Equity Fund, which aims to achieve growth by investing in equity securities that are Shariah compliant.

continued...

Towards an Islamic Finance-Friendly Sri Lanka (continued)

Ceylinco Profit Sharing Investment Corporation (CPSIC), a subsidiary of the Ceylinco Group, one of the country's largest business conglomerates with a huge stake in the local insurance sector, made its entry in 2003.

MCB Islamic Banking Sri Lanka, owned by MCB Pakistan, commenced operations in June 2006. It enjoys the distinction of being the first commercial bank to set up a dedicated Islamic banking division in Sri Lanka. It offers Mudarabah, Murabahah and Ijarah.

ABC Investments launched its Barakah Islamic Financial Services in July 2007. It has a memorandum of understanding with the Central Bank of Sudan which has undertaken to offer technical support, assistance on training and development and Shariah guidance to the venture. Al Barakah recently introduced the Islamic credit card to the market – a first in the country.

More recent times saw the establishment of First Global Investments (FGI), which is set to become a formidable player in the Islamic finance market. Launched in March 2008, FGI is a boutique investment banking institution that provides Islamic financial services.

Its objective is to provide its clients with the broadest possible range of products including the development of tailor-made investment and financing products to suit different risk/return profiles of clients.

It recently came in as a lead arranger of the country's first Sukuk for People's Leasing Company (PLC), the country's undisputed market leader in leasing which has been offering Ijara or Islamic leasing services since 2006 through its dedicated Islamic Financial Services Unit.

Overview of the industry

The Islamic banking and finance industry in the country shows immense potential, both for tapping domestic funds by means of Mudarabah and Musharakah and for attracting overseas funds by means of Sukuk and instruments of a similar nature.

The success of local Islamic financial institutions over the years is a clear testament to this. The demand for Islamic banking services is indicated by both the rapid emergence of Islamic financial institutions and the intention and readiness of conventional players including the state-owned Bank of Ceylon (BoC) to set up dedicated Islamic units or windows.

It has been further observed that Sri Lankan Muslim youth are increasingly looking towards the industry as one that offers rewarding career prospects not only locally but also overseas.

This is borne out by the heavy turnout of students for the study courses offered by the First Global Knowledge Center, a subsidiary of the First Global Group that offers IFQ, IAQ and IB & F Diplomas in association with the Securities and Investment Institute.

First Global Investments
"Inspired by ethical values"
Sabri Abdul Cader is the senior vice president of First Global Group. For more information contact www.firstglobal-group.com.

Trade Finance: Keeping it Simple

By Geoffrey Wynne

Much has been written recently about complex and innovative structures which use various Shariah compliant techniques or seek to push structures to the limits of Shariah compliance or even beyond. All of this is in the pursuit of providing a sound investment base for those wishing to invest funds or have a sound basis for obtaining financial help for those who need funds but cannot pay interest for those funds.

Creating a new type of Islamic compliant funding is clearly a challenge in some quarters. However, the question remains, does trade finance benefit further from a back to basics approach in Islamic financing?

One of the fundamental tenets of Islamic financing is the idea that there should be an underlying asset which can be transferred. Indeed, Murabahah at its simplest is the technique where a financier buys an asset from a supplier and sells it to the customer at a premium typically payable in installments. The premium can be calculated based on a figure drawn by reference to, say, LIBOR (London Interbank Offered Rate), plus an agreed margin.

Now take a typical trade financing. A company in an emerging market needs finance to enable it to purchase a raw material which it can then process and sell to a recognized buyer in an OECD (Organization for Economic Cooperation and Development) country. It looks to a financial institution for those funds.

> "What is equally interesting about the simple structure is that it is possible to grow it in size, to allow both Islamic and non-Islamic investors to participate"

A Shariah structured scenario

There are two possibilities where a Shariah structure would be useful. The company needs to receive its funds in a Shariah compliant way or the financier can only provide it in the same manner. However, the financier wants to know that its investment will be secure and not rely just on the company's undertaking to pay the installments. The solution using a Murabahah structure does not need to be complicated.

The financier enters into an arrangement whereby it agrees to buy the raw materials from a supplier known to and chosen by the company. Indeed, it is possible to have an arrangement under which the company acts as a sort of agent for the financier. The financier agrees to buy and then sells the raw material to the company on deferred terms as outlined above.

The company provides security for its payment obligation by assigning to the financier receivables due to it from the sale of the finished product. The financier agrees on who the buyer should be. The transaction runs smoothly and just like all good trade transactions the company performs, the buyer pays the money to the financier for the goods it agreed to buy and everyone is happy. There is no need to get involved in complex structures.

What is equally interesting about the simple structure is that it is possible to grow it in size, to allow both Islamic and non-Islamic investors to participate and to increase the payback term without testing the structure.

Furthermore, it is possible to mix an Islamic component with a non-Islamic component if the use of the funds for certain purposes does not lend itself to an Islamic structure. That variation has been tried and has succeeded, and it is interesting how resilient the security structure can be to allow both sets of investors to benefit.

An alternative to late payment

However, a word of warning to the unwary — do not always assume that each variation can be made without ensuring that it complies with Shariah law. For example, it is true that multiple financiers can join an Islamic tranche. However, the way they do must itself be Shariah compliant. It should be documented in a separate agreement and must have an agent (even one of the financiers) act on behalf of the others. This arrangement can be by what is called a Mudarabah.

Unfortunately, what is more difficult is compensation for late payment. Liberal Muslims call any such payments something like deferred payment charges. However, most Islamic scholars will not permit this unless viewed as an obligation imposed on a company to encourage it to meet its obligations, or on the basis that the financier donates any such funds to charity.

Not quite what was perhaps intended, hence the idea of the security postulated above and the need for some sort of coverage ratio to ensure there are sufficient funds from within the transaction and not to need any more devices.

That puts this structure back on the same basis as a classic trade financing where the financier accepts that there is a performance risk on the company, which can be mitigated or even eliminated. In other words, back to basics can be made to work.

There are other Shariah compliant structures which can, and indeed should, be used in trade finance. One can start a structuring exercise not from the complex but from simply seeing what can be done at that level.

Practitioners should be able to see the whole picture and advise what best suits the transaction and not pursue the complex structure just because it is there. Why try to climb the equivalent of Mount Everest when there is literally a way around it?

DentonWildeSapte...
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Islamic Funds No Longer a Short-Lived Fad

By Eurekahedge Research

A clear picture of what Islamic products are available is beginning to emerge with market research having evolved substantially in the past few years. Simultaneously, the isolated development of the two core markets of Asia and the Middle East has made way for a wave of new market participants. Arguably a critical mass has been reached, triggering interest from institutional investors as well as non-Islamic institutions.

More assets are being committed to Shariah compliant investments and longer track records are available for closer scrutiny, the average trading history now exceeding 36 months. Estimates on the total size of the industry seem to have reached a US$800 billion consensus. As for assets invested in Islamic funds, US$44 billion serves as the starting point, and taking into account non-reporting funds, the overall assets under management are closer to a US$59 billion estimate. In the greater scheme of things, this remains a modest amount but provides solid evidence of long-term sustainable growth rather than a short-lived fad.

Current Eurekahedge research maintains information on more than 600 Islamic funds worldwide and in all asset classes, with products estimated at close to 650. Equity exposures represent over 52% of the total while private equity and real estate offerings make up a combined 18%. Money market as well as balanced and fixed income have much smaller showings (13%, 8% and 6% respectively). Other products – predominantly leasing funds – round off the total at 4%.

Industry growth and new launches

There was a dip in the number of Islamic investment vehicles between 2002 and 2003 (Figure 1). The many reasons include an increase in petrodollar liquidity, an investment shift favoring reinvestment in the GCC region, maturing capital markets, customers' acceptance of these products as well as a generational change in market participants.

The number of fund launches has been consistent, with a peak in 2007 of 158 products, a 50% improvement from 2006 (105 launches), with the overall Islamic funds industry having more than doubled in size between 2005 and 2007.

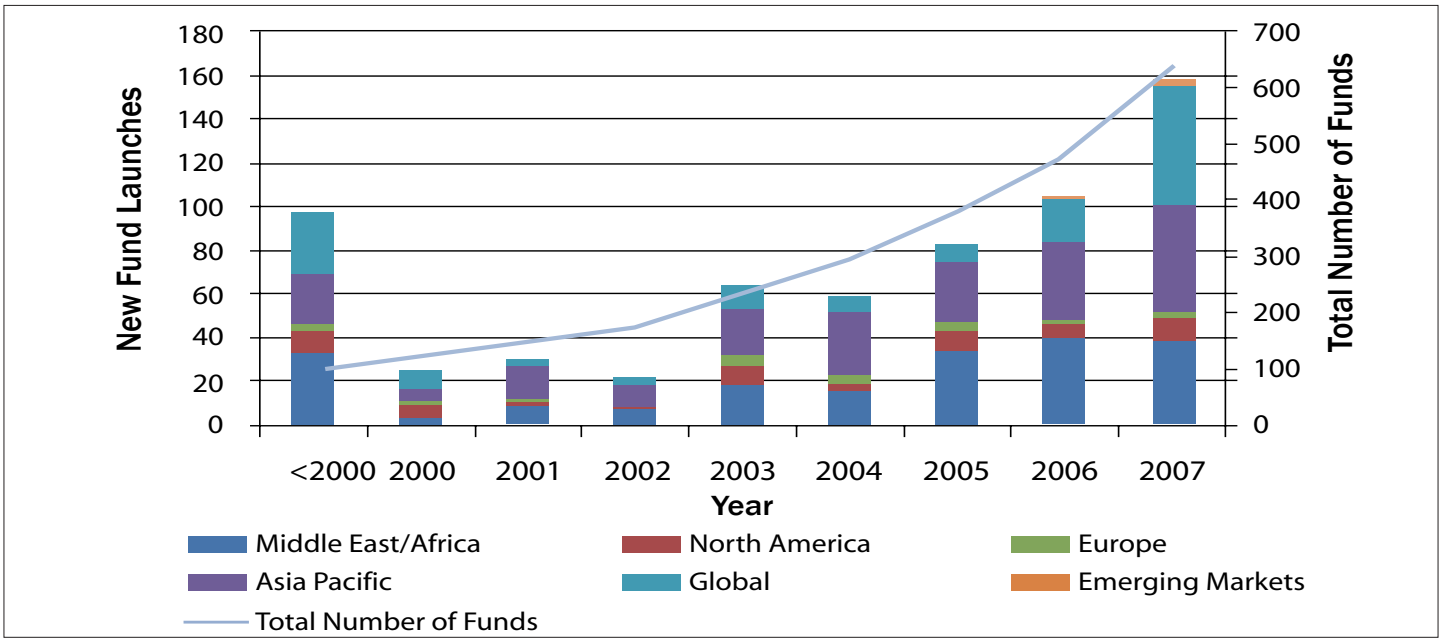
There were 55 obsolete funds over the past two decades, most retiring within their projected tenors, representing a healthy attrition rate of less than five funds per year. Therefore it would not be surprising to see 700 products by the end of 2008. There have already been over 25 new launches in the first quarter of this year and this is in line with a projected 100 new funds by year-end, matching the 2006 tally.

In terms of investment vehicles, there were several important trends:

- **Structured products**: There are over 40 structured products in the market (from investment certificates to capital protected notes) and while assets remain small, the capital protected range has become a burgeoning area as these instruments are providing access to certain exposures that had previously been impossible to achieve through a traditional mutual fund structure.
- **Exchange-traded funds (ETFs)**: Though similarly small in terms of assets, these products have made significant inroads. Indexation is an area that will see further growth as there has been a wide array of sector and country-specific indices developed recently by all major index providers. The high correlation of fund performance to major indices has bolstered the rationale for using them.
- **Fund of funds**: Most of the 34 multi-manager products originate from Saudi Arabia, and in all they channel US$900 million into Islamic investments. Arguably pioneers of Islamic portfolio construction, fund of funds have had to contend firsthand with the issue of product gaps and track-record scarcity. In fact some label themselves as a portfolio rather than a classic fund

continued...

Figure 1: Industry growth over the years



Source: Eurekahedge

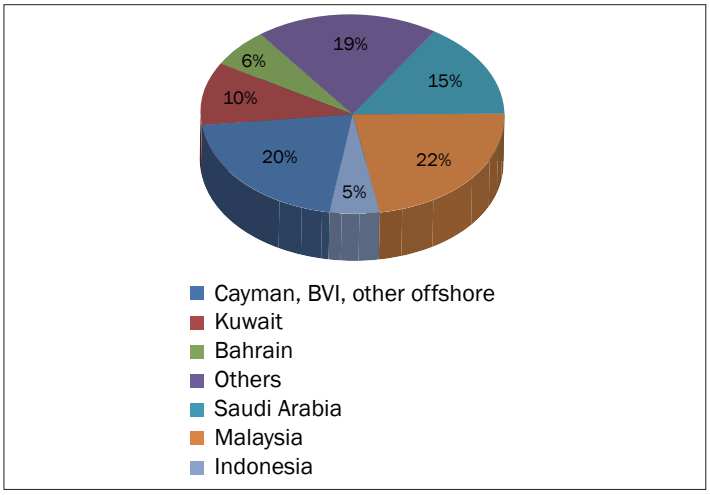
Islamic Funds No Longer a Short-Lived Fad (continued)

of fund as they address these constraints by incorporating a proprietary trading component (straight into equity and new Sukuk issues) or flexibility to take on direct investments (including illiquid investments such as real estate).

Fund location and geographical mandates

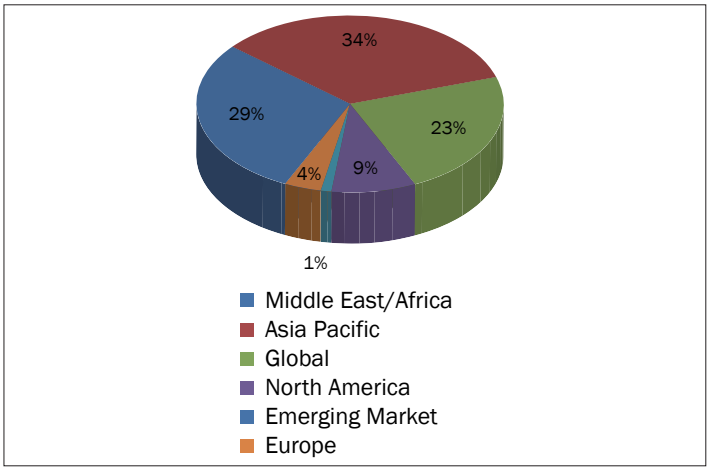
The established markets (the Middle East and Asia Pacific) have continued to flourish and at the same time less traditional exposures have been introduced into the marketplace (Figure 3). North America and Europe represent 15% of the total although investments in these regions is often combined into global mandates, which in turn make up almost a quarter of the total. Nonetheless, the two core regions remain as key drivers of the industry. However one cannot undervalue the new offerings and in fact, a third region can be argued for in terms of all the products spread across the periphery (Egypt, Indonesia, Pakistan, etc). Offshore domiciles (Figure 2) are another sign that Islamic funds are increasingly being marketed across multiple domiciles and with more sophisticated structures.

Figure 2: Funds by domicile



Source: Eurekahedge

Figure 3: Funds by geographical mandate



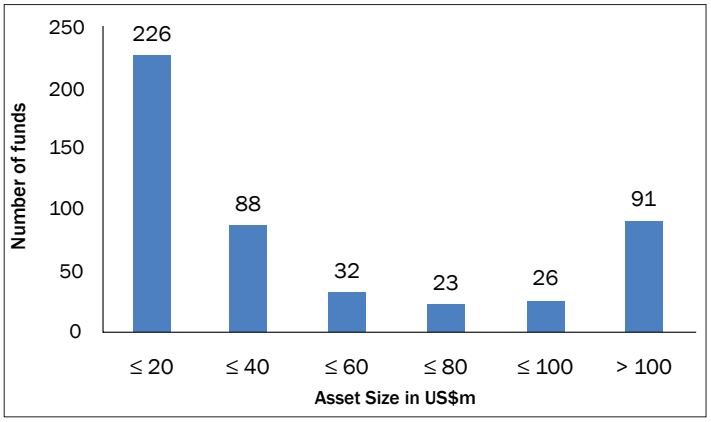
Source: Eurekahedge

Market participants are fast evolving – while the more established players are expanding regionally, new entrants are leveraging their country and/or sector expertise. In addition, overall investor appetite is for diversification and incorporating new exposures into their portfolios; thus feeding the demand for emerging markets (ie India, China, etc) and developed markets as well (ie Canada, Japan, etc).

This has not only broadened the product spectrum but also introduced a greater challenge in terms of investors' due diligence requirements. Although finding these funds is much easier than before, there can be difficulties in analyzing managers (both quantitatively and qualitatively) with such a wide geographical dispersion.

The proliferation of fund managers and the rise in assets under management are tangible evidence of a burgeoning industry. There is also a less tangible metric of product quality – an additional benefit from greater competition and the arrival of fresh new talent. Consequently, the level of sophistication is on the rise, with experienced long-only managers and a greater pipeline of structured products entering the fray.

Figure 4: Funds by assets under management



Source: Eurekahedge

Asset allocation

The number of funds segregated by fund size provides a more telling statistic (Figure 4), as this is not a bell-shaped curve as may be expected, but one skewed towards smaller-sized funds with a significant tail extending to larger-sized funds. This relies on a smaller sample of reporting funds (486) but there is an unmistakable imbalance in asset allocation.

This is partly due to the local focus of most fund managers and also the specific size of their home markets (in fact many new mandates emphasize their cross-border exposures as they seek to avoid such constraints). Hence the average fund size in Saudi Arabia stands at US$170 million and in Kuwait this figure is about US$100 million. In contrast, the average fund size is US$44 million and US$10 million in Malaysia and Indonesia respectively.

Recent launches have also emphasized the appetite for geographical diversification, with global mandates growing from 19% in 2006 to 34% in 2007. Emerging markets made their appearance in the last two years, and while their numbers remain modest (five in all) they are further evidence of growing investor appetite. Innovative structures have also been developed, with funds of funds, ETFs and listed real estate funds among the latest buzz words.

continued...

Islamic Funds No Longer a Short-Lived Fad (continued)

The distribution of assets shows a strong preference for certain markets, putting into question how geographically diverse is a typical Islamic portfolio. About 62% of assets are still retained in Middle East mandates (but only represent 29% of all products), partly due to an adherence to legacy investments, a continued appetite for GCC economies and more effective marketing channels.

Asia Pacific comes a distant second at 16% of assets even though it is the source of a third of all products in the market. It could even be argued that Asia is outpaced by assets in developed markets (Global, European and North American mandates) as these add up to 22% of assets and 36% in terms of number of products.

Due diligence components

Although track records remain ever important, younger funds have not encountered major difficulties in raising assets, mainly because the appeal of these strategies compensates for their short lifespan. Several fund managers have supported the marketing of their Islamic products by highlighting the track record of their conventional product range. Southeast Asian funds have benefited most from this approach, as exemplified by various pan-Asian and China-focused products that have older siblings in the conventional world.

In terms of asset allocation, there is currently a trade-off between what an investor needs (track records, fund manager familiarity) and what an investor wants (performance, new exposures, etc). In fact, the last five years are testament to a consistently liquid marketplace with about US$26 billion being invested during this period.

Average fund sizes have also gradually decreased over the last five years (down to US$42 million for 2007), illustrating an ever-more crowded marketplace. Islamic funds, because of their long-only nature, do not necessarily have an issue in terms of size limitation. An optimal fund size is predominantly influenced by the market or markets where the fund is invested, although this does not seem to be a major concern at this stage.

The asset class mix

In the mix of Shariah compliant offerings (in terms of asset classes), the prominence of equity funds is felt across all regions (from 41% to 55%), but this is no different to the proportion found with conventional funds (42%). Money market funds are also well received, particularly in Global and Middle East mandates (at 21% and 13% respectively, well above the conventional 6%). They remain popular everywhere except in European and North American offerings, where capital markets are not yet viable for these types of instruments.

Fixed income and balanced products are lacking in all but one of the geographies. Asia Pacific seems to offer the closest match to conventional markets, yet it is the greater acceptance of Malaysian Sukuk that may limit the appetite for the fixed income and balanced offerings in this region. This could have further implications for Takaful investors, as insurance companies have a predilection for balanced products.

The popularity of European and North American real estate products, as well as Middle East multi-manager portfolios, is manifested in the "Others" category (at 50% and 57% respectively). Private equity funds are also categorized here which accounts for their strong showing under these geographies.

Structural evolution

Various aspects of Islamic funds have changed over the last decade, but a few can provide latent clues as to where the industry is heading:

- **Fee structures**: Average management fees of Islamic funds have gradually increased particularly with regard to equity funds, and this has been more pronounced in the Middle East (the average fee at 1.7%) and Asia Pacific (1.59%). This has been prompted by a more active management approach (more analysts needed and greater trading turnover) and investments across multiple geographies (augmenting the need for internal and external equity research). This however is in line with that of Global, European and North American mandates (averaging 2.75%, 1.76% and 1.28% respectively). In contrast, there is a slight downward trend across money market funds, while fixed income and balanced products have kept relatively stable fee structures.
- **Benchmarks**: The proliferation of Islamic equity indices was initiated by the Dow Jones Islamic Market (DJIM) and while it remains the most quoted index family, S&P, MSCI and FTSE have made significant inroads in recent years. Equally popular are indices which are country/region specific (such as those of Global Investment House and Al-Madar), as well as composite/in-house benchmarks. This activity has now provided numerous tools for fund managers, both to benchmark as well as to base index-linked products.
- **Shariah advisors**: Traditionally, Islamic funds have been generated within established fund houses with a large fund range, making it practical and cost-effective to have an internal team of Shariah scholars. However, as more and more non-Islamic institutions enter the market, it is now commonplace to find Shariah compliance being attained through third-party boards. This has given greater momentum to the entry of specialized consultancy firms, although the average number of scholars within a board remains between three and four.

Fund performance

Since developed market funds (Europe, North America and Global) have a strong association with market indices, a performance analysis would have limited value. For the main markets of Asia and the Middle East, a direct comparison is also unwarranted as they respond to different market conditions. The data, however, supports the compatibility of these two main regions instead. This is true across all the various asset classes available.

- **Long-only legacy**: Both regions have had their ups and downs, and this is far more pronounced in pure equity funds. For instance Asian funds posted negative returns in 2005 (-1.66% overall, -3.66% for equity funds), whereas Middle East had a forgettable 2006 (-9.65% overall, -20.45% for equity funds).

- **Timing the rebounds**: Both regions have nevertheless proven their resilience, with Asia recovering in the 2006-2007 period (13.2% and 20.72% returns respectively). For Middle East funds, the returns observed in 2007 (26.95%) are reminiscent of the heydays of 2005 (32.48%). Once again, this is far more pronounced in pure equity funds and shows that long-only investing comes down to a matter of timing, at least on the surface.

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Islamic Funds No Longer a Short-Lived Fad (continued)

- **Symbiotic detachment**: While Asian economies have not decoupled from global markets, GCC economies are bucking the trend. From a diversification perspective, good years of performance in one region correspond to weaker years in the other (most evident in 2005 and 2006). A long-term investor would benefit the most from this apparent detachment by blending these exposures rather than attempting to time the market cycles.
- **Finding the right balance**: Diversification is not only reasonable across regions but across assets classes as well. However, a blended approach is not that straightforward since the returns of balanced funds have yet to exhibit great levels of stability. Asian balanced funds have actually underperformed these combinations by an average of 4%. The opposite is true for Middle East balanced funds, with the same combinations outperforming proper balanced funds by 2% to 6%.

Similar to other screened investments, Islamic products face the criticism that any such constrained investment cannot consistently outperform the overall market. Still, the performance of Islamic funds has in fact been one of the key drivers of industry growth, where years with strong returns have been linked to years of product expansion.

The performance of Islamic funds – depending on the year of their launch – has as much to do with the overall industry growth as any other factor. Clearly the demand for these products increases after the performance metrics validate the initial investment decision. This rate has not been constant though, and while strong years are catalysts for growth, it is the combination of track records and new mandates that has established the right conditions for the industry.

Due to restrictions imposed on certain financial instruments for not being Shariah compliant (namely derivatives and short-selling), the argument is often made that Islamic funds are long-only vehicles that will merely be closely correlated to overall stock markets. This has been debunked due to the expansion of fixed income markets (for example, Sukuk), increased trade in structured products (for example, ijara/leasing contracts), and the introduction of additional exposures (for example, listed real estate).

Market behavior

It can be argued that Shariah screening provides for an early flight from securities prior to market downturns. Two well-defined bear and bull markets have occurred since January 2000.

- **Bear market performance**: During the bear market between January 2000 and January 2003, the performance of Islamic funds showed varying levels of capital protection. The global Islamic fund index reveals a strong correlation to the market, but this is less evident when scrutinizing the various sub-indices. There was also a gradual breakout from the DJIM index as the bearish conditions continued. The Middle East index exhibited very strong returns over this period although the rise in net asset value had a lag of almost 12 months. European and North American mandates did not provide substantial protection although all the sub-indices eventually outperformed the DJIM index during this period, led by Asia-Pacific equity funds.
- **Bull market performance**: This market scenario ranged from December 2002 to December 2007 and painted a less rosy picture. These funds arguably underperformed the DJIM index during the uptrend. The 2006 market correction in the Middle East dominated the behavior of this specific index. While Middle East returns were well above all other indices, they experienced the greatest downturn as well. This highlights the increased importance of manager selection in both downward and upward trending markets, and the wisdom behind diversification as well as the cost effectiveness of certain index-linked products.

Correlation analysis

The strongest correlation exists between the European, North American and Global indices, with an almost perfect correlation between Global and North America. Notably, Asia Pacific exhibits the lowest correlations against all other indices, and the Middle East/Africa index has a similar tendency.

On the whole, diversification benefits are derived mainly by adding a global component, although this also depends on the existing allocation of the portfolio. For example, a European portfolio would diversify best with an allocation into the MENA region. Most revealing though, a portfolio that is biased towards Asia-Pacific funds would be the one benefiting the most from allocating into Middle East mandates (and the same would hold true the other way around).

A correlation analysis can also be performed in the bear and bull market periods in isolation. In that case, Middle East funds have a negative correlation during the bear market, whereas the strong correlation of all mandates is greatly increased during the bull market.

Conclusion

While Islamic finance continues to thrive, there are a variety of imbalances that are being addressed to the benefit of prudent asset allocators. Gaps which are evident in fixed income and balanced offerings are progressively being tackled, particularly by the proliferation and subsequent liquidity of Sukuk offerings. Similarly, allocations continue to be biased towards Middle East exposures.

Nevertheless, the flood of new Shariah compliant products is gradually reducing disparities and portfolio concentrations. This allows positive implications for portfolio construction, but only if coupled with adherence to proper due diligence principles.

The fundamental changes taking place are conducting an overall shift in perspectives - from short-term to long-term allocations; from raw performance to risk-adjusted returns; from local players to global fund houses; from retail/high-net-worth investors towards institutional portfolios.

Additional support is coming from innovative products currently in development, the entry of more specialized/sophisticated institutions, and the improved understanding of and appreciation for Shariah. This is sustaining the industry as one of the most dynamic components in the financial services sector today and for the foreseeable future.

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This article is based on excerpts from a report by Eurekahedge Research. For enquiries/comments regarding this article, contact editor@eurekahedge.com.

Islamic Market Indices: Back to Reality

By Gérard Al-Fil

Record-high energy prices, global inflationary advances and an increasing threat of a war against Iran sent nearly all Dow Jones Islamic Market (DJIM) regional and industry indices into negative territory in June.

With energy and food prices reaching record highs in June, there were many losers and only a few winners. Only three out of 24 Shariah compliant stock indices of the DJIM family achieved even small gains. The remaining 21 headed into negative territory, the worst advance/decline-ratio since the beginning of 2008.

The DJIM performance ranking list of was led by the DJIM Kuwait Index advancing at 3.05% (as of the close of trading on the 24th June), closing at 1,959.27 points. The oil-rich gulf state emerged as the only Shariah compliant index with positive year-to-date (YTD) performance, returning 12.93%, even outperforming its conventional counterpart at 4.2%. Kuwait is followed by the DJIM Amana Sri Lanka Index (up 0.98%) and DJIM Indonesia Index (gaining 0.46%).

For other once celebrated emerging markets, the June headline could be: "Back to Reality". The DJIM BRIC (Brazil, Russia, India and China) Index retreated 11.94% to 2,266.91 points. Investors also sent the DJIM China Offshore Index and the DJIM Index downwards, with losses of 13.34% and 15.89%, respectively, marking the bottom of the board.

The subcontinent, burdened by the record high inflation of the Indian rupee and an outflow of skilled employees ("brain drain"), also performed the worst since the beginning of 2008. It had a devastating YTD performance of minus 36.70%. A quantum of solace for Islamic investors in this area is that the conventional Dow Jones Wilshire India Index headed even lower during last six months, with a retreat of 40.51%.

DJIM US Titans 50 and DJIM Europe 25 Titans Indices fell 4.76% and 5.72%, respectively.

The performance of dollar-denominated Sukuk with investment-grade ratings are measured in the DJ Citigroup Sukuk Index, which closed 25% higher in June at 112.20 points. Since interest is forbidden in Islam, Islamic bonds or Sukuk distribute profits related to an underlying asset, such as leasing gains of a real estate project.

Indices provide several functions for the financial industry: they measure the performance of stock-listed companies, and therefore of a region or a particular industry. Portfolio managers use them as benchmarks to measure the performance of actively managed funds against a region or an industry. In addition, using the historical data of indices, asset managers can calculate the Beta - a measure of a stock's (or portfolio's) volatility in relation to the rest of the market.

The DJIM Index family adds one more function: it gives Muslim investors the opportunity of putting faith into finance. Dow Jones Indices developed an approach to screen halal (permissible) stocks, for example, firms which operate in line with Shariah. This screening process is done every three months in order to ensure that companies with a growing debt or excess liquidity are excluded as Shariah regards both forms as unacceptable or haram.

Therefore, managing a portfolio in an Islamic way provides a form of capital protection. It excludes entities long before they approach bankruptcy (as was the case with Enron), an important factor that makes Islamic finance appealing to non-Muslim investors as well.

Among the DJIM industry indices, no single index achieved a positive rate of return. Not surprisingly, the "best" industry performer in June has been the DJIM Basic Material Index (down an insignificant 1.42%). Second and third are the DJIM Oil & Gas Index (1.85% lower) and the DJIM Health Care Index (off 3.69%).

The current global economic uncertainty is also reflected in the retreat of the DJIM Consumer Goods Index (off 7.64%). Stock-listed Islamic banks also suffered minor losses due to the global financial crisis although, by nature, they are not exposed to any interest-bearing debt.

The DJIM Financials Index fell 8.56% in June, as did its YTD numbers, almost equally. Today, there are 470 Shariah compliant banks worldwide. It is estimated that the global volume of Islamic assets topped an impressive US$1 trillion.

The DJIM Telecommunications Index retreated 10.63% and is also the bottom of the YTD league, with a return of negative 17.71%. This index performance might be the reason for negative DJIM performance across the board in June. Most Islamic indices are heavily technology-weighted and are therefore positively correlated to the development of telecom indices.

More volatile months may lie ahead. The drums of war have been sounding more and more loudly because of the Iranian atomic program. This will send energy prices - along with inflation - higher still. Finally, the subprime jigsaw puzzle is still a tangle, with banks reporting continuing defaults globally. The world's markets are in for an "interesting" ride.

Dow Jones Islamic Market Country Indices

The free-float market capitalization of the reconstituted Dow Jones Islamic Market Country Indices:

DJIM Amana Sri Lanka Index: increased to US$357 million from US$238 million
DJIM China Offshore Index: decreased to US$172 billion from US$213 billion
DJIM Hong Kong Index: decreased to US$235 billion from US$245 billion
DJIM India Index: decreased to US$315 billion from US$339 billion
DJIM Indonesia Index: decreased to US$45 billion from US$46 billion
DJIM Japan Index: decreased to US$987 billion from US$1,108 billion
DJIM Malaysia Index: increased to US$45 billion from US$38 billion
DJIM Kuwait Index: decreased to US$25 billion from US$46 billion
DJIM Singapore Index: decreased to US$64 billion from US$70 billion
DJIM Turkey Index: increased to US$19 billion from US$14 billion
DJIM U.K. Index: decreased to US$1.22 trillion from US$1.39 trillion
DJIM U.S. Index: decreased to $8.10 trillion from $8.59 trillion
Dow Jones-JS Pakistan Islamic Index: increased to US$5.25 billion from US$4.65 billion

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Islamic Indices - The Way Forward

By Islamic Finance *news*

The Malaysia Islamic Capital Market Conference, jointly organized by Bursa Malaysia and the Malaysia International Financial Center, was held in Kuala Lumpur recently. The inaugural event played host to top international scholars, Islamic investment banking professionals and international capital market captains.

Islamic Finance *news* was invited to join a media roundtable with three conference speakers - FTSE senior sales manager Asia Pacific Charlene Low, Dow Jones Islamic Market global director A Rushdi Siddiqui and Yassar chief executive Majid Dawood - to discuss the development of Islamic indices globally. The session was moderated by Bursa Malaysia's Islamic Capital Market product development head, Norfadelizan Abdul Rahman.

The following is an excerpt of the discussion.

How well are Islamic indices being used as a benchmark for Islamic structured products?
Rushdi: When you have an apple you want to compare it to an apple to examine the taste. So when you've got an Islamic fund out there, you want to see how it fares. If it is doing well, more money will come in, if it's not doing well, there will be redemption. So at one level, Islamic indices have actually been created after Islamic funds - which is an interesting phenomenon.

The index has raised the profile of this way of investing and it is low debt financing and ethical investing. It is a style of investing and when you express it in such a manner, people understand it. One does not have to be literate in asset management or corporate finance or be a fund manager. For those who are more experienced, it is an alpha or beta strategy because of the screening.

There is this perception among numerous institutions that once you take your universe from an index provider that is Shariah compliant, then you as a fund manager do not require a Shariah adviser. That is wrong because funds have to purify with the permissible, as income index providers are for price only. You have to sign off as not using any exotic instruments to choose returns. So those are the things that an adviser to a fund would do. So the fact that you have an Islamic index does not mean that the licensee of funds does not need an adviser because they are managing this money.

Low: Besides using the index as a benchmark, it also helps them in doing screening for the Shariah universe because many times a lot of these funds may not have the capacity to do it in-house. So using the index, you have the assurance that whatever universe that you have picked up is Shariah compliant and as earlier said; there are two major screenings - the business and the financial. Having said that, the fund manager can concentrate on what he does best; which is picking the stocks and building a portfolio while having the assurance that the underlying is already Shariah compliant.

Majid: The demand for variety in terms of products using the equity asset trust is very important and we are now watching them coming into the market of ETFs. Once the indices are there, the fund managers have the opportunity to develop all the counter products and have a variety of it as well that would have to be Shariah compliant. It is basically a hand-in-glove operation that both aspects have to be covered on a Shariah basis.

Are there sufficient Shariah compliant indices or is there a need for more products before this can take off?
Rushdi: Presently there is a financial cost to being a Muslim; what that means is conventional investors have a wider bandwidth of options to invest in as opposed to Islamic investors because there are not enough funds or asset classes available. It is embryonic, so it is expected to have a shorter bandwidth. The key is that Dow Jones and FTSE have a large number of indices. We do this because it is a family strategy.

The market then takes the indices that their client wants or the perception that this is where the market is going. That addresses one segment. The other is those who basically want customized indices - such the Bric (Brazil, Russia, India and China) index. We then created an Islamic Bric index - what you are seeing in customization is the maturing sophistication in the market place. So sometimes the index leaps the market place and sometimes it reacts to it and backdoors an index.

Your thoughts on the way it is in Malaysia?
Rushdi: I'd like to see Malaysia export overseas its capabilities in Islamic capital market, especially its experience in developing Islamic indices that it has refined because it (Malaysia) has an inclusive approach that is readily exportable to OIC countries which are interested in this way of investing and financing.

Low: Traditionally, a lot of the requests were mainly domestic or Asia Pacific but recently I have had clients asking for more customized indices. I think in Malaysia, the level of sophistication and the type of products you are getting into is a lot more than many other countries.

Majid: At the moment there are four principal ones and others who do their own internal ones but at the end of the day, the choice must be left to the public for the growth of the market. It is very essential for the choice to be there. It is like a car. It's your personal choice if you want a Proton, Nissan or a Rolls Royce. This is a showroom for the indices.

In terms of performance, how do you see the conventional indices as compared to the Shariah indices?
Majid: When the FTSE-SGX Asia Shariah 100 Index was launched, we did some testing and looked at the correlation. We were surprised that the financial institutions were being taken out of the Shariah index. Companies like WorldCom and Enron, because they failed the test, were removed a year before they went "belly up". So the conservativeness of the Shariah index is very robust in that sense and also the fact that Islamic finance is equity-based rather than debt-based, you do not have the same problems.

Low: In Malaysia, we have the FTSE Bursa Malaysia 30 Index as well as its equivalent, the FTSE Bursa Malaysia Hijrah Shariah Index. We also did some testing and were surprised to see a significant outperformance of the Hijrah.

Rushdi: You'd probably want to know why there is performance in certain market cycles. It makes sense. Islamic equity screening results

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Islamic Indices - The Way Forward (continued)

in certain biases especially towards health care, energy and technology. At the global level that is about 60% of the index. So when the markets are led by one of those three sectors, Islamic investing is going to outperform. The flip side of it is when markets have been pulled down by the financial sector as they have been with the subprime fiasco with the financial sector being 25% of the global index. The Islamic index does not have exposure to the conventional financial sector, so it outperforms.

What happens when the conventional index leaps the market place? Our experience of actual monitoring is that they (the Shariah compliant indices) generally market perform, which is very interesting and goes back to the point that even though there is no exposure to the conventional financial area, there is a high correlation. That means the screening does have an impact on companies that do well in market sectors.

> "We have reached a level where index providers in their screening methodologies have to be very flexible to accommodate the investors' needs because they are not only seeking performance but are also investing based on faith"

How do you see in moving towards countries like Europe where Islamic finance is still in its infancy?
Majid: The answer is very simple: since the subprime crisis, people have been looking towards "Mecca," if you like. They need cash which they do not have and they want to tap the liquidity from the Middle East. Whatever reasons they have, it is good for Islamic finance because it extends the sector. They do not have the wealth but possess the numbers and Islamic finance is moving towards downwards from sovereign to corporate to the retail market contrary to conventional finance.

We have yet to see anything in the retail markets but once this happens, things will move fairly quickly. If you look at any retail product used (i.e. current or savings account, house mortgage, credit card etc.) then when you get the need to acquire insurance. The largest companies in the world are insurance companies as small amounts of premiums coming in that are managed in a Shariah compliant manner.

Rushdi: When you have a merger of faith and finance and when you are trying to promote finance to non-Muslims, it is a difficult sell. If we focus on the substance instead of the label, then it is going to get the attraction.

Low: There are so many investors who still have the mindset that you have to be a Muslim to buy or invest in a Shariah compliant product. Sometimes, we take away all the confusing terms and concentrate on the structuring of it. For example, a Takaful product has more appeal to me compared to a conventional insurance product. Investors should therefore be taught to look past the labeling and instead look at what is put in to build Islamic products, which are sound and a form of ethical investment.

Talking about standardization, different countries are using different standards, how do you see a harmonization?
Majid: It's all a question of time. Every country wants a jockey for their horse and getting into the best position. As I said, it is a very young industry, only 40 years old. We are still in an infancy stage. The fact still remains; let them all clear their standards and eventually they will converge. We have different schools of jurisprudence of Islamic finance and they have all the issues to deal with.

Now AAOIFI and IFSB are setting standards, you've got Shariah boards that are global from different schools. So when they agree on something, then that's done. If one Shariah board issues a fatwa or a product and you're taking it to another bank to invest then that bank's Shariah board has to review it. So once it is reviewed, you then have to take it to another bank. Some banks have an overlap of scholars but nobody has yet done what I think they should do. If, for example, I obtained a fatwa from XYZ scholar, I get the approval from ABC scholar and EFG scholar. Now that product, by consensus, has been accepted by a number of scholars. That is a standard and that is what it should lead to.

Rushdi: There are 56 Muslim countries in this world and each has been influenced through time and culture. Standardization is not like a genie in a bottle that once you have it, Islamic finance will flourish. There are a whole set of other challenges that have to be addressed concurrently. So having standards is not going to break the dam, gushing Islamic finance everywhere.

How do see the various methodologies of screening going forward?
Low: Recently, when we worked with our clients on the screening methodology, they had their internal Shariah boards and we worked with them on the business and financial side; there are some areas where they have stricter requirements, for example hotels and airlines are prohibited because they were unsure whether alcohol or pork would be served in the premise or zero tolerance on purification of the investment.

We have reached a level where index providers in their screening methodologies have to be very flexible to accommodate the investors' needs because they are not only seeking performance but are also investing based on faith. In terms of products, these are exciting times because besides funds and Takaful, we are also seeing ETFs - the year was a first for many things. We saw the listing of the first ETF with the Dow Jones Islamic in Malaysia and we also saw the first Daiwa-managed ETF for the Shariah Japan 100 Index listed in Singapore.

There will be standardization and with all the markets sharing their knowledge and experience, a huge boom is expected. The money and interest is there; now it's only the knowledge, innovation and willingness to be creative – not just taking something conventional and turning it into Islamic. Let us start from the principles of Islamic investment, appreciate it first and then build it up from there.

continued...

Islamic Indices - The Way Forward (continued)

Majid: The growth is conceived and from the media you can see the amount of conferences going on but at the same time, it is also dependent on the maturity of the market. There are other factors – Islamic finance is the fastest growing sector in banking and Islam is the fastest growing religion.

Rushdi: I see the Islamic market as divided into three parts: there is one third who are purist, another third that are secular and the final portion the fence sitters, who do not want to be penalized for being Muslims.

So if the conventional mortgage is more attractive, they would choose it. This is where the industry has to provide value to these people because they are the early adapters, at one level, for Islamic finance and when that happens, it would expand horizontally. It is akin to a candle being burnt at both ends as the purist will continue living in a small apartment because they refuse to take a loan.

So the industry has to approach this from a point of view of substance, performance and cost efficiency. It does not matter what your faith is, you just would not want to be penalized. I think Islamic finance is where it is.

When you combine faith and finance, you cannot fast forward or force something into the heart of the man on the street, who is not willing to accept. It is a slow growth managed market acceptance process because there is a need to understand the target market which is a deposit taking mentality, not an investor risk-taking mentality. That is why capital protective funds have done well. The simplest approach is to ask the man on the street what he wants.

How do you see Islamic indices going forward, its trends and styles?
Low: We are increasingly seeing a lot of style investments instead of the normal domestic or regional. There is more awareness of Islamic requirements because of the whole subprime fiasco.

People are now sitting up and saying Islamic finance is not just about non permissible activities but also companies that are not highly leveraged. The principles behind it are sound and have become more appealing now.

Rushdi: If I were to sum up the future of Islamic finance in one word, whether on the finance or investment side, it is sunrise.

Majid: This is a sector that is growing and the future is good. Since the subprime crisis, it has shown the weaknesses in the conventional model. The important thing to realize about Islamic finance is that it is equity-based. You will get a global impact on the economy but minimal. It is essential to understand that Islamic finance is not a debt based option.

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?

Durham University

Tawarruq is very controversial and has been much criticized by some leading scholars but defended by others. Critics of Islamic finance often cite Tawarruq as a transaction without substance as, in financial terms, it is the same as a conventional loan with a mark-up charge on the deferred payments which corresponds to interest.

Islamic banks cannot provide overdrafts, but many of their clients want cash, and not goods or commodities which the Shariah compliant debt instruments are designed to finance.

Tawarruq is a device for meeting cash needs and legally, it represents a trading transaction with transfers of financial obligations. The criticism is when the same specified commodity is used for many transactions, and where an affiliate of the financier repurchases the commodity. The trading occurs, but some regard it as a fiction.

There is no obvious alternative to Tawarruq for cash advances. Salam can be used for the finance of receivables and Arboon can reduce immediate cash needs. These are imperfect substitutes, however, which means Tawarruq will have a practical role to play in Islamic finance for the foreseeable future.

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

BLME BANK OF LONDON AND THE MIDDLE EAST

The main Shariah issue with Tawarruq transactions is related to the fact that the intention behind the purchase of the commodity is not to own and use the commodity. Instead, the commodity is sold instantaneously in order to obtain the required funds.

Historically, although the minorities of the schools of thought in Islamic jurisprudence have rejected the Tawarruq for the abovementioned reason, the majority have approved it subject to conditions such as an auditable ownership transfer of the commodity and separation of the purchase and sale arrangements.

Some banks using Tawarruq structures have, however, not adhered to these conditions; for example, by combining the sale and purchase into a single transaction in which the bank buys from and sells to the same broker as an agent on behalf of the client. Due to the fact that sale, purchase and appointing the bank as an agent all happen in one schedule, it is almost impossible to see who owns the commodity at any point during the execution of the transaction.

However, despite the differences of opinion among scholars, the Shariah Council of AAOIFI has approved Tawarruq and has issued a separate standard to regulate this instrument to ensure that it is Shariah compliant.

Although Tawarruq may not be the most perfect instrument and has serious Shariah issues associated with it, it does serve a purpose when value-added tax, stamp duty or other taxation rules pose limitations on Islamic finance and the Tawarruq is the only feasible transaction type available.

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

Hong Leong Islamic Bank

Tawarruq was created out of necessity and can be effectively used as a liquidity management tool for Islamic banks. What is disturbing is the use of Tawarruq as a tool that promotes adverse consumption credit and an easy way out in the simplification of financing structures and the mobilization of funds, thus allowing the possibility of leakage of Islamic funds to activities that may be contentious to the purpose of Shariah.

The role of the Shariah coordination and Shariah scholars is vital in ensuring that the mobilization of funds and use of funds under Tawarruq structures comply with the purpose of Shariah.

JASANI ABDULLAH: Head of product development and Shariah, Hong Leong Islamic Bank, Malaysia

continued...

It is an interesting question whether the public needs Tawarruq, which is the reverse of Murabahah short-term financing that will surely further widen the gap between the haves and have-nots.

Indeed, at a time like now when there appears to be a food crisis, are Tathmeer (investment) and Eymar (development) the answers?

Today, the Muslim world is at a crossroads and many analysts predict that a food war has already started due to soaring food prices that will lead to social unrest and civil war in many parts of the Muslim world.

It is time for reflection on the harsh reality of the Muslim world by making Tathmeer and Eymar in human capital and small business to ease human suffering through Islamic microfinance enterprises.

DR SAAD AL-HARRAN: An independent specialist

Standard Chartered

As you say, Murabahah for one counterpart becomes Tawarruq for the other party; therefore it will also kill all Murabahah deals in the interbank market. The solutions are available (Sukuk) but they don't have the size and scale to absorb the current Murabahah portfolios of Islamic banks.

Concerted efforts to build Sukuk and other Islamic liquid instruments should continue but there is no point in creating a conflict relating to Tawarruq. Every industry player, scholar and regulator understands the limitations — we should be forward looking to building the Islamic industry.

> "Concerted efforts to build Sukuk and other Islamic liquid instruments should continue but there is no point in creating a conflict relating to Tawarruq"

AFAQ KHAN: Head of Islamic banking, Standard Chartered Dubai, UAE

SHAPE™ FINANCIAL CORP

This is a very complex issue. Indeed, scholars have written books about it. The first argument relating to this method appeared in the first generation after the Prophet. As a result, we can only say that the majority of Islamic scholars are concerned whenever the rules of sales are managed in a way to create a loan.

In the Tawarruq practiced by many Islamic and conventional banks, the client has no involvement in or focus on the underlying commodity transaction. As a result, it is viewed by a large group of scholars as being the equivalent of Bai Inah: They wish to forbid it. But the Tawarruq proposed for the commodities house in Malaysia will actually create a role for the client and offer delivery.

This 'open' Tawarruq has support from some of the strongest opponents of Tawarruq al munathem. But the general concern of a large universe of scholars is that Tawarruq's future is limited.

ABDULKADER THOMAS: President and CEO, SHAPE — Financial Corp

The views expressed in Islamic Finance forum are those of our panelists, and not necessarily those of Islamic Finance *news*.

Next Forum Question

The debate over the necessity and likelihood of convergence for the development of the global Islamic capital markets will undoubtedly continue for many years to come. However, what standardization is required in the short term and how can this be achieved?

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, 9th July 2008.

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

Name: Chaaban Omran

Position: Managing Director

Company: Muslim Community Co-operative (Australia) (MCCA)

Based: Sydney, Australia

Age: 39

Nationality: Australian

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

I spent 21 years in the financial services industry specializing in superannuation. Over time I moved from the business to IT, also moving from operational to senior management roles.

From a community perspective, I am fairly involved, especially working with students and youths as well as in mosque projects. I feel that investing in the Australian Muslim community will ensure that future generations have access to opportunities that do not compromise on their Shariah principles.

I became a member of MCCA 10 years ago as its concept of being a leading provider of Islamic finance appealed to me greatly. In January 2007, I joined the MCCA board and in late May 2008, I was appointed its managing director.

What does your role involve?

My role at present involves demutualising the co-operative as MCCA has become too large to remain a co-operative. This will involve close interaction with lawyers, accountants and regulators.

At the same time I will be looking at a new business strategy for MCCA. From then the intention is to develop operational strategies that we will deliver on the business strategy. This demutualization will lead to attaining us the AFSL (Australian Financial Services License) from ASIC (Australian Securities & Investments Commission).

As you know, the cost of funds is becoming very expensive globally, and this is having an impact on MCCA. For this reason we need to remain focused on what is important and to deliver this efficiently. With the help of the management team the intention is do just that.

What is your greatest achievement to date?

In my first few weeks within MCCA, after reviewing existing business strategies and getting a feel for the local potential market and international trends in Islamic banking, I hope to develop an appropriate business strategy to take MCCA into the next era of Islamic banking in Australia.

In the course of my career, one of my greatest achievements to date has been to save AU$15 million (US$14.3 million) per year for a company by relocating the operations and systems departments to another subsidiary 4,000 km away.

Which of your products/services deliver the best results?

MCCA is focusing on our internal Tamleek products. Using members' funds, MCCA finances the purchase of a property, giving us greater control on the disclosure of Shariah compliant terms and conditions.

What are the strengths of your business?

Our people. Our business is not just about providing Islamic finance solutions but to also understand the community's unique requirements. These people are also aware of the prevailing laws within Australia which can assist in the development of new products. Of course, what attracted me to the organization in the first place is that MCCA was established 18 years ago and remains an iconic brand within the Australian Muslim community.

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

There are two main factors. Our brand which is well established for providing Shariah-based products; and the support of our community, their desire to see MCCA succeed for many generations to come.

What are the obstacles faced in running your business today?

The current laws have stringent disclosure rules and a very strict compliance framework – this restricts our ability to develop new products and to keep costs down. Another obstacle is access to funding. Our waiting list for Muslims requiring funding from local member sources is rather extensive. For this reason we have had to arrange external funding to satisfy the demand; however the compliance for these external funders can be rather complex. The credit squeeze is also posing some challenges for our business and we are looking at ways we can overcome this to make the customer service journey for our members quicker and smoother.

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

The Islamic finance industry is currently an untapped opportunity in Australia. The next five years will see this industry in Australia flourish. Hopefully I can see MCCA as the first Islamic bank in Australia.

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

More investment towards educating the world as to why and how Islamic banking is different from conventional banking. This may lead to making Islamic finance products a viable alternative to those of conventional banks for Muslims and non-Muslims alike globally.

MCCA Islamic Finance & Investments

MCCA is a co-operative owned by its members. Since beginning operations in 1989, MCCA has cemented its position at the forefront of Shariah compliant finance and investment in Australia.

PLUS SPV's US$308 million Medium-Term Notes

INSTRUMENT	Medium-term notes
ISSUER	PLUS SPV
OBLIGOR	PLUS Expressways Bhd (PEB)
PRINCIPAL ACTIVITIES	To undertake the issue of Islamic securities in accordance with Shariah principles and in connection with PEB
BOARD OF DIRECTORS	Lui Kwee Hui and Lee Yun Choong
ISSUE SIZE	RM1 billion (US$308 million) in seven series
DATE OF ISSUE	27th June 2008
MATURITY	27th June 2019
COUPON	2% for all series
PAYMENT SCHEDULE	Semi-annual
AUTHORIZED PAID-UP CAPITAL	RM100,000 (US$30,834)
IDENTIFIED ASSETS	The trust asset comprises the portfolio units purchased by the issuer from Puncak Tulus, which purchased the portfolio units from the initial owner of the portfolio units, the distribution (as defined below), the distribution account (as defined below) and the credit balances from time to time standing to the credit thereof, the right through the issuer to enforce the purchase undertaking (as defined below) against PEB in its capacity as the obligor and the trust asset account into which will be deposited all excess income from the trust asset above any distribution which are required to be made to the Sukuk holders. The trust asset account shall be allowed to be utilized by PEB for purposes at PEB's sole discretion, provided that any such funds utilized shall be receivables of PEB. The issuer shall be the manager of the trust asset for the Sukuk holders. Each Sukuk holder will have an undivided share of beneficial ownership in the trust asset (the quantum of which is evidenced by the Sukuk held by it).
LEAD ARRANGER/ LEAD MANAGER	CIMB Investment Bank
LAW	Laws of Malaysia
LEGAL COUNSEL	Messrs Adnan Sundra & Low
TRUSTEE:	Universal Trustee (Malaysia)
SHARIAH ADVISER	CIMB Islamic Shariah Committee
METHOD OF ISSUE	Via direct placement on a best effort basis or a bought deal basis or book running on a best effort basis
PURPOSE OF ISSUE	The proceeds from the issuance shall be utilized to purchase the portfolio units from Puncak Tulus, which has purchased the portfolio units from the initial owner of the portfolio units (PEB)
RATING	AA1 from RAM Rating Services

SCHRODERS — MENA

Rami Sidani has been named head of the Middle East and North Africa portfolio management by the fund manager.

He was previously attached to Shuaa Capital, where he managed around US$1 billion worth of equities in the MENA region, and has more than six years of investment experience.

DIFX — UAE

Effective from the 1st July, Jeffrey Singer will be Dubai International Financial Exchange's (DIFX) new CEO, succeeding Lars Parson who has accepted a senior position in the region.

Singer was previously the senior vice president at Nasdaq OMX.

CALYON — Asia

Marc Poirier will become Calyon's new senior country officer (SCO) for Japan, succeeding Patrice Couvègnes who is to become the bank's senior regional officer (SRO) for Asia. Both appointments will take effect on the 15th July.

Poirier has been with the bank for seven months, originally as the CEO of Calyon Securities Japan.

GATEHOUSE BANK — UK

Mourad Mekhail has been appointed as the bank's managing director of institutional wealth management.

Mourad has more than 10 years experience in the MENA and GCC regions. He was previously attached to Merrill Lynch Bank Suisse as the financial adviser of its wealth management department.

EGYPTIAN SAUDI FINANCE BANK — Egypt

Adnan Ahmed Yousif has been named chairman of Egyptian Saudi Finance Bank's board of directors, succeeding Mahmoud Jameel Hassoubah who has completed his term.

Adnan has served as vice chairman of the board for a number of years. He is currently Albaraka Banking Group's president and CEO.

LEHMAN BROTHERS — US

Herbert McDade succeeded Joseph Gregory as the investment bank's president and CEO last week, as part of Lehman's bid to rebuild the public's confidence in its credibility.

Chief executive Richard Fuld, who made the decision, also removed Erin Callan from her post as the bank's CFO and appointed Ian Lowitt in her place.

HONG KONG EXCHANGE & CLEARING — Hong Kong

John Williamson is Hong Kong Exchange & Clearing's new independent non-executive director, succeeding David Webb who resigned in May.

He is currently the managing director and chief financial officer of Search Investment Group. Previously he was the managing director at Morgan Stanley Dean Witter Asia.

AHLI UNITED BANK — Bahrain

Sawsan Abulhassan has been appointed deputy group CEO of Ahli United Bank's (AUB) private banking and wealth management division. She will be responsible for its operations in Bahrain, Kuwait, United Kingdom, Qatar, Oman, Iraq and Egypt.

Abulhassan has more than 16 years experience in the industry and was attached to several international banks. She joined AUB in 2001 and was the group head of private banking for the Gulf region.

FALCON TRADE CORPORATION — Brazil/Turkey

Falcon Trade Corporation has made two appointments for its offices in Sao Paulo and Istanbul.

Daniel Issa will manage the origination and structuring of trade finance solutions in Brazil. He has extensive experience in commodities trading and was the head of origination and finance at Sertrading, a trading company in Brazil. Gamze Sarioglu will be managing Falcon's Turkey office. She was a trade finance manager at a Turkish bank, Yapi ve Kredi Bankasi.

SAFAT GLOBAL HOLDING — Kuwait

Issam Qassim Obill has been named the new CEO of Kuwaiti property investment company Safat Global Holding.

MINISTRY FINANCE — Indonesia

Sri Mulyani Indrawati was appointed coordinating minister for the economy, succeeding Boediono who is now the head of the Indonesian central bank. She will remain in her post as the country's finance minister.

MORGAN STANLEY — UAE

Michael Samaha has been named as Morgan Stanley Investment Management's (MSIM) new co-head of Middle East and North Africa sales and business development. He will be based at the Dubai International Financial Centre, where the office is located.

Samaha will be working closely with Morgan Stanley Saudi Arabia in building MSIM's distribution capabilities locally and develop a joint venture with the National Bank of Kuwait.

JOHN CHARCOL DUBAI — UAE

The mortgage service provider has appointed Chris Dommett as its new CEO. He joined the company from Emirates NBD, where he served most recently as the head of retail credit.

KURNIA INSURANS — Malaysia

The insurance company has appointed K H Chia as its managing director and CEO. He was previously attached to Citic-Prudential in China. His appointment will take effect on the 1st July.

BNP PARIBAS — US

Adam Brodnicki and Andrew Miller are the new directors in the New York fixed income team. Both from Bear Stearns, they will cover institutional and hedge fund clients from across BNP Paribas' global platform.

Deal *tracker*

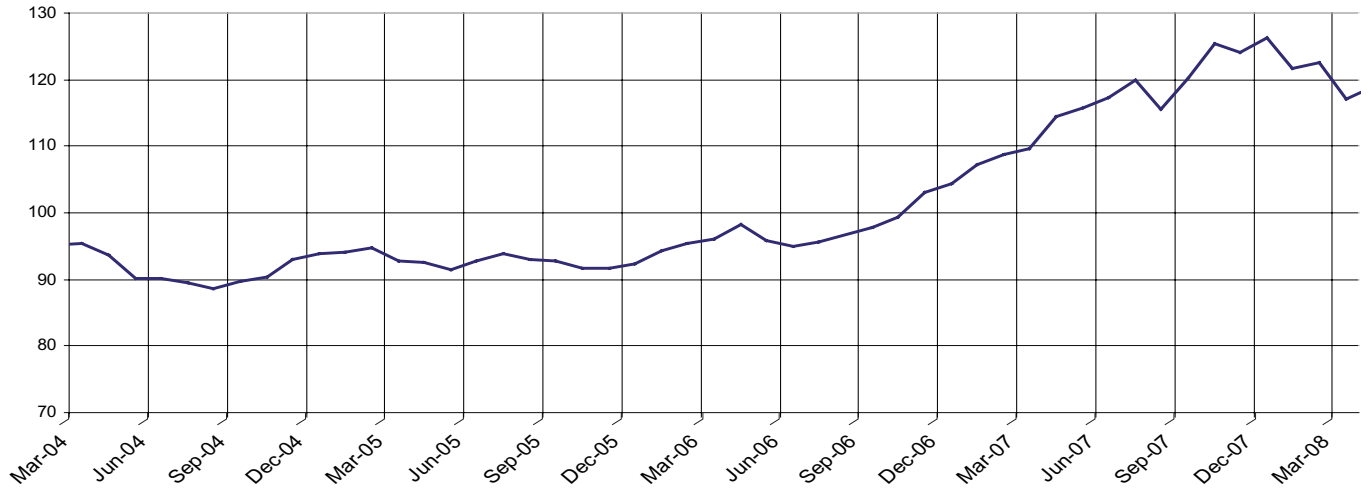
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
Bumiputra-Commerce Holdings	US$1.84 billion	Islamic and conventional CP/MTN program
Islamic Bank of Thailand	US$178.77	Ijarah
ETA Star Property Developers	Up to US$150	Sukuk
Abu Dhabi Commercial Bank	US$1.07 billion	Islamic MTN
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
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	TBA	Sukuk

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

Eurekahedge Asia Pacific Islamic Fund Index



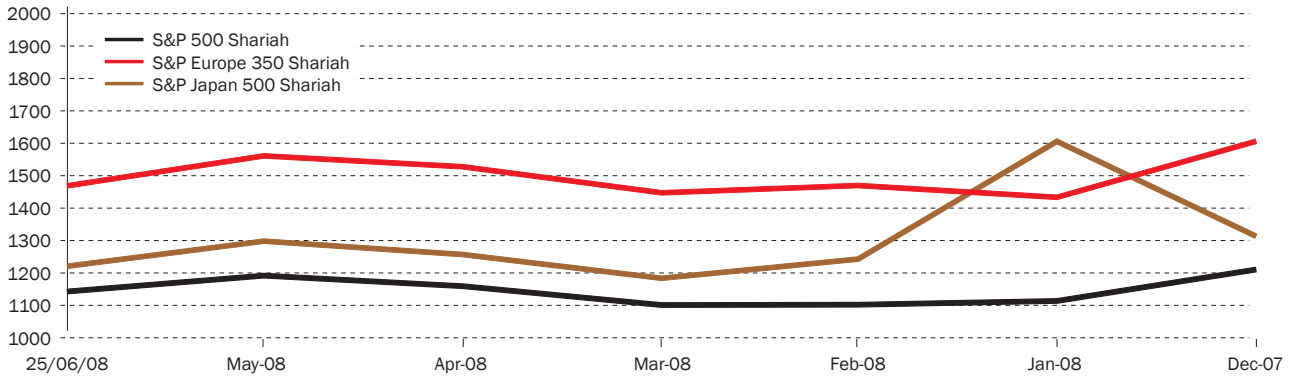
Monthly returns for Developed Markets funds (as of the 25th June 2008)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Alfanar Europe	TT International	8.74	British Virgin Islands
2	AlAhli Islamic Europe Equitybuilder Certificates	The National Commercial Bank	8.22	Germany
3	Islamic Ijara Fund IV	Wafra Capital Partners L.P.	7.61	Kuwait
4	Azzad Ethical Mid Cap Fund	Azzad Asset Management Inc.	7.47	US
5	Yosr Europe Equity Fund	Saudi Hollandi Bank	7.46	Saudi Arabia
6	AlAhli Europe Trading Equity Fund	The National Commercial Bank	6.14	Saudi Arabia
7	AlAhli Islamic US Equitybuilder Certificates	The National Commercial Bank	5.97	Germany
8	AlAhli US Trading Equity Fund	The National Commercial Bank	5.95	Saudi Arabia
9	The Iman Fund	Allied Asset Advisors, Inc.	5.94	US
10	Noor Islamic US Equity Large Cap Fund	Noor Financial Investment Company	5.88	Kuwait
	Eurekahedge Developed Markets Islamic Fund Index*		***5.21***	

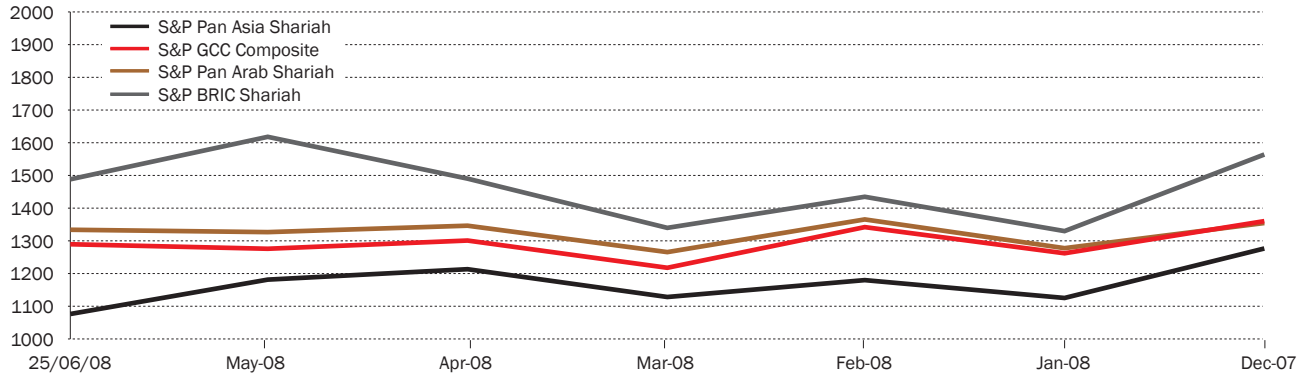
Monthly returns for Emerging Markets funds (as of the 25th June 2008)

	FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1	Al Sanabil Fund (A)	Global Investment House	22.21	Qatar
2	Al-Beit Al-Mali Fund	Qatar National Bank	21.64	Qatar
3	Jadwa Saudi Equity Fund	Jadwa Investment	13.90	Saudi Arabia
4	FALCOM Saudi Equity Fund	FALCOM Financial Services	13.18	Saudi Arabia
5	Jadwa GCC Equity Fund	Jadwa Investment	12.37	Saudi Arabia
6	Al Qasr GCC Real Estate & Construction Equity Trading Fund	Banque Saudi Fransi	11.76	Saudi Arabia
7	Al Rajhi India & China Equity Fund	Al Rajhi Bank	11.37	Saudi Arabia
8	Global GCC Islamic Fund	Global Investment House	11.34	Bahrain
9	Jadwa Arab Markets Equity Fund	Jadwa Investment	11.14	Saudi Arabia
10	DWS Noor China Equity Fund - Class A	DWS Noor Islamic Funds Plc	10.74	Ireland
	Eurekahedge Emerging Markets Islamic Fund Index*		***2.54***	

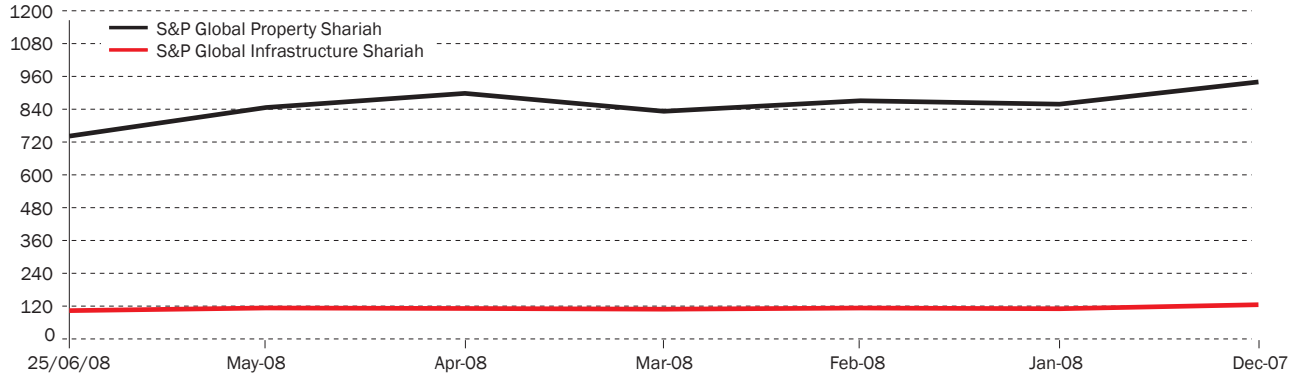
S&P Shariah Indices Price Index Levels



Index Code	Index Name	25/06/08	May-08	Apr-08	Mar-08	Feb-08	Jan-08	Dec-07
SPSHX	S&P 500 Shariah	1142.781	1191.671	1159.136	1101.027	1102.059	1113.559	1210.401
SPSHEU	S&P Europe 350 Shariah	1468.964	1561.127	1527.614	1447.319	1469.692	1433.38	1605.956
SPSHJU	S&P Japan 500 Shariah	1220.824	1298.106	1256.791	1183.592	1242.786	1245.302	1313.474



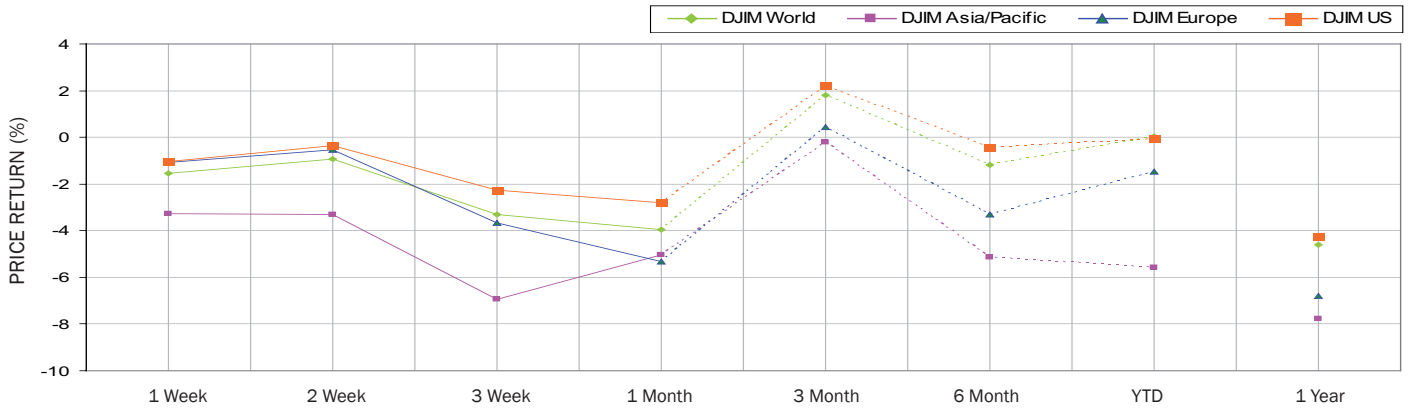
Index Code	Index Name	25/06/08	May-08	Apr-08	Mar-08	Feb-08	Jan-08	Dec-07
SPSHAS	S&P Pan Asia Shariah	1076.303	1181.396	1213.284	1128.294	1179.878	1125.301	1276.625
SPSHG	S&P GCC Composite Shariah	1289.582	1275.791	1300.94	1217.617	1341.97	1261.967	1360.276
SPSHPA	S&P Pan Arab Shariah	1333.886	1326.664	1346.319	1265.531	1365.488	1277.606	1354.519
SPSHBR	S&P BRIC Shariah	1488.181	1618.083	1490.222	1339.677	1434.744	1329.801	1564.039



Index Code	Index Name	25/06/08	May-08	Apr-08	Mar-08	Feb-08	Jan-08	Dec-07
SPSHGU	S&P Global Property Shariah	741.253	846.205	897.914	832.467	870.938	858.447	939.792
SPSHIF	S&P Global Infrastructure Shariah	106.498	113.133	111.336	108.755	112.966	110.419	125.143

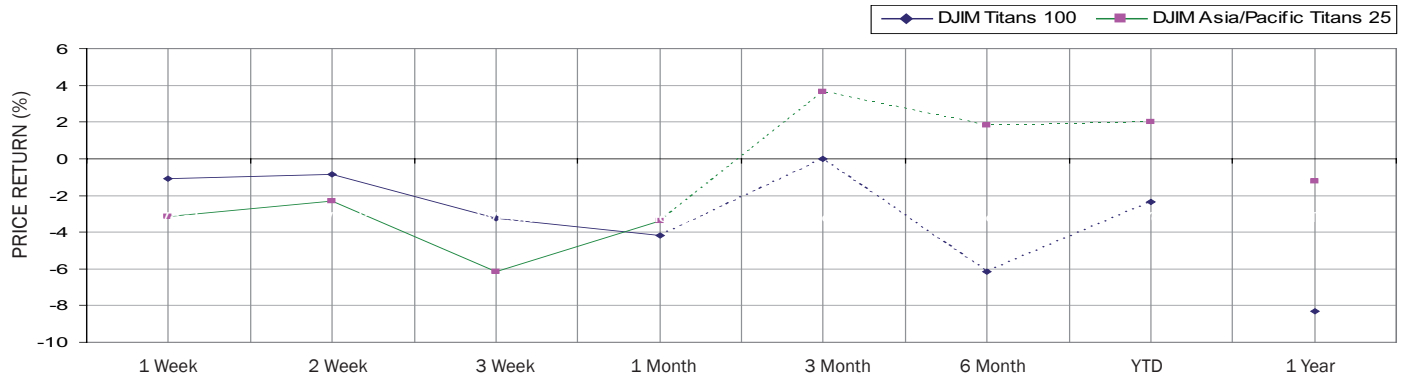
Data as of the 25th June 2008

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-1.54	-0.93	-3.31	-3.95	1.82	-1.19	0.05	-4.6
DJIM Asia/Pacific	-3.28	-3.29	-6.93	-5.02	-0.22	-5.14	-5.57	-7.76
DJIM Europe	-1.07	-0.53	-3.68	-5.31	0.42	-3.29	-1.47	-6.78
DJIM US	-1.03	-0.35	-2.27	-2.82	2.2	-0.44	-0.06	-4.23

PERFORMANCE OF DJ TITANS INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	-1.08	-0.83	-3.24	-4.18	-0.01	-6.16	-2.35	-8.33
DJIM Asia/Pacific Titans 25	-3.17	-2.29	-6.13	-3.4	3.67	1.84	1.99	-1.24

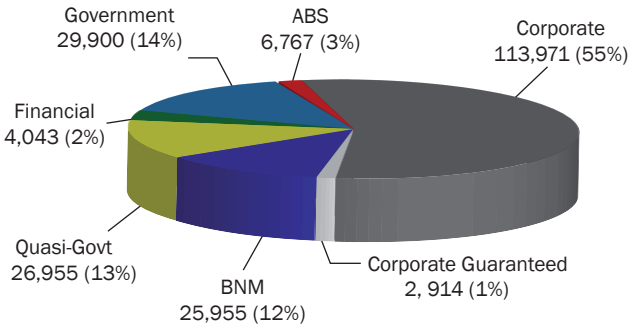
DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2408	18819.55	15207.24	6.32	1.22	471.46	0.02	3.1	0
DJIM Asia/Pacific	1085	3626.28	2405.71	2.22	0.5	140.05	0.02	5.82	0
DJIM Europe	336	4793.46	3581.2	10.66	2.5	212.64	0.29	5.94	0.01
DJIM US	639	8438.33	7932.21	12.41	3.19	471.46	0.2	5.94	0
DJIM Titans 100	100	8532.44	7532.31	75.32	54.14	459	14.49	6.09	0.19
DJIM Asia/Pacific Titans 25	25	1287.95	824.48	32.98	25.06	83.3	14.49	10.1	1.76

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

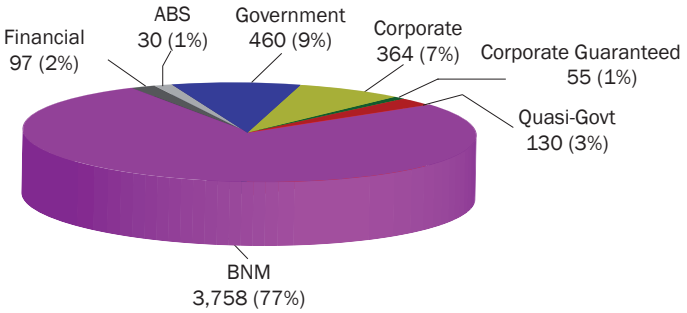
RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT AS AT 25th JUNE 2008
MOST ACTIVE BONDS TRADED BETWEEN 19th JUNE and 25th JUNE 2008

Stock Name	Last Traded Price	Last Traded Yield	Total Volume Traded Last 7	% w-o-w Price Change	Last Week Closing Price
BNMN-IDB 29/2008 182D 23.10.2008	98.84	3.52	900		
BNMN-IDB 47/2008 91D 23.09.2008	99.15	3.49	900		
BNMN-IDB 45/2008 42D 31.07.2008	99.67	3.48	430.58		
BNMN-IDB 44/2008 182D 16.12.2008	98.35	3.47	345		
PROFIT-BASED GII 2/2008 30.06.2011		4.37	340		
BNMN-IDB 46/2008 63D 21.08.2008	99.44	3.44	310		
BNMN-IDB 32/2008 91D 07.08.2008	99.57	3.46	190		
BNMN-IDB 34/2008 182D 13.11.2008	98.67	3.47	150		
BNMN-IDB 14/2008 182D 28.08.2008	99.42	3.4	142.8		
PRASARANA 0% 30.05.2018 - Series 2	96.63	4.83	125	-0.24	96.86
MAYBANK 0% 24.11.2015	99.5	0.07	90	-0.2	99.7
BNMN-IDB 31/2008 273D 05.02.2009	97.85	3.47	75		
BNMN-IDB 65/2007 273D 21.08.2008	99.44	3.47	75		
RANTAU IMTN 0% 15.03.2012 - MTN 3	97.97	4.7	65	0.11	97.86
BNMN-IDB 30/2008 90D 31.07.2008	99.65	3.5	60		

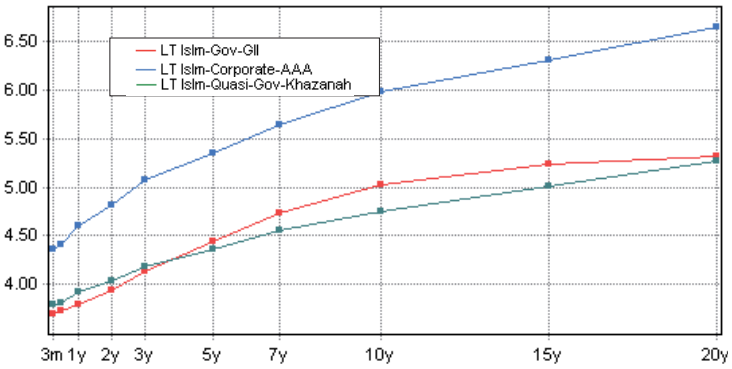
Outstanding Bond by Issuer Class as at 25th June 2008 (RM'000)



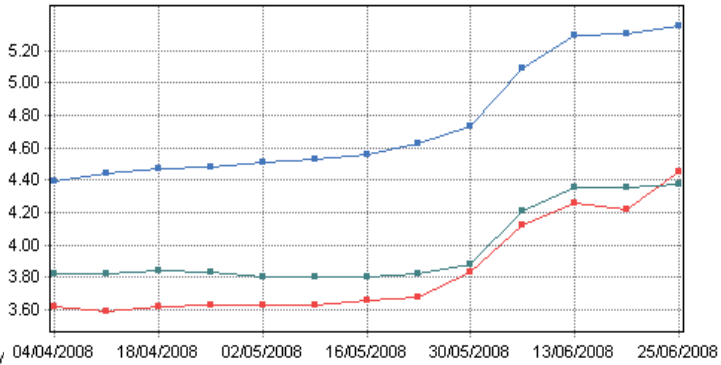
Bond Traded Amount by Issuer Class as at 25th June 2008 (RM'000)



YTM Curves as at 25th 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	14.2	CIMB, RHB Investment, Aseambankers, ABN AMRO, AmInvestment, OCBC Bank (Malaysia)
2	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	3,466	2	10.9	Calyon, HSBC Saudi Arabia
3	Jafz Sukuk	UAE	Sukuk Musharakah	2,043	1	6.4	Barclays Capital, Deutsche Bank (London), Dubai Islamic Bank, Lehman Brothers International (Europe)
4	Malaysia	Malaysia	Islamic Sukuk	1,628	2	5.1	Malaysia Government bond
5	Saudi Electricity	UAE	Islamic Sukuk	1,333	1	4.2	HSBC Saudi Arabia
6	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	1,163	11	3.7	CIMB
7	Sukuk Funding (No.2)	UAE	Sukuk Ijarah	1,021	1	3.2	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, Noor Islamic Bank
8	Dana Gas Sukuk	UAE	Sukuk Mudarabah	1,000	1	3.2	JPMorgan
9	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Ijarah	1,000	1	3.2	ABS Islamic Bond, Arab National Bank, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank (UK) , Kuwait Finance House, Unicorn Investment Bank
10	Nakheel Development 3	UAE	Sukuk Ijarah	980	1	3.1	Dubai Islamic Bank, NBD Investment Bank, JPMorgan
11	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	2.7	Deutsche Bank (Malaysia), JPMorgan, CIMB
12	Nakheel Development 2	UAE	Sukuk Ijarah	750	2	2.4	JPMorgan
13	DEWA Funding	UAE	Sukuk Ijarah	749	1	2.4	Barclays Capital, Citigroup Global Markets, Dubai Islamic Bank, Emirates Bank International
14	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	616	3	1.9	CIMB, AmInvestment
15	Khazanah Nasional	Malaysia	Exchangeable Sukuk	550	1	1.7	CIMB, Deutsche Bank, UBS
16	Cagamas	Malaysia	Sukuk Murabahah	547	5	1.7	HSBC, CIMB, Aseambankers Malaysia
17	National Bank of Abu Dhabi	UAE	Exchangeable Sukuk	545	1	1.7	Morgan Stanley, Credit Suisse
18	NIG Sukuk	Kuwait	Sukuk Mudarabah	475	1	1.5	BNP Paribas, Citigroup Global Markets, National Bank of Kuwait, Standard Chartered, WestLB
19	Tabreed 08 Financing	UAE	Convertible Sukuk Istisnah & Ijarah	463	1	1.5	Morgan Stanley
20	National Central Cooling (Tabreed)	UAE	Exchangeable Sukuk	463	1	1.5	Morgan Stanley
	Total			**31,672**	**316**	**100.0**	

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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	15.1	Calyon, HSBC Saudi Arabia
2	Sukuk Funding (No.2)	UAE	Sukuk Ijarah	1,021	1	11.6	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, Noor Islamic Bank
3	Nakheel Development 3	UAE	Sukuk Ijarah	980	1	11.1	Dubai Islamic Bank, NBD Investment Bank, JPMorgan
4	DEWA Funding	UAE	Sukuk Ijarah	749	1	8.5	Barclays Capital, Citigroup Global Markets, Dubai Islamic Bank, Emirates Bank International
5	Malaysia	Malaysia	Islamic Sukuk	627	1	7.1	Malaysia Government
6	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	616	3	7.0	CIMB, AmInvestment
7	Tabreed 08 Financing	UAE	Istisna & Ijarah exchangeable Sukuk	463	1	5.3	Morgan Stanley
8	National Central Cooling (Tabreed)	UAE	Convertible Sukuk	463	1	5.2	Morgan Stanley
9	Lingkaran Trans Kota	Malaysia	Musyarakah MTN	457	13	5.2	Aseambankers
10	MRCB Southern Link	Malaysia	Sukuk Istisnah	320	20	3.6	HSBC, CIMB
11	Rak Capital	UAE	Sukuk Ijarah	272	1	3.1	Standard Chartered
12	PLUS SPV Bhd	Malaysia	Musyarakah MTN	234	7	2.7	CIMB
13	Villamar Sukuk	Bahrain	Sukuk Musharakah	190	1	2.2	Al-Rajhi Banking & Investment, Merrill Lynch International
14	Almana Sukuk	Qatar	Mudarabah Sukuk	163	1	1.9	Gulf International Bank
15	Aras Sejagat	Malaysia	Ijarah Islamic bond	133	1	1.5	Bank Islam Malaysia, Kuwait Finance House (Malaysia)
16	Bumiputra-Commerce	Malaysia	Sukuk Murabahah	110	1	1.2	CIMB
17	Cagamas	Malaysia	Sukuk Murabahah	96	2	1.1	HSBC, CIMB, Aseambankers
18	Projek Lebuhraya Utara Selatan	Malaysia	Musharakah MTN	96	1	1.1	CIMB
19	Gamuda	Malaysia	Sukuk Musharakah/ Murabahah Notes	92	1	1.0	CIMB
20	Tanjung Langsat Port	Malaysia	Sukuk Musharakah	78	6	0.9	MIDF Amanah Investment
	Total			**8,817**	**101**	**100.0**	

ISLAMIC BONDS			JUNE 2007 – JUNE 2008	
	Manager or Group	Amt US$ m	Iss.	%
1	CIMB	4,527	79	14.3
2	HSBC	4,004	40	12.6
3	JPMorgan	2,360	5	7.5
4	Malaysia Government bond	1,628	2	5.1
5	Aseambankers	1,496	39	4.7
6	Dubai Islamic Bank	1,356	7	4.3
7	Morgan Stanley	1,308	7	4.1
8	AmInvestment	1,236	42	3.9
9	Barclays Capital	1,126	4	3.6
10	Deutsche Bank	1,120	4	3.5
11	Riyad Bank	1,066	1	3.4
12	Calyon	1,016	2	3.2
13	RHB Capital	939	78	3.0
14	Oversea-Chinese Banking	683	16	2.2
15	Emirates NBD	677	4	2.1
16	Standard Chartered	657	31	2.1
17	Lehman Brothers	638	2	2.0
18	ABN AMRO	620	8	2.0
19	Citi	590	10	1.9
20	Credit Suisse	508	3	1.6
	Total	**31,672**	**316**	**100.0**

ISLAMIC BONDS			MARCH 2008 – JUNE 2008	
	Manager or Group	Amt US$ m	Iss.	%
1	CIMB	942	34	10.7
2	Morgan Stanley	926	2	10.5
3	HSBC	783	21	8.9
4	Calyon	666	1	7.6
5	Dubai Islamic Bank	642	3	7.3
6	Malaysia Government bond	627	1	7.1
7	Emirates NBD	568	3	6.4
8	Aseambankers	568	17	6.4
9	AmInvestment	383	15	4.3
10	JP Morgan	327	1	3.7
11	Barclays Capital	315	2	3.6
12	Citi	187	1	2.1
13	Gulf International Bank	163	1	1.9
14	Abu Dhabi Commercial Bank	128	1	1.4
15	Credit Suisse	128	1	1.4
16	First Gulf Bank	128	1	1.4
17	Lehman Brothers	128	1	1.4
18	National Bank of Abu Dhabi	128	1	1.4
19	Noor Islamic Bank	128	1	1.4
20	Malaysian Industrial Development Finance	108	15	1.2
	Total	**8,817**	**101**	**100.0**

ISLAMIC BONDS BY COUNTRY		JUNE 2007 – JUNE 2008	
	Amt US$ m	Iss.	%
Malaysia	14,041	262	44.3
UAE	8,858	16	28.0
Saudi Arabia	5,799	4	18.3
Pakistan	702	19	2.2
Bahrain	550	2	1.7
Kuwait	475	1	1.5
Total	31,672	**312**	**100.0**

ISLAMIC BONDS BY COUNTRY		MARCH 2008 – JUNE 2008	
	Amt US$ m	Iss.	%
UAE	3,676	5	41.7
Malaysia	3,079	86	34.9
Saudi Arabia	1,333	1	15.1
Total	8,817	101	**100.0**

ISLAMIC BONDS BY CURRENCY		JUNE 2007 – JUNE 2008	
	Amt US$ m	Iss.	%
Malaysian ringgit	12,641	260	39.9
Emirati Dirham	6,698	9	21.1
US dollar	6,648	18	21.0
Saudi Arabian Riyal	4,799	3	15.2
Total	31,672	316	100.0

ISLAMIC BONDS BY CURRENCY		MARCH 2008 – JUNE 2008	
	Amt US$ m	Iss.	%
Emirati Dirham	4,111	7	47.6
Malaysian ringgit	2,843	78	32.9
Saudi Arabian Riyal	1,333	1	15.4
Total	8,817	941	**100.0**

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DATE	EVENT	VENUE	ORGANIZER
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			
7th - 8th	Islamic Finance Congress	London	IIR Conference
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
2nd - 4th	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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