Islamic Finance *news*

2008

GUIDE

January 2008

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Note from the editor

Unlike its conventional counterpart, Islamic finance had a successful year in 2007. The sum of Islamic assets was said to have reached US$900 billion, marking a 20% growth from the previous year. The global Sukuk market recorded a new high with a market value of US$51.5 billion — a 90% growth from 2006, which saw only a total of US$27.2 billion issuance of the Islamic bond.

The year also witnessed several landmark deals, including the US$2.53 billion exchangeable Sukuk issued by ALDAR Properties PJSC, the largest exchangeable deal to date.

It was also a year of significant innovation as we saw new structures from Red Sea Gateway, the Egyptian Fertilizer Company acquisition and Tamweel. But what stood out was Mobily's US$2.85 billion project financing, which proved that innovation need not be complicated thus paving the way for funding other high-technology and communications deals in the future.

The UK also set a precedent by issuing the world's first Shariah compliant exchange-traded funds (ETFs), beating Malaysia which holds a series of "firsts" in the Shariah compliant finance industry.

With such exciting developments, can Islamic finance get any better? Looking at the numbers and the developments throughout the year, one can only answer in the affirmative.

Demand for Islamic investments rises from an estimated 1.3 billion Muslims worldwide and Islamic assets are set to hit US$1 trillion by 2010. Day by day, Islamic banking grows more popular and banks churn out product after product to feed the insatiable hunger.

There is little doubt that new precedents will be set in the Sukuk sector and it is said that the issuance of global Sukuk is likely to double to US$100 billion this year due to higher take-up of Shariah compliant financial products among Middle East investors.

All eyes will also be on Indonesia, Pakistan and the UK as these three countries have been identified as the next big growth market for Islamic bonds.

The race for a share of the lucrative pie is set to get even hotter this year as more non-Muslim countries enter the realm of Islamic finance. Hong Kong, which holds the gateway to China's booming economy, has made major decisions in relation to its capital market and is poised to set waves in the industry.

It has, been smooth sailing for the industry and it's not too much to say that it has yet to face its biggest challenges which are expected to crop up more often this year as the market continues to grow.

One of the industry's biggest challenges is the serious lack of Shariah experts who play an important role in the industry. It is worrying that only a handful are qualified to sit on the Islamic review boards at the world's top banks and financial institutions. The issue must be addressed quickly as it raises concerns over the ability of Shariah supervisory boards to provide enough of a rigorous challenge and oversight.

In this third edition of the Islamic Finance *news* Guide, we have painstakingly compiled the industry's most comprehensive and authoritative review of 2007 and preview of 2008. Featured within are 25 exclusively authored industry, sector and market reports and the full results of the Islamic Finance *news* Deals of the Year and Poll for 2007. Like its previous editions, the Guide also features a full review of stories from last year, the industry's largest Arabic structured finance terminology glossary and much, much more.

We would like to thank Professor Rodney Wilson, who kindly wrote the introductory industry overview for the third year running, and all other contributors for making time amid their busy schedules to share their insights.

Last but not least, heartfelt thanks to our readers for your continued support. Till next year!

Kind regards,

Arfa'eza A Aziz
Editor

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Developments in Global Islamic Financial Markets in 2007 and Prospects for 2008

By Professor Rodney Wilson

The aim of this review is to examine trends in the markets for Islamic securities, usually designated as Sukuk, and Shariah compliant equities and equity funds, the performance of which can be measured against benchmarks such as the Dow Jones Islamic Indices. In contrast to 2006, when Shariah compliant equities underperformed, partly reflecting the slump in share prices in Gulf markets, 2007 has been an excellent year for both direct equity investors and those placing their money in Shariah compliant mutual funds.

For investors in Sukuk, fortunes have been more mixed, as although 2007 witnessed record issuance, the overall market could not escape the effects of the subprime crisis which affected all types of bonds and notes, including those that were Shariah compliant. Prospects for Shariah compliant equities look even more promising for the year ahead, with Gulf markets fairly valued.

Medium- and longer-term prospects for Sukuk are also favorable especially once the true extent of subprime provisions becomes apparent and structured products are more accurately priced, reflecting market fundamentals rather than dubious mathematical calculations.

Impact of subprime crisis

The subprime home lending crisis inevitably had an impact on the Sukuk market, especially in the Gulf where most of the Sukuk are US dollar-denominated and local currencies, with the exception of the Kuwaiti dinar, remain pegged to the dollar. There is little possibility of default with Sukuk in the Gulf as issuers can easily meet their payment obligations, given the record oil prices that approached US$100 per barrel by November 2007. Rather, the problem was with major financial institutions reluctant to lend to each other through inter-bank markets, global bond markets that became suddenly less active from August with new issuance slowing down and much less secondary trading.

Had it not been for the global credit crunch, 2007 would have been a superb year for Sukuk issuance with significant trading activity in Gulf markets, notably through the Dubai Financial Market and the Dubai International Financial Exchange. By August, Gulf borrowers had raised over US$13.2 billion in Sukuk issuance compared to US$9 billion during the whole of 2006, easily overtaking the value of issuance in Kuala Lumpur for the first time.

A further US$10 billion of issuance was planned by Gulf corporate issuers but after August, it was either necessary to postpone new Sukuk placements or accept much higher financing costs. While in June 2007 Ijarah Sukuk, the most popular issuance, were being offered at 65 basis points (bps) over the London Inter-Bank Offered Rate (LIBOR) for US dollars, by August, rates had risen to 125bps over LIBOR.

This rise of 60bps had implications for existing as well as new Sukuk issuance, as with Ijarah Sukuk the rate of return varies, usually in line with movements in LIBOR. As the US Federal Reserve cut rates, the relative difference in returns between new and existing Sukuk increased as the 60bps had to be added to a lower number.

The credit crunch meant the gap widened between LIBOR, and hence Ijarah Sukuk rates, and Fed rates. If there had been an active market in Sukuk in the Gulf, prices of existing Sukuk would undoubtedly have fallen. However, most of Sukuk trading occurs in the Kuala Lumpur market rather than the Gulf, but in Malaysia the issuance is largely ringgit denominated, and the value of the ringgit is determined by a trade weighted basket which has appreciated against the US dollar, hence Sukuk pricing in Malaysia is less affected by Fed interest rate decisions.

Widening participation in Sukuk issuance

The probability is that Sukuk spreads will remain higher in 2008, although the costs to the issuers will be offset by declines in LIBOR, and indeed SIBOR and KIBOR, the Saudi and Kuwaiti offered rates respectively. There has been some reluctance to cut interest rates in Saudi Arabia because of inflationary pressures, but cuts in the coming months are likely, which should encourage Sukuk issuance.

At present, Malaysia and the UAE continue to account for over 75% of global Sukuk issuance, but this dominance is likely to be reduced in 2008 as corporations in Saudi Arabia and other Gulf Cooperation Council (GCC) states see the advantages of securitized financing. Saudi Arabia already accounted for almost 20% of global issuance in 2007.

The opening of offices by leading international investment banks in Riyadh partly reflects prospects for Sukuk issuance,

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Developments in Global Islamic Financial Markets in 2007 and Prospects for 2008 *(continued...)*

as one of the factors that attracted Deutsche Bank, JPMorgan Chase and BNP Paribas to come has been the potentially attractive fees from Sukuk arrangement.

At present, HSBC Amanah and CIMB Islamic of Malaysia are the dominant managers, but Deutsche Bank arranged 18 Sukuk in 2007, and JPMorgan Chase and BNP Paribas — which arranged two and three respectively — are keen to catch up. Standard Chartered is also a lead arranger, given its worldwide network that includes Malaysia and South Asia, but expect more Sukuk arrangements out of its office in the Dubai International Financial Center.

Proposed sterling sovereign Sukuk

A landmark development was the publication in November 2007 of the consultative document on sterling Sukuk issuance by Her Majesty's Treasury in the UK. London has been the leading western center for Islamic banking since the early 1980s, but there are no Shariah compliant transactions in its debt markets.

Yet London's position as the leading European market for corporate bonds and floating rate notes demonstrates that there is the expertise to develop new variants catering specifically for the requirements of Islamic financial institutions. The consultative document seeks opinions on whether Ijarah Sukuk based on rental contracts would be the most appropriate form of Sukuk for the proposed UK government issuance and what would be the legal rights for the government as issuer, the Sukuk investors and the special purpose vehicle established to administer the Sukuk.

The proposed Sukuk by HM Treasury is likely to be priced at below LIBOR and in line with the pricing of other UK government debt. As the UK government can easily raise finance at highly competitive rates given its creditworthiness, it is not prepared to pay a premium to Sukuk investors that would ultimately be disadvantageous to British taxpayers. The purpose is not to attract funding from Islamic financial institutions in the Gulf, although they are welcome to bid for the Sukuk, but rather to provide a Shariah compliant alternative for those financial institutions that already hold UK government debt.

Major international banks involved in Islamic finance, for example, may welcome the opportunity to acquire high-quality marketable Shariah compliant assets as counterparts to their Wakalah, Qard Hasan and Mudarabah deposit liabilities. This includes sterling liabilities, as both Islamic and conventional banks in the UK are offering Shariah compliant current, savings and investment accounts, including time and advance notice deposits.

At present, covering liquidity requirements is problematic and has a high opportunity cost if assets are held in cash or in Murabahah inter-bank deposits that incur relatively high structuring charges for very low returns.

The main motivation behind the UK government's interest in sovereign Sukuk is that such issuances will serve as a pricing benchmark and facilitate the city of London emerging as a major international center for corporate Sukuk, indeed perhaps even the leading center. In addition to the investment banking expertise in bond and note issuance in London, the city has many advantages over other potentially competing centers, notably the long-term historical links with the Muslim world, a legal system based on common law that can ensure the enforceability of Shariah compliant contracts and the presence of financial institutions and businesses from all major Muslim countries.

"The main motivation behind the UK government's interest in sovereign Sukuk is that such issuances will serve as a pricing benchmark and facilitate the city of London emerging as a major international center for corporate Sukuk"

A further advantage is the strength of sterling, as Gulf investors seek alternatives to the US dollar, the UK pound and the euro being the obvious choices given their convertibility, the extremely competitive spreads on foreign exchange transactions and the choice of hedging opportunities. Sterling may be less attractive from the issuers' perspective, however, given its strength, but this applies to an even greater extent to the euro, and the likely lower pricing of sterling-denominated corporate Sukuk should largely compensate for the risk to dollar-dependent issuers of sterling appreciation. Of course, if the other GCC countries follow Kuwait's lead in May 2007 and move to a currency basket, expectations concerning sterling appreciation against the US dollar will become less of a concern for issuers.

The timing of any Sukuk issuance by the UK government remains unclear, as there are legal and tax issues regarding the underlying asset that could be used that may require legislation. Selecting which Shariah scholars to approve the

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Sukuk is also a complex and potentially contentious issue that is not addressed in the consultation paper.

Should the scholars be British citizens or UK residents, and should they all belong to the same school of Islamic jurisprudence? What should be their qualifications and experience, and is it more important that they have credibility in the Gulf rather than the confidence of Britain's very heterogeneous Muslim community?

"Shariah compliant investors do best when conventional banks underperform the market and do worst when shares in conventional banks outperform the markets"

It is unlikely that any issuance could come before the second half of 2008, but supporters should not be disheartened as the plans have momentum, and it is better to take the time to ensure the issuance is a success rather than act with undue haste and jeopardize what could become a rolling program with regular issuances.

Shariah compliant equity investment

As already indicated, 2007 has been an excellent year for Shariah compliant equity investors with the Dow Jones Islamic Market (DJIM) Indexes outperforming their conventional counterparts. The DJIM World index rose by over 16% during the year, as did the DJIM Asia Pacific Index.

The DJIM Europe index rise exceeded 20%, the highest by geographical segment, partly reflecting the appreciation of the euro, while the rise in the DJIM US index was lower at 12%, reflecting the converse US dollar weakness. The DJIM index rose by over 16%, but disaggregated gains by sector were lower, with technology stock rising by 12% and smaller capitalized companies also by 12%, less than the previous year.

It was fortunate that Shariah compliant equity investments exclude shares in conventional banks, as in 2007 these performed poorly; and, in many cases, suffered significant capital losses due to the fallout from the subprime mortgage crisis and their holdings of collateralized debt obligations (CDO) that became virtually worthless.

As CDOs are not Shariah compliant and not asset backed, this is one of the many reasons Islamic investors cannot invest in conventional banks. Empirical studies show that Shariah compliant investors do best when conventional banks underperform the market, as in 2007, and do worst when shares in conventional banks outperform the markets, as in 2006 and possibly again in 2008 depending on the speed of recovery by the banks from the subprime mortgage crisis.

Trends and prospects for GCC equity markets

There was an increased tendency for Shariah compliant investors from the Gulf to keep their funds in their home markets in the aftermath of 9/11 and the burst of the tech bubble as well as the collapse of WorldCom and Enron, to which many Shariah compliant investors were exposed. Apart from these negativities, there were also positive factors encouraging investment in local markets, notably the stock market boom in the Gulf following the post-2002 oil price hikes.

The stock market crash of 2006, with the Saudi Arabian market losing 60% of its value, caused many equity investors to think again and review their asset allocation strategies. Consequently, there was renewed interest in international equity investment, with global equity funds and regional funds experiencing a revival of interest.

However, developments in 2007 highlighted the need for Gulf investors to take a more balanced view of their Shariah compliant equity portfolios. Following the crash of 2006, Gulf equities were more fairly priced, with realistic price-to-earnings ratios. The Saudi Arabian market rose 25% during 2007, with the Kuwait market, the second largest in the region, rising by over 36%. Although well below the early 2006 peaks, this represented a credible advance.

Furthermore, greater portfolio diversification is now possible in the Saudi Arabian market, with two new initial public offerings (IPOs) per month and the total value of IPOs in 2007 exceeding US$4 billion. In the UAE, the value of IPOs was also significant, exceeding US$1.6 billion in 2007.

Prospects for 2008 are promising as leading Gulf industrial companies have been performing well, with profits of Saudi Basic Industries Corporation (SABIC) rising by over 42%, partly reflecting high petrochemical prices with increased demand from Asia, and partly buoyed by substantial revenue contributions from its overseas subsidiaries in Europe and elsewhere.

The profit outlook for real estate development companies such as Emaar and Nakheel from Dubai is more uncertain and will depend on the demand and supply balance in the regional market for commercial and residential property. The

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retail sector is expected to hold up well in 2008, partly due to oil revenues continuing to trickle down to Gulf consumers, but also with demand in countries such as Malaysia, helped by increasing tourist arrivals.

Conventional bank shares are of course excluded from Shariah compliant asset portfolios, but investors can expect shares in Islamic banks to appreciate significantly in 2008, with Al Rajhi Bank and Boubyan Bank of Kuwait likely to do well. If Islamic Bank of Britain starts to make profits, this will also be good news for Shariah compliant investors in London's Alternative Investment Market (AIM).

Islamic managed funds

Both open- and closed-ended Shariah compliant managed funds expanded significantly in 2007 with over 320 funds available by the end of the year. Half of these were equity funds, the second-largest category being real estate funds, an asset class much favored by Shariah compliant investors.

Leasing funds, usually closed-ended, continued to attract interest from institutions and high net worth investors, while commodity funds, usually Murabahah-based, continued to appeal to retail investors seeking permissible alternatives to savings and treasury bank accounts paying interest.

The major new development during the year was the launch of Islamic Sukuk funds in the Gulf, with offerings from the Kuwait Financial Center (Markaz) as well as Falcom Financial Services and Jadwa Investment of Riyadh. Hitherto the only Sukuk funds available to retail investors were in Malaysia, with RHB Bank the market leader.

The launch of Sukuk funds was not previously possible beyond Malaysia because of the shortage of these securities, but with this now rectified, Sukuk funds are likely to become as popular among Shariah compliant investors as corporate bond funds are for conventional investors.

The establishment of Jadwa Investments was perhaps the most significant recent institutional development in fund management. It was granted a license by the Capital Markets Authority of Saudi Arabia in August 2006, and 2007 was its first full year of operation. The employees own a major portion of its stocks, and therefore have a direct interest in the company's success. The initial paid-up capital was SAR500 million (US$133.5 million), and its founding partners included Prince Faisal bin Salman bin Abdulaziz, chairman of the board, and Abdulrahman Saleh Al Rajhi and Abdullatif Kanoo, the latter bringing a Bahrain connection.

Jadwa acquired ExxonMobil's 30% stake in the Saudi Aramco Lubricating Oil Refining Company in November 2007, its most significant investment. Jadwa has been able to attract high-quality staff, not least Brad Borland, who in June 2007 was appointed its chief economist and head of research, having worked for Samba, the former Saudi American Bank.

Jadwa formed a partnership with Russell Investment Group in May to develop Shariah compliant funds and attract successful fund managers. Its funds to date include Saudi Equity, GCC Equity, Arab Market Equity and a Murabahah Fund, in addition to the Global Sukuk Fund.

"The launch of Sukuk funds was not previously possible beyond Malaysia because of the shortage of these securities"

In December 2007, it extended its portfolio of funds further with the launch of the Jadwa World Equity Fund and the Jadwa Emerging Market Fund. These launches make Jadwa a serious competitor to the National Commercial Bank with its Al Ahli family of mutual funds and Al Rajhi Bank, the two leading fund providers in the Saudi Arabian market. Both the Jadwa World Equity Fund and the Jadwa Emerging Market Fund are multi manager funds, the first to be offered in the kingdom. Saudi investors have now a greater choice than ever of Shariah compliant funds, and in such a competitive market, should be able to gain good returns with very reasonable management fees.

Egypt as a destination for Shariah compliant funds

Shariah compliant investors are increasingly interested in GCC and wider Middle Eastern markets as the offerings from Jadwa Investments illustrate. In the longer term, markets such as Egypt look interesting, as although most of the funds there are conventional, there are now five Shariah compliant funds, including two from Hermes Fund Management of Cairo, one from Banque Misr and two from Faisal Islamic Bank, one of which is managed by Hermes.

With a population of over 75 million and economic growth approaching 7% annually, the Egyptian economy has been performing much better in recent years, with encouraging prospects for the future despite some concerns over inflation.

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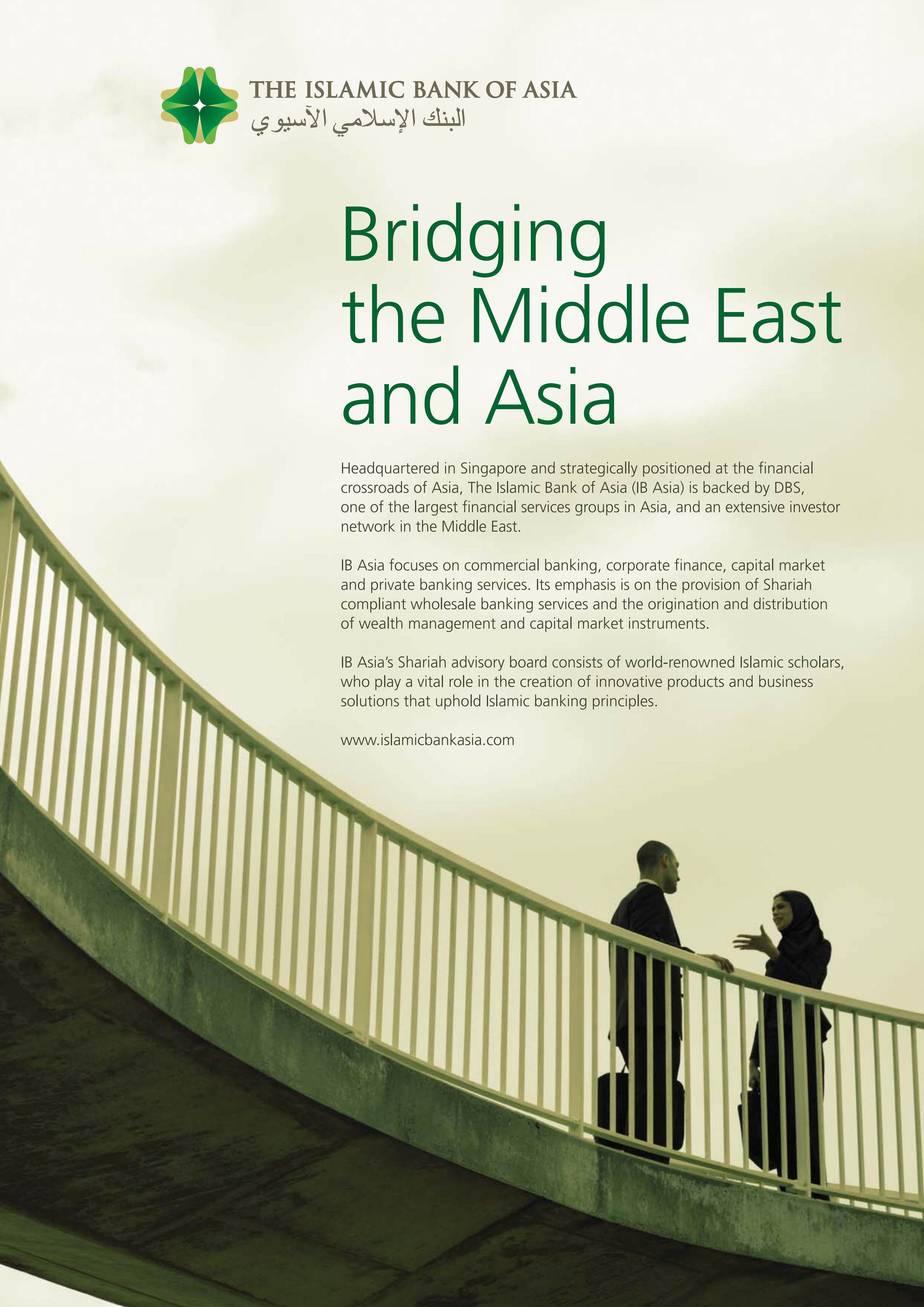
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Egyptian equity prices fared badly in 2006 but the recovery was much faster than in GCC markets, with the share prices of Orascom Construction and the Orascom Hotels Company doubling in value in 2007, although the rebound in Orascom Telecom and Mobinil was more modest.

"Shariah compliant capital market products are more successful, as virtually all of the debt issuance in the GCC and Malaysia is in the form of Sukuk, and most managed funds are Shariah compliant"

Price-to-earnings ratios for some of the Orascom companies are starting to look stretched, but overall, there is still much value stock for fund managers to pick in 2008, virtually all of which is Shariah compliant.

Challenges for Takaful operators and Shariah compliant investment companies

Islamic banks in markets where conventional and Islamic banks co-exist appear to be unable to achieve more than a share of 10% to 20% of total bank deposits. In sharp contrast, Shariah compliant capital market products are more successful, as virtually all of the debt issuance in the GCC and Malaysia is in the form of Sukuk, and most managed funds are Shariah compliant. There are good reasons for being optimistic about Sukuk, not least as Takaful becomes more popular in the largely under-insured Islamic world.

Conventional insurance companies are the largest holders of corporate bonds and as Takaful operations extend, a major part of their assets are likely to be held in Sukuk given the risks in excessive equity exposure. Providers of general Takaful can cover their claims liabilities by holding Salam Sukuk, while for family Takaful operators whose clients have long time horizons, Ijarah, Murabahah and Istisna Sukuk are more appropriate given their maturities.

In June 2007, Bank AlJazira reached agreement with Prudential to establish a joint Takaful venture to serve the potentially vast market in Saudi Arabia, for insurance. An application for regulatory approval has already been submitted to the Capital Markets Authority, and it is hoped operations can begin by June 2008. The new venture, Tadawul Takaful, will be a listed company on the Saudi Arabian stock market, with Prudential as its largest single shareholder.

Given the success of the IPO by the National Company for Co-operative Insurance three years ago in Saudi Arabia, prospects for Tadawul Takaful are encouraging. Other international insurance companies interested in Takaful include Allianz, which distributes its products from Bahrain, and reinsurance companies such as Hanover Re and Munich Re, both of which are increasingly active in the Gulf.

Shariah compliant investment companies such as Investment Dar and the International Investor of Kuwait are likely to be more in the news in 2008 as they spread their activities. Investment Dar profits rose to KWD91 million (US$350 million) for the first half of 2007, and are likely to jump to KWD200 million (US$730 million) for the whole year, almost double the 2006 level.

Investment Dar has established a banking subsidiary in Bahrain. Its real ambitions are qualitative, however, rather than merely quantitative, and have real significance for the future of Islamic finance. It is seeking to define more clearly what is meant by Islamic "values" in finance and communicate this to investors and potential clients. Specifically, Islamic finance is often perceived as an industry that revolves around prohibitions, most crucially the prohibitions of riba and gharar.

Although these prohibitions are fundamental to the industry, expect to see more emphasis on positive values, not least the concepts of partnership and participation long stressed by Shariah scholars including members of the Investment Dar Shariah Board. It is chaired by Sheikh Ahmed Bazie Al-Yassen, with Dr Issam Khalaf Al-Inzi as their youngest scholar.

One area in which these values can be applied is private equity and venture capital finance, where Musharakah provides an ideal structure with considerable potential for further innovation. Such innovations are already being explored by academics, including the writer of this review. It may be too soon to see their widespread application in 2008, but in the longer term, their significance will undoubtedly grow, with the potential to transform much of the corporate sector in Muslim countries into a truly Islamic economic system and Shariah compliant finance as the means, rather than simply an end in itself.

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Bringing Industry Participants onto a Single Platform

By Dr Azmir Agel

Following the completion of its reorganization in 2006, International Islamic Financial Market (IIFM) embarked on a revised and well-focused business strategy while keeping its mandated objective of establishment, development, self-regulation and promotion of Islamic capital and money markets intact.

The major change in IIFM's approach is that the development projects are now market-driven and it brings industry participants, mainly financial institutions (FIs), on a common platform through the creation of global working groups. More specifically, IIFM is now expending its efforts on assisting the industry in establishing and endorsing minimum documentation standards for money market and capital market products through the development of master agreements.

"IIFM has a unique and advantageous international organizational set-up which will be a major factor in the implementation and adaptation of IIFM Islamic market uniformity efforts, standardized documents, products and common practices"

In terms of board composition, the major change is that besides seven founding and permanent members representing mainly the central banks and regulatory bodies of Bahrain, Malaysia, Indonesia, Pakistan, Sudan, Brunei and the Islamic Development Bank (IDB), the IIFM board of directors also consists of nine major FIs from five jurisdictions. IIFM has a unique and advantageous international organizational set-up which will be a major factor in the implementation and adaptation of IIFM Islamic market uniformity efforts, standardized documents, products and common practices.

FIs are expected to be the main beneficiary of IIFM projects as standardization of specific and well-identified areas, whether document or product, will significantly reduce costs and time as well as provide greater transparency, robustness and acceptability across the globe, leading to more opportunities for facilitating growth.

In order to have wider Shariah acceptability, the IIFM board, with the support of the Central Bank of Bahrain (CBB), has finalized Shariah approval arrangement with the IDB. As per the arrangement, IIFM will submit its completed projects to the IDB Shariah board for final approval. Since IDB is a neutral body and its Shariah board consists of seven prominent Shariah scholars from diversified backgrounds, it is envisaged that IIFM's uniformity projects will have wider acceptability and usage.

Moreover, during the project initiation and development phase, IIFM will use the services of a number of prominent Shariah scholars who have agreed to assist IIFM together with IIFM's in-house Shariah head, whose main role is to coordinate Shariah workflow and provide input when needed.

IIFM project-specific working group model provides the ideal opportunity to FIs to work on a common platform where they can share their views, experiences and expertise and, work together on a global basis towards the creation of a unified document, product, best practices, and so on, for the wider industry, thereby creating a robust and transparent Islamic financial services industry (IFSI).

In terms of project implementation, IIFM is finalizing the following key initiatives:

1. IIFM/ISDA Master Agreement (framework document on Ta-Ahut/Hedging)
   IIFM is working on the first phase i.e. the creation of a framework document mainly covering Islamic hedging. It is expected, if requested by industry participants, that the second phase would be the product development itself.

2. IIFM Master Agreement for Treasury Placement
   The Master Agreement for Treasury Placement will provide a standardized benchmark document for the industry as currently there are more than 20 different documents being used by the institutions. Absence of a unified document results in increased cost, raises the issues of robustness and transparency, as well as diverse Shariah acceptance.

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Bringing Industry Participants onto a Single Platform *(continued...)*

3. IIFM/ICMA Shariah Compliant Repurchase (repo)
   This project is aimed at resolving the non-availability of a viable Islamic money market instrument and will also provide an efficient liquidity management tool to the industry. Moreover, this tool will assist in fostering the secondary market on Sukuk.

In addition, there are several other projects under consideration such as the Islamic instrument database, Sukuk primary market recommendation and guidelines IIFM's medium-term objective is to provide benchmark/ standardized documents and best practices and database of Islamic capital market instruments.

"There are several other projects under consideration such as the Islamic instrument database, Sukuk primary market recommendation and guidelines IIFM's medium-term objective is to provide benchmark/standardized documents and best practices and database of Islamic capital market instruments"

However, without the active support and involvement by the financial sector, especially Islamic banks and conventional banks with Islamic windows, it will be a challenge for IIFM to achieve its objectives which are aimed at making the IFSI a robust financial system where IFIs will be the main beneficiary.

السوق المالية الإسلامية الدولية
International Islamic Financial Market

Dr Azmir Agel is head of capital market and support services at IIFM. He can be contacted via email at azmir.agel@iifm.net.

LMC's Role in the Primary and Secondary Islamic Capital Market

By Liquidity Management Centre

Liquidity Management Centre (LMC/the bank), an Islamic investment bank regulated by the Central Bank of Bahrain (CBB, formerly the Bahrain Monetary Agency), was incorporated in July 2002 with the aim of providing optimal Islamic financing and investment solutions contributing to the growth of the Islamic capital market.

Today, LMC plays an active role in the primary and secondary Islamic financing market delivering innovative, adaptable and tradable Islamic Shariah compliant short- and medium-term financial instruments to Islamic financial institutions in order to invest their surplus funds. LMC's experience and knowledge of the Islamic capital market enables it to also provide Islamic advisory services, including (but not limited to) the areas of structured finance, project finance and corporate finance.

With an authorized capital of US$200 million and a paid-up capital of US$51 million, LMC proudly shares a close working relationship with its shareholders — all renowned in the Islamic financial market for their contribution to the industry, and all hold equal shares in LMC: Bahrain Islamic Bank BSC (Kingdom of Bahrain), Dubai Islamic Bank PJSC (UAE), Islamic Development Bank (Saudi Arabia) and Kuwait Finance House KSC (Kuwait). Moreover, LMC is keenly seeking the opportunity to further increase its capital this year.

LMC boasts significant achievements in a span of six years with a sound track record, acknowledged by industry leaders around the world. Led by a highly experienced and qualified management team comprising CEO Ahmed Abbas and chief operating officer Khalid Bucheeri, and supported by a professional technical and placement team, LMC has achieved a high level of transactional and product diversity. The bank has proven to be a leading arranger of Sukuk (Islamic bonds), having issued a number of innovative Sukuk with adaptable and recognized structures that have been reflected in other Sukuk issued in the region.

The bank's focus has not only been on bringing long-term financing opportunities to market but also on developing short-term Shariah compliant investment opportunities. It pioneered the structure of its short-term Sukuk program, a tradable low-risk liquidity management product that gives investors the opportunity to invest in short-term Sukuk having monthly tenors that are secured by a diverse portfolio of asset backed corporate and sovereign Sukuk instruments arranged and administered by LMC. The program is the first such repackaged Sukuk product to be offered in the Islamic banking market. Currently, the program stands at a total size of US$300 million and further sustained growth is anticipated throughout 2008.

"LMC's experience and knowledge of the Islamic capital market enables it to also provide Islamic advisory services, including (but not limited to) the areas of structured finance, project finance and corporate finance"

With the ultimate long-term vision of contributing towards the development of a standardized framework for Islamic investment banking, LMC not only benefits from its own Shariah supervisory board but also enjoys the support of its prominent shareholders, board of directors and that of the CBB.

LMC primary market arrangement activities

LMC has had a creditable track record of primary market Sukuk issuances since mid-2003. The diversified array of Sukuk arranged is summarized below:

1. BAHRAIN — Bahrain Monetary Agency Ijarah Sukuk US$250 million issued in June 2003
   - LMC's first Sukuk, and the fact that it was a sovereign issuance was testimony to the CBB's belief in LMC's capabilities.
   - The Sukuk structure was an Ijarah Sukuk over designated government buildings.

2. UAE — EMAAR Sukuk US$65 million issued in June 2004
   - This was the first corporate real estate Sukuk issued in the UAE and a landmark transaction for LMC, given the market standing of EMAAR.
   - The Sukuk structure was essentially an Ijarah Sukuk over designated buildings.
   - The issue was domestically listed in Bahrain.

continued...

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LMC's Role in the Primary and Secondary Islamic Capital Market
(continued...)

3. BAHRAIN — FIRSAN Sukuk €76 million (US$111.78 million) issued in October 2004
   - This Sukuk was issued for Arcapita and was a prestigious Sukuk for LMC, given the market standing of the obligor.
   - The issue was oversubscribed by €26 million (US$38.5 million).
   - The Sukuk proceeds were used for general corporate funding purposes. As a consequence, the Sukuk structure was one that was backed by an investment Murabahah.

4. BAHRAIN — Durrat Khaleej Al Bahrain US$152.5 million issued in January 2005
   - The first project finance type Islamic Sukuk (Istisna Ijarah).
   - This was the first large-scale property development to involve Sukuk in Bahrain.
   - New concept of advance lease rentals in the Sukuk mechanism.

5. KUWAIT — The Commercial Real Estate Company Ijarah Sukuk US$100 million issued in May 2005
   - Issue fully underwritten in 10 days.
   - First rated corporate Sukuk in the Middle East (rated "A-" by Capital Intelligence) and first Sukuk issued out of Kuwait.

6. BAHRAIN — Bahrain Financial Harbour Al Marfa'a Al Mali Sukuk US$134 million issued in July 2005
   - One of the premier commercial developments in Bahrain, given the project's aim of maintaining a state-of-the-art financial hub in Bahrain.
   - Structure based on Istisna into Ijarah.
   - Reputed as one of the best documented and financially engineered Sukuk to be launched in the international market.

7. UAE — Bukhatir Investments Limited Sukuk US$50 million issued in May 2006
   - First investment agency structure (Sukuk Al-Wakalah Bel-Istithmar) to be issued in the international Sukuk market.
   - Jointly arranged with Emirates Islamic Bank (EIB).

8. KUWAIT — Lagoon City Sukuk US$200 million issued in December 2006
   - This was LMC's first international Sukuk issue settled through the international market clearing system.
   - The Sukuk was a reducing five-year Musharakah callable at the end of the second year by the obligor, supported by a guarantee from parent company, Al Ahlia Investment Company KSC.
   - The Sukuk has been rated "BBB+" by Capital Intelligence.

9. UAE — Thani Investments Limited Sukuk US$100 million issued in November 2007
   - Musharakah Sukuk — one of the first Sukuk issued for privately owned businesses in the GCC.
   - Jointly arranged with EIB.

10. UAE — Berber Investment Agency Sukuk US$130 million issued in September 2007
    - This was the first Musharakah structure based on Al-Wakalah Bel-Istithmar contract between the investment agent Berber Cement Company, acting through its agent, National Cement Company PSC, Dubai, UAE (the wakeel) and the Sukuk holders acting through their agent Berber Sukuk Company BSC — Bahrain (the issuer).
    - This Sukuk was promoted and fully supported by a guarantee from Berber's Gulf Cooperation Counties (GCC)-based shareholders.
    - Co-arranged with EIB.

11. SUDAN — Sudan Salam Sukuk €68 million (US$100 million) issued in November 2007
    - This Sukuk was jointly arranged with The Arab Investment Company.
    - This was the first Salam transaction issued by LMC and the first transaction issued in Sudan by LMC for the Sudanese Ministry of Finance and National Economy.
    - The Sukuk was guaranteed by the Central Bank of Sudan and supported by the offshore sales of crude oil.

Secondary market development activities

LMC has actively facilitated, and continues to facilitate, the further development of the secondary market in tradable Islamic instruments such as Sukuk. LMC's primary role is in acting as a facilitator or medium through which buyers and sellers of Sukuk can execute trades.

LMC's secondary market initiatives include:

- A Sukuk "Bid/Offer Registration Service" — a complimentary service launched on LMC's public website (www.lmcbahrain.com/bid-offer-table.asp).

continued...

LMC's Role in the Primary and Secondary Islamic Capital Market
(continued...)

- The issuance of a global Sukuk table (www.lmcbahrain.com/Global-table.asp).
- Publication of executed secondary market Sukuk trades commencing from the second half of 2005 (www.lmcbahrain.com/trade.asp).
- Establishment of LMC pages on Bloomberg (codes "LMCS" and "Sukuk"). These pages have been jointly developed by LMC's senior management in cooperation with Bloomberg. The joint intention is to provide subscribing investors with access to static Sukuk data and industry standard modeling functionalities for a range of Sukuk.

Through both its primary market financing activities and market contacts, LMC is strategically positioned to coordinate and execute secondary market transactions in Sukuk. Given the increasing depth of the primary market, LMC has found that the appetite for secondary market buying and selling services is ever increasing.

"Our approach centers on structuring attractive transactions in partnership with both our clients and placement agents"

Business services and products offered

Short-term investment services
LMC's conducts extensive Sukuk asset sourcing and repacking as part of the offering, placement and administration of its short-term Sukuk program.

Structured finance services
LMC's structured finance services provide an end-to-end solution tailored to meet the needs of our clients in the international marketplace. Services offered include the following:

- **Finance raising**: LMC has extensive experience in the structuring, issuance, marketing and post-issuance administration of tradable Islamic capital markets instruments such as Sukuk. Our approach centers on structuring attractive transactions in partnership with both our clients and placement agents. As such, our activities to date are playing a key role in the continued growth of both publicly quoted and unquoted businesses in the GCC. We are in the process of extending the geographical reach of these services to other more established financial markets in order to increase our product diversity.
- The types of roles we play in our finance raising business are:
  - **Arranger**: This is one of our most frequently played roles, given our strategic market positioning. The role of arranging a Sukuk may be undertaken by LMC in its sole capacity, though in some instances, we share this title with our transactional partners. As part of this role, LMC will coordinate the process of listing and rating the instrument if required.
  - **Structuring adviser and documentation agent**: These roles are central to the establishment of a Sukuk or finance raising structure. LMC will structure an appropriate Shariah compliant instrument and then prepare all related transaction documentation. The level and extent of documentation required will vary from one structure to another.
  - **Placement agent**: LMC is frequently involved as the sole placement agent on Sukuk it arranges though placement cooperation arrangements are also entertained where required by a given transaction. On occasion, we may also act as a third party placement agent on a select number of Shariah compliant instruments issued by other financial institutions.
  - **Issue manager and/or trustee**: Given our primary issuance experience and process streamlining, we are well positioned to play the role of issue manager throughout the tenor of any given Sukuk. This role largely entails the performance of monitoring and management tasks for the Sukuk as well as the key task of ensuring timely reporting/payment to Sukuk investors. All activities undertaken by LMC acting in such capacity are intended to ensure the preservation and protection of the best interests of the Sukuk holders.
- **Private equity raising**: Though established in more recent times, our private equity services have benefited from the extensive knowledge gained in our capital markets-based financing activities. In this capacity, LMC conducts and coordinates the modeling of transactions jointly with the client, assists him in identifying and resolving any prospective legal and corporate issues arising from the equity offering, prepares all offering documentation and presentation materials, directs

continued...

PT Perkebunan Nusantara III (Persero)	PT PLN (Persero)	PT Adhi Karya (Persero) Tbk.	PT Bank Syariah Mandiri	PT Pembangunan Perumahan (Persero)
Sharia Ijarah MTN	Sukuk Ijarah Bonds	Sukuk Mudharabah Bonds	Sharia Mudharabah Subnotes	Sharia Mudharabah MTN
IDR 150.00 billion	**IDR 300.00 billion**	**IDR 125.00 billion**	**IDR 170.00 billion**	**IDR 100.00 billion**
Sole Arranger & Placement Agent	Joint Lead Underwriter	Sole Lead Underwriter	Sole Arranger & Placement Agent	Sole Arranger & Placement Agent
November 2007	*July 2007*	*July 2007*	*February 2007*	*December 2006*

PT Apexindo Pratama Duta Tbk.	PT Arpeni Pratama Ocean Line Tbk.	PT Matahari Putra Prima Tbk.	PT Perkebunan Nusantara VII (Persero)	PT Bank Syariah Mandiri
Sharia Ijarah Bonds	Sharia Ijarah MTN	Sharia Ijarah Bonds	Sharia Mudharabah Bonds	Sharia Mudharabah Bonds
IDR 240.00 billion	**IDR 100.00 billion**	**IDR 150.00 billion**	**IDR 75.00 billion**	**IDR 200.00 billion**
Joint Lead Underwriter	Sole Arranger & Placement Agent	Joint Lead Underwriter	Joint Lead Underwriter	Joint Lead Underwriter
April 2005	*October 2004*	*April 2004*	*March 2004*	*November 2003*

PT Matahari Putra Prima Tbk.: Best Sharia Ijarah Bond - Investor Sharia Award 2007
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LMC's Role in the Primary and Secondary Islamic Capital Market

(continued...)

all placement-related activities and conducts the offering process. Throughout, LMC is solely focused on ensuring the successful completion of the equity raising transaction.

"LMC possesses the necessary market expertise to efficiently structure, document, place and administer Shariah compliant investment funds."

The types of roles we play in our private equity services business are materially similar to those outlined under "Finance raising".

Fund issuance and administration services

LMC possesses the necessary market expertise to efficiently structure, document, place and administer Shariah compliant investment funds. Our investment fund-based services benefit from the extensive knowledge gained in our capital markets-based financing and private equity activities.

In this capacity, LMC conducts and coordinates the modeling of the prospective fund in conjunction with the client, assists the client in identifying and resolving any prospective legal and corporate issues arising from the equity offering, prepares all offering documentation and presentation materials, directs all placement-related activities and conducts the offering process.

Strategic advisory services

These services revolve around the provision of analysis and advice to our clients in relation to their business development activities. Our principal objective in the provision of such services is to develop and evaluate strategic plans which meet our clients' needs for business growth or reorganization or whether equity, financing-based.

Additionally, as part of such strategic transactional advice, LMC actively focuses on ensuring that its clients optimize their capital structures with a view to facilitating access to new and efficient sources of equity and other forms of Islamically compliant transactions.

The future is bright for LMC. Backed by its strong operating performance, LMC looks forward to entering a high-growth phase.

With its plans to increase capital in 2008, LMC envisages itself to be fully equipped to harness further activities and expand its service offering to include a range of investment banking solutions such as debt capital markets, asset management, equity capital market and private equity in compliance with Islamic Shariah principles, thereby developing within the regulatory requirements of the CBB and the Islamic financial market development.

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Malaysian Islamic Finance Landscape

By Baljeet Kaur Grewal

The Islamic financial system represents an integral component of the capital market, offering alternative funding/investment options for both capital seekers and providers, while concurrently playing an important complementary role to the Islamic banking and Takaful industry.

In Malaysia, the widening and deepening of the Islamic financial market have resulted in three strategic pillars of growth: banking, Takaful and the capital market. The Malaysian Islamic capital market has complemented the conventional market by providing a range of value-added financial instruments, and has effectively mobilized and channeled funds to fuel economic growth.

A glance at the performance of the Malaysian Islamic banking sector confirms its increasing popularity in and importance to the domestic financial landscape in recent years. As at end-June 2007, assets of Islamic banking system grew 8.5% year-on-year (y-o-y) to RM143.7 billion (US$43.6 billion; 2006: RM133 billion [US$40 billion]), accounting for 12.1% of total banking system assets.

Robust growth in the Islamic banking assets was driven mainly by the expansion in Islamic financing activities of 3.8% y-o-y to RM81.5 billion (US$25 billion; 2006: RM78.5 billion [US$23.8 billion]), which contributed to 13.3% of total banking system financing. Concurrently, deposits mobilized by the Islamic banking system continued to grow at 8.4% y-o-y to RM107.5 billion (US$32.65 billion; 2006: RM99.2 billion [US$30.13 billion]) to account for 12.2% to total banking system deposits.

By 2010, Malaysia's Islamic banking assets are expected to account for 20% of the country's total banking sector assets.

Increasing demand for Islamic instruments

With regard to the capital market, the Islamic bond market accounts for a large proportion of the private debt securities (PDS) market in Malaysia. In the last nine years, the composition of Islamic fixed rate securities has grown unabated and increased in significance.

Demand for domestic Islamic debt instruments, which accounted for only 7% of total bonds raised in 1999, grew to 25% in 2000 and subsequently to 56% in 2007, primarily due to investor awareness of alternative funding sources, i.e. Islamic instruments and the increased number of Islamic funds launched over the years.

Currently, more than 36% of outstanding domestic bonds are Shariah compliant, especially the larger issues, and this proportion continues to grow.

The result is that Malaysia's Islamic financial landscape has advanced in terms of diversity of instruments and its modernity. It also boasts a dual banking model, whereby a developing Islamic financial system exists parallel to the conventional banking system.

To chart the growth of Islamic fixed income securities, total Islamic PDS (IPDS) issued since 1991 (matured and outstanding) amounted to RM188.9 billion (US$57.36 billion) at 413 issues as at end-2007. In terms of total number of IPDS issued, infrastructure/utilities and property/real estate sectors dominate at 52.9% and 16.7% respectively, given the large-scale nature of these projects.

"The Malaysian Islamic capital market has complemented the conventional market by providing a range of value-added financial instruments, and has effectively mobilized and channeled funds to fuel economic growth"

For 2007, total new corporate bond issuances stood at RM42.6 billion (US$12.9 billion), an increase of 42.4% from RM29.9 billion (US$9 billion) in 2006. IPDS accounted for RM23.7 billion (US$7.2 billion), or 56% of new issuances, while conventional PDS stood at RM18.9 billion (US$5.74 billion), or 44% of new issuances. Issuers from infrastructure and utilities dominated the primary market at 27%, followed by financial services (18.6%) and asset backed securities (15.7%).

Some notable bond deals were Nucleus Avenue RM7.9 billion (US$2.4 billion) (IPDS, power), Cagamas MBS RM4.52 billion (US$1.37 billion) (both PDS and IPDS, residential mortgage backed securities), MTD Infraperdana RM600 million (US$182.2 million) (IPDS, toll road), Hijrah RM2.92 billion (US$886.7 million) (IPDS, telecommunications) and MISC RM700 million (US$212.6 million) (IPDS, shipping).

continued...

Malaysian Islamic Finance Landscape *(continued...)*

Infrastructure main beneficiary

The Malaysian bond market is expected to continue its aggressive stance in 2008, with an estimated RM35 billion to RM40 billion (US$10.63 billion to US$12.15 billion) worth of new debt to be issued, of which 70% of the bonds are expected to be Shariah compliant. A large proportion will be channeled to finance infrastructure projects, given that 2008 is the third year of the Ninth Malaysia Plan (9MP).

Project financing via the Islamic route has gained impetus since the late 1990s. Notable projects in the past include Putra–Star LRT (RM1 billion [US$303.7 million] Istisna financing), Putrajaya Holdings (RM2.2 billion [US$668.18 million] Sukuk), SAJ Holdings water project (RM680 million [(US$206.5 million)] Sukuk), toll road operators as well as other infrastructure and utilities players.

The thrust of the 9MP will continue to drive demand for Islamic project finance structures specifically in the areas of infrastructure financing for water/power projects, education, healthcare and roads.

Meanwhile, on the global Sukuk front, new Sukuk issuances stood at approximately US$27.8 billion in 2007, up 53.7% y-o-y, bringing the total amount of global Sukuk outstanding to US$85 billion (including local currency denominated Islamic bonds).

Notable variety of new Sukuk issues include Saudi Electricity Co SAR5 billion (US$1.3 billion, Saudi's biggest power producer); Nakheel Development US$4.27 billion (UAE property/real estate developer); Jebel Ali Free Zone AED7.5 billion (US$1.99 billion, business park operator);

continued...

Chart 1: Malaysia's Islamic Banking Growth Trend (Assets, Deposits and Financing)

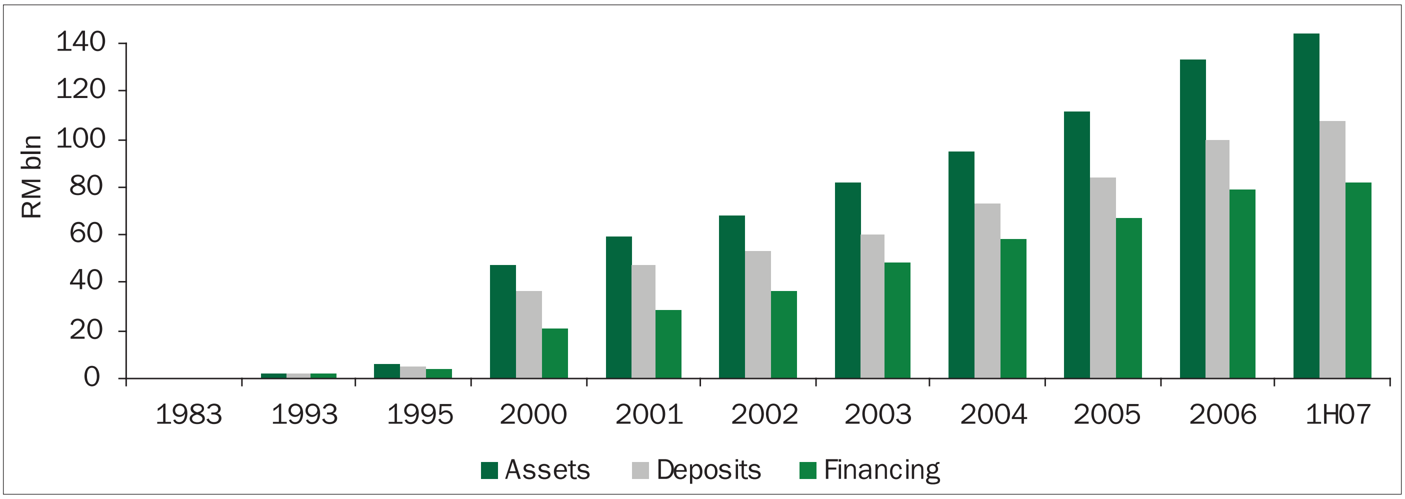
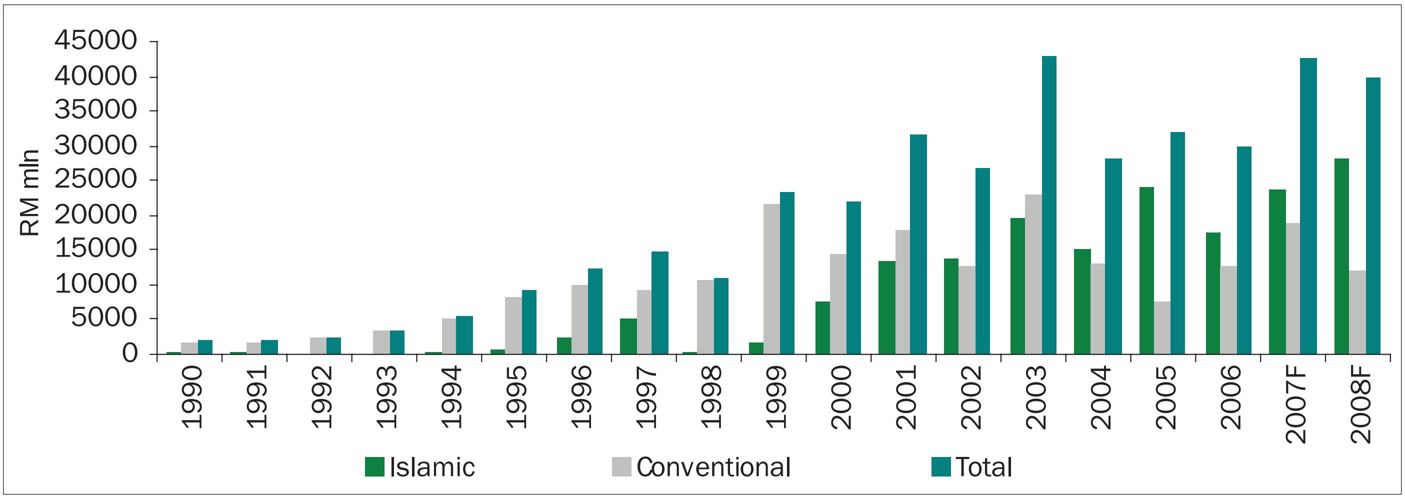


Chart 2: Malaysia's Corporate Bond Market Issuance Trend (1990-2008F)



Source: BNM/DOS, KFH

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Malaysian Islamic Finance Landscape *(continued...)*

Ras Al-Khaimah Investment Authority US$435 million (UAE investment authority) and Nucleus Avenue RM7.9 billion (US$2.4 billion, Malaysian power producer).

By country, the UAE topped the issuer chart at 43% of total global Sukuk issued, followed by Malaysia (30%), Saudi Arabia (18%) and Bahrain (5%). For 2008, we expect new Sukuk issuances to trend higher to between US$40 billion and US$45 billion (US$12.15 billion to US$13.67 billion), dominated by huge infrastructure/utilities, property/real estate, and oil, gas and petrochemicals financing in Malaysia and GCC countries.

Bigger investor base, lower pricing

So, why are Sukuk increasingly popular? The advantages fundamentally lie in the structure of Islamic finance itself. Sukuk provides an avenue for Islamic investors to invest in Shariah compliant investments, thus guaranteeing access to a larger investor base. It also provides potential lower pricing to issuers via the wider investor pool from the participation of large Islamic investors.

Structures employed have also evolved from the traditional Musharakah to include more project-specific transactional structures like Ijarah Sukuk, Istisna or a combination of the above.

"Sukuk provides an avenue for Islamic investors to invest in Shariah compliant investments, thus guaranteeing access to a larger investor base"

Nevertheless, like all financial mechanisms that are in the emerging stages of development, the Islamic industry poses some overreaching challenges. One of the main challenges is to ensure the sustainability of the Islamic finance industry and in accessing a large pool of long-term investors.

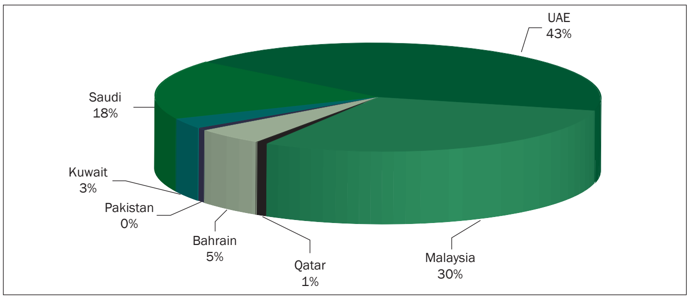
Both can be overcome by maintaining a competitive domestic Islamic capital market via continuous product development and innovation. The ability to structure a marketable deal (in terms of instrument type and pricing) will ensure access to a wide distribution pool of funds, both regionally and globally.

Some of the Islamic market innovations in recent years include the gradual shift from traditional products (Musharakah and Ijarah) to Istisna- and Salam-based products, short-term oil and commodity linked products, equity/debt hybrids as well as internationalizing distribution lines. Continuous research and development in the areas of product development can also enhance growth in Islamic equity funds, cultivate liquidity management of assets as well as create Shariah-based equity benchmarks.

This year will see Malaysia's GDP grow by 5.7% respectively, with key sectoral drivers being the infrastructure/construction industry, services sub-sectors, oil and gas, and plantations. As such, the fundraising activities will also boast Shariah compliant structures that support activities in these key areas.

The Malaysian bond market has shown exemplary growth with the onset of Islamic debt, thus contributing towards the resilience of the overall international financial architecture.

Chart 3: Global Local Currency & Dollar Sukuk Issued by Country (2007)



Source: Bloomberg, Zawya, Failaka International, BNM/FAST, RAM, MARC, KFH

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2006

National Industries for Building Materials
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Sukuk
Kuwait Finance House
Co-manager
2006

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Sukuk
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Joint Lead Arranger/Joint Lead Manager/ Shariah Adviser
2007

Daar Al Arkan Real Estate Development Co
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Sukuk
Kuwait Finance House
Lead Manager
2007

Symphony House Berhad
RM100 million Sukuk Murabahah/ Notes Programme
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We have unfolded a great beginning and we look forward to continuous excellence, beyond the expectations of our clients and partners.

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Investing in Islamic Structured Products

By Neil D Miller, Dean Naumowicz and Aziza Atta

Islamic structured products are financial instruments that create cash flow or delivery obligations linked to the performance of a defined underlying benchmark that is compliant with the principles of Shariah (such as equity markets, indices and commodities). For example, a Dow Jones Islamic Market (DJIM) index-linked note has a return linked to the performance of the DJIM index. The greater the return of the DJIM during the tenure of the note, the better the return on the DJIM index-linked note. An Islamic structured product can be structured as a security, a bilateral contract or even a deposit.

> "Investors who are committed to investing in a Shariah compliant structure should be willing to accept that receipt of any income and the eventual return of their capital invested are contingent on the performance of the relevant underlying assets"

As the products and their applications vary, we shall use the generic term "Islamic structured products". The techniques involved are often at the cutting edge of the product development world and while, in each case, we and our clients have worked with renowned scholars to seek Shariah approval for the specific product concerned, there can be no guarantee that future developments or changing attitudes will not require further adaptations of the techniques involved. For now, we would argue that there is no such thing as a standard Islamic structured product.

A common feature and benefit of many Islamic structured products is the protection of some or all of the capital invested by the investor. A capital protected product provides for the protection of a portion (sometimes even up to 100%) of the invested capital usually by way of a purchase undertaking (Wad). Many clients have used a Wad structure to link an investment or deposit with the performance of financial markets with little or no capital risk for an investor. With respect to some structures, there is currently a great deal of scholarly discomfort regarding the fixed price repurchase of an issuer's assets by an originator (in the context of Mudarabah, Musharakah and Wakalah; not for Ijarah). The purpose of the purchase undertakings is to ensure that an investor can recoup its capital investment on the occurrence of certain events such as insolvency, early redemption or on maturity.

Sheikh Muhammad Taqi Usmani, one of the most eminent scholars in the Islamic finance industry and chairman of the Shariah Council of the Accounting and Auditing Organization for Islamic Financial Institutions, recently wrote a paper discussing the issue of purchase undertakings. His main point of contention with regard to purchase undertakings is that they move away from the concept of profit and risk sharing, which is a critical feature of more traditional Islamic finance instruments.

Investors who are committed to investing in a Shariah compliant structure should be willing to accept that receipt of any income and the eventual return of their capital invested are contingent on the performance of the relevant underlying assets. The existence of a purchase undertaking arguably eliminates the risk-sharing aspect of such structures since the return of capital can be guaranteed which could, in effect, decouple the performance of the structure from the performance of the underlying assets.

Islamic structured products in practice

The Islamic finance team at Norton Rose has been involved in a number of transactions relating to Islamic structured product transactions. For instance, we advised UBS on the initial multi-million US dollar issue of its Shariah compliant commodity-linked investment certificate. This is thought to have been the first Shariah compliant product that was linked to commodities.

In addition, the ability to trade this product was a real innovation in the Islamic finance industry. The linkage to commodities is a natural one, given the requirement under Shariah law for investments to be linked to a tangible asset.

Norton Rose has also been leading the way in the development of structured Shariah compliant wealth and asset management products. There has historically been a shortage of such instruments because of the difficulties in ensuring that they are sufficiently linked to the underlying asset class.

We recently advised Citigroup on the creation of a suite of Shariah compliant hedging products. Established Shariah

continued...

Investing in Islamic Structured Products *(continued...)*

techniques have been utilized and rearranged in a novel security-based structure that enables the client to offer a comprehensive range of hedging instruments. In particular, fixed to floating; floating to fixed and currency swap transactions can all now be offered. The product has been utilized in a number of transactions for clients in Middle East jurisdictions. Several institutions have been trying to solve the hedging problems in Islamic finance over the last three years or so and of course, the IIFM/ISDA initiative continues.

In the meantime, we have worked with clients to devise several different hedging solutions. The structures utilized in the development of the suite of products for Citigroup have been innovative.

As mentioned in the first paragraph, Islamic structured products can be financial instruments in which an underlying structure is created to facilitate the required cash flows and deliveries. Shariah compliant swap transactions are a good example of such a financial instrument in practice. While conventional swap transactions may be used to hedge certain risks or to speculate on changes in a market, Shariah compliant swaps are only used to effect prudential risk mitigation.

The manner in which a transaction is structured depends on the cash flows and deliveries required by counterparties. In any event, the stream of cash flows involved in Shariah compliant swaps will be created through the use of fully funded transactions (unlike conventional transactions, which often calculate cash flows using notional principal amounts). For example, where a fixed profit leg is being exchanged for a floating profit leg, the underlying transactions may involve a term Murabahah to create the cash flows under the fixed profit leg and a revolving series of Murabahah to create the cash flows under the floating profit leg. To reduce counterparty payment risk, installment payouts under the fixed profit leg of the swap are set off against the maturity payments of each revolving Murabahah under the floating profit leg of the swap.

Market participants are trying to develop a common approach to the structure and documentation of such transactions. In the current market, the exact manner in which such transactions are structured and documented varies considerably, depending on the precise commercial terms involved and the way in which an institution reduces counterparty credit risk.

Uncertainty (gharar) is a vitiating factor in Islamic contracts. Any products that provide greater certainty by removing the peril of gharar for the transacting parties are therefore desirable under Shariah. There is a growing view that transactions and products that have the effect of prudential risk mitigation are acceptable, as opposed to transactions entered into for purely speculative reasons. The work of several Islamic economists supports this contention. The range of this type of product has expanded recently, and there appears to be a willingness to explore areas that have not necessarily been universally accepted.

Arbun (downpayment) is an example of a product that is not generally accepted by all of the four main schools of Islamic jurisprudence but which has nonetheless been deployed. Arbun provides clients with structured, documented products

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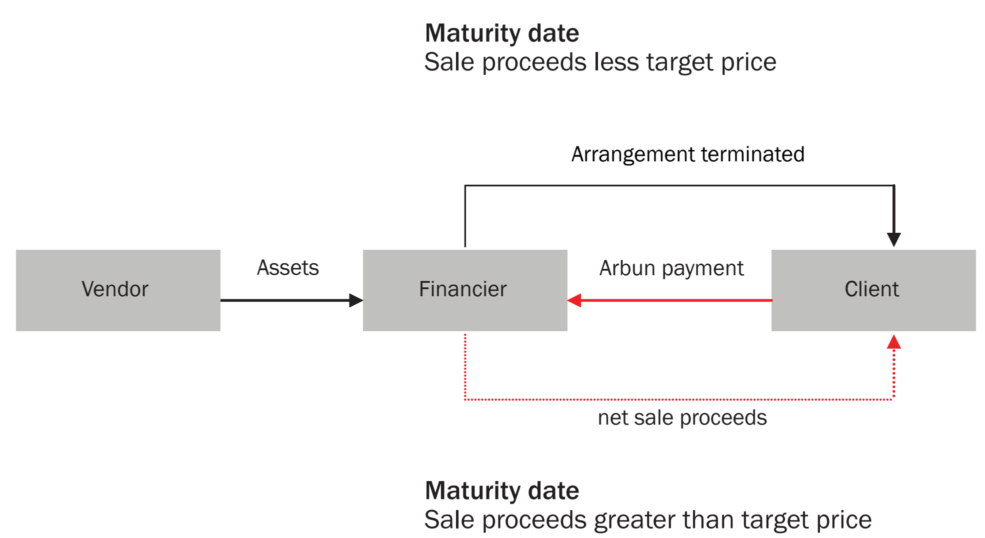
Arbun (downpayment) hedging product



Investing in Islamic Structured Products *(continued...)*

that hedge against future price fluctuations in commodities and equities. Under an Arbun arrangement, the following happens:

1. The client contracts to buy assets from a financier for an agreed price (the target price) for delivery on an agreed date;
2. The client makes a partial payment (for example, 10%) of the purchase price immediately by way of deposit;
3. The client is entitled not to complete the purchase of the assets, but if he decides not to do so, he forfeits the deposit;
4. If, on the maturity date, the target price is higher than the market price, the assets are purchased by the client and resold by the financier as agent of the client. The sale proceeds are distributed to the client net of the outstanding purchase price; and
5. If, on the maturity date, the target price is lower than the market price, the contract can be terminated and the client forfeits the deposit (in all probability having acquired the assets elsewhere for a lesser sum).

"Islamic structured products can be an attractive addition to a client's portfolio and for the time being, there is the flexibility to tailor an investment structure to meet the specific financial objectives of the investor"

Exchange-traded funds (ETFs)

Norton Rose has also acted for Barclays Global Investors, which launched three Shariah compliant ETFs on the London Stock Exchange in December 2007 as sub-funds of the European Exchange Traded Fund Company plc (the fund). The three products — iShares MSCI World Islamic, iShares MSCI Emerging Markets Islamic and iShares MSCI USA Islamic — provide exposure to emerging and international markets and US shares.

Each product aims to provide investors with a total return, taking into account both capital and income returns, which reflects the return of the MSCI World Islamic Index, MSCI Emerging Markets Islamic Index or the MSCI USA Islamic index (the indices).

In order to achieve the investment objective, the fund will invest, in a manner consistent with Shariah, in a portfolio of securities that consists of the component securities of the indices. The Shariah panel appointed is responsible for ensuring that the operation of the sub-funds is in compliance with Shariah. The investments of the fund will be listed or traded on regulated markets.

The securities included in the sub-funds are deemed to be compliant with Shariah by a board appointed by MSCI, which will review them on a quarterly basis to contemplate changes as a result of market changes or other events (e.g. delisting, bankruptcy or corporate actions). The portfolios will focus more on basic materials and technology and will avoid alcohol, media and armaments etc.

The fund will undertake the required changes to its investments in line with the Benchmark Index. The ETFs will be distributed through brokers and private client banks globally with particular growth expected in the Middle East and Asia-Pacific.

Conclusion

Islamic structured products can be an attractive addition to a client's portfolio and for the time being, there is the flexibility to tailor an investment structure to meet the specific financial objectives of the investor. Interest in these products has been growing exponentially in recent years, possibly because they offer several benefits. These generally include tax-efficient access to fully taxable investments, favorable returns and reduced risk.

However, Islamic structured products continue to be a topic of discussion and speculation among Islamic investors, scholars and practitioners. Market developments such as the ongoing crisis in the conventional credit markets have encouraged those involved to show more interest in the development of innovative and alternative financial products that will give investors a good return while managing risk.

There is no doubt that there will be some disagreement as to the level of compliance of some of the structures with Islamic principles, but the reality is that most stakeholders in the industry realise that in order for the industry to develop, structures will need to be devised and improved upon as the scope of Islamic jurisprudence (fiqh al muamalat) is applied to a wider range of investment products.

NORTON ROSE

Neil D Miller is partner and global head of Islamic finance, Dean Naumowicz is partner, derivatives and structured products while Aziza Atta is an associate with the Islamic finance group at Norton Rose. References are available on request from the writers.

Islamic Finance — The Offshore Connection

By Tahir Jawed

As Islamic finance has grown over recent years into a substantial financial industry in itself, some of the unexpected beneficiaries have been the offshore centers dotted around the world. Often the home of hedge funds, securitizations and holding companies, offshore financial centers such as the Cayman Islands and Jersey now provide a convenient domicile for popular Islamic finance structures.

Prior to the boom, most Middle East and Asian jurisdictions already had strong links with certain offshore centers; for example, Malaysia favored Labuan while the GCC preferred Bahrain and certain Caribbean centers. Historically, the offshore centers were used to organize investments and structure personal wealth. When practitioners, particularly lawyers, were presented with the challenges of structuring Shariah compliant transactions, most were already familiar with the uses of the offshore jurisdictions and utilized the efficiency of these centers to structure the new wave of Islamic finance products.

In return, the offshore centers have kept a keen eye on the Islamic finance market and have been quick to market their value in structuring complex financial structures, removing many of the concerns regarding tax, regulation and cost when compared to using onshore structures.

Sukuk transactions

Sukuk are typically structured as trust instruments under English law. A company or "issuer" will issue Sukuk, or trust certificates, and invest the proceeds in assets. The issuer of the Sukuk will then hold the assets on trust for the benefit of the Sukuk holders, using the income from the assets to make payments to the Sukuk holders.

The wider Sukuk structure can be more complex with a few more players involved. Typically, the entity looking to raise funds, often referred to as the "obligor", will establish a company to act as issuer of the Sukuk. The obligor will then, for example, either sell or lease its assets to the issuer, which will purchase the assets or lease them using the proceeds from the issue of the Sukuk.

The issuer will then make periodic payments back to the Sukuk holders from proceeds generated by the assets, often by leasing them back to the obligor. At the end of the transaction, the issuer will sell the assets back to the obligor and use the proceeds to redeem the Sukuk. There are several variations to this structure, with the issuer leasing, buying or entering into a joint venture to buy and manage the assets from the obligor but the cashflows generally follow the same pattern.

Those in the offshore industry will consider this structure similar to a securitization structure. All of the benefits that attracted the securitization industry to establish bond issuers in offshore jurisdictions would apply to the Sukuk issuer also.

The Cayman Islands, in particular, were quick to market their services for Sukuk structures as a domicile for the issuer with

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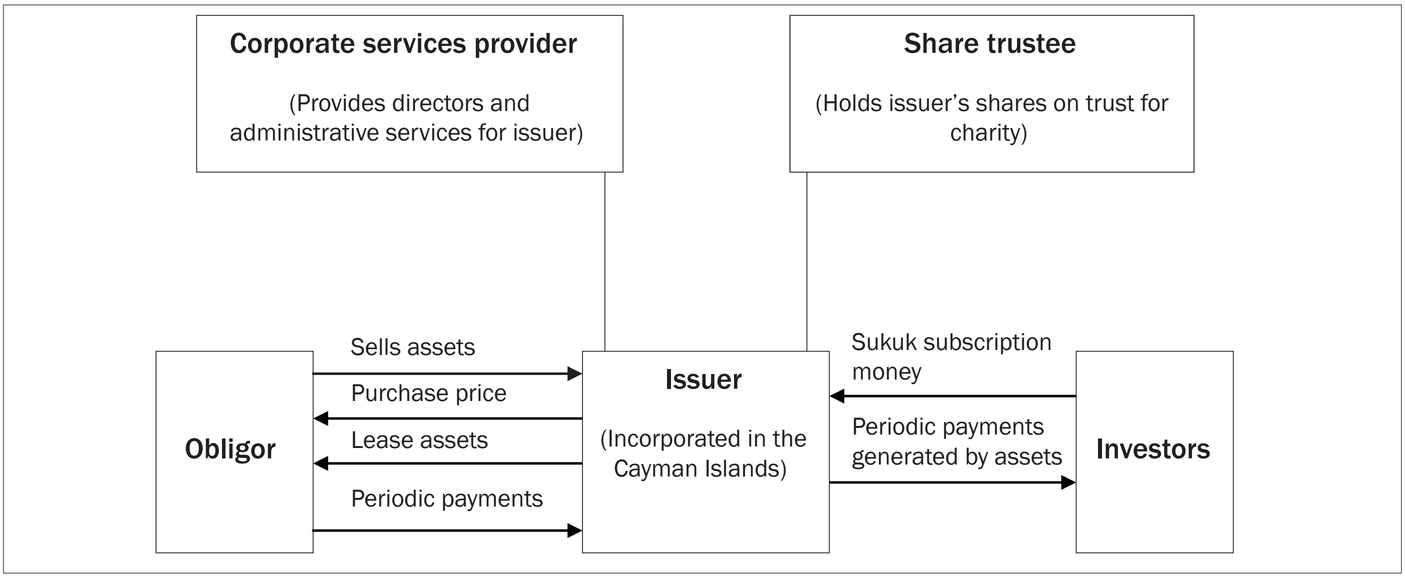

Islamic Finance — The Offshore Connection *(continued...)*

considerable success. Initially, the opportunity was simply for the Cayman Islands law firms to establish a Cayman Islands company to act as issuer (sometimes referred to as a special purpose vehicle, or SPV). The issuer would typically be a subsidiary of the obligor managed by the obligor.

However, this is now seen as too synthetic as effectively the obligor was selling assets to itself (or at least a wholly owned subsidiary). Most Shariah scholars now require some distance between the obligor and the issuer. This again created a great opportunity for offshore service providers to establish and manage the Sukuk issuers for the duration of a Sukuk transaction.

The typical structure of an offshore Sukuk issuer is a limited liability company, with its shares held by a trust company on trust for charitable purposes. This is an offshore invention to avoid any difficulty from potential beneficiaries as the trust will not specify which charity is to benefit until the end of the transaction to avoid interference from the charities.

A corporate services provider (usually the same trust company) will then provide the company with a registered office and directors to maintain the company, obviously for a fee.

The services from the corporate services provider may also extend to preparing accounts, arranging audit or provision of a secretary. The result is a legal entity that is completely independent of the obligor and able to deal with the obligor at arm's length.

Funds

The other growth area for offshore jurisdictions resulting from the increase in Islamic finance has been the Shariah compliant fund. The offshore centers, especially the Cayman Islands, have long been the favored domicile for investments funds. It is estimated that 70% of the world's hedge funds are domiciled in the Cayman Islands. Again, it is the certainty and efficiency these jurisdictions can provide that attract funds to be domiciled there. The same benefits apply to Shariah compliant funds.

Funds have developed into a major industry for the offshore jurisdictions, from lawyers forming the funds to fund administrators to administer the funds, custodians to hold assets and accountants to prepare accounts and audit funds.

Although not all of these services have to be provided offshore, the "one-stop shop" offered by any law firm and service provider is often favored by asset managers who are keen to get their fund up and running as quickly as possible.

Shariah compliant funds have presented some challenges for traditional fund structures but these have now generally been resolved. Shariah compliant private equity funds are typically structured as partnerships, giving investors flexibility with investments and a Shariah board often acts as an adviser to approve investments as Shariah compliant. These structures are easily accommodated within the existing fund structures available in offshore jurisdictions which have provided a fast and efficient home for Shariah compliant funds.

"The offshore centers, especially the Cayman Islands, have long been the favored domicile for investments funds. It is estimated that 70% of the world's hedge funds are domiciled in the Cayman Islands."

Conclusion

The offshore industry was quick to recognize the opportunities presented by Islamic finance and has been quick to capitalize on them.

The Cayman Islands in particular was established as the jurisdiction of choice for Sukuk issuers and private equity funds. It recently introduced legislation allowing companies to register with Arabic names as an indication of its acceptance of Islamic finance and transactions from the Middle East.

Offshore law firms and service providers have also opened offices in the Middle East for the first time as an indication of their commitment to the region and Islamic finance. The potential for Islamic finance is well documented, but it would seem that the opportunities for the offshore centers are just as good.

MAPLES

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Profit Rate Swap — Breaking New Frontiers

By Kareem Hussaini, CFA

In Islamic finance, derivative instruments have long been frowned upon. Nevertheless, over the past few years, new derivative structures approved by Shariah scholars have come onto the market. One such instrument that is in demand is the profit rate swap. The recently introduced product may well see the fastest growth, reflecting on the success of its conventional sibling in terms of market share, the interest rate swap.

The Islamic Bank of Asia has developed a novel Shariah compliant structure that is more efficient and easier to manage. In this article, we examine the new structure and the benefits it offers over the current existing structure. We begin with an analysis of the global swap market, followed by a discussion of the Shariah compliant structures used to create this instrument, and an evaluation of risk and pricing considerations.

Structure of global swap markets

The global swap market is made up of market makers that are predominantly commercial banks and investment banking firms. They make the markets in swaps, quoting bid-and-offer rates, thereby offering to take either side of a swap transaction. The counterparties to swaps are generally end users or other banks. The end users are usually corporations with risk management problems that can be mitigated by engaging in a swap. Upon taking a position in an interest rate swap, the dealer generally offsets or lays off the risk by making transactions in other markets or engaging in an opposite transaction with another party; that transaction could be a simple futures contract or an over-the-counter transaction with another dealer.

In the Shariah compliant financial world, this is not as simple; to manage risk, the available transactions are limited. The Shariah compliant derivative world is at a relatively early stage and requires special documentation and counterparty arrangements, so only a handful of dealers can actually make a market in Shariah compliant profit rate swaps. Neither the range of solutions nor the depth of liquidity of the market has come close to the "conventional" market.

Structural analytics

Profit rate swap is a risk management instrument that promises to deliver the same risk management profile as an interest rate swap, but in a Shariah compliant manner.

Let us start with a simple analysis of an interest rate swap and then compare it with a Shariah compliant profit rate swap structure.

In an interest rate swap, two parties agree to exchange periodic interest payments. The dollar amount of the interest payments exchanged is based on some predetermined dollar principal, which is called the notional principal or the notional amount. The dollar amount each counterparty pays to the other is the agreed-upon "periodic interest rate" multiplied by the notional principal.

The dollars exchanged between the parties are interest payments and not notional principal. In the most common type of swap, one party agrees to pay the other party fixed interest payments at designated dates for the life of the contract. This party is referred to as the fixed-rate payer. The fixed rate that the fixed rate payer must make is called the swap rate. The other party, which agrees to make the interest rate payments that float with some reference rate is referred to as the fixed rate receiver.

The reference rates that have been used for the floating rate in an interest rate swap are those on various money market instruments: treasury bills, the London interbank offered rate (LIBOR), commercial paper, bankers' acceptances, certificates of deposit, the federal funds rate and the prime rate. The most common is the LIBOR.

Figure 1: Interest rate swap

Swap summary

Fixed rate payer:	Party X
Fixed rate receiver:	Party Y
Fixed rate:	6% (US$1.5 million)
Reference rate:	Libor
Swapping frequency:	Every six months
Swap tenor:	Five years
National principal:	US$50 million

To illustrate an interest rate swap, suppose that for the next five years, party X agrees to pay party Y 6% per year (the swap rate), while Y agrees to pay X six-month LIBOR (the reference rate). X is the fixed rate payer while Y is the fixed rate receiver. Assume that the notional principal is US$50 million and that payments are exchanged every six months for the next five years. This means that every six months, X (the fixed rate payer) will pay Y US$1.5 million. The amount that Y (the fixed rate receiver) will pay X will be six months' LIBOR on US$50 million.

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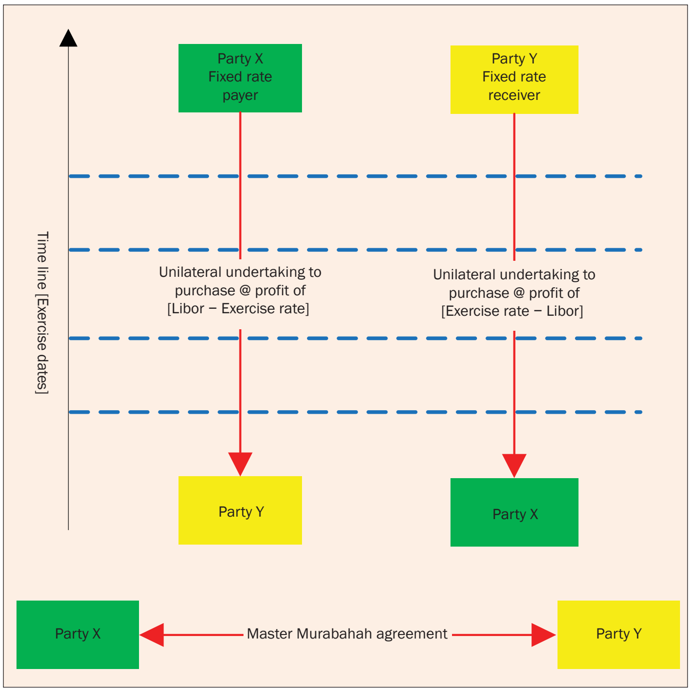
Profit Rate Swap — Breaking New Frontiers *(continued...)*

Now, in a profit rate swap, the same payoffs should be achieved as in the interest rate swap i.e. while constructing a profit rate swap, the ultimate objective to be achieved is to enable swapping of one set of dollar amount with another set of dollar amount with reference to some reference rate of return and predetermined principal.

The current popular Shariah compliant method commonly used to achieve this payoff is the execution of two opposite Murabahah contracts between X and Y. While one Murabahah transaction achieves the fixed rate payment element, the other achieves the floating rate element. However, the structure that is currently employed by majority of the market makers in the Islamic finance world is quite cumbersome and burdensome. We will see why as we proceed.

The Islamic Bank of Asia has developed a new and novel Shariah compliant structure to achieve a payoff similar to its conventional sibling, the interest rate swap but in a more efficient manner.

Figure 2.



- ***Shariah compliant structure***

In this Shariah compliant structure, X is the fixed rate payer and consequently, Y is the fixed rate receiver. Unilateral undertakings are issued by each counterparty to the other to effect swap positions.

Unilateral Undertaking A: X issues a unilateral undertaking to Y to purchase commodity X (Shariah compliant) from Y on spot Murabahah basis on certain specified dates (exercise dates) in the future. The profit rate at which such Murabahah will be entered into will be defined in the unilateral undertaking by reference to a formula and reference rate: *[Libor – Fixed Rate]*.

Unilateral Undertaking B: Y also issues a unilateral undertaking to X to purchase commodity Y (again Shariah compliant) from X on spot Murabahah basis on certain specified dates (exercise dates) in the future. As above, the profit rate at which the Murabahah under this undertaking will be executed will also be defined in the unilateral undertaking by reference to a formula and reference rate: *[Fixed Rate – Libor]*.

Figure 2, depicts the engagement of the Shariah compliant profit rate swap. The exercise dates are the agreed-upon dates between the two counterparties to exchange the dollar amounts. The two undertakings are independent of each other, implying that the functioning and execution of one is not dependent on the other.

To align the two undertakings and to achieve the desired payoff the terms and conditions of each undertaking will be exact mirror image of the other with respect to all the terms and conditions. Therefore, the exercise dates and the principal for executing the Murabahah trade will be the same for both the above transactions. However, the following parameters will be different:

- The commodities: each undertaking will be for a different commodity; and
- The profit margin formulae: these are different but opposite.

The undertakings will be supported by a Master Murabahah Agreement which will define the terms and conditions of the Murabahah transactions to be executed under the undertakings.

- ***Execution***

Let's fast forward to an exercise date. Once the swap is engaged and market conditions change, the market value becomes positive for one party and negative for the other. This is due to the way the formulae for the Murabahah profit calculations are constructed under each undertaking. Because the formulae calculating the profits are structured in opposite directions, at any given point in time, only one of the undertakings will be 'in the money' while the other will be "out of money". This is an important point to note. While the undertakings are independent and on any given exercise date, both undertakings can be exercised, it is the formulae that ensure that only one undertaking is worth exercising.

Let us assume that the reference rate, i.e. 'Libor' on an exercise date is 5%. The fixed rate remains the same at 6%. With these

continued...

Profit Rate Swap — Breaking New Frontiers *(continued...)*

assumptions in place, only one undertaking should be in the money. In our example, the Murabahah to be executed under Undertaking A will have a profit rate of Libor – Fixed Rate: 5%–6% = -1%. Undertaking A is "out of money". Consequently, the Murabahah to be executed under undertaking B will be "in the money" having a profit rate of 1% (6% – 5%).

Figure 3 below depicts the execution of the Murabahah trade resulting from undertaking B being in the money on the exercise date.

Figure 3.

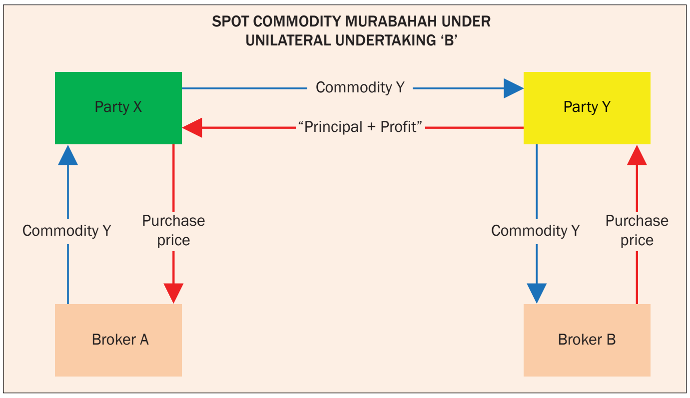


Table 1 below calculates the dollar netting and pay off received by X and paid by Y.

Table 1: **Position of the two counterparties on exercise date**			
Party X	*Cash flow (US$ mil)*		*Profit = [Fixed Rate – Libor] = 6%-5% = 1%*
	Inflow	Outflow	
Buy commodity Y from broker		-50	
Sell commodity Y to Y	50+0.50		
Net Position	50+0.50	-50	**= 0.50**
Party Y			
Buy commodity Y from X		-(50+0.50)	
Sell commodity Y to broker	50		
Net position	50	-(50+0.50)	**= -0.50**

Therefore, in this structure, we achieve the desired result of swapping one set of dollar amount with another set of dollar amount with reference to some reference rate of return and predetermined principal. Further, it has also achieved the netting of payments. We will later see how this netting process mitigates credit risk.

Critical analysis of the new structure

Both the interest rate swap and the Shariah compliant profit rate swap are representative of a plain vanilla swap. Plain vanilla swap is probably the most common derivative transaction in the global financial system.

Table 2 gives a comparative of interest rate swap against other derivative instruments on notional amounts outstanding, gross market values. A plain vanilla swap is simply the swap in which one party pays a fixed rate and the other pays a floating rate, with both payments in the same currency and both sets of payments are on the same notional amount.

In the regular conventional interest rate swap, because we are paying in the same currency, there is no need to exchange notional principal at the beginning and end of an interest rate swap. In addition, the interest payments can be — and nearly always are — netted, which greatly reduces the credit risk.

The new profit rate swap structure (developed by The Islamic Bank of Asia) achieves just this. It is one of the strongest points of this structure. The formulae are constructed in a manner that ensures netting of amounts. Therefore, any amount owed by one party to the other is only after the netting; this greatly reduces the credit risk faced by the counterparties. This is also a reason the structure is superior to the two-parallel Murabahah profit rate swap structure commonly used in the market. In that structure, profit payments under the two opposite and parallel Murabahah trades has to be made, thus exposing each party to the credit and settlement risk of the other party.

Another advantage the new profit rate swap structure has over the two-parallel Murabahah profit rate swap structure is the ease in engaging in the swap, the efficient monitoring and management of the swap. Engaging in the swap requires only the issuance of a unilateral undertaking by each counterparty at the inception of the swap. Thereafter, only the reference rate needs to be monitored.

Depending on a reference rate on an exercise date, only one Murabahah contract needs to be executed on spot basis. This cuts the monitoring and execution work by half, compared to the two-parallel Murabahah profit rate swap structure. The new structure is also cost-efficient because the brokerage cost is incurred only on the execution of one Murabahah trade rather than on two trades under the two-parallel Murabahah profit rate swap structure. Moreover, if the reference rate and the

continued...

Profit Rate Swap — Breaking New Frontiers *(continued...)*

Table 2: OTC Derivatives comparison — Notional amounts outstanding and gross market value US$ bil

	June-04	Dec-04	June-05	Dec-05	June-06	Dec-06	June-07
Interest rate swaps							
Notional amount outstanding	127,570	150,631	163,749	169,106	207,042	229,241	271,853
Gross market value	3,562	4,903	6,077	4,778	4,831	4,157	5,315
Currency swaps							
Notional amount outstanding	7,033	8,223	8,236	8,504	9,669	10,767	12,291
Gross Market Value	442	745	549	453	533	599	617
Equity Linked Swaps							
Notional Amount Outstanding	691	756	1,086	1,177	1,430	1,767	2,599
Gross Market Value	63	76	88	112	147	166	240
FX Options							
Notional Amount Outstanding	6,038	6,115	7,045	6,987	9,027	9,602	11,804
Gross Market Value	116	158	129	138	166	196	235
Interest Rate Options							
Notional Amount Outstanding	23,912	27,082	27,072	28,596	36,800	43,206	52,275
Gross Market Value	360	492	592	597	579	631	700
Equity Linked Options							
Notional Amount Outstanding	3,829	3,629	3,464	4,617	5,351	5,720	6,603
Gross Market Value	231	422	294	470	523	686	876

Source: Bank for International Settlements

swap rate are the same on an exercise date, no Murabahah contract needs to be executed at all.

Some issues

Certain issues need to be resolved in a profit rate swap irrespective of the structure. The first is the valuation and sale issue. Let us return to an interest rate swap and contrast it with profit rate swap to analyze the issue.

The value of an interest rate swap will fluctuate with market interest rates. To see how, let's return to our example. Suppose that interest rates change immediately after X and Y enter into the swap. Assume the current market demanded that in any five-year swap, the fixed rate payer must pay 7% in order to receive six months' LIBOR. If X (the fixed rate payer) wants to sell its position to A, then A will benefit by having to pay only 6% (the original swap rate agree upon) rather than 7% (the current swap rate) to receive 6 month LIBOR. X will want compensation for this benefit. Therefore, X has gained a value on its position in the swap arrangement.

In a Shariah compliant profit rate swap, the issue arises on saleability. While an interest rate swap can be easily valued and sold to another interested party as described above, a profit rate swap cannot be sold because of the inherent philosophy underlying Shariah. Under Shariah, a debt cannot be sold except at par value. Furthermore, future sale transactions cannot be bought and sold before the commencement and consumption of such transactions. This is an issue that product developers of the Islamic finance world are trying hard to resolve.

Unlike in an interest rate swap, where all future exchanges of interest payments are already the obligations/rights of either counterparty and therefore can be valued using valuation models, under a PRS, no recognition can be given to the expected future Murabahah transactions and, therefore, valuation cannot be performed. This means X or Y can only transfer its future obligations under the PRS to another interested party without any compensation or recognition to the changes in the market rates of return or interest rates.

Documentation: Standardizing documentation still remains an issue for the profit rate swap market. Unlike an interest rate swap whose documentation has been developed over many years and has now reached a stage of standardization, the documentation representing Shariah compliant derivative instruments (including the profit rate swap) has a long way to go and currently is solely dependent on proprietary networks and negotiations of the dealers.

Credit risk and swaps

We now analyze the credit risk dynamics in a profit rate or interest rate swap. We then examine the swap rate and what it represents.

continued...

Profit Rate Swap — Breaking New Frontiers *(continued...)*

Once the swap is engaged and market conditions change, the market value becomes positive for one party and negative for the other. The party holding the positive value thus assumes credit risk. The counterparty could declare bankruptcy, leaving the party holding the positive value swap with a claim that is subject to the legal process of bankruptcy.

In most swap arrangements, netting is legally recognized, so the claim has a value based on the net amount. This credit mitigation feature is achieved by the new profit rate swap structure developed by The Islamic Bank of Asia, which is in contrast to the higher credit risk inherent in the 2 parallel Murabahah profit rate swap structure. This is a significant milestone in the product development of Shariah compliant profit rate swap.

However, as we move into the life of the swap, the market value to a given party can change from positive to negative or vice-versa. Hence the party not facing the credit risk at a given moment is not entirely free of risk because the swap value could turn positive for it later.

Further, the credit risk in a swap varies during its life. A profit rate swap or an interest rate swap has no final principal payments. The credit risk is therefore greater in the middle of the life of a swap. This occurs because near the end of the life of the swap, not many payments remain, so there is not much money at risk, and at the beginning of the life of the swap, the credit risk is usually low because the parties would probably not engage in the swap if a great deal of credit risk were already present at the start.

Swap rate and credit quality — Incongruent

The parties that engage in swaps are generally of good credit quality but the fear of default is still a significant concern. Yet surprisingly, the rate that all parties pay on swaps is the same, regardless of their credit quality. In a plain-vanilla swap, the fixed rate is determined by reference to the term structure for the underlying rate. Therefore, if a party wanted to engage in a swap to pay LIBOR and receive a fixed rate, it would get the fixed rate based on the LIBOR term structure, regardless of its credit quality or that of the counterparty.

Implicit in the fixed rate is the spread between LIBOR and the default free rate. Swap rates are quoted in the market with respect to a spread over the equivalent default free rate. This differential is called the 'swap spread'. That the swap spread is not a measure of credit risk on a given swap but rather a reflection of the general level of credit risk in the global economy. Whenever a recession approaches or credit concerns arise, this spread widens. This can be seen in the screen shot below obtained from Bloomberg service. With the sub-prime crises affecting globally, the swap spread spiked during the month of July 2007.

Conclusion — Value Proposition

The premise and promise of a profit rate swap is to be the Shariah compliant sibling of the interest rate swap. It is then a derivative instrument and its value can be ascertained by using the same math and statistical models that are used to value an interest rate swap. Certain structural issues still remain and continue to test the minds of product developers. Islamic finance has broken, and will continue to break, new frontiers.

THE ISLAMIC BANK OF ASIA
البنك الإسلامي الآسيوي

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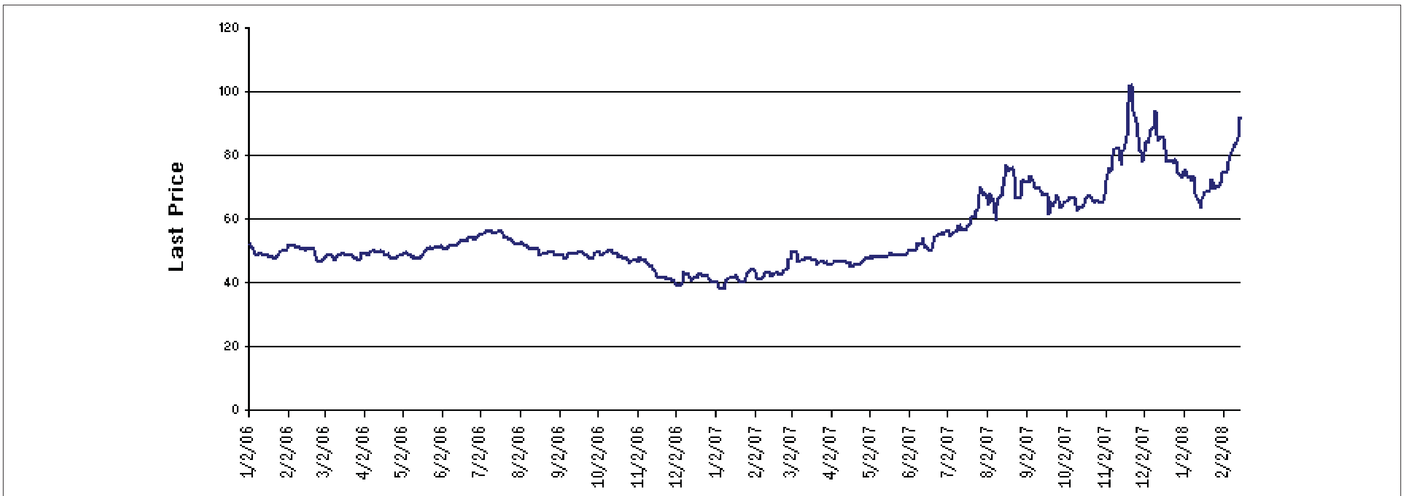
5 year semi annual US$ swap spread

Source: Bloomberg



Macro Trends in Equipment Leasing

By James A Cracco

In 2006, the worldwide equipment leasing market grew to a robust US$634 million. In fact, year in and year out, leasing is responsible for one-fifth of the world's total expenditures on capital equipment. With an average annual growth rate of 8.4% per year over the last five years, equipment leasing continues to look forward to a bright future.

That said, equipment leasing today looks very different from what it was five years ago and, like any other capital formation product, continues to adjust to ever-changing market conditions. While the core of equipment leasing continues to be the finance lease (Ijarah wa iqtina) and operating lease (Ijarah), the forces that shape those products are always on the move.

A look at some of those trends may give us some insight into the worldwide equipment leasing market as well as the direction it may take.

Growth of Islamic leasing

Unfortunately, there are not any reliable consolidated statistics on Shariah compliant equipment leasing. We do, however, have the numbers on the annual value of equipment leasing for the top 50 markets in the world. In 2003, the total equipment leasing transactions for Islamic countries stood at US$2.9 billion. Four years later, five Islamic countries appeared on the list of top 50 markets (Turkey, Morocco, Kazakhstan, Saudi Arabia and Egypt) while the dollar value rose to US$7.4 billion — a growth rate of 26% per year.

While the absolute numbers are smaller, the equipment leasing growth rate of the Islamic world is consistent with — and in fact, outpaces — the growth rates of 15% to 20% for the general Islamic finance market. Perhaps just as telling is the number of companies and banks being set up, at least in the Middle East and North Africa, that mention "leasing" as a projected offering.

The Islamic countries are clearly making progress at overcoming some of the structural problems inherent in launching a viable equipment leasing industry. Among these hurdles are:

- Lack of lessee awareness
- Lack of trained personnel
- Lack of credit information and/or reluctance to share credit information
- Lack of equipment expertise across a broad spectrum of assets
- Willingness to serve the small and medium-sized enterprises (SME) marketplace
- Conducive regulatory and legal environments

While the above can be a daunting list, many marketplaces in the region are well on their way to developing a vibrant equipment leasing industry; most others recognize that there is now an alternative capital formation tool that offers significant advantages to spending one's own cash or using traditional bank debt.

Regulatory environment becoming more burdensome

While it is dangerous to make the sweeping generalization that all lessors in all countries are becoming more regulated, it is certainly difficult to find someone who is an exception to the rule. One need only look at the money and time that many organizations are investing in to comply with Basel II. Beyond international standards, there is the large body of country-specific leasing regulation and/or legislation. Of course, there are the age-old complaints and allegations that a specific body of regulations is "inappropriate", "rigid", "ambiguous" or even "inadequate".

As one looks around the world, there are several regulatory philosophies and models. There is no doubt that the most dynamic and innovative leasing industries have matured in those countries where the regulators have differentiated between:

(a) those entities who, directly or indirectly, fund their leasing operations with deposit accounts, public money, or so-called "unsophisticated investor" money; and
(b) those organizations who use private "sophisticated investor" money.

In other words, if the regulatory philosophy is one that protects unsophisticated investor funds but allows — even encourages — independent leasing companies and manufacturers' captive leasing operations (sophisticated investor funds) to operate in a relatively unfettered environment, then that country stands to gain a powerful engine for economic and capital development.

The leasing industry in the Czech Republic, for example, has witnessed remarkable growth over the past 15 years. Today, the republic is the 25th-largest market in the world at nearly US$5 billion in transaction value. The Czech Republic is also the home of a strong independent equipment leasing industry which is not heavily regulated.

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Macro Trends in Equipment Leasing *(continued...)*

Lessors, on their part, need to conduct their business in a manner so as not to attract the regulators' attention. Some observers are increasingly concerned with the growing tendency in many markets for leasing companies to mix consumer leasing (typically automobiles) and equipment leasing.

Consumer leasing and business-to-business leasing are two different markets that merit different levels and methods of disclosure. The regulatory environment for consumer leasing needs to obviously be more stringent. The danger that lessors run by mixing the two is that regulations growing (probably justifiably) out of a consumer movement or backlash are applied indiscriminately to both marketplaces, thus making equipment leasing slower and more expensive.

The tendency is generally to regulate more, rather than less. Even within that context, both regulators and lessors can serve their constituencies well by differentiating among the various sectors of the leasing marketplace and regulating/ acting accordingly.

Growing role for operating leases

As lessees become more sophisticated from both a leasing and asset utilization point of view, they will continue to look for products that are more sophisticated than the simple finance lease/installment sale. The more mature leasing markets naturally have a greater propensity toward full-service leases, facility management lease contracts (typically offered by manufacturers), capped or collared purchase options, and operating leases. Full-service leases bundle other services such as maintenance, insurance or disposable supplies with the equipment into a single payment lease.

The operating lease is a well-developed product that is easily understood. The lessor, of course, depends on residual realization at the end of the term of the lease to achieve his profit requirements. The lessee receives a much lower rental payment by only paying for a specific number of years' use and, at the same time, achieves "off balance sheet treatment," i.e., the subject asset of the lease does not appear on the lessee's balance sheet and is not depreciated.

Little wonder that a lessee might find a four-year corporate jet lease attractive when the operating lease monthly payment is 20% of what the payment would be in a finance lease/ installment sale. The underlying rational of the operating lease is that the lessee will return the asset at the end of the lease. However, operating leases are often structured with a lease renewal or purchase option, generally at fair market value. That said, operating leases are often complemented by a variety of end-of-term options including risk sharing on disposal of the asset and remarketing agreements.

Just as "lessee willingness" is important in the operating lease equation, "lessor expertise" is equally important. The evidence is clear that the most effective operating lease lessors are usually independent leasing companies and vendor leasing companies. Traditional banks typically are not the best source of operating leases simply because they do not invest the product research resources, and therefore do not develop the risk tolerance to assume aggressive residual positions.

The US leasing market offers an interesting look into the correlation between traditional bank leasing and operating leases. The US represents about one-third of the worldwide equipment leasing market (US$220 billion) and, while not a template for the rest of the global market, it does not seem accidental that over the past five years, US operating leases declined while traditional banks doubled their market share from 25% to 50%. Several observers believe that the trend is beginning to reverse and that operating leases will increase now that traditional banks appear to be in a cycle of withdrawing from the equipment leasing market.

Whatever the status of the mature leasing markets, the new or developing leasing markets are really in the early stages of creating and utilizing the benefits of the operating lease. The users of assets as diverse as construction equipment, corporate jets and office furniture are learning what the operators of commercial airplanes and ships have known for some time: It is not important who owns the asset; it is who uses the asset that counts.

Conclusion

The above is certainly not an exhaustive list of the major trends currently having an impact on the equipment leasing industry. Many pages could be written on the topic of the impact of probable accounting changes alone. Other trends include the changing (or the need to change) the laws in many jurisdictions in order to better protect lessor rights and accelerate the asset recovery process. There is also, for example, the intriguing questions comparing "traditional" leasing with Shariah compliant leasing: Is the purest form of Ijarah and the full-service lease the very same instrument — will both markets end up in the same place?

These various trends represent change and, in some cases, challenges. More importantly, they are evidence of a healthy equipment leasing industry moving forward that increasingly works to the mutual benefit of both lessor and lessee.

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Challenges of Regulating Shariah Compliant Securities and Investments: The GCC Example

By Andrew Henderson

The Middle East is not immune to financial services and securities market regulation. In some GCC countries, regulators have developed special regimes for regulating Islamic financial services providers; in others, even where Shariah is recognized as a body of law separate from general law, those institutions offering Shariah compliant securities and investments will be subject only to a general regulatory regime.

In considering the regulation of securities and investments, the somewhat broad distinction can be drawn between primary market activity — the offering of securities for the first time — and secondary market activity — the trading of securities and investments.

Primary and secondary

In the context of primary market activity, regulators have two primary concerns: regulation of the person offering and trading in securities, and regulation of the offering and sale process.

Regulators generally address the first concern by imposing licensing requirements on offerors, certain types of offerees and their agents and advisers — such as investment bankers, broker-dealers and fund managers; they address the second by imposing registration and/or disclosure requirements for the documents governing the offer and sale.

In the context of secondary market activity, regulators are also concerned with industry participants — such as broker-dealers, fund managers and investment advisers — and the manner in which these participants carry on and safeguard their businesses; regulators address the first concern by imposing licensing requirements; they address the second by imposing conduct of business and prudential requirements.

In both cases, underpinning the various requirements are the interests that regulators have in safeguarding the integrity of the securities markets and financial systems, generally, and in protecting investors.

Islamic financial services providers in the Middle East — and, indeed, elsewhere — have not been immune to the regulatory requirements. In the area of primary market activity, those marketing, arranging, advising on and dealing in Islamic securities such as Sukuk have found themselves subject both to licensing requirements and the requirements governing the offering process.

In the area of secondary market activity, those originating and offering Islamic investment products (such as Mudarabah) and managing or advising on Islamic compliant investments (such as Shariah compliant mutual funds) have found themselves subject to licensing, conduct of business and prudential requirements.

Regulation under general regulatory regimes

Many parts of the GCC have undergone recent regulatory changes — most notably, Saudi Arabia, the UAE and Bahrain — and seen the creation of new regulatory regimes — the Dubai International Financial Center (DIFC) and Qatar Financial Center (QFC). Others — most notably, the UAE and Qatar — are looking at significant regulatory reform. Some jurisdictions, discussed later, have adopted special regimes for governing Islamic financial services providers.

The majority, however, regulate those firms offering Islamic financial services in much the same way as those offering conventional (i.e. non-Islamic) financial services; when it comes to how the Islamic securities are offered, the rules governing the process for such offerings, even in those jurisdictions with special licensing regimes, are in effect the same. (For example, the rules governing the listing of Islamic bonds issued by the Securities and Commodities Authority of the UAE are near identical to those governing the listing of conventional bonds, save for use of the word "profit" instead of "interest").

Therefore, a firm looking to carry on a business in Shariah compliant securities and investments in a GCC country will, as a matter of law, require a license or authorization from that country's securities and investments regulator. Generally, the scope or type of business, both in respect to the particular activities the company wishes to conduct (e.g. broking and dealing, asset management) and the securities or investments it seeks to offer (e.g. equities, mutual funds, commodity derivatives), will determine the type of license or authorization for which the firm needs to apply.

For example, in Saudi Arabia, the Capital Market Authority (CMA) specifies five categories for which it may grant a license: dealing, arranging, managing, advising and custody.

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Challenges of Regulating Shariah Compliant Securities and Investments: The GCC Example *(continued...)*

It identifies the following securities and investments: shares (which include Sukuk), debt instruments, certificates, warrants, units in investment funds, options, futures, contracts for differences and rights in any of these. Therefore, a Saudi firm wanting to manage Shariah compliant investment funds would need to apply to carry on all of the activities but, subject to the investment strategy and composition of the fund, it would not need to apply to carry on the activities with respect to all the securities and investments identified by the CMA.

In principle, the type of license or authorization held by a firm will determine the scope and extent of the rules or regulations, with which it has to comply, and the levels of regulatory capital that the firm will need to hold. In general, regulators or other governmental authorities will impose rules and regulations governing subjects, such as the manner in which a regulated firm must organize and manage its business, market and sell its products, treat its clients and their investments.

Regulation under special Islamic finance regimes

Some of the newly created or recently reformed jurisdictions — the DIFC, Bahrain and the QFC — have adopted special regulatory regimes with similar provisions to govern or supplement the general regulatory regime.

Take the DIFC as an example: Islamic financial institutions (IFIs) are regulated under a special law — the Law Regulating Islamic Financial Business (LRIFB) — which essentially consists of rules set by the Dubai Financial Services Authority (DFSA). The LRIFB supplements the general laws in the DIFC governing the regulation of financial services and markets.

The LRIFB prohibits any firm from holding itself out as conducting "Islamic financial business" unless so authorized by the DFSA to carry on financial services activities and the authorized firm's license is endorsed to permit it to conduct Islamic finance business either as an "Islamic finance institution" or by operating an "Islamic window". The LRIFB defines Islamic financial business as the carrying on of one or more financial services in accordance with Shariah and an IFI as an authorized firm or authorized exchange whose entire business operations are conducted in accordance with Shariah. It states that an authorized firm or authorized exchange, other than an IFI, operates an Islamic window if it conducts Islamic financial business as part of its overall business operations.

The LRIFB sets out a single substantive requirement for the conduct of Islamic financial business: an authorized firm which has an endorsed license authorizing it to conduct Islamic financial business must appoint a Shariah board.

"The LRIFB defines Islamic financial business as the carrying on of one or more financial services in accordance with Shariah and an IFI as an authorized firm or authorized exchange whose entire business operations are conducted in accordance with Shariah"

The DFSA amplifies these requirements by setting out rules:

(a) governing the appointment of the Shariah board, including the requirement to have at least three members who are competent and independent of the firm's management;
(b) for demonstrating the process for appointing and retaining members of the Shariah board, including the process for considering the suitability of the board;
(c) governing the effectiveness of the Shariah board, including the requirement to ensure that the board is independent of, and not subject to, any conflict of interest with respect to the firm; and
(d) governing the manner in which the Shariah board operates, including the requirement for reviews in accordance with relevant AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) governance standards.

With respect to rules governing the effectiveness of the Shariah board, the following requirements on a DFSA authorized firm's employees are noteworthy:

(a) to provide such assistance as the board reasonably requires to discharge its duties;
(b) to give the board right of access at all reasonable times to relevant records and information;
(c) not to interfere with the board's ability to discharge its duties; and
(d) not to provide false or misleading information to the board.

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Challenges of Regulating Shariah Compliant Securities and Investments: The GCC Example *(continued...)*

In a similar way to the LRIFB, the rules set out a single requirement with respect to the marketing and promotion of Shariah compliant products or services: Before a firm communicates any marketing material to a person, it must ensure that, in addition to the information generally required by the DFSA for inclusion in any marketing material, the DFSA requires that the marketing material state which Shariah board has reviewed the products or services to which the material relates.

Form, not substance?

Where GCC regulators have chosen not to regulate those offering Shariah compliant securities and investments separately, they have avoided any suggestion that they would take it upon themselves to police Shariah compliance, i.e. determine whether a security or investment described by a firm as being Shariah compliant is indeed Shariah compliant.

"By requiring a firm to establish a Shariah board, the DFSA sets the basic requirements for how Shariah compliance is to be achieved rather than what is Shariah compliant"

However, even under specialist regimes, regulators have sought to avoid issues of substance. For example, as discussed above, in the DIFC the focus of the DFSA's regulation of Islamic finance is the process for determining Shariah compliance rather than the outcome of such a determination.

By requiring a firm to establish a Shariah board, the DFSA sets the basic requirements for how Shariah compliance is to be achieved rather than what is Shariah compliant. Similarly, with respect to the marketing and promotion disclosure requirement, the DFSA does not require a firm to state its opinion that a product or service is Shariah compliant (the firm may, of course, do so). The DFSA does, however, require the firm to state, as a matter of fact, the identity of the Shariah board that has reviewed the product or service.

This distinction is important: Under its rules, the DFSA's case that a firm had misrepresented a product or service as Shariah compliant would rest on the firm's failure to inform or misrepresentation to investors about the relevant Shariah board and, by necessary implication, the process for ensuring and assessing Shariah compliance — questions of fact; the case would not rest on an allegation that the product or service was not, in fact, Shariah compliant despite the firm holding the product or service out as being Shariah compliant — a question of opinion.

Again, the approach taken by the DFSA prevents it from having to make substantive determinations: Provided a firm has subjected a product or service to the scrutiny of its own Shariah board — or indeed any Shariah board which conforms with the DFSA's requirements — and disclosed that board's credentials to investors, the firm's behavior should not run foul of the DFSA's Islamic finance regime.

It remains to be seen whether the approach in the GCC to the regulation of those offering Shariah compliant securities and investments, with its focus on form (not substance) and systems (not outcomes), will remain. Such an approach helps satisfy the principle of proportionality, which holds that the means of regulating should be reasonably related to and be no greater than is necessary to achieve the purpose of regulation; this principle informs or ought to inform a sensible system of regulation.

Requiring firms to put themselves in the best possible position to decide whether a security or investment is Shariah compliant and requiring the same to disclose this process to investors is a reasonable means of achieving investor protection and maintaining confidence in the markets. Moreover, the alternative would involve a cost to regulators, likely to be borne by the industry in the form of increased licensing fees passed on to investors, as regulators were required to put in place the necessary legal framework for reviewing Shariah compliance and recruit and retain the necessary expertise to give effect to that framework.

Nevertheless, with the proliferation of Shariah compliant products comes the increased risk of harm to investors, which would be likely to demand a regulatory response. The hope is that an effective regulatory response to any wrongdoing in the context of a Shariah compliant security would be possible within the existing framework. However, if it is not, the pressure on regulators in the GCC and elsewhere to put in place a system of second-guessing Shariah scholars could be become difficult to resist.

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S&P Foresees Mounting Demand for Islamic Products

By Emmanuel Volland

Islamic finance will continue to expand beyond its historical boundaries in 2008, with the total value of Sukuk outstanding worldwide set to eclipse the US$100 billion barrier by mid-year.

The growth of Islamic finance continued to be impressive in 2007, making it one of the most dynamic sectors in international finance. This translated into strong activity for Standard & Poor's Ratings Services, with new Islamic banks and Sukuk being rated for the first time, including Albaraka Banking Group, one of the oldest players in this industry, and the US$1.5 billion Sukuk issued by Dubai-based port operator DP World Ltd, which was rated 'A+' in June 2007. Overall, S&P now rates more than 20 Sukuk accounting for a total of about US$13 billion in issuance.

> "A key challenge for the industry is to continue progress toward acceptance by the international financial community"

S&P believes the outlook for Islamic finance remains bright, with mounting demand around the world for Shariah compliant financial products and services fueling the industry's buoyant expansion. More and more customers are choosing to invest in a broader range of Islamic financial instruments available through long-established Islamic banks in the Gulf Cooperation Council (GCC) states and Muslim Asia, while increasing interest in Muslim and non-Muslim countries alike is contributing to the development of Islamic finance outside historical boundaries.

S&P estimates that Shariah compliant assets worldwide total close to US$500 billion and have been growing at more than 10% per year over the past decade, placing Islamic finance in a global asset class on its own. In comparison, Islamic assets stood at about US$150 billion in the mid-1990s. Market shares of Islamic banks are currently 12% in Malaysia and 17% in the Gulf countries. Retail banking services and issuance of Islamic notes, or Sukuk, have been and will continue to be frontrunners in the global Islamic finance boom.

However, a key challenge for the industry is to continue progress toward acceptance by the international financial community. Different schools of thought, heterogeneous historical legacies, various degrees of flexibility and even some intellectual competition have meant a uniform, coherent and harmonized Shariah compliant financial code has yet to emerge.

Interest from previously reluctant parties

Support provided by the governments of the Gulf countries and certain Muslim states such as Malaysia has fostered positive views of Islamic finance by regulators and supervisory agencies across the Muslim world. Regions with predominantly Muslim populations that were previously reluctant to open their borders to Islamic banks, particularly North Africa, are now showing some interest. Tunisia has made a significant advance, having authorized in February 2007 the launching of an "international Islamic institution" on its territory, in partnership with the Islamic Development Bank. The objective of this institution, through its Islamic financing activities, is to boost business between the Arab countries of the Maghreb and the Mashreq.

In March 2007, Morocco's central bank, Bank Al-Maghrib, authorized Moroccan banks to offer some Islamic banking services for the first time in the country's history. This authorization is limited to three products: Ijarah, Murabahah and Musharakah. We believe that the financing of infrastructure, tourism and real estate projects will increasingly constitute an indirect point of entry for Islamic institutions into the markets of North Africa.

Outside the Muslim world, the global Islamic financial industry stands to benefit from the UK's development as an attractive marketplace for Shariah compliant financing and investment instruments. European banks are setting their sights on an increasingly broad activity base in Islamic finance, establishing operations in wholesale banking by recycling funds flowing out of the Gulf into Shariah compliant asset classes in Europe. These classes comprise assets in the real estate, industrial, infrastructure and tourism sectors, in mature, efficient, transparent and diversified western economies.

Shariah compliant investment banks are also emerging, mainly in the Gulf. These banks have no retail customers and finance themselves chiefly through the wholesale markets. Banks such as Arcapita Bank, Gulf Finance House and Unicorn Investment Bank, all based in Bahrain, are the best representatives of this new generation of financial intermediaries, capturing the capital that institutions and wealthy families are seeking to

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S&P Foresees Mounting Demand for Islamic Products *(continued...)*

invest and recycling it in high-yielding industrial, real estate and infrastructure projects. They enjoy lofty returns on activities that have long been reserved for conventional players. Capital investment, infrastructure project intermediation and direct real estate investment (usually through leveraged buyouts) are now part of Islamic finance.

However, the product range offered by most Islamic banks remains narrow. In most credit portfolio allocations, Ijarah and Murabahah dominate, accompanied to a lesser degree by Istisna, exclusively for corporate borrowers, and more especially larger ones. In light of the profits generated in the highly lucrative retail segment, both in the Gulf and in Muslim Asia, incentives to develop riskier financial offerings with hefty appetites for capital — either through partnerships such as Mudarabah or Musharakah — remain minimal.

Global Sukuk issuance is set to top the symbolic US$100 billion mark in the very near term. Sukuk are now a mainstay in asset allocation in Malaysia and the Gulf countries. The non-Muslim world is also homing in on Sukuk, with issuers (including sovereigns) aiming to tap into surplus liquidity flowing from the Gulf region. Hand in hand with widening interest in Sukuk and Islamic securities in general, London has recently joined the list of major financial hubs to handle Islamic transactions, becoming the main non-Muslim competitor of "natural" Islamic markets in Dubai, Kuala Lumpur and Bahrain.

Narrow primary market

As is the case in wholesale banking, London has the capacity to become a serious contender for Shariah compliant financial flows that seek recycling in Europe while competition heats up among the world's financial centers to attract Islamic issuers and investors. While expanding, the Sukuk market remains a buy-and-hold asset class. Although the primary market has been quite active over the past two years, as a whole it remains narrow, and still constitutes a niche segment even by regional standards.

The secondary market for Sukuk is virtually nonexistent. A significant demand for investment, highly correlated with the prevailing liquidity in the Gulf region, is chasing a still-limited supply of Shariah compliant vehicles, all the more so as some inconsistencies remain in the interpretation of what is and isn't lawful as far as Sukuk are concerned.

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Islamic issues and issuers rated by Standard & Poor's (30th November, 2007)

Issue credit ratings

Originator	Date of rating	Issue amount (US$ mil)	Long-term foreign currency rating
Central Bank of Bahrain Sukuk	Various	1,094	A
DIB Sukuk	15th February, 2007	750	A
DP World Sukuk (Obligor: DP World)	27th June, 2007	1,500	A+
Dubai Sukuk Center (Guarantor: DIFC Investment)	25th May, 2007	1,250	A+
East Cameron Gas Sukuk	31st July, 2006	166	CCC+
EIB Sukuk Company Program (Guarantor: Emirates Bank International)	15th May, 2007	1,000	A
GFH Sukuk (Obligor: Gulf Finance House)	26th June, 2007	1,000	BBB-
Gold Sukuk dmcc (Guarantor: Dubai Multi Commodities Center Authority)	11th April, 2005	200	A
Golden Belt 1 BSC	18th April, 2007	650	BBB+
Islamic Development Bank	20th May, 2005	1,000	AAA
Ithmaar Sukuk (Guarantor: Shamil Bank of Bahrain)	20th June, 2007	TBD*	BBB-
JAFZ Sukuk	8th November, 2007	AED7.5 billion	A+
Loehmann's Capital (Guarantor: Loehmann's Holdings)	22nd September, 2004	110	CCC+
Malaysia Global Sukuk	10th June, 2002	600	A-
MBB Sukuk	11th April, 2007	300	BBB+
Pakistan International Sukuk	23rd December, 2004	600	B+
Qatar Global Sukuk	10th September, 2003	700	AA-
Sarawak Corporate Sukuk	30th November, 2004	350	A-
Sharjah Islamic Bank Sukuk	12th September, 2006	255	BBB
Solidarity Trust Services (Guarantor: Islamic Development Bank)	11th August, 2003	400	AAA
Stichting Sachsen-Anhalt Trust	9th July, 2004	130	AA-
Tabreed 06 Financing	15th June, 2006	200	BBB-
	TOTAL	14,297	

S&P Foresees Mounting Demand for Islamic Products *(continued...)*

Islamic banks in the Gulf have demonstrated, and should continue to show, strong profitability so long as oil revenues pour into their economies, maintaining economic momentum through a powerful multiplier effect. The Gulf banks rated by S&P (Islamic and conventional) continued to post strong financial performance in 2007. The ratio of RoA (Return on Assets) for these banks reached about 3.0%, compared with 3.2% in 2006. Cumulated core earnings continued to grow during the same period, although at a slower pace — about 10% compared with more than 20% in 2006.

Islamic issues and issuers rated by Standard & Poor's (30th November, 2007)
Issuer credit ratings

Issuer	Date of rating	Country	Long-term foreign currency rating
Albaraka Banking Group	21st March, 2007	Bahrain	BBB-
Al Rajhi Bank	5th October, 2005	Saudi Arabia	A
Arcapita Bank	16th November, 2006	Bahrain	BBB
BEST Reinsurance	2nd September, 1997	Tunisia	BBB
Dubai Islamic Bank	18th October, 2006	UAE	A
Gulf Finance House	7th August, 2006	Bahrain	BBB-
Islamic Development Bank	19th December, 2002	Saudi Arabia	AAA
Kuwait Finance House	24th August, 2004	Kuwait	A-
Salama/Islamic Arab Insurance	24th May, 2007	UAE	BBB+
Shamil Bank of Bahrain	6th November, 2006	Bahrain	BBB-
Sharjah Islamic Bank	6th September, 2006	UAE	BBB
Takaful Re	31st October, 2006	UAE	BBB

**TBD — to be determined.*

This slowdown stems not only from the slump in stock market-related gains, but also from a decline in net interest margins as a direct result of increasing competition. Islamic banks in the Gulf are at least as profitable as their conventional peers, putting them among the most profitable across the globe. It is important, however, that the Islamic banking industry does not become complacent or rest on its laurels.

Islamic banks still have a long journey ahead to build stronger recognition, longer track records and greater scale. Some critical issues need to be tackled, among which small size and high concentration (including geographic) are some of the most important. Islamic banks, even the largest ones, remain small by international standards, and their portfolios continue to focus on a limited number of asset classes and segments. We expect geographic diversification to continue to progress in 2008.

For the first time in the industry's history, several Islamic banks headquartered in the Gulf have set up business operations in Malaysia, while making clear that on their radar are Indonesia and China — large and deep markets only a short hop away from their Malaysian platform. New horizons are also emerging for Islamic finance within the Arab universe: Lebanon, Syria, Egypt, Turkey and North Africa have been identified as potential engines for unlocking franchise value.

"Although 'historical' leaders such as Al Rajhi Bank, Kuwait Finance House, Albaraka Banking Group and Dubai Islamic Bank still have bright prospects within their own marketplaces, new entrants are looming"

Beyond the natural borders of the Muslim world, the advanced markets of both Europe and North America promise niche segments in which Islamic finance can profitably gain momentum, as shown by the financial community's bullish welcoming of the Islamic Bank of Britain and the European Islamic Investment Bank. This is internationalization, but not yet globalization, for which some challenges remain.

Like their conventional peers, the current market position of existing Islamic banks is subject to significant competitive pressure. Although "historical" leaders such as Al Rajhi Bank, Kuwait Finance House, Albaraka Banking Group and Dubai Islamic Bank still have bright prospects within their own marketplaces, new entrants are looming. As already mentioned, Shariah compliant investment banks are shaking the old rules of Islamic finance with more aggressive business models. In addition, new heavyweight contenders are making their debut, pushed by the proactive ambitions of Gulf entrepreneurs and governments: Al Rayyan Bank, Al Masref, Boubyan Bank and Bank Albilad are examples of institutions that will increasingly add pressure to the industry.

Stability ratings tailored for PSIAs

Islamic finance has many qualities that could lend some institutions to securitization as a means of raising funds. Shariah compliant finance tools must have asset-driven returns, for example, which is a notable feature of securitization. Although Sukuk are based on assets and usually issued via a special purpose vehicle, they should not be confused with a true sale securitization. That said, theoretically one could issue a Sukuk out of a securitization. Numerous asset-based Sukuk have been issued recently.

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S&P Foresees Mounting Demand for Islamic Products *(continued...)*

In particular, there have been several Musharakah Sukuk, such as the US$225 million Sukuk issued by Sharjah Islamic Bank in November 2006; or the US$750 million Sukuk issued by Dubai Islamic Bank in March 2007.

However, the ratings on these Sukuk have been based on full and senior unsecured guarantees provided by rated entities (the originator). This means that the rating is weak linked to the supporting counterparty and not the underlying pool of assets as in a true sale securitization. The lack of conventional hedging should encourage investment bankers and financial engineers to come up with new and innovative tools to structure these products. S&P believes that some progress will be made in this field in the near term, to allow securitization for Islamic institutions to develop.

In 2007, S&P introduced a new product (so-called "stability ratings") tailored to Islamic banks offering profit-sharing investment accounts (PSIAs). As the latter are loss-absorbing, our classic credit ratings are not applicable to this class of instrument, and therefore they require a different rating approach.

S&P created a new class of stability ratings which are applicable to PSIAs, and which could provide depositors, banks and investors with a useful opinion on these instruments. S&P's stability ratings for PSIAs are specifically designed to opine on the prospective relative stability of cash flow distributable to PSIA holders.

S&P, the world's leading index provider, also responded to the needs of Muslim investors with the launch of new equity indexes that track the stocks of Shariah compliant companies. Last November, S&P and the Tokyo Stock Exchange announced the launch of a new Japan equity index to meet demand from Islamic investors for access to Japanese large-cap companies. All S&P Shariah indices are screened by Ratings Intelligence Partners, a Kuwait-based consulting company specializing in the Islamic investment market. Its researchers interface directly with a dedicated Shariah supervisory board.

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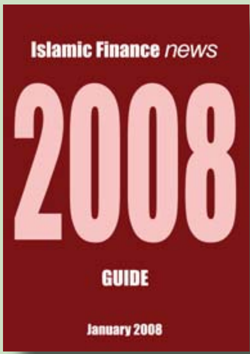

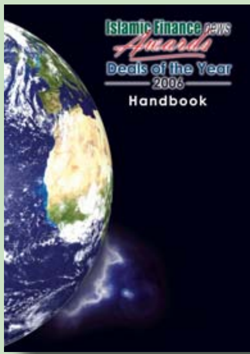

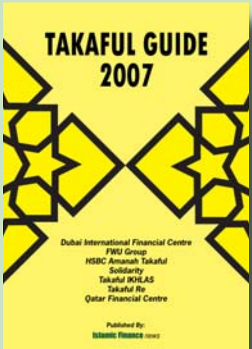

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Risk Management in Islamic Banking: Key Issues

By Dr Sunil Kumar

Islamic banking has made rapid progress in the last two decades. What started as a social activity in Egypt in the form of Mitghamr Savings Association in the early 1960s became a movement in the 1990s. The setting up of Dubai Islamic Bank and Islamic Development Bank during the 1970s, the Islamic Research and Training Institute in 1981, and the Accounting and Auditing Organization for Islamic Financial Institutions in 1990 were landmarks in the development of Islamic banking.

Currently, over 250 Islamic financial institutions (IFIs), including banking and non-banking, offer Islamic banking products. The range of products now offered is remarkable and shows the increasing depth of the market. From simple Murabahah to structured products, the market has evolved and is showing a sign of seriousness and early maturity. Major types of products in modern banking can be offered through Islamic banking (Figure 1).

IFIs are now able to offer products across all the asset classes and cover a wide range of lending products. The growth is not limited to only Islamic countries or countries where Muslims form the majority of the population. Several conventional banks, including the large ones, are offering Islamic banking services through an Islamic window. Bahrain, Malaysia, Kuwait, Pakistan, Sudan and Iran have the largest concentration of Islamic banks. Countries such as the UK, the US, France, Australia, Luxembourg and Germany are also having some presence of Islamic banking.

A healthy sign of growth is the coexistence of conventional banking and Islamic banking in these countries, indicating that Islamic banking need not be an alternative mode of financing but can be a complement to conventional banking. With the prohIslamic bankingition of rIslamic bankinga and gharar, insistence on zakat and avoidance of haram activities, the fundamental principle of equitable distrIslamic bankingution remains at the core of Islamic banking and, hence, has found special appeal among non-Islamic intellects.

Since Islamic banking is based on real assets and not financial assets, it can be more stable and safe. Due to its reliance on profit and loss sharing, Islamic banking promotes better financial allocation and wider distrIslamic bankingution of risks.

Figure 1: Major Islamic contracts and their usage

Main Contract	General Application	Specific Application
Mudarabah	General Account	Current Account Savings Account
	Investment Account	General Investment Special Investment Specific Investment
	Fund Based	Asset Financing Contract Financing Project Financing Working Capital Financing
Musharakah	Fund Based	Asset Financing Contract Financing Project Financing Working Capital Financing
Murabahah	Fund Based	Asset Financing Cash Line Facility Commodity Financing Computer Financing Contract Financing Education Financing Floor Stocking Financing Personal Financing Project Financing Revolving Credit Facility Vehicle Financing Working Capital Financing
	Fee Based	Bills Discounting Export Credit Refinancing Letter of Credit Trust Receipts
	Trade Financing	Bills Accepting Export Credit Refinancing Letter of Credit Trust Receipts
Ijarah	Fund Based	Asset Financing Asset Backed Financing Contract Financing Industrial Hire Purchase Plant & Machinery Financing Project Financing Syndicate Financing Vehicle Financing
	Fee Based	Letter of Credit
	Trade Financing	Letter of Credit
Istisna	Fund Based	Bridge Financing Contract Financing Plant & Machinery Financing Project Financing Property Financing Shop/House Financing Syndicate Financing

Note: This analysis is generic and in no way connotes Shariah approved methods. Readers are advised to use caution while referring to these.

Source: Adapted from original data from Bank Negara Malaysia. Full version is available at http://www.bnm.gov.my/index.php?ch=174&pg=467&ac=370

continued...

Risk Management in Islamic Banking: Key Issues *(continued...)*

However, this growth could not remain untouched by the complexity and issues related to risk management. Risks exist in all forms of banking and Islamic banking is no different and is not shielded from the risks. The prohIslamic bankingition of rIslamic bankinga, as a basic tenet of Islamic banking, does not make it completely safe from interest-rate risk. Islamic banking cannot, and does not, operate in an isolated world of banking. It has strong linkages with conventional banking and operates in complete harmony with it.

As a systemic partner of the banking system as a whole, Islamic banking is affected by the risks faced by conventional banks. Risks in Islamic banking are distrIslamic bankinguted in a different way as compared to conventional banking. Since Islamic banking is based on contracts such as Murabahah, Musharakah, Mudharabah, Istisna, Ijarah and Salam, the risks are also woven around the combination of factors in the contracts. The timeline in the contracts relating to events, which are related to either cash flows or change of liabilities, affects the risks.

Trends and developments

In the early 1980s, conventional banking risk management techniques were applied to Islamic banking as there were no specific standards for risk management for Islamic banking. The original Basel 8% norm of capital adequacy was applied to Islamic banks also. When Basel II was released, Islamic banks attempted to find ways of managing the risks specific to Islamic banking. It was realized that the provisions in Basel I, and later on, Basel II, were insufficient for handling risks in Islamic banking. Pillar I of Basel II failed to answer the complexities of the Islamic contracts. However, Pillars II and Pillar are fundamentally applicable to Islamic banking also.

Due to the gaps in existing risk management standards, the Islamic Financial Services Board (IFSB) attempted to systematize the risk management framework for Islamic banking. It released the risk framework for IFIs in 2005. The role of IFSB is commendable since it brings the risk management discussion to the core of risk recognition. IFSB stresses the need to recognize the risks at the point of origin. It also recognizes that the risks are dynamic and change during the lifetime of the contracts.

On the technology front, tools and solutions for Islamic banking have also evolved over the last decade. While several core banking solutions specific to the industry are widely available, risk management solutions are not. The solutions available also address silo risks and do not integrate all financial risks.

Conventionally, risk factors were single and not so complicated and interwoven. As the complexities in the market increased, risks became correlated with each other. For example, change in the market prices of the indices (market risk) affected the credit rating of the counterparties, affecting their liquidity positions (liquidity risk), which finally affected the risk of default or changed repayment conditions for the bank (credit risk). Thus, different risks started interacting with each other, making it mandatory to look for solutions that offer truly integrated financial analysis and not just silo solutions. The risks in Islamic banking are even more complex and need integrated risk analysis.

Challenges and solutions

Islamic banking's present success still poses some serious challenges on the internal and external fronts (Figure below).

Figure 2: Major challenges for Islamic banking

Internal	External
Human resources	Products acceptability
Risk identification	Religious freedom
Liquidity management	Legal
Accounting standards	Taxation
Technological issues	Standardization
Transparency	Fiqhi related issues
Compliance	Scale inefficiencies
Workflows	

On the internal front, and due to recent rapid developments, there is a shortage of qualified manpower for Islamic banking. Business development, risk management, compliance and so on are some of the areas where Islamic banking has significant gaps in terms of qualified manpower. More training programs, user seminars, conferences and study groups can solve the problem to a certain extent.

Risk identification is more complicated in Islamic banking because the relationship between contract parties changes as the contract enters into a new phase. The risk should be identified carefully and should be based on the timeline in the contract.

Risk measurement is similar to conventional banking. The mitigation techniques are sometimes unique in Islamic banking due to the absence of standard insurance and other mitigation methods. Shariah compliant risk mitigation techniques can solve the problem to a certain extent. The most critical issue in Islamic banking is liquidity risk management. Due to the difficulties related to intra-bank money market and other money market instruments, coupled with heightened risks of defaults, liquidity management is one of the most important factors in Islamic banking.

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Risk Management in Islamic Banking: Key Issues *(continued...)*

Added to this most central banks do not have special provisions for providing overnight credit for liquidity management to Islamic banks. Specific funds for managing the liquidity requirements, special reserves, improving the short-term money market for Islamic banking are some of the urgently needed measures to answer the liquidity issue. Lack of accounting standards is another challenge. Recording of income and expenses at different values by different Islamic banks render their reports non-comparable.
Quick adoption of available Islamic accounting standards can resolve the problem of accounting. Limited availability of Shariah compliant technological solutions also poses a special challenge.

Effective use of technology and solutions is sometimes difficult due to the high cost involved, since most of the IFIs are small. Sharing of resources and careful outsourcing can be used to overcome the problem of IT. Due to insistence on transparency, solutions and systems in Islamic banking need to be more capable in terms of reporting.

On the external front, the acceptability of Islamic banking should cross religious borders and cater to all faiths. Islamic banking should grow beyond religious justifications and provide better financial sense, thus becoming accessIslamic bankingle to a larger audience.

"Islamic banking should grow beyond religious justifications and provide better financial sense, thus becoming accessible to a larger audience"

Within the Muslim community, the product must meet the religious test and should appeal in the right way. Legislations relating to Islamic banking are inadequate and often vague.

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Risk Management in Islamic Banking: Key Issues *(continued...)*

In countries where Islamic banking is permitted along with conventional banking there is more confusion due to the absence of specific provisions. For example, there is confusion regarding the capital certainty of deposit in several countries, especially in the UK.

"Risk management in Islamic banking is more complex and needs broad analytical capabilities. There is a definitive need for fully integrated analysis solutions rather than silo solutions, because risks in IB are woven together and hence are not suitable for analysis by silo solutions."

However, efforts are being made to create specific provisions and clauses to support Islamic banking. Tax reforms are needed in order to answer the issues related to double taxation, especially while dealing with sale and purchase transactions as originating in a typical Murabahah contract. Another issue of concern is ambiguity related to unresolved fiqhi issues. Deferred payment for sale transactions, liabilities of partners related to third parties, the treatment of residual value of asset in Ijarah, sale of debt assets and the treatment of derivatives remain unclear, causing serious hurdles in the process of consolidation and progress of Islamic banking.

Opportunities and growth

Risk management practices in Islamic banking are developing rapidly. This will require core banking applications, risk management solutions, rating and scoring models. With the increasing complexities of the Islamic banking products and more stress on transparency, there is a growing need for better data for which a robust core banking system is a necessity.

As discussed, risk management in Islamic banking is more complex and needs broad analytical capabilities. There is a definitive need for fully integrated analysis solutions rather than silo solutions, because risks in Islamic banking are woven together and hence are not suitable for analysis by silo solutions. The true picture of risks can only be created by solutions offering unified enterprise-wide risk views.

On the other hand, rating needs dedicated and organized efforts and should result in some standardization. There are some efforts to set up Islamic rating services; for example, the Islamic International Rating Agency, with shows some success but still has a long way to go. And last but not least, Islamic banking comes close to universal banking — a general trend that has been accelerating since the repeal of the Glass-Steagall Act in the US.

Concluding remarks

Islamic banking is now a force to reckon with. It blends well with conventional banking and is rapidly gaining ground. It has crossed the boundaries of religion and faith and is now finding support among non-Muslim customers and countries. However, the rapid growth has been unplanned and uncontrolled, and hence has left several open issues. Qualified manpower, core banking systems, integrated risk management systems, Shariah issues and compliance are some of the important issues faced by Islamic banking today. Most critical among them is risk management. Risk in Islamic banking is more complex and difficult to measure and manage. Islamic banking requires a fully integrated risk management solution since most of the risks are correlated.

IRIS

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Globalization of the Islamic Banking Industry

By Dourria Mehyo

Islamic finance is the fastest-growing sector in the global finance industry. More than 350 Islamic banks and financial institutions are operating in over 50 countries, with total assets that top US$400 billion.

The industry's promising benefits and returns have caught the attention of conventional banks that might have otherwise never considered offering such products, and the services are well accepted by Muslims and non-Muslims alike because of its "ethical banking" concept.

As recent developments show, the industry is on the road to increasing globalization of the financial services sector. Future expectations are for continued high growth and great potential across the globe. For the next few years, Islamic banking is projected to grow by at least 20% per year.

As in any industry, and since Islamic banking operations are based on the same Shariah principles (despite minor differences in specific areas) regardless of the bank's geographic location, the IT system to support such growth and globalization should also conform with the basics and specifics of the industry with enough flexibility to cater for country-specific areas.

The globalization of an industry naturally leads to the need for the related IT system to cover the operations of the industry, regardless of location, and thus to globalization of the related IT supporting system.

In this article, we examine the impact of globalization on Islamic banking and the need for a sustainable IT system.

Beginnings

Islamic banking, in the exact sense of the term, started in 1963 in the Egyptian town of Mit Ghamr in the form of a savings bank based on profit sharing. By 1967, nine such banks were operating in the country, functioning as saving-investment institutions.

Subsequently, in 1971, The Nasir Social Bank was declared an interest-free commercial bank and was the first Islamic commercial bank. The first Islamic bank outside Egypt, The Islamic Development Bank (IDB), was established in 1974 in the United Arab Emirates (UAE).

The bank was established primarily as an inter-governmental bank with the purpose of providing funds for development projects in member countries. All of these banks invested mostly by engaging in trade and industry, directly or in partnership with others, and shared the profits with depositors. They neither charged nor paid interest. The idea of Islamic banking was welcomed by the Muslim population, who wanted to put their money in institutions that were not based on riba or interest.

By 2005, according to the International Monetary Fund (IMF) yearly report, over 300 Islamic financial institutions were operating worldwide, with estimated total assets of US$250 billion and an annual growth rate of 15%. Citibank, HSBC, BNP Paribas, Barclays and UBS had begun offering Islamic financing products.

> **"After leading conventional banks such as Citibank and HSBC started offering Islamic financing products on a basic level, their rivals followed suit"**

The IMF report attributed the continued growth in the Islamic banking industry to three factors: increasing demand from a large number of Muslims (including Muslim immigrants to western countries), the growing oil wealth in jurisdictions such as Dubai and other countries of the UAE, and the attractiveness of Shariah compliant financial services to non-Muslim investors seeking "ethical" investments and banking practices.

The *Euromoney Islamic Finance Review* for 2007/08 stated that the estimated Islamic financial market size was US$700 billion to US$750 billion, with an annual growth rate of 15%. It has been reported that the Islamic banking industry is growing at 20% per year and will reach a level with total assets exceeding US$1 trillion by 2016.

After leading conventional banks such as Citibank and HSBC started offering Islamic financing products on a basic level, other leading conventional banks followed suit. Recently, the burgeoning international footprint of Islamic finance has become more apparent. Countries all over Europe, North America and in new parts of Asia have also witnessed the setting up of Islamic banking operations.

These operations are offered either through Islamic windows created at existing banks or through newly established ones;

continued...

Globalization of the Islamic Banking Industry *(continued...)*

both reap the benefits from local investments and deposits, and cross-border capital flows. The regulatory bodies in these countries have also set up enabling regulatory environments that have set the industry on the path to major globalization. The following two examples affirm global acceptance of Islamic banking products among customers in new regions.

In the Islamic Bank of Britain, for instance, "one in five applicants for some of our products is non-Muslim"; says its director of sales (source: This is Money UK website, August 2006). In 2004, when HSBC Group began offering Islamic equivalent mortgages (more like leases), surprisingly more than half of the customers were non-Muslim. According to bank officials, what drew these customers was the "competitive pricing" compared with traditional interest-based financing.

"The first essential characteristic in the software is that it must be built on Shariah principles and have embedded the related information capturing features"

Aside from the facts stated above, the key areas of growth with respect to geographic distribution of new Islamic banks in 2007 include the UK, with at least five new investment banks offering mostly Islamic investment and treasury banking services; France, where a license has been applied for the first Islamic commercial bank; and finally, Germany is listed as a potential base for new Islamic banks.

Other new geographic areas are Africa (where two Islamic commercial banks started operations in Kenya), Syria (two Islamic commercial banks have opened) and Sri Lanka.

Amanah Finance (a subsidiary of HSBC) is operating in countries such as Malaysia, Saudi Arabia and the UK, offering personal products (such as private banking, home finance, personal finance, vehicle finance, investments and Islamic insurance or Takaful); and business products (trade services, working capital finance and assets finance).

ABN Amro, operating in Pakistan, offers consumer financing products in Pakistan, and is mulling consumer, corporate and institutional products in Malaysia. Citi Islamic has branches in South Korea, Turkey, Egypt, Mexico, South Africa, Pakistan, India and Bangladesh and offers term Islamic investment products and an open-ended global equity fund, among others.

GCC-based banks have also begun venturing into European countries. One example is Ahli United Bank, a Bahrain-based Islamic commercial bank. Its services are also available in Qatar and the UK. New emerging markets include the UK, France, Sudan and Kenya.

With respect to North America, until the development of a full Islamic bank per se, some "alternative products and services" currently offered by a limited number of companies and finance houses are home, auto and business financing; car and equipment leasing; interest-free deposits and mutual funds management. Equity indices were created by Dow Jones for investors keen to invest according to Shariah principles. Meanwhile, Canada is looking into the licensing of its first Islamic investment bank.

Efforts to go global must be supported by the concomitant IT back-up. As such, the globalization of Islamic financial services leads to challenges including the need for specialized technology that meets Islamic banking rules and regulations; these are the industry's distinguishing aspects that must be applied and followed regardless of geographic location since the underlying rules of Islamic banking are the same everywhere.

In addition, the supporting technology should also be flexible and innovative enough to meet the country's specific needs (such as tax issues).

Industry requirements from an IT system

The regulations and rules on which Islamic finance is based and which govern its operations are significantly different from those for conventional finance. The absence of interest is the most important differentiating aspect; this makes the structuring of Islamic financial products a complex task.

As a result, Islamic banks need to rely on efficient IT systems in order to handle their significant transaction nature and volumes, and to make available necessary information for the bank's management on an accurate and timely basis. This can only be achieved through advanced IT solutions that allow streamlining procedures, consolidating operations and efficient processing of transactions.

The first essential characteristic in the software is that it must be built on Shariah principles and have embedded the related information capturing features. The captured information must fully cater to the type of Islamic product; for instance, to fully cover recording of a commodity Murabahah transaction, the data must relate to the details of the bought and sold

continued...

Globalization of the Islamic Banking Industry *(continued...)*

products, and cover details related to the suppliers and down payments.

For Islamic banks to operate efficiently, the system must facilitate the set-up and ease of tracking the restricted and unrestricted investment accounts of clients across the system and getting the information on a timely basis.

Since Islamic banking is based on shared profits and risks, the operations, simply put, cover pooling of clients' funds and then distributing the profits based on revenues generated from this pool, and after applying certain criteria that are pertinent to Islamic banking. In light of these transactions, the software must support proper recording and tracking and management of the pools of funds. Each pool must be easily tracked and computations must be made on an efficient timely basis and be able to produce reports detailing the results of the computations.

As such, the system must also support the complex profit computation method for the unrestricted investment accounts and distribution of the computed profits to each account holder. The system must allow the tracking of the financing transactions, the contributors in these transactions, and computations of profit to be received from funded (or partnership parties) and computation of the profit shares to be distributed to the contributors based on each client's invested amount. This is important for the restricted investment account holders.

Since Islamic banks are to abide by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards, the system must produce the standard accounting entries and booking methods of the transactions and bank profits and investments according to those standards.

Legal documents and confirmations are an essential part of Islamic banking. As such, the IT solution to be utilized must allow printing of the details pertaining to Islamic banking and financing transactions, the related confirmation and the related legal documents and contracts. Each type of Islamic financing product has its own legal document, and the system must be able to support it. This applies to all transactions of the bank (with depositors of restricted and unrestricted investments) and with the funded counterparties.

The possibility of being able to keep a copy of the signed contracts as scanned document or another medium in the system would also be an important feature. The logging of dates and times of a transaction is also an essential factor, as is being able to keep the signed contracts in their related transaction record, particularly since the Shariah audit will be looking at those details.

In the era of banking operations where customer service management concepts are becoming more and more essential for competitive advantage, "customer centricity" is extremely important. Banks need to know, from a single screen or at the click of the mouse, the total balance and number of transactions done by a client. This is important for customer service, sales management, risk management and exposure analysis. The IT software to be utilized should be fully customer-centric in order to give a bank the competitive advantage in obtaining such information on an accurate and timely basis.

"The logging of dates and times of a transaction is also an essential factor, as is being able to keep the signed contracts in their related transaction record, particularly since the Shariah audit will be looking at those details"

Needless to say, the technological software must also have a powerful reporting tool that allows ease of access to data and development of all types of reports for the bank's management and central bank reporting. The system must also easily integrate with other applications for data mining and in order for the bank to obtain its needed reports to support its operations.

The software must also allow the bank to comply with Basel II requirements and compute what is needed for such compliance on timely manner. The software must also allow the Islamic bank to properly record and monitor its market, credit and operational risk.

IT challenges resulting from the industry's globalization

In addition to industry-specific requirements, globalization raises the need for the supporting IT technology to be flexible enough to cater for the distinguishing aspects of a geographical area or specific country such that it will guarantee quick time-to-market and return on investment for the bank with very efficient preparation and strong basis of operation that is using the software. The following paragraphs present examples of the major areas of consideration.

While most, if not all, GCC countries do not have income tax and value-added tax (VAT), these are a given in some

continued...

Globalization of the Islamic Banking Industry *(continued...)*

other geographic areas such as Europe. On the other hand, GCC countries do have the zakat requirement that must be paid. The IT solution to support the global Islamic banking industry must be able to cater for both areas (taxes, non-tax and zakat) in a timely manner as well as facilitate the automation and related computations and accounting related reporting.

> **"The globalization of Islamic financial services with its opportunities and challenges naturally lead to potential returns in innovation and specialized technology"**

At some point, a bank operating on a global level (such as having operations in both the UK and Kuwait) will need to develop consolidated financial statements for its global operations; a task that is expected to be made efficiently using the IT system in force.

While the basic operations of Islamic financing products are the same across all banks, banks operating in a certain geographic area may have different policies and procedures (that have been approved by the Shariah boards) than their counterparts elsewhere.

Policies with respect to profit structures and repayment terms are examples. With the globalization of the industry, more sophisticated Shariah compliant products may be set up (hybrid/mixed products). This presents another challenge for the IT system supporting the industry's globalization drive.

In addition, regulatory reporting requirements differ between countries in the same geographical area, and the channel is bigger when the IT system is utilized across continents; the system should facilitate the extraction of the regulatory reporting requirements. The system should have open architecture that allows interfacing with local central banks or regulatory institutions where required and applicable. An example is the real-time gross settlements systems available in KSA (SADAD) and RENTAS (in Malaysia).

And last but not least, with the globalization of the Islamic banking industry, and since new countries will be working on new areas of operations, IT related companies may be required to engage Islamic banking experts with enough exposure to the industry's specific operations, in addition to technical staff. The globalization of Islamic financial services with its opportunities and challenges naturally lead to potential returns in innovation and specialized technology.

Conclusion

With the current rise of Islamic financial services worldwide and the returns these are generating for banks and clients, Islamic banking has proven it is not a negligible or merely a temporary phenomenon. Such institutions are here to stay and the Islamic banking services are set to expand more geographically. Even if one does not subscribe to the prohibition of interest, one may find in Islamic banking innovative ideas that would add more variety to the existing financial network.

With the openness and willingness of regulators across the globe to address and understand such markets, the willingness of financial institutions to enter the market, the efforts of regulators at industry level, and the existing and growing demand, there is significant potential for the globalization trend we are witnessing. Naturally, this should be coupled with IT innovations and globalization of the related software services.

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2007 Global Takaful Review: Evolving Trends, Opportunities and Challenges

By Sohail Jaffer

The renaissance in socially responsible investing and demand for Shariah compliant solutions has spurred the double-digit growth of the global demand for Takaful, or insurance based on principles of mutual assistance. The first Takaful company was established in 1979. Now, there are over 250 globally.

According to the Standard & Poor's April 2007 report on Takaful, "the GCC Takaful market is currently growing at 40% per year and the opportunities for increased uptake of Takaful in the GCC markets are positive. The GCC insurance market has a potential size of US$20 billion (currently US$6 billion). Within the GCC insurance sector, the Takaful market has the potential to reach US$4 billion at the current level of development (currently US$170 million)".

Based on a 2007 Oliver Wyman report, "in terms of headline revenue potential, reasonable assumptions about likely penetration among Muslims, and adjustments for non-Muslim potential, suggest that there is worldwide Takaful premium potential of at least US$20 billion annually, compared to today's figures of US$4 billion at most". Wyman's analysis suggests that up to 20% of Takaful revenues could emanate from non-Muslim customers.

More recent analysis published by Fitch Ratings put the total global Takaful contributions at US$2.6 billion in 2006, which the agency described as "very small compared with the world's insurance sector as a whole". However, Fitch added that Takaful's "influence and importance extend well beyond its current size, and there is substantial potential for growth both in Muslim communities in the Middle East and Asia as well as in more mature OECD (Organisation for Economic Cooperation and Development) markets like the UK, France and Germany, which have significant Muslim minorities".

The nascent Takaful industry needs to gain critical mass, to provide an innovative array of products and superior quality customer services, to build worldwide brand recognition and to exceed performance standards set by the conventional insurance industry.

Product innovation and distribution

The Takaful product family spans general, life, health and pensions business. The two main business models used in the Takaful industry are Mudarabah and Wakalah. The Wakalah model is more prevalent. Under this model, the Takaful operator acts as an agent (Wakeel) for the participants and manages the Takaful/reTakaful fund in return for a defined fee.

> "Acceptance of Shariah compliant savings, education, marriage and retirement plans is gradually increasing among the affluent"

Due to the ethical guidelines underpinning Shariah compliant financial services, the increasing transparency of customer terms and conditions, pricing structure, regular compliance monitoring by the relevant Shariah boards and supervisory regulators and adequate disclosure of information and transparency to policyholders, such offerings have tended to attract both Muslim and non-Muslim customers.

Acceptance of Shariah compliant savings, education, marriage and retirement plans is gradually increasing among the affluent, but significant investment in customer education and training of financial planners and investment advisers is still necessary. A successful distribution model needs to develop a thorough understanding of the customer's needs, offer product and process innovation, eliminate flaws in product terms and cost structures, and enhance customer service delivery.

Advent of bancassurance

In light of the exponential growth of Islamic retail banking and finance, several enterprising banks have sought to diversify their business by including bancassurance in their product offerings. Hence, Islamic savings, education, marriage and retirement plans that combine investments with protection benefits are starting to become attractive. The average maturity of such capital accumulation plans is between 15 and 20 years and the customer retention period in performing programs is much longer than direct investments in mutual funds.

Product customization for the different bank channels (retail, mass affluent, private banking), customer referrals and gaining brand loyalty are critical success factors. Banks are keen to work with strategic product partners who offer bespoke family Takaful investment-linked plans, the opportunity to "white label" such a plan and have open investment architecture.

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2007 Global Takaful Review: Evolving Trends, Opportunities and Challenges *(continued...)*

Clearly, the ability to tailor suitably diversified risk reward investment portfolios, select top quartile performing funds from major international brands and control defined portfolio risk levels are powerful drivers for the retail value proposition. Furthermore, product certification by an independent Shariah board of experts and ongoing compliance monitoring with high ethical standards have had a favorable impact on transparency, disclosure of different terms and conditions, charges and frequency of reporting.

The bank distribution partners generally prefer a "white label" family Takaful linked investment plan due to the following reasons:

- Customers are more comfortable with a bank's "own brand" equity;
- Banks can blend both their own Shariah compliant mutual funds with quality third-party funds;
- All customer assets of the family Takaful-linked investment business are in the bank's custody and it also gains the corporate bank account of the Takaful company supplying the product;
- Banks have access to the web-based point of sale and online administration system without having to integrate new systems or build new interfaces;
- Due to the life cycle of the product, banks enhance individual customer relationship and retention rate.

The distribution of Takaful life and savings products through bank channels is relatively new. According to the abovementioned S&P report, "contributions from bancassurance constitute slightly more than 20% of all Takaful contributions in the more established Malaysian Takaful market. In comparison, this distribution channel remains under-utilized in the GCC, and generally contributes only a small amount to the overall contributions generated".

Recently, several UAE banks including Abu Dhabi Commercial Bank, National Bank of Dubai and ABN Amro introduced a Shariah compliant Takaful and savings scheme in joint arrangement with Dubai Islamic Insurance and Reinsurance Company (Aman) and FWU Group. The sales process through the branch banking network has been facilitated by the advent of web-based point of sale and online administration systems offered by entrepreneurial groups such as FWU Group in Germany.

These "white label" Takaful and savings plans offer investment-oriented life Takaful products to their mass affluent customers. In addition to the benefits of customer convenience, the "white label" advantage of using own brand equity, transparency of product terms and conditions, open investment architecture and efficient online processing have all proved attractive to major bank distribution partners.

Major markets include Malaysia and Indonesia, the Kingdom of Saudi Arabia and other GCC countries, Pakistan and Iran. Europe and the US also offer considerable untapped potential for the Takaful industry.

Takaful surge in the Middle East

Currently, the insurance penetration and per-capita density in the GCC states are low. However, the GCC will see a dramatic increase in insurance in general and Takaful in particular over the coming years.

A report by the Salama Islamic Arab Insurance Company states: "The Saudi market within the GCC has attracted several new market entrants, and liberalization of foreign ownership in the UAE and other markets in the insurance sector will further accelerate growth. Among the GCC states, Saudi Arabia is expected to generate close to US$900 million in premiums, followed by the UAE (US$480 million) and Egypt (US$467 million)." Growth is spurred by the introduction of "compulsory health insurance for expatriates from 2006 and motor third-party liability in Saudi Arabia" and "compulsory health insurance for foreigners" in the UAE.

"Liberalization of foreign ownership in the UAE and other markets in the insurance sector will further accelerate growth"

Saudi Arabia in particular will see an increase: the Jeddah Chamber of Commerce believes the insurance market will triple from SAR8 billion (US$2.13 billion) to SAR24 billion (US$6.4 billion) within the next decade. Insurance currently contributes 0.7% of GDP; this is expected to reach 3.7% in five years.

The Council of Ministers in Saudi Arabia has licensed several new insurance companies. Most of these are joint ventures with foreign insurance companies. For example, Al Ahli Takaful which was recently licensed to undertake insurance business in Saudi Arabia is a joint venture insurance company. Institutional shareholders include the National Commercial Bank, International Finance Corporation, FWU Group and

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VHV, a general insurer in Germany; the balance is held by the public by way of an initial public offering.

Recent strategic alliances include Prudential UK and Bank AlJazira. The memorandum of understanding signed by the two parties allows Prudential to take a significant equity stake, thereby becoming the largest individual shareholder in a new venture that will acquire the market-leading Takaful Ta'awuni life insurance business of Bank AlJazira. The new Takaful Ta'awuni life insurance operation will be listed on the Saudi Arabian stock exchange (the Tadawul). Prudential will also take an equity stake in Bank AlJazira's new fund management business, subject to regulatory approvals.

"The growth of Takaful has also been aided by Shariah compliant home finance solutions"

In Kuwait, annual insurance premiums are growing by 12% to 15%, equivalent to KWD150 million (US$519 million), aided by the increase in local development projects. Dr Ali Al-Bahr, director-general of the Kuwait Insurance Company, says Takaful accounts for 10% to 15% of the total market, despite Takaful being a relatively young sector.

In Bahrain, the establishment of Allianz Takaful Bahrain will serve as the group's global Takaful hub. Allianz Takaful will undertake family Takaful, while also focusing on investment-linked insurance, life and health insurance.

The Central Bank of Bahrain's (CBB) license to Allianz is the third to be issued to foreign Takaful and reTakaful insurers — the previous two went to American International Group (AIG) Takaful and ACE group. CBB also approved the establishment of the US$20 million Aman Bahrain Insurance Company (ABIC), whose shareholders include Al Salam Bank, Aman and other investors.

The growth of Takaful has also been aided by Shariah compliant home finance solutions. For example, Solidarity in Bahrain is the sole provider of Takaful home financing protection and family protection products for Sakana Holistic housing solutions' mortgage finance customers. Solidarity's SolidFoundation Takaful policy will pay outstanding mortgage repayments and award the property to Sakana homeowners' families in the event of death.

Customers can also access optional Takaful protection benefits such as critical illness and total permanent disability. Solidarity's general Takaful business will also provide Sakana's mortgage customers with property, fire and allied perils cover to compensate for any loss of property in the event of damage.

Pakistan

In Pakistan, the Securities Exchange Commission of Pakistan introduced a comprehensive Takaful regulatory framework in 2005.

Qatar Islamic Insurance Company, Qatar Islamic Bank, Qatar International Islamic Bank, Qatar National Bank and the Amwal group together with Pakistani nationals (residents and non-residents) recently established the Pak-Qatar General Takaful Company and the Pak Qatar Family Takaful Company in Pakistan.

The Pak-Qatar General Takaful Company has an initial paid-up capital of PKR250 million (US$4 million), while the Pak-Qatar Family Takaful Company will have a capital base of PKR400 million (US$6.35 million). The Pak-Qatar Family Takaful Company has entered into a cooperation agreement with FWU Group in Germany. It will offer investment and protection products, savings products, and retirement and education policies.

The Pak-Qatar General Takaful Company will offer specialized products covering accident, fire, marine, engineering, money and banking, property insurance and liability.

Asia-Pacific

- *Malaysia*

According to Bank Negara Malaysia's (BNM) 2006 report, new life business premiums and family Takaful contributions posted a growth of 13.5%. Growth was driven primarily by investment-linked business, which expanded at an impressive annual rate of 89% to offset the decline in ordinary life business. At the end of 2006, investment-linked products accounted for more than 40% of new business. In terms of distribution channels, new premiums garnered through bancassurance tie-ups accounted for a higher share of 44.2% while the market share of agency business declined to 44.8% in 2006.

According to the same report, the Takaful industry continued to record a strong performance in 2006. Total assets grew by 17.9% to account for 6.1% of total assets of the insurance industry, while combined Takaful contributions rose to 6.5% of the total premiums of the industry. In the family Takaful

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sector, new business contributions increased significantly by 74.6%, mainly due to the growth in mortgage Takaful and investment-linked businesses which accounted for 68.2% of new business.

In Malaysia, the current market penetration is low but "Takaful is expected to constitute 20% of the total insurance market by 2010 (currently 6.5%). By then, Takaful's share of the Malaysian insurance industry is estimated to be worth US$1.85 billion (RM7 billion)".

As part of Malaysia's drive to attract global insurance brands, Aviva UK formed a JV with the CIMB group. The JV permitted Aviva to acquire a 49% equity stake in two of CIMB's subsidiaries, Commerce Life Assurance and Commerce Takaful .

- *Indonesia*

The growth of Takaful operators in Indonesia was slow at the beginning, with only five Takaful companies until 2002. The development of the Takaful business has lagged far behind that of the conventional insurance industry.

Data from the State Finance Department shows that the assets of Takaful companies in 2006 stood at only US$95 million compared to total insurance assets of some US$10.2 billion. However, in 2007, the number of Takaful operators jumped significantly from five to 43 with 20 in life insurance, 19 in general and four in reinsurance. International insurers active in this market include Allianz, ING and Manulife.

UK

A new Islamic insurance firm, British Islamic Insurance Holdings (BIIH), is awaiting regulatory approval from the UK's Financial Services Authority (FSA) to offer Shariah-based insurance solutions to British Muslims. BIIH is currently working on strategy and recruiting management .

Industry developments

ReTakaful capacity

Vital to the growth of the Takaful industry is the corresponding development of Shariah compliant reinsurance. Few reTakaful operators have been established in comparison to the number of direct Takaful operators. Noteworthy is the entry of international reinsurers as Tokio Marine ReTakaful (TM ReTakaful) , Swiss Re and Converium into the reTakaful business in various jurisdictions such as Bahrain, the Dubai International Financial Center and Malaysia.

Recently, CBB issued a license to Hannover Re in Germany to establish a wholly owned Islamic reinsurance company in Bahrain. Hannover Re Takaful will have a paid-up capital of BHD20 million (US$53 million) and will focus on general and life classes. Hannover Re Takaful will be the principal underwriter of Hannover Re's worldwide reTakaful business.

"The growth of the global Takaful industry would be encouraged by the introduction of uniform regulation and conduct of Takaful business to promote cross-border activity and the global marketing of Takaful"

BNM, the central bank in Malaysia, granted three reTakaful licenses to, inter alia, Munich Re to conduct general and family reTakaful business . Recently, London-based Lloyd's announced plans to offer reTakaful from its newly incorporated offshore reinsurance unit in Labuan. Lloyd's is optimistic about the reinsurance market in Malaysia and expects it to grow to US$100 million by 2010 .

The Monetary Authority of Singapore has authorized SCOR Asia-Pacific to apply to the Labuan Offshore Financial Services Authority for a license to allow SCOR Asia-Pacific's non-life branch to expand and underwrite reTakaful contracts.

Global Takaful standard

Currently, the regulation of Takaful is at various stages of development throughout the world. Jurisdictions such as Malaysia, Bahrain and Pakistan have introduced specific Takaful laws or regulations. However, the growth of the global Takaful industry would be encouraged by the introduction of uniform regulation and conduct of Takaful business to promote cross-border activity and the global marketing of Takaful.

To this end, the International Financial Services Board (IFSB) and the International Association of Insurance Supervisors (IAIS) have established a joint working group which released an issues paper on the applicability of the existing IAIS core principles to the regulatory and supervisory standards for Takaful to be developed by the IFSB.

The issues paper dated August 2006 identified four critical areas to the regulatory and supervisory framework of the

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Takaful industry, which need to be addressed in an integrated way:

- Corporate governance (including the appointment, composition and report of the Shariah board);
- Financial and prudential regulation;
- Transparency, reporting and market conduct; and
- Supervisory review process.

According to BNM's deputy governor in a keynote address at the 2nd Seminar on Regulation of Takaful, the issues paper may lead to the "issuance of a specific guidance paper or standards that correspond to the IAIS core principles".

Conclusion

The Takaful industry is an important component in the overall Islamic financial system, given its role in providing risk protection. Future challenges and opportunities include the development and harmonization of the regulatory framework and prudential standards for the Takaful industry, the promotion of corporate governance, transparency and market discipline, the creation of suitable Shariah compliant investment securities and the development of viable Islamic capital markets. This is in addition to the introduction of internationally recognized rating system, the education of consumers, building brand loyalty, optimizing the use of technology for customer after care and the creation of strongly capitalized global reTakaful and multiline Takaful providers.

"The Takaful industry needs to cater to the growing needs of both Muslim and non-Muslim customers"

Creative product design and packaging, customer convenience and transparency of product terms, conditions and pricing are key to gaining a competitive advantage across general, life, health and pensions business and multiple distribution channels. The Takaful industry has been successful in distributing products through its agency sales force, direct channel, e-commerce and, to a limited extent, via certain retail banks. Business management skills and scalable distribution models need to be crafted and redeployed intelligently in the development of new markets.

Use of web-based point of sale and online administration systems and the enlightened deployment of e-commerce can optimize customer interface, relationship management and effective after-sales customer service. Major Takaful operators need to enhance their capacity to innovate, carefully review and understand evolving customer and market specific needs, carefully reengineer their product design and customer benefits package, strengthen customer education and interaction and expand customer reach across multiple distribution channels.

The Takaful industry needs to cater to the growing needs of both Muslim and non-Muslim customers. Primary markets within Europe with a sizeable Muslim population include the UK, France and Germany.

In Asia, China, India and Indonesia offer opportunities. Islamic centers of product excellence include Malaysia, Bahrain and the UAE, but Indonesia, Saudi Arabia and Pakistan are fast evolving and building their product expertise. There is significant latent potential for Islamic financial services in the US, Europe and Asia.

Global insurance brands such as Allianz, Aviva, AIG, AXA, ING, Prudential UK and international reinsurers like Swiss Re, Hannover Re and Munich Re have recognized the opportunities in the Takaful and reTakaful industry and, as a result, recently entered the market.

Major GCC banks such as Al Rajhi Bank, National Commercial Bank, Kuwait Finance House, Dubai Islamic Bank, National Bank of Dubai and Abu Dhabi Commercial Bank; regional banks in Southeast Asia like Maybank and Hong Leong Bank, and international cross-border banks like HSBC, ABN Amro and Standard Chartered Bank are also well positioned to package premier products and services for their middle-income and affluent customers and to expand their cross-border distribution reach across multiple distribution channels including — but not limited to — direct marketing and corporate group plan sponsors.

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Why Sukuk Pioneer Still the Preferred Venue

By Jane Dellar

Bahrain is today widely acknowledged in the Arab world as the hub for Islamic finance, thanks to an extensive heritage and its progressive approach. The kingdom has become a global leader, playing host to the largest concentration of Islamic financial institutions (IFIs) in the Middle East.

Its evolution into an international center for Islamic finance came in part in 1978 at the Organization of the Islamic Conference, when Bahrain was identified as the natural location to develop Islamic banking as a solution to the Muslim community's requirement for financial products and services to mirror their faith.

In 2001, Bahrain developed the world's first Sukuk (Islamic bond). It introduced the first bespoke regulations for the Shariah compliant industry in 2005. It is now in the forefront of the Sukuk market, including short-term government Sukuk, as well as leasing securities. Sukuk Al Salam Islamic bonds and Sukuk Al-Ijarah short-term Islamic leasing bonds are issued by the Bahraini government on a monthly basis to promote the kingdom's domestic market.

Currently, there are 29 Islamic banks and 15 Islamic insurance (Takaful) companies operating in the kingdom. Most Takaful operators entered the market in the past five years; such has been Takaful's growth.

Best regulated market

Bahrain's pragmatic regulations and limited bureaucracy have paved the way for it to become the location of choice for Islamic funds too, and it is now one of the largest drivers of growth in the kingdom. Bahrain has over 2,300 funds registered and more than 100 domiciled, 43 of which are Islamic.

The growth of Islamic banking worldwide has been remarkable, with total assets in this sector now estimated at US$500 million. Bahrain is home to 29 Islamic banks with a total US$15.9 billion in banking assets (as at August 2007). These include ABC Islamic Bank, Al Baraka Islamic Bank, Shamil Bank, Noriba Bank, First Islamic Investment Bank and Al-Amin Bank Bahrain. They provide a variety of products, including Murabahah, Ijarah, Mudarabah, Musharakah, Al Salam and Istisna, restricted and unrestricted investment accounts, syndications and other structures used in conventional finance, which have been appropriately modified to comply with Shariah principles.

Bahrain is arguably the best financially regulated market in the Middle East, with regulator Central Bank of Bahrain (CBB) playing a fundamental role in the adoption and success of Islamic banking in Bahrain.

CBB's record for transparency and business-friendly regulation is the best in the Middle East region. It has installed a comprehensive prudential and reporting framework, tailored for the specific concepts and needs of Islamic banking and insurance.

The CBB's rulebook for Islamic banks covers areas such as licensing requirements, capital adequacy, risk management, business conduct, financial crime and disclosure/reporting requirements. Similarly, the insurance rulebook addresses the specific features of Takaful and reTakaful firms. Both rulebooks were the first comprehensive regulatory frameworks that dealt with the Islamic finance industry.

Developing the industry further, the CBB established a special fund to finance research, education and training in Islamic finance (the Waqf fund); and is actively working with the industry and stakeholders in developing industry standards and the standardization of market practices.

In addition to the numerous IFIs active in the financial sector, Bahrain plays host to organizations that are central to the development of Islamic finance. These include The International Islamic Financial Market (IIFM), which is working towards the development of a unified derivates and hedging instrument for the Islamic industry; the Liquidity Management Center (LMC), which contributes to the Sukuk market; the Islamic International Rating Agency; and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which has identified at least 14 possible for Sukuk and continues to develop more.

One of the most recent additions to Islamic finance development in Bahrain is the Shariyah Review Bureau (SRB), a provider of independent services related to Shariah review and compliance. It became the first entity of its kind to be licensed by the CBB last year.

Prosperous economy, strong framework

A key factor that continues to draw IFIs is the kingdom's prosperous and well-diversified economy, which is less reliant on oil than other states in the region. Bahrain also boasts a strong well-established framework for financial services and markets.

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Why Sukuk Pioneer Still the Preferred Venue *(continued...)*

The Bahrain Stock Exchange was established in 1989 and is recognized as the most open capital market in the Gulf region. Meanwhile, the Economic Development Board of Bahrain (EDB) is vital to the continued development of the financial sector, with an ongoing strategy for growth designed to enhance its increasingly competitive business environment.

In May 2006, the EDB established Bahrain Financial Services Development (BFSD), which provides a dedicated resource for the kingdom's financial institutions. The remit of the BFSD is to encourage foreign direct investment into the country by identifying and targeting growth sectors including large international and leading regional companies in the financial services sector which have yet to build a base in Bahrain.

Both organizations provide evidence of Bahrain's strong public/private partnership.

As well as boasting a thriving financial services sector, a 30-year regulatory track record and standardized industry rules, Bahrain also offers IFIs and related associations a large, experienced and cost-efficient domestic workforce, high caliber raining and excellent communications links with other Gulf states. The kingdom's geographical location, centered between the European and Asian markets and time zones, provides a gateway to the region and proximity to growing private wealth in Saudi Arabia. Planning for a new causeway connection to Qatar is also underway.

Other benefits that make Bahrain an attractive destination for Islamic financial investment include its highly favorable tax environment, with no corporate, personal, value-added or withholding tax. The kingdom also boasts 100% foreign ownership for most categories of business; a sustained low rate of inflation of under 2% a year; no restriction on repatriation of capital, profits or dividends; a modern high standard of living with a cosmopolitan family atmosphere; and a world-class international airport and regional air traffic hub.

Bahrain's reputation as the world's Islamic financial capital was cemented by significant developments during 2007. Last October, the Islamic Bank of Asia (IB Asia), a joint venture between Singapore-based DBS Bank and 34 investors in the GCC region, received a banking license from the CBB to set up a representative office in Bahrain. IB Asia chairman Abdulla Hasan Saif endorsed the kingdom as the location of choice for IFIs, explaining: "Bahrain is a renowned and well-regulated epicenter of the US$1 trillion global Islamic financial industry."

New entrants into the market during 2007 included Al Masraf, which was set up in the kingdom with US$5 billion paid-up capital, and Global Banking Corporation (GBCORP), which opened as a wholesale Islamic investment bank with a paid-up capital of US$250 million and an authorized capital of US$500 million.

Meanwhile, financial institution innovation and sophistication has developed in Bahrain's Islamic finance market over the last year from the combining of talents and capabilities. In January 2007, Bahrain-based CIMB Kanoo Islamic Investment Company BSC(C), a joint venture between CIMB Group and The Kanoo Group, commenced business. The company markets and distributes specialized Islamic investment banking products and services to the Middle East, focusing on debt and equity capital markets, corporate banking, asset management and treasury services.

"Bahrain's reputation as the world's Islamic financial capital was cemented by significant developments during 2007"

Cross-border expansion was another feature of the kingdom's IFI growth this year. Bahrain-based Al Baraka Group acquired a license to operate a new subsidiary in Syria with a capital of US$100 million, International Investment Bank bought a 49% stake in Azerbaijan's Amrahbank to convert it to an Islamic bank, and Gulf International Bank (GIB) obtained a license to establish a securities company in Saudi Arabia, which will offer corporate finance advisory services.

Growth in the Islamic finance market globally is evident in the increasing number of conferences dedicated to the subject, many of which prefer Bahrain as the venue. The 14th annual World Islamic Banking Conference (WIBC), held last year in Bahrain and developed with the support of the CBB, is an example. With almost 1,000 delegates from over 35 countries attending each year, it has become the most significant platform for decision-makers to explore new and emerging market opportunities for Islamic finance. Bahrain's reputation as the preferred location for industry events such as the WIBC is a significant recognition of the importance of the kingdom as a center for Islamic finance.

Bahrain is in a strong position to take advantage of the global growth of Islamic finance, conservatively estimated at 10% to 15% per year, and meet the increasing demand for Shariah compliant products and investments driving the industry in 2008 and beyond.

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Islamic Leasing in Jordan

By Raed Rafi Al-Ali

The first leasing company in Jordan was a conventional leasing company named Jordan Equipment and Machinery established in 1982, which ultimately ended in bankruptcy. From 1998 to 2007, there were a total of 22 registered lessors. Of that number, four — two Islamic banks and two Islamic finance companies — provide Islamic leasing services to the people of Jordan.

The leasing sector in Jordan has been very progressive, as depicted in the table below. Between 2000 and 2003, the cumulative leasing portfolio (both Islamic and conventional) reached approximately JOD50 million (US$70.52 million). In the following years, the growth rate accelerated with the volume of leases rising to an average 78% annually in 2004.

In 2005, the cumulative leasing portfolio climbed to a total of JOD161 million (US$227 million). In 2007, the amount surged to JOD300 million (US$423.1 million), which represents about 2.5% of total bank loans in Jordan.

There are currently three major players in Jordan's leasing sector: the Arab Leasing Company, the Industrial Development Bank and the Arab International Islamic National Bank. Between them, they contribute more than 88% of the total new leases in the market.

The majority of Islamic bank-related leasing transactions involve the financing of real estate. The practice differs from the conventional leasing sector, which deals with various types of financing including real estate, construction equipment, production equipment and vehicles. In 2005, real estate leases constituted about 48% of total leased assets in Jordan.

Because of the positive benefits of Ijarah, Islamic banks use Ijarah in financing real estate instead of Murabahah. In 2006, Islamic banks financed a total of JOD64 million (US$90.3 million) worth of leases — a significant increase compared to past years.

Leased asset types in 2005 (%)

	Real estate	Construction equipment	Transportation equipment	Production equipment	Other
	48	2	27	20	30

Volume of leasing in Islamic banks and in Industrial Development Bank (JOD million)

	2003		2005	2006
International Islamic Arab Bank		4	19	41
Islamic Bank for Trading & Investment		3	7	23
Industrial Development Bank	3	7	21	32

Definitions in the Jordanian context

Ijarah means "to transfer the usufruct of a particular property to another person in exchange for a rent claimed from him". The term "Ijarah" is analogous to "leasing" in the English language. Conventional leasing institutions and Islamic leasing institutions in Jordan are referred as "lessor Mu'jir", the lessee "musta'jir" and the rent payable to the lesser is "Ujrah".

Islamic finance institutions in Jordan classify Ijarah as operating Ijarah and Ijarah Muntahia Bittamleek (the Islamic equivalent of finance leasing). The main criteria used for this classification is whether the lease includes a promise that the legal title will pass to the lessee at the end of the Ijarah term.

Various sectors in Jordan use "conventional leasing product" as "Islamic financial product" without considering the differences between the two. The differences between conventional leasing and Ijarah in Jordan include:

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Development in conventional leasing and Islamic finance in Jordan

	Islamic banks	Islamic financial companies	Conventional leasing institutions	Islamic insurance companies
Until end-2005	2	6	16	1
Expected at end-2008	4	8	20	3

Volume of leasing (Conventional and Islamic) in Jordan (JOD million)

	2000	2001	2002	2003	2004	2005	2006	2007
Annual leasing	3	5	7	10	36	82	150	50
Cumulative leasing	28	33	40	50	86	168	250	300

Islamic Leasing in Jordan *(continued...)*

- Temporary Jordanian Leasing Law No 16/2002

This law considers leasing as conventional leasing and uses international accounting standard (IAS). It was issued by the Ministry of Industry and Trade and it states that an entity practicing leasing must have a legal entity status with paid-up capital of at least JOD1 million (US$1.41 million). This law is set to be amended in early 2008 and among the issues are:

(a) Right of ownership: Leasing is a financial instrument if the right of ownership is held by the lessor. But in this case, the right of possession and usage is held by the lessee. The right of ownership of the leased asset belongs to the lessor until the lessee has paid all of the lease payments.

(b) Obligations: The lessee is obligated to make all leasing payments without regard to the actual use of the asset while the lessor's responsibilities with regard to the leased asset should be limited.

(c) The lessor should only be responsible for the failure on the part of a supplier when the lessor selects the supplier and the leased asset or if the supplier's failures were the result of the lessor's wrongful acts or omissions the rationale for this is that in a finance the lessor typically is a financing agent for a lessee who usually identifies the supplier and chooses the equipment.

- Accounting treatment

Jordan's law on leasing states that International Accounting Standard (IAS) 17 is applicable to all leasing operations in Jordan. IAS 17 covers many areas, including the allocation of lease payments to finance charges and the reduction of the outstanding liability. But Islamic finance institutions in Jordan use standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

- Ownership responsibilities

The conventional lease aims to move the lessor as far away as possible from any ownership responsibilities in contrast to the Ijarah, which requires the lessor to maintain the basic responsibilities of ownership such as repairs and maintenance.

- Interest rates

In conventional leasing where an asset is finance floating rate funds, the lessor will usually pass the risk of rate fluctuations down to the lessee through the rentals payable by the lessee. But for Ijarah, lease rentals cannot be expressed by reference to interest rates. Instead, the amount and timing of the lease payments should be agreed upon in advance, although the agreed schedule and amount of payments need not be uniform.

Islamic International Arab Bank and Jordan Islamic Bank have overcome the problem by referring to the rental payable under the lease at the date of signing, but subject to adjustments by reference to provisions in other documents, or the rent was adjusted by using benchmarks (like the London interbank offered rate, or LIBOR) to determine the rental amounts.

"Although many positive developments took place in the Islamic finance and Islamic leasing sectors in Jordan, the number of Islamic finance and Islamic leasing institutions and their entire operations is considered to be minimal in comparison to conventional leasing institutions"

- Allowable assets

An asset subject to an Ijarah contract prohibits assets of whatever kind that are connected with an activity or product that is unIslamic or is not Shariah-compliant.

- Penalty for late payment

In conventional leasing, a penalty is imposed on the lessee in the event the payment of rent is delayed after due date. This penalty fee adds to the income of the lessor. Ijarah does not allow penalty for late payment.

Factors for success

Although many positive developments took place in the Islamic finance and Islamic leasing sectors in Jordan, the number of Islamic finance and Islamic leasing institutions and their entire operations is considered to be minimal in comparison to conventional leasing institutions.

The following recommendations can be considered to improve the Islamic leasing sector in Jordan:

1. Improving the quality of services — Islamic leasing institutions should develop their manpower and working environment and the systems of marketing and operations to be on par with the services provided by their conventional counterpart.

2. Creating awareness — Marketing units within Islamic leasing institutions must play a bigger role in improving public awareness of the difference between the

Islamic Leasing in Jordan *(continued...)*

conventional and Islamic leasing sectors. Ignorance in this regard has led many to use conventional leasing thinking that it is an Islamic financial product.

3. Transfer of expertise — Islamic finance institutions in Jordan should consider seeking expert advice from experienced Islamic finance institutions in the Islamic world, mainly Malaysia and the Gulf.

4. Bank on Sukuk — Islamic finance institutions in Jordan should get involved in Sukuk Al-Ijarah because it is the most popular and common type of investment in the Muslim world.

Bright future ahead

Jordan's political system and economical stability encourage banks, investment firms and real estate companies to invest in Jordan. In 2006 and 2007, the Islamic leasing and finance sectors in Jordan saw major positive developments.

Many Shariah compliant real estate, leasing and investment companies were launched, including the First Finance Company and the Jordan Real Estate Company for Development.

In addition, several leading Arab Shariah compliant companies had announced their intentions to start operations in Jordan. The announcements include:

- Tameer Holding Co, a leading property development firm in the UAE. It is set to launch a unique residential project in Jordan.
- Kuwait Finance House Jordan registered as a private shareholding company with a capital of JOD35.4 million (US$50 million). It will be investing in real estate, finance, stocks, securities, industry, trade, agriculture and land reclamation, in addition to tourism and mining.
- Amlak Finance (PJSC), also from the UAE, will be setting up Amlak Finance (Jordan) this year.
- Islamic Dubai Bank forms a strategic partnership with the Industrial Development Bank to start an Islamic bank.

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Sky's the Limit for Islamic Banking in Lebanon

By Badih S Khatib

Lebanon is a small country marked by an open multi-faith society with a Muslim population of almost two million, but it has one of the most solid conventional banking sectors in the greater Middle East and a thriving Islamic banking sector.

In 1956, Parliament passed the Banking Secrecy Act which essentially rendered Lebanon the tax haven of the Middle East and attracted petrodollars from the Gulf countries in the early 1970s. Naturally, the banking sector thrived and Beirut became the financial capital of the Middle East. It is this experience and financial background that brought the country and its economy back to its feet in record time following the end of the civil war and the devastating effects of the July 2006 war against Israel.

Today, the banking sector is still one of the most solid in the world. Lebanese banks are becoming regional powerhouses and spreading their presence and experience in the Middle East, from Algeria to Iraq.

Islamic banking history

Islamic banking in Lebanon is relatively new as laws to establish Islamic banks with all their different instruments were passed only in February 2004 by Parliament under legislation No 575, giving the Central Bank of Lebanon (CBL) authority and supervision.

Shortly after, CBL circulated the first executive circular which paved the way for the establishment of the country's first Islamic bank. In order to be issued a license, CBL stipulated that an Islamic bank owned by a foreign entity must have a minimum paid-up capital of US$100 million whereas a Lebanese entity needed to put up only US$20 million.

Currently, there are four full-fledged Islamic banks, with another two pending approval. The four banks are:

- Arab Finance House, part of Qatar Islamic Bank Network established at the end of 2004 and that has now become the largest comprehensive Islamic bank in Lebanon.
- Al Baraka Bank Lebanon, part of the Dallah Baraka Network established in 1993 as a merchant bank and operating under fiduciary laws and in compliance with Shariah directives. In 2007, it became a full-fledged Islamic bank.
- Lebanese Islamic Bank, part of Credit Libanais Bank, one of the largest conventional banks; and
- BLOM Development Bank, part of the BLOM Network.

Compared to other economies in the region, to have four Islamic banks operating in an economy with two million Muslims within three years is extraordinary. This proves that Lebanon is becoming the hub for Islamic banking for the Middle East (Lebanon, Syria, Jordan and Iraq). Local banks are capitalizing on their know-how and their already established regional channels to attract Islamic businesses.

On the other hand, it will be observed from the above mentioned list that of the four banks, two are owned by international Islamic entities and two by existing conventional Lebanese banks.

"With land prices escalating and real estate projects sprouting up like mushrooms, Islamic banks in Lebanon are trying to set up special real estate funds in order to capitalize on the booming economies of the Gulf and attract additional funds"

Foreign Islamic entities are trying to capitalize on the status of the Lebanese banking sector, the soundness of the economy supported by a strong deposit base and the liberal economic laws with its most important Secrecy Act of 1956, in order to open Islamic subsidiaries in Lebanon.

This is despite all the problems that the economy has been facing and the repercussions from the political situation and the July 2006 war with Israel.

Functions of Islamic banks

As Islamic banks in Lebanon are full-fledged banks and not merely Islamic windows, they are allowed to conduct all Islamic transactions ranging from Murabahah, Mussawama and Istisna to Mudarabah, Musharakah and Salam.

With land prices escalating and real estate projects sprouting up like mushrooms, Islamic banks in Lebanon are trying to set up special real estate funds in order to capitalize on the booming economies of the Gulf and attract additional funds.

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Sky's the Limit for Islamic Banking in Lebanon *(continued...)*

In addition, due to the presence of a strong conventional banking sector, Islamic banks used the commodity Murabahah in order to manage their liquidity in the local market. Through commodity Murabahah agreements, Islamic banks would purchase commodities such as palladium or platinum on spot basis from the international commodity markets and sell them to conventional banks on the same basis, but with deferred payment dates adding their profits on the initial price.

This cooperation has enabled Islamic banks to grow in harmony with their conventional counterparts, considering that competition is virtually nonexistent between the two sectors.

"The intention was to have two banking sectors that operate independently of each other yet are in complete harmony under an integrated financial industry"

Central bank policies and procedures

Since Parliament enacted the Islamic banking laws, CBL has been working slowly but surely to introduce executive circulars with the coordination of Islamic banks. It is central bank policy to separate Islamic and conventional banks. This is the reason conventional banks are not allowed to open Islamic windows.

On the other hand, the central bank gave an advantage to Lebanese conventional banks in allowing them to open full-fledged Islamic banks with a minimum paid-up capital of US$20 million.

The intention was to have two banking sectors that operate independently of each other yet are in complete harmony under an integrated financial industry.

In its efforts to integrate Islamic banks into this new harmonious financial system, the central bank has signed commodity Murabahah agreements with existing Islamic banks allowing them to deposit their legal reserve requirement with the central bank in a Shariah compliant way, earning purified profits.

This has put Islamic banks on equal footing with conventional banks and paved the way for the central bank to attract funds and accept deposits from international Islamic banks. Bear in mind that the Central Bank of Lebanon is the only conventional central bank that has developed such a program.

In addition, many steps have been taken to transform government programs such as Kafalat and render them Shariah compliant. These programs are tailored for the small to medium-level companies where the government would help in acquiring a durable asset such as a machine or a small factory in the form of interest subsidy on an installment loan. With the cooperation of the Shariah board at Arab Finance House sal, many steps have been taken to modify the contracts and adapt this program to Islamic Shariah.

Once transformed and introduced, hopefully during the first quarter of 2008, Islamic banks would be able to use this program on a retail level and give the end client the option to choose a financing method that best suits his needs and beliefs. This would have a ripple effect on the entire economy.

Conclusion

Islamic banking in Lebanon is still in its infancy and has a long way to go. But with the earnest supervision of top management, the relentless efforts of Shariah boards, the vision of the central bank and the cooperation of the conventional banking sector, Islamic banking is bound to flourish. Lebanon is poised to become the hub for its activities.

As our general manager Dr Fouad Matraji puts it, the sky's the limit.

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The Syrian 'Experiment' on Islamic Banking

By Louay Habbal

The year 2007 will surely be remembered in modern Syrian history, for it was the year that the first Islamic bank (Cham Bank) was inaugurated. Shortly after, Syria International Islamic Bank opened its doors to overly excited customers with a strong appetite for Shariah compliant banking services. A third Islamic bank, Albaraka, is expected to start operations in the second half of this year.

Islamic banking in Syria is expected to grow at a strong pace and new players will continue to enter the market. Adeeb Mayaleh, governor of the Central Bank of Syria (CBS), confirmed in a statement during the opening ceremony of Cham Bank that there are several pending applications from newer players set to make a foray into the booming Islamic finance and banking sector. He also confirmed that Islamic banks will soon be required to raise their capital from the current US$100 million to US$200 million.

> "Syria has adopted a prudent policy in the area of economic and administrative reforms, targeting a more conducive economic environment based on private sector involvement but with due attention to social balance"

The arrival of private banks into Syria started on the 29th March 2002, when the Syrian Parliament approved an Act establishing the Monetary and Credit Council (MCC). For the first time since the 1950s, foreign banks could enter the Syrian market although the institutions that applied were still required to be 51% Syrian-owned and could not be offshore branches of existing banks.

In April 2003, Syria issued licenses to three private sector banks with 49% foreign ownership, all from Arab countries. By January 2004, two had officially opened; the third followed shortly thereafter. By the end of 2007, there were seven conventional banks operating in Syria. More importantly, in 2005, the CBS also issued separate regulations for the creation and operation of Islamic banks.

New financial era

Syria opened up to the outside world only very recently, when President Bashar Assad was sworn into office in 2000. The previous period (1960-2000) was marked by a socialist, nationalized economy with strong restrictions on private investments.

Beginning in 2003, the government began to revisit many of these restrictive policies. Starting with the financial sector and the trade regime, it embarked on a policy of incremental and gradual reforms. For the first time since the 1950s, the authorities seemed keen on encouraging private entrepreneurship, promoting market mechanics and opening up the Syrian economy.

The government has redirected its economic priorities away from industrial expansion to the agricultural sector to achieve food self-sufficiency, enhance export earnings and stem rural migration. A number of major reforms, particularly in the finance sector, have led to an improved economic environment and growth.

Syria has adopted a prudent policy in the area of economic and administrative reforms, targeting a more conducive economic environment based on private sector involvement but with due attention to social balance. The state has started to modernize the country's banking structure, revise the foreign exchange (forex) system, privatize a number of public companies, improve the business climate and simplify customs formalities.

Certain state monopolies were opened to competition, notably in metallurgy, textiles and dairy products. Special attention has also been paid to education and training. Syrian authorities enacted several laws that gave a strong signal to local and international communities that the country was embracing across-the-board, reform-based policies and a free social economy.

The last four years have witnessed the enactment of several important laws that have changed the Syrian financial landscape forever. For example, in May 2005, law no 43 was passed, authorizing private insurance companies to establish a local presence in Syria for the first time in four decades. The minimum capital requirement for insurance firms was set at US$14.5 million.

Since this law was passed, nine companies have been licensed to start operations. Another law was passed in

continued...

The Syrian 'Experiment' on Islamic Banking *(continued...)*

May 2005, authorizing private investors to establish Islamic banks. The requirements were similar to those for traditional banks, which had been approved a few years earlier, except for the minimum required capital of US$100 million instead of the US$30 million for traditional banks.

"Foreign currency converted locally by selling Syrian pounds can be credited to the foreign currency accounts but cannot be remitted overseas in foreign currency"

Other laws include law no 15, which was enacted in 2007, allowing the establishment of financial institutions with a focus on small loans and microfinance. The establishment of the Damascus Stock Exchange (DSE) in October 2006 was another milestone in the reform process.

Although the DSE is not expected to start trading until the second half of 2008, its mere presence has encouraged Syrian businesses to upgrade their accounting, financial and disclosure procedures. The new banking and financial laws include provisions for opening bank accounts by Syrian citizens, in foreign currency and the possibility of transferring funds overseas.

These laws confirm Syria's commitment to adopting forward-looking monetary and financial policies. The opening of the financial sector to private investors has improved confidence of economic operators and stimulated competition between newly established private banks.

Private banks have attracted many new customers and considerable deposits; and public banks, in particular the Commercial Bank of Syria, started modernizing and launching new services including Visa, an electronic payment network, bill-payment and e-banking.

Regulatory environment

CBS was established by Legislative Decree No 87 dated the 28th March 1953, which included the basic monetary system of Syria. The bank started operations on the 1st August 1956 with its headquarters in the city of Damascus and 11 branches located in the provincial capitals of Syria.

CBS formulates and conducts monetary policy towards the achievement of maximum sustainable long-term growth and price stability. It has the important role of promoting a safe, sound, competitive and a stable financial market through supervision and regulation of the nation's banking and financial systems. It fosters the integrity, efficiency and accessibility of the domestic currency payments and settlement systems, issue a uniform currency and act as the fiscal agent and depository of the government.

In its capacity as a bankers' bank, CBS requires the banks to invest their required reserves, and their special reserves in securities issued by the state or guaranteed by it, or to invest a fraction of its surplus funds and a part of their deposits in government securities.

The reserve requirements for conventional as well as Islamic banks are the same. Banks are required to put 10% of their capital with CBS, which is only refundable upon the liquidation of the bank. In addition, all banks are required to keep 5% of their deposits as cash reserves and there are no returns paid by CBS on these reserves. However, as at the end of 2007, no government securities were being issued.

As part of the initiatives by the government and CBS to modernize the Syrian financial industry, the central bank is currently implementing the following activities.

(1) Establish a national automated clearinghouse for interbank and international settlements. This is expected to commence operations during the first quarter.
(2) Establish an infrastructure for issuance and management of short-term Treasury Bills and long term government bonds. This is expected to commence in 2008. This applies only to conventional banking and as at the end of 2007; there were no plans to develop any such instruments for Islamic banking.
(3) Establish a national credit information bureau to warehouse information on bad debt. This is still at the conceptual stage and no real work has been done on it yet. This could be a potentially lucrative business opportunity while doing a great service to the banking industry.
(4) Adopt rules and regulations to actively monitor money-laundering activities and to fully comply with Basel II.

One of CBS' success stories in its efforts to reform the financial sector was the long-awaited reform of the forex regime. The forex system has been relaxed over time from a stage where it was a criminal offense to possess foreign currency to a stage that it can be freely and legally be purchased and sold through banks and money changers. Under the new system, banks are allowed to make remittances overseas for all trade-related transactions.

Foreign currency converted locally by selling Syrian pounds can be credited to the foreign currency accounts but cannot

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The Syrian 'Experiment' on Islamic Banking *(continued...)*

be remitted overseas in foreign currency. Profits and interest generated annually by the contributions and shares held by foreigners who were originally bought in foreign currency can be remitted back in foreign currency. Remunerations and bonuses due to non-Syrian members of the board of directors of local private banks or those who hold similar status can also be remitted in foreign currency.

Half of the net wages, salaries and remunerations and 100% of the end-service compensation due to foreign experts and technicians working with the banks can be remitted back in foreign currency. Capital remitted in foreign currency to Syria by foreigners can be remitted back and placed overseas for better returns.

"The Syrian Islamic banking market will witness during 2008 the arrival of three more Islamic banks: Syrian Bank for Trade and Finance, Dubai Islamic Bank and Noor Islamic of Kuwait"

The interest rate management regime has also been liberalized. For a long time, CBS would determine the minimum and maximum rates on deposits and loans and in turn also control the spreads. As a first step, the banks were allowed to determine their own rates for loan products. In the latest development, banks are now free to decide the rates for deposits products.

Current Islamic banking players

A new law enacted in May 2005 allowed the establishment of Islamic banks. Unlike the traditional private banks that were initially capitalized at a minimum of SYP1.5 billion (US$30 million), the minimum capital requirement for any aspiring Islamic bank in Syria is SYP5 billion (US$100 million).

Islamic banks in Syria will benefit from the religiously conservative nature of the Syrian population. The initial public offering launched by Cham Bank, the first Islamic bank to begin operations, was well oversubscribed. Syria International Islamic Bank and Cham Bank are overwhelmed with customers wishing to open accounts and requiring more services.

No statistical information from CBS is yet available on the financial performance of these banks. Lack of hard data makes it difficult to assess the potential of Islamic banking in Syria. However, the success of Islamic banks throughout the region is indicative of the future of Islamic banking in Syria. Moreover, Islamic banks may have an edge over conventional banks as the law allows Islamic banks to invest in a wider scope of activities, enter into partnerships and own real estate.

The Syrian Islamic banking market will witness during 2008 the arrival of three more Islamic banks: Syrian Bank for Trade and Finance, Dubai Islamic Bank and Noor Islamic of Kuwait. More, most notably the well capitalized and newly established Al-Salam Bank of Bahrain, are expected to submit their applications.

Although it is expected that demand for Islamic banks in Syria will outstrip demand for conventional ones, both Islamic and conventional institutions face the same threats that conventional banks do. Lack of availability of trained human resources is by far the biggest threat faced by the banking industry in general and Islamic banking in particular. Staffing constraints will result in delays in the opening of a new bank with a potential adverse impact on earnings and market image. Delays by CBS in introducing treasury bills and long-term government bonds, particularly for Islamic banking, will also affect the earnings.

Another threat could be the result of an aggressive expansion of the branch network. Expansion could have an adverse impact on earnings due to high front-end expenses without the associated revenues to support them as well as generating excess liquidity which cannot be productively deployed.

Finally, critics and supporters of the Syrian experiment are monitoring the performance of both Islamic and conventional banks and their impact on the economy. CBS is also under scrutiny. It is expected to conduct effective supervision despite stretched resources and be equipped with the necessary skills and expertise to successfully manage the transition into a free economy. More importantly, the success of CBS at this stage will encourage European institutions to enter the highly lucrative Syrian financial market.

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Islamic Banking in the United Arab Emirates

By Dr Taha El Tayeb Ahmed

The United Arab Emirates (UAE) was founded in 1971 as a federal state comprising seven emirates (Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Umm Al Quwain and Ras Al Khaimah). The UAE is a major oil producer, and is the third-largest economy in the Middle East after Saudi Arabia and Egypt.

Apart from oil, the UAE exports many non-oil goods including aluminum. However, re-exporting of goods accounts for a noticeable share of trade. After all, it is strategically located between Asia/Europe/Africa and the Middle East. This has made Dubai a major regional and international trade hub. In fact, the UAE is the third-largest re-export center in the world after Hong Kong and Singapore, but with higher growth rates. The generous free trade zone rules have been instrumental in positioning the UAE as a commercial re-export center.

The UAE produces approximately 10% of world oil reserves, which generate one-third of UAE gross domestic product (GDP), and approximately half of export earnings. GDP in 2007 increased to US$195 billion but oil represented 38% of this figure. The average annual growth rate over the last four years was 9% and the per-capita income is currently close to US$50,000.

The UAE has steadily maintained current-account surplus over the years. The contribution of exports to GDP had increased to 87.3% by the end of 2005. This is at a growth of 26.9%, which was more than double the growth in imports of 12%, resulting in a trade surplus of AED162.8 billion (US$44.6 billion). The driving forces of the economy in the next few years will continue to be the surging oil prices, tourism and investments in project finance.

UAE banking sector

These impressive macroeconomic indicators have a positive impact on the banking sector in the UAE, which has 47 banks licensed by Emirates Central Bank. Of the 47, 22 are local and 25 are foreign banks, operating through 677 branches. By the end of the third quarter of 2007, total assets of the banking industry stood at AED1,065 billion (US$292 billion) and bank deposits were AED652 billion (US$179 billion).

Loans and advances outstanding as at 30th September 2007 were AED645 billion (US$177 billion). Total capital and reserves of the industry as at the same date were AED111 billion (US$30.4 billion), and the average return on equity was 21.4 % and average RoA was 2.28%.

Islamic banking

Islamic banking began in the UAE in 1975, when Dubai Islamic Bank was licensed to commence operations as the first public holding company conducting business governed by the precepts of Shariah. Nothing happened until Abu Dhabi Islamic Bank (ADIB) was established in 1997. Later on, Sharjah Islamic Bank, Emirates Islamic Bank and Dubai Bank made their entrance in 2002, 2004 and 2007 respectively as a result of board decisions to convert those institutions from conventional to Islamic banks. More recently, Central Bank of the UAE has licensed Noor Islamic Bank, Al Hilal Islamic Bank and Ajman Islamic Bank.

Table 1 provides a summary of assets, liabilities and net profit of five Islamic banks for which financial data is available.

The Islamic finance industry in the UAE comprises eight full-fledged banking institutions, three Takaful companies, 11

continued...

Table 1

AED million	Assets				Deposits				Net profit			
Bank	2005	2006	2007	Growth (%)*	2005	2006	2007	Growth (%)*	2005	2006	2007	Growth (%)*
Dubai Islamic Bank	43,500	64,500	74,100	70	39,100	55,600	57,500	47	1,060	1,560	1,900	79
Abu Dhabi Islamic Bank	22,000	36,000	44,000	86	20,100	33,000	36,000	79	344	572	137	-6
Emirates Islamic Bank	4,800	10,500	14,000	192	3,900	9,500	12,000	208	51	117	145	184
Sharjah Islamic Bank	5,300	7,600	10,000	89	3,200	5,500	6,400	100	186	201	172	-7
Dubai Bank	4,800	5,500	9,800	104	4,200	4,900	5,500	31	103	105	125	21

** Figures as at 30th September 2007*
** Growth is calculated using 2005 figures as base years, so the growth rates calculated above are over a period of two years.*

Islamic Banking in the United Arab Emirates *(continued...)*

Islamic finance companies and 14 Islamic banking divisions or windows of conventional banks. Then there are the National Bonds Company and two conventional finance companies offering Islamic finance products alongside conventional products.

A unique feature of the UAE banking and finance industry is the noticeable presence of finance companies. Finance companies are formed under Federal Law No 8 (Commercial Companies Law). They undertake one or more of the following activities:

1. Extending advances and/or personal loans for various consumption purposes.
2. Financing trade, opening L/Cs and issuing guarantees in favor of corporate customers.
3. Subscribing to the capital of projects and/or issuing of stocks, bonds and/or certificates of deposits.

However, finance companies have the following restrictions:

1. Subscription to capital of projects, issuing of stocks/ bonds or certificates of deposits should not exceed 7% of capital.
2. Legal capital should not be less than AED35 million (US$9.6 million) and national shareholding not less than 60% of the paid-up capital.
3. Single obligor exposure should not exceed 35% of capital.

"It is a regulatory and Shariah requirement that activities of Islamic banking windows be separated from conventional activities"

Many investors have set up their finance companies to be Shariah compliant. As mentioned, there are 11 Islamic finance companies licensed to operate in the UAE, most of which are under establishment. Table 2 shows the financial figures for three Islamic finance companies in operation.

Islamic banking windows are a feature of Islamic finance in many countries. Fourteen conventional banks in the UAE offer Islamic retail, corporate and investment banking products through a specialized division known as "windows". It is a regulatory and Shariah requirement that activities of Islamic banking windows be separated from conventional activities (separate books of accounts). Many banks in the UAE have been selling their Islamic banking services under selected brand names such as Amanah, Badr Al Islami, Sadiq, Meathaq and Siraj.

In terms of products and services, the industry offers a range as shown in Table 3.

Table 3: Islamic banking products available in the UAE market

Retail deposits:	**Corporate deposits**
Current account – Qardh	Current Account – Qardh
Saving account – Mudarabah	Term Deposit – Mudarabah
Term deposit – Mudarabah	Term Deposit – Wakalah
	Term Deposit – Commodity Mudarabah
Consumer finance (Personal)	**Corporate finance and services**
Personal Murabahah Finance (Tawarruq)*	Ijarah term finance (Acquiring Land, Real Estate, equipment, etc.)
Home finance (Ijarah)	Istisna (Project finance)
Vehicle finance (Murabahah)	Musharakah (syndicated term finance or Sukuk)
Goods finance (Murabahah)	Mudarabah (L/C, syndicated term finance or Sukuk)
Islamic credit card (Tawarruq or Ajr + Qardh Hasan)	Trade finance L/C (Musharakah, Murabahah, or Wakalah)
Murabahah Share Financing (only available from Badr Al Islami)	International Mudarabah Tawaruq (term finance)
Service Ijarah	Sukuk Structuring and advisory service
Takaful coverage (life, finance risk coverage obtained from Takaful firms)	Letter of guarantee (Kafala)
Investment products and services	
Equity Sukuk and commodity funds	
Asset management	
Real estate investment/advisory services	
Private banking service	

**Tawarruq is only available from a couple of Islamic financial institutions in the UAE because it is not widely accepted by Shariah supervisory boards and/or the management of many institutions*

continued...

Table 2

	Assets				Deposits				Net profits			
AED million Islamic finance companies	2005	2006	2007	Growth (%)	2005	2006	2007	Growth	2005	2006	2007	Growth (%)
Amlak	4,700	5,000	7,000	49	–	–	–	–	106	130	137	29
Tamweel	1,300	2,600	4,300	231	–	–	–	–	42	852	244	481
Al Badr Islamic Finance Co*	–	–	734				217		–	–	15	–

**Al Badr Islamic Finance Co commenced business early last year*

Islamic Banking in the United Arab Emirates *(continued...)*

National Bonds is the UAE Shariah compliant savings scheme based on the Mudarabah structure. The organization is jointly owned by the government of Dubai, Dubai Holdings, Emmar Properties and Dubai Bank. Its main mission is to raise Shariah compliant finance. A saver can buy any number of bonds to join the monthly draw to win a prize. The scheme offers up to 260,000 prizes ranging from AED100 to AED1 million (US$27.23 to US$272,331) every year, including one top prize for AED1 million. The scheme invests the money in Shariah compliant earning assets (mainly properties) and distributes 2% of the profits to savers.

"Comprehensive financial data from the Islamic finance industry in the UAE is not available, either because financial data is not published separately or because the institution is new"

In January 2008, the fund announced Mudarabah return of 6.03%. The bond denomination is AED10 (US$2.72) and minimum purchase is AED100 (10 bonds) in order to enter the draw. No financials have so far been published by the company.

Comprehensive financial data from the Islamic finance industry in the UAE is not available, either because financial data is not published separately (in the case of windows) or because the institution is new. Anyway, most of the Islamic finance companies and the Islamic banking windows are under establishment.

Table 4 summarizes the financials available for the UAE banking industry and compares it with what is available for the Islamic finance industry. The figure shows that Islamic finance commands 15.4% of aggregate banking assets and 18% of aggregate banking deposits. These figures do not include Islamic finance under the Islamic banking windows and the National Bonds Company.

Table 4

	Islamic finance (AED billion)	Total banks (AED billion)	Islamic as a percentage of total
Assets	164	1,064.9	15.4
Deposits	118	651.5	18

** Figures for year 2007*

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Islamic Financial Services in Italy

By Alberto Brugnoni

The history of Islam in Italy started when Sicily and some Italian regions were part of the Muslim Umma between 828 and 1300. From that time, and through the country's unification in 1861, Islam was almost entirely absent. In the 1970s, the first trickle of North African immigrants began arriving: They were mostly of Berber and Arab origin and came mainly from Morocco. In more recent years, they have been followed by people from Albania, Egypt, Tunisia, Senegal, Somalia, Pakistan and other Islamic countries.

Immigrants and their status in Italy became politically visible only in the early 1990s with the adoption of the first of four laws legalizing immigrant status. As such, the melting pot phenomenon that has characterized the major western societies for the last 50 years is a new experience in Italian public opinion.

Italy's situation also differs from that of other major European countries in the sense that it has developed industrially without much dependence on foreign workers. Therefore, the new immigrants have sometimes been perceived as connected to structural problems in Italian society or as a competing force with local labor.

Present situation

According to the latest Italian official statistics, Muslims make up about 32% of the 3.7 million foreigners living in Italy as at January 2007. To these 1.2 million Muslim legal residents, another 100,000 to 150,000 unofficial Muslim immigrants should be added. The number of foreign Muslims who have been granted Italian nationality is estimated at 50,000, while Italian Muslims (converts of full Italian ancestry who previously belonged to the Catholic faith or had no religion) are estimated to be 10,000. Therefore, the number of Muslims living in Italy is currently around 1.4 million.

Today, Muslims represent around 2.3% of Italy's population, a percentage much lower than that of other major European Union countries, and still slightly lower than that recorded in Italy between the middle of the ninth century and the end of the 13th century. While in medieval times the Muslim population was almost totally concentrated in insular (Sicily, Sardinia) and southern (Calabria, Puglia) Italy, it is now more evenly distributed, with almost 55% of Muslims living in the north of Italy, 25% in the center and 20% in the south.

The relatively small size and young age of the local Muslim community means that Islam has yet to make a significant impact on public life, but there are signs that this is changing.

For example, while Islam is not yet formally recognized by the state, despite being the second-largest faith after Catholicism, Rome houses the biggest mosque in Europe. This post-modern building, designed almost 25 years ago, displays an impressive unity of oriental and occidental architecture.

Italian regulation of Islamic financial services

The modern Italian banking system has witnessed, since the country's unification, the promulgation of banking laws that met the specific regulatory needs of the different periods of its industrialization process. The last major reform of the entire credit and financial market took place between 1985 and 1993, and resulted in a model that follows the rules of both public and business laws and that requires an interdisciplinary approach to individual issues.

The last issue to which the banking system has been confronted is the emergence of new models of credit brokerage based on principles that are religious in nature and that find their source in the Quran. This issue has resulted in a lively — and still open — debate on the compatibility of Islamic activities with the current Italian banking regulatory system.

The debate focuses on the resolution of important interpretative issues on the legal classification of the Islamic activities; and it also aims to determine whether the current regulatory structure can embrace the Islamic model of banking activity or whether, in light of any pronounced incompatibility, it becomes necessary to identify other norms that actually permit the legal regulation of the Islamic model.

The issue of the difference in the level of risk that the depositor assumes in the Islamic versus the Italian system and the fact that the Islamic banks do not collect interest when providing financing has been addressed with particular care.

The issue of the so-called "EU (European Union) passporting" — where an institution authorized in a EU country may offer products throughout the EU without the need to have separate authorization in each member country — and the second EU directive on banking (646/1989) with its two fundamental principles of mutual recognition and prudential vigilance has also had a significant bearing on the debate. The proposed solutions can be found in *La Banca Islamica*

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Islamic Financial Services in Italy *(continued...)*

e la Disciplina Bancaria Europea (The Islamic Bank and the European Banking Legislation), G Gimigliano/G Rotondo (ed. by), Giuffré Editori, Milano (2006).

Events in 2007

Last year saw an array of events and publications that have fostered awareness of the Islamic financial services (IFS) industry and helped build up the momentum. In January, the Fondazione Housing Sociale — set up by the Fondazione Cariplo, one of the largest banking foundations in the world — commissioned to ASSAIF a study on the structuring of Shariah compliant home finance products for the Italian Muslim community.

"There is a viable local market for Islamic financial products in Italy. Given its size, a number of research institutes, banks and legal partnerships are looking at IFS with keen interest."

In early May, the city of Padova and Banca Popolare Etica organized a widely attended conference on Islamic finance. At the end of May, the well-known Università Cattolica of Milan held a seminar on Islamic finance attended by several students of the prestigious university. In July, the European Business Ethics Network (EBEN) hosted in Bergamo a two-day seminar on "Finance & Society in Ethical Perspective" where, inter alia, different aspects of Islamic equity finance were discussed.

In October, the Italian Banking Association (ABI) and the Union of Arab Banks (UAB) signed in Rome a memorandum of understanding that, in due time, shall lead to the establishment of the first Islamic bank in Italy. ABI, the Islamic Development Bank and UBAE had previously organized a major event in Rome on "Banks and Islamic Finance". At the end of October, Welcomebank/Etnica published "Stili Migranti", a thorough study where the "Islam marketing" issue in Italy is widely analyzed. November saw the presentation of Banche e immigrati: credito, finanza islamica e rimesse by N Borracchini that focused on Islamic finance and money transfers. In December, M Mauri, a researcher at ASSAIF, put the final touches to Islamic Banking in Italy. This work, shortly to be published by Il Mulino, will be the reference book for the IFS in Italy.

Features

The first Murabahah deal ever transacted in Italy has been concluded in the historical city of Pavia. It featured the acquisition of an industrial building by a special purpose vehicle and its disposal to a local Muslim association for its use as a cultural center. It will soon be followed by an Ijarah wa iqtina transaction. This single shot deal required several months of legal and fiscal work, performed by ASSAIF members, to put together a transaction that could satisfy both the Shariah requirements and the Italian civil code.

In the end, the Murabahah, which had been privately funded, went through with the full satisfaction of the Ministry of Finance and local Shariah scholars. It must be noted, though, that the double stamp issue, common to many EU countries, made this transaction pricey.

Home finance is a particularly promising market for the IFS industry. Last year, 20% of the real estate transactions, equivalent to €17.5 billion (US$26 million), registered an immigrant as a buyer. Very detailed market studies that analyze regions, cities, trends, flows and the buying power of different groups of immigrants are available. Cassa di Risparmio di Fabriano e Cupramontana, a regional bank in Central Italy, proposes a mortgage for the Muslim immigrants that is "Quranic compliant".

Conclusion

There is a viable local market for Islamic financial products in Italy. Given its size, a number of research institutes, banks and legal partnerships are looking at IFS with keen interest. Important initiatives are expected this year in areas such as financial inclusion and religious diversification, consumer finance, home finance, pensions and investments.

Although not part of the Islamic world, Italy plays a key role in the Euro-Arab dialogue and is taking the initiative in shaping a new EU Mediterranean policy. Italy is also relevant to Middle Eastern investors for its industrial heritage and real estate, whether they are adhering to Shariah principles or not.

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Marking the Next Phase: Innovation

By Paul Wouters

The sector keeps growing steadily. And this is not only in nominal figures, but also vis-à-vis the conventional counterpart. Dating from the crisis in 2001, the market share has consistently increased for the last six years now, so in deposits taken and loans given.

This has happened without any particular incentive or preferential treatment from the government and with a rather limited range of products.

Turkish participation banks compared to Turkish banking (September 2007)			
	Deposits (%)	Loans (%)	Assets (%)
2005	3.33	4,89	2.54
2006	3.65	4.93	2.83
2007/3Q	3.87	5.66	3.32

Source: Participation Banks Association Turkey

At the same time, participation banks have grown stronger in equity and financial means. Bank Asya had a successful initial public offering in 2006, followed by Albaraka Türk (Albaraka Banking Group ABG – Bahrain) in 2007, and Kuveyt Türk (Kuwait Finance House KFH – Kuwait) will round this off during the first quarter of 2008.

Türkiye Finans gained a solid partner in National Commercial Bank NCB (KSA) that took a 60% shareholding and will give access to substantial additional financial resources. After Türkiye Finans broke the ceiling of 100 branches in 2006, Bank Asya followed suit a year later. Albaraka Türk and Kuveyt Türk might be assumed to open their 100th branches in 2008 or at the latest, early 2009.

All this is not so much a luxury as it is a necessity in order to stay ahead in (or at least keep abreast with) the growing banking market, as the present economical boom spreads welfare throughout the country.

The participation banks now all have a more solid basis that allows renewed expansion. Currently, all of them have an adequate strategy of branching out and Bank Asya and Kuveyt Türk are reported to be looking "beyond the borders".

As in the past, direct contribution by the participation banks to the real estate sector surpasses that of their conventional counterparts.

Turkish participation banks Total shareholders' equity 2007/3Q			
	Shareholders' equity (thousands YTL)	Shareholders' equity (thousand US$)	Total change (%)
2001	203,000	141,000	
2002	400,000	245,000	74
2003	670,000	478,000	95
2004	891,851	664,222	39
2005	951,089	705,398	6
2006	1,559,717	1,104,303	57
2007/3Q	2,197,241	1,815,002	64

Source: Participation Banks Association of Turkey

Some of the conventional banks have reportedly begun exploring the possibility of offering compliant products, or maybe even opening up "participation windows". However, the current status of the legislation does not allow easy entry.

Turkish banking system Ratio used funds — Deposits/Loans 2007/3Q		
	% Deposit banks	% Participation banks
2002	40	66
2003	42	75
2004	47	82
2005	59	88
2006	68	93
2007/3Q	74	110

Source: Participation Banks Association of Turkey

Innovation

After the initial transaction in December 2006 by Kuveyt Türk (US$200 million), both Türkiye Finans (US$100 million) and Bank Asya (US$175 million) issued their first well received Murabahah facilities in 2007.

In July 2007, Kuveyt Türk announced a fixed currency exchange rate service to help companies with forward currency transactions.

Both Bank Asya and Türkiye Finans entered into individual protocol agreements (for a framework of YTL 200 million [US$172 million] each) with the Istanbul Chamber of Commerce ITO, giving the members thereof access to individual financing up to YTL 250,000.

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Marking the Next Phase: Innovation *(continued...)*

Kuveyt Türk and Bank Asya became members of the Istanbul Gold Exchange in 2007 and Türkiye Finans announced a project budget of US$5 million for microfinance. With all the liquidity at hand, more creativity and progress in product development can be expected, more branches proliferating Turkey and, who knows, maybe even international expansion.

Sukuk

The long-awaited Sukuk regulations have not yet been issued, though lobbying behind the scenes goes on. Recently, the sector has also started to more openly suggest the need for those new products. Still, in December 2007, the secretary-general of the Association of Turkish Participation Banks, Osman Akyüz, made a strong case for the need to issue a financial instrument called a "leasing certificate" (Sukuk Ijarah) in order to attract more investments from the Gulf region. He pointed out that the Turkish Treasury is working on it, and if they (the treasury) would take some pioneering steps, attracting additional funds could well be a possibility.

"The long-awaited Sukuk regulations have not yet been issued, though lobbying behind the scenes goes on. Recently, the sector has also started to more openly suggest the need for new products."

In an interview in December 2007, Ufak Uyan (CEO of Kuveyt Türk) confirmed that because of the high capital deficit, Turkey would need a yearly capital inflow of around US$40 billion to US$50 billion, and therefore it should prepare the legal grounds for issuing Sukuk. The Capital Markets Board SPK would have a particularly large responsibility on this issue.

And in the special edition of Todays Zaman for the "Banking in Turkey" Conference (London, November 2007), Yunus Nacar (CEO of Türkiye Finans) confirmed "participation banks in Turkey need an alternative instrument for investing the gains and these are what the Treasury calls 'Sukuk paper'... The projects in this field should be finalized as soon as possible".

The participation banks are not asking for these instruments in order to shelve them. For some time now, interested parties have been waiting to bring liquidities to the Turkish economy, provided that a sound regulatory and tax environment is in place.

Participation Banks

- Albaraka Türk

With regard to Albaraka Türk's IPO in June 2007, 20.57% of the stock was opened to the public and the transaction generated a net profit of approximately US$170 million. Domestic demand was 60.4 times over its value, while foreign demand reached 21.3 times above the expectations. Total demand for the Albaraka Türk IPO was 32 times above the allotment.

At the opening of a new branch office in Mersin last November, Adnan Büyükdeniz (CEO of Albaraka Türk) stated correctly that half of the (young) population of Turkey do not as yet have sufficient access to banking services. This situation offers substantial growth potential for individual banking services such as loans for vehicles, housing and durable goods as well as credit cards. When these services become more accessible to a larger part of that population, they will bring considerable positive advancements in the banking business.

- Bank Asya

In April 2007, Bank Asya closed a US$175 million syndicated Murabahah financing facility with strong support from both regional and international banks. The facility was structured as a dual one- and two-year tranche facility, with proceeds going towards the bank's general financing activities. ABC Islamic Bank, Standard Chartered Bank and Unicredit Markets & Investment Banking (acting through Bayerische Hypo-und Vereinsbank) were the deal's mandated lead arrangers. More such arrangements are in the pipeline.

That same month, Bank Asya CEO Unal Kabaca confirmed management was looking at expansion opportunities abroad, such as buying a bank or opening an office or branch, with an eye on neighboring countries and wherever Turkish firms do business.

- Kuveyt Türk

Already in May 2007, Kuveyt Türk had raised their capital by 30% (from YTL 200 million up to YTL 260 million).

Late December, it was finally confirmed that they are planning an IPO in the first quarter of 2008. Kuveyt Türk has applied to the Capital Markets Board SPK to go public and list up to 20% of its shares, worth approximately YTL 57.2 million.

This year will be an important year for Kuveyt Türk. Management plans to increase the number of branches. To this end, they announced the forthcoming opening of a branch in Dubai in addition to their office in Bahrain to mediate investment relations between the Gulf region and Turkey. The impressive

continued...

Marking the Next Phase: Innovation *(continued...)*

goal would be to become one of Turkey's seven-largest banks in terms of asset value by 2010.

- Türkiye Finans

In July 2007, National Commercial Bank NCB, the biggest bank in Saudi Arabia, announced — subject to regulatory approval — the acquisition for US$1.08 billion of a 60% share of Türkiye Finans. The price will be revised based on 2007's revenue and the total amount may increase by US$120 million or US$130 million.

The amount paid by NCB is said to be 5.8 times higher than the book value of the bank, marking this the highest relative price paid for a bank in Turkey to date. With upcoming revisions, the price may end up being six times book value. The existing shareholders (industrial groups Ülker and Boydak) will retain a stake of 20% each.

Last September, a two-year syndicated Murabahah of US$100 million was confirmed in order to fund small and medium-sized enterprises and to contribute to the real estate sector in Turkey.

	The Banker Top 500 Islamic institutions #ranking	Fitch Ratings Turkish participation banks		
		Rating	Date (2007)	Outlook
Albaraka Türk	52	BB-	8th June	Stable
Bank Asya	33	B	13th July	Positive
Kuveyt Türk	45	BB	14th December	Stable
Türkiye Finans	35			
Rep Turkey		BB	13th December	Stable
	Source: The Banker – Top 500 Islamic Institutions November 2007	*Source: Fitch Ratings*		

Final remarks

With the market being "locked up" by the IPO and strategic partnerships, one can only hope for more rapid expansion when the government allows conventional banks to open "participation windows".

Moreover, it is not clear whether or not new "participation bank licenses" are available. For now, the authorities seem reluctant to allow new market entries (either conventional or Islamic).

Several times, the sector has publicly announced the need for Sukuk (and inherently the availability of liqiuidities for that instance), but so far there hadn't been positive follow up by the government.

On the positive side, note that the economy has picked up sufficiently to allow the "second wave" of mergers and acquisitions to get started. After the financial services industry, larger production and service providers might get their turn for foreign acquisition/input. On the downside, the Central Bank decided to relax the interest rates and the government will renegotiate new terms with the Internationa Monetary Fund. This happens mostly under pressure from the Turkish business world that wants better access to cheaper money.

After the recent interest rate cuts (and the central bank is rumored to plan more), inflation (though still contained) already rose to 8.4%, twice the year-end target. Gas and electricity prices will go up another 20% at least. Combined with the rise in oil prices, the effect will be felt throughout the economy. The somewhat unrealistic gain upon the US dollar during the last year might come to an end and the financial markets expect a slight readjustment of at least 4% for the YTL (and other emerging market currencies). And then, of course, the last waves of the subprime mortgage crisis will ripple through Turkey.

"On the positive side, note that the economy has picked up sufficiently to allow the "second wave" of mergers and acquisitions to get started"

On the political side, the government managed to avoid loopholes. The levels of democracy, minority protection and freedom of speech are rising, but apparently, there still is too much hesitation in bringimg the participation banks fully at par with the conventional banks.

In 2007, Unicorn Investment Bank (Bahrain), Kuwait Investment Authority (Kuwait), National Bank of Kuwait (Kuwait), Global Investment House (Kuwait), Dubai Financial Group (UAE) and Orion Holding Overseas (UAE) established themselves in the Turkish financial landscape, either through partnerships or acquisitions. It has been rumored that DIB is looking to take over a bank.

Just last December, Shamil Bank (Bahrain) launched its US$90 million Shamil Bosphorus Mudharabah, investing in Shariah compliant real estate developments in Turkey. And

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Marking the Next Phase: Innovation *(continued...)*

finally, at the years ending, the US$60 million Murabahah of DRD Derindere (car leasing company) was announced. The five-year contract is the longest ever to a Turkish company and reaffirms the trust shown in the company and the future of the Turkish economy.

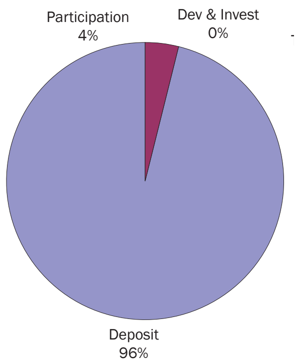
This year looks to be promising and challenging. The participation banks defined a strategy of firm growth (branch and equity), within and maybe even outside Turkey. The participants of the first "Sukuk issuance", which will bring new means to the existing financial needs, have been in the pipeline for some time. Some conventional banks were also reluctant to open "windows" to get a piece of the growing pie. The big question is what kind of legal framework will be handed to them by the government. Responsibilities have to be taken or chances might be lost.

MAIN FINANCIAL FIGURES OF THE PARTICIPATION BANKS (Thousand YTL) (September 2007)

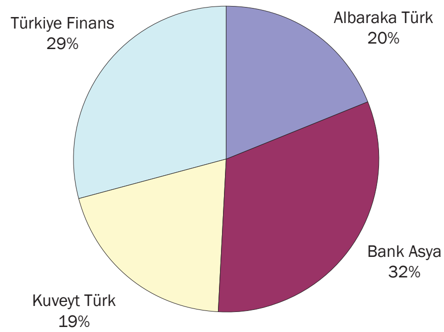
		Total (September 2007)	% Total growth since December 2006
FUNDS	TLY	6,756,290	28
COLLECTED	FX	6,684,907	12
	TOTAL	13,441,197	20
LOANS		14,741,625	40
PROBLEM LOANS		201,937	56
TOTAL ASSETS		17,452,083	27
SHAREHOLDERS EQUITY		2,197,241	41
PROFIT NETT		367,409	37
STAFF		8,688	22
BRANCHES		401	13

Source: Participation Banks Association Turkey
January 1, 2007 – 1 US$ is approx 1,1 YTL

Turkish banking system (Deposits per September 2007)



Turkish participation banks (Deposits per September 2007)



Source: Participation Banks Association Turkey

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Challenges for Islamic Banking in Africa

By Ahmed Moola

Two international organizations held Islamic banking conferences in Johannesburg for the first time this year. Delegates from several African countries flocked to these events in the hope of finding answers to the many questions and challenges they have and are facing in setting up or implementing Shariah compliant banking in their home countries.

Islam has the largest number of practicing followers of any religious group on the African continent. With a Muslim population of about 400,000 million, demand for Shariah compliant banking should be enormous. Those seeking to realize this opportunity are experiencing many of the challenges that we did as we started operating in South Africa in mid-2006. It makes sense for countries with a high concentration of Muslims, such as those in North Africa, large parts of West Africa as well as down the eastern seaboard, to offer financial services that comply with Muslim beliefs. South Africa was identified as an attractive market due to its large base of Muslim businesspeople.

> **"The shortage of experienced Islamic banking professionals is not exclusive to Africa but is more severe on this continent. There is enormous scope for more education and training, both for university degrees as well as in-service training courses."**

Kenya's second Shariah compliant bank opened in April 2007. Gulf African Bank (GAB) is registered and headquartered in Kenya. Nigeria is also increasing its range of Shariah financial services and even delegates from Zimbabwe were eager to identify ways to realize the Shariah opportunity.

Limited talent pool

Forums at the conferences highlighted the challenges that seem common to all African countries. The first among these is suitably qualified people. In many African countries, Islamic banks are being set up by people who understand the principles and see the opportunity but have no hands-on experience in establishing such a financial services institution.

The hunger for skills and experience seems insatiable. This covers not only Islamic banking experience but also the services of appropriately senior scholars to participate in Shariah supervisory boards that will oversee the product development and delivery processes.

Shariah compliance is another key challenge, as there is divergence of opinion on whether particular processes are Shariah compliant or not. Representatives from all over Africa supported the concept of the establishment of a common set of Shariah standards.

Greater standardization could reduce the potential for Shariah "arbitrage" while making it easier for bankers and investors to understand the market. In addition to the potential for differences of opinion between scholars, there is also a shortage of appropriately qualified Shariah scholars, which means that some scholars serve on a number of different Shariah supervisory boards, often of competing organizations.

The shortage of experienced Islamic banking professionals is not exclusive to Africa but is more severe on this continent. There is enormous scope for more education and training, both for university degrees as well as in-service training courses. In South Africa, Absa Islamic Banking approached the BANKSETA (Banking Sector Education and Training Authority) to assist with the development of suitable training material.

We then approached all of the banks interested in the Islamic opportunity in South Africa and set up the Islamic Interbank Committee, so that we could work together to develop training material that will be common and useful to the entire organization. The committee may also collaborate in future to address industry issues that are common to all Islamic banks.

Still a new concept

Acceptance by the community continues to be a challenge as the concept of Islamic banking is still new and there is a need for education and familiarization if banks are to win over the skeptics in each community.

Coping with regulation is an enormous challenge for Islamic banks. Not only do they have to follow the requirements of Shariah law and guided by Shariah regulatory bodies's standards but also the regulations of the central bank of the country in which they operate. This applies also to the

continued...

Challenges for Islamic Banking in Africa *(continued...)*

risk environment as many risks are different from those of conventional banking.

Product development continues to be a challenge, including the time this process takes. Offering basic transactional and savings products is not difficult but the product development process to deliver full-service banking, including mortgages and credit cards, presents real difficulties. Innovative investment products also require enormous skill and depth of knowledge in the development process.

One challenge that is specific to Africa is illiteracy. It's hard to persuade a man to hand over his hard-earned cash in return for a piece of paper that he cannot read and for him to believe that his money is safe and that he can get it back whenever he wants.

Twenty per cent of Muslims will demand Shariah compliant banking, no matter how much it costs them in terms of inconvenience or loss of revenue. Another 20% will never accept Shariah compliant banking and will give all kinds of excuses to justify their choice. Gaining this market share from the remaining 60% is an opportunity that will be achieved based on value creation for the customer.

The bank that can win them over through a compelling financial service offering that satisfies the dictates of their faith as well as their need for a value-based offering will undoubtedly succeed. This challenge is particularly true on the African continent.

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Scope of Islamic Investments in India

By Taher Badshah

While the roots of Islamic finance lie in ancient Islamic principles, the development of Islamic finance as an industry is relatively new. This industry, which is progressing at a remarkable pace of 10% to 15% per annum, now represents a vast global practice that has developed a worldwide presence.

This can be attributed to the fact that many Islamic nations have seen an increase in financial wealth mainly due to a surge in exports and increasing oil prices. This is fueling demand for new Islamic financial instruments along ethically-aware Shariah principles as an alternative to conventional commercial banking and investment products.

While the US' share of world GDP is expected to fall (from 21% to 18%), India's GDP looks set to rise (from 6% to 11% by 2025). The rising GDP of emerging nations like India has opened up newer investment avenues for rich Islamic investors from the Gulf. In addition, there is tremendous scope for developing and marketing new Islamic financial instruments and Shariah compliant funds in India.

The Indian economy

Today, India is one of the fastest-growing economies in the world and an exciting investment destination. The world's economic center of gravity is gradually shifting from established wealthy economies to emerging economies, including India.

"By 2035, India is likely to be a larger growth driver than the six largest countries in the European Union, though its impact will be a little over half that of the US"

The country experienced GDP growth of 9% during 2005-06 to 9.4% during 2006-07. By 2025, India's economy is projected to be 60% the size of the US economy. The transformation into a tri-polar economy will be complete by 2035, with the Indian economy slightly smaller than that of the US but still larger than Western Europe.

By 2035, India is likely to be a larger growth driver than the six largest countries in the European Union, though its impact will be a little over half that of the US. India, which is now the fourth-largest economy in terms of purchasing power parity, will become the third major economic power within 10 years.

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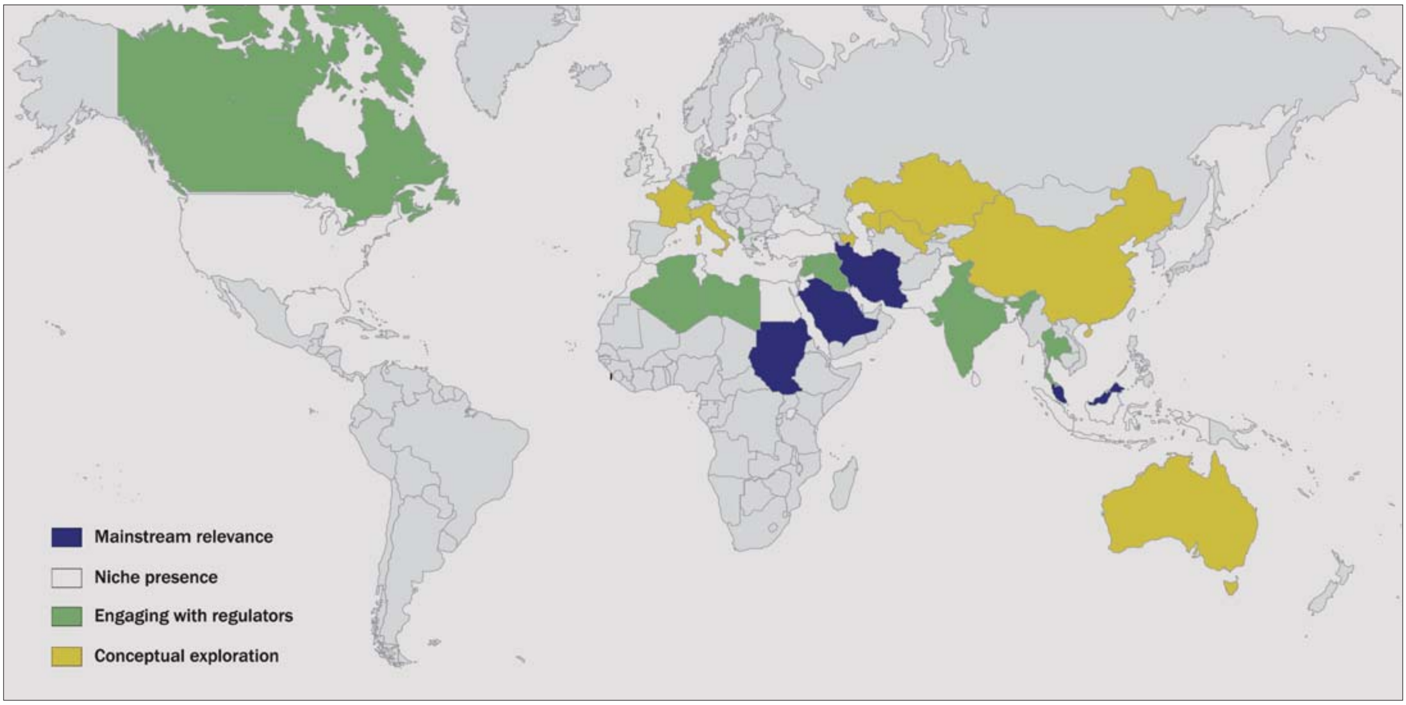

Source: Islamic finance: Relevance and growth in the Modern Financial Age, Iqbal Khan-Feb 07

Scope of Islamic Investments in India *(continued...)*

A survey conducted by the United Nations Conference on Trade and Development showed that 42% of experts on foreign direct investment (FDI) have ranked India as the third most attractive location after China and the US. In the same survey, multinational corporations ranked India as the second most attractive location for FDI after China. In fact, India is projected to be one of the three largest economies in the world by 2050.

Indian markets

The Indian capital market is well regulated, and its stock markets are among the most developed and organized in the world. Two of India's 23 exchanges, the Bombay Stock Exchange (BSE 500 Index) and the National Stock Exchange (NSE), are at par with the best in the world.

India is now considered one of the most appealing destinations for FDI. Also, due to a large number of companies being listed on the Indian stock exchange and conforming to Shariah investment norms, India is looking like an interesting option for Islamic investors seeking Indian exposure.

Study on Shariah compliant stocks

To gauge the scope of Islamic investment opportunities in the Indian stock market, it is imperative to examine stocks that conform to the norms stipulated by the Islamic Shariah principles. A detailed study was conducted by Dr Shariq Nisar, an eminent personality in the field of Islamic finance in India.

Below are a few findings from his study on Islamic investing in India:

Shariah compliant stocks in India

Parameter	NSE	BSE 500
Number of companies listed	1,331	500
Number of Shariah compliant companies	405	257
% of Shariah compliant market cap of total	61.4	60.44

**As at 31st December 2007*

- NSE

Of the 1,331 companies listed on the NSE, 405 qualified on Shariah parameters. The market capitalization of the qualifying stocks was 61.4% of the total market capitalization of companies listed on the NSE. Also, even though the number of Shariah compliant stocks was limited, the share of market capitalization of these stocks never dipped below 50% of the total market capitalization.

The current share of Shariah compliant market capitalization in India is higher than that of most Islamic countries such as Malaysia, Pakistan and Bahrain, where the share of Shariah compliant market capitalization was 57%, 51% and 6% respectively of the total market capitalization. Sectors such as computer software, drugs and pharmaceuticals and automobile ancillaries constituted about 36% of the total Shariah compliant stocks on the NSE.

"The Indian capital market is well regulated, and its stock markets are among the most developed and organized in the world. Two of India's 23 exchanges, the Bombay Stock Exchange (BSE 500 Index) and the National Stock Exchange (NSE), are at par with the best in the world."

- BSE 500

Research conducted on Shariah compliant stocks listed on the BSE 500 shows that the number of companies that comply with the Shariah is slowly growing from merely 95 in March 2002. The total number of Shariah compliant companies on the BSE 500 rose to 164 in 2004, 237 at the end of March 2005 and 257 in 2007.

At the end of March 2006, a total 279 out of India's fortune 500 stocks had qualified on Shariah screens. Below are the top Shariah compliant sectors on the BSE, along with their market cap.

Top Shariah compliant sectors at the BSE

Sr No.	Top sectors	Number of companies	Market cap (Rs Crore)
1	Computer software	36	442,310.95
2	Telephone services	4	316,974.73
3	Infrastructure and real estate	26	227,965.31
4	Drugs and pharmaceuticals	27	135,499.31
5	Finished steel	5	119,842.37
6	Trading	10	112,404.58
7	Cement	11	97,039.16

**As at 31st December 2007*

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Scope of Islamic Investments in India *(continued...)*

Conclusion

The opening up of the Indian economy and improving global competitiveness have put India on the economic radar of global players. FDI inflows increased from US$2.2 billion in 2003-04 to US$15.7 billion in 2006-07.

Slowly, the world's economic center of gravity is shifting from the established, wealthy economies to emerging ones including India — the world's largest democracy is one of the fastest-growing economies with enormous investment opportunities.

"The scope for Islamic investments in India has widened mainly due to two reasons: first, internal demand; and second, external supply"

Over the last decade, the Islamic finance industry has grown considerably. The scope for Islamic investments in India has widened mainly due to two reasons: first, internal demand; and second, external supply. Internal demand arises due to the huge Muslim population in the country, which ranges from 150 million to 160 million (India is the second-largest Muslim populated country in the world). There is high awareness of Islamic financial products and high savings in this Islamic community (more than Rs. 40 billion every year).

The external supply i.e. the investment opportunities in other Islamic countries are limited and hence investors seeking to invest in Shariah compliant funds are on the lookout for opportunities in emerging economies like India.

With hundreds of Indian companies complying with economic laws of Shariah, India is becoming an attractive destination for Islamic investments. Islamic financial institutions and Shariah-conscious domestic investors are finding the Indian stock market an attractive alternative to investing in other economies.

Taher Badshah is an investment adviser with Kotak Mahindra Offshore Funds. References are available on request from the writer. For further information, call +44 207 977 6900. The writer wishes to thank Dr Shariq Nisar for sharing his research and study.


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At CIMB Islamic, we constantly challenge convention to create value for our clients. An in-depth understanding of Islamic Banking principles and an acute appreciation of our clients' commercial needs have enabled us to deliver innovative solutions with commendable results. Our efforts have earned us the Islamic Investment Banking House of the Year Award - a testament to our ability to take you further.
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Interest Picking Up in Sri Lanka's Islamic Market

By Faizal Salieh

Sri Lanka is a mixed economy, about US$25 billion in size in terms of GDP at current prices. It has a population of about 19.8 million, of whom 1.8 million are Muslims. The GDP per capita is currently about US$1,400, which places the country in the "middle-income country" category. The government's strategy is to make Sri Lanka the "services and trading hub" in the region.

The current account is fully convertible while the capital account is liberalized to a large extent. The GDP growth rate has been consistent at an average of 6% per annum over the past few years, which is comparable with growth rates in the region. The economy, due to its relatively small size, has shown remarkable resilience despite the security concerns, the effects of the 2004 tsunami and the recent oil price shocks. It grew at 6.7% in 2007. The services sector contributed 59.5% of this growth.

Inflation on a 30-year average is 11%, which is comparable with the region. It averaged 13.7% in 2006 but has shown strong upward pressures since the latter half of 2007. The current month-on-month rate is 19.5% and the 2007 average is 15.8%. The fundamental cause for the high inflation is the attempts made by the government and the Central Bank of Sri Lanka (CBSL) to address the fiscal weaknesses through monetary policy, which has created tremendous stress on monetary stability. The local currency depreciated by 5.7% in 2006 and 6% in 2007.

Sri Lanka's country risk is rated BB- by Fitch Ratings and B+ by Standard & Poor's. The island has consistently had a good long-term international rating view. The government, taking advantage of the country risk ratings, chose to raise private debt in the international market in 2007 by issuing US dollar-denominated five-year Treasury bonds up to US$500 million. The issue was oversubscribed by US$1 billion, at an interest rate of LIBOR + 8.25%.

This led to protests by the opposition political parties, who alleged that the government was raising high cost international foreign currency debt to finance consumption expenditure and for the acquisition of military equipment to fight the Northern Tamil rebels (LTTE). The government has maintained that the monies will be used to finance infrastructure development projects and the rehabilitation of the Eastern province which it had recently liberated from the control of the LTTE. Military expenditure, however, is well within the range seen in countries facing geopolitical or terrorism risks.

Infrastructure development, which has lagged behind due to the security situation, is now under tremendous pressure. The business environment, particularly with regard to the ease of doing business, compares well with peer countries in the region and Sri Lanka is ranked 79th in the Global Competitiveness Report. But there is much more room for improvement.

"The country's workforce is 92% literate, with about 63% employed in the private sector. Unemployment is 6%. Population growth is 1.5% and is ageing."

The country's workforce is 92% literate, with about 63% employed in the private sector. Unemployment is 6%. Population growth is 1.5% and is ageing.

Political situation

The 30-year conflict between the government and northern rebels has taken its toll on the pace of economic growth and development. While a ceasefire agreement (CFA) was signed between the LTTE and the government in February 2002, the country missed out on the opportunity to develop its infrastructure while the CFA was in force. Over the past two years, the CFA was ineffective with both sides having violated it. The government withdrew from the CFA in the first week of January 2008.

The present regime has opted to pursue a mixed strategy of dealing with terrorism by militarily engaging the LTTE and driving it towards a politically negotiated solution to the Tamil problem. The strategy appears to be working. Needless to say, India is a critical factor in this process and warm relations with the big neighbor are absolutely essential.

The security situation in the country, however, is not as bad as has been portrayed by international media. Visitors will vouch for this fact. The battles between the LTTE and government forces are mostly confined to the northern theatre now, following the liberation of the east by government forces. For this reason, the country's GDP, which is mostly concentrated in the non-conflict areas, has been little affected. The conflict areas contribute only 8% of the GDP.

continued...

Interest Picking Up in Sri Lanka's Islamic Market *(continued...)*

Nevertheless, the threat of LTTE attacks is a real risk. We are also seeing a higher degree of intelligence and surveillance by the government forces, which has contributed significantly to the management of security risks in the present time.

The financial sector

There are 23 licensed commercial banks (including 11 foreign banks), 15 specialized banks, 11 merchant banks, 29 finance companies, 45 leasing companies and 16 insurance companies, of which two are wholly Islamic insurance providers.

The banking system is the dominant component of the financial sector with 58% ownership of the total assets in the sector. Total assets amount to US$34 billion. Eight large banks, including the two that are state-owned, account for 81% of the total banking assets; the balance is fragmented among 30 other small to medium-sized banks. There is little rural penetration by the banks, leaving a large untapped informal sector.

Net interest margins have remained high and stable at 4% to 4.5% through many years, particularly owing to the short-term nature of the assets and liabilities which allow for quick repricing and pass-through; and the large-scale inefficiencies in the state-owned banks. The banking spreads are high compared to the region, which are around 1% to 2.5%. The more efficient foreign and local private banks generate returns of more than 18% to 22% on their investments in this scenario.

The sector has grown in line with real GDP and inflation, averaging 22% per annum over the past five years. Bank loans amounted to 52% of GDP in 2007, spurred by loose monetary policy and deficit financing. Asset quality has improved since 2002 with increasing regulatory focus on risk management practices. Non-performing loans declined from 14% (2002) to 5.7% (2006), also helped by rapid loan growth.

Credit growth to the private sector is forecast to be around 20% as at year-end 2007 against a 17.5% target set by CBSL in a rising interest-rate environment. The central bank has called upon the financial institutions to tighten their credit standards and avoid asset-liability mismatches following attempts by some banks to finance their lending expansions from short-term money market borrowings.

CBSL is under pressure to address the fiscal deficit and the financing of the deficit from the banking system, which has resulted in inflationary pressures and high interest rates. The banking system is, however, adequately capitalized with CBSL firmly moving the banks towards Basel II prudential standards and having a greater focus on systemic risks. The regulator has also been trying to move the banking sector towards consolidation but has seen little success so far.

The composite tax rate, which includes a 35% corporate income tax, VAT and a social levy tax, resulting in an effective rate of 56% for some banks, has become an area of growing concern in the banking sector.

"In January 2005, the Banking Act was amended to allow Islamic banking products, following which two existing conventional commercial banks — namely Union Bank of Pakistan and MCB — opened Islamic windows"

Islamic financial services

Sri Lanka has yet to see a full-fledged Islamic bank operating in its financial sector. Amana Investments Limited, which is a 48% foreign-owned public limited company with Bank Islam of Malaysia holding 10% and a board seat, pioneered Islamic financial services in the country beginning 1997. That same year, it had applied for a commercial banking license to operate as an Islamic bank on a level playing field with the conventional banks. It is still actively campaigning for this.

In January 2005, the Banking Act was amended to allow Islamic banking products, following which two existing conventional commercial banks — namely Union Bank of Pakistan (now acquired by Standard Chartered Bank, Pakistan) and MCB — opened Islamic windows.

Amana is the market leader in the Islamic segment and is larger than four conventional banks operating in the country, including the two aforesaid names. It continues to be in discussions with CBSL to obtain a banking license.

The Amana Group is involved in the provision of Islamic finance, insurance, fund management, stockbroking and corporate advisory services. It has obtained regulatory licenses for Islamic insurance (2002), fund management and stockbroking activities (2006), and is the only operator in the market providing such a gamut of Islamic products and services in the market.

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Interest Picking Up in Sri Lanka's Islamic Market *(continued...)*

In 2007, Amana set in motion the Dow Jones Amana Sri Lanka Index, the first Shariah-compliant and co-branded stock market index on the Colombo Stock Exchange in collaboration with Dow Jones Market Indexes. It also launched the first Shariah compliant equity fund in Sri Lanka called the NAMAL Amana Equity Fund in collaboration with National Asset Management Limited, a subsidiary of DFCC Bank, which is a large development bank in the country.

"Some quarters are lobbying the government on the need for Sri Lanka to have at least one full-fledged Islamic bank, not only to meet the religious requirements of the 1.8 million Muslims in the country but also to enhance awareness of the potential benefits that can be reaped from the vast flight of Islamic funds into the Asian region since 9/11"

Other players in the Islamic market segment are all new entrants over the past three years, namely Ceylinco Profit Sharing, Ceylinco Takaful, the two Islamic windows of Standard Chartered Bank (Pakistan) and MCB, the Islamic window of People's Leasing Company and the Barakah Financial Services unit of ABC Investments Ltd and First Global Investments.

There is considerable interest now among the conventional players to enter this market segment, primarily driven by the need to retain their own Muslim customers. The state-owned Bank of Ceylon and Lanka Orient Leasing Company are also on the threshold of entering the market through window-type operations. Some of the foreign banks operating in the financial sector also plan to open Islamic windows.

The size of the Islamic market segment is estimated at US$750 million, growing at about 15% per annum.

Outlook for 2008

The challenges before the government in 2008 would be a speedy resolution to the Tamil conflict, achieving a more than 7% GDP growth, developing the economic infrastructure, and lowering the inflation and high cost of living while maintaining its pro-poor policy stance.

The government has declared its intention to bring the conflict to an end in 2008. The GDP growth target is 7.5% against a budget deficit of 7%.

The economy is poised for rapid take-off when the conflict is resolved. In this regard, the existing Free Trade Agreement (FTA) and the proposed Comprehensive Economic Partnership Agreement (CEPA) with India would be of particular significance as these would create the gateway into India's economic and financial sectors and vice-versa. From that perspective, new vistas could open for enterprising Islamic financial services providers to leverage off the local platform and access the huge Indian Islamic market which is thirsting for Shariah-based financial products and services.

Some quarters are lobbying the government on the need for Sri Lanka to have at least one full-fledged Islamic bank, not only to meet the religious requirements of the 1.8 million Muslims in the country but also to enhance awareness of the potential benefits that can be reaped from the vast flight of Islamic funds into the Asian region since 9/11. It is hoped that the regulators will be receptive to this and build the necessary internal capabilities to facilitate and supervise Islamic financial institutions.

With the growth in the number of Islamic financial operators, there is a critical dearth of Shariah scholars in the country with the required levels of competence in Islamic law, commerce, finance and banking to rightly guide the existing local institutions and prospective new entrants. There is also increasing concern that some of the Islamic financial services providers are not paying due attention to Shariah compliance at the transaction level and that there are serious lapses in their internal supervision process.

Being a non-Islamic country, it is unlikely that the regulators will play a dominant role in safeguarding Shariah compliance in the market. The onus squarely rests on the shoulders of the market participants and that is where the true sincerity of the institutions providing Islamic financial services will be tested. Market discipline with regard to Shariah compliance and good corporate governance is now a critical factor to the success of Islamic finance in the country.

Amãna

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Developments in the Islamic Banking and Capital Market in Brunei Darussalam

By Mohamad Daud Ismail

The Asian Development Bank recently ranked Brunei as the richest economy in the Asian region. The sultanate's income per capita was recorded at US$34,629, more than 13 times the regional average of US$2,621. On the basis of this survey, there is immense prospect in advancing the pace of growth of the Islamic financial market in Brunei Darussalam.

As competition becomes stiffer among Brunei banks in the race to see who can carve out a bigger share of the small population market, these institutions have coped by introducing innovative products. With this, the development of a comprehensive and robust financial industry offers bountiful opportunities to expedite the process of economic diversification, particularly in supporting international trade and investment.

"The Brunei government has taken an active role in promoting Islamic banking. One of the many schemes currently being undertaken is the development of an Islamic capital market."

As Islam is the main religion, it is not surprising that Islamic banking is big in Brunei. Islamic banking means providing banking products and services based along the lines of Islamic Shariah laws — the simplest being the absence of trade in prohibited items like alcohol, gambling and non-halal foodstuff, as well as usury in all transactions.

The Islamic financial system employs the "concept of participation in the enterprise, utilizing the funds at risk on a profit- and loss-sharing basis". However, this does not mean that investments with Islamic financial institutions are pure speculation; careful investment policy, diversification of risks and prudent management could ensure profitable returns.

The growth of Islamic banking as an ethical means of investing wealth has been possible because Muslims wanted to invest their monies to get good returns, but in accordance with Islamic principles. We are seeing more examples of successful and viable Islamic financing products in the international marketplace.

Islamic banking is getting more widespread in Muslim and non-Muslim countries alike. Takaful (Islamic insurance) and Islamic mutual funds are becoming commonplace. Given the diverse financial instruments provided by the Islamic financial system and that a developed financial system can make positive contributions to a country's economic development, the existence of a vibrant and systematic capital market is necessary for the betterment of the economy.

The development of the Islamic capital market (ICM) is integral to the progress of capital markets in general. Such markets are essential for efficient resource mobilization and allocation, all the more so in an Islamic economy because prohibition of interest implies greater reliance on equities and asset-based financing. We can expect to see Islamic finance develop further globally, eventually becoming an integral component of the international financial system. It is estimated that Islamic banking globally is managing between US$200 billion and US$500 billion in funds today.

The invention of Sukuk complements the surge in growth in Islamic capital market and shows increased focus on the structuring and development of new products and services to meet ever-increasing demand for Shariah compliant financing alternatives. The introduction of Sukuk increased the variety of instruments that can be used to create an efficient Islamic portfolio in line with portfolio theory and financial planning and at the same time, it adheres to the rule of Shariah.

As at the end of the third quarter of 2007, Islamic banking in Brunei Darussalam accounted for 39% of the total banking industry's assets of BN$15.5 billion, 36% of the total banking deposits of US$12.1 billion and 51% of the total lending portfolio. This reflects the positive developments and growth within the Islamic banking and finance industry in Brunei Darussalam, offering business and investment competencies in many diversified fields, including asset management with particular emphasis on the provision of innovative and competitive Islamic financial solutions.

The Brunei government has taken an active role in promoting Islamic banking. One of the many schemes currently being undertaken is the development of an Islamic capital market, which will hopefully be an attractive investment avenue to keep excess banking liquidity circulating within

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Developments in the Islamic Banking and Capital Market in Brunei Darussalam *(continued...)*

the domestic economic and financial system and be appropriately channeled towards investment and funding in the country.

The Brunei Ministry of Finance officially launched the short-term Brunei dollar Islamic bond Sukuk Al-Ijarah in November 2006 where 91-day commercial papers worth BN$150 million (US$92 million) were sold in what would be the first of a series of planned sales from the Brunei government. The ministry issued 10 tranches of these Brunei dollar short-term Sukuk in July 2007 amounting to BN$1 billion, followed by the issuance of a one-year Sukuk in July 2007 amounting to BN$45 million.

The Brunei government, which has no external debt, has said it has no fundamental need for the funds as the reason for the issuance is to develop the ICM to build Brunei as an Islamic market. Brunei planned to sell Islamic commercial papers in order to develop other areas of the economy, reduce the outflow of funds and encourage other local entities to sell Islamic debt.

Islamic bond issuance has to be structured according to Shariah law that governs the Muslim faith and, among other things, cannot pay interest and must be backed by tangible or income-generating assets.

The policy directive of the Ministry of Finance on personal loan capping was aimed at containing excessive personal loans and financing to finance consumption, while conversely attempting to promote a savings and investment culture. In this regard, the 10-year strategic plan of the ministry clearly spells out that it is one of the conscious and continuous efforts through a set of integrated policies, strategies and designs to promote and facilitate the development of a dynamic deep and sustainable financial industry in Brunei Darussalam.

Consequently, financial institutions need to be dynamic in reasonably meeting the increasing expectations of the depositors and investors in terms of product returns and diversification in order to provide an attractive and sensible alternative in order to fulfill the requirements for Muslim investors.

The formation of a national Shariah financial supervisory board will help instill public confidence in issues in relation to Shariah compliant products marketed in or from this country, he believes that Brunei Darussalam's credentials with regard to Islamic matters puts the country in good stead in terms of the requisite Shariah governance and thereby facilitate the development opportunities of many more Shariah compliant products under our jurisdiction.

The first Islamic bank in the sultanate, the Islamic Bank of Brunei (IBB), was established on the 13th January 1993. It was set up to meet the objectives that are to fulfill the needs of fardhu kifayah for the country, to broaden and accelerate the economic growth of Brunei by going in to the banking industry and to provide an alternative Islamic banking approach to the community. The merger of IBB and Islamic Development Bank of Brunei Ltd on the 1st February 2006 marked another milestone in the development of Islamic banking in Brunei Darussalam.

"Brunei planned to sell Islamic commercial papers in order to develop other areas of the economy, reduce the outflow of funds and encourage other local entities to sell Islamic debt"

The bank, now known as the Islamic Bank of Brunei Darussalam, was established to strengthen the Islamic financial institution of Brunei, in particular the banking sector and insurance, and make it more sustainable and competitive.

IBB, the leading Islamic bank in Brunei, based on its unaudited financial performance for 2007, registered a profit of BN$126 million for 2007, which is equivalent to 70% increase in profits compared to 2006. This further proves that there was robust growth of the ICM in the financial segment during the last five years with the total assets estimated to exceed US$1 trillion and an average annual growth between 15% and 20%.

In January 2008, IBB took another step towards the Ministry of Finance's aspiration of developing Brunei into a reputable Islamic financial hub by launching a new addition of its existing divisions. The assets and fund management division in July 2006 to source consistent return on Islamic investments via the fund management and investment banking businesses. There is a need to enhance and diversify returns from banking business such as investment banking.

The division has had significant achievements such as the issuance of US$100 million Sukuk Al-Ijarah for Brunei Liquefied Natural Gas, active participation in the subscription in the subscription for Ministry of Finance's series of short-

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Developments in the Islamic Banking and Capital Market in Brunei Darussalam *(continued...)*

term issuance of Sukuk Al-Ijarah worth US$845 million as well as being the lead leader in the series of short-term issuance of Sukuk Al-Ijarah worth US$210 million.

In addition to US$70 million in assets currently under management, the division is also involved in promoting the investment culture among the general public by launching IBB's first investment certificate in 2006, which sold out within the first day of its launching.

The latest investment product by the bank is the Principal Protected Investment (PPI) which was available for a month from mid-December 2007. A Brunei dollar-based investment product with 100% capital protection over three years, the PPI features two-tiered return structures with minimum potential return of 4.5% per annum.

Global growth of the ICM is an opportunity for IBB to develop its expertise and skills in order to mobilize surplus funds domestically and internationally. With the backing of the Brunei government, the task ahead is to bring in the tremendous growth of the global ICM and enhance financial scope into Brunei.

In conclusion, it can be said that there is tremendous opportunity for development and growth of Islamic banking, especially the ICM in Brunei. The global markets are increasingly using Sukuk to tap the interest of Middle Eastern investors because of the increasing amount of accumulated wealth in the hands of Muslims, particularly in the oil-rich countries.

As a result, the Islamic finance market is swiftly expanding globally. With the Brunei government's proactive role in promoting Islamic banking and the increase of public awareness, the future of the sultanate of Brunei Darussalam to become a successful global Islamic financial hub looks very bright indeed.

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Accelerating Islamic Banking Growth in Indonesia

By Ali Sakti and Nasirwan Ilyas

Last year marked the second phase of the development of Islamic banking in Indonesia as part of the national long-term Islamic banking development plan stated in the "Blueprint of Islamic Banking Development (2002-11)". While the first phase focused on standardizing prudent policies, institutional regulation and developing effective public education, the second phase concentrates on increasing Islamic banking operational efficiency and competitiveness. Attempts to increase efficiency are being made through supporting infrastructure development for both Islamic banks and the Islamic finance industry, which will directly extend positive impact on Islamic banking financial management.

An important step is to synchronize Bank Indonesia's policies as spelled out in the blueprint with the bank's strategic plans stipulated in the Indonesian Banking Architecture (API) and Indonesian Financial System Architecture (ASKI). The synchronization covers additional strategic targets and development stages which focus on the integration process between the Islamic banking industry and other industries under one Islamic financial system.

Further, the focus on policies in strategic targets of Islamic banking development has been strengthened through simplification of six to four areas covering the following:

(i) compliance with Shariah principles;
(ii) regulations on compliance;
(iii) operational efficiency and competitiveness;
(iv) systemic stability and benefits to the economy;
(v) advancement of professional competency for human resources; and
(vi) upgrading social function of Islamic banks in facilitating voluntary sector with an empowerment program for boosting the economy.

General conditions

Throughout 2007, the Islamic banking industry had to contend with ups and downs. Economic conditions at the beginning of 2007 were still influenced by the ensuing effects of fuel price hikes since 2005, which was signified by high inflation and increases in cost of production as well as dampening of the consumer's purchasing power. This led to the creation of an unfavorable environment for businesses, including Islamic banking. However, due to consistent policies by Bank Indonesia and the government, inflation gradually declined by the end of the year to 6.1%, in line with the target of 6% to 7%.

Along with the movement especially in the second quarter, Islamic banking met its momentum. By the end of 2007, fund channeling of the Islamic banks had increased to IDR7.5 trillion (US$814 million) and saw the financing-to-deposit ratio

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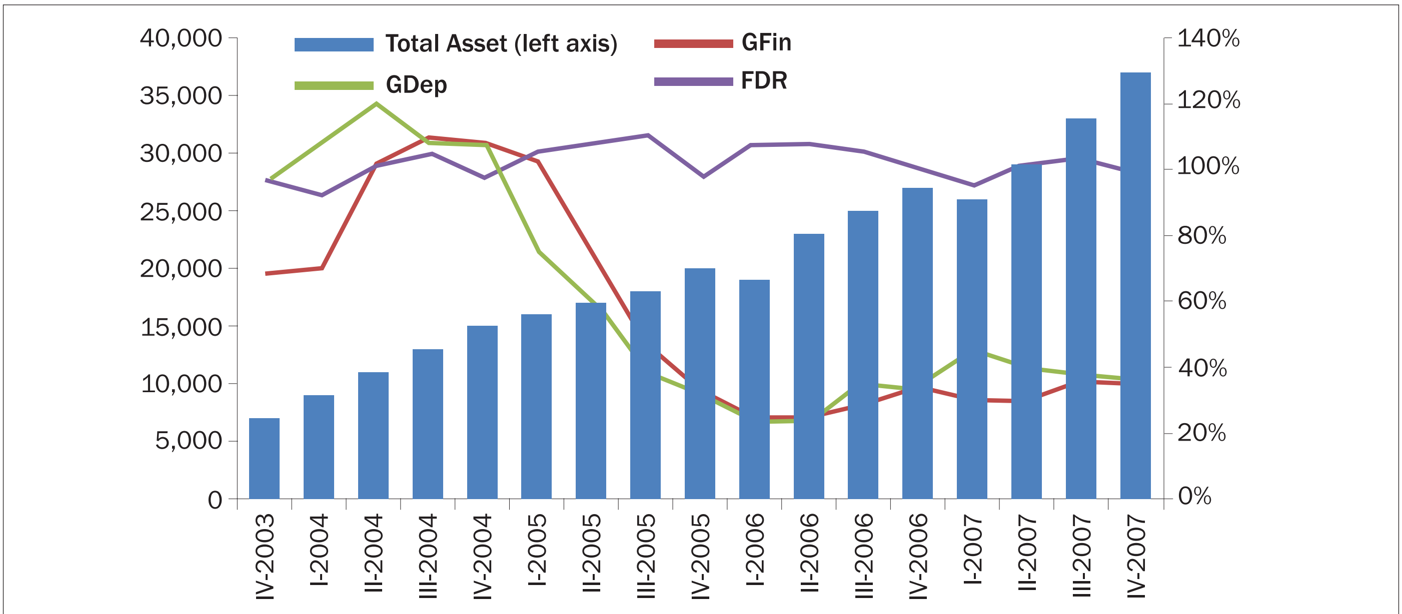
Figure 1: Asset growth, DPK, fund channeling and FDR of Islamic commercial banks and Shariah business units



Accelerating Islamic Banking Growth in Indonesia *(continued...)*

of Islamic banking grow from 98.9% at the end of 2005 to 99.8%. During the same period, third-party funds increased to IDR7.3 trillion (US$792 million). This indicated that almost all funds mobilized by the bank were fully distributed by Islamic banking; in other words, Islamic banks had optimally performed their intermediary function.

However, due to the slow recovery of the investment climate and economic conditions in the first quarter, fund channeling was slightly affected. This condition influenced investors to be more cautious about placing their funds in banks; moreover, as an alternative, portfolio placements in the money market became more attractive as they offered better financial stability. The shortage of funds on investment finally impeded the expansion of their business. This was reflected by the volume of Islamic banking growth that lost its momentum in the beginning of the year (growth was only 9.3%, or 28.7% year-on-year) and finally reached 36.7% at the end of 2006.

Institutional development

Last year, the total number of banks operating on Shariah principles increased, as evidenced by the opening of nine Islamic rural banks (BPRS) and six Islamic business units (UUS). Therefore, at the end of 2007, the number of Islamic banking institutions increased to three Islamic commercial banks (BUS), 26 UUS and 114 BPRS.

In line with the increasing number of Islamic banking institutions, the office network also significantly increased. During the reporting period, the number of offices (including cash units, sub-branch offices) increased by 75 offices from 636 offices at the end of 2006 (see Table 1). From area of distribution, the Islamic banking networks reached people in more than 70 districts in 31 provinces. The number excludes the 1,135 conventional offices opening Shariah services (office channeling) which officially started in the second quarter of 2006. This phenomenon indicates that investors still considered Islamic banks as potential developing institutions, especially in rural areas.

Table 1: Islamic banking (IB) institutional development

	2003	2004	2005	2006	2007
Full-fledged Islamic banks	2	3	3	3	3
Islamic banking division of conventional banks	8	15	19	20	26
Islamic rural banks (BPRS)	84	88	92	105	114
Number of Islamic banks	337	443	550	636	711
IB outlet in conventional bank office (office channeling)	—	—	—	456	1,135

Development of BUS and UUS

Last year, the business volume of Islamic banking grew by IDR9.8 trillion (US$1.06 billion). At the end of the period, it reached IDR36.5 trillion (US$4 billion). Islamic banking assets by national banking grew from 1.6% at the end of 2006 to 1.8% at the end of 2007, in which the assets were dominated by financing products. Although BUS still dominated as the main player in the industry, UUS market share improved from 20.8% in 2006 to 23.5% in 2007.

Table 2: Structure of Third Party Funds

Items	Nominal (IDR billion)		Growth (%)		Share (%)	
	2006	2007	2006	2007	2006	2007
Number of accounts	1,992,452	2,845,829	58.6	42.8		
Savings wadiah	3,415,747	3,750,376	67.0	9.8	16.5	13.4
Savings Mudarabah	6,430,355	9,454,060	47.1	47.0	31.1	33.8
Deposits Mudarabah	10,826,079	14,807,234	18.1	36.8	52.4	52.9
Third party funds	20,672,181	28,011,670	32.7	35.5	100	100

Amid stiff competition from various banks on funds mobilization, third party funds (TPFs) improved from 32.7% in 2006 to 35.5% in 2007. This was supported by the low interest rate, which the central bank had reduced eight times from 10.75% to 8.25% between November 2006 and November 2007. The structure of TPFs was dominated by unrestricted investment (see Table 2), and it moved to deposits (Mudarabah) with long-term maturities. This indicated that the liquidity preference of Islamic banking customers was likely to relatively decrease in 2007.

The tendency was strongly evident with the structure of unrestricted investment term that moved to the shorter term (one month). Such fund composition potentially increased the bank liquidity risk mainly from fluctuated corporate fund that is usually sensitive to the competitive return offered. Although the depositors are small in number (2.3%), the savings amount is dominant so that it is difficult to anticipate. This condition affected the banking investment preference with short-term orientation in order to mitigate the risk. So the liquidity transformation function, especially to meet the purpose of investment, was not optimally achieved.

Meanwhile, fund channeling in the form of various financing transactions was optimal, reaching the growth rate of 36.7% y-o-y or higher than that of 2006 or even a year before. High financing expansion was mainly contributed by UUS

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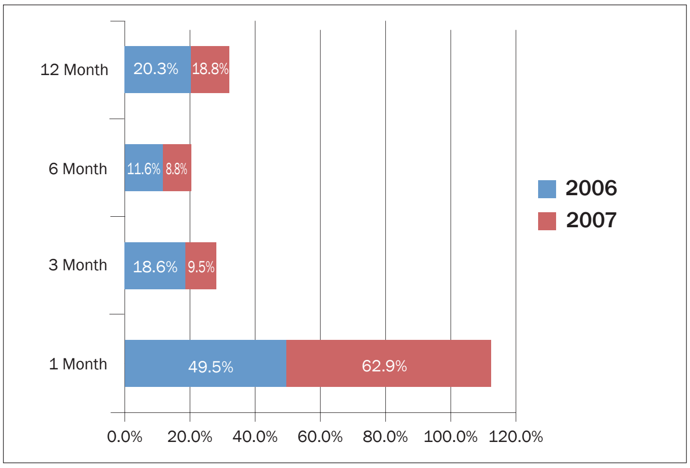
Accelerating Islamic Banking Growth in Indonesia *(continued...)*

with growth of 40.44% y-o-y, and for a while, the financing expansion of BUS recorded a lower rate of 24.5%, although the banks have striven to do their best as reflected by the FDR from 93.6% in 2006 to 97.6%. Attempts by the Islamic banking industry to optimally distribute the fund to various production factors at a time when national banking was facing difficulties in distributing funds should be noted in relation to the functioning of banks as intermediary institutions. Besides, the expansion raised the financing share of Islamic banking from 2.6% in 2006 to 2.8%.

Figure 2: Structure of unrestricted investment



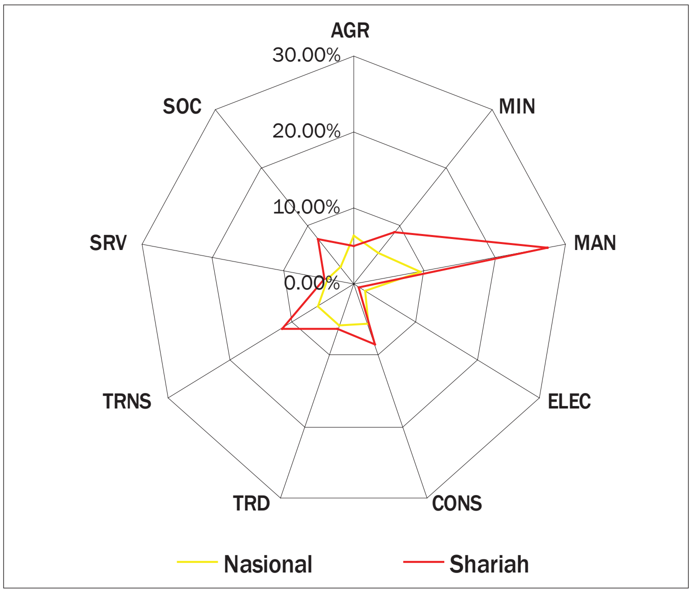
Based on type of contracts, the financing group based on Qardh and Musharakah financing increased along with a high phase of growth each at 115.6% and 88.7% (see Table 3) while Ijarah financing experienced negative growth (-38.3%). Meanwhile, Murabahah financing growth decreased from 33.1% to 31.1%, even though it still dominated the financing portfolio, but its share dropped from 61.7% to 59.2%. Among the factors expected to support financing growth using Qardh is the bank's flexibility to determine the use of the funds. This flexibility is indeed supposed to be the factor for Islamic banks to maintain competitiveness of its long-term financing products.

Favorable public perception of the investment climate and in line with the boost in various production and investment indicators led to some movement in the financing portfolio of Islamic banking. On the one hand, the investment financing growth experienced rapid growth of 63%. On the other, the consumptive financing growth that has short-term and low risk decreased significantly to 28.2% y-o-y.

Table 3: Development of financing product

Financing products	Nominal (billion)		Growth (%)		Share (%)	
	2006	2007	2006	2007	2006	2007
Musharakah	2,334,751	4,406,360	23.0	88.7	11.4	15.8
Mudarabah	4,062,200	5,578,146	30.0	37.3	19.9	20.0
Murabahah	12,624,241	16,552,534	33.1	31.1	61.7	59.2
Istisna	336,970	350,995	19.6	4.2	1.6	1.3
Qardh	250,446	539,945	100.6	115.6	1.2	1.9
Ijarah	836,299	516,230	164.7	-38.3	4.1	1.8

Figure 4: NPF per-sector



One of the aspects assumed promoting the financing reallocation is the different financing risk in each sector of the economy. Some sectors in which the production cost significantly increased due to the rise of oil and gas prices, such as industry and transportation sectors, showed higher

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Table 4 Development of BPRS business activities

ITEMS	2003	2004	2005	2006	Nov-07	G2007
Total Asset BPRS	292,959	471,454	604,971	906,325	1,186,540	31%
Share (%)	2.32	2.82	2.88	3.78	4.13	
Financing	192,969	328,102	435,912	636,287	888,074	40%
Number of account			47,627	74,698	90,181	21%
Third Party Fund	184,925	267,062	353,565	530,150	702,717	33%
Number of account			21,070	314,584	343,234	9%
LDR BPRS	104.35%	122.86%	123.29%	120.02%	126.38%	
LDR total BPR	89.32%	94.80%	96.12%	107.87%		
NPF BPRS (Gross)			10.64%	8.29%	8.38%	

Accelerating Islamic Banking Growth in Indonesia *(continued...)*

risk. The risk is reflected by the high ratio of non-performing financing (NPF) gross in both sectors. Besides, the NPF ratio in other factors, including the three main factors, also increased so that in general the NPF ratio of Islamic banking increased from 4.8% in 200 to 5.66% at November 2007.

From profitability side, Islamic banking drew a profit of IDR540 billion (US$58.6 million) in 2007, IDR185 billion (US$20.1 million) higher than the previous year. From the sources, the Islamic banking profit was dominated from accounts receivable margin, especially from Murabahah margin and profit and loss sharing financing.

Development of BPRS

In line with the growth of BUS and Islamic business units, BPRS also showed significant growth. In 2007, the BPRS business expanded to IDR3 billion (US$325,622;31%). The expansion increased BPRS's share of national BPR industry to 4.21%. Growth was mainly supported by the expansion of financing products, namely IDR25 billion (US$2.71 million) or an increase of 40% from the previous year.

Table 5: BPRS financing development

	Thousand Rupiah		
Financing products	**2006**	**2007**	**Growth (%)**
Murabahah	505,633,003	717,295,732	41.9
Salam	30,000	38,350	27.8
Istisna	1,361,194	13,356,040	881.2
Mudarabah	26,350,660	42,172,436	60.0
Musharakah	65,342,241	96,477,072	47.6
Ijarah	6,783,056	6,163,280	-9.1
Qardh	9,969,052	18,929,678	89.9
Debtors			
Micro	407,474,101	583,797,789	43.3
Small	176,405,460	263,104,635	49.1
Medium	31,589,645	47,530,164	50.5
Sector			
Agriculture	17,720,057	26,450,172	49.3
Mining	484,808	1,176,654	142.7
Manufacturing	12,465,465	13,608,387	9.2
Electricity	748,034	557,124	-25.5
Construction	6,569,748	18,586,533	182.9
Trading	255,558,690	322,632,325	26.2
Transportation and comm	8,704,141	8,705,516	0
Business services	72,193,743	114,142,480	58.1
Social services	5,632,065	10,807,309	91.9
Others	235,392,455	377,766,088	60.5

Meanwhile, TPFs raised by BPRS increased to IDR17 billion (US$1.84 million; 33%) so it indicated that all funds raised were fully distributed by BPRS. In other words, BPRS has functioned as an intermediary institution especially in its local area with the main market share of micro and small enterprises, either in villages or cities. The indication was also reflected from the financing to deposit ratio of BPRS, which was recorded at 126.4%.

Last year marked the growth of all types of financing products distributed by BPRS except Ijarah financing. Based on type of transaction, the trading-based financing with Murabahah transaction and profit-loss sharing with Musharakah transaction dominated BPRS. Both types are intended to provide working capital of the customer in which recorded a growth of 45% in 2007 y-o-y.

Murabahah-based financing is also intended to meet the needs of products such as motorcycles/cars and houses. This financing matched the characteristics of BPRS customers, who generally (65.7%) were micro customers to meet their consumptive and productive financing with less than IDR50 million (US$5,425). From the economic sector, trading and commercial services were the sectors which received the substantial portion of fund allocation from BPRS in 2007. While the amount for agriculture was not as high as that for the two sectors, it still enjoyed high financing allocation, namely 49.3% y-o-y.

Challenges

However, for years to come, the national Islamic banking industry may have to deal with several challenges to maintain the high level of growth. These may include:

Quality of human resources: The rapid growth of the Islamic banking industry needs to be supported by human resources with knowledge of Islamic banking and generally required field of expertise such as capability for entrepreneurial risk management and service excellence. Islamic banking operation, which is closed to real sector, requires its human resources to be strong and competent in aspects related to real sector, i.e. capability for project evaluation in all aspects.

At present, the need for Islamic human resources is fulfilled partially from conventional banks and the rest by graduates from educational institutions. The Islamic/finance industry certainly needs the support of all kinds of resources and expertise, like analytical capability derived from formal education training or technical capability gained from field experience.

Services coverage: As new industry develops, Islamic banks still have limited operational coverage compared to

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Accelerating Islamic Banking Growth in Indonesia *(continued...)*

conventional banks, either in the form of service coverage or product variation that facilitates transactional needs. On the other hand, customers will consider aspects of efficiency and convenience more than they would compliance with the principles of Shariah. Therefore, if Islamic banking is widely accepted, it should be able to place itself as a solution and not just as a vendor of financial products that comply with Shariah but fail to meet the practical needs of customers.

Low level of people understanding: Until now, the level of understanding of the operational nature of Islamic banking has been limited. It is necessary to have a program that enhances public awareness, hence the need to position Islamic banking properly at all levels of society. Yet, the need for information dissemination for the respective groups does not mean equality. For the academic segment, the need for an explanation on Islamic banking tends to be higher than that for businessmen or regular people who may need more information on how they can benefit from Islamic banking services and the benefits being offered.

Policy of IB development

The policy of the Indonesian Islamic banking industry development in general is still directed towards strengthening industry structure as outlined in the blueprint, where the implementation is in line with the development condition and challenges faced by the industry or national economy. The momentum of rapid growth of Islamic banks should be maintained to enhance benefits for customers and to respond to challenges of improved intermediary function in solving the problem of national economy.

In that regard, the policy and strategy of Islamic banking development in 2008 will be focused on efforts to expedite the quality and capacity improvement of Islamic banking services, either on the supply or demand side, to achieve the market share of 5% by end-2008.

Table 6: Projection with acceleration

Indicator	Dec'05	Dec'06	Dec'07	Dec'08
Asset	20.88	27.14	47.94	91.57
Financing	15.23	19.79	38.39	68.95
Third party funds	15.58	20.25	36.10	73.33
Market share (%)	1.42	1.68	2.84	5.25

From the supply side, the policy of Islamic banks will be to strengthen the structure of institutional and Islamic banking efficiency so as to improve the level of competition and ability to cushion the impact of any economic shock. This policy direction is intended to emphasize some main policies as discussed below.

Strengthening quality of human resources: Facilitating technical aid program for banks to improve its expertise, either in Shariah or other technical aspects such as project evaluation, service excellence, managerial capability and risk management. These aspects are expected to improve the management quality of Islamic banking assets which in turn will increase public confidence in Islamic bank services. The improvement of capability on the Shariah aspect and service excellence will add to the convenience of doing Islamic banking transactions.

With regard to the acceleration program of Islamic banking growth, the plan to strengthen human resources becomes more significant since during its growth Islamic banks are expected to be able to extend the DPK properly and safely.

Office channeling: This program is conducted to assist customers who wish to receive Islamic financial services either from Islamic commercial banks or conventional banks that offer Islamic services as well. Currently, the physical existence of a bank is still an important aspect since the majority of Indonesians are not actively connected with financial services facilities by electronic means.

Through this program, Islamic financial products and services are expected to be offered more extensively to a wider customer base using the existing network of conventional banks. In relation to potential maximization of office channeling, the coverage of services was already extended not only in the area of funding mobilization but also in financing services.

Product diversification: This program for Islamic banking is implemented with the aim to place the Islamic banking industry as the solution that can meet public demand for reliable daily financial needs at a retail or corporate sector level. Product diversification in Islamic finance will effectively improve the competition level of the Islamic banking industry as a whole. In this regard, with the acceleration program where the system of Islamic banking has the potential to mobilize more quality funds, product diversification would be very significant in facilitating DPK distribution in more flexible ways to a wide spectrum.

Facilitating the formation of investor forums with related parties: Given the limited capital for the national Islamic banking industry, Bank Indonesia considers it necessary to facilitate foreign investor interest either through direct investment to IB institutions or investment in potential real sector that generates positive effects on capital inflow.

Meanwhile, looking at the demand side, the policy of Islamic banking will be to enhance market share of Islamic

continued...

Accelerating Islamic Banking Growth in Indonesia *(continued...)*

banking so that Islamic banks can propel the process of banking intermediary and the creation of systemic stability significantly.

Socialization of Islamic banks: This aims to introduce and disseminate Islamic banking through forums and dedicated events to different segments. The targeted segments include academia through writing of academic books, seminars and training for trainers. This dissemination program will involve many parties. It is hoped that the program of public education will change public perception on the relationship between the customer and Islamic banks, as opposed to one of creditor and debtor. Hopefully, the development of Islamic banking will be more stable.

Linkage program: The aim of this program is to strengthen relationships between practitioners and the business sector. Research has been done and will be conducted at microfinance, medium and even corporate levels, which will be beneficial especially in terms of enhancing the financing assessment and preventing adverse selection. Specifically, the objective of research is to obtain a benchmark financing model for Islamic banks.

Voluntary sector: It is to encourage the participation of Islamic banks in the development of voluntary sector that has strategic potential to alleviate poverty and contribute to national improvement of the socio-economic structure. The Islamic bank as an intermediary agent is expected to be the catalyst in improving mobilization and management of voluntary funds (zakat, shadaqah, infaq and wakaf) by amil or institution of zakat, to support the process of economic empowerments for microbusiness and poverty alleviation, which in turn will enhance public awareness of the benefits of Islamic banking.

"Bank Indonesia will complete and reaffirm related regulations on risk management and evaluation of the soundness of Islamic banks, evaluation of asset quality and contracts of fund collection"

Encourage government participation: Aimed at encouraging the extension of opportunity for Islamic banks to manage government funds, or the government could participate in financing program in the level of Islamic banking within the national banks. This will improve the Islamic banking market share in the national banking industry.

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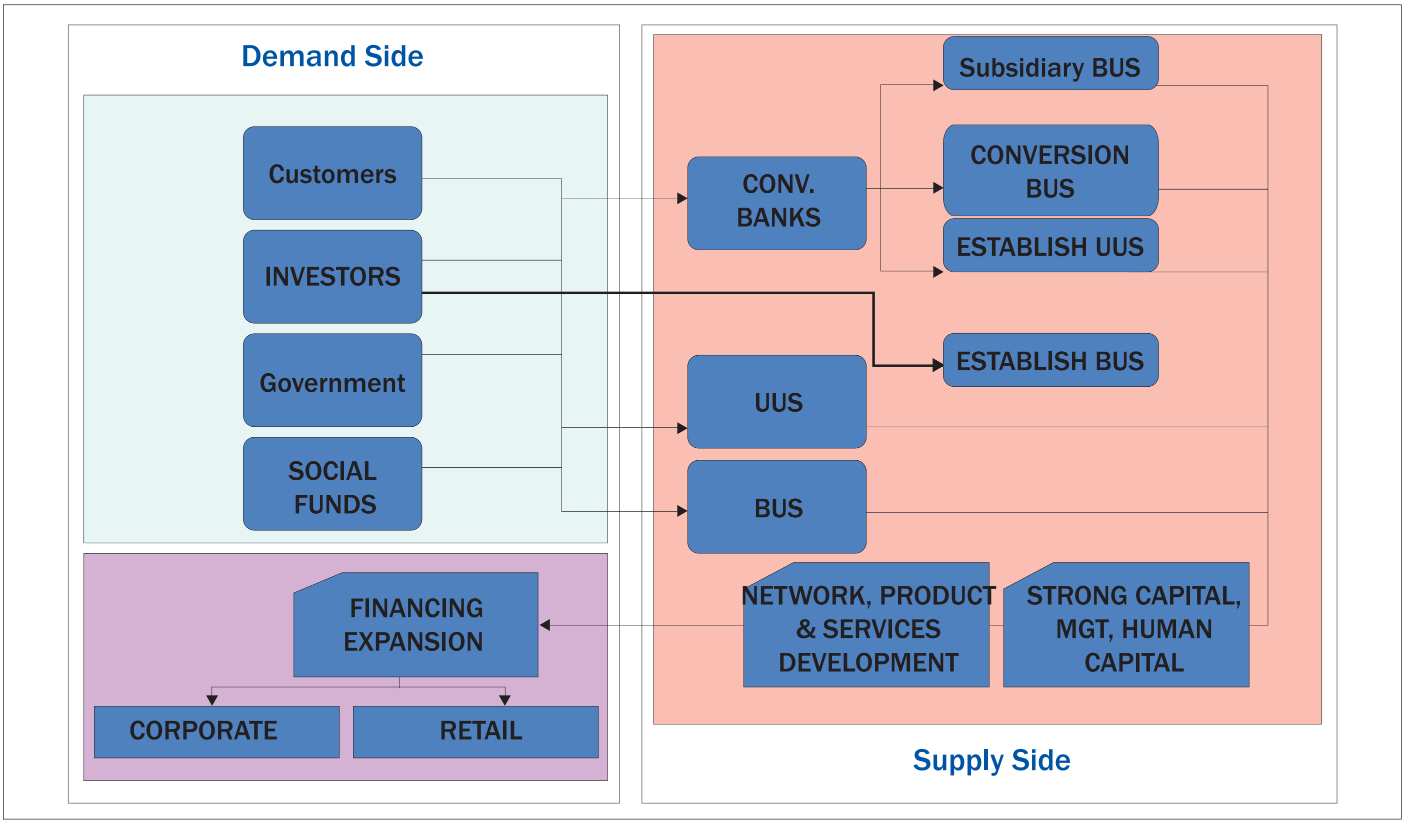

Accelerating Islamic Banking Growth in Indonesia *(continued...)*

However, some measures to enhance Islamic banking profile through acceleration of Islamic banking growth will be more effective with regulatory support that provides legal certainty for investment activities through Islamic instruments. Therefore, Bank Indonesia will continuously support ratification of the Islamic banking law, tax law and regulation on Islamic bonds (Sukuk). The enactment of these laws would enhance legal certainty, which is expected to improve the competitiveness of Islamic banking products and Islamic market instruments that hitherto are troubled by double tax imposition.

Apart from supporting the efficiency and competitiveness of Islamic banks, Bank Indonesia will complete and reaffirm related regulations on risk management and evaluation of the soundness of Islamic banks, evaluation of asset quality and contracts of fund collection and distribution by considering prudent principles of bank management and Islamic principles. With this, it is expected that the development of Islamic banking industry will be much better.

Acceleration Program 2007-08

The development of the Islamic banking system from time to time seems to show good performance. There has been improvement in some Islamic banks followed by impressive and high-quality growth of business volume. With all advantages attached to Islamic banking, all parties involved certainly have to make a concerted effort in order for Islamic banks to grow significantly.

The market share of Islamic banks over national banks is still small, only 1.5% with total assets amounting to IDR25.6 trillion (US$2.77 million) (as at October 2006). The number of Islamic banks so far comprising three Islamic commercial banks, 19 Shariah units of Islamic commercial banks and 105 BPRS (Islamic rural banks) that covers 600 office networks are insufficient compared to potential market and existing current opportunities.

An analysis of research preferences shows high public awareness of the existence of financial industry and Islamic banks. The growth of Islamic banking internationally is in a rapid phase so it provides opportunities as financing resources for the development of Indonesian economy in general and the growth of Islamic financial industry in Indonesia in particular. The existence of voluntary sector funds (either resulting from business of banks or from third party funds) is a potential avenue for Islamic banks to channel it to related parties. This fact certainly will contribute to value-added on the existence of Islamic banking industry when Islamic banks become effectively involved in the linkage program and function as funds distributor to SME development.

Afterwards, the share of Islamic banks will increase in the national banks and it will contribute positively to support the development of qualified national economic growth (quality of growth) through the achievement of social, material and spiritual (falah) objectives based on the principle of falah which advocates justice, balance and public benefit.

In order to enhance the role of Islamic banks, this calls for an acceleration program that involves all components of stakeholders and positioning of Islamic banks not only as complementary but also as national assets. During 2007-08, it is expected that the portion of Islamic banks can be raised to 5% by the end of 2008 by maintaining prudent principles and Shariah compliance.

With reference to systematic policy and strategic initiatives in the blueprint of national Islamic banking development, the acceleration program in 2007-08 will be focused more on the quantitative target achievement through policy packages and initiatives that will contribute to significant growth within a short period. The effort to push for faster development from the supply and demand side in turn will demand the commitment of and synergic cooperation from all stakeholders of Islamic banks, including the government.

Projected growth

Taking into account the result of assessment on the fundamental conditions of the Islamic banking industry, assumptions such as there would be several new banks established in various forms (BUS, UUS or BPRS), endorsement of Islamic banking, tax and Islamic bond laws, as well as required policy response during 2008, the projection of Islamic banking development for 2008 basically will be the same as that for 2006, which calculated 5% share of Islamic banking.

With the implementation of consistent acceleration program and support from the stakeholders of Islamic banks, national Islamic banking growth can be pushed much faster. Thus, the expected achievement of market share 5% in 2008 is plausible.

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THE RESULTS ARE NOW OUT

With over 212 unique submissions, the 2007 Deals of the Year awards were one of our greatest challenges ever to review and arrive at our final selections. The fourfold growth in submissions reflected the dramatic increase in the volume of new deals.

Many of these transactions reflect the depth of the players from the regional institutions in Malaysia and the GCC, as well as the importance of the global banks. Innovation was a hallmark of the transactions, with many bankers and their clients testing new frontiers.

Deal of the Year:	**DIFC Investments LLC**
Size:	AED7.5 billion (US$2 billion)
Arrangers:	Barclays Capital, Deutsche Bank, Dubai Islamic Bank, Lehman Brothers
Lawyers:	Allen & Overy, Clifford Chance, Lovells, Maples & Calder
Rating:	A1/A+ (S&P)
Date:	20th November 2007
Shariah Adviser:	Dubai Islamic Bank Shariah Board

These Sukuk al Mudarabah issued by the Dubai International Financial Center (DIFC) through a DIFC-registered special purpose vehicle represent both the capability of the DIFC to serve the market, as well as funding the DIFC in its investment strategy. It is a case of proof of concept in that the DIFC is able to demonstrate how its law and vehicles can serve a global market. The DIFC's general funding needs include expanding infrastructure for the DIFC in hard and soft assets, acquisitions and all other activities that support the growth and success of the DIFC as a whole. This in itself bodes well for the growth of the global Sukuk market. Indeed, the world bought into the story with 47% of the investors coming from Europe and 20% from Asia; 7% of the investors were themselves governments and central banks.

Best IPO:	**DP World**
Size:	US$1.5 billion
Lead Arrangers:	Deutsche Bank, Merrill Lynch International, Shuaa Capital, Millennium Finance Corporation
Lawyers:	Clifford Chance, Linklaters
Rating:	A+ (S&P)
Date:	June 2007
Shariah Adviser:	n/a

This transaction opened on the 4th November 2007 and closed on the 15th (institutional closings the 20th), with an over-allotment option of US$700 million. The transaction fulfills the IPO promise to holders of the US$3.5 billion PCFC Development Sukuk Al Musharakah of 2006. The transaction is the largest ever and first retail offering on the DIFX.

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Deals of the Year *(continued...)*

Most Innovative: Mobily Project Financing

Size:	US$2.85 billion
Lead Arrangers:	ABN Amro, Al Rajhi Bank, Banque Saudi Fransi, Calyon, National Bank of Abu Dhabi, The National Commercial Bank, Saudi Hollandi Bank, SAMBA
Lawyers:	Al-Jadaan & Partners Law Firm, Baker & McKenzie, The Law Office of Mohammed Al-Sheikh, White & Case
Rating:	n/a
Date Closed:	March 2007
Shariah Advisers:	Dr El Gari, Dr Nazih Hammad and Sheikh Nizam Yaquobi

In a year of significant innovation, we saw new structures from Malaysia; Red Sea Gateway, Egyptian Fertilizer Company acquisition and Tamweel, among others, all gave close competition to Mobily. In the end, it was the demonstration of the fungibility of air time, an intangible asset, and its use as the underlying asset for a proper Islamic sales transaction applying the Islamic rules of agency that won in this category. This transaction demonstrates that innovation does not require complication and paves the way for funding other high-technology and communications deals in the future.

Best Equity: Cherating Capital (Khazanah)

Size:	US$850 million
Lead Arrangers:	CIMB Islamic, Deutsche Bank, JP Morgan Malaysia
Co-Arrangers:	European Islamic Investment Bank, Mashreqbank
Lawyers:	Adnan Sundra & Low, Clifford Chance Wong Private Limited, Kadir Andri & Partners, Linklaters Allen & Gledhill
Rating:	n/a
Date:	5th July 2007
Shariah Adviser:	CIMB Islamic Shariah Committee

This transaction replicates the exchangeable structure first pioneered by Khazanah in 2006. In this case, the Sukuk holders will have the option to exchange their units for shares of PLUS Expressways at the maturity of the Sukuk. In addition to being the largest Malaysian equity-linked deal, this Dubai International Financial Exchange (DIFX)-listed transaction is the third-largest Asia-Pacific deal outside of Australia and Japan.

Best Cross-Border: Cherating Capital (Khazanah)

Size:	US$850 million
Lead Arrangers:	CIMB Islamic, Deutsche Bank, JP Morgan Malaysia
Co-Arrangers:	European Islamic Investment Bank, Mashreqbank
Lawyers:	Adnan Sundra & Low, Clifford Chance Wong Private Limited, Kadir Andri & Partners, Linklaters Allen & Gledhill
Rating:	n/a
Date:	5th July 2007
Shariah Adviser:	CIMB Islamic Shariah Committee

Perhaps no sponsor has been as successful in attracting capital on a global basis as Khazanah. With the Cherating exchangeable deal, Khazanah continues this trend and draws capital from Japan to North America, and critically strengthens bonds with the GCC. The transaction is listed on the Hong Kong Stock Exchange, the Dubai International Financial Exchange and Malaysia's Labuan International Financial Exchange.

Deals of the Year *(continued...)*

Best Structured Finance: Tamweel Residential ABS CI (1) Ltd

Size:	US$210 million
Lead Arrangers:	Morgan Stanley, Standard Chartered
Lawyers:	Allen & Overy, DentonWildeSapte
Rating:	Class A Notes - Aa2 (Moody's)/AA (Fitch), Class B Notes - Baa1 (Moody's)/BBB+ (Fitch), Class C Notes - Ba3 (Moody's)/BB- (Fitch), Class D Notes not rated
Date:	25th July 2007
Shariah Adviser:	Dr Hassan Hussain

At last, this deal represents the first true securitization of Islamic mortgage alternatives without excessive cash collateralization or recourse to the originator. The transaction creates a clever tiering of the Sukuk into unique classes in a Shariah compliant manner, and is the first UAE-rated Islamic mortgage alternative instrument.

Best Ijarah: Red Sea Gateway Terminal Limited

Size:	SAR 1.7 billion (US$453.93 million)
Lead Arrangers:	Al Rajhi KSA, Saudi Fransi Bank
Lawyers:	Allen & Overy, Linklaters
Rating:	n/a
Date:	6th December 2007
Shariah Advisers:	Al Rajhi Bank Shariah Board

Al Rajhi Bank underwrote SAR1.7 billion (US$507.35 million) of the SAR1.9 billion (US$453.93 million) required to execute this major project financing. This project applied the unique structure developed as Al Rajhi's approach to forward leasing, using Wakalah with the forward lease. In the deal, the lease has a 16-year tenor, and the client is the agent of the banks during the construction phase to build the asset. The transaction provides a new look at how to execute forward leases for construction, and provides a viable alternative to Istisna in structuring long-term project financings. Competition was strong in this segment, with innovative presentations from Qatar, the UAE, Malaysia, the US and Europe.

Best Mudarabah: Aldar exchangeable Sukuk

Size:	US$2.53 billion
Lead Arrangers:	Barclays Capital, Credit Suisse, National Bank of Abu Dhabi
Lawyers:	Bedell Cristin Jersey Partnership, Clifford Chance, DentonWildeSapte, Simmons & Simmons
Rating:	Not rated
Date:	8th March 2007
Shariah Advisers:	Sheikh Nizam Yaquobi and Dr Abdul Sattar Abu Guddah

The Mudarabah space was very active last year and Aldar won in a tough competition that included DP World, Cornerside Investment (KFH Malaysia), Jebel Ali Free Zone and Gulf General Investment. This proved to be the largest exchangeable deal raising capital for the lesser-known Aldar Properties. The deal entrusts Aldar, Abu Dhabi's largest property developer, to act as mudarib for investors in the Abu Dhabi property sector. The transaction proved popular in the international markets, with 80% sold in the international markets and penetration into the US institutional market.

Deals of the Year *(continued...)*

Best Musharakah: KL Sentral Sukuk Musharakah

Size:	RM720 million (US$218.9 million)
Lead Arrangers:	HSBC Bank Malaysia, Kuwait Finance House (Malaysia)
Lawyers:	Newfields Advisors, Zaid Ibrahim & Co
Rating:	AA2 (Rating Agency Malaysia)
Date:	29th March 2007
Shariah Advisers:	Kuwait Finance House (Malaysia) Shariah Board

This structure refinances KL Sentral's prior Bai Bithaman Ajil debt. The proceeds are meant to transform 72 acres of prime land in Kuala Lumpur. The RM720 million (US$218.9 million) transaction includes a put option to the sponsor in order to enhance the credit of, and thereby improve, the pricing compared to the prior debt structure. The transaction leads the growing trend that expects Malaysian issues to seek globally acceptable Sukuk structures.

Best Sovereign: Ras Al Khaimah Investment Authority

Size:	US$325 million
Lead Arrangers:	Credit Suisse, HSBC, National Bank of Dubai
Lawyers:	Allen & Overy, Lovells, Maples & Calder
Rating:	n/a
Date:	5th December 2007
Shariah Advisers:	n/a

This is the initial benchmark issue for the UAE constituent emirate of Ras Al Khaimah. The transaction reflects the full faith and credit of the emirate's investment authority and enjoys an irrevocable and unconditional guarantee from the government. The proceeds will be applied to the development of real estate assets.

Best Sukuk: Jebel Ali Free Zone Sukuk

Size:	AED7.5 billion (US$2 billion)
Lead Arrangers:	Barclays Capital, Deutsche Bank, Dubai Islamic Bank, Lehman Brothers
Lawyers:	Clifford Chance, Maples & Calder, Allen & Overy, Lovells
Rating:	A1 (Moody's)/A+ (S&P)
Date:	27th November 2007
Shariah Advisers:	Dubai Islamic Bank Shariah Board

With so many excellent new issues, deciding on the best Sukuk for 2007 was incredibly difficult. In the end, Jebel Ali's AED7.5 billion (US$2 billion) Sukuk was chosen for achieving the largest UAE domestic issuance, yet it was also well accepted by international investors. The A1 (Moody's)/A+ (S&P) deal was launched and closed in the midst of the current global credit crunch with attractive distribution in the UK, Europe and the US.

Deals of the Year *(continued...)*

Best Real Estate:	**Aldar Exchangeable Sukuk**
Size:	US$2.53 billion
Lead Arrangers:	Barclays Capital, Credit Suisse, National Bank of Abu Dhabi
Lawyers:	Bedell Cristin Jersey Partnership, Clifford Chance, DentonWildeSapte, Simmons & Simmons
Rating:	Not rated
Date:	8th March 2007
Shariah Advisers:	Sheikh Nizam Yaquobi and Dr Abdul Sattar Abu Guddah

With the proven success of Dubai, and great strides being made in Malaysian, Qatari, Saudi Arabian, Bahraini and Kuwaiti real estate, this deal puts Abu Dhabi on the map and highlights the opportunities in this strong market. This transaction was the largest exchangeable Sukuk, and is the first Sukuk to be listed in London.

Best Islamic REIT:	**Al-Hadharah Boustead REIT**
Size:	US$138 million
Lead Arrangers:	Affin Bank, Affin Securities, Malaysian International Merchant Bankers, Pacific Alliance Capital
Lawyer:	Albar & Partners
Rating:	n/a
Date:	15th January 2007
Shariah Adviser:	Islamic Banking and Finance Institute Malaysia

As was thematic for 2007, this sector is heating up and we enjoyed real estate investment trust (REIT) entries for the first time from outside of Malaysia. While the others were real estate investment funds or funds investing in REITs, the only true and new Islamic REIT was Al-Hadharah Boustead REIT. This was an IPO for legacy plantation group and generates a predictable income for REIT investors by leasing the REIT assets to various users in the palm oil sector.

Best Murabahah/ Trade Finance:	**PT Krakatau Steel**
Size:	US$50 million
Lead Arrangers:	HSBC Amanah, Dubai Islamic Bank, Kuwait Finance House (Malaysia)
Lawyers:	DentonWildeSapte, Hanafiah Ponggawa & Partners
Rating:	n/a
Date:	4th July 2007
Shariah Adviser:	HSBC Amanah

The first transaction to follow HSBC's landmark Pertamina trade syndications in 2004 and 2006. HSBC Amanah and its counselors, Denton Wilde Sapte and Hanafiah Ponggawa & Partners, had to manage complex trade cycle issues and tax issues while introducing Indonesia's largest steel manufacturer to syndicated Islamic trade finance.

Deals of the Year *(continued...)*

Best Tawarruq:	**Mada Leletisalat**
Size:	US$2.5 billion
Lead Arrangers:	ABC Islamic Bank, Al Rajhi Banking Corporation, Arab National Bank, Banque Saudi Fransi, BNP Paribas, Calyon, Citibank, Gulf International Bank, National Bank of Kuwait, Samba Financial Group
Lawyers:	Al-Jadaan & Partners Law Firm, Clifford Chance, White & Case
Rating:	n/a
Date:	July 2007
Shariah Advisers:	Citi Islamic Investment Bank Shariah Board

This important Saudi Arabian transaction represents the acquisition of the third mobile operator's license by Kuwait's Zain (MTC Telecommunications). The massive US$6.11 billion transaction is indicative of the importance of the telecommunications sector in the GCC and emerging markets as a whole. We have set aside Tawarruq from Murabahah to reflect the distinction of these processes in the view of Shariah scholars and to avoid confusion in the awards.

Best Project Finance:	**Red Sea Gateway Terminal Limited**
Size:	SAR1.7 billion (US$453.93 million)
Lead Arrangers:	Al Rajhi KSA, Saudi Fransi Bank
Lawyers:	Allen & Overy, Linklaters
Rating:	n/a
Date:	6th December 2007
Shariah Advisers:	Al Rajhi Bank Shariah Board

The demand for new project finance transactions is tremendous and this year's competition including a rich group of submissions, all of which made the selection more challenging. Nonetheless, we found the novel Wakalah with the Forward Lease approach applied by Al Rajhi and its syndicate in the Red Sea Gateway project to represent the best of breed in a very strong field.

Best Corporate Finance:	**Egyptian Fertilizers Company**
Size:	US$1.41 billion
Lead Arranger:	Deutsche Bank
Lawyers:	Clifford Chance, Lovells, Maples & Calder
Rating:	n/a
Date:	November 2007
Shariah Adviser:	Dr Hussein Hassan

The EFC leveraged acquisition is the largest MENA Islamic leveraged acquisition. Utilizing the concept of Bai al Salam for a commodities-based company, the transaction breaks new ground and sets an example in a market rich with primary commodity producers of significant scale.

Deals of the Year *(continued...)*

BAHRAIN:	**Gulf Finance House Trust Certificates**
Size:	US$200 million (first tranche of US$1 billion program)
Lead Arrangers:	Dredner Kleinwort, HSBC
Lawyers:	Al-Sarraf & Al-Ruwayeh, Dechert, Lovells, Walkers
Rating:	n/a
Date:	25th July 2007
Shariah Adviser:	n/a

As a leading Bahrain-based Islamic investment bank, Gulf Finance House is the first issuer under a trust certificate program. The transaction attracted a diverse investor universe, attracting 45% of the funds from outside of the Middle East with its London Stock Exchange listing. The deal structure is extremely flexible as to both the volume of Sukuk that may be issued, and the diversity of the underliers.

DJIBOUTI:	**Doraleh Containers Terminal**
Size:	US$263 million
Lead Arrangers:	Dubai Islamic Bank, Standard Chartered, WestLB
Lawyers:	Allen & Overy, Lovells
Rating:	n/a
Date:	December 2007
Shariah Advisers:	Dubai Islamic Bank and Standard Chartered Bank

This important Saudi Arabian transaction represents the acquisition of the third mobile operator's license by Kuwait's Zain (MTC Telecommunications). The massive US$6.11 billion transaction is indicative of the importance of the telecommunications sector in the GCC and emerging markets as a whole. We have set aside Tawarruq from Murabahah to reflect the distinction of these processes in the view of Shariah scholars and to avoid confusion in the awards.

EGYPT:	**Egyptian Fertilizers Company**
Size:	US$1.41 billion
Lead Arranger:	Deutsche Bank
Lawyers:	Clifford Chance, Lovells, Maples & Calder
Rating:	n/a
Date:	November 2007
Shariah Adviser:	Dr Hussein Hassan

The Egyptian Fertilizers Company-leveraged acquisition is an exciting deal in that it is the first major deal to apply the concept of Bai al Salam for a commodities-based company. In lieu of lending, Deutsche Bank structured the transaction uses a series of forward, or Salam, sales of the plant's product to fund the acquisition. It is the largest ever Islamic deal in Egypt.

Deals of the Year *(continued...)*

INDIA: SREI Infrastructure Finance Ltd.

Size:	US$50 million
Lead Arrangers:	HSBC, Kuwait Finance House (Malaysia)
Lawyers:	Norton Rose, Wadia Ghandy & Co, Walkers
Rating:	n/a
Date:	10th August 2007
Shariah Adviser:	HSBC Amanah

Although not a large transaction, this equipment leasing deal was arranged by HSBC Amanah with Kuwait Finance House (Malaysia) and represents one of the first major syndicated Islamic transactions serving the Indian market.

INDONESIA: PT Adhi Karya Sukuk Mudarabah

Size:	IDR125 billion (US$13.3 million)
Lead Arranger:	Mandiri Sekuritas
Lawyers:	Priyadi & Co
Rating:	idA-(Sy)
Date:	June 2007
Shariah Adviser:	n/a

This transaction represented another success for Mandiri Sekuritas, which underwrote this deal. The proceeds of this Mudarabah Sukuk were used to repay traditional bonds outstanding by the sponsor, shifting them onto an Islamic basis.

JORDAN: Queen Alia International Airport

Size:	US$670 million
Lead Arranger:	The Islamic Development Bank
Lawyers:	Ashurst, Norton Rose
Rating:	n/a
Date:	15th November 2007
Shariah Adviser:	Islamic Development Bank

This is a significant deal in every way, including its application to the redevelopment of Jordan's Queen Alia International Airport. Arranged by Islamic Development Bank, the deal blends Islamic and conventional facilities including those offered by International Finance Corporation (a member of World Bank Group).

KAZAKHSTAN: Bank TuranAlem Syndicated Wakalah

Size:	US$250 million
Lead Arrangers:	Abu Dhabi Islamic Bank, Abu Dhabi Commercial Bank, Barclays Capital, CIMB
Lawyers:	Allen & Overy, Grata Law Firm
Rating:	BB (S&P), Ba1 (Moody's) and BB+ (Fitch)
Date:	10th July 2007
Shariah Advisers:	Abu Dhabi Islamic Bank Shariah and Fatwa Supervisory Board

This is the first major transaction executed for a Kazakh bank and the proceeds are to be applied in Islamic trade finance transactions. The syndicate brought together three of the leading players in the field: Malaysia's CIMB, the GCC's Abu Dhabi Islamic Bank and global leader Barclays Capital. This was also the largest syndicated deal in the Kazakh market.

Deals of the Year *(continued...)*

KUWAIT: NIG Sukuk Limited

Size:	US$475 million
Lead Arrangers:	BNP Paribas, Citibank, NBK Capital, Standard Chartered, WestLB
Lawyers:	Al Sarraf & Al-Ruwayeh, Walkers, Allen & Overy
Rating:	Baa2, stable (Moody's)
Date:	16th August 2007
Shariah Advisers:	Standard Chartered Bank Shariah Board and Citi Islamic Investment Bank Shariah Board

This is the largest program from Kuwait with an initial issuance of US$475 million for a leading Kuwait-based investment group. This transaction introduced NIG Holding, Kuwait's largest listed holding company, to a new universe of investors.

MALAYSIA: MBB Subordinated Capital Sukuk

Size:	US$300 million
Lead Arrangers:	Aseambankers Malaysia , HSBC Amanah, UBS
Lawyers:	Allen & Overy, Linklaters Allen & Gledhill, Shook Lin & Bok, Zul Rafique and Partners, Zaid Ibrahim & Co
Rating:	Baa1 (Moody's), BBB+ (Standard & Poor's) and BBB+ (Fitch Ratings)
Date:	18th April 2007
Shariah Advisers:	HSBC Amanah Shariah Committee and UBS Shariah Advisory Council

In a market rich with new and attractive issuances, this stands out as one of the first Sukuk supporting the issuances of new bank capital. The deal represents a benchmark for capital Sukuk deals, and achieved important diversification in the Maybank investor base, capturing the attention of Middle Eastern and Saudi Arabian investors.

PAKISTAN: Engro Chemical

Size:	US$200 million (in two tranches) (a) US$150 million Islamic syndicated loan arranged with participation from local as well as international banks; and (b) US$50 million equivalent (PKR3 billion) Islamic Sukuk issue tapping local investors interested in participating in the Islamic mode of financing.
Lead Arrangers:	Citibank, Dubai Islamic Bank, Habib Bank, Meezan Bank, National Bank of Pakistan, Standard Chartered
Lawyers:	Haidermota & Co, Lovells, Mandviwala & Zafar
Rating:	Not rated
Date:	October 2007
Shariah Advisers:	Citigroup, Dubai Islamic Bank, Meezan Bank and Standard Chartered

This project finance facility (US$200 million) and Sukuk al Musharakah (US$50 million) support the largest project finance and corporate finance transaction in the last decade in Pakistan. The complicated transaction includes a number of cooperative arrangements between conventional and Islamic financiers to deliver a projects of this scale in the domestic Pakistan market.

Deals of the Year *(continued...)*

QATAR:	**Qatar Real Estate Investment Authority Company (Alaqaria)**
Size:	US$300 million
Lead Arrangers:	HSBC, Emirates Bank International, Gulf International Bank, Landsbanki Íslands, Mashreqbank, Masraf Al Rayan, National Bank of Abu Dhabi, Qatar International Islamic Bank, Qatar Islamic Bank
Lawyers:	DentonWildeSapte, Lovells, Maples & Calder, Patton Boggs
Rating:	A2 (Moody's), BBB+ (Fitch)
Date Closed:	2nd August 2007
Shariah Advisers:	HSBC's Central Shariah Committee

This is the first rated Sukuk (A2 [Moody's]/BBB+ [Fitch]) for a Qatari corporate. This marked Alaqaria's continuous use of the Sukuk market to fund its development business. The deal enjoyed strong distribution in Europe and among bank investors.

SAUDI ARABIA:	**Mobily Project Financing**
Size:	US$2.85 billion
Lead Arrangers:	ABN Amro, Al Rajhi Bank, Banque Saudi Fransi, Calyon, National Bank of Abu Dhabi, The National Commercial Bank, Saudi Hollandi Bank, SAMBA
Lawyers:	Al-Jadaan & Partners Law Firm, Baker & McKenzie, The Law Office of Mohammed Al-Sheikh, White & Case
Rating:	n/a
Date Closed:	March 2007
Shariah Advisers:	Dr El Gari, Dr Nazih Hammad and Sheikh Nizam Yaquobi

In the Saudi Arabian market, 2007 was the breakout year for both Sukuk and big-ticket Islamic finance transactions. Saudi Consolidated Electricity, Red Sea Gateway, Jubail Water & Power, Dar Al Arkan and Mada Letetisalat were all important and landmark transactions. Mobily squeaked past the competition because of its innovative structure and the model that it offers other projects in the communications sector as well as the M&A sector.

TURKEY:	**Derindere Turizm Otomotiv Syndicated Murabahah**
Size:	US$60 million
Lead Arranger:	Citibank
Lawyers:	Allen & Overy, Pekin & Pekin
Rating:	Not rated
Date Closed:	November 2007
Shariah Adviser:	n/a

Last year saw an important increase in the number of Turkish submissions. Although none was a mega deal, the acquisition of vehicles by Derindere for subsequent leasing marked the first five-year syndication in the Turkish market and was 75% oversubscribed.

Deals of the Year *(continued...)*

UAE: Jebel Ali Free Zone Sukuk US$2.04 billion

Size:	AED7.5 billion (US$2 billion)
Lead Arrangers:	Barclays Capital, Deutsche Bank, Dubai Islamic Bank, Lehman Brothers
Lawyers:	Allen & Overy, Lovells, Clifford Chance, Maples & Calder
Rating:	A1 (Moody's)/A+ (S&P)
Date:	20th November 2007
Shariah Adviser:	Dubai Islamic Bank Shariah Board

As the largest AED issuance ever, do we need to say more about this AED7.5 billion (US$2.04 billion) Dubai International Financial Exchange-listed transaction?

UK: Aston Martin

Size:	£225 million (US$925 million)
Lead Arranger:	WestLB
Lawyers:	Clifford Chance, Denton Wilde Sapte
Rating:	n/a
Date Closed:	31st May 2007
Shariah Adviser:	Sheikh Nizam Yaquobi

Kuwait leader Investment Dar successfully led the acquisition on a Shariah compliant basis of Aston Martin using Islamic financial tools including the issuance of Sukuk Musharakah. This pure private equity investment is a groundbreaking entry into the automotive sector for Islamic investors.

US: Rahmat e Alam Foundation

Size:	US$2 million
Lead Arrangers:	Devon Bank, Light of Christ Lutheran Church
Lawyer:	David Loundy, in-house counsel for Devon Bank
Rating:	n/a
Date Closed:	24th August 2007
Shariah Advisers:	The Shariah Supervisory Board of America, under the supervision of Mufti Mohammed Nawal Ur Rahman

The US market has many large-scale fund and private transactions, but only a fledgling domestic Islamic finance industry. One of the pioneers in this is Chicago-based Devon Bank, which teamed up with Light of Christ Lutheran Church to finance the acquisition of church properties and subsequent lease under the rules of Ijarah Muntahia Bittamleek. The transaction reflects positive inter-faith cooperation on a commercial transaction for the benefit of the growing Muslim community in Chicago.

THE RESULTS ARE OUT

Islamic Finance *news* Awards Poll 2007

Members of the global Islamic finance industry have cast their votes on who they perceived as the best of the best in the 2007 Islamic Finance *news* Annual Poll. A record 1,502 votes were cast during the December polling period in the industry's most comprehensive survey. A total of 35 categories were contested, representing all major facets of the global Islamic capital markets industry.

The full results, which were originally published on the 4th January, are reproduced on the following page.

Kuwait Finance House scooped the award for Overall Best Islamic Bank, edging out **Dubai Islamic Bank**, which had claimed top spot for the past two years while Malaysia's **CIMB Islamic Bank** placed third for the second year running.

For the second consecutive year, the battle for Best Islamic Retail Bank was the closest fought, and again Saudi Arabia's **Al Rajhi Bank** emerged victorious over Dubai Islamic Bank.

In the Best New Islamic Finance Bank category, Bahrain's **Global Banking Corporation** beat Singapore's **The Islamic Bank of Asia** and Dubai's **Noor Islamic Bank** into second and third respectively.

In the poll's most one-sided battle, **Bank Negara Malaysia** once again eclipsed its nearest rivals for the Best Central Bank in Promoting Islamic Finance category. With the vast majority of votes in this category coming from outside Asia, Malaysia is still widely recognized as the most industry-friendly country.

Ernst & Young claimed the Best Islamic Advisory Firm award, **Parsoli Corporation** of India won Best Islamic Brokerage Firm and **Dow Jones Indexes** was selected for its impressive array of Islamic-based indices in the Best Islamic Index Provider.

Clifford Chance leapfrogged **Norton Rose**, the 2006 winner, for Best Law Firm in Islamic Finance following another busy year.

Other winners were **Prudential Fund Management**, **Standard & Poor's** and **International Turnkey Systems** for the Best Islamic Fund Manager, Ratings Agency and Technology Provider sectors respectively.

In the individual country categories, there were wins for **Bahrain Islamic Bank** (Bahrain); **Islamic Bank of Brunei** (Brunei); **Faisal Islamic Bank** (Egypt); **Bank Syariah Mandiri** (Indonesia); Kuwait Finance House (Kuwait); **CIMB Islamic Bank** (Malaysia); **Meezan Bank** (Pakistan); **Qatar Islamic Bank** (Qatar); Al Rajhi Bank (Saudi Arabia); The Islamic Bank of Asia (Singapore); **Türkiye Finans** (Turkey); Dubai Islamic Bank (UAE) and **European Islamic Investment Bank** (Europe).

Best Overall Islamic Bank

1st	2nd	3rd
Kuwait Finance House — 27%	Dubai Islamic Bank — 21%	CIMB Islamic Bank — 13%

Methodology

A record 1,502 submissions were received for the third Islamic Finance *news* Annual Poll, a 22% increase over those received for the 2006 edition. Following strict due diligence, however, 186 of those votes were eliminated due to irregularities.

Thirty-five categories were contested in the 2007 poll, four more than the previous year.

Islamic finance issuers, investors, non-banking financial intermediaries and government bodies from around the world were invited to participate. Participants were requested to take only 2007 into consideration when casting their votes.

Islamic Finance news Awards Poll 2007

Results *(continued...)*

Islamic Finance news Awards Poll 2007

Best Central Bank in Promoting Islamic Finance

1st	2nd	3rd
Bank Negara Malaysia — 49%	Central Bank of Bahrain — 19%	State Bank of Pakistan — 13%

Best Individual Islamic Banker

1st	2nd	3rd
Badlisyah Abdul Ghani — 18.92% CEO, CIMB Islamic Bank	Afaq Khan — 18.24% CEO, Standard Chartered Saadiq	Salman Younis — 11.82% MD, Kuwait Finance House Malaysia

Best Islamic Bank by Country

Africa	ABSA
Bahrain	Bahrain Islamic Bank
Brunei	Islamic Bank of Brunei
Egypt	Faisal Islamic Bank
Indonesia	Bank Syariah Mandiri
Iran	Bank Melli
Jordan	Jordan Islamic Bank
Kuwait	Kuwait Finance House
Malaysia	CIMB Islamic Bank
North America	American Finance House — Lariba
Pakistan	Meezan Bank
Qatar	Qatar Islamic Bank
Saudi Arabia	Al Rajhi Bank
Singapore	The Islamic Bank of Asia
Turkey	Türkiye Finans
Europe	European Islamic Investment Bank
UAE	Dubai Islamic Bank

Categories

Best Islamic Retail Bank	Al Rajhi Bank
Best Islamic Private Bank	HSBC Amanah
Most Innovative Islamic Bank	Kuwait Finance House
Best New Islamic Finance Bank	Global Banking Corporation
Best Islamic Advisory Firm	Ernst & Young
Best Islamic Brokerage Firm	Parsoli Corporation
Best Islamic Index Provider	Dow Jones Indexes
Best Law Firm in Islamic Finance	Clifford Chance
Best Islamic Leasing Provider	First Leasing Bank
Best Islamic Ratings Agency	Standard & Poor's
Best Takaful/reTakaful Provider	Solidarity
Best Islamic Fund Manager	Prudential Fund Management
Best Islamic White Label Provider	FWU Group
Best Islamic Technology Provider	International Turnkey Systems

JANUARY news briefs

The **State Bank of Pakistan** announced the need to introduce Shariah compliant deposit insurance schemes locally.

Société Générale's London broking arm successfully launched the world's first Islamic hedge funds.

Dubai Bank became 100% Shariah compliant six months earlier than the normal expectation of 18 months.

AT Kearney affirmed the need to boost human capital with the Islamic finance sector which requires a fulfillment of 30,000 new job opportunities within the next decade.

Al Salam Bank's application to acquire a minority stake in the **El Nilein Banking Group** was pending regulatory approval.

Liechtensteinische Landesbank, in association with **ABN Amro Markets**, launched the first exchange-traded Islamic Middle East index certificate at US$1 billion.

Maples and Calder LLP advised on the US$5 billion Sukuk by **ADIB Sukuk Company Ltd.**

Aseambankers, subsidiary of **Maybank**, achieved investment banking status upon its acquisition of Mayban Securities (Holdings).

Bank Persatuan Malaysia hired **Microlink Banking Solutions** for its total Islamic banking solutions needs.

The two-year Murabahah financing facility for **Kuveyt Türk Katilim Bankasi AS** was successfully closed at US$200 million.

Ithmaar Bank invested US$180 million in **CITIC International Assets Management** (CIAM) in exchange for a combined stake of 60% in CIAM's enlarged share capital.

Abraaj Capital announced its target of US$630 billion in regional infrastructure investment opportunities, to be carried out via the Infrastructure and Growth Capital Fund (IGCF).

National Commercial Bank of Saudi Arabia established an **Islamic Banking Development Group**.

AmIslamic Bank issued RM400 million (US$113.6 million) in subordinated Sukuk Musharakah bonds.

The **Lagoon City** Islamic Musharakah Sukuk successfully closed at US$200 million.

Malaysian Islamic banks showed a slower profit growth despite their advantage in terms of technological investments, compared to their counterparts in other countries.

Indonesia received aid from **Islamic Development Bank** to boost infrastructure projects in the country.

Asian Finance Bank opened its doors in Kuala Lumpur.

Barclays projected global Sukuk sales to grow by 30% to US$22 billion in 2007.

Abu Dhabi Islamic Bank issued AED1.5 billion (US$408.5 million) in Sukuk to expand investments and finance large projects.

Dubai Islamic Bank launched a Shariah compliant three-year Capital Protected Global Diversified Note, with a minimum investment of US$10,000.

ABN Amro and **Liechtensteinische Landesbank** pioneered a Shariah compliant index-tracking investment product, which was listed on the SWX Swiss Exchange and linked to the performance of LLB's Top 20 Middle East Total Return Index.

The **National Bank of Dubai (NDB) Investment Bank** became the fourth regional bank to be inducted into the **Dubai International Financial Exchange**.

The **Royal Bank of Scotland**, **Calyon**, **Kuwait Finance House** and **ABN Amro** lent a total of US$10.05 billion to **AirAsia** to fund its 150 A320 airplane buy.

Law firm **Clyde & Co** was granted an operating license by the **Qatar Financial Center Authority**.

Dubai Islamic Bank opened two new branches in the Al Hamriya Free Zone in Sharjah and Al Yahar in Al Ain.

Hong Leong Bank targeted Indonesia and Vietnam as potential locations for expansion. The bank was also keen on merger and acquisition opportunities in the region.

A total of RM900 million (US$256 million) was offered by **Gamuda**'s Islamic bonds endeavor.

Amlak became the UAE's first Islamic home finance company to establish an overseas branch in Egypt.

Public Bank launched the PB Islamic Asia Equity Fund (PBIAEF) and PB Cash Management (PBCMF) via its subsidiary Public Mutual.

Tejoori procured 25% of **Omniyat Properties Eleven** via a Musharakah deal.

MIMB Investment Bank, a wholly owned subsidiary of **EON Bank**, was looking to widen its stockbroking business and delve into asset management and unit trusts.

Masraf Al Rayan launched its first Murabahah retail product, allowing home, vehicle and goods financing.

Boustead REIT managers distributed 98% of its Al-Hadharah Boustead Real Estate Investment Trusts (REITs) come 2008. Lodin Wok Kamaruddin, Boustead's chairman, also projected a RM0.0738 (US$0.21) per unit distribution by 2010.

continued...

JANUARY news briefs *(continued...)*

The **Islamic Financial Services Board** elected **Bank Negara Malaysia** governor Dr Zeti Akhtar Aziz as council chairman. Dr Shamsad Akhtar, governor of the **State Bank of Pakistan**, was chosen as her deputy.

Ithmaar Bank – along with two undisclosed investors – paid US$180 million for a combined 60% share of **Citic International Financial Holdings**. CIFH is the asset management arm of Hong Kong-based Citic International.

Global Investment House Kuwait acquired two residential properties in Bahrain via the GCC Real Estate Fund, under Islamic financing.

AEON Credit Service issued a seven-year, bank-backed conventional and Islamic commercial paper/medium-term note (CP/MTN) valued at RM400 million (US$114.3 million).

Arab Banking Corporation was underwriter for a US$555 million financing facility for **Gulf Industrial Investment Company**.

Islamic Development Bank dedicated US$446.3 million towards project financing and trade operations in Azerbaijan, Nigeria, Senegal, Ivory Coast and Sudan.

Qatar National Bank opened its first Oman branch.

The **Dubai Financial Services Authority** granted a license to **Prudential** to operate in Dubai.

Bank Muamalat approached **Kuwait Finance House** to take up a stake in the bank.

Qatar National Bank opened four new **QNB Al Islami** branches in Qatar.

Al Meezan Investment Management put up Pakistan's first Initial public offering.

Barwa Real Estate signed a US$200 million Mudarabah deal with **Al Rayan Bank**. Proceeds from the fund were used to finance Barwa's projects.

Islamic Bank of Thailand proposed a capital raise of between THB2 billion (US$58.7 million) and THB3 billion (US$88 million).

Qatar Islamic Bank applied for a British banking license to establish the **Europe Finance House**.

Bursa Malaysia collaborated with the **FTSE Group** to launch the FTSE Bursa Malaysia EMAS Shariah index.

Istithmar increased its spending by 50% to US$1.5 billion.

The Kuwaiti ambassador to Japan Ghassan Al-Zawawi encouraged Kuwaiti Islamic finance players to forge ties with their Japanese counterparts.

Tokyo played host to 300 delegates at Japan's first ever international seminar on Islamic finance. The event was jointly organized with the Malaysia-based **Islamic Financial Services Board**.

CIMB Islamic simultaneously launched its first ringgit and its first non-ringgit Islamic equity-linked structured product in Malaysia and Singapore. The Islamic All-Stars Global Restricted Mudarabah Structured Investment-I product has 100% capital protection if held to maturity.

Central Bank of Bahrain called for a well developed and transparent Islamic capital and money market at a conference organized by the **International Islamic Financial Market** (IIFM).

Kuwait Finance House reported a profit of RM4.16 billion (US$1.19 billion) for 2006, up 40% from the previous year.

National Bank of Umm Al Qaiwain signed an MoU with **National Commercial Bank** to offer Islamic retail banking products in the UAE.

Indonesia's **House of Representatives** was slated to pass a draft Shariah banking law, giving Shariah banks legal power at last. The law is expected to boost the growth of Shariah compliant banks, as well as the overall Indonesian economy.

Global Investment House concluded two new real estate acquisitions in Kuwait as part of its GCC Real Estate Fund investment strategy. The Shariah compliant investments held three-year tenures and is in accordance with the "Lessee-to-Own' structure for a third party, allowing the simultaneous maximization of profit and reduction of risk.

BankMuscat declared a net profit of OMR60.4 million (US$156.8 million) for the 2006 financial year, a 33% increase from OMR45.4 million (US$117.9 million) in 2005. The bank's OMR77.3 million (US$200.7 million) operating profit was up by 34.9%, while operating expenses increased by 21%.

INCEIF, supported by **Bank Negara Malaysia**, opened doors for its CIFP qualification for young graduates.

WestLB AG's London branch was the mandated lead arrangers for **Emirates Trading Agency**'s US$100 million syndicated Musharakah.

Dubai Islamic Bank announced plans to launch the first Shariah, legal and financial consultancy firm. The firm will serve as the Islamic sector's one-stop center for financial structuring, legal documentation and product development.

Al Arkan Real Estate Development Company listed its three-year US$425 million Sukuk on the **Dubai International Financial Exchange**. The bonds were offered at a rate of 2% above a three-month LIBOR.

Teejoori invested €6 million (US$7.77 million) in German company **BEKON** to acquire 16.7% of the company. BEKON is a biogas plant operator specializing in renewable energy via the conversion of biodegradable waste into electricity. The company injected up to €3 million (US$3.88 million) to buy out an existing shareholding and added €3 million (US$ 3.88 million) in equity to meet BEKON's global expansion and working capital needs.

FEBRUARY news briefs

Islamic Development Bank provided US$15 million to Indonesia for the reconstruction of Simolo Island.

AmanahRaya JMF Asset Management's REIT revealed plans to induct 11 new local properties worth RM700 million (US$200.3 million), boosting AmanahRaya REIT's net asset value to RM2 billion (US$572.5 million).

Albaraka Banking Group was awaiting ratings from an international rating agency in tandem with the group's completion of its June 2006 IPO.

ALDAR Properties launched US$1.3 billion in Sukuk Mudarabah for the European market, while securing an additional 15% increase option.

Union National Bank reported a consolidated net profit surpassing AED1 billion (US$272 million) as at the 31st December 2006.

Al Salam Bank reported a gross revenue of BH$20.4 million (US$54.1 million), and a net profit of BH$16.4 million (US$43.5 million) as at the 31st December 2006 following its listing on the **Bahrain Stock Exchange** in April 2006.

Abraaj Capital's Infrastructure and Growth Capital fund closed at US$2 billion, making it the largest Middle Eastern fund to date.

Arab National Bank began subscribing to **Infosys Technologies** for IT banking solutions.

European Islamic Investment Bank introduced UK's first Wakalah placement for funds.

Citigroup announced plans to develop its consumer sector, corporate investment banking and wealth management to boost its Islamic banking business.

Maybank Singapore launched its 12-month Premier Structured Deposit, marking Singapore's Shariah compliant deposit debut.

Masraf Al Rayan began offering a Shariah compliant profit rate swap hedging product to corporate customers and high net worth individuals.

Reef Real Estate Finance Company, signed a memorandum of understanding (MoU) with the owners of Fontana Towers - **The Developers WLL**, for the development of a US$130 million waterfront residential project.

Gulf Finance House has launched projects and investments worth US$12 billion over the past seven years.

Al Rajhi Bank officially launched its banking operations in Malaysia, with an initial 12 branches.

Bank Islam Brunei Darussalam hosted a presentation on foreign exchange to further promote Islamic banking in the nation.

The Dubai Strategic Plan was announced, which will see the emirate achieving GDP of US$108 billion and an increase in per-capita GDP to US$44,000 by 2005.

Deyaar recorded a 192% increase in net profit increase for 2006, attributed to sales accretions by almost 100%.

Bank Negara Malaysia approved RM40 billion (US$11.4 billion) in new loans to over 84,000 small and medium sized enterprises (SMEs) in 2006.

Prime Minister of India Manmohan Singh has set up a committee to study the feasibility of an Islamic bank, despite religious controversies in the country.

Ruwad Establishment signed an MoU with the **Abu Dhabi Islamic Bank** to finance small and medium sized projects.

Asya Katilim Bankasi of Turkey arranged a US$50 million Murabahah financing facility, structured as a dual tranche one- and two-year facility.

Central Bank of Bahrain revealed plans to issue Basel II by 2008 to implement capital adequacy and risk management systems for banks.

OCBC Bank (Malaysia) launched its first Shariah compliant equity-linked structured investment product, the Equity-Linked RM Structured Investment, with a minimum investment of RM250,000 (US$77,007).

Kuwait Finance House Malaysia's private equity division signed a joint venture agreement with Singapore's **Pacific Healthcare Holdings**, at a 60%-40% share distribution.

Clifford Chance and **Linklaters** advised **Dubai Holding Commercial Operations Group** in Dubai's largest debt issuance program, worth US$5 billion. The program was also the first to be exclusively listed on the **Dubai International Financial Exchange** (DIFX).

The **National Bank of Kuwait** launched its first Shariah compliant Islamic money market fund, dubbed the Watani KD Money Market Fund (WMMF). The Kuwaiti-dinar denominated fund was the first of its kind in Kuwait.

Doha Bank proposed a 5% dividend distribution to shareholders for 2006, in line with the bank's intentions to finance its local and international expansions via consolidation of its reserves.

Bank Islam Malaysia launched the Pewani RealRewards program for women, in a bid to double its account holders and increase deposits to RM50 million (US$14.3 million).

Dar Al Arkan Real Estate Development closed its US$600 million Sukuk, initially priced at US$425 million.

continued...

FEBRUARY news briefs *(continued...)*

Emirates Islamic Bank inaugurated the **Emirates Islamic Financial Brokerage** to enable the bank's customers to trade in the **Dubai Financial Market** and the **Abu Dhabi Securities Market** without compromising on Shariah principles.

Cass Business School began offering the world's first MBA course with Islamic finance elements, one of the three alternative specializations in energy and general management and finance.

The **International Investment Bank** acquired a portfolio of real estates in France, valued at US$105 million, with a 90% stake in the portfolio.

Dubai Islamic Bank (DIB) disclosed plans to lead up to US$5 billion in financing transactions for the year.

Brunei sold BN$90 million (US$59 million) worth of 91-day Islamic debt securities at a yield of 3.15% via an Ijarah facility.

Universiti Brunei Darussalam began planning for the construction of its Center for Islamic Banking, Finance and Management building slated for the end of 2008.

The general assembly meeting of **International Islamic Trade Finance Corporation** was held in Jeddah.

US law firm **King & Spalding** recorded worldwide revenues of US$582.4 million, and profits per partner of US$1.31 million.

Al Salam Bank is looking to consolidate and to expand its operations globally, beginning with Algeria and Sudan.

The Syrian government introduced new laws to encourage foreign investments and establish an investment authority to boost investments in the agriculture, industry, land, transportation, telecommunication, environment, electricity and mining sectors.

DIB began distributing products from **Deutsche Bank**'s DWS Noor Islamic Fund range, which comprised three mutual funds – the DWS Noor Precious Metals Securities Fund, DWS Noor Japan Equity Fund and DWS Noor Asia Pacific Equity Fund.

Bank Islam Brunei Darussalam (BIBD) introduced the first entirely Shariah compliant investment certificate, tradeable and marketable before its maturity date via the short-term Musharakah Musahaman and Al Bai facilities.

Gulf International Bank's consolidated net income amounted to US$255.5 million for 2006, seeing a 26% increase over 2005. The post-tax profit represented the highest profits garnered in GIB's history.

DIB selected **Nucleus Software**'s FinnOne CAS to manage its retail operations, allowing easy access and instant information availability to the bank.

The **Kuwait Finance House**-led consortium and **Utama Banking Group** extended their negotiation period for the disposal of Utama's stake in **RHB Bank**.

CCH International signed an agreement with the **European Islamic Investment Bank** for a sterling-denominated financing facility.

Bangladesh Bank governor Salehuddin Ahmad disclosed a possibility of introducing Sukuk into the country.

Barclays' pre-tax profits hit an all-time high of £7.14 billion (US$27.27 billion) for 2006.

BIBD hosted a presentation on foreign exchange to further promote Islamic banking in the nation.

BIMB Holdings aimed for equal revenue contributions from its two major subsidiaries – **Bank Islam Malaysia** and **Takaful Malaysia**; expected to be achieved by 2012.

Amwal International Investing Company revealed plans to establish three Islamic investment funds targeting both Kuwaiti and Gulf financial markets. The company's first fund was launched in March, with a minimum capital of KWD5 million (US$17.2 million).

Increased oil revenue has created investment opportunities in the Gulf property market, according to the Gulf works and housing minister.

Brunei's banking sector was urged to boost its efforts in accommodating micro and medium-sized enterprises via the use of Islamic finance tools.

State Bank of Pakistan revealed plans to offer Shariah compliant certificates equivalent to its treasury bill of PKR1.05 billion (US$17.27 billion).

Alburaq approved over £100 million (US$196.2 million) worth of mortgage business in 2007 and expects the market to reach £1 billion (US$1.96 billion) come 2009.

Deyaar increased its capital base by 56% to AED1.56 billion (US$424.8 million) following its 192% hike in net profits for 2006.

Emirates International Investment Company revealed that it will not reap earnings from the AED1.5 billion (US$408.4 million) Sukuk it purchased from **Abu Dhabi Islamic Bank**.

Al Meezan Investment Management saw net assets of PKR3.51 billion (US$58.7 million), at PKR59.41 (US$0.97 per unit), ranking it top among Pakistani Islamic funds and open-end equity funds within the private sector.

Standard Chartered Malaysia signed an MoU with **Universiti Teknologi Mara** to establish an internship program dubbed "School of Trade".

BankMuscat, **Istithmar** and a consortium of investors revealed plans to launch the Shariah compliant **Gulf African Bank** in Kenya.

Goldman Sachs completed its acquisition of its stake in **NBC Capital**. **NBC Capital** had previously announced US$1.3 billion in real estate and private equity investments throughout Saudi Arabia and the GCC.

MARCH news briefs

Malaysia's deputy prime minister Najib Razak said that improved proficiency in Arabic will further propel Malaysia's status to become an Islamic finance hub.

A study by the **University of Wollongong in Dubai** urged GCC countries to modify their international financial reporting standards (IFRS) to an Islamic format. The modification caters to the discrepancies in viewpoint within Islamic financial accounting.

Emirates Global Islamic Bank began structuring Istisna products for construction finance to boost the construction industry and generate job opportunities.

Dubai Islamic Bank launched its Shariah compliant Capital Protected Global Real Estate Income Trust (REIT) Notes.

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 an MoU with **Belarus Central Bank** to expand banking activities and raise Iran–Belarus monetary and trade co-operation.

Syria modified its banking regulations for Islamic and private banks, including a capital volume increase from US$100 million to US$200 million for Islamic banks, and a US$30 million to US$100 million hike for private banks.

First National Bank of Bostwana became the first conventional bank in Botswana to introduce an Islamic banking unit.

Bank Negara Malaysia governor Dr Zeti Akhtar called for Islamic financial institutions to expand their reach to untapped markets.

The **General Council for Islamic Banks and Financial Institutions** proposed the setting up of a mega Islamic bank to fund large projects in Muslim countries.

The **Dubai Financial Services Authority** signed a cooperation agreement with the **New Zealand Securities Commission**.

Project financing for the 288m Bishopsgate Tower — London's tallest building — was sold at £200 million (US$391.4 million) to Islamic investment firm **Arab Investment**.

The **Sharjah Electricity and Water Authority** closed its nine-year Sukuk Ijarah at US$350 million. The Sukuk was lead arranged and underwritten by **ABC Islamic Bank**, **Gulf International Bank**, **Kuwait Finance House** and **Sharjah Islamic Bank**.

Citibank launched its Home Partner-I scheme, expected to account for 50% of new business under Citibank's mortgage segment for 2007.

International Islamic Trade Finance Corporation commenced business with a start-up capital of US$3 billion.

Dubai Islamic Bank (DIB) distributed a bonus share of 7% and a cash dividend of 35% to its shareholders.

The **Sharaf Group**, along with **Protea Hospitality Corporation** of South Africa, launched Sharaf Protea Hotels Middle East to manage Shariah compliant hotels and furnished apartments.

OCBC Bank's Islamic banking income increased by 16% to RM52 million (US$14.8 million) as at the 31st December 2006.

DIB's Islamic home finance facility attracted applications worth PKR5.5 billion (US$90.6 million).

The **Bank of East Asia** began acquisition talks with Affin Holdings.

British University in Kuwait considered offering an Islamic finance program due to open in 2008.

Emirates Global Islamic Bank officially commenced operations in Pakistan.

The **Australia and New Zealand Banking Group** successfully partnered with Malaysia's **AmBank Group** for an equity stake acquisition of 24.95% in AMMB.

Kuwait Real Estate Bank became the country's third Shariah compliant bank.

ABN Amro commenced talks to acquire 93.4% of Pakistan's **Prime Bank.**

National Company for Cooperative Insurance (NCCI) formed a Shariah committee to oversee all of NCCI's regulations, laws and programs.

Dubai Bank launched Sanad, its Shariah compliant personal financing solution.

Calls were made for the establishment of an electronic Sukuk trading market to increase liquidity.

Malaysia's **Securities Commission** and **Bank Negara Malaysia** produced a joint framework on the issuance of non-ringgit Sukuk, for multilateral financial institutions, sovereigns and quasi-sovereigns, and local and foreign multinational corporations.

Deutsche Bank began offering Islamic index certificates to Asian investors based on the bank's cash return on capital invested model.

National Bonds Corporation appointed Al Habtoor Engineering as the main contractor for Skycourts, the AED1.5 billion (US$789.6 million) residential project set for completion in 2009.

continued...

MARCH news briefs *(continued...)*

The monthly issue of the **Central Bank of Bahrain**'s Sukuk Salam was oversubscribed by 131%.

HSBC Bank Malaysia became the first foreign bank to offer online payment of zakat.

ALDAR Properties' US$2.5 billion deal was listed on the London Stock Exchange.

Emirates Bank opened a representative office in Singapore to tap increasing trade opportunities between Asia and the Middle East.

Public Mutual obtained approval from the **Securities Commission** of Malaysia to increase the fund size of its overseas Public Asia Ittikal Fund to five billion units from the existing two billion.

OCBC launched the OCBC Treasury Mudarabah Account to cater to the increasing need for Islamic treasury products among Muslim corporate customers, Islamic financial institutions, non-profit organizations, mosques and regional Islamic bodies.

The government of Abu Dhabi set up the Shariah compliant **Al Hilal Bank** with a paid-up capital of AED4 billion (US$1.08 billion).

London Asia Capital established an Islamic finance division in western China, forming a credit guarantee company.

The **Employees Provident Fund** revealed plans to sell 35% of **RHB Capital** to three partners, leaving 25% to the public to maintain listing.

Gulf International Bank increased its paid-up capital to US$1.5 billion from US$500 million.

Dubai Islamic Bank sold its debut US$750 million five-year Sukuk.

Amlak Finance launched Amlak Finance and Real Estate Investments in Egypt.

National Commercial Bank launched its 100% Shariah compliant AlAhli Ma'moun Fund for International Stock Trade D.

Islamic Development Bank financed a port upgrade in west Suriname.

Dubai Bank launched the Shariah compliant MULKI Property Financing, available to UAE nationals and expatriates residing in the UAE.

First Gulf Bank, along with **Visa International**, launched the Makkah card — the UAE's first stand-alone, unsecured Islamic credit card.

Masraf Al Rayan launched the "Daily deposit," a first in Qatar's Islamic banking sector.

Unicorn Investment Bank successfully exited its Unicorn KSA Real Estate Fund I (KSA I) in Saudi Arabia and its private equity investment in The Gardens Residential Community (The Gardens) in the US, the bank's first two investments.

Gold and jewelry retailer **Tomei Consolidated** mandated **Aseambankers Malaysia** as lead arrangers and principal adviser for its RM100 million (US$28.5 million) Sukuk.

WestLB arranged the Shariah compliant portion of sales of **Aston Martin** at £225 million (US$442.7 million) of the total £479 million (US$1.2 billion) to a leveraged buy out consortium.

The UK government announced the equalization of tax treatment for Islamic and conventional debt securitizations.

The **Central Bank of Morocco** authorized the launching of Shariah compliant products by commercial banks.

Alliance Bank JSC successfully closed its US$150 million syndicated Wakalah restricted with commodity Murabahah financing facility.

An Arabic language facility was set up by the **General Registry of the Cayman Islands Government** to enable the issuance of registrations and certificates in both Arabic and English.

Global Investment House launched the Global GCC Islamic Fund at US$350 million.

State Bank of Pakistan issued its Draft Instructions and Guidelines for Shariah Compliance in Islamic Banking Institutions.

Dow Jones Indexes and **AMANA Securities** launched the Dow Jones Islamic Market AMANA Sri Lanka Index.

Qatar Islamic Bank funded **Qatar Airways'** newest Airbus A340-600 aircraft, making it the airline's first Shariah compliant deal.

Bank Negara Malaysia signed two memoranda of understanding with the Qatar Financial Center Regulatory Authority and Dubai Financial Services Authority to increase cooperation between the countries.

Hong Leong Islamic Bank signed a distribution agreement with **UBS**, allowing HLIB to distribute Shariah compliant, non-ringgit structured products to qualified customers.

Shariah Capital and **GRT Capital** partners launched a Shariah compliant managed account, where **Barclays** acted as the account's sole prime broker.

Kuwait-based **Global Securities House** established GSH-UK to expand its Islamic finance business.

Maybank received approval from **Bank Negara Malaysia** to establish a stand-alone Islamic subsidiary.

Old Mutual Asset Managers launched the Old Mutual Al Saqr Fund-a Shariah compliant neutral hedge fund linked to the equity market.

Kuwait Finance House Malaysia partnered with **Belanie Management** of Hong Kong and **Chongqing Risun Industry Group** of China to establish the first Sino-foreign real estate joint venture in Chongqing.

APRIL news briefs

The **Monetary Authority of Singapore** awarded **DBS Bank** and its Middle East partners a license to open Singapore's first Islamic bank, **The Islamic Bank of Asia**.

Sokouk Holding, **International Leasing** and **Qatar Islamic Bank** contributed US$200 million in start-up capital to the launch of the **Sukuk Exchange Center** in Bahrain.

The **Bank of Nova Scotia** began mulling Islamic banking options.

Dow Jones Indexes, along with the **Dubai Financial Market**, launched the Shariah compliant Dow Jones DFM Index and the Dow Jones DFM Titans 10 Index.

Reuters affirmed its commitment to propel the Malaysian Islamic financial sector into a sophisticated, globally integrated financial market via increased interaction with regulators, issuers of Sukuk, as well as buyers and brokers of the secondary market.

Dubai Bank opened five more branches throughout the UAE, doubling its presence to 10.

Qatar Islamic Bank signed a Musharakah lease contract with the **Al Habtour Company** for the construction and engineering of the Al Faisal Office Tower.

AmInvestment Group entered preliminary talks with Saudi Arabian parties to set up a joint venture company to mobilize the group's capital market activity in Saudi Arabia.

HSBC Malaysia applied to **Bank Negara Malaysia** to set up a full-fledged Islamic banking subsidiary.

The **Dubai International Financial Center** commenced talks with the **London Stock Exchange** on the possibility of cross-listing stocks on both exchanges.

National Bonds Corporation launched a Shariah compliant, full-fledged and full-service real estate subsidiary – **National Properties**. National Properties' services include design, development, marketing, sales as well as management of properties.

Amlak Finance's application for a full Islamic banking was rejected. **AmIslamic Bank** unveiled plans to provide financing for the RM3 billion (US$868.8 million) Pahang–Selangor water transfer scheme. **Kuala Lumpur Sentral** successfully placed its RM720 million (US$208.56 million) serial Sukuk Musharakah to investors.

Kuwait Finance House Malaysia signed a master agreement with **Bank Negara Malaysia** for its Commodity Murabahah Deposit-I, utilizing local commodities underlying transactions.

Al Rayan Investment received approval to operate from the **Qatar Financial Center**, making it the first Islamic financial institution to be domiciled at the center.

Lloyds TSB became the first British bank with an Islamic arm.

Emaar Properties completed a US$141.99 million deal with its parent company **Artoc Group**, granting it total ownership of **Emaar Misr**, its Egyptian subsidiary.

Dubai Islamic Bank, **Samba Financial Group**, **Mashreqbank**, **Union National Bank**, **Abu Dhabi Commercial Bank** and **Commercial Bank International** signed a SAR400 million (US$106.6 million) syndicated financing facility for the expansion of the Prophet Muhammad Mosque in Madinah.

Fortis and **Kuwait Finance House Bahrain** set up a fund to aid Persian Gulf Islamic banks manage their money.

The **Islamic Bank of Thailand** voiced aspirations to list on the **Thai Stock Exchange** by the end of 2010.

Rating Agency Malaysia signed a technical assistance agreement with Pakistan's **Credit Sustainability Rating** for consultation on credit rating methodology, best practices and reporting methods.

Dow Jones Indexes began talks with the Malaysian **Securities Commission** and **Bursa Malaysia** to establish an Islamic-based exchange-traded fund to be domiciled in Malaysia.

Bahrain Islamic Bank reported a 37% increase in net profits for the first quarter of 2007, at BH$5.2 million (US$13.79 million).

Standard Chartered launched its Islamic global brand Saadiq.

Twenty-six banks including **First Gulf Bank**, **Mashreqbank**, **National Bank of Abu Dhabi**, **National Bank of Dubai**, **Standard Chartered**, **WestLB**, **CIMB Bank** in London, **HSBC Bank** Middle East, **KfW IPEX-Bank**, **Banque Du Caire** in Dubai, **Barclays Bank** in Dubai, **Doha Bank**, **Rabobank International** and **Union National Bank** syndicated a US$405 million term loan facility for the **Investment Group and FAL Oil Company**.

Maybank issued up to US$300 million in US dollar subordinated Sukuk.

Magna Prima and **Kuwait Finance House Malaysia** signed a RM61 million (US$17.71 million) Murabahah facility to part finance the acquisition of land from landowner **TM Facilities**.

Bahrain Islamic Bank and the **Bank of Bahrain and Kuwait** acted as placement agent for a BH$4.8 million (US$12.73 million) international commodity Murabahah agreement for the **Al Khaleej Development Company**.

Kuala Lumpur Sentral closed its Sukuk Musharakah worth RM720 million (US$208.66 million). The Sukuk was arranged and managed by **HSBC Bank Malaysia**, **Kuwait Finance House Malaysia** and advised by **Newfields Advisors**.

Shuaa Capital received a license from the **Saudi Market Authority** to operate in Saudi Arabia.

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APRIL news briefs *(continued...)*

Standard & Poor's projected a potential weakening in asset quality and profitability in Gulf banks in the future, despite a healthy local market outlook.

Dar Al Arkan, **Arab National Bank**, **Kingdom Installment Company** and **International Finance Corporation** established a SAR2 billion (US$533.5 million) closed joint stock company for housing project financing.

Al Waab City completed its US$225 million initial Murabahah financing facility, part of a QAR3.4 billion (US$934.14 million) project.

National Leasing Company charted a 26% growth in net profit for the first quarter of 2007, at QAR7.09 million (US$1.94 million).

Islamic Financial Services Board begun compiling fatwas issued by Islamic financial institutions worldwide, in a bid to harmonize and remove conflicting issues to boost the Islamic finance industry and create new business opportunities.

Qatar Islamic Bank's Sanabel fund worth QAR1 billion (US$274.75 million) received licensing from **Qatar Central Bank** and the country's **Ministry of Trade and Commerce**.

The **Dubai Investment Group** officially placed 27 million new shares in **Sing Holdings**, via its subsidiary **Dubai Ventures**. The shares were set at S$0.43 (US$0.28) apiece.

Al Burj Real Estate achieved a net profit of AED925 million (US$251.9 million) in its first full year of operations.

Maan Al-Sanea, owner of **Saad Group**, sought to borrow US$5 billion to finance investments, including a US$6.63 billion stake in **HSBC Holdings**.

Clifford Chance drafted a master agreement for its Shariah compliant International Swaps and Derivatives Associations.

Arcapita Bank doubled the size of its Murabahah facility to US$1.1 billion from its previous US$500 million.

Dubai Bank launched its Islamic Covered Card, allowing its customers payback flexibility according to a percentage of their choice.

Qatar National Bank established its representative office in Singapore after having been granted approval in August 2006.

Kuwait Finance House's profits for the first quarter of 2007 totaled US$369.39 million – 42% higher than the same period in 2006. The bank's shareholders contributed to 38% of the profit – US$177.65 million.

Asya Katilim Bankasi closed a US$175 million syndicated Murabahah financing facility with 40 international banks.

Deyaar Real Estate has signed a AED600 million (US$163.39 million) Mudarabah facility with **Dubai Islamic Bank**, a debut in non-project financing for the company.

Australia began seeking Islamic finance expertise from major Bahraini Islamic banks and financial institutions.

United Bank of Pakistan launched UCIF, its Shariah compliant fund.

Islamic banks in southern Sudan were forced to convert to conventional systems or cease operations following a ban mandated in the country's Comprehensive Peace Agreement.

ABN Amro launched the Islamic Commodity Basket Capital Protected Note, domiciled in the GCC.

Central Bank of Bahrain's monthly short-term Sukuk Ijarah was oversubscribed by 340%.

Standard & Poor's launched its fully investable GCC Shariah Index series open to Gulf and global investors.

Kuala Lumpur Kepong's RM250 million (US$73.08 million) five-year Sukuk Ijarah Islamic medium-term notes program was oversubscribed to RM300 million (US$87.7 million).

National Bank of Abu Dhabi remained in the red for the fourth consecutive quarter.

National Industrial Gases Company signed a SAR1.5 billion (US$400 million) Murabahah facility with eight banks.

Dubai Islamic Bank and **ABN Amro** launched the four-year Principal Protected Water Note.

Al-Amanah Islamic Bank was put up for public bidding at a floor price of PHP900 million (US$18.7 million).

A consortium which included **Saba Islamic Bank** and **National Telecom Corporation** of the Republic of Sudan was awarded a license to operate the second GSM network in the country.

United Bank of Pakistan launched its first Shariah compliant fund, the United Composite Islamic Fund in the UAE.

Saudi Electricity closed its Sukuk subscription at US$1.33 billion, following initial plans to launch US$4 billion in Islamic bonds.

Bank Negara Malaysia began running a trial run of its revised capital framework for insurers and banks effective January 2009.

Samba Financial Group projected a 4% growth in the Saudi Arabian economy resulting from a rise in oil output.

Sukuk Exchange Center domiciled in Bahrain revealed expectations to see up to US$600 million in bonds traded in 2007.

Bank of Nova Scotia began studying Islamic banking options.

Central Bank of UAE commenced discussions on the development of Islamic Certificates of Deposit to remove excess liquidity from banks.

MAY news briefs

The **Pan-European Islamic Real Estate Fund** purchased five UK commercial properties worth £58.8 million (US$117.16 million).

First Gulf Bank, **ALDAR Properties**, **Surouh Real Estate** and **Reem Investments** established the Shariah compliant **Aseel Finance**.

The Pakistani government announced the issuance of Sukuk for **Pakistan International Airlines** and **Karachi Shipyard and Engineering Works**.

Qatar Islamic Bank began studying the feasibility of establishing a mega commercial and investment bank in Sudan.

Norton Rose became the sole law firm to be appointed by the British government to its new Islamic finance forum on tax issues and the UK regulatory environment for Islamic finance.

Islamic Bank of Britain's deposit base jumped by 75% to £83 million (US$165.19 million), with its assets charting a 32% growth.

Barclays Capital topped the Islamic bonds Underwriter League Table for the first quarter of 2007 due to the possession of 23% of the total market share.

The **International Islamic Financial Market** launched a focused program to develop benchmarks and increase standardization, specific to Islamic capital markets.

Maybank's MBB US$300 million Islamic subordinated Sukuk was listed on the **Labuan International Financial Exchange**.

ASAS Real Estate was established by **Sharjah Islamic Bank** to combine physical profit and rendering services to the community.

Qatar and Oman Investment Company, a new shareholding company, was established to boost ties between Qatar and Oman.

Japan Bank for International Cooperation signed a memorandum of understanding with **National Bank of Pakistan** to allow collaboration on Islamic finance products and services.

Etihad Airways utilized a US$400 million Islamic lease financing facility to acquire four Airbus A340-500 aircraft. **Citigroup** and **Abu Dhabi Commercial Bank** acted as mandated lead arrangers and joint bookrunners for the consortium of six lenders, consisting of **ABC Islamic Bank**, **First Gulf Bank**, **Qatar National Bank**, **Standard Chartered Bank**, **Arab African International Bank** and **China Construction Bank Corporation**.

Fortis Investment and **HSBC Amanah Syariah** began offering an Islamic mutual fund worth IDR500 billion (US$55 million) to tap the Indonesian mutual fund market.

Cagamas issued its second Sukuk Musharakah worth RM2.3 billion (US$676.13 million). The Islamic residential mortgage backed securities (IRMBS) involved the purchase of the Malaysian government staff Islamic home financing.

AB Capital received a license from the **Dubai Financial Services Authority** to commence operations at the **Dubai International Financial Center**.

ING Funds launched the Shariah compliant ING Baraka Capital Protected Fund with a target of 10% to 12% in yearly average returns.

Al Rajhi Bank purchased over 4,000 Optimum dial-up and wireless card payment terminals from **Hypercom**.

Bank Indonesia's governor called for the Indonesian government to issue government Sukuk to attract Middle Eastern investments.

Daman Investments launched the Daman Islamic Fund for investment in UAE equities.

Assets under the management of **Mellon Financial Corporation** crossed the US$1 trillion mark.

Liquidity Management Center was mandated to launch **Al Imtiaz Investment Company**'s US$75 million–US$150 million Sukuk.

The **Abu Dhabi Stock Market** urged listed companies to open up the trading of their shares to foreigners.

Islamic Development Bank allocated €10 million (US$13.55 million) to **Pars Aluminum Company** in Iran.

Burooj Properties launched property investment products under its property development project "Burooj Jordan".

Public Bank launched the PB Islamic Cash Management Fund and PB Asean Dividend Fund managed by Public Mutual.

ICICI Bank received a license to set up in the **Qatar Financial Center**.

BankIslami sought out partners to fund a tenfold expansion of its local branch network in Pakistan, and to tap overseas markets.

Haisan Resources proposed issuing a RM200 million (US$58.79 million) asset-backed Sukuk Ijarah.

Emirates Bank Group signed a cooperation memorandum with **Bank TuranAlem**.

i-Flex Solutions developed a customized version of FLEXCUBE to cater to Shariah compliant financing.

The debt capital market committee of the **Securities and Exchange Commission of Pakistan** reported on the higher taxes on profit on debt or interest, putting off foreign investors.

Unicorn Investment Bank gained US$24 million in revenue, with a diverse mix of operating income in the first quarter of 2007.

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MAY news briefs *(continued...)*

Islamic Development Bank launched a Poverty Reduction Fund.

Trans-Peninsula Petroleum chairman, Rahim Kamil Sulaiman extended an invitation to prominent Middle Eastern oil producers, Islamic funds and major consumers in East Asia to invest in a US$7 billion pipeline in Malaysia.

QINVEST was authorized to start operations by the **Qatar Financial Center Regulatory Authority**.

National Bank of Abu Dhabi established an independent, wholly owned subsidiary in Switzerland under the moniker NBAD Private Bank (Suisse).

US-based **Calyx Financial** signed a memorandum of understanding (MoU) with **Muamalat Invest** the asset management arm of Malaysia's **Bank Muamalat**, to develop and distribute Islamic investment funds.

Global Securities House and the London-based **Islamic Asset Management** sold the assets of the jointly sponsored Al Bait UK Real Estate Fund for US$116.5 million.

Citibank entered into a distribution arrangement with **DWS Investments**, the global mutual fund arm of **Deutsche Bank**.

Emaar Industries and Investments bought a 60% stake in **Mammut Building Systems**, a leading manufacturer of steel buildings.

Kuwait Finance House Group officially launched its research arm, headed by Baljeet Kaur Grewal.

Gulf International Bank signed a US$1.2 billion syndicated term loan facility, following an initial oversubscription to US$1.46 billion.

Global Investment House launched the open-ended Global Islamic Fund of Funds.

Sharjah Islamic Bank established "Durra" to encourage female involvement in the Islamic banking sector.

Al Rajhi Bank opened eight car showrooms across Saudi Arabia in line with the bank's car financing drive.

The UAE's largest IPO issue for 2007 – at AED3.17 billion (US$863.07 million) – was 10 times oversubscribed upon closing, despite initially being met with weak demand.

The **Central Bank of Bahrain** and the **Central Bank of Egypt** signed a deal to increase exchange of information for training, supervision and technical expertise.

Marina West and **Reef Real Estate Finance Company** signed an MoU confirming Reef as Marina West's first Islamic mortgage finance provider.

FTSE Group launched the FTSE Bursa Malaysia Hijrah Shariah Index, a tradeable Shariah compliant index for the Malaysian equity market.

Al Amanah Islamic Bank the first and only Islamic bank in the Philippines, succumbed to privatization in light of weak financials.

Dechert was mandated as lead adviser for **Capital Management House**'s CMH Enterprise Fund I.

National Bank of Dubai opened its second Sharjah branch, located in the Samnan area.

The **TAIB Bank** of Qatar received a license to operate in the **Qatar Financial Center**.

Gulf Finance House launched a US$395 million private placement to fund the infrastructure for Energy City India.

Asset managers **Schroders** opened an office in the **Dubai International Financial Center**.

Unicorn Global Private Equity Fund I acquired an equity stake in Kuwait-based **Al-Assriya Industries Holding**.

Shuaa Capital announced plans to open a branch in Beirut, Lebanon.

Mashreqbank re-branded itself to Mashreq.

Sorouh Real Estate sought more than US$1 billion in Islamic loans from local and international banks to finance new real estate projects.

DBS Bank of Singapore launched **The Islamic Bank of Asia**, upon receiving a full banking license from the **Monetary Authority of Singapore**.

Dubai Islamic Bank began selling Dubai's new electronic toll cards at its branches, allowing cardholders to add credit to the cards.

RAM Ratings projected a minimum issuance of RM50 billion (US$14.69 million) in new bonds domestically in 2007.

ABN Amro revealed plans to align its Middle East and Asian businesses, in line with the unprecedented boom in cross-border investments and trade flows.

A **UK Regional Development Agency** announced plans to offer £2 million (US$3.98 million) in Shariah compliant and conventional loans for small businesses in Manchester.

Parsoli Corporation revealed plans to launch one or two Shariah compliant mutual funds catering to the Muslim market in India, exceeding INR5 billion (US$121.86 million).

The number of Muslims in Indonesia using Shariah banks for transactions and investment totaled only 1.71 million in 1Q2007.

The **Investment Dar** began selling its 50% stake in **Aston Martin** at US$1 billion.

JUNE news briefs

The **Securities Commission** of Malaysia called for Islamic venture capital to boost Malaysia's stand in the emerging markets.

Canadian fund managers **iTrust Partners** launched the world's first Islamic fund for Canadian assets.

Allco Finance of Australia formed a structured finance partnership for large assets including airplanes and ships, with **CIMB Group** to provide onshore financing options for Malaysian companies.

Gulf Finance House and **Abu Dhabi Investment House** launched two Shariah compliant crude oil investment funds worth US$150 million.

Adeem Investment Company raised US$210 million in Sukuk, convertible into units of a fund investing in hotels and resorts.

The **Sokouk Exchange Center (Tadawul)** received an operations license from the **Central Bank of Bahrain**.

Shamil Bank launched the Shamil Navigator Mudarabah, a 100% capital protected note exposed to 18 Islamic stocks selected from the Dow Jones Islamic Index.

Standard Chartered revealed plans to double its private banking units to 20 by 2011, targeting Asia and the Middle East.

Qatar Islamic Bank launched its new identity in line with the bank's 25th anniversary.

Dar Al Arkan Real Estate Development listed its three-year US$600 million Sukuk Ijarah on the **Dubai International Financial Exchange**, making it the first Saudi Arabian company to do so.

The **First Community Bank** became the first Kenyan commercial bank to receive an Islamic banking license.

Dubai Islamic Bank launched a US$47 million real estate fund investing in eight retail properties throughout the US.

Rasmala Investments doubled its capital from AED185 million (US$50.37 million) to AED370 million (US$100.75 million).

Istithmar launched a new business initiative, **Imdaad** to manage the group's commercial, residential and industrial facilities.

Al Rayan Bank arranged a US$530 million Mudarabah facility for **Barwa Real Estate**.

Amlak Finance sent a delegation to Morocco to discuss potential expansion plans.

Shariah Capital advised New York investment advisers **William D Witter** on Shariah compliant investment funds.

Tamweel launched Soyoula, a Shariah compliant home refinancing product.

Lembaga Tabung Haji was commissioned to build a RM150 million (US$44.14 million) commercial building for the Federal Territory's Islamic Religious Council.

Bahrain Islamic Bank signed a BH$6.13 million (US$16.25 million) Ijarah Iqtinah agreement with **Falcon Cement Company**.

Goldman Sachs commenced business in the **Dubai International Financial Center**.

Gulf Finance House listed 10 million Global Depository Receipts – worth 100 million ordinary shares – on the London Stock Exchange.

Professor Bala Shanmugam of **Monash University Malaysia** called for Islamic micro-financing for the poor.

Standard Chartered moved 50 to 100 jobs from London to Dubai.

National Commercial Bank arranged for a US$530 million Islamic financing facility with the **Arab Centers Group**, a subsidiary of the **Fawaz Hokair Group**.

Dubai Capital Group upped its stake in **Tamweel** by over 5%.

Sui Southern Gas Company signed a PKR2 billion (US$32.97 million) Sukuk financing for its PKR10 billion (US$164.87 million) infrastructural development program for 2006–07.

Commercial Bank of Dubai was granted approval by **Central Bank of Dubai** to set up an Islamic window.

Islamic investment firm **Stehwaz Holding** revealed plans to list in Dubai or London before listing locally in Kuwait.

Mobitel, MTC's Sudan arm, signed a €270 million (US$364.58 million) Murabahah facility to fund Mobitel's expansion plans.

TAIB Brunei has launched an Islamic investment-linked deposit product dubbed the Taib Baraka Deposit Certificate.

Morgan Stanley signed a market-making agreement with the **Dubai International Financial Exchange** for the provision of continuous buy and sell prices of **Kingdom Hotel Investments** shares.

The **Al Baraka Banking Group** received regulatory approval from **Bank Indonesia** to set up a representative office in the country.

The **National Commercial Bank** in conjunction with **MasterCard Worldwide**, launched the world's first Titanium Islamic MasterCard credit card targeting the affluent Arab population.

International Investment Group issued Sukuk worth US$200 million, initially pegged at US$150 million.

Standard & Poor's launched the S&P Saudi Shariah Index with six Gulf stock indices.

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JUNE news briefs *(continued...)*

Australian-based **Monarch Gold Mining Company** listed on the **Dubai International Financial Exchange**, making it the third gold mining company to list.

Dubai Islamic Bank launched the sixth installment of its banking training program "Emirati" to train UAE candidates to join the banking sector.

International Investment Group's US$200 million Sukuk listed on the **Dubai International Financial Exchange**.

Merrill Lynch received a banking license from the **Capital Market Authority** to operate in Saudi Arabia.

The **Unicorn Global Private Equity Fund I** saw a successful first exit from its major investment, **Orimix Concrete Products**, where it sold a 40% stake in Orimix to a leading readymix concrete supplier in the UAE.

SilTerra Capital's seven-year RM1.8 billion (US$524.87 million) Sukuk Ijarah was oversubscribed by five times.

Al Khawarizmi International College's Associate of Science Degree in Islamic Banking received accreditation by the UAE's Ministry of Higher Education and Scientific Research.

Bangladesh-based **Al Arafah Islami Bank** went online with Ababil, the Shariah compliant centralized banking solution by **Millennium Information Solutions**.

Abu Dhabi Investment House revealed plans to set up the first women's bank upon approval by the **Central Bank of Bahrain**.

The governor of **Bank Negara Malaysia** stressed the need for greater financial integration among Southeast Asian markets.

HSBC Qatar launched a Murabahah-based financing package, available to all Qatari residents without any salary transfer requirements.

Dubai Financial acquired a controlling 60% stake in **TAIB Bank** via a stock purchase agreement.

Salam Bounian issued a US$150 million Sukuk to finance the construction of "The Gate" mall. **Qatar Islamic Bank** acted as the Sukuk's investment agents, with **Qatar National Bank/QNB Islami**, and **Central Bank of Qatar** as mandated lead partners.

CIMB Group signed a commodity Murabahah program and foreign exchange forward agreement with the UK-based **European Islamic Investment Bank**.

General Electric mentioned a possible entry into Islamic financing, having seen massive sales of aircraft engines and power generation equipment to the Middle East.

The Sukuk frenzy had adversely affected Gulf bankers' holidays, causing cancellations or postponements due to the influx of deals that poured in over the summer.

Diyaar Sukuk Company issued US$200 million in Sukuk Musharakah to finance the Diyaar Al Muharraq development.

Meezan Bank launched the Meezan Bachat Account designed exclusively for Pakistan's middle-income class.

Mashreq was mandated lead arranger, underwriter and bookrunner for **Qatar District Cooling Company**'s US$285 million, 12-year secured term loan facility.

Golden Belt 1 Company's US$650 million Sukuk Manafa'a listed on the **Bahrain Stock Exchange**.

Liechtensteinische Landesbank launched its first exchange-traded Islamic certificates to be linked to the LLB Hijlal Index and track the performance of individual LLB Hijlal Indices.

Global Banking Corporation was incorporated in Bahrain with a paid-up capital of US$250 million.

Albaraka Banking Group finalized an agreement with **Misys** to utilize its Misys Equation Islamic core banking system.

Cagamas launched its RM60 billion (US$17.29 billion) conventional and Islamic commercial papers and medium-term notes program – the largest issuance in Southeast Asia to date.

Emirates Investment Services Asset Management began preparing for the launch of its three Islamic funds — the Islamic Global Equity Trading Fund, Global Islamic Real Estate Fund and the Islamic Hedge Fund of Funds.

Liquidity Management Center gained US$8.9 million in operating revenue as at the 31st December 2006, compared to US$4.4 million in 2005.

Dubai Islamic Bank commenced talks with a Turkish lender to tap Turkey's growing demand for Islamic products.

CapitaLand invested US$130 million in the Shariah compliant **Raffles City Bahrain Fund**.

Kotak Mahindra revealed plans to launch a Shariah fund for Islamic investors in West Asia to mobilize up to US$150 million to US$200 million in funds and acquire underlying Indian assets.

3i Capital Group has launched the US$100 million open-ended Dubai Growth Fund dubbed Enmaa.

The GCC economy revealed expectations to create a multi-billion dollar market for convertible bonds by 2011.

The **Institute of International Finance** revealed that the GCC had surpassed China in terms of foreign assets — at US$1.6 billion, credit to soaring oil revenues.

The **Abu Dhabi Securities Market** concluded its first phase of presentations to UK investors.

JULY news briefs

Emirates Bank extended a US$54.5 million two-year term loan facility to **First Dubai Real Estate Development Company**, a subsidiary of Kuwait's **Al Mazaya Group**.

Abu Dhabi National Energy Company (TAQA) revealed plans to sell up to US$9 billion in bonds over five years to finance its expansion and foreign acquisitions.

Fitch Ratings introduced a spreadsheet for Islamic financial institutions, allowing more analytical insight and transparency into the institutions' performance.

Kuwait Finance House Malaysia launched the KFH-MM2H-Hijrah-I program, complementing the Malaysian government's Malaysia My 2nd Home program.

Bank of Sharjah acquired a banking license in Lebanon via its acquisition of **Banque de la Bekaa SAL**.

The value of traded shares in Saudi Arabia dropped by 43.49% at SAR1.11 trillion (US$295.94 billion), compared to 52.58% in 2006.

Investment Dar and affiliated firms raised their stake in **Boubyan Bank** to 11.3% from an initial 10.2% for a 20% acquisition of the bank.

Al Haramain Islamic began offering New Zealand's first Shariah compliant mortgage product to the country's 36,000–odd Muslim population.

Bear Stearns signed a letter of intent with a consortium of Saudi business leaders to form **Bear Stearns Arabia Asset Management**.

Amlak Finance's profits for the first half of 2007 surged by AED25 million (US$6.8 million), at 31% reaching AED106 million (US$28.85 million), while its revenue saw a 54% hike.

BNP Paribas completed the second-largest Sukuk issue for **Saad Trading Contracting and Financial Services** at US$650 million, making it the first Sukuk to be issued in Saudi Arabia for a private business.

Khazanah Nasional listed its US$850 million Sukuk on the **Dubai International Financial Exchange**.

Al Rajhi Bank opened its 14th branch in Melaka, bringing the bank closer to hitting its target of 50 branches in Malaysia.

Controversy sparked over Prince Alwaleed bin Talal's IPO sale of **Kingdom Holding** worth US$17.2 billion, with a Saudi cleric issuing a fatwa against investing in the company. The fatwa was biased against Kingdom Holding's investments in specific companies including **Time Warner**, **Apple**, **News Corporation**, the **Four Seasons**, and selected Saudi firms which have not received cleric approval.

Crescent Bank stated plans to set up an initial public offering of 10% to 20% of its shares to be sold to the private sector.

Barclays Bank appointed 10 new firms to its panel. The firms are **Addleshaw Goddard**, **DentonWildeSapte**, **Eversheds**, **Hammonds**, **Milbank Tweed Hadley & McCloy**, **Macfarlanes**, **Magrath & Co**, **Latham & Watkins**, **Pinsent Masons** and **SJ Berwin**.

The **Labuan International Financial Exchange** listed its second exchangeable Sukuk, with the induction of **Khazanah Nasional**'s US$850 million Sukuk.

Abu Dhabi Commercial Bank revealed no near-term plans to merge with any UAE banks.

An Islamic banking guideline was being considered in Bangladesh, affirmed Salehuddin Ahmed, governor of **Bangladesh Bank**.

Al Mazaya Holding signed an OMR3.1 million (US$8.05 million) contribution contract with **Oman Construction** to share a Shariah compliant real estate investment portfolio in Oman.

Qatar Islamic Bank mandated **HSBC** and **Rasameel Structured Finance** to structure its property-backed Sukuk worth SAR2.5 billion (US$687 million) in real estate assets.

National Bonds Corporation signed a memorandum of understanding with the Dubai Sports Council to support the Sports Council's sports and youth development programs.

Türkiye Finans sold a 50% stake to **Commercial Bank of Kuwait** and **Noor Group**, at US$1.8 billion.

The **International Islamic Financial Market** and the **International Capital Market Association** concluded three meetings in Bahrain and London focusing on the development of international Islamic capital markets.

Kuwait's **Boubyan Bank** set up the **Bank of London and The Middle East** in the UK.

Qatar International Islamic Bank announced its first-half profits at QAR209.7 million (US$57.6 million) from QAR191.8 million (US$52.69 million) in 2006, at a 9% increase.

SEI launched the first dedicated Islamic Manager of Managers equity funds, dubbed the SEI Islamic Investments Fund plc (SIIF) offering Shariah compliant investments.

Kuwait Finance House reported a 72% increase in its second-quarter profits to US$227 million, with plans for overseas expansion.

Velcan Energy, a French renewable energy company, expressed plans to raise up to €200 million (US$275.85 million) in Sukuk to finance a hydroelectric dam in India.

Public Bank posted net profits of RM1 billion (US$289.45 million), marking an 18% hike, credit to the bank's net income from its Islamic banking operations.

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JULY news briefs *(continued...)*

Emirates Islamic Bank launched Evening Banking in line with the bank's objective of serving its customers better.

The **Bank of London and Middle East** chose **Path Solutions**' iMAL for its Shariah compliant transactions.

Dar Al Arkan closed a US$1 billion Sukuk issued via the Dar Al Arkan International Sukuk Company.

Gulf Investment Corporation reported a profit after provisions of US$212.9 million for the first half of 2007, compared with US$167 million for the previous corresponding period.

International Bank of Qatar offered up to US$6.1 billion to acquire Bahrain's **Ahli United Bank**.

Trading of **Ahli United Bank**'s shares on the **Bahrain Stock Exchange** was suspended following a Gulf bank's expressed interest in buying the bank.

Arab Banking Corporation established a line of credit worth US$50 million with the Arab Trade Financing Program to facilitate trade within Arab nations.

Allen & Overy, **Freshfields Bruckhaus Deringer** and **Linklaters** advised on the mega merger of **Emirates Bank International** and **National Bank of Dubai**.

Lovells Dubai closed its first major Islamic finance deal after advising on **Dar Al Arkan Real Estate Company**'s US$1 billion Sukuk.

Volaw Trust and Corporate Services was granted a license to operate in the **Dubai International Financial Center**.

Amanah Capital signed a memorandum of understanding with **Emaar Healthcare Group** to develop specialist healthcare facilities in Abu Dhabi, focusing on women and children.

Millennium Finance Corporation was mandated sole adviser to **ArcelorMittal** for its US$2.2 billion iron ore project.

Aabar Petroleum Investments considered issuing a convertible Sukuk or conventional bonds to increase the company's share capital.

Tamweel priced its Shariah compliant asset-backed securities at 35 basis points over LIBOR, backed by strong demand from the Gulf, Asian and European markets.

The **Dubai International Financial Exchange** saw more than 40% growth in Sukuk listings for the year, at US$12.78 billion from US$7.63 billion as at the end of 2006.

Nazir Razak, CEO of **CIMB**, called for **Bank Negara Malaysia** to play a prominent role in boosting mergers of local banks and reducing the size of the market to five or six major players.

Dubai Islamic Bank set up an escrow trust account for real estate developers.

European Investment Bank set up a €300 million (US$414.61 million) facility to encourage long-term financing for small and medium-sized enterprises.

Malaysian company **Meridian Diversified** tied up with US-based **Fiserv** and **China Systems Corporation** to create Islamic financial and banking solutions.

Central Bank of Bahrain approved the establishment of a new mega Islamic investment bank, **Bank Al Dar Istismaar** with a paid-up capital of US$200 million.

Saudi Basic Industries Corporation gained approval to raise its Sukuk value to SAR8 billion (US$2.1 billion).

Gulf Finance House successfully closed its first Sukuk issuance at US$200 million.

Securities House of Kuwait revealed plans to establish an Islamic bank in the UK to tap into the 1.8 million Muslim market in that country.

Shariah Capital realized a 9.7% net return for its Shariah compliant separately-managed account with a 130/30 quantitative hedge fund strategy.

Path Solutions implemented iMal throughout **BankIslami**'s total core banking system for its entire 100+ network.

Albaraka Banking Group obtained approval to open a branch in Syria to capitalize on the country's recent efforts to open up its banking sector.

Saudi British Bank's profits crashed by 31% as at the end of June. The bank's earnings stood at US$334 million, against US$482 million in June 2006.

ICICI Prudential opened an office in Dubai to serve the 1.4 million Indian expatriate population.

Qatar National Bank saw a 9.1% hike in profits in 1H2007 to US$331 million. The bank's assets also grew by 30% to US$20.8 billion.

Bahrain Islamic Bank saw a 33% increase in profits to US$28.1 million in 2007 from US$21 million at the end of June 2006.

Doha Bank launched its representative office in Shanghai.

Abyaar Real Estate Development revealed plans to sell up to US$1 billion in Sukuk in 2008 to finance projects, including a Dubai development.

Pakistan's state-owned **Agricultural Storage and Services Corporation** revealed plans to issue a PKR10 billion (US$165.67 million) Sukuk.

General Investment Fund of Saudi Arabia proposed a US$30 million injection into the **Islamic Trade Financing Corporation**.

AUGUST news briefs

Fresh from its roadshow, **Qatar Real Estate Investment Company**'s five-year Sukuk was issued to the tune of US$300 million and priced at 73 basis points over the three-month LIBOR.

Dubai Islamic Bank charted a 113% leap in net profits to AED1.5 billion (US$408.7 million), while assets rose by 51%, standing at AED75.5 billion (US$20.5 billion) as at the 30th June.

Tabarak Partners received authorization from the **Dubai Financial Services Authority** to act as a fully Shariah compliant institution, providing structuring, advisory and distribution services out of the **Dubai International Financial Center**.

Tamweel Residential's Sukuk Ijarah floating rate notes acquired a listing on the Irish Stock Exchange.

Dana Gas postponed pricing its highly publicized US$1 billion Sukuk to wait out the current global credit market volatility attributed to weakening US sub-prime mortgages.

Dubai Islamic Bank agreed to fund **Abyaar Real Estate Development**'s AED125 million (US$34 million) Acacia Avenues project on an Ijarah Mutanhiyah Bitamliq basis with a two-year tenure.

Kuwait Finance House Labuan's Al Nibras Islamic Real Estate Fund bought two villa apartment blocks in Reflections at Keppel Bay in Singapore for US$286 million.

HSBC concluded its two-month summer internship program which saw participation of students from Carnegie Mellon, Qatar University and the London School of Economics.

Islamic Development Bank, along with the **Saudi Exports Financing Fund**, commenced talks to finance the 40-year-old **Sudanese Cotton Company**'s US$50 million reparation costs to accommodate increasing cotton production.

National Bank of Bahrain signed a US$82 Murabahah project financing agreement with Riffa Views to finance the construction of the remaining phase of the Riffa Views project.

International Islamic Union Bank stated that it will not come to Yemen until there is a change in the Islamic banking legislation.

Saudi Arabia's **Capital Market Authority** raised the ceiling cap for domestic Sukuk from SAR5 billion (US$1.33 billion) to SAR8 billion (US$2.13 billion) following the SAR8 billion (US$2.13 billion) issued by **Saudi Electric Company.**

MSCI Barra launched the MSCI Global Islamic Indices designed to reflect Shariah investment principles while retaining replicability for international investors.

Boustead's Al Hadarah Islamic real estate investment trust earned revenues of RM17.5 million (US$5.04 million) in a span of eight months.

Bank Simpanan Nasional set aside RM596,278.83 (US$171,850.78) from its Islamic banking profits to pay zakat.

Bank Islam Brunei Darussalam reported a 49% leap in profits.

Bank Muamalat Malaysia launched the Shirkah Mutanaqisah home financing targeting the secondary property market.

BMB Investment Bank saw a whopping increase by 233% in net income to US$12.8 million from US$3.8 million.

The **Dubai Centre for Corporate Values** highlighted the importance of corporate social responsibility in line with the facets of Islamic finance.

Jordan Islamic Bank tied up with **Western Union** to allow money transfers across a network spanning 200 countries and territories.

Post-launch, shares of **Kingdom Holding** hit a high of SAR14.5 (US$3.86) from its initial opening at SAR13.5 (US$3.6).

Investment Dar was launched in Bahrain, increasing the number of Islamic financial providers in the country to 27.

Bank of Scotland, **Standard Chartered** and **First Gulf Bank** completed a US$50 million Islamic lease financing facility for **Topaz Energy and Marine**.

Central Bank of Sudan signed an MoU to aid the development of **ABC Investments**' Islamic trade and finance operations.

Global Investment House's first-half profits hit KWD46.7 million (US$165.6 million), with earnings per share of 56 fils.

QNB Al Islami signed a QAR300 million (US$82.42 million) Wakalah-based agreement with **National Leasing Company**.

Deutsche Bank closed its retail customer operations in Iran due to the adverse effects of international regulations and sanctions.

Gulf Finance House's US$1 billion Sukuk was listed on the London Stock Exchange.

Mashreq posted first-half profits of US$260.3 million, at a 45% hike.

Amanah xData signed an agreement with the **Dubai International Financial Exchange** to distribute the bourse's market data, including share prices.

Shuaa Capital posted profits of US$20.3 million, 20 times higher than those achieved in the first half of 2006.

Malaysia's International Trade and Industry minister Rafidah Aziz called for more halal linkages between Australia and Malaysia.

Sharjah Islamic Financial Services opened a branch in Abu Dhabi.

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AUGUST news briefs *(continued...)*

The **Bank of London and The Middle East** went live with iMAL from **Path Solutions**.

Fitch Ratings published an exposure draft on the company's approach to rating Takaful firms.

Emirates Islamic Bank began providing home financing to potential buyers of **Emaar**'s Ghadeer Townhomes.

Gulf International Bank launched **Barwa Real Estate Company**'s Murabahah financing facility of US$600 million.

The International Investor's bid to buy Turkey's **ADABANK** was denied by the Turkish Banking Regulation and Supervision Agency DBBK.

Qatar National Bank and its Syrian partners received preliminary approval to establish a Qatari–Syrian bank.

King & Spalding advised on the **GulfCap Group**'s US$446 million acquisition of Dalma Energy, and **Pramerica Real Estate Investors**' Shariah compliant majority stake buy in the **European Business Center** at US$110 million.

Commercialbank's Al Waseela funds were re-opened for subscription, following its initial success charting returns of 16%.

Fortis gained shareholder approval to raise €13 billion (US$18 billion) to up its bid for **ABN Amro**, in a takeover consortium with the **Royal Bank of Scotland** and **Santander**.

Emirates Islamic Bank recorded a 48% hike in net profits to AED76 million (US$20.6 million), from AED51 million (US$13.88 million) in the first half of 2006.

The Dubai government consolidated its shares in the **Dubai International Financial Exchange** and the **Dubai Financial Market** in a new holding company – the **Borse Dubai**.

Amlak Finance became a founding shareholder of the **Egyptian Mortgage Refinance Company** via **Amlak Finance & Real Estate Investments** in Egypt.

Dubai Islamic Bank launched **Al Islami Home Refinance**, allowing customers to convert equity gain from individual property into assets.

Qatar Islamic Bank financed the construction of **Tadamon Islamic Bank**'s headquarters in Sudan at an estimated cost of US$13 million.

BNP Paribas froze three European funds exposed to volatile US subprime mortgage markets.

Dubai Islamic Bank entered a joint venture with Al Tajir Real Estate to provide Islamic financing options to prospective customers of Al Tajir's Fortunato development.

EnergyMixx revealed plans to utilize Islamic financing for its investment in renewable energy power ventures.

DP World denied talks of a possible US$2 billion IPO.

National Bank of Kuwait won a bid to take over the AlWatany Bank of Egypt.

Standard & Poor's launched the S&P Pan-Arab Shariah Index, S&P/Citigroup Global Property Shariah Index and the S&P/Citigroup World Property Shariah Index.

Amanah Warehousing began selling 60% of its shares in an initial public offering to raise KWD31.5 million (US$111.7 million).

Investment Dar increased its stake in **Boubyan Bank** to 20%.

State Bank of Pakistan warned banks and development financial institutions against marketing Islamic products without a license.

Dubai Islamic Bank opened two new branches in Dubai, increasing its total UAE-wide branch network to 41.

Founder of **Grameen Bank**, Nobel Laureate Muhammad Yunus, mentioned the possibility of setting up a branch in Singapore.

Bank Danamon Syariah and **Baznas Dompet Dhuafa** signed an agreement on the allocation of zakat and the charity funds generated from Dirham Card – Indonesia's first Shariah compliant card.

Asiacell proposed a Sukuk sale of up to US$300 million a year to expand its Iraqi operations.

Prudential Fund Management launched its first Islamic structured fund, the PRUShariah FX fund at RM300 million (US$86.22 million).

Syria saw its first Islamic bank with the opening of Kuwaiti-owned **Cham Islamic Bank** in Damascus.

Bank Islam revamped its entire corporate identity in a bid to boost its position amid growing competition in the industry.

Platinum Habib Bank introduced Islamic banking products; intergrating Shariah ruling into its conventional banking system.

Commercialbank's Al Waseela funds re-opened for subscription at par value of QAR10 (US$2.74) per unit, with a net asset value of QAR11.69 (US$3.21), following prior success.

Takaful Malaysia's general Takaful business dipped by 44.07% to RM38.01 million (US$10.84 million) in the first-half of 2007.

Malaysian prime minister Abdullah Ahmad Badawi called upon the financial services sector to join government efforts in promoting a second wave of growth in Islamic finance.

Lemabaga Zakat Selangor launched an online service dubbed "Zakat on-line".

Al Salam Bank revealed plans to split its shares and list outside Bahrain to boost liquidity.

MIF2007 Issuers & Investors Forum

Following the phenomenal success of the inaugural Malaysian Islamic Finance conference last year, Malaysia has once again successfully hosted the MIF Issuers and Investors Forum on the 13th and 14th August 2007 at the Mandarin Oriental, Kuala Lumpur.

MIF 2007 focused on Malaysia's role as the dominant force in Islamic finance and how it could function to link the Middle East and Asian countries. Keynote addresses were delivered by Dr Zeti Akhtar Aziz, the governor of Bank Negara Malaysia, and Dr Nik Ramlah, senior executive director of Securities Commission. On the first day, the issuers day, there were about 450 attendees with approximately 19% international participants. While the second day – the investors day – witnessed the attendance of 420 participants including 24% international delegates. The delegates for both days came from over 35 countries across the globe.

The panelists on the issuers day discussed various topics that focused on the effect of the US sub-prime market on Sukuk issuance, the benefit of rating, the need to establish institutional investors (Takaful and pension funds) and also Japan's interest in issuing its first Sukuk. The sub-prime market credit crisis in the US has indirectly caused issuers to pay attention to the timing of the issuance. "The sub-prime market does impact the bond market. In the Islamic space there was a few transactions cancelled because the issuer felt the time is not right to go into the market. In my opinion, the current credit crises will bring some bad and good news. The bad news is the issuer will face more covenants and a thin pricing. Nonetheless, there is considerable amount of liquidity in the market and the Sukuk issuance will keep on continuing," said Salman Younis, the managing director of Kuwait Finance House (Malaysia).

Dr Nik Ramlah Mahmood, the senior executive director of Malaysia's Securities Commission, highlighted during her keynote address on the investor's day that the single most important catalyst for the development of the Islamic capital market products and services in Malaysia was the establishment of the Shariah Advisory Council (SAC) at the Securities Commission. "Not only is the SAC able to respond to inquiries and proposals from the industry, often times, the SAC is also able to make pronouncements to encourage innovation from industry. The guidelines issued by the SC such as those on Islamic unit trusts, Islamic REITS and Islamic Securities, always attract considerable interest from across the globe," Dr Nik enlightened.

The discussion on the second day revolved around how the Islamic finance industry as a whole faces a number of challenges. These include the need to modify the expectations of an investor. Currently, investors come into the market with the expectation of making high returns but only taking a low risk. This is where consumer education could play a role.

An acute problem in Islamic finance at present is the issue of human capital. We lack qualified and experienced Islamic bankers, investment bankers, marketing teams, fund managers, lawyers, etc. This is where education and training plays a vital role to narrow the gaps in the workforce. Improvement of the regulatory framework is also fundamental to bring the industry forward because sometimes the law of the land that acts as the impediment of the industry. Last but not least, there is a vital need to work towards Shariah harmonization.

Concluding the two-day event Abdulkader Thomas, the event chairperson, wrapped up the forum with an interesting thought. “Islamic finance has concentrated a lot on real estate projects. There was a raised concern from the audience that Islamic banks are over-exposing themselves on real estate. Despite that fact, the investment in real estate keeps on growing. Why? It’s due to our demographic factor. I will describe in simple three words – youth, vigor and shortage. Most emerging economies have a young population who are dynamic and there is a shortage of supply of real estate. Thus, the real estate investment will continue for some time in the future.” Thus he concluded the forum.

What was said

An interesting event that provided a comprehensive picture of Malaysia as an international financial center. Knowledgeable speakers and panelists that best addressed the issues.
Bank Negara Malaysia

A good opportunity to hear the issuer’s perspective, to reflect on the issues and build on these issues in Malaysia’s efforts towards positioning the country as the leading financial Islamic center, in line with MIFC’s objectives.
Securities Commission

Better understanding about Islamic financing and very useful information to the potential Islamic investor.
Ministry of Finance

Excellent event, particularly due to the involvement of foreign players and panelist in sharing different experiences and perspectives.
Bank Negara Malaysia

Excellent forum to hear different perspectives from various parties involved in Islamic finance and Islamic capital markets.
Securities Commission

Excellent, well-organized forum, though no fee was charged. Keep up the good work. Hope there’ll be more to come!
Employees Provident Fund

The event was a good opportunity to understand current debates and issues of Islamic finance. Thank you.
STIC Investments

Abdulkader Thomas did a great job — a good conclusion, clear and concise.
HL Management

Very educational and motivational forum in promoting Islamic finance to a higher level.
IGDX Holdings

Well organized, interesting speakers, great forum.
Microlink Systems

SEPTEMBER news briefs

Vinson & Elkins was mandated to advise on the first Swiss Sukuk from renewable energy company **EnergyMixx**. The Sukuk is listed on the Frankfurt Stock Exchange.

Franklin Templeton acquired a 25% stake in Dubai-based **Algebra Capital** at an undisclosed amount

Al Baraka Islamic Bank opened its 12th branch in Pakistan.

Bahrain Islamic Bank offered up to 283.4 million in ordinary shares in a rights issuance.

Commerzbank was granted a license by the **Dubai Financial Services Authority** to open a new branch in the **Dubai International Financial Center**.

ALDAR Properties awarded AED2.7 billion (US$735.09 million) in contract to **Arabian Construction** to build three towers in Abu Dhabi's Central Business District.

Meezan Bank began providing technical assistance to **KASB Funds Limited**'s Islamic mutual funds, following an agreement by both parties.

MIDF Amanah Investment Bank planned to approve up to RM3 billion (US$854.89 million) in Islamic papers from its current RM660 million (US$118.04 million) in Islamic medium-term notes.

First Gulf Bank began talks to set up a full-fledged commercial bank in Libya.

Al Salam Bank of Sudan launched the Al Salam First Property Fund at US$60 million.

Islamic Bank of Thailand introduced its halal financing program to penetrate a market dominated by **Bangkok Bank**, **Krung Thai Bank** and **Siam Commercial Bank**.

National Bank of Dubai became the only bank in the UAE to offer escrow accounts both within conventional and Islamic banking.

Public Bank launched its first Islamic regional fund, the PB Islamic Asia Strategic Sector fund.

The **Qatar Investment Authority** reduced its exposure to the US dollar by increasing its Asian investments.

ABN Amro and **Prime Commercial Bank** merged in Pakistan and the new entity has officially been re-branded as ABN Amro.

Prince Andrew, the Duke of York, called for cooperation between Malaysia and the UK to boost the Islamic finance sector in both countries.

The **Alliance Financial Group** revealed plans to set up an Islamic banking subsidiary.

Islamic Development Bank planned to inject US$2 billion from its Islamic Solidarity Fund for Development into Bangladesh to aid in the alleviation of poverty.

Nomura Research International was mandated to aid Brunei in developing its domestic bond market and diversify the country's economy.

Gulf General Investment raised US$210 million via Sukuk, with **Emirates Islamic Bank** and **Standard Chartered** acting as the facility's underwriters. A total of 24 lenders were involved in the Sukuk.

Shamil Bank raised US$35 million in total via its 100% capital-protected Shamil Navigator Mudarabah program.

Abu Dhabi Commercial Bank acquired a 41% stake in **Gulf Merchant Group** worth US$51 million.

Gulf International Bank obtained a license from the **Saudi Arabian Capital Market Authority** to establish a securities company in Saudi Arabia.

Corecap Merchant Bank received a Category 3 license from the **Qatar Financial Center Regulatory Authority** to offer private equity, investment banking and asset management.

Pacific Healthcare Holdings announced its second joint business investment to expand its presence in India's high growth healthcare market with strategic partner **Kuwait Finance House**.

Chairman of the Senate of Pakistan Mohammad Mian Soomro asked bankers to introduce Islamic banking in rural areas to cater to the needs of the agriculture sector.

Good Morning Shinhan Securities worked out a strategic partnership with Malaysia's **Kenanga Investment Bank**.

Aabar Petroleum Investments approved a plan to sell Sukuk up to US$1.2 billion.

Dubai Islamic Bank arranged financing facilities totaling AED407 million (US$110.8 million) for **Al Hamad Group** for its new AED1.39 billion (US$378.46 million) project, "Villamar at the Harbor".

Dubai Group acquired 15% in **BankMuscat**, making it the largest financial services cross-border investment in the Gulf region.

Barclays Bank and **Shariah Capital** signed a memorandum of understanding to launch a unique Shariah compliant investment platform targeted at hedge fund managers.

Al Aqar KPJ REIT received approval from Malaysia's **Securities Commission** for the issuance of up to RM300 million (US$86.98 million) Sukuk Ijarah commercial papers/medium-term notes (CP/MTN).

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SEPTEMBER news briefs *(continued...)*

ING Investment Management announced plans to be based at the **Dubai International Financial Center**.

Dubai World Central signed a memorandum of understanding with **Amlak Finance PJSC** to finalize a DWC customers' financing agreement.

State Bank of Pakistan issued guidelines for Islamic microfinance businesses.

Central Bank of Bahrain gave official recognition to the Islamic International Rating Agency.

Bahrain Islamic Bank announced the incorporation of **Abaad Real Estate** at BH$10 million (US$27 million).

The Islamic Bank of Asia boosted its capital to US$500 million from US$418 million.

Adeem Investment revealed plans to set up an investment bank in the UK.

IDB Group's financing for socio-economic development in cumulative terms reached US$46 billion.

Pakistan International Airlines first Sukuk purchased two aircrafts at PKR2 billion (US$32.99 million).

Mawarid Finance was launched with a paid-up capital of AED1 billion (US$272.35 million).

Maybank launched three new Islamic banking products: the net Current Account-i, HomeEquity-i and ShophouseEquity-i.

Abu Dhabi-based **Carlyle Group** sold a 7.5% stake to **Mubadala Development**, the investment arm of the Abu Dhabi government at US$1.35 billion.

Standard & Poor's launched its stability ratings for Islamic banks with profit-sharing investment accounts.

Doha Bank sought cooperation from Japanese companies to trade greenhouse emission rights in Qatar's upcoming market segment.

Berber Cement Company closed its US$130 million Sukuk issuance arranged by **Liquidity Management Center**, **Emirates Islamic Bank** and **Alpen Capital** as financial adviser.

Pak Elektron raised funding of PKR1.2 billion (US$20 million) through a five-year privately placed Shariah compliant Sukuk based on diminishing Musharakah.

Canada's bank regulator, the **Office of the Superintendent of Financial Institutions**, began studying two proposals for the setting up of Islamic banks in Ottawa.

The **Shariah Review Bureau** was licensed by **Central Bank of Bahrain** to provide independent services for Shariah review and compliance.

The presidents of the **Association of Italian Banks** and the **Union of Arab Banks** confirmed the establishment of the first Islamic bank in Italy by 2008.

The **Islamic Bank of Britain** and **Bolton Business Ventures** launched a scheme to make funding of up to £25,000 (US$50,545) available to Shariah compliant companies.

CIMB Islamic launched the Fixed Return Investment Account-i, also known as Advance Profit, with hopes to attract up to RM1 billion (US$288.84 million) in deposits.

Bank of Japan was invited to be an observer member of the **Islamic Financial Services Board**.

Mashreq extended a bid for state-owned **Banque du Caire** in Egypt.

Islamic Development Bank, along with the United Nations and other institutions revealed plans to halve the poverty rate in Africa by 2015.

Citigroup became the first foreign bank to receive a merchant banking license in Bangladesh.

New financial rulings on banking contracts were discussed at the Islamic Economy forum.

Eversheds' London and Qatar Islamic finance teams advised on a US$600 million loan for Qatari real estate company **Barwa**.

Amlak Finance applied for permission from the **Securities and Commodities Authority** to buy back 5% of its shares listed on the **Dubai Financial Market**.

Sakana Holistic Housing Solutions signed a preferred Islamic mortgage finance provider agreement with the developers of Amwaj Plaza 1.

Hong Kong hosted a full-fledged seminar on Islamic finance along with the **Islamic Financial Services Board**.

Al Salam Bank Bahrain approved a stock split of 10 shares to one, to be listed on the GCC stock exchange.

BNP Paribas scheduled a re-launch of its two Sukuk by the end of 2007, post-liquidity crunch which affected global debt markets.

The 2nd Annual Arab Asian Financial Forum honored the **Adeem Investment Company** in line with its maiden Sukuk launch.

Markets saw an increase in demand for credible Islamic software solutions.

Stockholm's integration council called for Swedish banks to begin offering Islamic banking to Muslims looking for investment alternatives.

Ithmaar Bank acquired a 100% holding in **Shamil Bank**.

OCTOBER news briefs

Amlak Finance provided up to 90% financing on **Cayan Investment & Development**'s two latest projects, Silverene Towers and the Cayan Business Center.

The **Islamic Banking and Finance Institute Malaysia** organized the International Takaful Summit in London.

Standard Chartered Bank revealed plans to increase its investments in Malaysia, concentrating on high growth sectors including oil and gas, tourism and hospitality industries.

The **Royal Bank of Scotland**, **Santander** and **Fortis** consortium won **ABN Amro** at €71 billion (US$100.42 billion), after **Barclays** abandoned its €67.5 billion (US$95.5 billion) bid.

Public Bank confirmed the establishment of its Islamic subsidiary in March 2008.

Kuwait Finance House Malaysia received approval from **Bank Negara Malaysia** to initiate negotiations to acquire up to 35 branches of **RHB Capital**.

Dow Jones Indexes launched the Dow Jones Islamic Market China/ Hong Kong Titans Index to track 30 of the largest Shariah compliant companies in mainland China and Hong Kong.

Omniyat Properties revealed plans to launch three major projects in the UAE in 2008 and venture outside its domestic market for the first time.

UBL fund managers launched the United Islamic Income Fund, aimed at providing safe and stable Shariah compliant returns to investors by investing in Islamic income instruments while taking into account capital security and liquidity considerations.

Malaysian law firm **Zaid Ibrahim & Co** signed an alliance agreement with **Allen & Gledhill LLP (Singapore)** in a bid to create a legal powerhouse for the Asean region.

Bahrain Islamic Bank saw BH$17.5 million (US$46.43 million) in net profits in the nine months ended the 30th September 2007, an increase of 81% over the BH$9.6 million (US$25.47 million) achieved during the previous corresponding period.

Gulf International Bank BSC reported a consolidated net income after tax of US$184.5 million for the nine months ended the 30th September 2007.

Malaysian automotive company **DRB-Hicom** revealed plans for an Islamic takeover, buying **Bukhary Capital**'s 70% stake in full-fledged Islamic bank, **Bank Muamalat**.

The **Emirate Securities & Commodities Authority** banned three brokerages from making purchases for 15 days following a suspension implemented by the ESCA that prohibited 11 brokerage firms from purchasing operations for one month due to failure to fulfill new paid-up capital levels and bank guarantee requirements.

AmInvestment Bank Group's funds management division declared income distributions totaling RM5.6 million (US$1.73 million) for three AmMutual funds — AmBond, AmBon Islam and AmIttikal — for 6,773 unit holders.

Nakheel PJSC was mulling a share sale before its record US$3.52 billion Sukuk matures in 2009.

BankIslami successfully completed a private placement of Sukuk at PKR650 million (US$10.72 million) for Amtex Textiles Ltd.

Direct investment in Pakistan's Islamic banking industry as at September 2007 stood in excess of PKR20 billion (US$330.57 million).

Engro Chemical issued a three-tranche Shariah compliant US$150 million syndicated loan comprising a US$50 million Sukuk, US$300 million syndicated loan to banks and US$65 million loan.

Shares of the **Emirates NBD Bank** commenced trading on the **Dubai Financial Market**.

Kuwait Finance House showed a 28.8% boost in net profits for the 3rd quarter of 2007, crediting its overseas expansions. Net income also rose by 49% to KWD393.46 million (US$1.41 billion).

Taurus Mutual Fund entered into a tie-up with **Parsoli Corporation** to launch Taurus Parsoli Ethical Fund, India's first Shariah compliant close-ended equity Islamic fund.

Kenanga Investment Bank began looking at key markets outside Malaysia in its bid to create a niche in the corporate banking business.

PLUS Expressways' unit Projek Lebuhraya Utara-Selatan (PLUS) proposed to issue up to RM3.55 billion (US$1.05 billion) nominal value of Senior Sukuk mainly to enable the group to have a greater access to the Middle Eastern debt and equity markets.

National Fullerton Asset Management revealed plans to launch two open-end Islamic Mutual Funds: the NAFA Islamic Income Fund and the NAFA Islamic Multi Asset Fund.

Path Solutions opened a new office in Petronas Twin Towers, Malaysia.

Industrial and Commercial Bank of China revealed plans to open branches in Doha and Dubai.

The **International Monetary Fund** produced a working paper stating that Sukuk could significantly reduce the market risk of an investment portfolio. The paper was entitled: "Sukuk Vs Eurobonds: Is there a difference in VaR?"

Microsoft and **Tamweel** began working on a major upgrade on Tamweel's IT infrastructure.

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OCTOBER news briefs *(continued...)*

Amlak Finance delayed a sale of US$260 million in Sukuk, citing turmoil in international credit markets and increased corporate borrowing rates.

The **Arab Chamber of Commerce & Industry** launched an Islamic index for China and Hong Kong companies comprising 50 companies mainly from the utilities and transport sector.

The Philippines began to look into the business of halal food products.

International Finance Corporation began mulling whether to fund Islamic banks in Kenya following the licensing of two Islamic institutions in 2007.

Deutsche Bank closed an Islamic profit rate collar structure with **Dubai Islamic Bank** amounting to US$500 million.

The **Dubai Multi Commodities Center** and **Shariah Capital** signed an agreement to explore the development of Shariah compliant investment products based on hard assets such as commodities and precious metals.

JPMorgan Japan revealed plans to double assets under management for Japanese individuals and open branches in the country to handle a greater share of household wealth.

Global Investment House launched the Global Real Estate Ijarah Fund, capitalizing on the Middle East and North Africa real estate sector and Islamic financing competencies.

Masraf Al Rayan was awaiting approval to raise the portion of its shares open to foreign ownership from 31% to 49%.

Commercial Bank of Kuwait denied reports on the sale of its 20.2% holding in the **Bank of Bahrain and Kuwait** to an unnamed Kuwaiti investor.

ICICI Bank attributed US$300 million worth of Gulf investments into India through its private banking unit in Dubai.

Asian Finance Bank and **AmanahRaya Investment Bank** teamed up to develop and manage Malaysia's first Islamic marine fund based on Bai Muajjal.

Palestine Islamic Bank received warnings from Israel on its dealings with Hamas.

Islamic Bank of Thailand revealed plans to boost its credit service for pilgrims of the Haj.

Dubai Bank revealed plans to expand its capital base and seek regional expansion via acquisitions.

Kuwait Finance House established a Sukuk company at KWD100 million (US$357 million) to bolster secondary market trading.

Etihad Airways confirmed a sum of US$1.5 billion in borrowings to fund 16 aircraft.

Liechtensteinische Landesbank and **ABN Amro** launched the first Islamic exchange-traded index trackers linked to the performance of the LLB MENA indices.

Jadwa Investment received approval from the **Saudi Arabia Capital Market** Authority to launch a Global Sukuk Fund to satisfy the fixed-income asset class.

Dana Gas issued its highly anticipated Sukuk which however fell short of US$135 million to US$875 million from its pre-planned amount of US$1 billion.

Cirrus Developments partnered with **Badr Al Islami** to deliver a trust management account protecting property buyers.

The **Islamic Finance Company** signed an agreement with the Ministry of Labor to begin implementing the Daman & Aman program in the UAE.

The value of shares and bonds bought by foreign investors at the **Dubai Financial Market** reached AED2.46 billion (US$669 million) at 39.1%.

Boubyan Bank posted a third-quarter net profit rise of 143.5% compared to the previous corresponding period. Its net profits grew to KWD4.53 million (US$15.35 million) from KWD1.86 million (US$6.68 million) last year.

Ras Al Khaimah-based **RAK Properties** revealed plans to sell up to US$2 billion of Islamic bonds in early 2008 to finance new projects. The entity was in the process of selecting banks to arrange the sale.

Standard Chartered Bank revealed plans to increase its investments in Malaysia, concentrating on high growth sectors including oil and gas, tourism and hospitality industries.

Gulf International Bank reported a dip in post-tax consolidated net income at US$184.5 million.

DRB-Hicom commenced talks with **Bukhary Capital** to acquire a 70% stake in **Bank Muamalat Malaysia**.

The **Malta Institute of Management** and **Malta Union of Bank Employees** organized a seminar on Islamic banking.

Nakheel PJSC revealed plans to sell company shares before its US$3.52 billion Sukuk hits maturity in 2009.

The committee of experts on Islamic finance from the UK Treasury were doubtful of the country's Sukuk plans after the departure of Economic Secretary from the committee.

Abyaar Real Estate Development revealed plans to sell up to US$1 billion in Sukuk in 2008 to finance projects, including a Dubai development.

Devon Bank announced the expansion of its Islamic financing program along with added investor support.

NOVEMBER news briefs

Rafe Haneef resigned from his post as head of **Citigroup** Asia's Islamic banking unit.

BIMB Unit Trust Management, a subsidiary of **Bank Islam Malaysia**, declared income distribution for three funds. ASBI Dana Al-Fakim gave a distribution of 2.25 sen (US$0.00668) per unit, equivalent to an annual distribution yield of 4.47%. The two other funds, Al-Munsaf and Al-Falah, gave a distribution of 9.15% and 7.17% distribution yield.

Binariang GSM revealed plans to sell some RM12 billion (US$3.6 billion) of bonds to finance its buyout of mobile network operator **Maxis Communications**.

Citibank was considering the possibility of a joint venture with a local bank in Malaysia to set up a standalone Islamic banking unit.

National Bank of Kuwait launched a US$ money-market fund according to Shariah principles. The fund started at a minimum investment of US$25,000 and additional investments of US$1,000.

Qatar Islamic Bank launched two investment funds with a capital of QAR2 billion (US$550.36 million) under the name Al Sanabel, targeting Shariah compliant stocks on the **Doha Securities Market**.

Amlak Finance signed a strategic alliance with **Real Estate Bank** headquartered in Abu Dhabi, offering its Islamic home finance solutions for the Al Maha Tower.

The **Dubai International Financial Exchange** listed a range of Islamic structured products on the TraX platform, offering investors attractive new Shariah compliant opportunities.

First Gulf Bank announced its financial results for the first nine months of 2007, showing an increase of 21.5% in net profit, compared with the previous corresponding period, to reach AED1.39 billion (US$378 million).

HSBC and the **Dubai International Financial Exchange** launched a family of indices tracking the price movements of conventional Middle Eastern bonds and international Sukuk.

Emirates Islamic Bank and **Hydra Properties** announced the signing of a memorandum of understanding establishing a strategic partnership to enable customers of Hydra Properties to avail themselves of EIB's home finance solutions.

Total Sukuk issuance accrued by 110.7% to US$37.3 billion over 2007. Of the total, ringgit-denominated Sukuk made up 54%, at US$20.1 billion. Sukuk listed on the **Dubai International Financial Exchange** and **London Stock Exchange** also amounted to US$16.14 billion and US$7.2 billion, respectively.

Unicorn Investment Bank announced strong results for the nine-month period ended the 30th September 2007. Earnings rose by 32%, from US$64.1 million in the first nine months of 2006 to US$84.6 million in the corresponding period for 2006.

Al Khaliji confirmed its buy of French bank **BLC Bank**'s assets, in line with its bid to expand outside Qatari ground.

Hong Leong Bank offered up RM877.5 million (US$263.48 million) for a substantial stake in a commercial bank in **Chengdu City Commercial Bank** in China.

Shuaa Capital's half-year results as at the 30th September 2007 saw a revenue hike to AED277.2 million (US$75.48 million), a 62% rise over the first half of the previous corresponding period.

BMB Investment Bank revealed its results for 3Q2007 with a net income of US$16.2 million for the first nine months of the year as compared to US$5.9 million in the previous corresponding period.

BNP Paribas in the Gulf announced the creation of its combined syndications and bond origination platform on the ground.

The **Ras Al Khaimah Investment Authority** began planning European and Middle East roadshows for its inaugural US dollar-denominated benchmark Sukuk offering.

MAC Sharaf Securities began offering clients trading access to the **Dubai International Financial Exchange**.

SABB Bank planned to raise its capital to SAR6 billion (US$1.6 billion) by issuing three bonus shares for each five shares held.

The **Dubai Financial Services Authority** entered into a memorandum of understanding with the **United States Banking Supervisors**, making it the first regulator in the Middle East to do so.

National Bank of Kuwait launched a Shariah compliant, US$-denominated money market fund for short and medium-term Shariah compliant instruments.

Al Salam Bank-Bahrain launched its online banking system at www.alsalambahrain.com, allowing clients to place standing orders and transfer recurring payments from respective accounts.

Abu Dhabi National Energy Company (TAQA) revealed plans to sell up to US$6 billion in bonds in 2008, subject to credit market conditions. Proceeds from the bonds will be used to fund the company's US and Canada acquisitions of Pogo Producing's **Northrock Resources** and oil and gas exploration firm **Pioneer Canada**.

Al Salam Bank generated a net income of BH$17.4 million (US$46.2 million) as at the 30th September 2007, an increase of BH$12.2 million (US$32.4 million) over the previous corresponding period.

Ras Al Khaimah Investment Authority launched its debut DIFX-listed Sukuk at US$500 million, over a five-year tenure.

The governor of **Qatar Central Bank** called for increased corporate governance, disclosure and transparency in Islamic banking practices.

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NOVEMBER news briefs *(continued...)*

Sharjah Islamic Bank completed its evaluation and preparatory stage of its eServices Banking project – Internet Banking.

National Asset Management teamed up with **Amana Capital** to launch the NAMAL Amana Equity fund.

Ithmaar Bank announced plans to complete the 100% acquisition of **Shamil Bank**, increasing its share by 40%.

DP World utilized funds raised from the Middle East's largest ever initial public offering to expand in emerging markets such as Latin America and Africa.

OSK Investment Bank began contemplating a stand-alone Islamic banking subsidiary, having received approval from **Bank Negara Malaysia**.

Standard Chartered launched the Islamic investment product TRAIn-i (Total Return Alternative Investments), the Islamic version of the conventional alternative investment, which captures yield spreads across a basket of global currencies to provide diversification benefits to investors.

Global consultants **KPMG** suggested the creation of a mega Middle East Islamic bank that would not only have a larger capital base to finance large projects but also offers competitive funds.

DLA Piper revealed plans to establish an office in Qatar by the first quarter of 2008.

Prestige Scale agreed to a proposed Musharakah arrangement with **Kuwait Finance House Malaysia** for the acquisition of Glomac Tower, KLCC from **Glomac Al Batha**.

Abu Dhabi Commercial Bank was eyeing a stake in a Malaysian Islamic bank, speculated to be **RHB Islamic Bank**.

The **Dubai Financial Market** listed Hajj and Umrah travel company **Al Firdous Holdings**.

Investment Dar planned to increase its capital and list on the **London Stock Exchange** by end-2007 via the sale of US$500 million worth of shares, equivalent to 20% of its capital.

The **Chartered Institute of Management Accountants** began producing a four-part study guide series covering topics on Islamic commercial law, Islamic banking and Takaful, Islamic capital markets and instruments and accounting and analysis of Islamic financial institutions.

The **Islamic Financial Services Board** cited limited availability of statistical information and lack of cross-country historical data with sufficiently long time-series as major challenges in the Islamic finance industry.

HSBC Malaysia was awarded an Islamic banking license to set up a stand-alone subsidiary by **Bank Negara Malaysia**. The bank had applied for the license in the middle of 2007, during Zair J Cama's term as CEO and chairman.

Atlas Asset Management launched its second pension fund, Atlas Pension Islamic Fund.

KIPCO Asset Management Company launched the **Al Raya Investment Company KSC**, with the private placement of 170 million shares, targeting international investors in developed markets.

The **Employees Provident Fund** revealed plans to increase its holdings of overseas investments to seek higher returns.

OCBC received the go-ahead from **Bank Negara Malaysia** to set up an Islamic banking subsidiary in the country.

State Bank of Pakistan reported 15% growth in Islamic banking in Pakistan in 1Q2007 to 3.2% in assets of the total banking sector. As at March 2007, total Islamic banking assets stood at PKR135.64 billion (US$2.23 billion).

NCB Capital launched the Al-Ahli BRIC Secured Equity Fund, investing in Shariah compliant companies in Brazil, Russia, India and China.

The **Bahrain Monetary Agency** granted two separate licenses to **ADDAX International Bank** and the **National Bank of Bahrain**.

Amlak Finance appointed **Cedar Management Consulting International** to draw up and implement a new growth strategy for the company.

Dubai Islamic Bank opened three new branches in Sharjah and Abu Dhabi, increasing its total UAE-wide branch network to 44.

Deutsche Bank officially opened its branch at the **Qatar Financial Center**, offering investment banking and private wealth management services.

Securities and Investment Company concluded a transaction on behalf of the **Dubai Financial Group** to acquire a 60% stake in Bahrain's **Taib Bank**.

Central Bank of Bahrain revealed that the consolidated balance sheet of Bahrain's banks, in both retail and wholesale reached US$222.4 billion at the end of 3Q2007.

Arab Bank officially launched **AB Capital**, the investment banking arm of the **Arab Bank Group**, after being licensed by the **Dubai Financial Services Authority** to operate as a regulated entity.

Morgan Stanley provided **Dubai Holding** with US$1.26 billion in financing on a fully underwritten basis. The facility was provided as a short-term bridge loan to **Dubai Holding Investments Group**, the investment arm of Dubai Holding.

The **Dubai International Financial Center** welcomed Malaysia's crown prince Dr Raja Nazrin Shah, who visited Dubai to explore opportunities between the UAE and Malaysia.

State Bank of Pakistan directed all banks having Islamic banking branches to submit details of products to be offered via its Islamic banking windows before operations commence.

DECEMBER news briefs

Standard & Poor's reported that the US credit crisis had affected pricing for project finance in Europe and the Middle East. However, credit quality remained strong.

The British market for Shariah compliant mortgages failed to grow as fast as expected, due to a lack of awareness according to the **Financial Services Authority**.

University Bancorp reported an unaudited net income of US$1.01 million, compared to a loss of US$347,237 for the same period of the 30th September.

Moody's Investors Service maintained a stable rating outlook for the Asian palm oil industry, with the sector's prospects favorable.

Infosys began marketing its universal online banking platform Finacle for Shariah compliant financial products and services in the Middle East and Europe.

National Bank of Abu Dhabi revealed plans to double the value of assets under management to more than US$3 billion through 2009.

Ithmaar Bank and **Shamil Bank** shareholders were unanimous in Ithmaar's planned 100% acquisition of Shamil.

The Development Bank of the Philippines was on track to complete the **Bangko Sentral ng Pilipinas'** requirements for the takeover of **Al-Amanah Islamic Investment Bank.**

Investate Bahrain tied up with **Omniyat Properties** to jointly develop a strategic project on Dubai's high-profile Madinat Al Arab on the Dubai Waterfront.

Bear Stearns reported more jobs cuts as a result of the subprime crisis, with its Wall Street mortgage lending unit seeing 650 jobs depleted.

Citigroup announced the sale of a US$7.5 billion stake to the investment arm of the Abu Dhabi government in a bid to access capital following the subprime mortgage crisis and the resignation of its CEO.

NCB Capital introduced the world's first Shariah compliant real estate fund dubbed the AlAhli Global Real Estate Fund, investing in companies dealing with real estate development globally.

Bahrain warned it would take action on foreign banks for unethically piling pressure on Gulf currency pegs.

The **Chartered Institute of Management Accountants** became the first accountancy body in the UK to train its members in Shariah law.

Investment Dar began targeting investment opportunities in Asia, with the launch of a proposed US$300 million syndicated Murabahah facility.

Meezan Bank unveiled plans to expand its branch network up to 100 by the start of 2008.

Abu Dhabi Commercial Bank sold AED2 billion (US$546.3 million) worth of two-year bonds as part of a borrowing program. **Standard Chartered** was the deal's arranger.

The **Islamic Chamber of Industry and Commerce** revealed plans to establish **Al Emaar Bank** in Bahrain with a capital of US$1 billion.

The **Qatar Central Bank** gave **Al Jazeera Islamic Company** initial approval to take the necessary steps to become an Islamic finance entity.

Sakana Holistic Housing Solutions celebrated its first anniversary.

The **Tokyo Stock Exchange** launched a Shariah index of shares in companies that comply with Islamic law to meet growing demand from investors, particularly in the oil-rich Middle East.

White & Case opened an office in Abu Dhabi and expanded its Riyadh office, raising the number of its lawyers in the Middle East to more than 60.

Asian Finance Bank was granted a license by **Bank Indonesia** to open its representative office in the republic's capital of Jakarta.

Deutsche Bank planned to double its headcount in the Middle East over the next two years. The bank currently staffs over 170 people in six Arabic countries, with the majority based in Dubai and Saudi Arabia.

Moody's Investors Service reported that European, Middle Eastern and African corporates are set to push through challenges in 2008.

Albaraka Banking Group signed an agreement with the **Islamic International Rating Agency** to carry out a Shariah Quality Rating on the bank.

Dubai Islamic Bank launched the seventh round of its "Emarati" training program, aimed at enhancing the banking and professional skills of UAE national graduates.

Herbert Smith's Dubai office advised **Thani Investments LLC** as originator on the US$100 million issuance of Sukuk Musharakah certificates by **Thani Investments Sukuk Company Limited**, a special purpose company incorporated in the Cayman Islands.

Emirates Bank officially inaugurated its new branch in the historical district of Shindagha, one of the oldest areas of Dubai. The Shindagha branch is designed to provide customers with a comfortable environment to perform their banking needs.

Bank Negara Malaysia announced the opening of the country's legal market to foreign law firms, only in the area of Islamic finance.

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DECEMBER news briefs *(continued...)*

Emirates Aluminium Company planned to sell up to US$2 billion of bonds in 2008 to help finance construction. The bonds, a mixture of long and short sale, will most likely be Islamic to boost local investor demand. **Citigroup**, **Goldman Sachs** and **National Bank of Abu Dhabi** were mandated as managers for the sale.

The **Dubai International Financial Exchange** listed its first non-dollar security in the form of Jebel Ali Free Zone's AED7.5 billion (US$2.04 billion) local currency Sukuk. This was in line with the bourse's attempt to broaden the range of choices for investors.

Shamil Bank launched its US$90 million Shamil Bosphorus Mudarabah, investing in Shariah compliant real estate developments in Turkey. The bank will subscribed up to 10% of the commitment as a vote of confidence.

Meezan Bank and **Eden Builders** signed a PKR2.5 billion (US$40.82 million) Islamic financing facility mandate with a tenure of 5.5 years.

Barclays launched the UK's first Shariah compliant exchange-traded fund. The bank also formed a panel of Islamic scholars to supervise its Islamic products.

The **Bank of London and The Middle East** provided US$24 million in Islamic financing for two operating lease transactions, both with US Fortune 500 companies. BLME's financing aimed to fund energy exploration and surface mining equipment on lease terms of five and seven years.

State Bank of Pakistan governor Dr Shamshad Akhtar affirmed that the prospects for growth in Islamic finance were promising but rested on building an effective system for the industry.

Bahrain-based **Unicorn Investment Bank** received the nod on to convert its Kuala Lumpur office into a full-fledged Islamic bank.

Central Bank of Bahrain granted an investment firm category 2 license to the **International Investment Bank** to establish **Investcorp Gulf Investments**. The new firm was established to manage Investcorp's Gulf-focused funds.

AB Bank signed a contract with **Millennium Information Solution** for the implementation of its Shariah-based online Islamic banking solution, "Ababil".

The Islamic debt financing of US$205 million for the Hajj Terminal at the King Abdulaziz International Airport in Jeddah, Saudi Arabia was concluded.

Dubai Islamic Bank, **Standard Chartered Bank** and **WestLB** arranged a US$263 million, 10-year Islamic project finance facility to finance **DP World**'s 30-year new container port concession at Doraleh, Djibouti. The **World Bank**'s **Multilateral Investment Guarantee Agency** provided a tranche of political risk insurance.

Emirates Islamic Bank clarified that it was not the mandated lead arranger for government-owned company **Limitless**' US$1.2 billion two-year syndication.

Sui Southern Gas Company signed an agreement with **BankIslami Pakistan** and **Pak Brunei Investment Company** to fund its capital expenditure program budgeted at PKR10 billion (US$163.58 million) for 2007-08.

Norton Rose secured an alliance with Saudi Arabian practice **Abdulaziz Al-Assaf** in a move set to boost the law firm's profile in the Middle East.

The Singapore government released a mandate allowing foreign firms to practice Singaporean law, following recommendations made by a review committee of its local legal market.

Tradewinds Plantation group inked an agreement with **OCBC Bank** (Malaysia) to issue its first Islamic securities of up to RM400 million (US$120.72 million).

Barwa Real Estate revealed that it was seeking a credit rating and looking to sell at least US$800 million in Sukuk and global depository receipts in 2008 to fund expansion.

Indian corporations had expressed great interest to raise funds in Malaysia, **Bank Negara Malaysia**'s assistant governor Muhammad Ibrahim affirmed.

The **Chartered Institute of Management Accountants** launched the first global Islamic finance qualification to be offered by a professional accountancy body.

Industry observers cited the lack of scholars as a hindrance to British efforts to become an Islamic banking hub.

The **Center for Islamic Banking, Finance and Management**, under the purview of **Universiti Brunei Darussalam**, held a three-day workshop on Shariah issues in Islamic finance.

The **Ras Al Khaimah Investment Authority** listed a US$325 million Sukuk on the **Dubai International Financial Exchange**, taking the exchange's total listed value of Sukuk to US$14.11 billion — the largest value of any exchange in the world.

Dutch mayor Job Cohen revealed that there has been collective sentiment to urge finance minister Wouter Bos to allow banks to offer Islamic mortgages.

DP World revealed investment commitments exceeding US$4 billion. The company, however, had not decided on a public sale of shares to support growth.

Mawarid Finance signed a partnership agreement with real estate developer **ETA Star**, to provide financing to purchasers of units in the Centrium project.

The **Qatar Investment Authority** increased its share by almost 24%, in the **London Stock Exchange**, resulting in a controlling stake of nearly 52% by the Gulf state and Dubai.

Standard & Poor's announced the extension of its fund management ratings service to the Gulf.

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☐ **Sukuk & Islamic Capital Markets: Products & Documentation** 24th – 26th March, Dubai	☐ **Conference Workshop Series: Workshop A: Sukuk & Financial Products for Islamic Project Finance** 14th August, Kuala Lumpur
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☐ **Islamic Financial Markets, Treasury & Derivatives** 20th – 22nd April, Manama	☐ **Islamic Financial Markets, Treasury & Derivatives** 6th – 8th October, Kuala Lumpur
☐ **Islamic Financial Markets, Treasury & Derivatives** 13th – 15th May, Singapore	☐ **Refresher Day: Principles of Islamic Finance & Investment** 9th November, Kuala Lumpur
☐ **Islamic Financial Engineering & New Product Development** 18th – 21st May, Dubai	☐ **Sukuk & Islamic Capital Markets: Products & Documentation** 9th – 12th November, Kuala Lumpur
☐ **Refresher Day: Principles of Islamic Finance & Investment** 2nd June, London	☐ **Islamic Mutual Funds, Hedge Funds & REITs** 10th – 12th November, Kuala Lumpur
☐ **Sukuk & Islamic Capital Markets: Products & Documentation** 3rd – 5th June, London	☐ **Islamic Financial Instruments & Structured Products** 30th November – 3rd December, Dubai
☐ **Islamic Financial Instruments & Structured Products** 9th – 12th June, Kuala lumpur	☐ **Refresher Day: Principles of Islamic Finance & Investment** 1st December, Kuala Lumpur
☐ **Essentials of Islamic Finance & the Islamic Finance Industry** 16th – 18th June, Jakarta	☐ **Sukuk & Islamic Capital Markets: Products & Documentation** 2nd – 4th December, Kuala Lumpur

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TAKAFUL NEWS BRIEFS

JANUARY

Qatar Islamic Insurance Company revealed plans to establish itself in Pakistan in April. This would increase the number of Pakistani Takaful players to two.

Prudential BSN Takaful aimed to fortify its presence in Malaysia through public education before going regional. The company would highlight the significance of Takaful to Muslims and non-Muslims alike, as part of its expansion.

Takaful Ikhlas announced plans to launch three new investment-linked products - the first being the Ikhlas Capital Investment-linked Takaful. Takaful Ikhlas also planned to launch three new branches in Kota Kinabalu, Kuching and Putrajaya.

The outlook for **BEST Reinsurance Company** (BestRe) was revised from stable to positive by **Standard & Poor's Rating Services**, with its BBB long-term counterparty credit and insurer financial strength rating reaffirmed. BestRe is wholly owned by **Salama Islamic Arab Insurance Co** in the UAE.

AXA France took 100% control of **AXA Assurance Maroc**, its Moroccan counterpart. The deal worth MAD5.9 billion (US$694 million) saw AXA procuring a 49% stake in **AXA-ONA**, a holding company held by AXA's local partner **ONA**.

MAA Holdings was pending regulatory approval for its Takaful business in Malaysia via its joint venture company **MAA Takaful**. Group managing director and CEO Muhammad Umar Swift stated: "Going forward in the first quarter, you will see us launching our Takaful business and by the second half, you will see us launching our mortgage products."

Ein Takaful Insurance Company was officially launched in Kuwait. The company was also advised by the Kuwaiti ministry of trade and industry to increase its capital from KWD5 million (US$17.29 million) to KWD10 million (US$34.5 million).

AXA and **Bharti Enterprises** established a joint venture general insurance company and signed a memorandum of understanding, with Bharti Enterprises holding a 74% stake and the French insurer AXA holding the remaining 26%. The partnership will capitalize on Bharti's Indian market expertise, branding and India-wide retail distribution network and AXA's technology expertise.

SABB – an associated company of the **HSBC Group** – was awarded an insurance operating license for its **SABB Takaful** company. SABB Takaful is a joint venture 32.5% owned by SABB, and 32.5% by the HSBC Group. The balance of the company's shares will be offered to the public via an initial public offering.

AIG, Aviva, ING and **Groupama** were among the key industry players eyeing **Garanti Sigorta**. The Turkish insurance firm is expected to sell its shares in the first half of this year.

Enaya AIG Takaful revealed plans to procure 30% of Bahrain's travel insurance market by the end of August. Enaya, which had a start-up capital of US$15 million, is the first Takaful company from **AIG**.

Takaful Ikhlas credited its 90% growth in 2006 to bancaTakaful. BancaTakaful, an agreement between financial institutions and Takaful operators, serves as a distribution channel to the market for both Takaful and financial products.

UBL Insurers received the go-ahead to set up a general insurance operation and has approached the **Securities and Exchange Commission of Pakistan** with a view to commencing general Takaful activities in the future. UBL Insurers is a subsidiary of **United Bank**, which is jointly owned by **UBL Abu Dhabi Group** and the UK's **Bestway Group**.

The **Insurance Board of Sri Lanka** announced an increase in the capital requirement for insurers of up to LKR1 billion (US$9.2 million) by 2010, from the current LKR25 million (US$230,000).

FEBRUARY

The Qatari government received calls from the Qatari insurance industry to raise motor insurance premiums. This increase was to aid with losses experienced from the surge in car prices, spare part costs and vehicle maintenance.

Annual insurance premiums and rates in Kuwait grew by 12%–15%, equating to KWD150 million (US$518.9 million), as at 2006. This was aided by the increase in local development projects.

Takaful BIBD earned double its profits from 2005, at US$1.4 million. The 47% increase was attributed to the company's high-quality and proactive customer service, as well as innovative products offered at competitive premium rates.

Solidarity acted as the sole provider of Takaful home financing protection and family protection products for **Sakana Holistic Housing Solutions**' mortgage finance customers.

Insurance Australia Group and **AMMB Holdings** were given the go-ahead to begin talks with **Pan Global Insurance**, following IAG's 30% acquisition in **AmAssurance** in 2006.

The **Monetary Authority of Singapore** authorized **SCOR Asia-Pacific** to apply to the **Labuan Offshore Financial Services Authority** for a license to allow SCOR Asia-Pacific's non-life branch to expand and underwrite reTakaful reinsurance contracts.

continued...

TAKAFUL NEWS BRIEFS *(continued...)*

BMG Financial Advisors established an advisory board to give more focus to the company. BMG, which advises insurers on initial public offerings, assembled a team experienced in privatization exercises, mergers and acquisitions and private placements from Saudi Arabia, Egypt, Kuwait, Pakistan, Syria and the US.

AXA Life Insurance collaborated with **Mizuho Bank** to launch an individual variable annuity product via Mizuho, dubbed the five-year plan. The product was designed to respond to customer needs, and to insure security by allowing the extension or shortening of its deferment period.

Bank Negara Malaysia proposed a regulatory regime to award greater flexibility to insurers with strong corporate governance standards and risk management practices.

The **Dubai Islamic Insurance and Reinsurance Company (AMAN)** signed an agreement with **Boubyan Takaful Insurance** to provide operational and management aid. The agreement's three phases include the setting up of administrative and technical structure of Boubyan, managing the operations, and the maintenance which includes auditing and follow up.

Allianz Re, the reinsurance arm of the **Allianz Group**, began operating as an authorized firm in the **Dubai International Financial Center**. The license adds to Allianz Re's diversified portfolio, which comprises Singapore, Labuan, Zurich and Dublin.

Takaful Nasional shifted its operating model to Wakalah from Mudarabah. The transition began with its general Takaful products, followed by family Takaful.

In light of the proposed Asian Free Trade Agreement, Filipino insurers were urged to consolidate in order to compete. The **Insurance Commission of Philippines** also began looking to implement new benchmarks to increase networking among local insurers.

Arab Insurance Group reported a dip in profits from US$48.2 million in 2005 to US$30.4 million in 2006. However, according to the company, this was not attributable to poor performance.

Takaful Re charted a net profit of US$1.26 million in its first operational period. As at the 31st December 2006, the company recorded gross written premium of US$15 million despite its late licensing in December 2005.

In line with its bid to seek out the necessary talent, **HSBC group** launched several niche programs targeted to capture the right skill base across its business network, especially for its Takaful arm **HSBC Amanah Takaful**.

Salama Islamic Arab Insurance Co reported a 65% boost in net profits to US$51.8 million in 2006. The company also began operations in Saudi Arabia.

Pak-Kuwait Takaful and **Polani Group** signed an agreement to provide Shariah compliant Umrah and Hajj Takaful, making Polani Group as the countrywide general sales agent for Pakistan.

Takaful Malaysia proposed plans to the Malaysian government to provide insurance coverage for foreign maids, suggesting that it work with a consortium of companies to execute its campaign.

Insurance claims for floods in Jakarta were expected to hit an all-time high of US$452 million, due to the greater intensity of floods and the wider areas affected than in previous years.

Central Bank of Bahrain approved the establishment of the US$20 million **Aman Bahrain Insurance Company**. **Dubai Islamic Insurance and Reinsurance Company (AMAN)**, **Al Salam Bank Sudan** and **Al Salam Bank Bahrain**, along with several other regional companies and individuals, were the main founders and shareholders of ABIC.

MARCH

Allianz's top executives attended a Takaful seminar organized by **Central Bank of Bahrain**. At the seminar, CBB officials spoke on the growth and development of the Bahraini insurance and Takaful industry, the regulatory framework governing insurance and Takaful, as well as the bank's experience in developing the industry.

Takaful International and **Bahrain Credit (BC)** signed a memorandum of understanding to provide health insurance to BC staff.

Net profits of US$1.26 million, along with gross written premiums of US$15.04 million, spurred **Takaful Re**'s growth in its first period of operations, despite its late licensing in December 2005.

UK-based **PPP Healthcare** expressed its intentions to bring Takaful to the UK market. PPP Healthcare, one of the UK's largest healthcare insurance companies, consistently records annual premiums exceeding US$1.95 billion. The company held a 25% market share as at 2007.

Takaful Ikhlas revealed plans to rake in RM40 million (US$11.4 million) from its subscribers by the 31st March 2008 by targeting its housing loan scheme customers.

AIG MEMSA Insurance Company and **Qatar Insurance Company International** began operations at the **Qatar Financial Regulatory Authority**.

The CEO of **Solidarity**, Sameer Ebrahim Al Wazzan, was honored for his service as chairman of the board of directors of the **Bahrain Insurance Association** since 2000.

Al Salam Bank Bahrain acquired a 20% stake in **Aman Bahrain Insurance Company**.

London-based **Lloyd**'s began offering reTakaful products from its newly incorporated offshore reinsurance unit in Labuan.

continued...

TAKAFUL NEWS BRIEFS *(continued...)*

SABB Takaful planned to raise US$9.3 million in a 35% initial public offering of its capital.

Allianz Group was granted an operating license from **Central Bank of Bahrain**.

Takaful Pakistan became the second company to be licensed as a Takaful operator in the country.

National Company for Cooperative Insurance appointed a Shariah Advisory Committee to assure the company's Shariah compliance.

Laksiri Seva, a shipping and logistical service provider, mandated **Amana Takaful Insurance** as its official insurance provider for all consumer cargo goods handled and dispatched by the company.

The National Shariah Board of the Indonesian Conference of Islamic Clergies began debating the issuance of a new fatwa to cap the commission rate derived from Takaful sales.

The Malaysian insurance and Takaful industry saw a 17.8% growth to RM12.4 billion (US$3.57 billion) in 2006.

The **Foreign Investment Committee** liberalized the Islamic banking, Takaful and reTakaful markets for foreign investors, allowing 100% foreign equity ownership in Malaysian Islamic financial institutions.

Stock trading for **Takaful International** was suspended by the **Bahrain Stock Exchange**, following a request from the capital market directorate at **Central Bank of Bahrain**.

Al-Noor began offering South Africans Wakalah and Waqf-based commercial, property, personal and marine import and export risk cover.

Tokio Marine & Nichido Fire Insurance revealed plans to expand its Takaful business, in line with its acquisition of Singapore-based **Asia General Holdings**.

State-controlled **Pakistan Re-Insurance Corporation** revealed plans to establish a Takaful pool to launch its own Takaful business.

AmIslamic Bank signed a tri-partite agreement with **Takaful Ikhlas**, **FWU** and **AmIslamic** to begin distributing Takaful investment-linked plans via **AmBank** and AmIslamic Bank.

APRIL

Takaful International of Bahrain expressed interest in investing in petrochemical and real estate developments in Sabah.

Takaful International Company announced compliance with **Central Bank of Bahrain**'s disclosure requirements to commence trading on the **Bahrain Stock Exchange**. The company was initially suspended from trading on the exchange for violating disclosure standards.

India-based **First Apex Software Technologies**, along with **Deloitte Consulting**, began providing its business intelligence solution X-VISION ++ to **Takaful Nasional**.

SABB Takaful's share flotation generated SR247.163 million (US$65.92 million) in subscriptions, accommodating 105,397 requests. More than 63% of the requests were made electronically.

International analysts predicted Takaful premiums to exceed US$7 billion by 2017.

Maybank Group signed a memorandum of understanding with **Panin Life** to form a joint venture which saw the Malaysian bank acquire a 60% stake in **Anugrah Life**, a subsidiary of Panin Life.

The **Qatar Financial Center Regulatory Authority** signed an MoU with the Department of Insurance of the state of Delaware, US, to establish a framework for cooperation.

Salama's IPO had more than 4,000 subscribers, covering 521% of the offered shares. Electronic subscriptions represented 84% of all subscription methods used for the IPO.

Nasser Al Shaali, CEO of the **Dubai International Financial Center**, addressed the issue of reTakaful at the World Takaful Conference. "ReTakaful must flourish to meet the needs of Takaful. The growth of Takaful cannot come in isolation of other aspects," Nasser stated.

Amana Takaful Insurance posted a 57% growth in premiums for 2006.

Takaful International resumed trading on the **Bahrain Stock Exchange** based on a recommendation forwarded by the Capital Directorate at **Central Bank of Bahrain**, and the handing in of the company's audited financial data for the year ended the 31st December 2006.

ISM Insurance Services Malaysia, a shared services provider for insurance and Takaful, received the ISO/IEC 27001:2005 from SIRIM QAS International.

MNRB Holdings, the owner of **Malaysian Reinsurance**, Takaful Ikhlas and **MNRB ReTakaful**, projected a 20% rise in overseas operations income by 2010.

The 14 member countries of the **Arab Forum of Insurance Regulatory Commissions** signed an MoU to enhance co-operation among regulatory members, facilitate the exchange of information, provide technical support and protect the rights of policyholders in Arab markets.

Al Amanah Insurance Company kicked off with KWD10 million (US$34.58 million) in capital.

continued...

TAKAFUL NEWS BRIEFS *(continued...)*

MAY

Takaful International and **Alpha Fire Services** signed a memorandum of understanding for the provision of home Takaful products to AFS clients, and AFS CCTV and fire and safety solutions to Takaful International subscribers.

Shamil Bank and **Solidarity** signed an agreement mandating Shamil Bank as distributor for Solidarity's general and family Takaful products.

The American Life Insurance Company **AIG Life** was licensed to operate from the **Qatar Financial Center**.

CIMB Wealth Advisors set a RM5 million (US$1.47 million) target for its Wealth Protector Series.

Oman United Insurance Company and **Al Ahlia Insurance Company** proposed a possible merger.

Arab Insurance Group saw a profit dip for its first quarter of 2006 to US$7.6 million, from US$8 million in 2006.

Tamweel recorded a whopping 395% increase in its first quarter profits, reaching AED50.47 million (US$1.23 million).

The **Dubai Islamic Insurance and Reinsurance Company (AMAN)**'s net profits saw an AED4.5 million (US$1.22 million) growth, with technical profits reaching AED6.4 million (US$1.74 million).

Takaful BIBD launched the Takaful Diamond Services, set to be a corporate and preferential client unit.

Al Khaleej Insurance & Reinsurance Company revealed plans to establish a Takaful company in the GCC.

Takaful International was mandated to insure all properties belonging to the Electricity and Water Ministry, amounting to BH$1.6 billion (US$4.24 billion), including power plants, sewers and water treatment plants.

Saudi Arabia's **Capital Market Authority** granted permission for seven insurance companies to offer up 40% of their shares to the public. Of these, only **Al Ahli Takaful** did not sell off 40%.

National Commercial Bank signed an agreement to launch Al Ahli Takaful's initial public offering at a share capital of SAR100 million (US$26.66 million).

Takaful Re saw a whopping 400% growth in gross written contributions for 2007, amounting to US$9.2 million. The hike was attributed to good response from the Middle East and North African markets.

It was reported that Indonesian Takaful insurers were fighting a tariff war in a competition that mirrors the conventional side of the industry.

Middle East and North African governments were urged to harmonize insurance regulations and legal frameworks to increase insurance penetration.

It was revealed that Malaysia was in need of more actuaries to implement the country's risk-based capital framework and other insurance regulatory policies.

Amlak signed an agreement with **Arab Oriental Insurance** to launch a comprehensive real estate and family protection insurance scheme for all Dubai and UAE customers.

JUNE

Al Fujairah National Insurance Company listed AED75 million (US$20.4 million) in share capital on the **Abu Dhabi Securities Market**, making it the 13th insurance company to be listed and the 64th on the stock market.

National Bank of Dubai, along with the **Dubai Islamic Insurance and Reinsurance Company (AMAN)** and **FWU**, launched the NBD Takaful & Savings Program.

British Islamic Insurance Holdings submitted its business plan and formal regulatory application to the **UK Financial Services Authority** to undertake general insurance businesses.

The government of Pakistan permitted 100% foreign equity in Pakistan's insurance sector, with the exception that foreign investors bring in a minimum paid-up capital of PKR500 million (US$8.23 million) for life/family Takaful and PKR300 million (US$4.94 million) in non-life/general Takaful operations.

The IPOs of the **Saudi Arabian Cooperative Insurance**, **Allied Cooperative Insurance Group**, **Al Ahlia** and **Al Ahli Takaful** were all oversubscribed by 2.4, 1.4, 1.6 and 2.8 times respectively.

Brunei's postmaster general, Abdul Kadir Tengah, brought up the need for insurance coverage for postmen due to high exposure to a gamut of hazards.

Standard & Poor's opined that Malaysia's Takaful environment is better regulated than that of the GCC.

Prudential UK and **Bank AlJazira** signed an MoU which saw Prudential take over 39% of Bank AlJazira's Takaful Ta'awuni life insurance.

Takaful BIBD began offering a car financing p rotector plan, the first of its kind in Brunei.

continued...

TAKAFUL NEWS BRIEFS *(continued...)*

Aviva UK formed a joint venture with the **CIMB Group**, having received approval from **Bank Negara Malaysia**. The joint venture saw Aviva acquire up to £74 million (US$145.52 million), or 49% in equity in two of CIMB's subsidiaries – Commerce Life Assurance and Commerce Takaful.

Global management consultants **Booz Allen Hamilton** studied the five key areas in the Middle East and North Africa insurance market, including legal frameworks, regulatory bodies and processes, nature of competition, skills and training, and market-led initiatives to study market gaps.

SABB Takaful's shares saw a 497.5% leap on its debut on the Saudi Arabian stock market.

Malaysia's general insurance and Takaful industry simultaneously adopted the Best Practices Framework to create a more dynamic and progressive industry.

Takaful Ikhlas revealed that it was open to both foreign and local Islamic financial institutions for the formation of a strategic partnership.

JULY

MAA Holdings began talks with prospective local and foreign partners for the sale of its 49% stake in **MAA Assurance**. The company was also in the process of cleaning up its current stock of RM779 million (US$225.94 million) to be completed by 2010.

India's life premiums leapt by 60% in 2006, boosting the global markets by 0.48% to 1.68%. The accretion which was seen across business lines and insurers, was attributed to aggressive business expansions and leveraging bancassurance sales.

Takaful BIBD held a presentation at the ministry of finance, showcasing its products including Takaful Cahaya Mata, the Car Financing Protector, Fire Takaful and Mawaddah, along with other services.

The **Qatar Financial Center Regulatory Authority** set new rules to enhance the business environment for insurance companies and increase benefits to policyholders and investors.

Maybank introduced a range of special packages and rewards for its mortgage financing, car financing, credit card, savings and Takaful customers. The bank had also offered up an option facility for will writing services.

The **Dubai Executive Council** and the **Dubai Health Authority** began developing a framework to devise new health insurance laws in the Emirate.

Hannover Re opened a branch in Bahrain, offering both Shariah compliant and conventional insurance solutions.

Qatar Insurance Company began preliminary talks to set up Takaful, real estate and asset management subsidiaries via a holding company based in Doha.

India's **ICICI Prudential Life Insurance** established a representative office in Dubai, making it the first Indian private life insurer to set up a UAE office.

Solidarity completed a series of anti-money laundering training workshops, attended by more than 40 of its employees. The workshops focused on identifying the various stages of money laundering, company and staff obligations and the reporting process.

Islamic Corporation for the Insurance of Investment and Export Credit signed an agreement with the UAE government to set up its first foreign representative office in Dubai.

Total life insurance premiums written in the Middle East and North African region grew by 13.6% to US$3.3 billion in 2006, while non-life premiums increased by 16% to US$18.1 billion. The total figure of US$21.4 billion accounted for 0.58% of the total global insurance premiums.

AUGUST

British Islamic Insurance Holdings appointed **Gulf International Bank** and **Investec UK** as its GCC and UK financial advisers.

Arab Orient Insurance Co teamed up with **Tamweel** to launch a home risk protection product linked directly to Tamweel's Islamic finance-backed property funding.

Profits for insurer **SwissRe** saw a 45% increase to CHF1.2 billion (US$1 billion), with revenue growing by 17% to CHF7.95 billion (US$6.64 billion) following the company's US$7.4 billion acquisition of **GE Reinsurance**.

Perodua signed an MoU with **Bank Rakyat Malaysia** and **Takaful Ikhlas** to offer car financing facilities and personal protection coverage for civil servants.

Bahrain Institute of Banking and Finance introduced the world's first formal Takaful qualification.

The **Dubai Financial Services Authority** entered into an MoU with the integrated banking, insurance and securities regulator of Iceland, the **Financial Supervisory Authority**.

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TAKAFUL NEWS BRIEFS *(continued...)*

Al-Khaleej Insurance Company charted net profits of KWD30.9 million (US$109.7 million) as at the 30th June 2007. Kuwait Insurance took the second spot with KWD12.8 million (US$45.42 million) in profits with a year-on-year growth of 77.8%.

Takaful International began insuring the assets and property of **Gulf Aluminium Rolling Mill Company** valid until 2010.

Pak-Qatar Group became the first Pakistan-based operators to gain a family Takaful license from the **Securities and Exchange Commission of Pakistan**.

Takaful Malaysia's General Takaful business dipped by 44.07% to RM38.01 million (US$10.84 million) in the first half of the year.

HSBC and **AIG Takaful-Enaya** launched a travel protection product for its customers, providing financial compensation for unforeseen setbacks while traveling abroad.

Hong Leong Tokio Marine Takaful launched a regular contribution investment-linked Family Takaful scheme, i-Save.

Takaful IBB launched the Takaful Retirement Plan under its Family Takaful Plan.

Dr Ali Al Quradaghi, a Qatar-based Islamic scholar, announced that Muslims are permitted to subscribe to commercial insurance if it is made mandatory by the law of their country and no Islamic alternatives are available.

SEPTEMBER

Zamani Abdul Ghani, **Bank Negara Malaysia**'s deputy governor, called for the Takaful industry to present itself as a united front with a common voice in operational and Shariah matters to spur growth.

Syarikat Takaful Malaysia began mulling possible tie-ups with major foreign insurers keen on venturing into the Takaful business. The company also appointed **3i Infotech** to implement and upgrade its informational technology system.

Bank Negara Malaysia's Budget 2008 stipulated tax exemption for Islamic banking units and Takaful companies until 2016 — after which the companies will be assessed.

Prudential Asset Management signed a memorandum of understanding with **Bank AlJazira** to set up a new Takaful company, **Takaful Taawuni**.

The Shariah Advisory Council of **Bank Negara Malaysia** allowed the distribution of surplus from Tabarru funds in Takaful schemes, and the application of Wakalah contract in deposit instruments.

MunichRe opened a branch in Kuala Lumpur, dubbed **Munich Re reTakaful**.

Pak-Qatar Family Takaful issued Pakistan's first ever Family Takaful policy to **Sidat Hyder Morshed Associates**.

Malaysian National Reinsurance proposed to issue up to RM200 million (US$58.52 million) in five-year Islamic medium-term notes.

British Islamic Insurance Holdings raised US$40 million via a private placement for the company's launching.

Bahrain Insurance Association and the **Arab War Risk Insurance Syndicate** discussed specialized insurance lines for Gulf businesses, including protection against war, riots, strikes, and sabotage and terrorism.

Solidarity launched its motor claims call center to service Solidarity's motor Takaful policyholders.

OCTOBER

Malaysia's Takaful industry was expected to grow with RM3 billion (US$876.37 million) in contribution for both family and general business combined, from almost RM2 billion (US$584.22 million) in 2006.

Takaful IBB presented a total of BN$8,452.02 (US$5,691.52) in waqaf contributions to four organizations: Dana Pengiran Muda Mahkota Al-Muhtadee Billah, Persatuan Kanak-Kanak Cacat (KACA), Pusat Ehsan and Jabatan Hal Ehwal Masjid (Mosque Affairs) under the Ministry of Religious Affairs.

A survey conducted by the **Bahrain Insurance Trade Union** revealed that 43% of employees in the insurance sector were paid less than the minimum wage of BH$350 (US$928.50), despite promising industry growth.

Kuwait called for its insurers to organize more public awareness programs to market products. The **Federation of Kuwaiti Insurance Companies** expressed plans to achieve solidarity among its members, provide them with moral and material help, raise efficiency and ensure stability in relationships among members.

State Bank of Pakistan, along with Pakistani insurers, launched the country's first crop loan-insurance scheme.

The Board of the **International Federation of Takaful & Islamic Insurance Companies** held its second meeting in Cairo. The board discussed the federation's performance in the last six months, reviewed the articles and basic rules of the federation and studied some of its suggested activities for the next period.

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TAKAFUL NEWS BRIEFS *(continued...)*

Citibank launched the world's first Wakalah-based Islamic savings account, offering improved benefits and Takaful coverage. Dubbed the Citibank Guard Savings Account-I, the plan was expected to differ from other Wadiah-based Islamic banking accounts.

Takaful IBB implemented a draft for a computerized system to boost its administration services and up efficiency.

Amana Takaful Insurance reported half-year sales with 41% growth in gross written premiums against the first half of 2006.

The privatization of **Societe Tunisienne d'assurances et de Reassurances** attracted eight foreign insurers with a 35% stake interest, including **Groupama**, France's **AXA**, Kuwait's **Gulf Insurance Co** and Morocco's **RMA Watanya**.

NOVEMBER

Fitch Ratings published a criteria report titled "Takaful Rating Methodology" for rating Takaful firms, as well as a special report on the industry, "Takaful Review and Outlook".

Low interest rates and active bancassurance sales continued to drive strong growth in the life insurance sector in Thailand.

The city administration of Jakarta was planning to establish a special office in charge of managing health insurance for the poor, in response to the rising number of claims.

Central Bank of Bahrain approved the official launch of **Allianz Takaful (Bahrain)** operations, a wholly owned subsidiary of Allianz, and granted a license to the Singapore-based **Asia Capital Reinsurance** to establish a representative office in the kingdom.

Bank Negara Malaysia deputy governor Zamani Abdul Ghani welcomed foreign financial institutions explore strategic alliance opportunities in Islamic finance, especially in Takaful and reTakaful operations in Malaysia.

Bank Negara Malaysia stated that it had no objection in principle to **MAA Holdings** beginning discussions with **AmAssurance** on disposing of its equity interest in wholly owned life insurance subsidiary, **MAA Assurance**.

ING Insurance initiated talks with **Bank Negara Malaysia** to produce and manage Takaful products for distribution to other countries.

Zurich International Life opened a new branch in Qatar.

The **Ithmaar** banking group sponsored the three-day International Takaful Summit in London.

Hong Leong Tokio Marine's Capital Protection Investment-Linked fund met its sales target of RM100 million (US$30 million).

Central Bank of Bahrain granted a Takaful license to **Unicorn Investment Bank**'s subsidiary, **T'azur Company**.

National Life and General Insurance signed a strategic agreement with **BankMuscat**'s bancassurance division to provide a comprehensive suite of life and non-life products to the bank's customers.

The **Health Authority of Abu Dhabi** reached an agreement with the **National Health Insurance Co (Daman)** to maintain the premium for basic health cover at AED600 (US$163.50) for 2008.

Takaful Malaysia sold its 10% stake in Sri Lankan **Amana Takaful**.

DECEMBER

Berakas Car Workshop signed an agreement with **Takaful BIBD** to run an exclusive towing and authorized workshop.

Wethaq Takaful Insurance, in partnership with **Adeem Involvement**, completed the setting up of a Takaful company in Egypt with a capital of EGP60 million (US$10.84 million). Wethaq's stake amounted to 60% and Adeem's at 40%.

The **Central Bank of Bahrain** authorized Germany's **Allianz Group** to establish a holding company, overseeing the group's operations throughout the Middle East and North African region as well as in the Indian subcontinent. The entity was dubbed the **Allianz MENA Holding Company**.

British Islamic Insurance Holdings submitted its regulatory application to the UK's **Financial Services Authority** for full FSA authorization.

Dubai International Financial Center inducted **Tokio Marine Group**'s new company - **Tokio Marine Middle East**.

Agriculture Insurance Company received reinsurance support from global reinsurers **Munich Re**, **Swiss Re**, **Paris Re** and **Lloyd's** for its weather-based crop insurance scheme.

Takaful Malaysia, which had received approval from **Bank Negara Malaysia** to resume talks with two Middle Eastern parties on the sale of its stake, was also approached by two multinational corporations from Europe.

The **Labor Fund** and the **Bahrain Insurance Association** proposed boosting human capital in the insurance sector.

AXA Insurance Gulf won the healthcare insurance bid for Qatar Petroleum.

STANDARD
&POOR'S

التمويل المنظم

مسرد مصطلحات عمليات التوريق

A

A Notes

أذون من الفئة (أ)

فئة الأوراق المالية المضمونة بالأصول أو الأوراق المالية المضمونة بالرهونات التي تتميز على الفئات الأخرى مثل الأذون من الفئة (ب) في مصطلحات الائتمان فضلا عن أولوية سداد أصل القرض.

Administrator

المدير

يعد بمثابة وكيل يتولى مسؤولية إدارة مسار الأوراق التجارية أو المنشأة ذات الغرض الخاص. وقد تتضمن مسؤوليات المدير إمساك حسابات البنك التي يتم فيها إيداع الدفعات المتسلمة من الأصول المحولة إلى أوراق مالية، فضلا عن سداد الدفعات إلى المستثمرين باستخدام هذا التدفق النقدي، ومتابعة أداء الأصول المحولة إلى أوراق مالية.

Advance Rate

سعر المقدم

رصيد أصل قرض السيارات الأصلي مقسوماً إما بقيمة البيع بالتجزئة أو البيع بالجملة للسيارة الممولة من قبل قرض السيارات. ويعد سعر فيما يتعلق بالقرض المضمون بالرهن العقاري السكني، كما يعد بمثابة مقياس لحجم الحصة التي يمتلكها المقترض في الأصل الضامن للقرض.

وكلما ارتفعت نسبة المقدم، كلما قلت نسبة الحصة التي يخاطر بها المقترض وكلما انخفضت الحماية المتاحة للمقرض بموجب ترتيبات الضمان.

Adverse Selection

الاختيار المعاكس

يقصد به العملية التي يفترض من خلالها أن تحمل مخاطر مجمع الأصول سوف يزداد سوءاً على مدار الوقت نظراً للافتراض السائد بأنه من المحتمل أن المقترضين الأقل خطراً هم الأشخاص الذين يرجح أن يقوموا بسداد مبالغ قروضهم.

Amortization

إهلاك الدين

يقصد به العملية التي يتم بواسطتها تخفيض مبلغ أصل الدين بصورة تدريجية على مدار الوقت. إهلاك الأوراق المالية المضمونة بالأصول يتم مع إعادة أصل القرض مع الفائدة إلى المستثمرين. كثيراً ما يقارن الإهلاك مع سداد الدين في دفعة واحدة عند موعد الاستحقاق بحيث يتم سداد أصل القرض الكلي في موعد الاستحقاق. يعد إهلاك الديون المجدولة مختلفاً عن الدفع مقدماً، والذي يكون مرتبطاً بسداد أصل القرض قبيل التاريخ المحدد في الجدول لسداده.

Amortization Period

فترة الإهلاك

هي الفترة التي قد تتبع فترة تجديد العملية التي يتم فيها سداد الرصيد المعلق للأوراق المالية المسددة بشكل جزئي.

Arbitrage CDO

التزام الدين المضمون طبقاً لموازنة سعر الصرف

يقصد به عملية التزام الدين المضمون المبنية على الأصول التي يزيد مجموع إيراداتها عن مجموع الإيرادات الناجمة عن بيع أو تمويل الأوراق المالية فيما يتعلق بالعملية.

Asset-Backed Commercial Paper (ABCP)

الأوراق التجارية المضمونة بالأصول

يقصد بها الأوراق التجارية المضمونة بأصول والتي يتم الحصول على دفعات أصل قرضها أو الفائدة المستحقة من التدفقات النقدية المستمدة من مجمع الأصول الأساسي. وفي حالة عدم إمكانية إعادة إصدار الورقة التجارية ليتم سداد ورقة تجارية حان موعد استحقاقها، يتم سحب تسهيلات سيولة الدعم لتوفير السيولة للسداد للمستثمرين.

Asset-Backed Securities (ABS)

الأوراق المالية المضمونة بالأصول

هي السندات أو الأذون المضمونة بمجمعات الأصول المالية بتدفقات إيرادية متوقعة، والتي يتم توليدها من قبل البنوك وموردّي الائتمان الآخرين. ومن بين الأمثلة على هذه الأصول سندات مديونية بطاقة الائتمان وسندات المديونية التجارية وقروض السيارات.

Asset Originator

منشئ الأصول

الطرف الذي أنشأ الأصل أو مجموعة الأصول من خلال منح الائتمان لواحد أو أكثر من الدائنين.

Average Life

متوسط الأجل

يقصد به قياس مدة الاستثمار بناءً على متوسط طول الفترة الزمنية المطلوبة لاسترداد مبلغ أصل القرض المستثمَر. ويتم احتساب متوسط الأجل بحاصل ضرب كل دفعة لسداد أصل القرض مع الفترة الزمنية المنقضية بين إجراء الاستثمار واستلام مدفوعات سداد أصل القرض ومن ثم يتم تجميع الحاصل ثم قسمته على إجمالي المبلغ المستثمَر. ويَعتمِد متوسط الأجل الفعلي للأوراق المالية المضمونة بالأصول على السعر الذي يتم به سداد أصل قرض الأصول الضامنة، حيث أن الغرض من عمليات سداد الأصول الضامنة هو سداد رصيد أصل قرض الأوراق المالية. ويمكن احتساب متوسط الأجل المتوقع للأوراق المالية بافتراض سعر ثابت أو سعر متغير للسداد مقدماً فيما يتعلق بالأصول الضامنة. ويعدّ متوسط الأجل المتوقع بمثابة أداة نافعة لإجراء المقارنة بين إهلاك دين الأوراق المالية المضمونة بالأصول مع الأوراق المالية الأخرى.

B

B Notes

أذون من الفئة (ب)

الفئة التابعة في هيكل رأس المال الأكبر أو الأصغر.

Balance-Sheet CDO
الالتزام بالدين المضمون وفقا للميزانية العمومية
يقصد به عملية الالتزام بالدين المضمون الذي يقوم فيه الكفيل بتحويل الأصول التي يمتلكها إلى أوراق مالية.

Bankruptcy-Remote
الإفلاس عن بعد
ينطبق هذا المصطلح على الجهة التي ليس من المحتمل أن يكون لديها حافز لبدء إجراءات الإعسار طوعاً، وليس من المحتمل أيضاً أن يبدأ طرف ثالث من الدائنين ببدء إجراءات الإعسار ضدها بشكل لاطوعي.

Base Rate
السعر الأساسي
فيما يتعلق بعملية مديونية بطاقة الائتمان، يعد السعر الأساسي بمثابة مجموع سعر الشهادة مع سعر أتعاب خدمة الدين.

Basis Point (bp)
نقطة الأساس (bp)
يقصد بها جزء من مائة من نسبة واحد بالمائة (أي أن نقطة الأساس الواحدة تعادل 0.01%). وتعد نقطة الأساس بمثابة أصغر مقياس مستخدم لإعطاء معلومات دقيقة عن إيرادات الفواتير والأذون والسندات.

Basis Risk
مخاطرة الأساس
يقصد بها المخاطرة الناجمة عن عدم التوافق بين المؤشر الذي ترتبط به الأصول مع المؤشر الذي ترتبط به الخصوم ذات الصلة. وعلى سبيل المثال، المستثمر الذي تجدول ديونه المستحقة وفقا لسعر الدولار الأمريكي المعروض بين البنوك في لندن (LIBOR) في غضون ثلاثة أشهر، يتحمل مخاطرة الأساس إذا احتفظ بأذون ذات فائدة غير ثابتة وتجدول أسعار الفائدة في سندات الخزينة الأمريكية في غضون ثلاثة أشهر.

Bullet Loan
قرض يسدد دفعة واحدة
يقصد به أصل القرض الذي يسدد بالكامل على دفعة واحدة فقط في موعد الاستحقاق.

C

Callable
واجب الأداء
هذا مصطلح وصفي ينطبق على قروض أو أوراق مالية يمكن سدادها قبل موعدها حسب خيار المقترض.

Capital Adequacy
كفاية رأس المال
يقصد به حاجة الجهة الخاضعة للرقابة (مثل البنك أو مؤسسة التمويل العقاري) إلى الاحتفاظ بالحد الأدنى من رأس المال بما يتناسب مع حجم المخاطرة الناجم عن أصوله. ومن خلال عملية توريق أصوله واستبعادها من الميزانية العمومية دون رجعة، قد تستطيع هذه الجهة تحقيق شرط الإعفاء من رأس المال المطلوب من الجهة الرقابية، حيث لا يعود يُطلب منها أن تحتفظ برأس المال المطلوب من الجهة الرقابية المتعلق بالأصول المحولة إلى أوراق مالية.

Cash Collateral
الضمان النقدي
هو شكل من أشكال التعزيز الائتماني الذي يتضمن الحفاظ على الرصيد الاحتياطي الذي يمكن تسييله في حالة الخسائر الائتمانية والمطالب اللاحقة من قبل المستثمرين.

Cash Collateral Account (CCA)
حساب الضمان النقدي (CCA)
يقصد به الرصيد الاحتياطي الذي يقدم الدعم الائتماني للعملية. ويتم إقراض الأموال في حساب الضمان النقدي إلى المُصدِر من قبل طرف ثالث، مثل البنك الذي يُصدِر خطاب الاعتماد، وفقاً لاتفاق القرض.

Cash Flow Waterfall
قواعد التدفق النقدي
يقصد بها القواعد التي يصبح من خلالها التدفق النقدي المتاح للمُصدِر بعد تغطية كافة المصروفات، مخصصاً لتحصيل الديون المدينة لحملة الفئات المختلفة من الأوراق المالية الصادرة فيما يتعلق بعملية ما.

Cherry-Picking
انتقاء الأصول
يقصد به ممارسة اختيار الأصول من محفظة الأوراق المالية بناءً على معايير محددة؛ وهو عكس العينة المختارة بصورة عشوائية.

Collateral
الضمانات
يقصد بها الأصول التي تمثل قيمة لكل من المقترض والمقرض والتي يقوم المقترض برهنها إلى المقرض فيما يتعلق بالأموال التي تم اقتراضها. ويمكن للمقرض أن يستخدم الأصول المرهونة لتغطية بعض أو كل الأموال التي تم إقراضها إذا فشل المقترض في تحقيق المستوى المتوقع لشروط اتفاق القرض.

Collateral Interest Class
فئة الفائدة على الضمان
يطلق هذا المصطلح على فئة تابعة للأوراق المالية الصادرة فيما يتعلق بسندات مديونية بطاقة الائتمان، التي تقدم تعزيزاً ائتمانياً في الفئات الأعلى من الأوراق المالية الصادرة فيما يتعلق بنفس العملية. وكثيراً ما يتم احتجاز الفائدة على الضمان من قبل كفيل العملية.

Collateralized Debt Obligation (CDO)
التزام الدين المضمون (CDO)
يقصد به الورقة المالية المضمونة بمجموعة من أنواع الدين المختلفة، والتي قد تتضمن سندات الشركة المباعة في أسواق رأس المال، والقروض التي يتم اقتراضها للشركات من قبل المقرضين من المؤسسات وفئات التوريق.

Collateralized Loan Obligation (CLO)
التزام القرض المضمون (CLO)
يقصد به الورقة المالية المضمونة بمجمع القروض التي تقترضها الشركات من قبل المقرضين من المؤسسات، وعادة من البنوك التجارية.

Collateralized Mortgage Obligation (CMO)
التزام الرهن المضمون (CMO)
يقصد به الورقة المالية المضمونة بمجمع القروض المضمونة بالرهن أو بعض مجموعات القروض المضمونة بالرهن العقاري السكني وأوراق الوكالة المالية. وعادة ما تتضمن العملية التي يتم فيها إصدار التزامات الرهن المضمون فئات متعددة من الأوراق المالية بحيث يكون لها تواريخ استحقاق وكوبونات مختلفة.

Combined LTV Ratio
النسبة الموحدة للقرض إلى القيمة
يقصد بها نسبة القرض إلى القيمة التي يتم احتسابها في الأحوال التي يضمن فيها العقار أكثر من قرض مضمون برهن.

Commercial Mortgage-Backed Securities (CMBS)
الأوراق المالية المضمونة برهن تجاري (CMBS)
يقصد بها الأوراق المالية المضمونة بواحدة أو أكثر من مجمعات القروض المضمونة بالرهن. ويتم دعم الأوراق المالية المضمونة برهن تجاري بواحدة أو أكثر من القروض المضمونة بالعقارات التجارية، والتي قد تتضمن مجمعات إسكانية متعددة الأسر ومراكز تسوق، ومجمعات صناعية ومباني إدارية وفنادق.

Commercial Paper (CP)
الأوراق التجارية (CP)
هذه سندات دين قصيرة الأجل. وأغلب الأوراق التجارية يقل تاريخ استحقاقها عن 270 يوماً، إذ تتراوح تواريخ الاستحقاق الأكثر شيوعاً ما بين ثلاثين إلى خمسين يوماً أو أقل.

Commingling Risk
مخاطرة المزج
يقصد بها مخاطرة مزج السيولة الخاصة بالمنشأة ذات الغرض الخاص المُصدِرة مع السيولة الخاصة بطرف ثالث (على سبيل المثال المنشئ أو المحصِّل)، أو وضعها في حساب باسم طرف ثالث بحيث أنها، في حالة إعسار الطرف الثالث أو في حالة إفلاسه، سوف تحول دون تعريف هذه السيولة على نحو منفصل أو تجميد السيولة في حسابات الطرف الثالث.

Conduit
الجهة الوسيطة
يقصد بها الجهة القانونية التي تقوم بشراء الأصول من بائعين متعددين وبتمويل عمليات الشراء إما من خلال عمليات التوريق لأجل أو من خلال إصدار الورقة التجارية المضمونة بالأصول.

Credit Default Swap
مبادلة الائتمان المعيبة
يقصد بمبادلة الائتمان المعيبة العقد الذي يوافق من خلاله بائع الحماية على سداد مبلغ التسوية إلى مشتري الحماية بمجرد حدوث حالات الائتمان المحددة. ومقابل هذه الحماية، يقوم المشتري بسداد قسط للبائع.

Credit Derivatives
مشتقات الائتمان
يتم إعداد أوراق سوق الأوراق المالية لتحويل مخاطرة الائتمان من طرف إلى آخر. وتتضمن هذه الأوراق مبادلات الائتمان المعيبة ومبادلات إجمالي العائدات والأذون المرتبطة بالائتمان.

Credit Enchancement
التعزيز الائتماني
يقصد به السند أو الآلية التي من شأنها أن ترفع جودة الائتمان الخاصة بالتدفق النقدي الذي من المتوقع أن يصدره واحد أو أكثر من الأصول بما يزيد عن جودة الدين الأصلي. ويتم إعداد العناصر في هيكل التوريق لحماية المستثمرين من الخسائر المتكبدة في الأصول الضامنة.

Credit-Linked Note
إذن مرتبط بالائتمان
يقصد به الإذن الذي يعتمد سداده على وقوع أو وجود حالة ائتمانية أو مقياس ائتماني فيما يتعلق بجهة مرجعية أو مجمع للأصول. وعلى سبيل المثال، قد يعتمد السداد وفقاً للإذن المرتبط بالائتمان على مستوى الخسائر في نطاق المجمع المرجعي لمجموعة القروض المضمونة بالرهن التي لا زالت دون نسبة مئوية محددة من رصيد المجمع الأصلي. ونظراً لبقاء الأصول في المجمع المرجعي وفقاً للميزانية العمومية لمنشئ الأصول أو مالكها، قد يرى المنشئ أو المالك إصدار أذون مرتبطة بالائتمان باعتبارها شكلاً من أشكال التأمين ضد خسائر الائتمان المتعلقة بأصول المجمع المرجعي.

Credit Risk
مخاطرة الائتمان
يقصد بها المخاطرة المتمثلة في عدم السداد بالكامل إلى الطرف المقرض أو السداد له بما يقل عن المبلغ المدين أو السداد له في فترة زمنية أطول من الفترة المتفق عليها أصلاً.

Cross-Collateralization
الضمان المشترك
هو أسلوب لتعزيز الحماية المقدمة إلى المقرض من خلال رهن كل عقار من العقارات التي تضمن القرض الفردي باعتباره ضماناً احتياطياً عن كافة القروض التي تم اقتراضها من قبل نفس الجهة المقترضة. ويُنظر في الضمان المشترك عادة فيما يتعلق بالقروض المضمونة بالرهن التجاري.

D

Debt Service Coverage Ratio (DSCR)
نسبة تغطية خدمة الدين (DSCR)
يقصد بها صافي التدفق النقدي السنوي الذي يدره دخل العقار مقسوماً على دفعات خدمة الدين السنوية المطلوبة بموجب شروط القرض المضمون بالرهن (أو القروض المضمونة بالرهن) والتي تم فرضها بغرض تمويل العقار. ويتم التعبير عن نسبة تغطية خدمة الدين باعتبارها "عدد الأضعاف" على سبيل المثال ضعفين (أو 2.0 مرة).

Default
التقصير
يقصد به إخفاق أحد أطراف الاتفاق التعاقدي في الوصول إلى المستوى المتوقع للوفاء بالتزاماته بموجب الاتفاق، وهذا انـتهاك للاتفاق التعاقدي.

Defaulted Receivables
سندات مديونية غير مسددة
يقصد بها السندات التي لا يتم تحصيلها طبقاً لمعايير المحصل.

Delinquency
الإخفاق
يقصد به الإخفاق في الالتزام بسداد الدين في تاريخ الاستحقاق المحدد.

Delinquent Receivables
سندات المديونية المتعسرة
هذه سندات المديونية الخاصة بتأخر المتعهدين بالسداد والتي قد يتم بالتالي شطبها على أساس كونها غير قابلة للتحصيل.

E

Euro Interbank Offered Rate (EURIBOR)
سعر الفائدة بين البنوك الأوروبية (EURIBOR)
يقصد بها سعر الفائدة الذي يعرضه أحد البنوك الأساسية للودائع لأجل بين البنوك باليورو في منطقة اليورو، على بنك أساسي آخر في منطقة اليورو. وتقوم هيئة مؤلفة من ستين بنكاً أوروبياً بتحديد فائدة اليورو بين البنوك. وكما هي الحال بالنسبة للسعر المعروض بين البنوك في لندن LIBOR، هناك أسعار فائدة يورو أوروبية للودائع بالنسبة لتواريخ استحقاق مختلفة.

Event Risk
مخاطر الحوادث
هي المخاطر الكامنة في أن تتغير مقدرة المُصدر على سداد خدمة الدين بسبب تغيرات دراماتيكية غير متوقعة في بيئة السوق، مثل الكوارث الطبيعية والحوادث الصناعية وحدوث تغيير كبير في القواعد التـنظيمية، أو انـتقال السلطة للغير، أو إعادة هيكلة شركة أو مؤسسة. ومثل هذه الأحداث لا يمكن التنبؤ بها باستخدام الوسائل القياسية لتحليل الائـتمان.

Excess Servicing Fee
زيادة أتعاب خدمة الدين
يقصد بها، بالنسبة للتوريق، تحميل جزء من الفائدة على المتعهدين الضامنين والتي لا تكون مطلوبة لتغطية جزء الفائدة الخاص بسداد خدمة الدين أو تقديم رسوم خدمة منتظمة. وهو الفرق بين إجمالي الكوبون ومبلغ صافي الكوبون المدفوع للمستثمرين ورسوم الخدمة.

Expected Maturity
تاريخ الاستحقاق المتوقع
يقصد به التاريخ الذي يُتوقع أن يتم فيه سداد الأوراق المالية بالكامل، بناءً على افتراض محدد بخصوص السعر الذي سيتم فيه سداد الأصول الضامنة.

Extension Risk
مخاطر التمديد
يقصد بها المخاطر بأن متوسط العمر المرجح للورقة المالية سيتم تمديده لأن الضمان الاحتياطي الضامن يسدد ببطء أكثر من المتوقع.

External Credit Enchancement
تعزيز الائتمان الخارجي
هو دعم الائتمان الذي يتم تقديمه للتوريق من قبل طرف ثالث يتمتع بتصنيف ائـتماني مرتفع.

F

Fast Pay
السداد السريع
هو الشرط الوصفي الذي يطبق على ورقة مالية أو هيكلية معاملة، والذي يفرض لضمان سداد أصل القرض على أساس جدول متسارع.

Floating-Rate Notes
أذون ذات فائدة غير ثابتة
يقصد بها نوع من الأوراق المالية الذي يمتاز بعدم ثبات الفائدة، ولكن لديه عادة هامش فوق مؤشر السوق.

Foreclose
حبس الرهن
يقصد به الإجراءات القانونية التي تتخذ ضد المدين الذي يمتلك عقاراً تم رهنه كضمان لقرض. وفي حالة حبس الرهن يسعى المقرض للحصول على حق بيع العقار واستخدام عائدات البيع لسداد كافة المبالغ المستحقة على المدين بخصوص القرض.

Foreclosure
حبس الرهن
يقصد به إجراء يتم داخل أو خارج المحكمة من جانب المقرض الذي يحمل رهناً على عقار. والغرض من هذا الإجراء هو السعي لتمكين المقرض من بيع العقار واستخدام عائدات البيع من أجل تسديد كافة المبالغ المستحقة على المالك بخصوص القرض ذي الصلة.

G

Gearing
التعديل
هذا مصطلح محاسبيّ يستخدم في تعريف نسبة الدين لحصة السهم في شركة ما. ومن المعتاد أن يتّم تعديل المؤسسات ذات الغرض الخاص بنسبة أعلى من نسبة الشركات التشغيلية.

Guaranteed Investment Contract (GIC)
عقد استثمار مضمون (GIC)
يقصد به حساب إيداع تقدمه مؤسسة مالية تضمن حداً أدنى لنسبة الربح/ الإيراد العائد. وهذه العقود تخفف من مخاطر تقلبات سعر الفائدة.

H

Hedging
التغطية الوقائية
مصطلح عام يستخدم للإشارة إلى الإستراتيجيات المتبناة لتعويض مخاطر الاستثمار. ومن أمثلة التغطية الوقائية استخدام السندات المشتقة (من الأوراق المالية الأصلية) للحماية من مخاطر تقلبات سعر الفائدة أو العملة وكذلك الاستثمار في الأصول التي يتوقع أن ترتفع قيمتها أسرع من التضخم للحماية ضد التضخم.

I

Interest Rate Swap
تبادل سعر الفائدة
عبارة عن اتفاق ملزم بين طرفين لتبادل مدفوعات الفائدة الدورية بخصوص مبلغ قرض محدد مسبقاً، والذي يشار إليه كمبلغ وهمي. ومن المعتاد أن يقوم أحد الطرفين بدفع الفائدة بسعر ثابت ويستلم الفائدة بسعر متغير، والعكس يطبق على الطرف الآخر.

Internal Credit Enhancement
تعزيز الائتمان الداخلي
قصد به الآلية أو الآليات الهيكلية التي يتم إدخالها في نظام التوريق لتحسين جودة الائتمان للفئات العليا للأوراق المالية التي يتم إصدارها فيما يخص الصفقة، والتي تعتمد عادة على تشغيل التدفق النقدي للأصول بطرق تحمي تلك الأوراق المالية من التعرض للنقائص.

Investment Grade
درجة الاستثمار
فيما يتعلق بتصنيفات مؤسسة ستاندرد أند بورز، يقصد بها تصنيف الائـتمان طويل الأجل لمركز العميل بدرجة "-BBB" أو أعلى.

Issue Credit Rating
تصنيف ائـتمانية الالتزامات المالية
يقصد به رأي مؤسسة ستاندرد أند بورز حول الأهلية الائتمانية لمتعهد بخصوص التزام مالي، أو بخصوص فئة محددة من الالتزامات المالية، أو برنامج مالي محدد (بما في ذلك برامج الأوراق متوسطة الأجل وبرامج الأوراق التجارية). ويأخذ تصنيف مركز العميل في الاعتبار الأهلية الائتمانية للضامنين أو شركات التأمين أو الوسائل الأخرى لدعم الائتمان، وكذلك العملة التي يتم بها تحديد فئة الالتزام أو الالتزامات.

Issuer
المُصدر
يقصد به الطرف الذي أعطى التفويض بإنشاء وبيع الأوراق المالية للمستثمرين. وفي حالة التوريق، يقوم المُصدر مقام منشأة ذات غرض خاص في بلد يوفر نظاماً قانونياً مؤاتياً فيما يتعلق بالقدرة على تحقيق حالة الإفلاس عن بُعد للمُصدر، وترتيبات الضمان التي يتم تقديمها للمستثمرين، ويوفر المعاملة الضريبية المؤاتية. ومن البلدان المشهورة التي تُستخدم في تأسيس المنشآت ذات الغرض الخاص إنجلترا (بالنسبة للصفقات في المملكة المتحدة) وإيطاليا (بالنسبة للصفقات التي تخضع للقانون الإيطالي رقم 130) وإيرلندا، وهولندا، واللوكسمبورغ، وجزيرة جيرسي، وجزر الكايمان، وولاية ديلاوير في الولايات المتحدة الأمريكية (بالنسبة لآليات إصدار الأوراق التجارية).

Issuer Credit Rating (ICR)
تصنيف ائـتمانية المُصدر (ICR)
يقصد به رأي مؤسسة ستاندرد أند بورز بخصوص المقدرة المالية الإجمالية للمتعهد على سداد التزاماته المالية، وبشكل أساسي الرأي حول الأهلية الائتمانية للمتعهد. ويركز تصنيف ائـتمانية المُصدر على مقدرة المتعهد العامة واستعداده للوفاء بالتزاماته المالية عند موعد استحقاقها. وهو لا ينطبق على أي التزام مالي معين، لأنه لا يأخذ بالحسبان المخصصات لالتزامات معينة، أو الوضع الذي قد تكون فيه الالتزامات المعينة عند حصول إفلاس أو تصفية للمتعهد في المستقبل، أو التفضيلات القانونية المطبقة على الالتزامات المعينة، أو شرعية الالتزامات المعينة وإمكانية إنفاذها. وفضلاً عن ذلك، فإن تصنيف ائـتمانية المُصدر لا يضع في الحسبان الأهلية الائتمانية للضامنين أو شركات التأمين أو الوسائل الأخرى لدعم الائتمان، التي يمكن أن تكون متاحة بخصوص التزام معين.

J

Jumbo Mortgage Loan
قرض كبير مضمون برهن
يقصد به قرض مضمون برهن عقاري من الدرجة الأولى يتوافق عادة مع توجيهات الائتمان التقليدية من فئة مهم" prime" ولكن برصيد يزيد عن الحد الأقصى المسموح به بموجب البرامج التي ترعاها مؤسسة جيني ماي وهيئة فاني ماي ومؤسسة فريدي ماك.

L

Legal Final Maturity
موعد الاستحقاق القانوني النهائي
يقصد به التاريخ الذي يستحق فيه سداد الرصيد الأساسي للأوراق المالية. وعند تحليل تصنيفاتها بالنسبة للتوريق، تفترض مؤسسة ستاندرد أند بورز أن السداد بحلول موعد الاستحقاق القانوني النهائي يتم القيام به باستخدام التحصيلات الرئيسية المجدولة فقط بخصوص الأصول الضامنة.

Letter of Credit (LOC)
خطاب اعتماد (LOC)
هو اتفاق بين أحد البنوك وطرف آخر يوافق البنك بموجبه على جعل الأموال متاحة للطرف الآخر أو بناء على طلب منه، عند استلام الإخطار بذلك.

Liquidity Facility
تسهيلات السيولة
يقصد بها التسهيلات، مثل خطاب الاعتماد، التي تُستخدم لتعزيز سيولة الأصول التي تم تحويلها إلى أوراق مالية (ولكن ليس من أجل الأهلية الائتمانية).

Liquidity Risk
مخاطر السيولة
يقصد بها مخاطر وجود عدد محدود من المشترين الذين يرغبون في شراء أصل، وهو عادة أصل مالي، إذا رغب المالك الحالي للأصل، أو متى يرغب، في بيعه.

Loan-to-Value (LTV) Ratio
نسبة القرض إلى القيمة (LTV)
يقصد بها رصيد القرض المضمون برهن إما مقسوماً على قيمة العقار الذي يموله القرض أو مقسوماً على السعر الذي يدفعه المقترض من أجل اقتناء العقار. وتعدّ نسبة القرض إلى القيمة مقياساً لكمية الحصة التي يمتلكها المقترض من الأصل الذي يضمن القرض. وكلما زادت نسبة القرض إلى القيمة، كلما قلت حصة المقترض المعرضة للمخاطر، وقلت الحماية المتاحة للمقرض بسبب ترتيب الضمان.

London Interbank Offered Rate (LIBOR)
السعر المعروض بين البنوك في لندن (ليبور LIBOR)
يقصد به سعر الفائدة الذي تتبادله البنوك الدولية الكبيرة فيما بينها في لندن عند اقتراض الأموال. وهناك أسعار ليبور للإيداعات تتفاوت مع اختلاف مواعيد الاستحقاق.

Loss Curve
منحنى الخسارة
بخصوص نموذج القروض أو الحسابات المدينة، يقصد بمنحنى الخسارة الرسم البياني لنمط الخسائر المتكبدة على مدار الزمن، بالاعتماد على الرسم البياني للديون المتأخرة أو الخسائر التي تقع أثناء فترة كل القروض أو الحسابات المدينة الموجودة في النموذج.

M

Master Servicer
المحصل القائد
في حالة القروض المضمونة برهن عقاري، المحصل القائد هو الذي يحصّل القروض ويكون مسؤولاً عن الإشراف على أنشطة المحصلين الأوليين. ويشمل الإشراف على الوظائف ما يلي: (1) تعقب حركة الأموال بين حسابات المحصل القائد والمحصلين الأوليين؛ (2) مراقبة إعداد وتسليم تقارير التحصيل وتحويل النقد بصفة شهرية من قبل المحصلين الأوليين؛ (3) مراقبة عمليات التحصيل وعمليات حبس الرهن وأنشطة العقارات المملوكة REO للمحصلين الأوليين؛ (4) إعداد مجموعات التقارير بخصوص عمليات التحصيل؛ (5) توزيع الأموال على أمناء الاستثمار أو مباشرة على المستثمرين؛ (6) التمتع بصلاحية استبدال أو عزل المحصل الأولي. وفي حالة القروض المضمونة برهن تجاري، يكون المحصل القائد مسؤولاً عن تحصيل القروض المضمونة برهن تجاري.

Master Trust
أمانة الاستثمار الرئيسية
هي عبارة عن منشأة ذات غرض خاص SPE تصدر مجموعات متعددة من الأوراق المالية المدعومة بمجمع منفرد من الأصول، بحيث يتم إنتاج التدفق المالي بواسطة الأصول التي تخصَّص بين المجموعات طبقاً لصيغة يتم تحديدها مسبقاً.

Medium-Term Note (MTN)
إذن متوسط الأجل (MTN)
يقصد به سند دين للشركة يقوم وكيل المُصدر بعرضه باستمرار على مدار فترة زمنية. ويمكن أن يختار المستثمرون من مجموعة تواريخ استحقاق الديون على أن تتراوح ما بين تسعة أشهر إلى سنة، أو بين ما يزيد على سنة إلى ثمانية عشر شهراً، أو بين ما يزيد على ثمانية عشر شهراً إلى سنتين، وهلمّ جرا حتى تصل إلى ثلاثين سنة.

Mortgage-Backed Securities (MBS)
الأوراق المالية المدعومة برهن عقاري (MBS)
هذه تشمل كافة الأوراق المالية التي يتكون ضمان السداد الخاص بها من قرض مضمون أو مجمع قروض مضمونة برهن عقاري أو رهونات عقارية. ويستلم المستثمرون مدفوعات الفائدة وأصل القرض المشتقة من المدفوعات المستلمة عن القروض المضمونة بالرهن العقاري الضامن.

N

Negative Amortization
الإهلاك السلبي
يقصد به الإضافة للرصيد الرئيسي لأحد القروض على أساس أن المبلغ الذي يدفعه المقترض بصفة دورية هو أقل من المبلغ المطلوب لتغطية مبلغ الفائدة المستحقة.

Non-Performing
القروض الغير العاملة
عبارة تستخدم لوصف قرض أو سند مديونية آخر عندما يفشل المتعهد في سداد ثلاث مدفوعات مقرّرة على الأقل بخصوص القرض أو سند المديونية المذكورين.

Notional Amount
المبلغ الوهمي
يقصد به رصيد القرض الذي يستعمل كأساس لاحتساب الفائدة المستحقة بخصوص التزام بعدم وجود أصل قرض أو وجود أصل قرض لا يكون الرصيد المستخدم لاحتساب الفائدة.

O

Obligor
المتعهد
يقصد به الطرف الذي وافق على أن يتولى بعض المسؤوليات بموجب شروط الاتفاق التعاقدي بين هذا الطرف وأطراف أخرى. وفي أغلب الأحيان، تشمل الأعمال التي يتولاها المتعهد أن يقوم بسداد المدفوعات للأطراف الأخرى. ويستخدم مصطلح "المتعهدين" في سياق عمليات التوريق للإشارة إلى الأطراف التي تقوم بسداد المدفوعات عن الأصول التي يتم توريقها. وتعد تلك المدفوعات مصدر التدفقات النقدية التي يتم السداد منها للمستثمرين.

Offering Circular
نشرة عرض الأوراق المالية
يقصد بها وثيقة إفشاء تستخدم في تسويق إصدار جديد للأوراق المالية للمستثمرين المحتملين. وتصف هذه النشرة الصفقة ذات الصلة، بما في ذلك خصائص كل فئة من الأوراق المالية التي سيتم إصدارها (مثل أساس مدفوعات الفائدة، والتصنيف الائتماني، ومعدل العمر المتوقع، والأولوية بخصوص الفئات الأخرى). وفي حالة التوريق، توفر نشرة عرض الأوراق المالية معلومات بخصوص الأصول الضامنة، بما فيها نوع الأصول وجودة الائتمان الخاصة بها. ومن المعتاد أن يقوم المدير القائد لإصدار الأوراق المالية كما يقوم مستشاروه القانونيون بإعداد نشرة عرض الأوراق المالية.

Origination
إنشاء القروض
يقصد بها عملية تقديم القروض.

Originator
مقدم القروض
يقصد به المؤسسة التي تموّل وتقدم القروض؛ وتكون الالتزامات التي تنشأ بخصوص تلك القروض مستحقة في الأصل إلى هذه المؤسسة قبل تحويلها إلى المنشأة ذات الغرض الخاص.

Over-Collateralization
إفراط الضمان الاحتياطي
يقصد به هيكل رأس المال الذي تزيد فيه الأصول عن المطلوبات. ويستخدم إفراط الضمان الاحتياطي كصيغة لتعزيز الائتمان في الصفقات المدعومة بأصول معينة. وعلى سبيل المثال، يمكن ضمان إصدار 75 مليون جنيه إسترليني من الأوراق المالية العلياعن طريق مجمع من الأصول التي تصل قيمتها إلى 100 مليون جنيه إسترليني، وفي تلك الحالة تصل قيمة إفراط الضمان الاحتياطي إلى 25%.

P

Performing
القروض العاملة
يقصد به قرض أو حساب مدين آخر يكون المقترض بشأنه قد قام بسداد كافة الدفعات الأساسية والفائدة التي تكون مطلوبة بموجب شروط القرض أو الحساب المدين.

"Pfandbriefe"
سند الرهن Pfandbriefe
يقصد به سند الدين الذي تصدره بنوك الرهن الألمانية والمؤسسات المالية الألمانية الأخرى. ويوجد نوعان من سندات الرهن وهما: "سند الرهن العقاري" الذي تستخدمه البنوك في تمويل أنشطة الإقراض الخاصة بها، والنوع الثاني هو "سند الرهن العام" الذي تستخدمه البنوك في تمويل إقراضها لهيئات ومؤسسات القطاع العام.

Pool Factor
عامل المجمع المالي
يقصد به النسبة المئوية لإجمالي الرصيد الرئيسي لمجمع الأصول التي تظل مستحقة في تاريخ معين.

Portfolio Manager
مدير محفظة الاستثمارات
يقصد به فرد أو مؤسسة تدير محفظة الاستثمارات؛ ويسمى أيضاً "مدير الأموال".

Premium
العلاوة
يقصد بها مبلغ يُدفع فوق السعر العادي المدفوع عن أحد الأصول، وهو عادة بمثابة حافز أو دافع تشجيعي؛ وهو مبلغ يزيد عن القيمة الاسمية للورقة المالية.

Prepayment Rate
معدل السداد مقدماً

يقصد به معدل الدفع الذي يتم عنده الإبلاغ عن سداد القروض العقارية وسندات المديونية الأخرى في دفعات متفرقة، ويعبر عنه بنسبة مئوية من أصل القرض المتبقي للمجمع المالي. وفي معظم الأحيان، تعد معدلات السداد مقدماً حساسة بالنسبة لأسعار الفائدة في السوق.

Prepayment Risk
مخاطر السداد مقدماً

يقصد بها مخاطر تأثر ربع الاستثمار سلبياً إذا تم سداد كل أو بعض المبلغ الرئيسي المستثمر قبل الموعد المقرر أو أسرع مما هو متوقع. وبوجه عام، يمكن أن تشمل مخاطر السداد مقدماً خطر التمديد الذي يتعلق بسداد المبلغ الأساسي بشكل أبطأ مما هو متوقع.

Primary Market
السوق الأولية

يقصد بها السوق التي يتم فيها بيع الأصول من قبل الجهة التي قامت بإنشاء تلك الأصول.

Primary Servicer
المحصل الأولي

فيما يخص القرض المضمون برهن عقار سكني، يقصد به الجهة التي تتولى المسؤولية الأساسية لتحصيل الدفعات الشهرية من المقترض، ودفع الأموال إلى صاحب القرض أو من ينوب عنه، والاحتفاظ بالحسابات المشروطة الخاصة بالضرائب والتأمين، ومتابعة الدفعات المتأخرة، وبذل الجهود المتعلقة بتخفيف حدة الخسائر، والبدء في اتخاذ إجراءات حبس الرهونات كلما لزم الأمر، والتصرف في الممتلكات المرهونة بعد حبس الرهونات، وتقديم تقارير دورية عن حالة القرض إلى صاحب القرض أو من ينوب عنه.

Protection Buyer
مشتري الحماية

في عمليات مالية مثل مبادلات الائتمان المعيبة، يقصد به الطرف الذي يقوم بتحويل الخطر الائتماني المرتبط بأصول معينة إلى طرف آخر مقابل سداد الأموال التي تعد قسطاً يتم دفعه مسبقاً.

Protection Seller
بائع الحماية

في عمليات مالية مثل مبادلات الائتمان المعيبة، يقصد به الطرف الذي يقبل الخطر الائتماني المرتبط بأصول معينة. ويقوم بائع الحماية بسداد دفعات الحماية الائتمانية إلى مشتري الحماية، إلى الدرجة التي يتم بها تحمل خسارة في الأصول تزيد عن مبلغ معين.

R

Rated Securities
الأوراق المالية المصنفة

يقصد بها الأوراق المالية التي يتم تحديد التصنيف الائتماني الخاص بها من قبل وكالة متخصصة بالتصنيف.

Receivables
حسابات مديونية

مصطلح عام يشير إلى التدفقات النقدية المرتبطة بأصل القرض وبالفائدة، والتي تتحقق من خلال أحد الأصول بحيث تكون واجبة السداد (وتكون بالتالي حسابات مديونية) إلى مالك ذلك الأصل.

Reinvestment Risk
مخاطر إعادة الاستثمار

يقصد بها المخاطر بأن يتأثر العائد على الاستثمار بشكل سلبي إذا كان سعر الفائدة الذي يمكن به إعادة استثمار التدفقات النقدية المؤقتة أقل من المتوقع.

Reserve Account
حساب الاحتياطي

هو حساب ممول متاح للاستخدام من قبل منشأة ذات غرض خاص لغرض معين أو أكثر. وغالباً ما يتم استخدام حساب الاحتياطي كشكل من أشكال التعزيز الائتماني. وتعرف أيضا بعض حسابات الاحتياطي باسم "حسابات هامش الربح". وعملياً، يتم تمويل كافة حسابات الاحتياطي جزئياً على الأقل في بداية التعاملات المالية ذات الصلة، ولكن يتم تصميم العديد منها بحيث تزيد بمرور الوقت باستخدام التدفقات النقدية الزائدة المتاحة بعد سداد الدفعات للمستثمرين.

Residential Mortgage-Backed Securities (RMBS)
الأوراق المالية المضمونة برهن عقار سكني (RMBS)

تعد هذه الشكل الأساسي الأول لعملية التوريق. وتتضمن هذه الأوراق المالية إصدار دين يتم ضمانه من خلال مجمع متجانس من قروض الرهونات التي تم ضمانها بموجب ممتلكات عقارية سكنية.

Revolving Period
فترة متجددة

يقصد بها الفترة التي يجوز خلالها إضافة قروض جديدة أو سندات مديونية أخرى إلى مجمع الأصول الخاص بعملية تجارية متجددة.

Risk-Weighting
ترجيح المخاطر

هي عملية تصنيف الأصول على أساس درجة المخاطر التي تستتبعها.

S

Scheduled Interest
الفائدة المقرّرة

هي مبلغ الفائدة مستحقة الدفع في نهاية الفترة الحالية.

Scheduled Principal
أصل القرض المقرّر

هو مبلغ أصل القرض المقرّر أن يتم سداده في نهاية الفترة الحالية.

"Schuldschein" or "Schuldscheindarlehen"
القروض الألمانية المدعومة بسند دين (Schuldschein)

هي القروض التي تتم في السوق الألمانية المحلية والتي يتم إقرارها بسند دين.

Seasoning
عمر الأصول

هو مصطلح يستخدم للإشارة إلى عمر الأصول التي يتم تحويلها إلى أوراق مالية؛ وهو يعد مفيداً كإشارة إلى المدة التي يستغرقها المتعهد في سداد الدفعات المستحقة وفي أداء التزاماته الأخرى فيما يخص الأصول قبل تحويلها إلى أوراق مالية.

Secondary Market
السوق الثانوية

يقصد بها سوق تتم فيها إعادة المتاجرة بالأوراق المالية الحالية (بعكس السوق الأولية التي يتم فيها بيع الأصول أولاً من قبل الجهة التي قامت بإنشاء تلك الأصول)؛ ومن المعتاد أن تتم المتاجرة بتلك الأوراق المالية بين المستثمرين من خلال وسيط، مثل بورصة منظمة كبورصة نيويورك NYSE وبورصة اميكس Amex وبورصة نازداك Nasdaq.

Securities and Exchange Commission (SEC)
هيئة الأسواق والأوراق المالية (SEC)

هي وكالة تابعة للحكومة الأمريكية ومفوضة بإصدار قواعد تنظيمية وتطبيق أحكام قوانين الأوراق المالية الفيدرالية ولوائحها، بما فيها اللوائح التي تحكم الإفصاح عن المعلومات التي يتم تقديمها فيما يتعلق بعرض الأوراق المالية للبيع إلى الجمهور؛ وهي أيضا مسؤولة عن تنظيم المتاجرة بتلك الأوراق المالية.

Securitization
عملية التوريق

يقصد بها إصدار الأوراق المالية مدعومة بأصول معينة.

Security
الورقة المالية

يقصد بها الأصول التي تعد ذات قيمة بالنسبة لكل من المقترض والمقرض والتي يرهنها المقترض للمقرض من أجل ضمان وفاء المقترض بالتزاماته بموجب اتفاق القرض المبرم بينهما. ويحق للمقرض استخدام الأصول لاسترداد كل أو بعض الأموال التي يدين بها المقترض في حال إخفاق المقترض في السداد.

Senior/Junior
الدرجة الأولى/ الثانية

هو هيكل شائع لعمليات التوريق يوفر تعزيزاً ائتمانياً لفئة واحدة أو أكثر من الأوراق المالية من خلال تصنيفها إلى فئات من الدرجة الأولى وأخرى من الدرجة الثانية. وبوجود تلك العلاقة بين تلك الفئات، يطلق على الفئات من الدرجة الأولى في أغلب الأحيان اسم "الأذون من الفئة أ" أما الفئات من الدرجة الثانية (أو التابعة) فيطلق عليها "الأذون من الفئة ب".

Servicer
المحصِّل

يقصد به المؤسسة المسؤولة عن تحصيل الدفعات الخاصة بالقروض من مختلف المقترضين وعن تحويل إجمالي المبالغ التي يتم استلامها إلى صاحب أو أصحاب القروض.

Special-Purpose Entity (SPE)
منشأة ذات غرض خاص (SPE)

يقصد بها منشأة ذات غرض خاص بعيدة عن خطر الإفلاس (سواء في شكل هيئة أو مؤسسة أو شركة توصية أو شركة ائتمانية أو شركة ذات مسؤولية محدودة أو أي شكل آخر) بحيث تفي بمعايير الغرض الخاص المأخوذة بعين الاعتبار من طرف مؤسسة ستاندرد أند بورز.

Sponsor
الضامن

يقصد به الجهة التي تضمن عملية التوريق، إما لأنها هي منشئ الأصول التي يتم تحويلها إلى أوراق مالية أو لأنها كانت تملك تلك الأصول مباشرة قبل تحويلها إلى أوراق مالية.

Stress Testing
اختبار الإجهاد

يقصد به الإجراء المستخدم من قبل مؤسسة ستاندرد أند بورز Standard & Poor's لتقييم ما إذا كانت الأصول التي سوف تشكل ضماناً احتياطياً لعملية التوريق يرجّح أن ينتج عنها تدفقات نقدية كافية تحت ضغط سيناريوهات اقتصادية مختلفة لسداد الدفعات المستحقة عن أصل القرض والفائدة الخاصة بالأوراق المالية ذات الصلة. وتتضمن السيناريوهات بوجه عام سيناريو "أسوأ حالة" وهي تقدم إشارة إلى ما إذا كان الهيكل المقترح للتعزيز الائتماني ومستواه كافيين لتحقيق تصنيف ائتماني معين لبعض أو لكل فئات الأوراق المالية المختلفة التي تم إصدارها فيما يختص بالعملية/ الصفقة المالية. (يرجى الرجوع أيضاً إلى متوسط تكرار حبس الرهونات المرجح WAFF ومتوسط خطورة الخسائر المرجح WALS).

Structured Finance
التمويل المنظم

هو نوع من التمويل الذي يفترض أن تعتمد جودة ائتمان الدين فيه على ضمان مباشر من جهة ذات أهلية ائتمانية أو على جودة ائتمان الأصول الخاصة بالمدين، سواء بتعزيز ائتماني أو بدونه، وليس بالاعتماد على المقدرة المالية للمدين نفسه.

Structured Investment Vehicle (SIV)
أداة الاستثمار المنظم (SIV)

هو نوع من المنشآت ذات الغرض الخاص SPE التي تقوم بتمويل شراء أصولها والتي تتضمن في المقام الأول أوراقاً مالية ذات تصنيف مرتفع، من خلال إصدار أوراق تجارية CP وأذون متوسطة الأجل MTN. وفي حال حصول إخفاق/ قصور من أداة الاستثمار المنظم، قد يتوجب تصفية مجمع الأصول الخاص بها؛ وبالتالي، فإن تصنيف مؤسسة ستاندرد أند بورز لإحدى أدوات الاستثمار المنظم يبيّن المخاطر المرتبطة بالتدهور الائتماني المحتمل في المحفظة الاستثمارية وكذلك مخاطر القيمة السوقية المرتبطة ببيع الأصول.

Subordinated Class
فئة تابعة

هي فئة من الأوراق المالية تكون الحقوق المرتبطة بها تابعة للحقوق المرتبطة بفئات أخرى من الأوراق المالية الصادرة فيما يتعلق بنفس العملية/ الصفقة. ومن المعتاد أن ترتبط التبعية بحقوق حاملي الأوراق المالية في استلام دفعات خدمة الدين الموعودة، ولاسيما في الظروف التي لا تتوفر فيها تدفقات نقدية كافية لسداد المبالغ الموعودة إلى حاملي الأوراق المالية من كافة الفئات، ولكن يمكن أن تتعلق أيضاً بحق حامل الإذن/ السند في التصويت على المسائل المرتبطة لتشغيل العملية/ الصفقة.

Subordinated Debt
دين تابع

هو الدين الذي يتم تصنيفه بأنه أدنى درجة من دين آخر. ومن المعتاد أن يتم سداد الدين التابع بعد سداد المبالغ المستحقة حالياً (أو المستحقة سابقاً) إلى أصحاب الدين من الدرجة الأولى قبل سداد المبالغ المستحقة حاليا (أو المستحقة سابقاً) إلى أصحاب الدين التابع.

Subprime Mortgage Loan
قرض برهن عقاري أقل من الممتاز

هو قرض مضمون برهن عقار سكني من الدرجة الأولى أو الثانية يتم تقديمه إلى مقترض له سجل سابق في التأخر في السداد أو في التعرض لمشاكل ائتمانية أخرى.

Swap
المبادلة

هو اتفاق يتفق فيه طرفان متماثلان على مبادلة تيار تدفقات نقدية بتيار آخر. ويمكن أن يتضمن ذلك مبادلات سعر الفائدة أو مبادلات العملة أو مبادلات لتغيير مواعيد الاستحقاق أو العوائد الخاصة بمحفظة سندات استثمارية.

Synthetic Securities
الأوراق المالية التركيبية

هي الأوراق المالية المصممة لتعديل التدفقات النقدية التي تحققها الأوراق المالية للأصول الضامنة والتي يعتمد تصنيفها في المقام الأول على الأهلية الائتمانية للأوراق المالية للأصول والعملة أو على مبادلات سعر الفائدة أو على اتفاقات أخرى مماثلة.

Synthetic CDO
التزام الدين المضمون التركيبي

هي عملية/ صفقة خاصة بالتزام الدين المضمون CDO يتم فيها إنفاذ تحويل المخاطر من خلال استخدام المشتقات الائتمانية، بعكس عملية بيع حقيقية للأصول.

T

Trigger Event
حدث مؤثر

فيما يخص عملية التوريق، يقصد به وقوع حدث يشير إلى تدهور الحالة المالية للمُصدِر أو لطرف آخر مرتبط بالعملية/ الصفقة. وعادة يتم تعريف هذه الأحداث في وثائق العملية/ الصفقة وكذلك التغييرات في هيكلية العملية/ الصفقة و/ أو أولوية المدفوعات التي يتم التكليف بإجرائها عقب وقوع ذلك الحدث.

True Sale Opinion
رأي عن عملية بيع حقيقية

فيما يخص عملية التوريق، يقصد به رأي مستشار قانوني بأن الأصول التي يتم تحويلها إلى أوراق مالية قد تم تحويل ملكيتها من المنشئ إلى المنشأة المُصدِرة ذات الغرض الخاص وبأسلوب يعد متقابلاً مع المنشئ ومع أي من الدائنين التابعين للمنشئ وأي مسؤول إفلاس تابع للمنشئ، وأن الأصول التي تم تحويل ملكيتها لن تشكل جزءاً من تركة الإفلاس الخاصة بالمنشئ أو تخضع لأي أحكام سارية فيما يتعلق بإرجاء تلقائي أو قرار بتأجيل دفع الديون المستحقة.

W

Weighted-Average Coupon (WAC)
متوسط سعر الكوبون المرجح (WAC)

يقصد به "متوسط" سعر الفائدة بالنسبة لمجموعة من القروض أو الأوراق المالية، ويتم احتسابه من خلال ضرب سعر الكوبون المطبق على كل قرض أو ورقة مالية في المجموعة، مع الكسر الذي يكون البسط فيه هو الرصيد القائم لأصل القرض ذي الصلة أو الورقة المالية ذات الصلة، ويكون المقام فيه هو الرصيد القائم لأصل كامل مجموعة القروض أو الأوراق المالية.

Weighted-Average Foreclosure Frequency (WAFF)
متوسط تكرار حبس الرهونات المرجح (WAFF)

يقصد به النسبة المئوية المقدرة للأصول في مجمع التوريق، والتي يتم الإخفاق في سدادها بموجب سيناريو اقتصادي مصمم لاختبار ما إذا كانت التدفقات النقدية المتوقع تحقيقها من خلال المجمع، بالإضافة إلى التعزيز الائتماني المتاح، كافية لسداد كافة الأوراق المالية التي تم تصنيفها بفئة معينة أو أعلى. ويستخدم متوسط تكرار حبس الرهونات المرجح WAFF جنباً إلى جنب مع متوسط شدة الخسائر المرجح WALS لتحديد المستوى المتوقع للخسائر في فئات تصنيف مختلفة.

Weighted-Average Loss Severity (WALS)
متوسط شدة الخسائر المرجح (WALS)

يقصد به متوسط الخسارة المتوقع حدوثها في حال الإخفاق في سداد قيمة أي من الأصول في مجمع التوريق، ويتم التعبير عنه بنسبة مئوية من رصيد الأصل القائم اعتباراً من تاريخ الإخفاق في السداد. ويتم بيان الخسارة المتوقعة بناءً على افتراضات بخصوص الانخفاض المحتمل في القيمة السوقية للضمان الاحتياطي الذي قد يضمن الأصل. كما يتم استخدام متوسط شدة الخسائر المرجح WALS جنباً إلى جنب مع متوسط تكرار حبس الرهونات المرجح WAFF لتحديد المستوى المتوقع للخسائر في فئات تصنيف مختلفة.

Whole Business Securitization
عملية توريق لمؤسسة تجارية بالكامل

عملية التوريق للشركة أو للمؤسسة التجارية بالكامل تشير إلى إصدار سندات مضمونة بالمخزون و/ أو بالأصول المنتجة لتدفقات نقدية لدى شركة ما. وفي حال المباشرة بإجراءات إشهار إفلاس الشركة أو إعسارها، يجوز عزل الضمان قانونياً لصالح حاملي الأذون/ السندات ويمكن إدارته من قبل مشغل احتياطي، وبالتالي تمديد قدرة الضمان على إنتاج تدفقات نقدية لصالح حاملي الأذون/ السندات. وعند إجراء عمليات تعزيز كافية لهيكلية الدين الذي يتم تحويله إلى أوراق مالية، يمكن أن تحقق عملية التوريق تصنيفاً أعلى وفترة أطول للدين (الذي يتم تحويله إلى أوراق مالية) من الدين المضمون أو غير المضمون لإحدى الشركات.

Global Islamic Bond League Table by Issuer

Full Year 2007							
	Issuer	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Binariang GSM	Malaysia	Sukuk Musharakah	4,509	9	12.4	CIMB, RHB, Aseambankers, ABN Amro, AmInvestment, OCBC
2	Malaysia	Malaysia	Sukuk	2,863	3	7.9	Malaysian Government bond
3	Aldar Funding	UAE	Exchangeable Sukuk Mudarabah	2,530	1	6.9	Barclays Capital, Credit Suisse Securities (Europe), National Bank of Abu Dhabi
4	Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	2,133	1	5.9	HSBC Saudi Arabia, Riyad Bank
5	JAFZ Sukuk	UAE	Sukuk	2,043	1	5.6	Barclays Capital, Deutsche Bank (London), Dubai Islamic Bank, Lehman Brothers International
6	Nucleus Avenue (M)	Malaysia	Sukuk Musharakah MTN	1,994	9	5.5	CIMB
7	DP World Sukuk	UAE	Sukuk Mudarabah	1,496	1	4.1	Barclays Capital, Citigroup Global Markets, Deutsche Bank, Lehman Brothers
8	Saudi Electricity	UAE	Sukuk	1,333	1	3.7	HSBC Saudi Arabia
9	Dubai Sukuk Center	UAE	Sukuk Mudarabah	1,248	1	3.4	Deutsche Bank, Goldman Sachs International
10	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	1,067	10	2.9	CIMB
11	Dana Gas Sukuk	UAE	Sukuk Mudarabah	1,000	1	2.7	JP Morgan
12	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk Ijarah	1,000	1	2.7	ABC Islamic, Arab National, Deutsche Bank, Dubai Islamic Bank, Gulf International Bank, Kuwait Finance House, Unicorn Investment
13	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	2.3	Deutsche Bank (Malaysia), JP Morgan, CIMB
14	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	2.3	Citigroup, CIMB
15	Nakheel Development 2	UAE	Sukuk Ijarah	750	2	2.1	JP Morgan
16	DIB Sukuk	UAE	Sukuk Musharakah	750	1	2.1	Barclays Capital, Citigroup Global Markets, Standard Chartered Bank
17	Cagamas	Malaysia	Bithaman Ajil Islamic Securities/Mudarabah MTN	668	10	1.8	Cagamas, Aseambankers, HSBC, CIMB
18	Golden Belt 1 Sukuk	Saudi Arabia	Sukuk Manafaa	650	1	1.8	BNP Paribas
19	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Residential Mortgage Backed Securities	620	7	1.7	Standard Chartered, National Bank of Pakistan
20	DAAR International Sukuk	Saudi Arabia	Sukuk Ijarah	600	1	1.6	ABC Islamic Bank, Arab National Bank, Standard Bank, Unicorn Investment Bank, WestLB
	Total of issues used in the table			**36,452**	**300**	**100.0**	

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Southeast Asian Islamic Bond League Table by Issuer

Full Year 2007

	Issuer	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Binariang GSM	Malaysia	Sukuk Musharakah	4,509	9	25.3	CIMB, RHB, Aseambankers, ABN Amro, AmInvestment, OCBC Bank (Malaysia)
2	Malaysia	Malaysia	Sukuk	2,863	3	16.1	Malaysian Government bond
3	Nucleus Avenue (M)	Malaysia	Sukuk Musharakah MTN	1,994	9	11.2	CIMB
4	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	1,067	10	6.0	CIMB
5	Cherating Capital	Malaysia	Exchangeable Sukuk	850	1	4.8	Deutsche Bank (Malaysia), JP Morgan, CIMB
6	Hijrah Pertama	Malaysia	Sukuk Ijarah	847	2	4.8	Citigroup, CIMB
7	Cagamas	Malaysia	Bithaman Ajil Islamic Securities/Mudarabah MTN	668	10	3.7	Cagamas, Aseambankers, HSBC, CIMB
8	Cagamas MBS	Malaysia	Sukuk Musharakah Islamic Residential Mortgage Backed Securities	620	7	3.5	Standard Chartered, National Bank of Pakistan
9	Rantau Abang Capital	Malaysia	Sukuk Musharakah	570	1	3.2	CIMB
10	Silterra Capital	Malaysia	Sukuk Ijarah	530	1	3.0	CIMB, HSBC, Citibank
11	Jimah Energy Ventures	Malaysia	Istisna Islamic MTN	416	20	2.3	AmMerchant, RHB Sakura, MIMB, Bank Muamalat
12	Lebuhraya Kajang-Seremban	Malaysia	Sukuk Istisna	413	12	2.3	AmInvestment
13	MBB Sukuk	Malaysia	Subordinated Sukuk Trust Certificates	300	1	1.7	HSBC, Aseambankers, UBS
14	Tesco Stores (Malaysia)	Malaysia	Sukuk Musharakah	210	2	1.2	CIMB, Standard Chartered
15	Kuala Lumpur Sentral	Malaysia	Sukuk Musharakah	208	7	1.2	HSBC
16	MISC	Malaysia	Murabahah MTN	201	1	1.1	CIMB, HSBC, Amlinvestment
17	MTD InfraPerdana	Malaysia	Murabahah MTN	174	8	1.0	AmInvestment, CIMB, United Overseas Bank (Malaysia)
18	Kuala Lumpur Kepong	Malaysia	Sukuk Ijarah MTN	147	2	0.8	Aseambankers
19	Mukah Power Generation	Malaysia	Sukuk Mudarabah/Istisna	135	18	0.8	RHB Islamic
20	Cerah Sama	Malaysia	Sukuk Musharakah	112	7	0.6	CIMB
	Total of issues used in the table			**17,814**	**259**	**100.0**	

Global Islamic Bond League Table by Bookrunner

Full Year 2007				
	Issuer	Amt US$ m	Iss.	%
1	CIMB	6,351	76	17.4
2	HSBC	3,785	31	10.4
3	Malaysian Government bond	2,863	3	7.9
4	Barclays Capital	2,403	6	6.6
5	JP Morgan	2,033	4	5.6
6	Deutsche Bank	1,904	19	5.2
7	Citigroup	1,668	6	4.6
8	AmInvestment	1,306	56	3.6
9	Aseambankers	1,243	33	3.4
10	Standard Chartered	1,173	28	3.2
11	Riyad Bank	1,066	1	2.9
12	Dubai Islamic Bank	1,022	6	2.8
13	Credit Suisse	952	2	2.6
14	RHB Investment	926	68	2.5
15	BNP Paribas	845	3	2.3
16	National Bank of Abu Dhabi	843	1	2.3
17	Lehman Brothers	810	2	2.2
18	Oversea-Chinese Banking	683	16	1.9
19	Goldman Sachs & Co	624	1	1.7
20	ABN Amro	620	8	1.7
	Total of issues used in the table	**36,452**	**300**	**100.0**

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Southeast Asian Islamic Bond League Table by Bookrunner

Full Year 2007

	Issuer	Amt US$ m	Iss.	%
1	CIMB	6,351	76	35.6
2	Malaysian Government bond	2,863	3	16.1
3	AmInvestment	1,306	56	7.3
4	Aseambankers	1,243	33	7.0
5	Citigroup	1,023	3	5.7
6	RHB Investment	926	68	5.2
7	HSBC	877	26	4.9
8	Oversea-Chinese Banking	683	16	3.8
9	ABN Amro	620	8	3.5
10	Deutsche Bank	327	15	1.8
11	JP Morgan	283	1	1.6
12	Cagamas	217	7	1.2
13	Standard Chartered	192	11	1.1
14	Bank Muamalat Malaysia	116	28	0.6
15	United Overseas Bank	109	17	0.6
16	Kuwait Finance House	104	7	0.6
17	UBS	100	1	0.6
18	EON Bank	57	10	0.3
19	MIMB Investment Bank	56	11	0.3
20	HWANGDBS Investment Bank	51	9	0.3
	Total of issues used in the table	**17,814**	**259**	**100.0**

Top 10 Islamic Funds by Key Performance Statistics

EUREKAHEDGE

Ranked by 2007 Returns				
	Fund	Fund Manager	2007 Returns	Fund Domicile
1	Amanah GCC Equity Fund	Saudi British Bank	81.68	Saudi Arabia
2	Amanah Saudi Industrial Fund	Saudi British Bank	81.23	Saudi Arabia
3	GCC Al-Raed Fund	Samba	79.87	Saudi Arabia
4	Al Rajhi Local Shares Fund	Al Rajhi Banking & Investment Corporation	78.98	Saudi Arabia
5	Bakheet Saudi Trading Equity Fund	Bakheet Investment Group	73.87	Saudi Arabia
6	Al Fursan Fund	Banque Saudi Fransi	69.15	Saudi Arabia
7	Al Rajhi GCC Equity Fund	Al Rajhi Banking & Investment Corporation	64.36	Saudi Arabia
8	Gulf Industrial Companies Fund	The Saudi Investment Bank	62.91	Saudi Arabia
9	TRIM Syariah Saham	PT Trimegah Securities	62.54	Indonesia
10	Jadwa Saudi Equity Fund	Jadwa Investment	61.39	Saudi Arabia
	Eurekahedge Islamic Fund Index		***19.76***	

Ranked by Annualized Returns				
	Fund	Fund Manager	2007 Returns	Fund Domicile
1	Jadwa Saudi Equity Fund	Jadwa Investment	61.39	Saudi Arabia
2	Bakheet Saudi Trading Equity Fund	Bakheet Investment Group	73.87	Saudi Arabia
3	Jadwa Arab Markets Equity Fund	Jadwa Investment	42.19	Saudi Arabia
4	Jadwa GCC Equity Fund	Jadwa Investment	42.11	Saudi Arabia
5	Hang Seng Islamic China Index Fund	Hang Seng Investment Management	11.40	Hong Kong
6	Al Qasr GCC Real Estate & Construction Equity Trading Fund	Banque Saudi Fransi	50.52	Saudi Arabia
7	Al Fursan Fund	Banque Saudi Fransi	69.15	Saudi Arabia
8	FALCOM Saudi Equity Fund	FALCOM Financial Services	41.78	Saudi Arabia
9	Islamic Certificate on the LLB MENA Top 20 Value TR Index	ABN AMRO	20.90	Switzerland
10	TRIM Syariah Saham	PT Trimegah Securities	62.54	Indonesia
	Eurekahedge Islamic Fund Index		***19.76***	

Notes:
** Based on 94.7% of the Funds reporting their December 2007 returns as at 31st January 2008*
*** All statistics have been calculated using funds' returns since inception*

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Top 10 Islamic Funds by Key Performance Statistics

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Ranked by Annualized Standard Deviation				
	Fund	Fund Manager	2007 Returns	Fund Domicile
1	ING i-Enhanced Cash	ING Funds	0.98	Malaysia
2	Amwal Islamic Money Market Fund	Kuwait & Middle East Financial Investment	7.59	Kuwait
3	Al Rajhi Commodity Fund Euro (Mudarabah)	Al Rajhi Banking & Investment Corporation	2.89	Saudi Arabia
4	AlAhli Euro Murabahat Fund	National Commercial Bank	3.06	Saudi Arabia
5	Boubyan Financial Fund US$	Boubyan Bank	6.48	Kuwait
6	Jadwa Saudi Riyal Murabaha	Jadwa Investment	1.98	Saudi Arabia
7	Euro International Trade Finance Fund (Al Sunbula)	Samba	3.38	Saudi Arabia
8	Jadwa USD Murabahah Fund	Jadwa Investment	2.20	Saudi Arabia
9	MAAKL Al-Ma'mun	MAAKL Mutual	2.61	Malaysia
10	Emirates Dynamic Liquid Fund (Retail Shares)	Emirates Bank International	5.40	Channel Islands
	Eurekahedge Islamic Fund Index		***19.76***	

Ranked by Sharpe Ratio				
	Fund	Fund Manager	2007 Returns	Fund Domicile
1	Amwal Islamic Money Market Fund	Kuwait & Middle East Financial Investment	7.59	Kuwait
2	Boubyan Financial Fund US$	Boubyan Bank	6.48	Kuwait
3	Boubyan Financial Fund KWD	Boubyan Bank	7.16	Kuwait
4	BIG Dana Muamalah	Bhakti Asset Management	11.86	Indonesia
5	Emirates Real Estate Fund (Accumulation Shares)	Emirates Bank International	10.73	Channel Islands
6	Insight I-Hajj Syariah Fund	PT Insight Investments Management	15.27	Indonesia
7	Jadwa Saudi Equity Fund	Jadwa Investment	61.39	Saudi Arabia
8	Atlas Pension Islamic Fund - Debt Sub Fund	Atlas Asset Management Limited	1.09	Pakistan
9	Al Dar Money Market Fund	ADAM	7.95	Kuwait
10	Bakheet Saudi Trading Equity Fund	Bakheet Investment Group	73.87	Saudi Arabia
	Eurekahedge Islamic Fund Index		***19.76***	

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Top 10 Islamic Funds by Key Performance Statistics

	Fund	Fund Manager	2007 Returns	Fund Domicile
Geographic Mandate - Global - Ranked by 2007 Returns				
1	Solidarity Global Growth Fund	Solidarity Funds Company	23.59	Bahrain
2	BNP Paribas Islamic Fund Equity Optimiser (Classic)	BNP Paribas Asset Management	22.18	Luxembourg
3	DWS Noor Precious Metals Securities Fund (Class A)	DWS Noor Islamic Funds Plc	21.14	Ireland
4	Al Shamekh Islamic Portfolio	Riyad Bank	20.41	Saudi Arabia
5	AlAhli Islamic Global Equitybuilder Certificates	National Commercial Bank	18.61	Germany
6	HSBC Amanah Global Equity Index Fund	Saudi British Bank	17.15	Saudi Arabia
7	Global Equity Fund (Musharakah)	Riyad Bank	16.75	Saudi Arabia
8	Al Shuja'a Islamic Portfolio	Riyad Bank	16.43	Saudi Arabia
9	Global Equity Trading Fund (Al-Manal)	Samba	16.20	Saudi Arabia
10	EasyETF DJ Islamic Market Titans 100	AXA Investment Manangers	15.45	France
	Eurekahedge Global Islamic Fund Index		***9.08***	

	Fund	Fund Manager	2007 Returns	Fund Domicile
Developed Markets - Ranked by 2007 Returns				
1	Alfanar Europe	TT International	25.44	British Virgin Islands
2	AlAhli Europe Trading Equity Fund	National Commercial Bank	16.93	Saudi Arabia
3	Islamic Al Yusr Certificate on the ABN AMRO US Opportunities Fund A	ABN Amro Bank	16.44	Not disclosed
4	Dow Jones Islamic Fund	Allied Asset Advisors, Inc	15.72	US
5	Al Madar US Index Fund	Almadar Finance & Investment	14.39	Bahrain
6	AlAhli US Trading Equity Fund	National Commercial Bank	12.97	Saudi Arabia
7	AlAhli Islamic US Equitybuilder Certificates	National Commercial Bank	11.97	Germany
8	Amana Income	Saturna Capital	11.72	US
9	Amana Growth	Saturna Capital	11.27	US
10	AlAhli Islamic Europe Equitybuilder Certificates	National Commercial Bank	11.05	Germany
	Eurekahedge North America Islamic Fund Index		***9.39***	
	Eurekahedge Europe Islamic Fund Index		***3.59***	

Notes:
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Top 10 Islamic Funds by Key Performance Statistics

	Geographic Mandate - Asia Pacific - Ranked by 2007 Returns			
	Fund	Fund Manager	2007 Returns	Fund Domicile
1	TRIM Syariah Saham	PT Trimegah Securities	62.54	Indonesia
2	Danareksa Indeks Syariah	PT Danareksa Investment Management	59.25	Indonesia
3	CMS Islamic Fund	CMS Trust Management	58.36	Malaysia
4	TRIM Syariah Berimbang	PT Trimegah Securities	57.59	Indonesia
5	DWS Noor China Equity Fund (Class A)	DWS Noor Islamic Funds Plc	55.60	Ireland
6	IPB Syariah	PT Kresna Graha Sekurindo Tbk	54.35	Indonesia
7	Mega Dana Syariah	PT Mega Capital Indonesia	53.68	Indonesia
8	Al Rajhi India & China Equity Fund	Al Rajhi Banking & Investment Corporation	52.74	Saudi Arabia
9	CIMB Islamic Equity Fund	CIMB Wealth Advisors	48.34	Malaysia
10	RHB Islamic Growth Fund	RHB Unit Trust Management	48.12	Malaysia
	Eurekahedge Asia Pacific Islamic Fund Index		***20.48***	

	Geographic Mandate - Middle East/Africa - Ranked by 2007 Returns			
	Fund	Fund Manager	2007 Returns	Fund Domicile
1	Amanah GCC Equity Fund	Saudi British Bank	81.68	Saudi Arabia
2	Amanah Saudi Industrial Fund	Saudi British Bank	81.23	Saudi Arabia
3	GCC Al-Raed Fund	Samba	79.87	Saudi Arabia
4	Al Rajhi Local Shares Fund	Al Rajhi Banking & Investment Corporation	78.98	Saudi Arabia
5	Bakheet Saudi Trading Equity Fund	Bakheet Investment Group	73.87	Saudi Arabia
6	Al Rajhi GCC Equity Fund	Al Rajhi Banking & Investment Corporation	64.36	Saudi Arabia
7	Gulf Industrial Companies Fund	Saudi Investment Bank	62.91	Saudi Arabia
8	Jadwa Saudi Equity Fund	Jadwa Investment	61.39	Saudi Arabia
9	Al Danah GCC Equity Trading Fund	Banque Saudi Fransi	59.49	Saudi Arabia
10	Al-Saffa Saudi Equity Trading Fund	Banque Saudi Fransi	58.73	Saudi Arabia
	Eurekahedge Middle East/Africa Islamic Fund Index		***29.57***	

Notes:
** Based on 94.7% of the Funds reporting their December 2007 returns as at 31st January 2008*
*** All statistics have been calculated using funds' returns since inception*

EVENTS DIARY 2008

DATE	EVENT	VENUE	ORGANIZER
February			
5th – 6th	7th Annual Islamic Finance Summit	London	Euromoney Seminars
12th – 13th	Takaful Conference on Islamic Investment Management	Dubai	Asia Insurance Review
17th – 20th	Wealth Management Forum Middle East	Dubai	IIR Middle East
18th	The World Islamic Finance & Investment Conference	Kuwait	MEGA Events
18th – 20th	3rd Annual Middle East Retail Banking Forum	UAE	IIR Middle East
19th	Islamic Investment Funds	UK	ICG Events
19th – 20th	The 2nd GCC Regulators Summit	Bahrain	Complinet
20th	Seminar on Ratings	Malaysia	IFSB
March			
3rd – 6th	Hedge Funds World Middle East 2008	UAE	Terrapinn
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
11th – 12th	3rd Conference Takaful in Asia	Singapore	MiddleEast Insurance Review
16th – 19th	Securitization World MENA 2008	UAE	Terrapinn
16th – 19th	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
27th	5th International Seminar on Challenges Facing the Islamic Financial Services Industry	Pakistan	IFSB
27th	Interactive Session on Financial Health of Islamic Financial Services	Pakistan	IFSB
30th – 2nd	Infrastructure Finance Forum 2008	Dubai	IIR Middle East
April			
2nd	Singapore IFN Forum	Singapore	Islamic Finance events
7th – 9th	International Ras-Al-Khaimah	UAE	Financial Events International
14th – 15th	The World Takaful Conference	Dubai	MEGA Events
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	Malaysia	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
May			
7th	Jakarta IFN Forum	Jakarta	Islamic Finance Events
8th – 9th	2nd Asian CFO Summit	Singapore	MiddleEast Insurance Review
13th – 14th	5th IFSB Summit: Financial Globalization of Islamic Financial Services	Jordan	IFSB
20th – 23rd	Islamic Finance World North America 2008	US	Terrapinn
21st	Karachi IFN Forum	Pakistan	Islamic Finance Events
25th – 29th	Private Equity Forum	Dubai	IIR Middle East
26th – 27th	The World Islamic Capital Markets Conference	Bahrain	MEGA Events
	The World Islamic Funds Conference	Bahrain	MEGA Events
June			
2nd – 5th	Funds World Middle East 2008	Dubai	Terrapinn
3rd	Cairo IFN Forum	Egypt	Islamic Finance Events
15th – 19th	Sukuk World Middle East	Dubai	IIR Middle East
24th – 26th	Islamic Finance & Investment World Europe 2008	UK	Terrapinn
July			
22nd	Innovative Product Development	UK	IGG Events
August			
11th – 13th	MIF 2008 Issuers & Investors Forum	Kuala Lumpur	Islamic Finance Events
October			
8th	London IFN Forum	UK	Islamic Finance Events
12th – 16th	Middle East Retail Banking Forum	Dubai	IIR Middle East
14th	Middle East Hedge Funds 2008	Switzerland	Jetfin Events
15th	New York IFN Forum	New York	Islamic Finance Events
21st	Islamic Private Equity	UK	IGG Events
26th – 30th	Saudi Insurance Summit	Saudi Arabia	IIR Middle East
28th	Istanbul IFN Forum	Turkey	Islamic Finance Events
November			
3rd	The World Islamic Infrastructure Finance Conference	Qatar	MEGA Events
11th – 13th	Islamic Funds World 2008	Dubai	Terrapinn
December			
1st – 3rd	The World Islamic Banking Conference	Bahrain	MEGA Events
14th – 18th	Debt Capital Markets Summit	Dubai	IIR Middle East

No territory will be left uncharted.
At CIMB Islamic, we constantly challenge convention to create value for our clients. An in-depth understanding of Islamic Banking principles and an acute appreciation of our clients' commercial needs have enabled us to deliver innovative solutions with commendable results. Our efforts have earned us the Islamic Investment Banking House of the Year Award - a testament to our ability to take you further.
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