Islamic Finance news

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It's All About the Niyyah

As we close out 2009, the following question comes to mind: Which intention (Niyyah) is the Islamic finance industry trying to capture — the Prophet's or profits'?

A well-known hadith iterates that every action is judged by its intentions. Ideally, Islamic finance is supposed to capture the very essence of this Muslim tradition. Transactions should reflect well-intentioned Islamic principles, not just in 'structuring' but in purpose as well.

Up until recently, many investors focused on the real estate sector, but Dubai's economic turmoil is forcing practitioners to reconsider their investment strategies.

Good.

The world — Islamic or otherwise — is not short of worthy projects that need funding. Granted, some ventures may not offer the appeal that a tall skyscraper.

Yet, across the Muslim globe, capital is needed to further develop budding communities. Monies are needed in Yemen for water sector support (a project currently funded by the World Bank and a grant from Abu Dhabi). Or funds can be invested in Palestine to promote market competition in telecommunication (a joint venture is in the works funded by Qatar's Qtel and the Palestine Investment Fund). Even further, consider the capital raised for a railway initiative in Indonesia (a deal recently pushed through regulation, spearheaded by the UAE's Ras al Khaimah and the Trimex Group).

Although these joint initiatives may not be structured Islamically, per say, they do — without a doubt — exude the spirit of Islam because, ultimately, they support fellow brethren, promote fair practice and distribute capital (not to mention risk).
As the year closes, let us raise the bar (to where it should be) with respect to practice in Islamic finance. The time is now to reconsider the intent behind each transaction, as opposed to targeting profitable projects then structuring them in a manner that is deemed Shariah compliant.

Far too often, practitioners miss the forest for the trees — there is a tendency to focus on format as opposed to substance. Ultimately, a Sukuk can be structured in an airtight Shariah-based manner. But if its intent is not sound, then what is the point of an Islamic financial structure?

Why raise funds and structure an investment vehicle islamically to build yet another man-made island? Even Shariah compliance cannot cloak conspicuous consumption. Intention is a crucial element in Islam, but it seems to have been placed on the back burner in Islamic finance.

Shariah-based structuring is important. And earning money is a God-given right. But, as the hadith iterates: Ultimately, every (trans)action is judged by its intention.

Hopefully, 2010 will witness a shift in Islamic investment practices, a move that will bring the industry back to basics by providing much needed investment support to developing Muslim societies through (Islamic) infrastructure project financing.

This is our final 2009 publication, so from our family to yours, happy holidays!

From 2010, Islamic Finance *news* will be published on Wednesdays. Hence, our first issue will be on the 6th January.

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AMERICAS

Support sought for Sukuk issuance

US: Thailand has asked the World Bank for assistance in issuing a sovereign Sukuk to boost its emerging Islamic finance sector, but it has yet to disclose further particulars of its intention.

The World Bank vice president for East Asia and Pacific, James Adam, noting that Thailand had not been borrowing from the bank for a long while, advised the country's government not to rush things, that it is better to start with small steps.

Indonesia in April issued its first global sovereign Sukuk, raising US$650 million, and plans to issue its next Sukuk to domestic retail investors in April 2010. "Clearly governments in Southeast Asia have some interest in tapping into Islamic finance," Adam said.

The World Bank's financial unit, International Finance Corporation, issued a US$100 million Sukuk Al Hilal in October, making it the first non-Islamic financial institution to do so in the Gulf Cooperation Council. The Sukuk was to finance health and education investments in the Middle East and has a Moody's 'Aaa' rating.

'Standardization plans afoot'

US: The World Bank plans to support standard-setting bodies of the Islamic finance industry, in turning their voluntary standards into binding banking regulations, said vice president for East Asia and the Pacific, James Adams.

"What we can provide is access to the governments ... particularly through the central banks and ministries of finance, so I think our role is very much to work with the standard-setting organizations to facilitate dialogue with the various governments," said Adams.

At present, the World Bank is in talks with several undisclosed standard-setting bodies on seeking a solution which will turn their rules into national regulations.

The fledgling Islamic finance industry is governed by a patchwork of national banking regulators, its own standard-setting bodies and rulings of scholars interpreting

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Shariah. Bodies such as the Accounting and Auditing Organization for Islamic Financial Institutions are providing standards to Islamic banks. However, only a handful of national regulators have adopted these standards.

Strategic listing

US: GE Capital, the financial unit of General Electric Company has listed a US$500 million Sukuk on NASDAQ Dubai, the first such Sukuk listing by a US company.

The financial subsidiary has decided to list its Sukuk on the Dubai stock exchange, due to the fact that more than 60% of investors in the Sukuk are based in the Middle East, said GE Capital's Middle East and Africa president and CEO Aris Kekedjian.

He added that listing its Sukuk on NASDAQ Dubai would stimulate Sukuk trading activities and also cater to the needs of investors in the region.

Prior to this, GE Capital had listed its Sukuk on the London Stock Exchange and Bursa Malaysia.

ASIA

More effort required

PAKISTAN: Islamabad chamber of commerce and industry president Zahid Maqbool said the Islamic banking industry in Pakistan needs to buck up, in terms of its poor market share in the banking industry as a whole.

He cited Malaysia as a country that has made significant inroads in Islamic finance, and urged Pakistan to follow suit. "Islamic banking in Malaysia boasts a market share of 12%, while in Pakistan this figure only stands at 5%."

In line with this, he urged local banks to develop more Islamic products that are innovative, cost effective and business-friendly. He also stressed the importance of increasing public awareness about the benefits of Islamic banking.

Prosper thy neighbor

MALAYSIA: The country has expressed its willingness to help Thailand set up an Islamic bank in three of its pre dominantly Muslim provinces. Deputy finance minister Awang Adek Hussein said Malaysia was prepared to send financial and banking experts to establish the bank in Yala, Pattani and Narathiwat.

He said the proposal was part of the promise made by prime minister Najib Razak to his Thai counterpart Abhisit Vejjajiva to help Muslims in the strife ridden southern provinces.

So far, no information has been received on the bank, except that it could be set up in a month or two.

The Islamic banking system in Thailand began when the "Islamic window" concept was introduced by the Government Savings Bank in 1998. It gained more support from the government through the establishment of the Islamic Bank of Thailand in 2003. The Islamic bank is partly owned by investors from the Middle East, but the controlling stake remains with the Thai government.

'Dark skies ahead'

PAKISTAN: The country may find itself in trouble due to Dubai World's financial crisis, as its investors have put US$6 billion into Dubai's real estate sector.

Minister of state for investment Saleem Mandviwalla said: "The Dubai picture is quite bad. Pakistan is definitely going to be impacted".

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Dubai World stunned world markets last month when it announced a standstill on its debt payments, which includes US$26 billion in debt which is due to be restructured, including the debts of its property subsidiary Nakheel.

Awareness program

PAKISTAN: As part of efforts to promote a parallel, competitive and Shariah compliant banking system in the country, the State Bank of Pakistan held an awareness program on Islamic banking this week.

Executive director Inayat Hussain said that a sound Shariah-based regulatory and supervisory framework will facilitate innovation and support the development of Islamic banking in the country.

He also said the branch network of Islamic banks has grown to over 550 outlets and the market share of Islamic banking reached 5.5 % in deposits and 5.3 % in assets as of September 2009.

'Government to spruce up sector'

PAKISTAN: The State Bank of Pakistan will launch Islamic banking in the microfinance sector.

Its governor Syed Salim Raza, said currently only 1.5 million people in the country had access to microfinancing facilities.

He said the central bank will provide a better regulatory framework and subsidies to boost the microfinance sector, besides introducing mobile banking and establishing a special credit information bureau.

Pricing success

BRUNEI: The ministry of finance said the 40th and 41st issuance of the country's short term Sukuk Ijarah have been successfully priced. The BND25 million (US$18 million) and the BND43 million (US$31 million) Islamic bonds both carry a 91-days maturity period with a 0.39% rental rate. The 40th series began on the 19th November, while the 41st series started on the 3rd December.

The Brunei government has so far issued more than BND2 billion (US$1.4 billion) worth of short-term Sukuk Ijarah since its maiden offering on the 6th April 2006.

Debt not "in" yet

JAPAN: The Dubai government and its subsidiaries owe non-financial Japanese companies US$7.5 billion in credit that had not been collected, according to a study by the Japanese government.

The study, which excludes bank loans, covered 18 projects that involved Japanese general contractors, trading companies and electric machinery manufacturers, which include public works projects such as subways and roads commissioned by the Dubai government.

About US$1 billion of the accounts receivable have gone unpaid past their due dates, with some more than a year overdue.

In certain cases, factors such as disagreements between Japanese firms and their clients about who should shoulder cost overruns due to design modifications have contributed to the unpaid claims, said a report.

For instance, the Dubai Metro project that started out at US$3.6 billion has since seen overall expenses swell to US$10 billion. Of this, Dubai's Road and Transport Authority is

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said to be disputing its responsibility for US$4.3 billion.

While the Japanese firms expect to be able to recover some of the accounts receivable depending on how negotiations proceed, Dubai's credit concerns have grown widespread owing to financial woes at Dubai World, a corporate conglomerate affiliated with the government of Dubai.

High targets for Sukuk

INDONESIA: The finance ministry plans to raise IDR175.1 trillion (US$18.5 billion) of debt in 2010 to fund its budget deficit and repay maturing bonds. The figure is up a fifth from 2009, as a substantial portion of its existing debt matures.

About 75% of the total debt issuance will be aimed at the domestic market, according to the ministry, as it wants to shift foreign ownership of government debt into longer tenors, of more than five years.

Director general of debt management at the finance ministry Rahmat Waluyanto said the government would aim to "front-load" its borrowing in the capital markets next year to take advantage of market conditions, issuing as much as possible in early 2010, which is the similar strategy it used in 2009.

Indonesia has gradually expanded its range of debt instruments and debt maturity profile over the past couple of years in order to attract a wider array of domestic and international investors and ease its funding burden as short-dated debt matures.

Pioneer Islamic REIT

SINGAPORE: ARA Asset Management (ARA) has entered a partnership agreement with Qatar-based real estate developer Regency Group to jointly manage a Shariah compliant real estate investment trust (REIT). The partnership marks the first Shariah-based REIT in the country.

ARA said the proposed REIT is expected to be made up of hospitality properties, including hotels and serviced apartments in Qatar, and will be listed on the Singapore Exchange in the second half of 2010.

The initial portfolio includes a total gross floor of 164,000 sq m. DBS Bank has been appointed as the financial advisor for the proposed REIT.

ARA is a unit of the Cheung Kong Group, a real estate fund management company listed on the Singapore Exchange. Its business is focused on REITs, private funds and real estate management services as well as corporate finance advisory services.

Unable to pay

MALAYSIA: Oilcorp, a local oil and gas engineering services provider, said its subsidiary Straight A's Portfolio was unable to redeem its outstanding Murabahah Underwritten Notes Issuance Facility Note (MUNIF) totaling RM24 million (US$7.04 million) on the redemption date of the 10th December.

Oilcorp said "such a default will have an impact on the business, financial and operational aspects of the company as it relates to the securing of new contracts or raising finance for new projects. However, it will not deter the firm from remaining operational and strive to complete its current contracts."

To solve this problem, the company will formulate a restructuring plan to regularize its financial condition.

Straight A's Portfolio is a special purpose vehicle formed by Oilcorp's wholly-owned subsidiary, Oil-Line Engineering and Associates.

Oilcorp said the trustee, OSK Trustee, could declare a default, and call for all the MUNIF to be immediately due and payable. These

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amount to RM80 million (US$24 million) including this particular MUNIF Note of RM24 million.

New role awaits

MALAYSIA: Bank Islam Malaysia plans to explore the prospect of developing wakaf land into property projects. It is discussing with authorities the possibility of undertaking this nationwide.

Managing director Zukri Samat said that instead of just providing the financing, the bank could also become the joint project owner. "We will play a key role in the development of wakaf land in the country."

Bank Islam has already invested in its first wakaf land venture in Kuala Lumpur, but not as a joint project owner or a developer. Instead, it will be the anchor tenant of a 34-story RM151 million (US$44 million) building being developed by its parent, the pilgrim fund Tabung Haji.

On the right track

INDONESIA: Indonesia has always been regarded as a natural resources haven but it has been riddled with bureaucratic hurdles that have caused foreign investors to shy away.

However, there are indications that the government is clearing regulatory blockages that would allow investments into the country, namely about US$1 billion in funding from Middle Eastern investors.

One of the latest news reports stated that Dubai based Trimex Group in a joint venture with the government of Ras Al Khaimah plans to begin construction of a railway in East Kalimantan province where the emirate owns a major coal mining concession.

The 130 km railway, the first private track in the country, will transport raw materials and manufactured products in and out of the East Kutai region.

President Susilo Bambang Yudhoyono, who began his second five-year term in October, has given an undertaking to cut the bureaucratic red tape on investment bottlenecks, restore faith in the legal system and put up new infrastructure. Yudhoyono hired J.P Morgan Chase Indonesia head Gita Wirjawan as co-ordinating investment board chairman whose mandate is to market and promote Indonesia as a preferred destination for investment.

The emirate of Ras Al Khaimah (RAK) completed the formal documentation for its US$400 million Sukuk issue in July — the first US dollar Sukuk issued by an emirate in the UAE — with Standard Chartered Bank, BNP Paribas and Liquidity House acting as joint bookrunners.

This is the second issue under the RAK government's US$2 billion Sukuk program. The first was an AED1 billion (US$272 million) Sukuk issue in May last year in which Standard Chartered Bank acted as sole arranger and sole bookrunner.

Sukuk in the pipeline

INDIA: Kerala, which depends on Middle East remittances for a quarter of its economy, plans to sell the nation's first rupee-denominated Islamic bonds next year to help pay for infrastructure projects. Finance Minister Thomas Isaac said: "We need long-gestation funds to build airports, high-speed trains and expressways. Islamic finance promises unexplored potential in that context."

The bond would be sold through Kerala's government-assisted Al-Barakah Financial Services, which will create investment funds that comply with Shariah, said Isaac. He said the bond will tap the Indian Muslim market and money brought home by workers in Gulf countries.

Islamic finance may help India raise the much-needed US$500 billion to spend on infrastructure by 2014 as it seeks to sustain its pace of growth among major economies.

Owed, and owing

MALAYSIA: LCL Corporation has become the first local company to fall victim to the Dubai financial crisis. It is unable to service the financing facilities from two Islamic banks because firms hit by the property slump in Dubai aren't paying for the products and services of the interior fit firm.

LCL's rise was in tandem with Dubai's construction growth, handling the cream of the construction projects, such as Palm Jumeirah, the Dubai Metro urban transport system and the Dubai Marina Hotel. The bulk of LCL's RM180 million (US$53 million) outstanding overseas contracts are from Dubai.

With payments from the Dubai customers having dried up, LCL has defaulted on RM72 million (US$21 million) in financing from Affin Bank and Bank Islam Malaysia.

CIMB Islamic Bank has force sold a block of 16 million LCL shares owned by managing director and founder Low Chin Meng, which represents an 11.2% stake, to partially settle the outstanding overdue amount of the facility granted to LCL.

LCL, saying it may face financing and legal challenges in the near term, plans to consolidate its financial position and adopt a conservative approach to maximize its currently limited resources.

To compound its woes, listed LCL is unable to provide a solvency declaration to Bursa Malaysia following its defaults in payments. The stock exchange publicly reprimanded the company on the 15th December for delaying submitting financial statements. It faces a 12-month reprieve to rescue itself from its financial problems, otherwise it would be delisted.

Sukuk takes flight

MALAYSIA: Government-owned aviation holding company Penerbangan Malaysia (PMB) issued a RM250 million (US$73.7 million) Islamic three-year issue last week. The medium-term notes (MTN) are credit enhanced with a government guarantee, with a coupon rate of 3.45%.

Pricing was set early December through its joint lead managers CIMB Investment Bank and Bank Muamalat Malaysia, which were also the primary subscribers.

This is PMB's second issuances of a RM2.2 billion Islamic MTN program. The first issuance, a RM1.5 billion five-year MTN at 3.85% was completed in March. PMB, which owns a 52% stake in Malaysia Airlines and buys, sells and leases aircraft and aircraft engines through subsidiary Aircraft Business Malaysia, is wholly owned by Khazanah Nasional, the government's investment holding arm.

GLOBAL

Sukuk 'better choice'

GLOBAL: The petrochemical industry in the Gulf will need to finance its new projects through Sukuk as other financing options

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become increasingly difficult to obtain, according to a report.

The region's association of petrochemical producers has said that the GCC will expand its petrochemical production capacity by 10 million tonnes in the next year over the current 63 million tonnes and this will be almost doubled to 115 million tonnes by 2015.

Petrochemical industries — particularly the ones with government support — in the Gulf have in the past resorted to issuing the Islamic bonds to finance projects. In 2006, Saudi petrochemical giant Saudi Basic Industries Corporation issued its first Sukuk, which is later followed with another Sukuk in 2007.

"Sukuk is the most viable among the financing alternatives for petrochemical projects because options of long-term credit financing have dried up," said Khalid Hamad, executive director (banking supervision) with the Central Bank of Bahrain. "Furthermore, banks are reluctant to lend for long term."

Kuwaiti petrochemicals major Equate CEO Abdulkarim Mubarak said Sukuk need to evolve as a viable financing option. He however said that petrochemical companies need to seek other alternatives as well as it is hard to raise a high amount through Sukuk in this economic crisis.

EUROPE

Foreclosure likely

SWITZERLAND: Faisal Private Bank (Faisal) has warned it could face foreclosure on parts of its real estate portfolio unless investors stump up enough cash to keep lenders at bay.

According to sources, the high property valuations also meant investors might be paying more to Faisal in fees to manage their investment than was justified by the actual value of those investments.

Clients are concerned that the fund has not written down portfolio values sufficiently since 2006.

They are also worried that prior to an accounting change in 2008, prompted the Swiss Financial Market Supervisory Authority, payouts to clients may have been bleeding the funds of capital because they were not fully covered by income. Payments to investors from Faisal funds have since stopped.

Faisal Private Bank is owned by Bahrain-based Ithmaar Bank via its Shamil Bank subsidiary.

From Dubai to Abu Dhabi

UK: Mouchel Group, the UK-based road and infrastructure maintenance company, plans to shut down its operations in Dubai. It will however persist in its attempts to recover US$16 million of debts from Dubai World, said CEO Richard Cuthbert.

In October 2009, Mouchel said it was trying to recover GBP30 million (US$49 million) from clients, on the high-profile Dubai Festival City project and Jumeirah Beach, which involves the creation of a 36km coastal resort. So far, the payment had ceased despite its initial success.

Cuthbert said the firm will be moving its Middle East business to Abu Dhabi, as it believes the long-term outlook is more favorable there. He added that the company will however retain some of its staff in Dubai, to go after the debt.

MIDDLE EAST

Profitable fund

UAE: Emirates Investment Services (EIS), the asset management unit of Emirates NBD, has closed its Sukuk Fund. This is due to the lack of opportunities in the market, which led the fund manager to crystallize the gains and return proceeds to the investors.

Investors have the choice to reinvest the proceeds from the fund liquidation in other EIS-managed funds.

The Shariah compliant fund launched its first offer period in January 2009 and began trading at the start of March 2009. The fund operated by buying Sukuk issued by companies and governments based primarily in the Middle East and North Africa.

'Investors left in the dark'

UAE: The reaction of global financial markets' to Dubai World's plans to restructure its debt was a result of insufficient knowledge, said the director-general of Dubai's Department of Finance Abdulraman Al Saleh.

Al Saleh admitted that the panic that ensued among investors was due to a lack of information, which rightfully should have been provided by the government. "In Dubai we are better at implementing change than publicizing it," he explained.

The government has come under fire from investors and the media over the last few weeks for its lack of transparency and clarity in handling the Dubai World debt fiasco.

Al Saleh however pointed out that the reaction of global markets has now softened as investors become more aware of what happened.

High net worth individuals targeted

UAE: Dubai Islamic Bank has launched Wajaha, a wealth management service provider, as part of its retail banking strategy, said CEO Abdulla Al Hamli.

The services which are targeted at high net worth individuals include a Wajaha Infinite Debit Card, Al Islami Infinite Credit Card, as well as preferential financing terms through Wajaha Home and Auto Finance.

In addition, members will have access to the Wajaha Takaful Savings Program, based on Shariah principles.

'Domino effect'

UAE: The Islamic banking industry in the region has been shaken due to its debt exposure to ailing conglomerate, Dubai World.

Several practitioners estimated that the cost of overnight and short-term funding increased by 100 basis points due to Dubai World's debt restructuring, while the cost of mid- and long-term financing amplified by about 300 basis points.

ING Investment Management regional head of fixed income Nish Popat said that Islamic banks did not only have a large exposure to Dubai World, but to structured finance in general.

More work awaits

UAE: Dubai World said it will continue to work with its creditors to negotiate a standstill following a US$10 billion bailout from oil-rich Abu Dhabi.

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According to the state-run holding company, it is optimistic that when the standstill is successfully negotiated, it will receive the assurance of the Dubai government, through the Dubai Financial Support Fund, which will provide financial support to cover working capital and interest expenses to ensure the continuity of key projects.

Dubai had received US$10 billion in financing from Abu Dhabi to pay part of the debt held by the conglomerate and its property unit Nakheel.

Of this, US$4.1 billion will be used to repay Nakheel's Sukuk that has matured and needs to be paid in the next two weeks. The remainder of the funds will be used to finance Dubai World until the end of April 2010.

Dubai's creditors, which include UK-listed Standard Chartered, HSBC, Lloyds and Royal Bank of Scotland, along with UAE banks Abu Dhabi Commercial Bank and Emirates NBD, effectively have until the 28th December to agree to the standstill, when the Nakheel bond's grace period ends.

No more ambiguity

UAE: In what is perceived to be its strongest message to investors, the Dubai government has established a comprehensive legal framework consistent with international standards of transparency and creditor protection to govern any future formal reorganization and restructuring of Dubai World and any of its subsidiaries.

The legal framework, established by the Ruler's decree, would include the setting up of a tribunal headed by three prominent judges from the Dubai International Finance Centre Courts including Sir Anthony Evans, chief justice of the DIFC Courts, his deputy Michael Hwang and a fellow judge, John Murray Chadwick.

A Dubai government statement said the tribunal "will be empowered if necessary to supervise the financial reorganization of Dubai World and its subsidiaries and be authorized to adjudicate disputes relating to the restructuring of the debt of Dubai World and any of its subsidiaries".

Earlier, the Dubai government said it will pay US$4.1 billion to cover Dubai World subsidiary Nakheel's Sukuk, which matured yesterday, after receiving US$10 billion from its oil-rich neighbor Abu Dhabi. The balance will be used to finance Dubai World's obligations through the end of April 2010.

The UAE Central Bank said it is also prepared to provide support for local UAE banks which have exposure to Dubai World and Nakheel.

Banque Saudi Fransi-Credit Agricole chief economist John Sfakianakis described the financial assistance as a "crucial and essential lifeline" which could bring in a lot of confidence among investors." Investors perceived the move as a positive sign, with the Dubai's stock market surging 10.37% yesterday and Asian markets also reacting optimistically.

Dubai Financial Support Fund chairman Shaikh Ahmad Saeed Al Maktoum said: "We reassure investors, financial and trade creditors, employees and our citizens that our government will act at all times in accordance with market principles and internationally accepted business practices. Dubai is, and will continue to be, a strong and vibrant global financial center. Our best days are yet to come".

New kid on the block

KUWAIT: The Central Bank of Kuwait (CBK) has given the nod to the Bank of Kuwait and the Middle East (BKME) to convert into an Islamic bank.

CBK governor Sheikh Salem AbdulAziz Al-Sabah said that the decision was based on an initial approval of the conversion in June 2008.

BKME will change its name to Ahli United Bank after it becomes Islamic, the lender told the Kuwait bourse. It however did not mention when this would be done.

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The bank will be the fifth Islamic bank in the country, with three others already being internationally recognized names — Kuwait Finance House, Kuwait International Bank and Boubyan Bank. The government is also setting up a new Islamic lender, Warba Bank .

Debt to be repaid

UAE: Dubai's government said it would repay the US$10 billion it received from Abu Dhabi earlier this week to help settle mounting debts incurred by its struggling conglomerate Dubai World.

Dubai had received US$10 billion in financial aid from neighboring oil-rich Abu Dhabi to pay part of the debt of Dubai World and its property unit Nakheel. However, it did not provide any details on whether any terms were attached to the deal.

The payment would be through bonds, based on the same terms as the first US$10 billion bond tranche purchased from the Central Bank of UAE, said a spokesperson for the Dubai department of finance. Dubai had launched a US$20 billion bond program in February to help it through the global downturn, which it sold in two tranches.

(Also see IFN Report on page 15)

Best settled via talks

UAE: Dubai World's possible default on US$26 billion of debt would be best settled through "commercial negotiations" rather than in court as the insolvency laws in the UAE are not as developed as in the west, said law firm DLA Piper Middle East partner Tony Holland.

He explained that creditors and borrowers in the UAE "do not have access to insolvency mechanisms such as receivership, administration or protection to address potential default situations."

Dubai World, a state-owned holding company whose property unit is building emirate's landmark palm tree-shaped islands, said it would seek a "standstill" agreement with creditors and an extension of all loan maturities until at least the 30th May 2010.

As a result, several parties have considered taking the matter to court. Among those who done so is a group of Dubai World property unit Nakheel bondholders, headed by QVT Financial, a hedge fund firm in New York, according to Ashurst, which has been appointed legal adviser for the group.

Growth plans afoot

QATAR: Al Jazeera Islamic Company (Al Jazeera) which will now be known as Al Jazeera Finance plans to broaden its business portfolio to cater to a wider customer base.

The company added that it will also build on the pioneering reputation and brand image of Al Jazeera Islamic Company. The move is aimed at positioning Al Jazeera as a distinctive financial institution on par with the top finance houses in the Middle East region.

"The change of identity to Al Jazeera Finance and our focus on a broader target customer base are aimed at reinforcing our market leading position," said CEO Khursheed Hassan.

'More debts on its plate'

UAE: Dubai has yet to assure investors that it will meet all of its debt obligations, despite receiving a US$10 billion bailout from oil-rich neighbor Abu Dhabi.

Banque Saudi Fransi-Credit Agricole chief economist John Sfakianakis said: "Dubai's cash needs are not going to stop and go away as there is still debt that needs to be settled in 2010 and 2011."

According to a report, Nakheel has US$1.73 billion in debt due in the next two years. In addition, Dubai and its state-owned companies' have at least US$55 billion bonds and loans due in 2010, according to Goldman Sachs Group economist Ahmet Arkali.

Abu Dhabi, the capital of the UAE and holder of 8% of the world's oil reserves, provides US$10 billion for Dubai's support fund, of which US$4.1 billion was used to repay a 14th December Sukuk which belonged to Nakheel, Dubai World's property unit.

Orders to come clean

UAE: The UAE Central Bank has ordered all banks to submit particulars of their total investments in Sukuk and conventional bonds. These should include the identities and locations of the issuers as well as the currencies in which the bonds were issued.

The banks were also asked to submit details on the structures of these Sukuk and conventional bonds, stocks transferable status and linkage to real estate mortgages.

The central bank also wants the banks to provide information on the price range

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at which these Sukuk and bonds were purchased, their current prices as well as the date when the payments are due.

'Investor confidence slumps'

UAE: Much work is needed to fix Dubai's tattered image with investors following Dubai World's debt problems according to a survey

In addition the survey also found that 68.7% of the online poll participants said the next few months would be "difficult" for Dubai as it attempts to repair its tainted image at home and abroad.

A further 19.3% felt the debt crisis was not over yet, and that more state-linked companies will be forced to tackle severe financial issues.

When it comes to the restructuring and its advantages for Dubai, only a handful of respondents expressed optimism.

A mere 6.6% thought that Dubai World's restructuring plans would benefit the emirate in the long term and that new policies would lead to sustainable growth, while 5.5% said the initial shock had passed the state-owned conglomerate's restructuring plans and would prevent permanent damage.

Bank dabbles in real estate

UAE: Abu Dhabi Islamic Bank has signed a deal with International Capital Trading (ICT) to provide it with an AED200 million (US$50 million) Islamic financing facility to finance a real estate project.

No further details were provided about the financial facility.

ICT is a private investment company based in Abu Dhabi. Its business activities include owning, developing and managing real estate as well as investing in a wide range of asset classes, ranging from equities to direct investments and real estate.

Premium banking'

UAE: HSBC Amanah, the Islamic banking business of the HSBC Group has launched the world's first Shariah compliant banking and wealth management service — HSBC Amanah Premier, which is aimed at internationally mobile and affluent consumers.

HSBC Amanah's CEO for the Middle East and North Africa, Mukhtar Hussain said that the bank decided to introduce HSBC Amanah Premier, as it was encouraged by the warm response received by its conventional banking and wealth management service, HSBC Premier.

HSBC Amanah Premier is available in Malaysia, Saudi Arabia (through SABB Amanah Premier otherwise known as SABB Amanah), the UAE, Indonesia, Qatar and Bahrain.

Customers in these countries will receive emergency support services from any of its HSBC Amanah units, and will also have access to Shariah-based Premier banking and wealth management products.

Another lifeline for Dubai

KUWAIT: The country is willing to help its debt-laden neighbor, the UAE, in coping with the Dubai debt crisis.

Foreign minister Sheikh Mohammad Sabah Al-Salem Al-Sabah, who is also Kuwait's deputy prime minister, said he had personally called on UAE foreign minister Abdullah Zayed Al Nahyan to offer assistance.

Prior to this, Dubai's oil-rich neighbor Abu Dhabi had announced US$10 billion in financial assistance to Dubai World and its property developer Nakheel, due to the conglomerate's failure to service its debts.

Though Kuwait was one of the harder hit countries in the Gulf by the global financial crisis, the country still has substantial reserves and has announced more than US$8 billion in development projects for the coming year.

New firm in Tatarstan

SAUDI ARABIA: The Islamic Corporation for the Development of the Private Sector, the investment unit of the Islamic Development Bank plans to establish a Shariah compliant investment company in Tatarstan, known as Tatarstan International Investment Company.

CEO and general manager Khaled Al-Aboodi said the setting up of the company will go a long way towards facilitating trade and investment cooperation and also provide access to business opportunities in Tatarstan.

According to Al-Aboodi, the new Islamic investment company will invest in selected sectors including infrastructure, telecommunication, agriculture, finance, affordable housing, mining and energy, services as well as manufacturing industries.

AMERICAS

High ratings

US: Standard & Poor's Ratings Services has assigned its 'AA+' issue-level rating on the US$500 million Sukuk issued by GE Capital Sukuk, a special purpose vehicle for General Electric incorporated under the laws of Bermuda.

The rating is based on the final Sukuk documentation dated the 27th November this year. The Sukuk assets consist primarily of ownership interests in aircraft assets and rights under the lease agreements entered into regarding these assets.

GE Capital Sukuk has used 90% of the Sukuk proceeds to enter into a purchase agreement with General Electric Capital Corporation (GECC) (AA+/Stable/A-1+) for their beneficial interests in aircraft assets.

The remaining proceeds have also been paid to Sukuk Aviation Leasing, the servicing agent, which will hold them in a funded reserve account through deferred-payment commodity "Murabahah" transactions.

ASIA

Counterparty risks

MALAYSIA: RAM Ratings has reaffirmed the respective long- and short-term ratings of PINS Capital's RM150 million (US$44 million) Islamic Commercial Papers/Medium-Term Notes Program at 'AA3/P1'. The long-term rating has a stable outlook. It has lifted the ratings from Rating Watch after assessing the credit profiles of PINS Capital's counterparties.

A wholly owned subsidiary of Perak Integrated Network Services (PINS), the firm was set up for its parent's financing needs. PINS is a network facility provider that constructs and owns telecommunication infrastructure facilities such as towers for the country's three cellular phone companies.

Overseas ventures gainful

MALAYSIA: RAM Ratings has reaffirmed Malayan Banking's (Maybank) long- and short-term financial institution ratings at 'AAA' and 'P1' respectively due to its systemic importance to the Malaysian banking industry and its entrenched status as the national flagship bank.

RAM has also reaffirmed the bank's 'AA1' rating for its Islamic subordinated bonds worth RM1.5 billion (US$440 million) (2006/2018) and RM1 billion (US$293 million) (2005/2015).

The 'AA2' ratings of the bank's innovative Tier-1 capital securities of up to RM4 billion (US$1.2 billion) (2008/2073) and non-innovative Tier-1 capital securities of up to RM3.5 billion (US$1 billion) have also been reaffirmed.

All the long-term ratings have a stable outlook.

In view of the more matured and saturated Malaysian market, Maybank's venture into countries with vastly promising financial sectors represents part of its long-term strategy, RAM Ratings said.

ROA decreases

MALAYSIA: Fitch Ratings has affirmed Alliance Bank Malaysia's (Alliance Bank) individual rating at 'C/D' and support rating at '3'.

The individual rating reflects the bank's strong capital position and well-reserved non-performing loans, which should buffer the bank against any unexpected stress.

Profitability has weakened but the downward pressure on interest margin is expected to ease as domestic interest rates stabilize.

Fitch said return on assets (ROA) declined to 0.8% in the first half of financial year 2010 and financial year 2009 from 1.4% in financial year 2008 due to lower income and higher impairment charges on securities.

Due to a high proportion of floating rate loans, around 85% of total loans lending yields were pressured by lower domestic interest rates.

Hefty financing margins

MALAYSIA: RAM Ratings has reaffirmed Bank Kerjasama Rakyat Malaysia's (Bank Rakyat) long- and short-term financial institution ratings at 'AA3' and 'P1' respectively.

This is attributed to the bank's robust profitability, underpinned by the penetration of the civil servant personal financing segment, said RAM. The long-term rating has a stable outlook.

The bank's strong earnings profile mirrors the hefty margins generated by its financing portfolio, which mainly comprises high-yielding personal-financing assets.

Its wide financing margins absorb the bank's high financing loss expenses compared to those of its peers.

Given the bank's status as a cooperative bank-cum-development finance institution, RAM expects government support if needed, as has been demonstrated in the past.

Instacom notes stable

MALAYSIA: Malaysian Rating Corporation (MARC) has upgraded Instacom SPV's RM200 million (US$60 million) Murabahah Medium Term Notes (MMTN) issuance program to 'AAID' with a stable outlook.

Instacom SPV was formed to facilitate the issuance of the MMTN to finance the purchase of completed telecommunication towers and infrastructure from its holding company Instacom Engineering, a sub-contractor of telecommunication infrastructure.

MARC noted that Instacom SPV's cash balance of RM30 million (US$8.8 million) as at the 31st August 2009 is sufficient to meet the 2010 maturities totaling RM20 million (US$6 million).

Tesco seen to be stable

MALAYSIA: MARC has affirmed Tesco Stores (Malaysia)' RM3.5 billion (US$1 billion) Islamic and conventional commercial papers/ medium term notes program at 'AAAID(cg)/ MARC-1ID(cg)' and 'AAA(cg)/MARC-1(cg)' respectively.

This is based on the credit strength of the corporate guarantee provided by its parent company, UK-based Tesco, as well as the

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group's strong global market position in grocery retailing and steady profit margins, despite weak economic conditions in several of its markets.

By taking into account Tesco's measures to restore its credit metrics, MARC has revised the rating outlook to stable from negative.

This includes scaling back capital expenditure, paring down borrowings from its cash balances, suspending its share buyback program and divesting property assets.

Healthier asset quality

MALAYSIA: RAM Ratings has reaffirmed the 'A1' ratings of RHB Capital's RM600 million (US$175 million) serial fixed-rate bonds (2005/2011) and RM350 million (US$102 million) fixed-rate bonds (2006/2012).

The long- and short-term ratings of the securities issued under the company's RM150 million (US$44 million) commercial papers/medium-term notes (CP/MTN) program (2006/2013) and RM1.1 billion (US$322 million) CP/MTN program (2009/2016) have been reaffirmed at 'A1' and 'P1' respectively.

All the long-term ratings have a stable outlook.

RHB Capital is the holding company of RHB Bank, RHB Islamic Bank, and RHB Investment Bank.

The reaffirmation is attributed to the improved credit fundamentals of the RHB Capital Group, as underlined by its healthier asset-quality and profitability metrics in recent years, said RAM, adding that the ratings are moderated by the company's gearing levels, which are higher than its peers.

Negative review

MALAYSIA: Moody's Investors Service (Moody's) has downgraded the outlook on Petroliam Nasional's (Petronas) A1 senior unsecured rating to negative from stable.

In addition, the rating agency changed the outlook for the A1 senior unsecured ratings on Petronas Global Sukuk and Petronas Capital to negative.

Moody's, said the decision to downgrade Petronas rating was taken in response to the company winning four bids in the latest licensing round for oilfields in Iraq.

According to vice-president and senior analyst Renee Lam, the four Iraqi projects add to the company's business risk, due to the high geographical risk associated with operating in Iraq compared to the company's existence.

Lam added that Petronas' credit metrics used to be well-known for its strength, besides its conservative financial policy.

However, all this will change, as the company's net cash position, a major factor supporting its current A1 rating, may alter due to the potentially high investment costs involved in ramping up production from these projects, which are all at infancy stages.

Banking on ANZ's strength

MALAYSIA: Capital Intelligence has affirmed the foreign currency ratings of AmBank Group (AmBank) at BBB- long-term and A3 short-term.

They are based mainly on the managerial and technical expertise provided by major strategic investor ANZ Group, as well as AmBank's retail banking strengths and improving financials.

The financial strength rating is maintained at BBB-, with low profitability being a major constraining factor.

Positive outlooks have been assigned to the foreign currency and financial strength ratings in view of the improvement in asset quality as well as the growth in gross income and operating profit in the first half 2010.

AmBank is the parent bank of AmIslamic Bank.

MIDDLE EAST

Lower rating uplift

BAHRAIN: Moody's Investors Service has downgraded the supported ratings of National Bank of Bahrain's (NBB) long-term local currency deposit rating by one notch to 'A2', while Bank of Bahrain and Kuwait's (BBK) local and foreign currency deposit ratings has been lowered by one notch to 'A3/Prime-2' and its senior and subordinated debt ratings to 'A3' and 'Baa1' respectively. All ratings have a stable outlook.

The downgrades conclude the review on these ratings that had been initiated in August, within the context of Moody's global review of systemic support available for banking systems.

Consistent with Bahrain's current situation and future prospects, Moody's has changed the systemic support input for Bahraini retail banks' ratings to 'A1' from the 'Aa2' local currency deposit ceiling.

At the 'A1' level, the supporting entity rating for Bahraini retail banks generates a lower rating uplift of just two notches for NBB and BBK, rather than the three notches prior to this adjustment and this has resulted in the downgrade of the two banks' supported ratings.

Strong backing

UAE: Fitch Ratings has affirmed Industrial Bank of Kuwait's (IBK) ratings at long-term issuer default (IDR) 'A+' with stable outlook and downgraded the individual rating to 'C/D' from 'C'.

The bank's other ratings are affirmed at short-term IDR 'F1', support '1' and support rating floor 'A+'.

IBK's issuer default rating and support rating reflect the support from the government of Kuwait, in times of need.

This is based on the government of Kuwait's 49% direct ownership and 12% indirect ownership of IBK, as well as the long-term government funding provided for the bank's development activities.

The ratings also take into account the Kuwaiti authorities' long history of strong support for Kuwaiti banks.

The downgrade of the individual rating reflects the impact of the deteriorating operating environment — which has affected the Kuwaiti banking sector in terms of profitability and asset quality.

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Established in 1973, IBK aims to promote the Kuwaiti industrial sector both through lending and direct investment.

It also provides Islamic finance services to its clients.

Reputation risks

BAHRAIN: Moody's Investors Service has assigned 'Baa1' long-term, 'Prime-2' short-term local and foreign currency issuer ratings and a 'D+' bank financial strength rating (BFSR) to Bahrain Islamic Bank (BisB).

The stable outlook for all of BisB's ratings is an affirmation that the bank is well equipped to weather the storm and will continue with its strategy for organic growth and expansion.

According to Moody's, the D+ BFSR reflects BisB's growing franchise as Bahrain's leading Islamic commercial bank, strong financial metrics across the board, good asset quality, strong capitalization and ample liquidity.

The bank's financial strength rating also captures the restrictions that Islamic banks face in managing their liquidity, growing competition in the domestic, regional and international Shariah compliant banking markets as well as the reputation risks to which Islamic banks tend to be subject.

Uncertainty looms

UAE: Moody's Investors Service has downgraded Emirates NBD's deposit ratings to 'A2/P-1', Mashreqbank's debt and deposit ratings to 'Baa1/P-2' and Dubai Islamic Bank's (DIB) issuer ratings to 'Baa1/P-2'.

Moody's said the rating action is in line with the downgrade of the banks' financial strength rating (BFSR) to 'D+' for Emirates NBD and Mashreqbank while for DIB, the BFSR has been lowered to 'D-'.

The outlook for Mashreqbank and DIB has been revised to negative while Emirates NBD's ratings are on review for a possible further downgrade according to the rating agency.

Moody's said the ongoing deterioration in Dubai's economy, which has been aggravated by the uncertainty created by Dubai World's restructuring announcement attributed to the downgrade.

Ratings on hold

UAE: Fitch Ratings has maintained the individual ratings of five Dubai-based banks on Rating Watch Negative (RWN) to allow the agency more time to assess ongoing developments at Dubai World and their impact on the wider Dubai economy.

The five banks are Commercial Bank of Dubai (CBD), Emirates NBD (ENBD), Mashreqbank (MB), each with an individual rating of 'C', HSBC Bank Middle East (HBME) and Dubai Bank (DB) which have respective individual ratings of 'B/C' and 'C/D'.

CBD, ENBD and MB's individual ratings were placed on RWN on the 3rd December 2009. As for HBME, its individual rating was downgraded to 'B/C' and maintained on RWN on the 11th December, whilst DB's individual rating was placed on RWN on the 27th November.

Despite the recent US$10 billion bailout by Abu Dhabi, Fitch said it believes significant uncertainty persists about the likely resolution of the UAE banking system's direct exposures to the Dubai World group and to other Dubai government related entities, which will also have a further significant negative impact on the banks' profitability and capitalization.

UAE

Abu Dhabi to the Rescue

Dubai World (DW) sent investors into a scurry three weeks ago when the debt-laden firm asked for a "standstill" on due payments through a terse and untimely announcement. Several analysts even suggested that such a hurried promulgation signaled a negative outcome for maturing payments, that is, the Nakheel Sukuk defaulting. But now, banks and investment firms all over the world are breathing a slight sigh of relief because Abu Dhabi has offered up US$10 billion to its ailing neighbor.

Of this amount, US$4 billion has already gone to the principal agent disseminating payments to Nakheel Sukuk holders. Of course, this is a positive sign but some say it is a small step towards reconciling US$26 billion worth of DW's debt.

Dr Ala'a Al-Yousuf, chief economist for Bahrain-based Gulf Finance House, told Islamic Finance *news*: "It is good news that (the Nakheel Sukuk) is not defaulting. It is good news that Dubai raised US$10 billion from Abu Dhabi. But more needs to be done.

"Restructuring work still needs to be done. This will be a long process. My hope is that both debtors and creditors reach an amicable solution and avoid disruptive litigation. It will require cooperation from all sides."

Although Abu Dhabi's intervention signals a unified front with respect to the UAE's efforts in handling Dubai's economic issues, there seems to be a level of proactive precaution coming from the capital emirate. According to reports, the UAE Central Bank asked banks to provide thorough details of their investments in Sukuk, including issuer and currency information.

Nonetheless, Abu Dhabi's injection of funds will attenuate some of the public relations damage from Dubai's initial announcement in late November. Even Abdulrahman Al Saleh, the director general of Dubai's department of finance, reportedly admitted that international markets reacted adversely because of lack of information surrounding DW's ordeal. "In Dubai, we are better at implementing change than publicizing it," he said.

Mazen Matar, fund manager at Saudi-based Khalijia Invest, explained the ramifications behind the mishandling of DW's announcement. "What will affect investors' confidence is not [just] the US$10 billion payment, but the way Dubai is communicating with those investors.

"Rescheduling (a Sukuk) payment is not a rare incident; it may happen with companies around the world. Investors' reaction was based on the announcements they heard, which is justifiable and expected.

"Dubai's economy is solid and diversified, but the communication should be more clear and transparent. After all, reputation is what makes business, and investors should be able to depend on these announcements to take investment decisions," Matar said.

Slowly but surely, DW is seemingly trudging though its economic tensions. However, several practitioners in the market see the US$10 billion bailout as covering only the tip of the iceberg. The money will go towards the Nakheel Sukuk maturation and other parts of DW's debts, but — separately — the emirate of Dubai still has nearly US$80 billion worth of liabilities to settle.

Another thought to consider: What will Abu Dhabi get in the long run for continuously supporting Dubai — and in turn, the national economy — through this difficult time?

By Fatimah S. Baeshen

The Year That Was (Final Part)

By KFH Research

Islamic wealth and asset management

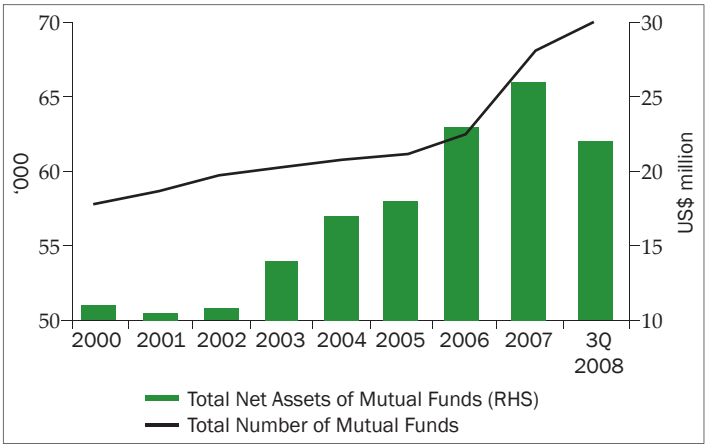
Islamic wealth and asset management (IWM) has grown to become an increasingly substantial segment in the global financial market and has gained considerable interest as a viable and efficient alternative model of financial intermediation. The main catalyst for this industry is the growing awareness of and demand for investing in accordance with Shariah principles on a global scale. It is also a reflection of the increasing wealth and capacity of investors, both Muslim and non-Muslim, to seek and invest in new investment products that serve their needs.

The total market size of IWM target assets was estimated at US$800 billion as at the end of 2008 with an annual growth rate of 23% over the past five years. We see IWM target assets estimated at US$4 trillion by 2020, mainly driven by demand for IWM from high net worth individuals (HNWIs). By 2013, we forecast the Muslim HNWIs to represent 5% or US$2.4 trillion of the total HNWI wealth (2007: 4.8% or US$1.9 trillion). The world total HNWI financial assets are expected to increase from US$32.8 trillion in 2008 to US$44.2 trillion in 2013, translating to an annual growth of 6.2%.

Islamic funds

The Islamic funds industry has also shown a similar trend. According to numbers from Ernst & Young in its Islamic Funds and Investments Report 2009, total net assets have doubled from US$11.8 trillion in 2000 to around US$21.66 trillion, on the back of 69,000 mutual funds. Shariah-based investable assets in 2008 in the GCC and Asia touched US$736 billion compared to US$267 billion in 2007. This translated into a potential annual revenue pool of US$3.86 billion for the Islamic asset management industry.

Global Asset Management Industry

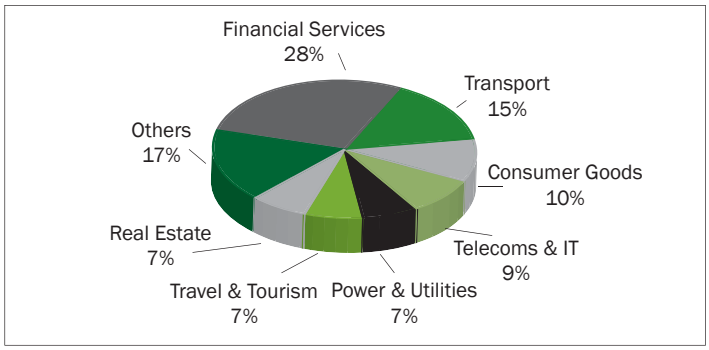


Source: Ernst & Young, KFHR

There are a total of 340 Islamic funds worldwide with sizes ranging from US$5.4 billion to US$0.03 million. About 43% of them are equity funds followed by a variety of funds which were not classified (29%) and growth funds (10%). We expect to see more participation in Islamic funds, especially Islamic equities funds. Equity funds are expected to remain the global investors' favorite as they are more liquid compared to real estate and commodity funds.

With improved employment and confidence, participation from the mass population is likely to increase. At a conservative annual growth of 6% for 2009 to 2013, the value of the global Islamic assets under management may reach US$57 billion in 2013. The number of global Islamic funds may reach 762 funds in 2013 on the back of an annual 2% increase for the 2009 to 2013 period.

Breakdown of Global Islamic Funds by Type (as at 1st September 2009)



Source: Bloomberg, KFHR

Islamic private equity

The Islamic private equity industry is approaching US$3 billion in terms of funds raised and deals done, with a majority of the funds in the MENA region. However, this is significantly small compared to the industry forecast of US$40 billion by 2011. Even at US$40 billion, Islamic private equity commands a minute portion of global Islamic assets. Fund raising activities have increased with over US$4 billion of Islamic funds announced in 2006. During the 1997 to 2006 period, the bulk of Islamic private equity was invested in financial services (28%), transport (15%) and consumer goods (10%).

Demand for Islamic private equity would be driven by investors' focus on returns. In light of the subprime crisis in 2008, many investors are now concerned about the underlying assets that a fund invests in, and an Islamic private equity provides this comfort. In addition, investors are now aware of Shariah compliant investments and are now more open to exploring this alternative investment approach. Considering the growth in assets of global and GCC Islamic banks and financial institutions, it is estimated that Islamic private equity in the region will be worth US$41 billion by 2011.

Takaful

In the case of Takaful, rapid development of the Takaful industry was only witnessed in the past five years on the back of rapid growth in Islamic banking and the Sukuk market. Total global Takaful contributions increased from US$550 million in 2000 to over US$3.4 billion to contribute around 9.2% towards the global insurance market in 2007. The total Takaful market is expected to reach US$7.5 billion by 2015, underpinned by the growing Muslim middle class worldwide and relatively low insurance penetration rate.

Insurance penetration in most Islamic countries does not exceed 2% of GDP, as compared to 12.4% in the UK, 9.4% in the US and 2.8% in emerging markets. By 2015, around 42% of total Takaful contributions

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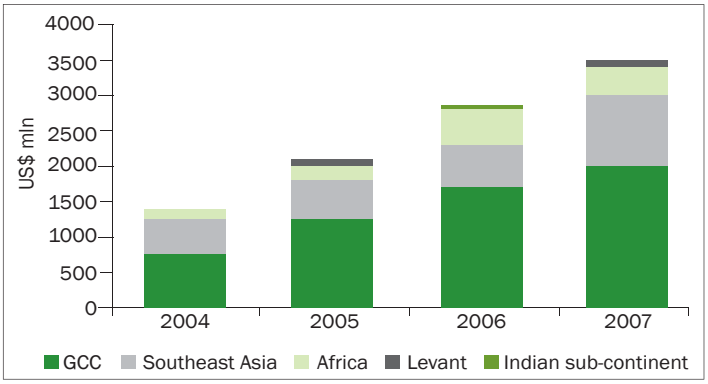
The Year That Was (Final Part) (continued)

are expected to come from the Asia-Pacific, 31% from Europe, Turkey, China and India, and 27% from the GCC.

Global Gross Takaful Contributions

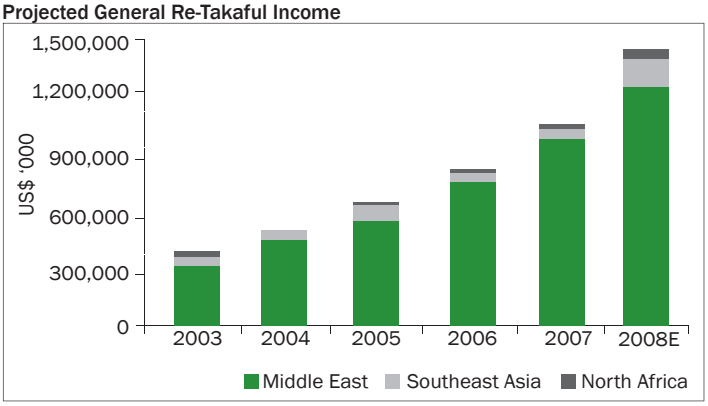


Source: Ernst & Young, KFHR

Re-Takaful

As the Takaful industry develops, so does the re-Takaful industry. General re-Takaful contributions from the Middle East, Southeast Asia and North Africa increased by US$372.7 million in 2004 to US$1.4 billion in 2008, and are expected to chart commendable growth moving forward as demand for re-Takaful increases from Takaful insurers.

Projected General Re-Takaful Income



Source: Ernst & Young, KFHR

Takaful companies are largely protected from the direct impact of the global financial crisis, as they are mainly located outside the areas that are most affected by the crisis. However, given that Takaful companies form part of the global insurance industry and rely on the global reinsurance pricing, they are not totally immune from the crisis. The main impact on Takaful operators is in terms of lower returns on equity which negatively impacted the policyholders' fund and caused Takaful operators to lose additional income.

The long-term outlook for the industry is expected to remain positive given that Takaful is a viable alternative to conventional insurance for the world's 1.5 billion Muslims. Growth of the industry will also be supported by strong demographic growth, rising income levels and a growing desire to consume Shariah compliant products. However, for the Takaful industry to continue to survive and grow in the long term, it is crucial to ensure, among others, the availability of Islamic investment opportunities and a liquid market for Sukuk in different regions, a robust risk management and corporate governance systems for Takaful operators, as well as adequate regulation and supervision on Takaful operators and the industry.

Regulation and supervision

An enhanced regulatory requirement and a renewed emphasis on the necessity for appropriate governance in the financial world has increased due to globalization, the many high-profile corporate fraud cases and bankruptcies, as well as the disequilibrium in the recent financial industry. A unique regulatory and supervisory approach for Islamic banks is the additional layer of supervision, that of the Shariah supervisory board (SSB), whose primary task is to ensure that the bank is operating within the framework of Shariah.

In terms of regulations, Islamic banking regulators have to devise rules to govern such issues as new finance methods, conditions of ownership of Islamic institutions and the fiscal status of income. With globalization, financial regulation has moved from just being an issue of national control to that of global supervision. The challenge to industry regulators and supervisors is the most obvious —the characteristics of Islamic banks as both bankers and asset managers are subject to the requirement of Shariah compliance that is fundamental to their relationship with the clients.

Conclusion

Overall, we believe the potential for Islamic finance far outstretches the global crisis and has vast opportunities to grow further, given the following factors:

- Strong demand for Shariah compliant products and investments points to immense potential for further industry growth.
- Encouraging demographics and the proactive measures by jurisdictions worldwide to promote the development of Islamic finance.
- Industry growth will be strengthened by further improvements in industry architecture, development of government-backed Islamic financial centers, as well as greater awareness and global technological development.
- Government-linked/top tier companies in the Middle East and emerging Asia (financial, real estate, oil and gas and transport sectors) are looking for funds on the back of massive infrastructure and construction projects in the two regions.
- By 2020, the total Muslim population would have increased to an estimated 2.5 billion from 1.5 billion currently. Islamic banks are expected to manage 40% to 50% of the total savings of the Muslim population in eight to 10 years. The potential for Islamic financial services is estimated at US4 trillion by 2020.

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بيت التمويل الكويتي
Kuwait Finance House

KFH Research
Level 12, Tower 2, Etiqa Twins
11, Jalan Pinang
50704 Kuala Lumpur, Malaysia
Tel: +603-2055-7777
E-mail: kfhresearch@kfh.com.my

After Dubai's Desert Storm

By Siraj Ibrahim

Situations where a corporate envisages difficulties repaying its debt usually demands dialogue in advance with the creditors who would normally be fully abreast of the problems. The Dubai government's sudden announcement on the 25th November that it is was seeking a standstill agreement on the debt repayment by Dubai World due on the 14th December came out of the blue. Hence it was regarded as a desert storm in Dubai, sending financial tsunami waves through the global markets.

The worst fear was undoubtedly felt by the creditors who bought into the US$3.52 billion Ijarah-based Sukuk which was first issued in December 2006. In the face of such danger of default, the creditors simply had two choices.

Firstly, most of them could have agreed to the standstill agreement request from Dubai World, allowing it several months of breathing room to negotiate a more permanent restructuring, obtain alternative financing or pursue repayment by liquidating assets. This would come at the cost of the creditors' own cash flows being readjusted and consequent costs. The second choice for creditors was to try to enforce their rights against Dubai World.

Thankfully, neither choice had to be taken by the creditors. Abu Dhabi's injection of US$10 billion for Dubai was a surprise intervention and one which was well received. Of this lifeline, US$4.1 billion was allocated to the troubled property development subsidiary Nakheel. The remainder is expected to compensate Dubai World's contractors and suppliers who have had to endure a delay on payments long before Dubai World asked the same of its creditors.

However, the clouds have not cleared yet; one of the most crucial concerns still remains largely unanswered — how can such a situation be avoided in which creditors have such limited choices?

One of the foremost things the creditors did do was to form an alliance among themselves to look into what action they could take if Nakheel and its guarantor, Dubai World, defaulted.

QVT Financial, itself one of the investors of the Nakheel Sukuk, organized a group of 15 to 20 creditors to explore their options. Represented by London-based law firm Ashurst, it dissected the agreements, the Sukuk prospectus and was unraveling the legal quagmire.

As well as preparing for the eventuality of a default, the international creditors led by QVT were hoping their amalgamation would serve as a pressure tactic. Such an approach, QVT was hoping, would have enabled them to leverage better negotiation terms if the case transpired whereby Dubai World had to restructure its debt. Let us look at what options were being considered, which will lead us to the questions that still remain unanswered in the Dubai crisis despite Dubai being bailed out.

1. Restructuring the debt

In the absence of a set of bankruptcy rules, one of the options being considered was that the creditors could have been offered partial cash redemption with a new bond issue to restructure the remainder of the debt. Rumors that creditors could have expected a cash payout of between 60 to 80 cents on the dollar, with the offer of a new bond for the remaining balance, were going around.

As there is no equivalent of the US Bankruptcy Chapter 11 or UK Administration Procedures in Dubai, which would have been relevant to the restructuring of Dubai World's debt, one of the key things to emerge from the last several weeks is that Dubai needs similar robust protocols. If such set of rules had existed, they may have lessened the investor panic. Such protocols are still to be established as a contingency for any potential Sukuk default in the future.

However, Dubai this week appointed a tribunal comprising three internationally recognized judges to review any disputes in the restructuring of the remainder of Dubai World's debts. The tribunal will try to provide a platform where creditors' rights can be heard in a more impartial and neutral setting. It is to be seen whether a non-specific and a general tribunal can be established as a contingency in case any future Sukuk defaults.

Another issue which emerges is the role of a central Shariah board in any restructuring of debt. This is also of paramount importance and would be a unique addition to the unique Shariah compliant restructuring. If this does not exist, it could affect whether the restructuring would be accepted by Shariah sensitive investors. This is an outstanding issue that has emerged and though there has not been a need for this so far, now may be the right time for this to be included as part of any future potential bankruptcy laws.

2. Liquidation of assets

At the start of the crisis, Dubai World had disclaimed any intention to sell any of its assets to enable it to make the US$3.52 billion payment. As the pressure was built up, Dubai World conceded it may sell some assets. Though Abu Dhabi's cash injection relieved Dubai World of this particular concern in relation to the Nakheel Sukuk, it has not freed Dubai World totally of concerns over the security of its wider asset pool. Indeed some creditors, especially US-based hedge funds, continue to consider legal action in the event of non-payment to investigate the defenses set up around Dubai World's subsidiaries DP World, Jafza and Istithmar.

3. Two-tier settlement

The option of a "two-tier" settlement was also being discussed by Dubai World for the Nakheel Sukuk. This would have entailed the Gulf investors agreeing to different terms from those offered to international investors. Some opine that this type of proposal would not have been favorable and therefore not acceptable by all the creditors. If the risks were initially tranched as a contingency in case of a default, creditors may have viewed this potential proposal with a bigger appetite of acceptance.

4. Event of default

One of the most critical questions that had become the crux of the discussions was whether creditors would have recourse to the underlying assets of the Sukuk. This remains unanswered. Even though this question is no longer relevant for the US$3.52 billion Nakheel Sukuk, this major concern still remains, not least because there are

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After Dubai's Desert Storm (continued)

two smaller Nakheel Sukuk maturing in 2010 and 2011, as well as a US$1.2 billion Shariah compliant financing for Dubai World subsidiary Limitless. In fact, according to Deutsche Bank, Dubai's government and government related entities have to repay on average US$12.5 billion a year for the next three years.

> "Dubai World was set up under the pronouncement that it should only receive financing based on the viability of its projects"

The US$3.52 billion Nakheel Sukuk had been structured to include a few guarantees that would have provided investors with some recourse. However the storm has blown away the built-in safeguards:

a. Nakheel Sukuk being guaranteed by Dubai World

The Nakheel Sukuk was guaranteed by Dubai World. However, as we know, Dubai World was undergoing financial difficulties and thus was not able to make the timely maturity payment.

The Dubai government owns 100% of Dubai World. Nevertheless, Dubai World was set up under the pronouncement that it should only receive financing based on the viability of its projects, not on government guarantees. So even though Dubai World is owned by Dubai's government, Dubai was not obliged to back Dubai World and the creditors should bear part of the responsibility.

What emerges from this is that the assumption the debt was sovereign, because the guarantor was a government-related entity, proved to be untrue, as per Dubai's own public statement after requesting for a standstill agreement. Additionally, the important point for the investors was that the creditors of Dubai World were subordinated to the creditors of the subsidiaries of Dubai World.

b. Share pledge of 18.89%

At the time the Nakheel Sukuk was originated, Nakheel investors were granted a share pledge of 18.89% of the outstanding equity in Nakheel. Towards the maturity date, this share pledge became worthless as Nakheel had run into huge financial difficulties.

c. Underlying assets of the Sukuk

The Sukuk holders were granted two mortgages over the underlying properties — DWF South and Crescent Lands — through a security agent. However, the creditors would have faced difficulties in seeking recourse to the assets in case there was a need to. Some problems they may have faced could have been.

One is that the Sukuk's offering circular made it clear that it was not possible for the creditors to acquire the assets of the government. If, for example, the creditors sued in both the English and UAE courts and consequently, the courts ordered the assets to be seized, the Sukuk agreement and UAE's foreign ownership laws raises doubts on whether such a verdict could be enforced.

Another is whether the courts would give such a verdict is in itself somewhat untested and therefore "unknown territory". The Sukuk was structured using the concepts of trust and beneficial interest under English law.

These are not recognized in Dubai. A security agent was used as a domestic agent for creditors to enforce the mortgages if recourse to the assets was required in the event of a default. This new legal model has no precedent, thus there is great uncertainty about the ability to enforce.

Though the case is very unlikely, let us argue that the courts gave the verdict in favor of the creditors. In addition, let us assume the even more unlikely case that such a verdict had been enforced in Dubai. Still, the land the creditors would get would be of doubtful value, as by and large it is still mainly an empty desert.

Some commented that because Dubai World holds so many assets outside of Dubai, including P&O and the QE2 cruise liner, enforcement of the debt against such assets could take place there. This however would be highly unlikely.

The Nakheel Ijarah-based Sukuk, based on the development plan for the land underlying the Sukuk and based on assumptions about the timeframe for the development to be completed, was valued at US$4.2 billion.

As there was no physical asset that was worth the price the Sukuk was sold for (as the land on its own was not worth US$4.2 billion), perhaps an Ijarah structure may not have been suitable. The focus on possibly structuring such projects based on a hybrid of Musharakah and Ijarah concepts emerges in the aftermath of the US$3.52 billion Nakheel issue.

It may take some time for the dust to settle after the desert storm in Dubai. However, attention has been directed to some crucial concerns. The whole issue highlights further the cornerstone of Islamic finance — the need for transparency.

Siraj Ibrahim is an Islamic Finance Associate at an Investment Bank. He also sits on the UK Technical Group for the global Islamic Finance Qualification. He can be contacted at siraj_ibrahim@hotmail.com

Next Forum Question

What in your mind were the key developments in the Islamic finance industry in 2009? What were the major issues, and what lessons can we learn from them? What do you think 2010 holds in store for the industry?

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 Monday, 4th January 2010.

Investment Funds – Who's Really Looking Out for the Investor?

By Michael Stockford

There have been numerous articles on the causes of the economic tsunami that rocked the financial world in the past 18 months. Many hypotheses have been put forward. There have been lots of finger pointing and sharp intakes of breath as companies, central banks and regulators tried to shift the blame to each other. To this author the cause is clear — sheer greed.

Warning signs were there from 2006 that default rates on the US$1.2 trillion of subprime mortgages were rising. The International Monetary Fund, Bank for International Settlements, Organization for Economic Cooperation and Development, Bank of England — everyone knew and they had imparted this information to the people at the top of organizations who had the power to step in before the dominos starting falling. But nothing was done. Why?

Simple. Everyone was too busy making bucket loads of cash from the mortgage backed securities, collateralized debt obligations and other securitized and structured products that investment banks were dreaming up. In the end it all came crashing down and they all looked around for someone to blame. Consensus seems to have settled on two theories.

> "It does not make them immune from the wider risk implications associated with bad investment management of the products they are invested in"

The first was the failure of institutions to balance the risks they were taking against the incentive schemes in place for their staff. The second was the over complexity of the products that were being engineered and the fact that neither risk managers nor regulators had the necessary skills to fully appreciate the risks behind the products that were being structured.

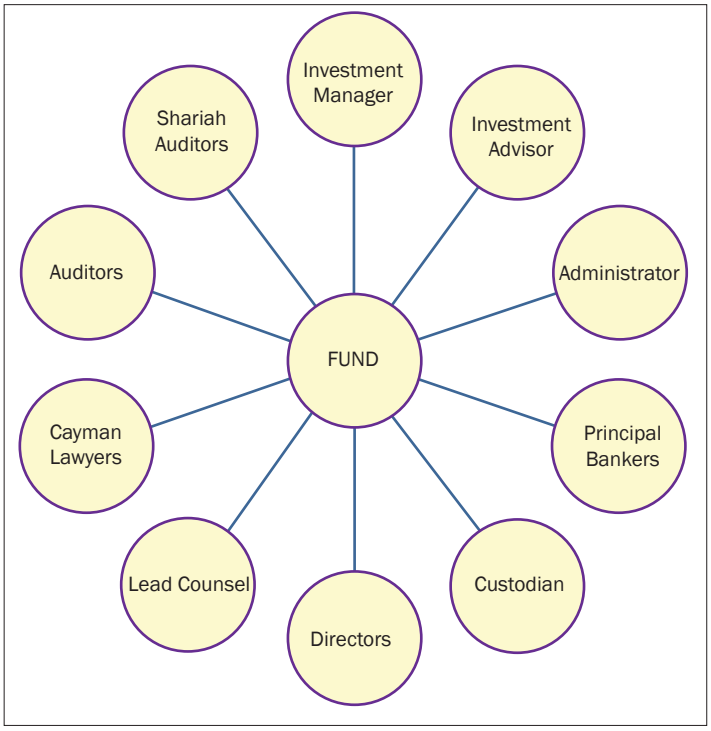
Neither would appear to hold much water, but out of this maelstrom seems to have evolved a concerted effort to ensure that "corporate governance" is strengthened. However, most of this talk is aimed at corporate boards, not those of investment funds.

It is easy for Islamic investors to sit back and assume that they are safe from any contagion linked to products that are not Shariah compliant. Whilst that is true to some extent, in that they would avoid pure cash on cash derivative products or highly (conventional) leveraged investment funds, it does not make them immune from the wider risk implications associated with bad investment management of the products they are invested in.

The lead article in the 27th November issue of IFN headed "Risk Has No Religion" was spot on in its statement that "just because a product is deemed Shariah compliant, that does not necessarily mitigate the financial risks".

It quite rightly points out that "ultimately Islamic financial institutions (IFIs) need to strike a balance by implementing equally effective measures that comply with both Shariah and sound financial practices".

Easier said than done of course. Pick up any marketing presentation and it will be full of wonderful ideas of how the investment manager is going to make you rich, but very little detail about how he will manage the fund on a day-to-day basis. Rather, there are sweeping ranges given for position, country and sector allocations.



This is very deliberate as the manager does not want to be tied down to specifics. Then, when monthly newsletters are circulated, only the most basic of information is provided — maybe the top five holdings. So what is going on within the rest of the portfolio and who is looking out for investors' interests?

Pick up any fund prospectus, Islamic or conventional, and look at the directory of service providers as in the chart. You would be forgiven for believing that at least one of these would be looking out for your interests.

But let's look at them all in detail. The investment manager is only interested in managing the assets of the fund and he has already given himself broad parameters in the marketing presentation and even broader parameters in the offering memorandum, which is customarily very vague on specific investment restrictions. The investment advisor is commonly from the same group as the investment manager and is predominantly used as a way of transfer pricing fees in the most tax advantage way for the group.

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Investment Funds – Who's Really Looking Out for the Investor? (continued)

The administrator's main roles are to process subscriptions and redemptions, maintain the share register and calculate the net asset value (NAV). The principal bankers are primarily used to collect the initial subscriptions and then transfer these, under the guidance of the administrator, to the custodian whose role is to settle trades and hold the stock positions on behalf of the fund.

The directors are generally appointed by the investment manager and their main role is to sign the massive amounts of documents that are needed to initially establish the fund and to ensure the smooth operations.

The lead counsel is more often than not the law firm assigned to help coordinate the drafting of all the constitutive documents including the offering memorandum, investment management and advisory agreements, administration and custodian agreements.

The Cayman lawyers are used to establish the legal entity that is the fund and take their instructions from the lead counsel. The auditors are there to audit the balance sheet and profit and loss account of the fund at year end and liaise with the administrator for this function.

Finally, the Shariah auditor is there to approve the constitutive documents of the fund and ensure, usually on an annual basis, that the investments in the fund are Shariah compliant.

However, not one of these service providers has a specific qualitative role to perform in monitoring and reviewing what the investment manager is doing within the portfolio, not even on a quarterly or semi-annual basis. The auditors audit the fund at the end of the year but this is a very quantitative role and they carry out no qualitative function. If a stock has gone down 70% in the year they don't care, as long as it is accounted for correctly.

It may be easy to assume that following the last 18 months investment funds would come under the same scrutiny proposed for corporates. But why should that be the case? Let me give a very extreme example.

Suppose an investor has been sold an investment fund by one of the very large banks in the region. He invests US$20 million and the fund closes at around the US$400 million, giving the investor a 5% stake.

As a rule a 5% shareholder in a corporate would expect a seat on the board of that company, but in an investment fund you are just treated as any other investor and sent your monthly newsletter with little or no information.

Now suppose that fund is badly managed and in 13 months manages to lose 90% of its value. You would think the bank would be horrified. It may well be but don't think for one minute that the financial impact on the bank is anything but minimal. It is almost guaranteed that the bank has not invested any of its proprietary capital and so its only loss is 90% of the 1% management fee it charges, or US$4 million.

In the meantime investors have lost US$360 million. Who can you blame? Not the custodian as it is still holding the assets, even if this has gone down in value, so it has done its job. Not the administrator because it is still calculating the NAV, even if this has dropped 90%, so it has done their job. Not the lead counsel or Cayman lawyers because they have effectively stepped out of the picture once the fund is established.

Not the principal bankers because they have simply moved subscription monies from their account to the custodian's account under the instruction of the administrator. Not the auditors because when they audited the fund everything was accounted for correctly so they've done their job, and not the Shariah auditors because all investments were Shariah complaint, even if they were virtually worthless.

And don't even think of turning to the directors, investment manger or investment advisor because they're all one big happy family and they warned you at the start about the risks of investing in the fund — didn't you read the small print?

"It may be easy to assume that following the last 18 months investment funds would come under the same scrutiny proposed for corporates. But why should that be the case?"

Horrified? You should be. So what is the answer for Islamic investors? There are two possible solutions. The first is to invest in products that have a higher degree of regulation, in particular UCITS (Undertaking for Collective Investments in Transferable Securities) structures which are very popular in Europe.

The upside here is that a management company is appointed, which is typically affiliated to the custodian/administrator and one of its roles is to ensure that on a daily basis the fund manager complies with the very strict investment restrictions that are set out as standard across all UCITS products.

The constitutive documents impose penalties on the investment manager should it breach the investment restrictions in that it needs to make up any losses, but any profits go to the fund. It is surprising that UCITS are not more popular with Islamic investors as they do lend themselves very well to Shariah in that they are predominantly long only and tend to have greater liquidity than other absolute return funds. In addition, the fees paid to the manager are normally lower.

However, these may be the very reasons why they are not more widely available because positives for investors tend to be negatives for managers.

The second way investors can ensure they are protected is to insist that investment funds appoint independent directors to the board, instead of just appointees of the investment manager.

At a recent corporate governance conference in Australia 60% of the more than 400 delegates believed that more active and engaged shareholders will be the most effective way to improve governance.

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Investment Funds – Who's Really Looking Out for the Investor? (continued)

Almost two thirds of the delegates indicated that more emphasis on the right skills and experience is the best way to empower non-executive directors to be more effective in their stewardship role.

It is virtually impossible for every investor in an investment fund to become more active in the governance of the fund in which they invest, so this is where independent directors acting in a fiduciary capacity for the investors is invaluable. But getting the right mix of directors is very important. Forget about lawyers and accountants. What you need are seasoned practitioners, people who have worked in the business before and know where to look to uncover problems.

Individuals who were operations or risk staff at investment managers or who used to work in administrators and custodians would be ideal. But these also need to be seasoned experienced people who are willing to stand up and ask the right questions and will not be brow beaten by investment managers. The best independent directors are those who receive the monthly reports directly from the administrator and custodian, who have an open line to the compliance officers of investment managers and who liaise directly with the auditors during the year-end audit.

They would hold quarterly board meetings with fixed agendas at which the investment manager would need to explain his investment strategy for the preceding and subsequent quarters. As a result, these independent directors are not going to be cheap, but let's take the example of our US$400 million fund.

Even if two top notch independent directors cost US$500,000, this is paid for by the fund so that all investors bear the cost and benefit but this is still only 0.125% of the value of the fund; a lot less than the other service providers would cost in total. I know where I would prefer to spend my money.

It is time for large institutional investors to stand up and start flexing their muscles and insist that proper corporate governance is implemented to protect their rights.

OP Calypso Capital

Michael Stockford
Chief operating officer
OP Calypso Capital
Tel: +852-2869-8138
Email: mike@opcalypso.com

Exposure Draft: Standard on Solvency Requirements for Takaful Undertakings

By the Islamic Financial Services Board

Background

1. The Islamic Financial Services Board (IFSB) and the International Association of Insurance Supervisors (IAIS) established a Joint Working Group (JWG) which produced a paper "Issues in Regulation and Supervision of Takaful (Islamic Insurance) published in August 2006. The Issues Paper grouped the issues under the following four major themes: a) corporate governance; b) financial and prudential regulation; c) transparency, reporting and market conduct; and d) supervisory review process, with the conclusion that these issues should be addressed in an integrated manner. It also identified corporate governance for Takaful as the priority area, as it embraces the industry's fundamental issues such as acceptable Takaful models and their essential parameters, the relationship between Takaful participants' and shareholders' funds, and Shariah governance, among others. In November 2009, the IFSB issued the Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings. This Standard is a successor to, and builds on, that work, in line with the priorities set out by the JWG.

General principle

2. In view of the on-going development for an international solvency requirement for insurance undertakings, the Standard does not prescribe specified quantitative techniques. Rather, the Standard sets out important key principles for the structure of solvency requirements for a Takaful undertaking. The IFSB has taken account of the IAIS's initiatives on solvency standards and assessment, to benefit from and build on the established international frameworks set out by the IAIS. This approach is adopted in order to ensure that the supervision of Takaful is established on sound regulatory principles which are consistent with, and no less robust than, those established in conventional insurance. Hence the Standard contained herein is primarily based on the IAIS regulatory capital requirements, with the necessary modifications and adaptations to cater for the specificities and characteristics of a Takaful undertaking.

3. This Standard should be read together with the Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings that outlined, inter alia, key principles on governance structures, key terminologies, concepts and operations of a Takaful undertaking. This will facilitate further understanding of this Standard and its recommended solutions.

Main objectives

4. The overall objective of this document is to set forth key principles on the solvency requirements for Takaful undertakings. This document is built around the following premises and objectives:
   - To increase the likelihood that a Takaful undertaking would be able to meet all its contractual obligations and commitments.
   - To act as an early warning system for regulatory intervention and immediate corrective action, taking into account that the supervisory authority may sometimes have access only to incomplete information, and that even corrective actions may take time to generate the desired impact.
   - To provide a buffer so that even if the Takaful participants are to suffer a loss in the event of failure of a Takaful undertaking, the impact can be limited or reduced especially the systemic effects.
   - To foster confidence amongst the general public, in particular Takaful participants, in the financial stability of the Takaful sector.

Scope of application

5. This Standard is applicable to all Takaful and Retakaful undertakings. However, supervisory authorities may, at their discretion, extend the applicability to Takaful "window" operations that fall within their jurisdictions.

6. This Standard is focused on the Takaful undertaking as a single entity and the issues of group-wide supervision are not covered in this Standard. The IAIS is actively developing standards and guidance in this area. The IFSB will monitor these developments and may make further proposals in the future.

7. This Standard places particular emphasis on the solvency requirements for Takaful Participants' Risk Fund (PRF) which are the underwriting funds – i.e. an element of the business that is inherent in the underwriting activities,, and the contributions to which are made on the basis of a Tabarru' commitment. When considering the solvency requirements for those forms of Family Takaful business which have a savings element in a segregated fund, called the Participants' Investment Fund (PIF), normally this latter fund is not taken into account in assessing whether the solvency requirements of a Takaful undertaking are met as there is typically no recourse to certain surplus amounts in individual PIFs in order to meet a deficiency in a PRF. In addition, a PIF is typically a pure investment fund, and the related investment risks are fully borne by the Takaful participants with no need for capital backing from the TO in the form of a Qard facility. (If in fact an operation is constituted such that investment profit in PIFs is available to meet deficiencies in a PRF or such that investment risks of PIFs are not fully borne by the participants, a different treatment would be necessary.)

Specificities of Solvency Requirements for Takaful Undertaking

8. Insurance or Takaful undertaking is an inherently risky business, because the fund, whether conventional or Takaful, is exposed to contingencies whose outcome cannot be known at the beginning of the contract. For example, it cannot be known whether a particular driver will crash his car, or whether a particular house will catch fire. Where a large number of

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Exposure Draft: Standard on Solvency Requirements for Takaful Undertakings (continued)

individual risks are involved, the probabilities become more predictable, which is one rationale for a principle of mutual guarantee. However, adverse deviations may still occur. For example, a storm may cause damage to a large number of houses in a particular area. In addition, because premiums or contributions are invested until the funds are needed to pay claims (which can be an extended period, particularly for classes of insurance related to liability), there are risks on the asset side of the balance sheet. The principal concern of insurance supervisory authorities is that the undertaking should be able to meet its liabilities, especially policyholder claims, as they fall due, and that this should remain true even in adverse circumstances (such as a major storm). Current international thinking is that in modern insurance regimes, it should be made explicit that the undertaking should have a given probability of meeting all its liabilities over a defined period (such as 99.5% over 1 year).

9. Similar to conventional insurance, the goal of a supervisory authority in assessing a Takaful undertaking's solvency position is to ensure that the solvency levels of all PRFs are consistent with their overall risk profiles and to enable early intervention if the solvency buffer does not sufficiently cover the risks. However, in a Takaful undertaking, a TO is supposed to be the mudarib and/or wakil (depending on which model is adopted) that administers the PRF, and in return will be remunerated via profit share (in the Mudarabah model) or fees (in the Wakalah model) in the PRF.

10. A typical Takaful undertaking thus consists of a two-tier structure that is a hybrid of a mutual, and a proprietorship company – which is the TO. In a Takaful arrangement, the Takaful participants contribute a sum of money as Tabarru' commitment into a common fund, which will be used mutually to assist the members against a defined compensation or loss. The distinctive rights and obligations between the TO and Takaful participants require a clear segregation of the PRF from the TO's shareholders' funds. The main reason for this is that, in the absence of misconduct or negligence, a TO is not contractually accountable for any deficit or loss arising from a PRF. However, for regulatory solvency purposes a TO may be required to hold adequate capital in order to provide a Qard facility to meet any deficiency in the PRF (resulting from a deficit that exceeds the amount of any accumulated reserves in a PRF) or to remedy any situation in which Takaful cannot meet legitimate claims as they fall due because of liquidity shortage. Such a Qard facility will typically be essential to enable a Takaful undertaking to meet regulatory solvency requirements, as there will not be sufficient reserves within PRFs for this purpose.

11. However, the extent to which a Qard facility enables a Takaful undertaking to meet regulatory solvency requirements depends, inter alia, on the terms on which such Qard facilities are made available by TOs in the light of the regulations in a particular jurisdiction, including, in particular, those that determine the status of an outstanding amount of a Qard facility (that has already been drawn down as a Qard) in the case where a PRF enters into an insolvent winding-up. In such a case, there are two possible scenarios:
    i. Any outstanding Qard would rank pari passu with participants' claims, so that the deficiency would be shared pro rata;
    ii. Participants' claims would rank above any outstanding Qard. Only in the second case should the Qard facility be considered to be fully part of regulatory capital. In the first case, it might be considered as making some contribution to regulatory capital.

12. The analysis in paragraph 10 above of differing pools of assets within the same legal entity is additionally based on the assumption that the boundaries between them will be respected both when the entity is a going concern and in any form of insolvency proceeding. If this assumption is not warranted, supervisory authorities should address these issues with the relevant authorities in their own jurisdictions. This Standard does not deal further with the complex issue of insolvency law.

13. An essential part of good governance by a TO is the existence of an appropriate mechanism for sustaining a Takaful undertaking's solvency and adherence to sound risk management. In view of their paramount importance, particularly their effects on systemic stability, TOs should always bear these in mind while planning and mapping their governance strategies. This is necessary whatever the strength of the solvency regime imposed by the supervisory authority. Although, as a matter of principle, Takaful participants are expected to bear the risk of insolvency of a PRF whenever the contributions they make (together with income from PRF assets and any reserves in the PRF) cannot meet the total amount of claims, it has been well accepted as part of the prudential framework that TOs shall put in place appropriate mechanisms to buffer any deficiencies suffered by PRFs. (See, however, paragraph 10 above.)

14. Some TOs may use different operational models or product terms as part of their market differentiation or a commercial expression. While it is not the intention of the IFSB to require TOs to change the way they manage the business and risks, TOs are required to use the substance of the Shariah rules and principles governing the contracts to form the basis for an appropriate treatment in deriving their minimum solvency requirements.

15. Apart from that, the solvency requirements for Takaful undertakings should take account of the Shariah-compliant assets in which the undertakings will invest. Depending on the nature of the solvency regime, risk weightings or quantitative restrictions (QR) may need to be applied to these assets. In some instances, for example cash or equities, the treatment will parallel that for conventional insurers. For other Shariah-compliant instruments, the IFSB's Capital Adequacy Standard for Institutions (other than Insurance Institutions) Offering Only Islamic Financial Services (December 2005) provides a helpful analytical background in addressing these questions.

Valuation of Assets and Liabilities

16. The IFSB recognizes that it is essential to assess the overall financial position of a Takaful undertaking based on consistent

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Exposure Draft: Standard on Solvency Requirements for Takaful Undertakings (continued)

measurement of assets and liabilities particularly the identification and measurement of risks and their potential impact on all components of the balance sheet. To a significant extent the detailed requirements in relation to a solvency buffer depend on the valuation of assets and liabilities in the solvency regime. The development of this Standard, and of the IAIS's work on solvency requirements and assessment, has taken place in parallel with that of international financial reporting for insurance. The intention is that all of these should be based on a market consistent approach to the valuation of both assets and liabilities.

17. However, until further progress is made on internationally agreed accounting standards for insurance it is inevitable that solvency requirements in different jurisdictions will be heavily influenced by the accounting and actuarial framework that applies in each jurisdiction (in terms of the valuation basis and assumptions that may be used and their impact on the values of assets and liabilities that underpin the determination of regulatory solvency requirements). In this regard, this Standard is not intended to deal with such issues as restrictions on categories of assets that "count" for solvency purposes, the determination of any risk margin within technical provisions, and the methods to be used for calibrating of solvency requirements.

    Rather, the Standard outlines the key features of solvency requirements for Takaful undertakings and sets out a number of principles to be followed by supervisory authorities in structuring such requirements within their jurisdiction.

18. In considering asset values for the purposes of assessing the financial position of a Takaful undertaking, supervisory authorities should take account of the suitability of those assets for the purposes of backing the undertaking's liabilities and absorbing the risks to which it is exposed. This Standard is not intended to determine whether, in addition, there should be any QR on assets which "count" for solvency purposes; or to specify any restriction or risk weighting "haircut" that should be applied. However, where such QR are not applied, TOs, and supervisory authorities should follow a "prudent person" approach.

Valuation of Technical Provisions

19. The valuation of technical provisions in the PRF should be undertaken on a market consistent basis that is consistent with the assessment by market participants of value and risk or the principles, methodologies and parameters that market participants expect to be used. Technical provisions shall comprise two components – the current central best estimate of the Takaful underwriting obligations (discounted to the net present value) and a risk margin. The risk reflected in the risk margin in technical provisions relates to all liability cash flows and thus to the full time horizon of the Takaful contracts underlying these technical provisions. It should generally not be less than that necessary to bring the technical provisions to an amount, in return for payment of which a willing third party, acting on an arms length basis, would be prepared to accept those liabilities through a (hypothetical) portfolio transfer. Each component of the technical provisions shall generally be explicitly determined in order to support the objectives of transparency and comparability and also to facilitate convergence.

This is an excerpt from IFSB's 33-page exposure draft of the same title. To read the full draft, go to http://www.ifsb.org/exposure.php

TAKAFUL NEWS

GLOBAL

Double-edged sword

GLOBAL: The technical committee of the Islamic Financial Services Board (IFSB) has approved the issuance of the IFSB exposure draft entitled: *Solvency Requirements for Takaful Undertakings* for public consultation starting on the 17th December.

The exposure draft aims to enhance and improve the ability of Takaful undertakings in sustaining and managing the risks on behalf of the participants.

The seven key principles in this document aims to inspire market confidence towards the integrity and stability of the Takaful undertakings and to provide it with a competitive niche among insurance providers. This approach is intended to ensure the supervision of Takaful, while catering to the specifics of Islamic finance.

The key principles highlighted in the draft complement the substance of solvency standards and assessments developed by the International Association of Insurance Supervisors which is the international standard-setter for conventional insurers.

(See Takaful Report above)

MIDDLE EAST

Takaful deal

BAHRAIN: Takaful International Company has signed an agreement with Hannover Retakaful to increase its family Takaful insurance coverage up to US$5 million per individual with the aim of improving its insurance services and portfolio expansion.

CEO Younis J. Al Sayed said the agreement would provide the company with higher capacity, especially in family Takaful, which provides protection to individuals — savings schemes, children's education schemes, personal loan protection and individual income protection.

Established in 2006, Hannover Retakaful is a subsidiary of Hannover Re Group, a Germany-based reinsurance firm.

Shariah compliant products: Where do we go from here?

The global financial crisis has caused many practitioners in the conventional space, who initially would not give Islamic finance a second thought, to now stand up and take notice of this system chiefly as an alternate means of financing. With all the attention given to it, particularly in the last few years, conventional practitioners as well as their Islamic counterparts have been scrambling to push out Islamic products to meet the demand. Therein lies the problem, some argue, as products that are churned out sometimes do not sit well with Shariah scholars. In our inaugural virtual roundtable, Islamic Finance *news* **approached three practitioners in various sectors for their perspective on this rather controversial issue.**

Rahail Ali, global head Islamic finance, Lovells

Mohd Razlan Mohamed, CEO, Malaysian Rating Corporation

Ken Baldwin, COO, Capinnova Investment Bank

As Islamic finance is still evolving, how can the industry cope as the demand for Islamic products continues to soar?

Ali: The evolution of Islamic finance is not unique to our times — the Fiqh of financial transactions has continuously developed and evolved over the past 1,400 years. Through the various tools aiding the process of Ijtihad, the Shariah has in-built mechanisms to ensure that Islamic law effectively responds to the needs of every time and place. We cannot deny that the road ahead will be challenging. The Islamic finance industry will need to cope with new demands. Above all, it needs to respond to consumer demands and fulfill the need for individuals to comply with an article of faith.

Baldwin: Gradually and carefully, by ensuring close and meaningful collaboration in an open and transparent way with bodies that understand the financial complexities at product level as well as the substance of Shariah compliance (not just the form), for example, AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions).

Mohamed: It is not entirely correct to say that Islamic finance is still evolving as Islamic finance is based on tenets which were established more than 1,400 years ago. However, from a standpoint of market acceptance, Islamic finance has made substantial progress worldwide over the last 20 years to be regarded today as a credible alternative to conventional finance. The ever increasing demand for Shariah compliant investments and socially responsible investing continues to encourage traditional conventional debt issuers such as sovereigns and government-related entities to switch from conventional to Shariah compliant issuances such as Sukuk.

The growth in Islamic assets is undeniably fuelled by the growth in demand. In Malaysia for example, the CAGR (compound annual growth rate) of Islamic assets from the banking sector almost doubled that of the conventional banking assets. In 2008, Islamic banking assets grew by 21% year-on-year whilst for the conventional banking it was 11.7%. The phenomenal growth is also partly explained by the growth of Islamic assets from a low base relative to conventional banking assets. As at the end of 2008, Islamic banking assets accounted for only 14.9% of the total Malaysian commercial banking assets; hence, I believe that Islamic assets will still show a healthy growth momentum over the next few years despite the current recovery phase of the global economy.

The growth momentum of Islamic finance depends on many things — creating a sustainable legal framework for Islamic capital market instruments, having a sufficient pool of Islamic finance professionals as well as respected Shariah scholars, addressing concerns about the Shariah authenticity of Islamic products and inculcating an improved understanding of the risk characteristics of Islamic products on the part of the finance community. The industry needs to overcome these challenges for the Islamic financial industry to position itself as a growing and relevant component of the international financial system and cope with the increasing demands of its constituents.

Some quarters argue that so long as the Shariah compliant institutions produce Shariah compliant products, that would suffice. How do you view such a statement?

Ali: Especially after the current financial crisis, there have been many calls to move the industry away from Shariah compliant products to Shariah "based" products. In reality, the difference between the two may ultimately boil down to semantics. Shariah based products will not magically arise in a vacuum. For any product to succeed there must be a genuine need for it in the market and it must be vetted through a proper Shariah approval process.

Baldwin: To some extent this is true, and the industry will continue to develop piecemeal. Products are approved by the Shariah supervisory boards of each institution, so what one firm may approve is not the same as another. Another observation is that some firms are less "Islamically" concerned than others, and driven by the profit motive to such an extent that they are reluctant to explain more fully the

continued...

substance of the products they have developed to Shariah approvers who themselves are not financially trained.

Mohamed: This subject matter has been debated by many. Some quarters argue that the Islamic finance industry cannot continue to rely on Shariah compliant versions of conventional instruments for its future growth if Islamic finance is to develop a distinct value proposition. However, from a practical standpoint and based upon my experience as a former investment banker, it does appear that our domestic financial markets are still a long way off from embracing the risk sharing concept that underpins much of Islamic finance. Most participants in Islamic finance do not expect the risk of loss for an Islamic capital market instrument to be any higher than it would be for a similar conventional instrument. Neither do investment account holders in an Islamic bank that goes under expect to be worse off than depositors in a collapsed conventional bank. This calls for some form of compromise and today we have no shortage of Shariah compliant products which are close substitutes of conventional products. My view is that it is time we take a more "out-of-the-box" approach and start looking at ways to tackle the challenge of risk aversion head-on. I think the solution lies in improved governance quality, better disclosure and transparency, as well as investor education. Another solution is perhaps to create a different investor class which has a risk-return profile that is compatible with profit-loss sharing in pure Islamic financial instrument.

I strongly advocate pure risk participation in Islamic financial products. Some quarters argue that such an arrangement will place investors more at risk of losing capital. My counter-argument is, since the arrangement will put you at risk, wouldn't it be prudent for you then to fully understand all the risks? And after understanding all the risks, one would surely be compelled to put his money in high quality investment products. And holistically speaking, the whole system will naturally converge to promoting the issuance of Islamic instruments, be it Sukuk, wealth management funds and the like, that conform to the highest quality in terms of returns, governance, standards and management.

Derivatives have long been frowned upon by a majority of Shariah scholars but it has crept up within the industry. What are your thoughts on such products and will the rationale of these being a temporary solution suffice?

Ali: As discussed, for any product to succeed, there must be a genuine need for it in the market and it must be vetted through a proper Shariah approval process. Given the current regulation of financial institutions, there is a need to manage risk. The diversity in Shariah viewpoints on this issue needs to be reassessed so that the Shariah scholars are aware of a genuine necessity for Islamic financial institutions to properly manage their balance sheet.

Baldwin: I am not aware they are considered a "temporary solution". Responsible use of derivatives to mitigate risk should in my view be a permissible reason to deploy them. However, the opportunity to create exposures is the flipside of the coin, and the risk is that derivatives are used to bet. The problem is not with the derivatives but with the intention underlying their deployment.

Mohamed: When we talk about derivatives, the main purpose is for hedging against untoward future events. Hedging is allowed in the Islamic finance context. What is not allowed is to use these hedging instruments as speculative means (gharar) which is clearly prohibited in Islamic finance. What the Islamic finance practitioner should strive for is to design Islamic hedging instruments that are more transparent to weed out any speculative purposes.

Is possible for a single organization to regulate the industry to ensure that it moves in the right direction?

Ali: Due to regional and valid Fiqh differences, we should not realistically expect a single organization to regulate the whole industry internationally. At a national level, this may be possible, for example as has been done in Malaysia. However, efforts such as those of AAOIFI are very important to the development of the industry and should be encouraged — AAOIFI's standardization of Shariah rulings are the basic building blocks for the future development of the industry.

Baldwin: Possibility is a pragmatic consideration. The question is not whether this could happen, but also whether it should happen. To answer both, I believe it is impossible (since Muslims find it impossible to work effectively with each other even for shared purpose) and I also believe that it should not happen, since having one body concentrates the risk of malpractice affecting too large a number of industry practitioners and end-investors.

Mohamed: It is not necessary to have a single organization to regulate the Islamic finance industry as long as all market participants conform to a single unifying goal and basic set of rules. It is difficult to achieve this in practice because of the absence of a unifying Shariah standard. What the regulators can achieve is promoting higher standards of corporate governance and risk management across the board. With improved corporate governance and risk management, Islamic finance would be able to demonstrate a certain amount of in-built resilience to volatility in the operating environment. And this in my opinion is the very essence of what Islamic finance is supposed to offer.

Can Islamic products encapsulate all conventional products? What is therefore the solution to the lack of Shariah compliant products?

Ali: Our goal should not be for Shariah compliant products to mimic all conventional products. The Islamic finance industry needs to actively push for qualitatively different products as well as satisfying demands for products comparable to conventional ones.

Baldwin: This is a question of whether Islamic products should seek to replicate return profiles of conventional products. Replication is inevitable since the return profiles offered by conventional products are the result of decades (may be even centuries) of development to cater to investor requirements (which don't change just because an investor wants to observe Shariah compliance).

Mohamed: I believe that while Shariah compliant versions of most conventional products can be developed, this should not be the aim of Islamic finance practitioners. Neither do I believe that the solution to the lack of Shariah compliant products is to create more Shariah compliant versions of existing conventional products. It is not an issue of having more of the same (conventional) thing but Islamic finance is about providing a financial solution which conforms to the substance of the fundamental Islamic beliefs.

From the statistics provided, we can see that the supply of Shariah compliant products is still growing rapidly. There is no necessity for Islamic products to be produced in an accelerated manner to replicate the range of available conventional products. Suffice to note that Islamic products are here to stay and the gaps will be addressed over time.

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

Name: Safdar Alam

Position: Head of Islamic Structuring

Company: JP Morgan

Based: Bahrain

Age: 38

Nationality: British

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

I am a mathematics graduate and completed my ACA in 1996, after which I worked in London's banking industry for a decade. Whilst at UBS, I moved into Islamic banking, helping to establish the business there. I relocated to Bahrain in 2005 with Calyon to help establish the new Islamic banking team. Finally I moved to JP Morgan in 2007, again to set up the Islamic banking business.

What does your role involve?

Initially it involved identifying key areas of the Islamic banking market where we could meet the requirements of our clients, and then working with all business areas of JP Morgan on a global basis to develop and then deliver these solutions to our clients.

Today we have a wide range of products and solutions for our clients, and we serve them across our major business areas of investment banking, treasury and security services, asset management and private banking.

What is your greatest achievement to date?

It is very challenging, within a conventional bank, to develop a sustainable business serving our clients in the Islamic banking industry. It requires a very deep understanding of the industry and of course our clients' requirements, followed by a period of internal education, finally leading to product development and delivery to our clients.

This process is extremely challenging as any single product requires the involvement of a large number of different teams, all working together to achieve something that has not been done before, and which is very different compared to normal conventional banking products.

To see that process through to delivery is very satisfying and pleasing. I have been fortunate enough to have experienced that success at three global investment banks now.

Which of your products/services deliver the best results?

JP Morgan delivers a wide variety of Shariah compliant solutions across many business lines. In recent times we have seen increased client focus on liquidity and trade finance solutions and have worked to deliver the best solutions to our clients.

What are the strengths of your business?

Without doubt, the caliber of staff we have globally, the depth of our client relationships and the breadth of products and services that we are able to provide to our clients.

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

Where a business is developed that is different from anything you have done before, requiring the support and teamwork of dozens of people from different business lines even for a single solution, the most important driver for success is a clear focus on the end product, which in this case is being able to deliver effective solutions to our clients.

It is that commitment, demonstrated by senior management through to product and relationship teams, that provides the platform for success.

What are the obstacles faced in running your business today?

The market remains quite fragmented, resulting in an increase in the number of bespoke solutions required for clients, rather than a recognized market standard to be followed. Additionally, it is difficult to operate effectively in many relevant jurisdictions outside of English law.

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

I see continued rapid growth in terms of products and services that are offered to the public. Takaful will increase, and I expect it to be used in the area of investment insurance as well as current applications.

The increasing adoption of Islamic banking in countries such as Indonesia, Kazakhstan and hopefully Egypt and Turkey will continue to provide growth momentum. I would like to see Islamic interbank and capital markets develop and diverge from the debt-based conventional markets; this has not happened so far.

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

Greater coordination from all stakeholders — the industry should no longer continue to develop ad hoc with several competing elements in all areas. There should be an industry-wide platform that enables the exchange of ideas and vision, and implementation of developmental strategies.

If this occurs effectively, we should see an opportunity to move away from the dominant interest-based Islamic banking activity to a real enterprise based system.

Cagamas' US$142 million Islamic Medium Term Notes

ISSUER	Cagamas
PRINCIPAL ACTIVITIES	Cagamas is a national mortgage corporation and leading securitization house that was established in 1986 to promote the secondary mortgage market in Malaysia. It also offers financial products that make housing loans more accessible and affordable to Malaysians, especially the lower income group.
INSTRUMENT	Islamic Medium Term Notes
ISSUE DATE	26th November 2009
NOMINAL VALUE	RM480 million (US$142 million)
TENOR	1 to 20 years
MATURITY	26th November 2029
MANDATED LEAD ARRANGERS	CIMB Investment Bank, Maybank Investment
REDEMPTION	The IMTN will be redeemed at full nominal value at maturity
LISTING AND TRADABILITY	On Bursa Malaysia
UTILIZATION OF PROCEEDS	To finance the purchase of Islamic mortgage receivables from financial institutions, selected corporations and the government
RATINGS	'AAA/AAA' by Rating Agency Malaysia and Malaysian Rating Corporation

For more termsheets, visit www.islamicfinancenews.com

GFH

BAHRAIN: Islamic investment bank Gulf Finance House (GFH) has promoted the CEO of GFH Capital, Ted Pretty, as the deputy group CEO.

He joined GFH Capital, the investment banking platform of GFH, in October from his prior role as executive director at Macquarie Bank.

He will continue to oversee the investment banking division apart from his new role.

CREDIT SUISSE

SWITZERLAND: Credit Suisse Group has chosen vice-chairman Urs Rohner to lead the Swiss bank as its next chairman.

He succeeds Hans-Ulrich Doerig who will step down after the annual general meeting in April 2011.

Rohner, a lawyer joined Credit Suisse in 2004 as the bank's general counsel and became chief operating officer two years later. He was elected to the board as vice-chairman in April 2009.

Before this, he was a partner at Zurich-based law firm Lenz & Staehelin from 1990 to 1999 and led German broadcasting group ProSiebenSat1 Media as CEO from 2000 to 2004.

ISLAMIC BANK OF ASIA

SINGAPORE: The CEO of Islamic Bank of Asia (IBA), Vince Cook, has resigned after leading the bank since its inception in 2007. According to sources, Cook, who resigned due to personal reasons, will join an unnamed bank in Qatar. However IBA's spokeswoman said she could not confirm this.

Prior to joining IBA, Cook was general manager for corporate banking and capital markets at Qatar National Bank, and was managing director for the Gulf region at Barclays Capital from 1998 to 2003.

IBA said that following Cook's resignation, Tan Jeh Wuan, the Islamic bank's managing director for corporate banking and capital markets, will be responsible for the day-to-day operations while Eric Ang, DBS's head of capital markets and an IBA director, will provide oversight of the Islamic bank's business.

NBP

PAKISTAN: Irtiza Kazmi, former executive vice-president and group head of corporate finance and investment banking at Pakistan Kuwait Investment (Pak Kuwait) has joined the National Bank of Pakistan (NBP) as the head of its corporate banking unit.

Before joining Pak-Kuwait in February this year, Kazmi was head of investment banking at Dubai Islamic Bank Pakistan since 2006. Prior to that he was a team leader at Bank Alfalah's corporate banking and structured finance.

NBP's first Islamic banking unit started operations in Karachi on the 15th December 2006.

Deal tracker

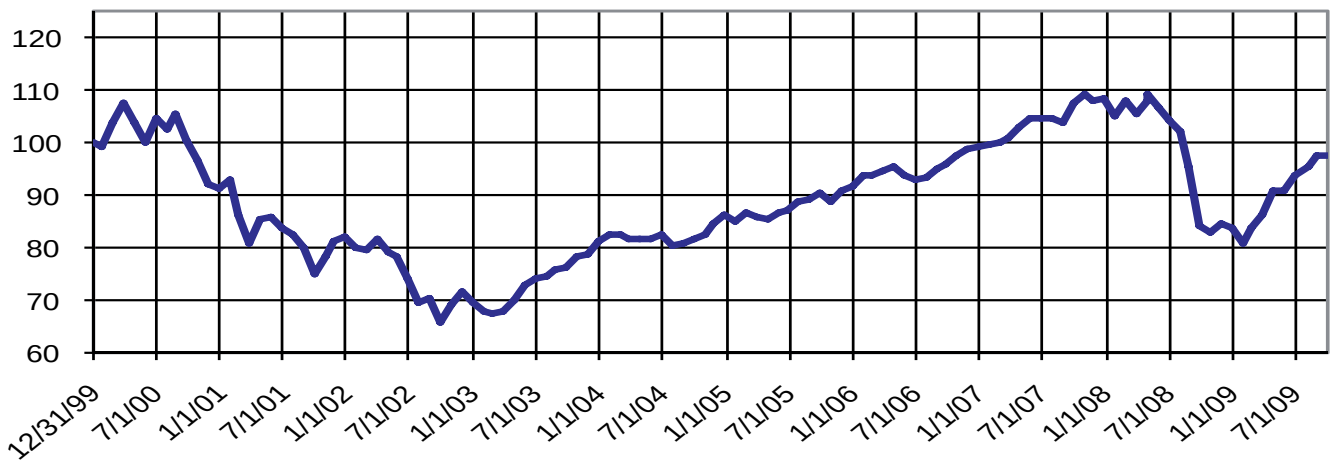
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Indonesia	TBA	Sukuk
Qatar, Sudan, Pakistan, Indonesia and Malaysia	TBA	Euro-denominated inter-government Sukuk issuance program
Binariang GSM	(US$1.5 billion)	Sukuk, CIMB, Maybank and RHB are the arrangers
Bahrain	US$100 million and US$500 million	Sukuk
Pakistan	US$500 million and US$1 billion	Sukuk and Eurobonds
South Korea	Between US$500 million and US$1 billion	Sukuk
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
Dubai	US$6.5 billion	Medium-term notes, involving the sale of US$2.5 billion in Sukuk and US$4 billion in conventional bonds
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
France	US$1.5 billion	Sukuk
Guoco Land	US$34 million	Commodity Murabahah
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

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 16th December 2009)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	ETFS Physical Palladium	ETFS Metal Securities	10.16	Jersey
2	FALCOM Saudi Equity	FALCOM Financial Services	9.73	Saudi Arabia
3	Al Rajhi Petro-Cement Sector	Al Rajhi Bank	7.11	Saudi Arabia
4	Jadwa Emerging Markets Equity	Jadwa Investment	6.28	Saudi Arabia
5	Al Rajhi Local Shares	Al Rajhi Bank	6.14	Saudi Arabia
6	AlAhli Saudi Mid Cap Equity	NCB Capital Company	5.99	UAE
7	Al Rajhi European Equity	HSBC	5.84	Saudi Arabia
8	Al Rajhi India & China Equity	Al Rajhi Bank	5.46	Saudi Arabia
9	InterPac Dana Safi	Inter-Pacific Asset Management	5.40	Malaysia
10	Kagiso Islamic Equity	Kagiso Asset Management	5.35	South Africa
	Eurekahedge Islamic Fund Index*		-0.14	

Monthly returns for Emerging Markets funds (as of the 16th December 2009)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	ETFS Physical Palladium	ETFS Metal Securities	10.16	Jersey
2	Al Rajhi International Small Capitalisation	Merrill Lynch Investment Managers	4.83	Saudi Arabia
3	ETFS Physical Gold	ETFS Metal Securities	4.41	Jersey
4	Jadwa Global Sukuk	Jadwa Investment	4.22	Saudi Arabia
5	Al Rajhi Global Equity	UBS	4.16	Saudi Arabia
6	ETFS Physical PM Basket	ETFS Metal Securities	3.59	Jersey
7	Islamic Certificate on HSBC Absolute Return	ABN AMRO Bank	3.14	Not disclosed
8	Jadwa World Equity	Jadwa Investment	3.05	Saudi Arabia
9	ETFS Physical Platinum	ETFS Metal Securities	2.52	Jersey
10	Solidarity Global Growth	Solidarity Funds Company	1.62	Bahrain
	Eurekahedge Global Islamic Fund Index*		**0.04**	

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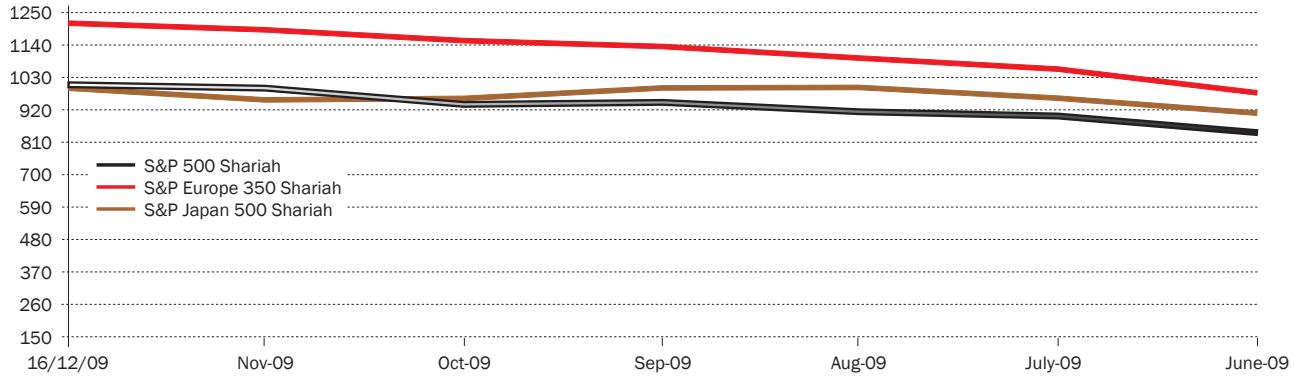
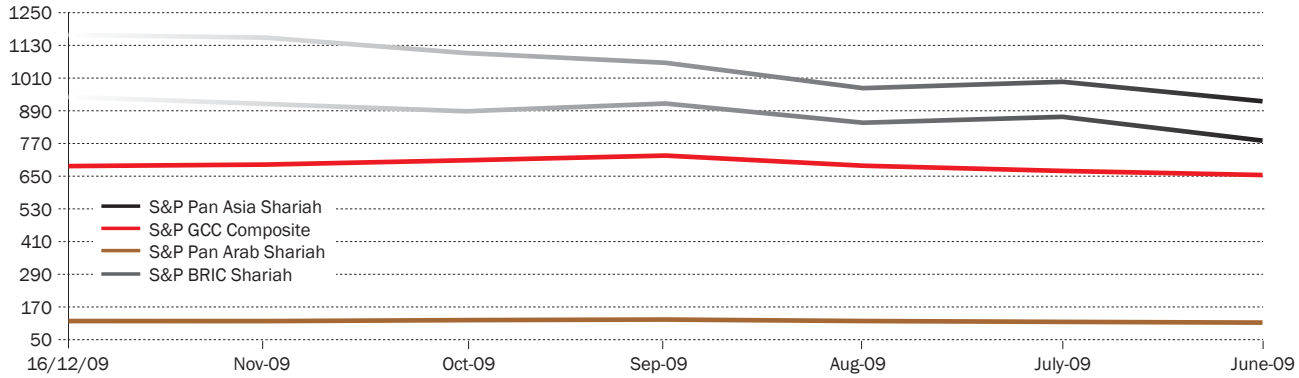
Contact Eurekahedge
To list your fund or update your fund information: islamicfunds@eurekahedge.com
For further details on Eurekahedge: information@eurekahedge.com
Tel: +65 6212 0900

EUREKAHEDGE

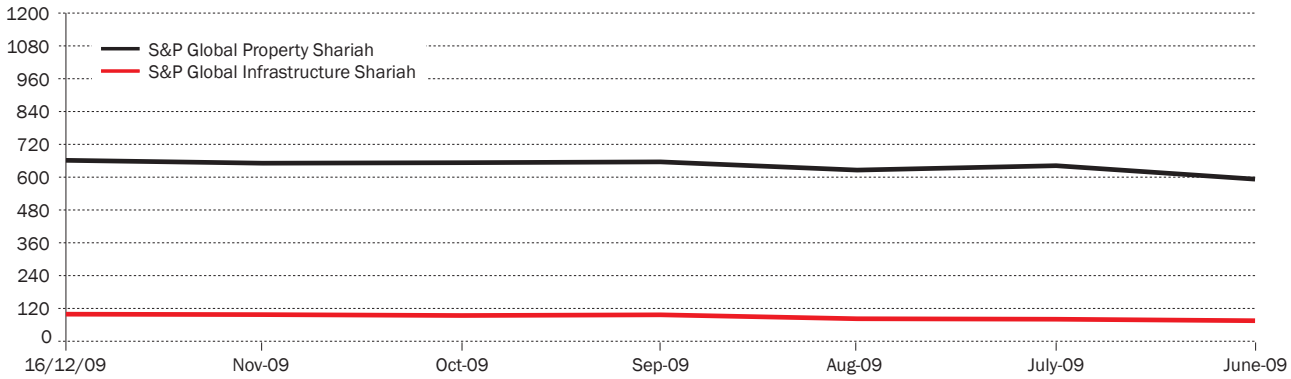
S&P Shariah Indices Price Index Levels



Index Code	Index Name	16/12/09	Nov-09	Oct-09	Sep-09	Aug-09	July-09	June-09
SPSHX	S&P 500 Shariah	1005.160	993.630	938.522	945.321	913.542	899.016	842.797
SPSHEU	S&P Europe 350 Shariah	1213.977	1191.590	1154.847	1134.881	1095.741	1058.270	977.823
SPSHJU	S&P Japan 500 Shariah	993.424	953.814	958.793	994.367	996.042	959.584	908.760



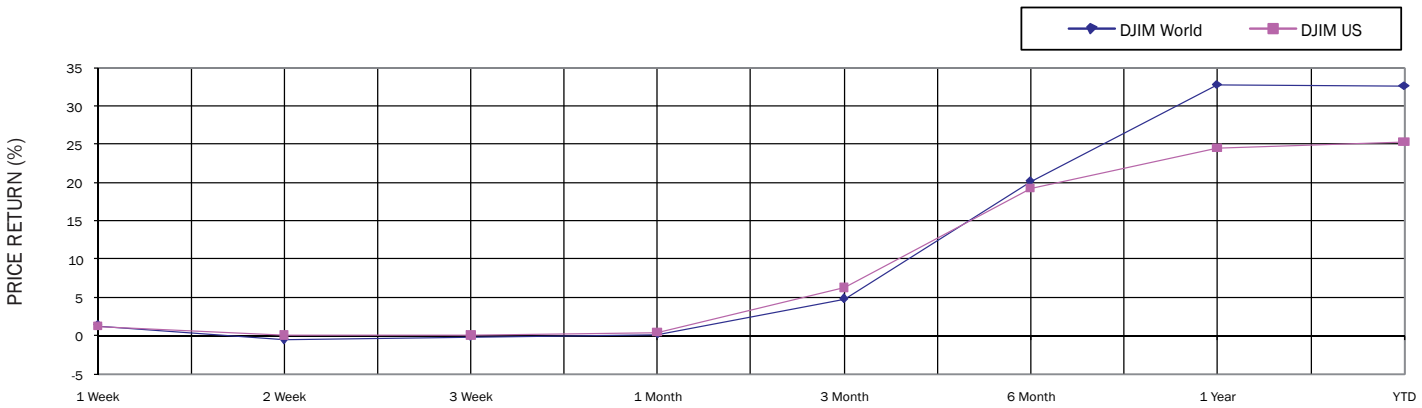
Index Code	Index Name	16/12/09	Nov-09	Oct-09	Sep-09	Aug-09	July-09	June-09
SPSHAS	S&P Pan Asia Shariah	941.003	914.903	888.072	916.579	846.106	867.704	780.340
SPSHG	S&P GCC Composite Shariah	686.982	692.555	708.224	725.528	688.379	669.202	654.208
SPSHPA	S&P Pan Arab Shariah	118.341	118.162	121.749	123.831	118.463	115.322	112.643
SPSHBR	S&P BRIC Shariah	1168.172	1158.319	1101.842	1066.062	973.014	996.242	924.814



Index Code	Index Name	16/12/09	Nov-09	Oct-09	Sep-09	Aug-09	July-09	June-09
SPSHGU	S&P Global Property Shariah	661.512	651.064	652.897	655.839	625.881	641.907	592.683
SPSHIF	S&P Global Infrastructure Shariah	98.961	97.319	94.056	96.587	82.238	80.488	75.034

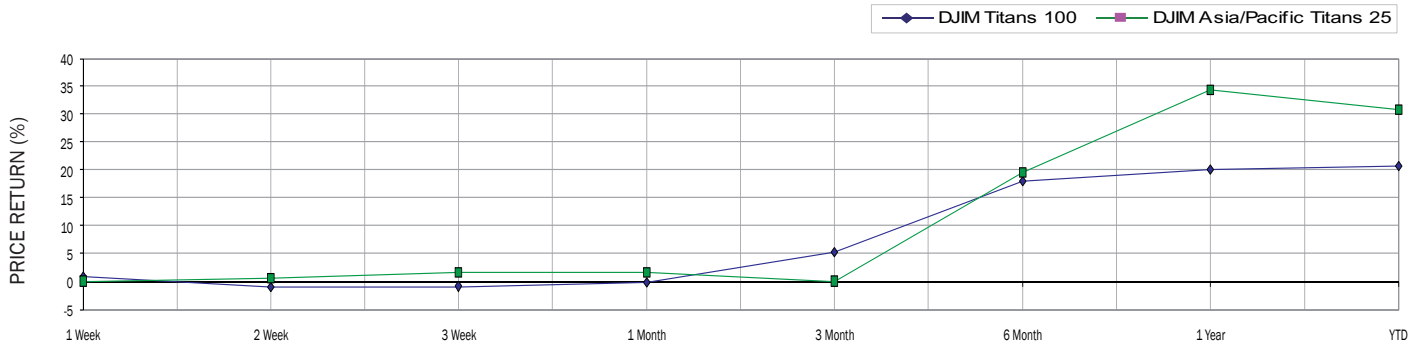
Data as of the 16th December 2009

PERFORMANCE OF DJ INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	1.39	-0.47	-0.11	0.19	4.79	20.13	32.80	32.59
DJIM US	1.26	0.12	0.15	0.46	6.27	19.28	24.50	25.34

PERFORMANCE OF DJ TITANS INDEXES



INDEX	PRICE RETURN (%)							
	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM Titans 100	0.92	-0.88	-0.83	-0.08	5.34	17.92	20.09	20.82
DJIM Asia/Pacific Titans 25	0.08	0.55	1.59	1.54	0.09	19.54	34.48	30.90

DESCRIPTIVE STATISTICS		Market Capitalization (US$ billions)						Component Weight (%)	
Index	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2397	15528.84	12195.15	5.09	0.99	328.86	0.00	2.70	0.00
DJIM US	615	6845.87	6386.77	10.38	2.51	328.86	0.11	5.15	0.00
DJIM Titans 100	100	6943.21	6232.17	62.32	40.84	328.86	13.14	5.28	0.21
DJIM Asia/Pacific Titans 25	25	998.43	683.77	27.35	20.11	75.63	13.14	11.06	1.92

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

For more information, please visit **www.djislamicmarkets.com** or contact

Anthony Yeung
Regional Director
Hong Kong, China, Philippines, Taiwan, Korea, Japan, Australia & New Zealand
Tel: +852 2831 2580
Anthony.yeung@dowjones.com

Ariff Sultan
Business Development Director
Malaysia, Singapore, Indonesia, India, Thailand, Pakistan, Sri Lanka & Bangladesh
Tel: +65 6415 4262
ariff.sultan@dowjones.com

Tariq al-Rifai
Director
Islamic Market Indexes
Tel: +971 4374 8045
tariq.alrifai@dowjones.com

DOWJONES

TOP ISSUERS OF ISLAMIC BONDS — DEC 2008 – DEC 2009

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss	%	Manager
1	Government of Dubai	UAE	Sukuk	1,931	1	10.6	Standard Chartered, UBS, Dubai Islamic Bank, Bahrain Islamic Bank, Emirates NBD, Mitsubishi UFJ Securities International
2	Saudi Electricity	Saudi Arabia	Sukuk	1,867	1	10.3	HSBC, Samba Financial Group
3	Petronas Global Sukuk	Malaysia	Ijarah Sukuk	1,498	1	8.3	Morgan Stanley, CIMB, Citigroup
4	Terengganu Investment Authority	Malaysia	Murabahah Sukuk	1,422	1	7.8	AmInvestment
5	TDIC Sukuk	UAE	Sukuk Ijarah	1,000	1	5.5	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
6	Islamic Development Bank	Saudi Arabia	Sukuk Wakalah	850	1	4.7	BNP Paribas, CIMB, Deutsche Bank, HSBC
7	Kingdom of Bahrain	Bahrain	Sukuk Ijarah	750	1	4.1	Deutsche Bank, HSBC, Calyon
8	Cagamas	Malaysia	Murabahah MTN	719	5	4.0	Standard Chartered, AmInvestment, Maybank Investment Bank, HSBC, CIMB, RHB Capital
9	Republic of Indonesia	Indonesia	Sukuk Ijarah	650	1	3.6	Standard Chartered, HSBC, Barclays Capital, (Persero) Danareksa, Trimegah Securities, Bank Mandiri
10	Khazanah Nasional	Malaysia	Sukuk Musharakah	601	3	3.3	CIMB, AmInvestment, Maybank Investment Bank
11	Sime Darby	Malaysia	Musharakah MTN	590	1	3.3	CIMB, Maybank Investment Bank, Public Bank
12	Syarikat Prasarana Negara	Malaysia	Ijarah MTN	573	1	3.2	CIMB, Maybank Investment Bank
13	Abu Dhabi Islamic Bank	UAE	Sukuk	545	1	3.0	JPMorgan Securities
14	GE Capital Sukuk	US	Sukuk Ijarah	498	1	2.7	Citigroup, Goldman Sachs KFH, National Bank of Abu Dhabi
15	Penerbangan Malaysia	Malaysia	Murabahah MTN	485	2	2.7	HSBC, CIMB, AmInvestment
16	Danga Capital	Malaysia	Sukuk Musharakah	444	1	2.5	CIMB, AmInvestment
17	Islamic Republic of Pakistan	Pakistan	Sukuk	441	3	2.4	Standard Chartered, Dubai Islamic Bank Pakistan
18	Rak Capital	UAE	Sukuk Ijarah	407	1	2.2	BNP Paribas, Standard Chartered
19	MISC	Malaysia	Murabahah MTN	368	2	2.0	HSBC, CIMB, AmInvestment
20	Pengurusan Aset Air	Malaysia	Ijarah MTN	341	1	1.9	CIMB
	Total			**18,158**	**73**	**100.0**	

For all enquires regarding the above information, please contact:

Jennifer Cheung (Media Relations)
Email: Jennifer.Cheung@Dealogic.com
Phone: +852 2804 1223

TOP ISSUERS OF ISLAMIC BONDS — SEP 2009 – DEC 2009

	Issuer or Group	Nationality	Instrument	Amt US$ m	Iss	%	Manager
1	Government of Dubai	UAE	Sukuk	1,931	1	38.34	Standard Chartered, UBS, Dubai Islamic Bank, Bahrain Islamic Bank, Emirates NBD, Mitsubishi UFJ Securities International
2	TDIC Sukuk	UAE	Sukuk Ijarah	1,000	1	19.86	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
3	Sime Darby	Malaysia	Musharakah MTN	590	1	11.71	CIMB, Maybank Investment Bank, Public Bank
4	GE Capital Sukuk	US	Sukuk Ijarah	498	1	9.89	Citigroup, Goldman Sachs KFH, National Bank of Abu Dhabi
5	Pengurusan Aset Air	Malaysia	Ijarah MTN	341	1	6.77	CIMB
6	Islamic Republic of Pakistan	Pakistan	Sukuk	174	1	3.46	Standard Chartered
7	Cagamas	Malaysia	Murabahah MTN	131	1	2.59	Standard Chartered, AmInvestment, Maybank Investment Bank, HSBC, CIMB, RHB Capital
8	International Finance	US	Sukuk	100	1	1.99	HSBC, Kuwait Finance House, Dubai Islamic Bank, Liquidity Management Centre
9	Penerbangan Malaysia	Malaysia	Murabahah MTN	74	1	1.5	HSBC, CIMB, AmInvestment
10	Projek Lintasan Shah Alam	Malaysia	Ijarah MTN	37	1	0.72	RHB Capital
11	Citydev Nahdah	Singapore	Ijarah MTN	36	1	0.71	CIMB
12	Salim Ivomas Pratama	Indonesia	Sukuk Ijarah	29	1	0.58	Bank Mandiri, CIMB, Kim Eng Securities, OSK, (Persero) Danareksa
13	Indosat	Indonesia	Sukuk Ijarah	21	1	0.42	Bank Mandiri, DBS, (Persero) Danareksa
14	Majlis Ugama Islam Singapura	Singapore	Ijarah MTN	21	1	0.41	CIMB
15	TSH Sukuk Ijarah	Malaysia	Ijarah MTN	15	1	0.29	OSK Investment Bank
16	Pupuk Kalimantan Timur	Indonesia	Sukuk Ijarah	14	1	0.28	(Persero) Danareksa
17	Mitra Adiperkasa	Indonesia	Sukuk Ijarah	13	1	0.27	HSBC, (Persero) Danareksa, Indo Premier Securities, Standard Chartered
18	Offshoreworks Capital	Malaysia	Musharakah MTN	11	1	0.22	MIDF Amanah Investment Bank
	Total			**5,035**	**18**	**100.00**	

ISLAMIC BONDS				DEC 2008 – DEC 2009
	Manager or Group	Amt US$ m	Iss	%
1	CIMB	3,490	31	19.2
2	HSBC	2,531	16	13.9
3	AmInvestment	2,035	9	11.2
4	Standard Chartered	1,468	11	8.1
5	Samba Financial Group	1,033	2	5.7
6	Maybank Investment Bank	961	11	5.3
7	Citigroup	624	2	3.4
8	JPMorgan	545	1	3.0
9	Morgan Stanley	499	1	2.8
10	Deutsche Bank	463	2	2.6
11	BNP Paribas	416	2	2.3
12	Abu Dhabi Commercial Bank	333	1	1.8
13	Dubai Islamic Bank	331	2	1.8
14	UBS	306	1	1.7
15	Mitsubishi UFJ Securities	306	1	1.7
16	Emirates NBD	306	1	1.7
17	Calyon	250	1	1.4
18	National Bank of Abu Dhabi	222	2	1.2
19	Barclays Capital	217	1	1.2
20	Bahrain Islamic Bank	208	1	1.2
	Total	**18,158**	**73**	**100.0**

ISLAMIC BONDS				SEP 2009 – DEC 2009
	Manager or Group	Amt US$ m	Iss	%
1	Standard Chartered	817	4	16.2
2	CIMB	684	7	13.6
3	HSBC	380	4	7.6
4	Abu Dhabi Commercial Bank	333	1	6.6
4	Dubai Islamic Bank	331	2	6.6
6	UBS	306	1	6.1
6	Mitsubishi UFJ Securities	306	1	6.1
6	Emirates NBD	306	1	6.1
9	Maybank Investment Bank	262	2	5.2
10	National Bank of Abu Dhabi	222	2	4.4
11	Bahrain Islamic Bank	208	1	4.1
12	Public Bank	197	1	3.9
13	KFH	150	2	3.0
14	Goldman Sachs	125	1	2.5
15	Citigroup	125	1	2.5
16	Al Hilal Bank	97	1	1.9
17	RHB Capital	37	1	0.7
18	(Persero) Danareksa	30	4	0.6
19	Liquidity Management Centre	25	1	0.5
20	OSK	21	2	0.4
	Total	**5,035**	**18**	**100.0**

ISLAMIC BONDS BY COUNTRY			DEC 2008 – DEC 2009
	Amt US$ m	Iss	%
Malaysia	8,466	48	46.6
UAE	3,882	4	21.4
Saudi Arabia	3,123	4	17.2
Indonesia	840	9	4.6
Bahrain	750	1	4.1
Total	**18,158**	**73**	**100.0**

ISLAMIC BONDS BY COUNTRY			SEP 2009 – DEC 2009
	Amt US$ m	Iss	%
UAE	2,931	2	58.2
Malaysia	1,197	7	23.8
US	598	2	11.9
Total	**5,035**	**18**	**100.0**

ISLAMIC BONDS BY CURRENCY			DEC 2008 – DEC 2009
	Amt US$ m	Iss	%
US dollar	7,003	9	38.6
Malaysian ringgit	6,968	47	38.4
Saudi Arabian riyal	2,273	3	12.5
UAE dirham	1,225	2	6.8
Pakistan rupee	441	3	2.4
Total	**18,158**	**73**	**100.0**

ISLAMIC BONDS BY CURRENCY			SEP 2009 – DEC 2009
	Amt US$ m	Iss	%
US dollar	2,848	4	56.6
Malaysian ringgit	1,197	7	23.8
UAE dirham	681	1	13.5
Total	**5,035**	**18**	**100.0**

For all enquires regarding the above information, please contact:

Jennifer Cheung (Media Relations)

Email: Jennifer.Cheung@Dealogic.com
Phone: +852 2804 1223; Fax: +852 2529 4377

ALL DATA AS OF THE 15th DECEMBER 2009

SUKUK MANAGERS (12 months) DEC 2008 – DEC 2009

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	21,034,519,329	151	49.1
2	CIMB	4,668,863,116	128	10.9
3	AMMB Holdings	2,304,335,699	90	5.4
4	HSBC Banking Group	2,099,343,796	49	4.9
5	Malayan Banking	1,295,468,604	104	3.0
6	Citigroup	1,267,746,162	7	3.0
7	Morgan Stanley	1,215,000,000	5	2.8
8	Malaysian Industrial Development Finance	1,177,459,585	296	2.7
9	Standard Chartered	1,164,072,210	18	2.7
10	RHB Banking Group	1,090,153,092	54	2.5
11	Samba Financial Group	933,261,000	1	2.2
12	Dubai Islamic Bank	602,646,875	3	1.4
13=	Mitsubishi UFJ Financial Group	482,646,875	2	1.1
13=	UBS	482,646,875	2	1.1
15	Barclays Bank	435,500,000	3	1.0
16	Cagamas	387,669,522	36	0.9
17	Affin Holdings	259,327,397	33	0.6
18	OSK Holdings	213,184,911	29	0.5
19	Indonesia (Government)	204,199,381	11	0.5
20	EON Capital	189,575,115	92	0.4

SUKUK MANAGERS (3 months) SEP 2009 - DEC 2009

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	3,234,172,800	19	32.0
2	CIMB	2,147,098,404	26	21.3
3	Malayan Banking Bhd	700,094,172	25	6.9
4	Standard Chartered	639,843,717	6	6.3
5	Dubai Islamic Bank	602,646,875	3	6.0
6=	UBS	482,646,875	2	4.8
6=	Mitsubishi UFJ Financial Group	482,646,875	2	4.8
8	HSBC Banking Group	321,861,242	14	3.2
9	Malaysian Industrial Development Finance	300,463,545	74	3.0
10	RHB Banking Group	214,434,600	18	2.1
11=	Qatar International Islamic Bank	120,000,000	1	1.2
11=	Far Eastern International Bank	120,000,000	1	1.2
11=	Islamic Development Bank	120,000,000	1	1.2
11=	Abu Dhabi Islamic Bank	120,000,000	1	1.2
11=	UAE (Government)	120,000,000	1	1.2
16	Cagamas	57,393,242	10	0.6
17	AMMB Holdings	53,592,428	11	0.5
18	OSK Holdings	52,325,410	7	0.5
19	Affin Holdings	45,321,230	5	0.4
20	EON Capital	38,780,650	17	0.4

SUKUK ISSUERS (12 months) DEC 2008 – DEC 2009

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	8,380,131,664	23	17.7
2	Bank Negara Malaysia	5,620,970,387	99	11.9
3	BNM Sukuk	4,788,885,334	23	10.1
4	Bank Indonesia	4,110,029,091	53	8.7
5	Petronas Global Sukuk	3,000,000,000	2	6.3
6	Dubai DOF Sukuk	1,930,587,500	2	4.1
7	Saudi Electricity	1,866,522,000	1	3.9
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	2.7
11	Cagamas	1,095,850,775	36	2.3
12	TDIC Sukuk	1,000,000,000	1	2.1
13	Perusahaan Penerbit SBSN Indonesia	874,630,134	6	1.8
14	ESSO Malaysia	773,505,165	13	1.6
15	Pengurusan Air SPV	739,865,000	3	1.6
16	Sime Darby	636,963,100	4	1.3
17	Syarikat Prasarana Negara	577,872,000	2	1.2
18	MISC	572,905,000	6	1.2
19	Danga Capital	454,287,337	2	1.0
20	Pakistan (Government)	440,994,225	3	0.9

SUKUK ISSUERS (3 months) SEP 2009 - DEC 2009

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	1,973,201,500	11	17.4
2	Dubai DOF Sukuk	1,930,587,500	2	17.0
3	Malaysia (Government)	1,260,971,300	8	11.1
4	Bank Indonesia	1,093,315,205	13	9.7
5	TDIC Sukuk	1,000,000,000	1	8.8
6	Pengurusan Air SPV	739,865,000	3	6.5
7	Sime Darby	594,088,000	3	5.2
8	Syarikat Prasarana Negara	577,872,000	2	5.1
9	MISC	288,936,000	3	2.6
10	Rantau Abang Capital	287,900,000	1	2.5
11	Cagamas	229,572,960	10	2.0
12	ESSO Malaysia	177,804,600	2	1.6
13	Malakoff	175,824,000	1	1.6
14	CIMB Islamic Bank	86,680,800	1	0.8
15	Perusahaan Penerbit SBSN Indonesia	79,677,100	2	0.7
16	Hytex Integrated	60,049,199	13	0.5
17	Hubline	43,842,380	4	0.4
18	Projek Lintasan Shah Alam	36,630,000	8	0.3
19	Citydev Nahdah	35,793,300	1	0.3
20	Pupuk Kalimantan Timur	31,796,400	1	0.3

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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.

For more information please contact:

Aimee Webster Telephone: +1-646-223-6816 Email: aimee.webster@thomsonreuters.com

ALL DATA AS OF THE 15th DECEMBER 2009

LOAN MANDATED LEAD ARRANGERS — DEC 2008 – DEC 2009

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	Dubai Islamic Bank	1,365,903,212.63	3,283,225,701.00	4	11.6
2	Samba Financial	1,316,528,064.01	4,643,622,223.41	4	11.2
3	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	9.3
4	Calyon Corporate & Investment Bank	862,161,344.54	4,520,800,000.00	4	7.3
5	National Commercial Bank	848,030,730.61	2,769,632,889.79	2	7.2
6	HSBC	807,158,677.94	4,145,789,333.62	5	6.8
7	Standard Chartered	714,531,223.83	4,002,225,701.00	6	6.1
8	Al Rajhi Banking & Investment	603,847,058.82	2,799,800,000.00	2	5.1
9	Al Hilal Bank	541,370,616.42	1,833,741,232.85	3	4.6
10	Arab Bank	492,447,058.82	2,242,800,000.00	3	4.2
11	Noor Islamic Bank	285,870,616.42	952,741,232.85	2	2.4
12=	Alinma Bank	214,714,285.71	1,503,000,000.00	1	1.8
12=	Bank of China	214,714,285.71	1,503,000,000.00	1	1.8
14	Emirates Bank	170,403,212.63	982,225,701.00	2	1.4
15=	Gulf Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.3
15=	National Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.3
15=	Standard Bank	155,000,000.00	775,000,000.00	1	1.3
18	Barclays Bank	150,000,000.00	150,000,000.00	1	1.3
19	WestLB	144,647,058.82	935,000,000.00	2	1.2
20	First Gulf Bank	130,747,962.29	783,949,449.33	2	1.1
21	Industrial & Commercial Bank of China	127,000,000.00	635,000,000.00	1	1.1
22	Riyad Bank	117,644,392.23	699,989,333.62	2	1.0
23	Mitsubishi UFJ Financial Group	104,991,808.49	736,723,748.33	2	0.9
24	National Bank of Abu Dhabi	101,344,749.67	478,723,748.33	2	0.9
25	National Bank	99,997,333.40	399,989,333.62	1	0.8
26=	Royal Bank of Scotland	87,344,749.67	436,723,748.33	1	0.7
26=	Abu Dhabi Commercial Bank	87,344,749.67	436,723,748.33	1	0.7
28	Societe Generale	61,247,058.82	518,000,000.00	2	0.5
29	Mashreqbank	61,050,271.45	647,225,701.00	2	0.5
30	BNP Paribas	56,647,058.82	467,000,000.00	3	0.5
31=	Abu Dhabi Islamic Bank	43,403,212.63	347,225,701.00	1	0.4
31=	Ajman Bank	43,403,212.63	347,225,701.00	1	0.4
31=	Arab African International Bank	43,403,212.63	347,225,701.00	1	0.4

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

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1=	Al Rajhi Banking & Investment	1,249,900,000.00	2,499,800,000.00	1	19.7
1=	Calyon Corporate & Investment Bank	1,249,900,000.00	2,499,800,000.00	1	19.7
3	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	17.4
4	Standard Chartered Bank	542,112,850.50	1,821,225,701.00	2	8.6
5	Dubai Islamic Bank	495,500,000.00	2,109,000,000.00	2	7.8
6=	Al Hilal Bank	368,500,000.00	1,474,000,000.00	1	5.8
6=	Samba Financial	368,500,000.00	1,474,000,000.00	1	5.8
8	Mashreqbank	173,612,850.50	347,225,701.00	1	2.7
9	Barclays Bank	150,000,000.00	150,000,000.00	1	2.4
10=	Noor Islamic Bank	127,000,000.00	635,000,000.00	1	2.0
10=	Industrial & Commercial Bank of China	127,000,000.00	635,000,000.00	1	2.0
10=	WestLB	127,000,000.00	635,000,000.00	1	2.0
10=	Emirates Bank	127,000,000.00	635,000,000.00	1	2.0
14=	Gatehouse Bank	41,666,666.67	125,000,000.00	1	0.7
14=	BNP Paribas	41,666,666.67	125,000,000.00	1	0.7
14=	Liquidity Management House for Investment	41,666,666.67	125,000,000.00	1	0.7

ISLAMIC LOANS RAISED (12 Months) — DEC 2009 – DEC 2009

	Borrower	Country	Islamic Loan Amount (US$)
1	Zain	Saudi Arabia	2,499,800,000
2	Rabigh Independent Power Project	Saudi Arabia	1,503,000,000
3	Dubai Electricity & Water Authority	UAE	1,474,000,000
4	Saudi Binladen Group	Saudi Arabia	1,266,632,890
5	Qatari Diar Real Estate Investment	Qatar	1,098,538,943
6	Borse Dubai	UAE	827,000,000
7	Dubai Department of Civil Aviation	UAE	635,000,000
8	Zayed University	UAE	436,723,748
9	Etihad Etisalat	Saudi Arabia	399,989,334
10	Al Ghurair Centre	UAE	347,225,701
11	International Petroleum Investment	UAE	317,741,233
12	Al Dur Power & Water	Bahrain	300,000,000
13	Dolphin Energy	UAE	218,000,000
14	Qatar Airways	Qatar	160,000,000

ALL DATA AS OF THE 15th DECEMBER 2009

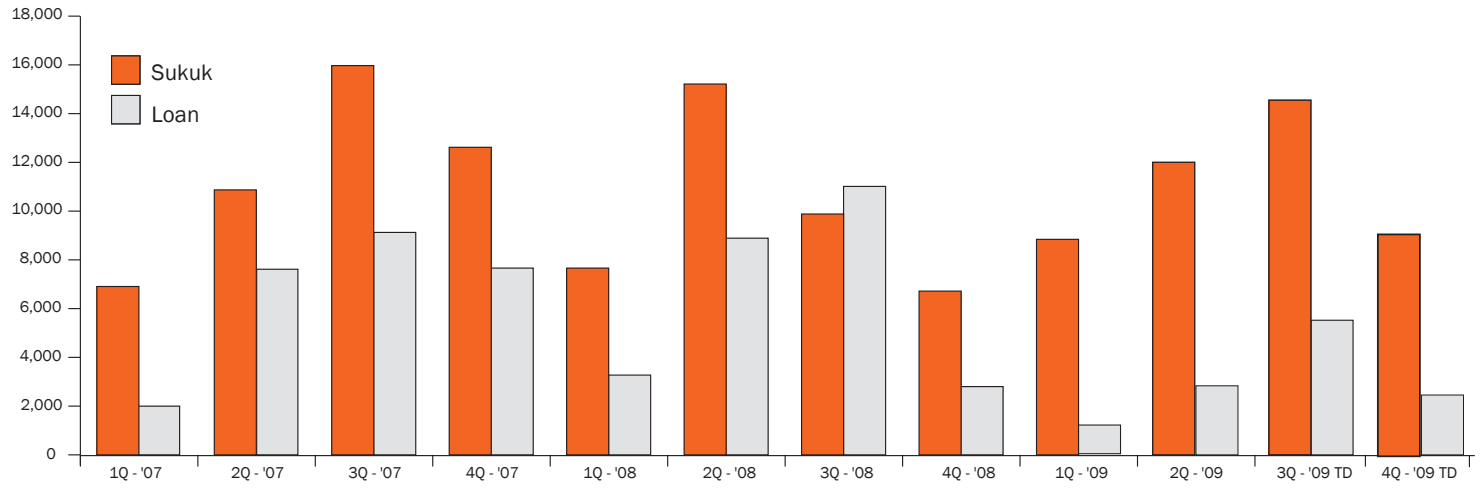
SUKUK BY COUNTRY	(12 Months)	DEC 2008 – DEC 2009
Country	**Volume Issued**	**Volume Outstanding**
Malaysia	32,092,091,139	20,895,178,644
Eurobond	5,080,587,500	5,080,587,500
Indonesia	5,210,698,979	1,422,752,050
US	2,150,000,000	2,150,000,000
Saudi Arabia	2,073,188,667	2,073,188,667
Pakistan	440,994,225	440,994,225
Bahrain	209,294,500	34,184,520
Singapore	124,701,298	124,701,298
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	DEC 2008 – DEC 2009
Country	**Volume (US$)**	**Market Share(%)**
Saudi Arabia	5,669,422,223	48.0
UAE	4,297,690,682	36.4
Qatar	1,258,538,943	10.7
Bahrain	300,000,000	2.5
US	150,000,000	1.3

SUKUK BY INDUSTRY	(12 Months)	DEC 2008 – DEC 2009
Industry	**Volume Issued**	**Volume Outstanding**
Sovereign	19,968,867,209	10,443,208,052
Other financial	17,428,875,471	13,852,507,118
Agency	2,685,827,261	2,629,041,344
Electric power	2,135,484,615	2,135,484,615
Manufacturing	1,932,927,391	1,143,518,511
Transportation	1,370,950,771	1,214,519,895
Energy company	894,717,499	141,985,355
Service company	399,361,341	253,790,326
Banks	293,347,467	293,347,467
Consumer goods	181,004,794	92,986,623
Gas distribution	68,994,889	-

LOANS BY INDUSTRY	(12 Months)	DEC 2008 – DEC 2009
Industry	**Volume (US$)**	**Market Share(%)**
Utilities	3,277,000,000	27.8
Telecommunications	2,899,789,334	24.6
Construction	1,266,632,890	10.7
Financial services	1,144,741,233	9.7
Real estate	1,098,538,943	9.3
Government	635,000,000	5.4
Services	436,723,748	3.7
Retail and supermarkets	347,225,701	2.9

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



Aimee Webster
Telephone: +1-646-223-6816
Email: aimee.webster@thomsonreuters.com

EVENTS DIARY 2009/2010

DATE	EVENT	VENUE	ORGANIZER
February 2010			
7th – 8th	Middle East Insurance Forum	Bahrain	MEGA 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*
14th – 15th	The International Conference on Islamic Banking & Finance	Africa	AlHuda CIBE
15th	IFN Roadshow Indonesia	Indonesia	Islamic Finance *events*
26th	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*
8th	IFN Roadshow Nigeria	Nigeria	Islamic Finance *events*
August 2010			
3rd	IFN Roadshow India	India	Islamic Finance *events*
5th	IFN Roadshow Pakistan	Pakistan	Islamic Finance *events*
October 2010			
26th – 28th	IFN Asia Forum 2010	Kuala Lumpur	Islamic Finance *events*

Islamic Finance *news* team

Published By: REDmoney
21/F, Menara Park, 12, Jalan Yap Kwan Seng
50450 Kuala Lumpur, Malaysia
Tel: +603 2162 7800 Fax: +603 2162 7810

EDITORIAL TEAM

Managing Editor S.Sivaselvam
Sivaselvam@REDmoneyGroup.com

Editor Raphael Wong
Raphael.Wong@REDmoneyGroup.com

Deputy Editor Fatimah S Baeshen
Fatimah.Baeshen@REDmoneyGroup.com

Copy Editors Jothi Jeyasingam
Jothi.Jeyasingam@REDmoneyGroup.com
Sasikala Thiagaraja
Sasikala@REDmoneyGroup.com

Writer Lai Pei Yee
Peiyee.Lai@REDmoneyGroup.com

Staff Writer Nazneen Abdul Halim
Nazneen.Halim@REDmoneyGroup.com

Correspondents Kamal Bairamov, Shirene Shan

Features Editor Shabnam Mokhtar
Shabnam.Mokhtar@REDmoneyGroup.com

Forum Editor Christina Morgan
Christina.Morgan@REDmoneyGroup.com

Publishing Manager Melisa Idris
Melisa.Idris@REDmoneyGroup.com

Production Manager Hasnani Aspari
Hasnani.Aspari@REDmoneyGroup.com

Production Executives Muhammad Najib Abdul Rahim
Najib.AbdulRahim@REDmoneyGroup.com
Yazid Yahya
Yazid.Yahya@REDmoneyGroup.com

SALES TEAM

New Business Manager Charles Philip
Charles.Philip@REDmoneyGroup.com
Tel: +603 2162 7800 x 13

Head of Subscriptions Musfaizal Mustafa
Musfaizal.Mustafa@REDmoneyGroup.com
Tel: +603 2162 7800 x 24

Subscriptions Sales Executives Nadjmuddean Mohd Ris
Mohammed.Nadjmuddean@REDmoneyGroup.com
Tel: +603 2162 7800 x 38
Sheikh Mohd Rasyidien Sheikh Razman
Rasyidien.Razman@REDmoneyGroup.com
Tel: +603 2162 7800 x 29

MARKETING TEAM

Marketing Manager Deepa Kaliperumal
Deepa.Kaliperumal@REDmoneyGroup.com

Administration & Marketing Assistant Dhana Dorasamy
Dhana@REDmoneyGroup.com

Financial Controller Faizah Hassan
Faizah.Hassan@REDmoneyGroup.com

Deputy Publisher & Director Geraldine Chan
Geraldine.Chan@REDmoneyGroup.com

Managing Director Andrew Tebbutt
Andrew.Tebbutt@REDmoneyGroup.com

Managing Director & Publisher Andrew Morgan
Andrew.Morgan@REDmoneyGroup.com

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Company Index

Country Index

Islamic Finance news Awards

Poll 2009

Conditions: • You can only vote once • Business email addresses are required for all votes • You may not vote for yourself

Your Contact Information	
Name:	Business Email:
Company:	Phone:

2009 Poll Categories	
Best Overall Islamic Bank	

Global Section	
Best Retail Islamic Bank	
Best Islamic Private Bank	
Most Innovative Islamic Bank	
Best New Islamic Bank	
Best Central Bank in Promoting Islamic Finance	

Special Category	
Best Individual Islamic Banker	

This is the first round of polling for this specific category.

Following the first round, the top 10 individuals as voted by you, will be invited to submit a short biography profiling their banks and their individual achievements during 2009. These biographies will be published in Islamic Finance news and on www.IslamicFinanceNews.com when the second round of voting will commence.

The second round of voting will commence on the 13th January 2010 and the final results will be announced separately on the 3rd February 2010.

Other Categories (Firms which offer Islamic financial services)	
Best Financial Consultancy Firm	
Best Shariah Advisory Firm	
Best Islamic Research Company	
Best Islamic Index Provider	
Best Law Firm	
Best Leasing Provider	
Best Ratings Agency	
Best Takaful / re-Takaful Company	
Best Asset / Fund Manager	
Best Wealth Management Firm	
Best Technology Provider	

Best Islamic Bank: By Country			
Afghanistan		Pakistan	
Australia		Palestine Territories	
Bahrain		Qatar	
Bangladesh		Saudi Arabia	
Brunei		South Africa	
Egypt		Sri Lanka	
France		Sudan	
India		Switzerland	
Indonesia		Syria	
Iran		Thailand	
Iraq		Tunisia	
Jordan		Turkey	
Kenya		UAE	
Kuwait		UK	
Lebanon		USA	
Malaysia		Yemen	
Mauritus		Others:	*Country - Bank*
Oman			

SUBMIT YOUR VOTE BY FAX TO +603 2162 7810