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Bridging the Continental Divide

Real economic expansion has been described as the product of wise entrepreneurs using capital that is funded by real savings. Such economic progress results in more goods being available at lower prices. Isn't that how Islamic finance could also be described?

As the conventional financial system continues to be mired in doom and gloom, Islamic finance centers are sensing a shift underway in the international environment that could result in an increasingly multi-polar world where the concentration of economic power becomes more dispersed. These centers are therefore consciously building their capacity to enhance their international economic and financial linkages.

This week saw the UK and Malaysia make a move towards collaborating in facilitating interaction between their Islamic markets as well as in combining efforts to penetrate other regions. Calling it the internationalization of Islamic finance, one priority is for Islamic financial markets to mushroom. Malaysian central bank chief Zeti Akhtar Aziz says this will facilitate cross-border capital flows, thereby strengthening global financial integration.

Even as the Islamic Financial Services Board explores measures to develop the liquidity management infrastructure and framework for the Islamic financial institutions, market participants have been called upon to play their part by innovating a broader range of Islamic financial market instruments. These include instruments with equity ownership features, Islamic asset-backed securities and permissible forms of credit enhancements as well as Shariah compliant risk-mitigating instruments.

Both the UK and Malaysia also want to encourage partnerships between international financial centers in promoting financial stability. They don't want to see Islamic institutions being led astray due to structural weaknesses in the global financial regulatory and supervisory framework.

Zeti and Ian Luder, Lord Mayor of the City of London, also agreed that international integration of Islamic finance would be facilitated by the mutual recognition of financial standards and products across jurisdictions. According to Zeti, there has already been progressive convergence of Shariah views and rulings, as well as the mutual recognition of financial standards and products. She also sees greater engagement among the regulators, practitioners and scholars in Islamic finance.

While the objective is noble, experience so far shows that gaining universal acceptance of standards and products is unrealistic. It may be better to focus on innovating generic products that can subsequently be customized to meet the particular Shariah demands of customers in different jurisdictions.

And above all, in order for Islamic finance to truly go international, the mindset of practitioners and regulators must change, from focusing on the differences in views on what is acceptable in terms of Shariah to seeking out the similarities and common denominators.

The ability of the UK, as the European hub, and Malaysia as the Asian center to see eye to eye on a great number of issues should set a precedence for other Islamic finance centers to similarly seek out a convergence in views, rather than only pick on differences. Competitiveness does have a tendency to smother collaboration, but both have also demonstrated their ability to co-exist effectively.

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- **Credit Suisse** appoints Karl Landert to its executive board
- Nigel Carrington is **NBAD**'s new divisional manager of operations
- William T O'Donnell rejoins **RBS** as MD and head of US treasury strategy
- **UBS** names Chi-Woon Yoon as the new chairman and CEO of Asia-Pacific
- **Asian Finance Bank** appoints Wan Anuar Abu Kasim as COO
- **Citigroup** appoints Shirish Apte and Stephen Bird as Asia-Pacific CEOs and Shengman Zhang as Asia-Pacific chairman
- Daud Vicary Abdullah is chairman for **Deloitte**'s global Islamic finance
- **Barclays Wealth Management** names Dominic Stearns as MD and global head of compliance
- Abdul Aziz Al-Yaqout is managing partner of **DLA Piper**'s Kuwait office

Forum update

Only THREE weeks until the Islamic finance industry's largest and most influential gathering: **IFN 2009** *Issuers & Investors* **Asia Forum**.

Our key speakers and panelists consist of over 90 of the world's most renowned scholars and experts from various organizations including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Secretary General Dr. Mohamed Nedal Alchaar; CIMB Islamic chief executive officer, Badlisyah Abdul Ghani; International Shariah Research Academy executive director, Dr. Mohammad Akram Laldin; Bank of London & the Middle East chief executive officer, Humphrey Percy; Takaful Indonesia president director, Dadang Sukresna; and Projek Lintasan Kota chief financial officer, Malik Parvez Ahmad.

To date, over 900 delegates comprising world renowned Islamic finance experts, high level executives from leading corporations and investment organizations and key regulators have registered to attend this forum spanning the Issuers, investors, Equities and Takaful markets.

To attend this FREE-to-attend event, register online NOW at www.IFNforums.com. ONLY those who register in advance may attend.

IFN 2009 *Issuers & Investors* **Asia Forum**
FORUM AGENDA

Issuers Day: 3rd August 2009
- The Islamic Financial Markets Today: Asia and Beyond
- The Asian Islamic Financial Markets as a Source of Capital for Issuers
- Product Shariah permissibility, compliance and acceptance: Latest rulings and what they mean
- Country presentation - *Japan Bank for International Cooperation*
- Power Presentations:
  - Asset Finance; Trustees; Ratings methodology
  - Project Financing - *Bank Islam Malaysia*
  - Documentation - *Abdul Raman Saad & Associates*
  - Restructuring - *Maybank Investment Bank*
- Addressing Regulatory & Taxation Issues
- The Evolving Issuing & Investment Landscape

Investors Day: 4th August 2009
- The Islamic Investment Industry in Asia and Beyond
- Industry Update: IIFM Progress Report
- Discussing Islamic Investment Products: Evolution, Profile, Structure & Asset Allocation
- Introducing the International Islamic Financial Money and Interbank Markets
- Power Presentations:
  - Investing in the Sukuk market: new and old challenges - *Fischer Francis Trees & Watts*
  - Commodity Murabahah - *Bursa Malaysia*
  - Takaful Premium Investments - *Khidr Solutions*
  - Treasury and Asset Management - *CIMB-Principal Islamic Asset Management*
- Examining Practical Issues for Managers of Islamic Funds
- Risk Management and Regulation for Islamic Investment products

Equities Day: 5th August 2009
- Global Islamic Equity Markets & Products
- The Development of Islamic Equity-Linked Products in Today's Market
- Power presentations:
  - Indices; Screening & Purification
  - Developing Islamic Markets Through Indexation: Beyond the Boundaries of Islamic Investors – *FTSE Group*
- Product Development and Practical issues for Islamic Equity Products
- Islamic Real Estate Investment Trusts

Takaful & re-Takaful Day: 5th August 2009
- The Global Takaful Industry
- The Development of (Investment-Linked) Takaful Products
- Power presentations:
  - International Takaful Business
  - The International Takaful Operator License in Malaysia
  - Investment in Takaful: Challenges - *Maybank Investment Management*
  - White Label - *FWU International*
- Effective Risk Management and the Takaful Industry
- Operational and Organizational Issues Facing Today's Takaful Industry

AMERICAS

Second thoughts about Canadian Sukuk

CANADA: Bear Mountain Master Partnership's president and CEO, Len Barrie, is undecided about selling the 500-

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hectare Bear Mountain development to Siraj Capital in view of the improving real estate market.

"I think we might want to hold. We're down to the final details. We just have to decide if we want to do it," said Barrie.

Gulf-based Siraj Capital had previously announced its plan to issue US$380 million worth of Sukuk for the purchase of the real estate.

The two groups have been negotiating for six months and, if the Sukuk deal slated for August goes through, it would be the country's first rated Islamic bond.

Islamic pre-paid card

CANADA: Toronto-based Islamic financial firm UM Financial plans to launch a Shariah compliant pre-paid credit card in August to cater to Muslims, said president Omar Kalair.

The iFreedom Plus MasterCard may also appeal to immigrants without any credit history or young adults who do not qualify for normal credit cards, added Omar. Customers can load the cards for up to CAD6,000 (US$5,160).

UM Financial is also developing Takaful policies as part of its portfolio of Islamic financial products. The company has also been offering Shariah compliant mortgages to Canadian Muslims for the past five years.

ASIA

REITs to flourish

MALAYSIA: The move by the government to remove the Bumiputera (indigenous people) equity rule in listed companies, which are likely to include Islamic and conventional real estate investment trust (REIT) firms, will allow for a level playing field, said CEO and executive director of Axis REIT Managers Stewart LaBrooy.

He said foreign investors will now have a reason to enter the Malaysian REIT market, as it becomes more established and the Securities Commission, the financial regulator, introduces business-friendly guidelines for both Islamic and conventional REITs.

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LaBrooy said the 30% Bumiputera condition halted possible alliances between local REIT managers and overseas operators.

"The removal will attract more players through new alliances which will result in more capital inflow," he added.

Australian Islamic bank?

AUSTRALIA: The Muslim Community Co-operative (Australia) (MCCA) hopes to secure an Islamic banking license within the next three years to become the country's first Shariah compliant bank.

MCCA will work closely with the Australian Prudential Regulatory Authority to convert its current license into a banking license, said managing director Chaaban Omran.

Separately, Australia's assistant treasurer Nick Sherry said the country may see its first Islamic bank within five years, adding that the federal government is committed to making the banking regulatory framework flexible enough to accommodate Shariah compliant banking products and services.

Name change for KLCI

MALAYSIA: The Kuala Lumpur Composite Index (KLCI), the country's blue-chip benchmark, is now known as FTSE Bursa Malaysia KLCI and will be jointly marketed by FTSE and Bursa Malaysia, the local exchange, to both domestic and global investors.

Other changes to the FTSE Bursa Malaysia Index Series include the retirement of the FTSE Bursa Malaysia Large 30 Index and a name change of the FTSE Bursa Malaysia 100 Index to the FTSE Bursa Malaysia Top 100 Index.

Islamic infrastructure fund manager named

GENERAL: CIMB Standard has been appointed as manager and advisor to the US$500 million Islamic Infrastructure Fund (IIF), jointly sponsored by the Asian Development Bank (ADB) and the Islamic Development Bank (IDB). CIMB Standard is a joint venture between Malaysia's CIMB Group and African-based Standard Bank.

The IIF — Asia's first multi-country Shariah compliant infrastructure fund — will invest in emerging Asian countries with significant infrastructure opportunities as well as other member countries common to both ADB and IDB. The IIF will receive an initial commitment of US$250 million from its joint sponsors.

CIMB Sukuk on track

MALAYSIA: CIMB Islamic will complete its 19 Sukuk issuances, as planned, by the end of the year, involving several companies globally, said CEO Badlisyah Abdul Ghani.

This will include a US$1 billion five-year Sukuk for a Middle East firm, he added, but did not name the company, which will raise the debt privately.

Badlisyah said the Islamic bond was due "very, very soon" and he was confident

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it would be fully subscribed by private investors. He added that it would be one of the most significant Islamic corporate issuances in 2009.

'Step up collaboration'

MALAYSIA: Islamic finance centers should step up efforts to develop international Islamic financial markets to enhance the liquidity of the instruments and the risk management capacity of the players. This is important to facilitate cross border capital flows, thereby strengthening global financial integration, said Bank Negara Malaysia governor Zeti Akhtar Aziz.

She pointed out that because Islamic money and capital markets remain relatively less developed, Islamic banking institutions face challenges in liquidity management arising from the lack of a comprehensive Islamic inter-bank market with highly rated short-term tradable instruments.

Zeti urged Islamic financial institutions to promote innovation in the development of a broader range of Islamic financial market instruments. These include instruments with equity ownership features, Islamic asset-backed securities, the inclusion of permissible forms of credit enhancements as well as Shariah compliant risk mitigating instruments.

The central banker called for partnerships between regulators across jurisdictions in governing market practices by Islamic financial institutions. Important as well is the mutual recognition of financial standards and products across jurisdictions to facilitate the international integration of Islamic finance, she added.

(Also see IFN Report on page 14&15)

CIMB-Principal increases funds sizes

MALAYSIA: CIMB-Principal Asset Management has increased the sizes of CIMB Islamic DALI Equity Growth Fund to 1.8 billion units from 1.2 billion units, said the firm in a statement. It has also increased the size of the CIMB Islamic Money Market Fund to 337.5 million units from 225 million units.

According to the CEO of CIMB-Principal, the increases are made to meet the needs of investors during these difficult times. J Campbell Tupling added that some investors are still interested to invest to grow their investment, while some are re-strategizing for their active return to the market.

Done deal for Bakrieland

INDONESIA: Property firm Bakrieland Development has raised IDR150 billion (US$15 million) via a Sukuk issue to fund its business expansion.

The Sukuk has a two-year tranche with a 15.48% coupon rate, as well as a three-year tranche with a coupon rate of 16%, according to underwriter, Bahana Securities. Madani Securities was the other underwriter.

'Higher growth doable'

MALAYSIA: Maybank Islamic expects to post a double-digit growth for its financial year ending the 30th June 2010, said CEO and president of parent Malayan Banking (Maybank) Abdul Wahid Omar.

He added that growth in funding in the industry will also improve the performance of the Shariah compliant bank.

In the third quarter of its 2009 financial year, which ended on the 31st March, Maybank's

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income from Islamic banking increased by 31.2% to RM907 million (US$253 million).

The nine-month profit before tax stood at RM388 million (US$108 million), which is higher than the full-year figure of RM273 million (US$76 million) recorded in 2008.

Islamic finance symposium

AUSTRALIA: The National Australia Bank, the Muslim Community Co-operative (Australia) and La Trobe University have hosted a symposium to explore the issues, challenges and opportunities related to Shariah compliant banking and finance in Australia amid the current global financial crisis.

It was the largest event ever held in the country on the subject of Islamic finance and banking with more than 220 delegates and speakers from Saudi Arabia, Indonesia, Pakistan, UAE, the UK and other countries. La Trobe also launched its Master of Islamic Banking and Finance, the first ever in Australia, during the seminar.

GLOBAL

'Sukuk is not the be-all and end-all'

MALAYSIA: Islamic capital markets need to look beyond Sukuk and explore other Shariah compliant avenues, according to the regulator of the country's capital market, the Securities Commission of Malaysia.

Its chairman Zarinah Anwar said the Islamic equity market, for example, offers great opportunities for issuers to expand their potential funding pool. She added that Shariah compliant exchange-traded funds, real-estate investment trusts and structured products are also attracting strong interest in Islamic capital markets.

Tip of the Sukuk iceberg

GENERAL: About 5% to 8% of Sukuk in the global market are vulnerable to defaults, especially those issued for real estate projects, said a lawyer at Trowers & Hamlins' Bahraini office.

The property sector, in particular, has seen values plunge, especially in the Gulf region.

"However, most issuers are sovereign or quasi sovereign firms, which enables them to get support from their respective governments," said Neale Downes.

Meanwhile, PricewaterhouseCoopers' global Islamic finance leader Mohammad Faiz Azmi said reported Sukuk defaults in recent months were only "the tip of the iceberg".

"The longer the global recession lasts, the higher the likelihood of defaults. People are now using reserves or savings to try to keep themselves going. How long can that last?" he asked.

Faith and Islamic finance

GENERAL: Commercial gains are important for Islamic finance, said Shariah advisor Mohd Daud Bakar. "We are not a charitable organization. At the end of the day, shareholders are looking for return on equity," he added.

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He also said that in cases where there is no room for Islam to accommodate a structure or product, the "commercial element must then adjust to Shariah".

MIDDLE EAST

GFH denies merger talks

BAHRAIN: Shariah compliant Gulf Finance House (GFH) has dismissed a media report saying it was planning to merge with Kuwait-based First Investment Bank.

"Gulf Finance House would like to assure its shareholders, investors and clients that it has no plans to merge with any bank or financial institution and continues to operate as a standalone Islamic investment bank," it clarified.

A Kuwaiti paper had earlier reported that GFH and First Investment have begun evaluating assets as part of a plan to merge by the end of this quarter.

New bank on the block

JORDAN: The Central Bank of Jordan has issued a preliminary license to the Industrial Development Bank (IDB), to be renamed Jordan Dubai Islamic Bank (JDIB), to operate as a Shariah compliant financial institution. JDIB has a US$100 million share capital.

Dubai Islamic Bank (DIB) had announced earlier this year that Jordan-based IDB would be relaunched following the completion of the private placement of 26 million shares of IDB. Mesc Investments – 40% owned by DIB and 60% by Jordan Dubai Capital – owns a 52% stake in JDIB.

Al Salam acquires BSB

BAHRAIN: Al Salam Bank-Bahrain has secured overwhelming acceptances from Bahrain Saudi Bank (BSB)'s shareholders, representing more than 90% of the issued and paid-up ordinary share capital, for a takeover of the lender.

"The level of acceptance is indicative of the trust and confidence that BSB shareholders have in Al Salam Bank-Bahrain," said CEO Yousif Taqi.

The Islamic lender had proposed to acquire the entire issued and paid- up capital of BSB in April this year. Al-Salam Bank Bahrain plans to convert the business operations of BSB to make them Shariah compliant.

Turning point for Sukuk

SAUDI ARABIA: The success of the SAR5 billion (US$1.3 billion) Sukuk from Saudi Electricity Company (SEC) could mark a turning point for Islamic capital markets, said HSBC's debt capital markets head for the Middle East and North Africa Rajiv Shukla.

The largest utility in the Middle East successfully closed its Sukuk last month after the final order book exceeded SAR20 billion (US$5.3 billion).

"There is a solid pipeline of potential issues and we should see more in the second half of this year," said Shukla. He also said the entire SEC Sukuk was bought by institutional investors, with banks being the largest subscribers.

Alinma open for business

SAUDI ARABIA: Shariah compliant Alinma Bank opened its first nine branches in three

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cities, 15 months after it raised US$2.8 billion in an initial public offering.The bank plans to open six more branches over the next two weeks and another 20 before 2011.

Three government-owned funds have a 30% stake each in Alinma Bank's US$4 billion paid-up capital while the rest is held by the public.

GREDCO to manage marina

BAHRAIN: Global Real Estate Development Company (GREDCO) has been appointed as development manager for the US$2.5 billion Marsa Al Seef project, the largest marina development in the Middle East.

The project is slated to be one of the most exclusive and innovative waterfront deals to be undertaken globally.

Parent company, Global Banking Corporation (GBCORP), said GREDCO will soon begin sourcing for developers and begin its marketing campaign for the three-year project.

The team will be led by the real estate company's newly appointed CEO, Maher A Aziz Al Shaer.

"GBCORP aims to capitalize on new opportunities which transcend global boundaries and serve as a unique accelerator for investments within the GCC," said GREDCO's chairman, Abdul Rahman Mohammed Al Jasmi.

RAK's Sukuk sale begins

UAE: Officials of Ras Al Khaimah (RAK) have reportedly started meeting investors in Dubai to sell the emirate's Sukuk. Sources familiar with the deal also said Standard Chartered and BNP Paribas are managing the sale.

In May last year, the emirate issued AED1 billion (US$272 million) five-year floating rate Sukuk in its first rated sale. Standard & Poor's says that RAK plans to sell as much as US$2 billion worth of Islamic bonds.

NIB boosts reserves

UAE: Noor Islamic Bank (NIB) is to convert its government deposits into Tier-2 capital to strengthen its balance sheet. The move will raise NIB's capital adequacy ratio (CAR) to more than 20%, higher than the 15.9% reported in its financial year ended December 2008, and well above the current minimum UAE central bank requirement of 10%.

The conversion option was offered to all UAE banks as part of the finance ministry's AED50 billion (US$14 billion) deposit injection.

Shariah compliant fixed income fund

UAE: Badr Al-Islami, the Islamic banking division of Mashreq, and Mashreq Capital have launched the Badr Al-Islami Income Fund, said to be one of the first regional Islamic fixed income funds.

It will invest primarily in Sukuk issued in the Middle East and North Africa region and aims to generate long-term returns in the 7% range.

"It is an answer to investors' demand for Islamic fixed income securities that has grown exponentially over the last five years," said Mashreq Capital CEO Abdul Kadir Hussein.

Islamic financing for ceramic firm

UAE: Abu Dhabi Islamic Bank (ADIB) has signed an Islamic financing facility agreement with RAK Ceramics for AED200 million (US$54.5 million) to finance the manufacturer's working capital requirements.

The ceramics company, one of the largest in the world, will also use the facility to fund projects to improve energy efficiency, production optimization and cost reduction initiatives.

Deyaar to close debt fund by year-end

UAE: Dubai's second largest listed developer, Deyaar Properties, hopes to close its AED500 million (US$136 million) distressed debt fund by the end of the year, said CEO Marcus Giebel. Fund raising is expected to begin in the next two weeks.

Deyaar and Dubai Islamic Bank, which owns a 42% stake in the developer, set up the fund to buy distressed debt, including its own, to boost returns for shareholders. They have already placed AED200 million (US$54 million) in the fund.

The fund will start investing in assets early next year.

Rethink business model

GENERAL: Shariah compliant banks in the region, many of which have been exposed to the battered real estate market, need a new business model to ride out the global economic turmoil, said Ernst & Young's head of Islamic finance Sameer Abdi.

He added that Islamic banks also need to look for new customers and find new funding sources such as corporate banking, retail banking and trade finance.

He also said both Islamic and conventional banks in the Middle East region are not yet safe from the financial crisis, which is far from over.

Ijarah financing for AFZA

UAE: Shariah compliant Ajman Bank has signed an agreement with Ajman Free Zone Authority (AFZA) for a AED54 million (US$15 million) Ijarah financing facility to extend its industrial hub located in the free zone.

This is the second agreement that both entities have signed, following the first in May which outlined cooperation details.

The partnership is a step towards establishing the Ajman emirate into a major industrial hub and business center within the UAE and the Middle East region.

SIIB broadens repertoire

SYRIA: Syria International Islamic Bank (SIIB) is offering Ijarah, Musharakah Moutanakissa (Diminishing Musharakah), Qard Al Hassan and Istisna to cater to its various customer segments.

The SIIB, a US$100 million venture between Syrian and Qatari investors, was established in September 2007.

Going all out for SMEs

UAE: Shariah compliant Mawarid Finance will work with the UAE government to set up a federal body to promote small- and

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medium-sized enterprises (SMEs) in the emirates, said CEO Mohammed Ali Al Neaimi. He added that as 85% of the companies registered in the country are SMEs, a central body is crucial to push the sector ahead.

The financing company has already signed an agreement with Ruwad, the SME arm of the Sharjah Chamber of Commerce and Industry, and had previously signed similar agreements with other bodies for the promotion of SMEs.

Arrangers for IDB Sukuk

SAUDI ARABIA: The Islamic Development Bank (IDB) has mandated HSBC, BNP Paribas and Deutsche Bank as lead arrangers for its upcoming US$500 million Sukuk issue. Malaysia's CIMB and Brunei Islamic Bank will act as co-arrangers.

IDB treasurer Mohammad Tariq also said the Sukuk size may be increased depending on market conditions. The Sukuk may have a three- or five-year maturity period, he added.

The bank plans to issue Sukuk worth US$6 billion over the next five years to help Islamic countries affected by the global financial meltdown.

Chocolate delight for VC

BAHRAIN: Shariah compliant Venture Capital Fund Bahrain (VC Fund Bahrain) has signed a partnership agreement with Bahraini chocolate maker, Dutch Delight Company, highlighting the fund's philosophy to invest in local small- and medium-sized enterprises and nascent ventures.

Dutch Delight, which produces handmade chocolate, is the first company selected by VC Fund Bahrain.

The venture capital fund is a partnership between Venture Capital Bank, Bahrain Development Bank and investors keep on injecting funds into companies that lack the ability to access financing to achieve their growth potential.

'Most help for Bahrain

GCC: There are varying degrees of government support for Islamic finance in Gulf Cooperation Council (GCC) countries, according to a research economist at Qatar Central Bank, Syed A Basher.

He noted that Bahrain received the most support followed by Kuwait, but he described the support level in Oman and Saudi Arabia as lacking.

However, the lack of support has resulted in private entities in the GCC countries lending a hand in developing the Islamic financial sector.

"This private initiative has helped the system of Shariah compliance to become more market driven in the GCC countries, leading to product differentiation and extended customer choice," he added.

ASIA

Meezan Labbaik customers get coverage

PAKISTAN: Meezan Bank and Takaful Pakistan have entered into an agreement where customers of the Meezan Labbaik (Hajj and Umrah) deposit product will be provided with Shariah compliant credit Takaful coverage.

Under the agreement, all Labbaik installment customers that have performed the Hajj or Umrah will be provided credit Takaful coverage at special rates. In case of natural death, accidental death, permanent total disability or insolvency, the outstanding installments of the Labbaik customer will be paid by Takaful Pakistan.

Great Eastern seeks Family Takaful license

MALAYSIA: Great Eastern Life Assurance Malaysia is seeking to secure one of the two Family Takaful licenses to be issued by Bank Negara Malaysia, the central bank.

Great Eastern director and CEO Koh Yaw Hui said the firm's various channels and bancassurance business, via holding company Oversea-Chinese Banking Corporation (OCBC), would provide it with a strong platform to launch products for the Takaful market, if it was successful in securing the license.

"Being a foreign-owned company, we could not conduct bancassurance through foreign banks. However, we can now sell our products through OCBC and we feel this will be very good for us," he said.

Koh said a Takaful license and bancassurance would be crucial for its expansion plans in the second half of this year, which includes the setting up of offices in strategic locations.

Still Takaful hopeful

MALAYSIA: Malayan Banking (Maybank) still plans to explore opportunities to expand its Takaful business overseas, despite the termination of an agreement with Jeddah-based Islamic Corporation for the Development of the Private Sector (ICD).

"In some markets, we might be looking at partnering the local entities that can provide the local market knowledge and local distribution.

"On the local front, we are talking to potential partners," said president and CEO Abdul Wahid Omar.

In April, Maybank announced the termination of its agreement with ICD to jointly explore the feasibility of establishing an international Takaful holding company with a view to creating a global leader in the Takaful industry.

Guidelines for Islamic captive insurance

MALAYSIA: The Labuan International Business and Financial Centre (IBFC) is in the process of developing the world's first set of guidelines on Shariah compliant captive insurance expected to be ready in the next six to nine months.

Labuan IBFC CEO Martin Crawford said guidelines on Islamic captive insurance are non-existent now.

"The captive structure necessitates the need for physical infrastructure, so with the comparatively low-cost nature of doing business in Malaysia, we really stand a good chance of attracting the crowd," said Crawford.

Captive insurance refers to insurance companies established with the specific objective of financing risks from their parent group or groups.

More Takaful channels

MALAYSIA: Takaful Malaysia has signed an agreement with Standard Financial Planner (SFP), a licensed financial advisory firm, to market Takaful products through the firm's nationwide network, of which 75% are licensed financial advisors with Bank Negara Malaysia.

Takaful Malaysia's group managing director Mohamad Hassan Kamil said the addition of SFP to its existing portfolio of distribution channels would boost the company's revenue by 10%.

"This agreement will also enhance the penetration rate of our Family and general products into the middle-upper Malaysian market as well as make them more accessible to a wider customer base," he said.

MIDDLE EAST

Dubai Bank to market SALAMA products

UAE: Dubai Bank has entered into a partnership with SALAMA-Islamic Arab Insurance Company, a leading provider of Shariah compliant insurance solutions, to expand its portfolio of Takaful plans.

Under the agreement, SALAMA will provide Dubai Bank customers a wide range of Shariah compliant unit-linked funds through lump sum investments as well as systematic investment plans.

In addition to the comprehensive protection benefits offered under the scheme, the plans will also help the bank's customers save for short- and long-term needs such as education and retirement planning.

T'azur offers 20 products

BAHRAIN: Takaful firm T'azur has launched eight Family Takaful and 12 General Takaful products to capitalize on the largely untapped Bahraini insurance market, said CEO Nikolaus Frei. The challenge for Takaful firms is to create awareness and convince the vast majority of uninsured people about the benefits of such products, added Frei.

T'azur was created by Unicorn Investment Bank and established in November 2007 with an authorized capital of US$500 million. Bahrain's insurance market grew 34% last year while the Takaful market grew 300%.

ASIA

Bank Pembangunan upgrade

MALAYSIA: RAM Ratings has upgraded the long-term rating of Bank Pembangunan Malaysia's conventional and/or Islamic Murabahah medium term notes (MTN) to be issued under its RM7 billion (US$2 billion) conventional and/or Islamic Murabahah MTN program, from 'AA1' to 'AAA', with a stable outlook.

The rating upgrade is premised on the track record of exceptional and unparalleled support from the federal government that has been increasingly evident over the last few years.

This trend consolidates the rating agency's view of the bank's unique position as the country's key funding conduit to develop strategic economic sectors.

DIB outlook stable

PAKISTAN: JCR-VIS Credit Rating Company has reaffirmed the entity ratings of 'A-/A-2' assigned to Dawood Islamic Bank (DIB), with a stable outlook.

While banks have generally exhibited significant resilience, the sector as a whole has experienced pressure on account of weakened macroeconomic fundamentals, said the rating company.

High interest rates, an energy crisis and the worsening domestic situation has triggered a considerable increase in non-performing financing, while the slowdown in the economy has inhibited growth prospects at least for the current year, it added.

GB3 retains 'AA1'

MALAYSIA: RAM Ratings has reaffirmed the long-term rating of GB3's RM850 million (US$240 million) senior secured Bai Bithaman Ajil bond facility at 'AA1', with a stable outlook.

The rating is supported by GB3's strong business profile, underscored by favorable terms and no off-take risk under its Power Purchase Agreement (PPA) with Tenaga Nasional, the country's biggest power producer. During the period under review, GB3 had continued operating within the requirements of its PPA, which had enabled it to claim full capacity payments and pass through all its fuel costs to Tenaga Nasional.

GB3 is a 640-MW combined-cycle, gas-turbine independent power producer (IPP) in the state of Perak.

Still 'AA1' for SEV

MALAYSIA: RAM Ratings has reaffirmed the 'AA1' rating, with a stable outlook, for Segari Energy Ventures' (SEV) RM930 million (US$260 million) Sukuk Ijarah. SEV is an independent power producer (IPP) in the state of Perak.

The rating remains supported by the IPP's strong business profile. SEV continued performing within expectations in its 2008 financial year, having kept its operating parameters within the requirements of its power purchase agreement to earn full capacity payments.

It had also fully passed through all fuel costs to its sole off-taker Tenaga Nasional.

Ingress Sukuk downgrade

MALAYSIA: MARC has downgraded its rating on Ingress Corporation's RM160 million (US$45 million) Sukuk Al Ijarah to 'CIS' from 'BB-IS'. The rating remains on MARCWatch Negative.

The action is based on the decision by Ingress' funding vehicle to postpone RM45 million (US$13 million) of the RM50 million (US$14 million) upcoming first tranche Sukuk payment due on the 9th July 2009 for six months.

The Ingress Group is principally involved in automotive component manufacturing, with slight exposure to the power engineering, railway electrification and the oil and gas sectors.

IBK remains at 'AAA'

SOUTH KOREA: RAM Ratings has reaffirmed the 'AAA' rating of Industrial Bank of Korea's (IBK) RM3 billion (US$848 million) conventional and/or Islamic medium term notes program, with a stable outlook.

IBK enjoys firm support from the government of South Korea, given its role to develop South Korea's small- and medium-sized enterprises (SMEs).

As the bank had been established under the Industrial Bank of Korea Act, the government is obliged to provide funds if IBK's reserves fall into deficit.

CCM outlook negative

MALAYSIA: RAM Ratings has reaffirmed the 'AA3' rating of the Chemical Company of Malaysia's (CCM) RM200 million (US$56 million) fixed-rate bonds (2002/2009), as well as the long- and short-term ratings of 'AA3' and 'P1' for its RM500 million (US$141 million) Musharakah commercial papers/medium term notes program (2008/2023).

However, the outlook on the long-term rating has been revised from stable to negative.

The reaffirmation of the ratings is underscored by CCM's entrenched market position in its core businesses, its well-diversified business profile and the financial flexibility derived from its major indirect shareholder, Permodalan Nasional.

Nestlé redeems debt

MALAYSIA: RAM Ratings has received confirmation that Nestlé Foods (Malaysia) fully redeemed and cancelled its RM700 million (US$197 million) Al-Murabahah commercial papers/medium term notes program (2003/2010) on the 12th June.

As such, RAM Ratings no longer has any rating obligation on the debt facility, which had previously carried long- and short-term ratings of 'AAA' and 'P1'.

Upgrade for FHM

PAKISTAN: The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term entity rating for First Habib Modaraba (FHM) to 'AA+', while maintaining the short-term rating at 'A1+'.

The ratings indicate a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

Meezan maintains 'A+/A-1'

PAKISTAN: JCR-VIS Credit Rating has maintained the entity rating of Meezan Bank at 'A+/A-1'. The medium to long-term outlook has been upgraded from "stable" to "positive" in view of favorable trends witnessed in the bank's performance.

Meezan Bank has capitalized on the first-mover advantage in the Islamic banking sector and built a strong franchise. It has the largest market share in terms of retail deposits in the Islamic banking sector and its network of 166 branches has been instrumental in boosting growth.

MIDDLE EAST

'AAA' for Emirates Bank

UAE: RAM Ratings has reaffirmed the 'AAA' rating of the medium-term notes to be issued under Emirates Bank International's US$1.1 billion senior unsecured conventional or Islamic medium term notes program. The long-term rating has a stable outlook.

"The rating reaffirmation reflects the strong banking position of Emirates NBD, which commands about a fifth of the UAE's loan assets and deposits," said RAM Ratings.

The government of Dubai is the major shareholder of Emirates NBD, which owns Emirates Bank and the National Bank of Dubai.

S&P downgrade for four Dubai banks

UAE: Standard & Poor's (S&P) has lowered its ratings on four Dubai-based banks, saying a sharp correction in real estate has increased risks to Dubai's economy and raised hurdles for the lenders.

S&P cut the counterparty credit rating on Emirates Bank International, National Bank of Dubai, and Mashreqbank by one notch to 'A-/A-2' from 'A/A-1'. The long-term rating on Dubai Islamic Bank was lowered to 'BBB+' from 'A-', but its 'A2'-short-term rating was affirmed. The agency said the negative outlook on the banks reflect the deteriorating operating environment in Dubai and the impact it expects this to have on the banks' financial profiles.

The agency also confirmed it had removed all ratings from CreditWatch with negative implications, where they were placed on the 17th March.

'AA-' for SEC Sukuk

NEW

SAUDI ARABIA: Fitch Ratings has assigned Saudi Electricity Company's (SEC) SAR7 billion (US$2 billion) Sukuk issue a final 'AA-' rating.

The transaction involves the transfer of Sukuk assets by SEC to a custodian, Sukuk Electricity Company, a wholly owned subsidiary. The Sukuk is issued on an unsecured and unsubordinated basis and matures on the 6th July 2014.

Lower 'BBB+' rating for Oman Insurance

UAE: Standard & Poor's Ratings Services has lowered its long-term counterparty credit and insurer financial strength rating on UAE-based composite insurer Oman Insurance to 'BBB+' from 'A-'.

The agency also removed the insurer's ratings from CreditWatch with negative implications, where they had been placed on the 18th March. The outlook is stable.

"The ratings on Oman Insurance have been lowered in line with the downgrade of its parent, UAE-based Mashreqbank (A-/Negative/A-2)," said S&P's credit analyst Nigel Bond.

Jafz under review

UAE: Moody's Investors Service has downgraded the foreign and local currency issuer ratings of Jebel Ali Free Zone FZE (Jafz) and the rating for its AED7.5 billion (US$2 billion) Sukuk Trust Certificates, due in 2012, to 'A2' from 'A1'. The ratings are under review for a further possible downgrade.

The downgrade was prompted by the close commercial relationship between Jafz and parent Dubai World (not rated), which has an impact on Jafz's baseline credit assessment given the growing financial challenges at Dubai World.

'BB+' for Wethaq Takaful

KUWAIT: Standard & Poor's Ratings Services (S&P) has lowered its counterparty credit and insurer financial strength ratings on Wethaq Takaful Insurance to 'BB+' from 'BBB-'. The ratings remain on CreditWatch with negative implications, where they were placed on the 27th May.

"The downgrade reflects our increasing concerns regarding the impact on Wethaq's financial strength as a result of the situation at The Investment Dar," said S&P's credit analyst Lotfi Elbarhdadi. The troubled Islamic investment firm (not rated) owns 67% of Wethaq.

MALAYSIA

Going for a global push

Two centers of Islamic finance half a world apart are combining efforts to spearhead the "internationalization" of a sector that is increasingly gaining prominence and acceptance as the global financial and economic crisis persists. The UK and Malaysia this week brought together representatives of their respective financial communities to discuss the opportunities and areas of collaboration in Islamic finance, not just between the two countries but also with other parts of the world.

Malaysian central bank chief Zeti Akhtar Aziz has been pushing to enhance the role of Islamic finance in the country's international economic and financial linkages, and one outcome has been a memorandum of understanding with the UK Trade and Investment, specifically on cooperation in Islamic finance. The Bank Negara Malaysia (BNM) governor is persuading the UK authorities to also now join in efforts to develop international Islamic financial markets to enhance the liquidity of the instruments and the risk management capacity of the players.

> "BNM is developing the Shariah Parameters to promote a more consistent application of Islamic financial contracts"

The UK delegation to the Kuala Lumpur meeting, led by City of London Lord Mayor Ian Luder, who oversees the British capital's financial district, was in agreement with Zeti's call to Islamic financial institutions to promote innovation in developing a broader range of Islamic financial market instruments.

These include instruments with equity ownership features, Islamic asset-backed securities, the inclusion of permissible forms of credit enhancements as well as Shariah compliant risk-mitigating instruments.

Both the UK and Malaysia also discussed ways to step up international cooperation to ensure the stability of the Islamic financial system, and this could involve partnerships between international centers.

Another point of discussion was the mutual recognition of financial standards and products across jurisdictions, which could facilitate the international integration of Islamic finance. BNM is developing the Shariah Parameters to promote a more consistent application of Islamic financial contracts. BNM also formed the International Shariah Research Academy for Islamic Finance (ISRA) for this purpose and Zeti asked Luder to encourage relevant British institutions to collaborate with ISRA to advance this endeavor.

Both Zeti and Luder highlighted the need to ensure an adequate supply of experts and high caliber professionals in Islamic finance. They recognized the increased level of strategic alliances between British and Malaysian education and training institutions in advancing talent development for the Islamic financial services industry.

Luder said a follow-up activity would be professional exchanges between Islamic finance staff, experts and students as well as joint education programs, while pointing out that 55 UK institutions offer Islamic finance courses.

The UK Islamic Finance Council has developed a continuous professional development program that brings together Shariah scholars and financial practitioners, and it has now been extended to Malaysia as part of the UK-Malaysia collaboration.

Luder said his wish list, where it concerns Malaysia, is to work together on policy exchanges and mutual recognition of standards. Both the UK and Malaysia have taken note of the global financial community's interest in exploiting the inherent strengths of Islamic finance and its tremendous potential for advancement.

"Taking advantage of the increasing role of Islamic finance in bringing together different parts of the world with surplus funds in search of investment opportunities, with those that have financing needs, will increase these mutually reinforcing prospects. We look forward to London's participation in this new financial evolution," Zeti said.

By S.Sivaselvam

MALAYSIA

Only the bare bones — for now

It has been a little over two months since the government's announcement of measures to liberalize several services sub-sectors, including providing for five foreign law firms to set up operations to offer legal services in international Islamic finance. However, there had been little movement — until now.

When Lord Mayor Ian Luder led a City of London team — including representatives of four law firms — to a UK-Malaysia Islamic finance forum in Kuala Lumpur this week, Bank Negara Malaysia (BNM) governor Zeti Akhtar Aziz took the opportunity to kill two birds with one stone.

Besides making progress on greater collaboration with the UK in promoting Islamic finance, it was also her first 'face-to-face' meeting with representatives of firms which are the targets of the liberalization moves, especially the legal firms, Islamic Finance *news* understands.

The paucity of sufficient information from the government on the liberalization details had been a bugbear for the interested companies, including the foreign law firms and the Bar Council of Malaysia, as they were unable to make a proper assessment of the government offers.

"The basic point is that everyone was discussing in a vacuum of information as the government has not put out any details of the measures, details which are required before the parties concerned can decide on their approach," a source said.

Following the meeting with Zeti, a clearer picture has emerged, including information such as the October deadline for applications from the foreign legal firms and the number of staff allowed to practice. "From what the governor said, it sounded like the government is going to have fairly few restrictions on firms in terms of the number of people to be based in Kuala Lumpur and so forth.

"And it sounded like generally the government welcomes some input as to what the final arrangements should be because it has yet to have entirely thought out to the final detail," the source said.

The source also believed that the general view is that the October deadline is not realistic given the amount of work needed to be done. "The most important question is the scope of work these firms will be allowed to do. That is the basic question for everyone.

"Another set of questions deals with the other restrictions and the conditions they have to sign up to, and the commercial aspect such as the capital required to set up a firm," the source said, adding that there would definitely be comparison with neighboring Singapore, which is known to have fairly detailed requirements.

The outcome is that those at the meeting would get back to BNM with feedback on the scope of the work permissible, according to the source. He said the meeting prompted him to be optimistic that there will be takers for Malaysia's Islamic finance legal practice liberalization measures.

"Malaysia has the right idea as it is already a hub for Islamic finance. People do not recognize it because Malaysia has not branded itself particularly effectively. All the ingredients are there and it needs to make sure people realize that, and this initiative will help," he said.

The source also described as fruitful the discussion between the Bar Council and the representatives of the foreign law firms. While it was obvious that the Bar Council was not in favor of the entry of foreign players on a standalone basis into its home turf, "it does welcome follow-up dialogue with the interested foreign firms," the source said.

It is commonplace for an association of lawyers in any jurisdiction to resist opening up the profession to foreign players, but the source felt that most of these concerns could be allayed.

"It doesn't hurt local lawyers and in fact it will end up benefitting not just the profession but individual lawyers as well. But there is always some anxiety about the unknown. So to some extent, foreign firms would base their willingness to come on the receptivity of the Bar Council. They do not want to be in a situation where there is antagonism from Day One.

"I think if it's going to happen, and it makes sense for the Bar Council to participate in some way so that it addresses their concerns as much as possible. Anyway, the council will eventually be regulating the firms which show up under this program," the source said.

Bar Council vice president Lim Chee Wee, when contacted, said the Bar Council is firm in its opposition to the standalone basis proposed by the government for the foreign firms.

He said the Bar Council is more than happy to engage in a dialogue with the foreign law firms in terms of whether they are coming on a standalone or joint venture basis.

"We will take note of their views. We have made it very clear to them that we will pursue the joint venture model and our road map is that in a few years time this would be a standalone model," he explained.

Lim added that the foreign law firms had indicated to the Bar Council that if structured properly, a joint venture model with a local law firm could work.

"The Bar Council is now looking at how to assist in this process but we are steadfast in our view for a joint venture model and we will continue to engage the authorities and foreign law firms for their views," he stressed.

By Raphael Wong

Islamic Finance Developments in China

By Frank Morisano

China is no stranger to the world of Islamic finance. In fact, China has been trading with the Islamic world for centuries, and because of this trade, Muslim communities sprouted along the Old Silk Route, which transverses the Asian continent. Today, there are approximately 30 million Muslims living and working in China. However, it has only been over the past two years that we have heard substantial discussion regarding Islamic finance activities being embraced by Hong Kong and its mainland China parent.

Islamic finance assets have grown much more rapidly than conventional financial assets over the past several years. However, like most other asset classes around the world, the growth of Islamic finance decelerated in 2008 due to the global liquidity crunch and the adverse economic conditions.

The issuance of Sukuk, the leading product in Islamic finance, retreated to pre-2006 volumes, and the issuance continues to a challenge in 2009. Market analysts expect the annual growth in Islamic assets to slow to between 10% and 15% in 2009 from previous growth levels of approximately 30%.

Despite the complex and stressful financial economic environment across the world, the fundamentals of the banking sector in China and its financial hub, Hong Kong, continue to prosper, making them attractive destinations for investors. Hong Kong's fundamentals continue to be strong and sound, allowing its financial intermediaries to be innovative in capturing marketplace share and capitalizing on new marketplace trends, such as Islamic finance.

Hong Kong has a belief that with the proper packaging, Islamic finance can appeal to a broader non-Muslim audience, specifically those investors seeking ethical and pro-environment investments. The Hong Kong government also has plans to introduce alternative forms of Islamic financing and new products that offer many opportunities for growth, particularly when financial market conditions begin to improve.

Developments in Hong Kong

In Asia, where over half the world's Muslim population lives, Islamic finance has evolved from being a niche product offering focused on retail customers to becoming a mainstream financial services offering, including investment management and capital markets.

In 2007, the Hong Kong government began the public push to become the major Asian Islamic finance center. In support of this initiative, the Hong Kong Monetary Authority (HKMA), in collaboration with the Treasury Markets Association (TMA), established the appropriate infrastructure framework for Islamic finance, as well as an Islamic finance educational and awareness program targeting local and global audiences. For a financial center like Hong Kong, this means change in, among others, business perception, skills required, legal and tax structures, supervision techniques and standards.

In the first quarter of this year, the Hong Kong Special Administrative Region undertook additional efforts to reengineer itself. Under its 2009/2010 budget, the Hong Kong government initiated legislative and regulatory changes to permit the issuance of Shariah compliant financial services. This has been welcomed by Islamic finance market players across Asia, the Gulf Cooperation Council countries and even those in the European Union.

The legal system in Hong Kong is very flexible, enabling it to meet the demands of Islamic finance transactions. This is because of the robust rule of law and simple tax structure that is free of capital or interest gains taxes. The legislation on tax is also relatively facilitative for Islamic finance transactions, requiring only minimal modifications or changes. To ease any potential issues, the Hong Kong government is also prepared to grant tax exemptions when necessary.

Hong Kong's strength as a free and open international financial center has helped nurture deep and liquid financial markets. This provides it with genuine potential to become an important Islamic finance

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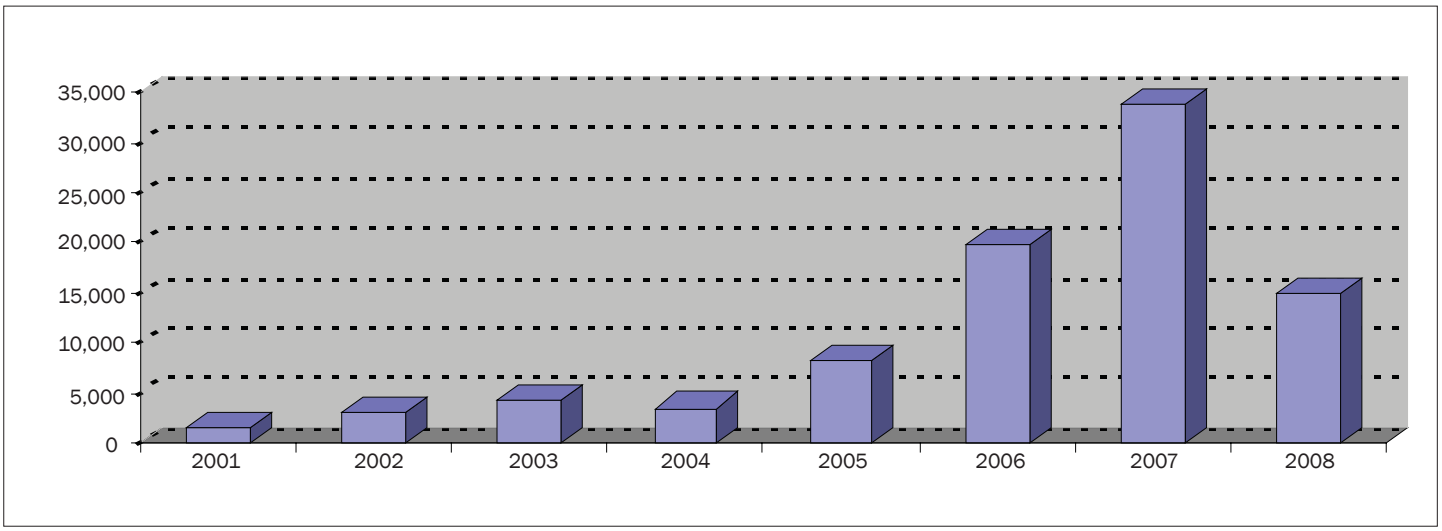
Global Sukuk Issuance (US$m)



Source: Standard & Poor's and Zawya

Islamic Finance Developments in China (continued)

platform for Middle East investors who seek to gain access to fast-growing investment opportunities across the Asia Pacific region.

There is no better time for reviving Sukuk and spurring the investment marketplace. Hong Kong's financial institutions are in the position of being both investors in, and suppliers of, financial products. Islamic investment funds and Islamic treasury placements at the interbank and corporate level, as well as Islamic loan syndications, began to emerge in Hong Kong over the past year.

Hong Kong financial market participants have also set up Islamic banking windows to show their readiness to serve these types of activities. In 2008, the Hong Kong government announced plans to modify tax laws to permit the airport authority to issue a Sukuk to help pay for airport expansion.

While the recognition of Islamic finance as a viable fund-raising and investment alternative is gradually making an impact on the corporate sector in Hong Kong, the pace of development is still rather slow.

Furthermore, market awareness must be promoted beyond the banks and other financial institutions to all related service industries, such as investment managers, asset managers, securities and brokerage houses, exchanges and commodity firms, pension funds, insurance agencies, solicitors, accountants and trustees.

Hong Kong as a financial center is only rivaled by New York and London. Hong Kong's success in financial services has been due to its reliance on international trade, as well as its positioning as the gateway to China. Moreover, Hong Kong has access to a huge fund management industry that opens doors to the entire Asian region, particularly the lucrative China market.

In May 2008, the Dow Jones Islamic Market Index was launched to benchmark Shariah compliant China equities listed in the Hong Kong Stock Exchange. However, Hong Kong is witnessing intense competition from Singapore, Kuala Lumpur, Shanghai and even Sydney in becoming Asia's Islamic finance center.

Financial market players in Hong Kong must begin to gear themselves to make the territory a major Islamic financial center and garner a portion of this great market opportunity from its Asian rivals in Singapore and Malaysia. This requires Hong Kong to ensure much wider collaboration among the trade associations. In addition, the financial institutions must begin to play a role in educating their customers and stimulating the potential supply and demand of Islamic financial products in Hong Kong.

There is endless potential for Hong Kong to innovate in the area of Islamic finance, especially in deploying their close affinity to China to push for mainland liberalization, as well as their experience as an international fund raising and asset management center. We expect Hong Kong to create Islamic products that can provide exposure to mainland China and Chinese companies.

There are no obstacles for Hong Kong becoming a center for Islamic initial public offerings (IPOs), given their record as a leading IPO center in Asia. What is needed is maximum preparedness on the part not only of the regulators but also of financial market players, who are the driving force of financial innovation and growth.

Developments on the mainland

Although China has a relatively huge number of Muslims, Islamic finance has yet to find a solid footing in the country. The opportunities for Islamic banking and Takaful services are enormous and China has the potential to become an Islamic finance powerhouse.

> "China still has the power to attract investments in the real estate and private equity sectors from Middle East institutions, both Islamic and conventional, as well as other Muslim nations"

However, it is unclear whether the government is serious in setting up Islamic banks and Takaful companies on the mainland as it already has enough on its hands to change and improve in the conventional banking sector. Rapid growth, economic development and 1.3 billion people make the China market an attractive destination for investment.

While we see some Islamic finance activities on the Chinese mainland, China continues to focus on addressing domestic business and market concerns, such as local renminbi bonds. The government has also restricted many of the banks from entering new businesses as well as expanding internationally.

This is because the banking sector in China is notoriously unstable, not to mention the past history of corruption. As such, market moves to improve the banking system follow a slow and painful process, resulting in China not moving quickly into new financial products or services.

There has also been much discussion regarding some of the Chinese provinces, which boast large Islamic communities, in the opening of Shariah compliant banks. Recently, Shenyang, the largest city in northeast China, started the ball rolling by seeking help from Malaysia in the establishment of an Islamic bank.

Additionally, Amara Holding, a Dubai based company, entered into a Shariah compliant equity joint venture with a New China Trust subsidiary, Shanghai Ding Hai Investment Management.

Although China's commerce ministry reported that foreign direct investments are down 22.5 % or US$5.89 billion so far in 2009, China still has the power to attract investments in the real estate and private equity sectors from Middle East institutions, both Islamic and conventional, as well as other Muslim nations like Brunei and Malaysia. Kuwaiti Finance House is said to be planning to open an office soon in China. Kuwait Finance House Malaysia has indicated that it intends to invest in real estate and private equity in China.

Moving forward in China

While great strides are being made across Asia, Hong Kong and the mainland at times appear to be very nonchalant in their efforts to position themselves as the Asian Islamic finance center.

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Islamic Finance Developments in China (continued)

For Islamic finance to establish itself in China, either in Hong Kong or on the mainland will require a supportive financial center with a clear, comprehensive and sustainable long-term growth strategy. As Islamic institutions move into the mainstream of financial services, this connections will prove invaluable as a catalyst of growth.

Hong Kong has the ability to leverage on its core competency of being a finance gateway by linking the manufacturing powerhouse and economic giant that is China with the hydrocarbon-rich Middle East.

To continue to be successful in its endeavor, Hong Kong must develop clear legislation, a comprehensive Islamic finance infrastructure, improve the access to liquidity through alternative financing structures, and establish a robust regulatory environment. It is critical that the developments further diversify the range of Islamic finance products and services to include sovereign, convertible and corporate Sukuk.

Further efforts must be made by the Hong Kong government to streamline licensing procedures, introduce tax incentives, liberalize the treasury markets and ensure a critical mass of Islamic finance talent that will enable Hong Kong to overcome the intense competition from Singapore, Kuala Lumpur, Seoul and even Sydney in becoming Asia's Islamic finance gateway.

Hong Kong must also address risk management capabilities in Islamic finance institutions so that they know their risks, have the capability to manage as well as mitigate them, and most importantly disclose their risks to the relevant stakeholders. Hong Kong needs to develop a pool of ready available Islamic finance experts to lead effectively with a fresh viewpoint to create a new paradigm to differentiate Islamic products in the increasingly competitive environment.

Hong Kong is very capable of assisting Islamic finance institutions to access the equity markets as well as act as a platform for the international expansion of Islamic finance institutions seeking funding sources across the Asia Pacific region.

Finally, Hong Kong is well placed to enhance awareness at both the domestic and international levels of Islamic finance and to increase the depth of capital market expertise through industry-leading training and education of financial professionals at Islamic financial institutions.

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The relevance of rating a Sukuk
Part II: Reliability of a credit rating agency

***By** Islamic Finance news*

In Part I, Islamic Finance news examined the necessity of having a credit rating for a Sukuk. Three market players agreed that a credit rating is an essential determinant in order to assess the credit worthiness of an issuer. Part II examines the credibility of the credit rating agencies.

According to a recent report, as of March last year there were 64 credit rating agencies worldwide. It said that mechanical credit scoring had continued to gain acceptance and application. Among the factors for this were the increasing uniformity and electronic reporting of financial information, the reduced "name recognition" of borrowers by investors, credit becoming more global, the increased ability to utilize a quantitative value within the growing tide of credit value-at-risk models or systems as well regulatory incentives to adopt an internal models approach.

MIDF Amanah Investment Bank deputy CEO Mohamad Safri Shahul Hamid said the Securities Commission of Malaysia (SC) has placed safeguards to regulate the credit rating agencies, particularly the local ones. He said the first guideline implemented in 2003 compelled all Islamic private debt securities to be rated.

"The Practice Note on Recognition of Credit Rating Agencies by the SC for the Purpose of Rating Bond Issues" (PN for CRAs) issued on the 25th January 2006, included requirements such as having their rating criteria and methodology. You cannot see such regulation outside of Malaysia, except in the US," he said.

The criteria include the quality and integrity of the rating process, transparency and timeliness of rating disclosures, monitoring and updating process independence and avoidance of conflict of interest; and adequacy of expertise and resources of the CRAs.

The SC stated that these criteria are in line with the principles set out in the IOSCO (International Organization of Securities Commissions) Code of Conduct Fundamentals for Credit Rating Agencies (IOSCO CRA Code), which the CRAs are also required to adopt in their own codes of conduct.

Kuwait Finance Centre senior vice president M R Raghu said there was nothing wrong with the concept of rating agency per se but there has always been a problem between the credit rating agency and the institution it is rating. "Rating is a function where you express an opinion about the quality of a particular issue. If you are going to be paid by a person you have to express an opinion on, then I am sure there is a huge conflict of interest.

"And this is the reason why the credibility of rating agencies nosedived over a period of time. This is not the first time rating agencies have been caught napping. And sure enough, every time there is a crisis, their 'catch up' is after the fact and not before, which puts a huge cost on society in terms of the loss of payments they have to bear," he said.

Raghu's solution? Nationalize these rating agencies with the government accepting it as a regulatory 'honor'. "Then you won't have a conflict of interest as it will be completely funded by the government. Only then would rating functions get a significant lift in credibility. Until then, so long as rating agencies are in the hands of private institutions, where profitability is the motto and where they need to be paid by the issuers whom they rate, this credibility issue will be faced time and again whenever there is an economic crisis."

Safri also approached this issue in the same light, that the current practice of issuers paying for their ratings fees does create a bias toward the issuers. He said there have been suggestions by professionals that the regulators should consider setting up a fund contributed by the investors and the issuers as well, with the proceeds used to pay the rating fees. Safri felt that from an Islamic perspective, the investors should contribute to a fund created to pay the ratings of an issuance as it would ultimately benefit the investors.

"This amount would be used to pay or part pay the rating fees. That would help mitigate the bias issue. This is more important for Islamic issuances because some scholars have commented that the practice of rating fees being paid entirely by the issuers may not be Shariah compliant. Therefore this issue should be considered," he said.

Should there be standardized ratings among the credit rating agencies? Safri was pessimistic about the possibility. He said it would be extremely difficult as ratings are merely opinions. "Accurate credit analysis cannot be mechanized. Even the same rating awarded by different agencies may not indicate the same degree of risk. For example, Standard & Poor's and Moody's may have an A rating for the same issuer but the degree of risk may differ.

"Therefore standardization is almost impossible because each has its own methodology and criteria in assessing a product, issuer or country. Otherwise they do not have their areas of specialty which they can offer their client. If you are an issuer, you would know one of the three agencies because they are known in certain parts of the world and for certain products," he said. Hypothetically, he added, it could be possible for vanilla corporate debt as the criteria are somewhat similar but not for asset backed securities or other complex products.

Amanie Business Solutions consultant Baiza Bain (*pic*) said that if that were to happen, there would be not any distinguishing factors between them. "There is a very fine line when you are talking about ratings in terms of conflict of interest because when you are paid to rate the company, most of the time you would give a favorable rating and sometimes the line is crossed.

At the end of the day, it is all about ethics. Investors tend to heavily rely on these ratings because not everybody has the time to evaluate each company before investing. That is why rating agencies exist in the first place. I do not think players would agree to a standardized

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The relevance of rating a Sukuk Part II: Reliability of a credit rating agency (continued)

methodology for all rating agencies because once that happens; these agencies would lose their edge," he said.

However, Baiza was of the opinion that rating agencies should be standardized in terms of their conduct. He cited an incident where Amanie Business Solution was advising on a multi-sovereign issuance and it had to use a new structure to adhere to AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards. He said even though the projects were successful, the rating agency engaged had refused to place a favorable rating as it solely relied on the fact that no guarantees could be placed on this issuance because of the limitations due to the AAOIFI ruling.

"Going forward, most rating agencies need to relook at certain issuances. There needs to be a paradigm shift on how they view certain structures and companies because not everything is related to credit anymore. They need to have a more holistic approach where credit will not be the only consideration, that other elements which make up the issuance are also necessary," he said.

The global economic crisis dealt the credit rating agencies a major blow as the credibility of these agencies came into question, even the in the conventional space. Highly regarded ones like Moody's, Standard & Poor's as well as Fitch were affected, particularly when large losses in the collateralized debt obligation (CDO) market occurred despite being given top ratings by the agencies.

It was reported that large portions of the riskiest pool of loans had obtained the highest rating available which prompted investors to take up these CDOs, only to later become unsaleable. CIMB Group's group chief executive Nazir Razak charged that western rating agencies created an inherent systemic bias that impeded the progress of Asian banks. This prompted him to propose an Asian-owned and managed rating agency.

While Baiza strongly supports the proposal, Safri felt that a detailed study is needed before the proposal materializes. "It is not that there are many disadvantages but it opens the floodgates for unresolved issues," he said.

Baiza believed that ratings had to be very sensitive to culture as there were certain things that could be done domestically but not internationally. He said there is a need for a team of rating agencies which could understand the local culture, how business is conducted, and it has to be very geocentric and sensitive towards local business conduct.

"Otherwise it would paint a different picture. For example, a US analyst may not understand the concept of government linked companies. He or she may only know that these companies are government owned but separate entities while a local analyst would know that these companies have full government backing and their sole business is to provide service to the public. Just because they are corporate entities instead of government entities, this does not mean that the government is not involved. I would stress on the fact that businesses are conducted differently in different regions. It would be more micro rather macro," he said.

In explaining the issue, Safri said although the credit rating methodology of some agencies may not be fair to some of the Asian companies or even China, a lot of bonds and Sukuk are marketed to European and Middle East investors who would prefer an international and established rating agency over a 'newly formed Asian rating agency'.

He agreed that with over 100 years of experience, the top credit rating agencies' rating methodology and the way they review an issue or company is 'westernized'. "They feel that their criteria are superior and therefore, the benchmark," he said. However, Safri then justified the rating agencies' practices by saying that these agencies looked at other factors as well such as corporate governance, management and stability of the economy.

"The crux of the rating is about credit risk and to assess the creditworthiness of the issuer and its ability to repay its obligations," he said, adding that even before Nazir came out with the statement, Standard & Poor's had introduced a rating methodology that was more relevant to Asian companies.

On the Middle East front, Raghu welcomed the idea of creating an independent body or rating organization completely funded by the governments in the GCC, which could make it mandatory to have every issue rated. This, he said, would help to lift the profile and investor base outside the GCC as well. "Apparently most of the investors are coming from within the region and they happen to be retail. So both these problems can be solved if there is a credible rating structure that is developed from scratch without the conflict of interest issue," he said.

All three men agreed that there was no 'overpopulation' of rating agencies worldwide. Therefore, is there a viable alternative to a Sukuk being rated which would benefit investors? Raghu dismissed the question immediately and reiterated his stance on the matter, saying there is no necessity to look for an alternative. "If you know how to implement it in an unbiased and objective manner, then all will fall into place. The conventional bond market developed into what it is today purely based on the development of the rating methodology.

Conceptually, rating is a must and a well established notion and you do not require an alternative to it. You instead need to find the best organization to do the rating. However, the problem is because it is the hands of the private sector which are competing for business. To me, rating is not a business at all. It is a valuable expression of opinion about a particular company or an issue, which should be done in an as unbiased manner as possible," he stressed.

Baiza believed that in order for the Sukuk market to grow, some form of standardization is needed because there are variations in terms of structuring a Sukuk in Asia, the Middle East and even in Europe. "From my experience, there would not be any rapid growth without standardization. Ratings can play a crucial role in the move towards standardization.

If certain criteria to make the Sukuk viable were adopted by the whole Islamic finance industry, then it would be the standard for judging the Islamic bond. That would spur issuances. Otherwise, fund managers are currently facing difficulties investing in Sukuk from a Shariah compliant standpoint as well as from a commercial standpoint. They are vastly different and for investors, it is a logistical nightmare. It should be as transparent and easy as possible. Therein lies the need for some sort of standardization," he said.

And the future is ... Shariah compliant rating agency?

By Islamic Finance *news*

A regional credit rating agency is not the answer to the Islamic finance industry woes over ratings, says Mashreq Capital chief executive Abdul Kadir Hussain *(pic)*. He feels that a more viable and practical move would be to establish a Shariah compliant rating agency that could steer the industry towards standardization.

He regards rating a Sukuk as not a huge concern for the Islamic finance industry. Rather, the bigger concerns are the standardization of structures and the Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) pronouncement that the capital guarantee structures are not Shariah compliant.

"Now people are saying that the sub leased Ijarah structures are not Shariah compliant. This is the bigger issue and not whether the Sukuk is rated AA or BBB. It is whether we should have a standardized version of what is Shariah compliant and whether the structure being floated fits within the definition.

"Until you can get something which is global and universally accepted, you will continue to have these issues with the investors because we, the fund managers, have to decipher what does or does not make sense and that becomes an issue for our clients. They would only invest in a certain Sukuk based on the scholar on the Shariah board. When such a situation occurs, it does not help," he said.

Hussain refutes claims that investors in general would only invest in rated Sukuk. He believes that at the end of the day, it was whether they were willing to invest in a high risk or low risk, high quality Sukuk.

"What people are not willing to compromise on is the degree of Shariah compliance in a structure. For example, just saying it is a AAA Sukuk but not really sure if it is Shariah compliant although a Shariah board may say it is so, the investors are not going to be interested in that.

"There may be a Sukuk which is rated BB which every Muslim investor would be comfortable with. Obviously people are not going to throw money into very high risk schemes. There has to be a balance but I feel that rating is not the most important thing. The most important thing is the standardization of the structure," he said.

He cited the issue of guarantees and where there is no true sale agreement like a principal lease or sub lease agreement where the assets are leased into the Sukuk and the Sukuk subleases to the Sukuk holders. "There are issues that some have criticized as not being Shariah compliant. Some say you cannot have any sort of parent obligor on the Sukuk, parent guarantee or agreement.

"Also in the issue of default; do you own the assets? How do restructure them and how do you claim against the issuers? There are a lot of specific areas where you have standardized principles. This is exactly like the development of the bond or debt market. There is a standardized principle that operating company debt is deemed to be senior to holding company debt.

"I am sure that at one time that was a new concept which has now become a standardized concept that is universally accepted. You need clarity on these basic issues in order to get a Sukuk market which is vibrant and growing faster," he said, adding the industry is still in its early stages and that is why some are eager to take up the challenge.

On whether accountability is an appropriate criterion for Sukuk issuance, Hussain answered immediately with a firm yes. "I am never a big fan of companies or countries issuing Sukuk by just placing several assets into something and doing a sale and lease back without knowing what those assets are, how strategic they are as well as the value or accountability of those assets in the agreement that exist to support your lease payments to the Sukuk holder.

It is important for it to be meaningful to the obligor. Clearly, the way some of the Sukuk are structured and placed into a SPV (special purpose vehicle) and leased back to the obligor and finally leased to pay off the Sukuk holders, those assets may have nothing to do with the core business of the borrower," he said.

For example, if an oil and gas company wanted to do a Sukuk utilizing its 50 apartment complexes for employees as the asset, that would not a very good structure. "Those complexes are not the company's core business. It is oil and gas. They should be instead putting five offshore oil platforms into the SPV and rent and lease them back. Then there is greater accountability as you have assets that are directly involved in the business and are being used to service the Sukuk," he said.

Gradual goal to standardization

The solution Hussain proposes is an independent Shariah board which would replicate a rating agency in categorizing an issuance as strongly or weakly compliant. "The members of that board could have diverse opinions but at the end of the day, they would state that they have passed this as an accepted structure should a Muslim want to invest in it. As long as there is an independent board or entity that makes the ruling, there would be some form of standardization," he said.

Likening the process to baby steps, Hussain said the Islamic finance industry should start with two or three boards to serve the regions in Asia, the Middle East and North Africa region and the West. "Eventually you work towards having one board globally. But I think you have to start from somewhere.

The stage we are at now is clearly not ideal. If you go to Saudi Arabia and mention a Sukuk issuance from Malaysia, they are not interested. So that does not help. Trying to establish a single board immediately may be too big a step but nevertheless you should be working towards that goal," he said.

"What I am saying is that you would have a standardized Asian board and over time that board could work with its Middle East counterpart and come up with a common ground or structure that is workable in both regions. Right now, the situation is that you could even have a structure in Pakistan which is not acceptable in Saudi Arabia, you can have a structure in UAE that is not accepted in Pakistan, and you could even have a structure in Egypt that is not accepted in Asia. The

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And the future is ... Shariah compliant rating agency? (continued)

industry is very fragmented. It is impossible to go from very fragmented to zero fragmentation. It has to be a gradual process. It will not help the Malaysian Sukuk here but at least it would be a step in the right direction," he said.

Regulatory intervention

Who therefore should play a role in the process? Hussain believes that it has to be a combination of the market players and regulators. He proposed that big market players together with the regulators such as AAOIFI become involved in the process and essentially come up with a structure for the whole industry instead of the "very much an ad hoc structure that had been developed".

For instance, in coming up with an Islamic product, a bank would hire a Shariah board. This would spark the interest of another bank which would decide to follow suit and hire another Shariah board. The process, he said, has evolved in such a way because it is the most convenient way. "What you need to have is some regulatory standardization and a good place to start is the GCC. For example, if it is mandatory that no Sukuk in the GCC could be sold, structured, marketed or invested unless it attains the approval of a particular board or council, then that would be considered a progressive step towards standardization," he said.

Any bank, he said, despite having its Shariah board, would then have to seek the approval of that board or council before marketing or distributing it in this region. "The institutions would be better off getting experts who can structure products and obtain the approval instead of going through its own Shariah board. That will save time and costs. The initiative for this should start from the regulators and governments," he said.

However, Hussain does not expect any progress to occur in the near future. "People realize that standardization has to occur but we are in the thick of the global economic crisis. This is an important subject but there are so many other things going on so this is not on the top of everyone's mind," he said.

Hussain dismissed the idea of credit rating agencies being a short to mid-term solution, saying that these agencies do not opine on the underlying structure which is crucial to Islamic finance. Rather, they opine on credit.

"A rating is good to have but not a must have. I do not need a rating agency to tell me the credit is good. There have been successful Sukuk without ratings.

The issues people are starting to grapple with are: what is a Sukuk and what isn't, what is Shariah compliant and what isn't, how do we figure this out, and where the transparency? Why are people questioning the conflict of interest of Shariah boards? Rating is important but it is not the key around which the future of the market revolves.

The future revolves around getting more efficient and standardized concepts," he said.

However, Kuwait Finance Centre senior vice president for research M R Raghu considers the idea of standardization to be premature. This is because the Islamic finance industry is still evolving from a regulatory, standard setting point of view and even over understanding a fatwa.

"The industry is still trying to standardize even the way it works and implementing its own laws. It would pose a bigger challenge to those trying to rate them. I think it is significantly unavoidable at this stage to have different approaches and methodologies for an industry that is still struggling for harmonization and standardization," he said.

Raghu also pointed out that not much progress has been made because people are happy with the current practices and there is no push for them to come together and develop a set of standards. This, he said, resulted in widely diverse notions.

"The industry must take some blame for this, for not focusing effort and time on harmonizing and standardization. We have lost a lot of time. Currently, the AAOIFI is doing something about this but the efforts should be expedited.

This should be a collective exercise with regulators from all the countries involved in the Islamic finance industry," he stressed.

The Saudi government is attempting to rekindle the country's moribund mortgage market by introducing new laws and setting up a Fannie Mae-style mortgage financing firm. How effective are these moves expected to be, and are they sufficient? What impact will this strategy have in sparking a Gulf wide revival of the mortgage market?

Most observers, commentators and even policy makers miss the point that the problem now faced by the global financial system is not, in fact, a shortage of credit. It is a shortage of creditworthy borrowers and projects. The creation of yet another centralized single point of credit failure is, in my opinion, an extremely bad idea.

The solution to a bubble created by debt is not more debt. It is a new approach to equity, using vehicles other than conventional companies.

CHRIS COOK: Principal, Partnerships Consulting

Although Fannie Mae has become discredited as a financial institution in the US, there is potential for this type of institution in Saudi Arabia. With supervision by the Capital Markets Authority, the creation of a market in mortgage asset-backed securities in Riyadh could prove useful. Financial institutions would be more than willing to hold these assets, provided they give a competitive return and do not become impaired. What should be avoided is any re-packaging of sub-prime assets, but sub-primes are unlikely to get housing loans in the Saudi market.

One issue is whether the assets should be issued as Sukuk or conventional instruments or both. If it is the former, this could be a real boost to Islamic capital market activity in the kingdom.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

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DentonWildeSapte... There is good reason to be optimistic about these measures, largely due to the low bar they need to jump over in order to constitute an improvement. Commercial lenders in Saudi Arabia are currently unable to take mortgages due to the fact that notarization is not permitted by the country's notary publics on the assumption that the underlying debt is interest bearing.

It is hoped the mortgage law will deal with this. Introducing a government mortgage financing firm to allow for the securitization of mortgage portfolios and the subsequent issuance of Sukuk should provide a kick-start for the Saudi Sukuk market.

One does need to be mindful that the intention behind these measures is to encourage home ownership and to promote residential developments in order to meet the expected shortfall in residential units caused by Saudi Arabia's growing population. These are not necessarily Gulf-wide phenomena. Whether the moves are sufficient to achieve these ends, time will tell.

CHRISTOPHER AYLWARD: Partner, Denton Wilde Sapte

In our discussions with Saudi firms, we find that Saudi youths are delaying marriage due to the lack of home ownership. However, with a more structured mortgage environment, Saudi society stands to benefit as there will be more home owners. In many western countries, more than 70% own their homes and this can also be extended to new markets such as Saudi Arabia.

In most societies, home ownership is for the affluent who own properties and rent them out. A just society, however, is one where everyone can enjoy home ownership, including young families. In Canada, Islamic mortgages have been in existence since 1979 and Saudi Arabia is entering this critical market 30 years later.

OMAR KALAIR: President and CEO, UM Financial Canada

Next Forum Question

Will Islamic standard-setting bodies, like AAOIFI and IFSB, continue to be relevant as Islamic financial institutions become more mainstream and are subjected to regulation by international standard-setting bodies? Is convergence of accounting and other standards the key? If so, is this feasible?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Wednesday, 22nd July 2009.

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

Name: Ronald Tan

Position: Partner, Head of debt capital markets

Company: Tay & Partners

Based: Kuala Lumpur

Age: 38

Nationality: Malaysian

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

My first involvement with debt instruments (I'll call them "bonds", generically) was with bond restructuring, resulting from the fallout of the 1997 Asian financial crisis. I was involved in a number of high-profile ringgit and US dollar bond restructuring deals.

In what turns out to be a full circle, I find myself being involved in bond restructuring once again — after the bountiful in-between boom years of the Malaysian bond market — which is definitely a reflection of the current tough economic times facing bond issuers.

What does your role involve?

As head of the firm's debt capital markets practice group, I lead the debt capital markets team. We are involved in both conventional as well as Islamic bonds. We handle both ringgit and foreign currency bonds.

What do you consider your greatest achievement to date?

Legal work for top-tier capital markets is what serious corporate firms aim for. We have generated, handled and successfully closed several notable top-tier deals, which demonstrate our strength and depth in performing such high-end work. We have also worked hard to increase our visibility amongst the major players in the capital markets industry.

Our team effort and determination have culminated in my being recognized by the International Financial Law Review (IFLR) in 2008 as a "World Leading Islamic Finance Law Practitioner" in its inaugural Expert Guides on Islamic Finance.

What are the strengths of your company?

Our firm is highly ranked and recognized by leading international legal publications for our strengths in corporate law, mergers and acquisitions, banking and finance and capital markets.

While we have distinct practice groups, we do not operate in "silos" and hence, when a deal involves several areas of expertise, we can easily tap the resources of all our lawyers to handle every angle of the distinctive and specialized aspects of the deal.

What factors have contributed to the success of your company?

Without a doubt, firstly, it would have to be our clients. Unwavering priority to our clients is our service motto. We deliver practical and business-oriented solutions without the legalese.

A very close second is our lawyers. We engage lawyers with outstanding academic achievements and sound technical abilities, bolstered by a keen interest in business issues. Our team of lawyers is distinguished by its passion for the practice of law and it takes pride in making a difference.

What are the challenges/obstacles the company faces today?

The year 2009 brings with it devastating financial meltdown in the global economy. Malaysia's export-driven manufacturing and commodity–based economy wasn't immune from the global fallout and took a beating as a result of shrinking world trade.

We braced ourselves at the start of the year for financial shocks but, thankfully, we are grateful to report that thus far this year and the last two years have been the best performing periods in our firm's history.

Law firms have an innate ability to survive, as lawyers thrive in downturns as much as they do in periods of boom.

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

The Islamic finance industry will be a thriving industry. I believe the growth potential for Islamic finance will be tremendous.

I also foresee a more mature Islamic finance industry with a greater depth of product variety and sophistication, as well as a greater appreciation of risk management and credit issues.

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

Islamic finance shouldn't be touted as an "alternative" to conventional finance, as if it is a zero-sum game of either Islamic finance or conventional finance.

Instead, Islamic finance should be positioned as an "option" available to borrowers, financiers and investors seeking funding or investment opportunities.

It is a very viable option which could potentially open up the proposed issuance or investment to a large pool of investors who have specific mandates and funds to invest in such financial instruments. They wouldn't otherwise have been able to invest if it had been conventional banking instruments instead.

Viewed from this perspective, a good case can be made for a financial product to be Shariah compliant, and the benefits of Islamic finance will appeal to both Islamic and conventional issuers and investors alike.

Dawama's Sukuk Musharakah Medium Term Notes Program

FACILITY DESCRIPTION	Sukuk Musharakah Islamic medium term notes (IMTN) program of up to RM140 million (US$40 million), comprising: • Senior medium term notes (Senior Sukuk Musharakah) of up to RM120 million (US$34 million); and • Junior medium term notes (Junior Sukuk Musharakah) of up to RM20 million (US$5.64 million)
ISSUER	Dawama
PRINCIPAL ACTIVITIES	Dawama was incorporated to facilitate the privatization of Dewan Bahasa dan Pustaka's (Malaysia's Institute of Language and Literature) pre-press, design, typesetting, printing, distribution and marketing activities
ISSUANCE DATE	27th April 2009
PRINCIPAL ADVISOR AND LEAD ARRANGER	MIMB Investment Bank
SHARIAH ADVISOR	Mohd Daud Bakar
SOLICITOR	Zul Rafique & Partners
TRUSTEE	Equity Trust (Malaysia)
FACILITY AGENT	MIMB Investment Bank
ACCOUNTANT	KPMG
SECURITY TRUSTEE	Equity Trust
TENOR OF FACILITY	Five years from the date of the first issuance of the Sukuk Musharakah
RATINGS	MARC has assigned an indicative long term rating of 'A+1$_{IS}$'for the Senior Sukuk Musharakah and 'A$_{IS}$' for the Junior Sukuk Musharakah
UTILIZATION OF PROCEEDS	The proceeds from the Sukuk Islamic commercial papers (ICP) and/or Sukuk IMTN shall be utilized for the following: <u>First issuance of the Senior Sukuk Musharakah</u> *Up to RM100 million (US$28.2 million)*: To redeem the outstanding amount under Dawama's existing RM150 million (US$42 million) ICP/IMTN program <u>First issuance of the Senior Sukuk Musharakah</u> *Up to RM1 million (US$281,780)*: To redeem the outstanding amount under Dawama's existing facility *Up to RM4 million (US$1.13 million)*: For Shariah compliant general working capital requirements of Dawama <u>Subsequent issuances of the Senior Sukuk Musharakah and Junior Sukuk Musharakah</u> *Up to RM35 million (US$9.86 million)*: For Shariah compliant general working capital requirements of Dawama

ABRAAJ CAPITAL

UAE: The Dubai-based private equity company has appointed Ashok Aram as managing director after a 15-year career at Deutsche Bank. In 2004, he had joined the board of Abraaj, representing Deutsche's shareholding in the company and was involved in several Abraaj acquisitions.

Aram joins Abraaj from London where he was head of equity capital markets, debt capital markets, and corporate coverage and sales in central and eastern Europe, Russia and the commonwealth of independent states, the Middle East and Africa.

From 2001 to 2004, he was head of global banking, responsible for corporate banking and structured finance in more than 60 countries. During the next two years, he contributed to the success of the bank's structured credit trading and global principal finance businesses in the global markets division.

CREDIT SUISSE

US: Karl Landert, the CIO of the group's information technology division, has been appointed to the executive board, with effect from the 26th June.

He was previously the head of IT for the group's private banking division and a member of the private management committee. Before joining the bank in 2001, he held various senior IT management positions at Novartis Pharma and previously worked at IBM.

NBAD

UAE: National Bank of Abu Dhabi (NBAD) has appointed Nigel Carrington as divisional manager of operations, focusing on streamlining the bank's internal operations to improve service standards.

Carrington has held senior positions in global and regional banks in his 38 years of experience. He has built strong relationships and networks with major corporate and financial institutions and gained experience in various fields of banking industry, especially credit risk, debt recovery, international and domestic marketing, operations and projects. Before joining NBAD, he was head of operations at the Commercial Bank of Kuwait.

RBS

US: William T O'Donnell has rejoined the Royal Bank of Scotland (RBS) group as managing director and head of US treasury strategy within its global banking and markets division.

O'Donnell joins the firm after five years at UBS, where he was most recently managing director and head of US interest rate research and strategy for the firm's investment banking division, overseeing a team covering mortgages, agencies and derivatives.

Before joining UBS, he worked for 20 years at RBS Greenwich Capital, now known as RBS Securities, and was a managing director in US dollar rate sales.

UBS

SWITZERLAND: The bank has appointed Chi-Won Yoon as chairman and CEO of Asia-Pacific and a member of the group executive board, with immediate effect. He succeeds Rory Tapner, who is leaving after 25 years to pursue interests outside financial services.

Yoon has headed UBS's fixed-income arm since February and before that was responsible for the bank's Asian equities business, which included sales and trading as well as prime services.

AFB

MALAYSIA: Asian Finance Bank (AFB) has appointed Wan Anuar Abu Kasim as its COO. He has held various senior management positions in Affin Bank, including Islamic banking division head, chief credit officer and chief internal auditor. After 14 years at Affin Bank, he took on the role of CFO at Zetro Aerospace.

CITIGROUP

US: Shirish Apte and Stephen Bird have been appointed as Asia-Pacific CEOs, sharing the job vacated by Ajay Banga who left for MasterCard last month.

Bird and Apte will be responsible for performance, strategy and execution in the region. Bird will oversee operations in North Asia including Japan, China and Korea, and Apte in South Asia including Australia, India and Singapore.

Citigroup also appointed former World Bank managing director Shengman Zhang as Asia-Pacific chairman. He will be responsible for strengthening relationships with clients, regulators, government officials and staff across the region, while chairing the Asia-Pacific executive committee. Zhang was most recently Citigroup's president of the region.

DELOITTE

MALAYSIA: DVA Consulting managing director, Daud Vicary Abdullah, has been appointed as chairman of the Global Islamic Finance Group at Deloitte effective from the 1st June.

Daud has been in the finance and consulting industry for more than 35 years. He started his career with Lloyds Bank, followed by Chemical Bank and Midland Bank where he gained experience in retail and wholesale banking operations.

He spent seven years as a partner/director with Deloitte Consulting from 1998 to 2005 where he was responsible for setting up the firm's Global Center of Excellence for Islamic finance, based in Malaysia. He was involved in developing and running Shariah review programs as well as transforming financial institutions to provide Islamic financial services.

In 2007, he joined the Asian Finance Bank as its COO and acting CEO before leaving in November the following year to set up DVA Consulting.

BARCLAYS

US: Barclays Wealth Management has appointed Dominic Stearns as managing director and global head of compliance. Stearns joins the firm from Citigroup, where he was global chief compliance officer for its private banking activities since 2005, having joined the firm from SG Warburg.

DLA PIPER

KUWAIT: The law firm has appointed Abdul Aziz Al-Yaqout as managing partner of its Kuwait office, effective from the 24th June.

A specialist in mergers and acquisitions, Al-Yaqout was previously the managing partner of DLA Piper's Cologne office.

Deal *tracker*

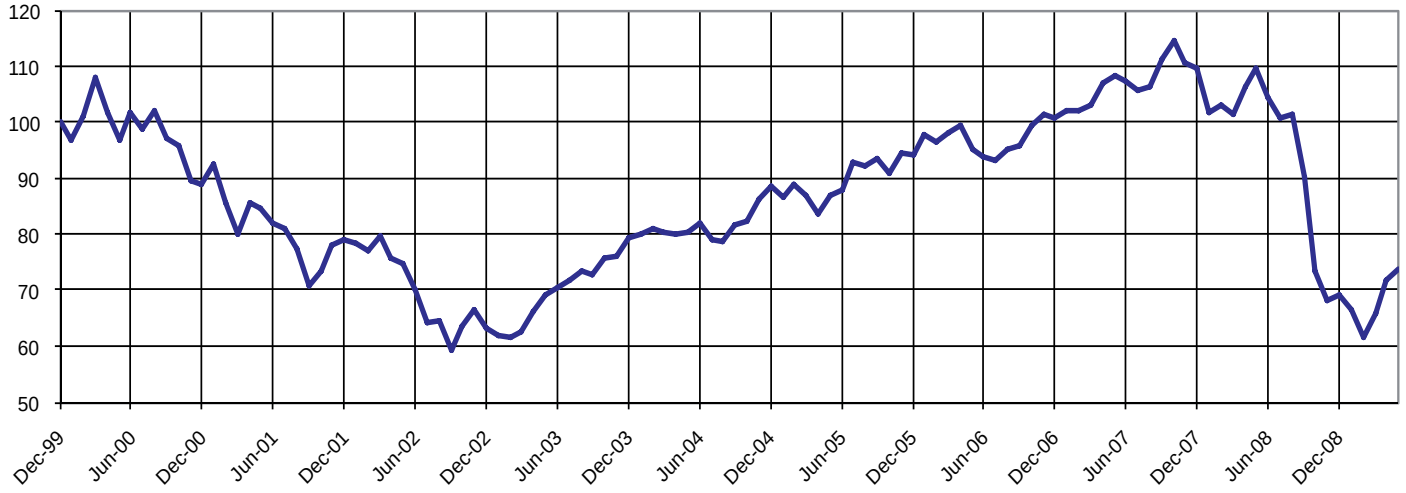
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE (million)	INSTRUMENT
Terengganu Investment Authority	US$1.42	Islamic medium-term notes
Berlian Laju Tanker	US$48.12	Sukuk Ijarah
Dubai Department of Finance	US$10 billion	Sukuk
Sakana Holistic Housing Solutions	US$50	Sukuk
Dar-Al Dhabi Holding	US$346.4	Sukuk
Indonesia	US$490.67	Sukuk
Saudi Electricity	US$1.3 billion	Sukuk
Unicorn Investment Bank	US$425	Sukuk Ijarah
Tourism Development and Investment Company	TBA	Sukuk
Japan Bank for International Cooperation	US$200	TBA
Bank Negara Indonesia	US$50	Sukuk
Majlis Bandaraya Melaka Bersejarah	US$27.63	Sukuk
Qatar Gas Transport	US$500	Sukuk
Islamic Development Bank	US$500	Sukuk
Islamic Bank of Thailand	US$1.4 billion	Sukuk
HSBC	TBA	TBA
Cagamas	US$565.35	Sukuk
Bahrain	US$750	Sovereign Sukuk
Chemical Company of Malaysia	US$40.61	Musharakah CP/MTN program
Agni	US$71	Sukuk
Danga Capital	US$2.82 billion	Sukuk Musharakah
Tamweel	Up to US$544.5	Sukuk
Dubai Bank	Up to US$500	Sukuk
Bakrieland Development	Up to US$32.85	Sukuk
TSH Resources	Up to US$115.3	Sukuk Ijarah
RAK Properties	US$2 billion	Sukuk
Malaysian Debt Ventures	Up to US$449.07	Sukuk
Bumiputra-Commerce	US$1.84 billion	Islamic and conventional CP/MTN program
Islamic Bank of Thailand	US$178.77	Ijarah

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

Eurekahedge North America Islamic Fund Index



Monthly returns for Global funds (as of the 9th July 2009)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Tijari Islamic Money Market	Commercial Bank of Kuwait	65.02	Kuwait
2	AmStaples	AmInvestment Management	37.34	Malaysia
3	ING Annual Income Climate Structured	ING Funds	26.94	Malaysia
4	Symmetry Islamic	Frater Asset Management	18.09	South Africa
5	ETFS Physical Gold	ETFS Metal Securities	17.01	Jersey
6	Saudi Equity Fund (Al Raed)	Samba	16.25	Saudi Arabia
7	AlAhli Saudi Trading Equity	The National Commercial Bank	15.57	Saudi Arabia
8	TA Dana Fokus	TA Investment Management	14.28	Malaysia
9	Danareksa Syariah Berimbang	Danareksa Investment Management	12.65	Indonesia
10	Riyad Equity 2	Riyad Bank	12.59	Saudi Arabia
	Eurekahedge Islamic Fund Index*		**1.08**	

Monthly Returns for ALL funds (as of the 9th July 2009)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	AmAl-Amin	AmInvestment Management	0.11	Malaysia
2	PB Islamic Cash Management	Public Mutual	0.17	Malaysia
3	Public Islamic Money Market	Public Mutual	0.17	Malaysia
4	ING i-Enhanced Cash	ING Funds	0.17	Malaysia
5	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.19	Saudi Arabia
6	CIMB Islamic Money Market	CIMB-Principal Asset Management	0.21	Malaysia
7	AlAhli Euro Murabahah	The National Commercial Bank	0.23	Saudi Arabia
8	FALCOM SAR Murabahah	FALCOM Financial Services	0.28	Saudi Arabia
9	FALCOM EURO Murabahah	FALCOM Financial Services	0.28	Saudi Arabia
10	CMS Islamic Money Market	CMS Trust Management	0.29	Malaysia
	Eurekahedge Islamic Fund Index*		**9.40**	

EUREKAHEDGE

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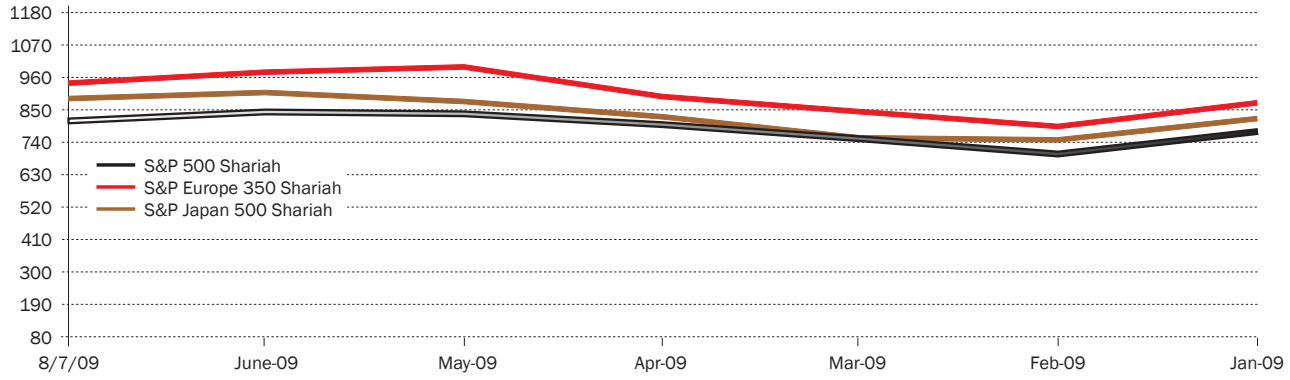
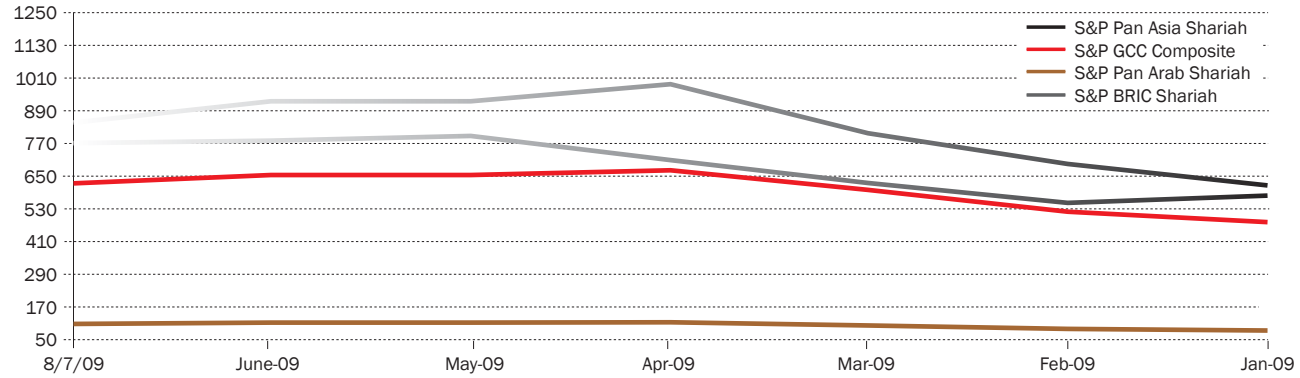
EUREKAHEDGE

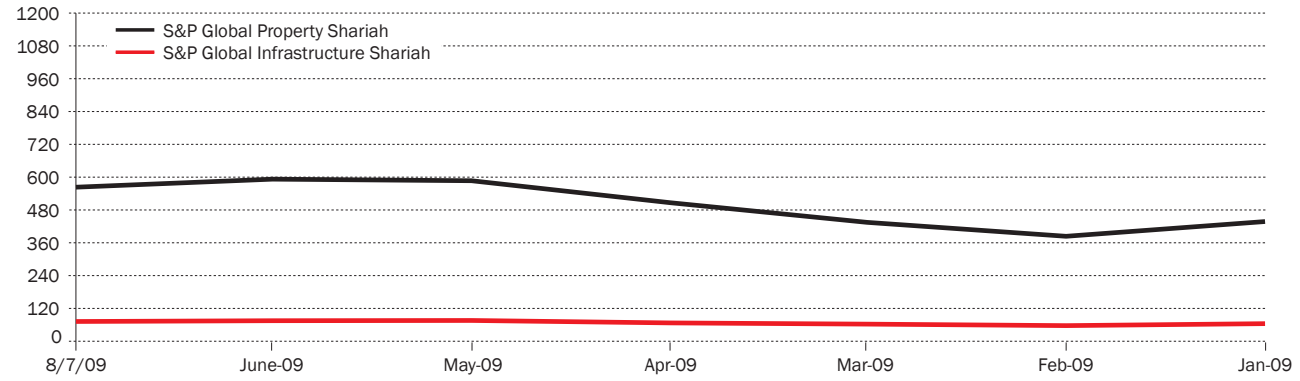
S&P Shariah Indices Price Index Levels



Index Code	Index Name	8/7/09	June-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09
SPSHX	S&P 500 Shariah	812.305	842.797	836.573	799.755	752.048	700.074	776.118
SPSHEU	S&P Europe 350 Shariah	940.700	977.823	995.630	894.958	843.893	793.619	873.796
SPSHJU	S&P Japan 500 Shariah	888.320	908.760	878.263	826.363	755.552	748.018	820.175



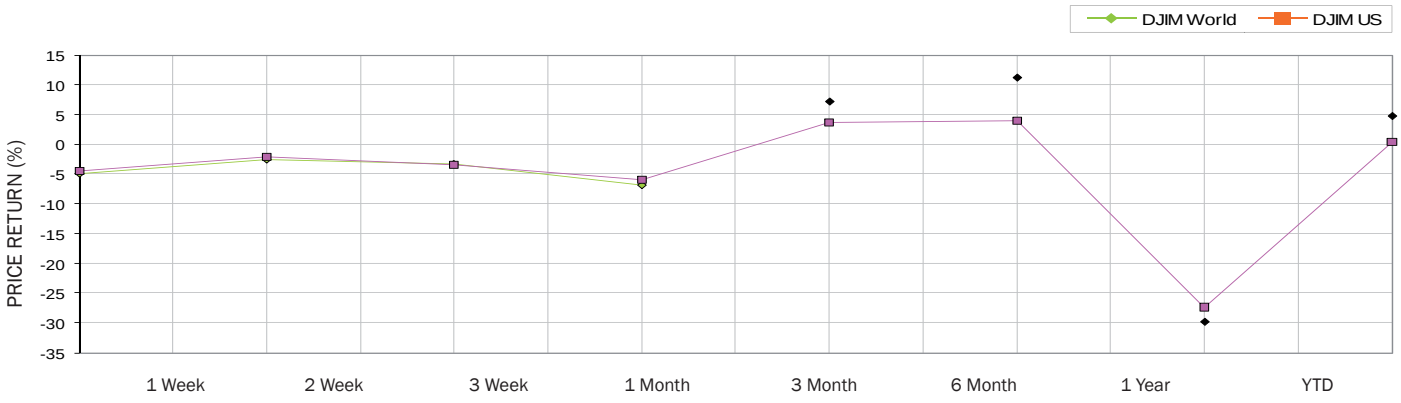
Index Code	Index Name	8/7/09	June-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09
SPSHAS	S&P Pan Asia Shariah	771.290	780.340	797.647	708.922	624.982	552.018	578.671
SPSHG	S&P GCC Composite Shariah	623.609	654.208	654.208	671.614	599.648	519.529	481.323
SPSHPA	S&P Pan Arab Shariah	107.762	112.643	112.643	113.86	102.133	89.561	83.589
SPSHBR	S&P BRIC Shariah	846.477	924.814	924.814	978.497	807.592	694.799	616.078



Index Code	Index Name	8/7/09	June-09	May-09	Apr-09	Mar-09	Feb-09	Jan-09
SPSHGU	S&P Global Property Shariah	563.308	592.683	586.922	506.477	434.684	383.755	437.696
SPSHIF	S&P Global Infrastructure Shariah	72.192	75.034	75.918	66.983	62.583	57.085	64.288

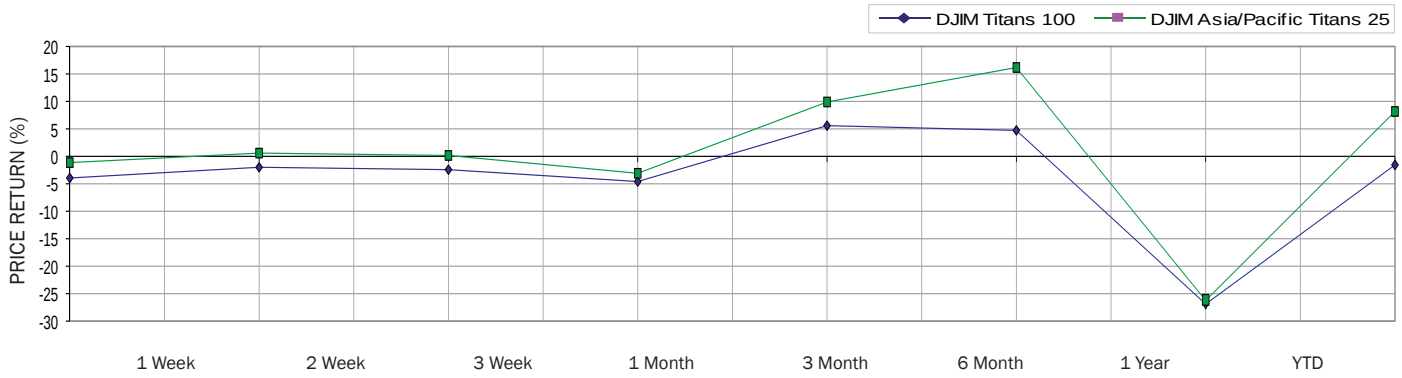
Data as of the 8th July 2009

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-5.01	-2.63	-3.33	-6.94	7.27	11.29	-29.71	4.84
DJIM US	-4.42	-2.09	-3.44	-6.00	3.70	4.05	-27.33	0.44

PERFORMANCE OF DJ TITANS INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	-4.13	-2.20	-2.54	-4.75	5.59	4.60	-26.90	-1.77
DJIM Asia/Pacific Titans 25	-1.31	0.53	-0.10	-3.29	9.76	16.17	-26.24	8.08

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2392	12369.48	9728.77	4.07	0.79	327.43	0.00	3.37	0.00
DJIM US	606	5499.60	5146.43	8.49	1.91	327.43	0.06	6.36	0.00
DJIM Titans 100	100	5666.84	5041.85	50.42	33.98	304.60	10.95	6.04	0.22
DJIM Asia/Pacific Titans 25	25	869.54	571.62	22.86	16.91	62.98	10.95	11.02	1.91

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

TOP ISSUERS OF ISLAMIC BONDS — JULY 2008 – JULY 2009

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Terengganu Investment Authority	Malaysia	Murabahah MTN	1,422	1	12.9	AmInvestment
2	Republic of Indonesia	Indonesia	Sukuk Ijarah	1,162	2	10.6	Barclays Capital , HSBC, Standard Chartered
3	Sun Finance	UAE	Mudarabah Sukuk Asset backed Securities	1,093	1	10.0	Citigroup Global Markets, Abu Dhabi Commercial Bank, National Bank of Abu Dhabi, First Gulf Bank, Noor Islamic Bank
4	Cagamas	Malaysia	Murabahah MTN	1,038	5	9.4	HSBC, CIMB, Aseambankers
5	Khazanah Nasional	Malaysia	Sukuk Musharakah	840	4	7.7	CIMB, AmInvestment
6	Kingdom of Bahrain	Bahrain	Sukuk Ijarah	750	1	6.8	Calyon, Deutsche Bank, HSBC
7	Danga Capital	Malaysia	Sukuk Musharakah	444	1	4.0	CIMB, AmInvestment
8	Penerbangan Malaysia	Malaysia	Murabahah MTN	411	1	3.7	CIMB, AmInvestment
9	Rantau Abang Capital	Malaysia	Sukuk Musharakah	381	1	3.5	CIMB
10	Islamic Republic of Pakistan	Pakistan	Sukuk	350	3	3.2	Standard Chartered (Pakistan), Dubai Islamic Bank Pakistan
11	Tamweel Sukuk	UAE	Sukuk	299	1	2.7	Standard Chartered, Dubai Islamic Bank, Badr Islami
12	RIM City	Malaysia	Bai Bithaman Ajil MTN	277	2	2.5	CIMB
13	Seafield Capital	Malaysia	Musharakah MTN	269	1	2.4	CIMB
14	Purple Island	Saudi Arabia	Sukuk Mudarabah	267	1	2.4	HSBC
15	Saudi Hollandi Bank	Saudi Arabia	Sukuk	207	1	1.9	Saudi Hollandi Bank
16	Projek Lintasan Shah Alam	Malaysia	Sukuk Ijarah	174	4	1.6	RHB Islamic Bank
17	PLUS SPV	Malaysia	Musharakah MTN	151	1	1.4	CIMB
18	Jimah Energy Ventures Holdings	Malaysia	Istisna MTN	149	2	1.4	AmMerchant Bank, Bank Muamalat Malaysia, RHB Investment Bank, MIMB Investment Bank, Bank Muamalat Malaysia, Aminvestment
19	Malaysia Debt Ventures	Malaysia	Murabahah MTN	145	1	1.3	Bank Islam Malaysia, RHB Investment Bank, CIMB
20	Syarikat Bekalan Air Selangor	Malaysia	Bai Bithaman Ajil MTN	140	1	1.3	Bank Islam Malaysia, CIMB, HSBC
	Total			**10,991**	**68**	**100.0**	

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TOP ISSUERS OF ISLAMIC BONDS APRIL 2009 – JULY 2009

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Terengganu Investment Authority	Malaysia	Murabahah MTN	1,422	1	34.3	AmInvestment
2	Kingdom of Bahrain	Bahrain	Sukuk Ijarah	750	1	18.1	Calyon, Deutsche Bank, HSBC
3	Republic of Indonesia	Indonesia	Sukuk Ijarah	650	1	15.7	Barclays Capital , HSBC, Standard Chartered
4	Danga Capital	Malaysia	Sukuk Musharakah	444	1	10.7	CIMB, AmInvestment
5	Seafield Capital	Malaysia	Musharakah MTN	269	1	6.5	CIMB
6	Cagamas	Malaysia	Murabahah MTN	205	1	5.0	CIMB, HSBC, Aseambankers
7	Putrajaya Holdings	Malaysia	Musharakah MTN	82	1	2.0	Commerce International, Maybank Investment Bank, AmInvestment
8	Projek Lebuhraya Utara Selatan	Malaysia	Musharakah MTN	75	1	1.8	CIMB
9	Jimah Energy Ventures Holdings	Malaysia	Istisna MTN	60	1	1.5	AmMerchant Bank, Bank Muamalat Malaysia, RHB Investment Bank, MIMB Investment Bank, Bank Muamalat Malaysia, Aminvestment
10	Talam	Malaysia	Sukuk	38	1	0.9	RHB Islamic Bank
11	Projek Lintasan Shah Alam	Malaysia	Sukuk Ijarah	29	2	0.7	RHB Islamic Bank
12	Dawama	Malaysia	Musharakah MTN	29	1	0.7	MIMB Investment Bank
13	TH Group	Malaysia	Sukuk Ijarah	26	1	0.6	Commerce International
14	Matahari Putra Prima	Indonesia	Sukuk Ijarah	20	1	0.5	Ciptadana Sekuritas, HSBC Securities Indonesia, Indo Premier Securities
15	Bakrieland Development	Indonesia	Sukuk Ijarah	15	1	0.4	Bahana Securities, Madani Securities
16	TH Plantations	Malaysia	Murabahah MTN	14	1	0.3	BIMB Holdings, Maybank Investment Bank
17	Tesco Stores (Malaysia)	Malaysia	Sukuk	11	1	0.3	CIMB, Standard Chartered
18	Berlian Laju Tanker	Indonesia	Sukuk Ijarah	10	1	0.2	Andalan Artha Advisindo, Danatama Makmur
	Total			**4,147**	**19**	**100.0**	

ISLAMIC BONDS			JULY 2008 – JULY 2009	
	Manager or Group	Amt US$ m	Iss.	%
1	CIMB	2,543	29	23.1
2	AmInvestment	2,260	15	20.6
3	HSBC	1,242	11	11.3
4	Standard Chartered	643	10	5.9
5	Maybank Investment Bank	469	12	4.3
6	RHB Capital	318	9	2.9
7	Deutsche Bank	250	1	2.3
7	Calyon	250	1	2.3
9	Noor Islamic Bank	219	1	2.0
9	National Bank of Abu Dhabi	219	1	2.0
9	First Gulf Bank	219	1	2.0
9	Citigroup	219	1	2.0
9	Abu Dhabi Commercial Bank	219	1	2.0
14	Barclays Capital	217	1	2.0
15	Saudi Hollandi Bank	207	1	1.9
16	Trimegah Securities	193	2	1.8
17	(Persero) Danareksa	193	2	1.8
18	BIMB Holdings	178	4	1.6
19	Dubai Islamic Bank Pakistan	175	3	1.6
20	Bank Mandiri	171	1	1.6
	Total	**10,991**	**68**	**100.0**

ISLAMIC BONDS			APRIL 2009 – JULY 2009	
	Manager or Group	Amt US$ m	Iss.	%
1	AmInvestment	1686	4	40.7
2	CIMB	734	8	17.7
3	HSBC	576	4	13.9
4	Deutsche Bank	250	1	6.0
5	Calyon	250	1	6.0
6	Standard Chartered	222	2	5.4
7	Barclays Capital	217	1	5.2
8	RHB Capital	82	4	2.0
9	EON Bank	44	2	1.1
10	Maybank Investment Bank	34	2	0.8
11	Bank Muamalat Malaysia	15	1	0.4
12	Madani Securities	7	1	0.2
12	Bahana Securities	7	1	0.2
12	BIMB Holdings	7	1	0.2
14	Indo Premier Securities	7	1	0.2
16	Danatama Makmur	5	1	0.1
16	Andalan Artha Advisindo	5	1	0.1
	Total	**4,147**	**19**	**100.0**

ISLAMIC BONDS BY COUNTRY		JULY 2008 – JULY 2009	
	Amt US$ m	Iss.	%
Malaysia	6,715	52	61
UAE	1,393	2	13
Indonesia	1,274	6	12
Bahrain	750	1	7
Saudi Arabia	473	2	4
Total	**10,991**	**68**	**100**

ISLAMIC BONDS BY COUNTRY		APRIL 2009 – JULY 2009	
	Amt US$ m	Iss.	%
Malaysia	2,704	14	65
Bahrain	750	1	18
Indonesia	694	4	17
Total	**4,147**	**19**	**100**

ISLAMIC BONDS BY CURRENCY		JULY 2008 – JULY 2009	
	Amt US$ m	Iss.	%
Malaysian ringgit	6,715	52	61.1
US dollar	1,400	2	12.7
UAE dirham	1,393	2	12.7
Indonesian rupiah	624	5	5.7
Saudi Arabian riyal	473	2	4.3
Pakistan rupee	386	5	3.5
Total	**10,991**	**68**	**100.0**

ISLAMIC BONDS BY CURRENCY		APRIL 2009 – JULY 2009	
	Amt US$ m	Iss.	%
Malaysian ringgit	2,704	14	65
US dollar	1,400	2	34
Indonesian rupiah	44	3	1
Total	**4,147**	**19**	**100**

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ALL DATA AS OF THE 8th JULY 2009

SUKUK MANAGERS (12 months) JULY 2008 - JULY 2009

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	19,333,758,101	212	56.9
2	CIMB	3,078,266,524	128	9.1
3	AMMB Holdings	2,561,363,594	115	7.5
4	Malaysian Industrial Development Finance	1,236,303,210	313	3.6
5	Malayan Banking	895,984,535	123	2.6
6	HSBC Banking Group	825,796,275	38	2.4
7	RHB Banking Group	762,492,233	59	2.2
8	UAE (Government)	722,026,696	6	2.1
9	Standard Chartered	616,931,002	17	1.8
10	Barclays Bank	435,500,000	3	1.3
11	Citigroup	413,759,510	5	1.2
12	OCBC Bank	405,419,179	54	1.2
13	Affin Holdings	386,729,609	47	1.1
14	Cagamas	375,577,807	32	1.1
15	Indonesia (Government)	343,782,144	10	1.0
16	Hong Leong Financial Group	231,686,544	15	0.7
17	Danareksa Sekuritas	224,100,091	6	0.7
18	Trimegah Securities	216,532,738	5	0.6
19	OSK Holdings	176,647,154	21	0.5
20	EON Capital	158,984,528	81	0.5

SUKUK MANAGERS (3 months) APRIL 2009 - JULY 2009

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	5,250,850,671	48	49.5
2	AMMB Holdings	1,921,528,261	38	18.1
3	CIMB	981,344,496	40	9.3
4	HSBC Banking Group	513,042,967	8	4.8
5	Standard Chartered Bank	470,991,197	6	4.4
6	Barclays Bank	435,500,000	3	4.1
7	RHB Banking Group	284,204,322	21	2.7
8	Malaysian Industrial Development Finance	248,219,716	66	2.3
9	Malayan Banking	127,240,306	17	1.2
10	EON Capital	71,517,177	33	0.7
11	Cagamas	70,353,500	3	0.7
12	Affin Holdings	57,655,217	6	0.5
13	OSK Holdings	36,811,828	5	0.3
14	Hong Leong Financial Group	17,603,635	3	0.2
15	Hwang-DBS (Malaysia)	17,035,775	2	0.2
16	Indonesia (Government)	15,309,497	3	0.1
17	United Overseas Bank	14,067,376	2	0.1
18	Citigroup	9,896,320	1	0.1
19	OCBC Bank	8,485,612	4	0.1
20	DBS Group	7,952,950	1	0.1

SUKUK ISSUERS (12 months) JULY 2008 - JULY 2009

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	Bank Negara Malaysia	10,334,201,506	182	27.0
2	Malaysia (Government)	6,953,360,065	24	18.1
3	Bank Indonesia	2,759,156,752	51	7.2
4	Khazanah Nasional	1,845,542,306	5	4.8
5	Terengganu Investment Authority	1,419,647,927	8	3.7
6	Indonesia (Government)	1,300,000,000	2	3.4
7	Cagamas	1,296,272,620	33	3.4
8	Perusahaan Penerbit SBSN Indonesia	1,248,001,295	6	3.3
9	Sun Finance	1,093,979,842	3	2.9
10=	ESSO Malaysia	524,124,820	13	1.4
10=	Danga Capital	454,287,337	2	1.2
12	Penerbangan Malaysia	425,894,378	1	1.1
13	Rantau Abang Capital	369,108,461	1	1.0
14	Pakistan (Government)	348,311,445	3	0.9
15	Malakoff	340,715,503	2	0.9
16	Tamweel Sukuk	299,645,873	1	0.8
17	Seafield Sukuk	269,733,106	9	0.7
18	BNM Sukuk	253,922,834	2	0.7
19	Hong Leong Industries	241,582,862	16	0.6
20	Muhibbah Engineering	239,352,641	33	0.6

SUKUK ISSUERS (3 months) APRIL 2009 - JULY 2009

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	2,836,381,076	7	23.9
2	Bank Negara Malaysia	2,327,387,196	41	19.6
3	Terengganu Investment Authority	1,419,647,927	8	12.0
4	Indonesia (Government)	1,300,000,000	2	11.0
5	Bank Indonesia	858,353,383	12	7.2
6	Danga Capital	454,287,337	2	3.8
7	Cagamas	282,644,000	3	2.4
8	Seafield Capital	269,733,106	9	2.3
9	Perusahaan Penerbit SBSN Indonesia	259,330,012	3	2.2
10	ESSO Malaysia	254,391,713	5	2.1
11	Projek Lebuhraya Utara-Selatan	170,357,751	1	1.4
12	Malakoff	170,357,751	1	1.4
13	BNM Sukuk	140,351,000	1	1.2
14	Putrajaya Holdings	85,178,876	3	0.7
15	Jimah Energy Ventures	73,821,692	5	0.6
16	BMA International Sukuk	71,637,539	5	0.6
17	TESCO Stores (Malaysia)	59,625,213	3	0.5
18	Hubline	52,494,045	5	0.4
19	Oilcorp	51,098,310	7	0.4
20	Sime Darby	42,875,100	1	0.4

ALL DATA AS OF THE 8th JULY 2009

LOAN MANDATED LEAD ARRANGERS — JULY 2008 - JULY 2009

	Lender	Pro Rata ($)	Full Credit ($)	Deals	Market Share %
1	Dubai Islamic Bank	1,515,903,212.63	5,533,225,701.00	5	8.8
2	Standard Chartered	1,287,794,775.86	10,494,404,438.21	9	7.5
3	HSBC Banking	893,611,074.52	9,590,776,293.64	6	5.2
4	Calyon Corporate & Investment Bank	880,277,741.18	9,550,776,293.64	5	5.1
5	Noor Islamic Bank	807,430,303.03	5,503,000,000.00	7	4.7
6	Samba Financial	743,019,511.28	3,346,597,556.42	3	4.3
7	Royal Bank of Scotland	598,874,807.44	8,750,178,737.21	3	3.5
8	Emirates Bank	538,736,545.96	3,887,225,701.00	5	3.1
9	Al Hilal Bank	504,863,636.36	2,974,000,000.00	2	2.9
10	WestLB	457,158,229.90	5,935,178,737.21	3	2.7
11	Industrial & Commercial Bank of China	439,511,171.08	5,635,178,737.21	2	2.6
12	Societe Generale	410,158,229.90	5,700,178,737.21	3	2.4
13	BNP Paribas	406,824,896.57	5,580,178,737.21	4	2.4
14	Mashreqbank	395,150,462.45	3,081,325,892.00	4	2.3
15	National Bank of Abu Dhabi	359,361,171.08	5,093,878,737.21	2	2.1
16	Al Rajhi Banking & Investment	337,766,570.11	1,900,597,556.42	2	2.0
17	Mitsubishi UFJ Financial	330,158,229.90	5,300,178,737.21	2	1.9
18	National Commercial Bank	320,119,511.28	1,600,597,556.42	1	1.9
19=	Banco Santander	312,511,171.08	5,000,178,737.21	1	1.8
19=	Scotia Capital	312,511,171.08	5,000,178,737.21	1	1.8
19=	Intesa Sanpaolo	312,511,171.08	5,000,178,737.21	1	1.8
19=	RBC Capital Markets	312,511,171.08	5,000,178,737.21	1	1.8
19=	Sumitomo Mitsui Financial Group	312,511,171.08	5,000,178,737.21	1	1.8
19=	Bank of China	312,511,171.08	5,000,178,737.21	1	1.8
25	Citigroup	238,346,833.33	2,440,027,000.00	3	1.4
26	Deutsche Bank	225,013,500.00	2,400,027,000.00	2	1.3
27	Barclays Bank	204,400,000.00	2,522,000,000.00	2	1.2
28=	First Gulf Bank	179,766,848.99	1,847,225,701.00	2	1.0
28=	Abu Dhabi Islamic Bank	179,766,848.99	1,847,225,701.00	2	1.0
30=	Fortis Bank	168,333,333.33	505,000,000.00	1	1.0
30=	Brunei Investment & Commercial Bank	168,333,333.33	505,000,000.00	1	1.0
32	Development Bank of Singapore	166,666,666.67	500,000,000.00	1	1.0
33=	JPMorgan	150,000,000.00	2,250,000,000.00	1	0.9
33=	Morgan Stanley	150,000,000.00	2,250,000,000.00	1	0.9
33=	UBS	150,000,000.00	2,250,000,000.00	1	0.9
33=	Dubai Bank	150,000,000.00	2,250,000,000.00	1	0.9
37=	Standard Bank Group	136,363,636.36	1,500,000,000.00	1	0.8
37=	Commerzbank	136,363,636.36	1,500,000,000.00	1	0.8

LOAN BOOKRUNNERS (12 Months) — JULY 2008 - JULY 2009

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Noor Islamic Bank	1,322,000,000.00	5,503,000,000.00	7	13.3
2	HSBC Banking Group	1,070,298,778.21	3,890,597,556.42	3	10.8
3	Standard Chartered	965,112,850.50	4,417,225,701.00	5	9.7
4	Calyon Corporate & Investment Bank	800,298,778.21	1,600,597,556.42	1	8.1
5	Dubai Islamic Bank	745,500,000.00	4,359,000,000.00	3	7.5
6	Al Hilal Bank	618,500,000.00	2,974,000,000.00	2	6.2
7	Royal Bank of Scotland	500,000,000.00	3,750,000,000.00	2	5.0
8	Emirates Bank	377,000,000.00	1,135,000,000.00	2	3.8
9	Samba Financial Group	368,500,000.00	1,474,000,000.00	1	3.7
10	Mashreqbank	357,713,041.50	531,325,892.00	2	3.6
11	Citigroup	345,013,500.00	2,440,027,000.00	3	3.5
12=	Al Khalij Commercial Bank	250,000,000.00	1,500,000,000.00	1	2.5
12=	First Gulf Bank	250,000,000.00	1,500,000,000.00	1	2.5
12=	National Bank of Bahrain	250,000,000.00	250,000,000.00	1	2.5
12=	Dubai Bank	250,000,000.00	2,250,000,000.00	1	2.5
12=	Barclays Bank	250,000,000.00	2,250,000,000.00	1	2.5
12=	JPMorgan	250,000,000.00	2,250,000,000.00	1	2.5
12=	Standard Bank Group	250,000,000.00	1,500,000,000.00	1	2.5

ISLAMIC LOANS RAISED (12 Months) — JULY 2008 - JULY 2009

	Borrower	Country	Islamic Loan Amount (US$)
1	International Petroleum Investment	UAE	5,000,178,737.21
2	Investment Corp of Dubai	UAE	2,250,000,000.00
3	Saudi Electricity	Saudi Arabia	1,600,597,556.42
4	Dubai Financial	UAE	1,500,000,000.00
5	Dubai Electricity & Water Authority	UAE	1,474,000,000.00
6	Borse Dubai	UAE	827,000,000.00
7	Dubai Department of Civil Aviation	UAE	635,000,000.00
8	Brunei Gas Carriers	Brunei	505,000,000.00
9	Enoc Supply & Trading	UAE	500,000,000.00
10	Dolphin Energy	UAE	400,000,000.00
11	Al Ghurair Centre	UAE	347,225,701.00
12	Al Dur Power & Water	Bahrain	300,000,000.00
13	Dubai Holding	UAE	300,000,000.00
14	Qatar Real Estate Investment	Qatar	275,000,000.00
15	Emirates Group	UAE	272,000,000.00
16	Bahrain Mumtalakat Holding	Bahrain	250,000,000.00
17	Al Jaber Group	UAE	184,100,191.00
18	Commercial Real Estate	Kuwait	155,000,000.00
19	Port & Free Zone World FZE	UAE	150,027,000.00
20	Burgan Co for Well Drilling, Trading & Maintenance	Kuwait	125,000,000.00

ALL DATA AS OF THE 8th JULY 2009

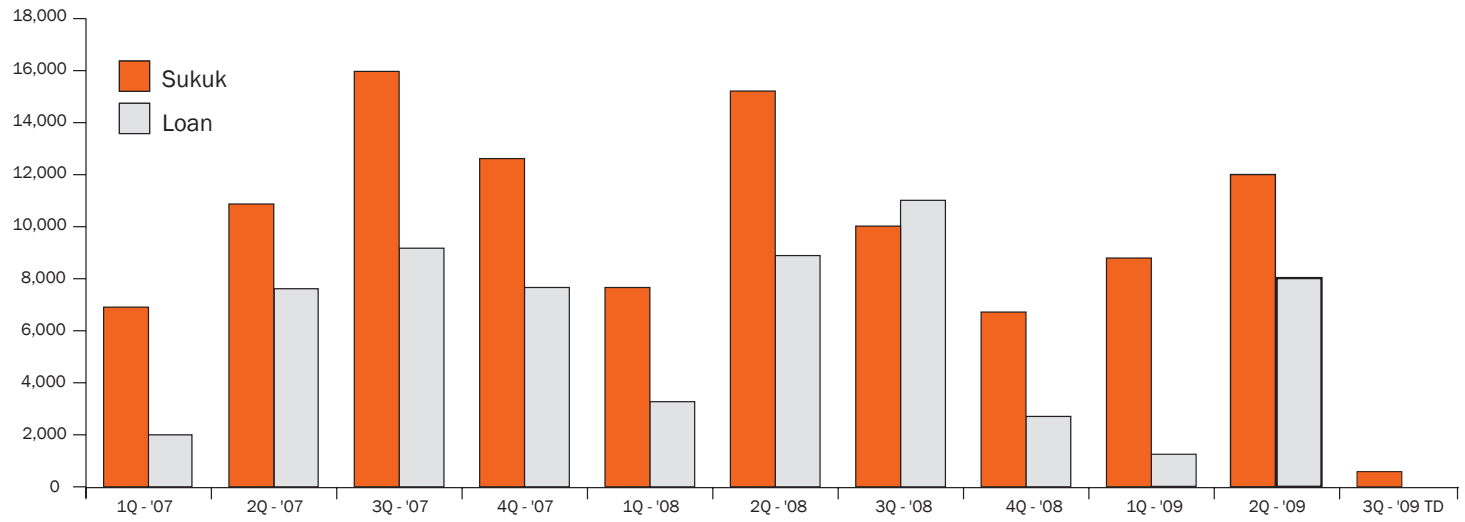
SUKUK BY COUNTRY	(12 Months)	JULY 2008 - JULY 2009
Country	Volume Issued	Volume Outstanding
Malaysia	31,077,681,278	17,914,318,415
Indonesia	4,271,159,990	1,722,938,251
Jersey	1,093,979,842	1,093,979,842
Eurobond	650,000,000	650,000,000
US	650,000,000	650,000,000
Pakistan	368,323,952	368,323,952
Bahrain	318,387,340	111,435,894
Cayman Islands	299,645,873	299,645,873
Saudi Arabia	206,666,667	206,666,667
Singapore	67,944,014	67,944,014
UAE	-	-

LOANS BY COUNTRY	(12 Months)	JULY 2008 - JULY 2009
Country	Volume (US$)	Market Share(%)
UAE	13,885,531,629.21	80.6
Qatar	275,000,000.00	1.6
Saudi Arabia	1,600,597,556.42	9.3
Brunei	505,000,000.00	2.9
Bahrain	643,700,000.00	3.7
Kuwait	280,000,000.00	1.6
Turkey	40,000,000.00	0.2

SUKUK BY INDUSTRY	(12 Months)	JULY 2008 - JULY 2009
Industry	Volume Issued	Volume Outstanding
Sovereign	22,341,877,102	10,642,921,974
Other financial	8,726,917,405	7,249,167,789
Agency	3,212,794,026	3,156,008,109
Manufacturing	2,038,138,804	663,535,744
Service company	1,004,688,664	612,014,047
Energy company	682,962,119	146,511,841
Transportation	313,411,668	126,018,142
Banks	293,721,995	293,721,995
Consumer goods	184,554,231	102,214,651
Electric power	118,692,278	93,138,615
Gas distribution	86,030,664	-

LOANS BY INDUSTRY	(12 Months)	JULY 2008 - JULY2009
Industry	Volume (US$)	Market Share(%)
Oil and gas	1,076,000,000.00	6.2
Financial services	8,170,878,737.21	47.4
Utilities	3,374,597,556.42	19.6
Real estate	430,000,000.00	2.5
Government	2,885,000,000.00	16.7
Business services	150,027,000.00	0.9
Retail and supermarkets	387,225,701.00	2.2
Construction	184,100,191.00	1.1
Telecommunications	300,000,000.00	1.7
Transportation	272,000,000.00	1.6

GLOBAL ISLAMIC VOLUME SUKUK/LOANS (US$ IN MILLIONS)



EVENTS DIARY 2009

DATE	EVENT	VENUE	ORGANIZER
July			
22nd – 23rd	Insurance & Takaful Technology Conference	Kuala Lumpur	ISM Insurance Services Malaysia
August			
3rd – 5th	IFN Asia Forum 2009 Issuers & Investors	Kuala Lumpur	Islamic Finance *events*
September			
16th	UK IFN Roadshow	UK	Islamic Finance *events*
October			
6th	Japan IFN Roadshow	Japan	Islamic Finance *events*
12th – 13th	5th Middle East Insurance Forum	Bahrain	MEGA Events
20th	Brunei IFN Roadshow	Brunei	Islamic Finance *events*
November			
3rd	India IFN Roadshow	India	Islamic Finance *events*
3rd	4th World Islamic Infrastructure Finance Conference	Doha	MEGA Events
5th	Pakistan IFN Roadshow	Pakistan	Islamic Finance *events*
	3rd World Islamic Infrastructure Finance Conference	Qatar	MEGA Events
	Islamic Investment World Middle East 2009	Middle East	Terrapinn
December			
6th – 8th	16th World Islamic Banking Conference	Bahrain	MEGA Events

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