Islamic Finance news
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When talk is profitable

Networking and catching up with the goings on around the world was the order of the day this week when some 1,200 issuers, investors and financial intermediaries actively involved in the Islamic finance industry congregated in Kuala Lumpur for this year's MIF Issuers and Investors Forum.

The three-day event provided enough fuel for thought to take one's mind off the continuing financial mess the conventional banking industry is suffering.

Dr Zeti Akhtar Aziz, Chairman MIFC Executive Committee and Central Bank Governor of Malaysia, presented the opening address and then presided over the official launch of the Malaysia International Islamic Financial Centre (MIFC) global communications campaign, which will see Malaysia market itself as global center for everything that is Islamic finance.

Sovereign wealth funds are being increasingly regarded as "Sudden" wealth funds as envy and apprehension become the backdrop when SWFs, especially from Islamic states, come in as white knights for distressed corporate giants or to fund major acquisitions, especially in the West.

Now that more SWF managers are becoming conscious of the necessity for their actions to be Shariah compliant, Islamic finance is turning out to be a major factor. And the indications are that it will develop from being a factor to a driver. This will be abetted by the fact that many multinational financial service providers are also becoming more active in Islamic finance. The challenge for SWFs is how to best exploit their current good fortune to be better prepared when circumstances turn less favorable and the going gets tough. A market report this week covers all the bases on this issue.

Syndications of Shariah compliant financing is emerging as a growth activity as demand is driving more players to venture into it. Using petrodollars to fund major infrastructure and other projects around the world is the apparent catalyst.

There is also evidence of the expanding similarities between the instruments and products of conventional and Islamic finance. In fact such a convergence is being seen in Islamic syndicated deals as conventional banks move into the picture.

As a sector report this week puts it, while "jumbo" loan transactions can make the headlines, the fact that a deal is Islamically structured or that a noteworthy corporation has taken Shariah compliant financing is often newsworthy in itself.

A string of zeros after the deal adds to the profile. For corporations looking to widen their investor base, there are tangible and intangible reasons to take a very close look at Islamic finance, it says.

Another sector report considers the past, present and future of syndicated finance as it gathers momentum in Islamic finance at a time when fund raising involves increasingly huge amounts. It also mentions how conventional banks have played a major role in the development of the industry, with many of them setting up Islamic windows.

Today, Islamically structured deals are able to compete alongside conventional deals on both pricing and tenors. Many of the structures that are being used have become template structures and are widely accepted in the syndicated Islamic market. It is quite common to see large transactions include dual tranches for both Islamic and conventional structures.

In this issue

ALGERIA

HSBC sets foot in northern Africa

HSBC opened its full-service bank, HSBC Algeria, a fortnight ago. It will offer a full range of commercial and corporate products, as well as services to individual customers.

HSBC considers Algeria to be one of the most dynamic economies in Africa. Last year, the country's real GDP growth was over 4.5%, and is expected to increase to 5% this year.

The country has an encouraging macroeconomic performance, and could offer one of the best growth opportunities in the region, said Rachid Sekak, CEO of HSBC Algeria.

MALAYSIA

CMH project may get positive response

The Commodity Murabahah House (CMH) project, a spot commodity market that will use crude palm oil as its underlying commodity to facilitate Islamic financing based on the Murabahah concept, is projected to be launched by the first quarter of next year.

Bursa Malaysia's head of product development of Islamic capital market, Norfadelizan Abdul Rahman expressed his confidence that the project will receive 'very positive' response. He added although the initial response might be slow, but it would pick up once people got accustomed to 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. Norfadelizan said that commodities such as metal may be included in the future, and that the bourse has received international enquiries to participate in Murabahah transactions.

UAE

FGB opens Dubai branch

First Gulf Bank (FGB) has opened a branch in Deira, Dubai. Huda Abdulla, senior vice president and head of branches, said that the opening symbolizes the bank's continued community presence. It also marks its focus on delivering convenience to customers, and makes access to its services and products easier, she added.

FGB was established in 1979, and is one of the leading banks in UAE.

SYRIA

SIIB brokerage has preliminary approval

The Syrian International Islamic Bank (SIIB) has received initial approval from the Syrian Commission on Financial Markets & Securities to set up a brokerage and financial consultancy unit in the country, said the regulator in a statement. The ministry of economy needs to give the final approval for SIIB to obtain the license, it added.

SIIB owns a 51% stake in the new Islamic Brokerage and Financial Services, revealed the regulator. Forty percent of the stake is held by Syrian investors, while Qatar's Islamic Financial Securities has 4%. The commission did not provide details on the holder of the remaining 5% of the stake.

SIIB is an affiliate of Qatar International Islamic Bank.

BAHRAIN

Higher profit for Ithmaar

Ithmaar Bank has revealed a 115% increase in its half-year profit, to US$142 million from US$66 million reported in the previous corresponding period. Operating profit almost doubled from US$71.1 million to US$139 million, while its funds under management went up by 29% to US$2.2 billion.

The bank attributed the profit increase to strong earnings from investment and fees as well as commissions. The Islamic investment bank also reported that income from investment stood at US$139 million, from financing at US$91 million, and fees and commissions earned the bank US$28.8 million.

INDONESIA

Launch of Rupiah Sukuk today

The Indonesian finance ministry is slated to launch IDR5 trillion (US$545 million) worth of Islamic bonds on Friday, the 15th August, said its treasury director-general, Rahmat Waluyanto. The government had not set a target return for the Sukuk, he added, but would use conventional bonds with the same maturity as a proxy to set the return on the issuance.

The book-building and offering period for the Sukuk will be between the 15th and 21st August, while the securities are to be listed on the 27th August.

Mandiri Sekuritas, Trimegah Sekuritas and Danareksa Sekuritas were the appointed selling agents for the domestic offering. The country is planning a US dollar-denominated Sukuk in November.

MIF2008 Issuers & Investors Forum

At the MIF 2008 Issuers and Investors Forum in Kuala Lumpur this week

MIFC launches campaign

The Malaysia International Islamic Financial Center (MIFC) has launched its global communications campaign. It is meant to capture key value propositions and aspirations of the MIFC initiative and targets industries in the economic sectors as well as professionals and practitioners interested in the Islamic financial services industry.

Zeti Akhtar Aziz (*pic*), chairman of the MIFC executive committee and governor of Bank Negara Malaysia, who launched the campaign together with Securities Commission chairman Zarinah Anwar, said Malaysia's status as the Islamic financial hub was built on the foundation of a comprehensive and progressive Islamic financial system developed over the past 30 years.

Despite the challenging international financial condition due to the financial crisis, Zeti felt that the Sukuk market has not been as badly affected. She noted that last year, the global Sukuk market grew by 70% and was sure that it will continue to grow with the recognition of Sukuk as a competitive and attractive form of financing.

Hong Kong can contribute to the sector

Hong Kong has the strength and capabilities to develop its Islamic finance sector and contribute to global Islamic finance market, said Martin Wheatley, CEO of Securities & Futures Commission. He touted the city as having an open market economy, world-class infrastructure and a high degree of transparency in its policies and regulations that provide market players the level playing field needed for growth.

Islamic banks in UK to double to 10

Gatehouse Bank is studying three Islamic banking deals worth US$500 million which includes real estate and exchange-traded funds, said Samer Merhi, executive director for institutional wealth management structuring and origination.

Merhi said the deals are still under consideration and hopes to conclude at least one deal by the end of this year. He also said the number of Islamic banks in UK is expected to double within the next five years due to the high level of demand as well as the interest to make UK as the international hub of Islamic finance.

Industry needs tighter regulations

The Islamic finance industry needs stricter regulations to avoid problems affecting the conventional global financial market such as the sub-prime crisis, said Michael Zamorski, managing director of the Dubai Financial Services Authority. The industry also needs to ensure that it has sufficient human capital and infrastructure to ensure that the activities are conducted in a practical manner. Zamorski added that some of the challenges facing the industry are the lack of Shariah scholars and the global uniformity when it comes to Shariah compliant standards.

SC to issue more licenses

Malaysia will issue more licenses for Islamic fund management companies before the end of the year and next year to continuously internationalize the industry, said Securities Commission (SC) chairman Zarinah Anwar. The regulator, she added, has already approved three licenses and is currently processing more applications from Europe, the US, the Asia-Pacific and the Middle East.

Zarinah stressed that there will be no cap on the number of the companies licensed so as to encourage more fund management companies, especially the bigger ones, to come to Malaysia. New foreign players, she added, are expected to complement the offerings of existing ones, creating a more diverse choice for local and foreign investors.

UAE

New Abu Dhabi office for law firm

Clifford Chance has opened a new office in Abu Dhabi with three partners and eight associates in the finance, real estate, capital markets and corporate teams. It will be headed by Richard Ernest, accompanied by Peter Deegan and Chris Walsh.

Graham Lovett, the law firm's managing partner for the Gulf region, said the new office aimed to provide a full service similar to its office in Dubai. The Abu Dhabi office, he added, will have 20 to 30 lawyers within the next three years.

MALAYSIA

MAA launches Islamic product

Malaysian Assurance Alliance (MAA) has launched Master Capital Guaranteed Plan Swing 6, a Shariah compliant structured investment product that offers capital guarantee at the end of the fourth policy year, and returns higher than fixed deposit rates. The product has three main focuses — China and Hong Kong, mining and steel, as well as oil and gas — and will be invested in two stocks.

The product is targeted at fixed depositors and those who are hoping to make some higher returns in the current economic conditions, said Y C Chan, MAA's vice president for life business development services division. He added that the company is expecting to rake in at least RM50 million (US$15 million) in gross premiums within the first two months after its launch. The premium starts at a minimum of RM10,000 (US$3,012).

Policyholders have a choice to withdraw the capital guaranteed benefit on the fourth policy year and terminate it, or maintain the policy by switching the benefit to other investment-linked funds from MAA.

US

Demand may strengthen Sukuk potential

The potential of Sukuk is expected to be strengthened due to the strong demand from Muslim and non-Muslim countries despite the global credit crisis, according to a study by the International Monetary Fund (IMF). It added that the growing market of Islamic securities reflected the need for Shariah compliant long-term funding instruments.

The report, titled "Islamic Bond Issuance — What Sovereign Debt Managers Need to Know", said that Sukuk is gaining the most popularity out of all Islamic capital market securities, and that the Islamic finance industry has grown by 15% on average over the past three years due to an abundance of investment products fueled by the increasing demand for Shariah compliant investments.

It also noted that the limited tradability and bespoke nature of Sukuk will likely constrain the liquidity of the secondary market, which may result in higher yield at issue. It found that continued efforts are necessary in overcoming economic, legal and regulatory issues.

UK

Lower revenue for Shariah Capital

Shariah Capital is closer to becoming a leader in the Islamic finance market, despite reporting lower revenues for the first half of 2008, from US$180,000 in the same period of last year to US$87,500 this year. Net losses also increased to US$1.8 million from US$1.4 million.

Last year, the financial products supplier had decided to focus on long-term income generation rather than short-term advisory engagement. Shariah Capital is also entering the final stages of developing Al Safi, its hedge fund platform.

KUWAIT

GIH closes Ijarah fund

Global Investment House (GIH) has closed its Global MENA Ijarah Real Estate Fund, a closed-ended Shariah compliant fund. It was launched in July last year with the aim of providing unit holders with 8% to 10% current income annually on its invested capital contributions.

GIH has identified two prospective investment opportunities, said Rakesh Patnaik, head of real estate funds. One is a financing project for a UAE real estate developer for the acquisition and development of a parcel of land in the Palm Jebel Ali project in Dubai, which will be Musharakah-structured. The financing is expected to cost US$15 million for a 30-month period, he said.

The other opportunity is in Kuwait and involves the acquisition of two real estate income-producing residential properties, added Patnaik. It will be a sale and leaseback structure. He said that due diligence had recently been completed and that the investments would be finalized soon.

UAE

Aldar-Cebarco JV for Yas Island

Aldar Properties has signed a memorandum of understanding (MoU) with Cebarco Bahrain, a construction company and member of the KAR group of companies. Under the MoU, both parties will form a joint venture that will undertake the construction of various projects on Yas Island, including the Warner Bros Theme Park, the Yas Island Water Park, Royal Yas Marina racing circuit, several hotels and other support facilities.

Spanning 2,500 hectares, the development looks set to become a cornerstone of Abu Dhabi's fast-growing tourism industry.

QATAR

QNB Al Islami reveals Tawlia

The Shariah compliant branch of Qatar National Bank (QNB), QNB Al Islami, has launched a promotion for its new salary account, Tawlia, which will run until the 25th September 2008.

Tawlia is based on an Islamic finance formula, which involves the sale of a commodity or service to customers at its purchase or cost price. Customers can benefit from financing up to twice their salary, to a maximum of QAR50,000 (US$13,740) which can be repaid in 12 installments with no profit.

The product is available to new customers applying for a salaried account at QNB Al Islami during the promotion period.

UAE

Tamweel plans Islamic loans

The largest mortgage provider in the country plans to raise up to US$500 million through Islamic asset-backed loans which will be used to fund new business, said Gaurav Agarwal, Tamweel's chief financial officer.

The company is now in discussions with several international banks, he added, without revealing the name of the banks.

UAE

ICD seeks expansion loan

Investment Corporation of Dubai (ICD) is looking to borrow money to help finance its expansion. It will include two Islamic tranches of US$1.5 billion to US$2 billion.

Noor Islamic Bank, Dubai Islamic Bank and Standard Chartered are among the bookrunners for the Shariah compliant tranches, while arranging for ICD's conventional loan are Royal Bank of Scotland, Barclays Capital, Citigroup and HSBC.

GULF

Governments take control in IFIs

Governments within the Gulf Arab region may boost their stakes in Islamic financial firms to gain more control over the industry due to increasing demand for Islamic investments and financial services, said Moody's Investors Service. It reported that governments do not want to see the Shariah compliant banking industry dominated by the private sector, besides easing the perception that these financial institutions were not completely Islamic.

The UAE, Qatari and Saudi Arabian governments have all set up Islamic banks to retain an ethical image. Dubai opened Noor Islamic Bank last year, in which the government and the emirate's ruler own a 50% stake each, while Abu Dhabi started with Al Hilal Bank. The emirate of Ajman has Ajman Bank, while the Saudi and Qatari governments have Alinma Bank and Masraf Al Rayan, respectively.

MALAYSIA

RBS Islamic unit in the offing

The Royal Bank of Scotland (formerly ABN AMRO Bank) is planning an Islamic subsidiary to tap into the growth of Islamic banks in Malaysia. The necessary applications will be made in due course, said country head and managing director Harry Naysmith.

RBS already has the approval of Bank Negara Malaysia to undertake Islamic banking products via an Islamic window. Naysmith expressed confidence in the growth potential of Islamic banking in Malaysia in view of the central bank's goal for Islamic banking to make up 20% of total banking assets by 2010, which currently stands at 12%.

BAHRAIN

Ithmaar now BBK's major shareholder

Ithmaar Bank has acquired 25.4% of Bank of Bahrain and Kuwait (BBK), becoming the bank's largest shareholder. The Bahraini bank bought 7.75 million shares worth BHD5.5 million (US$14.6 million).

Kuwait-based Global Investment House (GIH) also acquired 7.72 million shares in BBK, amounting to BHD5.48 million (US$14.5 million). The two transactions were part of an agreement between Ithmaar and GIH to balance their shareholding stakes in BBK.

SAUDI ARABIA

Morgan Stanley fund gets the nod

Saudi Arabia's Capital Market Authority (CMA) has given Morgan Stanley the approval to set up a fund that invests in Saudi equities, said the regulator.

The approval is in line with CMA's plan to attract more foreign investors to the kingdom's bourse, and to develop its financial markets. It had said in December last year that foreign money would gradually be allowed in Saudi through licensed firms.

Last month, CMA revealed its plan to name investors with a stake of 5% or more in listed firms beginning the 16th August this year to improve transparency.

UAE

Lionhart fund to launch next year

Lionhart Group plans to launch a Shariah compliant fund next year, and is in discussions with regional financial bodies, said Jim Quinn, chief operating officer of Lionhart Middle East.

He added that the group's investments in the natural resources, commodities and mining sectors are close to Islamic regulations, and that Lionhart would be foolish to ignore it.

The alternative investment management group also revealed its aim to attract US$2 billion of investments from the Gulf region within the next few years through its new branch at the Dubai International Financial Centre.

Quinn said the branch's main roles are to pull in cash from the Middle East and North Africa region for its investment and hedge funds, as well as to expand group investments in regional markets.

BAHRAIN

ABG's net income up by 62%

Albaraka Banking Group (ABG) reported an 81% increase in its net operating income for the first half of the year to US$175 million, from US$97 million in the previous corresponding period. As a result, net income was up by 62% from US$67 million to US$108 million.

The balance sheet showed healthy improvements as well, especially those related to core financing and investment activities which reached US$8.63 million, an increase of 49%. Total assets were raised by 29%, amounting to US$11.2 billion from last year's US$8.6 billion.

BAHRAIN/INDIA

Acacia buys 26% of Delhi mall

Acacia Real Estate has taken a 26% stake in a retail development mall in Delhi through a joint venture (JV) with Anant Raj Group. The deal marked the first Shariah compliant real estate transaction in India.

The project is expected to generate return on equity of up to 83% for investors over a 3½-year holding period. The US$220 million mall will be managed by Sandalwood, a JV company between Jones Lang LaSalle and Colonial First State Property Management, which are in discussions with a potential anchor tenant at the mall.

Bahrain's TAIB Bank has been appointed as placement agent.

MALAYSIA

Sarawak Energy halts bankers' pact

Sarawak Energy has halted a preliminary pact with a group of bankers pending further study, said the firm.

In May, Sarawak Energy had signed a memorandum of understanding with RHB Islamic Bank, Unicorn International Islamic Bank Malaysia, Asian Finance Bank and Kuwait Finance House (Malaysia) to study funding possibilities of energy projects in Sarawak, a state in East Malaysia.

QATAR

QIB faces keen competition

Qatar Islamic Bank (QIB) is feeling the heat in attracting new customer deposits as new Shariah compliant banks have sprung up and conventional banks have set up Islamic banking windows.

CEO Salah Jaidah said that although QIB will retain its lead, this will not be easy. Growth in the financing industry comes mostly from non-Shariah compliant companies, and Salah said QIB would try to match conventional offerings with Islamic equivalents.

He added that QIB would prefer to open small to medium-sized outlets instead of big branches in the country.

SOUTH AFRICA

Oasis reports 32% annualized return

Islamic fund manager Oasis Crescent announced that its annualized return yearly since its inception 10 years ago stood at 32%. This is higher than other equity funds, which reported average annualized returns of 16.9%.

Founder and manager Adam Ebrahim said the firm, with a broader range of activities, was consistent in its delivery and was able to operate at the highest level compared to its competitors.

He said Oasis had benchmarked its funds against conventional ones, adding that JSE's new Shariah Top 40 Index and similar indices did not provide a realistic benchmark for its funds as they concentrated on resource stocks.

Adam added that Oasis plans to further develop its products and extend distribution capability over the next two years.

UK

Putting a Dubai spin on Tradition

Tradition, the inter-dealer broking arm of Compagnie Financière Tradition, has launched an Islamic and capital markets desk, to be based in Dubai and London.

The office, licensed by the Dubai Financial Services Authority, is a joint venture between its London and Asian arms, and will offer services such as Sukuk trading, Murabahah inter-bank money market transactions, credit default swaps as well as global currency products such as foreign-exchange and forward swaps.

Ali Merchant will lead the Dubai team, while David Barker will head the London desk.

KUWAIT

Islamic funds could reach 700

Sabaek Leasing and Investment has projected that the number of Shariah compliant investment funds will reach 700 by December and 950 in 2010. There were 158 funds as at end-2007, which had jumped to 650 at the beginning of 2008.

The Islamic leasing company said that Islamic funds have about 4% of the total market share. Shareholding funds dominate the market at 52%.

Putting the current value of the Islamic financing industry at US$800 billion, Sabaek highlighted that Islamic funds invested about US$44 billion of assets. The main challenge for Islamic funds, the report added, seemed to be laws regulating assets management in the Middle East region that might not be compatible with the Shariah.

INDIA

SEBI to approve Islamic fund soon

Taurus Asset Management Company (TAMCO) and Parsoli Corporation may finally get the approval from the Securities and Exchange Board of India (SEBI) to launch their Shariah compliant Taurus Parsoli Ethical Fund at the end of August. This could pave the way for other fund houses to launch similar funds in the future. The two firms had filed the offer document for the fund to SEBI in October last year, but were requested to resubmit their applications four weeks ago due to reservations by the regulator on its Islamic nature.

R K Gupta, TAMCO's managing director, attributed the delay to some changes that need to be made, but approval is expected soon. The fund was previously closed-end, but has now changed its structure to open-ended.

INDONESIA

IDB, ICD interested in Islamic bank

The Islamic Development Bank (IDB) and Islamic Corporation for the Development of the Private Sector (ICD) have expressed an interest in acquiring stakes in BRI Syariah, the Shariah compliant unit of Bank Rakyat Indonesia (BRI).

BRI director Sulaiman A Ariyanto said IDB officials have already met the BRI management to discuss the possibility of investing in the Islamic bank, which is due to be launched soon. IDB, he added, is especially interested as BRI is known to be strong in the small- and medium-sized enterprise credit market.

Earlier, BRI corporate secretary Hartono Sukirman said BRI Syariah will be established next month before investors are invited.

MALAYSIA

Islamic banks must innovate

Islamic banks must re-evaluate and focus on developing innovative products to assist in speeding up its growth, said Malik Muhammad M Al-Awan, director of Furqan Research. He indicated that it is important for banks to come up with different products and not invest in new ones for the sake of competition.

Shariah compliant banking in Malaysia can also be a reference point for nations like the UK, US, Singapore, Japan and Hong Kong that are introducing Islamic banking as it has the best co-existent model in plural society, Malik said.

QATAR

Arab Bank opts for Misys solution

Arab Bank has gone live using the Misys Equation Islamic solution at its Qatar offices that will enhance the bank's products to the growing Islamic banking community in the country. The Amman-based bank will also use the same solutions for its other banks, starting with the Abu Dhabi branch this December.

The bank has been collaborating with Misys for more than two decades. Arab Bank previously used Misys Equation before switching to the new Shariah compliant version.

MALAYSIA

Bank Islam launches An-Najah NID-i

Bank Islam Malaysia has launched its first Shariah compliant structured investment product, An-Najah NID-i, which targets the fast-growing global healthcare sector.

An-Najah NID-i has a three-year tenure with full capital protection when held to maturity. The Islamic structured investment offering in Malaysia is expected to yield an annualized return of between 5% and 16.4%.

(Also see IFN Reports on page 13)

AUSTRALIA/SINGAPORE

NabInvest, Oxley form JV for CITM buy

NabInvest, the investment arm of the National Bank of Australia (NAB), has formed a joint venture with Singapore-based Oxley Capital to buy 80% of CITM, the company that manages Cambridge Industrial Trust (CIT). The stake is expected to cost NAB up to US$35 million. The remaining 20% will continue to be owned by Japanese conglomerate, Mitsui.

CIT is waiting for approval from the stakeholders and the Singapore Exchange to convert into a Shariah compliant real estate investment trust (REIT) so as to tap into the growing wealth from the Middle East. If successful, this will turn CIT into the world's first Islamic industrial REIT and Singapore's first publicly Shariah compliant REIT.

The Islamic Bank of Asia is the appointed adviser for the conversion, while HSBC will advise on the refinancing solution.

HONG KONG

First Sukuk will be tax-exempt

The government has approved the tax exemption on Hong Kong's first Sukuk by the Airport Authority, ahead of its launch which could take place as soon as October.

Ceajer Chan Ka-keung, secretary for financial services and the treasury, said that the bureau is setting up a mechanism to move in on more Islamic products before any tax rule changes.

UAE

Lovells to work on Tamweel Sukuk

Tamweel has chosen Lovells to advice on its US$300 million Sukuk issuance, despite the law firm being relatively new to the Middle East market. The firm is a market leader in Sukuk, said Lovells' head of Dubai office, Shibeer Ahmad, and is determined to maintain its lead in corporate and financial law.

He added that although thus far the firm has only handled corporate and financial transactions, it is interested in real estate and ADRs as well.

Other major players in the Dubai Sukuk market are Clifford Chance, Linklaters and Allen & Overy.

BAHRAIN/UK

Strong response to Islamic IPO

The initial public offering (IPO) of the Family Sharia Fund on London's Alternative Investment Market (AIM) has received strong response from individual and institutional investors based in the Middle East and Europe.

The fund provides investors with a diversified pool of Islamic assets including solutions for alternative investments, real estate, private equity and Sukuk, said Abdulmohsin Al Omran, CEO of The Family Office.

The company was advised by Blomfield Corporate Finance in London, and managed by Bahrain-based The Family Office.

KUWAIT/QATAR

Esdarat ropes in Commercialbank

Esdarat Holding has selected Commercialbank as its sub-placement agent in Qatar for the private placement of 600 million shares priced at KWD0.15 (US$0.56) per unit. This will be used to fund the Shariah compliant company's investment in real estate projects in Mecca developed by Al Makam, a subsidiary of Saudi Binladen Group.

The Islamic private placement is expected to raise more than US$300 million, and could give investors internal rate of returns of 30%. An initial public offering is expected within the next 12 to 18 months.

The development comprises a series of hotels, residences and commercial facilities situated in Ajiad, near the Holy Haram area in Mecca. NBD Investment Bank is the financial adviser and lead placement agent on the deal.

KUWAIT

National Industries profit falls 41%

National Industries Group reported a 40.6% decrease in second-quarter net profit, from KWD98.26 million (US$367 million) in the second quarter of 2007 to KWD58.4 million (US$218 million). The high amount last year is due to gains from investments, said Saad Al-Saad, chairman of the country's largest construction materials firm by market value.

The firm said that first-half profit stood at KWD119.8 million (US$448 million), which included KWD62.26 million (US$233 million) in unrealized profits, reflecting the value of investments.

Saad said that National Industries aimed for a 15% average growth in the period until 2012, but declined to give the forecast for this year.

UK

alburaq launches savings plan

alburaq has launched Islamic Savings Plan, a Shariah compliant savings product for its British customers. Deposits start from a minimum of GBP500 (US$951) to a maximum of GBP1 million (US$1.9 million), and investments will be linked to the stock market via 20 shares on the Dow Jones Islamic Market Titans 100 Index.

The fixed-term account is available until the 5th September 2008. Funds will be invested for five years, maturing on the 26th September 2013. alburaq Islamic Savings Plan is offered in partnership with the Bank of Ireland.

AUSTRALIA/MALAYSIA

More students headed for Malaysia

The Australian high commissioner to Malaysia, Penny Williams, said the country will send more students to the Southeast Asian country to further their education in several fields, including Islamic finance, that are not available in Australia. By sending more students, she added, bilateral ties between the two countries would be strengthened.

FRANCE

Moody's comments on Islamic market

Moody's Investors Service has released a special comment titled "Frequently Asked Questions: Notable Trends in Global Islamic Finance", which explores key factors expected to shape the future of Islamic finance across a number of relevant jurisdictions.

According to the report, the Islamic finance sector is characterized by increasing demand and government support, especially in the Middle East and Muslim Asia, which also explains why consolidation is not on the agenda of Islamic financiers at this stage. It also emphasized the expectation that expansion of the industry will lead to further diversification, and benefits can be extracted from further innovation, as well as growing operating and geographic diversification.

The report touched on how investors and financiers seem to perceive the Islamic financial market, its strengths as well as its weaknesses. It also outlines Moody's view of the challenges that the sector still faces and the outlook for its future.

MALAYSIA

MNRB expects total revenue to increase

MNRB Retakaful said it expects total revenue contribution from its international business to reach 20% by the financial year ending the 31st March next year, from 10% currently. The target is in line with its expansion plan to penetrate the overseas Takaful market, said the company's president and CEO, Ismail Mahbob. He revealed this after MNRB Retakaful's official launch at the forum.

The company has businesses in Indonesia, Brunei and Sri Lanka, and is now looking to expand to West Asia including Kuwait, Saudi Arabia and the UAE due to the large Muslim populations there by the end of the year, said Ismail. He added it also has plans to enter the European market.

MNRB Retakaful has also signed a memorandum of agreement with the International Shariah Research Academy for Islamic Finance to jointly develop a practical reTakaful model that can be used by the industry.

MNRB Retakaful received its license to operate on the 1st August last year. Recently, Fitch Ratings assigned the company with a 'BBB+' rating.

QATAR

QIB may consolidate Takaful firms

The CEO of Qatar Islamic Bank (QIB), Salah Jaidah, has announced plans to create a large Takaful company, if efforts made by the bank and its partners to consolidate their various businesses come through.

QIB is one of the promoters of Solidarity, a Bahrain-based Takaful firm. It has also partnered with Qatar Insurance Company to establish a firm at the Qatar Financial Centre.

The Islamic bank also set up a Takaful unit in Pakistan with other investors. Salah said that they have yet to decide on where the new firm will be based.

MALAYSIA

Etiqa's BizPac targets SMEs

Etiqa, the insurance and Takaful arm of Maybank, has launched BizPac. The financial solution for small and medium-sized enterprises (SMEs) in the manufacturing industry is designed to help business owners and protect them from unfortunate events.

The insurer expects to rake in RM14 million (US$4.2 million) in premiums from the new product.

Citing the Ministry of International Trade and Industry, Shahrul Azuan Mohamed, executive vice-president of enterprise corporate at Etiqa, said there are about 590,000 SMEs in Malaysia.

MALAYSIA

Contribution to reach US$7 billion

Global Takaful's contribution is expected to reach US$7 billion this year, more than the US$2 billion reported in 2007, said Syed Moheeb Syed Kamaruzzaman, president and CEO of Takaful Ikhlas.

He added that there was a consensus internationally on the need to have a strategic direction for the development of Islamic finance. The industry will continue to offer great potential with more innovative products and services in the market, Syed Moheeb noted.

He added that the global Sukuk growth can be a factor for the growth of the Takaful and reTakaful industry, as it has become an important investment avenue for the sector. The Sukuk market in international currencies is estimated to have exceeded US$80 billion as at the end of 2007, added the CEO.

MALAYSIA

PruBSN to improve position

Prudential BSN Takaful (PruBSN) will continue to educate the public that Takaful is not for Muslims only as part of its strategy to strengthen its position in the non-Muslim market, said CEO Mohamad Salihuddin Ahmad.

Also part of its strategy is to introduce new products this year, such as a pure protection product for bancaTakaful, he added. To extend its customer reach, Salihuddin said PruBSN will set up operations in Shah Alam in the state of Selangor, and Johor Bahru, the capital of Johor state. Three more will be opened in other areas next year, he revealed.

PruBSN has also launched its marketing and administration center to boost its customer services initiatives that will house the marketing, support and customer services departments in Wangsa Maju, Kuala Lumpur.

KUWAIT

Fitch affirms GIH at 'BBB'/'F3'

The ratings on Global Investment House's (GIH) long- and short-term foreign currency issuer default ratings (IDRs) have been affirmed at 'BBB' and 'F3' respectively by Fitch Ratings. The outlook is stable.

The agency has also assigned 'BBB' to the investment company's long-term local currency rating, 'C' on its individual rating, and support rating a '5'. Support rating floor is placed at 'no floor'.

The ratings are reflective of GIH's growing franchise in regional corporate finance and asset management, good profitability, sound capital base and good cost efficiency. At the same time, Fitch also took GIH's exposure to market risk on equity investments, reliance on short-term borrowing and sensitivity to the regional economy and stock markets into consideration. Support from the Central Bank of Kuwait and its shareholders in times of need is possible, although cannot be relied upon.

The ratings may be increased due to its limited risk profile, but are also constrained following failure to lengthen the company's funding or manage the risks associated with GIH's rapid expansion plans, as well as deterioration in the economic environment or regional stock markets.

MALAYSIA

MMM's BaIDS gets 'A-ID'

Malaysian Rating Corporation (MARC) has affirmed the rating on Malaysian Merchant Marine's (MMM) RM120 million (US$36 million) Al Bai Bithaman Ajil serial bonds (BaIDS) at 'A-ID' with a stable outlook, following the announcement to undertake an early redemption of the remaining RM24 million (US$7.2 million) outstanding BaIDS within this quarter, with proceeds from the sale of a vessel.

The rating was removed from MARCWatch Negative, which was placed in May this year.

The outlook is based on the prospect of limited downward rating movement due to the company's continuing cash flow deficit with the identification of a repayment source for the BaIDS, said MARC.

HONG KONG

HSBC Insurance stable

AM Best has assigned an 'A+' to the financial strength rating of HSBC Insurance Asia, and an 'aa-' to its issuer credit rating with a stable outlook.

The ratings are reflective of the company's sound underwriting earnings, leading market presence and diversified insurance products offerings, while recognizing the strong distribution capability provided by its ultimate parent, HSBC. The parent is also expected to be supportive, should HSBC Insurance need any.

However, AM Best noted that some of the offsetting factors are the weaker standalone risk-adjusted capitalization and continuous pressure on underwriting profitability due to intense market competition. The financial position of the company will be continuously monitored.

OMAN

Bank Dhofar's IDRs rated 'BBB+', 'F2'

Fitch Ratings has assigned Bank Dhofar's long- and short-term issuer default ratings at 'BBB+' and 'F2' respectively, with a stable outlook. The agency has also affirmed the bank's individual rating at 'C', support rating at '2' and support rating floor at 'BBB+'.

The ratings are based on Bank Dhofar's strengthened franchise and consistent performance, sound asset quality and the high probability of support from the Omani authorities should it need any. However, Fitch noted that the bank may face some risks related to its rapid loan growth and the effect of rising domestic inflation on future asset quality.

US

Fitch upgrades two subsidiaries

The ratings on two of Morgan Stanley's subsidiaries, Morgan Stanley Bank and Morgan Stanley Bank International, have been raised to 'AA-' and 'A+' respectively by Standard & Poor's Rating Services.

Morgan Stanley Bank was previously assigned 'A-1+' and Morgan Stanley Bank International an 'A-1'. The outlook on the ratings is negative.

According to the rating agency, the upgrades are based on the reassessment of the two entities' strategic importance to the parent group.

UAE

Sharjah Islamic rating upgraded

The long-term foreign currency rating on Sharjah Islamic Bank (SIB) has improved to 'A-' from 'BBB+', while its short-term foreign currency rating has been maintained at 'A2'. Its support rating went up a notch to '2' from '3', and financial strength rating is at 'BBB+'. The outlook is stable.

The upgraded long-term rating is testament to the support SIB would get from the UAE authorities should the need arises. Other factors that reflected the ratings are the bank's good management, sound asset quality and strong, sustainable core profitability.

SIB is one of the UAE's leading financial institutions, and Sharjah's biggest bank. It was formerly known as National Bank of Sharjah.

MALAYSIA

Affin gets a 'D'

Fitch Ratings has affirmed Affin Bank's individual rating at 'D' and support rating at '3'. The ratings are reflective of the bank's improved financial profile particularly in credit quality, reduced level of non-performing loans and improved profitability.

The entry of Hong Kong's Bank of East Asia as a strategic shareholder should be beneficial for Affin such as in getting technical assistance and new business opportunities, the agency said.

Affin Bank is a wholly-owned subsidiary of Affin Holdings, and was established in 1975.

UAE

Tamweel Sukuk gets a final 'A'

Fitch Ratings has assigned a final long-term senior debt rating of 'A' to Tamweel Sukuk's trust certificate worth AED1.1 billion (US$300 million) which is due on July 2013.

The ratings are reflective of the agency's judgment that the Sukuk can be considered as an unconditional, unsubordinated and general obligation of Tamweel, ranking equally with its other senior unsecured obligations. The rating is also in line with Tamweel's long-term issuer default rating, which was assigned an 'A' with a stable outlook.

Tamweel Sukuk is a Cayman Islands-incorporated special purpose vehicle with the sole purpose of participating in this transaction.

UAE

Outlook is stable on NBF

Capital Intelligence has assigned the long-term and short-term foreign currency ratings of National Bank of Fujairah (NBF) at 'A-' and 'A2' respectively, support rating at '2', and financial strength rating at 'BBB+', with a stable outlook.

Some of the factors that support the ratings are the bank's good management, long track record of delivering consistently good earnings and overall sound financials. NBF also has sound asset quality, satisfactory liquidity, healthy operating profitability, low level of non-performing loans, good coverage ratio and relatively low customer concentrations. The probability of support from the authorities, if needed, is also reflected in the ratings.

THIS TIME LAST YEAR

- **Jordan Islamic Bank** tied up with **Western Union** to allow money transfers across a network spanning 200 countries and territories.
- Post-launch, shares of **Kingdom Holdings** hit a high of SAR14.5 (US$3.86) from its initial opening at SAR13.5 (US$3.6).
- **Investment Dar** was launched in Bahrain, increasing the number of Islamic financial providers in the country to 27.
- **Bank Simpanan Nasional** set aside RM596,278.83 (US$171,850.78) from its Islamic banking profits to pay zakat.
- The **Bank of Scotland**, **Standard Chartered** and **First Gulf Bank** completed a US$50 million Islamic lease financing facility for **Topaz Energy and Marine**.
- The **Central Bank of Sudan** signed an MoU to aid the development of ABC Investments' Islamic trade and finance operations.
- **Global Investment House**'s first half profits hit KWD46.7 million (US$165.6 million), with earnings per share of 56 fils.
- **QNB Al Islami** signed a QAR300 million (US$82.42 million) Wakalah-based agreement with the **National Leasing Company**.
- **Deutsche Bank** closed its retail customer operations in Iran due to the adverse effects of international regulations and sanctions.
- **Boustead**'s Al Hadarah Islamic real estate investment trust earned revenues of RM17.5 million (US$5.04 million) in a span of eight months.
- **Mashreq bank** posted first half profits of US$260.3 million, at a 45% hike.
- **Amanah xData** signed an agreement with the **Dubai International Financial Exchange** to distribute the bourse's market data, including share prices.

MALAYSIA

Bank Islam boost products

Bank Islam is moving into wealth management products to help boost its non-fund based income from its contribution of about 5.8% to the group's total revenue as at the 30th June 2007 to 10% in the next 12 months.

Managing director Zukri Samat said: "There is a lot of potential in wealth management products. We are working on a couple of structured products and unit trusts as well." These products will not only be for the Malaysian market but will be marketed globally. "There is a lot of oil money in the Middle East," he noted.

According to Zukri, Bank Islam is also looking at launching private banking for the high net worth community in the near future. Last week, Bank Islam launched An-Najah NID-i, its first structured investment product targeted at local institutional, corporate and individual investors. With a tenor of three years, the fund is the first Islamic structured investment offering in Malaysia focusing on healthcare.

Bank Islam has chosen to focus on global healthcare due to its huge potential and demand for services in the sector is expected to be relatively resilient through economic cycles as they are a necessity to society. Zukri expects the fund to reach the initial fund size of RM300 million (US$90.02 million) in 30 days from the 8th August. "We have been talking to potential investors and are getting positive response," he said.

The fund will invest in Islamic Negotiable Instruments (INI) structured along the Shariah contract of Mudharabah Muqayyadah and Baraka Aging Population Index options, under the Shariah contract of Bai'ubun. The Shariah adviser for the fund is Yassar while the arranger is Societe Generale.

An-Najah NID-i enables investors to tap growth opportunities globally as the Baraka Aging Population Index comprises 30 stocks, carefully selected from a basket of 2,400 stocks in the Dow Jones Islamic Market World Index. Between 2001 and May 2008, the index has risen 206.86%.

The Shariah compliant fund provides opportunities for local investors to invest in a sophisticated, secure and potentially high-yielding instrument. The product offers 100% capital protection when held to maturity, but could yield potentially higher returns on maturity.

The minimum investment is RM50,000 (US$15,000) with subsequent investments in multiples of RM50,000 in line with the central bank's INI guidelines.

On Bank Islam's financial performance for the year ended the 30th June 2008, Zukri said he expects its net non-performing loans (NPL) to be much lower than for the previous financial year. "We will see a better number in net NPL. It stood at 11% for FY2007," he said.

The bank is also looking at mergers and acquisitions in line with its agenda for expansion. "Growth will not only be organically but also through mergers and acquisitions. At this juncture, nothing is really concrete. We are looking for suitable partners," he said.

UK

Gatehouse studies three deals

The UK's latest Islamic financial institution, Gatehouse Bank is studying three Shariah compliant deals worth US$500 million, said Samer Merhi, the bank's executive director for institutional wealth management structuring and origination.

"The three deals are under consideration. We hope to conclude at least one by the end of this year," he told Islamic Finance *news*. He described the three deals as Islamic private equity, Islamic real estate and Shariah compliant exchange-traded funds.

Merhi emphasized that international financing is in the pipeline and Gatehouse Bank is eyeing opportunities in Europe, the Far East, and the Middle East and North Africa, particularly Egypt, Morocco and Tunisia. "We have a global appetite and are looking at these regions. Our clients currently are in the GCC countries," he said.

Gatehouse Bank, a subsidiary of The Securities House KSCC, which is a Kuwait-based investment firm, has an authorized capital of GBP225 million (US$421 million). It was granted a license by the British Financial Services Authority in April to act as a Shariah compliant wholesale investment bank in the UK.

According to Merhi, it focuses on institutional wealth management, Islamic capital markets, Shariah advisory services and Islamic treasury business. The bank's products include structured products and funds as well as those of capital markets focus.

The bank concentrates on GCC corporates and financial institutions which seek to access the global capital markets, as well as non-Islamic borrowers seeking investor diversification.

Gatehouse also looks at investors funding investments in Asian, European and North American assets. Its intention is to contribute and benefit from the UK's development as an international Islamic finance and trade hub, especially in the area of capital markets instruments.

Members of the bank's Shariah Supervisory Board are Sheikh Nizam Yaquby, Dr Abdul Aziz Al-Qassar, Mufti Muhammad Nurullah Shikder and Shaykf Tamim.

With Islamic finance growing rapidly in the UK, Merhi expects the number of Islamic banks there to double to ten in five years. Of the five existing banks, four are investment banks while the other, Islamic Bank of Britain, is a full-fledged Islamic bank.

In view of this small number of players, Merhi said Gatehouse will coordinate activities with the other four banks rather than compete with them. Muslims make up about 5% of the total population of the UK of about 61 million.

On the bank's future plans, he said: "We want to be the best investment bank ... the market leader". Merhi said the bank may look at expanding in Europe, the Far East and the US.

Reports by Dalila Abu Bakar

MALAYSIA

Global target for Islamic reinsurer

MNRB Retakaful, launched this week at the MIF 2008 Issuers and Investors Forum, is looking at doubling its international business contribution to total revenue by its financial year ending the 31st March 2009 from the current 10%. President and CEO Ismail Mahbob said the target is in line with the company's expansion plan to further tap overseas Takaful markets.

"We are looking to expand our operations to West Asia including Kuwait, Saudi Arabia and the UAE, given the large Muslim populations, hopefully by year-end," he told reporters after the official launch of the company. The company currently has business dealings in Indonesia, Brunei and Sri Lanka. Ismail said MNRB also plans to enter the European market as well as South Africa and Pakistan. "Takaful in these countries is still new, even the Muslim countries, Ismail remarked. "And as for the non-Muslim countries, there are some which already have Takaful operations, places like South Africa, so we are also focusing on them."

According to him, the firm is banking on the "huge" potential of Takaful and reTakaful as the Islamic financial system successfully integrates with the global financial system. The company's expansion effort is also being spurred by the 'BBB+' rating given by Fitch Ratings recently. MNRB Retakaful is also teaming up with the International Shariah Research Academy for Islamic Finance to jointly develop a practical reTakaful model that can be adopted by the industry.

The wholly-owned subsidiary of MNRB Holdings was granted the license as the first reTakaful operator in Malaysia in August last year. The size of the reTakaful market is reportedly estimated at about US$1 billion. Global premiums in Takaful total about US$2 billion to US$3 billion and are expected to reach US$7.4 billion by 2015, according to reports.

As part of the global marketing strategy, parent MNRB Holdings has invested GBP8.96 million (US$16.8 million) cash in non-listed British Islamic Insurance Holdings (BIIH) by subscribing for up to 9.99% equity stake in the latter under a private placement exercise. "This is in line with MNRB Holdings' direction to diversify its existing business in order to achieve a better portfolio mix and ensure sustainable growth. BIIH will serve as a platform for the group to expand into overseas business further and into the potentially lucrative European market," MNRB Holdings said.

Incorporated in February 2006, BIIH has an authorized share capital of GBP100 million (US$187.2 million). "Insurance products offered by BIIH will be structured according to Shariah principles, and BIIH will be the first independent wholly Shariah compliant entity offering Takaful products in the UK," MNRB Holdings said.

RHB Research is maintaining its outperform call on MNRB Holdings, labeling it as a defensive play due to a combination of its high core dividend yield and growth potential. "MNRB Holdings is a good reflection of the general insurance industry. The growth and potential in Islamic financial products and expansion in the overseas markets imply that its earnings base will be widened further," it said.

By S. Sivaselvam

GCC

US$1 trillion projects in the GCC

The Dubai International Financial Center (DIFC) wants to see more foreign financial institutions, especially from Malaysia, to spread their wings to the Gulf Cooperation Council (GCC) countries to seize the huge opportunities offered by the region.

DIFC executive director – Islamic finance Nik Norishky Thani said currently the total value of the projects planned or under development in the Gulf region is more than US$1 trillion. They are in the oil & gas, construction, power, petrochemicals and water & waste sectors. Of this, about US$600 billion is planned for until 2010.

According to him, greater financing is required for the infrastructure projects. "The difference between the development in the Gulf region in the past decade and today is that there is a lot of petro dollars that have been ploughed back into the Gulf countries and hence, more project financing is needed," he pointed out.

"Let's get more Malaysian banks there. I met a top scholar a few weeks back and according to his research, there are between 1,300 and 1,600 Malaysian bankers in the GCC. This means that we have exported our skill very, very well," he said.

Nik Norishky said Malaysian banks should export their knowledge and expertise to the Gulf region as the projects in the GCC require huge financing.

According to him, there are 300 financial institutions in the GCC which include JP Morgan, Barclay's and HSBC Amanah. "Malaysian banks have the technological advantage and we are ahead of the yield curve, so why not use this advantage and start spreading wings?"

He pointed out that Al-Rajhi Bank, Kuwait Finance House and Asian Finance Bank have shown good examples of overseas expansion. "They came here (Malaysia) and are now successful. Likewise, that's what the Malaysian banks should do in the GCC," he added.

Nik Norishky also suggested that Malaysian banks which plan to venture into the GCC should bring ample manpower as they will be competing with large banks from other countries.

By 2015, Dubai aims to achieve a gross domestic product (GDP) per capita of US$44,000, sustain a GDP growth rate of 11% per annum and increase productivity by 4% per annum.

Among the DIFC's goals are to service US$2 trillion of regional wealth, provide an internationally accepted common legal framework and replace several fragmented local stock exchanges with an international financial exchange.

There is growing private sector participation in infrastructure across the region, with total required investment valued at more than US$630 billion between 2006 and 2015.

By Dalila Abu Bakar

Syndicated Finance — Past, Present and Future

By Tarek Bachnak and Saad Rahman

One of the sectors that has grown within the Islamic financing sector is syndicated Islamic financing. This has gained momentum and has been increasingly used by borrowers to diversify their sources of financing and to assist them in raising the large amounts of funds for many large infrastructure and development projects in the GCC region and for corporates in Southeast Asia.

Prior to 2001, Islamic financing was mainly focused on the trade business and was short term in nature, supported by the asset and liability structure of Islamic banks that was short term in nature. The support provided by regional GCC governments and central banks helped the Islamic market develop, causing the industry to change. Conventional banks have also played a major role in the development of the industry, many of which have set up their own Islamic windows to tap this fast growing industry. Conventional banks have contributed expertise, product development and a level of professionalism that was once not available.

Today, Islamically structured deals are able to compete alongside conventional deals on both pricing and tenors. Many of the structures that are being used have become template structures and are widely accepted in the syndicated Islamic market. It is quite common to see large transactions include dual tranches for both Islamic and conventional structures.

Current syndication market

The current syndication market in the Gulf has been hit by two recent global issues. One has been the drying up of credit on a global basis during the ongoing credit crisis. This has seen the prices for US dollar priced deals climbing to reflect higher funding costs. Secondly, most Gulf currencies are pegged to the US dollar and follow a fixed rate currency regime. Therefore monetary policy is decided in Washington and a falling dollar has led to imported inflation. Speculation has been rife that the dollar peg will be broken. Dollar liquidity has shifted from US dollar to local currency. However recent statements made by senior government officials seem to indicate that the status quo will continue. Nevertheless, this has not dampened speculation and recent price increases in local currency funding rates have seen the interest rate arbitrage between offshore funding and onshore funding decrease considerably.

Structures

Some of the most common structures available today for syndicated Islamic financing facilities are Commodity Murabahah (Tawarruq), Ijarah (leasing), and Ijarah Mawsoofa bil Thimma (construction financing followed by leasing). These structures have become mainstream and widely accepted in the syndicated finance and project finance markets.

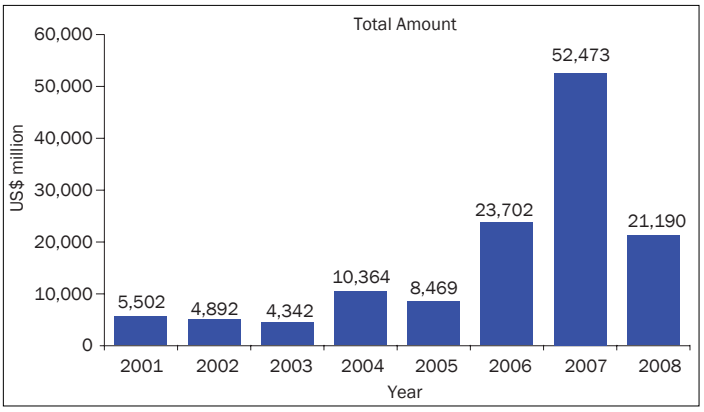
Commodity Murabahah

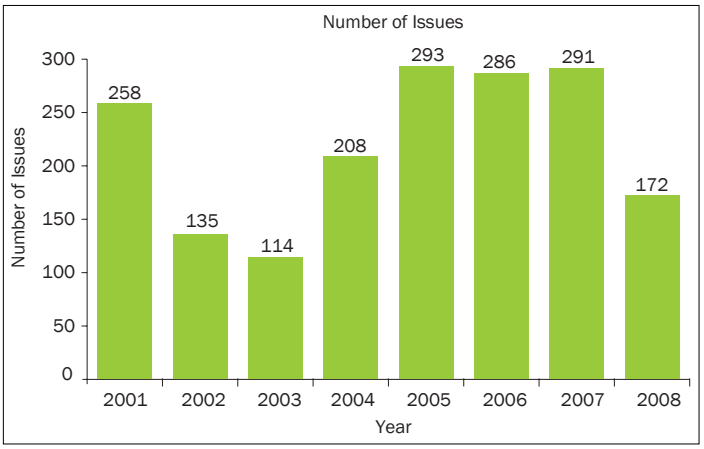
Murabahah is an Islamic transaction used to provide the investor with a Shariah compliant structure that can offer a profit equal to the performance of an underlying asset. This concept refers to the sale of goods at a price, which includes a profit margin agreed to by both parties. The purchase and selling price, other costs and the profit margin must be clearly stated at the time of the sale agreement. Murabahah is an ideal structure for financing international trade transactions, inventory or commodities such as agricultural goods, metals, oils, textiles, equipment and machinery.

Tawarruq as a form of Murabahah is used in cases where the client requires cash rather than the actual purchase of goods/commodities. Through Tawarruq, metal commodities are bought and sold through commodities brokers against a deferred payment obligation from the client. The nature of this structure is short to medium term; hence it is appropriate in cases where the financing period is up to five years. Murabahah structures can be enhanced by adding a corporate guarantee or providing export credit agency support.

> "Today, Islamically structured deals are able to compete alongside conventional deals on both pricing and tenors"

Below are graphical illustrations of the growth of the Islamic banking sector from 2001 until the first half of 2008. The graphs have been extrapolated from Bloomberg league tables for overall Islamic finance debt arranged by the top 19 banks and financial institution for each year.





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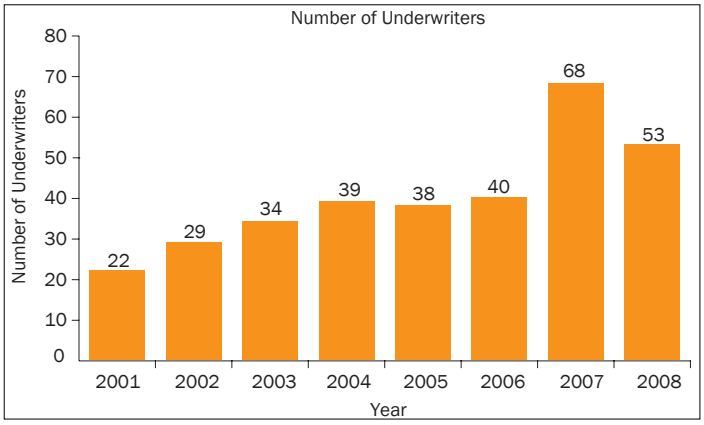
Syndicated Finance — Past, Present and Future (continued)



Case Study — Zain

Zain is one of the leading mobile and data services operators in the Middle East and Sub-Saharan Africa. The group has operations in seven Middle Eastern and 15 Sub-Saharan African countries providing a comprehensive range of mobile voice and data services to over 42.4 million active subscribers. With the recent acquisitions of Iraqna and Westel as well as greenfield investment in Saudi Arabia, the company is consolidating its market-leading position in the Middle East and Sub-Saharan Africa, having successfully evolved from a single market operator offering services only in Kuwait five years ago.

The Zain transaction was structured as a US$1.2 billion commodity Murabahah financing facility. It was a refinancing of an earlier facility closed in December 2006. Funds raised would be for general corporate purposes.

Ijarah

Ijarah is the Islamic equivalent of a conventional operating lease. Under an Ijarah structure, the bank (as lessor) purchases an asset which is usually required and identified by the client (the lessee), and leases that asset to the lessee over a predetermined period at a predetermined lease rental amount. The lease rental amount generally comprises the lessor's profit for the lease period. At the end of the lease term, the leased asset goes back to the lessor.

The structure can be further adapted to replicate a conventional capital lease; this is known as Ijarah wa Iqtina and is similar to a normal Ijarah structure. However, under this concept, the lease rental amount comprises the principal amount plus the bank's profit. At the end of the lease period, the asset is sold to the lessee, usually at a price equivalent to the remaining amount outstanding under the lease.

Under both Ijarah structures, and contrary to conventional lease structures, where all maintenance is the responsibility of the lessee, all major maintenance is the responsibility of the lessor. All other day to day maintenance resulting from day to day use of the asset is the responsibility of the lessee.

The Ijarah structure requires full transfer of ownership of the asset to an Agent Bank or an SPV. The Lessor retains ownership and is required

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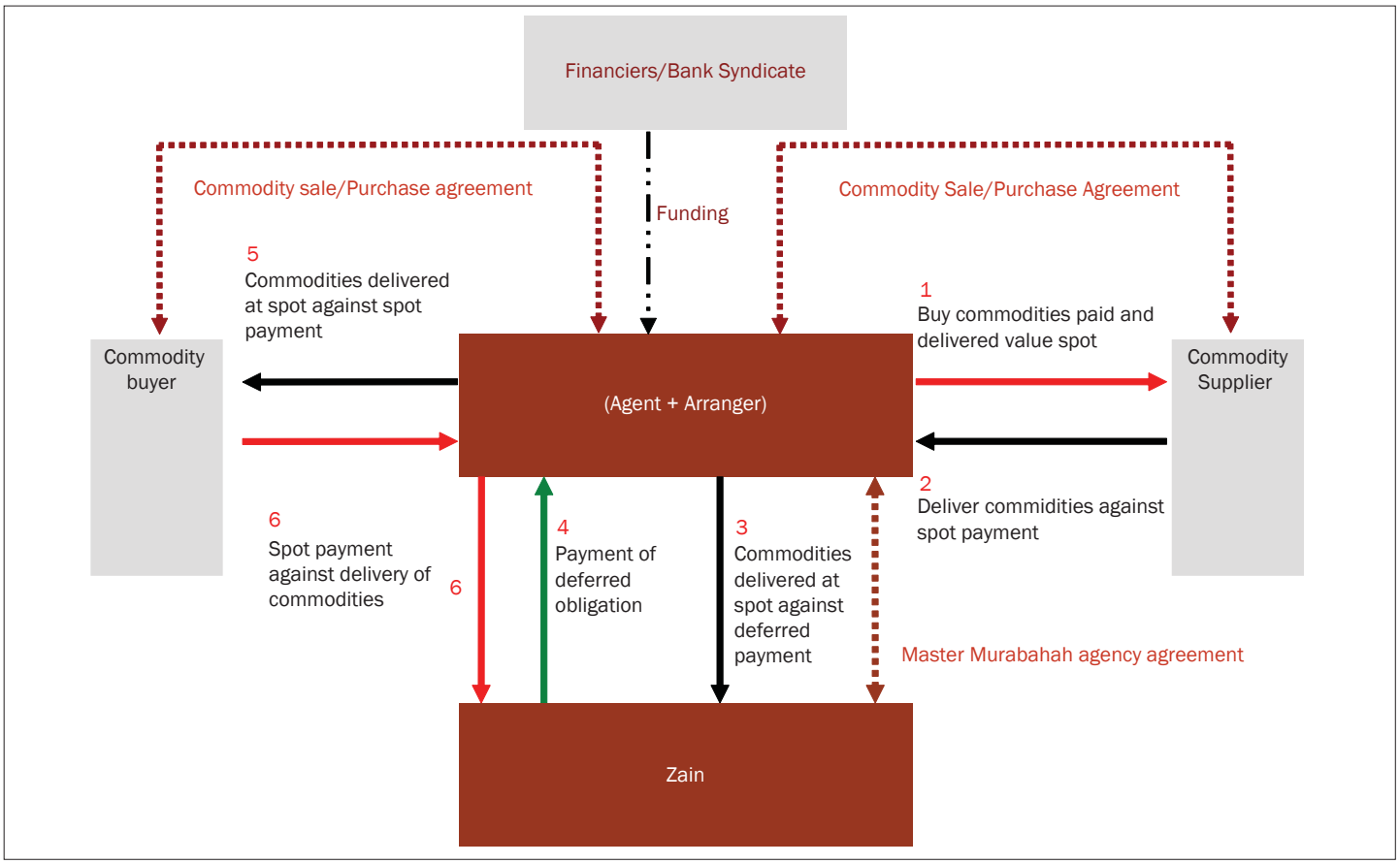
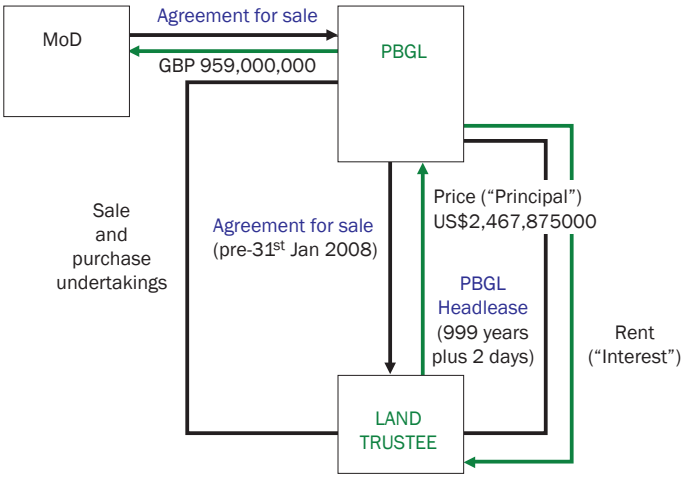


Syndicated Finance — Past, Present and Future (continued)

to bear 'major' costs of ownership e.g. structural repairs, insurance; the Lessee Obligor bears 'day-to-day' costs and minor maintenance. In practice, the ownership responsibilities and costs are passed on to the Lessee via a management/service agency agreement and service costs are incorporated in the next lease period.

Rental will be determined between the parties based on any benchmark they choose, hence it could be a fixed rate rental or a floating-rate rental (i.e. LIBOR + margin). The rental must be fixed at the outset of each lease and cannot be changed. A floating rental can be created by having mini-leases (i.e. 3 or 6 monthly periods) within a master lease agreement; as LIBOR changes, the lease payment will be 'renegotiated' accordingly for the next mini-lease period.

Similar to Murabahah, Ijarah structures can also be enhanced by adding a corporate guarantee or providing export credit agency support. Ijarah can be either used to finance the purchase of a new asset, or by a client to monetize an existing asset (i.e. a sale & leaseback of existing buildings, plant, land etc.).



Case Study – Project Blue Guernsey Ltd

Project Blue (Guernsey) Ltd (PBGL), a Guernsey registered company and joint venture between Qatari Diar Real Estate Investment Company (QD) — a 100% owned subsidiary of Qatar Investment Authority (QIA), itself owned 100% by the State of Qatar — and CPC Group Ltd (CPC), a privately owned property trading and development company specializing in ultra-prime residential property development in London and other major world cities. The joint venture was for the acquisition of the Chelsea Barracks property. Chelsea Barracks is prime London real estate of 5.3 hectares (13.1 acres) in central London spanning Kensington and Chelsea. It is PBGL's intention to transform the site into the premier residential destination in London.

QD was established in December 2004 to act as the Islamic real estate investment arm of QIA. QD engages in high profile real estate activities through acquiring properties in prime locations within the region and beyond with a particular emphasis on Europe to build top quality residential and commercial buildings. The financing has been structured as an Ijarah facility (comparable to a conventional sale and lease-back with a repurchase option). The documents relating to the mechanics of the financing (the sale agreement, the lease agreement etc) are entered into by the "Land Trustee" and the property and the rights under these contracts are held by the Land Trustee on trust for the syndicate of banks (the "Participants").

It was arranged and fully underwritten by Masraf Al Rayan (MAR), Qatar National Bank SAQ (QNB), BNP Paribas, Calyon Crédit Agricole CIB (Calyon) and HSBC Amanah (HSBC). BNP Paribas, Calyon, HSBC and QNB acted as bookrunner while MAR acted as structuring advisor for the transaction.

At closing, in order for the financing to benefit from the tax treatment afforded to certain Islamic finance products in the UK, there could only be one Participant and the Land Trustee, the Investment Agent and the Participant had to be the same entity.

1. The sale of the property by the MoD to PBGL

In April 2007, PBGL entered into a contract with the Ministry of Defense (the "MoD Contract") to purchase the property, due in five equal installments. The first installment was paid by PBGL as a deposit. The completion date for the purchase was scheduled for the 31st January 2008.

2. The sub-sale of the property by PBGL to the Land Trustee

In order to refinance the first installment and fund the remaining installments under the MoD Contract, PBGL entered into a sale and purchase agreement (the "SPA") with the Land Trustee on the 29th January 2008 pursuant to which PBGL would sell the property to the Land Trustee. The completion date for this purchase was scheduled for the 31st January 2008 so that the funds payable by the Land Trustee at completion could be paid directly to the MoD to satisfy PBGL's obligations to pay the next installment under the MoD Contract.

The SPA is therefore the document pursuant to which the Participants (through the Investment Agent / Land Trustee) advance funds to PBGL. The purchase price under the SPA is payable in installments over four years. Completion under both the MoD Contract and the SPA occurred on the 31st January 2008.

3. The leasing of the property by the Land Trustee to PBGL

On the 29th January 2008, pursuant to an agreement for lease, the Land Trustee agreed to lease the property to PBGL immediately upon closing of the sale and purchase referred to above. The lease (Ijarah) itself was therefore entered into completion on the 31st January 2008. Pursuant to the lease, PBGL pays rent to the Land Trustee (representing the Participants' profit) during the term of the facility at six monthly intervals.

4. Service agency arrangement

The financing involves the usual service agency arrangements found in Ijarah financings. The Land Trustee has an obligation to insure and maintain the property and it appoints PBGL as its service agent to carry out these functions. PBGL can claim reimbursement of any expenses it incurs performing these functions from the Land Trustee. An amount equal to such expenses is then charged to PBGL as "Supplemental Rent" under the lease. PBGL's obligation to pay supplemental rent is then set off against the Land Trustee's obligation to reimburse expenses.

5. Maturity of the facility

At maturity of the financing (the 30th June 2011 or, if PBGL exercises the extension option, the 30th June 2012), the Land Trustee has the

continued...

Syndicated Finance — Past, Present and Future (continued)

right (under a purchase undertaking) to require PBGL to repurchase the property.

The purchase price payable by PBGL under such repurchase (the "Repurchase Price") will be the aggregate of all installments paid by the Participants (through the Land Trustee/Investment Agent) under the SPA (less any voluntary prepayments). If the Land Trustee does not exercise its right to require PBGL to repurchase the property, PBGL may (under a sale undertaking) require the Land Trustee to sell the property to it for the Repurchase Price.

6. Voluntary prepayment

PBGL has the right under the sale undertaking to prepay the financing by making advance payments of the Repurchase Price.

7. Events of default and mandatory prepayment

The Land Trustee may, under the purchase undertakings, also require PBGL to repurchase the property (for the Repurchase Price) if an event of default or mandatory prepayment event occurs.

8. PBGL Security Power of Attorney

If PBGL fails to repurchase the property in accordance with the sale or purchase undertakings, the Land Trustee can make a demand under the QD guarantee.

9. Syndication option deed

As discussed above, for tax reasons, MAR had to be the sole Participant at closing. In order to enable MAR to require the other initial mandated lead arrangers to participate in the financing on the day after closing, the other initial mandated lead arrangers granted MAR an option pursuant to the "Syndication Option Deed".

Pursuant to this option, MAR could require the other initial mandated lead arrangers to purchase a portion of its commitment on the day after closing. MAR exercised this option on the 1st February 2008.

Ijarah Mawsoofa bil Thimma

Also known as Istisna followed by Ijarah, Ijarah Mawsoofa bil Thimma is generally used for Islamic project finance transactions. This structure allows the client to draw funds from financiers during the construction period of the project, with an undertaking to lease the project for a specified period of time upon its completion.

During the construction period, the financing group provides the client with funds based on achievement of key milestones in the project. The financing group, through an SPV, becomes owners of the project/asset and will lease the asset to the client (as Lessee) upon its completion. Once the lease begins, it functions exactly as described above.

Case Study — Ma'aden Phosphate Company

Ma'aden is a US$5.6 billion project which consists of a phosphate mine and a beneficiation plant, and a fertilizer production complex in Saudi Arabia. Ma'aden's sponsors are the Saudi Arabian Mining Company (70%) and Saudi Basic Industries Corporation (30%). The Istisna/Ijarah structure was used for this deal.

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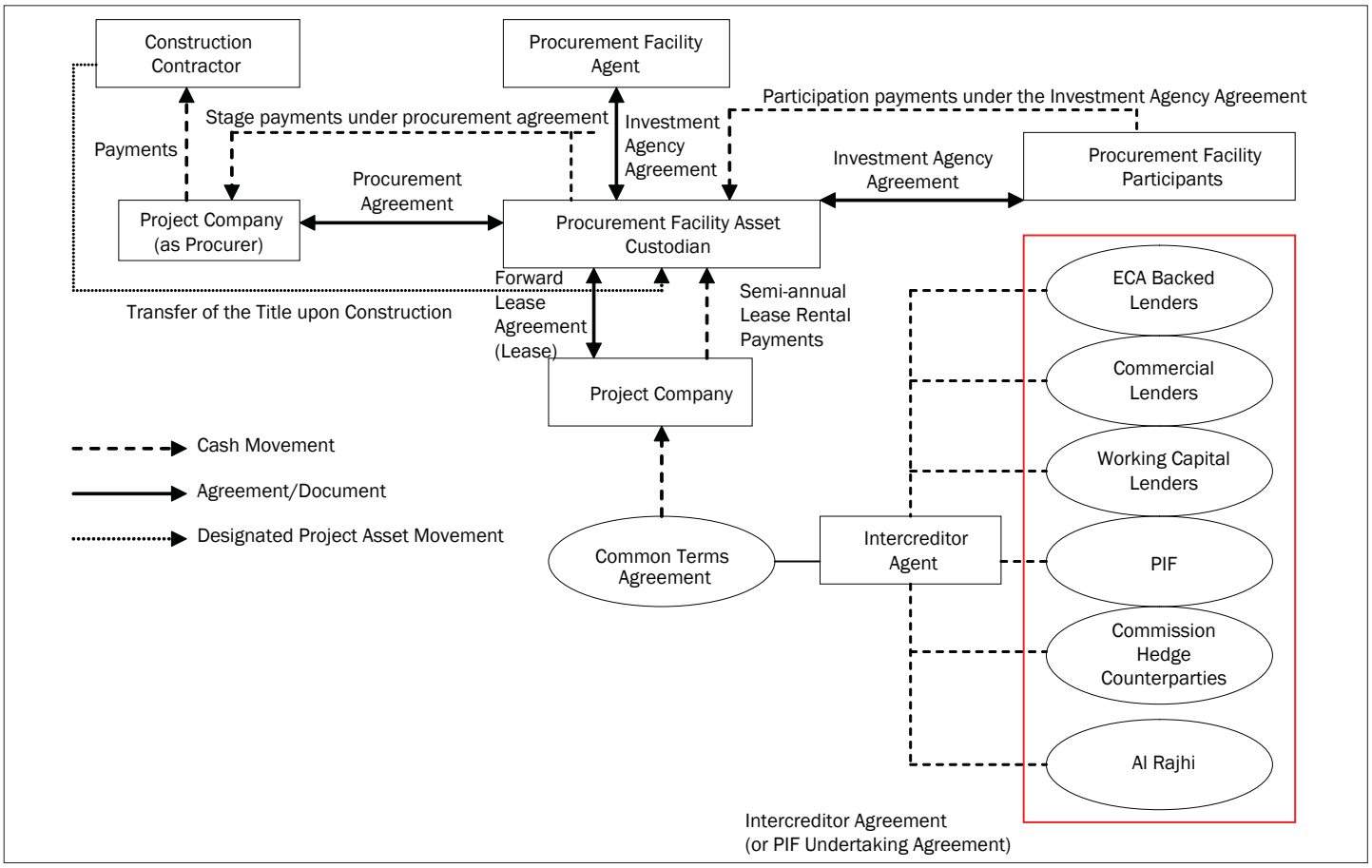

Syndicated Finance — Past, Present and Future (continued)

The facility is divided into two phases — the construction phase which is governed through a procurement agreement and the lease phase which is governed by a lease agreement to enable the lease of the assets (once constructed and delivered) to the lessee.

1. Ma'aden Phosphate Company (PhosCo) as the Procurer, the Facility Asset Custodian and the Facility Agent will enter into a procurement agreement whereby the procurer shall procure the construction, development and delivery of the assets to the facility asset custodian, which will be an SPV. The facility asset custodian will act as the custodian of the assets on behalf of the participants.

2. At the same time, the facility asset custodian (acting in the capacity as lessor) will enter into a lease agreement with the procurer (in its capacity as lessee). Pursuant to the lease agreement, the lessor, upon delivery of the assets, will lease the same to the lessee for the lease period.

   The Islamic facility agent (acting on behalf of the participants) agrees to pay the total procurement facility consideration to the procurer in the form of stage payments (stage payments).

3. Under the procurement agreement, the procurer, the facility asset custodian and the facility agent have agreed that the procurer shall procure the construction, development and delivery of the assets in accordance with agreed specifications; and that the procurer shall cause delivery to occur by the delivery date.

4. Following delivery of the assets to the facility asset custodian, the facility asset custodian (acting in its capacity as lessor) will lease the assets to the lessee as per the terms of the lease agreement.

   Following the delivery, each of the Islamic facility participants (acting through the facility asset custodian and the facility agent) will have a proportionate beneficial interest in the assets corresponding to its pro rata interest in the outstanding stage payments.

5. The lease will commence from the delivery date. The lease period will conclude on a date which is 12 years from the lease commencement date or the date on which the termination sum is paid to the lessor.

6. The lease payments due from the lessee to the lessor shall be payable on semi-annual basis of each year during the lease period.

7. Under the terms of the lease agreement, the lessor will be responsible for structural maintenance and insurance and the lessor will sub-contract such structural maintenance and insurance obligations to the service agent in accordance with the terms and conditions set out in the service agency agreement.

   The lessee will be responsible for routine maintenance and repair. In case of a total loss, the lease will immediately terminate and the lessee will not be obliged to make any further lease rental payments.

8. PhosCo will separately give an irrevocable unilateral undertaking (Waad) to the facility asset custodian to purchase the assets at the termination sum if there is any event of default or enforcement action. The Waad clearly sets out the termination sum which will be equal to the facility outstanding plus certain amounts accruing under the lease and the servicing agency agreements.

9. On payment of the final lease rental, the lessor shall transfer the leased assets to the lessee in accordance with the terms of the sale undertaking.

Future of syndicated Islamic deals

The future continues to be bright. Continuing high oil prices, coupled with demand for infrastructure to meet growing population needs, and increased corporate activity all continue to contribute to a need for Islamic finance.

It is crucial to understand that Islamic financing is not a cheaper form of financing but rather accessing a new set of investors. These investors are keen on assets that can be placed on their balance sheet to better manage their asset and liability management profile.

Product innovation, investor diversification, competitive pricing — these are all hallmarks for growth. This is indeed an enviable position for an industry that is only 30 years old but is now regularly talked of in financial circles as being a mainstream solution. Who would have believed that this industry continues to defy the skeptics?

CALYON CRÉDIT AGRICOLE CIB

Saad Rahman is the executive director and Tarek Bachnak is the assistant director at Calyon's Global Islamic Banking Department.

Next Forum Question

Although the cost of oil has dipped in recent weeks, it's still considerably higher than a year ago, and contributing to the global economic downturn. On the other hand, the increased petrodollars flowing into the Middle East is fuelling investment opportunities. What will continuing high oil prices mean to the Islamic finance industry?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Wednesday, 20th August 2008.

Islamic Syndications: Legal and Structuring Considerations

By Rustum Shah

The growth in appetite for syndications of Shariah compliant financing is consistent with the growth of Islamic finance generally. The catalyst for the Islamic finance boom is demand, based on the requirement to obtain financing which complies with religious beliefs. Huge surplus liquidity resulting from, in no small measure, record oil prices, together with increased demand for Islamic finance, has resulted in an increased supply of Islamic financial products and liquidity generally.

In the context of syndications, there is an increasingly active union between demand to tap Islamic liquidity (and possibly more competitive pricing) by tapping a wider funding base and the supply of Islamic finance, assisted by increasing amounts of Islamic deposits and a growing number of Islamic financial institutions (IFIs). While IFIs are precluded from participating in conventional loan syndicated financings, the opposite does not apply: conventional banks can (and frequently do) participate in Islamic syndicated deals.

"Raising funds using an Islamic syndication allows a corporation to diversify its funding sources; syndication opens up a wider distribution base"

Aside from demand and supply dynamics, there is also profile to be gained — arguably higher profile than a conventional facility. While "jumbo" loan transactions can make the headlines, the fact that a deal is Islamically structured or that a noteworthy corporation has taken Shariah compliant financing is often newsworthy in itself. A string of zeros after the deal adds to the profile. For corporations looking to widen their investor base, there are tangible and intangible reasons to take a very close look at Islamic finance.

Raising funds using an Islamic syndication allows a corporation to diversify its funding sources; syndication opens up a wider distribution base. This paves the way for new relationships for the corporation and potentially a more competitive and greater supply of financing options. An increasing number of corporations are taking advantage of the competitive pricing and the supply of liquidity offered by Islamic financing. However, many of the participants in Islamic syndications are not only Islamic financial institutions but also conventional institutions — a large number of them — with or without Islamic "windows", divisions or subsidiaries.

The growth in demand for Islamic facilities has led to the development of different types of Islamic financing structures, which have evolved from the vanilla Murabahah products of the 1960s. This article discusses contemporary Islamic financing syndication transactions from a legal and structuring perspective.

Islamic financial institutions

There has been an increase in the number of IFIs in the past few years. That number swells when banks which have Islamic "windows" or divisions are taken into account. Market capacity has increased, so the syndication distribution pool is expanding. However, increased numbers by themselves do not make for increased supply of Islamic finance.

IFIs are not charities; they are accountable to their shareholders for rates of return on capital and, importantly, to their customer deposit base. The latter category is perhaps even more important from a Shariah compliance perspective, because what the IFI does with the customers' Islamic deposits is ultimately a fiduciary matter. This is because the IFI is properly categorized, in Shariah-compliant terms, as not merely a deposit taking institution, but a mudarib (investment manager), with the customers being the rub ul-maal (investors). The returns that the rub-ul-maal make from their deposits is a direct function of how the IFI cum mudarib invest these funds.

Accordingly, there should be no substantive difference between an assessment on return on risk-adjusted capital on a Shariah compliant financing, as compared with a conventional loan financing. The pricing or yield determination process is the same, as is the process of assessing a corporate's credit rating.

However, even the best of credit risks may not be able to take Islamic finance if the corporate is not Shariah compliant. Corporations involved in pork, alcohol, gambling and other prohibited activities are not candidates for Islamic finance. Those which are otherwise Shariah compliant may be precluded from taking Islamic finance because the financing is for a purpose which is prohibited by Shariah or is to be used for the acquisition of an asset, company or investment which is not Shariah compliant.

Documentation protection standards are also key for any financier. IFIs should not be expected to be relaxed about covenant or yield protection. In fact, the point of reference for many participating banks in Islamic syndications is the Loan Market Association (LMA) standard loan documentation forms.

It may seem odd that this is the benchmark, but in the absence of standard Islamic financing documents, syndications are quite frequently referenced against the LMA standard provisions. Interest-bearing loans are, of course, prohibited by the Shariah, so only representations, undertakings and events of default can properly be compared with the LMA standards. Those provisions are not by themselves Shariah repugnant and are, ultimately, points of commercial and legal negotiation.

Islamic syndication structures – Murabahah

Different types of Islamic financing structures are used for syndications. The most common is the Murabahah agreement. A Murabahah is a transparent or "trust" sale contract, where the cost price plus the mark up or profit is disclosed and agreed to when entering into the transaction.

Murabahah is sometimes termed "cost plus profit" financing. Murabahah's use extends to car financing, working capital facilities, import and export financing, as well as asset financing and general corporate purposes.

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Islamic Syndications: Legal and Structuring Considerations (continued)

To structure the Murabahah transaction to be Shariah compliant, it is important that the Shariah requirements for a valid sale need to be adhered to: the object must exist at the time of sale, must be owned by the seller at the time of offering to sell it, must have value and must be delivered to the buyer. Of course, the objects of the sale should not be prohibited (for example pork or alcohol). There also needs to be certainty as to the price, as this cannot be determined at a future point in time, and the sale must be unconditional.

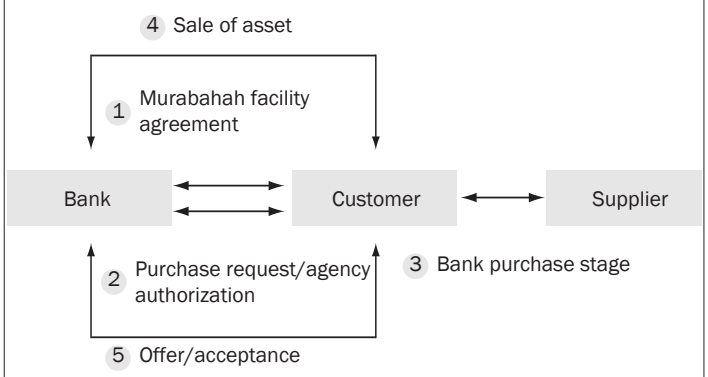
There are two types of Murabahah structures: the first is commonly termed a "true" Murabahah and the other is commonly termed a "commodity" Murabahah.

"True" Murabahah

The "true" Murabahah involves a real purchase and sale of an object which the corporation requires, for example a bank will purchase (usually with the corporate acting as the undisclosed agent of the bank) raw materials from a supplier.

Having acquired title, the bank will sell them to the customer at a sale price comprising the cost price plus profit on a deferred payment basis. The terms of the deferred payments can be in installments, "ballooned" payments or even a "bullet" payment. This is purely a commercial negotiation. Table 1 provides an outline of a "true" Murabahah transaction.

Table 1: "True" Murabahah



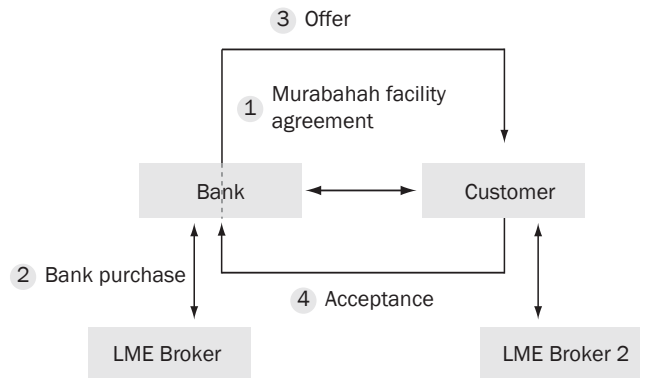
(1) The customer and the bank sign a Murabahah facility agreement (MFA) in which, amongst other things, the customer undertakes/promises to buy from the bank the object to be purchased by the bank at its cost price plus profit on deferred payment terms.
(2) When the object is required by the customer, the customer requests the bank to purchase it by authorizing the customer to act as the bank's undisclosed agent to enter into the sale contract with the supplier.
(3) The customer buys the object as the bank's agent - the bank purchase stage - and risk and title to the object passes to the bank as undisclosed principal.
(4) The customer notifies the bank that it has purchased the object and the bank makes an offer to sell it to the customer.
(5) The customer accepts the offer and the sale is conluded - the Murabahah sale stage - with title risk transferred from the bank to the customer. The customer owes the bank the sale price payable on deffered payment terms in installments or bullet payment.

"Commodity" Murabahah

In a "commodity" Murabahah (see Table 2 for an outline of a commodity Murabahah transaction) the parties' interest does not lie in the object to be bought and sold (so it is a Tawarruq transaction), but rather their cash realizable value by immediately selling them. Tawarruq derives from classical Arabic "wariq" meaning silver.

In its historical context, the purchaser in a Tawarruq transaction was only buying the object of the sale for cash or dinars (originally, silver coins). This type of transaction is the subject of a substantial Shariah scholarly debate. Some scholars take the view that it is acceptable, drawing authority from the general meaning of "whereas Allah has permitted trading" in the Koran. Further support for the legitimacy of this type of transaction is that there is no intent to charge or receive riba or interest and it facilitates persons to satisfy their financial needs.

Table 2: "Commodity" Murabahah



(1) No difference with a "true" Murabahah
(2) The bank contracts with the LME broker and buys the commodity from the LME broker - the bank purchase stage - and title to the commodity passes to the bank
(3) The bank makes an offer to sell the commodity
(4) The customer accepts the offer and the sale is concluded - the Murabahah sale stage - and title is transferred to the customer. The customer acquires the commodity and owes the bank the sale price payable on deferred payment terms in instalments or by bullet payment
(5) To realise cash, the customer sells the commodity to LME broker 2 (either directly or, more usually, by appointing the bank as its agent for this purpose)

Scholars taking a contrary view assert that, because the object of the sale is wholly irrelevant to the intended purpose of the transaction, "intermediating" an object for sale does not legitimize the result of the transaction: extension of credit. The Prophet Mohammed said: "Actions are but by intentions, and each man will have but that which he intended". There is a third view that Tawarruq is permissible, but only if certain conditions are satisfied (for example the person is in financial need and cannot satisfy that need by other Shariah compliant means).

As well as liquidity management for IFI treasury functions, the commodity Murabahah in its contemporary application has been refined for the provision of credit. The risk considerations vis-à-vis a "true" Murabahah are substantially different. In the case of a commodity Murabahah no one is really interested in the commodity or object of the Murabahah transaction — it is simply a means for the provision of finance and therefore the resulting risk considerations primarily relate to the credit risk of the customer as would be the case in a conventional financing.

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Islamic Syndications: Legal and Structuring Considerations (continued)

London Metal Exchange (LME) warrants are frequently the object of a commodity Murabahah transaction. (LME warrants are not documents of title per se but speak to the holder's possession of the commodity.) To structure a revolving commodity Murabahah transaction, the bank buys commodities from an LME broker at cost or "spot" price. Having acquired title to the commodities, the bank will sell them to the customer at a deferred sale price, comprising cost plus profit payable on a "rollover" date.

The customer will sell the commodities to another LME broker (many Shariah scholars prefer the involvement of another LME broker) to realize cash (the parties may agree that the bank sells on the commodities as an agent of the buyer). This process is repeated on each rollover date, with netting of the deferred sale price due against the cost price payable to the customer from the on-sale to the second LME broker; the net effect is that the customer pays profit only on each rollover date.

> "The correct Shariah compliance position is that following an early payment the customer is reliant upon the sole discretion of the financiers to rebate an appropriate sum on account of the prepayment, but there is no obligation to rebate"

Shariah scholars, in their review of the transaction as well as in their follow-up audits, review the sale and purchase contracts and they examine the offer, acceptance and delivery (physical delivery seldom occurs; a book entry "exchange" is invariably the case) of the commodities very carefully, noting the date, transfer of title and the offer and acceptance. The cardinal rule that an entity cannot sell what it does not own cannot be violated.

The main structuring and legal issues which arise in a syndicated Murabahah transaction include:

- How can pre-payment be structured?
- Is it possible to accelerate the deferred sale price?
- Can the financiers secure the obligation to pay?
- How is the customer incentivized to pay on time?
- Are the financiers exposed to any additional risks arising from their ownership, no matter how momentary, of the assets that are the subject of the Murabahah transaction?
- Are there any taxes payable on the sale and purchase of commodities?
- What liabilities is the bank exposed to when buying or taking title to "real" goods on behalf of customers?

Pre-payment by the customer is in principle permitted. The difficulty comes from the amount that needs to be prepaid. In a Murabahah transaction, the full amount of the sale price, comprising the cost price plus the full amount of profit, needs to be paid — even if the payment is made prior to the scheduled deferred payment date. This is because it is not possible to discount the deferred sale price payable on account of early payment by a pre-agreement amount or proportion as this would render the Murabahah transaction as one of riba: time value of money or interest.

The correct Shariah compliance position is that following an early payment the customer is reliant upon the sole discretion of the financiers to rebate an appropriate sum on account of the prepayment, but there is no obligation to rebate. The rebate is effectively Hibah or gift. Customers unfamiliar with Islamic financing usually object to the idea of giving financiers complete discretion, but many come round to accepting the position once they understand the Shariah principle to be complied with.

In many instances, whilst not formally recorded, the fact that a rebate will be granted is taken on trust, so that the customer would be commercially no worse off than if it prepays a loan early. That trust is made more palatable when the customer has relationship banks arranging the financing or forming part of the syndicate, aside from any arguments based upon oral variations or supplements to the Murabahah transaction. Acceleration of the due date for payment of the deferred sale price (so that it becomes due and payable immediately or on demand, following the occurrence of an event of default and, invariably, a majority bank decision to accelerate) is permissible.

In brief terms, the rationale for permitting acceleration is that customers are bound by the conditions that they agree to. Accordingly, if a customer agrees on a list of events of default (non-payment, breach of financial covenants, breach of other obligations, misrepresentation, insolvency proceedings etc) and agrees that acceleration can occur following the occurrence or continuation of an event of default, then the customer is so bound.

Taking security, including guarantees, to secure the customer's obligations is generally not an issue for Shariah compliance. In fact, there is a body of Shariah opinion that holds that taking security is beneficial as it better incentivizes the customer to comply with its obligations and therefore reinforces the sanctity of the Murabahah transaction.

There needs to be a mechanism in place which encourages the customer to make payment to the financiers on time. This is usually covered conventionally by a default interest provision.

For a Shariah compliant transaction, a reasonable "late payment" charge may be levied against the customer, but the proceeds must be paid, on behalf of the customer, to a charitable cause that is Shariah acceptable at a rate which is reasonable. There are some differences in approach, however, as to whether the banks' agent will pay across to charity or the agent will pay to the banks individually so that they comply with the Shariah position.

This is often a difficult point to reconcile with the conventional banks' desire to retain "default compensation" and their internal policy or governance restraints in paying over to charities which they do not pre-approve. Conventional banks' desire to retain "default compensation" (just like default interest on a loan) can be placated to some extent

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Islamic Syndications: Legal and Structuring Considerations (continued)

by the fact that Shariah scholars will permit banks to retain for their own account sums required to reimburse the banks for actual costs incurred as a result of the non-payment. This is intended to be truly compensatory and not payment for any opportunities lost to generate interest or breakage costs. It is quite usual to see the charity for late payment compensation being designated as The Red Crescent Society as no banks have any objection to this organization.

No matter how small the time period that the banks (even if indirectly through the agency of the customer buying directly from the seller) acquire ownership of the object or assets that are the subject of the Murabahah transaction, the incidence of ownership may result in potential liabilities, ranging from contractual to statutory. The former are usually easy to deal with as any contractual responsibilities will be excluded to the extent permitted by law. Likewise for statutory duties.

However, in instances where exclusion is not permitted, ultimately financiers may need to get comfortable with the idea that the risk is low or remote, particularly if their ownership is for a fractional moment between their purchase and the Murabahah on-sale to the customer. As with liability issues, the taxation position on any purchase and sale transaction needs professional advice. Taxes that could arise include sales, turnover or value added tax types or income taxation as a result of buying and selling an asset in the relevant jurisdiction.

As a practical matter, if counsel advises that there is more than a remote chance of such tax liability arising, the prospects for a Murabahah financing are slim. The same applies to any regulatory considerations which may impact on a bank owning, again no matter how short a time period and however indirectly, assets or commodities: certain regulatory agencies or central banks preclude banks that are only lending in an authorized manner from owning commodities or trading in them. Accordingly, even if a commodity Murabahah transaction is ultimately financing in nature, for some banks regulatory clearance or prohibition does affect their ability to participate in syndicated Murabahah transactions.

There is no interest payable on a Murabahah transaction, but payment of profit can be benchmarked to Libor (London Interbank Offered Rate). Libor benchmarking often raises eyebrows, but cynics often miss the point: the profit is equal to what a conventional bank would earn but it is earned in a halal way. In a loan transaction, there is merely a "renting" of money. In a Murabahah transaction there is a sale of an object from which profit is derived.

The risk for the financier in a Murabahah transaction is that, however momentary, if the object of sale is lost or destroyed, then (remembering that in a Shariah compliant sale the object must be owned, exist and have value at the point of sale) it is a risk assumed by the financier, justifying the profit reward. In a loan transaction there is, obviously, no corresponding risk.

This is an excerpt from Islamic Finance: A Practical Guide published by Globe Law and Business. For further information on the book please visit www.gbplawbooks.com/isf.

The Challenges Facing SWF — Sudden Wealth Funds

By Paul Wouters

Sovereign wealth funds (SWF) have been around for decades. The first reported SWF was the Kuwait Investment Authority (KIA), a commodity SWF created back in 1953 from oil revenues. With Russia, Norway, Singapore, China — and now even Brazil — lining up, it will be clear that SWF are not a strictly Middle East phenomenon.

Oil production represents more than two-thirds of the wealth and its importance is increasing rapidly, linked to the present hike in oil prices. That growth is neither organic nor previsible. By consequence, investment of these sudden riches is taking place at an unprecedented massive scale without a sufficient statistical framework and track-proven investment strategy.

Any experienced portfolio manager would be hesitant to take up such a task. Besides any economic turbulence worldwide, a sudden setback on the oil market prices or even the US dollar could seriously harm the investment strategies that are being developed for the present accelerated and seemingly unlimited growth expectations.

Another downside of the present surge in oil prices is that alternative energy is very quickly becoming more affordable. The energy production and supply grids are already beginning to strategically realign towards the raw materials that will always be there and are for free: solar and wind energy. Therefore, the Middle East SWF, while embracing the present unexpected windfall, should turn to the future and invest in precisely those competing industries or the region may end up losing valuable market share.

Selected Sovereign Wealth Funds (SWF)

Country	SWF		Assets (US$ billion)	Source
UAE	Abu Dhabi Investment Authority	ADIA	250-875	Oil
Singapore	Government of Singapore Investment Corp (excl Temasek)	GIC	330	Other
Norway	Government Pension Fund	GPF	322	Oil
Kuwait	Kuwait Investment Authority	KIA	250	Oil
China	China Investment Corp	CIC	200	Other
Russia	Stabilization Fund[1]		127	Oil
Brunei	Brunei Investment Authority	BIA	35	Oil
Malaysia	Khazanah Nasional		18	Oil
Sovereign external assets				
Saudi Monetary Agency and Gov. Institutions			300	Oil

Source: State Street "Vision Report on SWF" (23rd July 2008)

[1] Recently split into Reserve Fund US$125 billion and National Welfare Fund US$25 billion

The SWF have grown considerably in size over the last six years, using conservative investment policies and staying virtually unnoticed. Their recent friendly "white knight" entry in UBS and Citi as part of the subprime clean up has however sparked discussion. At first, the help offered by the SWF was welcomed. The local economies did not suddenly need to jump to provide aid for their ailing finance institutions; they could stream those resources to other growth providing sectors. Instead of just keeping the status quo of mere survival, faster growth could be the result.

Freedom of Investment and the G8 Heiligendamm Declaration
... We remain committed to minimize any national restrictions on foreign investment. Such restrictions should apply to very limited cases which primarily concern national security. The general principles to be followed in such cases are non-discrimination, transparency and predictability. In any case, restrictive measures should not exceed the necessary scope, intensity and duration. Applicable treaties relating to investment remain unaffected. We encourage the OECD to continue its work on these issues, especially by identifying best practices and by further developing general principles. We will work with the OECD and other fora to develop further our common understanding of transparency principles for market-driven cross border investment of both private and state-owned enterprises...
Extract from Heiligendamm G8 Declaration June 2007, paragraph 11

But then, the wording of the Heiligendamm Declaration was barely cold before the focus was narrowed to the perceived dangers of the vulnerability of the existing economic model combined with the ease with which foreign help was extended and a doomsday scenario began to crystallize and protectionist reflexes gained field. And it can be assumed that somewhere in that mass of asset managers and the billions of US dollars that are controlled, some mishap will show that will grab international attentions, if only because of the ultimate owner's SWF.

"The Middle East SWF, while embracing the present unexpected windfall, should turn to the future and invest in precisely those competing industries or the region may end up losing valuable market share"

It is comforting to see that world leaders are able to objectivize the nuance between governments and financially driven investment vehicles. The International Work Group on SWF, co-chaired by representatives of the International Monetary Fund (IMF) and the Abu Dhabi Investment Authority (ADIA), will prove to be a valuable tool.

Middle East investments primarily set out to acquire foreign assets and are historically not predisposed for Islamic products. They nevertheless mostly adopt an ethical investment strategy. After the stock market corrections, money and commodity market products

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The Challenges Facing SWF — Sudden Wealth Funds (continued)

appear to be popular at the expense of equity. They also show an inclination towards real estate and fixed income instruments, with a growing appetite for private equity. Shariah compliant investment shows the same trends, except for an underdeveloped fixed income allocation that reflects the present lack of depth in the Sukuk markets. Southeast Asian Islamic global SWF mirror mostly the conventional mutual funds in composition, which confirms the local maturity of the Sukuk for fixed income.

Every asset manager (read: government) owes a fiduciary duty towards its clients (read: citizens) to manage the assets entrusted to it as a bonus pater familias (a prudent and professional financial institution or payment system). Good portfolio diversification fundamentals are an elementary course of any financial management education. A basic layer of secure denominated, but mostly low yielding, (foreign) government bonds will do for a start, but prudent asset allocation in the end pushes portions of the assets to more risky equity investment.

As the SWF grow, parts of the available funds by necessity will shift to more short term investments. On those allocations necessarily more market-driven investment protection strategies will be implemented. Though not aggressive in nature, the investments are not for charity purposes either. It makes no sense to deny this financial axiom.

The SWF also showed a noticeable appetite to acquire big ticket stakes in conventional financial institutions. The heavy involvement in that industry however means that the next credit crunch will be partly absorbed at the expense of the Muslim world. Though the resources will be sufficient to sustain the damage, important wealth destruction may be expected. From a pure Shariah point of view and with so many other investment options available, one wonders about the rationale behind those investments. The targeted banks are literally pools of interest streams and companies like UBS and Citi hardly list on any of the Dow Jones Islamic Indexes.

Converting any of these institutions to Islamic units is not realistic given the fact that they are too embedded in the interest-bearing industry. Exemplary ethical behavior, active striving for good governance and non-intrusive education will be the way to change the mindsets and trigger demand for Islamic windows. After all they offer ethical solutions, have proven high yield returns and may appeal to an extremely large consumer base that can hardly be neglected. It may be perceived that the European markets are more receptive to ethical solutions. On the other hand, since the American market is already more integrated, taking steps there may prove to be easier from a regulatory point of view.

Overall, the boost of available liquidity in terms of volume will necessarily result in growing research and product development for the Islamic finance industry and the search for more ethical investment behavior. The present growth of the SWF will also be reflected in the expanding market of secondary buyouts (private equity funds that take over companies which are already in the portfolio of other private equity funds in order to propel them to another and higher stage of their development). The bigger asset volumes will open markets for upscale leveraged, big Islamic compliant transactions that will hit the front pages.

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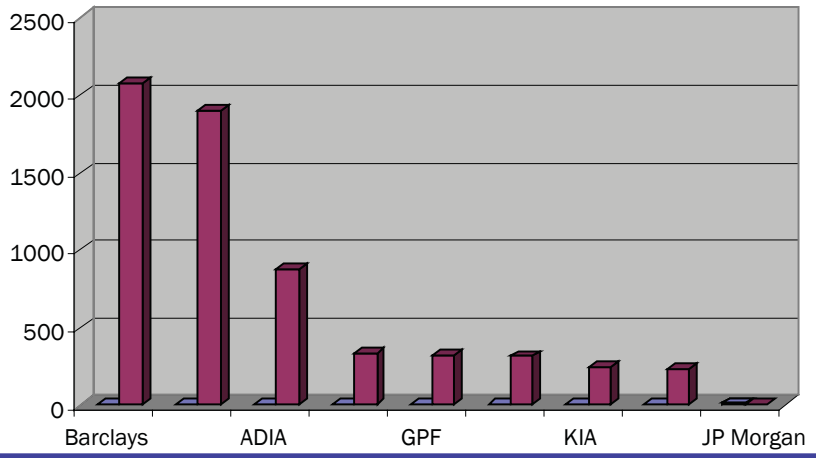
Assets under management
The largest SWF as compared to selected institutional investors



Institutional Investors	SWF
1. Barclays Global (largest asset manager)	6. Abu Dhabi Investment Authority
2. State Street (asset manager)	7. Singapore Gov. Investment Corp
3. ABP Netherlands (largest European pension fund)	8. Norway Gov. Pension Fund
4. California Public Employee Retirement System (largest US pension fund)	9. Kuwait Investment Authority
5. JP Morgan (largest hedge fund)	

Source: company websites (accessed 7th August 2008) – State Street "Vision Report on SWF" (23rd July 2008)

Being Ethical is a Tough Business

By Bindesh Shah

The Islamic finance market is very young but expanding rapidly. One of the drivers of that expansion is the huge amount of liquidity in the Gulf region. Another is the strong economic growth in countries like Malaysia and Indonesia. This is creating a large pool of investable assets, some of which are already Islamic. Within both regions, though, there is a move toward doing more and more investing in Islamic structures.

In spite of this, there is a dearth of good quality Shariah compliant products. Indeed, in the alternative space there are almost no products or no products at all.

It is highly likely that the investment industry in the Islamic sector will move in the same direction as the conventional sector, where there has been a shift toward alternative assets because of the desire to create more predictable and higher returns. This will happen in the Islamic sector as well.

Potentially, over the next few years, there will be up to US$90 billion available to the Islamic hedge fund market. That's still small relative to the conventional alternative investment sector but it's still big enough that even a small share is a prize worth having.

Part of the reason for the dearth of alternative Islamic funds is that they are very time-consuming and difficult to launch. A conventional hedge fund takes, on average, a year and a half to go from idea to market.

By contrast, it can take at least three years to launch a Shariah compliant fund. An Islamic fund faces hurdles unknown to conventional hedge funds — specifically constructing a Shariah vehicle and getting it approved by Shariah scholars. This takes time and patience, particularly in launching something new and untested.

Making an alternative investment of any sort of Shariah compliant is just the first hurdle. The second is attracting high quality managers, given that many are put off by the constraints they feel they would be faced with. The third is managing everything in a cost effective way so as to avoid creating any additional ongoing cost for the fund and hence ensure that it is no more expensive to run than a conventional fund.

Of course, there will be differences in the cost structure, but the net effect should be broadly equal. This is necessary to reassure investors that their returns will not be hurt.

The first step in creating a Shariah fund is to set up a Shariah supervisory committee, which passes judgment on the legality of the proposed fund's structure. It's important to understand that there's not one body of thought in Islam; there are several schools.

It is essential to have a Shariah supervisory committee that covers most of these different schools and get the committee members to come to some sort of agreement.

If you don't, you could find yourself with a challenge in the Gulf, say, or Malaysia. It's equally important to get a consensus decision instead of relying on a majority vote. At the end of the day, the entire committee needs to be comfortable with the decisions it makes.

As well, there are other, specific problems with particular hedge fund strategies. Take, for instance, equity long/short, one of the principal hedge fund strategies, covering about 40% — 60% of the market.

The key problem with equity long/short from an Islamic perspective is that shorting in the conventional sense is not acceptable. First, shorting involves selling something you don't own, and under Islamic law that is illegal. Secondly, when a manager receives the short proceeds, they are put in a bank account and earn interest — which, as is well known, is also not allowed.

The trick is to devise a new structure that retains the economics of shorting but takes away these issues while maintaining the commercial viability of the fund. It can't just be fine from the Shariah perspective: it's about everything coming together. In setting up an Islamic fund of funds, the real test for an underlying manager is not whether he or she is willing to give it a try but whether he or she can make money.

One other point: not only must the managers be able to work within the structure, but the prime brokers must be able to implement it.

"It is highly likely that the investment industry in the Islamic sector will move in the same direction as the conventional sector, where there has been a shift toward alternative assets because of the desire to create more predictable and higher returns"

Most of the legal documentation in the conventional hedge fund sector has been developed over the past 20 years, and much of it is unacceptable under Islamic law. This means a great deal of work with the prime brokers, reengineering their systems and rewriting legal documentation.

Let's look at what managers have to do that's different in an Islamic fund of funds. First, it would not be possible for a Shariah compliant fund to invest in the managers' conventional funds because they will have any number of investments in them that would not be Shariah compliant.

Essentially, underlying managers can only run a dedicated managed account. They are offering investment expertise. In the end, this simplifies things because they are not required to run a fund.

The next thing they need to take into account is that every investment must be checked against a Shariah screening system and

continued...

Being Ethical is a Tough Business (continued)

scrutinized to see if it meets an Islamic fund's criteria. This can be unnerving for some managers.

From the point of view of an Islamic fund of funds, the best managers are likely to be value managers, operating concentrated portfolios. They're the most suitable to work in the Shariah space where the investment universe is limited by Shariah criteria and managers need to look at the stock more fundamentally than otherwise.

> "Many academic studies have shown that if managers select from a smaller pool of stocks the returns are not reduced but the volatility is slightly increased"

One of the criticisms of Shariah compliant funds is that if the investment universe is reduced, then returns must also be reduced. Fortunately, that's not true. Many academic studies have shown that if managers select from a smaller pool of stocks the returns are not reduced but the volatility is slightly increased. Even that can be quite marginal if the universe of potential stocks numbers in the thousands rather than in the hundreds.

There is also the issue of the number of underlying managers. Shariah compliant funds of funds will tend to have fewer managers than conventional funds of funds — principally because there are fewer managers who can meet the criteria of Islamic funds.

Some people say a true fund of funds needs a multiplicity of underlying managers to gain the benefits of diversification. But academic study after academic study has shown that you get 80% of the benefit of diversification by using just five managers.

Finally, even marketing a Shariah compliant product is different. Doing business in the Islamic world is about building relationships. You need to spend time and effort to get to know the clients and understand their businesses. This can mean spending a lot of time in the region — not necessarily a hardship but not something you need to do with a conventional fund either.

Amiri Capital was founded in early 2006 by Bindesh Shah and Richard Ellis. The firm develops, markets and distributes Shariah compliant investment products for Islamic investors worldwide and has developed its own proprietary Shariah Screening System called Amiri S3, which scrutinizes about 36,000 stocks globally for Shariah compliance.

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

Name: Derek Weist

Position: Director and Head of Corporate Banking

Company: Bank of London and The Middle East

Based: London

Nationality: British

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

I started my career with Ernst & Young in London, working as an auditor in the banking group. I moved to the United Bank of Kuwait (UBK) in 1991 and joined its fledgling Islamic unit in 1993. As UBK was an extremely forward-looking bank, we were given the resources to develop and implement a number of products for the Islamic market. Following management changes at UBK, I moved to ABC International Bank (ABCIB) in London in early 2000 where we continued to develop Shariah compliant products. In 2006, I had a brief spell running ABCIB's Islamic business in London before joining BLME in 2007 to run its corporate banking business.

What does your role involve?

My role is evolving with the development of the bank — one of the exciting aspects of joining a new organization is to be an integral part of its development. We provide Shariah based financing in the property, trade finance, project finance and equipment leasing sectors in the UK, Europe and the US. My role is to manage and coordinate these activities, providing advice where I can and ensuring that the financing activities of the bank are appropriate, efficiently managed and profitable for BLME.

What is your greatest achievement to date?

I still look back with pride at the Shariah compliant healthcare property fund that I put together at UBK in 1996 — one of the first Islamic property funds to be developed in the West. More recently, I am very proud of the achievements of the corporate banking team at BLME, where we have built financing volumes and revenues ahead of budget, thanks to the support of the staff and major shareholders of BLME.

Which of your products/services deliver the best results?

An interesting question — the best results for whom, the bank or our customers? Whichever way you look at it, the interests of BLME and its customers are strongly aligned. We pursue long term business relationships with our customers, provide them with finance at a fair price and try to be as flexible as possible in providing the type of financing that they require. A good example of this is the funding we provided for a US company called "Edible Arrangements," a Muslim-owned franchise company that sells fruit arrangements that can be provided as an alternative to giving flowers. We financed their national TV advertisement campaign, and will help them develop an equipment leasing program for their 800 franchised branches.

What are the strengths of your business?

I think that the biggest strength is that we have a coherent, quality business plan, and we have the people to carry it out. The employees, Shariah supervisory board, directors and shareholders are all working to the same achievable goals.

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

I have to admit that we have been very fortunate in the timing of our launch. The "credit crunch" and related lack of liquidity at some banks has meant that many customers are approaching us for financing. These include non-Muslim customers who perhaps want to diversify their funding sources, or who seek a more ethical approach to banking. In turn, we have been flexible and responsive enough to take advantage of this, and have had the strong support of many of our shareholders, who have provided us with sufficient liquidity to deliver our products to the market.

What are the obstacles faced in running your business today?

The biggest obstacle is recruiting high caliber staff to take advantage of the opportunities in the market at present. Although we have succeeded in growing rapidly during the last 18 months, we have been very careful to recruit the right people. This inevitably takes time, but is the only way to grow successfully.

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

I see significant further growth. During the last five years, the industry has grown rapidly, with higher demand for Shariah compliant financing. This has prompted additional participants into the market to develop and implement many more Shariah compliant products. The increased variety of product, the innovative nature of much of the new business and, frequently, the strong investment performance, has prompted additional investors into the sector. I see this "virtuous circle" of growth continuing.

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

There has rightly been some criticism of some of the new "Islamic" products that attempt to emulate their conventional equivalents, such as futures, options and other derivatives. However, I would like to see more rapid development of Shariah based products that can mitigate risks while avoiding speculation or uncertainty, so that Islamic financial institutions can legitimately hedge positions and reduce market risks accordingly.

BLME BANK OF LONDON AND THE MIDDLE EAST

The Bank of London and The Middle East offers Shariah compliant investment and financing products to financial institutions, corporates and high net-worth individuals in Europe, the US and the MENA region.

CIMB Islamic DALI Equity Theme Fund

FUND TYPE	Growth
FUND MANAGER	CIMB-Principal Islamic Asset Management
BOARD OF DIRECTORS	Charon Wardini Mokhzani, Noripah Kamso, Raja Noorma Raja Othman, Badlisyah Abdul Ghani, Peter William England, Rex Auyeung, John Campbell Tupling, Ned Alan Burmeister, Arif Awang, Loong Chun Nee, Anwar Aji, Wong Joon Hian, Tunku Ahmad Burhanuddin
DATE OF LAUNCH	28th February 2008
MAXIMUM APPROVED FUND SIZE	1.35 billion units
FINANCIAL YEAR-END	30th November
INVESTMENT TIME HORIZON	Recommended five years or more
INITIAL INVESTMENT	The minimum initial investment for the fund is RM1,000 (US$300) or such amounts as the manager may from time to time decide.
FUND OBJECTIVE	To provide investors with medium to long-term capital appreciation through investment in securities of Malaysian companies that will benefit from prevailing investment themes and that conform with Shariah principles.
DISTRIBUTION POLICY	Distributions, if any, are incidental and are at the discretion of the manager.
BENCHMARK	FTSE Bursa Malaysia EMAS Shariah Index
TRUSTEE	AmTrustee
SHARIAH ADVISER	CIMB Islamic Shariah Committee, comprising Mohammad Hashim Kamali, Mohd Nai'm Mokhtar, Shafaai Musa and Zainuddin Jaffar
SOLICITORS	Soon Gan Dion & Partners
CONSULTING ACTUARIES	Mercer Zainal Consulting
FUND STRATEGY	To invest in sectors related to the prevailing domestic and/or global investment themes. To identify the investment themes, the Manager will consider prevailing and potential macro economic factors and trends, social and political developments as well as technological advances that may reveal specific thematic investment opportunities.
RISK	Stock specific, company specific and sector specific risks.

AAOIFI — Bahrain

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has appointed Oliver Agha to its Accounting and Auditing Standards Board (AASB) and Auditing and Governance Standards Committee.

Agha is the global head of Islamic finance at DLA Piper, one of the largest global law firms. He is the only international lawyer on the AASB.

S&P — US

Standard & Poor's has announced David Jacob as the new executive managing director and head of structured finance ratings.

He is considered a pioneer in the securitization industry, and has 25 years of experience in fixed income investment analysis and the structured finance markets. He will be replacing Vickie Tillman who has been acting head since January following Joanne Rose's appointment as S&P's executive managing director for risk and quality policy.

UBS — Switzerland

Markus U Diethelm will be joining UBS as group general counsel. Currently the group chief legal officer of Swiss Re, he has been with the bank since 1998. The attorney started his career in 1983 with Zurich law firm, Bär & Karrer.

Meanwhile, John Cryan, currently head of the financial institutions group at UBS, will replace Marco Suter as group chief financial officer. Cryan's appointment will take effect on the 1st September 2008.

STANCHART — UAE

Ashraf Al Sawalhi is the bank's new head of global markets for UAE. He will also be a member of StanChart's UAE management committee, which takes decisions on all aspects of the bank's performance, internally and externally, across the market.

Prior to his appointment, he was senior vice president for financial markets (MENA) at an international bank, where he was responsible for increasing desk revenues and formulating global strategic initiatives for foreign exchange options, derivatives and local market sales.

CREDIT SUISSE — India

The group has appointed Sughosh Moharikar and Samita Shah as managing directors of its investment banking department.

Moharikar will oversee mergers and acquisitions (M&A) advisory activities in India. He spent 14 years with Kotak Mahindra, where he last served as executive director and head of M&A.

Shah will focus on emerging large-capital client coverage, facilitating the delivery of the full capabilities of Credit Suisse to clients in India. She has 15 years of corporate finance experience. Previously, she was with Lehman Brothers as managing director and co-head of the Asia Special Situations team.

Ashim Ahuja has been appointed as a director of the investment banking team. He will cover clients in the resources and infrastructure sectors. He joins from Deutsche Bank, where he was director for global corporate finance.

CITIGROUP — Global

Rosario An has been appointed as director and head of securities lending, to be based in Tokyo. He will lead the group's development of a synthetic equity finance platform in Japan. He previously worked in Deutsche Bank and UBS. Also joining the Japan team is Sakura Sugibayashi, as vice president and senior synthetic equity trader, who was attached to Morgan Stanley.

Meanwhile, in Sydney, Maria Hilado will be attached to the equity finance division. She was UBS's head of prime brokerage operations in Australia. In her new position, she will provide client services to the increasing number of Australian-domiciled hedge fund managers and the Australian investment and pension fund industry.

The Hong Kong office has made appointments, all internal transfers within Citi itself. The group appointed Nigel Quy as the new vice president in funding, Charles Lam as business development manager, Rob McVie as client service manager and Alison Saito as product development manager.

In Singapore, Danielle Vint has been transferred from the fixed income desk to the prime finance team to focus on the FX client side of the business.

BNP PARIBAS — US

BNP Paribas has named Adnan Zuberi as a director on the structured credit desk, based in New York. He joins from JPMorgan Chase, where he had been an executive director in structured credit since 2007.

Sebastian Galy has also been appointed to its foreign exchange (FX) strategy team in the New York office, as head of FX research function covering global currency markets. Prior to his appointment, he was a senior currency strategist at Dresdner Kleinwort in London.

MERRILL LYNCH — Asia Pacific

Michael Halloran will take up his new post as Merrill Lynch's new head of Asia-Pacific fixed income, currencies and commodities at the end of September.

Halloran was previously attached to UBS as the head of Asia Pacific fixed income. He will be replacing Anthony Hung, who has been appointed Merrill's head of Pacific Rim wealth management.

DEUTSCHE BANK — Australia

Trent Doughty has been appointed head of Deutsche's private wealth management for Australia and New Zealand. He joined in 2007 in Singapore, but will be relocating to Sydney.

Prior to his appointment, he was a director in Citigroup's investment advisory business.

SOROUH — UAE

B R Kiran has joined Sorouh Real Estate as development director for mixed-use property developments in Abu Dhabi.

Kiran has 18 years of experience in developing mixed-use projects. Previously, he was the development manager for Nakheel, and had worked on several prestigious mixed-use developments, including the Palm Jumeirah, Dubai Promenade and Jumeirah Heights.

Deal *tracker*

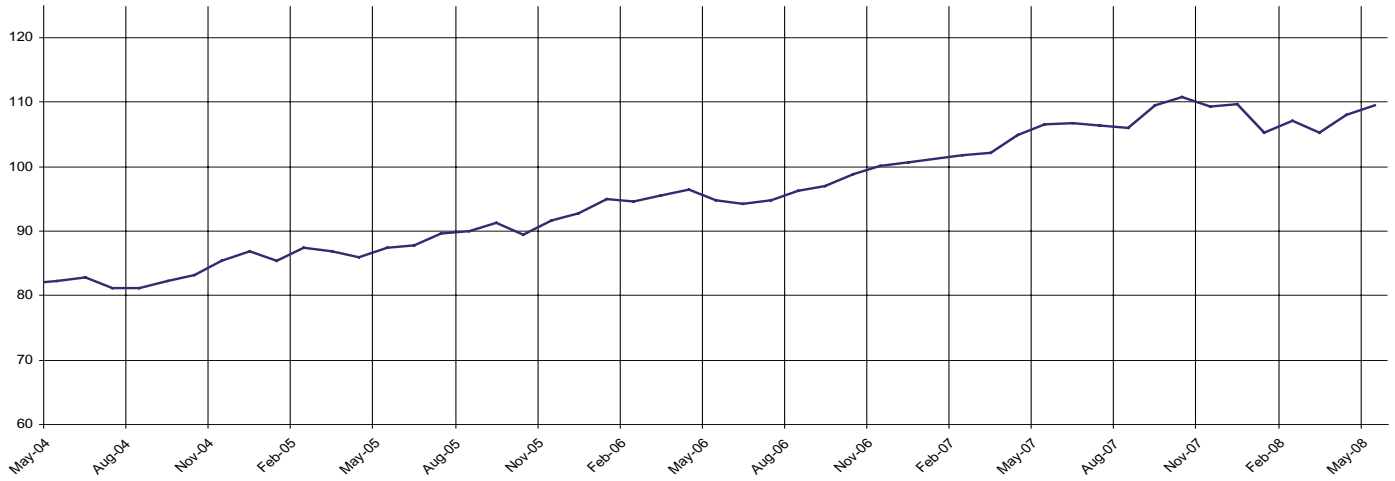
Keeping you abreast of the world's upcoming Shariah compliant deals

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
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
Prolintas	US$187	US$93.5 million senior Ijarah, US$93.5 million junior Musharakah
Monetary Authority of Singapore	TBA	Sukuk
Islamic Development Bank	US$122.75	Ijarah
UMW Toyota Capital	US$306.9	Musharakah CP/MTN

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

Eurekahedge Global Islamic Fund Index



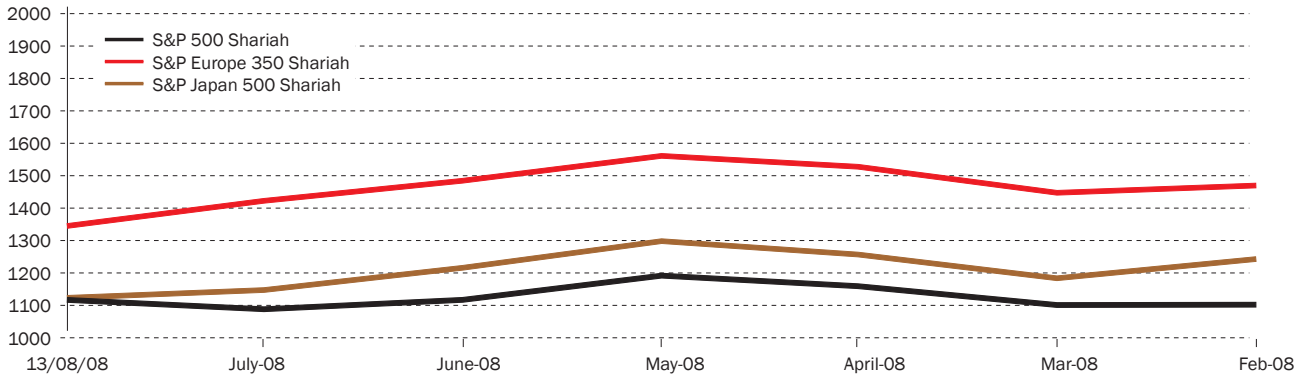
Monthly returns for Global funds (as of the 14th August 2008)

	FUND	MANAGEMENT COMPANY	PERFOMANCE MEASURE	FUND DOMICILE
1	First Arabian Equity 2000 Fund	First Investment Company K.S.C.	11.44	Bahrain
2	SI Dana Saham Syariah	Batavia Prosperindo Aset Manajemen	10.86	Indonesia
3	TRIM Syariah Saham	Trimegah Securities	10.49	Indonesia
4	CMS Islamic Balanced Fund	CMS Trust Management	10.33	Malaysia
5	Mandiri Investa Atraktif - Syariah (Mitra Syariah)	Mandiri Manajemen Investasi	8.77	Indonesia
6	TRIM Syariah Berimbang	Trimegah Securities	7.98	Indonesia
7	Syariah Fortis Pesona Amanah	Fortis Investments	7.57	Indonesia
8	CIMB Islamic Equity Growth Syariah	CIMB-GK Securities	7.55	Indonesia
9	Alfanar Europe	International	7.48	British Virgin Islands
10	Kausar Balanced Growth Syariah Fund	CIMB-GK Securities	7.08	Indonesia
	Eurekahedge Islamic Fund Index*		***0.68***	

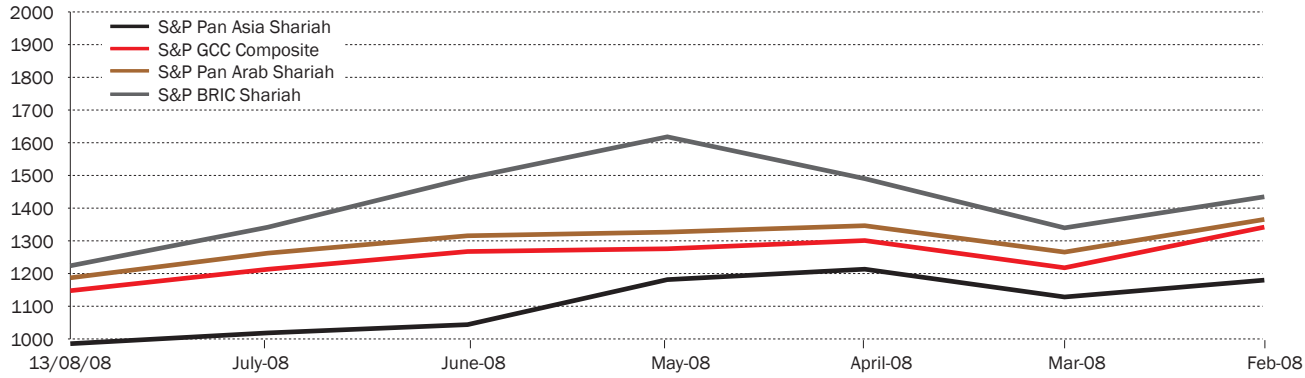
Monthly Returns for ALL funds (as of the 14th August 2008)

	FUND	MANAGEMENT COMPANY	PERFOMANCE MEASURE	FUND DOMICILE
1	DWS Noor Precious Metals Securities Fund - Class A	DWS Noor Islamic Funds	6.91	Ireland
2	CIMB Islamic Global Equity Fund	CIMB-Principal Asset Management	6.84	Malaysia
3	AlAhli Small Cap Trading Equity Fund	The National Commercial Bank	5.10	Saudi Arabia
4	DWS Noor Global Select Equity Fund - Class A	DWS Noor Islamic Funds	4.68	Ireland
5	Emirates Islamic Equity Trading Fund - Sophisticated Share Class	Emirates Bank International	4.18	Channel Islands
6	NTUC Amanah Equity Fund	State Street Global Advisors	4.16	Singapore
7	iShares MSCI World Islamic	Barclays Global Investors	3.65	Ireland
8	Citigroup Islamic Portfolio Equity B	Citigroup Islamic Portfolios SA	3.46	Luxembourg
9	Global Equity Trading Fund - Al Manal	Samba	3.29	Saudi Arabia
10	JPM Islamic Global Dynamic Equity Fund (USD) A (acc)	JPMorgan Asset Management - Global Portfolios Group	3.28	Luxembourg
	Eurekahedge Global Islamic Fund Index*		***1.24***	

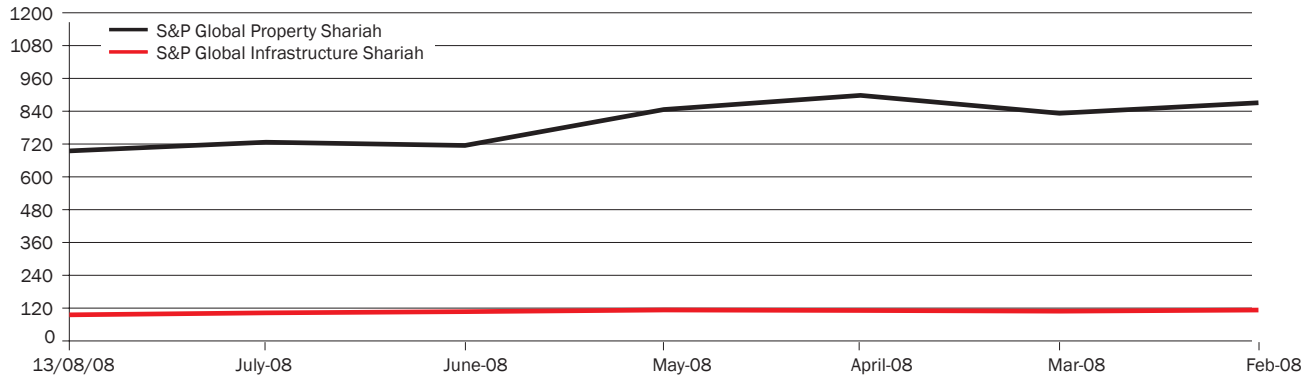
S&P Shariah Indices Price Index Levels



Index Code	Index Name	13/08/08	July-08	June-08	May-08	April-08	Mar-08	Feb-08
SPSHX	S&P 500 Shariah	1116.770	1088.084	1117.006	1191.671	1159.136	1101.027	1102.059
SPSHEU	S&P Europe 350 Shariah	1345.060	1422.505	1484.523	1561.127	1527.614	1447.319	1469.692
SPSHJU	S&P Japan 500 Shariah	1123.321	1147.273	1215.95	1298.106	1256.791	1183.592	1242.786



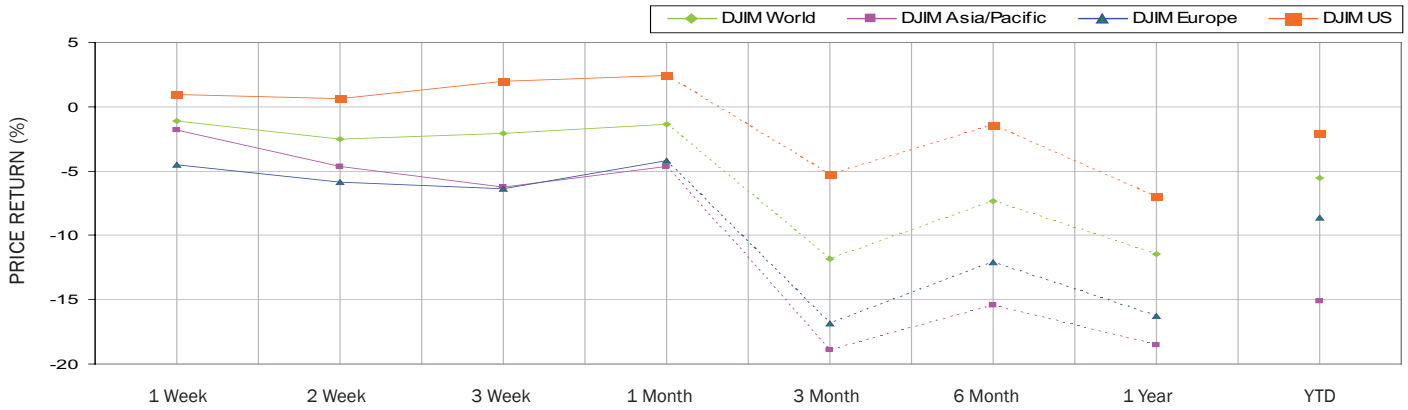
Index Code	Index Name	13/08/08	July-08	June-08	May-08	April-08	Mar-08	Feb-08
SPSHAS	S&P Pan Asia Shariah	985.470	1018.429	1043.774	1181.396	1213.284	1128.294	1179.878
SPSHG	S&P GCC Composite Shariah	1147.540	1212.987	1267.310	1275.791	1300.940	1217.617	1341.970
SPSHPA	S&P Pan Arab Shariah	1186.940	1262.353	1315.524	1326.664	1346.319	1265.531	1365.488
SPSHBR	S&P BRIC Shariah	1223.720	1341.591	1491.666	1618.083	1490.222	1339.677	1434.744



Index Code	Index Name	13/08/08	July-08	June-08	May-08	April-08	Mar-08	Feb-08
SPSHGU	S&P Global Property Shariah	694.848	726.645	714.774	846.205	897.914	832.467	870.938
SPSHIF	S&P Global Infrastructure Shariah	95.430	102.631	107.070	113.133	111.336	108.755	112.966

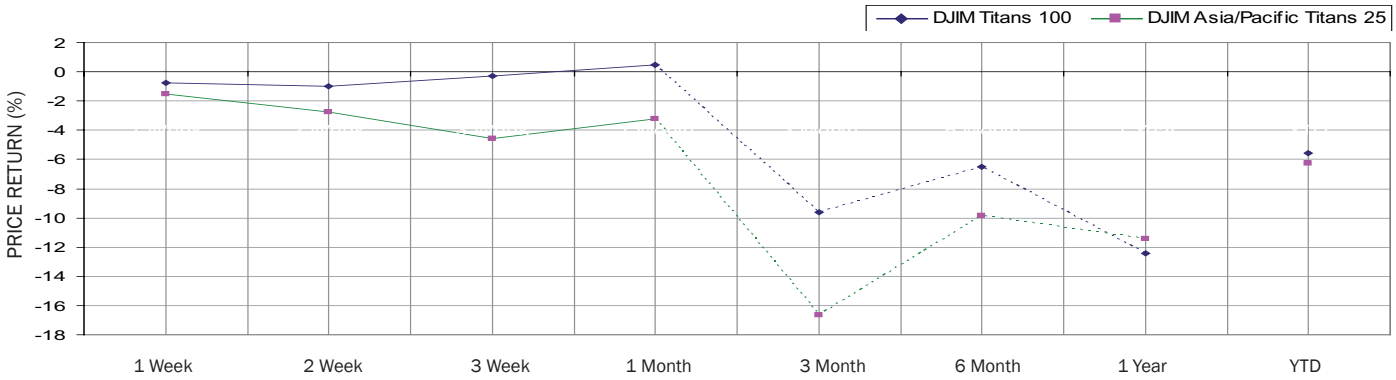
Data as of the 13th August 2008

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-1.12	-2.53	-2.05	-1.39	-11.82	-7.36	-5.56	-11.46
DJIM Asia/Pacific	-1.83	-4.66	-6.26	-4.62	-18.89	-15.42	-15.14	-18.51
DJIM Europe	-4.52	-5.87	-6.35	-4.22	-16.82	-12.12	-8.64	-16.25
DJIM US	0.93	0.65	1.95	2.46	-5.29	-1.42	-2.05	-7.02

PERFORMANCE OF DJ TITANS INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	-0.78	-1.01	-0.31	0.45	-9.60	-6.52	-5.58	-12.41
DJIM Asia/Pacific Titans 25	-1.52	-2.78	-4.59	-3.22	-16.64	-9.82	-6.27	-11.41

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2401	17344.28	14173.12	5.90	1.12	420.71	0.02	2.97	0.00
DJIM Asia/Pacific	1083	3188.76	2123.42	1.96	0.43	106.92	0.02	5.04	0.00
DJIM Europe	336	4343.55	3286.72	9.78	2.26	184.19	0.24	5.60	0.01
DJIM US	636	8191.49	7692.19	12.09	3.20	420.71	0.15	5.47	0.00
DJIM Titans 100	100	8098.88	7195.64	71.96	51.39	409.59	12.20	5.69	0.17
DJIM Asia/Pacific Titans 25	25	1140.14	739.62	29.58	22.60	69.29	12.20	9.37	1.65

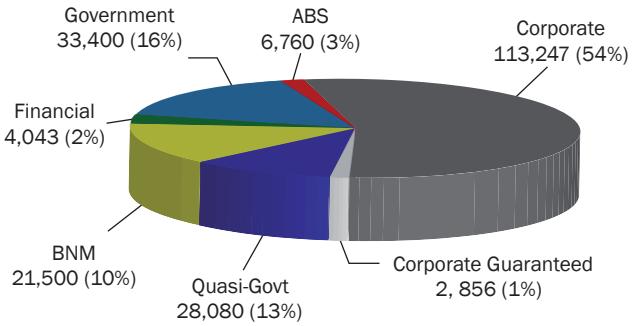
Mean, median, largest, smallest and component weights are based on float adjusted market capitalization, not full market capitalization.

RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT AS AT THE 13th AUGUST 2008

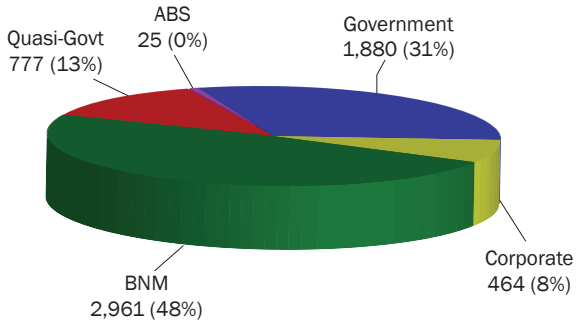
MOST ACTIVE BONDS TRADED BETWEEN THE 7th AUGUST and THE 13th AUGUST 2008

Stock Name	Last Traded Price	Last Traded Yield	Total Volume Traded Last 7	% w-o-w Price Change	Last Week Closing Price
BNMN-IDB 55/2008 21D 29.07.2008		4.27	1521.25		
BNMN-IDB 18/2008 182D 11.09.2008	99.41	3.46	630.00		
BNMN-IDB 29/2008 182D 23.10.2008	99.81	3.46	580.00		
BNMN-IDB 51/2008 21D 22.07.2008	99.73	3.36	490.00		
BNMN-IDB 53/2008 33D 05.08.2008	100.97	4.00	350.00	0.02	100.95
BNMN-IDB 54/2008 61D 02.09.2008		6.35	305.00		
BNMN-IDB 38/2008 182D 27.11.2008	89.98	10.80	287.30	0.02	89.96
BNMN-IDB 56/2008 42D 19.08.2008	99.99	3.51	280.00		
MISC IMTN 0% 17.12.2009 - MTN 0002	99.88	3.46	200.00		
RANTAU IMTN 0% 15.03.2012 - MTN 3	99.68	3.46	160.00		
BNMN-IDB 34/2008 182D 13.11.2008	99.42	3.48	130.00		
OPT CHEMIC 5.80000% 27.09.2013		5.00	130.00		
PLUS SPV IMTN 2% 27.06.2013 - Tranche No. 1	100.00	4.05	125.00		
RANTAU IMTN 15.03.2011-MTN 1		5.30	125.00		
PUTRAJAYA RM80.0 MIL 7.000% 15.03.2013	99.45	3.49	111.86		

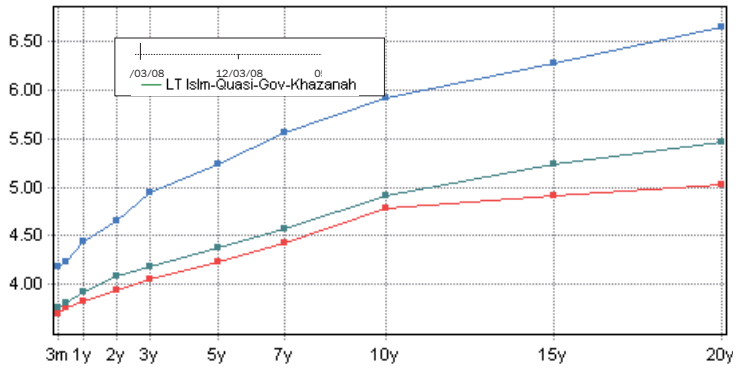
Outstanding Bond by Issuer Class as at the 13th August 2008 (RM'000)



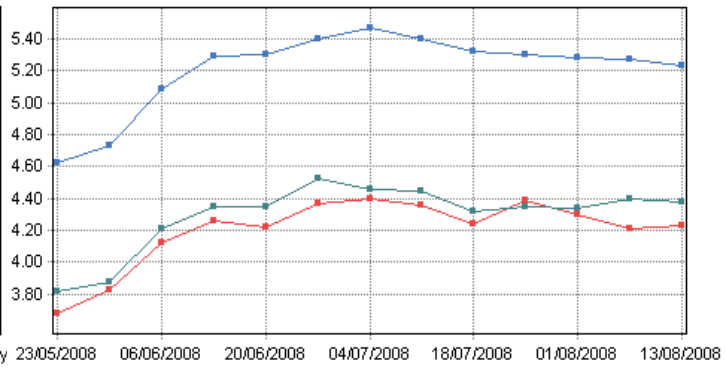
Bond Traded Amount by Issuer Class as at the 13th August 2008 (RM'000)



YTM Curves as at the 13th August 2008



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



TOP ISSUERS OF ISLAMIC BONDS — AUGUST 2007 – AUGUST 2008

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Binariang GSM	Malaysia	Sukuk Musharakah	4,524	9	20.3	CIMB, RHB, Aseambankers, ABN Amro Bank, AmInvestment, OCBC Bank (Malaysia)
2	JAFZ Sukuk	UAE	Sukuk Musharakah	2,043	1	9.2	Barclays Capital, Deutsche Bank (London), Dubai Islamic Bank, Lehman Brothers International (Europe)
3	Malaysia	Malaysia	Sukuk	1,631	2	7.3	Malaysia Government bond
4	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	1,333	1	6.0	Calyon, HSBC Saudi Arabia
5	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	1,160	11	5.2	CIMB
6	Sukuk Funding (No.2)	UAE	Sukuk Ijarah	1,021	1	4.6	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
7	Nakheel Development 3	UAE	Sukuk Ijarah	980	1	4.4	Dubai Islamic Bank, NBD Investment Bank, JPMorgan
8	Cagamas	Malaysia	Sukuk Murabahah	929	12	4.2	HSBC, CIMB, Aseambankers
9	DEWA Funding	UAE	Sukuk Ijarah	749	1	3.4	Barclays Capital, Citigroup Global Markets, Dubai Islamic Bank, Emirates Bank International
10	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	620	3	2.8	CIMB, AmInvestment
11	NIG Sukuk	Kuwait	Sukuk Mudarabah	475	1	2.1	BNP Paribas, Citigroup Global Markets, National Bank of Kuwait, Standard Chartered, WestLB
12	Lingkaran Trans Kota Holdings	Malaysia	Sukuk Musharakah	456	13	2.1	Aseambankers
13	Central Bank of Bahrain	Bahrain	Sukuk Ijarah	350	1	1.6	Calyon
14	Rakia Sukuk	UAE	Sukuk Wakalah	325	1	1.5	Credit Suisse Securities (Europe), HSBC, National Bank of Dubai
15	MRCB Southern Link	Malaysia	Sukuk Istisna	320	20	1.4	HSBC, CIMB, RHB
16	Menara ABS	Malaysia	Sukuk Ijarah Asset-backed Securities	307	8	1.4	Citibank
17	Tamweel Sukuk	UAE	Sukuk	299	1	1.4	Standard Chartered, Dubai Islamic Bank, Badr Islami
18	RAK Capital	UAE	Sukuk Ijarah	272	1	1.2	Mashreqbank, Standard Chartered, Arab Bank, Ahli United Bank, Emirates NBD
19	Jimah Energy Ventures Holdings	Malaysia	Sukuk Istisna	262	20	1.2	Bank Muamalat Malaysia, RHB, MIMB Investment Bank, AmInvestment
20	PLUS SPV	Malaysia	Musharakah MTN	234	7	1.1	CIMB
	Total			**22,242**	**276**	**100.0**	

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TOP ISSUERS OF ISLAMIC BONDS — MAY 2008 – AUGUST 2008

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Sukuk Funding (No 2)	UAE	Sukuk Ijarah	1,021	1	20.4	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
2	DEWA Funding	UAE	Sukuk Ijarah	749	1	15.0	Barclays Capital, Citigroup Global Markets, Dubai Islamic Bank, Emirates Bank International
3	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	620	3	12.4	CIMB, AmInvestment
4	Cagamas	Malaysia	Sukuk Murabahah	619	9	12.4	HSBC, CIMB, Aseambankers
5	MRCB Southern Link	Malaysia	Sukuk Istisna	320	20	6.4	HSBC, CIMB
6	Tamweel Sukuk	UAE	Sukuk	299	1	6.0	Badr Al Islami, Dubai Islamic Bank, Standard Chartered
7	RAK Capital	UAE	Ijarah	272	1	5.4	Standard Chartered
8	PLUS SPV	Malaysia	Musharakah MTN	234	7	4.7	CIMB
9	Khazanah Nasional	Malaysia	Musharakah MTN	179	1	3.6	CIMB, AmInvestment
10	Bumiputra-Commerce Holdings	Malaysia	Sukuk Murabahah	109	1	2.2	CIMB
11	Projek Lebuhraya Utara Selatan	Malaysia	Musharakah MTN	95	1	1.9	CIMB
12	Gamuda	Malaysia	Sukuk Musharakah/ Murabahah Notes	93	1	1.9	CIMB
13	Tadamun Services	Malaysia	Sukuk	92	1	1.8	CIMB, Standard Chartered
14	Tanjung Langsat Port	Malaysia	Sukuk Musharakah	78	6	1.6	MIDF Amanah Investment Bank
15	Bank Muamalat Indonesia	Indonesia	Sukuk Mudarabah	43	1	0.9	Bahana Securities, Danareksa Sekuritas, Andalan Artha Advisindo, CIMB Securities Indonesia
16	Aneka Gas Industry	Indonesia	Sukuk Ijarah	24	1	0.5	Andalan Artha Advisindo
17	Pak American Fertilizers	Pakistan	Sukuk	22	1	0.5	National Bank of Pakistan, JS Bank, Standard Chartered
18	Mayora Indah	Indonesia	Sukuk Mudarabah	22	1	0.4	Danareksa Sekuritas
19	Matang Highway	Malaysia	Sukuk Musharakah	22	3	0.4	KAF Investment Bank
20	Summarecon Agung	Indonesia	Sukuk Ijarah	22	1	0.4	Andalan Artha Advisindo, Kresna Graha Sekurindo
	Total			**5,004**	**74**	**100.0**	

ISLAMIC BONDS		AUGUST 2007 – AUGUST 2008		
	Manager or Group	Amt US$ m	Iss.	%
1	CIMB	4,439	91	20.0
2	Malaysia Government bond	1,631	2	7.3
3	Aseambankers	1,565	47	7.0
4	HSBC	1,347	44	6.1
5	AmInvestment	1,337	44	6.0
6	Dubai Islamic Bank	1,269	6	5.7
7	Calyon	1,016	2	4.6
8	RHB Capital	849	63	3.8
9	Barclays Capital	826	3	3.7
10	Oversea-Chinese Banking	685	16	3.1
11	Emirates NBD	677	4	3.0
12	Lehman Brothers	638	2	2.9
13	ABN Amro	622	8	2.8
14	Citigroup	589	10	2.7
15	Standard Chartered	524	16	2.4
16	Deutsche Bank	511	1	2.3
17	JPMorgan	327	1	1.5
18	Affin Investment Bank	303	20	1.4
19	Credit Suisse	236	2	1.1
20	Gulf International Bank	163	1	0.7
	Total	**22,242**	**276**	**100.0**

ISLAMIC BONDS		MAY 2008 – AUGUST 2008		
	Manager or Group	Amt US$ m	Iss.	%
1	AmInvestment	461	7	9.2
2	Dubai Islamic Bank	415	3	8.3
3	Barclays Capital	315	2	6.3
4	HSBC	313	29	6.3
5	Emirates NBD	242	2	4.8
6	Aseambankers	212	11	4.2
7	Standard Chartered	208	4	4.2
8	Citigroup	187	1	3.7
9	Mashreqbank	154	2	3.1
10	Noor Islamic Bank	128	1	2.6
11	National Bank of Abu Dhabi	128	1	2.6
12	Lehman Brothers	128	1	2.6
13	First Gulf Bank	128	1	2.6
14	Credit Suisse	128	1	2.6
15	Abu Dhabi Commercial Bank	128	1	2.6
16	RHB Capital	121	23	2.4
17	Malaysian Industrial Development Finance	81	8	1.6
18	Andalan Artha Advisindo	56	4	1.1
19	Arab Bank	54	1	1.1
20	Ahli United Bank	54	1	1.1
	Total	**5,004**	**74**	**100.0**

ISLAMIC BONDS BY COUNTRY	AUGUST 2007 – AUGUST 2008		
	Amt US$ m	Iss.	%
Malaysia	13,174	240	59.1
UAE	5,689	7	25.7
Saudi Arabia	1,333	1	6.0
Pakistan	529	15	2.3
Kuwait	475	1	2.2
Bahrain	350	1	1.6
Total	**22,242**	**276**	**100.0**

ISLAMIC BONDS BY COUNTRY	MAY 2008 – AUGUST 2008		
	Amt US$ m	Iss.	%
Malaysia	2,502	62	49.99
UAE	2,341	4	46.79
Indonesia	138	6	2.75
Total	**5,152**	**84**	**100.00**

ISLAMIC BONDS BY CURRENCY	AUGUST 2007 – AUGUST 2008		
	Amt US$ m	Iss.	%
Malaysian ringgit	13,174	240.0	59
UAE dirham	5,528	7.0	25
US dollar	1,479	6.0	7
Saudi Arabian riyal	1,333	1.0	6
Total	**22,242**	**276.0**	**100**

ISLAMIC BONDS BY CURRENCY	MAY 2008 – AUGUST 2008		
	Amt US$ m	Iss.	%
Malaysian Ringgit	2,502	62.0	50
UAE Dirham	2,341	4.0	47
Indonesian Rupiah	138	6.0	3
Total	**5,004**	**74.0**	**100**

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DATE	EVENT	VENUE	ORGANIZER
August			
25th	2nd International Conference & Exhibition on Islamic Banking & Finance	Pakistan	Al Huda Center of Islamic Banking & Economics
25th - 26th	Islamic Financial Markets	Indonesia	Marcus Evans
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
15th - 16th	Middle East Investors Summit 2008	Dubai	Worldwide Business Research
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
30th - 31st	Middle East Money Summit	Dubai	Arabcom Group
November			
2nd - 4th	Islamic Funds World 2008	Dubai	Terrapinn
3rd	The World Islamic Infrastructure Finance Conference	Qatar	MEGA
4th - 5th	2nd Annual Islamic Capital Markets	London	IFR Conferences
7th	Islamic Financial Intelligence Summit	London	FT Global Events
9th - 10th	BankTech Middle East Congress	Dubai	Naseba
12th	Karachi IFN Forum	Karachi	Islamic Finance Events
19th	Brunei IFN Forum	Brunei	Islamic Finance Events
23rd - 26th	GCC Insurance Summit	UAE	IQPC
December			
1st - 3rd	The World Islamic Banking Conference	Bahrain	MEGA
14th - 18th	Debt Capital Markets Summit	Dubai	IIR Middle East

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