Islamic Finance news

A REDmoney Product

Vol. 6, Issue 45 13th November 2009

The World's Global Islamic Finance News Provider

Teach a Man How You Fish

Should there be a focus on using the conventional downturn as a chance to invite –– and educate –– new comers to Islamic finance for the long haul?

Bridging gaps among international markets to pave the way for the industry's sustainable growth –– especially in non-Muslim societies — will inevitably be a challenging task that will require communication and education.

Indisputably, Islamic finance is complex, even within Muslim countries. Imagine the obstacles that arise when trying to entice participants from Christian societies; or even further, requesting foreign regulatory arms to restructure their laws to accommodate an industry that conflates (a seemingly esoteric) religion and money.

Mohammed Dawood, director of debt capital markets for HSBC Amanah, recently contended that the US market will serve as a viable option for tapping institutional Sukuk investors. His position was based on American investors' response to the Indonesian sovereign Sukuk offerings, which reflected a demand — despite the lack of an educative initiative.

Yet, one of the crucial hurdles stumping growth globally is the lack of accurate knowledge regarding Islamic finance. Muslims and non-Muslims alike often reduce the industry to nothing more than interest-free financing, anti-capitalistic — or worse, a vehicle for funding terrorism. These erroneous and constrictive categorizations do not do the industry's intentions justice.

Every challenge presents an opportunity. So, how can practitioners best articulate to secular regulatory bodies, non-Muslims and potentially new investors the message to build ethical and sustainable frameworks for this unique industry to subsist? Education.

Distilling accurate information will be the linchpin in securing its position on the global financial stage; especially as non-traditional markets hesitatingly consider incorporating Islamic finance into their respective financial systems — not because the industry is flawless.

On the contrary — just this week, Malaysia's Securities Exchange Commission's managing director, Nik Ramlah Mahmood, highlighted "gaps" in Islamic finance's regulatory frameworks that need to be addressed; especially when contextualized within cross-border investment practices.

Still, the time is now to infiltrate new markets. Despite Islamic finance's issues, conventional financial systems can stand to learn a thing or two about fiscal dealings rooted in economic substance. Simultaneously, venturing into unchartered territories could serve as the catalyst for the Islamic finance industry to establish some much needed regulatory standardization.

Money certainly makes the world go round. But, unfortunately, socio-political relations and religious-cultural barriers can retard monetary flows — not to mention the harsh reality that Islamic extremists steal the luxury of defining Islam adversely — and anything associated with it. This is exactly why educating potential participants on Islamic financial principles and products is an integral piece in acquiring a di-versified and knowledgeable consumer base.

However, take heed. Fragmented and sporadic approaches by industry practitioners may have worked in Islamic societies, but it will not suffice in non-Islamic markets — as the industry will inevitably be held to a higher standard for the reasons outlined above.

Forewarned is forearmed.

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AMERICAS

Infrastructure index

US: Dow Jones Indexes plans to create an Islamic version of the Dow Jones Brookfield Infrastructure Index family due to the growing popularity of the infrastructure industry indices, said the managing director and senior editor at Dow Jones Indexes, John Prestbo.

While the infrastructure industry is a major recipient of huge stimulus packages launched by governments worldwide following the economic downturn, he sees interest in it lasting beyond these packages. Prestbo gave two reasons for this: the basic infrastructure in developed countries have been neglected for too long, while developing countries must continue developing infrastructure to cater to growing populations and expanding industries.

He also revealed that the company plans to regionalize certain Shariah compliant indices, such as creating an Asia-Pacific version of its Global Islamic Sustainability Index, to meet the rising demands for exposure to emerging Asia.

ASIA

Doubling revenue

MALAYSIA: RHB Banking Group plans to double the revenue generated from its Islamic banking units in three years from the current 10%. The banking group also plans to increase its assets and income revenue by 2012, RHB Islamic Bank managing director Jamelah Jamaluddin said.

RHB posted a net profit of RM1 billion (US$295 million) last year with operating revenue of RM6 billion (US$1.7 billion).

Liberalization mooted

THAILAND: The liberalization of the country's financial industry under its second four-year financial sector master plan beginning next year will include Islamic finance.

Bank of Thailand governor Tarisa Watanagase expressed confidence that the new plan would offer better opportunities for foreign banks. She added that the plan would include new specialized financial

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institution categories. Under the plan, commercial banks will be also be given greater operational flexibility.

The second phase, expected to commence during 2012-2013, will see the introduction of licenses for services such as microfinance, trusts, Islamic finance and investment banking.

Dangers in growth

MALAYSIA: The rapid growth in Islamic finance has exposed "gaps" in the system, said Securities Commission managing director Nik Ramlah Mahmood, referring to loopholes in the legal and regulatory framework that particularly need to be reviewed in order to address cross-border issues and various systemic risks.

She said the main issue in Islamic finance lies in the current set-up that only fulfills the requirements of Shariah committees but does not meet the general needs of the industry.

Nik Ramlah pointed out that principles to protect investors should be embedded in the Islamic finance product structures, as obscurity in the market and non-Shariah compliant products would create hidden risks to investors.

Mega bank operators picked

MALAYSIA: The central bank has selected two foreign banks to operate US$1 billion mega Islamic banks out of Malaysia to add impetus to the globalization of Shariah compliant financial practices.

Deputy finance minister Awang Adek Hussin disclosed this but declined to identify the successful bidders. Bank Negara Malaysia is expected to formally name the banks and provide further particulars in a matter of weeks.

The government had offered up to two licenses to foreign players to create the mega banks as part of its efforts to further liberalize the financial sector and promote the country as an international Islamic finance hub.

The Dallah Albaraka Group (DAG) was believed to be a front runner for one of the two mega international Islamic bank licenses. Islamic Finance *news* has learnt that the other successful bidder would be a European financial institution.

DAG is one of the world's largest Islamic banking and financial groups, with operations in South Africa, Algeria, Turkey, Bahrain, Egypt, Tunisia, Jordan, Sudan, the UK and France. The group also has companies spread over 43 countries.

Seoul bent on Sukuk

KOREA: South Korea's first Sukuk, worth between US$500 million and US$1 billion, is expected to be issued next year to help meet the growing international need for Islamic debt instruments. The Sukuk would be issued by the Korean government or a quasi-governmental organization.

"We want to tap the Sukuk market as how several countries in and outside our region have done," said finance vice-minister Lee Young-geol. For this purpose, South Korean banking officials were in talks with local lenders in Dubai last week.

Islamic hub in the making

HONG KONG: The government is willing to modify tax laws to level the playing field for Islamic bonds. This is to meet the demand of Middle Eastern and Asian investors for Islamic finance, said financial services and treasury secretary Professor KC Chan.

He expressed confidence that Hong Kong, already an international financial center, has

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the right infrastructure in place to become a regional Islamic finance hub as well.

He said another fact that prompted the tax reform is Hong Kong's role in bridging mainland China with the international market, as Hong Kong can create a new Silk Road connecting the East and West.

Seven-fold leap in profit

MALAYSIA: Property financier Malaysia Building Society Berhad's (MBSB) third quarter net profit multiplied by seven times to RM53 million (US$16 million), supported by the increased contribution of Islamic banking operations, particularly the personal financing business. Its revenue also rose, by 72% to RM162 million (US$48 million).

Over the first nine months, MBSB recorded a 91% increase in profit for to RM88 million (US$26 million), while total asset had a growth of 11.3% to RM8.1 billion (US$2.4 billion), as a result of the 12.8% rise in net loan and financing to RM7.7 billion (US$2.3 billion).

Potential for growth

MALAYSIA: Maybank Investment Bank (MIB) plans to establish an Islamic investment bank in Saudi Arabia to expand its reach in the region, said the bank's head of Islamic market, Ali Abbas Zaidi.

The new bank, to be known as Anfaal Capital, will be a joint venture with the Islamic Corporation for the Development of the Private Sector (the investment arm of the Islamic Development Bank), private investor Concrete Engineering Products and the International Investment Bank of Bahrain.

The Maybank group will hold an 18% stake in the joint venture.

"We've been given a provisional license by the CMA (Saudi Arabia's Capital Market Authority) and we hope to get a formal license within 12 months," Ali said.

Guidelines out soon

MALAYSIA: The Labuan Offshore Financial Services Authority (Lofsa) will announce guidelines on Shariah compliant captive insurance in June next year as part of its effort to strengthen Labuan's position as a financial services center.

Lofsa director general Azizan Abdul Rahman said currently there are some 30 to 35 captive insurance firms operating in Labuan which are not Shariah compliant. However, a few companies had requested to establish Islamic-based captive insurance corporations, he added.

Azizan also disclosed that Lofsa is drawing up a concept paper on Waqf and its guidelines as an investment vehicle.

Two-way potential gain

HONG KONG/MALAYSIA: Securities Commission Malaysia (SC) has signed a mutual recognition agreement (MRA) with Hong Kong's Securities and Futures Commission (SFC) to further develop the Islamic capital market (ICM), in particular Islamic collective investment schemes (CIS).

Under the MRA, SFC will recognize Malaysian investment management companies while Islamic funds from Malaysia will be deemed to have substantially complied with the Hong Kong Code on Unit Trust save for some additional disclosure requirements. The same would apply to Hong Kong investment management companies and the Islamic funds to be offered in Malaysia.

SC chairman Zarinah Anwar said it is crucial for Malaysian market players to take advantage of the link with the SFC to develop the local market as the fund management business in Malaysia only stands at RM300 million (US$88 million), versus Hong Kong's US$750 million market. She hoped the MRA will prompt both Malaysian and Hong Kong-based firms to quickly move into cross-border distribution of Islamic funds.

She also revealed that the SC is in talks with other foreign counterparts and jurisdictions to sign collaborative treaties, similar to the pact signed with the Dubai Financial Services Authority some years ago.

(Also see IFN Report on page 15)

Going for billions

MALAYSIA: KPJ Healthcare, the health care subsidiary of government-linked Johor Corporation, expects its revenue to increase to RM2 billion (US$590 million) within five years by expanding its hospital reach in the local market.

The expansion plan is aimed at doubling sales by either organic expansion or via mergers and acquisitions. KPJ intends to add two or three hospital this year. It has 26 hospitals in Malaysia and two in Indonesia. Sixteen of them are grouped in the country's first publicly traded Islamic real estate investment trust (iREIT).

Managing director Siti Sa'diah Sheikh Bakir said that since KPJ achieved its first RM1 billion (US$295.8 million) after 26 years in the business, she sees the next billion coming in less than five years due to the pace at which the company is growing.

Enhancing cooperation

MALAYSIA: Indonesia and Malaysia have agreed to go beyond two-way trade to include Islamic banking, tourism, food security, energy, the halal industry and finance to strengthen economic cooperation between both countries. Malaysian Prime minister Najib Razak said he welcomed more investments from Indonesian companies, which he said had been on the rise except for this year, due to the global economic crisis.

Profit up 9%

MALAYSIA: EON Capital, the holding company of EON Bank Group, posted a 9% rise in net profit to RM75.3 million (US$22 million) in the third quarter ended the 30th September, despite a 2% decrease in revenue to RM599 million (US$177 million). The profit increase was attributed in part to the increase in the Islamic banking business, which rose to RM16 million (US$4.7 million), while non-interest income rose to RM35.2 million (US$10.4 million).

Islamic preference

MALAYSIA: Axiata Group (formerly known as TM International), has converted RM2.8 billion (US$829 million) of its conventional term loans into Islamic term financing based on the commodity Murabahah structure.

President and group CEO Jamaludin Ibrahim said the conversion, approved by Bank Negara Malaysia's Shariah Advisory Council, is part of a wider reshuffling of the group's debt structure, as well as to heed the government's call to boost the use of Islamic instruments in the country.

Axiata is one of the largest Asian telecommunication companies focused on high growth

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low penetration emerging markets, with over 90 million subscribers. It has controlling interests in mobile operators in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia, with significant strategic stakes in India, Singapore and Iran.

Green shares

MALAYSIA: Technology company Green Packet has proposed to take up 419,500 Class A Islamic irredeemable convertible preference shares in its subsidiary Packet One Networks Malaysia (P1) for RM110 million (US$36.2 million) or RM262.22 (US$77.72) per share.

Green Packet intends to use internal funds for the shares subscription that would increase its investment in P1 for its rollout of the WiMAX network to provide wireless access services throughout Malaysia.

Green Packet was incorporated in Malaysia on the 15th December 2000 as a regional research & development and marketing center to further develop and commercialize the wireless networking technologies developed in-house.

Fast track for Maxis

MALAYSIA: Telecommunication service provider Maxis will be eligible for fast entry into the FTSE Bursa Malaysia KLCI in accordance with the FTSE Bursa Malaysia Index ground rules. The bourse said this is due to Maxis' full market capitalization that is expected to exceed 2% of those of FTSE Bursa Malaysia EMAS Index.

It also said that several changes in the FTSE Bursa Malaysia Index series will commence on the 20th November 2009, subject to the listing of Maxis on the 19th November.

Additionally, Bursa Malaysia said Maxis will be eligible for inclusion in the FTSE Bursa Malaysia EMAS Shariah Index and the FTSE Bursa Malaysia Hijrah Shariah Index at the next semi-annual review next month.

Bursa Malaysia together with FTSE, its index partner, integrated the FTSE Bursa Malaysia KLCI (formerly known as Kuala Lumpur Composite Index) on the 6th July 2009 with an internationally accepted index calculation methodology to provide a more investable, tradable and transparently managed index.

Investment bank role

MALAYSIA: Bank Islam Malaysia plans to be active in the equity market, now that it has acquired a license to offer the full range of Islamic investment banking activities. It has become the first and only Islamic commercial bank to be accepted as a principal adviser for the submission of specific corporate proposals.

This enables Bank Islam to also manage initial public offerings (IPOs) and reverse takeovers, said its head of corporate investment banking, Mashitah Osman. So far, she added, the bank has already been mandated to arrange two mid-sized IPOs in the manufacturing and trading sectors. It is also working on some mergers and corporate advisory projects.

She expressed confidence that the investment banking activities will start contributing significantly to Bank Islam's group revenue from this year, which is targeted to see a doubling of its fee-based income.

New funds in the pipeline

MALAYSIA: AmInvestment Bank Group plans to launch another three to four funds in its current financial year ending on the 31st March 2010.

Funds management division CEO Maznah Mahbob said they would include Islamic and equity funds. "Given that the market is doing quite well, we are confident of our plan," she added. To date, AmInvestment Bank has 47 unit trust funds marketed under the brands of AmIslamic Funds Management (for Shariah compliant funds) and AmMutual (for conventional funds) as well as two exchange-traded funds under the AmInvestment Group.

Marginally higher profit

MALAYSIA: Hong Leong Islamic Bank posted a RM29.1 million (US$8.61 million) profit in its first quarter ended the 30th September, a 9% increase from the previous quarter and 4% against the corresponding quarter last

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year. Its earnings per share stood at 17.5 sen (US$0.05) compared to the 14.9 sen (US$0.04) for its full financial year ended the 30th June, while its return on average shareholder funds was 11.7% compared to the 10.5% of the previous year.

HLISB's balance sheet reached RM4 billion (US$1.18 billion) as at September 2009 while its deposits were recorded at RM7 billion (US$2.07 billion) and its capital adequacy ratio stood at 21.9%.

Group managing director and chief executive Yvonne Chia said HLISB's personal financial services continued to drive HLISB's earnings, contributing 81% of its pre-tax profits, while HLi Markets, the bank's treasury business, saw a sustainable profit performance with an 11% share of pre-tax profits.

Successful pricing

BRUNEI: The ministry of finance has announced the successful pricing of the country's 37th, 38th and 39th issuances of short-term Sukuk Ijarah securities. Series 37 is worth BND38 million (US$27 million), Series 38 is BND33 million (US$24 million) and Series 39 is BND30 million (US$22 million). The accumulated total for the three Sukuk issuances is BND101 million (US$73 million).

With these issuances, the Brunei government has thus far issued over BND1.9 billion (US$1.4 billion) worth of short-term Sukuk Ijarah securities since the maiden offering on the 6th April 2006.

Below target

INDONESIA: Indonesia raised only IDR1.077 trillion (US$114.1 million) from its third Sukuk auction on the 10th November, missing its target of IDR1.5 trillion (US$157.2 million). The Finance ministry said the Sukuk issued would mature in 2013 and 2015.

The ministry also said there were no winning bids for the Sukuk maturing in 2017, 2020 and 2024. The first Sukuk auction on the 13th October failed to attract any winning bids as investors demanded higher yields, while the second auction held on the 27th October only garnered IDR200 billion (US$20,800), less than 5% of the incoming bids.

The ministry said it will not offer a higher yield for its Sukuk over conventional bonds despite the weak demand from domestic investors. Its director of Islamic finance, Dahlan Siamat, said if more favorable Sukuk yields were offered, it would distort the market.

"If the (bid) yields are high, the government will reject them. Otherwise, this will affect the price of conventional debt," he said, adding that both Sukuk and conventional debt should be placed on the same footing as both are risk-free.

Dahlan also announced that the government may hold its final Sukuk auction for the year on the 24th November while it is expected to issue its second retail Sukuk in early February next year, a year after it sold IDR5.6 trillion (US$595.3 million) worth of Sukuk for retail investors.

Guidelines finally out

BANGLADESH: The new guidelines for Islamic banking are finally out after being delayed for years due to political interests. The central bank, Bangladesh Bank, said that under the new rules, the boards of directors of Islamic banks have been vested with greater power than the Central Shariah Council which until now was the regulator for Islamic banks.

In line with the guidelines, an Islamic bank can form an optional Shariah supervisory committee, but there will be no central council. Islamic banking was introduced in the country in 1983. There are now seven full-fledged Islamic banks and a dozen commercial banks with Islamic windows.

EUROPE

Profit leap

FRANCE: The country's largest bank by market capitalization, BNP Paribas, saw its third quarter net profit increase by 45% to EUR1.31 billion (US$1.9 billion). This is attributed to gains in its investment banking division and the integration of newly acquired Belgian-based Fortis Bank.

BNP Paribas said that although the economy remained difficult through much of the third quarter, financial markets improved significantly. The bank said revenue from corporate and investment banking was up 43% at EUR2.93 billion (US$4.4 billion), supported by continuing high demand for fixed income products and derivatives.

The acquisition of Fortis Bank generated a revenue of EUR2.23 billion (US$3.3 billion) and contributed EUR277 million (US$337 million) to overall third quarter net profit for the French bank

Capital protection products sought

UK: HSBC Group's Islamic banking division will broaden its range of Islamic wealth management and insurance products. It also aims to tap demand for capital protection products, said HSBC Amanah deputy CEO David Dew.

"We need a more comprehensive and sophisticated range of Islamic wealth management products. At the moment there is great demand for capital guaranteed or capital secured products, but the industry needs to evolve and complete these structures," he added.

Profit down by 54%

UK: Barclays Group's third quarter net profit dropped 54% to GBP1.08 billion (US$1.8 billion) due to rising impairment charges, which has risen by 63% to GBP1.4 billion (US$2.1 billion).

For the nine-month period ended September, net profit plunged 29% to GBP2.7 billion (US$4.1 billion). Impairment charges rose by 65% to GBP6.2 billion (US$9.3 billion) due to foreign exchange movements, with the majority of the balance being driven by economic deterioration and portfolio maturation, said CEO John Varley.

The investment banking arm, Barclays Capital, is actively involved in Islamic financial products.

Call for participation

BOSNIA HERZEGOVINA: President Haris Silajdzic said the country is keen to work with Malaysia in Islamic finance to complement the existing Middle East participation. He also urged more Malaysians to take part in the country's Islamic banking, as it has the most stable currency in southeast Europe and a strong banking sector.

Plans abound

UK: The Islamic division of Swiss financial group UBS will broaden its derivatives

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offering due to the growing demand for risk management tools, said division head Armen Papazian. He predicted a 20% growth in its Islamic derivatives business next year as more Islamic clients are seeking solutions to evade risks.

He also said that UBS' Islamic finance unit plans to offer Shariah currency options besides equity-based products. The unit has also developed new Sukuk structures, which comply with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions. No further details are available on the Sukuk structures.

Islamic wealth benchmark

SWITZERLAND: Swiss-based asset management and investment advisory services provider Sarasin Group has launched a new and comprehensive Islamic wealth management offering.

It claims the product creates an industry benchmark by incorporating estate and succession planning, plus financing and asset management, with money market and structured products such as Wakalah and Murabahah.

With the new product, which comprises the full spectrum of Shariah compliant private banking products and services, the group is able to provide a broader customized offering to its clients globally and further strengthen its position in the Middle East through its Sarasin-Alpen subsidiaries in Dubai, Qatar and Oman.

GLOBAL

Guidelines on the way

GLOBAL: The Islamic Financial Services Board (IFSB) plans to draft guidelines to assist Islamic banks in dealing with liquidity risks, said its secretary-general Rifaat Ahmed Abdel Karim. The hit by Sukuk defaults, a slump in the Dubai real estate sector and major debt restructuring prompted the Islamic financial industry to review its liquidity management, he added.

He explained that Islamic financial institutions do not have sufficient instruments to manage their liquidity risks as most of them are inclined to load on cash and are unable to invest in short-term tools.

The IFSB board will also look into issues by the Basel committee, members' experiences, and differing regulations in the various jurisdictions before producing the standards draft, he added.

Sovereign Sukuk dominate

GLOBAL: Sukuk issuances leaped 40% in the first 10 months of the year compared to the same period last year. The third quarter in particular witnessed a "genuine" recovery in issuance, reported credit rating agency Moody's. However, it said "sluggish economic conditions" led the sovereigns and government-related entities to take over the role as main Sukuk issuers from the private sector, on the back of increased public spending.

"The recent surge in sovereign Sukuk is a new but long-anticipated development in the relatively short life of the Sukuk market that should help create a more efficient and soundly based market," said the business development manager of rating services and Islamic finance, Faisal Hijazi.

In addition, the market would stand to gain from this development, as this would help it to develop a more detailed yield curve, which should result in a fairer and more transparent pricing, he said.

MIDDLE EAST

Lucrative market

UAE: Mayfair Wealth Management (MWM) has launched what it believes is the first personalized wealth management services aimed at women investors in the Middle East. Ameerah will offer investment advice on Shariah compliant products, appropriate investment vehicles and investment strategies to meet the specific requirements of its female clientele.

Terming the women investors as 'traderettes', MWM CEO Amani Choudhry said there was an increase in the number of such female traders seeking high-level investments to help them pave a legitimate path to increasing their portfolios.

"With the burgeoning number of female investors controlling a significant percentage of the region's wealth, we are focusing on addressing their needs by offering them a range of core advisory services, as well as a wide range of global products from different asset classes including bonds, equities, foreign exchange and real estate."

It was reported that women investors in the Gulf have amassed about US$40 billion of the region's wealth and traded more than 18 million stocks last year.

Attractive Sukuk

DUBAI: Barclays Capital has recommended the purchase of Dubai sovereign bonds despite the emirates latest negative price actions, its highest in almost two months.

According to its report released this week, Barclays Capital considered Dubai credit as attractively priced at the current levels, recommending a long position in its sovereign credit. It also stated that although the five-year credit default swap prices show cost of protecting Dubai bonds from default rose to 314 basis points this week, up 1.8%, this was the opportunity to buy the bonds.

Moody's Investors Service had downgraded five Dubai-owned institutions this week, on tighter government criteria to support state-owned entities.

Barclays Capital also stated that Dubai's ability to raised the second US$10 billion borrowing with the support of Abu Dhabi and the likely repayment of Nakheel's US$3.52 billion Sukuk due next month would assist the emirate's in its debt.

Reducing the risks

UAE: Mashreq bank has placed an additional AED13.7 billion (US$3.7 billion) deposit in the central bank and increased loans to the government and public sector entities by AED4.25 billion (US$1.15 billion). This means Mashreq's total funds to these two sectors grew from AED12.2 billion (US$3.3 billion) as of the 31st December last year to AED30.2 billion (US$8.2 billion) as of the 30th September.

It has also been reported that Mashreq's loan book has reduced by AED4.4 billion (US$1.2 billion) from AED48.4 billion (US$13.2 billion), while its total assets have improved from AED93.2 billion (US$25.3 billion) to AED99.9 billion (US$27.2 billion).

Mashreq, the largest private sector bank in Dubai, posted an operating profit of AED3.88 billion (US$1.05 billion) in the first nine months of this year.

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Analysts view the moves as part of Mashreq's efforts to restructure its asset book significantly while taking a cautious strategy in the wake of the ongoing economic crisis due to its large exposure to the troubled Saudi group Algosaibi.

Global's loss narrows

KUWAIT: Global Investment House (Global) posted a net loss of KWD104.2 million (US$365 million) in the first nine months of the year. It attributes the nine-month losses to realized as well as unrealized losses and impairment from principal investments and real estate worth KWD41.7 million (US$146 million) as well as losses from associates of KWD29.9 million (US$104.8 million).

Despite the loss, Global managed to reduce its third quarter losses to KWD5.6 million ($19.6 million) compared to losses of US$243 million and US$101.7 million in the first and second quarters respectively. This is due to measures taken to cut costs as well as progressive debt default and restructuring processes.

Global, which defaulted on loan repayments in December last year, said it has continued to meet all its debt service payments, with the total bank debt to be restructured expected to be KWD500 million (US$1.75 billion).

Good start

UAE: The government of Dubai has repaid a US$1 billion Sukuk, issued by the Dubai Civil Aviation Authority, which matured on the 4th November. The repayment was through the issuance of a two-tranche US$1.93 billion dollar- and dirham-denominated Sukuk which saw more than 300 investors placing bids in excess of US$6.3 billion, according to the department of finance.

"Dubai's repayment is a good sign, but there is plenty of debt out there that requires adequate repayment and we are still at the starting line," said Banque Saudi Fransi-Credit Agricole chief economist John Sfakianakis.

The emirate still has about US$4 billion of debts to restructure over the next two months, which includes the world's largest Islamic bond to date, a US$3.5 billion issue from the developer of its palm-shaped islands Nakheel.

Economic solution

IRAN: Mahmoud Ahmadinejad, the country's president, has proposed the establishment of a joint Islamic foreign currency fund for Organization of the Islamic Conference (OIC) member countries.

"Reliance on global capitalism is not able to revive the world's current ailing economic situation. Hence, multilateral cooperation in the framework of well-established organizations can be a solution," he argued.

Pointing out that OIC inter-governmental trade accounts for only 15% to 16% of their total global foreign trade, he urged Islamic countries to better exploit their combined market of 1.5 billion people by boosting economic cooperation among themselves.

Sukuk for tourism

UAE: Sharjah Investment and Development Authority (SIDA) plans to raise capital through Sukuk to invest in tourism projects worth AED10 billion (US$2.7 billion). While talks are underway with several banks, the size of the Sukuk has yet to be revealed as it is considered too soon to do so.

The funds will be invested through partnerships, joint ventures or facilitating investments, said CEO Marwan J Al Sarkal. The projects include the redevelopment of Jazeera Park, developing a heritage site and the redevelopment of a mangrove site in Kalba into an eco-tourism site by developing a resort.

He said SIDA has already started negotiating with a number of investors, including Barajeel Holding, to embark on some of these projects, especially the eco-tourism project in Kalba.

Eye on Turkey

QATAR: Doha Bank has met Turkey's banking regulator on the possibility of establishing branches in the country. CEO Raghavan Seetharaman said the bank is seriously considering having a presence in the country, and may also look into acquisitions opportunities.

It was reported last month the bank, Qatar's third-biggest bank by assets which offers commercial and Islamic banking services, had expressed its intention to purchase a stake in a Turkish bank and open branches in the country..

Al Tamimi's new office

UAE: Al Tamimi and Company, the largest independent law firm in the Middle East, has opened its newest office in Kuwait City. It has previously represented many of Kuwait's banks as well as financial institutions on structuring Shariah compliant and conventional investment products, restructuring and workouts, and has acted as counsel to the majority of the Sukuk issues in the Kuwait market.

"Kuwait is a natural extension of the firm's presence in the key markets in the Middle East in particular Jordan and the Gulf Cooperation Council region where there are significant cross border business activities with Kuwait," said the head of the Al Tamimi branch in Kuwait, Alex Saleh.

The firm now has 10 offices across the Middle East which include Dubai, Abu Dhabi, Sharjah, Qatar, Iraq, Saudi Arabia and Jordan, with 27 partners and over 164 lawyers in total.

Overwhelming response

BAHRAIN: Al Baraka Banking Group's initial public offering (IPO) of a 35% stake in its Syrian unit, Al Baraka Bank Syria, has been oversubscribed by 4.4 times with a return of over US$165 million. The month-long IPO closed on the 4th November.

A large number of Syrian nationals as well as private and public institutions and companies vied for the public offering.

"The success of the IPO is proof of the group's ability to implement its growth plans despite the global economic situation. It also reflects the confidence of individual and institutional investors in the future of the Syrian economy," said group chairman Sheikh Saleh Abdullah Kamel.

Prospects aplenty

BAHRAIN: An Islamic mortgage provider sees ample opportunities for Islamic finance to flourish in facilitating investment and business between the MENA region and Europe.

Terming the linkage between the two regions as a possible "new Silk Road", Sakana Holistic Housing Solutions CEO R Lakshmanan said the specific areas could include alternative energy, infrastructure, education and health.

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His rationale is based on the "real economy" trade and investment flows between the two regions, with GCC states buying the bulk of their imports from Europe and the European Union being the main trading partner for Mediterranean countries in Africa.

Lakshmanan noted that the Islamic finance industry in Europe has to cope with the ongoing development of regulatory frameworks, the treatment of value-added tax, the impact on stamp duty, the potential differences in credit, market and operational risks and resulting Basel II implications, among other issues and challenges.

Despite this, he praised the UK for showing the way by making significant progress which makes it the frontrunner in becoming the gateway to Europe for Islamic finance.

Capital move

KUWAIT: Shariah compliant Kuwait International Bank (KIB) plans to raise its capital by 45% to US$525 million through a rights issue. KIB said the share price for the exercise will be at a nominal value of 100 fils (US$0.35), in addition to a premium of 70 fils (US$0.24). So far, no specific date has been set for the rights issue of 466.6 million new shares to raise US$277 million.

Nakheel Sukuk in demand

UAE: Nakheel's US$3.52 billion Sukuk traded at US$111.50, about US$2 above its maturity value of US$109.57, according to a report which quoted market sources.

The report attributed the high price to the increased demand from investors on expectation of an additional US$6 bonus to be redeemed against each note on the 14th December maturity date and the reassurance given by the Ruler of Dubai Sheikh Mohammed Rashid Al Maktoum.

The report said the property developer would also pay Sukuk holders an additional US$6 per note in the absence of a qualified public offering (QPO) that would allow the holders to exercise the option of subscribing to the public share offer.

Quoting an investment banker, it said that Nakheel had yet to make any official statements with regards to the public offer and given the fact that the Sukuk would mature in slightly over a month, most investors have ruled out a public offer.

On the 15th October, Nakheel repaid its US$1.2 billion securitized Sukuk a month ahead of its maturity date despite reportedly negotiating with Emirates NBD, Mashreqbank, Noor Islamic Bank and the Samba Financial Group to extend the maturity of the notes to the 15th November. This reportedly prompted renewed activity at the Nakheel counter, with the Sukuk trading at about US$106.50 with a 27% yield in the third week of October..

Profit up 53%

UAE: Utility firm National Central Cooling Company's (Tabreed) gross profit went up by 53% to AED24 million (US$6.5 million) in the third quarter and for the nine-month period, it increased by 9% to AED260.1 million (US$71 million). Total revenue went up by 15% to AED571 million (US$156 million) in the first nine months while total assets rose by 11% to AED8.1 million (US$2.2 million), from AED7.3 million (US$2 million) in the same period last year.

After non-cash finance costs associated with the company's 2011 mandatory convertible Sukuk, consolidated profit for the nine months ended the 30th September 2009 fell by 4% over the same period in 2008.

GFH reduces losses

BAHRAIN: Gulf Finance House (GFH) is seeing a reduction in losses — improving 46% to US$29 million in the third quarter over the second quarter loss of US$54 million.

The Islamic investment bank said its losses for the first nine months totaled US$121 million. In contrast, it recorded a profit of US$82.1 million in the third quarter of last year and US$302 million for the first nine months of last year.

GFH attributed the third quarter losses to nascent placement activity offset by its ongoing cost management efforts. In that time, it focused on strengthening its balance sheet. Its recent rights issue exercise saw subscriptions surpass the target to raise between US$200 million and US$300 million.

Profit dives 72%

BAHRAIN: Shariah compliant Venture Capital Bank (VCBank) saw its third quarter net profit plunge 72% to US$2.1 million. Chairman Ghassan Ahmed Al Sulaiman attributed this to the bank's conservative approach in its investment portfolio in the current economic situation. Net profit for the first nine months dropped by 76% to US$9.3 million while total income fell 63% to US$38 million.

Sulaiman said: "The results reflect the unshakable stance of VCBank and its firm adherence towards our shareholders and investors in fostering our investment products which are capable of surmounting the economic crisis, (with) the internal corporate governance proving effective in handling the global crisis."

Ethical approach

UAE: Islamic finance is playing an important role in the global economic recovery due to its ethical principles, said group CEO of Noor Islamic Bank and Noor Investment Group Hussain Al Qemzi.

He added that Shariah compliant products have the capability of not only competing with more conventional products but surpassing them in the post crisis world, as customers seek more ethical and risk adverse solutions to their financial needs.

"Ethical financial practices, such as those followed by Islamic banks, could contribute to the world's financial framework. Thus, we don't need Islamic finance and conventional finance to co-exist, but rather we need one ethical financial model which can be met through Islamic finance," said Al Qemzi.

He stressed that it is in the best interest of the global financial system to start examining ethical means of investing, risk sharing and regulatory framework that reward financial institutions for the moral value that they bring to society.

Meeting with parent

UAE: Property developer Nakheel has met with its parent company, Dubai World, on the fate of a US$3.52 billion Sukuk that matures on the 14th December. It is not known yet whether any decision was taken to repay or restructure the debt.

International debt markets are watching closely as the decision would determine Dubai's ability in repaying the debts that it has accumulated following the global credit crunch.

Nakheel, one of the biggest losers in Dubai's stricken property market, had made an earlier repayment of the debt on the 14th October, which is seen as an indication that it would be able to settle its subsequent obligations.

ASIA

Maintain top spot

MALAYSIA: The industry should take meaningful and effective steps to ensure that the country's position as a leading global Takaful provider remains intact, said finance minister II Ahmad Husni Mohamad Hanadzlah.

"The global Takaful landscape will change at a rapid rate in the next five years and the growth potentials are too irresistible for any player to ignore," he stressed.

He noted that the Takaful sector in Malaysia saw a compound annual growth rate of 39% between 2005 and 2007 while the global gross Takaful contributions are estimated to reach US$8 billion by 2012.

Restructuring move

MALAYSIA: Syarikat Takaful Malaysia plans to wind up its Indonesian holding company, Syarikat Takaful Indonesia, over the next 12 months and restructure its majority-owned units Asuransi Takaful Keluarga (assurance) and Asuransi Takaful Umum (General Takaful), said group managing director Hassan Kamil.

Takaful Malaysia currently holds a 56% equity in Syarikat Takaful Indonesia. "Once completed, Takaful Malaysia and other shareholders of the holding company will go direct into Keluarga and Umum," he said, adding: "With this, there will be some interest by other parties to take equity in the restructured company. We are looking at local Indonesian banks as potential partners".

Tie-up in the works

MALAYSIA: Syarikat Takaful Malaysia has been approached by a Qatari financial institution to set up a Takaful business there and provide technical support, said group managing director Hassan Kamil.

"We are negotiating with the party and hopefully within the next one year we will see some results," he said without revealing further details nor identifying the Qatari firm.

Besides the Middle East region, Takaful Malaysia is also looking at China as a potential market. "We are waiting for the Islamic finance infrastructure to be in place. Sukuk are gaining momentum. If these instruments are widely available, then we can leverage on them," he said.

In line with its newly unveiled RM15 million (US$4.4 million) rebranding exercise, Takaful Malaysia will launch two investment-type products. Its older products will be phased out gradually Hassan said Takaful Malaysia also hopes to increase its domestic market share from 40% to 50% in the next two to three years.

Value for money

MALAYSIA: Takaful and insurance companies are to adopt Insurance Services Malaysia's (ISM) Automotive Business Intelligence System (ABI) next year. ISM CEO Carl Rajendram said it is the only approved system for the valuation of vehicles by financial services companies in the country.

"The system will ensure that vehicle owners enjoy enhanced services and obtain better value for their money on motor insurance and motor Takaful products", he added.

ISM-ABI has been incorporated into the motor insurance policy as an allowable reference point to determine the market value of vehicles.

Rajendram pointed out that the new service will reduce uncertainty when insuring a vehicle and avert the dissatisfaction that consumers experience when making insurance claims. ISM is a statistical, database and technology centric solutions provider in the Takaful and insurance industry.

EUROPE

Pioneer move

RUSSIA: The country has decided to establish its first Takaful company in the first quarter of 2010, offering motor insurance and pilgrimage services.

"We had to substantively upgrade the classic Takaful model applicable within the Middle East to a more liberal Malaysian one," said the vice-president of investments at Safinat Group, Shamil Murtazaliev.

The potential Takaful insurance market in Russia is estimated at US$2.6 billion. The size of international financial services market operating under the Islamic laws exceeds US$750 billion.

MIDDLE EAST

Insurance tie-up

QATAR: Doha-based Al Jasr Takaful Insurance, a joint venture between Bahraini and Qatari insurance companies, plans to start operations in early 2010. It also plans to sell 60% of its stake in an initial public offering within two years. Insurance companies from both countries own the remaining 40% stake.

The newly established firm, which has a paid-up capital of QAR250 million (US$68.7 million), specializes in insurance fees to be levied on cars crossing the planned causeway linking Qatar and Bahrain.

ASIA

Islamic unit helps lift profits

MALAYSIA: Capital Intelligence (CI) has affirmed CIMB Bank's foreign currency ratings at 'BBB+' long-term and 'A2' short-term, reflecting the bank's government ownership and systemic importance.

The financial strength rating is maintained at 'BBB'. The outlook for all the ratings is stable. CI said the profitability of the bank's core operations improved partly due to better operating cost efficiencies and the growth in Islamic banking income.

Strong net profit growth in the first half of 2009, on the back of good net interest and non-interest income, strengthened the bank's key profitability ratios. Asset quality improved last year but was still not as good as the sector average.

Both the non-performing loans to gross loans and the provision coverage ratios worsened at end June 2009, due to the consolidation of the Thai acquisition, CIMB Thai Bank.

Negative outlook remains

MALAYSIA: Malaysian Rating Corporation (MARC) has affirmed the rating of 'MARC-2ID' for construction and property developer Prinsiptek's Murabahah Commercial Paper program of up to RM30 million (US$8.8 million) while maintaining a negative outlook for the rating.

The affirmation reflects the recent progress made by the firm in collecting its past due receivables, meaningful reduction in its debt burden and an order book position which provides earnings visibility over the next two years.

These improvements are counter-balanced by the decline in Prinsiptek's available liquidity, and MARC's concerns over its ability to restore its operating margins to around 2007 levels.

The negative outlook is based on MARC's view that Prinsiptek's credit metrics will continue to be weak for a 'MARC-2' short-term rating. The risk of renewed pressure on Prinsiptek's liquidity remains, given the countercyclical nature of its working capital needs and the sizeable overhang of long-outstanding receivables.

Good credit quality

MALAYSIA: MARC has affirmed the 'AAA(IS)' rating on special purpose company IJN Capital's (IJN Cap) outstanding RM100 million (US$30 million) of the RM209 million (US$62 million) Sukuk Musharakah program.

MARC said the rating primarily reflected the credit quality of Institut Jantung Negara (IJN) or National Heart Institute which effectively funds the obligations under IJN Cap under the Sukuk Musharakah.

The outstanding Sukuk under the RM209 million program additionally benefits from a requirement under the issue structure to set aside a proportion of government receivables into a specific revenue account for its redemption on or before maturity in 2013.

The rating agency said the remaining balance of RM109 million (US$32 million) of the yet to be issued Sukuk, which matures beyond 2013, has been affirmed at 'AA(IS)'.

The stable outlook for both ratings reflect MARC's expectation that IJN's credit profile will remain strong in the near term, underpinned by its strong financial profile and its position as the premier cardiac center in Malaysia.

Crown jewel

MALAYSIA: RAM Ratings has reaffirmed PLUS SPV's issuance up to a nominal value of RM2.8 billion (US$830 million) under its RM4 billion (US$1.2 billion) Sukuk Musharakah program (2008/2026) at 'AA1' long-term rating with a stable outlook.

PLUS Expressways Berhad (PEB), an investment holding company involved in the operation of tolled roads in Malaysia and abroad has issued the Sukuk through PLUS SPV to meet its funding requirements.

Under the Musharakah structure, the Sukuk holders' recourse to PEB is via a purchase undertaking deed between PLUS SPV and PEB. Given the strong credit link between the two, the SPV's rating reflects PEB's credit risk.

"PEB is expected to enjoy strong debt coverage levels as our analysis hinges on its crown jewel, PLUS, being the major cash flow contributor. We anticipate PEB to achieve minimum and average operating cash flow debt coverage ratios of 0.31 times and 0.40 times, respectively," opined RAM Ratings' acting head of infrastructure and utilities ratings Chong Van Nee.

KLIA securities 'AAA(s)'

MALAYSIA: RAM Ratings has reaffirmed the 'AAA(s)' rating for KL International Airport Berhad's (KLIAB) RM4.06 billion (US$1.2 billion) Bai Bithaman Ajil Notes Issuance Facility (2003/2015), with a stable outlook. This is based on the unconditional and irrevocable guarantee by the government to repay all amounts due under the Islamic securities.

KLIAB is the conduit for the government in funding the development of KLIA. It is an operationally dormant company, with its income derived solely from dividends and interest received on investments in unit trusts and deposits in financial institutions. As of end-October 2009, the outstanding amount under the Islamic securities stood at RM3.06 billion (US$907 million).

Prudent practice

SINGAPORE: AM Best has affirmed the 'A-' (Excellent) financial strength ratings and 'a-' issuer credit ratings (ICR) of Asia Capital Reinsurance Group (ACR-Singapore) and associated companies ACR ReTakaful SEA (Malaysia) and ACR ReTakaful MEA (Bahrain) based on their solid capitalization and strong risk management capabilities.

The rating agency has also assigned a 'bbb-' ICR to ACR Capital Holdings (Singapore) with a stable outlook, reflecting its prudent serving practice while affirming the same rating for ACR ReTakaful Holdings' (UAE) ICR

According to AM Best, ACR recorded a relatively high combined ratio driven by volatility in a growing book of business for a young company where the continuation of such a trend will likely slow down the surplus growth and exert pressure on the company's risk-adjusted capitalization.

Given the start-up status of ACR ReTakaful MEA and ACR ReTakaful SEA, wholly owned entities of ACR ReTakaful Holdings (a joint venture between ACR Capital Holdings, Malaysia's Khazanah Nasional and Dubai Banking Group), the underwriting performance of these two companies remains to be seen.

On watch

TURKEY: Fitch Ratings has placed Kuveyt Turk Participation Bank's (Kuveyt Turk) long-term foreign currency Issuer Default Rating (IDR) of 'BB' on Rating Watch Positive (RWP).

It also affirmed the bank's long-term local currency IDR at 'BBB-', short-term foreign currency IDR at 'B', short-term local currency IDR at 'F3', individual at 'D', support at '3' and national long-term at 'AAA(tur)'. The outlook on the long-term local currency IDR and national rating are stable.

The affirmation of Kuveyt Turk's IDRs, national long-term and support ratings is based on Fitch's view of the probability of support from its 62% owner Kuwait Finance House.

The remaining 38% shares are held by Kuwaiti and Turkish public entities. However, this support is constrained by Turkey's Country Ceiling, 'BB', currently on RWP.

The Individual rating reflects Kuveyt Turk's exposure to growing credit risks and relatively limited albeit improving franchise. These are offset by good profitability, adequate capitalization and a diversified, and thus far stable, retail deposit base.

MIDDLE EAST

High credit risks

UAE: Capital Intelligence has lowered the long-term foreign currency ratings of Emirates Bank International (EBI) and National Bank of Dubai (NBD) to 'A+', one notch below that of the sovereign, to reflect the deterioration in asset quality and tight liquidity.

However, the likelihood of support from the sovereign in case of need remains high.

The slowing domestic economy and the collapse of the real estate market in Dubai has increased credit risks and brought down both banks' financial strength rating to 'A'. However, the banks' strong capital and good operating profitability are mitigating factors. All ratings carry a stable outlook.

Individual ratings will continue to be assigned to both banks until the legal integration of EBI and NBD is completed.

The two banks, which offer Shariah as well as conventional products and services, currently function as fully-owned subsidiaries of the holding company Emirates NBD.

The government of Dubai, through the Investment Corporation of Dubai, is the largest shareholder of ENBD with a 55.6% stake.

Stable funding

SAUDI ARABIA: Capital Intelligence has maintained property developer Dar Al-Arkan Real Estate Development's (DAAR) long- and short-term ratings at 'A-' and 'A2' respectively with a stable outlook.

DAAR's long-term track record of very good profitability is aided by an extensive and well-located land bank in the main cities of the kingdom.

These are booked at cost so there is likely to be significant value within the well-structured balance sheet in addition to a good base of more stable medium- and long-term funding.

Although DAAR's revenue over the last few years has been strong, it has been somewhat reliant upon land sales. Going forward, however, revenue streams should become more diversified as residential and other commercial projects such as shopping malls are completed.

CI felt that cash flow from sales will remain strong in the foreseeable future and hence good debt and interest coverage will be maintained given DAAR's good business model, management and market position.

In May this year, the company announced the closing of its third Islamic Sukuk issuance amounting to SAR750 million (US$200 million) that will mature in April 2014.

CHINA

Open sesame, Beijing!

No doubt China is currently stealing the spotlight on the international financial stage as the country continues to grow during the global downturn. And Islamic practitioners are taking notice, keenly eyeing China as the next big market to penetrate. But, unfortunately, sometimes opportunities also present challenges.

Practitioners have taken tangible steps towards constructing a viable Islamic finance platform in the Far East. One salient example is the establishment of the Islamic Market Greater China Index by Dow Jones, launched in October to measure the performance of Shariah compliant companies on the mainland as well as in Hong Kong and Taiwan.

Southeast Asia –– an active region in the Islamic finance space for decades –– is also recognizing its neighbor as a prospective participant. Syarikat Takaful Malaysia's group managing director, Hassan Kamil, said recently: "We are waiting for the Islamic finance infrastructure to be in place [in China]. Sukuk are gaining momentum. If these instruments are widely available, then we can leverage on them."

Interest from international investors and possible retail market demand could potentially push the Islamic finance industry to China's forefront. Theoretically, the opportunities are imminent. However, from a practical standpoint, regional socio-political tensions need to be reconciled –– for example, the recent Urumqi uprising –– and regulatory frameworks that support the industry's growth need to be established.

Zulkifli Ishak, Shariah investment director for Prudential Fund Management, recently mentioned that China's tax laws are not conducive for Islamic finance's growth, as transacting business conventionally would be less expensive. And, based on a recent assessment by the Islamic Bank of Asia, deposit structures for current accounts also need to be addressed, along with rules governing proprietary investments for banks. The Hong Kong administration recently committed to modify its tax laws for Sukuk, which is promising for Islamic finance's expansion in the region. This also signals that there is growing demand from investors from the Middle East and Asia to penetrate new arenas. Additionally, these legislative revisions could facilitate the penetration of Islamic finance into greater China and other parts of East Asia.

Another interesting development this week: Bank Negara Malaysia and the China Banking Regulatory Commission signed a memorandum of understanding to concretize relations between the two regulatory arms. Granted, the cooperation focuses on conventional banking supervision and intends to encourage trade linkages. But, in the future, one could speculate that the relationship may evolve, as the Malaysia model for Islamic finance is considered to be among the most feasible for nations simultaneously running dual financial systems, that is, Islamic alongside conventional.

Given China's substantial Muslim population –– albeit dispersed –– and its economic momentum, there is seemingly a (perceived?) demand for this industry in the Far East. However, like other non-traditional arenas, there are several socio-political and regulatory factors to consider and, then, reconcile. Inevitably, there is potential for the Islamic finance industry in China. But, as John Yip, vice-president of capital markets for Islamic Bank of Asia, succinctly surmised to Islamic Finance *news*: "[It is] too early."

SYRIA

The road to Damascus

When considering viable Islamic financial markets, the Gulf, Southeast Asia, or even Europe often come to mind but what about the Levant? Syria with its secular history is emerging as an attractive region for Islamic banking and global practitioners are taking note.

Based on recent reports, Syria ranks in the top 15 countries holding the most Shariah compliant assets with a sizeable US$3.8 billion, after only its geographical neighbor Jordan, with nearly US$4.6 billion. For Syria, this is quite a track record, given that the country only in 2005 passed legislation allowing for Islamic financial institutions to operate.

In 2007, Syria's first Islamic bank opened; Cham Bank was backed by Syrian, Kuwaiti and Saudi investors. Within a few months, the Syrian International Islamic Bank (SIIB) was set up by Syrian and Qatari private investors. SIIB now boasts more Shariah compliant assets under management than Cham Bank. Subsequently, other Islamic financial institutions made their debut, such as, Al Aqeelah Takaful Insurance Company, Syrian Qatar Takaful Insurance and most recently Albarakah Bank Syria. Within a few years, Syria's Islamic financial sector gained a substantial market share without cannibalizing off the conventional industry. And this is the conundrum that has intrigued international financial audiences.

Syria is unique in that many of its Islamic banking consumers are utilizing financial institutions for the first time ever to store money; hence the lack of cannibalization. Hisham Abu Hilmi, an official of the Syrian central bank, explained to Islamic Finance *news*: "Islamic banks are attracting new customers ... from those [previously] putting money away in mattresses and pillows." This practice is not endemic to Syria (and should not be viewed as a modernity index), for it is common throughout the entire Arab world. Most homes house personal safes that guard family heirlooms, important documents, even cash, and an investment consists of nothing more than the purchase of precious metals, that is, gold.

But why are new banking consumers opting for Islamic financial institutions rather than conventional ones? The question remains to be answered. But much like the El Nino effect, the global financial downturn in the conventional space can easily be blamed. Abu Hilmi also reinforced growth predictions for the sector in Syria: "[Islamic banks] have captured nearly 20% of the current overall market, and this is expected to grow up to 40% in the next five years."

This may sound enticing to global practitioners; in particular international banks with Islamic windows which aspire to grow their footprints in more Muslim markets. Sorry is not an option. "We do not allow Islamic windows," Abu Hilmi said. "[The financial institution] has to be entirely Islamic [to offer Islamic products]."

Despite this restriction, Syria is positioned for growth, and in turn, opportunities for new ventures. Overall, the country looks poised for growth with significant developments in its financial sphere. For one, the government anticipates attracting US$30 billion of foreign private investment in the next five years as it opens up its economy after decades of state control.

Reports by Fatimah S. Baeshen

MALAYSIA

A win-win situation

The Islamic collective investment scheme (ICIS) was a proposal mooted by the Islamic Financial Services Board (IFSB) Council in 2005 to develop a second tier of its governance standards by focusing on CIS that are supposedly Shariah compliant. IFSB issued its guiding principles on governance for ICIS early this year.

Malaysia looks keen to further develop its Islamic Capital Market (ICM), in particular, ICIS. This can be seen in the mutual recognition agreement (MRA) between the Securities Commission Malaysia (SC) and Hong Kong's Securities and Futures Commission (SFC) signed this week which would provide a common platform for cross-border offerings between the two jurisdictions.

As a result, fund managers would reap the most benefit from this MRA as Malaysian capital market intermediaries will be allowed to distribute their Islamic products in Hong Kong's financial hub with minimal regulatory intervention and similarly, Islamic funds that are authorized and primarily regulated by the SFC and managed by SFC-licensed managers can with immediate effect be marketed in Malaysia.

Islamic Finance *news* obtained the views of Prudential Al Wara (Pru Al Wara) CEO Zulkifli Ishak on the significance of the MRA to the Islamic fund management unit. Ishak said that it would not directly assist the unit as Pru Al Wara is licensed by the SC to only handle discretionary private mandates. "Therefore our involvement in the MRA would be very limited at this stage. PRU Al-Wara cannot manufacture CIS products but it is possible that PRU Al-Wara can be the fund manager for other unit trust companies which have CIS," he said.

Zulkifli was confident that the signing of the MRA would provide a "tick" in confidence that both Hong Kong and the Malaysian authorities are working closely to foster the development of Islamic finance in the region. "We see that as a positive sign which will definitely be part and parcel of the many factors that come into our business analysis of where the regional investment opportunity lies," he said.

Coincidentally, Prudential Fund Management launched its PRUdinasti equity fund last month which focuses on Shariah compliant equities and equity related securities in the Greater China region. Being an international institution, having a presence in other regions has always been part of its mandate with Malaysia as its launch pad.

"As the regional hub of Islamic financial services for the Prudential's global network, Malaysia will be an integral part of where our Islamic investments will be. However, just like what we have done in the past including the recent launch of PRUdinasti equity fund, we will continue to look for good opportunities arising from markets outside Malaysia to create value for all our investors," he said.

With the MRA in place, Malaysia can now tap into one of the most established international financial centers in Asia while serving as a gateway to China. Hong Kong, on the other hand, can rely on Malaysia's strength in Islamic finance and its fully liberalized Islamic fund management industry, which also boasts of the most Islamic funds in the world.

By Raphael Wong

Islamic Foreign Exchange Swap as a Hedging Mechanism

By Dr Asyraf Wajdi Dusuki

Islamic Foreign Exchange Swap (Islamic FX Swap) is a contract that is designed as a hedging mechanism to minimize market participants' exposure to volatile and fluctuating market currency exchange rates. To date, there are three main instruments of Islamic swaps— FX Swap, Cross Currency Swap and Profit Rate Swap. This article focuses solely on Islamic FX swap.

Shariah perspectives on the FX Swap

The FX Swap is a derivative instrument that has a specific objective to hedge against the risk of fluctuations in the exchange rate. The conventional structure of a FX Swap normally involves two foreign currency monetary exchanges; at the beginning and at the expiry date (FX Swap involves exchange and re-exchange of foreign currency). The dual exchange makes this FX Swap different from a forward contract. In the forward contract, the exchange only takes place once.

The FX swap involves two stages of exchange. At the beginning when the first currency exchange takes place, US dollar is converted to ringgit based on the spot rate. On the same day, both sides will seal a forward contract to exchange the ringgit back to US dollar at a forward rate.

From the Shariah view point, the problem with the conventional FX Swap structure arises when the parties involved want to exchange currency some time in the future but fix a rate on the day the contract is concluded. This contravenes basic Shariah rules governing the exchange of currency (Sarf). Under Sarf, it is prohibited to enter a forward currency contract, where the execution of a deferred contract in which the concurrent possession of both the counter values by both parties does not take place.

This rule applies in the case of an FX Swap, since the contract of exchanging two foreign currencies is done on a forward basis where the contract is concluded today, but the exchanges actually happen in the future (on the date of maturity).

There are two structures under the Islamic FX Swap. One structure is based on the Tawarruq contract (also known in the market as commodity Murabahah transaction) and the other adopts the concept of Waad (promise/undertaking).

Islamic FX Swap based on Tawarruq

This is structured with the application of two sets of Tawarruq (at the beginning) to achieve the same effect as a conventional FX Swap. As an illustration, say an investor has US$14.5 million and he wants to invest in the Euro currency (EUR) but does not want to be exposed to fluctuations in the currency market. This FX Swap product aims to protect the investor from currency rate fluctuation risks.

To understand the process and mechanism which is used in the Islamic version of FX Swap that complies with Shariah, Diagrams 1(a) and 1(b) gives a complete illustration of the mechanism of Islamic FX Swap.

Table 3 shows the cash flow in an FX Swap

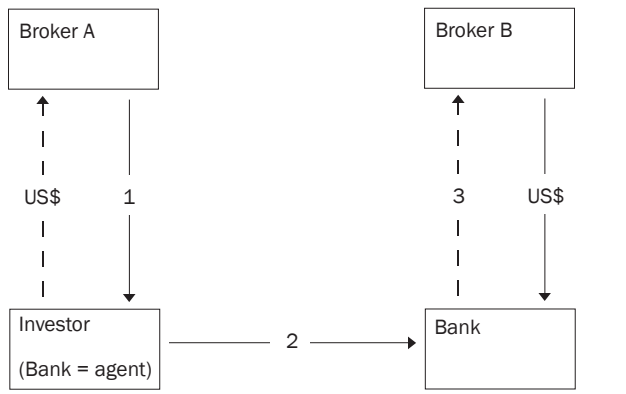
Islamic FX Swap based on Waad

The second structure in a FX Swap is based on the concept of Waad. The Waad is an Arabic word which literally means "a promise". The value of the Waad in Shariah is similar to the value of a social promise in Common Law.

The promise may have moral force, in that breaking it may provoke opprobrium (social blame), but it does not entail legal obligations or legal sanctions. Under Civil Law, the Waad can be binding or non-

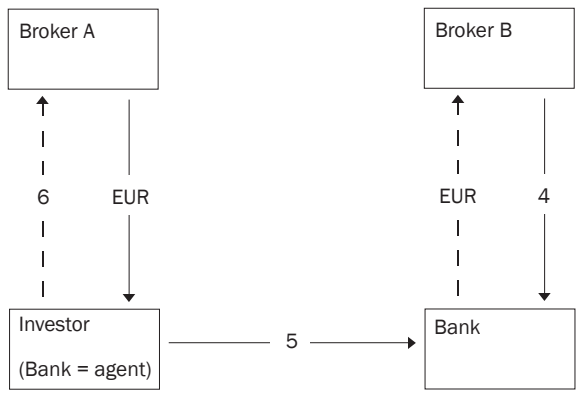
continued...

Diagram 1(a): Islamic FX Swap – First Part



1. Investor buys commodity worth US$14.5 million (through the bank) by cash.
2. Investor (through bank) sells the commodity to the bank at the price US$14.501 million by credit. The expiry date is one year.
3. Bank sells commodity to Broker B by cash and obtains US$14.5 million. The bank changes US$14.5 million to EUR10 million based on the spot rate.

Diagram 1(b): Islamic FX Swap – Second Part



4. Bank buys the commodity from Broker B worth EUR10 million by cash.
5. Bank now sells the commodity worth EUR10 million to the investor at the price of EUR10.141 million by credit. Expiry date is also one year.
6. Investor sells (through bank) the commodity to Broker A and obtains EUR10 million.

Islamic Foreign Exchange Swap as a Hedging Mechanism (continued)

Table 3: Cash flow in an FX Swap

				Cash Flow of Investor		Cash Flow of Bank	
	Return	Buying Price	Selling Price	Begining	End	Begining	End
Tawarruq US$	1bp	14,500,000	14,501,450	(14,500,000)	14,501,450	14,500,000	(14,501,450)
Tawarruq EUR	1.40874%	10,000,000	10,140,874	10,000,000	(10,140,874)	(10,000,000)	10,140,874
Exchange Rate		1.45	1.43				

binding depending on the intention of the party who is giving the promise.

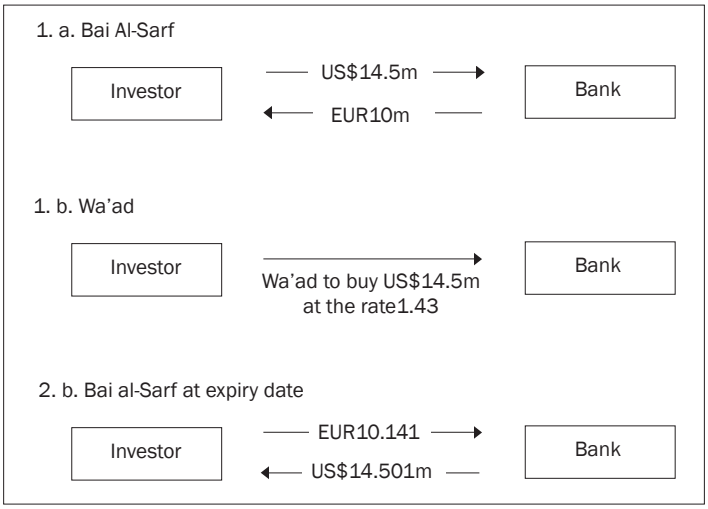
The OIC Islamic Fiqh Academy, based in Saudi Arabia, has decided that the Waad is "obligatory not only in the eyes of God but also in a court of law" when:

- It is made in commercial transactions.
- It is a unilateral promise.
- It has caused the promise to incur liabilities.

Also, it is a requirement that the actual sale — if the promise was in respect of selling a certain asset —be concluded at the time of exchange of the offer and the acceptance (known in Arabic as Majlis al-Aqd) and not at the time of the Waad.

The Islamic FX based on the Waad structure involves exchange of currencies (Sarf) at the beginning, and a promise or undertaking (Waad) to carry out another Sarf at a future date based on the rate determined today. At the expiry date, the second Sarf will be implemented to get back the original currency.

Diagram 2: Islamic FX Swap based on Waad



Parameters for hedging

The general Shariah parameters that one must abide by when structuring swap products are as follows:

1. Each contract in the swap structure must be actual (not a fictitious contract (suriyah).
2. Each contract has its own effect (atharuha). For example, a sales agreement gives the effect of ownership. There should not be any encumbrance on ownership (milkiah tammah). It is up to the buyer whether he wants to sell it, keep it or use it.
3. Each contract in the structure must be independent and separated.
4. The contracts must not be condional to one another.
5. For exchange contracts (Uqud Mu'awadhart), the pillars and conditions of the contracts must be complied with. The contract must be clear and a real transaction must occur, and must be proven.
6. The sequence of each contract to be executed must be followed accordingly to ensure that all these contracts are independent and separate from one another (mustaqillah).

Most of the swap products that have been approved by the respective Shariah committees of each financial institution have put a condition that Islamic swaps are exclusively for hedging purposes. This means that swaps can only be used as an insurance activity aimed to protect an asset from adverse change, which can be an unexpected or undesirable change in the value of an asset, at the lowest cost.

Based on statistical reports issued by the US Office of the Comptroller of Currency (OCC), only 2.7% from the total of derivatives are used by end users. That means transactions that aim to hedge only achieve the percentage stated, while the majority, 97.3 %, is used by dealers, or in other words by speculators.

These statistics will surely trigger concern as to what extent the Islamic swap product is really free from speculative activity that is not allowed in Shariah. Thus, more detailed guidelines or parameters (dhawabit) are necessary to make sure that this product is used solely for the purpose of hedging and not for speculative activities.

Some financial institutions give a written representation to get a guarantee and declaration from the counter-party subscribing to the swap product, thereby making sure that the swap is only used for the purpose of hedging and not speculation.

For other financial institutions, the swap is only used for hedging when there is a clear underlying transaction and contract, for example the Ijarah contract. This is to ensure that the underlying asset or asset foundation for the swap instrument is based entirely on actual and real economic activity and not a fictitious one.

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Islamic Finance in France: More Effort Required

By Neil D Miller

At a recent Paris meeting hosted by her ministry finance minister Christine Lagarde re-emphasized the government's desire to facilitate the growth of Islamic finance in France. Although the event was attended by more than 400 people — which must make it one of the best attended Shariah financial events in Europe in recent years — what did it tell us about the prospects for the development of the Islamic industry in that jurisdiction?

The French government realizes that the UK stole a march on the rest of Europe with its recent efforts to become the European hub for Islamic finance, but also understands that by failing to issue a sovereign governmental Sukuk in 2008, the door remains open for other challengers to try and step into the lacuna.

In many respects the event proved an eye-opener because of what it disclosed with regards to the state of awareness of Islamic finance in France. Although several of the major international French banks offer a variety of Shariah compliant products to their investment banking clients in other parts of the world (particularly the Middle East), it is not clear whether they are willing to offer Shariah compliant products in the domestic market. I came away from the conference with the overwhelming sense that the efforts in France are not as focused as they should be.

The introduction of fiscal and legislative changes to facilitate Islamic financial techniques "onshore" cannot happen without governmental support. The effort cannot be led primarily by marketing groups and professional advisers.

The two most important groups that need to be engaged by the initiative are representatives of the likely community, the consumer base that will be the customers of the new industry, and those financial institutions most likely to be delivering the financial products.

In addition, there also needs to be a very clear social or commercial objective. At the moment, this state of affairs does not seem to be as clear as it should be in France. Looking at what has been attempted so far, one has to question why the initial focus has been on measures designed to facilitate the capital (such as Sukuk), when it is still not clear what the treatment will be for all of the underlying primary instruments, such as Murabahah, Ijarah, Mudarabah, Musharakah and Wakalah.

The UK may not be the perfect model to follow, but it was the first western country to introduce a series of changes to its taxation and regulatory systems that has enabled:

(a) The use of Shariah compliant financial modes of finance on a basis equivalent to many conventional financial instruments.
(b) The establishment of financial institutions that are authorized as deposit taking entities that will be operated on wholly Islamic financial principles.

The developments in the UK occurred over a period of eight years and were not implemented in one single effort. It seems extremely unlikely that an all encompassing regime could be achieved in a single effort by any other western state. Although the legal system in the UK is based on common law and France has a codified system, it is still worth while studying the UK approach to understand what the key drivers were that led to legislative change.

The pressure for change in the UK was driven by several community groups, a varied group of financial institutions that included one of the largest UK retail banking groups, one of the largest Middle East regional banks (acting through its Islamic window) and the businessmen who were to eventually sponsor the establishment of the first FSA-authorized fully Shariah compliant retail financial institution in the UK.

At the same time, the governor of the Bank of England had also identified the problem faced by Muslims who wished to finance home purchases using methods which accorded with their faith: the double stamp duty charge that arose on the "sales based" contracts used to achieve a financing effect for Muslims.

The Bank of England governor became a keen supporter of the push to remove barriers to the development of economic home finance products for Muslims. Whilst this was happening, the government's social inclusion policies made the task of bringing the treasury on board relatively easier than it might otherwise have been. It is unlikely that the fortunate coincidence of factors described above could be readily replicated in other European countries, but the critical factor in all of this was that there was a single clear objective.

The potential customers had been identified, the initial product they were to be offered was known, there were banks lined up ready to provide the product and the fiscal barriers preventing its delivery were well known. After this initial legislative success, the UK Treasury established the Islamic Finance Experts Groups, designed to keep it aware of what further legislative and regulatory changes were needed to continue the development of Shariah compliant product offerings in the UK.

Perhaps the overwhelming message I picked up from my recent time in France is that it remains unclear who the target customer or consumer bases are and what the key financial products (or products) will be. It is also not apparent whether any of the major domestic financial institutions are going to drive this process forward.

Unless this happens, or alternatively, the French government determines it will issue sovereign Sukuk for purely promotional reasons, it is difficult to see how the industry can emerge in a meaningful way.

It is hoped that the recent conference will act as a catalyst and lead to a renewed and reinvigorated effort, that sets out some clear objectives and attracts new sponsors to drive this initiative.

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Risk Management in Takaful

By Abdullah Haron and Dawood Taylor

Risk management in all insurance undertakings revolves around the underwriting of risk. But life insurance, and to a lesser extent, non-life insurance, is also concerned with risks similar to those faced by banks, namely:

- **Investment risks arising from the investment of funds received from policyholders. The nature of which risk (market or credit risk) depends on the type of assets in which the funds are invested.**
- **Liquidity risk — the inability to meet obligations because assets cannot be converted into cash fast enough.**
- **Operational risk. This refers to the risk of failures or breakdowns in internal systems and procedures, whether due to human error or deficiencies in the systems themselves.**

While the risks that concern Takaful undertakings include the above, there are also some special considerations that are discussed below. The management of these risks is an important part of the operation of insurance undertakings, and has gained attention in the industry based on several factors. For example:

- Shareholders and investors want to know that insurers' strategic decision making is based on a reliable assessment of both risks and capital needs.
- Financiers within the capital markets expect that insurers, in their efforts to use scarce resources efficiently, will determine their capital requirements according to a comprehensive assessment of their risks.
- Rating agencies are increasingly basing their evaluations of insurers on the manner in which they identify, aggregate and manage risk.
- Regulators worldwide are increasingly evaluating insurers with risk-based approaches.

In a Takaful undertaking, the participants (policyholders) make a premium contribution on the Shariah juristic basis of Tabarru' (donation) to a common underwriting fund, which will be used mutually to indemnify them in case they suffer specified types of losses. In Family Takaful (which includes Shariah compliant life insurance), the premium contribution includes a savings or investment element, which is not a donation into a mutual risk pool but rather a payment into a participant's investment account. The underwriting in a Takaful is thus undertaken on a mutual basis, similar in some respects to conventional mutual insurance.

A typical Takaful undertaking consists of a two-tier structure that is a hybrid of a mutual and a commercial form of a company — the latter being the Takaful Operator (TO) — though in theory, it could be a pure

continued...

Table 1: Comparison between conventional insurance (proprietary and mutual) and Takaful

	Conventional Insurance (proprietary)	Conventional insurance (mutual)	Takaful
Contractual relationship	A policy in the form of an exchange contract (sale and purchase) between the insured (policyholder) and the insurance company.	A policy in the form of a risk-sharing contract between the individual insured and the pool of insured, as represented by the cooperative insurance company.	A combination of Tabarru' contract (donation) and the contractual relationship between: • The individual participants and the pool of participants. • Participants and the TO, as represented by the Takaful.
Responsibility of policyholders/participants	Policyholders pay premium to the insurer.	Policyholders pay premium to the insurer. Policyholders pay contributions to the pool in the form of premiums paid to the cooperative insurance company. Any underwriting surplus belongs to the policyholders, who are also liable for any deficit. Annual surpluses are normally retained in underwriting reserves out of which any annual deficits are normally met.	Participants make donations (Tabarru') to the scheme, as well as an element of savings in life Takaful, where a plan includes such a component. Any underwriting surplus belongs to the policyholders, who are also liable for any deficit (or see following alternative allowed by Shariah scholars). In some Takaful undertakings, the TO manages underwriting under a Mudarabah contract and receives a share of the underwriting surplus as a Mudarib fee. Something similar may also occur in a Wakalah contract, with a Wakalah performance-related fee based on the surplus.
Liability of the insurer/ operator	The insurer is liable to pay claims according to the policy using the underwriting fund, and if necessary, shareholders' funds.	The pool is liable to pay claims according to the policy using the underwriting fund.	The Takaful operator acts as the administrator of the scheme and pays the Takaful benefits from the Takaful (underwriting) fund. In the event of the impending insolvency of a Takaful underwriting fund, the Takaful operator may be expected to provide an interest-free loan to the Takaful fund to enable it to meet its obligations.

Risk Management in Takaful (continued)

Table 1: Comparison between conventional insurance (proprietary and mutual) and Takaful *(continued)*

	Conventional Insurance (proprietary)	Conventional insurance (mutual)	Takaful
Access to capital	Access to share capital and debt with the possible use of subordinated debt.	No access to share capital, but access to debt with the possible use of subordinated debt.	Access to share capital by the Takaful operator but not to debt, except for an interest-free loan from the operator to the underwriting fund.
Investment of fund	There are no restrictions apart from those imposed for prudential reasons.	There are no restrictions apart from those imposed for prudential reasons.	Assets of the Takaful funds are invested in Shariah compliant instruments.

mutual structure. Hence, the risks in a Takaful undertaking fall partly on the policyholders' funds, which include the Takaful (underwriting) funds and the policyholders' investment funds, and partly on the TO.

Takaful undertakings are also exposed to risks that result from their structure and their need to be Shariah compliant. These risks fall on the TO rather than on the underwriting pools. A TO is thus exposed to the following types of risk:

- *Operational risk*, which, owing to the need for compliance with Shariah rules and principles, involves reputational risk as a result of a failure in its systems and procedures for ensuring Shariah compliance.
- *Fiduciary risk* arising from misconduct or negligence in the performance of duties as Mudarib or Wakeel as a manager of the assets of underwriting funds and investment funds.
- *Business risk* of being unable to meet its operating expenses out of the fees it receives from managing the underwriting and the investments of the Takaful undertaking.

TOs are not exposed to underwriting risks, as these are borne by the Takaful risk funds, but have the same responsibilities as the managements of conventional mutual insurers as regards to risks management.

Comparison between conventional insurance and Takaful

From an operational point of view, the key differences between conventional proprietary insurance and Takaful are as follows:

1. Proprietary insurance is concerned with risk transfer, insured risks being transferred from the insured to the insurer in return for a premium; whereas Takaful is concerned with risk pooling, whereby the policyholders mutually insure one another in a common risk pool financed by their contributions (premium payments).
2. The investments of funds in a Takaful undertaking must be Shariah compliant.

A comparison between conventional insurance and Takaful provides distinct characteristics that shed light on the risk profiles of Takaful undertakings. In particular, the relationships between a TO and Takaful participants as highlighted in Table 1 are unique to Takaful undertakings, given that the Takaful participants are not insured as in conventional proprietary insurance but share the profits and bear the deficits of the Takaful undertaking in a manner similar to conventional mutual insurance. Thus, the TO plays an important role that the management of a conventional mutual does not play in the event of a periodic deficit in a Takaful fund. In such a case, the TO acts as a lender of last resort by providing a Qard (interest-free loan) to the Takaful fund. Such a loan will be repaid out of future underwriting surpluses.

A similar comparison may be made between life products from conventional life insurance providers, and life or Family Takaful. In both conventional mutuals and Takaful, investment profits belong to the policyholders. However in Takaful, the operator may share in these profits as a Mudarib or by virtue of a performance-related wakalah fee for fund management.

About the authors:
Dawood Taylor is the regional senior executive – Middle East for Prudential. Abdullah Haron is the assistant secretary general of the Islamic Financial Services Board.

This is an extract from a book titled "Takaful Islamic Insurance: Concepts and Regulatory Issues" edited by Rifaat Ahmed Abdel Karim, Simon Archer and Volker Nienhaus, reproduced with the permission of John Wiley & Sons, Asia. 9780470823521.

Islamic forex hedging transactions involve tangible assets and the exchange of commodities, which are essential to the underlying contract. Is hedging useful in financial risk management and to what extent can it be used to enhance returns?

Islamic forex hedging does not necessarily involve tangible assets and the exchange of commodities, as there are ways to execute forex options without an exchange of assets. However, the majority of hedging transactions do involve a combination of Murabahah/Musawwamah.

This is because a financial right, such as an FX option or an FX forward, is not considered a valid asset to purchase in an Islamic transaction. Therefore, one has to circumvent these rules by conducting front end and/or back end synthetic Murabahah/ Musawwamah trades.

Hedging is certainly useful in financial risk management, since it allows financial institutions and their clients to protect themselves from volatility in currencies brought about by the floating currency regimes in most countries.

With the Islamic world increasingly intertwined with the rest of the global economy, hedging will be a necessary mechanism for us to protect against potential downside risks associated with our investments and liabilities in other currencies and monetary jurisdictions.

Hence, if a customer has an asset in a foreign currency, which she would like to liquidate in the future, she can hedge or opt for the currency rate at today's rate rather than expose herself to lower valuations of that foreign currency. Alternatively, a customer may have liabilities in foreign currencies, but he does not want to take on the risk of high valuations for the foreign currency, which will require him to pay more in the end.

With respect to the question of enhancing returns, we must be clear from the start that hedging in the way that it is allowed is merely a legal ruse/stratagem, which is exceptionally tolerated, to circumvent explicit prohibitions on the deferred settlement of currencies. Whether it is a profit rate swap, total returns swap, FX forward or FX options, these are all exceptions to the rule and not acceptable instruments per se, like Murabahah, Ijarah or any other nominate contract.

The objective of the transaction therefore has to be a necessity (unlike Murabahah and Ijarah where the objective of the transaction does not necessarily have to follow from the original purpose the contract was designed for. For instance, Ijarah used for financial leasing or Murabahah for monetization).

Most scholars only recognize necessity for risk management purposes or protecting against downside movements and therefore by extension cost reduction. It cannot and should not be used for enhancing returns, whether it is based on fundamental analysis or speculation, since this makes both the objective/intention and the mechanism of the transaction non-compliant. To do so would be opening the floodgates to all sorts of speculative positions on financial rights and derivatives.

DR SAYD FAROOK: Senior consultant, structuring and legal, Dar Al Istithmar

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The purpose of a foreign exchange hedge transaction is to reduce the risk of adverse price movements in the exchange rate of a currency by entering into an offsetting transaction.

For example, I am based in the UK and know that I will be receiving GBP10,000 (US$17,000) in three months time. In this case, there are two main courses of action I can take. Either I wait until the three months have passed and see how many British pounds I will receive at that point in time; or I enter into a hedge transaction which could for example be a forward or an option contract.

From a Shariah perspective, the challenges with hedge contracts are generally defined as follows:

- The calculation of the future exchange rate includes an interest rate component.
- They can have a speculative nature.

The first point can be mitigated by applying Shariah compliant transaction types to achieve a similar economic benefit. This includes, but is not restricted to, the use of tangible assets, the exchange of commodities or the use of promises.

The second point is in a way more challenging, and will depend on the client's intent. Some of the conventional hedging instruments have developed into speculative products, even though the original intent behind them was to reduce the currency exposure.

In any case, there is strong demand for these instruments in the market since organizations typically require certainty of cash flows and do not include currency fluctuation when they manage their operations.

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From a financial risk management perspective, it could be argued that the inability to mitigate the risk of an open currency position causes unnecessary uncertainty related to future cash flows, and could potentially result in large losses.

When applying a forward contract, the exchange rate at the end of the transaction is known, and the parties to the transaction do not get the benefit of any potential favorable price movement.

On the other hand, applying option type structures in a mitigation strategy may also allow taking advantage of any favorable price movement by not executing a bought option.

Writing an option, however, has unlimited downside potential and would be more speculative in nature. Applied in the right way, hedges are an invaluable risk mitigation technique in financial management.

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

Hedging can be useful as it reduces risk and therefore results in investors being willing to accept a lower return. This lowering of the cost of capital can benefit those seeking finance, whether Islamic or conventional, potentially making projects viable that may not get funded if there was no hedging.

From a Shariah perspective hedging is permissible provided there is a real underlying commodity. Agreeing to purchase or sell oil or gas, for example, in three months time at a price agreed now is certainly permissible, providing the transaction is undertaken.

Similarly, if an importer agrees to a fixed forward exchange rate for the purchase of Euros after three months with UAE dirham or Saudi riyals in order to make a payment, this reduces contractual uncertainty and encourages trade.

Merely taking positions in currencies through buying or selling derivative contracts when the buyer or seller does not actually want the currency is however not permitted, as such use of derivatives contracts is usually speculative.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

To minimize risk hedging is one option used by institution. In most cases hedging cost lower returns. As long as the structure is Shariah compliant it can be used to enhance returns.

OMAR KALAIR: President and CEO, UM Financial

There is no doubt that hedging is a useful tool for risk management in financial transactions. As regards the Islamic forex hedging transactions, the scholars have allowed them as long as they are used for risk management and not for purely speculative purposes.

The extent to which these tools/transactions can be used for return enhancement is determined by the real purpose behind using them. As long as hedging is used for risk management and not for pure speculation, the return enhancement is acceptable and indeed desired.

PROFESSOR HUMAYON DAR: CEO, BMB Islamic UK

Next Forum Question

What benefits, if any, are Islamic financial institutions gaining from participating in Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB) or International Islamic Financial Market (IIFM) memberships? Please discuss.

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, 25th November 2009.

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

Name: Imam Qazi

Position: Head of Islamic finance

Company: Burges Salmon

Based: London and Bristol, UK

Age: 34

Nationality: British

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

My personal interest in Shariah and the Islamic economic system began while studying law and economics at University in the mid 90s. I joined Burges Salmon as a trainee fresh out of law school in 1997 and qualified as a real estate lawyer in 1999.

There were two events which, quite early on, helped me to see the potential to merge my personal beliefs and interests with my professional life. First, I began to help draft innovative Shariah compliant trusts for our private clients from the Middle East including advising on the Islamic rules of inheritance.

Secondly, I used the first Islamic mortgage product in the UK to buy my flat. I then went to battle with the Inland Revenue to reclaim the extra stamp duty I had to pay! So the path before me became clear and I set about my journey from real estate lawyer to Islamic finance lawyer. In 2008, I formally took up the role as head of Islamic finance.

What does your role involve?

My role as head of Islamic finance at Burges Salmon involves coordinating a team of specialist banking, real estate, corporate finance and private client lawyers to deliver an efficient service to Islamic financial institutions, investors and businesses. As well as managing relationships with our key clients, I enjoy spending many hours developing and implementing our evolving strategy to grow and enhance our Islamic finance proposition.

Fitting in neatly with this, I sit on the Middle East sub-committee of Burges Salmon's international committee which allows me to work closely with our "better friend" law firms in the region. Finally, my role involves a healthy dose of training and mentoring to help ensure that the long-term growth of the industry is based on firm foundations.

What is your greatest achievement to date?

Appearing in the Meet the Head section of Islamic Finance *news* ... only kidding, but it is of course a great honor!

It is probably best left to others to judge one's achievements but I can say it has been very satisfying to have built up from scratch a competitive Islamic finance practice at Burges Salmon. Having the full backing and trust of the firm has made this possible.

What are the strengths of your company?

The strength of any law firm rests with its people and it is no different for Burges Salmon. Our focus is on attracting talented individuals and providing them with a flexible and supportive working environment to ensure that everyone buys into the firm's vision and values. This naturally translates into all of our clients receiving a high quality and caring service. For me, being surrounded and supported by an outstanding team is invaluable.

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

The success of Burges Salmon, which extends to our Islamic finance practice, is in my view based upon our clear strategy to stand out from other law firms by focusing on building a reputation as the very best lawyers in key specialist areas. We were delighted, for example, to be awarded the Infrastructure/Energy Team of the Year in The Lawyer Awards 2009. Building solid and trusted personal relationships and always offering clear value for money are the other key factors to success.

What are the obstacles faced in running your business today?

Islamic finance has perhaps been insulated from the worst of the global recession but casualties are still being taken. Our challenge is to help our clients steer a safe course through the difficult terrain. Internationally, London faces stiff competition from other cities, all seeking to be global hubs for Islamic finance. In any event, we need to make sure we are well positioned to cope with and indeed benefit from the gradual but inevitable shift of global economic power from west to east.

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

The trends in the Islamic finance industry which I believe will be manifest in the next five years include:

- Continued and sustainable growth.
- A larger and more powerful global Muslim population.
- Increasing grassroots demand for increasingly purer Islamic finance products.
- The Shariah scholars being more vocal on the wider social objectives of Islamic finance.
- Greater differentiation between Islamic and conventional banking.
- The convergence of ethical and Islamic finance.
- The demise of "windows" and rise of wholly Islamic banks.

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

The institution of Zakat, the annual giving of 2.5% of wealth to the poor, needs to be much more closely integrated with the Islamic finance industry. This is just one way we can make the transition away from just providing products which are economically equivalent to their conventional counterparts towards exhibiting an alternative economic system which solves human problems.

International Finance Corporation's Hilal Sukuk

ISSUER	Hilal Sukuk Company
OBLIGOR	International Finance Corporation (IFC), the first non-Islamic financial institution to issue a Sukuk for term funding in the Gulf Cooperation Council
PRINCIPAL ACTIVITIES	IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. It fosters sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital and providing advisory and risk mitigation services to businesses and governments.
FACILITY DESCRIPTION	The Hilal Sukuk is a dollar-denominated US$100 million non-amortizing issue with a five-year maturity
JOINT LEAD MANAGERS	HSBC Amanah, Dubai Islamic Bank, Kuwait Finance House Bahrain and Liquidity Management House
TRANSACTION COUNSEL	Lovells
RATING	'Aaa' by Moody's
LISTING	Bahrain Stock Exchange and NASDQ Dubai
AGENT & DELEGATE TRUSTEE	Citi
LISTING DATE	4th November 2009
ISSUE DATE	3rd November 2009
MATURITY DATE	3rd November 2014
COUPON RATE	Fixed Rate of 3.037% payable every six months

NOMURA

AUSTRALIA: Nomura Australia has hired the former vice-chairman of Citi Australia, Peter Meurer, to head its investment banking division.

With more than 30 years of experience in the investment banking and stockbroking industries, he will help lead and advise a team that was recently strengthened with multiple senior hires, including Ian Maxton, a former vice-chairman from Deutsche Bank.

Before joining Citi, Meurer was vice-chairman and managing director for corporate broking at Merrill Lynch Australia.

Nomura Australia is a subsidiary of Japanese investment bank Nomura Securities through the acquisition of Lehman Brothers' Asia franchise.

JORDAN DUBAI ISLAMIC BANK

JORDAN: Jordan Dubai Islamic Bank (formerly known as Industrial Development Bank) has appointed Dr Hussain Hamed Hassan as the chairman of its Shariah and legitimacy control committee. Dr Ali Al Swa and Dr Ahmed Melham were named committee members.

Hassan has more than 50 years of experience in Islamic finance, and is the chairman of the Shariah and legitimacy control committee at several Islamic financial institutions in the UAE, Saudi Arabia, Bahrain, Sudan, Algeria, the UK and Pakistan.

He previously worked as a legal and economic consultant for several countries as well as Islamic organizations.

TAKAFUL RE

UAE: The Islamic reinsurance company has named Khaled M Khaleif as its finance manager.

With 12 years of experience in reinsurance finance with parent Arab Insurance Group, Khaleif will be responsible for all the firm's finance functions including budgeting, planning and external/internal reporting.

NOMURA

SINGAPORE: Nomura has hired four executives for its Asia ex-Japan investment banking team. Daniel Yap joins as head of its insurance solutions group.

He was previously with the Royal Bank of Scotland as managing director in financial institutions sales for the Asia-Pacific, leading the regional insurance client coverage and solutions business.

Graham Conran is head of debt origination. Prior to joining Nomura, he spent 10 years with JP Morgan. Most recently he was head of debt capital markets origination for emerging Asia, based in Hong Kong. Oi Yee Choo is executive director focusing on Southeast Asia real estate coverage.

She was most recently head of strategic planning and business development with Parkway Holdings, where she was responsible for acquisition and development origination activities across Asia, as well as the structuring and initial public offering of the Parkway Life Real Estate Investment Trust.

Reginaldo Cariaso is executive director for equity capital markets. He was previously an executive director for equity capital and derivatives markets at JP Morgan in Hong Kong. Cariaso has more than 12 years experience in banking, origination and execution in Asia ex-Japan.

RELIANCE

MALAYSIA: Reliance Capital has appointed Ian Lancaster as CEO of its wholly owned Malaysian subsidiary, Reliance Asset Management.

Lancaster, who has over 20 years of fund management experience, was formerly with Gulf Finance House in Bahrain as the head of international equities.

He previously managed a UK equity income fund for insurance group Norwich Union, now known as Aviva. Prior to that he was with AXA Equity and Law, where he was part of the equity team.

Reliance Capital is within the Reliance Anil Dhirubhai Ambani Group and is one of India's leading financial services firms.

Deal tracker

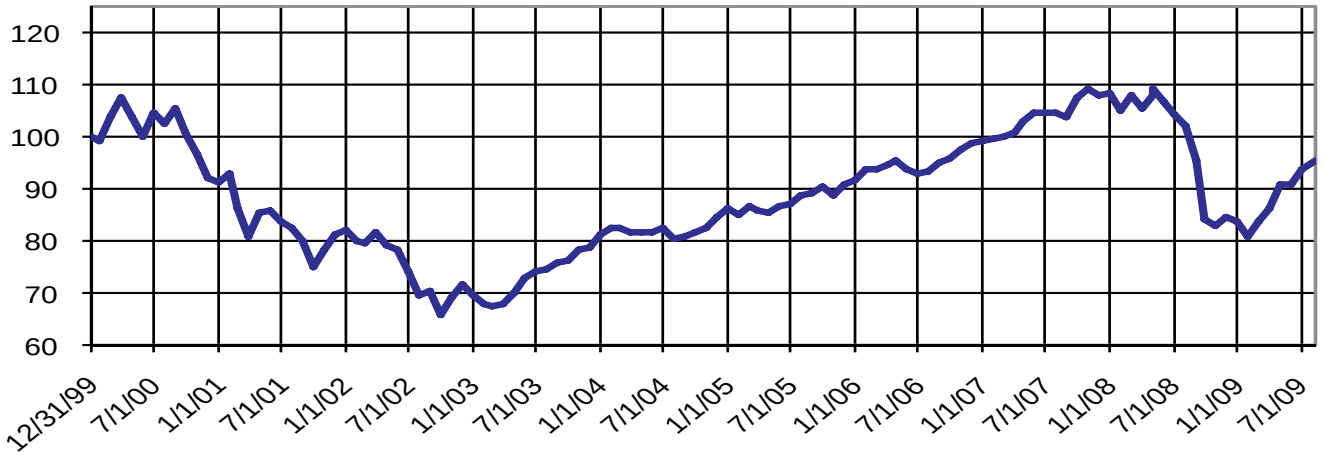
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Sharjah Investment and Development Authority	US$2.7 billion	Sukuk
Salim Ivomas	US$130 million	Sukuk Ijarah worth IDR250 billion (US$26 million) and IDR1 trillion (US$104 million) of conventional bonds
South Korea	Between US$500 million and US$1 billion	Medium-term notes, involving the sale of US$2.5 billion in Sukuk and US$4 billion in conventional bonds
General Electric Capital	Up to US$1 billion	Benchmark Sukuk
Ithmaar Bank	Between US$400 million and US$500 million	A five-year mandatory convertible Sukuk, a rights issue and a credit call option
Jordan	TBA	Sukuk
Dubai Civil Aviation Authority	US$1 billion	Sukuk and conventional bonds
Cagamas	US$884.6 million	Sukuk
HSBC Bank Middle East	US$5 billion	Trust Certificates
Saudi Aramco & Total	US$500 million	Sukuk
Port of Tanjung Pelepas	US$292 million	Sukuk
Khazanah Nasional	TBA	US dollar denominated exchangeable Sukuk
Republic of Indonesia	US$1 billion	Global Sukuk
France	US$1.5 billion	Sukuk
Guoco Land	US$34 million	Commodity Murabahah
Pupuk Kaltim	US$145 million	Sukuk
Dubai Department of Finance	US$10 billion	Sukuk
Sakana Holistic Housing Solutions	US$50 million	Sukuk
Dar-Al Dhabi Holding	US$346.4 million	Sukuk
Unicorn Investment Bank	US$425 million	Sukuk Ijarah
Islamic Bank of Thailand	US$1.4 billion	Sukuk
HSBC	TBA	Sukuk
Majlis Bandaraya Melaka Bersejarah	US$27.63 million	Sukuk
Qatar Gas Transport Company	Up to US$500 million	Sukuk

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

Eurekahedge Global Islamic Fund Index



Monthly returns for Developed Markets funds (as of the 9th November 2009)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	NBAD UAE Islamic (Al Nae'em)	National Bank of Abu Dhabi	13.44	UAE
2	ETFS Physical Silver	ETFS Metal Securities	13.09	Jersey
3	SWIP Islamic Global Equity - Class A	Scottish Widows Investment Partnership	11.76	UK
4	Amanah Saudi Industrial	The Saudi British Bank	10.84	Saudi Arabia
5	Al Fursan	Banque Saudi Fransi	10.25	Saudi Arabia
6	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	9.93	Ireland
7	Riyad Equity 2	Riyad Bank	9.59	Saudi Arabia
8	Bakheet Saudi Trading Equity	Bakheet Investment Group	9.15	Saudi Arabia
9	Allianz RCM Islamic Global Emerging Markets Equity - AT - USD	Allianz Global Investors Luxembourg	8.90	Luxembourg
10	iShares MSCI Emerging Markets Islamic	Barclays Global Investors Ireland	8.34	Ireland
	Eurekahedge Islamic Fund Index*		**2.31**	

Monthly returns for Emerging Markets funds (as of the 9th November 2009)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	ETFS Physical Silver	ETFS Metal Securities	13.09	Jersey
2	SWIP Islamic Global Equity - Class A	Scottish Widows Investment Partnership	11.76	UK
3	DWS Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	9.93	Ireland
4	AlAhli Small Cap Trading Equity	The National Commercial Bank	7.54	Saudi Arabia
5	Al-Mubarak Global Equity	Arab National Bank	5.98	Saudi Arabia
6	ETFS Physical PM Basket	ETFS Metal Securities	5.96	Jersey
7	Jadwa Aggressive Allocation	Jadwa Investment	5.47	Saudi Arabia
8	Al Dar World Equities	Pictet Asset Management UK	4.68	Luxembourg
9	AlAhli Global Real Estate	The National Commercial Bank	4.56	Saudi Arabia
10	JPM Islamic Global Dynamic Equity (USD) A (acc)	JPMorgan International Bank	4.56	Luxembourg
	Eurekahedge Global Islamic Fund Index*		**2.32**	

EUREKAHEDGE

Contact Eurekahedge

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

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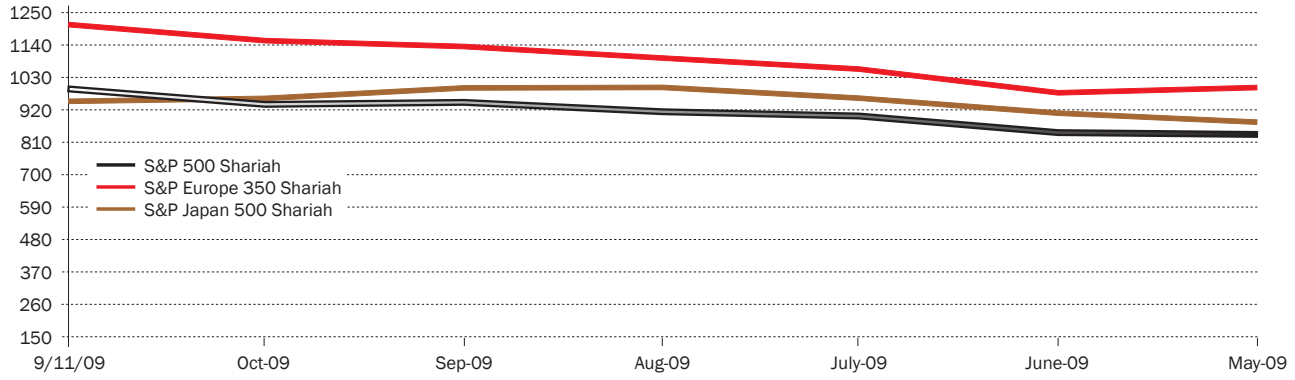
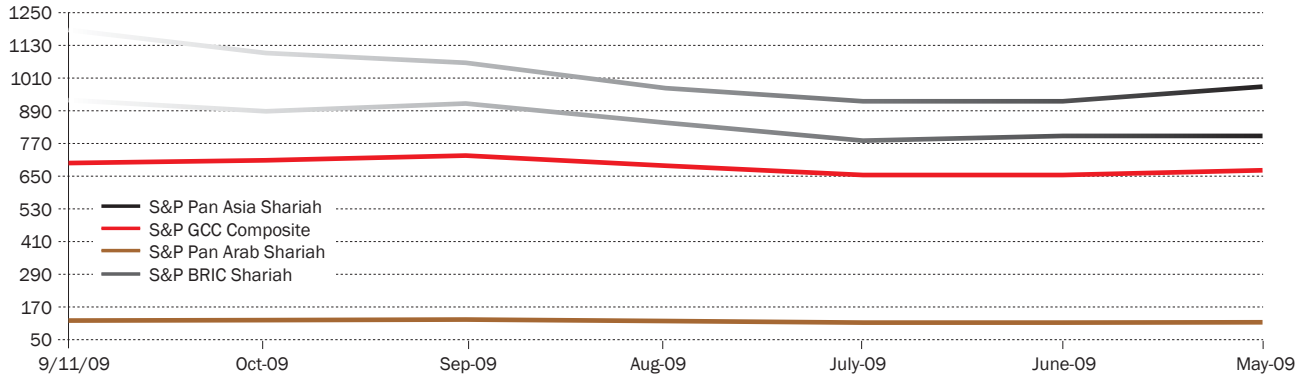
EUREKAHEDGE

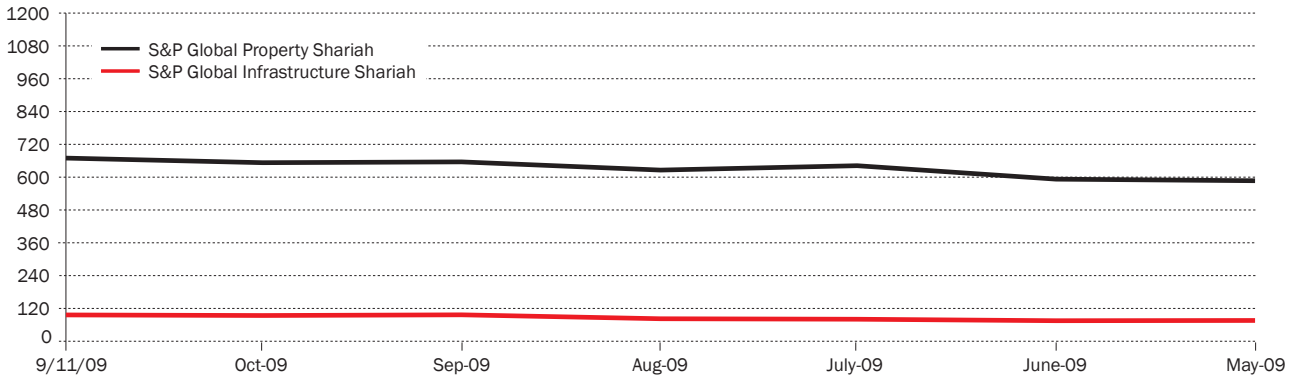
S&P Shariah Indices Price Index Levels



Index Code	Index Name	9/11/09	Oct-09	Sep-09	Aug-09	July-09	June-09	May-09
SPSHX	S&P 500 Shariah	990.955	938.522	945.321	913.542	899.016	842.797	836.573
SPSHEU	S&P Europe 350 Shariah	1209.256	1154.847	1134.881	1095.741	1058.270	977.823	995.630
SPSHJU	S&P Japan 500 Shariah	948.928	958.793	994.367	996.042	959.584	908.760	878.263



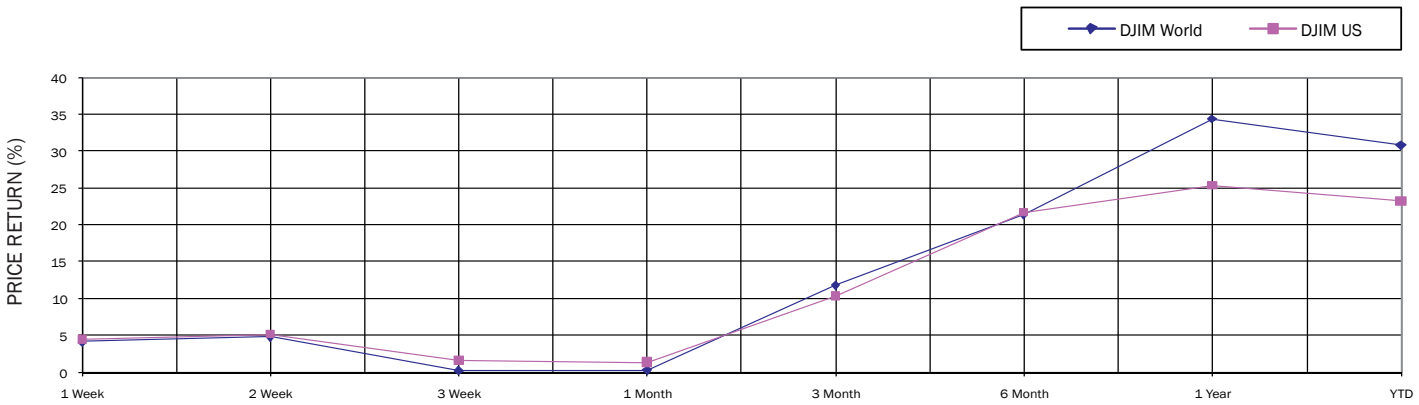
Index Code	Index Name	9/11/09	Oct-09	Sep-09	Aug-09	July-09	June-09	May-09
SPSHAS	S&P Pan Asia Shariah	929.159	888.072	916.579	846.106	867.704	780.340	797.647
SPSHG	S&P GCC Composite Shariah	698.134	708.224	725.528	688.379	669.202	654.208	671.614
SPSHPA	S&P Pan Arab Shariah	120.147	121.749	123.831	118.463	115.322	112.643	113.860
SPSHBR	S&P BRIC Shariah	1186.664	1101.842	1066.062	973.014	996.242	924.814	978.497



Index Code	Index Name	9/11/09	Oct-09	Sep-09	Aug-09	July-09	June-09	May-09
SPSHGU	S&P Global Property Shariah	669.708	652.897	655.839	625.881	641.907	592.683	586.922
SPSHIF	S&P Global Infrastructure Shariah	96.160	94.056	96.587	82.238	80.488	75.034	75.918

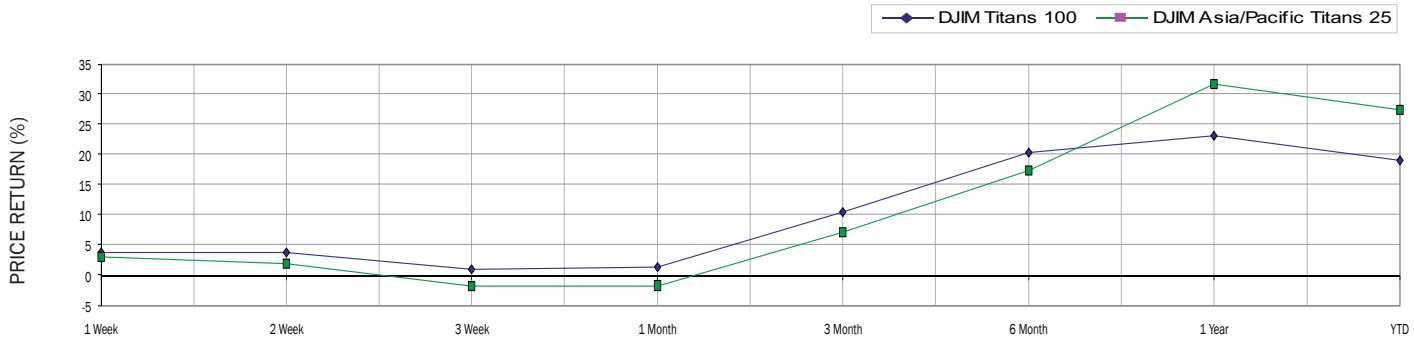
Data as of the 9th November 2009

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	4.10	4.79	0.28	0.37	11.83	21.37	34.38	30.81
DJIM US	4.35	5.12	1.56	1.33	10.27	21.66	25.37	23.21

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	3.77	3.82	1.05	1.40	10.49	20.29	23.20	19.05
DJIM Asia/Pacific Titans 25	3.15	1.96	-1.73	-1.49	7.27	17.37	31.76	27.40

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2403	15375.32	12054.73	5.02	0.99	350.39	0.00	2.91	0.00
DJIM US	616	6726.03	6278.74	10.19	2.38	350.39	0.13	5.58	0.00
DJIM Titans 100	100	6852.95	6141.03	61.41	40.60	350.39	12.29	5.71	0.20
DJIM Asia/Pacific Titans 25	25	987.79	665.49	26.62	21.48	74.40	12.29	11.18	1.85

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

TOP ISSUERS OF ISLAMIC BONDS NOV 2008 – NOV 2009

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Government of Dubai	UAE	Sukuk	1,931	1	11.0	Standard Chartered, UBS, Dubai Islamic Bank, Bahrain Islamic Bank, Emirates NBD, Mitsubishi UFJ Securities International
2	Saudi Electricity	Saudi Arabia	Sukuk	1,867	1	10.7	HSBC, Samba Financial Group
3	Petronas Global Sukuk	Malaysia	Ijarah Sukuk	1,498	1	8.6	Morgan Stanley, CIMB, Citigroup
4	Terengganu Investment Authority	Malaysia	Murabahah Sukuk	1,422	1	8.1	AmInvestment
5	TDIC Sukuk	UAE	Sukuk Ijarah	1,000	1	5.7	Standard Chartered Bank, HSBC, Abu Dhabi Commercial Bank
6	Islamic Development Bank	Saudi Arabia	Sukuk Wakalah	850	1	4.9	BNP Paribas, CIMB, Deutsche Bank, HSBC
7	Kingdom of Bahrain	Bahrain	Sukuk Ijarah	750	1	4.3	Deutsche Bank, HSBC, Calyon
8	Republic of Indonesia	Indonesia	Sukuk Ijarah	650	1	3.7	Standard Chartered, HSBC, Barclays Capital, (Persero) Danareksa Trimegah Securities, Bank Mandiri
9	Khazanah Nasional	Malaysia	Sukuk Musharakah	601	3	3.4	CIMB Group, AmInvestment, Maybank Investment Bank
10	Sime Darby	Malaysia	Musharakah MTN	590	1	3.4	CIMB, Maybank Investment Bank, Public Bank
11	Cagamas	Malaysia	Murabahah MTN	589	4	3.4	Standard Chartered, AmInvestment, Maybank Investment Bank, HSBC, CIMB, RHB Capital
12	Syarikat Prasarana Negara	Malaysia	Ijarah MTN	573	1	3.3	CIMB, Maybank Investment Bank
13	Abu Dhabi Islamic Bank	UAE	Sukuk	545	1	3.1	JPMorgan Securities
14	Danga Capital	Malaysia	Sukuk Musharakah	444	1	2.5	CIMB, AmInvestment
15	Islamic Republic of Pakistan	Pakistan	Sukuk	441	3	2.5	Standard Chartered, Dubai Islamic Bank Pakistan
16	Penerbangan Malaysia	Malaysia	Murabahah MTN	411	1	2.4	HSBC, CIMB, AmInvestment
17	Rak Capital	UAE	Sukuk Ijarah	407	1	2.3	BNP Paribas, Standard Chartered
18	MISC	Malaysia	Murabahah MTN	368	2	2.1	HSBC, CIMB, AmInvestment
19	Pengurusan Aset Air - PAAB	Malaysia	Ijarah MTN	341	1	1.9	CIMB
20	Seafield Capital	Malaysia	Sukuk Musharakah	269	1	1.5	CIMB
	Total			**17,527**	**69**	**100.0**	

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TOP ISSUERS OF ISLAMIC BONDS AUG 2009 – NOV 2009

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss.	%	Manager
1	Government of Dubai	UAE	Sukuk	1,931	1	30.82	Standard Chartered, UBS, Dubai Islamic Bank, Bahrain Islamic Bank, Emirates NBD, Mitsubishi UFJ Securities International
2	TDIC Sukuk	UAE	Sukuk Ijarah	1,000	1	15.96	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
3	Islamic Development Bank	Saudi Arabia	Sukuk Wakalah	850	1	13.57	BNP Paribas, CIMB, Deutsche Bank, HSBC
4	Sime Darby	Malaysia	Musharakah MTN	590	1	9.41	CIMB, Maybank Investment Bank, Public Bank
5	Syarikat Prasarana Negara	Malaysia	Ijarah MTN	573	1	9.14	CIMB, Maybank Investment Bank
6	Pengurusan Aset Air	Malaysia	Ijarah MTN	341	1	5.44	CIMB
7	Khazanah Nasional	Malaysia	Sukuk Musharakah	214	1	3.41	CIMB, AmInvestment Bank, Maybank Investment Bank
8	Islamic Republic of Pakistan	Pakistan	Sukuk	174	1	2.78	Standard Chartered
9	MISC	Malaysia	Murabahah MTN	172	1	2.74	HSBC, CIMB, AmInvestment
10	UMW Holdings	Malaysia	Musharakah MTN	141	1	2.25	Maybank Investment Bank
11	International Finance	US	Sukuk	100	1	1.60	HSBC, Kuwait Finance House, Dubai Islamic Bank, Liquidity Management Centre
12	CIMB Islamic Bank	Malaysia	Sukuk Musharakah	86	1	1.37	Maybank Investment Bank
13	Projek Lintasan Shah Alam	Malaysia	Ijarah MTN	37	1	0.58	RHB Capital
14	Makro Utama	Malaysia	Sukuk Istisna	28	1	0.45	Kenanga Investment Bank
15	TSH Sukuk Ijarah	Malaysia	Ijarah MTN	15	1	0.24	OSK Investment Bank
16	Offshoreworks Capital	Malaysia	Musharakah MTN	11	1	0.18	MIDF Amanah Investment Bank
17	Serrisa Sinar	Malaysia	Murabahah MTN	3	1	0.05	MIDF Amanah Investment Bank
	Total			6,264	17	100.00	

ISLAMIC BONDS				NOV 2008 – NOV 2009
	Manager or Group	Amt US$ m	Iss	%
1	CIMB	3,361	28	19.2
2	HSBC	2,509	14	14.3
3	AmInvestment	2,047	10	11.7
4	Standard Chartered	1,465	10	8.4
5	Samba Financial Group	1,033	2	5.9
6	Maybank Investment Bank	913	12	5.2
7	JPMorgan	545	1	3.1
8	Morgan Stanley	499	1	2.9
9	Citigroup	499	1	2.9
10	Deutsche Bank	463	2	2.6
11	BNP Paribas	416	2	2.4
12	Abu Dhabi Commercial Bank	333	1	1.9
13	Dubai Islamic Bank	331	2	1.9
14	Mitsubishi UFJ Securities	310	2	1.8
15	UBS	306	1	1.7
16	Emirates NBD	306	1	1.7
17	Calyon	250	1	1.4
18	RHB Capital	226	8	1.3
19	Barclays Capital	217	1	1.2
20	Bahrain Islamic Bank	208	1	1.2
	Total	**17,527**	**69**	**100.0**

ISLAMIC BONDS				AUG 2009 – NOV 2009
	Manager or Group	Amt US$ m	Iss	%
1	CIMB	1421	7	22.7
2	Standard Chartered	813	3	13.0
3	HSBC	657	4	10.5
4	Maybank Investment Bank	624	3	10.0
4	Abu Dhabi Commercial Bank	333	1	5.3
6	Dubai Islamic Bank	331	2	5.3
7	UBS	306	1	4.9
8	Mitsubishi UFJ Securities	306	1	4.9
8	Emirates NBD	306	1	4.9
10	Deutsche Bank	213	1	3.4
11	BNP Paribas	213	1	3.4
12	Bahrain Islamic Bank	208	1	3.3
13	Public Bank	197	1	3.1
14	National Bank of Abu Dhabi	97	1	1.6
15	Al Hilal Bank	97	1	1.6
16	RHB Capital	37	1	0.6
17	Kenanga Investment Bank	28	1	0.5
18	Liquidity Management Centre	25	1	0.4
19	KFH	25	1	0.4
20	OSK	15	1	0.2
	Total	**6,264**	**17**	**100.0**

ISLAMIC BONDS BY COUNTRY			NOV 2008 – NOV 2009
	Amt US$ m	Iss	%
Malaysia	8,468	51	48.3
UAE	3,882	4	22.2
Saudi Arabia	3,123	4	17.8
Indonesia	762	5	4.4
Bahrain	750	1	4.3
Total	**17,527**	**69**	**100.0**

ISLAMIC BONDS BY COUNTRY			AUG 2009 – NOV 2009
	Amt US$ m	Iss	%
UAE	2,931	2	46.8
Malaysia	2,209	12	35.3
Saudi Arabia	850	1	13.6
Total	**6,264**	**17**	**100.0**

ISLAMIC BONDS BY CURRENCY			NOV 2008 – NOV 2009
	Amt US$ m	Iss	%
Malaysian ringgit	6,970	50	39.8
US dollar	6,505	8	37.1
Saudi Arabian riyal	2,273	3	13.0
UAE dirham	1,225	2	7.0
Pakistan rupee	441	3	2.5
Total	**17,527**	**69**	**100.0**

ISLAMIC BONDS BY CURRENCY			AUG 2009 – NOV 2009
	Amt US$ m	Iss	%
US dollar	3,200	4	51.1
Malaysian ringgit	2,209	12	35.3
UAE dirham	681	1	10.9
Total	**6,264**	**17**	**100.0**

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ALL DATA AS OF THE 9th NOVEMBER 2009

SUKUK MANAGERS (12 months) NOV 2008 – NOV 2009

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	28,373,739,178	161	48.0
2	CIMB	9,570,685,779	120	16.2
3	AMMB Holdings	2,706,245,619	102	4.6
4	HSBC Banking Group	2,397,482,554	39	4.1
5	RHB Banking Group	1,853,400,235	56	3.1
6	Malaysian Industrial Development Finance	1,840,765,737	302	3.1
7	Standard Chartered Bank	1,676,264,268	19	2.8
8	Citigroup	1,267,746,162	7	2.1
9	Morgan Stanley	1,215,000,000	5	2.1
10	Dubai Islamic Bank	1,057,500,000	3	1.8
11=	Mitsubishi UFJ Financial Group	937,500,000	2	1.6
11=	UBS AG	937,500,000	2	1.6
13	Samba Financial Group	933,261,000	1	1.6
14	Malayan Banking	830,851,342	101	1.4
15	Barclays Bank	435,500,000	3	0.7
16	Affin Holdings	416,345,042	39	0.7
17	OSK Holdings	334,441,277	29	0.6
18	Cagamas	330,276,280	26	0.6
19	EON Capital	285,557,138	91	0.5
20	OCBC Bank	217,115,950	30	0.4

SUKUK MANAGERS (3 months) AUG 2009 - NOV 2009

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	13,200,000,000	21	42.0
2	CIMB	7,395,000,000	12	23.5
3=	Citigroup	1,215,000,000	5	3.9
3=	Morgan Stanley	1,215,000,000	5	3.9
5	Standard Chartered	1,135,000,000	5	3.6
6	Dubai Islamic Bank	1,057,500,000	3	3.4
7	RHB Banking Group	1,049,000,000	21	3.3
8=	UBS	937,500,000	2	3.0
8=	Mitsubishi UFJ Financial Group	937,500,000	2	3.0
10	Malaysian Industrial Development Finance	899,000,000	71	2.9
11	HSBC Banking Group	620,000,000	4	2.0
12	AMMB Holdings	295,500,000	14	0.9
13	Malayan Banking	182,500,000	12	0.6
14	OSK Holdings	165,000,000	6	0.5
15	Affin Holdings	150,000,000	4	0.5
16	EON Capital	144,000,000	18	0.5
17=	Abu Dhabi Islamic Bank	120,000,000	1	0.4
17=	Far Eastern International Bank	120,000,000	1	0.4
17=	Qatar International Islamic Bank	120,000,000	1	0.4
17=	UAE (Government)	120,000,000	1	0.4

SUKUK ISSUERS (12 months) NOV 2008 – NOV 2009

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	8,374,454,657	23	17.9
2	Bank Negara Malaysia	6,472,759,143	114	13.8
3	BNM Sukuk	4,051,395,334	18	8.7
4	Bank Indonesia	3,848,535,863	53	8.2
5	Petronas Global Sukuk	3,000,000,000	2	6.4
6	Dubai DOF Sukuk	1,930,587,500	2	4.1
7	Saudi Electricity	1,866,522,000	1	4.0
8	Khazanah Nasional	1,700,063,549	5	3.6
9	Terengganu Investment Authority	1,419,647,927	8	3.0
10	Indonesia (Government)	1,300,000,000	2	2.8
11	TDIC Sukuk	1,000,000,000	1	2.1
12	Cagamas	866,277,815	26	1.8
13	Perusahaan Penerbit SBSN Indonesia	815,994,634	5	1.7
14	ESSO Malaysia	787,701,644	14	1.7
15	Pengurusan Air SPV	739,865,000	3	1.6
16	Syarikat Prasarana Negara	577,872,000	2	1.2
17	MISC	572,905,000	6	1.2
18	Danga Capital	454,287,337	2	1.0
19	Pakistan (Government)	440,994,225	3	0.9
20	Penerbangan Malaysia	425,894,378	1	0.9

SUKUK ISSUERS (3 months) AUG 2009 - NOV 2009

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	Petronas Global Sukuk	3,000,000,000	2	18.5
2	BNM Sukuk	2,943,856,500	12	18.1
3	Malaysia (Government)	2,320,721,400	7	14.3
4	Dubai DOF Sukuk	1,930,587,500	2	11.9
5	Bank Indonesia	1,047,616,590	13	6.4
6	TDIC Sukuk	1,000,000,000	1	6.2
7	Pengurusan Air SPV	739,865,000	3	4.6
8	Khazanah Nasional	706,310,000	2	4.3
9	Syarikat Prasarana Negara	577,872,000	2	3.6
10	MISC	288,936,000	3	1.8
11	Rantau Abang Capital	287,900,000	1	1.8
12	ESSO Malaysia	263,637,000	3	1.6
13	Malakoff	175,824,000	1	1.1
14	Pakistan (Government)	174,265,020	1	1.1
15	CIMB Islamic Bank	86,680,800	1	0.5
16	Hytex Integrated	46,454,704	17	0.3
17	Mulpha International	45,685,675	6	0.3
18	Hubline	43,213,730	4	0.3
19	Projek Lintasan Shah Alam	36,630,000	8	0.2
20	Alam Maritim Resources	29,112,785	2	0.2

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Islamic Sukuk league tables reflect Shariah compliant bonds showing evidence of ownership of assets or their earnings. These results include (but are not limited to) the following securities/assets: Sukuk Salam, Sukuk Mudarabah, Sukuk Ijarah, Sukuk Murabahah, Sukuk Istisna and Sukuk Musharakah.

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ALL DATA AS OF THE 9th NOVEMBER 2009

LOAN MANDATED LEAD ARRANGERS — NOV 2008 – NOV 2009

	Lender	Pro Rata ($)	Full Credit ($)	Deals	Market Share %
1	Dubai Islamic Bank	1,365,903,212.63	3,283,225,701.00	4	15.4
2	Samba Financial	1,216,530,730.61	4,243,632,889.79	3	13.8
3	Qatar Islamic Bank	1,100,000,000.00	1,100,000,000.00	1	12.4
4	National Commercial Bank	848,030,730.61	2,769,632,889.79	2	9.6
5	Standard Chartered	687,864,557.16	3,842,225,701.00	5	7.8
6	Calyon Corporate & Investment Bank	430,961,344.54	2,796,000,000.00	4	4.9
7	Al Hilal Bank	368,500,000.00	1,474,000,000.00	1	4.2
8	HSBC	275,961,344.54	2,021,000,000.00	3	3.1
9=	Bank of China	214,714,285.71	1,503,000,000.00	1	2.4
9=	Alinma Bank	214,714,285.71	1,503,000,000.00	1	2.4
11	Al Rajhi Banking & Investment	172,647,058.82	1,075,000,000.00	2	2.0
12	Emirates Bank	170,403,212.63	982,225,701.00	2	1.9
13=	Gulf Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.8
13=	National Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.8
13=	Standard Bank Group	155,000,000.00	775,000,000.00	1	1.8
16	WestLB	144,647,058.82	935,000,000.00	2	1.6
17=	Qatar International Islamic Bank	137,500,000.00	275,000,000.00	1	1.6
17=	Qatar National Bank	137,500,000.00	275,000,000.00	1	1.6
19=	Noor Islamic Bank	127,000,000.00	635,000,000.00	1	1.4
19=	Industrial & Commercial Bank of China	127,000,000.00	635,000,000.00	1	1.4
21	Mashreqbank	61,050,271.45	647,225,701.00	2	0.7
22=	Societe Generale	61,247,058.82	518,000,000.00	2	0.7
22=	Arab Bank	61,247,058.82	518,000,000.00	2	0.7
24=	Arab African International Bank	43,403,212.63	347,225,701.00	1	0.5
24=	Abu Dhabi Islamic Bank	43,403,212.63	347,225,701.00	1	0.5
24=	First Gulf Bank	43,403,212.63	347,225,701.00	1	0.5
24=	Ajman Bank	43,403,212.63	347,225,701.00	1	0.5
28	BNP Paribas	42,647,058.82	425,000,000.00	2	0.5
29=	Ahli United Bank	25,000,000.00	125,000,000.00	1	0.3
29=	Liquidity Management House for Investment	25,000,000.00	125,000,000.00	1	0.3
29=	Gatehouse Bank	25,000,000.00	125,000,000.00	1	0.3
29=	Boubyan Bank	25,000,000.00	125,000,000.00	1	0.3
33=	Export Development Canada	17,647,058.82	300,000,000.00	1	0.2

LOAN BOOKRUNNERS (12 Months) — NOV 2009 - NOV 2009

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Qatar Islamic Bank	1,100,000,000.00	1,100,000,000.00	1	24.7
2	Standard Chartered	542,112,850.50	1,821,225,701.00	2	12.2
3	Dubai Islamic Bank	495,500,000.00	2,109,000,000.00	2	11.1
4=	Al Rajhi Banking & Investment	387,500,000.00	775,000,000.00	1	8.7
4=	Calyon Corporate & Investment Bank	387,500,000.00	775,000,000.00	1	8.7
6=	Al Hilal Bank	368,500,000.00	1,474,000,000.00	1	8.3
6=	Samba Financial	368,500,000.00	1,474,000,000.00	1	8.3
8	Mashreqbank	173,612,850.50	347,225,701.00	1	3.9
9=	Noor Islamic Bank	127,000,000.00	635,000,000.00	1	2.8
9=	Emirates Bank	127,000,000.00	635,000,000.00	1	2.8
9=	Industrial & Commercial Bank of China	127,000,000.00	635,000,000.00	1	2.8
9=	WestLB	127,000,000.00	635,000,000.00	1	2.8
13=	Liquidity Management House for Investment	41,666,666.67	125,000,000.00	1	0.9
13=	Gatehouse Bank	41,666,666.67	125,000,000.00	1	0.9
13=	BNP Paribas	41,666,666.67	125,000,000.00	1	0.9

ISLAMIC LOANS RAISED (12 Months) — NOV 2008 – NOV 2009

	Borrower	Country	Islamic Loan Amount (US$)
1	Rabigh Independent Power Project	Saudi Arabia	1,503,000,000
2	Dubai Electricity & Water Authority	UAE	1,474,000,000
3	Saudi Binladen	Saudi Arabia	1,266,632,890
4	Qatari Diar Real Estate Investment	Qatar	1,100,000,000
5	Borse Dubai	UAE	827,000,000
6	Zain	Saudi Arabia	775,000,000
7	Dubai Department of Civil Aviation	UAE	635,000,000
8	Al Ghurair Centre	UAE	347,225,701
9	Al Dur Power & Water	Bahrain	300,000,000
10	Qatar Real Estate Investment	Qatar	275,000,000
11	Dolphin Energy	UAE	218,000,000
12	Burgan Co for Well Drilling Trading & Maintenance	Kuwait	125,000,000

ALL DATA AS OF THE 9th NOVEMBER 2009

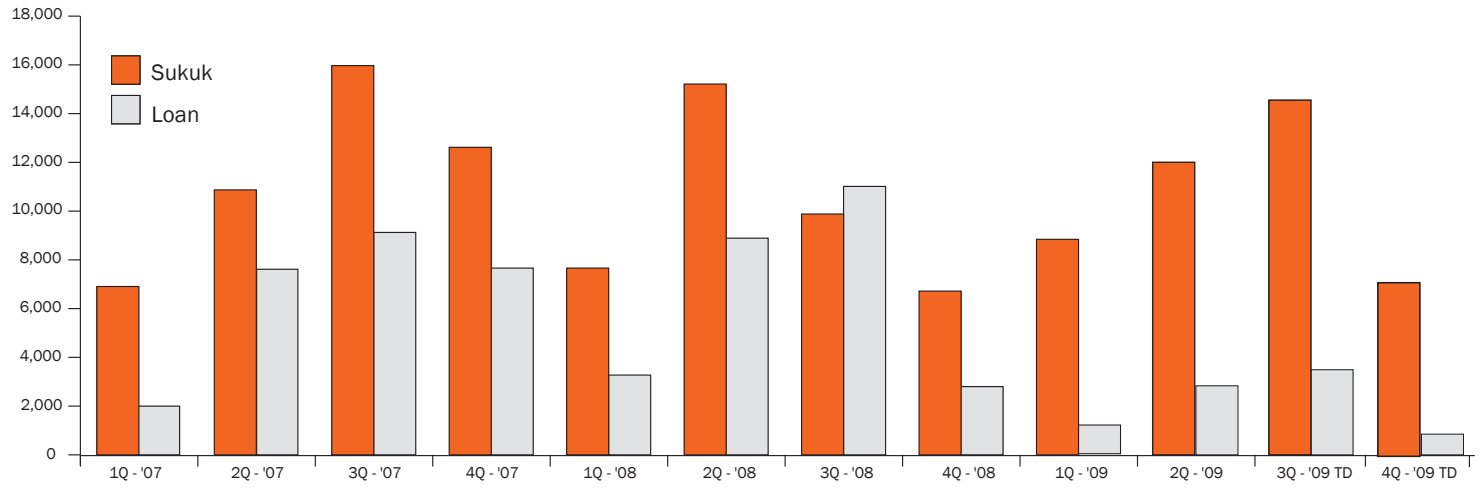
SUKUK BY COUNTRY	(12 Months)	NOV 2008 – NOV 2009
Country	Volume Issued	Volume Outstanding
Malaysia	31,985,026,775	21,111,717,703
Eurobond	5,080,587,500	5,080,587,500
Indonesia	4,808,033,191	1,336,240,464
US	2,150,000,000	2,150,000,000
Saudi Arabia	2,073,188,667	2,073,188,667
Pakistan	440,994,225	440,994,225
Bahrain	222,564,840	31,535,518
Singapore	67,944,014	67,944,014
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

SUKUK BY INDUSTRY	(12 Months)	NOV 2008 – NOV 2009
Industry	Volume Issued	Volume Outstanding
Sovereign	20,582,671,191	10,492,192,019
Other financial	16,570,890,830	14,348,820,266
Agency	2,627,191,761	2,570,405,844
Electric power	2,161,038,278	2,135,484,615
Manufacturing	1,479,974,340	578,240,550
Transportation	1,400,230,559	1,232,743,455
Energy company	907,435,128	141,922,935
Service company	527,950,912	365,678,424
Banks	350,133,384	350,133,384
Consumer goods	146,149,349	76,586,601
Gas distribution	-	-

LOANS BY COUNTRY	(12 Months)	NOV 2008 – NOV 2009
Country	Volume (US$)	Market Share(%)
Saudi Arabia	3,544,632,890	40.1
UAE	3,501,225,701	39.6
Qatar	1,375,000,000	15.5
Bahrain	300,000,000	3.4
Kuwait	125,000,000	1.4

LOANS BY INDUSTRY	(12 Months)	NOV 2008 – NOV 2009
Industry	Volume (US$)	Market Share(%)
Utilities	3,277,000,000	37.0
Real estate	1,375,000,000	15.5
Construction	1,266,632,890	14.3
Financial services	827,000,000	9.3
Telecommunications	775,000,000	8.8
Government	635,000,000	7.2
Retail and supermarkets	347,225,701	3.9

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



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EVENTS DIARY 2009/2010

DATE	EVENT	VENUE	ORGANIZER
November			
17th – 18th	World Halal Forum Europe	Netherlands	KasehDia
25th – 26th	Pan African Islamic Banking & Finance Summit	Nigeria	MNCapital
	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
14th	Kuala Lumpur Takaful Conference 09	Kuala Lumpur	IBFIM
14th – 15th	2nd Annual MENA Infrastructure Finance Conference	UAE	Fleming Conferences
February 2010			
7th – 8th	Middle East Insurance Forum	Bahrain	MEGA Events
8th	IFN Roadshow Nigeria	Nigeria	Islamic Finance *events*
11th – 12th	The Pan African Islamic Banking & Finance Summit	Nigeria	AIFA
March 2010			
1st – 4th	11th Annual Hedge Funds World Middle East 2010	Dubai	Terrapinn
2nd – 3rd	1st Islamic Finance & Investment Forum for the Middle East	Jordan	IFIF
10th – 11th	The World Islamic Restructuring & Risk Management Conference	Bahrain	Advantage Expo
22nd – 23rd	5th Seminar on the Regulation of Takaful	Dubai	IFSB
22nd – 23rd	The 5th Islamic Banks and Financial Institutions conference	Syria	Al Salam
April 2010			
11th – 12th	World Takaful Conference	Dubai	MEGA Events
13th	IFN Roadshow Singapore	Singapore	Islamic Finance *events*
15th	IFN Roadshow Indonesia	Indonesia	Islamic Finance *events*
3rd – 5th	IFN Roadshow Thailand	Thailand	Islamic Finance *events*
May 2010			
11th – 12th	7th Islamic Financial Services Board Summit	Bahrain	IFSB
11th	IFN Roadshow Hong Kong	Hong Kong	Islamic Finance *events*
14th	IFN Roadshow Australia	Australia	Islamic Finance *events*
18th – 20th	World Islamic Economic Forum Foundation	Kuala Lumpur	WIEF Conference
June 2010			
7th	IFN Roadshow Kazakhstan	Kazakhstan	Islamic Finance *events*
9th	IFN Roadshow Egypt	Egypt	Islamic Finance *events*
11th	IFN Roadshow Turkey	Turkey	Islamic Finance *events*
July 2010			
13th	IFN Roadshow Japan	Japan	Islamic Finance *events*
15th	IFN Roadshow Korea	Korea	Islamic Finance *events*

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