# Islamic Finance news

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## MALAYSIA

### Ode to industry's finest

It was a glittering affair for some 200 high-profile individuals of the Islamic finance industry at the Mandarin Oriental Hotel in Kuala Lumpur on Thursday night as Islamic Finance *news* honored the winners of its 2007 Poll and Deals of the Year awards.

Among the winners were Bank Negara Malaysia, which proved to be in a league of its own as it once again eclipsed its nearest rivals for the Best Central Bank in Promoting Islamic Finance category. CEO of CIMB Islamic Bank, Badlisyah Abdul Ghani, was also presented the award for the Best Individual Islamic Banker.

Also at the dinner awards was Abdul Wahab al-Rushood, group treasury head and board member from Kuwait Finance House, who scooped three awards including Best Overall Islamic Bank.

In his opening remarks, managing director and publisher of REDmoney (which publishes Islamic Finance *news*) Andrew Morgan said although the winners may not have worldwide operations compared to their conventional counterparts, they have a truly global reputation and hold the esteem of the industry's elite as they were voted by readers of Islamic Finance *news* who are the industry's leading participants.

Just last week (26th February), a similar ceremony was conducted in Dubai at the Shangri-La Hotel.

## UK

### Islamic finance behind barracks project

UK's most expensive residential development is to be funded by Islamic finance via a GBP1.3 billion (US$2.58 billion) loan to turn the Chelsea Barracks into luxury flats, a hotel and health spas.

The money will be raised through an Ijarah loan structure. Developers Nick and Christian Candy and the Qatari government in January had bought the 12.8-acre site from the Ministry of Defence.

The development is a bold move by the Candy brothers, as it has been announced in an uncertain property market, although top-end residential prices remain fairly buoyant.

(Also see IFN Reports on page 12)

## UAE

### Dewa may wait till 2H2008

State-owned Dubai Water & Electricity Authority (Dewa) will wait until the second half of the year to return to the debt market after delaying a 2007 bond sale, it said on Wednesday.

Dewa estimates it will need to invest US$19.1 billion during the next four years, raising most of that through loans and bonds. Last year, it shelved a plan to sell bonds after the US mortgage crisis made investors more reluctant to lend.

Dewa forecasts demand for power and water will grow as much as 20% per year in Dubai, which is capitalizing on the Gulf's windfall from record oil prices to develop tourism, trade and financial services.

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## MIDDLE EAST

### SEI office in DIFC

SEI Investment Company (SEI) has opened an office in the Dubai International Financial Centre (DIFC) to provide investment solutions to clients in the Middle East, following an active development period by the company in the region, including the launch of a series of Shariah compliant manager of manager equity funds in July 2007.

"In the last 12 months, we have been involved in numerous discussions across the region to ensure our solutions are aligned to market needs," said Jahangir Aka, SEI senior executive officer in the Middle East.

SEI has a proven record in building world-class investment and administration capabilities and definitely has a key role to play in the region, said Nasser Al Shaali, CEO of DIFC Authority.

## UAE

### Islamic buyout fund unveiled

Global Investment House and Dubai Islamic Bank, in collaboration with Millennium Capital, have signed an agreement to launch the Global DIB Millennium Islamic Buyout Fund, a private equity fund targeting aggregate commitments of US$500 million.

The fund will invest in buyouts of Shariah compliant companies in parallel with the Global Buyout Fund, which had its initial closing last November 2007 upon receiving aggregate commitments of US$550 million. It has already invested or committed more than a third of it in three acquisitions.

The fund will focus on buyouts in the Middle East and North Africa, Turkey and South Asia.

## KUWAIT

### CBK keen on Islamic status

The Commercial Bank of Kuwait (CBK) is awaiting the greenlight from the central bank to transform into an Islamic lender, considering at least 25% of the market prefer to deal with Islamic banks, said CEO Jamal al-Mutawa.

"Why would we lose this sector? Existing banking laws allow commercial banks to establish a unit to operate according to Islamic law with a capital of KWD15 million (US$55.11 million)," Jamal said.

## UAE

### Enhanced value proposition for SMEs

Noor Islamic Bank PJSC (NIB) has signed two separate agreements with Lamya Real Estate and Derby Marketing to increase the value proposition for its small and medium-sized enterprise (SME) customers.

The agreement with Lamya Real Estate will enable NIB to offer Shariah compliant mortgage financing for commercial and industrial real estate, purchase of bulk residential properties for employee accommodation/rental yields.

Meanwhile, the agreement with Derby Marketing will allow NIB to set up a "Noor Business Courier Service" for its SME customers.

## MALAYSIA

### StanChart applying for Islamic license

Standard Chartered Bank Malaysia (StanChart Malaysia) has submitted an application to the Central Bank of Malaysia for a stand-alone banking license to expand its Islamic banking business, said StanChart Malaysia head of corporate affairs, Zaiton Idrus.

She said despite the bank's focus on attaining organic growth, it was open to merger and acquisition opportunities.

## BAHRAIN

### IBAsia enters the Harbour

Bahrain Financial Harbour Holding Company (BFHHC) has entered into an agreement with The Islamic Bank of Asia (IBAsia) to take over the 45th floor of the West Tower.

BFHHC leasing, sales and marketing senior manager Salwan Uchi said the agreement will enable IBAsia to enjoy easy access to investment opportunities in the GCC and Asia because of Bahrain's strategic location. "IBAsia will also benefit from its close proximity to major Islamic banking institutions and the kingdom's position of prominence in Islamic finance where it accounts for over 17% of the market," he added.

## UAE

### Quick Cash from Dubai First

Dubai First has ventured into the personal financing segment with "Quick Cash", offering a mechanism where post-dated checks are used rather than salary transfers. It processes requests by discharging money to any bank account across the UAE, within the shortest possible turnaround time

## UAE

### Partners sought for hotel chain

Dubai-based Al Mulla Hospitality is seeking partners for a US$2 billion plan to develop a hotel chain that complies with Islamic law, including a ban on alcohol.

The company plans to develop as many as 90 hotels in the Gulf, Egypt, Thailand and Europe. "The market for Islamic hotels is currently fragmented due to lack of professional management and we recognize the growing need for a professionally-operated international hotel chain which operates on Islamic principles," said chairman Abdullah Mohammad Al Mulla.

Al Mulla estimates the value of investments in hotels across the Middle East over the next 12 years to be US$1 trillion, and aims to capture 5% to 10% of market share.

## UAE

### Seven IPOs on the cards

The Abu Dhabi Securities Market expects at least seven companies to sell shares in initial public offerings this year and list on the emirate's exchange. They include Abu Dhabi-based Al Qudra Holding, which is deferring its March IPO until later in the year.

## UK

### Alburaq lowers rental rates

Alburaq has lowered the rental rates by nearly 1% on its Shariah compliant home finance range. The rental rates are falling by 0.94% across the entire range of mortgage products, and the rental rates are now fixed for the next six months. The rate is calculated twice a year against a benchmark of six-month London Inter Bank Offer Rate on the 1st March and the 1st September.

Keith Leach, head of alburaq at ABC International Bank, said: "The drop is possible due to the fall in rates recently and there is no question of us not passing on the full benefit to our customers."

## EGYPT

### Rising cost of materials hurt industry

The CEO of Talaat Moustafa Group, the largest publicly traded property developer in Egypt, said the rising price of building materials was hurting the country's real estate industry. The increases in the price of steel and cement "are extremely detrimental to the construction and building environment", Hisham Talaat Moustafa said.

Egypt, the Arab world's most populous country, has undergone a boom in real estate in the past two years as builders from the Persian Gulf such as Emaar Properties PJSC and Damac Holding embark on multi-billion-dollar property projects.

## MALAYSIA

### CIMB-Principal launches equity fund

CIMB-Principal Asset Management has launched its CIMB Islamic DALI Equity Theme Fund, which invests in Malaysian companies to benefit from prevailing global and domestic investment themes. Investors will have the opportunity to build a portfolio comprising domestic equities as part of their core asset allocation strategy, said CIMB-Principal Asset CEO, Noripah Kamso.

The fund will invest in sustainable sectors for potential long-term, enhanced returns in the oil and gas, plantations and construction sectors.

It seeks to provide investors with medium- to long-term capital appreciation by investing in Malaysian securities according to prevailing investment themes. The fund will invest up to 98% of its net asset value in Shariah compliant equities listed on Bursa Malaysia.

Noripah said the fund also provides potential diversified exposure across different sectors of the Malaysian economy. The minimum investment is RM1,000 (US$314).

## UAE

### Sternon Group unveils first project

Dubai-based Sternon Group has ventured into Dubai real estate with an investment of AED300 million (US$82 million) in its first project, Sternon Tower.

Construction on the 16-storey mixed-use development in Jumeirah Village South will begin in June 2008 and should be completed by December 2009.

## MALAYSIA

### Bourse expects Mideast listings

Bursa Malaysia is expecting its first listing by a foreign company this year, and Middle Eastern firms are among the top candidates, said Bursa Malaysia CEO Yusli Mohamed Yusoff. According to him, one company that has approached the exchange is already listed in Iran.

The first foreign companies are likely to seek second listings instead of initial public offerings, but domestic IPOs are expected to increase this year, said Yusli.

Bursa Malaysia had about 30 IPOs in 2007, raising RM3 billion (US$937.8 million).

## UAE

### Saudi equity fund in the works

Dubai International Capital (DIC) plans to launch a US$500 million private equity fund dedicated to investing in Saudi Arabia in an effort to tap growth in the Gulf's largest economy, CEO Sameer Al Ansari said earlier this week.

Saudi Dubai Capital would replicate the structure used in Jordan with Jordan Dubai Capital (JD Capital), set up in 2005 with a value of around US$300 million. It will have offices in Jeddah, Riyadh and the Eastern Region.

DIC is the international investment arm of state-owned conglomerate Dubai Holding.

## BAHRAIN

### Ruwad program from Al Baraka

Al Baraka Islamic Bank has launched the "Ruwad" program, designed to train executive trainees. The program holds a two-year tenure, during which a trainee receives high-level practical and executive training in different departments of the bank.

Training courses at specialized training institutions are also available to prepare participants for senior positions within the bank in the future.

## UAE

### Dubai ends US$5 billion bid for Colonial

Sovereign wealth fund Investment Corporation of Dubai has abandoned its US$4.6 billion plus cash-and-bond offer to buy Spanish property firm Colonial.

ICD had held lengthy talks with Colonial over the price and terms of the deal, but was unable to reach agreement by the Monday deadline.

## US

### Harvard forum on Islamic finance

The Islamic Finance Project of Harvard Law School will be organizing the Eighth Harvard University Forum on Islamic Finance on the 19th and 20th April. The school will also organize a Pre-Forum Workshop on Islamic Microfinance on the 18th April.

The theme for this year's forum is "Innovation and Authenticity". Nobel Laureate Robert C Merton, University Professor at Harvard Business School will deliver the keynote address.

Visit www.ifp.law.harvard.edu to register.

## UAE

### ADCB acquiring 25% of RHB Capital

Abu Dhabi Commercial Bank has received approval to acquire a 25% stake in RHB Capital from the Employees Provident Fund Board, which owns 82% of RHB and is one of the largest pension funds in Asia, reported an English-language daily.

The approval was given by the Ministry of Finance via Bank Negara on the 29th February. RHB Cap provides commercial banking, investment banking, Islamic banking, insurance and asset management services to Malaysian and regional customers.

## QATAR

### Qatar to launch US$1 billion Islamic fund

Qatar Islamic Bank (QIB) intends to partner with investment banks QInvest and Silver Leaf Capital (SLC) to establish a US$1 billion Islamic private equity fund to attract international capital to the region and focus on investments in sectors from telecom to environmental recycling technologies, media, oil and gas and infrastructure.

The Shariah compliant Dhow Gulf Opportunities Fund will be structured in line with the international private equity industry standards and managed by Dhow Investors Advisor.

The three companies signed a memorandum of understanding to develop the fund last month.

## MALAYSIA

### Malaysian SC gathers experts on ICM

The Securities Commission of Malaysia (SC) will be organizing the International Islamic Capital Market (ICM) Forum on the 27th March. The forum, which aims to create greater awareness and understanding of new products innovation, will discuss Islamic exchange-traded funds (ETFs).

Among the speakers are Zainal Izlan Zainal Abidin, CEO of i-VCAP, who will speak on "Understanding ETF"; and Bank Negara Shariah Advisory Council member Dr Aznan Hasan, who will discuss the concept of Islamic ETF.

There will also be a panel of discussions chaired by senior lawyer Tengku Hasmuddin Osman from Messrs Hisham Sobri Kadir & Associates. Panelists include renowned scholar Sheikh Nizam Yaquby from Bahrain, Pakistani Shariah scholar Dr Imran Usmani, Abdulkader Thomas from SHAPE Financial Corp and Dr Mohd Daud Bakar who sits on the SC's Shariah Advisory Council.

## BANGLADESH

### Depositors can draw money in June

Bangladesh Bank (BB) has decided to lift the moratorium on transaction with Oriental Bank from the 1st April and allow account holders to withdraw deposits from the 1st June as per the reconstitution scheme for the bank drafted last year due to an acute financial crisis.

The decision came after Switzerland-based ICB Financial Group Holdings, which recently bought majority shares (50.1%) of Oriental Bank at a cost of BDT350 crore (US$514,724.81), submitted a proposal to the central bank to rename Oriental Bank as ICB Islamic Bank. The BB also approved a five-member board of directors of the bank.

## UAE

### Al Qudra IPO postponed

Abu Dhabi-based Al Qudra Holding has put on hold an earlier announcement for its initial public offering (IPO), reported a newswire. The company was planning to offer 55% initially seeking to raise AED3.7 billion (US$1 billion).

The report said it is delaying the sale until later this year to take advantage of a possible change in the law allowing firms to sell less than 55%.

The IPO would have been the second-biggest in the UAE after Dubai's DP World, which raised almost US$5 billion last November.

## JORDAN

### Jordinvest's first Islamic fund

Jordan Investment Trust (Jordinvest) has established its first Shariah compliant fund, which aims to seek medium to long-term capital appreciation by investing in Shariah compliant securities listed in the Middle East and North Africa capital markets.

The fund's size is expected to hit US$100 million with a minimum of US$5 million. It will be offering up to one million nits at US$100 per unit, plus a subscription fee of 0.75% per unit.

The fund is an open-ended mutual fund and is established as a collective investment scheme pursuant to the regulations issued by the Central Bank of Bahrain on the September 20th 2007. The fund is registered in Bahrain, and is not registered or governed by Jordan's securities commission.

The initial subscription for units has not been announced.

## UAE

### Ajman Bank IPO oversubscribed

Ajman Bank reported its initial public offering was 85 times oversubscribed. More than 211,000 UAE and non-UAE investors applied for shares in the IPO, submitting approximately AED48 billion (US$13 billion).

The shares were priced at AED1 (US$0.27) each, with a minimum subscription of 2,000 shares.

## MALAYSIA

### Third time's the charm for Sukuk

Khazanah's third exchangeable Sukuk valued at US$550 million, and exchangeable into shares of Parkson Retail, was combined with a US$96.8 million placement of shares in the same company on Wednesday.

Khazanah Nasional had raised a total of US$646.8 million through a combined sale of Islamic bonds exchangeable into Parkson Retail Group and secondary Parkson shares. If the five-year bonds (with a three-year put) are exchanged in full, the sale will result in Khazanah parting with its entire 9.8% stake in the Hong Kong-listed company, which is the largest nationwide department store operator in China.

The bonds made up about 85% of the combined sale, or US$550 million, which translates into 44 million shares after the premium was fixed at the wide end.

Khazanah, which is the investment arm of the Malaysian government, owned 54.6 million shares at 9.8% in Parkson before Wedneday's transactions. Sources said Khazanah chose to sell a portion of the shares through a discounted placement because it wanted certainty about the point of exit for part of its holdings.

Deutsche Bank was the global coordinator for both the bonds and the placement, as well as joint bookrunner together with CIMB and UBS.

## UAE

### Dubai is top financial center

Dubai is the leading financial center in the Middle East, and the fourth most competitive in Asia, according to the latest Global Financial Centres Index (GFCI), published last week. The emirate saw its competitive rating of 585 points increase 10 points over the last report in September 2007, despite slipping two places in the ranking to 24th out of 50 global financial centers.

London topped the ranking with 795 points, followed by New York (786 points) and Hong Kong (695 points). Dubai's position is a sign of growing importance of the Gulf as a whole on the global financial stage, thanks in part to high oil prices and huge government investment.

Bahrain and Qatar, ranked 39th and 47th, saw their competitive rating soar.

However, the report cautioned that the future success of Gulf financial hubs would depend on broad improvements in their competitiveness, especially in the area of financial infrastructure, where both Dubai and Qatar received relatively low scores.

## UK

### BLME completes £75 million fund raising

The Bank of London and The Middle East plc ("BLME"), the London-based wholesale Shariah compliant bank, has completed its scheduled private placement of £75 million (US$150 million), taking the bank to a fully paid-up capital base of £250 million (US$498 million).

The additional capital was provided by existing and new investors from a range of international jurisdictions. The fund raising, which was over subscribed, will provide BLME with a greater capacity to meet clients' financing requirements, enabling the bank to underwrite, syndicate and distribute a higher volume of business and further develop its strong balance sheet as the Islamic financial market continues to grow in the UK.

Since receiving its banking license in July 2007, BLME has established a dynamic deal pipeline, completing a variety of deals resulting in total assets of £297 million (US$591 million) at the end of December 2007.

## BANGLADESH

### Oriental Bank's Shariah ambition

ICB Financial Group Holdings AG plans to turn Oriental Bank into one of Bangladesh's biggest Shariah compliant banks, said ICB Group chairman, Dr Hadenan bin A Jalil.

He said Bangladesh has huge potential, but that it would take five to six years to transform Oriental into one of the best banks in the country.

ICB recently signed a deal to take a 50.1% stake at a cost of more than BDT350 crore (US$51 million). Oriental Bank will be renamed ICB Islamic Bank Limited, according to the new owner.

## UAE

### Dubai office rents still on the rise

Demand for office space in Dubai continued unabated last year, with huge increases in capital values in locations where new buildings are near to completion, according to a report by Asteco Property Management.

The city now commands one of the highest global rental yields for commercial premises, ranging from 17% to 18%. Rent for office space increased about 5% on average over the last quarter, with Sheikh Zayed Road and Oud Metha seeing surges of 6% and 12% respectively.

## MALAYSIA

### KFHM not linked to Angkasa Raya deal

Raja Zamilia Mansur, head of communications and PR at Kuwait Finance House (Malaysia) Berhad, has issued a denial of our IFN Report in last week's issue (Vol 5 Issue 8) titled, "Another iconic building for KFHM?"

She said Kuwait Finance House (Malaysia) Berhad has not entered into any agreement with any party for the proposed purchase of Bangunan Angkasa Raya.

## UAE

### DIC to rescue Citigroup deals

Dubai International Capital (DIC) believes it would take "a lot more money" to rescue Citigroup following investments from Abu Dhabi, Kuwait and Saudi Arabia's Prince Alwaleed. The investment agency owned by the ruler of Dubai, which manages about US$13 billion of assets, has invested in HSBC Holdings and India's ICICI Bank.

When asked what it would take to rescue the bank, Sameer Al-Ansari, CEO of DIC, told a private equity financial conference, "It's going to take more than that to rescue Citi."

## BAHRAIN

### CBB sets guidance on Sukuk

The Central Bank of Bahrain has set guidance on a five-year Sukuk, with an expected size of US$350 million, at 6-month Libor plus 75 basis points area, an official at sole bookrunner France's Calyon said last Tuesday.

Guidance is unlikely to widen beyond 6-month Libor plus 75 basis points, the official said.

## UAE

### DIBP assets reach US$343 million

Dubai Islamic Bank Pakistan (DIBP), a wholly owned subsidiary of Dubai Islamic Bank PJSC (DIB), saw total assets under management reach PKR21 billion (US$343 million) in value, growing more than 152% in the 2007 calendar year. The bank's expansion makes it one of the fastest-growing banks in Pakistan.

Abdul Monem Bastaki, head of the international division of DIB, said: "Pakistan's operations recorded growth of 152% in its total asset base, which stands at PKR21 billion as at December 2007, and growth of 273% in deposits to PKR16.1 billion (US$263 million). A network of 17 branches covering all the major cities of Pakistan now exists as well."

As part of its international strategy to promote world-class Islamic banking and to leverage the DIB brand name globally to enhance shareholder value, DIB selected Pakistan as one of its key destinations for expansion in fiscal year 2005, primarily driven by the country's strong growth potential for Islamic banking.

Islamic banking remains one of the fastest-growing segments in the banking industry. The size of Islamic banking grew 11.7% during the last fiscal quarter against a contraction of 1.4% for the global banking industry as a whole. The share of Islamic banking increased to 3.6% in the same period, up from 3.2% in the previous quarter.

## SAUDI ARABIA

### EFG-Hermes launches Saudi fund

Regional investment bank EFG-Hermes is launching the EFG-Hermes Saudi Arabia Equity Fund, providing investors with an opportunity to access the Middle East's largest market.

Actively managed by the bank's Riyadh-based asset management team, the fund has been launched with the approval of the Saudi Arabia Capital Markets Authority.

## TURKEY

### Sale of lender to Saudi bank approved

The sale of Turkish Islamic lender Türkiye Finans to Saudi Arabia's National Commercial Bank has been approved. NCB had earlier agreed to pay US$1.08 billion for 60% of Türkiye Finans.

## UAE

### 'Look to Islamic markets for growth'

Companies looking for growth must tap into the Muslim market, whose annual Shariah compliant products and services are worth AED7.3 trillion (US$2 trillion), according to AT Kearney, a global strategic-management consulting firm.

The company noted that only a few global companies have aligned their supply chain to be compliant with Islamic rules, despite the fact that Muslims form 20% of the world's population. It cited fashion and cosmetics as examples of an untapped Muslim industry that is an excellent opportunity for brand houses to incorporate Islamic values.

It said that the global market for fashion apparel is AED3 trillion (US$817 billion), with the Middle East and Malaysia having the highest per-capita spending. Food and beverage firms must also make their supply chain compliant to Islamic rules.

The halal market for cosmetics is also growing at an annual average of 12%, with sales in the Middle East region amounting to AED29.4 billion (US$8 billion), AED1.8 billion (US$500 million) of which is recorded in Dubai.

## KUWAIT

### Noor Financial eyeing Cairo bank

Kuwait's Noor Financial Investment is in talks with potential banking partners about bidding for Egypt's Banque du Caire, which the Egyptian government is looking to sell.

Noor, the financial arm of National Industries Group, is looking to own as much as 29% of Banque du Caire, said Noor managing director Naser al-Marri, declining to identify possible partners.

The Egyptian government plans to sell as much as 67% of Banque du Caire by the end of April.

## UAE

### Kingdom Hotel profit fell 20%

Kingdom Hotel Investments, controlled by Saudi Prince Alwaleed ibn Talal, said profit last year fell 20% after one-off credit gain a year earlier. Kingdom, which owns 35 hotels and resorts in 21 countries, made US$34.1 million in the year to the 31st December 2007 compared with US$42.8 million in 2006, Kingdom Hotel said.

Kingdom, which owns hotels managed by chains such as Four Seasons, Fairmont Hotels and Movenpick, said revenue grew 80% to US$178.6 million as it expanded into Asia.

The firm made eight acquisitions in 2007 and plans to renovate or open hotels in Beirut, Dubai, Kenya, Mauritania and Zambia this year.

## UAE

### Residential prices could rise 20%

Housing prices in the UAE capital of Abu Dhabi could rise by at least 20% this year, according to a report by Sorouh Real Estate. Chief property development officer Gurjit Singh said Europeans are looking to use their stronger euro as the dollar declines, taking the UAE dirham with it.

A five-fold rise in oil prices in the past six years has boosted Abu Dhabi's economy and low interest rates have fueled investment in real estate.

Average residential real estate prices range between AED1,300 (US$354) and AED1,700 (US$463) per sq ft, said Gurjit. Sorouh is developing real estate projects in Abu Dhabi worth AED40 billion (US$11 billion).

Europeans buying residential property in Abu Dhabi account for between 8% and 12% on the emirate's real estate market.

## QATAR

### QIIB agent for Ijarah fund

Qatar International Islamic Bank (QIIB) has inked an agreement with Global Investment House (GIH) of Kuwait, allowing the Qatari bank to be the exclusive marketing agent for the Global Real Estate Ijarah Fund.

The Bahrain-registered fund is managed by GIH and aimed at investment in the Middle East and North Africa. With a capital of US$300 million, the fund has been designed to achieve good returns for investors in accordance with the Shariah. The term of the dollar-denominated fund is four years, which can be extended by another year.

## UAE

### Clariden Leu unit opens in Dubai

Clariden Leu, a leading private bank in Switzerland, opened its asset management company last week. The unit caters to wealthy clients, offering local and exclusive private banking services.

Clariden Leu Asset Management (Dubai), located at Dubai International Financial Centre, is headed by Mannan Adenwalla.

## UAE

### Dubai World looks to Africa

Dubai World plans to invest about US$1.5 billion in Africa over the next five years. The company has urged private investors to follow its lead in taking up business opportunities on the continent.

Mohammad Sharaf, CEO of DP World, which has port projects in Djibouti, Senegal and Mozambique, said his company is on the lookout for container terminals in other locations, including South Africa. He added that Dubai World companies are seeking projects in infrastructure, real estate and tourism.

With global prices of oil and other commodities rising, resource-rich Africa is attracting global investor interest.

## BAHRAIN

### UIB unit buys into Bahraini firm

Unicorn Global Private Equity Fund I, a unit of Unicorn Investment Bank, has acquired a 55% equity stake in Manama-based Gulf Strategic Partners (GSP), which operates throughout the GCC and India.

The investment in GSP is the fifth by Unicorn's Private Equity Fund, an official said. The company's previous investments include Orimix Concrete Products in Fujairah, the UAE; Al Assriya Industries Holding Company in Kuwait, and US-based companies Precision Time in Utah and Ellington Leather in Oregon.

Established in 2004, GSP specializes in pre-operational cleaning services for petrochemical, power, oil and gas and process facilities.

## KUWAIT

### Abyaar seeking US$1 billion in Sukuk

Kuwait-based Abyaar Real Estate Development is gearing up to sell as much as AED3.7 billion (US$1 billion) worth of Sukuk this year to finance expansion into Asia and the Gulf.

Abyaar is in talks with Merrill Lynch to issue Islamic bonds worth AED1.84 billion (US$500 million) to finance a project in Dubai, a company official said.

The developer, which is planning a secondary listing in Dubai this year, is also negotiating with NBD Investment Bank, a unit of Emirates NBD, to issue Sukuk worth AED1.1 billion to AED1.84 billion (US$300 million to US$500 million), he said while declining to give a timeframe.

## UAE

### Tamani Hotel opens

The Tamani Hotel Marina, the UAE's first hotelier to promote Arabic hospitality and Islamic values, has opened in Dubai. The 55-storey tower is the first and tallest all-suites hotel in Dubai Marina and boasts 209 rooms.

The hotel offers two-, three- and four-bedroom suites with views of the Palm Jumeirah, Marina and Dubai skyline. There is a ladies floor serviced by female hotel associates. Leisure amenities include a health and fitness club and two swimming pools, indoor and outdoor, which overlook the Palm.

## MALAYSIA

### Telekom to retain control of mobile unit

Telekom Malaysia, Southeast Asia's second-largest phone company, will retain control of its wireless business in any stake sale, dimming the appeal for potential buyers including Orascom Telecom Holding, reported a newswire.

Insisting on control may hamper Telekom's ability to reap a premium for the business, which it estimates is worth RM28 billion (US$8.7 billion). Orascom, the biggest mobile carrier in the Middle East and North Africa by users, has said it is interested in bidding for joint control of Telekom.

## UK

### Darling to close loophole in Shariah deals

Chancellor Alistair Darling is expected to tighten the rules on Shariah compliant mortgages in his inaugural Budget on the 12th March after commercial property developers discovered a loophole in the legislation that allowed them to escape stamp duty on over GBP1 billion (US$2 billion) of deals.

Islamic Finance *news* learnt that increasing numbers of office sales worth GBP50 million to GBP100 million (US$100 billion to US$199 billion) or more have been structured using the latest Shariah compliant financing to take advantage of the loophole. Those buying and selling the properties come from all religious backgrounds and many have no cultural imperatives to use Shariah.

## UAE

### HSBC can offer brokerage services

HSBC Holdings plc, Europe's biggest bank by market value, has received final approval from the UAE's stock market regulator to offer brokerage services in the Persian Gulf country.

HSBC will start trading for institutional investors on the Dubai Financial Market and the Abu Dhabi Securities Market this month, and will begin offering services to retail investors later this year, the bank said.

## MALAYSIA

### KFHM in talks with Sabah firms

Kuwait Finance House Malaysia (KFHM) is in talks to provide financing deals to about 12 companies in Sabah under the Sabah Development Corridor, said KFH managing director/CEO, K Salman Younis.

He said they already had some customers in Sandakan and Kota Kinabalu and were talking to several companies involved in logging and reforestation, plywood, real estate and energy, adding that focus would also be on the palm oil sector.

## UAE

### BNP Paribas mobilizes Mideast team

BNP Paribas in the GCC has launched its BNP Paribas Real Estate team to offer real estate services and investment advice to clients in the region, including western Europe.

BNP Paribas Real Estate is organized in four complementary business lines: property development, which developed over 250,000 sq m of office buildings, 200,000 sq m of logistic buildings and 2,000 residential units in France in 2007; property management, with more than 21 million sq m of commercial property under management in Europe, and more than 30,000 residential units in Europe; asset management with more than EUR7 billion (US$10.7 billion) under management; and brokerage, advisory, and valuations with Atisreal, placing over seven million sq m of commercial real estate, and over 86,000 valuations carried out in Europe.

(Also see IFN Reports on page 10)

## UAE

### Policies to be voiced at forum

A joint consultative meeting between the UAE Ministry of Finance (MoF) and Jeddah-based Islamic Development Bank (IDB) have given the green light for a UAE proposal for instituting an international forum for Islamic financial policies.

The proposal will be submitted to the IDB board of governors for final approval.

The UAE has called for reinvigorating the auqaf and zakat as key instruments for the Islamic financing sector and for infusing these mechanisms into development policies.

IDB chairman Dr Ahmed Ali stated: "Challenges facing the Islamic financial services are depressing efforts towards achieving harmony, competition and transparency and developing accounting and auditing standards. We need a higher authority or council for Islamic financial services to reconcile between different schools of Islamic Shariah."

## EGYPT

### EFG-Hermes wants to raise private equity

EFG-Hermes Holding, Egypt's largest publicly traded investment bank, plans to quadruple the value of its private equity funds to US$4 billion in four years as it looks to expand in the region.

Hany Al-Sonbaty, a partner at EFG-Hermes Private Equity, said its last offering, the Horus III fund, raised US$555 million from financial institutions and high net worth investors. It is now the largest private equity fund in North Africa and is targeting a rate of return of 20%, he said.

## AFRICA

### Micro-Finance Bank goes halal

The Integrated Micro-Finance Bank (MFB) in Nigeria has launched a Shariah compliant division, simultaneously launching a range of halal products. The new products include Lease Financing (Ijarah), Partnership Financing "A" (Musharakah), Profit Sharing (Mudarabah), Cost-Plus Financing (Murabahah), Partnership Financing "B" (Musharakah) and Children's Investment Account (IMAAD).

The directorate of youth and sports development, Alhaji Gambo Ado, who was present at the launch, elucidated the growing need for halal investments among Muslims in Nigeria.

## MALAYSIA

### Maybank targets RM10 billion

Malayan Banking (Maybank) is targeting a RM10 billion (US$3.16 billion) overall group investment fund size in the financial year 2009, one year ahead of the original target, said Maybank senior vice-president/head of consumer banking, Spencer Lee.

The bank set the target last year and hopes to achieve the RM10 billion by the end of 2010.

Maybank's current total fund size, including those under its Takaful and insurance arm, stands at RM7 billion (US$2.21 billion). It expects to launch one new investment product every month this year to complement some 50 funds already on the market.

## SENEGAL

### IDB seeks funds to fight poverty

The Islamic Development Bank (IDB) hopes the Organization for the Islamic Conference (OIC) summit in Dakar next week will benefit an anti-poverty fund for Africa by channeling wealth from Muslim oil producers to the world's poorest continent.

The 57-member IDB created an Islamic Solidarity Fund for Development last year to push back poverty levels in the group, mostly aimed at Africa. So far, US$2.6 billion has already been pledged by member states, the bank itself and other financing sources for the fund's US$10 billion target.

The summit will be held on the 13th and 14th March.

## UAE

### Invesco ties up with Citibank Egypt

Invesco Asset Management Limited, part of Invesco Ltd, one of the largest independent investment management organizations, has signed a distribution agreement with Citibank in Egypt.

Invesco has been in Dubai for three years and already distributes its products throughout the UAE. All Invesco's offshore funds will now be available to Citibank customers in Egypt, said an official spokesman.

Invesco opened its office in Dubai in September 2005 and has a license from the Dubai Financial Services Authority (DFSA) to operate from the Dubai International Financial Centre (DIFC) as an authorized firm.

## UAE

### Show me the money!

Dubai has come a long way. The much circulated photos on the latest projects in the offshore center, from barren desert in the early 1990s to the largest hotels, theme parks and tallest skyscraper by 2009, show the massive scale of development taking place.

Middle Eastern developers such as Nakheel, DP World and Arcapita have all made their mark on the global property development scene with their flamboyant structures, massive Sukuk issuances and billion-dollar developments. Realizing this, international firms have jumped on the bandwagon.

This week itself, firms such as Baker Botts, Allen & Overy and BNP Paribas Real Estate have set up dedicated teams in the Middle East to tap the market for Gulf-based property. Seeing as developers are flush with cash, now's the time for advisory firms and banks to carve their niche in the booming market. Real estate funds are also mushrooming week to week, with the latest being the US$300 million Global Real Estate Ijarah Fund between International Islamic and Global Investment House.

BNP Paribas' Real Estate team will cover four business lines, which ultimately aim to facilitate investments from Europe into the Gulf. They are: property development, which developed over 250,000 sq m of office buildings, 200,000 sq m of logistic buildings and 2,000 residential units in France in 2007; property management, with more than 21 million sq m of commercial property under management in Europe, and more than 30,000 residential units in Europe; asset management with more than EUR7 billion (US$10.7 billion) under management; and brokerage, advisory and valuations with Atisreal, placing over seven million sq m of commercial real estate, and over 86,000 valuations carried out in Europe.

Law firm Clifford Chance also lost its real estate key partner Arthur Dyson to Allen & Overy (A&O)'s London-based real estate finance team to mobilize the firm's Mideast interests. The move comes following news that A&O plans to launch an international real estate team out of Dubai from the end of this month, with a view to targeting Middle East-based investors. The practice will focus on real estate funds, joint ventures and acquisitions.

Abyaar Real Estate Development is also set to sell up to US$1 billion in Sukuk to finance its expansion into Asia and the Gulf. It is in talks with Merrill Lynch to issue Sukuk worth US$500 million to finance projects in Dubai.

Abyaar is planning a secondary listing in Dubai this year, and is negotiating with NBD Investment Bank, a unit of Emirates NBD, to issue Sukuk worth between US$300 million and US$500 million. However, a time frame has not been set.

It will indeed be interesting to see what crops up in the coming years, with more developers and international firms having a hand in the Middle East project finance and development pie.

*By Nazneen Halim*

## MALAYSIA

### MIDF's A2/P1 ratings reaffirmed

RAM Ratings has reaffirmed Malaysian Industrial Development Finance's (MIDF) long- and short-term financial institution ratings at A2 and P1, respectively. Concurrently, the A2/P1 ratings of MIDF's RM150 million (US$47.36 million) Commercial Papers/Medium-Term Notes (CP/MTN) and RM50 million (US$15.78 million) Al-Murabahah CP/MTN has also been reaffirmed.

All the long-term ratings have a stable outlook.

## GLOBAL

### Stable outlook on reinsurance sector

AM Best Co is maintaining a stable outlook in 2008 for the global reinsurance sector for the second consecutive year. The affirmation of the sector's outlook reflects generally strong balance sheets, continued improvements in enterprise risk management (ERM) and general earnings momentum through 2007.

This current outlook implies that the majority of 2008 reinsurer rating actions are likely to be affirmations with stable outlooks and only a modest amount of anticipated rating or outlook changes.

## MALAYSIA

### HLI's outlook revised

RAM Ratings has revised the outlook on the rating of Hong Leong Industries' (HLI) RM250 million (US$78.89 million) Al-Bai Bithaman Ajil Islamic Debt Securities Issuance Facility (2001/2008), from stable to positive. The Islamic instrument carries a long-term rating of A1. The revised outlook is premised on the HLI's much improved balance sheet and cashflow-protection measures.

## SAUDI ARABIA

### Moody's affirms Saad Trading

Moody's Investors Service has affirmed all ratings of Saad Trading Contracting & Financial Services Company, the Saudi Arabia-based subsidiary of the Saad Group.

Ratings affirmed include the entity's Baa1 senior unsecured issuer rating and the Baa1 rating on US$650 million of Sukuk al Manafa'a issued through Golden Belt 1 Sukuk Company BSC (Golden Belt). The outlook on all ratings is stable.

## MALAYSIA

### Intelbest Corporation downgraded

MARC has downgraded Intelbest Corporation (ICSB) RM110 million (US$34 million) Bai Bithaman Ajil Bonds (BaIDS) and RM50 million (US$15.6 million) Murabahah Notes Issuance Facility (MUNIF) (collectively known as Islamic Debt Facilities) ratings to D from B+ID/MARC-4ID as a result of a missed profit payment for the BaIDS on the 28th February. MARC had earlier placed ICSB's Islamic Debt Facilities' ratings on MARCWatch Negative on the 3rd January.

## MALAYSIA

### Deutsche Bank reaffirmed

RAM Ratings has reaffirmed Deutsche Bank Malaysia's (Deutsche Bank) long- and short-term financial institution ratings at AA1 and P1, respectively, with a stable outlook.

The reaffirmation reflects the bank's solid international franchise and strong support from Deutsche Bank, which allows it to tap its parent's vast resources, global network and technical expertise. The ratings also factor in Deutsche Bank's sound risk-management framework and good asset quality.

## MALAYSIA

### Rating Watch on EOG maintained

RAM Ratings has maintained the Rating Watch with a negative outlook on the P2 rating of England Optical Group Malaysia's (EOG) RM60 million (US$18.93 million) Murabahah Commercial Papers (2006/2013) (MuCPs). Although there have been some developments subsequent to that announcement, they have been slower than expected.

## MALAYSIA

### AmInvestment's IDRs placed on RWP

Fitch Ratings has placed Malaysia's AmInvestment Bank's (AmInvestment) BB+ Long-term foreign currency Issuer Default Rating (IDR) and B Short-term IDR on Rating Watch Positive (RWP) to reflect the ongoing internal reorganization at the group level that will eventually see AmInvestment and its sister commercial bank, AmBank, operating as key business divisions with a high degree of operational integration in the group. AmInvestment's Individual Rating of C/D, Support Rating of 3 and Support Rating Floor of BB are affirmed.

## THIS TIME LAST YEAR

- Malaysia's deputy prime minister Najib Razak opined that improved proficiency in Arabic will further propel Malaysia's status to become an Islamic finance hub.
- **Emirates Global Islamic Bank** began structuring Istisnah products for construction finance to boost the construction industry and generate job opportunities.
- **Enmaa**'s public offering of its Class A shares was extended until the 21st March 2007.
- **Etihad Etisalat (Mobily)** began talks to borrow US$2.8 billion in Sukuk from a consortium of Saudi Arabian and foreign banks by mid-March.
- **Enmaa**'s public offering of its Class A shares was extended until the 21st March 2007.
- **Bank Sedarat Iran** signed a memorandum of understanding with **Belarus Central Bank** to expand banking activities and raise Iran–Belarus monetary and trade co-operation.

UK

## Chelsea Barracks deal breaks new ground in UK's Islamic finance

The GBP1.5 billion (US$3 billion) Chelsea Barracks Shariah compliant financing deal — the UK's most expensive Islamic financing real estate deal to date — was made possible thanks to the advanced features of the country's tax laws, said Qudeer Latif, head of Islamic finance group at Clifford Chance in Dubai.

Speaking to Islamic Finance *news*, the senior lawyer said these features made it possible for the legal team to structure the Ijarah facility within the parameters of the tax legislation comprising the alternative financing regime as set out in the Finance Act 2005. The Ijarah floating rate loan is due in 2011.

"I believe that we are able to make this deal work because of the advanced features in the UK tax laws. Frankly, I don't see the same deal being made in other European jurisdictions at present," said Qudeer, who co-led Clifford Chance's team in advising Project Blue (Guernsey) Limited, which acquired the property from the defense ministry. Michaelmore's Phillip Page acted for the ministry.

The industry's observers said the deal will boost the UK's efforts to be a global hub for Islamic finance as it shows how Middle Eastern wealth is increasingly used to finance deals in the UK. Just a month ago, Aston Martin completed the first Islamic leveraged buyout of a British-based company, in a GBP522 million (US$1 billion) deal using Shariah compliant debt.

Qudeer agrees with the view. "After this, we will see more of such transactions with higher volume growing from Middle East investors into the UK and Europe. We will see more Islamic financing transactions in the western jurisdiction."

Clifford Chance's team comprised experts in real estate, tax and Shariah financing from London and Dubai. Qudeer headed the team with Mark Payne, who is Norton Rose's head of real estate. It took them six months to structure the Ijarah facility before the deal was finalized on the 1st January 2008.

"There has never been an Islamic finance deal done to such an extent. So, we faced some challenges. But we were innovative and therefore managed to structure the deal in a slightly different platform than the usual Islamic financing structure," he said.

Qudeer, who declined to divulge the structure's unique features, said the transaction also showed the firm's strength and depth of expertise.

Commenting on the deal, Payne was reported as saying: "We are breaking new ground by creating and implementing an Islamic financing on this scale on a major development site in the UK. The extraordinary site continued to set the bar for acquisition and residential development. Its many fascinating aspects now include one of the most complex and innovative financing ever seen in the UK."

Clifford Chance is no stranger to advising on landmark Islamic finance deals. The firm won Best Islamic Law Firm in the 2007 Islamic Finance *news* Awards.

In the sector awards, the firm was arecognized for its work on the US$850million Khazanah Sukuk, which received "Deal of the Year" awards in the Equity and Cross-border categories.

Meanwhile, Norton Rose, which represented the financing banks (HSBC Bank Middle East Limited, Calyon, BNP Paribas, Qatar National Bank and Masraf Al Rayan), said: "This is the first time the (tax) legislation has been relied on in relation to a syndicated Ijarah facility and required the development of innovative and complex syndication and trust arrangements."

What makes the deal even more special to the firm is that Norton Rose Group had advised Her Majesty's Revenue and Customs in relation to the tax legislation which was introduced to give Islamic finance the same tax treatment as conventional finance.

The Norton Rose team was led by Anthony Pallett (Dubai) and Lucy Wolley Dod (London). The real estate team was led by Wasim Khan and tax advice was provided by John Challoner while Dean Naumowicz and Rita Papadopoulou advised the banks in relation to the Shariah compliant currency hedging arrangements.

Chelsea Barracks sits on a 12.8-acre site between Sloane Square and the Thames and it is the most valuable residential plot to be redeveloped in Britain, at GBP75 million (US$150 million) an acre.

The prime site in Chelsea, an area popular with London's rich and famous, fetched more than three times the GBP300 million (US$597 million) expected by the ministry when it was put up for sale three years ago.

It has been reported that the red-bricked fronted barracks, built in the 1960s, will be demolished to make way for the construction of 2,000 luxury flats together within a landscaped environment, a seven-star hotel, a community area and an underground car park. Proposals for the scheme will be subjected to final planning approval by the Westminster City Council.

Project Blue is owned by Qatari Diar Real Estate Investment Company (a subsidiary of the Qatari government) and CPC Group, the property investment vehicle owned by brothers Nick and Christian Candy, the multimillionaire designers of ultra-luxury flats such as the exclusive One Hyde Park, which is one of the world's most expensive residential properties.

Commenting on the deal, newly appointed Qatari Diar CEO Ghanim bin Saad al Saad said: "Our inaugural; syndicated financing represents a major step in the advancement of what is certain to be an important development for all of London."

Qatari Diar will use the funds to pay for the Chelsea Barracks acquisition and to cover development costs. The project also represents the company's first major investment in Europe.

*By Arfa'eza A Aziz*

# Corporate Governance in Islamic Finance

*By Wafik Grais*

**Balancing the requirements of economic growth, financial vibrancy as well as regulatory and supervisory concerns for stability is a challenge in all economies. While the world can legitimately boast significant progress in this area, a perfect balance may forever be elusive.**

Like conventional finance, Islamic finance faces the same challenges. Corporate governance (CG) and its ability to enable initiative while containing excesses can be instrumental in helping institutions offering Islamic financial services (IIFS) deal with adversity.

Effective CG can comfort regulators and induce them to support a regulatory environment that is enabling for economic growth and financial vibrancy and that mitigates risks of instability. Effective CG should facilitate macro and systemic economic management and limit the need for intrusive regulatory and supervisory interventions.

Two sets of CG issues are specific to IIFS. The first arises from the need to reassure stakeholders that the Islamic financial institution (IFI)'s activities fully comply with the precepts of Islamic jurisprudence. Indeed, the core mission of an IIFS is to meet its stakeholders' desire to conduct their financial business according to Shariah principles.

There must, therefore, be CG mechanisms to assure them that the necessary safeguards are in place. The same stakeholders also need to be assured that the firm will nonetheless actively promote their financial interests, and prove to be an efficient, stable and trustworthy provider of financial services.

In practice, depositors and borrowers need to feel confident that the types of liabilities and assets that IIFS deal with are competitive and offer a risk-return trade-off acceptable to their clients. This combination of requirements of Shariah compliance and business performance raises specific challenges and agency problems, and underlines the need for distinctive CG structures.

## CG and Shariah compliance

The pledge to conduct activities in accordance with Shariah principles entails that IIFS would not:

(i) engage in interest-based debt transactions;
(ii) conduct a purely financial transaction disconnected from real economic activity;
(iii) participate in a transaction where there is exploitation of any party; and
(iv) participate in activities regarded as harmful to society.

Failure of individual institutions to ensure compliance would entail a reputational risk for the Islamic finance industry.

To mitigate such risk, IIFS have CG structures and processes that reassure stakeholders of the Shariah compliance of all transactions. A widely adopted approach is to have independent bodies certify such compliance. Each IFI has in-house religious advisers, collectively known as the Shariah Supervisory Board (SSB), as part of its governance structure.

The ability of the SSB or Shariah advisers to fulfill the mandate may be constrained by the volume of activity, their access to monitoring systems, the complexity of financial transactions or the extent of their independence. These factors may have been at play during the collapse of the Bank of Credit and Commerce International (BCCI), which involved several IIFS.

## Main issues

The functioning of SSB raises five main CG issues: independence, confidentiality, competence, consistency and disclosure. The first concerns the independence of the SSB from management. Generally, members of an SSB are appointed by shareholders of the institution, represented by the board of directors to whom they report.

As such, they are employed by the IFI, and their remuneration is proposed by management and approved by the board. The SSB members' dual relationship with the IFI, as providers of remunerated services and as assessors of the nature of operations, could create a conflict of interest.

The issue of confidentiality arises from the practice of Shariah scholars often sitting on the SSBs of several IFIs, thereby gaining access to proprietary information of possibly competing institutions.

The third issue is competence. In performing their function, Shariah scholars are expected to be familiar with Islamic law and to have financial expertise. In practice, very few scholars are well-versed in both disciplines, though significant training efforts are helping deal with the issue.

The fourth issue is the consistency of judgment across IIFS, over time or across jurisdictions, within the same institution. Such consistency would help promote the customer's confidence in the industry and the enforceability of contracts. Conflicting opinions on the admissibility of specific financial instruments or transactions would hurt business confidence and market efficiency.

Finally, disclosure of all information relating to Shariah advisory functions would strengthen the credibility that the offered services are essentially distinct from conventional ones and, furthermore, promote market discipline.

An SSB within an IFI has the advantage of being close to the market. A competent and independent SSB, empowered to approve new Shariah conforming instruments, would facilitate innovation within the firm. In issuing its fatwas, the SSB could be guided by standardized contracts and practices that could be harmonized by an international standard-setting, self-regulatory professionals' association.

Such an approach could ensure consistency of interpretation and enhance the enforceability of contracts before civil courts. Review of transactions would mainly be entrusted to internal review units, which, in collaboration with external auditors, would be responsible for issuing an annual opinion on the Shariah compliance of the transactions. This process would be sustained by reputable agents like rating agencies, stock markets, financial media and researchers that would channel signals to market players.

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*Corporate Governance in Islamic Finance (continued...)*

A framework along the foregoing lines would enhance public understanding of the requirements of Shariah, and lead to a more effective participatory role by stakeholders in the activities of the institution. It could also boost the confidence of regulators concerned with market reputation and the operational risks of IIFS operating in their jurisdictions. Sufficiently robust arrangements should bear on the need for regulatory intervention.

## Stakeholders' financial interests

The core mission of a financial institution is to enable stakeholders to pursue their financial interests. Accordingly, CG arrangements for IIFS cannot underestimate the importance of having a framework that credibly protects these interests and not breaching their values. The 2001 collapse of Turkey's Ihlas Finance House (IFH) illustrates the consequences of capture by special interests in an environment of weak internal and external checks.

The largest of the Turkish IFIs, with over 40% of the sector deposits, IFH was liquidated by the Turkish Banking Regulation and Supervision Agency because it had illegally appropriated almost US$1 billion, virtually the entire value of the deposit base, through connected lending to shareholders, concealed by the rapid growth of deposits.

Concentrated ownership and control had permitted an incentive system biased in favor of shareholders. When the bank was liquidated, the misappropriation of funds was so large that the bank was unable to pay back its 200,000 depositors.

Except for Shariah compliance, CG arrangements of IIFS appear similar to those of conventional financial services. The latter generally focus on agency problems between shareholders and management, and the protection of minority shareholders' interests.

However, they may not effectively incorporate incentives to protect other stakeholders' financial interests, in particular those of unrestricted investment account (UIA) holders. Two CG issues call for attention. The first is the UIA holders' role at the intersection of shareholders and depositors and the management of reserve funds to mitigate UIA holders' risks.

UIA holders and not IIFS bear, in principle, the risk of a poor performance of the investment pool, except for misconduct on the part of the IFI. The IIFS practice of commingling shareholders' and depositors' resources in investment pools may be fraught with the possibility of conflict of interest.

Management's discretion in the configuration of the pools and in the investments made from them could result in differential treatment of various stakeholders. The practice may reduce also the transparency of IIFS' compliance with their clients' investment objectives.

Thus, UIA holders appear to be stakeholders akin to shareholders. They are principals entrusting their resources to an agent, management of the IFI — with the significant difference that, in their case, the agent is appointed by another principal, namely the shareholder.

In part to deal with the risk-bearing role of UIA holders, IIFS use profit equalization and risk investment reserves. There may be issues on the governance of the funds collecting those reserves. In particular, the practice of profit equalization may convey an inaccurate view on the actual performance of the IFI, compounding the asymmetry of information available to UIA holders and management.

> "Management's discretion in the configuration of the pools and in the investments made from them could result in differential treatment of various stakeholders"

IIFS consider these funds important to deal with competitive pressure. While in principle returns to UIA holders are supposed to vary according to IIFS performance, poor returns may induce UIA holders to transfer their funds to a better-performing institution.

To mitigate such risk, IIFS draw on profit equalization reserves in periods of poor performance to complement the returns that UIA holders would have expected. The reserves are fed by retaining a share of UIA holders' earnings in periods of high returns on investment. Similar arrangements help IFIs protect the principal of UIA holders.

Several suggestions are available to protect the financial interests of UIA holders. They notably include giving them a shareholder's role, assigning a special function to defend their interests to a board's corporate governance committee, increasing the role of external institutions exerting market discipline, or reconfiguring the corporate structure of IIFS. Both AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) and the Islamic Financial Services Board (IFSB) have focused on the issue and proposed solutions.

The IFSB CG standard proposes to give an important role to a CG committee of the IIFS board. The latter could particularly focus on UIA holders' rights. Transparency in the CG arrangements used to protect UIA holders' financial interests should be paramount. It is comforting to notice that it is increasingly practiced.

## Balancing act

The world witnesses periodically financial crises. They come often at the end of periods of high economic growth supported by financial innovations. The turmoil could be compared to the breaking of a cart whose front and back axels, the economy and finance, cease to turn in sync.

The latest turmoil in financial markets in late 2007 and early 2008 does not seem an exception. Finance ran ahead of economic growth and pursued its own expansion reaching out to increasingly riskier clients. The 2007/08 and 1997/98 episodes are different in their manifestations.

They do emanate from fundamentally similar conditions and operators' behavior: economic growth supported by the pursuit of financial expansion in riskier market segments.

*continued...*

## *Corporate Governance in Islamic Finance (continued...)*

Each episode is generally preceded by signs of regulatory and supervisory self-satisfaction of having put in place robust arrangements that induce financial stability. Each episode is also generally followed by a flurry of regulatory and supervisory activity to avoid similar developments.

> "Implementation of sound and transparent corporate governance can be of great help in leading it on a path that balances requirements of economic growth and financial vibrancy as well as regulatory and supervisory concerns for stability"

While the latter do often contribute to better approaches to promote stability, they sometimes also introduce rules that may exacerbate instability, besides adding operational costs not necessarily commensurate with expected stability benefits. Reliable CG should contribute to shaping the judgment on the balance between regulatory intervention and the needs of market vibrancy.

Islamic finance has been part of the enormous changes that have occurred in the world's financial landscape. It has developed tremendously in the last four decades and seen its expansion accelerate at the turn of the millennium. In early 2008, Islamic finance is no longer a nascent industry. It is significant and growing fast.

Most countries where it is practiced have put in place institutional arrangements to ensure its stability while enabling its vibrancy with a leadership role taken by Bahrain and Malaysia. To date, Islamic finance has managed to avoid the most recent turmoil. Its implementation of sound and transparent CG can be of great help in leading it on a path that balances requirements of economic growth and financial vibrancy as well as regulatory and supervisory concerns for stability.

VIVERIS MANAGEMENT
PARTENAIRE D'INVESTISSEMENT

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# Advisory and Regulatory Approaches in Islamic Finance

*By Mohamed Ridza Mohamed Abdullah*

**Islamic finance has witnessed encouraging development in recent years, with market participants showing greater interest to adopt Islamic finance products and services in meeting their investment and financing needs.**

Islamic finance represents an assertion of religious law in banking and capital market transactions, where the market should be free from the involvement of prohibited activities by Islam as well as free from elements such as usury (riba), gambling (maisir) and ambiguity (gharar).

In designing and implementing the financial regulation for Islamic financial institutions (IFIs), the challenge is to formulate a framework that not only takes into account the characteristics peculiar to Islamic banking business, but also does not put IFIs at a comparative disadvantage and affect their competitiveness and growth potential in the overall financial system. The regulatory requirements need to be consistent with the injunctions of Shariah.

Second, it needs to take into account the multi-faceted role performed by the IFIs. Third, in a dual financial system where IFIs operate side by side with conventional banks, and one in which conventional banks may offer Islamic banking products and services through Islamic banking windows, the regulatory approach adopted must provide a level playing field.

To a large extent, IFIs in most jurisdictions have been governed by the same regulatory framework that is applied to conventional banking operations reinforced by the compliance with the Shariah framework.

## Regulatory approach in dual banking system

However, as the conventional banking framework is premised on an interest-based debtor-creditor relationship, the regulatory framework for conventional banking is built to assess and mitigate risks arising from loan-based financial transactions.

Islamic banking is different in term of its underlying philosophy on the prohibition of interest. This in turn shapes the nature of the financial transaction that has its own risk characteristics. The specific risks associated in Islamic banking activities therefore need to be identified to ensure prudential regulations are adequately addressed.

In a dual-banking environment where IFIs operate alongside conventional banking institutions, it is important to maintain harmonization of the regulatory infrastructure, thus providing a level playing field for both the Islamic and conventional financial industry. The challenge lies in the development of a rigorous regulatory framework, legal and tax structure that will not put any of the financial players at a disadvantage.

Of equal importance is the need to ensure that there is no opportunity for regulatory arbitrage in banking practices that makes one system more superior to the other in terms of product pricing. The Malaysian experience has a further variant of the dual-banking model where conventional banking institutions are able to offer Islamic banking products and services.

Take Malaysia as an example. Its Islamic financial system operates in parallel with the conventional system. The system has remained competitive and resilient as demonstrated by its growing market share and its ability to withstand adverse development. Its resilience to market vulnerabilities was demonstrated during the 1997-98 Asian currency crisis.

While the IFIs observe similar international standards prescribed in the banking regulatory and supervisory framework and are subject to the same supervision by Bank Negara Malaysia, they are required to fulfill additional requirements, including observing minimum Islamic banking funds for Islamic banking operations and maintaining an internal separation of accounting books.

"To a large extent, IFIs in most jurisdictions have been governed by the same regulatory framework that is applied to conventional banking operations reinforced by the compliance with the Shariah framework"

Further steps have been taken to require the IFIs to disclose the fair and true value of their Islamic banking operations in the form of balance sheet and profit and loss statements as part of the notes to the accounts in the principal financial statements of the IFIs.

This is to duly reflect the different risks and unique characteristics inherent in Islamic banking as compared to conventional banking. Where Islamic banking operates on a window basis, the existence of a firewall is to ensure strict compliance with the Shariah.

While the appropriate regulations and standards are vital to mitigate the risks involved, of equal importance are the oversight and monitoring of the IFIs through effective supervision by the regulatory authority to ensure that the prudential requirements are observed. Oversight, inadequate checks and balances, and overexposure to risks are among the factors that may result in vulnerabilities to the system.

The best of regulations and financial safety nets would not be able to avoid such vulnerabilities if early warning systems are not in place. To effectively perform the supervisory functions, there has to be an understanding and appreciation of Islamic banking business and operations. Supervisors therefore need to be fully equipped with the required knowledge and skills to be able to identify the risks involved in various Islamic banking transactions to effectively conduct supervisory monitoring of the Islamic financial industry.

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*Advisory and Regulatory Approaches in Islamic Finance (continued...)*

## Enhancing Shariah framework, governance

A distinct feature of Islamic banking vis-à-vis conventional banking is the requirement to set up a Shariah advisory committee within the IFIs. The establishment of a Shariah advisory committee is important to serve as a check and balance to ensure that the management and operations of the IFIs do not deviate from the Islamic principles in the formulation of their policies. Integral to this process is the achievement of "unity in diversity" of the interpretations of Shariah injunctions in the realm of finance.

In this regard, the Islamic Financial Services Board (IFSB) has an important role to play in strengthening the current initiative to achieve a greater degree of convergence and harmonization.

Strong adherence to the Shariah is also enforced through guidelines and procedures to ensure its compliance among the IFIs. Procedures for decision-making by the Shariah advisory committee of the IFI therefore need to be clear and transparent.

The role and responsibility of the committee therefore must reflect their responsibility and accountability to management. Their position is comparable to the auditors of the IFIs. Hence, the financial reporting by an IFI is required to provide the necessary disclosure to report on the conformity of its operations with the Shariah principles. These will promote the foundations for building public confidence and assurance that the Islamic financial products are Shariah compliant.

To enhance the Shariah framework in Malaysia, the Shariah advisory council at the central bank acts as sole authority on all Shariah matters pertaining to Islamic banking and finance. Being an apex body, the council standardizes Shariah rulings on similar issues to provide greater certainty and confidence to the IFIs and to the investors and consumers.

To strengthen the Shariah and legal framework, the Malaysian judiciary set up a dedicated High Court to adjudicate cases involving Islamic banking and Takaful in accordance with the existing Malaysian civil law. Any dispute, within or outside the court system that calls into question issues concerning the Shariah, is referred to the Shariah advisory council for guidance and clarification.

Alternatively, disputes may also be referred to the arbitration center for resolution. In this connection, Malaysia will enhance the role of the Regional Centre for Arbitration in Kuala Lumpur in serving as a platform to resolve disputes on Islamic banking and finance, and to extend these services beyond our borders.

As noted, prohibition of riba is an essential requirement in Islamic banking and finance. However, banks and financial institutions face some difficulties in adhering to the principle due to the absence of certain laws governing Islamic transactions.

In Malaysia, some may argue that Ijarah and al-Ijarah Thumma Al-Bay' (AITAB) transactions are impliedly governed by the Hire and Purchase Act, in which some of the provisions contravene Shariah principles (for instance, as regards interest provision).

As a result, there are many instances where banks and financial institutions merely adopt a conventional hire-and-purchase agreement and refer to such agreement as Ijarah. However, such agreement may not qualify as an Islamic transaction if the contents do not reflect the real Ijarah or AITAB transaction. Therefore, new legislation is necessary to resolve the matter and to ensure IFIs are really working under the Shariah principle.

## Overcoming major challenges

While the positive growth and developments in the financial system have brought about expanded opportunities, the financial liberalization and technological advancement have brought about increased competition and greater innovation in the development of products and services, operational processes and delivery channels.

> "In Islamic finance, the management of risks becomes more challenging due to its peculiar risk characteristics and the requirement for compliance with the Shariah"

These developments have helped increase the risk profile of the IFIs. The new risks are generally more complex and have more profound systemic implications on the financial system. This has increased the need for strengthened risk management capabilities by the industry and warrant greater attention to this aspect by regulators and supervisors in promoting the stability and integrity of the financial system.

Of importance is to ensure an understanding and awareness of the risks inherent in Islamic banking activities. The challenge is to ensure that each component that supports the risk mitigation requirements, comprising the framework and infrastructure, legal, regulatory, supervisory as well as the Shariah infrastructures are in place.

In Islamic finance, the management of risks becomes more challenging due to its peculiar risk characteristics and the requirement for compliance with the Shariah. While the Basel II initiatives on the identification of credit, market and operational risks can be assimilated into Islamic banking, these have to be complemented with consideration of the other dimensions of risks that are inherent in the Islamic financial transactions.

The risk management infrastructure in IFIs needs to identify, unbundle, measure, control and monitor all the specific risks in an Islamic financial transaction and its instruments. This is to ensure that the systems and controls will be effective in the quantification and management of the risks arising from the operations.

New innovations in technology would be particularly important to enhance the potential to manage risks. In addition, as the returns in Islamic banking are uncertain and can only be ascertained on an ex-post basis, well-developed IT systems would be necessary to enable the IFI to make projections on future returns so as to reduce the degree of uncertainty in the returns to be paid to depositors. This

*continued...*

## *Advisory and Regulatory Approaches in Islamic Finance (continued...)*

would also strengthen the potential competitiveness of the Islamic financial services industry.

At the core of a strong Islamic financial system in any jurisdiction, there needs to be a strong regulatory framework which enforces the standards for capital adequacy, ensures effective risk management practices, financial disclosure and governance, reinforced by a strong Shariah and legal framework.

Shariah principles serve as a self-regulating mechanism that protects IFIs from unproductive, speculative and unethical activities, given the prohibition of interest or usury in banking business, and the requirement that all financial transactions are to be accompanied by genuine trade and business-related transactions and the prohibition from the involvement in illegal and unethical activities.

> "There are still outstanding issues confronting the Islamic financial system today, particularly the different interpretations of the Shariah injunctions"

The regulatory framework in which Islamic banking operates is thus able to draw on the strength of the Shariah injunctions, to reinforce financial soundness and stability of the Islamic banking system.

In Malaysia, IFIs are required to have a Shariah committee council within their respective institutions to ensure that products and services to be introduced are Shariah compliant. In addition, emphasis is also placed on the internal audit function to ensure that all transactions undertaken by IFIs are in compliance with the Shariah.

In designing and implementing financial regulation and supervision for IFIs, the challenge is to enforce a framework that takes into account the unique characteristics of the Islamic banking business, without being a regulatory burden and restricting its growth potential or providing arbitrage opportunities between the conventional and Islamic financial systems. This is important to ensure the stability of the overall financial system.

In building a sound prudential framework for Islamic finance, aligning the regulatory capital requirements to the underlying risks requires dichotomization of the risk intricacies in the Islamic banking asset portfolio, given the asset structure of IFIs, such as the diverse spectrum of Islamic financing structures, which range from low-risk sales and lease-based modes to the higher-risk, equity-based modes of finance.

The complexity in profiling the risk in Islamic finance is further increased as the risks may transform from one type of risk to another at various stages of the contract. For example, in the diminishing Musharakah contract, the IFI initially acts as a joint owner of the asset, but the asset ownership will be transferred fully to the customer at the conclusion of the contract.

In this regard, the IFI is exposed to higher market and impairment risks at the initial part of the transactions initially compared with the exposure during the later stage of the contract. At the same time, the amount of repayment by customers represents the credit risk to the IFI. As each of these respective parts of the transaction has a distinct intrinsic characteristic, it would entail different degrees of credit, market and operational risks.

In this regard, in formulating prudential standards for IFIs, there is a need to have an accurate assessment of the various risk variants underlying the alternative parts of the transaction to determine the capital adequacy requirement.

### Ensuring Shariah compliance

A key challenge in managing operational risk in Islamic banking is ensuring Shariah compliance. Bank supervisors in their assessment would need to give due attention to the adequacy of the financial institution's board and management, policies, procedures and limits, risk measurement, monitoring and management information systems, and internal controls. The risk management standards issued by the IFSB would serve as a guide to bank supervisors in this regard.

Notwithstanding the significant progress made so far, there are still outstanding issues confronting the Islamic financial system today, particularly the different interpretations of the Shariah injunctions. Internationally, there continue to be debates among Shariah scholars on compliance with the Shariah.

In Malaysia, the National Shariah Council on Islamic Banking and Takaful has invited prominent international Shariah scholars to participate in the deliberations as its members. The move is expected to help bridge the gap in the interpretation of Shariah injunctions in relation to the conduct of Islamic banking business among Shariah scholars in different parts of the world.

Regular and continuous dialogue sessions conducted by the scholars are another forum through which the differences in the interpretations are being addressed.

In conclusion, the future prospect of the Islamic banking industry thus depends on the combined cumulative efforts by the industry, regulators, market participants and the international community. The collective effort needs to be coordinated to maximize the potential of the industry.

Setting shared vision and common goals to be achieved would be an important first step. Of greater importance is the action that needs to be taken to realize these goals. The actions and initiatives we take today will contribute towards achieving the future that we aspire to.

**MOHAMED RIDZA & CO** Mohamed Ridza Mohamed Abdullah is managing partner of Mohamed Ridza & Co, a boutique legal firm handling various areas of the law, namely Islamic banking and finance, Islamic capital markets, corporate commercial, corporate banking, projects, construction law, oil and gas and real estate. He can be contacted at +603 2092 4822.

# Summary of IFSB's Guidance on Supervisory Review Process

*By Shabnam Mokhtar*

**Basel II was endorsed on the 26th June 2004 as an update to the international banking regulatory guideline. It consists of three pillars: Pillar I — Minimum Capital Requirement, Pillar II — Supervisory Review Process, and Pillar III — Transparency and Market Discipline.**

As the regulatory standard-setting body for Islamic financial institutions, Islamic Financial Services Board (IFSB) has produced the Basel II equivalent guideline for all three pillars. IFSB's capital adequacy standard was published in December 2005 while the equivalents for Pillars II and III were published more recently in December 2007.

Before proceeding with a summary of IFSB's Pillar II (Supervisory Review), let us consider what Pillar II is all about. Pierre-Yves Thoraval, who has served as deputy secretary-general of the French Banking Commission (Commision Bancaire) since 2003, explained Pillar II in his article titled, "The Basel II Framework: The Role and Implementation of Pillar II".

While under Pillar I banks are required to estimate the capital that they should hold, taking into consideration credit, market and operational risks, Thoraval highlighted that Pillar II focuses on two components — the internal capital adequacy assessment process (ICAAP) and supervisory review and evaluation process (SREP). ICAAP emphasizes the bank's role while SREP stresses the supervisor's (i.e. the regulator) role.

According to Thoraval, ICAAP requires that banks have in place systems to access their capital adequacy that incorporate not only risks identified in Pillar I but also beyond that which include quantitative risks (interest rate risk in non-trading book, concentration risk etc.) and qualitative risks (reputational and strategic risks). The supervisors would then conduct their own analysis on the bank and compare it with that of the bank. This would be the second component in Pillar II, i.e. SREP.

Simply put, under Pillar II, the supervisors would compare their analysis with the bank's analysis of capital adequacy. In addition, the risks taken into consideration in Pillar II go beyond those indentified under Pillar I. The supervisors also have the right to require the banks to hold capital in excess of the minimum capital requirement (i.e. beyond the 8% minimum requirement) after the review process. This is what Thoraval calls "add-on capital", which has generated a lot of debate in the conventional banking industry.

## Summary of guideline on SREP

The IFSB guideline highlights key elements that the supervisors of Islamic financial institutions should focus on, which include capital requirement, risk management and governance process, related party transaction, transparency and market discipline, and home-host supervision issue. This summary will only focus on capital requirement and the transparency and market discipline elements of the guideline.

As for regulatory capital requirement, the guideline recommends that:

i. The capital requirement consider the rate of return risk and other risks that may give rise to displaced commercial risk (i.e. the risk that an Islamic financial institution absorbs losses/ forgoes its share on profit in the Mudarabah investment account to ensure the investment account holder, or IAH, enjoys market return).
ii. The supervisor may also authorize the use of other approaches for credit risk measurement (internal rating-based approach) since IFSB's capital adequacy standard only covers the standardized approach.
iii. In Musharakah and Mudarabah financing, the supervisor may also provide specific guidance on the slotting method (alternative risk weight according to a project's strength instead of the simple risk-weight method that requires 400% risk capital).
iv. Supervisors also have the discretion to impose additional capital charges for operational risk to cater for non-compliance of Shariah.
v. The treatment of IAHs may be based on:
    a. standard formula, where the IAH is treated as an investor rather than a depositor (because the IAH is assumed to absorb losses that are generated from the Mudarabah investment); or
    b. supervisory discretion formula, where a portion of the Mudarabah account losses (alpha) is absorbed by the bank (the Mudarib).

The guideline recognizes that the supervisors may adopt the second method more frequently. In this instance, Islamic financial institutions are required to implement a sound and robust system to measure the Mudarabah losses that they will absorb while the supervisors must evaluate the reliability of the methodology that the institutions use.

## Transparency crucial

If the supervisors elect to treat the IAH according to the first method (standard formula), then they would need to provide a guideline that explains the circumstances in which an Islamic financial institution would be considered not to be under any pressure to absorb losses/ forgo its income. In this case, the IAH is akin to a mutual fund investor. Thus, the supervisors must ensure that Islamic financial institutions have adequate control similar to mutual fund management.

Regarding transparency and market discipline, since the IAHs are mostly unsophisticated retail investors who are unable to undertake monitoring and enforce any requirement on Islamic financial institutions, transparency is more crucial in such institutions because the return to the IAH depends on the profit generated by the institution. Supervisors need to ensure that information regarding the Mudarabah investment account is disclosed in a simplified manner, using simple language and easy-to-understand measures of risks.

The guideline also recommends that supervisors collaborate with industry and consumer associations to advocate best practices regarding control and risk management systems and ensure timely reporting that would indicate early warnings when necessary. The disclosure requirements are discussed in detail in "Disclosures to Promote Transparency and Market Discipline" published by IFSB last December.

# Kuwait: View from the Top

*By KFH Research*

**Kuwait's real GDP growth in 2008 is forecast to come in at a stellar 6.1%, supported by ongoing government expenditure which will provide strong stimulus to expansion in an economy reliant on public sector consumption, higher oil export growth as oil production returns to capacity and higher private investments on the back of rising confidence in the country's future economic prospects.**

A resilient equity market this year will also help buoy business and consumer confidence. Furthermore, foreign investments are expected to pick up following the government's approval of a new income tax law last December to woo foreign investments.

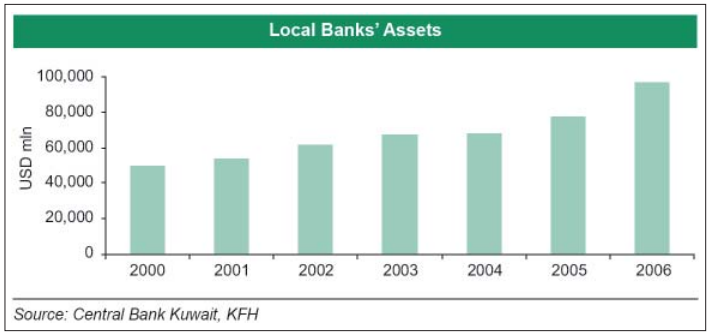
Foreign commercial institutions operating in the country will be subject to a tax rate of 15% now, compared with 55% previously. In 2007, GDP growth is expected to come in at 6% year-on-year (2006: 6.2%), underpinned by higher oil revenues and the government's continuous efforts to diversify its economy to increase non-oil revenues.

Indeed, the increase in oil exports has translated into higher private consumption, as well as public and private investment spending. Economic sectors that will reduce Kuwait's over-reliance on oil include services (banking, construction/real estate and transport), industry, infrastructure and utilities (water and power).

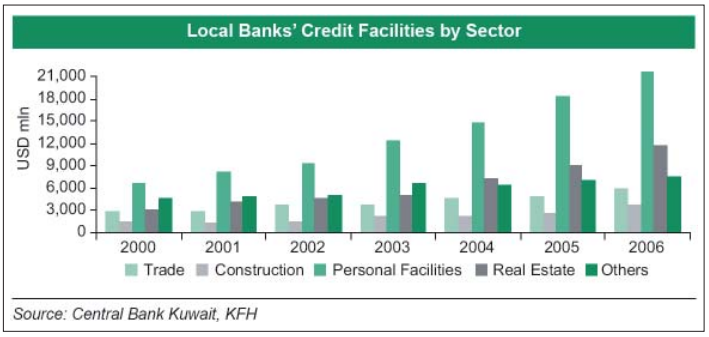
To maintain long-term economic growth momentum, Kuwait plans to invest US$207 billion over the next five years in various economic sectors such as real estate, oil and gas as well as energy and infrastructure.

A rise in investment income as a result of strong growth in corporate profits in recent years and favorable monetary policy also contributed to the surpluses. For 2008, we expect the surplus to rise further to 52% of GDP, or US$80.3 billion, as oil prices remain high and investment income trends higher following a new tax law for foreign commercial entities operating in the country.

## Banking growth




Kuwait is currently one of the least diversified economies among the GCC countries. Although the petrochemical industry is a high-value-added industry, it is limited in its potential for job creation and its profitability is linked to volatility in the oil markets. The country is therefore undertaking measures to diversify its economy away from its near-total dependence on oil revenues.




One of the promising sectors is banking, which continues to be an important driver of economic activity after the oil sector, buoyed by positive business and consumer sentiments. Consolidated assets of local banks grew at a CAGR of 12.8% during 2003-06 to reach US$96.4 billion in 2006, buoyed by higher credit facilities to residents on the back of higher real estate and property developments.

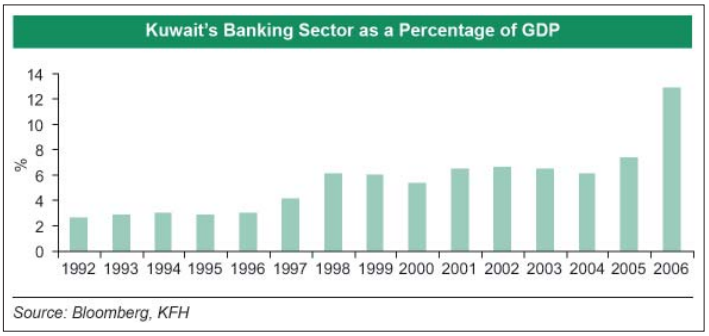
Foreign assets also witnessed strong growth, registering a CAGR of 29.3% during the same period to reach US$18.5 billion in 2006, or a 19.4% share, in the consolidated assets of the local banks.

Islamic finance is growing at a faster rate, recording CAGR of 30.9% during 2003-06 as compared to 12.3% for conventional banking during the same period, as many customers switched accounts to Islamic institutions. Currently, there are two pure Islamic banks in the country — Kuwait Finance House and Boubyan Bank.

The implementation of Islamic banking law has paved the way for the setting up of more Islamic financial institutions in Kuwait as it provides a stable legal framework, thus driving the sector to further growth.

We expect Islamic banking to grow in the range of 15% to 25% per annum, outpacing the growth of conventional banks over the medium term. Growth in this sector will be driven mainly by retail financing as conventional banks have been encouraged to focus on the corporate lending sector.

Kuwaiti banks were also insulated from the US subprime mortgage crisis as they do not invest in tools that were adversely affected by the crisis. We expect the banking sector to grow to 15% of GDP in

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## *Kuwait: View from the Top (continued...)*

2007, given the further reduction in Kuwait's non-performing loan portfolios from 4.4% in 2003 to 2.6% in 2006, high oil prices and huge infrastructure investments planned by the GCC countries that are expected to exceed US$1 trillion between 2006 and 2010.

The government has asked banks to cancel parts of consumer loans involving violations of lending rules in a bid to bail out citizens by canceling debt worth US$4 billion. The move, announced last December, is seen as a measure to curb banks' lending appetite to the consumer sector, which accounts for a major portion of credit facilities granted by banks. This could slow the sector's overall growth.

### Booming real estate

The real estate boom in Kuwait is also fueling lending growth in the banking sector. Credit extended by local banks to the real estate sector accounted for 22% of total lending in 2006, a reflection of strong investor confidence in the economy.

However, on the whole, total expenditures in construction and real estate as a percentage of GDP dropped slightly to 6%, from 6.7% seen in 2005. This is more a reflection of the exceptional growth in the oil and gas sectors in the GCC region, rather than any drop in real terms in real estate.

With oil prices continuing to rise and the Central Bank of Kuwait making concerted efforts to keep inflation in check, particularly by de-pegging the dinar from the dollar, the future for real estate investment looks promising.

The real estate and construction sectors have been growing over the years, underpinned by higher oil revenues, higher capital investments and housing formation, higher investors' confidence, as well as the government's subsidized loans and housing development.

The sectors are expected to benefit from US$3 billion in government investment and US$8 billion in private investment over the next five years. Other factors that contribute to the growth in the real estate sector include:

- Private sector increasing participation to meet the high demand for residential and commercial properties.
- Higher purchasing power with a per-capita GDP of US$29,540, compared to an average per-capita GDP of US$17,425 for the entire GCC region.
- Favorable demographics, with around 29% of total population in the age group of 15-30.
- Rapid population growth, including a rise in the number of expatriates which accounts for the majority of the market.

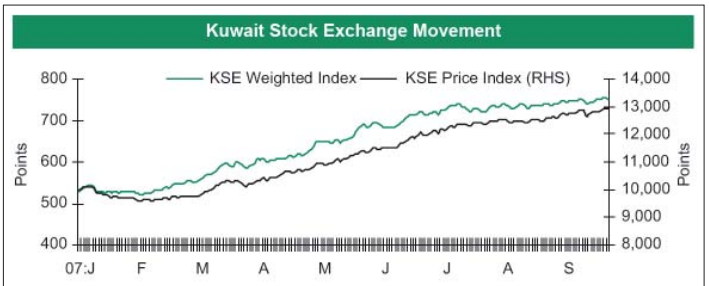
In 1H2007, the market grew by 57% to US$855 million in value from a year earlier. The volume of housing sales transactions also expanded by 52% in the residential sector and 54% overall. Average prices increased by 8% over the previous year for apartment and commercial units. However, heavy emphasis on building high-end or luxury units may skew the market and heighten the risks of slowdown and overvaluation.

Meanwhile, the construction and real estate sectors are expected to benefit from private and government investments worth US$8 billion and US$3 billion, respectively.

This amount is expected to increase further to approximately US$40 billion with more projects set to come onstream, in particular the planned residential and tourist resort developments in Failaka and Bubiyan Islands, as well as a slew of projects to develop the Subiya peninsula and build a highway linking it to Kuwait City.

However, the sector is currently restrained from enjoying staggering growth by cumbersome bureaucratic procedures and high material costs, which may cause potential delays in construction projects.

### Capital market dynamics



Source: Bloomberg, KFH

Source: Bloomberg, KFH

On the capital market front, when equity markets in Saudi Arabia and the UAE collapsed in 2006, Kuwait was not spared from the contagion impact of the fall in the two markets. As a result, the composite index lost 9.8% of its value in 2006 as compared to gains of 67.6% and 11.9% in 2005 and 2004, respectively.

Year-to-date, the Kuwaiti equity market has recovered, underpinned mainly by positive macroeconomic factors such as high crude oil prices, which generated massive amounts of liquidity for the country and the region as a whole, continued market reforms and rising investor as well as issuer interests.

The Kuwait Stock Exchange (KSE) Price Index gained 23.10% in 2007 to end the year at 12,392.70, while the KSE Weighted Index gained 33.32% to close at 708.89 points.

Thus far, Kuwait's equity market has been spared the impact of the US subprime crisis because of the low levels of western institutional

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## *Kuwait: View from the Top (continued...)*

ownership. We expect the equity market to continue to chart commendable growth this year, underpinned by strong GDP growth and earnings per share growth of 20%, with banking, real estate and investment sectors being highly sought after.

Significant regulatory and structural changes, as well as increasing emphasis on corporate governance to improve transparency and market stability will also act as catalysts for Kuwait's equity market, whose forward price-to-earnings ratio of about 14 times is still attractive relative to other regional stock markets.

Meanwhile, Kuwait's corporate bond market, in particular Sukuk, is still relatively small due to a lack of appropriate legal mechanisms that have prevented Islamic financial institutions from issuing Sukuk in the country. As an Islamic country, the potential for the Sukuk market in Kuwait is large and is estimated to be over US$5.2 billion.

Realizing that a developed corporate bond market will help provide a long-term funding source to the economy and allow banks to raise alternative sources of funding, Kuwait is gradually moving towards a new regulatory framework for Sukuk.

Kuwait's strong commitment to large infrastructure projects and the desire to extend the role of foreign direct investment (FDI) will encourage the flow of both inward and outward FDI, benefiting the economy at both micro and macro levels.

As reported by the Economic Intelligence Unit and the Columbia Program on International Investment, Kuwait attracted US$100 million in FDI in 2005. This is expected to reach US$500 million by 2010. The Foreign Investment Bureau has already approved US$4.2 billion in FDI projects and is reviewing applications worth an additional US$1.8 billion. Furthermore, a new income tax law was approved last December 2007 to woo foreign investments.

As mentioned, foreign commercial institutions will now be subject to a tax rate of 15% (55% previously). This will boost FDI in the country. However, factors that may hamper the country's efforts to move forward include Parliament's refusal to approve any law that would allow the sharing of Kuwait's wealth. Therefore, further structural reforms remain pivotal for the country to continue to attract FDI and hence, boost economic growth.

In summary, the Kuwaiti economy is poised for further expansion in 2008 at 7.4% y-o-y, underpinned by higher oil revenue this year and the government's continuous efforts in diversifying the economy. With its local and expatriate populations growing by over 7% and 10% a year, respectively, consumer spending is set to increase further, on the back of higher oil prices that have sent consumer incomes skyrocketing.

Investment spending is also expected to remain strong, with a growing proportion likely to be foreign-funded. Income generated from exports of crude oil, which traditionally contributed 90% to 95% of Kuwait's total exports, will ensure that trade and current accounts, as well as fiscal account, continue to generate large surpluses, fueling government spending.

We expect Kuwait to continue its build-up of foreign assets, both intra- and extra-regionally, in order to protect the outlook for long-term government revenues and thus boost even further the ability to invest in the economy in times of economic weakness.

As with all other GCC countries, political stability remains key to growth. As intraregional investments increase in size, Kuwaiti corporations would become more vulnerable to any deterioration of political stability.

Nevertheless, we expect policymakers and economic leaders to exert their maximum influence to ensure the realization of Kuwait's economy and business growth.

Kuwait is expected to sustain its political stability well into 2009, given the strength of the ruling Al Sabah family, in particular the executives power held by the emir. The country's relations with Iraq have also improved since the Iraqi war, although periodical tension may arise over border incidents involving Iraqi soldiers or drilling in oilfields.

Kuwait would also be adversely affected if the standoff between the US and Iran over the nuclear issue results in military confrontation. However, such risks are currently mitigated by good international alliances, relative social stability, as well as the government's strong financial assets.

### Looking ahead

Challenges faced by Kuwait in sustaining growth include:

- *Volatility in oil prices.* Given that oil historically contributes around half of the country's GDP and between 90% and 95% of export revenues, a sharp decline in prices would negatively affect Kuwait's exports earnings and hence, economic growth. Nevertheless, a sharp drop in oil prices may be unlikely, given an increase in total world oil demand, and developing countries and China being major drivers of growth.

- *Economic structure dominated by the government.* Kuwait's progress in diversifying its economy away from over-reliance on oil may be achievable in the medium term. However, the economy is still dominated by a large public administration, a limited private sector, and overall dependence on economic activity on oil receipts and government spending.

- *Inflationary pressure.* High salaries and free government benefits are expected to buoy consumer spending further, hence putting upward pressure on prices. However, we expect the government's continued extensive subsidies on core goods and services, supported by the country's strong financial position, will help restrain the inflationary pressure.

**The continuing debate in the UK following the Archbishop of Canterbury's comments regarding Shariah law has now flowed over to the proposed sovereign Sukuk by the treasury. What do the UK government and the financial institutions involved need to do to ensure its successful issuance?**

BLME BANK OF LONDON AND THE MIDDLE EAST

The issuance of a Sukuk by the UK Government is a positive move which demonstrates the establishment of the UK as the leading center for Islamic finance outside the Muslim jurisdictions.

In order for the issue to be successful, it will need to be comparable with other UK Government debt, particularly in price and maturity range.

Provided that size and price criteria are met, the UK Government Sukuk has the potential to become the global benchmark for Government Sukuk, which in turn emphasizes the strength of the UK's financial markets and its prime global position. The issue will be of significant importance to the development of the Islamic financial industry globally, but in particular the UK.

Like the UK Gilts, some of the issue is likely to be sold to foreign entities, although this is not the main aim of the issue. In addition, it can be argued that the issue is not likely to sell in the Middle East since the yield is less attractive than the average Sukuk, even though these are higher risk and have historically been priced quite generously.

The issue is of particular importance to UK-based Islamic financial institutions — including insurance, windows of conventional banks and fully Shariah compliant banks — that will be expected to purchase a significant part of it.

Finally, clear and open communications on both the structure and the aim of the issue will assist in its success and general acceptance.

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

Durham University

The period for written submissions in response to the Treasury consultation document on Sukuk issued last November has finally ended and officials will now be considering how to proceed. The Archbishop of Canterbury's speech resulted in a predictable backlash from some of the popular press in the UK, with much misinformation on Shariah disseminated.

However, this makes it more likely that the Treasury will proceed with the Sukuk issuance, which has become as much a political as a financial matter. Not to proceed would be greeted with dismay by British Muslim politicians and appear as a vindication of the anti-Islamic stance of the more reactionary journalists.

The initial Sukuk issuance, expected early in 2009, will therefore be politically symbolic, but probably of limited financial significance. Of more significance would be a decision by National Savings and Investment to offer Shariah compliant retail savings products. They already offer products with the returns based on a retail price index plus formula rather than interest, so providing a Shariah compliant return, and not merely an Islamic structure, would not be difficult.

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

Hong Leong Islamic Bank

The UK Government is issuing the Sukuk because it makes financial sense to do so — tapping into a new source of funding at a competitive pricing.

The Archbishop's intellectual views and subsequent wild reaction is part of an ongoing public debate in a multicultural and open society. It has no impact on business deals like issuance of Sukuk.

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

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


To be an Islamic finance hub in Europe, the UK needs to set a high standard of rules and regulations, based on Shariah law, that enable regional as well as international investors to share in the rapidly growing wealth of Islamic finance.

Investors always seek a secure environment that provides credibility and safeguards their wealth.

The UK government can issue a Sukuk at:

- A competitive price.
- Attractive rate of return.
- Low tax rate on Sukuk issuer and Sukuk holder.

Since the Sukuk is backed by real assets, those assets should be identified clearly.

Islamic financial institutions, practitioners and scholars can play an important role in this matter. They can

- contribute in this issuance; become bondholders;
- increase public awareness;
- raise the advantages of Sukuk, as a secured instrument, which would positively impact the market.

***DR NASSER SAIDI: Chief economist, DIFC***


While some negative sentiment and confusion around Shariah law have been generated, ultimately any UK Sukuk issued would fall under English law. This is already the case for many international Sukuk issued thus far.

The main issue will be perception. The UK Government will need to be careful in the PR surrounding such issuance, ensuring that the purpose and the 'governing law' of such issuance are well communicated to an unsophisticated public, especially given the sensationalist media.

***KHALID HOWLADAR: Vice-president/senior officer, Moody's Investors Service***


The Archbishop of Canterbury's comments on Shariah law have been largely misinterpreted to suggest that UK law can be ignored in favor of Shariah courts. However, the UK's involvement in the Islamic finance industry has demonstrated that this is false and has shown remarkable agility in dealing with other legal systems.

English law is widely used as the governing law for many Islamic finance deals (e.g. Sukuk issued by Middle Eastern companies) in order to attract international investors. This agility can be used to ensure the success of the UK's plan to issue Sukuk.

The UK government is having a problem because in the west, the term Shariah is loaded and not well understood by the general public. In order to address the debate surrounding the inclusion of Shariah law in financial areas, the government needs to bring clarity that the Sukuk will remain subject to the UK and use of the Islamic Sukuk structure is a way to attract investors who otherwise would not participate.

The end result of the deal, if done right, will be to lower the financing costs for HM Treasury, which benefits the British taxpayer. Conveying this message will create the greatest chances for success of the UK Sukuk.

***BLAKE GOUD: Executive director, Institute of Halal Investing***

## Next Forum Question

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

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, 19th March 2008.

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

| | |
|---|---|
| Name: | Mark Smyth |
| Position: | Managing director |
| Company: | Failaka Advisors |
| Based: | London and Dubai |
| Age: | 37 |
| Nationality: | American |

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

Well, this is a variation of the most popular questioned asked of me: 'How did you get involved in Islamic finance?' The answer is an equal mix of serendipity and rather commonplace business decision-making. Failaka does, however, have a rather mythical and exotic beginning, with roots leading back to South America in 1996; for it was in Santiago, Chile that I met my business partner (and Failaka founder) Tariq Al-Rifai. We were both graduate students studying the 'economic miracle' of Chile in an overseas study program.

Shortly after that first meeting, Tariq had the idea to start Failaka, having found it difficult to obtain accurate information on the handful of Islamic funds that existed at the time. While my knowledge of the industry was close to nil at the time, it sounded like a promising idea and we began publishing our quarterly *Failaka Islamic Fund Reports* (covering the modest 30 funds that existed).

Throughout the years, we kept up with the industry's growth and reached a point where we had to either turn our efforts into a full-time business or close it down, as it was becoming a time-consuming task monitoring 200+ funds on a part-time basis. Feeling that the growth was a genuine phenomenon, we made the right choice.

## What does your role involve?

Each day can be a mixture of many roles — event organizer, relationship manger to the fund companies, sales manager, capital markets analyst, conference lecturer, bank consultant... and I'm sure other bits too if I were to sit back and count. But I'm not complaining! Having worked in large organizations with tightly defined roles, I relish the diversity.

## What is your greatest achievement to date?

Our greatest achievement will be the launch of our new, state-of-the-art database of Shariah compliant investment funds on the 24th March. It has been a huge and challenging undertaking that will take our business to the next level and, more importantly, provide investors with the latest tools for analyzing Islamic funds.

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

Our business has four main components: funds database, the Failaka Fund Awards, our consultancy and our publishing projects. Each one is managed aggressively and has its strong points. We are, however, particularly attached to the fund reporting side of our business as it forms the cornerstone for nearly everything else. We also have high hopes for our new *Failaka Shariah Report*, which we believe is the world's first book to profile Shariah scholars and open up that part of the industry to new participants.

## What are the strengths of your business?

Like any good service business in any field, we aim to provide a compelling, customer-focused service that responds to the demands of our clients, is easy to use, correctly priced and represents good value.

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

Like many in the field, we have benefited from the surge in global interest in Islamic finance. For those banks and investors interested in the sector, the first prudent step is often to do your homework. As providers of information on the Islamic sector, we are well-positioned to answer their questions. We also pride ourselves on quickly delivering on new business initiatives.

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

Time! As we are still a small company, there is a limit to what can be done each quarter, each week and each day. While many like to think of themselves as supermen and women, coming to terms with what can realistically be accomplished in a given timeframe is often a challenge, especially when long-distance travel is involved.

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

I see greater integration among the main centers: Malaysia, the GCC and Europe with pronounced growth in other regions, including the US and other parts of Asia. To my mind, the barriers are not so much Shariah-related (the so-called standardization debate), but regulatory. And when you speak of regulatory hurdles, you are in the realm of national and local legislatures that most often do not have a grasp of the history, methods of finance, legal requirements and tax implications of Islamic finance... and these can be tricky and time-consuming issues.

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

I would like to see fewer conferences dealing with the basics and more that are focused on specific issues. While it is important for newcomers to get a flavor of the industry, I think it is perhaps equally important for practitioners to have more detailed discussions on some of the newer developments.

FAILAKA

Established in 1996, Failaka Advisors LLC was the first research organization to monitor advances in the field of Islamic investment funds. Failaka also host the annual Failaka Islamic Fund Awards each spring in Dubai, the UAE, recognizing the best performing funds, fund family, and managers.


# Danat RIA Restricted Mudarabah

| | |
|---|---|
| ISSUER | Danat RIA Company |
| COUNTRY OF ORIGIN | India |
| FORM OF OFFER | Restricted Mudarabah Investment Account (RIA) |
| PRODUCT REFERENCE CODE | RIA 1 — Danat |
| OFFERING CURRENCY | United Arab Emirates Dirhams (AED) |
| OFFERING AMOUNT | Up to a maximum size of AED210 million (US$57 million). Applicants are advised that the bank is also co-investing its own proprietary monies in the company for AED60 million (US$16 million). |
| UNDERLYING INVESTMENT | Acquisition of a 77.78% equity interest in Danat RIA Company, Cayman Islands (the company), which has been established with the principal purpose of indirectly acquiring a parcel of land (measuring approximately 500 acres) to develop an integrated middle-income township in the area of Hasanpur within the boundaries of Delhi. The development will be hereinafter referred to as "the project".<br><br>Once developed, the target market of the project township will be Delhi's growing middle-income population who are seeking more affordable housing opportunities. Profit on the underlying investment will be generated through the sale of undeveloped land parcels as well as developed housing units within the project over the course of the investment term. |
| MUDAREB | Emirates Islamic Bank PJSC will act in this capacity and shall hold a board seat on the company |
| INVESTMENT INCREMENT AMOUNTS | Multiples of AED100,000 (US$27,229) |
| EXPECTED INVESTMENT TERM | 36 months from the commencement date, (with an option to the Mudareb to extend by an additional 12 months) |
| PROFIT SHARING RATIO | Applicant — 72.29%<br>Bank — 27.71% |
| EXPECTED GROSS PROFIT ON THE UNDERLYING INVESTMENT | 83% |
| EXPECTED APPLICANT PROFIT | 60% (calculation of this return does not take into account front-end subscription fees as detailed below) |
| PERFORMANCE FEE | 25% of any excess return over the expected gross profit (83%) |
| SUBSCRIPTION FEES | 1.5% of the deposit amount — Applicants are advised that the subscription fees will be payable in addition to the actual amount deposited and are thus payable at the time of RIA commencement |
| EXPECTED DISTRIBUTION TIMING | Bullet repayment of deposit plus expected applicant profit (as calculated in accordance with the terms and conditions) at the end of the expected investment term |
| EARLY WITHDRAWAL | Not permitted under the terms and conditions of the RIA |

## PAKISTAN

### Pak-Qatar pays first family Takaful claim

Pak-Qatar Family Takaful Limited, Pakistan's first family (life) Takaful operator, recently paid Pakistan's first ever family Takaful death claim to Siddique Leather Works, a Shafi Group company.

The check was given to Zafar ud din Bukhari, factory manager at Siddique by Tariq Saeed Chaudhry, manager of corporate sales at Pak-Qatar Family Takaful.

Pervaiz Ahmed, CEO of Pak-Qatar Family Takaful, said that although the company recently received its license from the Securities and Exchange Commission of Pakistan, it managed to collect a blue-chip group of clients in a short span of time. By aiming to provide needs-based products, Pak-Qatar Family Takaful will provide the people of Pakistan with the financial protection that they have so far not been able to enjoy, he added.

## MALAYSIA

### Takaful Ikhlas targets US$3 million

Takaful Ikhlas is confident it will achieve a collection of more than RM10 million (US$3.14 million) with the strategic business partnership it has formed with Bank Muamalat Malaysia, Takaful Ikhlas president Syed Moheeb Syed Kamarulzaman said.

Takaful Ikhlas will provide the Takaful scheme for the Al-Istisnah financing program and Ijarah financing program for Bank Muamalat.

Bank Muamalat expects to offer IKHLAS Comprehensive Perils plan, IKHLAS Fire Takaful, IKHLAS Marine Takaful, Workers Compensation and Contractors' Risks.

## QATAR

### AKHI sets up institute for training

Al Khaleej Insurance and Reinsurance Company (AKHI), along with five other entities, has established Gulf Insurance Institute (GII) to impart professional training in conventional and Islamic risk covers in a bid to establish the GCC as a regional hub for conventional and Takaful insurance studies.

The other shareholders are Oman Insurance, Bahrain National Insurance, Al Ahleia Insurance, Oman National Insurance Holding and Nasco Karaoglan.

GII will continue to build strategic partnerships with international qualifying bodies to ensure a wide range of portable, recognized qualifications to build the competencies required to fill regional skills gaps. Classes will commence this month. A date for an official opening will be announced soon.

## BANGLADESH

### Islami Bima earns premium

The recent closing session of Islami Bima (Takaful) of Meghna Life Insurance reviewed the Takaful company's business for 2007 and witnessed an earning of BDT28 crore (US$41.18 million) premium despite slow economic growth.

Islami Bima aims to achieve BDT50 crore (US$73.53 million) this year.

## UK

### Capita signs US$173 million deal

A British Islamic insurance company is outsourcing its IT to Capita in a GBP87 million (US$173.33 million) deal. The eight-year deal will see Capita working with British Islamic Insurance Holdings (BIIH).

According to the deal, Capita will provide front and back office services and an IT platform from which to launch and sell BIIH Takaful insurance products.

The contract will be run from Capita's office in Cheadle, which will handle customer sales, servicing and claims management.

## UAE

### Takaful Re posts US$11.6 million profits

Takaful Re Limited (TRL) registered net profits of US$11.6 million for the 2007 financial year compared to US$1.3 million in 2006, said Khalid Al Bustani, chairman of Takaful Re.

From the second year of operation, TRL's board of directors has recommended a cash dividend of 5% on the company's paid-up capital (US$0.05 per share). However, the dividend remains subject to approval by the company's annual general meeting, which is scheduled for the 25th March.

Gross contributions increased by 35% to US$20.34 million in 2007 from US$15.05 million in 2006. The total investment earnings increased in 2007 to US$11.8 million. The average rate of return on investments was 9.1% despite the volatility of the regional markets. Shareholders' equity stood at US$138.2 million and the book value per share was US$1.11 at the end of December 2007.

## BAHRAIN

### Insurance sector in solid boom

Germany's Allianz Group recently launched its wholly owned subsidiary, Allianz Takaful (Bahrain), to serve as the group's global hub for Takaful. The firm has also established in Bahrain the Allianz MENA Holding Company, which will provide support services to the group's entities throughout the Middle East region as well as the Indian subcontinent.

# Prospects and Challenges for reTakaful

*By Nazneen Halim*

**Providing security to risk in itself is risky business, especially for a sector that is still relatively nascent compared to the burgeoning Sukuk and project finance markets. However, for those passionate about reTakaful such as Ismail Mahbob (pic), the candid CEO of Malaysian-based MNRB ReTakaful, statistical highs and lows continue to serve as a driver for — instead of being a hindrance to — his cause.**

Having been involved in the insurance industry since the mid-70s, Ismail has held senior positions in companies such as Labuan Reinsurance (Labuan Re) — where he saw the company through its participation at UK-based Lloyd's. He then joined the first Malaysian reTakaful company, MNRB ReTakaful, which was then still in its infancy — a seemingly bold move from his previous company. But then again, the nature of reTakaful itself is as unconventional as it gets.

Islamic Finance *news* spoke to Ismail about the prospects and challenges facing the Malaysian reTakaful market, and asked for his take on the future of the Islamic finance industry as a whole.

**How did you come to be involved in reTakaful?**
I started my career in the insurance industry in the mid-70s. In the 80s, I was an assistant manager, entrusted with developing a pioneer scheme on the insurance of Malaysian students in the US. I thought I did well with good savings on our foreign exchange via premiums retained within the country. Without precedents to follow, the tasks involved were tough and very demanding. Coincidentally, that was the time I started having grey hair!

My last employment was at Labuan Re, where I was involved in developing new markets in Africa, the Middle East and the Indian sub-continent, and was also overseeing the company's involvement at Lloyd's.

During my rounds, I saw the niche in reTakaful and its prospects, and managed to convince management to establish a dedicated reTakaful division and got the necessary approvals from the authorities. That was in 2005. I left Labuan Re last year to take up my current position.

**What are your responsibilities as CEO of the first Malaysian reTakaful company?**
I liken the industry to a new neighborhood of few residents living far apart with few signages to guide them but having noble and ambitious plans. I believe it is partly my duty to put up the signage, temporary or permanent, which I hope will contribute to the orderly development of the reTakaful industry.

As head of the company, it is also my duty to deliver shareholders' and other stakeholders' expectations in terms of returns and service levels, and to adopt a strong governance and compliance culture as expected by the regulators.

**What are the factors contributing to the success of MNRB ReTakaful?**
We are still new and success is yet to be seen. At the back end, we have good support from our shareholders and at the front end, our staff's knowledge of and familiarity with the local market do give us an immediate boost.

We think the knowledge of target overseas markets that we already have could be translated to real business by next year, InsyaAllah.

**What is the current demand for reTakaful products in Malaysia, and where do you foresee it in the next five years?**
To put things in perspective, reTakaful is a wholesale trade where demand for its capacity in Malaysia comes only from the nine local retail Takaful operators. The direct Takaful premium is projected to have steep growth in the near term, coming mostly from the new operators, but I believe this robust growth will not be felt by the reTakaful market. In fact, it may register a minimal increase or possibly a negative growth during the same period.

> "Operators have shown interest in writing high-value, large industrial risks. This is a good sign as it encourages both Takaful and reTakaful operators to increase their capacity and to improve on their technical underwriting expertise."

**Why?**
It all boils down to the extent of financial capability of Takaful operators to retain the risks and types of risks that they write. The four older operators have built enough reserves and the new ones are backed by big banks. The trend of distribution through bancaTakaful (bancassurance) puts emphasis on personal lines classes which in terms of aggregate number is large but the value per risk is low and any loss can easily be absorbed by the Takaful operators themselves with little or no need for reTakaful support.

To protect their aggregate exposure, the tendency is for Takaful operators to arrange a reTakaful program against catastrophic losses. We term this arrangement an 'excess of loss reTakaful cover'. The premium for such cover is relatively low as Malaysia is considered a non-catastrophe market. There was a drop of about 10% in reTakaful spending from 2005 to 2007.

Lately, some operators have shown interest in writing high-value, large industrial risks. This is a good sign as it encourages both Takaful and reTakaful operators to increase their capacity and to improve on their

*continued...*

## *Prospects and Challenges for reTakaful (continued...)*

technical underwriting expertise. Being high risk in nature, Takaful operators would share such risks with their reTakaful counterparts on a proportional basis. Though such risks generate more premiums per policy, the number in aggregate is still small and thus, the percentage to total demand for reTakaful capacity is still low.

**Will white labeling of reTakaful products be a boost to the industry?**
I would say it is a possibility to be explored and the prospective areas would be those products under the personal lines, especially those in the medical, life or family Takaful. The product lines of general reTakaful are somewhat limited and any difference in packaging can be viewed as a product differentiation strategy. In case of new products being developed, it takes time to pick up. However, I don't necessarily see it as an industry booster for general reTakaful.

**Which of your products/services deliver the best results?**
It is still early to say which products/services deliver the best results. First, we have only been in operation for seven months and, second, there's the nature of reTakaful business itself, where one major incident can have significant impact on the reTakaful fund and distort the overall performance.

We have, however, lined up some short- to medium-term plans that I believe, when implemented, will help the company write reasonably good books of business.

We also have this early-entrant advantage. Our staff is young and committed, especially in wanting to see reTakaful develop as it is meant to instead of merely replicating its conventional counterpart.

**What are the obstacles to running a reTakaful business?**
The main obstacle is the entrenched mindset of stakeholders in the industry who constantly benchmark reTakaful against the conventional reinsurance. Nothing wrong with that, but they overlook the vast age difference between the two trades; one is over 100 years old and the other barely three years old.

Some standards and requirements are imposed and certain practices and expectations are anticipated which, in actual sense, are neither suitable nor beneficial to the industry and, to a great extent, can even stifle its growth in the long run. Suffice it to put the obstacles in a general form as the details can be too technical and boring.

**What are your projections for the Islamic finance industry?**
The present growth momentum will keep on going, especially in the coming years. More and more advanced economies in the Far East and Europe are beginning to believe in the concept. The Islamic financial system should integrate well into the global financial system. I believe it takes a little political will to trigger a snowballing effect.

Currently, the various components of the Islamic financial system are still not fully synchronized. For example, in the current scenario, the Islamic financial institutions are lax in ensuring that the Shariah compliant supply chain is observed for projects and ventures that they are responsible for.

Just imagine the chain effect in the industry when it is preconditioned that such projects or ventures be insured with Takaful companies, which then require capacities from reTakaful operators, which in turn will have to develop the necessary expertise and underwriting capacities and the chain can go longer and longer. This will accelerate the Takaful industry's growth within a short time.

> "The main obstacle is the entrenched mindset of stakeholders in the industry who constantly benchmark reTakaful against the conventional reinsurance"

To start off, the many development corridors and halal hubs mooted by the Malaysian government are highly likely to involve financing by Islamic financial institutions and the change of one word — 'insurance' to 'Takaful' — in the contract will immediately boost premium volume for Takaful and reTakaful operators not only in Malaysia but also worldwide. On the global scene, just imagine the multiplier effect the now free-flowing financing from petrodollars and sovereign funds of Muslim countries could have if this arrangement is strictly observed.

**What would you like to see change in the Islamic finance industry?**
I would like to see many changes but two that are dear to my heart are that emphasis be given to extend the Shariah compliant supply chain (as described earlier) and to see more graduates in Islamic finance being produced and trained by the institutions; and likewise, more current conventional practitioners be trained in Islamic finance and commerce. This will definitely help quash the myth that is now beginning to emerge... that Islamic finance is seen as focusing more on form rather than on substance.

I believe it takes an educated mind to be able to structure a product/service/process that is 'Shariah strong' in its inner substance, which then will provide the strong support to the outer forms. These trained graduates are the better people and in the right position to give the proper input and perspectives on the development of the industry.

It will also help in gradually diluting the conventional mindset of the current crop of Islamic finance practitioners; many of whom I believe do not have or have little education on Islamic economy and finance.

## ABRAAJ CAPITAL — Egypt/Turkey

Abraaj Capital, an investment firm specializing in private equity investment in the Middle East, North Africa and South Asia (MENASA) region, two new executive directors for Egypt and Turkey.

Yaser Gamali will head the country office in Egypt while Selcuk Yorgancioglu will oversee the Turkey operations.

Yaser was executive chairman and country director in Egypt for Majid Al Futtaim Group, overseeing financial, property and retail businesses. In Dubai, he established and was CEO of Majid Al Futtaim Trust.

Yorgancioglu was CEO and head of corporate and investment banking at Deutsche Bank, Turkey. Prior to returning to Turkey, Yorgancioglu served for seven years at Deutsche Bank in London, as a senior member of the emerging markets investment banking team focusing on Turkey, Emerging Europe, Russia and the Commonwealth of Independent States.

## STANCHART — Qatar

Tom Aaker has been appointed CEO of Standard Chartered Bank Qatar. Before this, Aaker was managing director of StanChart in Zambia.

Aaker joined StanChart in 1993 and has held a number of senior positions in Hong Kong, London and the US. He is a Certified Public Accountant (CPA) and Chartered Financial Analyst (CFA). He also holds an MBA from the Kellogg School of Northwestern University in Chicago, the US.

## SHUAA CAPITAL — UAE

Dubai-based Shuaa Capital investment bank has appointed Kerim Mitri as deputy CEO.

Mitri joined the bank as chief financial officer in 1996, becoming its chief operating officer in 2005. Apart from overseeing the integration of current and future potential acquisitions, Mitri will also be responsible for accelerating the development of the bank's fee-based business across the board, investment banking, brokerage and asset management.

## DIFX — UAE

Dubai International Financial Exchange (DIFX) has named two new board directors following the purchase of Nordic exchange operator OMX by Borse Dubai and Nasdaq last month in a US$4.9 billion deal. The new DIFX board members are Robert Greifeld and Adena T Friedman.

Greifeld, CEO of Nasdaq OMX, which owns around 33% of DIFX, will serve as vice-chairman and a member of the exchange's Nomination and Remuneration Committee.

Friedman, Nasdaq's executive vice-president of corporate strategy, will serve as a member of the DIFX Market Oversight Committee.

## ALLEN & OVERY — UAE

Real estate partner Arthur Dyson is leaving Clifford Chance for magic circle rivals Allen & Overy. Dyson will join the London-based real estate finance team, where he will report to Mark O'Neill, and team up once again with former Clifford Chance colleague Robert Porter.

The team will be headed by Porter, and will initially comprise one other senior associate. However, the team is set to grow.

## DP WORLD — UAE

Global marine terminal operator DP World has announced the appointment of Flemming Dalgaard as senior vice-president and managing director of its Europe and Russia region, and Anil Singh as senior VP and MD of its Africa region.

Dalgaard joins in April from Maersk Line, where he is currently UK and Ireland managing director. Anil joins from Thailand, where he was group CEO of Laem Chabang container terminals B1 and A0, a joint venture between APM Terminals, PSA and Marubeni.

## UNITED BANK LIMITED — Bahrain

United Bank Limited, Bahrain has appointed Ebrahim Jalili as head of retail banking. Ebrahim has worked with HSBC and American Express, Bahrain.

## BAKER BOTTS — Dubai

John Hermann, who has built an extensive legal career counseling clients on real estate, finance and asset management matters with emphasis on real estate investment trust (REITs) in the Middle East, has joined the Dubai office of Baker Botts LLP as special counsel. Before this, he managed his own consulting firm, advising investment banks concerning REIT structures.

## ABU DHABI AIRPORTS — UAE

Abu Dhabi Airports Company (ADAC) has appointed Rudy Vercelli as CEO. Vercelli, who joins the company on the 20th March, will direct a major development plan for expanding the overall airport infrastructure at Abu Dhabi and Al Ain.

He will become ADAC's first CEO reporting to the board of directors. He has experience in aviation and airport management to ADAC, following a successful career developing and managing growing airports, including Doha, Buenos Aires and Bombay International.

## ALLIANZ TAKAFUL — Bahrain

Abdularahman Tolefat is the new CEO for Allianz Takaful Bahrain. Before this, he worked for the Central Bank of Bahrain, where he was responsible for the development of Islamic finance in the kingdom

## NOMURA — Japan

CEO Nobuyuki Koga will be replaced by Kenichi Watanabe, head of consumer operations next month, after failed attempts to boost the firm's profits and backfiring of investments in the US due to the subprime market crisis. Koga has been moved to chairman of Nomura Securities, its brokerage unit.

## BNP PARIBAS — GCC

Olivier Ghattas and Rupert Jones will be responsible for developing new client relationships for BNP Paribas Real Estate in the GCC, particularly for Arabic investors seeking investment opportunities in Europe.

Ghattas has spent nine years in the Middle East mainly in Saudi Arabia. He was the commercial manager of a Saudi company specializing in construction and real estate development.

Jones has 10 years' experience in the UK property market. His main area of expertise is in the investment field acting for institutional clients on the purchase of prime assets.

# Deal *tracker*

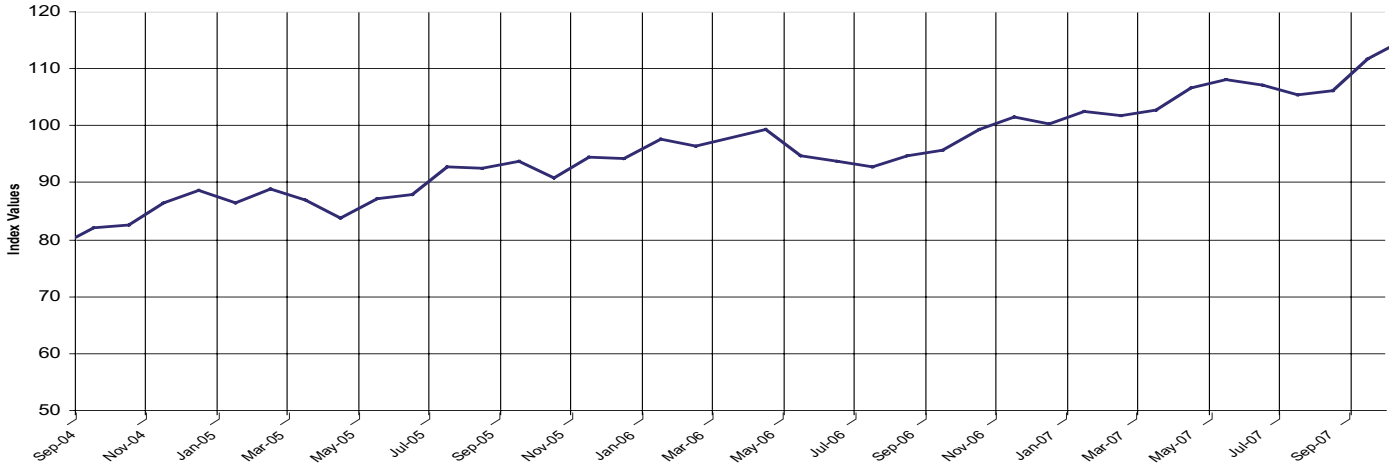
*Keeping you abreast of the world's upcoming Shariah compliant deals*

Another **Islamic Finance** *news* exclusive

| ISSUER | SIZE (million) | INSTRUMENT |
|---|---|---|
| Maple Leaf Cement | up to US$131.69 | Musharakah |
| Al Aqar KPJ REIT | up to US$89.95 | Ijarah; CP/MTN |
| Adhi Karya | US$11.1 | Mudarabah |
| Islamic Bank of Thailand | US$189.87 | Ijarah |
| RAKIA | TBA | Sukuk |
| Al Rajhi Cement | US$595 | Straight Sukuk |
| Century Paper & Board Mills | US$49.38 | Private placement |
| Engro Chemical Pakistan | US$49.38 | Private placement |
| BCHB | US$1.71 | ICP/MTN |
| UEM Group | US$230.66 | Musharakah MTN |
| Perusahaan Listrik Negara | US$33.97 | Ijarah |
| Dubai Financial | TBA | Sukuk |
| Thani Investments | US$100 | Sukuk |
| Al Imtiaz Investment | US$75–US$150 | Sukuk |
| Haisan Resources | US$58.79 | Sukuk Ijarah |
| IJM Corporation | US$511.6 | Sukuk Istisnah |
| ARAPESONA | US$56.9/US$19.9 | ICP/MTN |
| Bank Syariah Mandiri | US$3.25 | Subdebt |
| Cagamas | US$584.6 | TBA |
| Gamuda | TBA | Murabahah or Musharakah |
| MTC | US$1,200 | Sukuk |
| Prolintas | US$240.7 | Senior Ijarah/Junior Musharakah |
| Tomei Consolidated | US$28.5 | Islamic Commercial Papers |
| JBIC | US$250–US$350 | Sukuk |
| Dynamic Communication | US$143.4 | Istisnah/MTN program |
| GLOMAC | US$50.18 | Murabahah MTN program |
| Islamic Development Bank | US$142.40 | Ringgit denominated Sukuk |

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

## Eurekahedge North America Islamic Fund Index




### Annualized returns for ALL funds (as of 5th March 2008)

| | FUND | MANAGEMENT COMPANY | Performance Measure | FUND DOMICILE |
|---|---|---|---|---|
| 1 | CIMB Islamic Equity Growth Syariah | PT CIMB-GK Securities | 184.44 | Indonesia |
| 2 | Jadwa Saudi Equity Fund | Jadwa Investment | 160.46 | Saudi Arabia |
| 3 | Bakheet Saudi Trading Equity Fund | Bakheet Investment Group | 129.26 | Saudi Arabia |
| 4 | Jadwa Arab Markets Equity Fund | Jadwa Investment | 102.17 | Saudi Arabia |
| 5 | Jadwa GCC Equity Fund | Jadwa Investment | 101.95 | Saudi Arabia |
| 6 | Hang Seng Islamic China Index Fund | Hang Seng Investment Management Limited | 91.12 | Hong Kong |
| 7 | Al Qasr GCC Real Estate & Construction Equity Trading Fund | Banque Saudi Fransi | 72.50 | Saudi Arabia |
| 8 | Al Fursan Fund | Banque Saudi Fransi | 68.96 | Saudi Arabia |
| 9 | FALCOM Saudi Equity Fund | FALCOM Financial Services | 68.82 | Saudi Arabia |
| 10 | Islamic Certificate on the LLB MENA Top 20 Value TR Index | ABN Amro Bank NV | 57.70 | Switzerland |
| | *Eurekahedge Islamic Fund Index** | | ***5.19*** | |

### Annualized Standard Deviation for ALL funds (as of 5th March 2008)

| | FUND | MANAGEMENT COMPANY | Performance Measure | FUND DOMICILE |
|---|---|---|---|---|
| 1 | ING i-Enhanced Cash | ING Funds Berhad | 0.09 | Malaysia |
| 2 | AmAl-Amin | AmInvestment Management Sdn Bhd | 0.12 | Malaysia |
| 3 | Amwal Islamic Money Market Fund | Kuwait & Middle East Financial Investment Company | 0.14 | Kuwait |
| 4 | Al Rajhi Commodity Fund Euro (Mudarabah) | Al Rajhi Banking & Investment Corporation | 0.18 | Saudi Arabia |
| 5 | AlAhli Euro Murabahat Fund | The National Commercial Bank | 0.18 | Saudi Arabia |
| 6 | Boubyan Financial Fund USD | Boubyan Bank | 0.19 | Kuwait |
| 7 | Jadwa Saudi Riyal Murabaha | Jadwa Investment | 0.20 | Saudi Arabia |
| 8 | Euro International Trade Finance Fund (Al Sunbula) | Samba | 0.21 | Saudi Arabia |
| 9 | Jadwa USD Murabaha Fund | Jadwa Investment | 0.23 | Saudi Arabia |
| 10 | MAAKL Al-Ma'mun | MAAKL Mutual Bhd | 0.26 | Malaysia |
| | *Eurekahedge Islamic Fund Index** | | ***7.25*** | |

EUREKAHEDGE

Contact Eurekahedge

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

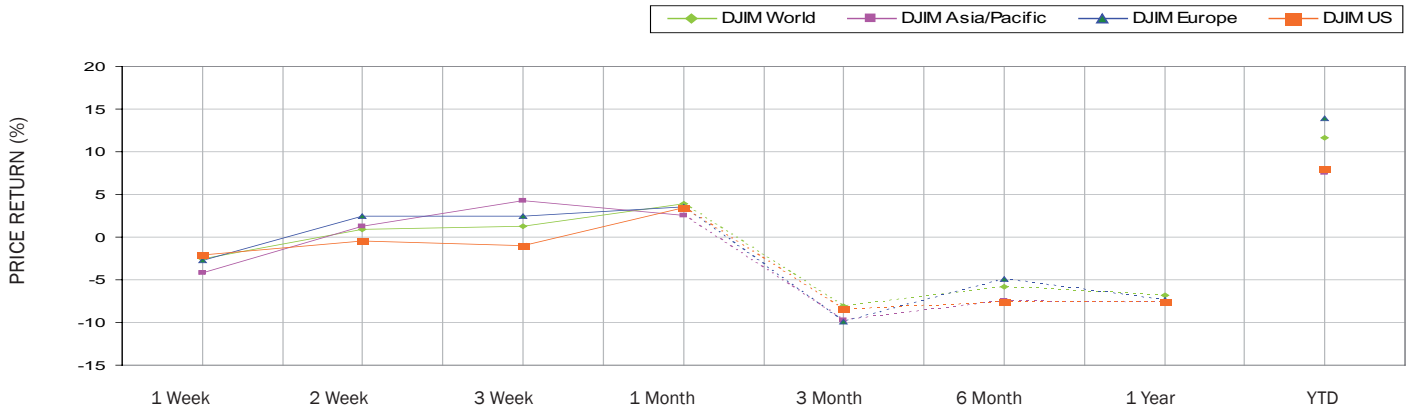
For further details on Eurekahedge: information@eurekahedge.com

Tel: +65 6212 0900

EUREKAHEDGE

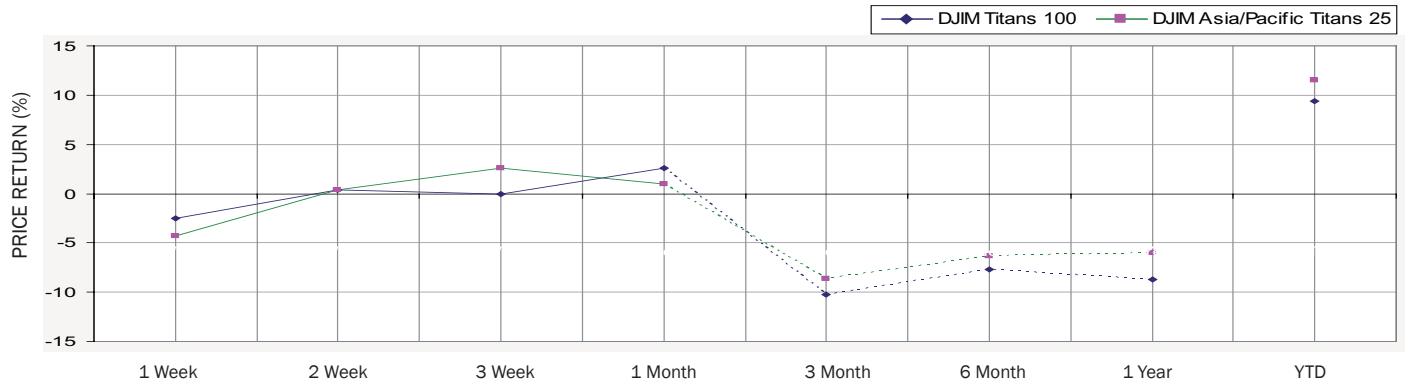
Data as of the 5th March 2008

## PERFORMANCE OF DJ INDEXES




| INDEX | PRICE RETURN (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 Week | 2 Week | 3 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD |
| DJIM World | -2.51 | 0.93 | 1.23 | 3.95 | -8.12 | -5.8 | -6.82 | 11.62 |
| DJIM Asia/Pacific | -4.16 | 1.28 | 4.23 | 2.56 | -9.75 | -7.41 | -7.66 | 7.56 |
| DJIM Europe | -2.75 | 2.41 | 2.46 | 3.57 | -9.9 | -4.95 | -7.32 | 13.93 |
| DJIM US | -2.07 | -0.46 | -1 | 3.42 | -8.46 | -7.67 | -7.63 | 7.91 |

## PERFORMANCE OF DJ TITANS INDEXES




| INDEX | PRICE RETURN (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 Week | 2 Week | 3 Week | 1 Month | 3 Month | 6 Month | 1 Year | YTD |
| DJIM Titans 100 | -2.52 | 0.36 | -0.02 | 2.57 | -10.27 | -7.68 | -8.67 | 9.43 |
| DJIM Asia/Pacific Titans 25 | -4.31 | 0.34 | 2.62 | 1.01 | -8.61 | -6.29 | -5.99 | 11.52 |

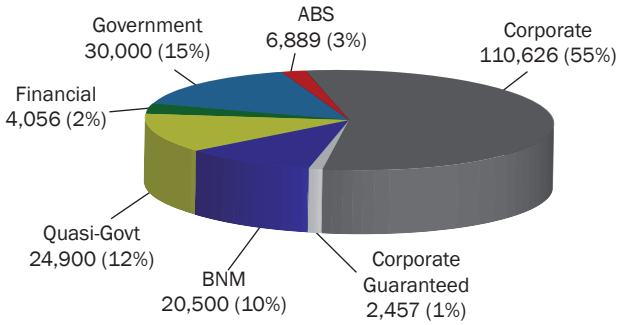
| DESCRIPTIVE STATISTICS | | Market Capitalization (US$ billions) | | | | | | Component Weight (%) | |
|---|---|---|---|---|---|---|---|---|---|
| Index | Component number | Full | Float adjusted | Mean | Median | Largest | Smallest | Largest | Smallest |
| DJIM World | 2629 | 19466.31 | 15891.42 | 6.04 | 1.28 | 476.37 | 0.02 | 3 | 0 |
| DJIM Asia/Pacific | 1117 | 3805.67 | 2519.27 | 2.26 | 0.51 | 122.11 | 0.02 | 4.85 | 0 |
| DJIM Europe | 386 | 5173.58 | 3930.97 | 10.18 | 2.66 | 206.05 | 0.22 | 5.24 | 0.01 |
| DJIM US | 748 | 8681.07 | 8188.25 | 10.95 | 2.72 | 476.37 | 0.13 | 5.82 | 0 |
| DJIM Titans 100 | 100 | 8167.3 | 7341.78 | 73.42 | 47.14 | 451.6 | 12.59 | 6.15 | 0.17 |
| DJIM Asia/Pacific Titans 25 | 25 | 1206.68 | 808.24 | 32.33 | 23.19 | 87.36 | 12.59 | 10.81 | 1.56 |

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

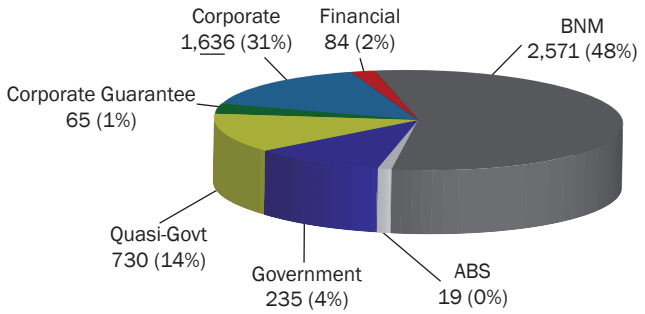
## RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT AS AT 5th MARCH 2008
## MOST ACTIVE BONDS TRADED BETWEEN 28th FEBRUARY and 5th MARCH 2008

| Stock Name | Last Traded Price | Last Traded Yield | Total Volume Traded Last 7 | % w-o-w Price Change | Last Week Closing Price |
|---|---|---|---|---|---|
| BNMNI B2 (22D - 43D) | | 3.33 | 919.5 | | |
| BNMNI B4 (68D - 91D) | | 3.36 | 634 | | |
| BNMNI B3 (44D - 67D) | 70.16 | 4.09 | 445 | 0.17 | 70.04 |
| PROFIT-BASED GII 1/2006 14.04.2009 | | 3.33 | 435 | | |
| SBNMI 1/2008 12.02.2009 | 98.43 | 3.57 | 275 | | |
| BNMNI B7 (172D - 211D) | | 3.32 | 195 | | |
| PROFIT-BASED GII 3/2006 15.11.2016 | 100.11 | 3.51 | 195 | -0.11 | 100.22 |
| BNMNI B1 (Up to 21D) | | 3.4 | 168 | | |
| PROFIT-BASED GII 1/2007 15.03.2010 | 103.66 | 4.15 | 155 | 0.17 | 103.48 |
| RANTAU IMTN 0% 14.08.2013-MTN 2 | 100.17 | 3.66 | 150 | 0.04 | 100.13 |
| MITB B10 (312D-364D) | 101.13 | 3.99 | 145 | 0.02 | 101.11 |
| RANTAU IMTN 15.03.2011-MTN 1 | 93.54 | 3.61 | 135 | 0.16 | 93.39 |
| BGSM IMTN 7.100% 28.12.2022 - MTN No. 8 | 100.24 | 8.96 | 111 | -0.29 | 100.53 |
| BGSM IMTN 5.900% 28.12.2016 - MTN No. 5 | 99.31 | 6 | 101 | -1.42 | 100.74 |
| KESAS 0.00000% 11.10.2013 | 100.04 | 4.09 | 85 | -0.07 | 100.11 |

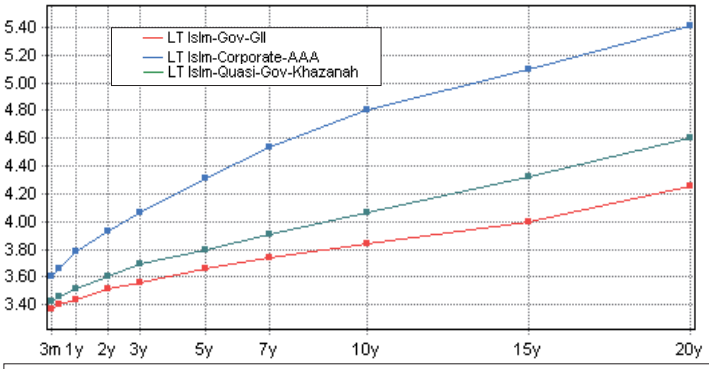
**Outstanding Bond by Issuer Class as at 5th March 2008 (RM'000)**



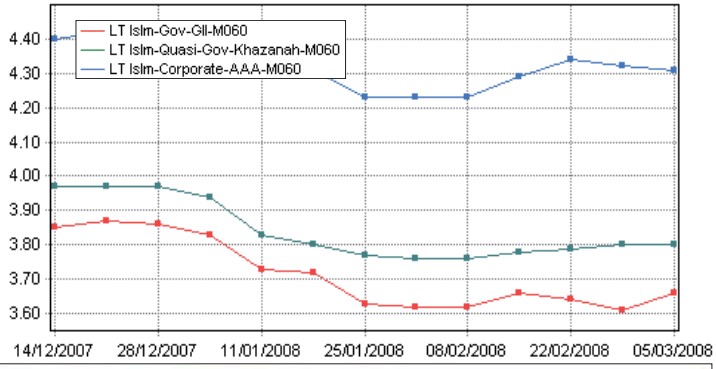

**Bond Traded Amount by Issuer Class as at 5th March 2008 (RM'000)**




**YTM Curves as at 13th February 2007**




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



TOP ISSUERS OF ISLAMIC BONDS — MARCH 2007 – MARCH 2008

| | Issuer or Group | Nationality | Instrument | Amt US$ m | Iss. | % | Manager |
|---|---|---|---|---|---|---|---|
| 1 | Binariang GSM | Malaysia | Sukuk Musharakah | 4,509 | 9 | 13.2 | CIMB, RHB Investment, Aseambankers, ABN Amro Bank, AmInvestment, OCBC Bank (Malaysia) |
| 2 | Malaysia | Malaysia | Sukuk | 2,863 | 3 | 8.4 | Malaysia Government bond |
| 3 | Saudi Basic Industries | Saudi Arabia | Sukuk Istithmar | 2,133 | 1 | 6.3 | HSBC Saudi Arabia, Riyad Bank |
| 4 | JAFZ Sukuk | UAE | Sukuk Musharakah | 2,043 | 1 | 6.0 | Barclays Capital, Deutsche Bank, Dubai Islamic Bank, Lehman Brothers |
| 5 | Nucleus Avenue (M) | Malaysia | Sukuk Musharakah MTN | 1,994 | 9 | 5.8 | CIMB |
| 6 | DP World Sukuk | UAE | Sukuk Mudarabah | 1,496 | 1 | 4.4 | Barclays Capital, Citigroup, Deutsche Bank, Lehman Brothers |
| 7 | Saudi Electricity | UAE | Islamic Sukuk | 1,333 | 1 | 3.9 | HSBC Saudi Arabia |
| 8 | Dubai Sukuk Center | UAE | Sukuk Mudarabah | 1,248 | 1 | 3.7 | Deutsche Bank, Goldman Sachs International |
| 9 | Projek Lebuhraya Utara Selatan | Malaysia | Sukuk Musharakah | 1,067 | 10 | 3.1 | CIMB |
| 10 | Dana Gas Sukuk | UAE | Sukuk Mudarabah | 1,000 | 1 | 2.9 | JP Morgan |
| 11 | Dar Al-Arkan International Sukuk | Saudi Arabia | Sukuk Ijarah | 1,000 | 1 | 2.9 | ABC Islamic Bank, Arab National Bank, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank, Kuwait Finance House, Unicorn Investment Bank |
| 12 | Cherating Capital | Malaysia | Exchangeable Sukuk | 850 | 1 | 2.5 | Deutsche Bank (Malaysia), JP Morgan, CIMB |
| 13 | Hijrah Pertama | Malaysia | Sukuk Ijarah | 847 | 2 | 2.5 | Citigroup, CIMB |
| 14 | Nakheel Development 2 | UAE | Sukuk Ijarah | 750 | 2 | 2.2 | JP Morgan |
| 15 | DIB Sukuk | UAE | Sukuk Musharakah | 750 | 1 | 2.2 | Barclays Capital, Citigroup Global Markets, Standard Chartered |
| 16 | Golden Belt 1 Sukuk | Saudi Arabia | Sukuk Manafaa | 650 | 1 | 1.9 | BNP Paribas |
| 17 | Cagamas MBS | Malaysia | Sukuk Musharakah Islamic Residential Mortgage Backed Securities | 620 | 7 | 1.8 | Standard Chartered, National Bank of Pakistan |
| 18 | Rantau Abang Capital | Malaysia | Sukuk Musharakah MTN | 570 | 1 | 1.7 | CIMB |
| 19 | Cagamas | Malaysia | Bithaman Ajil Islamic Securities/Mudarabah MTN | 568 | 6 | 1.7 | Cagamas, Aseambankers, HSBC, CIMB |
| 20 | Silterra Capital | Malaysia | Sukuk Ijarah | 530 | 1 | 1.6 | CIMB, HSBC, Citibank |
| | **Total** | | | 34,120 | 324 | **100.0** | |



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TOP ISSUERS OF ISLAMIC BONDS — DECEMBER 2007 – MARCH 2008

| | Issuer or Group | Nationality | Instrument | Amt US$ m | Iss. | % | Manager |
|---|---|---|---|---|---|---|---|
| 1 | Binariang GSM | Malaysia | Sukuk Musharakah | 4,509 | 9 | 62.6 | CIMB, RHB Investment, Aseambankers, ABN Amro Bank, AmInvestment, OCBC Bank (Malaysia) |
| 2 | Projek Lebuhraya Utara Selatan | Malaysia | Sukuk Musharakah | 1,067 | 10 | 14.8 | CIMB |
| 3 | Menara ABS | Malaysia | Sukuk Ijarah | 307 | 8 | 4.3 | Citibank |
| 4 | Tamweel | UAE | Convertible Sukuk | 300 | 1 | 4.2 | Barclays Capital |
| 5 | Manfaat Tetap | Malaysia | Sukuk Mudarabah | 230 | 1 | 3.2 | Affin Investment Bank |
| 6 | DRIR Management | Malaysia | Sukuk Ijarah | 102 | 9 | 1.4 | United Overseas Bank (Malaysia), HWANGDBS Investment Bank |
| 7 | Sui Southern Gas | Pakistan | Musharakah Islamic bond | 82 | 1 | 1.1 | BankIslami Pakistan, Pak-Brunei Investment |
| 8 | Al-Aqar Capital | Malaysia | Sukuk Ijarah | 73 | 3 | 1.0 | AmInvestment |
| 9 | Syarikat Bekalan Air Selangor | Malaysia | Bai Bithaman Ajil Islamic Bond | 71 | 4 | 1.0 | HSBC, CIMB, Bank Islam Malaysia |
| 10 | Tradewinds Plantation Capital | Malaysia | Sukuk Ijarah | 63 | 8 | 0.9 | OCBC Bank (Malaysia) |
| 11 | Alam Maritim Resources | Malaysia | Sukuk Ijarah | 61 | 4 | 0.8 | Aseambankers, Standard Chartered Bank |
| 12 | MNRB Holdings | Malaysia | Musharakah MTN | 60 | 1 | 0.8 | Aseambankers |
| 13 | Gamuda | Malaysia | Sukuk Musharakah and Sukuk Murabahah | 55 | 1 | 0.8 | Aminvestment, CIMB |
| 14 | Pendidikan Industri YS | Malaysia | Al-Bai Bithaman Ajil Islamic Bond | 46 | 11 | 0.6 | Affin Investment Bank |
| 15 | Kohat Cement | Pakistan | Sukuk | 41 | 1 | 0.6 | Standard Chartered, National Bank of Pakistan |
| 16 | Pace Pakistan | Pakistan | Musharakah Islamic bond | 32 | 1 | 0.4 | BankIslami Pakistan, Pak-Brunei Investment Co |
| 17 | KNM Capital | Malaysia | Murabahah and Mudarabah MTN | 28 | 2 | 0.4 | Aseambankers |
| 18 | Sunway City | Malaysia | Murabahah MTN | 26 | 2 | 0.4 | HSBC |
| 19 | Mukah Power Generation | Malaysia | Mudarabah and Istisna Islamic Bond | 25 | 4 | 0.4 | RHB Islamic Bank |
| 20 | Sarawak Power Generation | Malaysia | Musharakah MTN | 16 | 8 | 0.2 | RHB Islamic Bank |
| | **Total** | | | **7,204** | **93** | **100.0** | |

| ISLAMIC BONDS | | MARCH 2006 – MARCH 2008 | | |
|---|---|---|---|---|
| | Manager or Group | Amt US$ m | Iss. | % |
| 1 | CIMB | 6,388 | 75 | 18.7 |
| 2 | HSBC | 3,835 | 37 | 11.2 |
| 3 | Malaysia Government bond | 2,863 | 3 | 8.4 |
| 4 | JP Morgan | 2,033 | 4 | 6.0 |
| 5 | Citigroup | 1,975 | 14 | 5.8 |
| 6 | Deutsche Bank | 1,904 | 19 | 5.6 |
| 7 | Barclays Capital | 1,560 | 5 | 4.6 |
| 8 | AmInvestment | 1,410 | 61 | 4.1 |
| 9 | Aseambankers | 1,295 | 36 | 3.8 |
| 10 | Standard Chartered | 1,203 | 32 | 3.5 |
| 11 | Riyad Bank | 1,066 | 1 | 3.1 |
| 12 | Dubai Islamic Bank | 1,022 | 6 | 3.0 |
| 13 | RHB Investment Bank | 926 | 68 | 2.7 |
| 14 | BNP Paribas | 845 | 3 | 2.5 |
| 15 | Lehman Brothers | 810 | 2 | 2.4 |
| 16 | Oversea-Chinese Banking | 683 | 16 | 2.0 |
| 17 | Goldman Sachs | 624 | 1 | 1.8 |
| 18 | ABN Amro | 620 | 8 | 1.8 |
| 19 | Affin Investment Bank | 298 | 19 | 0.9 |
| 20 | Kuwait Finance House | 247 | 8 | 0.7 |
| | **Total** | **34,120** | **324** | **100.0** |

| ISLAMIC BONDS | | DECEMBER 2007 – MARCH 2008 | | |
|---|---|---|---|---|
| | Manager or Group | Amt US$ m | Iss. | % |
| 1 | CIMB | 2,529 | 23 | 35.1 |
| 2 | Aseambankers | 741 | 16 | 10.3 |
| 3 | AmInvestment | 723 | 13 | 10.0 |
| 4 | Oversea-Chinese Banking | 683 | 16 | 9.5 |
| 5 | RHB Investment Bank | 661 | 20 | 9.2 |
| 6 | ABN Amro | 620 | 8 | 8.6 |
| 7 | Citigroup | 307 | 8 | 4.3 |
| 8 | Barclays Capital | 300 | 1 | 4.2 |
| 9 | Affin Investment Bank | 276 | 12 | 3.8 |
| 10 | BankIslami Pakistan | 57 | 2 | 0.8 |
| 11 | Pak-Brunei Investment | 57 | 2 | 0.8 |
| 12 | HWANGDBS Investment Bank | 51 | 9 | 0.7 |
| 13 | United Overseas Bank | 51 | 9 | 0.7 |
| 14 | Standard Chartered | 51 | 5 | 0.7 |
| 15 | HSBC | 50 | 6 | 0.7 |
| 16 | Bank Islam Malaysia | 24 | 4 | 0.3 |
| 17 | National Bank of Pakistan | 20 | 1 | 0.3 |
| 18 | Malaysian Industrial Development Finance | 3 | 2 | 0.0 |
| | **Total** | **7,204** | **93** | **100.0** |

| ISLAMIC BONDS BY COUNTRY | MARCH 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysia | 18,465 | 54.1 | 280 |
| United Arab Emirates | 8,482 | 24.9 | 14 |
| Saudi Arabia | 5,116 | 15.0 | 4 |
| Kuwait | 775 | 2.3 | 3 |
| Pakistan | 667 | 2.0 | 17 |
| Qatar | 300 | 0.9 | 1 |
| **Total** | **34,120** | **100.0** | **324** |

| ISLAMIC BONDS BY COUNTRY | DECEMBER 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysia | 6,749 | 93.7 | 89 |
| United Arab Emirates | 300 | 4.2 | 1 |
| Pakistan | 155 | 2.1 | 3 |
| **Total** | **7,204** | **100.0** | **93** |

| ISLAMIC BONDS BY CURRENCY | MARCH 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysian ringgit | 17,315 | 50.7 | 278 |
| US dollar | 10,514 | 30.8 | 22 |
| Saudi Arabian riyal | 3,466 | 10.2 | 2 |
| Emirati dirham | 2,043 | 6.0 | 1 |
| **Total** | **34,120** | **100.0** | **324** |

| ISLAMIC BONDS BY CURRENCY | DECEMBER 2007 – MARCH 2008 | | |
|---|---|---|---|
| | Amt US$ m | Iss. | % |
| Malaysian ringgit | 6,749 | 93.7 | 89 |
| US dollar | 300 | 4.2 | 1 |
| Pakistan rupee | 155 | 2.1 | 3 |
| **Total** | **7,204** | **100.0** | **93** |

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| DATE | EVENT | VENUE | ORGANIZER |
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| **March** | | | |
| 10th – 11th | 3rd Islamic Banks & Financial Institutions Conference | Syria | Al Salam for International Exhibitions & Conferences |
| 10th – 12th | Islamic Funds Asia 2008 | Kuala Lumpur | Terrapinn |
| 11th – 12th | Seminar on Corporate Governance Issues in Islamic Finance | Bahrain | IFSB |
| | 3rd Asian Takaful Conference | Singapore | MiddleEast Insurance Review |
| 16th – 19th | Securitization World MENA 2008 | UAE | Terrapinn |
| | 3rd Middle East IPO Summit | Abu Dhabi | IIR Middle East |
| 24th – 25th | 3rd International Conference on Islamic Banking and Finance: Risk Management, Regulation and Supervision | Pakistan | IFSB |
| 26th | 2nd Public Lecture on Financial Policy and Stability | Pakistan | IFSB |
| 27th | 5th International Seminar on Challenges Facing the Islamic Financial Services Industry | Pakistan | IFSB |
| | Interactive Session on Financial Health of Islamic Financial Services | Pakistan | IFSB |
| | National Islamic Capital Market Forum | Kuala Lumpur | Securities Commission |
| 30th | Infrastructure Finance Forum 2008 | Dubai | IIR Middle East |
| **April** | | | |
| 2nd | Singapore IFN Forum 2008 | Singapore | Islamic Finance Events |
| 7th - 9th | International Ras-Al-Khaimah | UAE | Financial Events International |
| 14th - 15th | The World Takaful Conference | Dubai | MEGA |
| 15th - 16th | Asian Life Insurance Summit | Vietnam | MiddleEast Insurance Review |
| 16th | Brunei IFN Forum | Brunei | Islamic Finance Events |
| 19th - 20th | 8th Harvard University Forum on Islamic Finance 'Innovation and Authenticity' | Massachusetts | Harvard Law School, Islamic Legal Studies Program |
| 21st - 22nd | 9th Asian Conference on Bancassurance & Alternative Distribution Channels | Kuala Lumpur | MiddleEast Insurance Review |
| 22nd | Islamic Capital Markets | UK | ICG Events |
| 28th - 29th | 2nd Middle East Bancassurance Conference | Bahrain | MiddleEast Insurance Review |
| 30th | Hong Kong IFN Forum | Hong Kong | Islamic Finance Events |

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## 26th February 2008, Shangri-La Hotel


Best Islamic White Label Service Provider
FWU Group


Best Ratings Agency in Islamic Finance
Standard and Poor's


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DIFC Investments Limited


Bahrain Deal of the Year
Gulf Finance House Trust Certificates


Djibouti Deal of the Year
Doraleh Container Terminal


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Kuwait Deal of the Year
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Aston Martin Acquisition


Sukuk Deal of the Year
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Initial Public Offering Deal of the Year
DP World Sukuk Al Mudabarah

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| Jordan | Jordinvest's first Islamic fund | 5 | | Clariden Leu unit opens in Dubai | 8 | | Al Qudra IPO postponed | 5 |
| Kuwait | Abyaar seeking US$1 billion in Sukuk | 8 | | Dubai World looks to Africa | 8 | | Partners sought for hotel chain | 2 |
| | Noor Financial eyeing Cairo bank | 7 | | Tamani Hotel opens | 8 | | Seven IPOs on the cards | 2 |
| | CBK keen on Islamic status | 2 | | DIC to rescue Citigroup deals | 7 | | Dewa may wait till 2H2008 | 1 |
| Malaysia | Telekom to retain control of mobile unit | 8 | | DIBP assets reach US$343 million | 7 | UK | Alburaq lowers rental rates | 3 |
| | StanChart applying for Islamic license | 2 | | Look to Islamic markets for growth | 7 | | Darling to close loophole in Shariah deals | 9 |
| | CIMB-Principal launches equity fund | 3 | | Kingdom Hotel profit fell 20% | 7 | | Islamic finance behind barracks project | 1 |
| | Bourse expects Mideast listings | 3 | | Dubai ends US$5 billion bid for Colonial | 4 | US | Harvard forum on Islamic | 4 |
| | KFHM in talks with Sabah firms | 9 | | ADCB acquiring 25% of RHB Capital | 4 | | | |
| | Malaysian SC gathers experts on ICM | 5 | | Islamic buyout fund unveiled | 2 | | | |