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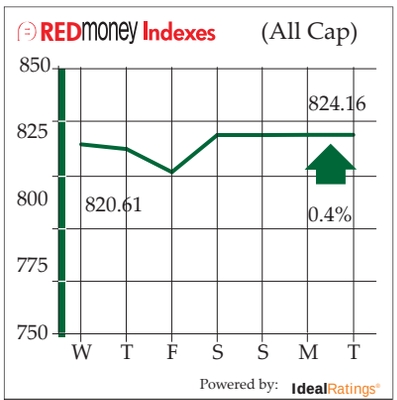

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Luxembourg and Islamic finance: A natural progression

With the greater internationalization of Islamic finance, a number of leading jurisdictions are becoming increasingly involved within the industry. Luxembourg is one such jurisdiction and as a fully fledged international financial center, it is among the growing number of countries seeking to establish their presence in the growing field of Islamic finance, as well as demonstrating the value that they can bring to the nascent market and its intermediaries.

Sitting at the crossroads between France, Germany and Belgium; Luxembourg has always enjoyed an international dimension. As a founding member of the United Nations, OECD and Bretton Woods institutions; it was a natural progression towards its establishment as an international financial center. Luxembourg's political stability and thus predictability has always guaranteed its economic standing. With strong governmental support in place to promote its financial services, Luxembourg has within the Eurozone become the largest private banking center and the most important investment fund center outside of the US.

According to Luc Frieden, the minister of finance of Luxembourg, speaking exclusively to Islamic Finance *news* said that "we are going through difficult times in Europe, people are questioning whether or not the euro, will survive". However, the euro is much more than a currency, the euro is the result of a political process which started in the 1950s, bringing the people of Europe together. Because of this "the euro will survive as a stable currency" said Frieden.

Interest piqued

Frieden further added that during the process of incorporating Islamic finance into Luxembourg, a number of features originally present in conventional finance that have been forgotten, adding that "the crisis reminded us that we lost our way." During the financial crisis, Islamic financial institutions remained relatively stable. "Stability and confidence are exactly what is needed in the world today and Europe in particular" said Frieden.

One feature that is extremely important for Europe, Frieden explained, is that the financial partnership that Islamic finance has between the financier and the borrower. "To a certain extent, what Islamic finance is doing today is what we used to have in the old European style merchant banker." It was an asset-backed approach, a kind of joint venture that ensures a partnership mentality which leads to stability. It also has the inherent resolve of pushing the lender to follow into the mutual interests of the borrower, therefore mitigating risk.

Another aspect which must be learnt from Islamic finance is the prohibition against speculation and gambling. The discussions in Europe regarding over-the-

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Starting afresh

Editor's Note

Inspired by the Arab Spring, the US is seeing a movement of disenchanted citizens protesting against economic inequalities. Known as Occupy Wall Street (OWS), the ideologies of this group have spread around the world as people stand up to oppose, among others, the influence of the financial sector over governments.

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NEWS

Kenya's **Central Markets Authority** to develop policy and regulatory framework for Islamic finance

The **Central Bank of The Gambia** sells 91-day Sukuk worth US$877,193

Pakistan's central bank develops product to improve access to Shariah compliant agriculture financing

US-based **Intel** teams up with **Meezan Bank** to offer hire purchase scheme for personal computers

BNP Paribas Malaysia gets approval for Islamic window

Domestic Islamic banks should internationalize further, says Malaysia's second finance minister

Agrobank seeks to be on par with local development financial institutions

European banks reshuffle and relocate operations in the Middle East

Hong Leong Islamic Bank obtains court order to transfer **EONCAP Islamic Bank**

Bank Islam Malaysia to focus on oil, gas and healthcare sectors, says managing director

Dubai Islamic Bank Pakistan plans to open 25 new branches in the country by 2012

Mori Hamada & Matsumoto aims to open office in Singapore in 2012

Harlows & MGI's commodity Murabahah contracts now accessible through **Bursa Suq Al-Sila'**

Islamic Bank of Switzerland opens its doors

Pakistan targets Sukuk issuance before December 2011

European banks' increasing interest in Sukuk

Bank Asya mandates **Citigroup Global Markets** and **UBS** to issue US$300 million five-year Sukuk

Sharjah Islamic Bank reports 7% increase in net profit for nine-month period

Doha Bank will complete conversion into a conventional bank by December 2011

Commercial Bank of Qatar reports 14% growth in net profit nine-month period

Saudi Electricity Company anticipates US$17 billion qard hassan financing from government

Bahrain's central bank's US$53 million monthly Sukuk Ijarah oversubscribed by 207.5%

Ministry of finance in the UAE establishes **Emirates Development Bank**

Buildings Materials Company repays US$100 million five-year Sukuk Musharakah

Noor Islamic Bank obtains over US$1.4 billion mandates in Turkey over an 18 month period

Tamweel reports 114% increase in third quarter net profit to US$4.3 million

Regional governments must issue more Sukuk, says CEO of **KFH-Bahrain**

Gulf Finance House reports net profit of US$4.1 million for nine-month period

Islamic banks in Qatar poised to benefit from regulatory changes, says **HSBC**

Emirates NBD reports 59% decrease in third quarter net profit to US$47.6 million

Majid Al Futtaim Holding may issue a Sukuk program in November 2011

Saudi Arabia's finance ministry considers Sukuk issuance to finance infrastructure projects

INVESTOR

Sabana REIT passes first annual Shariah audit

Zirva Business Solutions launches operations in Kerala, India

Axis REIT plans to issue a US$96 million Sukuk to refinance short-term debt

TAKAFUL

Abu Dhabi Islamic Bank unveils ADIB Dana Cancer Takaful Plan for women

Weqaya Takaful Insurance reports 33.5% decrease in net loss in third quarter to US$1.86 million

Randall & Quilter Investment Holdings to acquire **Principle Insurance Company** for US$6.7 million

Etiqa Insurance and Takaful keeps options open on expansion plans

Syarikat Takaful Malaysia declares interim dividend of 7%

Bank Muamalat Indonesia signs three-year agreement with **Allianz Life Indonesia** to market Takaful products

Al Khaleej Takaful Group reports a 13% decrease in net profits for the first nine months

RATINGS

HSBC Amanah Malaysia obtains long-and short-term financial institutional ratings of 'AAA' and 'P1'

Moody's upgrades **Emaar Properties**' corporate family rating to 'Ba3'

Proposed US$1.6 billion Sukuk will not affect **Tenaga Nasional**'s rating, says **S&P**

Moody's assigns provisional '(P)Ba2' rating to **Asya Katilim Bankasi**'s senior Sukuk trust certificates

MOVES

Government appoints **M V Rajeev Gowda** and **Y H Malegam** as directors to the central board of the **Reserve Bank of India**

Yaseen Anwar is **State Bank of Pakistan**'s new governor

Central Bank of Kuwait approves Nasreen Al-Qaseer as **Kuwait International Bank**'s general manager of risk management

Mashreq Al Islami appoints **Pamir Karagoz** as head of **Mashreq Gold**

Aldar Properties' board of directors approves appointment of **Greg Fewer** as CEO

Aberdeen Islamic Asset Management appoints **Abdul Jalil Abdul Rasheed** as CEO

Al Jazeera Finance names **Amer Mohamed Al Jabri** as CEO

Luxembourg and Islamic finance: A natural progression

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counter derivatives and short selling are examples of this curtailment of short selling. In Islamic finance the moral dimension and ethical principles are important lessons which should become key elements of world finance and something that must be re-learnt through socially responsible investment. In combining financial partnership, stability, prohibition of excessive risk and moral values, Frieden believes that "we have a whole group of elements that are key for international finance. Islamic finance has a lot to teach us."

Internationalization

However, the world cannot be divided into two categories, the world is much more complicated and inter-related and we have to work together and give an international perspective to investors. It was therefore a natural development for Luxembourg to move into the internationalization of its financial products. In a world that is becoming increasingly interdependent it is quite clear that whatever is happening in one part of the world is having an effect on another. "In dealing with European issues, we are also dealing with its impact on Asia. As a result, what is going on in Asia is of prime importance to the rest of the world," Frieden added.

Luxembourg's ambition has always been to bring different financial systems together. Frieden does not believe in a clash of civilizations, but rather this cultural dimension through the economy brings people and cultures together adding that this is why he has pushed the development of Islamic finance products in Luxembourg.

Frieden said, "In a world which is becoming increasingly global, the world economy can only make progress if the various countries and regions work together. Globalization is contributing to change and prosperity and we should all benefit from those developments. Europe must learn from Asia and in particular Islamic finance. The Islamic world can see that Europe is an interesting market and should be central to its long term investment future.

Bringing these elements together Islamic finance and Luxembourg can promote growth on the world stage."

Marc Thiesen, a lawyer at Theisen Law supports this position by saying that "Islamic finance is an extremely powerful industry, greater awareness of the strengths of Islamic finance has contributed over the last few years towards a larger participation in the international financial markets" as a result "Islamic finance as gone global; with jurisdictions such as Luxembourg alongside, the industry can complete and develop greater Islamic financial transactions."

Established investment

Frieden is proud to mention Luxembourg's Islamic finance achievements; it was the first European nation to list a Sukuk on its stock exchange; it was also the first European nation to authorize the establishment of a Takaful company and it currently enjoys a position as an important listing destination of Islamic securities. Frieden also added that in the area of Islamic investment funds "we are currently number two in the world with some 40 Shariah compliant funds domiciled and distributed out of Luxembourg." Frieden explained that there is already a significant interest for Islamic finance products in Luxembourg, as this type of investor is already present within Luxembourg, for a number of reasons. Therefore, as Frieden explained, "it made sense for us to begin offering Islamic financial products."

With regards to the investment fund market, Luxembourg is second in terms of assets under management. "We are targeting the world market and international investors, as such many institutions have sought to choose Luxembourg as their hub for distributing Islamic financial products," Frieden added.

He also said: "One of the unique features of Luxembourg is that we have always offered options to our investors, they

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CLOSING BELL

Financing boosts profits

MALAYSIA: Bank Kerjasama Rakyat Malaysia has reported a 17% year-on-year increase in its net profit for the first nine months of 2011 to RM1.2 billion (US$383.4 million).

The growth in profit is attributed to an 11% growth in financing-based income to RM3.32 billion (US$1.06 billion) and a 9.7% growth in its net financing balance to RM48.15 billion (US$15.4 billion).

High yield for Sukuk

MALAYSIA: State-owned power producer Tenaga Nasional is reportedly seeking to price its RM4.85 billion (US$1.55 billion) Sukuk to yield between 3.8% - 4.95%.

Orders for the Islamic bond, which will be sold in 17 tranches with tenors ranging from five to 20 years, closed at 5pm (Malaysian time) on the 25th October 2011.

Steady profit increase

UAE: First Gulf Bank has reported an 8% increase in its third quarter net profit to AED920 million (US$250.5 million) from AED849 million (US$231.1 million) last year.

The bank's core banking revenue grew 6% to AED1.59 billion (US$432.9 million) in the same period.

Employee savings scheme

UAE: Shariah compliant savings scheme National Bonds Corporation has entered into a strategic partnership with SHUAA Capital to offer the company's staff an opportunity to participate in the National Bonds Employee savings scheme.

BARCLAYS

UK: Barclays has appointed **Ian Ackerley** as the new investments director for UK retail business banking.

Ackerley was previously the managing director of investments and pensions at Virgin Money.

Luxembourg and Islamic finance: A natural progression

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come to Luxembourg knowing that they are not locked into one jurisdiction, and have a variety of international options available to them. At the same time, Luxembourg has orientated itself as an international market, appealing to a broad range of Islamic investors."

Luxembourg's acceptance of the Islamic finance has also given an accreditation to the industry on the global stage. Frieden backs this notion by saying that "we are considered as a serious and stable, global financial center. If a country such as ours takes on board Islamic financial products, investors automatically accept that association, people then accept the associated stability, the seriousness and soundness with Islamic finance. As such, Europeans will become increasingly interested in those products as a result." The Islamic world will also seek to use Luxembourg domiciled Shariah compliant investment funds for channeling investments. Using Luxembourg's financial center as a trademark, will be useful as it serves as an accreditation of Islamic finance on the world stage.

"This should not come as a surprise, as there is clear government support for Islamic finance", said Frieden. "We have built up this know how on the back of our international investment fund experience giving us our own value add to the industry". By targeting the international community, they have given a cross-border dimension to the industry, which they are hoping to build upon.

Regarding the legislative and regulatory environment Luxembourg, has combed through its legislation to find any hindrances in their legislation regarding the further development of Islamic financial products. As their laws are crafted with an international perspective, this has allowed both conventional and Islamic financial products to find a home. The tax rules were also clarified, in accordance with their principles of tax neutrality, giving clear rules on the tax treatment of Islamic products under Luxembourg law.

Tellingly Frieden added that he is continuing to support the launch of a sovereign Sukuk in Luxembourg for 2012 stating that "the Sukuk is part of a strategy to acknowledge Islamic products and services in Luxembourg, while at the same time offering investors from Asia and the Arab world new investment opportunities" and diversification.

Ultimately, Luxembourg brings the knowledge of a very internationally diversified, stable and serious financial center. With trust and confidence becoming central tenets of the renewed financial services industry, creating an ideal environment for innovation as well as nurturing research and development is critical. As a 'AAA' rated jurisdiction at the heart of the Eurozone, Luxembourg is ideally suited to the role of Islamic finance's European bastion. — *SW*

Starting afresh

Editor's Note

Inspired by the Arab Spring, the US is seeing a movement of disenchanted citizens protesting against economic inequalities. Known as Occupy Wall Street (OWS), the ideologies of this group have spread around the world as people stand up to oppose, among others, the influence of the financial sector over governments.

At a time when global markets and economies are once again imperiled, it is interesting to note that some of the OWS's dogma has room to converge with the principles of Islamic finance. Many Islamic finance practitioners are saying that the industry is being presented with another opportunity to "save" the global financial system and this week, an article contributed by US legal firm Kirkland & Ellis and Elixir Capital Management posits that the industry could provide some of the solutions to the issues put forth by the OWS movement.

However, the ability for Islamic finance to make a greater impact on the world economy is largely dependent on the industry's own inclination to do so. Can we make further inroads this time around or will we let this opportunity pass us by?

One thing is for sure — the industry continues to be weighed down by many of the same issues that have plagued it for years. Perhaps it is time for us to break the cycle, solve old problems and move on to new challenges. Certainly, the issues are valid – whether organized tawarruq is permissible, as discussed this week by Dr Zaharuddin Rahman, a Shariah scholar and lecturer at the International Islamic University Malaysia; or operational risk, as highlighted in the extract from Amr Mohamed El Tiby Ahmed's book, 'Islamic Banking: How to Manage Risk and Improve Profitability.'

Nonetheless, it is always refreshing to hear about new developments in the industry and our cover story this week sits down with Luc Frieden, the finance minister of Luxembourg to look at the emerging Islamic finance market in Luxembourg. We also have a feature by Dr Mohammed A Farhan from the Arab Academy for Banking and Financial Sciences, which highlights Islamic banking in Yemen and the challenges to its further growth.

Our Islamic Investor feature is contributed by Jonathan Lawrence from law firm K&L Gates, UK, who weighs in on the advantages and disadvantages of Islamic wealth funds, while Wethaq Takaful Insurance Company highlights the opportunities, challenges and outlook for the Takaful industry in Kuwait.

This week, Insider features an exclusive interview with Ahmed Saif Al-Rawahi, the founding chairman of Oman's Bank Nizwa. Our IFN reports cover the events at the recently concluded IFN 2011 Issuers & Investors Asia Forum.

Our IFN correspondents have contributed reports on the need for human capital to develop Islamic finance in China & Hong Kong, the thriving project finance market in Kuwait, allocations for Islamic finance under Malaysia's 2012 budget and Oman's regulatory preparations for Islamic banking.

AFRICA

Encouraging Islamic finance

KENYA: The Central Markets Authority (CMA) will develop a policy and regulatory framework for the implementation of Islamic products and services in Kenya's capital market, according to Stella Kilonzo, CEO of the CMA.

Among the recommendations made to the CMA were the establishment of a national Shariah advisory board and a continuous allocation of a Sukuk component in future bond issuances aimed at Islamic institutions and retail investors.

91-day Sukuk sold

GAMBIA: The Central Bank of The Gambia sold a 91-day Sukuk worth GMD25 million (US$877,193) on the 18th October. The Sukuk has a yield of 7.93%.

ASIA

Boost for agriculture financing

PAKISTAN: The central bank, State Bank of Pakistan, has developed an Islamic product aimed at aiding Islamic banking institutions to improve the access of Shariah compliant agriculture financing for the country's farming community.

The product is based on the concept of 'Salam', and can be adopted by Islamic banking institutions to suit their organizational and operational needs, as long as they comply with the central bank's regulations and gain approval from their Shariah advisors.

Financing scheme

PAKISTAN: US-based Intel is collaborating with Meezan Bank to offer the bank's hire purchase financing scheme for personal computers to its customers.

BNP Paribas expands Islamic business

MALAYSIA: BNP Paribas Malaysia has received approval from the central bank, Bank Negara Malaysia, to set up its Islamic window, said Muhammad Faozie Shahari, the head of the bank's Islamic structuring for Asia Pacific, at the IFN 2011 *Issuers & Investors* Asia Forum.

The window is allowed to carry out ringgit and non-ringgit-denominated transactions.

Towards internationalization

MALAYSIA: Domestic Islamic financial institutions should further internationalize their businesses by offering more non-Malaysian ringgit-denominated instruments, according to Ahmad Husni Mohamad Hanadzlah, the second finance minister, at the IFN 2011 *Issuers & Investors* Asia Forum.

He also urged the Malaysian Islamic finance industry to innovate new products, including equity-based offerings which share risk amongst stakeholders and incorporate higher value into products.

Without this, the knowledge and technology involved in producing such products will not be created, he said, encouraging the industry to constantly push its boundaries.

Ahmad Husni added that the government is aware that the global Islamic capital market is constrained by the lack of market liquidity due to limited Shariah compliant instruments and will push for the innovation of new products as well as the liberalization of Malaysia's financial services industry.

Agrobank's growth plans

MALAYSIA: Agrobank, which is currently undergoing transformation to become a fully fledged Islamic bank, expects to be on par with the rest of Malaysia's development financial institutions (DFIs), said Mohd Fadzmi Wan Othman, its president and CEO.

Mohd Fadzmi said that the bank is hoping to see a growth of 15%-20% for both revenue and net profit for the year ending on the 31st December 2011.

In 2010, Agrobank made a net profit of RM375.89 million (US$121 million) as compared to RM178.4 million (US$58 million) in 2009.

Other DFIs such as Bank Kerjasama Rakyat Malaysia reported RM1.34 billion (US$432 million) in net profits for 2010,

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Reshuffling in the Middle East

GLOBAL: Several European banks have conducted major reshufflings and relocations of their operations in the Middle East.

Deutsche Bank has relocated its head of equity capital markets for the MENA region, Christopher Laing, back to London, while Citigroup has transferred its regional head of equities, Adam Key, back to the UK.

Another international bank, Credit Agricole, has also moved its mergers and acquisitions team in the Middle East back to Paris and will reportedly relocate the majority of its staff at its Bahrain office to Dubai.

However, Credit Agricole and Deutsche Bank have assured that they will maintain their operations in the MENA region through cross-border operations from Europe.

The banks' relocations are attributed to the lack of mergers and share sales in Dubai in addition to pressures from the sovereign debt crisis in Europe. A report revealed that the volume of deals in the Middle East slumped 60% to US$24.9 billion this year, from US$39.9 billion a year earlier. The pace of IPOs in the GCC region was also revealed to have halved to US$400.5 million in 2011 compared to US$800.7 million in 2010.

According to New York-based research firm Freeman & Co., fees earned by banks in the Middle East fell 42% to US$320 million in the first nine months of 2011.

In a strategic review of its operations in the Middle East, HSBC announced that it will cease to offer its brokerage services to retail investors in the UAE, focusing instead on institutional clients after local trading volumes and stocks plummeted. The bank has also said that it will close its consumer operations in Kuwait.

Raj Madha, a banking analyst at Rasamala Investment Bank, said that given the limited activity in Dubai's capital market, coupled with bleak short-term prospects, the movement of these banks was not surprising.

However, recruiters remain optimistic that international banks will continue to maintain their presence in the region, citing tax-free salaries and higher bonuses.

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while Bank Simpanan Nasional's net profit for last year was RM372.8 million (US$120 million).

Meanwhile, Agrobank will open two more branches before the end of 2011, bringing the total of new outlets this year to nine, with the majority in Sabah and Sarawak.

Nod for asset transfer

MALAYSIA: The High Court has granted a vesting order to Hong Leong Bank's subsidiary, Hong Leong Islamic Bank, for the transfer of the entire business including all assets and liabilities of EONCAP Islamic Bank to the former, with effect from the 1st November 2011.

Following the vesting, EONCAP Islamic Bank will become a dormant company.

According to Yvonne Chia, the group managing director and CEO of Hong Leong Bank, business will continue as usual for both banks until further notice, as the order will only take effect from the 1st November.

Key growth areas

MALAYSIA: Bank Islam Malaysia will focus on the oil and gas and healthcare sectors in an effort to concentrate on growth areas consistent with the country's economic transformation program, as well as to avoid low-yielding sectors, according to Zukri Samat, its managing director.

He explained that the move is to prepare for a challenging year in 2012 due the global economic turmoil.

Branch expansion

PAKISTAN: Dubai Islamic Bank Pakistan is planning to open 25 new branches in the country by 2012.

Singapore expansion

JAPAN: Mori Hamada & Matsumoto has announced that it aims to open an office in Singapore early next year to take advantage of the demand for legal advice from Japanese lawyers in the Southeast and Southern Asian region.

The office will mainly be staffed by Takeshi Mukawa and Takeshi Komatsu, two partners with experience in the finance, general corporate and mergers and acquisitions practice areas.

The opening date of the office is subject to the completion of necessary procedures with Singaporean governmental agencies.

More Murabahah

MALAYSIA: Islamic Finance *news* has learnt that Harlows & MGI's (HMGI) commodity Murabahah contracts have been made accessible through Bursa Malaysia's Murabahah platform, Bursa Suq Al-Sila'. HMGI is a commodity execution participant for the bourse.

The commodity Murabahah contracts will utilize base metals from DDCAP, according to the MoU signed between HMGI and DDCAP in June this year.

EUROPE

New Islamic bank

SWITZERLAND: The Islamic Bank of Switzerland has reportedly opened in Zurich, Switzerland.

The bank's shareholders comprise of Qatari citizens.

Possible domestic Sukuk

PAKISTAN: The government is planning to issue a Sukuk before December 2011 to generate resources for its financial needs, top officials were quoted in a report.

The motorway between Islamabad and Lahore will be used as the asset to back the Sukuk.

Europe's growing interest in Sukuk

GLOBAL: Kuveyt Türk Katılım Bankasi has launched its second five-year US$350 million Sukuk, which was priced at par, with a spread of 447.5 basis points over midswaps and carried a profit rate of 5.88%.

Abu Dhabi Islamic Bank and Commerzbank were the lead managers, while HSBC, Liquidity Management House and Standard Chartered Bank were the bookrunners.

Kuveyt Türk issued its first Sukuk worth US$100 million in August 2010, making it the first bank in the country to do so.

The Islamic finance industry can expect at least two more Sukuk issuances from Europe in the near future, with a possible sovereign Islamic bond as well as an issuance from a US-based conventional investment bank with no prior operations in the Islamic banking sector.

Goldman Sachs has obtained the consent from the Central Bank of Ireland to list its US$2 billion Sukuk Murabahah program on the Irish Stock Exchange (ISE).

According to the bank's base prospectus filed with the ISE, the Islamic bond will be issued via its Cayman Islands-located special purpose vehicle, Global Sukuk Company, and will be sold through an offering on the bourse.

The upcoming offering, which is likely to be denominated in UAE dirhams, US dollars, Saudi riyals or Singapore dollars, represents the first attempt by Goldman Sachs to tap the Sukuk market with the aim of diversifying its funding.

However, the bank has yet to fix the issuance date for the Sukuk. UK-based Islamic advisory firm Dar Al Istithmar has been named as the program's Shariah advisor.

Meanwhile, Islamic Finance *news* has learnt that Luc Frieden, the minister of finance of Luxembourg is pushing for the launch of its sovereign Sukuk, possibly in 2012.

Freiden said that the Sukuk will help promote Luxembourg as a destination for Islamic finance and offer new investment opportunities for investors from Asia and the Middle East.

Sukuk mandate for Citi and UBS

TURKEY: Bank Asya has mandated Citigroup Global Markets and Switzerland-based UBS to issue a five-year Sukuk worth up to US$300 million.

Following the mandate, Bank Asya will start talks with investors to sell the Sukuk, which is aimed at diversifying and increasing its foreign resources.

MIDDLE EAST

Steady growth

UAE: Sharjah Islamic Bank has reported a 7% increase in its net profit for the nine-month period ended the 30th September 2011 to AED204.7 million (US$55.7 million) from the same period last year.

Its assets to AED18.9 billion (US$5.15 billion) against AED16.7 billion (US$4.55 billion) last year.

Meanwhile, total shareholder equity and total liquid assets were at AED4.4 billion (US$1.2 billion) and AED5.6 billion (US$1.5 billion) respectively, representing 23% and 30% of the bank's total assets.

Customer deposits also grew by 7% to AED11.1 billion (US$3 billion).

Transition to end soon

QATAR: Doha Bank will complete its conversion from a hybrid bank (which offers both Islamic and conventional banking services) into a conventional one by December 2011, said R Seetharaman, its group CEO.

However, Seetharaman said Doha Bank will fulfill its existing commitments from Islamic business undertaken before the central bank's order was introduced.

The transition follows the Qatar Central Bank's directive issued in February 2011, for conventional banks to close their Islamic windows by the end of this year.

Profits increase

QATAR: The Commercial Bank of Qatar reported a 14% growth in its net profit for the nine-month period ended the 30th September 2011 to QAR1.51 billion (US$414.6 million) against the same period last year.

The bank's net profit for the third quarter was QAR552 million (US$151.6 million), increasing by 8% compared to the second quarter this year.

Net operating income grew 12% to QAR2.16 billion (US$593 million) for the nine-month period against the same period last year, while non-interest income rose 22% to QAR831 million (US$228.2 million).

Total assets rose 17% to QAR70.4 billion (US$19.3 billion) at the 30th September 2011.

The increase in assets was attributed to the growth in customer deposits as well as financings and advances, which grew by 16% to QAR36.9 billion (US$10.1 billion) and 20% to QAR41.5 billion (US$11.4 billion), respectively.

US$17 billion financing

SAUDI ARABIA: State-owned utility firm Saudi Electricity Company is reportedly expecting to obtain a SAR65 billion (US$17 billion) qard hassan financing from the government in early 2012.

The money will be used to finance its current and upcoming projects in the coming two years.

CBB Sukuk oversubscribed

BAHRAIN: The Central Bank of Bahrain's BHD20 million (US$53 million) monthly issuance of Sukuk Ijarah has been oversubscribed by 207.5%.

The Sukuk was issued on the 20th October 2011 and will mature on the 19th April 2012. It has an expected return of 0.9%.

Emirates Development Bank launched

UAE: The ministry of finance has established the Emirates Development Bank amid speculation that troubled Islamic mortgage provider, Amlak Finance, could be merged into the new bank.

The UAE government announced its intention to create the bank in 2008, where it was initially planned as a merger between Emirates Industrial Bank and Real Estate Bank, the latter of which was supposed to take control of both Amlak Finance and Tamweel.

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However the plans did not go through due to the financial crisis.

Since then, Tamweel has been bought over by Dubai Islamic Bank while Amlak Finance has had its shares frozen since November 2008.

The ministry did not confirm whether Amlak Finance would be part of the new bank.

Emirates Development Bank is aimed at providing financing for property and development projects.

The new bank will have AED10 billion (US$2.72 billion) of capital to fund projects "pertaining to organizations that provide public benefit", said the ministry.

Sukuk settled

BAHRAIN: Building Materials Company has settled its US$100 million five-year Sukuk Musharakah on its maturity date on the 18th October 2011, according to Gulf International Bank, Liquidity Management Center, Kuwait Finance House and Standard Bank, who were the arrangers and lead managers for the transaction.

The Sukuk, which was backed by building material factories, offered a semi-annual return of 100 basis points over the six-month US dollar Libor.

Active in Turkey

UAE: Noor Islamic Bank has been mandated to arrange and lead manage more than US$1.4 billion worth of deals in Turkey's Islamic finance capital market over the past 18 months.

According to the bank, it has more deals leading into 2012 and is currently in the final stages of closing more than three Shariah compliant structured facilities.

Tamweel bounces back

UAE: Tamweel has reported a 114% increase in its third quarter net profit to AED15.7 million (US$4.3 million) from the same period last year.

Net profit for the nine-month period ended the 30th September almost tripled to AED17.9 million (US$4.9 million) against the same period in 2010.

Income from Islamic financing grew from AED128.9 million (US$35.1 million) to AED136.6 million (US$37.2 million) in the three-month period

Impairment provisions, on the other hand, decreased to AED13.5 million (US$3.7 million) from AED46.6 million (US$12.7 million) last year.

Government Sukuk for liquidity

BAHRAIN: Regional governments must issue more Sukuk in order to provide short-term liquidity instruments needed by the Islamic finance industry, said Abdulhakeem Alkhayyat, the managing director and CEO of Kuwait Finance House-Bahrain.

Abdulhakeem added that the governments cannot rely on the private sector to provide such liquidity in the region, as most corporates in the GCC have adequate liquidity and have no need to raise money through Islamic bonds.

As such, it falls on the governments to raise cash through Sukuk to allow Islamic financial institutions to hold these instruments.

Back to profits

BAHRAIN: Gulf Finance House has reported a net profit of US$4.1 million for the nine-month period ended the 30th September 2011 against a net loss of US$162.2 million in the same period last year.

Net profit for the third quarter was at US$3.4 million compared to a net loss of US$115.1 million in 2010's third quarter.

Earnings for the first nine months of 2011 increased by 27.9% to US$50.02 million from US$13.1 million in the same period in 2010, while total expenses were reduced by 38% to US$45.9 million in the third quarter this year.

Regulatory changes boost earnings

QATAR: Islamic banks in the country are enjoying better growth prospects compared to their conventional counterparts due to the Central Bank of Qatar's directive to conventional banks to

continued...

RATINGS

Solid support

MALAYSIA: RAM has assigned respective long-and short-term financial institutional ratings of 'AAA' and 'P1' to HSBC Amanah Malaysia. The long-term rating has a stable outlook.

Thumbs up

UAE: Moody's has upgraded its 'B1' corporate family rating on Emaar Properties to 'Ba3' and affirmed the ratings on Emaar's Sukuk at 'B1'. The ratings have a stable outlook.

Rating unaffected

MALAYSIA: The proposed RM5 billion (US$1.6 billion) Sukuk issuance will not affect the rating on Tenaga Nasional ('BBB+'/stable/--, 'axA+/axA-1'), according to S&P, following the likelihood that Tenaga will incur a higher debt to fund a planned 1,000 megawatt supercritical coal-fired power plant.

Good start

TURKEY: Moody's has assigned a provisional '(P)Ba2' rating to Asya Katilim Bankasi's senior Sukuk trust certificates. The rating has a stable outlook.

continued...

close their Islamic windows by the end of this year, according to HSBC.

HSBC believes that the change in regulations is raising the preference for Shariah compliant banking products in Qatar's retail clients and is also producing stronger balance sheets and funding positions for Islamic banks in the country.

Four fully-fledged Islamic institutions; Islamic Holding Group, Masraf Al Rayan, Qatar Islamic Bank (QIB) and Qatar International Islamic Bank (QIIB) have recently reported increases in their net profits as at the 30th September 2011.

Islamic Holding Group, an investment and asset management company, reported a year-on-year growth of 14.3% in its net profit for the first nine months of 2011 to QAR3.74 billion (US$1.03 billion). Total assets surged 239% to QAR588 million (US$161.5 million) in the same period.

Masraf Al Rayan, reported an 11% increase in its net profit to QAR1.01 million (US$277,309), while total assets grew 51.3% to QAR48.85 million (US$13.4 million).

Meanwhile, the bank's third quarter net profits rose 5% to QAR321 million (US$88.1 million) from the third quarter of 2010.

QIB reported a rise of 22% in its net profit to QAR1.11 billion (US$304.9 million) for the nine-month period ended the 30th September and total assets for that period were at QAR52.76 billion (US$14.5 billion). The bank's third quarter net profit increased 33.6% to QAR407.2 million (US$111.8 million) compared to the same period last year.

QIIB reported a net profit of QAR503.8 million (US$138.3 million) for the third quarter of this year, a year-on-year increase of 20%. Total assets rose 22.2% to QAR22.2 billion (US$6.1 billion) in the same period.

ENBD profits lower

UAE: Emirates NBD, which has recently taken over Dubai Bank, reported a 59% decrease in its third quarter net profits to AED175 million (US$47.6 million) from AED424 million (US$115.4 million) in the third quarter of 2010.

Net profit for the nine-month period ended the 30th September 2011, however, rose 20% to AED2.33 billion (US$634.3 million) compared to AED1.93 billion (US$525.4 million) in the same period last year.

Portfolio impairment allowances increased by AED1.5 billion (US$408.4 million), reflecting the impact of the debt restructurings of Dubai Holdings.

Sukuk on the cards

UAE: Majid Al Futtaim Holding, the sole franchisee of the Carrefour hypermarket chain in the GCC, is likely to issue a Sukuk program as early as November 2011, said Iyad Malas, its CEO.

Part of the proceeds from the Sukuk will be used to finance new investments, including a new mall in Egypt.

Potential for project Sukuk

SAUDI ARABIA: The finance ministry is considering the issuance of Sukuk or conventional bonds to help fund infrastructure projects; although debt issuance to help cover increased budget spending is not in the ministry's plan, according to Dr Ibrahim Al-Assaf, the finance minister.

However, the ministry is considering specific project Sukuk or bonds, for airports, which can be financed via its receipts, he said.

Dr Ibrahim added that the ministry will look into the matter should the need arise for government guarantees for debt issuances.

Coming up...

Volume 8 Issue 43 – 2nd November 2011

Meet the Head
Erica Soeroto, the president director of Sarana Multigriya Finansial, Indonesia

Features
Islamic finance in Saudi Arabia: Myth and reality; By Dr Abderrazak Belabes, a researcher at Islamic Economics Research Center of King Abdulaziz University.

The new age art of wealth management; By Jamal Hijres, the CEO of Capinnova Investment Bank.

MOVES

RESERVE BANK OF INDIA

INDIA: The government has appointed **M V Rajeev Gowda** and **Y H Malegam** as directors to the central board of the central bank, Reserve Bank of India. Both have been appointed for four years.

STATE BANK OF PAKISTAN

PAKISTAN: The government has appointed **Yaseen Anwar** as the new governor of the central bank, State Bank of Pakistan, replacing Shahid Hafeez Kardar.

Yaseen was previously the bank's acting governor.

KUWAIT INTERNATIONAL BANK

KUWAIT: The Central Bank of Kuwait has approved Kuwait International Bank's appointment of **Nasreen Al-Qaseer** as its general manager of the risk management department.

MASHREQ GOLD

UAE: Mashreq Al Islami has appointed **Pamir Karagoz** as the new head of its subsidiary, Mashreq Gold. Karagoz was previously the head of premier banking and investments, emerging markets at Barclays.

ALDAR PROPERTIES

UAE: Aldar Properties' board of directors has approved the appointment of **Greg Fewer** as its CEO effective from the 1st November.

Fewer will join Aldar from Mubadala, where he is the deputy head of its structured finance and capital markets unit.

ABERDEEN ISLAMIC ASSET MANAGEMENT

MALAYSIA: Aberdeen Islamic Asset Management has appointed **Abdul Jalil Abdul Rasheed** as its CEO. Abdul Jalil is also the company's head of equities.

AL JAZEERA FINANCE

QATAR: Al Jazeera Finance has announced the appointment of Amer **Mohamed Al Jabri** as its new CEO, confirming a report by Islamic Finance *news* on the 14th October 2011 (Volume 8, Issue 41).

What next for Islamic capital markets after a record year in 2011?

The global Sukuk market, which is having a record year in 2011, remains constrained by limited corporate issuances while its performance in 2012 hinges on developments in the Euro debt crisis and the global economy, said top bankers on Issuers Day of the IFN 2011 *Issuers & Investors* Asia Forum.

"The good news is that 2011 has been a record year in terms of Sukuk issuances, even before the year has ended, amounting to around US$63 billion in September with about 11 countries participating; including new entrants such as Jordan, Yemen and Iran. We have also had a fair share of Middle East as well as Asian issuances," said Syed Alwi Mohamed Sultan, the head of Islamic finance for Asia Pacific at BNP Paribas Malaysia.

However, the outlook for the global Sukuk market in 2012 remains uncertain due to the unrest in the MENA region and the financial turmoil in Europe. "For that matter, in 2012, there will be some form of flight to quality. Credit will become an issue," said Steven Choy, the president and CEO of Malaysian mortgage corporation, Cagamas.

Nonetheless, he noted that some optimism remains for next year on expectations that sovereigns will continue to tap the market amid the low interest rate environment. This optimism was also shared by Rafe Haneef, the CEO of HSBC Amanah Malaysia, who said that if the Eurozone survives its current crisis, the market should see significant growth of Sukuk next year.

He added that by the end of this year, there will be a "few interesting issues" in the US dollar market, including some project financing Sukuk.

The speakers also discussed the recent flurry of Middle East issuers in Malaysia (see our cover story in IFN Volume 8, Issue 41), which also gave rise to a discussion on Middle East investor profiles.

According to Mohamad Safri Shahul Hamid, the deputy CEO of CIMB Islamic, the maturity profile of investors in the region remains confined to between five to seven years.

"Potential issuers who are bidding for long-term projects cannot finance those projects by issuing Sukuk because there is no demand for 20-year Sukuk in Dubai or Qatar, or 15-year Sukuk in Bahrain," he said.

Mohamad Safri also pointed out that for the Sukuk market to evolve beyond the Malaysian hub, demand must be expanded to beyond the five to seven-year threshold.

He also noted that: "Unless we get buy-ins from the G20 countries, it's going to be difficult to call ourselves part of the global financial market."

Taking Sukuk to the next level

Issuers Day also saw a discussion on Islamic capital market products, challenges and opportunities. Mohammad Farrukh Raza, the managing director of Islamic Finance Advisory & Assurance Services, noted that while the European market has lagged Malaysia and the Middle East in terms of Sukuk issuances, the Eurozone debt crisis presents a new opportunity for the Islamic finance industry to grow in the market.

"Now the time has come that we go to a second level, which is communicating the message to corporates and giving them details on how they can use Sukuk as an instrument for their business needs and to consider it as a real alternative for their funding needs," he added.

Going forward, Nadim Khan, partner at Herbert Smith, noted that the market will begin to look at Sukuk instruments differently, highlighting a transaction in the UK last year where Sukuk was used as a private equity instrument.

"I expect more innovative thinking as to how instruments may be used," Nadim said.

Mohd Effendi Abdullah, the director and head of Islamic markets at AmInvestment Bank, said that the Sukuk market has entered a new phase.

"There will be a lot more cross-border financing structures which are much more challenging in terms of products, jurisdictions and markets," he said.

Meanwhile, Amar Meher, a senior associate at Vinson & Elkins, noted that in the next six to 12 months, potential issuers must be mindful of offering different types of asset classes which investors have not been exposed to and making efforts to provide credit enhancements to their issuances.

Opportunities and challenges

Speakers also discussed opportunities in growing Islamic capital markets through cross-border transactions and secondary market trading, with Neale Downes, a partner at Trowers & Hamlins noting that while the Arab Spring dampened business sentiment in Bahrain, the domestic market is now looking for investment opportunities outside the region and to tap liquidity and positive investor sentiment in markets such as Malaysia.

Addressing secondary market trading, Andrew Leamon, a director of trust and securities services at Deutsche Bank Dubai discussed the importance of trusts and the special purpose vehicle system, highlighting that the recent financial crisis has brought these issues to the fore. "Confidence is one of the key factors; knowing what will happen in good and bad times," he said.

At a panel on ratings, risk management, taxation and liquidity management in the Islamic capital markets, speakers discussed, among others, the standardization and harmonization of Shariah and legal issues.

Associate Professor Dr Asyraf Wajdi Dusuki, the head of research affairs at the International Shari'ah Research Academy for Islamic Finance, noted that this has been a prolonged issue in Islamic finance, highlighting that: "If you hope to have standardization of fatwa or rulings, this is impossible until the end of days," while Megat Hizaini Hassan, a partner and head of Islamic finance at Lee Hishammuddin Allen & Gledhill, said that although there is some tension between Shariah scholars and legal advisors, the parties are usually able to reach a compromise. — *EB*

Liquidity management highlights the day

The International Islamic Liquidity Management Corporation (IILM) has been the talk of the Islamic finance industry when it was launched on the 25th October 2010 in terms of what it can bring to the table to address the critical issue of liquidity management in the industry. As months of silence passed, the more pressing question evolved as to whether the IILM will see the light of day.

An explanation was finally provided in the last session of the Investors Day of the IFN 2011 *Issuers & Investors* Asia Forum. The session titled: "Islamic Liquidity Management Development and Tools" saw the panelist Hooman Sabeti Rahmati, a partner at Allen & Overy questioned on the latest development of the corporation since its launch.

> ***"The central problem is in designing a liquidity product, he explained adding that several requirements needed to be approved not by a single member but by all members of the IILM"***

Hooman, who revealed that he was advising the IILM, said the problems faced by the corporation were of 'exceeding complexity.' He then provided an insight into the laborious task faced by the IILM.

"The central problem is in designing a liquidity product," he explained, adding that several requirements needed to be approved not just by a single member, but by all members of the IILM. The requirements include a high credit rating, tradable instrument, reserve currencies, appropriate regulatory treatment which are afforded by the central banks and the prudential regulator.

Hooman added that the magnitude of complexity involved was completely different of that faced by international organizations or even Sukuk issuers, as the IILM members comprise of are central banks.

"There is a clean balance sheet with no assets to back the liabilities that you need to have preferential regulatory treatment in all sorts of jurisdictions to make it work and the Shariah problems that have been impediments in creating the right instrument are still being solved. It is a multi-headed monster of a problem but it is being worked on," he said.

The IILM was established with 14 founding shareholders (consisting of 12 central banks or monetary authorities of Indonesia, Iran, Kuwait, Luxembourg, Malaysia, Mauritius, Nigeria, Qatar, Saudi Arabia, Sudan, Turkey, and the UAE) and two multi-lateral institutions, the IDB and the Islamic Corporation for the Development of the Private Sector.

Panelists Dr Ali Al Amari, the senior director of supervision and authorization division at the Qatar Financial Center Regulatory Authority and Emad Al Monayea, the vice-chairman, managing director and CEO of Liquidity Management House, both questioned the absence of the IILM in engaging with the financial institutions.

In an attempt to engage the delegates, Emad also questioned the reason behind the IILM limiting its membership to regulators. "Why do we not see any practitioners and bankers being nominated as members of the IILM? The IILM is currently at the stage where it would require research and development as well understanding and contribution," he added.

Hooman Sabeti offered a possible reason saying it was because governments and regulators are responsible in designing and creating liquidity instruments with the end users being financial institutions. He expects the IILM to engage in a dialogue with potential users of liquidity instruments through the central banks, which are members of IILM.

Hooman however reminded the panelists and delegates that at the end of the day, the IILM was formed by central banks, which work in a particular way. "There is a particular ethos of central banking and you can expect that an organization that they form will reflect the culture of central banking," he said.

In another session, Neil Miller, the global head of Islamic finance at KPMG, highlighted that standardization was more than just aligning contracts and the focus should instead be given to create a more efficient industry. He praised the work of the International Islamic Financial Market (IIFM) as it brought people together to be involved in various attempts to standardize products.

However, Miller lamented the approach of pure Islamic banks which were less enthusiastic than conventional banks with Islamic windows. He said that there must be a move towards efficiency through standardization and increased transparency, but it was for the Islamic finance industry to drive itself and not look to the international bodies in the conventional banking space to lead. "We are going in the right direction but need to work harder," Miller commented.

Badlisyah Abdul Gani, the CEO and executive director of CIMB Islamic, said that the 'Arab spring' brought a lot of opportunities for Asia with significant inflows predominantly in the private banking space within the various markets in Southeast and North Asia.

"Investors are typically looking for security and stability to mitigate the experience back home," he said adding that Asia was the place to be in terms of economic activities such infrastructure, oil and gas as well as the property sector. — *RW*

Internationalization of Takaful

The internationalization of Takaful calls for a shared vision among all its stakeholders. While differences in opinions and approaches are acceptable; commonalities, norms and precedence are required to bring the market to the next level. Central to this development is the globalization of Takaful principles and education to ensure its greater outreach and understanding amongst its participants.

As Takaful enters the mainstream, the importance of closer collaboration among all relevant jurisdictions is further augmented. Dr Saleh Malakah, the chairman of the board of Best Re and vice-chairman and CEO of Salama group speaking at the 2011 IFN *Issuers & Investors* Asia Forum's Takaful and re-Takaful Day highlighted the issues currently facing the global Takaful industry from a macro perspective, giving particular attention to its budding international dimension.

According to Dr Saleh, the Takaful industry will continue to see rapid growth despite the current global financial crisis, and is positive of witnessing a continued 30% accretion in product uptake for the rest of the year, and into 2012. "This is due to the milestone event of the emerging market economies surpassing the developed economies by 2020. It is this shift in size and balance that will have an important impact on the Takaful industry which is growing in tandem with these emerging economies and serve as hotspots for Islamic finance," he revealed.

Dr Saleh further added that the growing interest of established industry players in the sector is enabling the Takaful industry to gain traction, achieve critical mass and widen its reach across the globe. Dr Saleh acknowledges that Takaful remains a new business prospect and that new entrants to the market are small, and fragmented. However, it is these small startups that are driving the underlying growth of the Takaful industry, helping it reach segments of society currently untouched or disillusioned with conventional insurance offerings.

> ***"The growing interest of established industry players in the sector is enabling the Takaful industry to gain traction"***

Sohail Jaffer, the partner and head of international business development at FWU group added to this argument, saying that Malaysia represents the cross roads for Takaful development and for the industry to really grow, it has an inherent need to export its wares beyond its borders.

According to Sohail, Takaful is still is the young kid on the block. Markets such as Egypt, North Africa and Turkey remain completely removed from the rapid expansion of the Takaful industry and its leading entities; an issue perfectly highlighted in the limited penetration currently witnessed in neighboring Indonesia, despite its significant Muslim population and desire to develop its domestic Takaful market.

This is deeply contrasted by the presence of the many major global insurance brands within the Malaysian market, having quickly sensed the opportunities offered by the Takaful industry and its ability to capture a previously untouched segment of the market. This model can clearly be replicated in different jurisdictions, particularly the Middle East. Yet, Malaysia, widely regarded as the Islamic financial hub has yet to export its Takaful brand beyond its borders.

Azleena Idris, the deputy director of Islamic banking and Takaful at Bank Negara Malaysia acknowledges the importance of collaboration between regions will collectively grow the Takaful industry. In particular, the Takaful industry should capitalize on the western markets' long-standing involvement in the industry since the early 90s to attain a greater share of the market. "We have to seize a more sizeable share of the Shariah compliant investible universe and create a diverse portfolio of Shariah compliant offerings," added Azleena.

While Azleena recognizes the importance of achieving international connectivity in Takaful and re-Takaful, there currently is no consistency across these regions.

It is the role of the regulators to highlight commonalities across this divide and work from there to coexist. "Commonality needs to be achieved, such as the Takaful operating framework, while the accounting treatment of Takaful can also begin to create another point of convergence," she said.

Takaful needs to seize a more sizeable share of the global Shariah compliant investible universe and creating diverse portfolio of Shariah compliant offerings. The global market share of Takaful currently stands at 0.7% and remains stagnant while other Islamic asset classes continue to grow. Takaful needs a greater international outlook in order for it to reap its share of the market. — *SW*

Investor education

The underlying theme across the board in terms of equity and equity-linked products is investor education. Be it Islamic equity traded funds (ETFs), Mudarabah products or Islamic real estate investment trusts (REITs), issuers are still grappling to fulfill the liquidity requirements needed to create an active trading market for equity products and create sufficient exposure and interest among Islamic and conventional investors to boost the growth of this market.

> ***"There also needs to be more liquidity in this market, and fund managers and institutions would like to see more participation from investors and an increase in trading volume"***

Equity-linked and equity-based Shariah compliant products have come to the forefront in recent years after the market witnessed the scars created by debt. Regulatory bodies, particularly in Malaysia, Indonesia and Pakistan have shown support for the creation of a more equity-based market; however, issuers such as Mahdzir Othman, the CEO of i-VCap Management, believes that more education is needed for investors to truly understand the full potential of equity-linked products such as Islamic ETFs.

"Islamic ETFs are still relatively new in the market, having been around for four years, compared to conventional ETFs which have been around for the last 20 years. And compared to the 2,500 conventional ETFs available globally, there are only currently 15 Islamic ETFs. We believe there is huge potential on the Shariah compliant side, and as an issuer, we would like to see more Islamic ETFs rolled-out in the market. There needs to be more detailed clarification in terms of explaining the product itself and other equity-linked products to investors," said Mahdzir.

He added: "ETFs are a household name in Europe and the US, and again the main issue now is attracting investors. Over the last few years, investors have known what ETFs stand for, but are still not sure of the benefits. From an investors' perspective, ETFs are a special product which is open to retailers, fund managers, pension funds and can be used in numerous ways. There also needs to be more liquidity in this market, and fund managers and institutions would like to see more participation from investors and an increase in trading volume. The market has seen an increase in participation and awareness, but not at the desired rate."

In jurisdictions such as Indonesia, which has recently opened up its capital markets to Islamic finance, regulatory support is prevalent. However, again, market interest is still lacking despite bigger players already sniffing out the opportunities in this sector. Indri Pramitaswari Guritno, a partner at Hadiputranto, Hadinoto & Partners revealed: "The Indonesian capital markets have been very supportive in terms of developing the equity market and the government is very driven in terms of pushing foreign investors into Indonesia. The Indonesian Investment Coordinating Board already has a list of activities which are essentially 100% open to foreign investors."

She added: "Foreign investors can also establish an Indonesian entity 100% owned by Indonesia, and this includes property development, oil and gas, and others; subject to certain restrictions. In terms of ETFs, the Capital Markets Supervisory Board created a regulation in 2009 which allows a local Indonesian fund to invest in portfolios offshore which are Shariah compliant; and can market shares of those funds in Indonesia. In terms of equity, the framework and legal infrastructures are already there. The problem is how to tap the market and create interest from the perspective of the big players."

Other equity-linked products such as Islamic REITs are also slowly seeing regulatory support, although Stewart La Brooy, the CEO at Axis REIT Managers believes this also has room for improvement. "Although Malaysian REITs consistently outperform the market, there are not enough structures to accommodate Islamic REITs. In Malaysia, fund managers of Islamic products have no tax breaks as opposed to Islamic ETFs, therefore there is hardly any incentive to push this asset class. For instance, Sabana REIT, the world's largest Islamic ETF is listed in Singapore and not Malaysia, which is a real shame, as Malaysian REITs are faring very well."

Abdul Jalil Abdul Rasheed, the CEO of Aberdeen Islamic Asset Management also agrees that there is much potential for Islamic REITs, but as opposed to Indonesia, which is a flourishing residential market, Malaysian-based Islamic REITs need to be more focused on specific industries to succeed; whether it be in the plantation, industrial or healthcare sectors.

It is evident that issuers are optimistic about the potential of Islamic equity products, but agree that the investor base still needs much convincing. — *NH*

Special commentary on Goldman Sachs Sukuk

Without a doubt, the groundbreaking planned Sukuk issuance worth US$2 billion by Goldman Sachs (GS) will set new heights for the Islamic finance industry.

Personally I think the only reason why GS went for the asset-based Murabahah structure, is because this is the closest you can get to conventional bonds. That means it would be easier to market it to foreign investors, as compared with a clustered Sukuk. The other deciding factor is that with Murabahah, one can guarantee the principal and the mark-up at the maturity. From the initial structure that seen in the offering circular, I can confirm that credit enhancement elements are being integrated here.

Now, what is so unique about this Sukuk is its intention to list it on the Irish Stock Exchange. It is known that Shariah does not permit the trading of Murabahah Sukuk in the secondary market. The reason is because we are referring to debt here. In these cases, investors usually buy and hold these type of securities.

> *What is so unique about this Sukuk is its intention to list it on the Irish Stock Exchange*

Nonetheless, GS has two Shariah exits to find a way around the impermissibility of its trading. For example, Sukuk can be traded on a condition that the Murabahah assets constitute a small percentage of the overall portfolio of the underlying assets. On the other hand, Sukuk Murabahah can be traded at the nominal value and not at the market value. Personally, I think GS has chosen the latter for its Sukuk as its related-underlying assets fully constitutes Murabahah.

My advise to potential certificate holders is to contract the service of a Shariah scholar or experienced Sukuk structurer before subscribing as things are not always as they seem.

Mohammed Khnifer is a Sukuk structurer and he is in the process to be certified as a Shariah advisor and auditor by the AAOIFI and he can be contacted at mkhnifer1@gmail.com.

Oman prepares to regulate Islamic banking

OMAN

By Anthony Watson, IFN Correspondent

Since Oman announced earlier this year that it would encourage the development of Islamic banking, officials have been considering how to regulate Islamic banks and the Islamic windows of conventional banks.

> *Conventional banks will be required to maintain separate books of account for their Islamic windows*

Oman government officials have visited some countries and examined the regulations of Islamic banking in other jurisdictions. The Central Bank of Oman (CBO) hopes to implement the best practices by taking advantage of the experience learned from other regulators.

"We hope to find the best model," said Hilal Ali AlBarwani, the vice-president of banking control departments.

"Our goal at the CBO is to ensure integrity, so that customers are confident that banking products offered by Islamic banks and Islamic windows are Shariah compliant, since banks themselves will take responsibility in accordance with regulatory guidelines to be issued soon. Naturally, this issue is very important," he added.

The CBO foresees that each Islamic bank and Islamic window will be required to have its own Shariah compliance board made up of a minimum of three scholars who must certify that the banking products offered are Shariah compliant.

The question of how a conventional bank raises the initial capital necessary to establish an Islamic window is on the minds of many regulators. One possible solution is for the conventional bank to loan the Islamic window seed money through a qard hassan; a Shariah compliant, interest-free loan.

Nonetheless, the source of a conventional bank's initial funds for its Islamic window raises difficult questions for both regulators and bankers. The CBO's position on this will be finalized soon.

The CBO is, however, clear that once a conventional bank establishes an Islamic window, it cannot commingle the conventional bank's funds with funds of the Islamic window.

According to Hilal Ali, "Conventional banks will be required to maintain separate books of account for their Islamic windows. The CBO will strictly prohibit commingling of funds."

The CBO also foresees that the regulation of Islamic banks and Islamic windows will require some amendments to the Royal Decree No. 114 of 2000 (the Banking Law), which are currently in process.

In the meantime, the CBO has granted licenses/initial approval to two Islamic Banks, Bank Nizwa and Al Izz International Bank. Both banks are currently are under formation.

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The importance of human resources in Islamic finance

CHINA & HONG KONG

By Anthony Chan, IFN Correspondent

Percentage wise, both Hong Kong and mainland China have little in terms of Muslim population — a mere 2% in Hong Kong and 1.6% in mainland China (representing around 21 million Muslims). Compared against Malaysia (60.4%), Singapore (15%) and Indonesia (88.2%), the Muslim population in Hong Kong and mainland China are extremely small.

The lack of a Muslim population does not necessarily mean these markets lack the potential for development. Hong Kong has from time to time set its sights on becoming a leading Asian platform to develop Islamic financing, whereas mainland China remains one of the key countries in Asia which can fully utilize Islamic financing.

Commentators have often mentioned that the key hurdle to promoting Islamic finance is a lack of decisive tax and regulatory reform to allow Islamic structures to be in place. But in order for any such changes to be implemented, the knowledge element is very important, as are the experts that come with it.

The willingness and capability of Islamic finance professionals, scholars and institutions to widen their horizon from their base in the Middle East or Southeast Asia to mainland China and Hong Kong is central to the development of the Islamic finance industry in these jurisdictions. Currently this does not appear to be the case.

These professionals, scholars and institutions are in a position to drive the market, train the next generation personnel, and more importantly to make the general public aware that Islamic finance is an acceptable and safe alternative to conventional financial products despite differences in the way financing deals are structured.

Hong Kong is a place where many existing or new conventional structures are reinvented and given a new lease of life in an East Asian environment facing an Asian audience.

Given the right opportunity and the right combination of human resources available to drive a financial product, there should be no reason in principle, why an Islamic financial product could not be marketed successfully through a Hong Kong platform. Islamic financial products are open for take-up by Muslims and non-Muslims alike.

> *"Hong Kong already has a world class system regulating the activities of fund managers, investment banks and securities houses"*

Marketing of Islamic financial products

Moreover there is no reason why an Islamic product would not be culturally accepted by investors in mainland China and Hong Kong if it is marketed by well respected professionals in the same way as conventional financial products, and offers performance which is likely to be as good, if not better than a conventional product.

Shariah compliant products tend to be more conservative, and therefore considered by many to be safer risk investments. The key lies in who is selling and how the product is being sold, and the way the product is structured to make it safe or appropriate for certain classes of investors.

Having Muslims market an Islamic product may be less effective than having an ordinary marketer do this. The Islamic product for one thing need not be marketed as an Islamic product per se, but rather as an alternative financial product and using conventional rather than Islamic terminology.

Again, the right human resources need to be put in use to maximize the effectiveness of such marketing efforts. Hong Kong already has a world class system regulating the activities of fund managers, investment banks and securities houses and there should not be any need to have a special system set up to regulate the sale and distribution of Islamic financial products, as these are merely after all follow a structured financial product.

Hong Kong

Hong Kong has already shown its capability by growing into a global financial platform for conventional finance market instruments. However, without the right sort, of human resources available to implement Islamic finance, Hong Kong will not succeed as a centre for Islamic finance.

Promoting Hong Kong and mainland China to globally recognized Islamic financial platforms in the hope that they will transfer their expertise to these jurisdictions remain key. What the Hong Kong government needs to do is to recognize that what is missing in the equation — apart from tax reforms, is the lack of expertise to promote and build Hong Kong's Islamic finance platform.

In fact, both Hong Kong and the Chinese governments should look to invest more resources to ensure adequate experts and professionals are made available for this growing sector.

Mainland China

On the other hand, mainland China with its massive financial needs over the long-term would make a good market to distribute such financial products, perhaps starting with cities closest to Hong Kong such as Shenzhen and Guangzhou.

However, the ability of Chinese investors in mainland China to purchase Islamic products is very limited under the current regime, and it will take time before the Chinese state feels more comfortable with such products (and indeed many conventional structured financial products) to be marketed to the wider general public in China.

Continued

Continued

As Hong Kong takes the lead in building its Islamic platform, mainland China will see the benefits of such platforms once Islamic financial products are originated, and able to attract the larger or more well established Chinese enterprises to source investors, debt or capital through such platform.

In particular, Islamic financing for Chinese projects should work quite well within the confines of Shariah, especially in the area of real estate and construction and engineering.

In time, hopefully mainland Chinese institutions would be permitted to invest selectively in appropriately structured Islamic financial products aimed more at Chinese investors; but this is unlikely to happen until Hong Kong's Islamic platform is tried and tested.

However, in order to get the entire process started, Hong Kong first needs professionals and experts in the Islamic financial sector via educational programs aimed at, or covering Islamic finance.

Currently, the Business School of the Hong Kong University of Science and Technology offers an elective course on Islamic finance as part of its MBA program while Chinese institutes of learning have been slow at establishing courses covering Islamic finance.

Conclusion

There is no reason why Hong Kong cannot remain in a prime position to consult and cooperate with relevant global or Islamic organizations (such as the Islamic Financial Services Board) with the view to transfer overseas expertise to Hong Kong and upgrading local expertise. The Hong Kong government could, if it wishes, establish an institute similar to the International Center for Education in Islamic Finance in Malaysia with an Islamic organization's assistance, where academic and professional qualifications are offered in Islamic finance areas taught by well-known resident and visiting scholars.

By implementing a long-term plan to establish a major Islamic professional institution, Hong Kong's role as an Islamic finance center would become much more visible.

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Malaysia's Budget 2012 and Islamic finance

MALAYSIA

By Nik Norishky Thani, IFN Correspondent

The Malaysian government unveiled the nation's budget for 2012 with several interesting incentives for the industry that sends a clear message that the country is serious in its effort to establish the country as a global center for Islamic finance.

Budget 2012 brings with it incentives to further expand the Sukuk market, non-ringgit Islamic finance business, develop more links between Islamic finance with small and medium-sized enterprises (SMEs) and boost the Islamic exchange traded fund (ETF) market.

Malaysia is a recognized financial center for Sukuk, so it is not surprising that two of the incentives are directed towards further development of the Sukuk market. Firstly, tax deduction for a three-year period starting from 2012 on expenses incurred for issuance of Sukuk Wakalah.

In June 2011, Malaysia successfully issued two sovereign Sukuk based on the contract of Wakalah. The government of Malaysia's Wakalah global Sukuk with tenors of five and 10 years, which were issued at a time of market uncertainty, was oversubscribed by 4.5 times with investors from the Middle East (29%), Europe (14%), the US (8%), Malaysia (22%) and the rest of Asia (14%).

> ***"Market acceptance of Sukuk demonstrates market confidence in Malaysia and also the industry's acceptance for Sukuk structured on the Wakalah concept"***

Market acceptance of Sukuk demonstrates market confidence in Malaysia and also the industry's acceptance for Sukuk structured on the Wakalah concept.

With the three-year tax incentives, we can expect to see more issuance of Sukuk Wakalah and more innovation for Wakalah-based financial products.

The Wakalah structure would be suitable for issuers that have a pool of investment assets instead of tangible assets that are normally required for Ijarah-based structures.

In addition to Sukuk Ijarah, acceptance by industry players for Sukuk Wakalah will see options for globally accepted structures expand further.

Income tax exemption for issuance of non-ringgit Sukuk and transactions is also extended for another three years until 2014.

The extension is a welcome addition to the existing tax incentives aimed at broadening cross-border Islamic capital market business.

With more international Islamic banks opting to set up operations in Malaysia, the extension for such tax exemptions is a clear signal that Malaysia's future in Islamic finance is being geared towards greater internationalization of its industry. With tax incentives also being provided under the Budget 2012 for the

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Kuala Lumpur international financial district, Malaysia should prove to be a more attractive destination for global financial institutions looking to expand into this region. It would be interesting to see if these incentives will also in future tie in with Labuan, Malaysia's offshore financial center.

The Budget 2012 also allocates RM2 billion (US$632.8 million) for a Shariah compliant SME fund. The SME fund is expected to be launched in 2012 and will be managed by selected Islamic banks.

In a move designed to further boost the SMEs' role in the Malaysian economy, the government also intends to establish a Shariah compliant RM500 million (US$158.6 million) commercialization innovation fund to assist SMEs to market inventive products. A major pull factor for Islamic finance is its intended role in developing the real economic sector. Developing better linkages between Islamic finance with SMEs is a welcome move in that respect. Islamic financial institutions would appreciate the opportunity to expand business potential by providing financial services to SMEs and in turn SMEs, already a key contributor to Malaysia's GDP (SME's account for 19% of Malaysia's export) could look forward to receiving much needed support to grow its respective businesses.

Islamic ETFs, a promising asset class for Islamic finance also received a boost in the form of RM200 million (US$693.5 million) seed funding.

Islamic ETFs has huge potential for development. With the right support, it may well be the next 'killer app' to follow in the footsteps of Sukuk.

ETFs is essentially a retail investment product and for Islamic ETFs to succeed, the level of understanding among retail investors in particular needs to be addressed first.

The shortage of Malaysian success stories on ETFs is largely due to the lack of understanding of the product features. It may take a while before we can see an active Islamic ETF market in Malaysia, but then again Sukuk was not an immediate success either when the first Malaysian ringgit Sukuk was issued in 1990. Islamic ETFs can bring more Shariah compliant investment products in a market that is currently biased towards Islamic debt.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of Permodalan Nasional Berhad.

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The project finance boom in Kuwait

KUWAIT

By Alex Saleh, IFN Correspondent

In recent years, Kuwait has observed noticeable developments in the project finance market. This is due to the increase in the number of infrastructure projects currently being implemented (or due for implementation) across various sectors, such as oil and gas, water, power projects, telecommunication and transportation.

A report issued by MEED Project Index on the 19th August 2010, revealed that Kuwait has a total of US$239 billion-worth of planned projects. The most recent and significant project being the Az Zour North Independent Water and Power project, Kuwait's first privately managed power and desalination plant where investors have been recently invited to submit their bids for its development and construction.

In line with such developments, laws have been passed in order to regulate the implementation of these types of projects, such as the public private partnership (PPP) law and the independent water and power project (IWPP) law.

The thriving developments in Kuwait are due to various factors. One of the most important contributing factors is the supportive role of the Kuwaiti authorities in responding to the needs of the industry.

For instance, the climate of Kuwait makes its water and power consumption very high and considered as one of the highest in the world. As a result, there have been project proposals to provide facilities to cater to such demand.

Another crucial factor is the willingness of local and foreign banks and lending institutions to respond to the financing needs of the investors in carrying out these projects and their willingness to assume the risks inherent in project financing, where financing is commonly given on a non-recourse basis. This means that the financing is secured by the projects assets and paid entirely from the projects' cash flow, as opposed to the general pool of assets owned by the investors.

Islamic finance has been at the forefront for major project financing in Kuwait because investors are insisting on using Shariah compliant structures as a key component of their funding requirements. The Islamic finance structure is used either as a stand alone form of project financing, or as a tranche integrated alongside a conventional structure within a broader multi-faceted financing arrangement.

One example is the recent KWD48 million (approximately US$174 million) syndicated financing facilities for Al Khorayef Group Company, a leading Saudi group, in Kuwait, to finance the construction of oil related facilities in west Kuwait.

The syndicated financing involved an Islamic tranche consisting of a commodity Murabahah facility, an Ijarah facility and a conventional tranche consisting of multi-facilities structures.

With more infrastructure projects in the pipeline awaiting implementation, it seems that there are opportunities for Islamic project finance to grow in frequency and size within the Kuwait market in the immediate future.

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Daud speaks

By Daud Vicary Abdullah

This last month has been one of travel for me. Initially with a trip to Australia, followed by a round the world trip with stops in Hong Kong, Canada, UK and Turkey, before returning home to Malaysia.

Finally, a brief overnight trip to Singapore, where I had the opportunity to speak on the topic of "Strength through experience – the impact of people, places and events on my professional journey."

> ***"The state of play for the Islamic finance in markets such as Canada and Turkey is very different to that of Malaysia"***

Based on that theme, I would like to reflect on my most recent travels in the context of Islamic finance. I have long been a believer in trying to "speak to people's listening." I may not have always been successful, but the intention is always there.

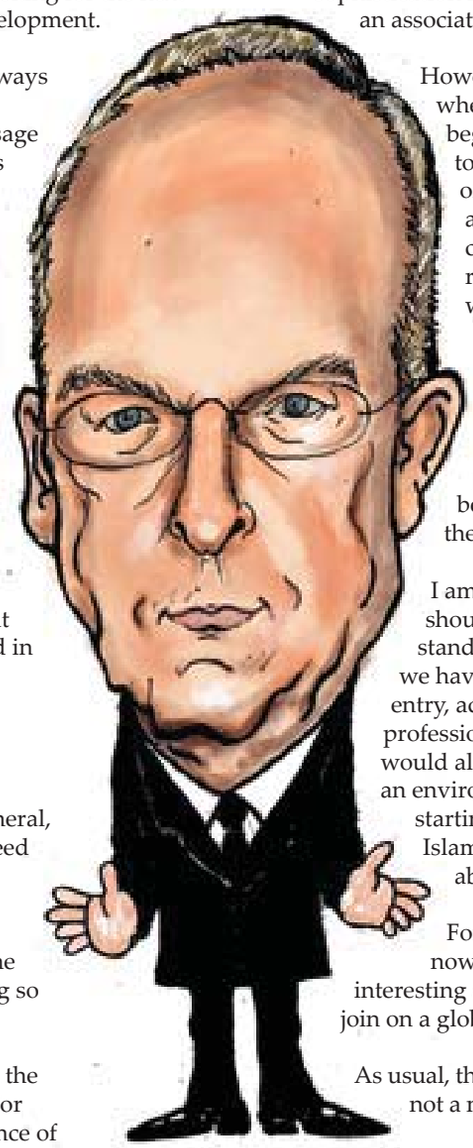
There is a considerable difference in addressing an audience that sees Islamic finance something new that they would like to learn more about, from an audience that has reasonable industry experience and is looking for the next step in product development.

Therefore, I have always tried to adjust the delivery of the message to ensure that it gets through.

The state of play for the Islamic finance in markets such as Canada and Turkey is very different to that of Malaysia. So it would be unwise to assume that audiences in the aforementioned countries understand the complexities of what has been established in Malaysia.

They may have the experience of it in a conventional sense, however, but, in general, I believe that you need to reach out for a common point of understanding and build from there. The dangers of not doing so are obvious.

The same applies in the field of education. For example, the relevance of a detailed professional qualification may be of utmost importance in a jurisdiction where there is considerable sophistication in Islamic finance and an associated job market.



However, in a country where the journey is just beginning, it is difficult to see the relevance of such dedication and there would certainly not be any readymade jobs to walk into.

Therefore, the content and delivery of educational programs needs to be adjusted to reflect the gap.

I am not saying that we should have different standards, but rather that we have different points of entry, adhering to the same professional standards, that would allow beginners in an environment that is just starting its journey in Islamic finance and be able to grow.

For me, the journey is now starting to get really interesting as the dots start to join on a global basis.

As usual, there is much to do and not a moment to lose.

Strategic wealth protection: Invest in Sukuk

By Shan Saeed

The global market is bracing for another crisis that would be worse than the great depression of the 1930s. It is a modern-day depression. The governments in advanced economies are committing financial suicide by printing money i.e quantitative easing. This phenomenon is going global as the EU/UK/Japan are following the footsteps of the US.

Americans are wondering whether their 'savings for the future' has become 'gambling with their savings'. Hoping to pump investor's hard-earned money into a schizophrenic stock market in a nearly bankrupt economy and hoping for the best has become the de facto way of life for many investors.

> ***"The average European bank's equity is trading at about 60% of its book value"***

The average European bank's equity is trading at about 60% of its book value. The greatest risk to the market is that the sovereign debt risk can threaten the financial landscape of the global economy.

Social unrest and riots are happening from Rome to London to Chicago to Madrid to New York to Athens, whereby people are groaning about financial misdeeds of the market players that have messed up the very fabrics of the harmonious society. It is all about economics.

When people do not have jobs and do not have sense of purpose to their lives, it is an excruciating agony.

Caution for savvy investors

If investors think that they are living in the "land of the free," think again. I would share three warning points with the global investors to ponder upon.

Warning 1: Financial privacy is a fantasy
Warning 2: Increasing government interference in our everyday lives
Warning 3: Increased capital controls are coming

And that is just the tip of the iceberg. Without question, investors are entering a new era with new challenges in the financial market. The greatest risk that investors are facing presently is sovereign risk.

Having everything in a single country in your portfolio is very precarious. So the question is: What is the new diversification strategy for savvy investors in these uncertain times?

Wealth protection strategy with Sukuk

We have entered into an age of turmoil; a time marked by rapid changes and fluctuating crises. Global investors have lost US$4.23 trillion from the 1st August 2011 until the 15th October 2011 in the equity market.

This is a colossal loss for the global investors as markets are punishing players from all sides. So, can Sukuk save the global investors from further losses? Investors need to think this strategically.

Sukuk insight for the global investors

Sukuk are securities that comply with Islamic law which prohibits the charging or paying of any interest. Sukuk investors receive a pass-through of income generated by the underlying assets. Sukuk represents a proportionate beneficial ownership in the underlying asset.

The asset is then leased to the client using Ijarah or diminishing Musharakah or sold to the client using trade-based Islamic mode of financing like Salam, Murabahah and in a case when the asset needs to be manufactured, the Islamic mode of Istisnah is used.

Sukuk is based on the concept of securitization. It is an Islamic alternative for asset-monetization, syndicate project financing, financing through asset-backed securitization and public financing.

Some important Sukuk in the financial markets are Mudarabah, Musharakah, Ijarah, Murabahah and Istisnah.

Sukuk is backed by real assets. This emerging bond has taken the global financial market to the next level of strategic valued investment for the savvy investors.

Malaysia is leading the way with Sukuk issuances globally. Strategic valued investors have taken a position in Sukuk which are based on solid and strong fundamentals with real sustainable growth as markets are turning volatile.

Happy investing in the bond market.

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Bank Nizwa primed for Oman's Islamic banking debut

A key proponent of the establishment of Islamic banking in Oman, which was only launched via a royal order in May this year, Bank Nizwa, the country's first licensed Islamic bank, has been instrumental in supporting the Central Bank of Oman (CBO) in laying the groundwork for Shariah compliant finance in the country.

According to Ahmed Saif Al-Rawahi, its chairman and head of the bank's five-member founding committee, Bank Nizwa is now finalizing its set-up amid its second quarter of 2012 target launch date and plans to initially undertake retail and corporate banking transactions upon the opening of its doors. In an exclusive response to Islamic Finance *news*, Ahmed Saif also said that the bank expects to garner between 6%-8% of the banking market share in the country within the next two years.

With an estimated 27% of Oman's population of just under three million not even utilizing conventional banking services, and studies indicating that 70% of the population showing a keen interest for Islamic banking, the stage is set for Bank Nizwa to capture the latent demand for Shariah compliant financial services which has hitherto been unserved due to the absence of Islamic banking in the sultanate.

Comprehensive plans

"Bank Nizwa plans to start with about four branches at launch, reaching nearly eight over a 12-month period. The exact number of branches to be opened will be determined by market conditions, the availability of a skilled workforce, operational agility and a host of other issues. Further, the bank plans to heavily use other non-conventional distribution channels such as customer service centers, direct sales, ATMs and internet and phone banking," said Ahmed Saif.

The bank, which aims to service corporate and retail clients and offer investment and asset management services at a later stage, has also not ruled out expanding abroad in the future, although its focus now will be to consolidate its position in its home market. However, Ahmed Saif added that the bank will look to servicing its clients' foreign banking needs, for example, by offering trade and export financing or funding for machinery purchases abroad.

"On the retail side, the bank will offer mostly plain vanilla Shariah compliant products. On the corporate front, we anticipate rolling out a healthy array of trade finance, asset-based facilities, capital raising services and so on, all in their Shariah compliant contracts. In addition to an ever-increasing trade financing market, we see a huge opportunity in financing vehicles, heavy equipment, aircraft, oil rigs, pipelines, power generators and ships through Ijarah or Musharakah financing," he said.

He added that at a later stage, the bank will also seriously consider becoming the leading Sukuk arranger in Oman in order to tap both the government and corporate Sukuk potential.

Almost open for business

Although Bank Nizwa received its Islamic banking license just this May, the bank has been busy dotting its I's and crossing its T's for its establishment since last year. According to Ahmed Saif, the bank; the brainchild of a handful of visionary founders, now has over 50 founding shareholders, many of whom represent the cream of the crop in Omani society, although he could not disclose names of shareholders due to certain legal considerations.

The bank is now also putting in place its management and staff and has already identified a CEO to lead the bank. "He is a time-tested Islamic banker of exceptional professional and personal qualities and has a vast wealth of experience in setting up greenfield Shariah compliant finance institutions. A few of his reports have already been identified and more are in the process of being headhunted," said Ahmed Saif, who added that the bank is also working with two financial services recruitment firms to hire staff at different organizational levels.

"The final size of the workforce will depend on the final number of branches we may open at launch and over the next 12 months. Similarly, a four-member dedicated Shariah board is also in the final stages of being established," he said.

He said that the bank has also built up a capital base of slightly over OMR150 million (US$389.57 million), with its authorized capital expected to amount to more than that to allow for an orderly increase of capital, should the need arise.

He added that while the bank's founding shareholders and other investors have expressed firm commitments to fund the entire capital, Bank Nizwa will adhere to the CBO's ruling requiring all new banks to sell 40% of equity through an IPO. "We have already appointed a lead manager to handle the process through the Capital Market Authority," he said.

Behind the scenes player

In tandem with its journey, Bank Nizwa has also played a role behind the scenes in the establishment of Islamic banking in Oman. "The founding committee, supported by a determined group of founders, has spearheaded the introduction of Islamic banking in Oman by building a viable case with the official authorities in the country, principally the CBO," said Ahmed Saif.

The bank has also worked closely with the CBO to identify areas in the existing regulatory framework that require a review to accommodate Islamic banking, benchmarking the regulatory regimes in other countries such as Bahrain, Malaysia, Turkey and the UK.

Ahmed Saif said that specific areas of the laws covered include the trading of assets, foreign exchange, property ownership, deposits, interbank movements, interest payable by the CBO on bank deposits and taxation.

The CBO has now commissioned Ernst & Young to advise it on the revamp of laws and regulations, to accomodate Islamic banking.

"My personal view is that the CBO is moving very well and with their usual professionalism in preparing for a new accommodating regulatory regime. It is expected that there would be an adequate Islamic banking operating regulation either by year-end or within the first quarter of next year," said Ahmed Saif. — *EB*

Occupy Wall Street and its Islamic finance proposition

There is a hunger in the US for equitable instruments that fairly allocate risk and the 'occupy' movement illustrates the depth of this desire. ABRAR HUSSAIN, ARSHAD AHMED and JON BERTHET explore.

The October 22nd – 28th edition of The Economist has the following title on its cover: "Rage against the machine: capitalism and its critics". The title highlights the confusion that besets many in the US in trying to understand the Occupy Wall Street (occupy) movement (and its regional offshoots). With an important presidential election looming less than a year away, Americans wonder whether the occupy movement represents a new phase in class conflict, a renewed socialism seeking redistribution of wealth or perhaps simply the misguided rumblings of a jaded youth that, counting on president Barack Obama to deliver "change we can believe in", has yet to realize on the government's promise to be integrated into the economy.

The Economist's article on the subject characterizes this "rage against the machine" as populist anger based on no coherent agenda other than rage against "an economy that was rigged in favor of the financial elite." Which leads to the questions of whether and how the system really is "rigged" and what mechanism tips the odds for the elites?

Speaking on the same subject in a television interview on the 18th October 2011, New York University professor Nassim Taleb also opined on the occupy movement and posited that the basic reason for the discontent was wage disparity.

The US has an exceptional scheme for bankers who are entitled to keep profits when the banks make money but are also entitled to have the public bail them out when the banks fail (capitalism for bankers in good times and socialism for bad times, or privatization of wealth and socialization of losses).

Former president George Bush and president Obama were not the first US leaders to promote bail-outs for banks – professor Nassim reminded us that it was less than a quarter century ago when president Reagan promised never again to bail out the banks after the 1980's savings and loan crisis. (Although professor Nassim, an advocate for the reward alignment inherent in the hedge fund model – conveniently overlooked the 1998 bail-out of the Nobel-laureate managed hedge fund, Long Term Capital Management, organized by the Federal Reserve Bank of New York supposedly to avoid a wider collapse in the financial markets).

> ***"Risk sharing is the heart of financial equality and the soul of Islamic finance"***

Both professor Nassim and The Economist are trying desperately to put their finger on the structural problem that the masses of the occupy protesters are intuitively aware of, but that the mass media have not been able to get their minds around.

If asked to point to one event that would crystallize the reason for the occupy movement, most of the people in attendance would likely point to the massive bail-out of the banking industry during the financial crisis of 2008.

Both president Bush and Obama were keen to note that the American economy was inextricably tied to the banking industry – banks had gotten "too big to fail". Listen carefully to these occupiers of public places in New York (and elsewhere) and it is this concept of "too big to fail" that the 99%, as they are fond of calling themselves, seem to be rallying against.

It has been posited that president Bush and Obama had little choice but to rescue the banking industry. The American economy was, and is, so intertwined with the banking industry that if the banks themselves started to default, there would be no viable modes of finance available to American businesses.

During the height of the financial crisis, seemingly every economist gesticulated on how all the pieces of the American economy are connected to the banking systems and that if there was a systemic failure there would be no way to finance anything – commerce would grind to a halt.

Yet, these same analysts seemed to forget that while banks focus on debt financing and fixed-income products, banks are not the only institutions capable of providing financing in the economy.

In the immediate aftermath of the bail-outs, a movement arose in the US in favor of community banking, credit unions and co-ops, modes that were elbowed out of the American scene due to the government's close relationship with commercial and investment bankers.

In addition, we should not forget that much of the innovation in business and technology occurring in the last 30 years has been made possible by modes of equity financing. Equity financing promotes the sharing of profits and risks, and in contrast to debt-based modes, fundamentally changes the relationship of the parties.

For a bank, the goal of debt financing is to make the lending transaction as riskless as possible by transferring all risk to the borrower. The functional instruments used to implement lending transactions (e.g., guarantees, collateral, etc.) are all designed to transfer any potential risk from the bank to the borrower.

Consequently, if there is any loss, the pool of capital that the bank has lent would still have to be repaid regardless

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of whether the purpose of the loan was money making or not, and regardless of whether the opportunity was successful or not. This transfer of risk found its most definitive illustration in the bank bail-outs. Protestors and commentators alike – such as professor Nassim – found this risk transfer to be intolerable.

In comparison, equity transactions promote risk mitigation not simply by transferring risk from one party to the other, but by looking at the fundamental nature of the investment being made and addressing those business factors in ways to make the underlying investment more likely to succeed. Financial institutions such as credit unions, co-ops, and investment funds spread risk over a large pool of people so that no one person is left bearing a disproportionate share.

They also share the upside of profit from successful investments and the downside risk. In short, payout is tied to success. The occupy participants seem to intuitively realize the difference — the key is risk sharing. In the same interview mentioned above, professor Nassim points to risk sharing as the key solution.

Islamic finance

Risk sharing is the heart of financial equality and the soul of Islamic finance. The vast majority of Islamic scholars over time and place would agree that financing should be conducted using profit-and-risk sharing models such as Musharakah and Mudarabah.

In modern parlance, these are both equity-based modes of finance. Unfortunately, most contemporary financial instruments in the Islamic finance industry use Murabahah and Ijarah structures to mimic conventional debt-based instruments — thus functionally attempting to achieve the same risk-less transactions of their conventional counterparts.

Islamic finance institutions in the US market are often no different. For instance, in two interpretive letters issued in the late 1990s, a US banking regulator approved the United Bank of Kuwait's (UBK) Ijarah and Murabahah structures to be offered in the US market as 'functional equivalents' to debt-based mortgage lending instruments. Though UBK's advantage in having authority to issue Ijarah and Murabahah structures in the US was short-lived, the influence of the letters extended to various financial institutions around the country. Today, numerous US financial institutions provide Islamic-label Ijarah and Murabahah financing to Shariah conscious customers.

That being said, not all American Islamic financial institutions use Ijarah and Murabahah structures. There is a grass roots movement in which small Shariah compliant co-ops, mutual funds, and credit unions scattered around the country are using member-pooled funds to finance assets.

These organizations follow the risk-sharing principles that continue to fundamentally change the financial landscape and, most importantly, address precisely those inequalities that the occupy populace is calling attention to.

Until the modern era, if Muslims wanted to engage in financing, the primary means of doing so would have been through profit-and-risk sharing models – what we nowadays refer to as equity financing. Indeed, the roots of contemporary Islamic finance began with profit and risk sharing rather than debt replicants. And this equity-financing model seems to work, in the right hands.

The equity-based financing structures prevalent in Silicon Valley have engendered amazing growth and innovation – while also being able to mitigate the risk of failures. This risk-sharing model works because if an entrepreneur fails, she will be able to walk away with valuable experience for the next great idea.

The risks are there – but everyone bears them. No debts. No bailouts. If Silicon Valley were to use debt-based financing, most entrepreneurs would never take the risk of starting a new venture if they were to be yoked with the loss even if their venture failed.

This mode of financing forces equity investors to understand the underlying risk of an investment in a way debt investors do not need to understand. If an equity investor can understand how to mitigate this risk – and the best equity fund managers have – the rewards are returns that are the significantly higher than their debt-based counterparts.

But equity-financing models have their share of critics. Some say that equity financing is structurally too risky. This, while true in the aggregate, seems to be mitigated by investing in top-tier venture funds such as Bessemer Ventures (which seems to be able to mitigate this risk quite effectively – its fund has had an internal rate-of-return (IRR) of 28% net of its fees). Others argue that risk-sharing models cannot be scaled but are unaware of credit unions such as the Navy Federal Credit Union, which has over US$46 billion in assets. Debt-based financing is not the only option and, fundamentally, this is at the heart of the occupy movement.

These are not luddites blindly raging against capitalism as so many are mistakenly claiming. They are making a fundamental statement of how society should allocate and share risk it in a way that is fair to all its members – not just a select elite.

Conclusion

There is a hunger in the US for equitable instruments that fairly allocate risk and the occupy movement illustrates the depth of this desire. A large stratum of the American society is searching for the equitableness that is the heritage of Islamic finance.

Islamic financial institutions have an opportunity to show how they would do things differently. Even if the Islamic financial world lacks the human capital to innovate an equity-based model exportable to the rest of the world, the Islamic financial world wields no shortage of wealth that can be directed toward building bridges with the likes of the Silicon Valley, through intermediaries as versed in the venture model as bankers are in banking.

If they are willing to take up the challenge, then the Islamic financial world may be able to answer those fundamental problems highlighted by Occupy Wall Street.

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Organized Tawarruq in Islamic law

DR ZAHARUDDIN ABD RAHMAN provides an overview on organized Tawarruq which is the backbone of most Shariah compliant products.

The renowned Muslim economist professor, Nejatullah Siddiqi lists the harmful effects of tawarruq as follows:

- It leads to the creation of debt whose volume is likely to go on increasing.
- It results in an exchange of money now with more money in the future, which is unfair in view of the risk and uncertainty involved.
- It leads, through debt proliferation, to gambling like speculation.
- It results in an inequity in the distribution of income and wealth.
- It contributes, by consolidating debt financing, to raising anxiety levels and the destruction of the environment.

He also dictates that the approval of tawarruq may benefit individuals. However, if this is practised on a large scale, it would result in the proliferation of debt in the society, which would result in a macroeconomic instability. Thus, before deciding on the Shariah compliance of such a product, the Shariah advisory board of any Islamic financial institution (IFI) must take into account the macroeconomic consequences of approving the product.

Comments

In reply to Siddiqi's statement, which said that tawarruq may have benefited individuals, however, if this is practised on a large scale, it would result in proliferation of debt in the society, which would bring macroeconomic instability, I pointed out several points:

1) The result of the analysis is deemed relevant to the Shariah advisory board. However, I do not think these facts would prohibit tawarruq immediately. Especially when such a result is tied to 'if practised on a large scale', the new Shariah ruling (prohibition of tawarruq) will only come into the picture when that particular situation takes place and the large-scale definition is quite vague, since the maqasid is conditional upon a predicted situation that might or might not occur. Therefore, this kind of analysis will not greatly impact on the current ruling on tawarruq. However, as more accurate evidence is accumulated, the Shariah scholars may see the need to reconsider their earlier opinion.

2) Secondly, that is because the issue of 'debt in the society' is a real fact and almost every person has personal debts. Moreover Islam allows debt and deems a person who gives a benevolent loan to be 18 times better than giving charity. Debt also carries one of the maqasid Shariah, which is helping the one in need. If the Shariah scholars issued a fatwa based on the argument of the proliferation of debt in the society, the Shariah scholars might also have to prohibit all kind of debts in all products, such as Istisnah, Murabahah, Salam etc., because all of it also would result in proliferation of debt in the society. As for me, this kind of prohibition will contradict the maqasid Shariah, because a Muslim life will turn to be very difficult and no business can be made.

The experienced Islamic banker, Rafe Haneef seems to agree with the above statement when he posed a similar rebuttal against Siddiqi's debt argument. He said: "Importantly mafasid also can be perpetrated through the contemporary Murabahah, Ijarah and all contemporary contracts. Contemporary Murabahah also creates debt and results in more money in future for the financier. Contemporary Murabahah also can lead to gambling-like speculation and also create instability in the economy. Contemporary ijarah can also create inequity in wealth distribution and inefficient resource allocation.

Why should only Tawarruq be prohibited?

Compared to other contemporary contracts, the nature of tawarruq has the potential to create greater abuse and spread of mafasid, but none of the learned tawarruq opponents were able to provide any empirical evidence to show that tawarruq has in fact spread more mafasid than the other contemporary contracts."

Rafe later on proposed four controls, which he believes would limit the issue of excessive usages and abuses of the tawarruq concept. All of the suggestions are sensibly acceptable from my perspective, especially when looking to the current needs of Islamic financial institutions to be competent in managing their assets and liability and liquidity administration, reducing risk exposure to the interest rate and currency rate volatility and also attracting corporate clients who are in need of such similar hedging arrangements. Indisputably, we could realize that there is a contradiction between the harm and the benefit. Contrary to the potential harmful effects that were pointed out by Siddiqi, here is a list of the benefits (masalih) that could be achieved through commodity Murabahah:

- It converts the creation of conventional ribawi debt to which is carried out according to Islamic law, even if only from the micro level it is still believed to have initial effect to the betterment in the future.

- It gives an opportunity to the commodity owner to venture into the industry by offering its commodity to be used for the transaction. This is in turn would benefit many commodity owners, though it could not be realized today, but it will open a new potential market for the commodity owner to sell its commodity efficiently. This will link the organized tawarruq to the real development in economic activities. If not, it would at least furnish the owner with financial strength to provide opportunities to move forward.

- It would offer the companies alternatives to deviate from the dreadful conventional derivatives market, and as a result mitigate the potential exposure to gambling and excessive speculation. This is because the Shariah advisors of the Islamic financial institutions supervise every single use of the Shariah compliant derivatives-like options and swaps, to ensure that they are for hedging purposes only.

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- It protects the Islamic financial institution from being affected by the usury effect of interest and currency rate manipulation.

- It provides Islamic financial institutions with a considerable opportunity to move forward in expanding their business size. Currently, assets under Islamic financial institutions' management across the globe still barely reach 20% compared with their conventional counterparts. It is believed that organized tawarruq could play a positive role in increasing IFIs' stability in the immense conventional market. Slowly, it is hoped, when the time comes, IFIs would be able to shy away from organized tawarruq to a better product.

Each and every single violation in the transaction should not be generalized to other organized tawarruq arrangements made by individual Islamic banks, as there are several other IFIs using Bursa Suq Al-Sila' of Malaysia, Able Ace Raakin and IdotTV airtime commodity as their product. While some others might have their own arrangement with the real seller, it is immaterial to prohibit the whole concept and its application by referring only to violations made by certain IFIs. Furthermore, the need for organized tawarruq is undeniably necessary to maintain the survival of the IFIs in this conventional financial framework.

According to the Islamic Banker's editor, M Parker, tawarruq has been practised in most countries where Islamic finance is provided except perhaps in Qatar, where the Shariah scholars have discouraged its use per se. However, more and more Islamic banks in countries including Saudi Arabia, Malaysia, Kuwait and the UAE are now shunning tawarruq, even its accepted form, perhaps to avoid market confusion.

Notwithstanding the above fact, it is noted that Saudi's biggest Islamic bank, Al-Rajhi, approves the organized tawarruq concept. Furthermore, it has already undersigned an agreement with Bursa Suq Al-Sila', which at the same time claims to be the world's first end-to-end Shariah compliant commodity trading platform that facilitates commodity-based Islamic financing and investment transactions.

Bai al inah

Other than that, the concern that surfaces is whether or not it seems to fall into the bai al inah category, and that is when the commodities are being pre-arranged in the transactions where the commodities will eventually be returned to the original seller.

In the situation where there is no arrangement, the customary practices of the commodity's seller would be crucial for reference. It is recognized in Islamic law that the customary practices will be considered as conditions, so it could be deemed that the transactions contain al inah elements. Still, the proponents and opponents' views in this sense are fairly balanced.

> ***"Saudi's biggest Islamic bank, Al-Rajhi, approves the organized tawarruq concept"***

In my view, in the case of organized tawarruq, at this present size of the Islamic financial institutions, is to balance the harm and benefit of the transaction, and it should be contained only for the hedging-related product where no other better concept is available.

Other than derivatives-related products, it should also be allowed in the event that other acceptable concepts cannot be practised due to various constraints, especially concerning the state law or regulation, which is beyond the control of the Islamic financial institutions. For example, in some markets, the law allows a conventional bank to give a home loan and take a mortgage over the native land, like Arab land or Malay reserve land. An Islamic bank, if it is to offer the Ijarah, Mushakarah or Murabahah concept to its customers, needs to own the land first before pursuing the next contract.

Unfortunately, the local laws forbid such ownership of native land, unless all the shareholders of the Islamic bank are natives. Because most of the Islamic banks or Islamic windows are part of a public listed company, such a requirement is highly difficult to fulfil. In another instance, a corporation won a license to run a cellular phone business in Saudi Arabia, and is in need of a large amount of cash to enable the operation.

The Islamic financier offered a simple tri-partied Murabahah product, where the financier would buy the license from the regulator and subsequently sell it to the corporation at a mark-up price. The regulator rejected the proposal, stating that the law only provided the sale to the corporation and it cannot be given to the financiers.

Even after the financier tried to use a Wakalah contract, and created a special purposes company to circumvent the state law, its efforts were wasted. These are two genuine instances, which require Islamic financial institutions to seek assistance from the organized tawarruq concept.

It is realized that, while the product might be acceptable on a micro level, it may not necessarily be allowed, when the overwhelming harm outweighs the benefits. For instance, purchasing goods on a credit basis is allowable in Islam, but if the buyer already expects to fall short in his payment obligation, the seller is permitted to refute the purchase, as it will inflict harm on either the seller or the buyer.

Conclusion

However, allowing the Shariah compliant product based on commodity Murabahah or tawarruq will neither bring any direct harm nor reciprocate it to either the Islamic world or the Muslim community, as the usage of tawarruq it certain product especially with regards to Shariah compliant derivative product could help the Islamic financial institutions to mitigate the unnecessary financial risks that inherited from conventional finance and its framework. Thus, such a restriction is not applicable in this matter.

Dr Zaharuddin Abd Rahman is a Shariah scholar and lecturer at the faculty of economics and management sciences at the International Islamic University Malaysia. He can be contacted at zaharuddin@yahoo.com.

Islamic banks in Yemen: The realities

DR MOHAMMED A FARHAN outlines the emergence of Islamic banks in Yemen as well as the developments and challenges faced by these banks in the Islamic finance industry.

The Islamic banking industry has become a real player in dealing with the economic crises. Islamic banks globally including Yemen have recorded high growth rates compared to their conventional counter parts.

In spite of the expansion and quantitative growth of these banks, they are still suffering from several problems that hinder their qualitative development.

> *"The Central Bank of Yemen must deal with Islamic banks by taking into consideration their privacy rules"*

The emergence of Islamic banks Yemen

The Yemeni Islamic banks took more than 16 years to start their operations before they become a reality in 1996, while various economic indicators confirmed that Yemen had suffered severe economic crisis in the nineties that forced Yemen to adopt a economic reform program recommended by World Bank and the IMF which also recommended establishing Islamic banks.

Initially the government was reluctant to issue Islamic banks decree in 1996. The first Islamic bank that was granted a license was the Islamic Bank of Yemen for Finance and Investment, followed by Tadhamon Islamic bank, Saba Islamic bank and Yemen Bahrain Shamel Bank. In 2009, conventional banks were allowed to open Islamic self-regulated branches.

The development of Yemeni Islamic Banks

Official indicators of Islamic banks showed that the Islamic banks in Yemen enjoy an outstanding growth average where their assets increased from YER12.6 billion (US$59.16 million) which represent (7%) of the total assets of the Yemeni banking sector in 1997 to YER632 billion (US$2.97 billion) which represent (33%) of the total assets of the whole Yemeni banking sector.

The deposits increased from YER8.1 billion (US$38 million) (6%) to YER453 billion (US$2.04 billion) with (30%) which indicated that the growth in Islamic banks beat the conventional counterparts to prove that Islamic banks made a solid success in the Yemeni market.

Despite this success, there are some major challenges faced by the Islamic finance industry such as:

The deviation of priorities
There has been a decrease in financing of small projects, although Tadhamon International Islamic Bank has set up units for microfinance and small enterprises.

This kind of finance is still less when compared to their total investment portfolio.

Lack of the developmental role
The Yemeni Islamic banks have not being contributing to the development of the investment projects in the local market and infrastructure through Sukuk.

Poor performance of Shariah compliance
The importance of the Shariah compliance committee lies in the fact that Islamic banks are of a particular nature and that this committee must assure everything is run based on Shariah principles.

Some reports indicated that the Shariah compliance committee is not efficient in inspecting and monitoring the performance of these banks.

Central Bank of Yemen's poor awareness of Islamic banks' privacy
The Central Bank of Yemen must deal with Islamic banks by taking into consideration their privacy rules. This can be done by setting up a special unit to control and monitor Islamic banking activities.

Low quality of human resources
There is no doubt that the success and the development of any business depends primarily on the quality of the human resources.

Studies have shown that Islamic banks in Yemen suffers from low quality of human resources which can be attributed to poor professional human development

Islamic banks also lack consultants who have both Shariah compliance and banking knowledge.

The quality of human resources in Islamic banking can be considered to be the most prominent problem faced by these banks.

Dr Mohammed A Farhan is the head of the Islamic banking department at Arab Academy for Banking and Financial sciences. He can be contacted at 100.farhan@gmail.com.

Next Forum Question:

What visible and viable role can technology play in the development of Islamic finance?

If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan, forum editor, at: Christina.Morgan@REDmoneygroup.com before Friday the 4th November 2011.

Operational risk in Islamic banking

AMR MOHAMMED EL TIBY AHMED provides an overview of the risk related to non-compliance with Shariah principles and the risk associated with the institutions offering Islamic financial services' fiduciary responsibilities.

Operational risk is defined in Basel II as 'the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This includes legal risk, but excludes strategic and reputation risk.' The IFSB had adopted the same definition with some changes to cater to the unique nature of Islamic banking operations.

Operational risk as per IFSB is defined as "the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, which includes but is not limited to, legal risk and Shariah compliance risk. This definition excludes strategic and reputation risk."

In this chapter, we focus on two types of operational risk — the risk related to non-compliance with Shariah principles; and the risk associated with the institutions offering Islamic financial services' (IIFS) fiduciary responsibilities toward all fund providers.

Non-compliance with Shariah

The prime principle of Islamic banks is to provide Shariah compliant products and services to customers. There are two types of risk associated with Shariah:

1. The risk that arises from the different interpretations of Shariah rules in different jurisdictions.

This risk is the result of the existence of different Shariah supervisory boards, which leads to the non-standard of practice, financial reporting, auditing, and accounting principles across the board.

2. The IIFS' failure to comply with Shariah rules. In extreme cases, the IIFS is exposed to reputational and insolvency risk as customers lose confidence and trust and will consequently withdraw their funds and cancel their contracts with the bank.

Also, the IIFS is exposed to loss of income, as all transactions or contracts that are done in a non-compliant manner will be considered null and income will be illegitimate.

Shariah non-compliance risk is defined by the IFSB as 'the risk that arises from IIFS' failure to comply with the Shariah rules determined by the Shariah board of the IIFS or the relevant body in the jurisdiction in which the IIFS operates.'

> ***"In extreme cases, the IIFS is exposed to reputational and insolvency risk as customers lose confidence and trust"***

The IFSB, in its risk management principles for operational risk, has requested the IIFS to; (1) maintain an adequate system and control, which includes the assigning of a Shariah supervisory board to ensure that IIFS comply with Shariah rules at all times; (2) that all contract documentation, including all terms and conditions that govern the relationship between the bank and the customer, to be fully in compliance with Shariah rules; and (3) that a Shariah compliance review be conducted at least annually by an adequate third party to ensure that the nature and execution of all transactions are legitimate and comply with Shariah principles.

Fiduciary risk

Fiduciary risk is defined by the IFSB as 'the risk arising from IIFSs' failure to perform in accordance with the explicit and implicit standards applicable to their fiduciary responsibilities.'

As a result of losses in investment, the IIFS may become insolvent and therefore unable to either meet the demands of current account holders for repayment of their funds or safeguard the interests of their investment account holders (IAHs).

IIFS may fail to act with due care when managing investments, which results in the risk of possible loss of profits to the IAHs.

Fiduciary risk is directly related to the unique relationship between the IIFS and the IAHs, which is based on a profit-and-loss sharing concept.

The risk may arise when investing current account funds in a high-risk activity or mismanagement of those funds.

In case of heavy losses on the investments financed by these funds, depositors may decide to go for legal cases. Also, if the IIFS allocates unjustified expenses to the IAHs due to misconduct or misuse of management expenses and it is considered a violation of the code of conduct to act in a transparent manner.

Insufficient due diligence, inadequate screening and monitoring, and lack of control while entering and managing partnership in Musharakah and Mudarabah contracts are further causes of this risk.

Fiduciary risk can be the major cause for: (1) withdrawal risk in case depositors decide to withdraw funds due to loss of confidence in the IIFS; (2) legal risk in case of negligence, misuse, or misconduct of investment account holders funds; (3) reputation risk in case the bank breaches the code of conduct, which may lead to panic withdrawal of funds by the depositors; (4) insolvency risk if the bank fails to meet the customers' demands, as well as those of the current account and investment holders; (5) imposition of limitations and constraints on the bank's accessibility to and ability to acquire funds at a reasonable cost; and (6) it can have an adverse effect on the market price of the shareholder's equity.

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There are some fundamental techniques to mitigate the fiduciary risk that must be used by the IIFS.

First, it is essential to establish a clear and formal set of policies that manages and governs the investment activities, the allocation of assets and profit between the IIFS and the investors, and the basis of allocating and utilizing of reserves, particularly the profit equalization reserve (PER) and investment risk reserve (IRR).

Second, adequate procedure and control must be in place to ensure the quality of information.

Third, it is necessary to disclose information in an adequate and timely manner to the IAHs and the market to enable them to assess the risk profile and the investment performance.

The IIFS, under pillar three of the capital adequacy requirements, are required to disclose two sets of information pertaining to two critical areas, both qualitative and quantitative: (1) operational risk and (2) Shariah governance.

- Qualitative disclosure for operational risk includes three sets of policies: (1) those related to incorporating operational risk measures into the management framework such as budgeting, target setting, performance review, and compliance; (2) those related to polices on processes such as tracking and reporting mechanisms for loss events, revision of such reports by both risk management and line management; and (3) those related to loss mitigation processes.

- Quantitative disclosure for operational risk includes risk-weighted assets equivalent for operational risk, as well as indicators of operational risk exposure such as gross income and amount of Shariah non-compliance income.

- Qualitative disclosure for Shariah governance includes: (1) the measures that are employed to ensure adherence to Shariah with comparison to the international standards and the international standards of corporate governance and how it is applied; (2) explanations of how Shariah non-compliance activities or transactions occurred, the treatment of income that is generated from such transactions, and to what extent Shariah rulings are mandatory.

- Quantitative disclosure for Shariah governance includes the volume of violations of Shariah principles that occurred during the year, annual zakat contributions by the IIFS, and the annual remuneration of the Shariah board members.

This is an extract from the book titled "Islamic Banking: How To Manage Risk and Improve Profitability"

Amr Mohamed El Tiby Ahmed is the vice-president at a bank based in the UAE. He has a masters in Economics from the American University in Cairo and a PhD from the American University in London.

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Islamic Investor

PRUDENTIAL AL-WARA'
Asset Management

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Investments without borders

Cover Story

The IFN 2011 *Issuers & Investors* Asia Forum was a meeting of the minds to discuss matters, raise concerns and share views of the Islamic finance industry. This included the asset management industry where global fund managers took to the stage to highlight several interesting issues.

Raja Teh Maimunah, the chief operating officer at Hong Leong Islamic Bank believes that the industry's lack of accessibility to global markets and failure to distribute its investment products are among the factors for the low demand among investors.

She proposed an automated screening process initiative undertaken by the major stock exchanges of countries offering Islamic finance to encourage the growth of Shariah compliant investments, particularly in the asset management sector.

"If you automize the screening process using AAOIFI standards or other generally accepted platforms, you could find out very quickly the Shariah compliant stocks in any stock exchange. That would help the distribution. There are available stocks globally – we just do not know what they are or we just do not have access to them," she said.

Raja Teh illustrated the cross trade model of the Eurozone's markets in financial instruments directive (MiFID) that allows trading of stocks listed on different bourses without the need to conduct a cross listing.

"If you create something which could be listed either in Malaysia or Kuwait or Abu Dhabi, allowing a cross trade without cross listing, what it does is to allow accessibility to a wider audience," she said.

An automated screening process for the Sukuk market was also suggested by Mohd Farid Kamarudin, the executive director of Sukuk and alternative investments at AmIslamic Funds Management. He said that unlike equity screening, where equity indexes are used, there does not exist a similar approach for fund managers to screen out certain types of Sukuk structures that would suit their client's needs.

Fund managers would therefore rely on their Shariah advisors to conduct the screening and such a process involves cost. "It would be helpful if a system is designed that had the ability to identify the structure used by a particular Sukuk and allow fund managers to readily access that information so that they will be able to do their own screening and lower the cost," he said.

There was also a general consensus at the forum that volatility in the markets creates opportunity for investment. The challenge, however, according to Md Noor A Rahman, the CEO of OSK-UOB Islamic Fund Management, is to attract investors in such a climate. Transparency therefore becomes key as investors continue to demand more information relating to their investments.

Md Noor said that fund managers must disclose all information on the product they offer to help investors make a decision. This includes explaining the movement of the benchmark and how it would benefit investors should the benchmark shift either upward or downward.

Noripah Kamso, the CEO of CIMB-Principal Islamic Asset Management highlighted the challenges of the Islamic asset management sector, including image risk, where conventional investors still view the term "Islamic" in a negative light, and the ability to demonstrate a visible track record, as visibility of Islamic funds on the global platform is limited.

She said it is important, from the standpoint of Islamic investment funds which are very domestic-centric, to internationalize their visibility and track record. She added that there are efforts to encourage asset managers to internationalize track records and capabilities by using global platforms such as Luxembourg and Dublin. "By registering a fund on these global platforms, fund managers are be able to exhibit their track record," she noted.

Noripah likened the process to a display in a shop window, where institutional and retail investors can track such a fund on international investment research providers. "When these investors become keen to invest, an internationally visible track record as such, will be the key determinant in appointing asset managers," she said. — *RW*

In this issue...

Sabana passes Shariah audit

SINGAPORE: Sabana Shariah Compliant Industrial Real Estate Investment Trust (Sabana REIT) has passed its first annual Shariah audit since its IPO on the 26th November last year, according to an announcement by Sabana Real Estate Investment Management, its manager.

Sabana REIT's non-permissible income constituted 0.23% of its net income, which it has disposed through contributions to charitable purposes, according to the Shariah audit conducted by Five Pillars.

The annual audit is conducted by an independent Shariah committee, which certified that the usage, gross floor area and income from each of the tenant, of all the properties owned and planned to be owned by Sabana REIT by the 25th November 2011 are Shariah compliant.

Operations in Kerala

INDIA: Zirva Business Solutions, a Shariah compliant business and investment consultancy provider, has been launched operations in Kerala.

According to P A Shameel Sajjad, its CEO, the company will focus on three service areas, which are business, investment and educational. The company's investment segment covers Shariah complaint stocks, commodities, portfolio management, mutual funds, insurance and realty products.

The company will also offer an Islamic financial advisor course that is certified by the National Institute of Securities Markets of SEBI and the Zirva Institute of Management Sciences.

Shameel also said that there are future plans to set up a standalone asset management company that will offer Shariah compliant investment products as well as to establish a venture capital arm that will fund Shariah compliant projects.

Upcoming Axis Sukuk

MALAYSIA: Axis Real Estate Investment Trust (REIT) is planning to issue a RM300 million (US$96 million) Sukuk to refinance its short-term debt and extend its debt expiry profile.

Axis REIT's short-term debt as at the 30th September 2011 stood at RM340 million (US$108.7 million), of which RM198 million (US$63.3 million) is due this year.

The pros and cons of an Islamic sovereign wealth fund

Sovereign wealth funds have been regarded as highly valuable investors in propelling the Islamic finance industry. JONATHAN LAWRENCE looks the benefits and disadvantages of the fund as an Islamic entity.

Over the last couple of years the concept of a cross-border Shariah compliant sovereign wealth fund (SWF) has prompted considerable interest and not inconsiderable debate among academics and thought leaders.

In addition, consideration of issues facing Shariah compliant sovereign investment is fostered, in part, by The Fletcher School's Sovereign Wealth Fund Initiative (SWFI) at Tufts University in Massachusetts, US.

The SWFI is a unique collaboration between The Fletcher School, K&L Gates and State Street dedicated to providing strategic insights, quantitative, independent research and thought leadership on public policy issues and investment challenges facing SWFs, institutional investors, central banks, governments and international organizations.

The pros

- An Islamic sovereign wealth fund would potentially assist the promotion of a substantial and globally based Shariah compliant asset management system. If the SWF is genuinely a global operation seeking to deploy funds around the world, then it could be an emblem for the industry as an alternative to conventional finance.

- The SWF could become the lender of last resort in the Islamic finance world in the same way that the International Monetary Fund acts as such in the conventional space. There is currently no such lender acting on a global basis.

- Giving a boost to the Islamic finance industry by moving it away from a product-by-product and piecemeal basis and pushing it to become more holistic in its outlook. The SWF could become a springboard to try out new investment themes, such as truly combining an ethical and Shariah compliant offering.

- There are currently 35 sovereign wealth funds based in Muslim countries. Approximately 16 of the 57 Muslim countries which are members of the OIC are home to sovereign wealth funds, for example the Abu Dhabi Investment Authority. Sovereign wealth funds are found in the six GCC countries. The sovereign wealth fund is a recognized and well understood vehicle in jurisdictions likely to want to become part of such a project.

> ***"The SWF could be based in London, Luxembourg or another non-Muslim country venue in order to provide neutrality and to discourage partisanship amongst countries with a larger Islamic finance market"***

- The equity holdings of such a SWF would not be difficult to achieve. For example, nine of the top 10 equity holdings of the Norwegian sovereign wealth fund already pass the Shariah screening tests. The issue would be to diversify investments beyond equities.

- The IDB already exists as a model of a multilateral organization based on Islamic principles. An Islamic sovereign wealth fund would be another method of Muslim countries working together. Indeed, a non-majority Muslim country could seek to be part of the SWF.

- By raising the profile of the Islamic finance industry, the SWF would hopefully have a trickle down effect to the existing financial institutions and organizations active in the area. The SWF could be an investor in the industry or encourage new investors to investigate the area.

- The SWF could be based in London, Luxembourg or another non-Muslim country venue in order to provide neutrality and to discourage partisanship amongst countries with a larger Islamic finance market. Non-Muslim jurisdictions may well compete fiercely in order to host the new entity and to try and steal a march on other countries by looking to gain an advantage for their own domestic Islamic finance industry.

- An Islamic SWF could be a model for other SWFs by investing in multiple assets, encouraging passive investing and demonstrating good governance methods.

The cons

- Such a fund would be under even greater scrutiny and subject to the danger of Islamophobia, when acquiring strategic stakes in companies across the world. It would be subject to being accused of suspect commercial interests and could be used by politicians to set back the progress of Islamic finance generally.

- Some authors have thought it more useful to develop an Islamic-compliant mega-bank rather than a sovereign wealth fund. A bank could potentially have a more active and high profile agenda. Although this would be a rival to the IDB and the banking industry has its own well documented issue.

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> ***SWFs have proved a powerful way to pool collective wealth and apply it in a strategic and considered way***

- If there is an underlying tension in a project, such a fund would have to be multilateral in nature and would therefore not meet the classic definition of being 'sovereign' in nature. This is not an insurmountable hurdle. The SWF may encourage other countries or types of organizations to act collectively to hedge their exposures.
- The asset classes in which such a fund could invest would be limited by the rules of Shariah in comparison to conventional sovereign wealth funds. Therefore it would start off at a disadvantage on the investment playing field.
- The International Islamic Liquidity Management Corporation (based in Malaysia and established in 2010) has been set up to be a lender of last resort in the Islamic finance industry and there is an argument that this role is better suited to an entity specifically set up for the purpose.
- Such a fund may harm the availability of Sukuk in secondary markets. Traditionally, sovereign wealth funds tend to trade little compared to other funds. Therefore if the new entity bought large amounts of Sukuk then it would do little to encourage other investors.
- Political hysteria may lead to a reduction of investment opportunities and therefore to an inward looking investment strategy only into Muslim countries. Political sentiment against sovereign wealth funds is already heightened and an actively marketed Islamic sovereign wealth fund could be hampered from the start.

Conclusion

My personal view is that a Shariah compliant sovereign wealth fund is an idea worth pursuing and merits more research. SWFs have proved a powerful way to pool collective wealth and apply it in a strategic and considered way. The Islamic finance industry may do well to have a flagship fund to further its cause.

Jonathan Lawrence is a finance partner and co-head of the Islamic finance and investment group at law firm K&L Gates, UK and he can be contacted at Jonathan.Lawrence@klgates.com.

Interpac dana Safi

The fund seeks to maximize capital gain by investing principally in Shariah counters listed on Bursa Malaysia. It has a flexible asset allocation strategy and may invest in Shariah fixed income securities and money market instruments to meet its objective over the medium to long term period.

What led to this fund being launched?

Interpac Dana Safi has been launched to cater for aggressive investors who prefer investment in Islamic products.

Why has this particular region / asset class been chosen?

Malaysia is gaining popularity as an Islamic hub and so are its Islamic investment products. The fund's Shariah screened shares and Shariah compliant money market instruments are viable Islamic investment products for maximizing capital gain for the aggressive investors.

What are the factors that drive the fund's performance?

Performance has been driven by careful quality securities selection on positive curved Bursa Malaysia. The fund has outperformed its benchmark rate since its inception.

Who are your investors (profile)?

Aggressive investors from Malaysia who seek higher capital gain with long-term investment horizon.

What specific risks does the fund take into consideration? And why?

The specific risks associated with investing in the fund are market risk, credit/default risk, interest rate risk, liquidity risk and specific stock risk. The market risk arises when the prices of stock/shares, bonds and money market instruments fluctuate due to various factors. Credit/default risk arises when the issuer or the borrower default on its obligations. Interest rate risk relates to a movement in interest rates that would have an impact in the price of money market instruments thus influencing the net asset value. Liquidity risk is associated with the low volume of equity trade, making it difficult to dispose off at a desired price. Specific stock risk relates to significant fluctuations in prices of shares that the fund invests in.

What are the sectors you are heavily invested in and why?

Trading/services – The sector comprises many quality stocks with strong fundamentals.

What are the sectors you have recently exited and why?

We are still maintaining the same composition of sectors until new leads surface.

What is the market outlook for this fund?

The outlook for this fund is subject to the performance of Bursa Malaysia that is considerably influenced by the regional economic conditions and the economic health of major economies in the world. The economic woes of Europe and the US are currently influencing the outlook of the fund.

How has this fund performed compared to your initial expectations?

The fund has performed beyond our expectations given the restricted investment products compared to conventional funds.

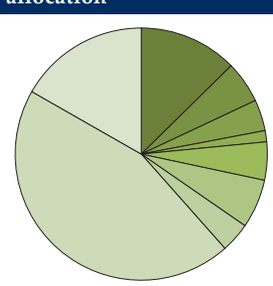
Fact sheet

Fund Manager	Inter-Pacific Asset Management
Trustee	BHLB Trustee
Shariah advisors	Amanie Advisors
Benchmark	FTSE Bursa Malaysia Shariah ("FBM Emas Shariah")
Fund characteristics *(as at the 29th July 2011)	**Fund Type** Growth (Shariah) **Fund Inception** 25th July 2007 **Fund Size** 3,879,584.21 units **Management fee** 1.00% p.a. of NAV **NAV per share** RM0.3435 (US$0.11) **Trustee fee** 0.07% of the NAV of the Fund or a minimum of RM18,000 p.a. **Distribution Frequency** Income will be distributed annually or at such shorter periods as may be announced, if any.

***Performance table**

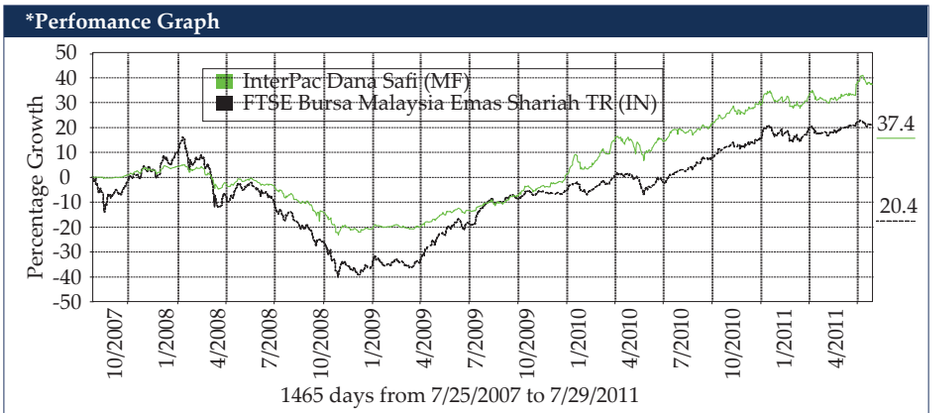
Period	1 mth	1 yr	Inception
Fund	0.21	15.38	37.4
Benchmark	(1.07)	17.34	20.35

***Sector allocation**



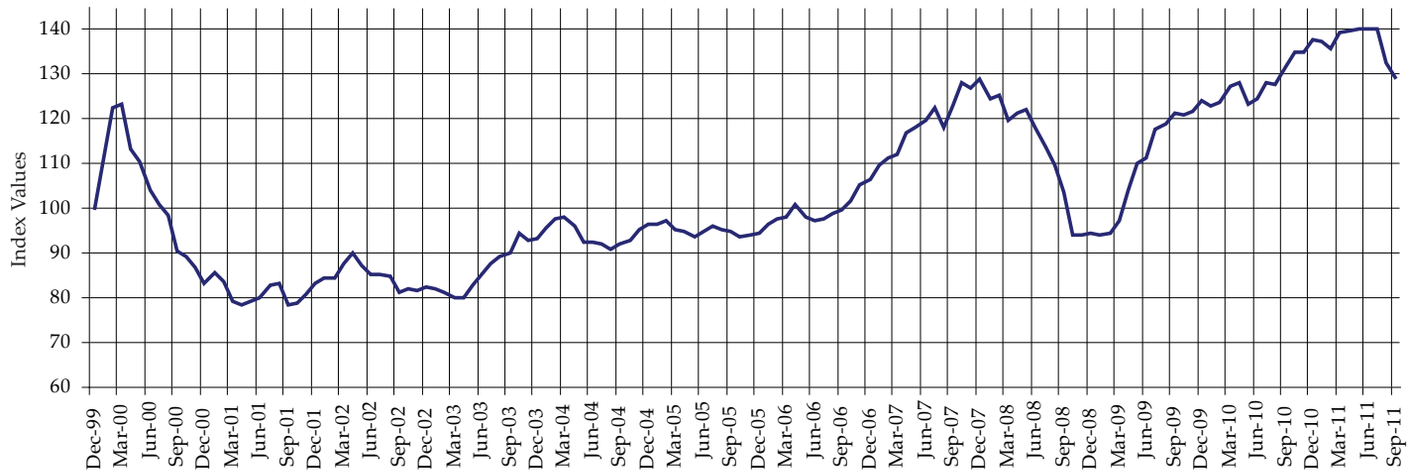
Construction	12.64%
Consumer product	5.38%
Industrials product	3.99%
Infrastructure	1.43%
Plantations	4.9%
Properties	6.28%
Tecnologies	3.83%
Trading/Services	44.8%
Liquid asset	16.75%

***Perfomance Graph**



Source: Lipper Hindsight, 12/8/2011

Eurekahedge Asia Pacific Islamic Fund Index



Top 10 Monthly returns for Developed Markets funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	AmOasis Global Islamic Equity	AmInvestment Management	5.59	Malaysia
2	Oasis Crescent Balanced Stable Fund of Funds	Oasis Crescent Management Company	1.14	South Africa
3	Solidarity International Real Estate	Solidarity Funds	0.55	Bahrain
4	Oasis Crescent Balanced High Equity Fund of Funds	Oasis Crescent Management	0.44	South Africa
5	CIMB Islamic Commodities Structured 2	CIMB-Principal Asset Management	0.29	Malaysia
6	Jadwa Conservative Allocation	Jadwa Investment	0.22	Saudi Arabia
7	Solidarity Global Growth	Solidarity Funds Company	0.21	Bahrain
8	USD International Trade Finance - (Al Sunbula)	Samba Financial Group	0.14	Saudi Arabia
9	SR International Trade Finance - (Al Sunbula)	Samba Financial Group	0.13	Saudi Arabia
10	Euro International Trade Finance - (Al Sunbula)	Samba Financial Group	0.13	Saudi Arabia
	***Eurekahedge Developed Markets Islamic Fund Index**		**-3.97**	

** Based on 97.62% of funds which have reported September 2011 returns as at 24th October 2011*

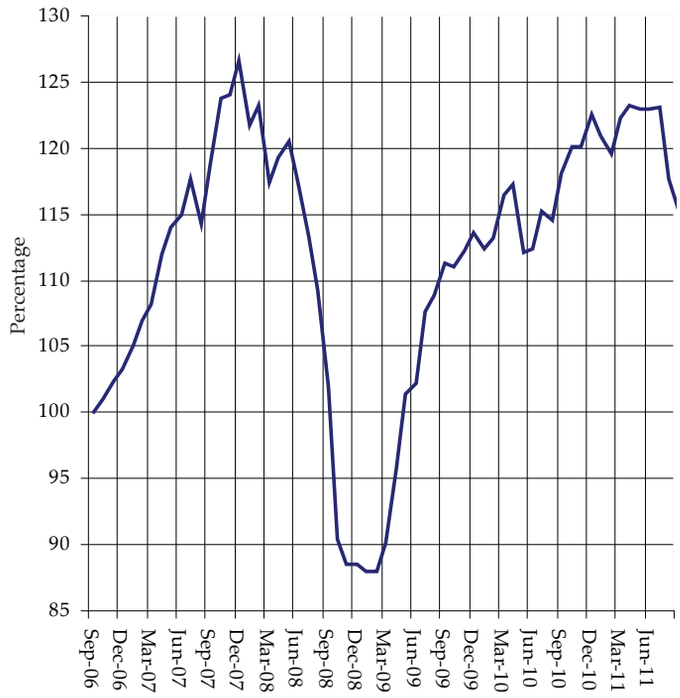
Top 10 Monthly returns for Emerging Markets funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	JS Islamic	JS Investments	7.38	Pakistan
2	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	6.44	Pakistan
3	Atlas Islamic Stock	Atlas Asset Management	6.42	Pakistan
4	Meezan Islamic	Al Meezan Investment Management	5.84	Pakistan
5	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	5.69	Pakistan
6	Islamic Certificate on the LLB Top 20 Middle East TR Index (EUR)	ABN AMRO Bank NV	5.68	Netherlands
7	Al Meezan Mutual	Al Meezan Investment Management	5.56	Pakistan
8	Pakistan International Element Islamic Asset Allocation	Arif Habib Investment Management	4.98	Pakistan
9	FALCOM Saudi Equity	FALCOM Financial Services	4.79	Saudi Arabia
10	Bakheet Saudi Trading Equity	Bakheet Investment Group	4.11	Saudi Arabia
	Eurekahedge Emerging Markets Islamic Fund Index		**-1.73**	

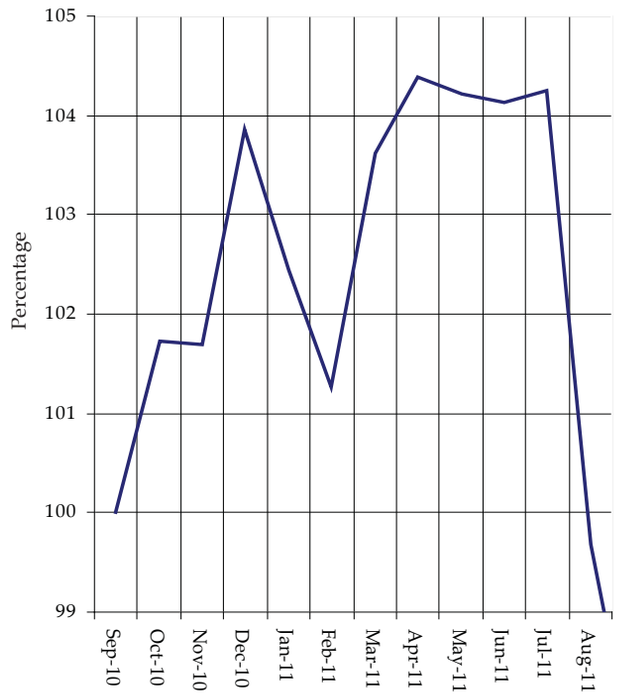
** Based on 91.95% of funds which have reported September 2011 returns as at 24th October 2011*

Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, global investing (which would focus on funds investing with global mandate instead of a specific country or geographical region), fund of funds, real estate as well as the Sortino ratio. Each table covering the duration, region, asset class and ratio will be featured on a five week rotational basis.

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Fund of Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Jadwa Conservative Allocation	Jadwa Investment	-0.59	Saudi Arabia
2	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	-1.38	Saudi Arabia
3	Al Rajhi Multi Asset Balanced	Al Rajhi Bank	-1.57	Saudi Arabia
4	Al Dar Fund of Funds	ADAM	-2.07	Kuwait
5	AlManarah Conservative Growth Portfolio	The National Commercial Bank	-3.01	Saudi Arabia
6	Al Yusr Mizan Multi Asset	Saudi Hollandi Bank	-4.96	Saudi Arabia
7	Jadwa Balanced Allocation	Jadwa Investment	-5.19	Saudi Arabia
8	Al Rajhi Multi Asset Growth	Al Rajhi Bank	-5.48	Saudi Arabia
9	Al-Mubarak Balanced	Arab National Bank	-6.80	Saudi Arabia
10	AlManarah Medium Growth Portfolio	The National Commercial Bank	-6.88	Saudi Arabia

** Based on 93.75% of funds which have reported September 2011 returns as at 24th October 2011*

Top 5 Real Estate Funds by 3 Month Returns

	Fund	Fund Manager	3-Month Return (%)	Fund Domicile
1	Solidarity International Real Estate	Solidarity Funds Company	1.30	Bahrain
2	Al Dar Real Estate	ADAM	0.88	Kuwait
3	Islamic Certificate on Real Estate Capital Protected Dynamic Basket	ABN AMRO Bank	-0.02	Not disclosed
4	Solidarity European Real Estate	Solidarity Funds Company	-0.30	Bahrain
5	Al-'Aqar KPJ REIT	AmMerchant Bank	-4.24	Malaysia

** Based on 87.5% of funds which have reported September 2011 returns as at 24th October 2011*

Contact Eurekahedge
To list your fund or update your fund information: islamicfunds@eurekahedge.com
For further details on Eurekahedge: information@eurekahedge.com Tel: +65 6212 0900

Takaful news

Brought to you by Takaful IKHLAS®

26th October 2011

Corporate social responsibility versus profit

Cover story

For almost two decades the Takaful industry has demonstrated tremendous growth and strong performance. This strong growth momentum is expected to continue even in the uncertain near future, underpinned by the rising affluence of its customers and strong economic fundamentals emerging from Takaful's emerging market heartlands.

In this drive towards expansion and growth, questions of Takaful's corporate social responsibility (CSR) towards its shareholders and participants continue to emerge. Chakib Abouzaid, the CEO of Takaful Re, suggests that the differences between conventional insurance arise in its business model and different objectives.

Conventional insurance is focused on maximizing profit for the shareholders. Takaful has a different objective and underlying CSR. According to Chakib, "Takaful companies must maximize profit for their shareholders, however; they must always have their mind on the outcome of their surplus distribution and to maintain solidarity among the policyholders as one of the central pillars of the CSR."

Takaful is not far removed from the conventional industry at least in its technicalities. Takaful is part of the insurance industry and "Takaful is not the enemy of the insurance industry" said Chakib adding that "we complete their offering within a Muslim majority nation such as Malaysia or Indonesia." Whatever criticism you might label on the Takaful industry, it has added volume to the market.

When competing in a price driven sector such as car insurance, Takaful must be competitive in order to maintain its presence in that sector, often that will mean bridging a gap over what is impermissible. Both the Takaful and insurance industry are established to protect mutual interests amongst its participants. "Takaful companies have contradicting objectives, this is the dilemma. We are asking investors to inject capital into our businesses and we have to service this capital and reward it," said Chakib.

> ***"It is regulation that helps keep this drive for profit at bay"***

The question is how to satisfy the profit object and continue to have CSR?

It is only in the developed markets of Southeast Asia that there is an involvement of CSR. In the Middle East the industry is still in its infancy for such considerations. Ismail Mahbob, the president and CEO of MNRB ReTakaful, stated that conflicts of interests will always exist. Conventional insurance companies are very much profit motivated. Takaful is a move into uncertain social mechanisms and that ultimately you need to create a balanced approach towards your expectations.

Mohammad Rais Abu Noh, the president and CEO of Labuan Reinsurance stated that this issue arises from the lack of profit commission in Takaful and that this is not available due to the surplus distribution, while Tobias Frenz, the CEO of Munich Re ReTakaful said that the majority of Takaful companies around the world are for-profit, stock companies saying that "profit is the whole reason for them being around."

Takaful companies are using the optimal business model for them to compete on a level playing field. In Malaysia, the regulators are specific on this matter. "Your profit has to be reasonable and your profit cannot be more than that which you give your participants" said Frenz, offering the point up that it is "regulation that helps keep this drive for profit at bay."

Finally, Dawood Taylor, the senior regional executive at Prudential Corporation Asia summarized the point by adding that the IFSB has declared modern day Takaful as a hybrid, a combination of an institution of shareholders and social responsibility in terms of managing the pool on behalf of the participants. Taylor continued by stating that the "modern day Takaful concept can only work as a commercial entity" after all there is nothing wrong with making profit in Islam.

Ultimately, when it comes to CSR and profit distribution there is no right or wrong answer, it is simply a question of balance. – *SW*

In this issue...

Breast cancer Takaful scheme

UAE: Abu Dhabi Islamic Bank has launched a voluntary-based Takaful cancer coverage plan for its female customers, called ADIB Dana Cancer Takaful Plan.

The scheme covers medical expenses for customers who are diagnosed with breast cancer. To be eligible for the financial coverage, customers will need to pass a breast cancer test in the first 90 days, after subscribing to the Takaful scheme, without having any symptoms of the disease.

Mixed results

SAUDI ARABIA: Weqaya Takaful Insurance reported a net loss of SAR6.99 million (US$1.86 million) in the third quarter, a decrease of 33.5% from a loss of SAR10.53 million (US$2.8 million) in the second quarter this year.

Meanwhile, the company's net loss for the nine-month period ended the 30th September 2011 was SAR25.84 million (US$6.9 million), a year-on-year increase of 46% from SAR17.7 million (US$4.7 million) last year.

Net written premiums, on the other hand, surged to SAR31.25 million (US$8.3 million) for the three-month period ended the 30th September against SAR327,000 (US$87,189) in the same period last year.

R&Q acquires Takaful firm

UK: Randall & Quilter Investment Holdings (R&Q), a run-off management service provider, has reached an agreement to acquire a 100% stake in Takaful operator Principle Insurance Company from its parent firm, Principle Insurance Holdings, for GBP4.28 million (US$6.7 million).

The Takaful operator, which will be managed by the subsidiary of R&Q, R&Q Insurance Services, recorded net reserves of GBP2.8 million (US$4.4 million) as at the 30th June 2011 and a net asset value of GBP5.1 million (US$8 million) as at the 31st December 2010.

Principle Insurance Company was launched in July 2008, trading under the Salaam Halal name. The company was placed into run off in October 2009 after failing to raise sufficient funds to continue trading.

High target by 2015

MALAYSIA: Etiqa Insurance and Takaful, the subsidiary of Maybank Group, is keeping its options open on its expansion plans according to Hans De Cuyper, its CEO. Growth will occur either organically or through consolidation as it seeks to become the country's largest insurer by 2015.

De Cuyper added the company may consider going into mergers and acquisition, if the potential acquisitions are able to fit Etiqa's strength, financial ambitions and culture.

Meanwhile, Etiqa is also aiming to increase its topline written premium from the current RM4.3 billion (US$1.4 billion) to RM7.5 billion (US$2.4 billion) by 2015 in order to become the number one player in the local insurance and Takaful industry.

De Cuyper explained that Etiqa plans to reach the target by leveraging on Maybank's overseas distribution strength to export its bancassurance and Takaful products as well as launching various life and family insurance products.

Additionally, the firm seeks to participate in a new private retirement scheme as part of its retirement product development and expansion plan, once approval is sought from the Securities Commission of Malaysia.

Interim dividend declared

MALAYSIA: Syarikat Takaful Malaysia has declared an interim dividend of 7% to its shareholders. The dividend will result in a payout of RM9.36 million (US$3 million) for the financial year ending the 31st December 2011.

Dividend payments will be made on the 2nd December to depositors who transfer shares into their securities account before the 11th November 2011.

Three-year agreement signed

INDONESIA: Bank Muamalat Indonesia has signed a three-year agreement with Allianz Life Indonesia to market Takaful products to the bank's customers.

Both entities expect to sell 22,000 insurance policies in 2012 following the success of a similar pilot project which has sold 6,358 policies worth up to IDR850 million (US$95,991) since it began on the 20th July 2011.

Slump in profits

QATAR: Al Khaleej Takaful Group has reported a 13% decrease in its net profits for the first nine months of this year to QAR62.77 million (US$17.2 million) against QAR71.9 million (US$19.7 million) in the same period last year.

Total Takaful revenues were down 2% to QAR103.17 million (US$28.33 million). However, the group's surplus from Takaful operations rose 38% to QAR33.19 million (US$9.1 million).

Wakalah income under its shareholders' account decreased by 3% to QAR37.85 million (US$10.4 million) while its mudarib income grew more than 14 times to QAR850,000 (US$233,411).

The group's total assets were at QAR842.93 million (US$231.5 million) and total shareholders' equity stood at QAR580.22 million (US$159.3 million).

Takaful in Kuwait: Reality and prospects

MAJED AL-ALI analyses the Takaful industry in Kuwait and highlights the challenges that need to be overcome as well as the future of the market.

The Takaful industry globally has witnessed tremendous growth as the compatibility of this type of insurance with the provisions of Islamic law, was a major cause of its spread and acceptance of many social groups in the Muslim world, including Kuwait, where the staggering growth in the Islamic investment sector, has helped to spread of this type of insurance.

Takaful companies in Kuwait have been able to prove their presence in the domestic insurance market, and successfully acquired a good market share amounting to about 34% of the total insurance premiums among national companies, where this ratio has increased slightly from the total number of insurance policies.

Presently, there are 11 Takaful companies in the local market, which are active and able to overcome the impact of the global financial crisis, despite the slow growth of the sector. However, they have had shown less reduction in total underwritten insurance premiums compared to conventional companies.

Inactive stock

The sale and purchase of shares of insurance companies reflects no excitement, where the shares of insurance companies on the Kuwait Stock Exchange Market are inert. The reason behind this inactivity is because the investment returns in insurance stocks are not immediate, as this type of investment takes time to reap the revenues and profits. Therefore, trading shares of insurance stocks are generally stable.

The domestic insurance market is considered from the perspective of many observers and practitioners as the "burner" of prices, at the expense of services. The domestic insurance market also faces several challenges such as the increased cost of skilled manpower; lack of awareness; some insurance companies retain shares more than what they should in some risks; payment of some unearned compensation; poor government support, incompatibility of the laws of insurance with the current requirements, absence of the supervisory role and a centralized data, and shortage of re-Takaful companies.

The Kuwaiti market is no longer able to accommodate new insurance companies, where there are presently 30 active insurance companies, as the growth of the number of companies is more than the growth of total insurance premiums in the past six years.

On the other hand, although local insurance companies could be encouraged to merge with other companies to expand customer base and avoid congestion in the market, there is still the problem of approvals being granted to establish such companies. Furthermore, the competition between firms still needs to be organized and regulated.

Competition with conventional

The Takaful companies in Kuwait have started to compete with conventional insurance companies due to its financial strength, as shown from a report by Standard & Poor's.

According to official reports, the insurance industry had shown an increase in the total gross premium which reached KWD206 million (US$750.5 million) and thus Takaful shares has grown by more than 28%. Some analysts have predicted that the growth was mainly linked to government's development package and plans.

It is also expected to continue growing this year, where the insurance sector will witness a significant improvement in performance due to increased projects in the pipeline within the development plan, which the state intends to implement over the next four years, amounting to US$107 billion.

The growth in the insurance sector in 2011 is expected to increase 10%, and to reach KWD318 million (US$1.16 billion) in 2014.

The growing acceptance of Takaful in the Gulf region will give a strong impetus for the growth of the insurance sector, especially since the Takaful industry has not appealled to the local population in the region. Kuwait has the lowest degree of insurance penetration as compared with others in the GCC region.

Banks and Takaful

In Kuwait, several banks, Islamic or conventional, have established their Takaful companies which has proven to be successful. Some observers believe that without the Central Bank of Kuwait's restrictions on local banks, income of gross insurance premiums including Takaful will be even higher.

International rates

The rankings by international ratings agencies on local insurance companies confirm the financial strengths of these companies which will will further promote the development of the insurance sector.

The rating agencies analyzes the technical operations, and investment portfolios of the companies to determine the proportion of liquidity and diversity of investment and focus on efficiency and solvency of the company's capital and shareholders' equity as well as assess the company's ability to compete and diversify its products and services.

Conclusion

In Kuwait, there are attempts to implement laws and decrees governing this sector. The commerce ministry has also still not imposed a law requiring companies to obtain a solvency rating to improve their reputation in the Kuwaiti insurance market.

Hence the Kuwaiti insurance market is in need for an independent insurance authority, new insurance laws, and regulatory decisions that commensurate with international standards. Only then will it push the insurance sector to higher levels.

Majed Al-Ali is the general manager of Wethaq Takaful Insurance Company and he can be contacted at malali@wethaq.com.

"What is the outlook for the Islamic finance industry in the Americas and what opportunities are there for the industry in the region?"

A The Americas has been disappointing for advocates of Islamic finance, not least the limited progress of the industry in the US. New York has failed to develop as an Islamic financial center and there has been no Sukuk issuance in the city, although there are six small Islamic funds, the most recent by Wise Capital which was launched in 2010.

Most of the Islamic finance activity in the US and Canada is locally based retail funding, mainly home and auto finance. LARIBA American Finance House, the market leader in the US, has been offering services since 1987, but its business was adversely affected by the collapse of the real estate market, especially in California where it is based.

In Canada the one million local Muslim population is served by UM Financial Services, Ansar Financial Group and Albassam. Ontario-based UM is the market leader but growth has been slow.

Elsewhere in the Americas there are few Muslims. Although there has been some interest expressed in Islamic finance in Brazil, there have been no concrete developments. Most people of Arab ethnic origin in South America are Christians, mainly from Lebanon, Syria, Egypt and Iraq, rather than Muslims. The Cayman Islands hosts some Islamic funds, but Islamic finance activity there is solely driven by the concern of those involved to avoid tax.

In summary the record shows that the Americas are the least promising region for Islamic finance, and far behind Asia, Europe and Africa.

PROFESSOR RODNEY WILSON
Director of postgraduate studies, Durham University

A With an affluent population of more than 10 million, the outlook for Islamic finance should be quite good. Murabahah, Ijarah Muntahia bi Tamlik and Mudarabah deposits have been approved by the federal banking regulators. The recession and restrictive bank lending should also create good opportunities. But, the negative socio-political atmosphere has kept new entrants from joining the first movers in the domestic market.

From the perspective of the existing players, the recent changes in Freddie Mac and Fannie Mae authorizations are also expected to affect the Islamic home finance business as all of the domestic players have enjoyed a robust business delivering agency transactions or selling Musharakah units.

As a result, the outlook for the domestic Islamic finance scene is likely to contract through the election cycle.

International Islamic investment, however, seems to be steady, and may even be increasing as institutional investors take advantage of the weak US dollar, lower asset prices in almost all business sectors, and weak domestic credit and investment funding.

As a result, the foreign direct investment flows that comply with Shariah are expected to increase despite contraction in the domestic Islamic finance market.

The net effect is that the proven tools available to Islamic investors and domestic Islamic consumers continue to be applied. But, the scope for market expansion is limited until after the 2012 presidential election.

Many international observers have wrongly thought that the various "anti-Shariah" laws in the US will be a major concern. But, these laws are invariably proven to be unconstitutional in court cases, and reflect a hostile social and political environment more than anything else.

How serious is the negative environment, Islamic home finance providers and their customers have noted that Muslim home buyers are frequently denied their rights under the Fair Housing Act and recourse to the local authorities is sometimes less speedy than one might hope.

The other North American markets, Canada and Mexico lag in development. Three de novo Islamic bank applications in Canada have failed to proceed to the operational stage, leaving the country with its Islamic investment cooperatives and limited capacity.

Mexico's Muslim population is not yet the object of any study, and domestic troubles surrounding the powerful drug cartels have become a deterrent to foreign investment.

ABDULKADER THOMAS
CEO and President, SHAPE™ — Financial Corp

A The weak state of the US economy suggests that the domestic financial services industry will continue to contract and restructure. The best opportunities are likely to be niche ideas addressing targeted audiences. The Islamic finance industry may find reasonable footing in this environment, although it is unrealistic to expect a strong growth trajectory.

One common misperception in the Shariah compliant business is that the US is hostile toward Islamic finance. We disagree. Ignorance about Islam should not be mistaken for hostility towards Islam.

Our own experience indicates that there may be a meaningful voice for the industry in America. The hard-won lessons of the credit-crisis will lead to a greater focus on the tenets framing Islamic banking, such as risk sharing.

Continued

Continued

To the extent that firms emphasize a selective-and-profitable stance when pursuing the US market, they will likely uncover important business opportunities, given the size and depth of the regional economy.

Success in America, however, will very much depend on the Shariah compliant sector's ability to compare itself favorably with conventional players, through competitive terms backed by quality of research and marketing.

Few international firms seem prepared for such a journey, especially when momentum in the emerging markets is comparatively robust.

DOUGLAS CLARK JOHNSON
CEO, Codexa Capital

A Although Islamic finance finds its origin in the teachings of Shariah, this does not mean that it is restricted to traditionally Muslim countries or, indeed, only available to Muslims. Like anywhere else in the world, Shariah compliant finance may provide an alternative to mainstream financial offerings which may be attractive to both Muslims and non-Muslims.

In order to expand the currently limited offering, there are a number of things that need to be addressed including educating the people about the underlying principles and addressing any potential tax and regulatory issues that may currently hinder the establishment of a level playing field.

DR NATALIE SCHOON
Principal consultant, Formabb

Next Forum Question:

"What visible and viable role can technology play in the development of Islamic finance?"

If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan, forum editor, at: Christina.Morgan@REDmoneygroup.com before Friday the 4th November 2011.

Gautam Datta, CEO, Al Madina Insurance Company SAOC

Gautam Datta's primary role as a CEO is bringing the company's operations back to profitability. Previously, he had also set up a business in India, which was a joint venture between one of the largest private sector bank in the country and a fortune 500 American multinational insurance company.

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

I started my career as a management trainee in New India Assurance in India. I also handled the insurance of the country's largest fertilizer project during the early years as well as heading an international branch of the company.

Furthermore, I worked on a joint initiative between a conventional insurance company and Gulf Islamic Bank in the late nineties to set up a Takaful operation.

What does your role involve?

I took over a startup company when its balance sheet was deep in the red. The role primarily involved bringing the company's operations back to profitability without sacrificing its growth potential.

This required a total overhaul of its operational and control structure and a fresh look at its short to medium-term business strategies. We received an approval to convert the company's existing business into Takaful, making it the first in the country.

What is your greatest achievement to date?

My greatest achievement will be when this company returns to the black with a strong profitability trend next year. It gives me lot of satisfaction to see the team that was part of my start up operation in India do really well in their insurance career.

Which of your products/ services deliver the best results?

It is not about products but the people behind them. We tend to forget that insurance is really about a 'promise' — we deliver the best results in all those products where we have this core principle in place. Get back to basics and the results are bound to be good.

What are the strengths of your business?

The strength of our business is our people.

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

We focus on the core strategies, the people delivering it and our customers.

What are the obstacles faced in running your business today?

Some of the obstacles are uncertainty in the market, shortage of trained local resources, lack of training programs and outdated legal and regulatory frameworks.

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

I believe that Islamic finance has made considerable progress and while not on par with conventional but they are influential enough to hold on its own. Part of its success has been its adoption by some of the global entities like HSBC, Citi, Standard Chartered Bank, etc.

Takaful on the other hand has been slow and its evolution has been patchy, although in Malaysia it has experienced greater levels of success whereas in GCC it is still struggling with its business models.

In the next five years, I would hope to see a greater level of co-ordination and standardization in the Takaful companies and regulatory bodies.

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

I would definitely like to see a fundamental change in the Takaful services. Community and solidarity are at the core of the Takaful spirit and balancing this with shareholders' return is a tough act to follow.

Finding a balance will actually enhance the experience for all the stakeholders.

Khazanah's US$78.4 million yuan-denominated Sukuk

Malaysian sovereign wealth fund Khazanah Nasional issued the world's first Malaysian originated offshore yuan-denominated Sukuk worth CNY500 million (US$78.42 million) on the 20th October 2011. The Sukuk was issued through Khazanah's special purpose vehicle, Danga Capital under their RM10 billion (US$3.15 billion) multi-currency Islamic securities program.

According to Khazanah, the three-year benchmark Sukuk was priced at the tightened end of the price guidance at 2.9%. The issuance drew a demand of 3.6 times the book size, enabling Khazanah to increase the offering amount to CNY500 million from an initial CNY300 million (US$47.05 million).

The issuance had been postponed earlier in the month due to volatile market conditions. The benchmark offering whilst small, attests to Khazanah's continued efforts in pushing the envelope on transaction innovation and the competitive positioning for Islamic structures.

The issuance saw wide participation from Malaysia (37%), Singapore (30%), Hong Kong (26%) and the EU(6%). Investors included financial institutions, asset management companies, private banks and statutory bodies.

The issuance also drew strong support from the conventional sector, accounting for at least 80% of the funds raised.

This Sukuk also represents a move towards increasing capital flows between Malaysia and China, in addition to the robust two-way trade flows the nations enjoy. According to Azman Mokhtar, the managing director of Khazanah: "The particular characteristics of a yuan-denominated Sukuk, with participation from across Asia, illustrate the viability of a 'new silk road' as an investment theme for Khazanah and others."

The Sukuk will be listed on Bursa Malaysia (under its exempt regime) and the Labuan International Financial Exchange. BOC International, CIMB, and The Royal Bank of Scotland were joint lead managers for the issuance, while CIMB Islamic served as the Shariah advisor.

According to Mohd Izani Ghani, the director and chief financial officer at Khazanah, there has always been a need for yuan-denominated financing for its Chinese operations.

Khazanah has an overseas representational office in Beijing since 2008 and are involved in the renewable waste energy and education sectors.

As significant as this deal is to the development of the Malaysian Islamic capital market, it is unlikely that Malaysian corporates will follow a similar route to raise funds unless they have specific operational requirements in China.

However, as the currency swap rates continue to challenge the markets and scarcity of yuan-denominated notes on the market; it should not be completely ruled out.

Andrew Sheng, the chief advisor to the China Banking Regulatory Commission and a board member of Khazanah who added that the Sukuk was "an innovative, market driven and major step forward in the development of the offshore yuan market and that it supports the Chinese government's move to internationalize the renminbi."

It was only recently that the Chinese government relaxed its grip on the yuan, allowing it to be traded in Hong Kong. China has also been facing pressure from its trading partners to allow a speedier appreciation of the yuan.

The strong demand for ringgit-denominated bonds and Sukuk is currently the biggest hindrance to further developing the multi-currency market in Malaysia. A fact reflected in Malaysia's 2012 budget, which seeks to provides further tax incentives to spur the issuance of foreign currency Sukuk with income tax exemption for non-ringgit Sukuk issuance and transactions extended for another three years. – *SW*

Danga Capital Sukuk

CNY500 million (US$78.4 million)

KHAZANAH NASIONAL

20th October 2011

Issuer	Danga Capital
Obligor	Khazanah Nasional
Issuance price	CNY500 million (US$78.4 million)
Tenor	three years
Coupon rate / return	2.9%
Currency	Chinese yuan
Joint lead managers	BOC International, CIMB, and The Royal Bank of Scotland
Shariah advisor(s)	CIMB Islamic
Structure	Wakalah
Listing	Bursa Malaysia (exempt regime) and Labuan International Financial Exchange
Investors breakdown	37% — Malaysia, 30% — Singapore, 26% — Hong Kong and 6% — EU

ISSUER	SIZE	DATE ANNOUNCED
Axis Real estate Investment Trust	RM300 million	24th October 2011
Finance ministry of Pakistan	TBA	20th October 2011
Kuwait Turk Participation Bank	US$350 million	19th October 2011
Goldman Sachs	US$2 billion	19th October 2011
Almaraj, Saudi Arabia	TBA	16th October 2011
Manjung Island Energy	RM5 billion	13th October 2011
Mydin	RM350 million	13th October 2011
Majid Al Futtaim	TBA	11th October 2011
Barwa Bank	TBA	11th October 2011
Mashreq Al Islami	TBA	10th October 2011
Dow Chemical Company & Saudi Arabian Oil Company	TBA	9th October 2011
National Iranian Oil Company	TBA	1st October 2011
Qatar International Islamic Bank	TBA	28th September 2011
Tamweel	US$300-US$500 million	27th September 2011
Albaraka Turk Katilim Bankasi	US$200 million	25th September 2011
Emery Oleochemicals	RM480 million	17th September 2011
KLCC Property	RM880 million	15th September 2011
Tenaga Nasional	RM5 billion	15th September 2011
Bank Negara Malaysia	RM1 billion	6th September 2011
Indonesian finance ministry	US$1 billion	6th September 2011
Bank Syariah Mandiri	IDR450 million	25th August 2011
Aref Investment Group	TBA	24th August 2011
Kuala Lumpur Kepong Berhad	RM300 million	22nd August 2011
Nakheel	AED4.8 billion	10th August 2011
Chemical Company of Malaysia	RM120 million	5th August 2011
Hub Power Company	PKR2 billion	2nd August 2011
KNM Group	RM1.5 billion	28th July 2011
Petronas Gas	RM1.2 billion	25th July 2011
Government of Abu Dhabi	TBA	21st July 2011
Gulf International Bank, Bahrain	US$1 billion	21st July 2011
ACWA Power International	US$300 million	9th July 2011
Al Hilal Bank	TBA	7th July 2011
Egypt	TBA	2nd July 2011
Islamic Bank of Thailand	US$150 million	29th June 2011
Islamic Bank of Thailand	THB5 billion	29th June 2011
Kenchana Petroleum	RM700 million	16th June 2011
Kenchana Petroleum	RM350 million	16th June 2011
BRI Syariah	TBA	15th June 2011
Government of Palestine	US$50 million	6th June 2011
Bank Muamalat Malaysia and Tael Partners	US$100 million	1st June 2011
Adventa	RM150 million	26th May 2011
National Bank of Abu Dhabi	TBA	30th May 2011
Perusahaan Listrik Negara	US$2 billion	27th May 2011
Jasa Marga, Indonesia	TBA	13th May 2011
Government of Malaysia	TBA	12th May 2011
Qatar Islamic Bank	TBA	12th May 2011
Islamic Development Bank	TBA	12th May 2011

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UAE: Neil D Miller
global head of Islamic finance, KPMG

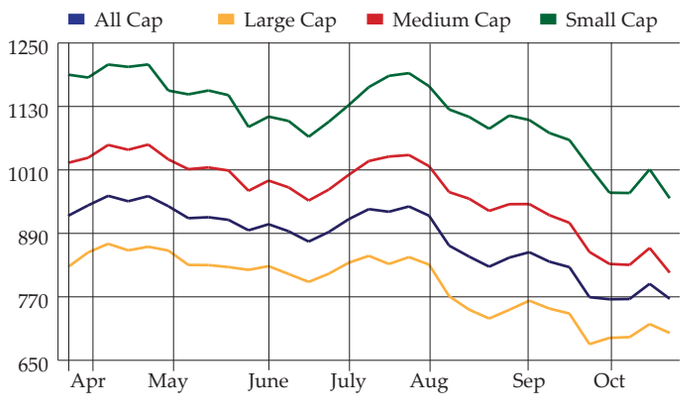
UK: Dr Natalie Schoon
Formabb

YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

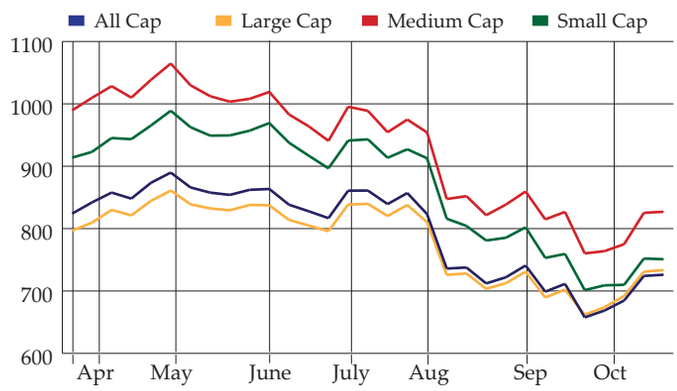
IFN Correspondents are experts in their respective fields and are selected by **Islamic Finance** *news* to contribute designated short country reports

For more information about becoming an IFN Correspondent please contact sasikala@redmoneygroup.com

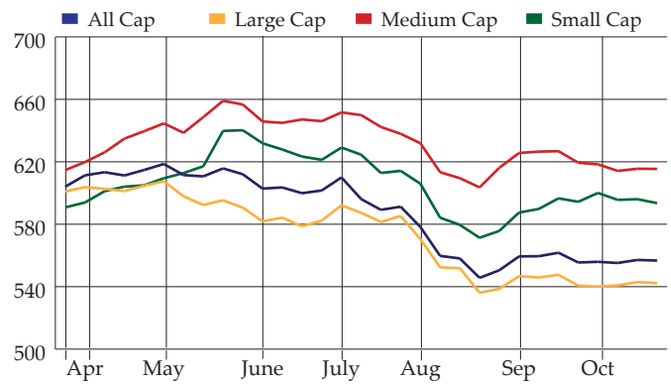
REDmoney Asia ex. Japan *6 Months*



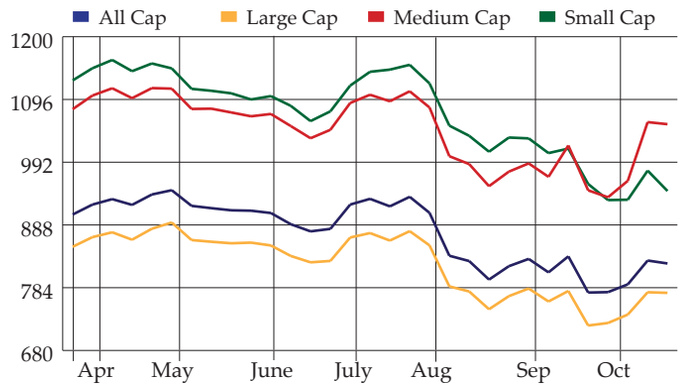
REDmoney Europe *6 Months*



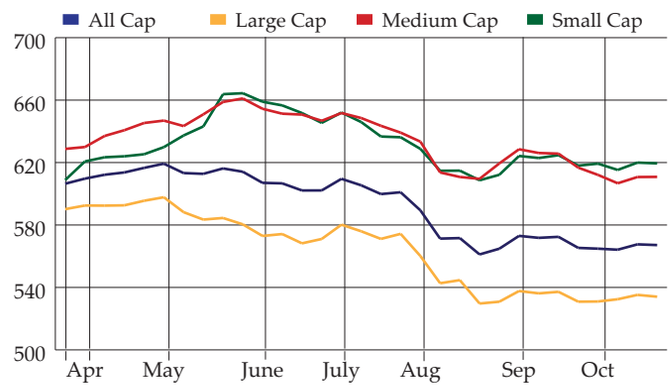
REDmoney GCC *6 Months*



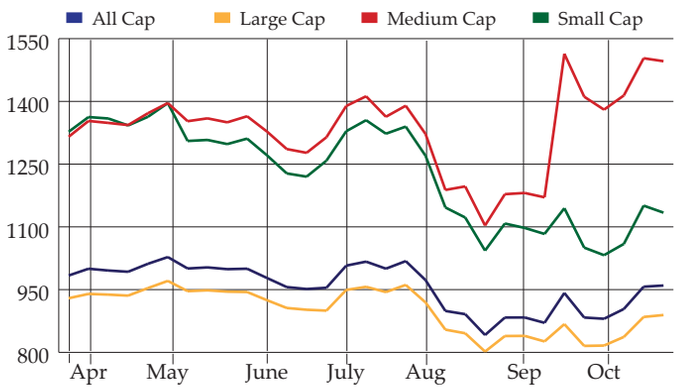
REDmoney Global *6 Months*



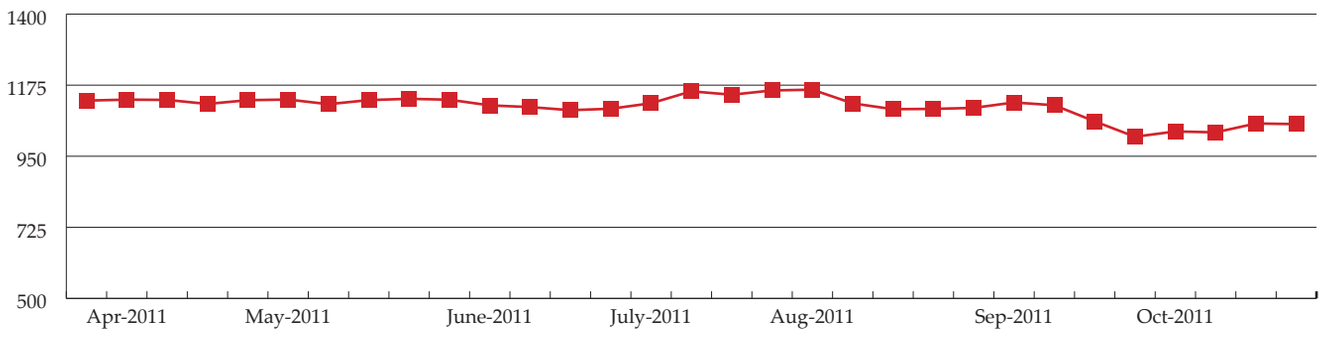
REDmoney MENA *6 Months*



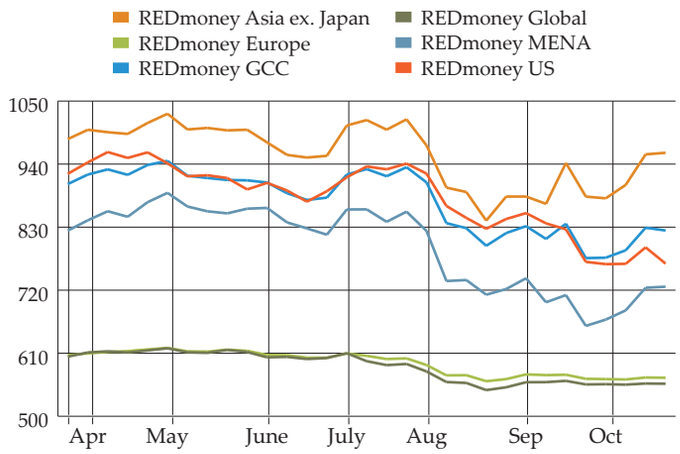
REDmoney US *6 Months*



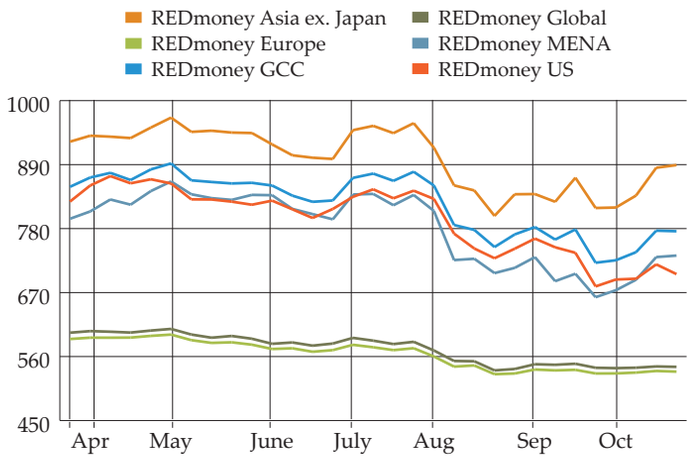
SAMI Halal Food Participation (All Cap) *6 months*



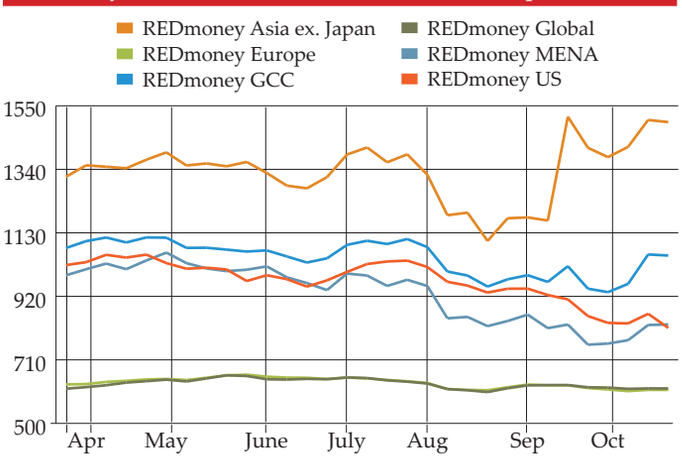
REDmoney Global Shariah Index Series (All Cap) *6 Months*



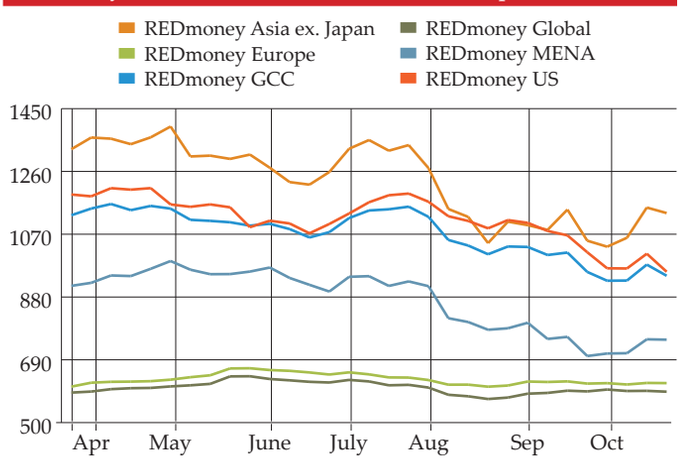
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



REDmoney Global Shariah Index Series (Medium Cap) *6 Months*



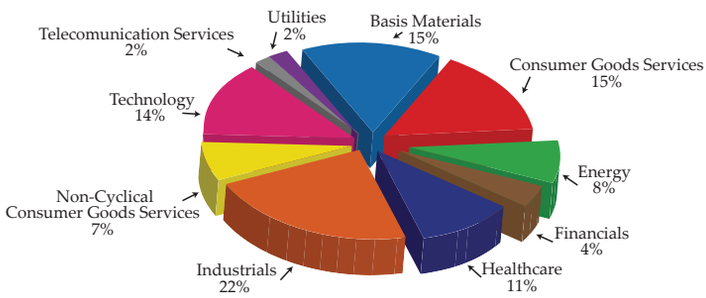
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

Equities are considered eligible for inclusion into the REDmoney Global Shariah Index Series only if they pass a series of market related guidelines related to minimum market capitalization and liquidity as well as country restrictions.

Once the index eligible universe is determined the underlying constituents are screened using a set of business and financial Shariah guidelines.



The REDmoney Global Shariah Index Series powered by IdealRatings consists of a rich subset of global listed equities that adhere to clearly defined and transparent Shariah guidelines defined by Shariyah Review Bureau in Jeddah, Saudi Arabia.

The REDmoney Shariah Indexes provides Islamic investors with an accurate and Shariah-specific equity performance benchmark with optimized compliance credibility due to the intensive research conducted to ensure that index constituents do not conflict with the defined Shariah requirements.

IdealRatings™ is the leading provider of Shariah investment decision support tools to investors globally, including asset managers, brokers, index providers, and banks to empower them to develop, manage and monitor Shariah investment products and Shariah compliant funds. IdealRatings is headquartered in San Francisco, California. For more information about IdealRatings visit: www.idealratings.com

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

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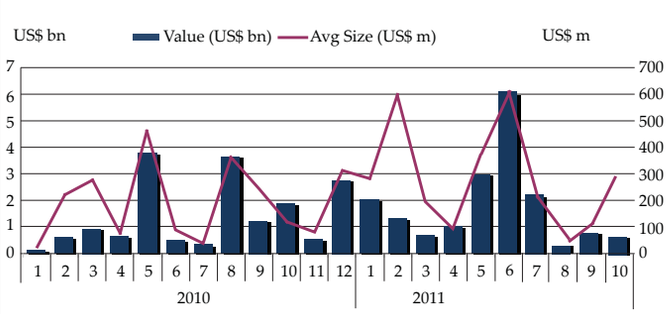
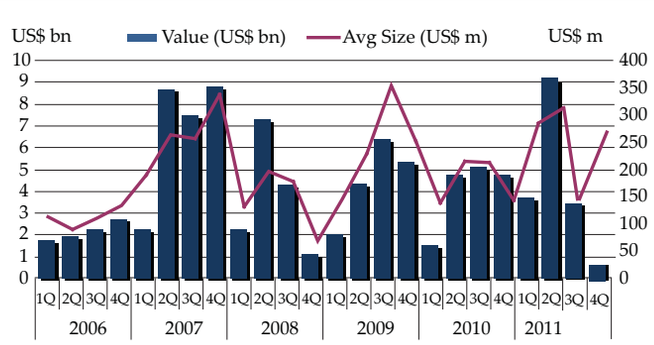
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
13th Oct 2011	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	371	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Oct 2011	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	CIMB Group, Maybank Investment Bank
23rd Sep 2011	AmIslamic	Malaysia	Sukuk	Domestic market public issue	190	Public Bank, AmInvestment Bank
14th Sep 2011	MISC	Malaysia	Sukuk	Domestic market public issue	263	HSBC, CIMB Group, AmInvestment Bank
13th Sep 2011	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	101	CIMB Group, AmInvestment Bank, Maybank Investment Bank
5th Aug 2011	Kencana Petroleum	Malaysia	Sukuk Mudarabah	Domestic market private placement	167	AmInvestment Bank
26th Jul 2011	Syarikat Prasarana Negara	Malaysia	Sukuk	Domestic market public issue	667	CIMB Group, Maybank Investment Bank
26th Jul 2011	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	Standard Chartered, HSBC, Citigroup
21st Jul 2011	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	AmInvestment Bank
21st Jul 2011	Besraya (M)	Malaysia	Sukuk	Domestic market public issue	233	AmInvestment Bank
6th Jul 2011	Cagamas	Malaysia	Sukuk	Domestic market public issue	206	CIMB Group, Maybank Investment Bank
28th Jun 2011	Wakala Global Sukuk	Malaysia	Sukuk	Euro market public issue	2,000	HSBC, CIMB Group, Citigroup, Maybank Investment Bank
17th Jun 2011	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market private placement	1,910	CIMB Group, Maybank Investment Bank
16th Jun 2011	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	Maybank Investment Bank
14th Jun 2011	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	RHB Capital, AmInvestment Bank
13th Jun 2011	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	Deutsche Bank, Riyad Bank
8th Jun 2011	Bank Muamalat Malaysia	Malaysia	Sukuk	Domestic market private placement	133	DRB-HICOM, Maybank Investment Bank
2nd Jun 2011	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	Maybank Investment Bank
26th May 2011	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	229	CIMB Group, AmInvestment Bank, Maybank Investment Bank
26th May 2011	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	HSBC

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss	Managers
1	Pengurusan Air SPV	Malaysia	Sukuk Murabahah	Domestic market private placement	3,460	4	HSBC, CIMB Group, Maybank Investment Bank
2	Wakala Global Sukuk	Malaysia	Sukuk Wakalah	Euro market public issue	2,000	1	HSBC, CIMB Group, Citigroup Maybank Investment Bank
3	Senai Desaru Expressway	Malaysia	Issued under issuer's RM3	Domestic market public issue	1,275	2	Maybank Investment Bank
4	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	988	1	RHB Capital, AmInvestment Bank
5	GovCo Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	985	1	HSBC, RHB Capital, CIMB Group
6	Islamic Development Bank	Saudi Arabia	Sukuk	Euro market public issue	750	1	Standard Chartered, Deutsche Bank, BNP Paribas, HSBC
6	Abu Dhabi Islamic Bank	UAE	Sukuk Musharakah	Euro market public issue	750	1	Standard Chartered, HSBC, Barclays Capital
8	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	732	2	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
9	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market public issue	667	1	CIMB Group, Maybank Investment Bank
10	Cagamas	Malaysia	Issued under issuer's RM5bn Islamic MTN programme	Domestic market private placement	663	13	RHB Capital, Al-Rajhi Banking & Investment, HSBC, CIMB Group, AmInvestment Bank
11	First Gulf Bank	UAE	Sukuk	Euro market public issue	650	1	Standard Chartered, HSBC, Citigroup
12	HSBC Bank Middle East	UK	Sukuk	Euro market public issue	500	1	HSBC
12	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1	Standard Chartered, HSBC, RBS
14	Saudi International Petrochemical	Saudi Arabia	Sukuk	Domestic market public issue	480	1	Deutsche Bank, Riyad Bank
15	Malaysia Airports Capital	Malaysia	Sukuk Murabahah	Domestic market public issue	476	1	CIMB Group, Citigroup
16	Sharjah Islamic Bank	UAE	Issue price undisclosed	Euro market public issue	400	1	Standard Chartered, HSBC
17	Government of Ras Al Khaimah	UAE	Legal issuer: RAK capital	Euro market public issue	393	1	RBS, Citigroup
18	Maybank Islamic	Malaysia	Sukuk Musharakah	Domestic market private placement	330	1	Maybank Investment Bank
19	Konsortium Lebuhraya Utara-Timur (KL)	Malaysia	Sukuk Musharakah	Domestic market public issue	280	13	CIMB Group
20	Midciti Resources	Malaysia	Sukuk	Domestic market public issue	274	1	CIMB Group, Maybank Investment Bank
21	Bank Aljazira	Saudi Arabia	Sukuk Mudarabah	Domestic market private placement	267	1	JPMorgan, HSBC
22	Ranhill Power	Malaysia	Sukuk	Domestic market private placement	266	1	Maybank Investment Bank
23	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	263	1	HSBC, CIMB Group, AmInvestment Bank
24	Gulf Investment Corporation	Kuwait	Sukuk	Domestic market public issue	250	1	AmInvestment Bank
25	Besraya (M)	Malaysia	Sukuk Mudarabah	Domestic market public issue	233	1	AmInvestment Bank
26	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	229	1	CIMB Group, AmInvestment Bank, Maybank Investment Bank
27	Ranhill Powertron II	Malaysia	Sukuk	Domestic market public issue	228	1	Maybank Investment Bank
28	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	200	2	CIMB Group, AmInvestment Bank, Maybank Investment Bank
29	Trans Thai-Malaysia Sukuk	Malaysia	Sukuk Musharakah	Domestic market private placement	195	1	HSBC, CIMB Group
30	Boustead Holdings	Malaysia	Sukuk	Domestic market private placement	193	3	OCBC, Public Bank, Affin Investment Bank
	Total				**20,786**	**101**	

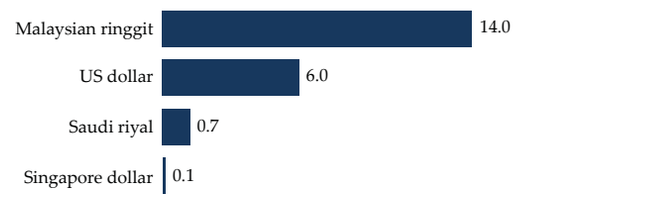
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	Maybank Investment Bank	5,151	29	24.8
2	CIMB Group	4,484	46	21.6
3	HSBC	3,440	15	16.6
4	AmInvestment Bank	1,929	27	9.3
5	Citigroup	1,181	5	5.7
6	Standard Chartered Bank	1,078	6	5.2
7	RHB Capital	1,027	6	4.9
8	Deutsche Bank	427	2	2.1
9	RBS	416	3	2.0
10	Barclays Capital	250	1	1.2
11	Riyad Bank	240	1	1.2
12	BNP Paribas	188	1	0.9
13	OCBC	173	6	0.8
14	Public Bank	163	5	0.8
15	Affin Investment Bank	155	4	0.8
16	Lembaga Tabung Haji	153	3	0.7
17	JPMorgan	133	1	0.6
18	DRB-HICOM	123	2	0.6
19	Hong Leong Bank	40	2	0.2
20	Al-Rajhi Banking & Investment	16	1	0.1
21	OSK	13	2	0.1
22	Mitsubishi UFJ Financial Group	6	2	0.0
	Total	**20,786**	**101**	**100.0**

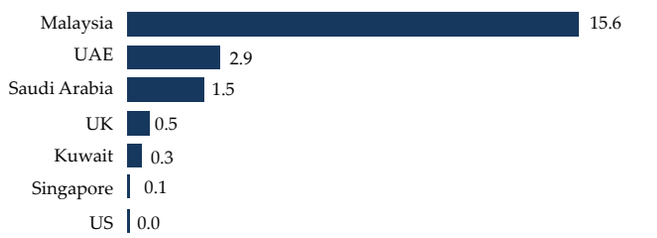
Top Islamic Finance Related Project Finance Mandated Lead Arrangers *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Banque Saudi Fransi	701	3	19.4
2	Riyad Bank	224	2	6.2
3	HSBC Holdings	207	2	5.7
4	Samba Financial Group	177	2	4.9
5	Al-Rajhi Banking & Investment	169	1	4.7
5	Saudi Hollandi Bank	169	1	4.7
7	Bank Al-Jazira	166	2	4.6
7	Public Investment Fund -	166	2	4.6
9	Emirates NBD	127	2	3.5
10	Standard Chartered	119	1	3.3

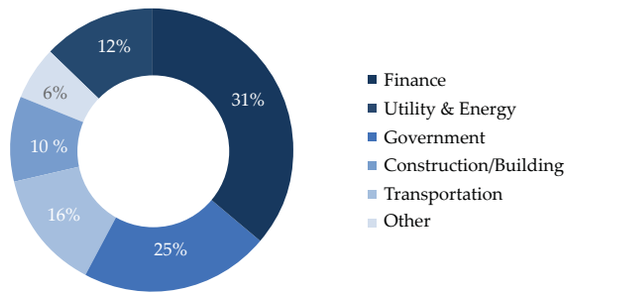
Sukuk Volume by Currency US$ (billion) *12 Months*



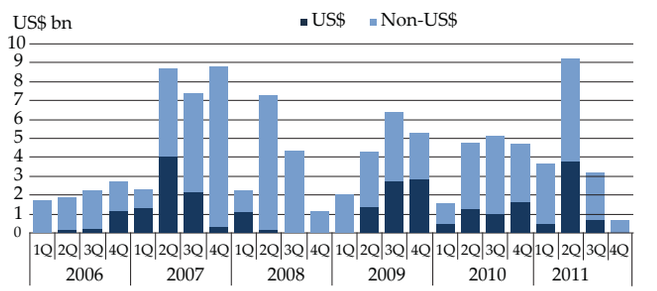
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



Global Sukuk Volume by Sector *12 Months*



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Financing Legal Advisors Ranking *12 Months*

	Legal Advisor	US$ (million)	No	%
1	Al-Jadaan & Partners Law Firm	2,509	2	29.5
1	Baker & McKenzie	2,509	2	29.5
1	Clifford Chance	2,509	2	29.5
4	Herbert Smith	400	1	4.7
4	Latham & Watkins	400	1	4.7

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking *12 Months*

	Mandated Lead Arranger	US$ (mln)	No	%
1	HSBC	1,005	6	11.4
2	Maybank Investment Bank	824	5	9.3
3	Samba Capital	660	4	7.5
4	AmInvestment Bank	471	3	5.3
5	Standard Chartered Bank	470	8	5.3
6	Saudi National Commercial Bank	462	2	5.2
6	Banque Saudi Fransi	462	2	5.2
8	Citigroup	425	6	4.8
9	Abu Dhabi Islamic Bank	398	3	4.5
10	RBS	233	1	2.6
11	CIMB Group	232	3	2.6
12	Emirates NBD	180	3	2.0
13	RHB Capital	164	1	1.9
13	Lembaga Tabung Haji	164	1	1.9
15	Arab Banking Corporation	162	3	1.8
16	Deutsche Bank	150	1	1.7
17	Noor Islamic Bank	147	2	1.7
18	BNP Paribas	134	3	1.5
19	OCBC	131	2	1.5
19	DBS	131	2	1.5
21	Riyad Bank	129	1	1.5
21	Bank Al-Jazira	129	1	1.5
23	UOB	116	1	1.3
24	WestLB	115	3	1.3
25	Bank of China	93	1	1.1
26	Saudi Hollandi Bank	74	1	0.8
26	Export Development Canada	74	1	0.8
26	Arab Petroleum Investments	74	1	0.8
26	Arab National Bank	74	1	0.8
26	Alinma Bank	74	1	0.8

Top Islamic Finance Related Loans Mandated Lead Arrangers *12 Months*

	Bookrunner	US$ (mln)	No	%
1	Samba Capital	1,566	2	17.7
2	Citigroup	524	6	5.9
3	Abu Dhabi Islamic Bank	428	3	4.8
4	Maybank Investment Bank	237	1	2.7
5	RBS	233	1	2.6
5	HSBC	233	1	2.6
7	Standard Chartered Bank	165	3	1.9
8	Bank of China	93	1	1.1
9	National Bank of Kuwait	87	1	1.0
10	Credit Suisse	50	1	0.6

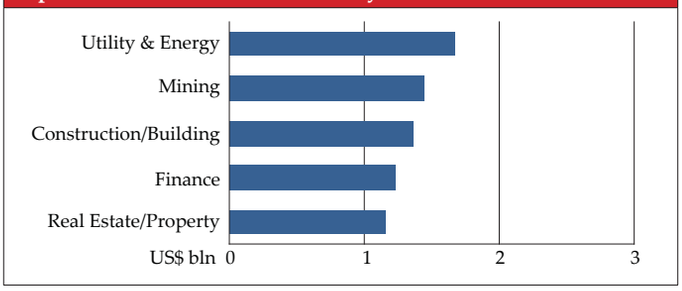
Top Islamic Finance Related Loans Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
30th Nov 2010	Saudi Arabian Mining	Saudi Arabia	1,913
13th Dec 2010	Saudi Electricity	Saudi Arabia	1,333
18th Jul 2011	Pembinaan BLT	Malaysia	822
23rd Jun 2011	Salik One Spc	UAE	800
31st Mar 2011	National Central Cooling	UAE	757
17th May 2011	Emaar Properties	UAE	699
29th Oct 2010	Parkway Holdings	Singapore	578
23rd May 2011	Natrindo Telepon Seluler	Indonesia	450
16th Nov 2010	Jambatan Kedua	Malaysia	383
22nd Sep 2011	Albaraka Turk	Turkey	344

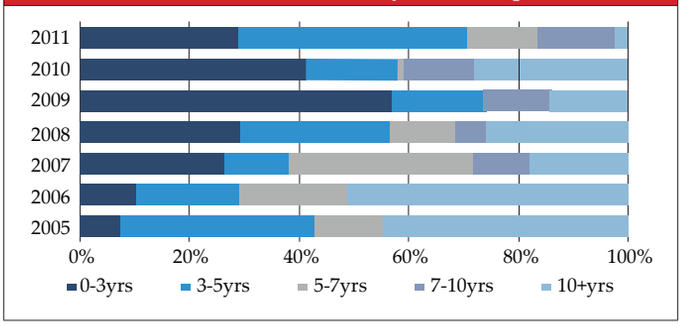
Top Islamic Finance Related Loans by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	2,924	3	33.1
2	Malaysia	1,777	5	20.1
3	UAE	1,704	8	19.3
4	Turkey	988	5	11.2
5	Singapore	655	2	7.4
6	Indonesia	450	1	5.1
7	China	93	1	1.1
8	Kuwait	87	1	1.0
9	Pakistan	60	2	0.7

Top Islamic Finance Related Loans by Sector *12 Months*



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Jennifer Cheung (Media Relations)
Email: Jennifer.Cheung@Dealogic.com Tel: +852 2804 1223

24th – 27th October 2011
Islamic Investment and Finance Forum 2011
Istanbul (*IIR Middle East*)

30th October – 3rd November 2011
Alternative Investment Strategies Abu Dhabi 2011
Abu Dhabi (*Leoron Events JLT*)

3rd November 2011
IFN Roadshow Turkey
Istanbul *(REDmoney events)*

8th November 2011
IFN Country Briefings: Canada
Toronto *(REDmoney events)*

9th – 10th November 2011
Credit Risk Asia
Kuala Lumpur (*Fleming Gulf*)

15th November 2011
Islamic Financial Intelligence Summit 2011 Kuala Lumpur *(The Banker)*

15th November 2011
IFN Roadshow: Hong Kong
Hong Kong *(REDmoney events)*

21st – 23rd November 2011
The World Islamic Banking Conference
Bahrain (*MegaEvents*)

23rd – 25th November 2011
Asian Finance Forum
Bali, Indonesia (*Asian Institute of Finance*)

30th November 2011
IFN Roadshow Brunei
Brunei *(REDmoney events)*

6th – 7th December 2011
3rd Annual SE Asian Institutional Investment Forum
Kuala Lumpur (*Asian Investor*)

11th – 12th December 2011
1st Annual Project Finance and Trade Finance Summit Dubai, UAE (*Global Islamic Finance Magazine*)

17th – 18th December 2011
Oman Islamic Economic Forum, Muscat, Oman (*The Amjaad Group*)

21st – 24th February 2012
Islamic Finance Africa
Africa *(IIR South Africa)*

Islamic Finance news

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