

# Islamic Finance *news*

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Vol. 5, Issue 30 1<sup>st</sup> August 2008

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## MALAYSIA

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## MIDDLE EAST / PAKISTAN

### Islamic banks continues its encouraging growth

Islamic banks in the Middle East and Pakistan are expected to stage an encouraging performance for the second half of their financial year ending 31<sup>st</sup> December 2008 compared to the previous corresponding period, analysts said.

The Islamic banks in the Middle East have stood out, given their nature of business, providing innovative and Shariah compliant products to consumers and corporates at competitive rates. ☺

## UK

### Deutsche Bank lists Islamic ETFs

Deutsche Bank's exchange-traded funds (ETF) platform, db x-trackers, has listed its first Shariah compliant ETFs on the London Stock Exchange.

They consist of the db x-trackers S&P 500 Shariah ETF, db x-trackers S&P Europe 350 Shariah ETF and db x-trackers S&P Japan 500 Shariah ETF. The platform is also listing

a global Shariah compliant ETF on Dow Jones Islamic Market Titans 100 ETF.

The ETFs give investors access to a range of highly liquid and transparent sectors and markets including utilities, industrials, energy, technology and healthcare. ☺

(Also see IFN Reports on page 11)

### In this issue

Islamic Finance Briefs .....	1
Takaful News .....	9
Islamic Ratings Briefs .....	10
IFN Reports .....	11
Why Sukuk Pioneer is Still the Preferred Venue.....	13
Bahrain — Staying in the Forefront .....	15
Islamic Finance Set to Continue Robust Growth .....	18
The Comeback of Asia's Beaten Down Composites.....	19
MARC Expands its Footprint in Islamic Finance.....	20
First British Takaful Operator Optimistic About the UK .....	22
Meet the Head .....	23
<i>Alberto G Brugnoli, President, ASSAIF</i>	
Termsheet.....	24
<i>The Emirates Opportunity Fund</i>	
Moves .....	25
Deal Tracker .....	26
Islamic Funds Tables.....	27
S&P Shariah Indexes .....	28
Dow Jones Islamic Indexes .....	29
Malaysian Sukuk Update.....	30
Islamic League Tables .....	31
Events Diary.....	34
Subscriptions Form .....	35
Country Index .....	35
Company Index .....	35

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## KUWAIT

**Mushaa Real Estate makes its debut**

Global Investment House (GIH) has launched Mushaa Real Estate with a capital of KWD30 million (US\$113 million). The Shariah compliant firm will use the concept of Hisas Al-Mushaa, an Islamic time share system allowing partial ownership of a real estate property for 20 to 50 years.

Omar El-Quqa, GIH's executive vice president, said that the investment firm had agreed to allow Baz Real Estate Modern Systems to develop the concept, and Baz will be assisting GIH with the managing of Mushaa in acquiring real estate properties as well as selling Hisas Al-Mushaa through its network in the GCC region. The company aims to increase its paid-up capital to KWD30 million by issuing 290 million shares at a nominal value of KWD0.10 (US\$0.38) per share.

Mushaa's operating profits are expected to reach KWD3.2 million (US\$12 million) within its first year of operations, and will hopefully increase to KWD27.8 million (US\$105 million) in its fifth year. The operations profit margin targeted is 60%, with the internal rate of return for investors expected at 27%. <sup>(2)</sup>

## INDONESIA

**Multifinance assets to grow 105%**

The total assets of Islamic multifinance companies in Indonesia will increase by 105.8% to IDR35 trillion (US\$3.84 billion) by December, up from IDR17 trillion (US\$1.86 billion) recorded in May. Indonesian Multifinance Company Association chairperson, Wiwie Kurnia, attributed the increase to the issuance of regulations on Shariah compliant activities, which will form the basis for transactions by these companies. <sup>(2)</sup>

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## PAKISTAN

**Meezan signs MoU with university**

Meezan Bank and Riphah International University (RIU) have signed a MoU, which detailed that the bank will provide RIU with assistance in its new MBA program with Islamic banking and finance specialization. Under the MoU, Meezan Bank has agreed to provide technical and training assistance for designing the course curriculum, textbooks' selection, development of case studies as well as training for students and faculty members.

Imran Usmani, the bank's Shariah adviser signed on behalf of Meezan Bank, while the vice chancellor of RIU, Anis Ahmed represented the university. <sup>(2)</sup>

## UAE

**Ajman Bank lists on DFMGI**

Shariah compliant Ajman Bank is now listed on Dubai Financial Market's General Index (DFMGI), and will also continue to list under its banking index, said DFM. The bank is represented by 750 million free float shares in both indices, and the bank has one billion of total outstanding shares, it added.

The addition of Ajman Bank has brought the total of companies listed under DFMGI to 29. <sup>(2)</sup>

## CURACAO

**Framework needs to be adapted**

A report on the possibilities of developing Islamic finance in the Netherlands Antilles has been issued by the Curacao International Financial Services Association (CIFA), Ernst & Young Tax Advisers and Amicorp to the state secretary of finance, Alex Rosaria.

According to the report titled "The Netherlands Antilles: A New Mecca for Islamic Financing?", there are certain measures that the local financial center can take to make Islamic financing possible but adaptations to the legal and regulatory framework must first take place. Rosaria noted that if Netherlands Antilles wants to be among the top 10 financial centers globally, Shariah compliant finance cannot be ignored.

The government will analyze the conclusions and recommendations made in the report within the weeks to come. <sup>(2)</sup>

## MALAYSIA

**SAS Malaysia to help EON improve**

EON Bank Group will use SAS Malaysia's services to help transform its business, and has agreed to invest about RM25 million (US\$7.7 million) over five years in SAS's integrated banking intelligence solutions.

The group recently launched its "Project Quantum Leap" where strategic initiatives including building the required infrastructure were formulated and projects with the biggest impact on revenue growth were given first priority. The banking intelligence solutions will help the group achieve these objectives by improving its customer relationship management, business performance management, risk management, compliance and systems performance. <sup>(2)</sup>

## UAE

**Another Islamic bank to open?**

It was reported that investors are planning to set up an Islamic investment bank, which will be headquartered at the Dubai International Financial Center (DIFC). DIFC will also be among the main investors in the proposed Rashed Investment Bank, along with businessmen from the UAE, Kuwait and Saudi Arabia.

The bank will have US\$1 billion in authorized capital and US\$500 million in paid-up capital. ☺

## INDONESIA/MALAYSIA

**Approval for BII stake revoked**

Bank Negara Malaysia (BNM) has revoked its approval of Maybank's acquisition of Bank Internasional Indonesia (BII). According to the regulator, this is due to the amendments made to Indonesia's regulations on takeovers on the 30th June.

The new regulation states that a new controlling shareholder must divest 20% to public shareholders within two years after the tender offer is undertaken. No requirement for a free float was necessary previously.

Following the amendment, the Malaysian bank said it could lose its RM480 million (US\$147.3 million) deposit if no amicable solution is reached by end-September. It would seek legal and financial advice on BNM's decision, it added.

Maybank won the bid to acquire a 55.5% stake in BII from Temasek Holdings for US\$2.7 billion in March, and had planned to buy the remaining shares in BII for US\$1.2 billion. ☺

## KUWAIT

**GIH does well in first half**

Global Investment House (GIH) announced its first-half financial year results with net income of KWD82.2 million (US\$309 million), against KWD46.7 million (US\$176 million) reported within the same period last year, which is an increase of 76%. Its earnings per share also increased from KWD0.08 (US\$0.30) last year to KWD0.05 (US\$0.19) in the financial year ended the 30<sup>th</sup> June 2008. GIH's net operating income also went up by 57%, to KWD115.7 million (US\$435 million).

According to Maha Khaled Al-Ghunaim, chairperson and managing director of the investment bank, the growth of revenues is from the strong performance of all its major lines of business: asset management, investment banking, principal investments as well as real estate and brokerage.

GIH also plans to start a financial services firm in Malaysia this year, said chief financial officer, Sunny Bhatia. He added that GIH is in talks with a Malaysian partner to set up the firm in the fourth quarter of this year. The company will specialize in investment banking, asset management and brokerage, the senior official noted.

Bhatia said that GIH's plans to set up a similar entity in the UAE with local investment firm, Al Qudra Holding, is also on track. It aims to secure regulatory approval by December. ☺

## BAHRAIN

**GBCORP, MRS sign MoU**

Global Banking Corporation (GBCORP) has signed a memorandum of understanding (MoU) with MAG Robotic Systems (MRS) to launch an automated parking solutions company to address the region's parking space crisis. Ahmed Al Khan, head of investment banking at GBCORP, said that market research statistics on parking spaces available in Bahrain and other countries in the region have shown a huge shortfall in current supply as well as in the coming years, thus making fully automated parking systems highly relevant.

Under the MoU, MRS – which is the extended licensee of Robotic Parking System's technology – will provide the Islamic investment bank with the technical expertise to set up several automated car parks in Bahrain and to expand within the Middle East and North Africa region, said Hani Abu Auida, general manager of MRS.

The e-parking solutions company will be actively supported by Global Real Estate Development, the real estate subsidiary of GBCORP. ☺

## PAKISTAN

**DIB, StanChart to float bonds**

Dubai Islamic Bank (DIB) and Standard Chartered Bank will float the rupee-denominated Sukuk by Pakistan Domestic Sukuk in the domestic financial market, according to a statement released by the Federal Board of Revenue.

Pakistan Domestic Sukuk is 100% government-owned, the statement noted. It was established with the aim to raise funds to support the national budget. ☺

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## QATAR

**al khaliji widens operations through acquisition**

The acquisition of Paris-based Lebanese lender BLC Bank's UAE assets worth US\$300 million by al khaliji may be completed either through a cash deal or by buying a proportionate stake in BLC. The acquisition will allow the Qatari bank to widen its operations over four emirates: Abu Dhabi, Dubai, Sharjah and Ras Al Khaimah.

The CEO of al khaliji, David Proctor, said that it is expecting a response from regulators within three months, and the deal could go through within six months.

Proctor also noted that the bank is expecting to start its Shariah compliant financing arm this year. He added that it will begin with a separate window catering to the wholesale segment, and will eventually cover the retail segment as well before having its standalone operations.

Meanwhile, the Islamic banks in Pakistan are expected to record better margins for 2008 despite the current global economic situation due to availability of better growth opportunities for the banks and emerging Sukuk market in the country. ☺

## UAE

**SIB launches Jeans card**

Sharjah Islamic Bank (SIB) has launched the Jeans Card, a prepaid credit card that caters to all age groups from as young as 14.

The personalized Visa card offers users a convenient and secure mode of payment for daily spending as well as ATM and Internet transactions. The card functions like a credit card, but comes with a preloaded amount, depending on how much the customer wants. Customers will also receive a short message on their mobile phone after each transaction using the card.

SIB's CEO, Mohammed Abdulla, said the card is part of the bank's strategy to launch innovative products that suit customers of all ages, adding that the Jeans Card will help young customers learn financial responsibility in a secure manner. ☺

## BAHRAIN

**US\$362 million net income for Arcapita**

Arcapita Bank recently revealed that its net income for the fiscal year ended the 30<sup>th</sup> June 2008 increased by 90% to US\$362.2 million, from US\$190.5 million the previous year. The Bahrain-based investment bank's total operating revenue also went up to US\$648.5 million from US\$407.5 million in 2007, which marked a 59.1% growth, while its balance sheet stood at US\$5.1 billion this fiscal year, a 35% increase from US\$3.8 billion the year before.

During its recent annual general meeting, Arcapita had proposed a US\$90.2 million cash dividend, which represents 40% of return on the bank's paid-up capital. It has exited from six investments and was able to return more than US\$1.1 billion to investors.

Arcapita, with offices in Atlanta, London and Singapore, has four lines of business: corporate, real estate, venture and asset-based investments. ☺

## UAE

**NIB signs deal with Emcredit**

Noor Islamic Bank (NIB) has entered into an agreement with private credit information services company Emcredit, allowing the bank to have full real-time access to detailed and comprehensive credit records through a secure online system. This would help NIB make informed decisions and customize products and services based on customers' credit history. ☺

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FOR MORE INFORMATION, contact:  
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## SUDAN/UAE

**ADIB to finance new cement company**

Abu Dhabi Islamic Bank (ADIB) has announced the financial close of a bridge facility for the construction of Al Takamul, a cement manufacturing company in Sudan. The facility, arranged together with Lebanon's Bank Audi on a club basis, will be taken out by a US\$130 million medium-term facility. The terms for the facility are being finalized.

Al Takamul is the subsidiary of Egypt's ASEC Cement, a cement production group in the Middle East and Africa created by Citadel Capital and several leading regional co-investors. The cement manufacturing unit is expected to be launched by the end of next year. <sup>(f)</sup>

## MALAYSIA

**PwC: Malaysia among top choices**

Besides investors from the US and Europe, several GCC countries have chosen Malaysia as among the most favorable investment destinations especially in Islamic banking, conventional banking, services, high-end manufacturing, property development and biotechnology, said PricewaterhouseCoopers (PwC).

The professional services firm credits the standing to a strong domestic labor force, cost-effective operations and good infrastructure, but cautioned that navigating through potential political and economic changes may prove a challenge for the country to ensure continued success. <sup>(f)</sup>

## QATAR

**Masraf Al Rayan's profit falls short**

Masraf Al Rayan has released its net profit for the second quarter of 2008, which stands at QAR31.08 million (US\$8.54 million), a sharp fall from QAR623.01 (US\$171.17 million) recorded in the previous corresponding period. Subsequently, the Islamic lender's half-year net profit also dipped to QAR250 million (US\$68.69 million) from QAR666.5 million (US\$183.12 million) the year before. Earnings per share for the first half of 2008 fell from QAR0.89 (US\$0.25) in 2007 to QAR0.33 (US\$0.09) this year.

Last month, Global Investment House predicted that Masraf Al Rayan's second-quarter earnings would reach QAR325.1 million (US\$89.32 million). <sup>(f)</sup>

## UAE

**Tamweel's US\$300 million Sukuk closes**

Tamweel, a real estate finance provider, announced the successful close of its AED1.1 billion (US\$300 million) Sukuk on the 21<sup>st</sup> July 2008. The Islamic bond was issued by Tamweel Sukuk, a Cayman Islands-incorporated special purpose vehicle. Badr Al Islami, Dubai Islamic Bank and Standard Chartered Bank are the bookrunners for the issuance. The three banks, as well as Emirates Islamic Bank and United Bank, were the appointed joint lead managers.

The Sukuk has a five-year tenor, with maturity scheduled in 2013. It has been approved for listing on the Dubai International Financial Exchange. Proceeds will be used to finance Tamweel's growth plans. <sup>(f)</sup>



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## UAE

**Al Hilal inks valuation contract**

A valuation contract agreement has been inked between Al Hilal Bank and Hamptons International, a property services company. The contract stipulates that Al Hilal will include Hamptons' valuations in its valuation panel for mortgage and retail businesses. The Hamptons' valuation team is part of the valuations and research department and is responsible for assessing the value of property, mortgage and market potential.

The Islamic bank is the 25<sup>th</sup> financial institution partner of Hamptons. It has already partnered with Amlak Finance, Union National bank, Badr Al-Islami, Dubai Islamic Bank and Emirates Islamic Bank, to name a few. Partnership discussions are underway with leading financial institutions in the GCC region as part of its plan to expand regionally across the Middle East and North Africa region. (2)

## MALAYSIA

**Closer to liberalization**

Malaysia is a step closer to allowing foreign law firms into the country with the local Bar Council proposing to liberalize its rules and allow joint ventures. The government is said to be keen on overhauling its existing system as it bids to promote Malaysia as a hub for Islamic finance work.

The joint venture structure suggested would allow international firms to tie up with local players to practise in restricted commercial areas. Eversheds is currently the only UK law firm with a presence in the country as the firm has had a strategic alliance with Kuala Lumpur-based Shahrizat Rashid & Lee since December 2004. The firm is already discussing the potential of a joint venture with its alliance partner if the rules are changed. (2)

## UAE

**Sorouh sets price for Sukuk**

Sorouh Real Estate has set an initial price guidance for the proposed AED4 billion (US\$1.09 billion) securitization Sukuk. The firm has priced the class A tranche worth AED2.76 billion (US\$750 million) at 200 basis points, class B tranche worth AED251 million (US\$68.2 million) at 250 basis points and class C tranche worth AED1 billion (US\$275.71 million) at 350 basis points. All three tranches are placed in over one month Emirates Interbank Offered Rate (EIBOR). Final pricing is expected soon. (2)

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## INDONESIA

**Government names banks**

The finance ministry has appointed three securities firms to sell the country's first rupiah-denominated Sukuk. Mandiri Sekuritas, Trimegah Sekuritas and Danareksa Sekuritas are the selling agents for the Islamic bonds, while law firm Marsinih Martoatmojo Iskandar Kusdiharjo is the legal consultant.

The Sukuk may be issued in two tranches, in seven and 10-year maturities, said Dahlam Siamat, director of Islamic financing at the ministry, and are due to be issued on the 28<sup>th</sup> August.

Indonesia is also planning a US dollar-denominated Sukuk in November. Proceeds from both Islamic bonds will be used to help plug the budget deficit. The bonds will be backed by IDR18.37 trillion (US\$2 billion) in assets. (2)

## UAE

**Mada'in reveals The Domain**

Mada'in Properties has announced the launch of The Domain, a commercial development at Dubai Silicon Oasis. The project is the company's first foray into commercial developments, said CEO, Abdul Aziz Al-Awar, and is an integral part of a series of properties that Mada'in will launch within this year.

The Domain is slated to complete by 2010. Once completed, the development will host a range of amenities such as a gymnasium, swimming pools, and a private garden, as well as retail outlets and restaurants. The offices will also be equipped with state-of-the-art office software.

Mada'in Properties is UAE's premier Shariah compliant real estate investment company. (2)

## UAE

**VC Bank awards D51 Island to dxb-lab**

Venture Capital Bank (VC Bank) has awarded the development of D51 Island in Nakheel's The World project to dxb-lab Architecture. Khalid Abdul-Karim, chief investment officer of real estate at the bank said that the architecture company has a unique combination of creativity and local expertise to manage a development of this size.

The partner and founder of dxb-lab Architecture, Khilaid Al Najjar noted that its concept and design approach may turn the D51 Island into the boutique resort of The World.

Nakheel has already approved preliminary designs by the architecture company. D51 Island, commonly known as Russia, will have an unlimited view of the sea and a view of the Dubai skyline. 100 villas are planned and classified in different categories such as bedroom villas, lagoon villas, lagoon suites and super yacht units.

Venture Capital Bank is a Bahrain-based Islamic investment bank established in October 2005 with a full investment banking license from the Central Bank of Bahrain. (2)

## UAE

**Amlak sells 235 apartment units**

Amlak Finance has sold 235 units of SkyCourts, a freehold residential development in Dubai. The Islamic real estate financier offered 90% financing with a repayment period over 25 years for UAE residents.

CEO Arif Alharmi said that this summer has been a busy period for the company. Two residential properties in Remraam and one in Discovery Gardens had been sold, he added. Amlak has also acquired Skygardens, a landmark development at Dubai International Financial Center. ☺

## BAHRAIN

**CBB's monthly Sukuk oversubscribed**

The monthly issue of Sukuk Al Salam has been 216.6% oversubscribed, said the Central Bank of Bahrain (CBB). The BHD6 million (US\$16 million) issue received BHD13 million (US\$34.5 million) worth of subscriptions.

The Sukuk has 2.2% of expected returns, and carries a maturity of 91 days beginning the 30<sup>th</sup> July 2008 and ending on the 29<sup>th</sup> October. ☺

## UAE

**Analysts predict end to dollar peg**

Currencies of the UAE and Qatar are predicted to appreciate 5% by December or early 2009, when both countries are expected to abandon their peg to a weak US dollar.

Economists and currency analysts say although the currency market has curtailed its expectations of a possible revaluation of GCC currencies following strong official support from Gulf authorities in favour of the dollar peg, the two economies remain under mounting pressure to review their policy. ☺

## UAE

**Mashreq reports second-quarter results**

Mashreq Group's second-quarter financial results for 2008 were announced recently, with profit coming in at AED706.8 million (US\$192 million), a 38.4% increase from the previous corresponding period. Total assets in the second quarter ended the 30<sup>th</sup> June 2008 also increased 33.2% from AED70.6 billion (US\$19.2 billion) to AED94 billion (US\$25.6 billion). A 17% increase was recorded for the group's customer deposits, from AED45 billion (US\$12.23 billion) to AED52.6 billion (US\$14.32 billion).

Income from Islamic products net of distribution to depositors increased to AED895.7 million (US\$244 million) in the second quarter, a 66.8% increase compared to AED536.8 million (US\$146.2 million) within the same period of last year. Net fee, commission and other income also went up by 44.4%. But investment income decreased to AED287 million (US\$78.2 million) from AED497 million (US\$135.4 million), due to the widening of credit spreads and poor liquidity in the global and regional markets.

Its first-half profits grew by 22.6% to AED1.17 billion (US\$319 million), against AED955.9 million (US\$260.4 million) reported for the same period of 2007. ☺

## MALAYSIA

**Al Rajhi enters first property deal**

Al Rajhi Bank (Malaysia) has inked an agreement with i-City to buy 36 units of i-City Cybercenter 1 office suites for RM95 million (US\$29 million). The transaction marks the bank's first property venture in Malaysia.

i-City is a RM2 billion (US\$612 million) integrated commercial development in the city of Shah Alam, which is located in the state of Selangor. It is designed as a fully integrated township consisting of a mall, corporate towers and offices, cyber center office suites, data centers and innovation center, hotels and serviced apartments. The first phase consists of six blocks of three- to five-storey CityPark cyber center office suites. ☺

## UAE

**DIB's net profit up by 47%**

Dubai Islamic Bank's (DIB) first half of 2008 net profit went up by 47% to AED 1.3 billion (US\$354 million), from AED888 million (US\$242 million) in the previous corresponding period. Total assets rose to AED91.4 billion (US\$25 billion), an increase of 21% from AED75.5 billion (US\$21 billion) in 2007.

Financing and investment activities also increased by 34% to AED60.8 billion (US\$16.5 billion), from AED45.3 billion (US\$12.3 billion) last year. A 22% increase was reported in customer deposits, from AED59.7 billion (US\$16.3 billion) in the first half of 2007, to AED72.8 billion (US\$19.8 billion) in the first half of 2008.

DIB attributes its net profit growth in the first half of the year to the strength of its core operations, business fundamentals and overall financial performance. ☺



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## QATAR

**Doha Bank defers Sukuk plan**

Doha Bank's US\$1 billion Sukuk, originally scheduled to be issued in September, has been deferred, said CEO Raghavan Seetharaman. The reason, he added, is due to poor funding market conditions. The issuance of the Islamic bond may be reviewed in the middle of next year, but in the meantime the bank is waiting for the global funding markets to calm down, he said.

The deferment of the Sukuk may be a signal that the depression that has rocked conventional markets is now affecting the Islamic finance market as well, which has been somewhat shielded from the slowing global economy and the US subprime crisis. ☺

## GLOBAL

**StanChart relaunches OLT**

Standard Chartered has relaunched the Shariah compliant version of its Online Treasury (OLT) under Standard Chartered Saadiq, its global brand for Islamic products. The service is integrated to the bank's Straight2Bank platform. It is designed to deliver automated prices from the bank's trading floors straight to any desktop and covers the global foreign exchange markets supporting spot, forward and swap pricing. ☺

## UAE

**Sorouh reports 75% growth in profit**

Sorouh Real Estate has announced a 75% rise in net profit to AED977 million (US\$266 million) for the first half of this year against AED556 million (US\$151.45 million) in the same period of last year. Earnings per share stood at AED0.42 (US\$0.15) compared to 2007's AED0.22 (US\$0.06), while revenue from land sales and rental income went up by 57% from AED1.1 billion (US\$300 million) to AED1.7 billion (US\$463 million).

Market capitalization of the property company, whose projects utilize Islamic finance, stood at AED23.2 billion (US\$6.32 billion) at the end of June. Total assets went up by 53% from AED7.2 billion (US\$2 billion) on the 31<sup>st</sup> December last year, to AED11 billion (US\$3 billion). ☺

## MALAYSIA

**IDB launches first ringgit Sukuk**

The Islamic Development Bank (IDB) has launched its first ringgit-denominated Sukuk with the signing of program documents worth RM1 billion (US\$306.28 million). Regulators Bank Negara Malaysia, Securities Commission and the Ministry of Finance have given their green light for the issuance, said Ahmed S Hariri, regional office director of IDB.

Two road shows were held, he added, as well as an investors' presentation attended by representatives of institutional investors. The funds raised from the Islamic bonds will be used to finance projects in Malaysia.

CIMB Investment Bank and Standard Chartered Malaysia are the joint lead arrangers with RHB Islamic Bank as the co-lead manager, while Zaid Ibrahim & Co is legal counsel. ☺

## MALAYSIA

**Mayban Trustees suit a wake up call**

The RM157 million (US\$48.03 million) suit against Malaysia's Mayban Trustees will set a precedent for trustees to be more diligent in performing their duties, increasing awareness that they could be sued if they failed to do so, said RAM Holdings' chief economist Dr Yeah Kim Leng. He said the case would provide a good wake-up call not just for the trustees but all participants in the industry to meet their duties, roles and obligations.

Bondholders are suing Mayban Trustees on claims it failed to implement its duties diligently to protect investors in relation to the default in Pesaka Astana's RM140 million (US\$42.83 million) Bai Bithaman Ajil (ABBA) Islamic debt securities issued in April 2004. ☺

## UAE

**Aldar makes US\$707 million profit**

Aldar Properties has released its financial results for the second quarter of 2008, with AED3.8 billion (US\$1.03 billion) in gross revenues. Its profit for the quarter which ended on the 30th June stood at AED2.6 billion (US\$707.83 million).

Aldar's developments under construction were recorded at AED14.45 billion (US\$3.93 billion), and its net asset value grew to AED15.27 billion (US\$4.15 billion) by 99%. Earnings per share of the company were at AED1.09 (US\$0.30).

Aldar is among the largest property developers in UAE. Its market value, as at the 24th July 2008, was AED32.3 billion (US\$8.78 billion). ☺

## UAE

**NBF reports higher profit, income**

The National Bank of Fujairah (NBF) announced its first half-year results with a profit of AED153.5 million (US\$41.7 million), against AED152.6 million (US\$41.5 million) recorded in the previous corresponding period. Total assets increased to AED12.5 billion (US\$3.4 billion) by 32.3%, while total shareholders' equity as at the 30<sup>th</sup> June 2008 stood at AED1.8 billion (US\$489 million).

NBF's core operating income, excluding investment fair values, grew by 40.5% compared to the first half of last year. Net interest and fee incomes increased by 34% and 43.5% respectively, while its foreign exchange income has doubled compared to the first half of 2007, to AED19.6 million (US\$5.3 million). Meanwhile, operating expenses went up by 27.9% mainly because of investments in governance and infrastructure as well as strengthening of human capital. ☺

**Clarification**

Dawnay, Day is not an active player in the Islamic finance sector, as reported in an earlier edition of Islamic Financial News (25<sup>th</sup> July 2008). The article created an impression that Dawnay Day was directly involved in the region when in practice, it is a passive minority investor in a separate company called DDCAP. We regret any wrong impression caused.



## UK

### Salaam Britain!

The first Takaful company in the UK, Salaam Halal, was launched recently. It will offer Shariah compliant motoring policies, and plans to introduce Islamic home insurance products by December.

Abdulaziz Hamad Aljomaih, chairman of Salaam Halal insurance, said the company's launch is a big step for Islamic finance in the UK. (📖)

(Also see Takaful Report on page 22)

## MALAYSIA

### Maybank launches Al-Waqi

Maybank has launched Takaful Al-Waqi, a RM200 million (US\$61.2 million) short-term single premium investment-linked Islamic commodities fund developed by Etiqa Takaful.

Ibrahim Muhammad, head of consumer banking at Maybank Bancassurance, said Takaful Al-Waqi offers 8.81% potential return. The fund will place 90% of a single contribution into Islamic fixed income investments and the balance in Shariah compliant investment instruments linked to the performance of the commodity index, he added.

Several sectors such as energy, industrial metals, precious metals and agriculture will benefit from Takaful Al-Waqi, said Amirudin Abdul Halim, deputy CEO of Etiqa Insurance and Takaful. He said RM30 million (US\$9.2 million) of the fund was taken up by individuals, with interest also expected to come from institutions.

At the fund's launch, Ibrahim also announced plans to launch six conventional and Islamic products within the next year which will be developed by its subsidiary, Mayban Fortis Holdings. (📖)

## ASIA

### Prudential, StanChart extend alliance

Prudential and Standard Chartered (StanChart) have extended their bancassurance partnership in Asia, allowing for deeper cooperation on accidental, health, Takaful and standard life insurance products between the two.

The arrangement allows Prudential to market its investment-linked savings and protection insurance products to StanChart customers up to 2016. The extension also broadens the markets to five including Japan and Thailand, besides the initial countries of Hong Kong, Singapore and Malaysia.

Prudential and StanChart also have a separate bancassurance arrangement that covers China, South Korea and Taiwan. (📖)

## MALAYSIA

### MAA Takaful unveils cancer plan

MAA Takaful has unveiled MAA Takaful CancerCare, deemed to be the country's first stand-alone comprehensive cancer plan. It offers benefits at both the early and advanced stages of cancer.

The plan pays out the benefits in the early stage to assist policyholders in getting the necessary treatment, said CEO Salim Majid Zain. He added that the policy covers 10 gender-specific forms of cancer: lung, prostate, colon, small intestine and nasopharyngeal cancer for male policyholders; and cervical, uterine, ovarian, breast and vaginal cancer.

CancerCare provides protection coverage from RM25,000 (US\$7,666.53) to RM500,000 (US\$153,330.68), with contributions starting from RM67 (US\$20.55) annually. MAA Takaful aims to collect RM10 million (US\$3.07 million) in contributions within the first year. (📖)

## QATAR

### Better first half for Doha Insurance

Doha Insurance Company has announced its first-half net profit for 2008 at QAR36.1 million (US\$9.92 million) compared to QAR25 million (US\$6.9 million) for the previous corresponding period. Earnings per share stood at QAR2.33 (US\$0.64), against last year's QAR1.72 (US\$0.47).

Doha Insurance was established in 2000, and has teamed up with investment bank and asset management company Amwal to look into sharing marketing insurance-related and employee benefits activities. Recently, it raised its capital to QAR1.1 billion (US\$302.6 million) by 41.5% in a capital rights issue and set up a Takaful insurance company in Bahrain with a capital of US\$70 million.

The company also partnered with Solidarity in 2006 to set up Doha Solidarity with the aim of marketing Takaful products in Doha. (📖)

## UAE

### Takaful House allocates 25% to expats

Takaful House is allocating 25% of the company's shares to expatriates residing in the UAE upon listing, said chairman Mohamed Musabbeh Al Neaimi. Takaful House will also offer 55% of its shares to UAE and GCC nationals. The decision to allocate 25% of its shares to expatriates was made following approval from its constitutive general assembly.

The company has received the nod from the Securities and Commodities Authority to operate as a public joint stock company. It will be listed on the Dubai Financial Market (DFM) on the 4<sup>th</sup> August 2008. Musabbeh added that its shareholders' register has been transferred into DFM's electronic system. (📖)

## MALAYSIA

### Encorp Systembilt upgraded to 'A1'

The ratings on Encorp Systembilt's four tranches of Bai Bithaman Ajil notes issuance facilities worth RM1.32 billion (US\$406 million), RM510 million (US\$157 million), RM250 million (US\$77 million) and RM667 million (US\$205 million) respectively have been upgraded to "A1" from "AA2" by RAM Ratings. The outlook has also been revised from positive to stable.

The company is the concession holder for the development of 10,000 units of teachers' quarters nationwide. The units were completed and handed over to the Malaysian government in early 2004.

The ratings are reflective of a track record of steady payments from the Ministry of Education (MoE), and Encorp Systembilt's healthier cash flow following the resolution of the claims on additional works in June last year. But RAM noted that the company depends solely on MoE as the paymaster in this transaction, hence any delay in payment would affect its cash flow. (2)

## MALAYSIA

### 'BBB+ID' for Tracoma Holdings

Malaysian Rating Corporation (MARC) has placed its "BBB+ID" rating on Tracoma Holdings' RM100 million (US\$30.6 million) Bai Bithaman Ajil (ABBA) Islamic debt securities on MARCWatch Negative.

The MARCWatch Negative placement reflects heightened concerns over Tracoma's ability to make a RM25 million (US\$7.6 million) scheduled payment into the principal service reserve account (PSRA) on the 28<sup>th</sup> July 2008, which represents the first of six scheduled monthly payments to build up the PSRA for the redemption of the first series of the ABBA Islamic debt securities amounting to RM50 million (US\$15.3 million) maturing on the 28<sup>th</sup> January 2009. Tracoma is principally an investment holding company with subsidiaries involved in manufacturing automotive parts and components. (2)

## BAHRAIN/MALAYSIA

### ReTakaful subsidiaries get rated

AM Best has assigned an "A-" to ACR ReTakaful SEA and ACR ReTakaful MEA's financial strength rating, and an issuer credit rating (ICR) of "a". On the other hand, AM Best also affirmed an ICR of "bbb-" to the parent company, Dubai-based ACR ReTakaful Holdings. The outlooks are stable.

The ratings are based on ACR ReTakaful SEA and MEA's strong capitalization, firm commitment of investors and sound business plan, as well as recognizing the two companies' experienced management team and underwriting expertise.

But AM Best noted that some factors could constrain the ratings, such as uncertainties associated with the execution of the business plan, the operational risk associated with the newly established operating entities and the prevailing soft market environment. The ratings also acknowledge the challenges due to the evolving market landscape in the reTakaful segment.

Malaysia-based ACR ReTakaful SEA has a paid-up capital of US\$100 million and concentrates on the Southeast Asia and North Asia regions, while ACR ReTakaful MEA — with an initial paid-up capital of US\$200 million — focuses on the Middle East region. It is based in Bahrain. (2)

## PAKISTAN

### Al-Noor gets an 'A-'

A preliminary medium-to-long-term rating of "A-" was assigned to Al-Noor Sugar Mills' privately-placed diminishing Musharakah-structured Sukuk certificates worth PKR500 million (US\$7 million), by JCR-VIS Credit Rating. The issuance will have a five-year tenure, which includes a two-year grace period. The rating will be finalized following the review of signed legal documents. (2)

## THIS TIME LAST YEAR

- 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 30<sup>th</sup> 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 subprime 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 students from Carnegie Mellon, Qatar University and the London School of Economics participate.

THAILAND

Positive signs for Islamic bonds

Thailand’s aspirations to break into the Sukuk market may finally see the light of day with talk of three listed property developers interested in issuing about THB15 billion (US\$447 million) worth of Islamic bonds by the end of the year.

Dheerasak Suwannayos, adviser to Krung Thai Asset Management, when contacted by *Islamic Finance news*, said two of the three developers are expected to issue US dollar-denominated Islamic bonds while the other may issue a smaller size bond in baht. “I believe the plans are still in the early stage of implementation. They plan to adopt the Thai property fund structure, which has been approved by SEC (Securities and Exchange Commission) under the conventional structure and tailor-make them into Islamic bonds,” Dheerasak said.

If the plans materialize, the property bonds will be the first Shariah compliant bonds for Thailand. Dheerasak said the Islamic bonds will most likely be marketed in the Middle East as Thailand is trying to capture the rising Middle East investment in the Southeast Asian properties, which has been fueled by surging income from high oil prices in recent months.

According to a Goldman Sachs report, the potential investment earned from oil exports is estimated at US\$92 billion to US\$125 billion per year, US\$46 billion to US\$74 billion of which will be allocated for new equity investment. Out of this amount, US\$6 billion to US\$12 billion is estimated to be invested in equity markets in Asia.

Thailand also plans to issue an Islamic sovereign bond next year and will submit a study to the Cabinet to resolve tax issues. It will take about six months to obtain the approval from the Cabinet. The country had earlier planned to issue its first US\$500 million Islamic sovereign bond this year, but scrapped it as more preparation was needed.

Dheerasak also said the Stock Exchange of Thailand (SET) is in the midst of launching an Islamic index, which would comprise stocks of companies operating in industries which are compliant with Shariah law. The SET is working with the FTSE Group on the Islamic Index, targeted for launch within the next six months. The index will open up new opportunities for the Thai market to attract funds from the Middle East.

“Hopefully, it (the Islamic Index) will be launched on time. The study process is now completed and they are in the midst of preparing the infrastructure which includes selecting the Shariah advisory body,” he said.

Dheerasak envisages an overwhelming response from local and foreign investors to Islamic instruments products in Thailand but pointed out that there was a need for aggressive marketing in order to increase awareness on the Shariah compliant products such as the Islamic bond.

The Islamic Bank of Thailand is the only financial institution offering a wide range of Shariah compliant services and products in Thailand. Set up in 2002, the bank, has 27 branches nationwide, of which half are located in the country’s Muslim-majority southern provinces. ☺

UK

db x-trackers plans ETF listing on FSE

The Frankfurt Stock Exchange (FSE) will be the next venue for Deutsche Bank’s exchange-traded fund (ETF) platform, db x-trackers, to list its four regional Shariah compliant ETFs.

When contacted by *Islamic Finance news*, its UK head Manooj Mistry said there was no specific reason for first selecting London for its ETF listing. “We are planning to list on the FSE over the next couple of months as well. We chose London as one of our listing exchanges because it is one of the largest centers of Islamic finance in Western Europe and there is also a large Muslim population in the UK,” Mistry said.

On Monday, db x-trackers listed three of the four regional Shariah compliant ETFs, namely db x-trackers S&P 500 Shariah ETF, db x-trackers S&P Europe 350 Shariah ETF and db x-trackers S&P Japan 500 Shariah ETF on the London Stock Exchange (LSE), making them the first-ever Shariah compliant listing on the exchange. It has also listed its global Shariah compliant ETF on the Dow Jones Islamic Market Titans 100 ETF to complement the three regional Shariah ETFs.

The Shariah indices of Standard & Poor’s screen some AED161.6 trillion (US\$44 trillion) of the world’s market capitalization. Mistry pointed out there have been various initiatives in the UK such as the introduction of Islamic banking and the listing of other Islamic financial instruments such as Sukuk on the LSE, which have increased general awareness. “This shows there is potential in the market,” he said.

Mistry said db x-trackers is always monitoring feedback from its clients and the market, and would consider launching further Shariah compliant products if the opportunity arises.

On the performance of the four newly listed regional Shariah compliant ETFs, he said: “Our experience shows that the trading of an ETF is usually quiet in the first few weeks and it picks up once market awareness increases. The Deutsche Bank market making desk is providing competitive quoting on the exchange with low spreads.”

Mistry added db x-trackers was in the early stages of its marketing program for the four Shariah compliant ETFs but based on initial feedback, it hoped that there will be a lot of interest from investors going forward.

According to him, db x-trackers’ new range of Shariah ETFs provides institutional and retail investors access to investments based on Islamic principles, which exclude any activities contrary to the Shariah law. The new Shariah compliant ETFs allow investors to access a wide range of sectors and markets including utilities, industrials, energy, technology and healthcare via ETFs characterized as being highly liquid and transparent.

“The levels of financial sophistication among Muslim investors are growing and with them, the demand for investment products that are compliant with religious norms. As well as being an excellent option for those investors wanting investment tools in line with their beliefs and principles, these new ETFs will also provide a new way of accessing certain markets for the conventional investor seeking an alternative investment approach,” he added. ☺

Reports by Dalila Abu Bakar

## PAKISTAN/UAE

**Islamic banks to maintain performance**

The global economic slowdown, affecting all sectors of the industry including financial institutions seems to have bypassed Islamic banks in the Middle East and Pakistan. The economies of the countries in the Middle East have so far remained unscathed by the global economic slowdown given the strong economic dependence on oil prices which have sky-rocketed in the recent months.

Islamic banks in the Middle East and Pakistan are expected to stage an encouraging performance in the second half of the year compared to the previous corresponding period, according to analysts. Budget surpluses combined with consumer spending, influx of expatriates changing local demographics for the better and industrial projects are among the factors that have collectively driven the economies of the Middle East and hence directly influenced the outlook of Islamic banks in a positive manner.

Naveed Ahmed, a financial analyst at Global Investments House based in Kuwait, said Islamic banks have stood out, given their nature of business, by providing innovative and Shariah compliant products to consumers and corporates at competitive rates.

“Islamic banks have therefore had a joy ride so far, clearly visible from their bottom lines that still exhibit growth, averaging around 50% year-on-year compared to the first half of 2007,” he told *Islamic Finance news*.

Naveed cited the financial performances for the first half of 2008 of three listed banks in the UAE – Sharjah Islamic Bank (SIB), Abu Dhabi Islamic Bank (ADIB) and Dubai Islamic Bank (DIB) – have been “overly encouraging” and are slightly better than his forecasts in some aspects. “Going forward, we expect the Islamic banking segment to maintain its trajectory with volumes being the drivers,” he added.

According to Naveed, credit demand is anticipated to emanate from across the board including corporate and personal loan seekers. Changing demographics and the increase in expatriate population will drive personal loan demand while infrastructure development, growing interest in the manufacturing sector, need for accommodation as well as further development of tourism-linked industries are seen as the demand pushers for corporate loans.

“With the Dubai Financial Market and the Abu Dhabi Securities Market expected to grow further, fee-based income and capital gains will consequently follow suit and fuel the bottom line further. Demand for Sukuk and issuance of other innovative instruments for Islamic financing will promote generation of advisory and arrangement fee income,” he said.

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

Naveed said his analyses of SIB, ADIB and DIB have strengthened his confidence in the three listed Islamic banks. SIB’s net profit for the first half of 2008 increased 58% to Dh191.8 million (US\$52.21 million) from 121.1 million (US\$32.97 million) achieved in the same period last year.

DIB posted a net profit of AED1.303 billion (US\$355 million) for its first half of 2008, an increase of 47% compared to AED888 million (US\$241.75 million) for the corresponding period last year, excluding the gain on transfer of interest in a subsidiary of DIB. ADIB turned in a net profit of AED520 million (US\$141.56 million) for its first half, representing an increase of 50.4% compared to that of the same period in 2007.

“On the basis of the mentioned growth drivers, we believe that the Islamic banking assets, in tandem with the collective assets of ADIB, DIB and SIB, will rise at a compounded annual growth rate (CAGR) of 21% from 2008 to 2011. Furthermore, on similar grounds, we expect the net commission income and the bottom line of these Islamic banks to grow at a CAGR of between 26% and 21% respectively from 2008 to 2011,” he added.

In Pakistan, the Islamic banking sector is expected to record a better performance for 2008 despite the current global economic situation. “Due to availability of better growth opportunities for the Islamic bank and emerging Sukuk market in the country, the Islamic banks are expected to make better margins this year,” said Aisha Khalid, financial analyst of Pakistan Credit Rating Agency.

“While the weakening economic conditions and difficult credit environment are likely to have an impact on the credit growth in the banking industry, the Islamic banking segment is expected to remain relatively insulated due to the huge untapped potential,” she said.

Aisha added that the sector had registered substantial growth in recent years despite the regulatory framework being in a relatively evolutionary phase and limited liquidity management instruments.

According to her, the better performance of the Islamic banks in Pakistan is also due to their improving share in the total banking industry. “This development also provides growth potential emanating from the ability of Islamic banks to attract previously unbanked customers due to their stricter Islamic mindset and cannibalization of existing customers of conventional banks having a preference for Islamic products,” she said.

There are six full fledged Islamic banks in Pakistan – AlBaraka Islamic Bank, Meezan Bank, Dubai Islamic Bank Pakistan, BankIslami Pakistan, Emirates Global Islamic Bank and Dawood Islamic Bank.

Meezan Bank posted an after-tax profit of 250.583 million rupees (US\$3.51 million) for its first quarter ended the 31<sup>st</sup> March 2008 compared to an after tax profit of 190.577 million rupees (US\$2.67 million) in the previous corresponding period. Dawood Islamic Bank turned in a net profit of 22.338 million rupees (US\$0.312 million) for its first quarter ended the 31<sup>st</sup> March 2008.

However, BankIslami recorded an after tax loss of 29.127 million rupees (US\$0.41 million) for its first quarter ended the 31<sup>st</sup> March 2008 compared to an after tax loss of 18.837 million (US\$0.26 million) for its previous corresponding period. ☹

*By Dalila Abu Bakar*

## Why Sukuk Pioneer is 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 of the 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 billion. 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.

**“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”**

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 derivatives 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 possibilities 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.

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

*continued...*

## Why Sukuk Pioneer is Still the Preferred Venue (continued)

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 training 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.

### Significant developments

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.

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 14<sup>th</sup> 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. ☺

Jane Dellar is managing director of Bahrain Financial Services Development. She can be contacted at +973 17589870.

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## Bahrain — Staying in the Forefront

By Global Investment House

Bahrain hosts the largest concentration of banks and other financial institutions in the Middle East region, offering diverse range of services, including money market and portfolio management, investment advice and insurance products involving risk transfer and capital accumulation. The banking system in the region and Bahrain in particular is witnessing the entry of new players and some consolidation among the existing players. As a result, Bahrain's banking sector has remained a cornerstone in growth of the local economy.

After the oil and gas sector, the financial institution sector which include banking and insurance remains the highest contributor to the country's gross domestic product (GDP) in nominal terms. However in real terms, financial services industry representing 25.5% of the total GDP is the largest contributor and consequently, has been central to the country's economic development over the past decade and will continue to take a primary role in the near future. The sector's contribution to GDP in real terms grew 8.2% in 2006 and reached BHD1.05 billion (US\$2.8 billion).

On the 7<sup>th</sup> September 2006, Central Bank of Bahrain (CBB) was established and replaced the Bahrain Monetary Agency. Now, CBB is responsible for licensing, supervision and regulation of the financial sector and its new supervisory and regulatory framework has played a significant role in liberalizing the sector to international banks.

The total number of banks and financial institutions at the end of April 2008 was 410. This comprises 150 banking institutions with total assets of US\$259.2 billion (April 2008), 166 insurance firms with gross premiums of US\$308 million (2006), 41 investment business firms, 13 capital market brokers with total market capitalization of US\$29.8 billion (May 2008) and 40 specialized licensee firms.

The country continued to attract a good mix of locally incorporated, regional and international institutions and by end of November 2007, the CBB had issued 37 new licenses, compared with 33 issued in full year 2006.

Major international financial institutions licensed by the CBB during 2007 included Allianz, Hannover Re, Global Banking Corporation (GBCorp), NCB Capital, National Bank of Kuwait Investment Services (NBKIS), Islamic Bank of Asia, Bank of Baroda, Pioneer Global Investments and Asia Capital Reinsurance (ACR). The business activities of the new institutions, many of which will serve the Middle East market, also add value to Bahrain's financial center.

A key change to the CBB licensing framework has been the creation of a new license aimed at facilitating the conduct of private banking business from Bahrain. The private banking license, created during 2007, caters to all activities related to banking, investment and financial services targeting high net worth individuals and institutional investors, with liquidity of at least US\$1 million. The new license is a sub-category of CBB's wholesale banking license category.

From January 2008, Basel II would be implemented in Bahrain and all locally-incorporated banks will be required to adhere to its regulations. Bahrain's Shariah compliant financial sector is one of the oldest and most well developed in the world and is growing at record pace. Liquid-

ity in the GCC region has fueled growth for both Islamic and conventional banking, but Islamic banking has grown at a much faster pace when compared to conventional banking over the last couple of years. The Islamic banking industry in Bahrain has witnessed growing desire of customers to transact their financial activities in accordance with the Islamic Shariah principles.

Bahrain, which has spearheaded the Islamic banking activities in the region, has become the natural and convenient location for Islamic finance in the Middle East region with 29 Islamic banks with a total asset size of US\$18.4 billion and 19 Islamic insurance companies (18 Takaful and one reTakaful firms) operating at the end of April 2008.

**“Liquidity in the GCC region has fueled growth for both Islamic and conventional banking, but Islamic banking has grown at a much faster pace when compared to conventional banking over the last couple of years”**

Bahrain is the pioneer in creating a legal framework for Islamic banks and is one of the few markets that allows dual banking system. The CBB has installed a comprehensive prudential and reporting framework, tailor-made for the specific concepts and needs of Islamic banking and insurance.

The 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 re-Takaful firms. Both rulebooks were the first comprehensive regulatory frameworks that dealt with the Islamic finance industry.

In addition to the numerous Islamic financial institutions active in its financial sector, Bahrain also plays host to a number of organizations central to the development of Islamic finance, including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); Liquidity Management Centre (LMC) an organization which provides asset sourcing, structuring and market making capabilities, the International Islamic Financial Market (IIFM) and the Islamic International Rating Agency (IIRA).

AAOIFI is the international organization responsible for development and issuance of standards on accounting, auditing, ethics, governance, and Shariah. It has issued a total of 68 standards covering the whole range of Islamic finance practices that are accepted glob-

*continued...*

## Bahrain – Staying Ahead at the Forefront (continued)

ally. Its standards ensure Islamic financial institutions comply with the Shariah. The standards also introduce greater clarity to the financial reporting of Islamic financial institutions.

IIFM is an international institution focused on the development of the global Islamic capital and money markets, which is working on developing a number of standardized Islamic finance contracts while IIRA having successfully developed a unique methodology for the rating of Islamic financial institutions, offers both credit rating and Shariah quality rating services.

The CBB has also recently established a special fund to finance research, education and training in Islamic finance (the Waqf fund); and is active in working with the industry and stakeholders in developing industry standards and the standardization of market practices.

The central bank continues to support initiatives by the IIFM in the development of Islamic financial products such as repos, derivatives and other instruments. The CBB also contributed by collaborating with Islamic banks and the auditing industry to identify the Islamic accounting standards required to be developed to keep pace with the rapid growth of this sector.

The kingdom is at the forefront in the market for Islamic securities (Sukuk), including short-term government Sukuk as well as leasing securities.

The central bank has played a leading role in the introduction of these innovative products. In 2001, the CBB became the first sovereign in the world to develop and issue Sukuk. Since then, the CBB has an established calendar of Islamic debt paper, which comprises short term as well as medium to long term Sukuk.

A BHD5 million (US\$13.3 million) issue of Sukuk Al-Ijarah, of 6-month tenor, and a BHD6 million (US\$15.9 million) issue of Sukuk Al-Salam,

of three-month tenor, are each offered once a month. For the medium and long term tenors, the CBB has offered a total of 14 issues of Ijarah Sukuk, with a total value of US\$2.05 billion, of which US\$1.27 billion is currently outstanding. The most recent one, a five-year US\$350 million international issue now listed on the London Stock Exchange, was made in March 2008.

**“The strengthening and development of Islamic banking has been, and remains, an important aspect in the government’s policy in maintaining and enhancing Bahrain’s status as the region’s pre-eminent international center”**

Islamic retail banks in Bahrain have also been granted a key exemption, which have considerably facilitated the Islamic mortgage business in the kingdom. The move has eliminated the payment of stamp duty twice in mortgages extended in accordance with Islamic principles.

The strengthening and development of Islamic banking has been, and remains, an important aspect in the government’s policy in maintaining and enhancing Bahrain’s status as the region’s pre-eminent international center.

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Consolidated Balance Sheet of Islamic Banks					
In US\$ million	2003	2004	2005	2006	2007
<b>Assets</b>					
Cash	10.1	12.6	14.8	21.2	17.9
Banks	1,092.3	1,147.5	1,737.2	3,065.6	4,288.9
Private Non-Banks	678.8	1,022.5	1,585.3	1,986.5	3,590.6
General Government	105.6	120.8	162.8	81.9	144.3
Other Assets	189.8	231.8	392.8	651.7	1,462.5
Foreign Assets	2,080.3	2,899.0	4,116.5	6,401.4	6,925.8
<b>Total Assets</b>	<b>4,156.9</b>	<b>5,434.2</b>	<b>8,009.4</b>	<b>12,208.3</b>	<b>16,430.0</b>
<b>Liabilities</b>					
Capital & Reserves	678.4	1,056.6	1,286.4	2,238.5	3,893.4
Banks	429.8	817.5	1,212.9	2,253.5	2,578.9
Private Non-Banks	1,008.7	1,096.8	1,760.3	1,867.7	3,337.6
General Government	67.4	153.7	176.4	219.6	236.5
Other Liabilities	48.1	61.8	231.5	258.4	412.3
Foreign Liabilities	1,924.5	2,247.8	3,341.9	5,370.6	5,971.3
<b>Total Liabilities</b>	<b>4,156.9</b>	<b>5,434.2</b>	<b>8,009.4</b>	<b>12,208.3</b>	<b>16,430.0</b>

Source: Central Bank of Bahrain

## Bahrain – Staying Ahead at the Forefront (continued)

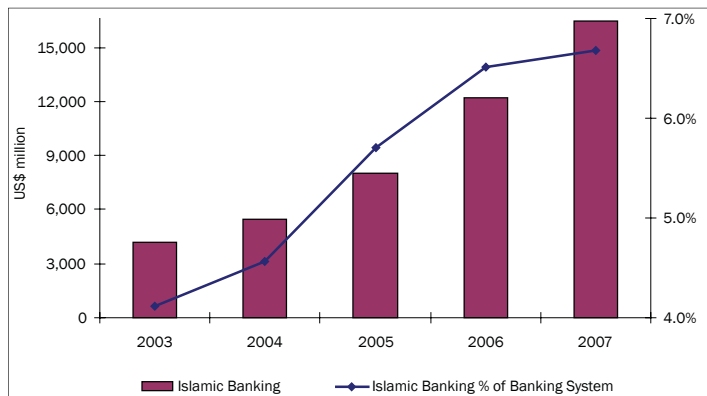
As a result of the various initiatives undertaken by the Bahraini government to develop the country as an Islamic banking hub, the size of Bahrain's Islamic banking and finance industry has been rising substantially since 2004.

The total assets of the Islamic banks grew at a CAGR of 44.6% during the period 2004-2007, which has exceeded the growth of the entire banking system of Bahrain. Islamic banks 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.

The total assets of Islamic banks operating in Bahrain stood at US\$16.4 billion at the end of 2007, an increase of 34.6% over its December 2006 level. The growth in assets was mainly fuelled by 80.8% rise in private non-bank assets of the banks, which contributed 21.9% of the total assets of Islamic banks, having increased from 12.1% a year before.

At the end of 2007, the net foreign assets of the banks however came down from US\$1.03 billion to US\$954.5 million, a decline of 7.4%. The growth in the Islamic banks during the last three years augurs well for Bahrain, as Bahrain wants to become the Islamic hub of the region.

Consolidated Balance Sheet of Islamic Banks



Source: Central Bank of Bahrain

The importance of Islamic banking can be further substantiated with the increasing contribution of Islamic banking assets to the total banking system. The total assets of the Islamic banks have grown at a much faster rate than the Bahrain banking system assets. As a result, the contribution of Islamic banking to total banking assets increased from 4.6% in 2004 to 6.7% in 2007. Going forward, we believe that Islamic banks will continue to grow at a faster pace than the conventional banking assets, as many investors have migrated from conventional banking to Islamic banking. <sup>(2)</sup>

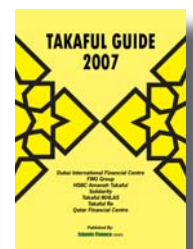


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# Islamic Finance Set to Continue Robust Growth

By Dr Mohamed Damak

The growth of Islamic finance continued to be impressive in the first half of 2008 despite global market dislocation. Standard & Poor's Ratings Services (S&P) believes that the outlook for Islamic finance remains bright. Mounting demand around the world for Shariah compliant financial products and services is fueling the Islamic banking industry's buoyant expansion.

An increasing number of Muslim and non-Muslim countries are also showing interest in Islamic finance, which they are developing locally.

For instance, the UK government recently confirmed its exploratory work to potentially issue a Sukuk, while a number of stakeholders and the French government have shown interest in supporting the development of Islamic finance in France.

Islamic finance is estimated to reach over US\$600 billion by the end of 2008 and has been growing steadily over the past decade. Global market dislocation has had limited effects on Islamic banks rated by S&P, as they do not carry any exposure to structured products. Shariah principles are incompatible with the speculation embedded in these products.

However, global market turmoil has had some indirect impact on the Sukuk market. The liquidity crunch and investors' wait-and-see mood slowed the pace of issuance during the first quarter of 2008.

The market showed some signs of recovery in the second quarter, with total issuance exceeding US\$10 billion. S&P estimates that total Sukuk issuance will reach more than US\$30 billion in 2008.

## Path to international acceptance

A key challenge for the industry is to continue making 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 prevented a uniform, coherent and harmonized Shariah compliant financial code from emerging.

The recent debate on the degree of Shariah compliance of some Sukuk is a meaningful example. S&P believes that Islamic finance has yet to achieve some milestones necessary to reach a certain degree of harmonization and standardization. Note that S&P does not opine on the degree of compliance with the Shariah, nor does it give advice on transaction structuring.

Islamic finance continued to grow rapidly in its core markets, including the Gulf Cooperation Council (GCC) countries and the Muslim part of Asia. In Qatar, for example, the growth of Islamic banks stood at about 50% in 2007 and 30% in the first quarter of 2008.

An increasing number of customers in this region are turning to Islamic financial products. Corporates, mainly listed ones, are also increasingly seeking to finance themselves in a Shariah compliant way.

## Real estate an area to watch

Mounting demand for real estate in the GCC region is offering significant opportunities for Islamic finance. Real estate financing, the

asset-backing principle inherent to Islamic finance, and the sensitivity of retail customers to Shariah compliant products go hand in hand.

S&P believes that real estate finance will not only be one of the main areas of future growth for Islamic financial institutions, it will also be one of the major drivers of risk.

Economic conditions continue to be rosy in the region but real estate prices are skyrocketing, increasing the vulnerability of Islamic financial institutions to an economic reversal.

Therefore, a crash of the real estate sector would materially impact their creditworthiness. In addition, the asset-backing principle, as well as the mounting competition in the GCC, may push Islamic financial institutions to adopt a more lenient approach toward risks.

Real estate finance growth, the need to access long-term funding and the recent debate on the degree of Shariah compliance of some issued Sukuk should favor the emergence of asset-backed Sukuk or Sukuk with no credit enhancement mechanisms.

**“In its journey toward becoming a major asset class, Islamic finance is in need of independent opinions on credit quality to continue attracting investors”**

The market has yet to become familiar with the securitization techniques. The weakness of the dollar and the pressure on GCC central banks to change their foreign exchange policy to control inflation strengthens the argument for Sukuk issuance in local currency over the next 12 months.

In the first half of 2008, S&P revised its outlook on Sharjah Islamic Bank to positive from stable, reflecting the bank's capital increase and sustained financial performance. S&P also published two articles on risk management for Islamic financial institutions and the Sukuk market trends.

In its journey toward becoming a major asset class, Islamic finance is in need of independent opinions on credit quality to continue attracting investors. S&P has developed strong expertise in Islamic finance and specific products (including indices) to support this growth. ☺

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## The Comeback of Asia's Beaten Down Composites

By Gérard Al-Fil

The month of July has seen a turnaround for the major Dow Jones Islamic Market indexes in Asia. While India had been at the bottom of the board with a loss of 15.89% in June, Shariah-compliant stocks of the Dow Jones Islamic Market India Index advanced in July, up 7.68%. The Islamic index even beat its conventional counterpart, the Dow Jones Wilshire India Index (which was up 6.87%). The same applies for the Dow Jones Islamic Market Philippines Index: so far in 2008, it had been one of the worst composites on a YTD-basis. In July, this South-East Asian index surged 2.9%, followed by the Dow Jones Islamic Market Amana Sri Lanka Index (gaining 1.51%).

It is of little surprise that the Dow Jones-IS Pakistan Islamic Index is at the bottom of the results list with a loss of 19.71%. Pakistan, a pioneering country in Islamic banking and investing, is currently undergoing its worst stock market crisis in at least 18 years. In fact, the Karachi Stock Exchange KSE has lost 40% of its value since its record of 15676.34 points on the 18<sup>th</sup> April, 2008. Indeed, Karachi's banking district was a no-go-zone recently, with riots spurred by angry investors who lost fortunes.

The Dow Jones Islamic Market Thailand and Dow Jones Islamic Market Indonesia indexes took heavy losses as well. They had retreats of -13.85% and -10.65%, respectively.

The Dow Jones Islamic Market GCC Index made its debut in July (it lost 3.4%). It combines Shariah-compliant stocks listed on the exchanges of the Gulf Cooperation Council (GCC). The countries included in the index are Kuwait, UAE, Bahrain, Qatar and Oman. Although GCC member Saudi Arabia has the biggest stock market in terms of market capitalization, its stocks are excluded, since Riyadh is not open to foreign private investors (as of yet). On the 14<sup>th</sup> July, Dow Jones Indexes also launched the Dow Jones GCC Titans 40 Index. This index has been licensed to Van Eck Global, a provider of global investment products, to serve as the basis for an exchange-traded fund. This is the first time that a purely GCC index has been licensed to underlie an ETF.

Islamic finance is not concentrated in the Middle East or East Asia alone. It is a global phenomenon. The Dow Jones Islamic Market US Titans 50 Index (down 3.84%) and the Dow Jones Islamic Market Europe Titans 25 Index (4.96% lower) enable Muslim investors to put faith into finance in the world's developed markets as well. Examples of Shariah-compliant stocks are Exxon Mobil and Microsoft in the US, or BP and Vodafone Group in Europe. These firms do no or little business with alcohol, pork and tobacco products, weapons, entertainment or interest-based financing.

Among the sector composites, only the Dow Jones Islamic Market Health Care Index headed into positive territory last month (up 3.53%). Since oil prices dropped significantly in July, the Dow Jones Islamic Market Oil & Gas Index had the biggest loss, down 14.19%. Islamic Banks and insurers of the Dow Jones Islamic Market Financials Index exit the month almost unchanged, as did the Dow Jones Citigroup Sukuk Index (down .31%).

With the majority of Islamic and conventional indexes of the Dow Jones Indexes family heading down in the third consecutive month, pundits are justified in asking an important question: After years of

a global boom, is there a global bust ahead? Further, are we already in one (and not know it)? With the threat of a possible US/Iran -led war against Iran still being possible, investors may face stormy months ahead. ☹

Gerard al-Fil reports extensively from the UAE, Kuwait, Bahrain, Qatar, Oman, Iran and Turkey. He can be contacted at [alfil27@msn.com](mailto:alfil27@msn.com).

### Shariah compliant at a glance

Based on the close of trading on the 28<sup>th</sup> July, the global **Dow Jones Islamic Market Titans 100 Index**, which measures the performance of 100 of the leading Shariah compliant stocks globally, lost -4.43% month-to-date, closing at 2276.21. In comparison, the Dow Jones Global Titans 50 Index, which measures the 50 biggest companies worldwide, posted a loss of -2.94%, closing at 197.40.

- The **Dow Jones Islamic Market Asia/Pacific Titans 25 Index**, which measures the performance of 25 of the leading Shariah compliant stocks in the Asia/Pacific region, decreased -6.25%, closing at 2015.43. The **Dow Jones Asian Titans 50 Index**, in comparison, posted a loss of -3.46%, closing at 154.99.
- Measuring Europe, the **Dow Jones Islamic Market Europe Titans 25 Index**, which measures the performance of the 25 of the leading Shariah compliant stocks in Europe, closed at 2508.20, a loss of -4.96%, while the pan-European blue chip **Dow Jones STOXX 50 Index** lost -2.85%, closing at 3322.64.
- Measuring the performance of 50 of the largest Shariah compliant U.S. stocks, the **Dow Jones Islamic Market U.S. Titans 50 Index** decreased, closing at 2215.28. It represents a loss of -3.84%. The U.S. blue-chip **Dow Jones Industrial Average** decreased -1.93%, closing at 11131.08.

### Middle East and GCC Regions

#### Dow Jones Islamic Market Indexes Versus Conventional Dow Jones Indexes

In July, the **Dow Jones DFM Titans 10 Index**, measuring the 10 largest and most liquid stocks listed on the Dubai Financial Market, closed at 5459.02. It is a loss of -3.51% month-to-date.

The **Dow Jones Islamic Market Kuwait Index** posted a loss of -4.58%, closing at 1856.75. Its conventional counterpart index, the **Dow Jones Kuwait Composite Index**, was down, closing at 483.75. It represents a loss of -2.49%.

The **Dow Jones Islamic Market Turkey Index** closed at 3704.95, a performance of 0.44% month-to-date, while the **Dow Jones Wilshire Turkey Index** closed at 1067.08, a gain of 10.95%.

Measuring the performance of Shariah compliant stocks of five of the Gulf Cooperation Council (GCC) member states, the **Dow Jones Islamic Market GCC Index** closed at 2698.60, a loss of -3.40%. The conventional **Dow Jones GCC Index** was down -2.25%, closing at 2834.91.

## MARC Expands its Footprint in Islamic Finance

By Islamic Finance news

Malaysian Rating Corporation (MARC) is one of the country's two domestic credit rating agencies. It provides independent credit opinions and analyses of the financial strength of issuers, banks, insurance companies as well as ratings of corporate debt issues. These include ratings of capital market instruments and structured finance ratings.

MARC, with a present paid-up capital of RM20 million (US\$6.13 million), began operations in 1996 and quickly established itself in the Malaysian corporate bond market, particularly in the rating of Islamic debt securities. It undertakes ratings of corporates and corporate debt issues, including Islamic capital market instruments, asset-backed securities as well as the financial strength ratings of financial institutions and insurance companies. It achieved a milestone with the debut of a property-based Islamic asset backed securities (ABS) issue, the first of its kind in the Malaysian capital market.



MARC believes that the growth of financial markets depends on healthy financial institutions, a broad and deep market with active buyers and sellers, and a sound infrastructure including legal and judicial processes. Describing ratings as a useful tool in all of these areas, it says: "Financial institutions, once rated, strive continuously to improve their internal practices in order to earn higher ratings, which contributes to a reduced cost of funds. The regulatory authorities in some countries prescribe minimum rating standards for issuance of securities to the public and investors. The market aligns the cost of funding to the rating and thus forces institutions to aim for higher ratings."

Islamic Finance news recently obtained the views of MARC's senior vice president and head of business development, Roza Shahnaz Omar (pic), on the company's current performance, its direction, the Islamic bond market and its future.

### How much of Islamic corporate bonds were rated by MARC over the last year? What is its market share?

There were 59 Islamic bonds issued for the whole of 2007. Of these, MARC rated 23, or 39%. Another seven Islamic bond issues or 12% of the total Islamic bond issues were dual rated, that is, rated by MARC and another credit rating agency.

In terms of value, the total Islamic bond issued for the whole of 2007 amounted to RM48.79 billion (US\$15 billion). The value of Islamic bond issues that were rated by MARC amounted to RM7.4 billion (US\$2.3 billion). A further RM2.1 billion (US\$644 million) Islamic bond issues were dual rated by MARC and another credit rating agency.

### Has there been a slowdown in the issuance of Islamic corporate bonds?

For the first half of 2008, there were 31 Islamic bond issues, valued at RM12.3 billion (US\$3.7 billion). This is in contrast to the first half of 2007 when the number of Islamic bonds issued was 25 based on the value of RM6.7 billion (US\$2.1 billion).

Going into the second half of 2008, MARC expects the number and value of both the Islamic bond and conventional bond issues to drop slightly due to the more challenging macroeconomic environment as the rising bond yield environment is likely to persist in the second half of the year while moderating economic growth will result in lower financing needs.

MARC has revised its estimate of new corporate bond issuances (conventional and Islamic) for 2008 down to RM40 billion to RM45 billion (US\$12.3 billion-US\$13.8 billion) for 2008 from RM45 billion to RM50 billion (US\$13.8 billion-US\$15.3 billion). MARC's "2H 2008 Ringgit Bond Market Outlook" goes into this more comprehensively and can be read at [www.marc.com.my](http://www.marc.com.my).

### What is MARC's criterion when performing a credit rating on Islamic corporate bonds? Has it changed over the years?

Islamic debt ratings are not fundamentally different from conventional ratings. The Sukuk issuances that MARC has rated to date have all been rated by applying conventional credit rating methodology. The main difference is Sukuk issuances have to be Shariah compliant.

The transaction structure of a Sukuk will have to be reviewed by authorities on Shariah matters pre-issuance and usually prior to the rating engagement. MARC has an in-house Shariah panel to provide consultation on Shariah-related matters and to offer oversight where MARC's development of rating products for Islamic financial instruments is concerned.

MARC also has a different set of rating definitions for Sukuk and non-Sukuk Islamic debt instruments. This contrasts with the approach of the global credit rating agencies which employ the same set of rating definitions for both conventional and Islamic financial instruments notwithstanding the prohibition against riba-based financing.

### How well received are MARC's ratings in the Islamic finance industry?

In recent years, it has become apparent that the evolution of Islamic finance has progressed beyond a replication of conventional products to the development of real Islamic financing alternatives.

The foregoing has taken place within the context of the increasing amounts of Shariah compliant capital and accordingly, the demand for Shariah compliant financial products and services. MARC has kept pace with the evolution in Shariah compliant financial products and services and responded thereafter by introducing new rating products and rating symbols.

MARC, in providing ratings for Sukuk issuances, is the first rating agency to introduce a specific set of rating symbols and definitions for the ratings of Islamic capital market instruments. The analytical framework for rating Islamic bonds is broadly similar to that used for conventional bonds.

There are no major differences in MARC's rating approach for debt-based Islamic financing instruments. These ratings specifically assess the likelihood of full and timely payment of obligations to holders of the instrument issued under the various debt-based Islamic financing

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## MARC Expands its Footprint in Islamic Finance (continued)

contract(s), which can be likened to the concept of probability of default in conventional debt ratings.

MARC assigns Islamic bond ratings on long-term and short-term rating scales that are comparable to its other credit ratings. The scale ranges from 'AAAID' to 'DID' for a long-term rating (with maturity of more than one year), and from 'MARC-1ID' to 'MARC-DID' for a short-term rating (maturity of up to one year).

Since 2001, MARC has also been assigning Sukuk ratings to fixed income Sukuk issuances. In common with MARC's conventional debt and Islamic debt rating scales, the long-term Sukuk rating scale comprises eight rating categories ranging from 'AAAIS' to 'DIS', while the short-term rating scale ranges from 'MARC-1IS' to 'MARC-DIS.'

The introduction of a different set of symbols for Sukuk obligations recognizes the fundamental difference between Sukuk and other fixed-income Islamic debt obligations. Sukuk are asset backed, Shariah compliant investment certificates, usually used in conjunction with an Ijarah (lease rental) structure or a Musharakah (profit-sharing structure).

Again, the rating focus for fixed-income Sukuk is on timely payment with added analytical emphasis on the "beneficial interest" conferred by holding a Sukuk. This "beneficial interest" represents a proportional ownership of the underlying asset as well as the income that is generated by the asset.

The analytical framework employed in rating Sukuk broadly resembles that of ABS. The first Sukuk that was rated by MARC was First Global Sukuk, a special purpose vehicle of Kumpulan Guthrie, for US\$368 million.

MARC has also appointed its own Shariah Advisory Panel to advise on Shariah aspects of Islamic financial instruments and review/endorse new or variations to Islamic rating products and rating definitions to ensure that they comply with Shariah requirements. In this regard, should MARC be the appointed rating agency for the transaction, issuers and investors also have the added validating endorsement of being Shariah compliant from MARC's own Shariah Advisory Panel.

We had in early 2008 acquired a stake in Islamic International Rating Agency (IIRA) based in Bahrain. The foray into Bahrain enables MARC to tap into the existing rating products offered by IIRA and possibly introduce them in Malaysia.

The market players are receptive to MARC's initiatives in the rating of Islamic instruments. MARC will constantly review and monitor the development in the Islamic finance and will continuously conceptualize new rating products in line with the rapid growth of Islamic finance.

**How does MARC rank with other international rating agencies such as Standard & Poor's, Moody's and Fitch?**

Conceptually, MARC's debt ratings are relative rankings of credit risk intended to compare credits across industries and credit types, but within the national setting. On this rating scale, AAA is defined as the lowest-risk tier of credits, which notably includes the Government of Malaysia, and 'C' as the highest-risk.

In its 12 years of operations, MARC has established a credit rating process which is robust, systematic, clear and can be applied continuously and consistently to achieve its main objective of providing credible and independent ratings. To ensure high-quality and integrity of its rating process, the detailed procedures instituted are largely governed by the company's various policies and controls system.

Under MARC's rating process, systematic procedures have been put in place which are designed to ensure that its analysts are able to reasonably identify, understand and analyze, information relevant to the issue and issuer to produce thorough and fair credit opinions. In terms of quality of rating, we conduct our rating with a high level of integrity and professionalism at par with the international rating agencies.

**With the steady growth of the Takaful market, does MARC see a need to also assign ratings to the Takaful and reTakaful companies?**

The Takaful business is set to further expand its role as an alternative to conventional insurance and continues to gain importance and significance. A rating on an institution which offers Takaful would provide the market with a useful means to benchmark the institution against its peers.

Importantly, such ratings could help promote high levels of disclosures and transparency as well as provide an impetus to enhance the corporate governance of an institution offering Takaful services.

**Looking ahead, what does the future hold for MARC in the Islamic finance industry?**

The Islamic finance industry in Malaysia, especially the Islamic bond market, has enjoyed impressive growth in the past few years. For example, the value of Islamic bonds issued in the first half of 2008 is 84% higher than the previous corresponding period.

Although MARC foresees headwinds in the issuance of new Islamic bonds in the second half of 2008, this will not derail the long-term growth potential of the Islamic bond market. The Islamic finance industry will form one of the main pillars in Malaysia's financial market.

MARC, as one of two credit rating agencies in Malaysia, is well positioned to enhance its participation in this growing market. ☺

### Next Forum Question

**The lack of demand for Islamic hedge funds is primarily a Shariah concern. Some say it is a complex structure which lacks investor attraction, while others believe it has great potential in the Islamic finance industry. What are your views?**

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Wednesday, 6<sup>th</sup> August 2008.

## First British Takaful Operator Optimistic About the UK

By Dalila Abu Bakar

Britain's first independent Shariah compliant insurance operator, Salaam Halal, is targeting 30,000 policies or 5% of the market of the country's Islamic insurance sector in its first year of operation, said chief executive Bradley Brandon Cross (pic). He is confident of achieving the target in view of its pioneer status.

"The UK insurance market has more than 140 insurance companies which are actively writing motor and property insurance but there has never been a real choice for Muslims who want the option of buying a product that is aligned with their faith," he noted. Hence, the company's business in a country with a population of about two million Muslims is sustainable. "With the average price, if we achieve the target, we fully expect a successful business," he said in an interview with *Islamic Finance news*.



The Islamic insurer, with a start-up capital of GBP10 million (US\$19.93 million), launched its Shariah compliant car insurance this week. According to Cross, more products are in the pipeline and the company plans to launch its commercial insurance, home insurance and Family Takaful in the coming months.

Unlike conventional insurance policies, where the risk is shifted from the policyholder to the insurance company, Takaful spreads the risk between all policyholders. A policyholder pays contributions into a pool which is then invested in Shariah compliant investments.

The policies are aimed at Britain's Muslims who constitute about 2.7% of the country's population. However, the policies are also designed to appeal to non-Muslim consumers interested in products of an ethical or cooperative nature. He said the elements of the products make Takaful attractive and fairly unique in the insurance market.

Cross said Salaam Halal hopes to capture between a quarter and a third of the market for Shariah compliant car insurance and home insurance over the coming years. "This is sufficient for us to be sustainable. We are hoping that sooner or later, all Muslims in the UK will buy our Shariah compliant products," he said.

To ensure continued growth, Cross said, Salaam Halal has charted strategies that include advertising its Shariah compliant products

through all forms of communication – TV, radio, print, direct mail, telephone and Internet. For instance, Salaam Halal insurance has launched a direct mail campaign to promote its Shariah compliant products to Muslims.

It has appointed Tri-Direct to handle its marketing account and the latter provides a data solution to enable Salaam Halal to inform prospect customers of its Shariah compliant products, such as its new car insurance, which meet the specific needs of the Muslim population.

The campaign includes localized outdoor, press, online and radio activity which will be used in areas heavily populated by the Muslim community. Direct mail will be used strategically to target those most likely to require Shariah compliant insurance regardless of where they live.

According to Cross, the budget allocation for advertising is substantial. Salaam Halal's call centers in Britain are also equipped to take calls in English, Arabic, Bengali, Gujarati or Urdu. The company, he added, is looking at forming partnerships with Islamic financial institutions in the UK. "We are now talking to all Islamic financial institutions and are close to signing some deals."

On Salaam Halal's five-year plan, Cross said it will continue to grow the business in the UK and offer multi products and have good cross sell rates. He also plans to have an office outside the UK. Asked if it will be in Europe, Cross said: "We are still in the preliminary stage of investigation."

It is eyeing Germany, the Netherlands, Italy and Scandinavia. According to Cross, he has been approached by some parties in the Gulf Cooperation Council (GCC) region for joint ventures but said it is "still early to say."

He pointed out that the market in UK is competitive but is open for new entrants. "It is exciting for us to be able to offer Shariah compliant products in the market place for UK and the UK financial services," he added.

He sees the UK government as trying to make the country an Islamic financial hub and a gateway for Islamic finance. Currently, there is one stand alone Islamic retail bank and four Islamic investment banks. "There is a demand for it," he added.

The retail bank is the Islamic Bank of Britain, launched in 2004. The others are the European Islamic Investment Bank, given a license in 2005; the Bank of London and Middle East, launched in July 2007; the European Finance House, set up in January this year; and Gatehouse Bank, which opened its door to business in the first half of 2008.

Salaam Halal insurance and Salaam insurance are the trading names of Principle Marketing Services. The policies are underwritten by Principle Insurance Company. Malaysia's insurer MNRB Holdings, with a substantial stake in Salaam Halal, is the second largest shareholder of the company. "There are a lot of initiatives by the UK Government and the marketplace for Islamic finance. With the rising oil prices, Gulf money could come to the UK and Malaysia as well," Cross said. ☺

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



**Name:** Alberto G Brugnoli  
**Position:** President  
**Company:** ASSAIF  
**Based:** Milan and London  
**Nationality:** Italian

sector, we have made a name for ourselves with the added-value advice for strategic positioning and financial structuring.

### What are the strengths of your business?

Resilience, lateral thinking and fast action, compounded by the fact that some of the best and highly motivated brains in Islamic finance – all successful in their own professional ventures – work together in ASSAIF.

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

The fundamental factor is that we were involved in Islamic finance well before it became a trendy and fashionable affair! In the late '80s, I originated one of the first Murabahah commodities-based transactions and, in the late '90s, had written 'Pilot Project Jannat al-Ard', a feasibility and multi-disciplinary seminal study for the creation of a Shariah compliant 'Mediterranean Development Bank'. It is today being used by a major GCC-based group for its strategic investments in Italy.

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

In Italy, we share with all of Europe its administrative, regulatory and fiscal hindrances but in particular, we lag behind culturally and psychologically. These factors could in turn become an opportunity for the establishment of a transnational lobby to sponsor a common European approach to Islamic finance.

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

I think that Islamic finance has come of age. We, academicians and practitioners alike, have a once-in-a-lifetime opportunity to show the world that a different approach to wealth creation and preservation is possible. One of the fastest areas of growth shall be the European Union, where Islamic finance shall serve the needs of both the Muslims as well as the fast-growing ethical finance sector.

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

Let me name two! The first is the necessity for a change in mindset to favor the creation of Shariah-based products. The second is the necessity for Islamic finance to adequately address the challenge of poverty alleviation by making financial services accessible to the poor. In this respect, greater attention should be paid to Shariah compliant microfinance as a well-suited conduit to channel much-needed resources to Muslims living in deprivation. ☺

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

Since young, I have obstinately pursued my interests in two fields that are seemingly at odds with each other: first, Arabic and Islamic studies, and second, finance. After undergoing training in Tunis, Cairo and Damascus, I regularly contributed articles and provided translations on different topics related to the Muslim world. Then, following a degree in international relations in Geneva, I rose quickly in Merrill Lynch to become head for the Italian region before going into private practice.

As an independent consultant and after obtaining a Master's in Europlanning, I have conceived, structured and run projects for public bodies, corporations, legal firms and banks with a keen eye on the emergence of new forms of governance and financial inclusion. The two fields coalesced quite naturally into Islamic finance with the incorporation of ASSAIF.

### What does your role involve?

As president of a think-tank, I have a multi-pronged role. I routinely chair or speak at the most important world events on Islamic finance. I also contribute articles or give interviews on different issues of particular interest. I have open dialogue sessions with the conventional sector, such as with the Bank of Italy, the Italian Banking Association and the national banking community in general, and strive to keep ASSAIF at the crossroads for everybody interested in Islamic finance in Italy.

I am currently advising the largest Italian carbon fund for its Shariah compliant investments and working on a project for the incorporation of an Islamic merchant bank funded by eastern and western investors (my old obsession of bridging the two worlds!).

### What is your greatest achievement to date?

While I am happy to run the only European consultancy on Islamic finance of international repute, I think that at the end of the day, the greatest achievement is the contribution that ASSAIF is making to improve understanding between the Muslim world and the west. Business and finance has proved to be a powerful tool to create awareness of the thin divide between the Muslim world and European societies.

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

In the retail segment, first-home financing, where there is great potential for demand, has aroused great interest. In the investment



ASSAIF  
Associazione per lo Sviluppo di Strumenti Alternativi e di Innovazione Finanziaria

Milan-based ASSAIF was established by Italian experts on Islamic finance. The think-tank seeks to create Shariah compliant financing instruments aimed at facilitating the flow of investments from the GCC. For more information, email [info@assaif.org](mailto:info@assaif.org) or visit [www.assaif.org](http://www.assaif.org)



## The Emirates Opportunity Fund

<b>STRUCTURE</b>	A five-year, closed-ended fund
<b>CURRENCY</b>	US dollar
<b>FUND MANAGER</b>	First International Property Investments (FIPI), regulated by the Guernsey Financial Services Commission
<b>INITIAL OFFER PERIOD</b>	18 <sup>th</sup> July to 18 <sup>th</sup> August
<b>DATE OF LAUNCH</b>	25 <sup>th</sup> August 2008 (Channel Islands Stock Exchange listing)
<b>FUND SIZE</b>	US\$100 million
<b>NET VALUE</b>	US\$1,000
<b>MINIMUM INVESTMENT</b>	US\$25,000
<b>BACKGROUND</b>	A Shariah compliant real estate fund giving investors access to a diversified portfolio of properties and land acquisitions covering the commercial and residential markets of Dubai and the emerging Northern Emirates of the UAE
<b>FUND OBJECTIVE</b>	To achieve higher-than-average capital appreciation on investor funds under management by a Shariah compliant strategy in an opportunist yet diverse portfolio of commercial and residential real estate development and investment opportunities in Dubai and the Northern Emirates over five years
<b>FUND STRATEGY</b>	To rapidly build a Shariah compliant investment portfolio through a rolling program of Shariah compliant financing, property acquisitions, land banking infrastructure plays and development funding. The value of these assets will be maximized through the maturity of the terms, active project management and sale of such property.
<b>DISTRIBUTOR</b>	First Wealth Management (UK)
<b>INVESTMENT AND SHARIAH ADVISER</b>	Tabarak Partners
<b>FUND ADMINISTRATOR</b>	Louvre Fund Management, Guernsey
<b>INVESTMENT MANAGER</b>	FIPI, Guernsey
<b>CUSTODIAN</b>	Barclays Bank (Guernsey)
<b>REGISTRAR</b>	Louvre Fund Management (Guernsey)
<b>DIRECTORS OF FUND</b>	Victor Charman, Derek P Baudains and David Scott
<b>DIRECTORS OF FIPI</b>	Gary Shepherd, Danny Lubert, Mark Tolner, Charles Tracey and Kevin Gilligan
<b>RISK</b>	By diversifying the fund's portfolio across key market sectors in Dubai and the Northern Emirates of the UAE, it offers a diversified level of risk without compromising the opportunity for capital growth

For more termsheets, visit [www.islamicfinancenews.com](http://www.islamicfinancenews.com)

**CSBIB — Bangladesh**

Mufti Abdur Rahman has been appointed chairman of the Central Shariah Board for Islamic Banks of Bangladesh (CSBIB). He replaces the late Moulana Ubaidul Huq, and will be holding the post for the rest of the 2007-10 term. [↻](#)

**BARCLAYS CAPITAL — US**

The investment banking division of Barclays Bank has made several appointments, all based in New York.

Thomas Rosén has been appointed managing director. He was most recently the managing director and head of natural resources M&A at the Bank of America, where he spent eight years. Trace McCreary, the new managing director and head of US infrastructure finance, will be responsible for developing relationships in the expanding infrastructure sector. Prior to his appointment, he was a senior managing director for the global industries group at Bear Stearns.

Anatoly Nakum is the new head of high grade and crossover flow trading at its US fixed-income unit. Nakum was previously the head of investment grade credit default swap and cash trading at Deutsche Bank.

Meanwhile, James Paris is the new managing director and head of paper and packaging investment banking. He was most recently a managing director in Deutsche Bank's leveraged finance group. [↻](#)

**KHAZANAH NASIONAL — Malaysia**

Andrew Sheng has been appointed a member of the firm's board of directors, effective on the 22<sup>nd</sup> July.

He is currently chief adviser to the China Banking Regulatory Commission and board member of Qatar Financial Centre Regulatory Authority and Sime Darby, and is also a member of several other advisory councils locally and internationally.

Sheng was chairman of the Securities and Futures Commission of Hong Kong from October 1998 to September 2005. Prior to that, he was deputy CEO of the Hong Kong Monetary Authority between October 1993 and September 1998.

He also served as the senior manager of financial sector development at the World Bank from 1989 to 1993 and held various positions with Bank Negara Malaysia from 1976 to 1989, including chief economist and assistant governor. [↻](#)

**BGI — US**

Alejandro Reynoso is Barclays Global Investors' (BGI) new chief investment officer and regional director for Latin America, and will be based in San Francisco. Reynoso made the move from the Mexican Stock Exchange, where he was the managing director for corporate strategy. [↻](#)

**RBS GROUP — UK**

Charles Roast is the Royal Bank of Scotland Group's new managing director, and will be covering UK mergers and acquisitions. He was most recently attached to Merrill Lynch, where he held a similar position in the UK investment banking team. [↻](#)

**LEHMAN BROTHERS — US**

The investment bank has named Christian Broda as chief international economist. He was previously a professor of economics in the Graduate School of Business in the University of Chicago. [↻](#)

**AL KHALIJI — Qatar**

The bank has appointed Andrew Liew to head its retail activities in Qatar. He was most recently head of retail business at the Singapore Exchange.

Liew has more than 20 years of experience in the industry, and has held several senior positions in Citibank in Asia-Pacific, ABN Amro Bank and OCBC Bank in Singapore. [↻](#)

**MERRILL LYNCH — UK**

Merrill Lynch's global wealth management group has appointed a team of three from Bear Stearns to service ultra high net worth clients. Rajiv Gupta and Chris Pinsent will be led by Mazy Moghadam, and the trio will be based in London and Monaco.

Moghadam was the senior managing director of investment services in Bear Stearns, and has worked with private clients, family offices and foundations, advising on asset allocation and investment implementation. [↻](#)

**BANK OF NEW YORK MELLON — Turkey**

Michel Sidier has been appointed as the bank's head for its Istanbul office. He has been with the firm as the country manager for France since 2001. Prior to his employment in BoNY, he was JPMorgan's head of sales for securities services. [↻](#)

**MORGAN STANLEY — US**

Juan Dibildox has joined Morgan Stanley's private wealth management office as an investment representative, catering to high net worth clients in Mexico. He was previously with Lehman Brothers as a financial adviser, also covering Mexico. He will be based in Miami. [↻](#)

**NOMURA SECURITIES — US**

Surat Maheshwari is the new managing director of private placements and US debt capital markets in Nomura Securities, to be based in New York. He will be responsible for originating, structuring and distributing private debt to US institutional investors as well as managing Nomura's debt capital market efforts in the US.

Before joining the Japan-based company, he was head of US syndicate and private placements at Dresdner Kleinwort. [↻](#)

**FSA — UK**

The Financial Services Authority (FSA) has appointed Jon Pain as the managing director for retail, replacing Clive Briault. Before this, Pain was the managing director of Lloyds TSB-owned mortgage lender Cheltenham & Gloucester. Clive Adamson has meanwhile been appointed managing director of the regulator's major retail groups division. He joined FSA in 1998 as a senior adviser, and has worked at Bank of America and was a council member of the British Bankers' Association. [↻](#)

# Deal tracker

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

Another **Islamic Finance news** exclusive

ISSUER	SIZE (million)	INSTRUMENT
Bumiputra - Commerce Holdings	US\$1.84 billion	Islamic and conventional CP/MTN program
Islamic Bank of Thailand	US\$178.77	Ijarah
ETA Star Property Developers	Up to US\$150	Sukuk
Abu Dhabi Commercial Bank	US\$1.07 billion	Islamic MTN
Dewa	Minimum US\$500	Sukuk
Philippines	Up to US\$1 billion	Sukuk
BTA Bank	Up to US\$150	Sukuk
Bahrain Central Bank	US\$500	Sukuk
Qatar Islamic Bank	US\$300	Sukuk
Barwa Real Estate	US\$800	Sukuk
Doha Bank	US\$1 billion	Sukuk Ijarah
Tabreed	Up to US\$500	Sukuk
Dubai International Financial Center	US\$200	Sukuk
Amlak Finance	US\$260	Sukuk
Al-Rajhi Cement Investment	US\$595	Sukuk
Al-Zamin	US\$11.15	Mudarabah
Muhibbah Engineering	US\$125.41	Mudarabah
Indonesia	up to US\$2 billion	Ijarah
Orient Technology Indonesia	US\$120	Islamic and conventional
Perisai	up to US\$47.03	2 tranches in 6 series
Glomac	US\$18.83	Murabahah MTN
First Fidelity	US\$2.9	Diminishing Musharakah
Prolintas	US\$187	US\$93.5 million senior Ijarah, US\$93.5 million junior Musharakah
Monetary Authority of Singapore	TBA	Sukuk
Islamic Development Bank	US\$122.75	Ijarah
UMW Toyota Capital	US\$306.9	Musharakah CP/MTN

For more details and the full list of deals visit  
[www.islamicfinancenews.com](http://www.islamicfinancenews.com)

## Islamic Finance news

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Middle Eastern Business  
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#### Dr Monzer Kahf

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Private Practice

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Dow Jones Islamic Indexes

#### Mr Dawood Taylor

Head of Takaful Taawuni Division  
Bank Aljazira

#### Mr Abdulkader Thomas

President & CEO  
SHAPE - Financial Corp

#### Mr Paul Wouters

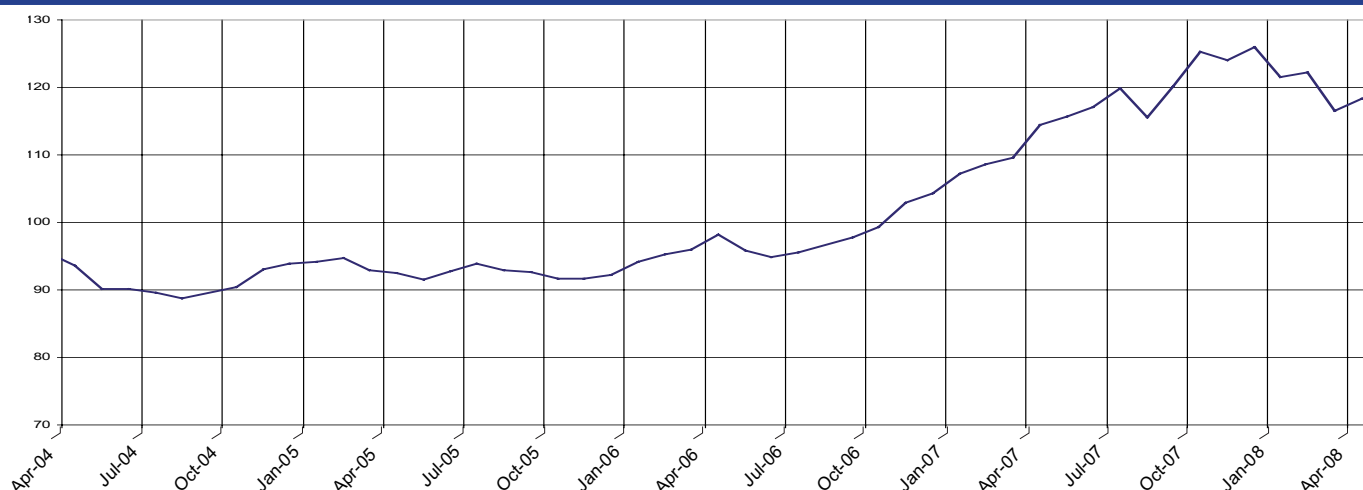
Partner  
Bener

#### Prof Rodney Wilson

Director of Postgraduate Studies  
Durham University

#### Mr Sohail Zubairi

Vice President & Head Shariah  
Coordination  
Dubai Islamic Bank

**Eurekahedge Asia Pacific Islamic Fund Index**

**Monthly returns for Developed Markets funds (as of the 30<sup>th</sup> July 2008)**

FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1 Islamic Ijara Fund IV	Wafra Capital Partners	7.61	Kuwait
2 Alfano Europe	TT International	7.48	British Virgin Islands
3 Noor Islamic US Equity Small Cap Fund	Noor Financial Investment Company	6.47	Kuwait
4 The Iman Fund	Allied Asset Advisors	4.64	United States
5 Azzad Ethical Mid Cap Fund	Azzad Asset Management	4.49	United States
6 Amana Growth	Saturna Capital Corp	4.45	United States
7 HSBC Amanah Americas Equity Fund	HSBC	4.27	Ireland
8 Al Rajhi European Equity Fund	Al Rajhi Bank	4.13	Saudi Arabia
9 Azzad Ethical Income Fund	Azzad Asset Management	3.68	United States
10 Alfano Investment Holdings N.V.	A.I.H. Investment Management Company	3.24	Netherlands
<b>Annualized returns for ALL funds*</b>		<b>3.58</b>	

**Monthly returns for Emerging Markets funds (as of the 30<sup>th</sup> July 2008)**

FUND	MANAGEMENT COMPANY	Performance Measure	FUND DOMICILE
1 DWS Noor China Equity Fund - Class A	DWS Noor Islamic Funds	14.77	Ireland
2 First Arabian Equity 2000 Fund	First Investment Company	11.44	Bahrain
3 SI Dana Saham Syariah	Batavia Prosperindo Aset Manajemen	10.86	Indonesia
4 TRIM Syariah Saham	Trimegah Securities	10.49	Indonesia
5 CMS Islamic Balanced Fund	CMS Trust Management Berhad	10.33	Malaysia
6 Mandiri Investa Atraktif - Syariah (Mitra Syariah)	Mandiri Manajemen Investasi	8.77	Indonesia
7 TRIM Syariah Berimbang	Trimegah Securities	7.98	Indonesia
8 Syariah Fortis Pesona Amanah	Fortis Investments	7.57	Indonesia
9 CIMB Islamic Equity Growth Syariah	CIMB-GK Securities	7.55	Indonesia
10 Kausar Balanced Growth Syariah Fund	CIMB-GK Securities	7.08	Indonesia
<b>Annualized Standard Deviation for ALL funds*</b>		<b>0.33</b>	

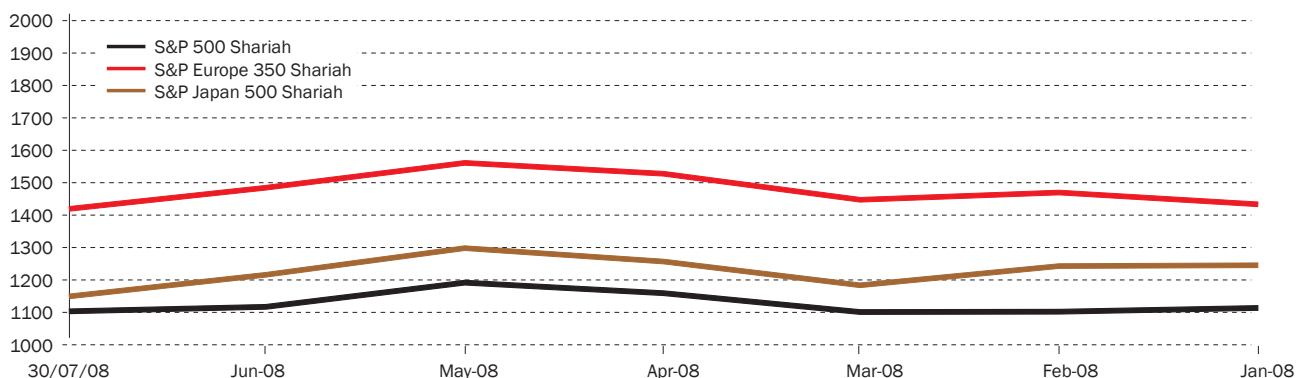
**Contact Eurekahedge**

To list your fund or update your fund information: [islamicfunds@eurekahedge.com](mailto:islamicfunds@eurekahedge.com)  
 For further details on Eurekahedge: [information@eurekahedge.com](mailto:information@eurekahedge.com)  
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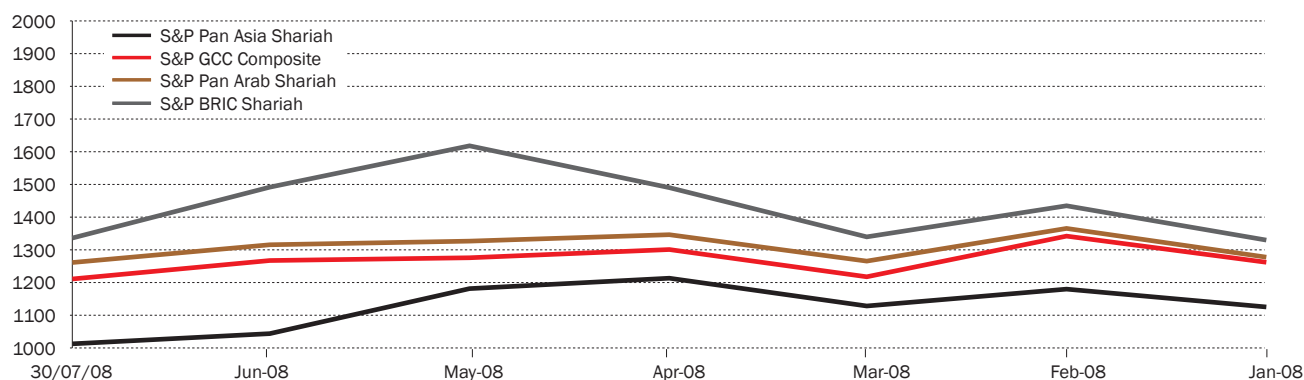
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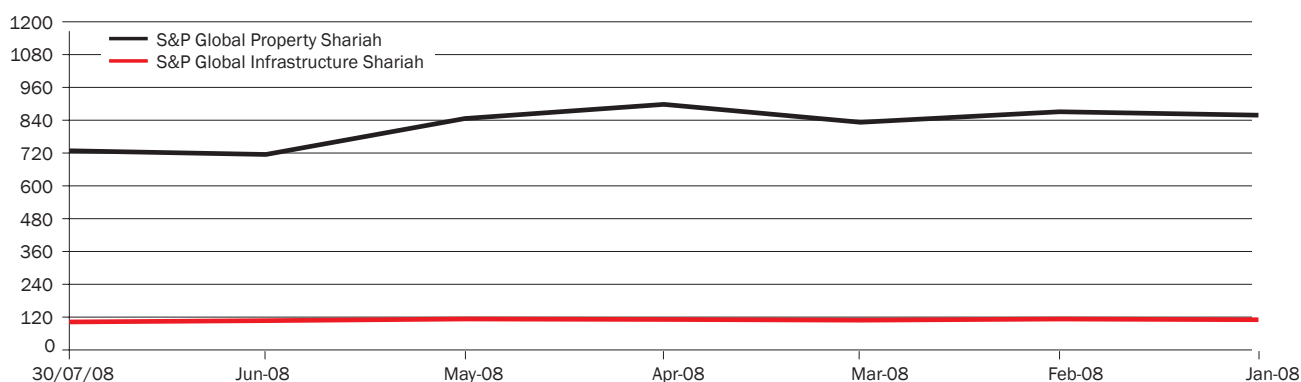
**S&P Shariah Indices Price Index Levels**



Index Code	Index Name	30/07/08	June-08	May-08	Apr-08	Mar-08	Feb-08	Jan-08
SPSHX	S&P 500 Shariah	1103.258	1117.006	1191.671	1159.136	1101.027	1102.059	1113.559
SPSHEU	S&P Europe 350 Shariah	1419.386	1484.523	1561.127	1527.614	1447.319	1469.692	1433.380
SPSHJU	S&P Japan 500 Shariah	1149.384	1215.950	1298.106	1256.791	1183.592	1242.786	1245.302



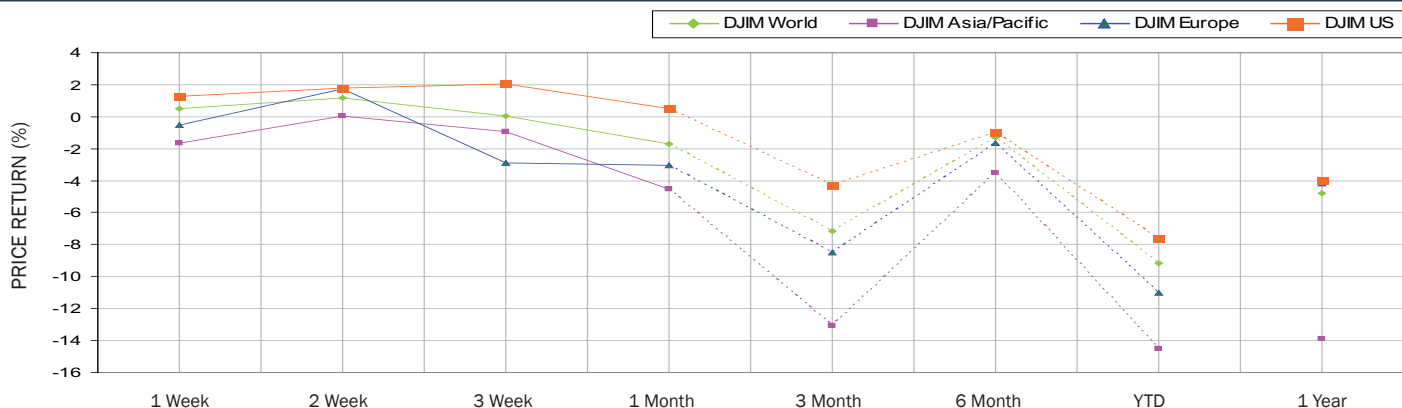
Index Code	Index Name	30/07/08	June-08	May-08	Apr-08	Mar-08	Feb-08	Jan-08
SPSHAS	S&P Pan Asia Shariah	1012.59	1043.774	1181.396	1213.284	1128.294	1179.878	1125.301
SPSHG	S&P GCC Composite Shariah	1210.939	1267.310	1275.791	1300.940	1217.617	1341.970	1261.967
SPSHPA	S&P Pan Arab Shariah	1261.249	1315.524	1326.664	1346.319	1265.531	1365.488	1277.606
SPSHBR	S&P BRIC Shariah	1336.115	1491.666	1618.083	1490.222	1339.677	1434.744	1329.801



Index Code	Index Name	30/07/08	June-08	May-08	Apr-08	Mar-08	Feb-08	Jan-08
SPSHGU	S&P Global Property Shariah	728.238	714.774	846.205	897.914	832.467	870.938	858.447
SPSHIF	S&P Global Infrastructure Shariah	102.312	107.070	113.133	111.336	108.755	112.966	110.419

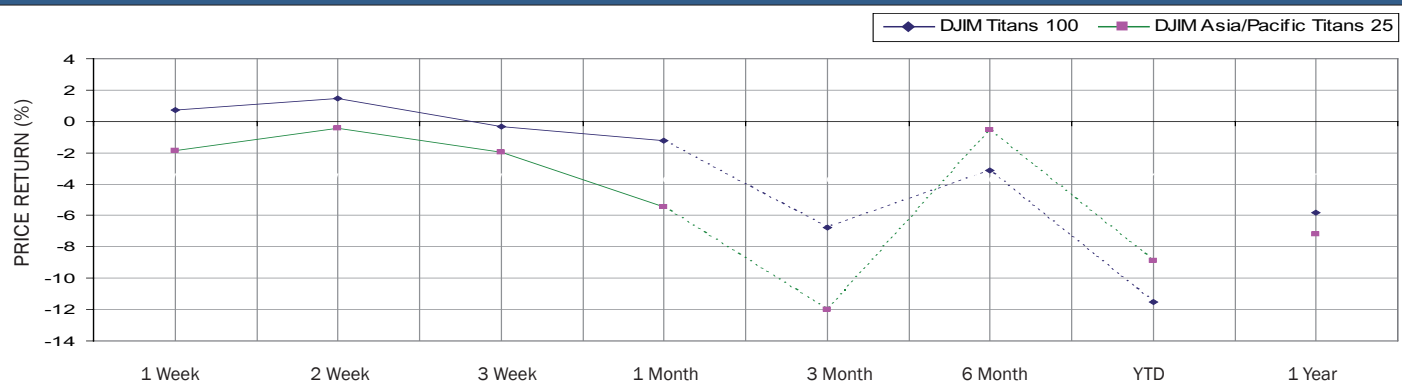
Data as of the 30<sup>th</sup> July 2008

**PERFORMANCE OF DJ INDEXES**



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	0.49	1.17	0.05	-1.71	-7.17	-1.31	-4.80	-9.16
DJIM Asia/Pacific	-1.67	0.04	-0.94	-4.55	-13.07	-3.52	-13.88	-14.53
DJIM Europe	-0.51	1.76	-2.88	-3.04	-8.48	-1.63	-4.16	-11.02
DJIM US	1.29	1.80	2.05	0.50	-4.28	-0.99	-4.01	-7.62

**PERFORMANCE OF DJ TITANS INDEXES**



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	0.71	1.47	-0.31	-1.21	-6.77	-3.14	-5.84	-11.52
DJIM Asia/Pacific Titans 25	-1.86	-0.45	-1.97	-5.45	-12.01	-0.53	-7.19	-8.87

Index	Component number	Market Capitalization (US\$ billions)						Component Weight (%)	
		Full	Float adjusted	Mean	Median	Largest	Smallest	Largest	Smallest
DJIM World	2402	17934.45	14541.62	6.050	1.16	454.13	0.02	3.12	0.00
DJIM Asia/Pacific	1084	3370.44	2227.90	2.060	0.46	124.25	0.02	5.58	0.00
DJIM Europe	336	4627.82	3491.92	10.390	2.30	190.45	0.24	5.45	0.01
DJIM US	636	8144.06	7642.50	12.020	3.12	454.13	0.20	5.94	0.00
DJIM Titans 100	100	8223.54	7268.90	72.690	52.94	442.13	13.00	6.08	0.18
DJIM Asia/Pacific Titans 25	25	1198.47	760.78	30.430	23.95	73.90	13.00	9.71	1.71

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

Learn more about the Dow Jones Islamic Market Indexes



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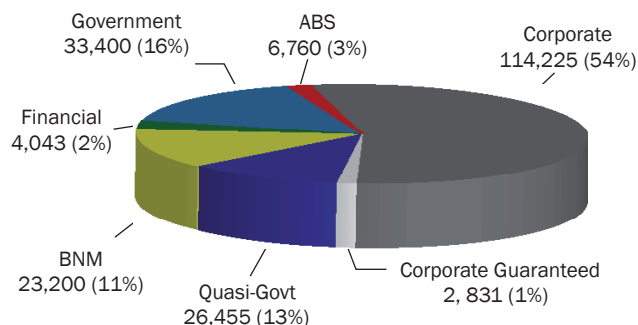


**RINGGIT ISLAMIC DEBT MARKET: WEEKLY SNAPSHOT AS AT 30<sup>th</sup> JULY 2008**

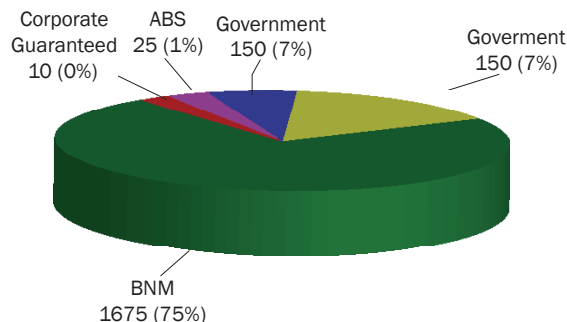
**MOST ACTIVE BONDS TRADED BETWEEN 24<sup>th</sup> JULY and 30<sup>th</sup> JULY 2008**

Stock Name	Last Traded Price	Last Traded Yield	Total Volume Traded Last 7	% w-o-w Price Change	Last Week Closing Price
BNMN-IDB 55/2008 21D 29.07.2008	99.46	3.31	255		
BNMN-IDB 18/2008 182D 11.09.2008	99.83	3.30	240		
BNMN-IDB 29/2008 182D 23.10.2008	99.75	3.36	192		
BNMN-IDB 51/2008 21D 22.07.2008	99.74	3.28	180		
BNMN-IDB 53/2008 33D 05.08.2008	99.68	3.33	120		
BNMN-IDB 54/2008 61D 02.09.2008	99.49	3.28	120		
BNMN-IDB 38/2008 182D 27.11.2008	99.67	3.31	110		
BNMN-IDB 56/2008 42D 19.08.2008	101.09	3.96	110	0.31	100.78
MISC IMTN 0% 17.12.2009 - MTN 0002	98.56	3.28	90		
RANTAU IMTN 0% 15.03.2012 - MTN 3	98.75	3.28	80		
BNMN-IDB 34/2008 182D 13.11.2008	99.85	3.31	73		
OPT CHEMIC 5.80000% 27.09.2013	99.93	3.31	48		
PLUS SPV IMTN 2% 27.06.2013 - Tranche No. 1	99.98	3.33	45		
RANTAU IMTN 15.03.2011-MTN 1	99.9	3.30	45		
PUTRAJAYA RM80.0 MIL 7.000% 15.03.2013	99.71	3.28	40		

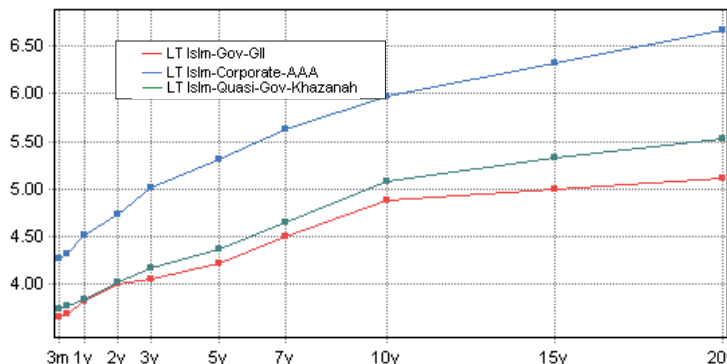
**Outstanding Bond by Issuer Class as at 30<sup>th</sup> July 2008 (RM'000)**



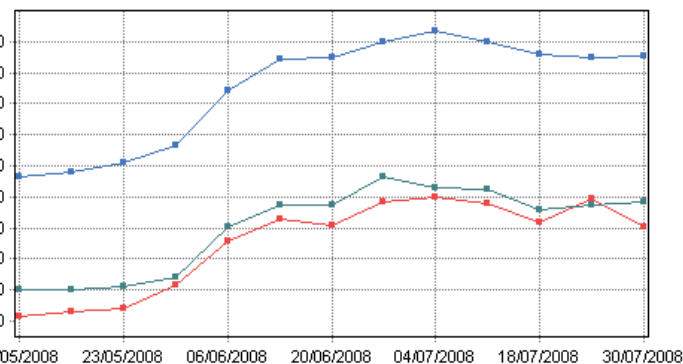
**Bond Traded Amount by Issuer Class as at 30<sup>th</sup> July 2008 (RM'000)**



**YTM Curves as at 30<sup>th</sup> July 2008**



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



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TOP ISSUERS OF ISLAMIC BONDS							AUGUST 2007 – AUGUST 2008
Issuer or Group	Nationality	Instrument	Amt US\$ m	Iss.	%	Manager	
1 Binariang GSM	Malaysia	Sukuk Musharakah	4,509	9	17.5	CIMB, RHB, Aseambankers, ABN Amro Bank, AmInvestment Bank, OCBC Bank (Malaysia)	
2 JAFZ Sukuk	UAE	Sukuk Musharakah	2,043	1	7.9	Barclays Capital, Deutsche Bank (London), Dubai Islamic Bank, Lehman Brothers International (Europe)	
3 Malaysia	Malaysia	Islamic Sukuk	1,628	2	6.3	Malaysia Government bond	
4 Saudi Basic Industries	Saudi Arabia	Sukuk Istithmar	1,333	1	5.2	Calyon, HSBC Saudi Arabia	
5 Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	1,162	11	4.5	CIMB	
6 Sukuk Funding (No.2)	UAE	Sukuk Ijarah	1,021	1	4.0	Abu Dhabi Commercial Bank, Barclays Capital, Credit Suisse Securities (Europe), Dubai Islamic Bank, First Gulf Bank, Lehman Brothers International (Europe), National Bank of Abu Dhabi, Noor Islamic Bank	
7 Dana Gas Sukuk	UAE	Sukuk Mudarabah	1,000	1	3.9	JPMorgan	
8 Nakheel Development 3	UAE	Sukuk Ijarah	980	1	3.8	Dubai Islamic Bank, NBD Investment Bank, JPMorgan	
9 Nakheel Development 2	UAE	Sukuk Ijarah	750	2	2.9	JPMorgan	
10 DEWA Funding	UAE	Sukuk Ijarah	749	1	2.9	Barclays Capital, Citigroup Global Markets, Dubai Islamic Bank, Emirates Bank International	
11 Khazanah Nasional	Malaysia	Exchangeable Sukuk	728	2	2.8	CIMB, Deutsche Bank, UBS	
12 Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	616	3	2.4	CIMB, AmInvestment	
13 Cagamas	Malaysia	Sukuk Murabahah	547	5	2.1	HSBC, CIMB, Aseambankers	
14 National Bank of Abu Dhabi	UAE	Exchangeable Sukuk	545	1	2.1	Morgan Stanley, Credit Suisse	
15 NIG Sukuk	Kuwait	Sukuk Mudarabah	475	1	1.8	BNP Paribas, Citigroup Global Markets, National Bank of Kuwait, Standard Chartered, WestLB	
16 Tabreed O8 Financing	UAE	Convertible Sukuk Isthina & Ijarah	463	1	1.8	Morgan Stanley	
17 National Central Cooling (Tabreed)	UAE	Exchangeable Sukuk	463	1	1.8	Morgan Stanley	
18 Lingkaran Trans Kota Holdings	Malaysia	Sukuk Musharakah	457	13	1.8	Aseambankers	
19 Central Bank of Bahrain	Bahrain	Sukuk Ijarah	350	1	1.4	Calyon	
20 RAKIA Sukuk	UAE	Sukuk Wakalah	325	1	1.3	Credit Suisse Securities (Europe), HSBC, National Bank of Dubai	
<b>Total</b>			<b>25,726</b>	<b>273</b>	<b>100.0</b>		



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**TOP ISSUERS OF ISLAMIC BONDS**

MAY 2008 – AUGUST 2008

Issuer or Group	Nationality	Instrument	Amt US\$ m	Iss.	%	Manager
1 Sukuk Funding (No 2)	UAE	Sukuk Ijarah	1,021	1	17.8	Abu Dhabi Commercial Bank, Barclays Capital, Credit Suisse Securities (Europe), Dubai Islamic Bank, First Gulf Bank, Lehman Brothers International (Europe), National Bank of Abu Dhabi, Noor Islamic Bank
2 Nakheel Development 3	UAE	Sukuk Ijarah	980	1	17.1	Dubai Islamic Bank, NBD Investment Bank, JPMorgan
3 DEWA Funding	UAE	Sukuk Ijarah	749	1	13.0	Barclays Capital, Citigroup Global Markets Ltd, Dubai Islamic Bank PJCS, Emirates Bank International PJSC
4 Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	616	3	10.7	CIMB, AmInvestment
5 MRCB Southern Link	Malaysia	Sukuk Istisna	321	20	5.6	HSBC, CIMB
6 Tamweel Sukuk	UAE	Islamic Sukuk	299	1	5.2	Badr Islami, Dubai Islamic Bank, Standard Chartered
7 RAK Capital	UAE	Sukuk Ijarah	272	1	4.7	Standard Chartered
8 PLUS SPV	Malaysia	Musharakah MTN	234	7	4.1	CIMB
9 Khazanah Nasional	Malaysia	Musharakah MTN	178	1	3.1	CIMB, AmInvestment
10 Almana Sukuk	Qatar	Mudarabah Sukuk	163	1	2.8	Gulf International Bank
11 Aras Sejagat	Malaysia	Ijarah Islamic bond	133	1	2.3	Bank Islam Malaysia, Kuwait Finance House (Malaysia)
12 Bumiputra-Commerce Holdings	Malaysia	Sukuk Murabahah	110	1	1.9	CIMB
13 Cagamas	Malaysia	Sukuk Murabahah	96	2	1.7	HSBC, CIMB, Aseambankers
14 Projek Lebuhraya Utara Selatan	Malaysia	Musharakah MTN	95	1	1.7	CIMB
15 Gamuda	Malaysia	Sukuk Musharakah/ Murabahah Notes	92	1	1.6	CIMB
16 Tanjung Langsat Port	Malaysia	Sukuk Musharakah	78	6	1.4	MIDF Amanah Investment Bank
17 Jimah Energy Ventures Holdings	Malaysia	Sukuk Istisna	76	10	1.3	AmInvestment, RHB Investment, MIMB Investment Bank, Bank Muamalat Malaysia
18 PT Bank Muamalat Indonesia	Indonesia	Sukuk Mudarabah	44	1	0.8	Bahana Securities, Danareksa Sekuritas, Andalan Artha Advisindo, CIMB Securities Indonesia
19 PT Aneka Gas Industry	Indonesia	Sukuk Ijarah	24	1	0.4	Andalan Artha Advisindo
20 Hong Leong Industries	Malaysia	Musharakah MTN	23	1	0.4	Hong Leong Bank
<b>Total</b>			<b>5,743</b>	<b>80</b>	<b>100.0</b>	

## ARE YOUR DEALS LISTED HERE?

If you feel that the information within these tables is inaccurate, you may contact the following directly:



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 Telephone: +852 2804 1223



ISLAMIC BONDS		JULY 2007 – JULY 2008		
Manager or Group	Amt US\$ m	Iss.	%	
1	CIMB	4,352	81	16.9
2	JPMorgan	2,077	4	8.1
3	Malaysia Government bond	1,628	2	6.3
4	Aseambankers	1,501	40	5.8
5	AmlInvestment	1,322	43	5.1
6	Dubai Islamic Bank	1,269	6	4.9
7	Morgan Stanley	1,198	3	4.7
8	HSBC	1,187	35	4.6
9	Barclays Capital	1,126	4	4.4
10	Calyon	1,016	2	4.0
11	RHB Capital	848	63	3.3
12	Deutsche Bank	694	2	2.7
13	Oversea-Chinese Banking	683	16	2.7
14	Emirates NBD	677	4	2.6
15	Lehman Brothers	638	2	2.5
16	ABN Amro	620	8	2.4
17	Citigroup	590	10	2.3
18	Credit Suisse	508	3	2.0
19	Standard Chartered	470	14	1.8
20	Affin Investment Bank	301	20	1.2
<b>Total</b>	<b>25,726</b>	<b>273</b>	<b>100.0</b>	

ISLAMIC BONDS BY COUNTRY		JULY 2007 – JULY 2008		
	Amt US\$ m	Iss.	%	
Malaysia	13,161	232	51.2	
UAE	8,937	13	34.7	
Saudi Arabia	1,333	1	5.2	
Pakistan	508	14	2.0	
Kuwait	475	1	1.8	
Bahrain	350	1	1.4	
<b>Total</b>	<b>25,726</b>	<b>273</b>	<b>100.0</b>	

ISLAMIC BONDS BY CURRENCY		JULY 2007 – JULY 2008		
	Amt US\$ m	Iss.	%	
Malaysian Ringgit	12,611	231	49.0	
Emirati Dirham	6,998	10	27.2	
US Dollar	4,078	10	15.8	
<b>Total</b>	<b>25,726</b>	<b>273</b>	<b>100.0</b>	
<b>Total</b>	<b>26,057</b>	<b>277</b>	<b>100.0</b>	

ISLAMIC BONDS		APRIL 2008 – JULY 2008		
Manager or Group	Amt US\$ m	Iss.	%	
1	CIMB	1,021	37	17.8
2	Dubai Islamic Bank	741	4	12.9
3	Emirates NBD	568	3	9.9
4	AmlInvestment	478	17	8.3
5	JPMorgan	327	1	5.7
6	Barclays Capital	315	2	5.5
7	Abu Dhabi Investment Council	255	1	4.4
8	Citigroup	187	1	3.3
9	Gulf International Bank	163	1	2.8
10	Standard Chartered	162	3	2.8
11	RHB Capital	140	33	2.4
12	Credit Suisse	128	1	2.2
13	First Gulf Bank	128	1	2.2
14	Lehman Brothers	128	1	2.2
15	Noor Islamic Bank	128	1	2.2
16	HSBC	107	20	1.9
17	Aseambankers	102	4	1.8
18	Badr Islami	100	1	1.7
19	Malaysian Industrial Development Finance	81	8	1.4
20	Bank Islam Malaysia	66	1	1.2
<b>Total</b>	<b>5,743</b>	<b>80</b>	<b>100.0</b>	

ISLAMIC BONDS BY COUNTRY		APRIL 2008 – JULY 2008		
	Amt US\$ m	Iss.	%	
UAE	3,049	4	53.1	
Malaysia	2,098	67	36.5	
Singapore	272	1	4.7	
<b>Total</b>	<b>5,743</b>	<b>80</b>	<b>100.0</b>	

ISLAMIC BONDS BY CURRENCY		APRIL 2008 – JULY 2008		
	Amt US\$ m	Iss.	%	
Emirati Dirham	3,485	6	60.7	
Malaysian Ringgit	2,098	67	36.5	
Indonesian Rupiah	138	6	2.4	
<b>Total</b>	<b>5,743</b>	<b>80</b>	<b>100.0</b>	

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DATE	EVENT	VENUE	ORGANIZER
<b>August</b>			
11 <sup>th</sup> - 13 <sup>th</sup>	MIF 2008 Issuers & Investors Forum	Kuala Lumpur	Islamic Finance Events
12 <sup>th</sup> - 14 <sup>th</sup>	Islamic Finance Summit (IFS) Mauritius 2007	Balaclava	IBFIM
25 <sup>th</sup>	2 <sup>nd</sup> International Conference & Exhibition on Islamic Banking & Finance	Pakistan	Al Huda Center of Islamic Banking & Economics
25 <sup>th</sup> - 26 <sup>th</sup>	Islamic Financial Markets	Indonesia	Marcus Evans
25 <sup>th</sup> - 28 <sup>th</sup>	Islamic Finance & Investment World 2008	South Africa	Terrapinn
<b>October</b>			
7 <sup>th</sup> - 8 <sup>th</sup>	Islamic Finance Congress	London	IIR Conference
12 <sup>th</sup> - 16 <sup>th</sup>	Middle East Retail Banking Forum	Dubai	IIR Middle East
14 <sup>th</sup>	Middle East Hedge Funds 2008	Switzerland	Jetfin Events
15 <sup>th</sup>	New York IFN Forum	New York	Islamic Finance Events
15 <sup>th</sup> - 16 <sup>th</sup>	Middle East Investors Summit 2008	Dubai	Worldwide Business Research
17 <sup>th</sup>	London IFN Forum	UK	Islamic Finance Events
20 <sup>th</sup> - 21 <sup>st</sup>	Islamic Real Estate Investment	TBA	Naseba
21 <sup>st</sup>	Islamic Private Equity	UK	IGG Events
26 <sup>th</sup> - 30 <sup>th</sup>	Saudi Insurance Summit	Saudi Arabia	IIR Middle East
28 <sup>th</sup>	Istanbul IFN Forum	Turkey	Islamic Finance Events
30 <sup>th</sup> - 31 <sup>st</sup>	Middle East Money Summit	Dubai	Arabcom Group
<b>November</b>			
2 <sup>nd</sup> - 4 <sup>th</sup>	Islamic Funds World 2008	Dubai	Terrapinn
3 <sup>rd</sup>	The World Islamic Infrastructure Finance Conference	Qatar	MEGA
4 <sup>th</sup> - 5 <sup>th</sup>	2 <sup>nd</sup> Annual Islamic Capital Markets	London	IFR Conferences
7 <sup>th</sup>	Islamic Financial Intelligence Summit	London	FT Global Events
9 <sup>th</sup> - 10 <sup>th</sup>	BankTech Middle East Congress	Dubai	Naseba
12 <sup>th</sup>	Karachi IFN Forum	Karachi	Islamic Finance Events
19 <sup>th</sup>	Brunei IFN Forum	Brunei	Islamic Finance Events
23 <sup>rd</sup> - 26 <sup>th</sup>	GCC Insurance Summit	UAE	IQPC

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## Company Index

Company	Page	Company	Page	Company	Page	Company	Page
ACR Retakaful Holdings	10	CIFA	2	JCR-VIS Credit Rating	10	RAM Ratings	10
ACR ReTakaful MEA	10	CIMB Investment Bank	8	Khazanah Nasional	25	RBS Group	25
ACR ReTakaful SEA	10	Citadel Capital	5	Lehman Brothers	25	RHB Islamic Bank	8
ADIB	5	Danareksa Sekuritas	6	London Stock Exchange	1	Salaam Halal	9
Ajman Bank	2	Deutsche Bank	1	MAA Takaful	9	SAS Malaysia	2
Al Hilal Bank	6	DFM	2, 9	Mada'in Properties	6	Securities and Commodities Authority	9
al khaliji	4, 25	DIB	3, 5, 7	MAG Robotic Systems	3	Securities Commission	8
Al Qudra Holding	3	DIFC	3, 7	Mandiri Sekuritas	6	Shahrizat Rashid & Lee	6
Al Rajhi Bank	7	DIFX	5	MARC	10	SIB	4
Al Takamul	5	Doha Bank	8	Marsinih Martoatmojo Iskandar Kusdiharjo	6	Sorouh Real Estate	6
Aldar Properties	8	Doha Insurance	9	Mashreq Group	7	Sorouh Real Estate	8
Al-Noor Sugar Mills	10	dxb-lab Architecture	6	Masraf Al Rayan	5	Standard Chartered	8
AM Best	10	EIB	5	Mayban Fortis Holdings	9	Standard Chartered	8
Amicorp	2	Emcredit	4	Mayban Trustees	8	Standard Chartered	9
Amlak Finance	7	Encorp Systembit	10	Maybank	3, 9	Standard Chartered Bank	3
Arcapita Bank	4	EON Bank Group	2	Meezan Bank	2	Standard Chartered Bank	5
ASEC Cement	5	Ernst & Young	2	Merrill Lynch	25	Standard Chartered Saadiq	8
Badr Al-Islami	5	Etiqa Takaful	9	Morgan Stanley	25	Takaful House	9
Bank Audi	5	Eversheds	6	Mushaa Real Estate	2	Tamweel	5
Bank of New York Mellon	25	FSA	25	Nakheel	6	Tamweel Sukuk	5
Barclays Capital	25	GBCORP	3	NBF	8	Tracoma Holdings	10
Baz Real Estate Modern Systems	2	GIH	2, 3, 5	NIB	4	Trimegah Sekuritas	6
BGI	25	Global Real Estate Development	3	Nomura Securities	25	United Bank	6
BI	3	Hamptons International	6	Pakistan Domestic Sukuk	3	VC Bank	5
BLC Bank	4	i-City	7	Prudential	9	ZICO	8
BNM	3, 8	IDB	8	PwC	5		
CBB	7	Indonesian Multifinance Company Association	2	RAM Holdings	8		

## Country Index

Country	Title	Page	Country	Title	Page	Country	Title	Page
Asia	Prudential, StanChart extend alliance	9	Malaysia	Closer to liberalization	6	UAE	NIB signs deal with Emcredit	4
Bahrain	ReTakaful subsidiaries get rated	10		Al Rajhi enters property deal	7		ADIB to finance new cement company	5
	GBCORP, MRS sign MoU	3		IDB launches first Ringgit Sukuk	8		Tamweel's US\$300 million Sukuk closes	5
	US\$362 million net income for Arcapita	4		Mayban Trustees suit a wake up call	8		Al Hilal inks valuation contract	6
	CBB's monthly Sukuk oversubscribed	7		Maybank launches Al-Waqi	9		Sorouh sets price for Sukuk	6
Curacao	Framework needs to be adapted	2		MAA Takaful unveils cancer plan	9		Mada'in reveals The Domain	6
Global	StanChart relaunches OLT	8	Middle East	Islamic banks continues its encouraging	1		VC Bank awards D51 Island to dxb-lab	6
Indonesia	Multifinance assets to grow 105%	2	Pakistan	Al-Noor gets an 'A'	10		Amlak sells 235 apartment units	7
	Approval for BI stake revoked	3		Islamic banks continues its encouraging	1		Analysts predict end to dollar peg	7
	Government names banks	6		Meezan signs MoU with university	2		Mashreq reports second-quarter results	7
Kuwait	Mushaa Real Estate makes its debut	2		DIB, StanChart to float bonds	3		DIB's net profit up by 47%	7
	GIH does well in first half	3	Qatar	al khaliji widens operations through acquisition	10		Sorouh reports 75% growth in profit	8
Malaysia	Encorp Systembit upgraded to 'A1'	10		Masraf Al Rayan's profit falls short	5		Aldar makes US\$707 million profit	8
	'BBB+ID' for Tracoma Holdings	10		Doha Bank defers Sukuk plan	8		NBF reports higher profit, income	8
	ReTakaful subsidiaries get rated	10		Better first half for Doha Insurance	9		Takaful House allocates 25% to expats	9
	MIF 2008 Update	1	Sudan	ADIB to finance new cement company	5	UK	Deutsche bank lists Islamic ETFs	1
	SAS Malaysia to help EON improve	2	UAE	Ajman listing on DFMGI	2		Salaam Britain!	9
	Approval for BI stake revoked	3		Another Islamic bank to open?	3			
	PwC: Malaysia among top choices	5		SIB launches Jeans card	4			

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