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The standardization poser looms again

As Islamic finance continues to expand in breadth and depth, a growing challenge is in ensuring that form does not undermine substance, that the focus is as much on the Islamic as well as on finance. A regulator stresses that uncertainty, lack of clarity and conflicting interpretations will not inspire confidence and may even slow down the pace of development.

This issue is exacerbated by the scarcity of Islamic finance expertise. There is therefore understandable concern that the lack of such expertise could hold back further growth in the industry. This is being alleviated somewhat in some countries where Shariah advisers attend regular training programs to ensure that they are apprised of the latest developments in the industry.

For practical reasons, Shariah compliance in Islamic financial institutions is narrowly defined to only mean strict adherence to the guidance of their Shariah boards as expressed in fatwas and resolutions. This is the compliance perspective. This has led to popular calls for standardization in Shariah rulings for Islamic finance products. Some regulators and "standard-setting" bodies are vying to be the lead or sole institution in charge when such universal standardization, perhaps for certain practices, does somehow emerge.

Dr Mohamed Ali Elgari, a noted Shariah scholar and economist, strongly argues that such standardization is the wrong way to go. He agrees that without consistency and predictability for fatwas and Shariah resolutions, the industry will have no hope of meeting international standards and growing beyond its "niche" status. But then he continues: "There are those who think such consistency and predictability can be assured through 'centralization of power' and monopolizing the authority to issue fatwas by one body of scholars. Unfortunately this didn't and will not work because it goes against the egalitarian nature of the Islamic system."

To him, scholars are "just like the rest of us; there is no special power bestowed on them. Hence, their authority is derived from political and not Shariah sources. We all know that centralization of power is the shortest route to tyranny. The diversity of jurisprudence in Muslim societies is by no means a negative thing. Therefore, we should stop attempting to ignore it or try to eliminate it."

Elgari contends that from the Shariah point of view a fatwa is not obligatory or legally binding. He accepts that diversity in views leads to the appearance of lack of conformity which the public, who lack sufficient knowledge of Shariah, may see as inconsistency and conflict. Elgari firmly believes that it is possible to reach common and mutual understanding, but to realize this, "Shariah discourse should be very lively with the widest participation possible and the broadest acceptance."

Theory-wise, Elgari has hit the right note. But it cannot be denied that the real world demands standardization, so that each Islamic financial product is recognized and accepted anywhere in the world. For Islamic finance to more than just have a place in the modern financial system, to be a truly integral part so that it is accessible to all users of the system, its products must have a common global platform. It is well and good for discourses and disagreements to prevail, but at the end of the day, the products must be marketable.

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ASIA

Beneficial changes

MALAYSIA: The amendments that were made to the Capital Market Services Act, which are expected to be enforced in April, will strengthen the Securities Commission's Shariah Advisory Council (SAC) further.

These changes will also place the SAC on a strong legal footing to ensure that it continues to play an important role in the development of the Islamic capital market, said Securities Commission chairman Zarinah Anwar.

In addition, the new provisions will enable a licensed person, the stock exchange or a public listed company to refer matters to the SAC for its advice and ruling which shall be binding on the person or entity concerned.

Shariah council

TATARSTAN: A Shariah council on Islamic economy will be established to further the development of the sector.

The Muslim Religious Board, Russian Islamic University and the non-profit Fund for the Development of Islamic Business and Finance will be involved in the establishment of the Shariah council.

The proposed council will include recognized experts in Islamic law. In the initial stages, it will be supported by international Shariah councils.

Legal changes

HONG KONG: The country is changing its tax laws to facilitate the development of Islamic products like Sukuk, said financial secretary John Tsang Chun-wah during a business luncheon in Kuala Lumpur.
Tsang said these amendments would enable Islamic products to be on par with conventional products.

He added that the development of Sukuk in Hong Kong will thrive, given its strong financial infrastructure for conventional business.

Watch out for Sukuk

KOREA: BNY Mellon's Asia-Pacific head of corporate trust business Gary Lew said the country may issue its first corporate Sukuk either by this year or the next, if the legislation aimed at facilitating tax neutrality for the issuance of Sukuk is passed.

Lew attributed this to South Korea's sound financial position and by the fact that it was largely unaffected by the sub-prime crisis.

Sukuk for the public

BRUNEI: Standard Chartered Bank plans to issue a Sukuk targeting individuals instead of government institutions in the country, said its fixed income and cash equity business head Roop Barua.

Barua however did not reveal the size of the Sukuk or the date it is to be issued.

Sukuk in the pipeline

INDONESIA: The country plans to issue a global Sukuk this September, according to the finance ministry's head of debt management Rahmat Waluyanto.

He said the Sukuk might be issued after the Eid al-Fitr festival, but did not reveal further details.

Seeking expertise

BRUNEI: Hong Kong is seeking the cooperation and expertise of the sultanate in placing Islamic finance on par with its conventional counterpart. Financial

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secretary John Tsang Chun-wah, on a four-day visit to Brunei, said Hong Kong is keen to tap Brunei's expertise in Islamic finance, especially in issuing Sukuk.

Tsang said he sees bright potential in the collaboration between the two countries in this area, especially in enabling Hong Kong's expertise in conventional finance to accommodate Shariah compliant financial products.

No to Sukuk

PHILIPPINES: The government has no plans to sell Sukuk this year, said the country's national treasurer Roberto Tan, citing the numerous hurdles in the country's legal system.

First Metro Investment Corporation executive vice president Roberto Juanchito T Dispo had previously said that the Philippines plans to issue a US$500 million Sukuk this year, through state enterprises like the National Power Corporation, which is raising PHP15 billion (US$325 million) for its Small Power Utilities Group project.

Tax appeal

INDONESIA: BNI Syariah, a subsidiary of Bank Negara Indonesia, is in a dispute with the tax department over about IDR400 billion (US$44 million) of tax on Shariah financing.

The bank's vice president and head of project at the Shariah unit, Rizqullah said the bank will not pay that charge because Murabahah financing should be treated just like any other financing by conventional banks. He also said BNI Syariah will file an appeal over the unpaid tax charged by the tax office.

"If there's no appeal from BNI Syariah, then we will have to collect the unpaid tax. And if it still refuses to pay, then we will run the collecting mechanism according to the law, including to the confiscation stage. But we will be careful as it is quite sensitive," said the tax department's head Mochamad Tjiptardjo.

Strategic move

MALAYSIA: The AmBank Group plans to bolster its Islamic banking business in the region as part of its expansion drive, said its chairman Azman Hashim.

He said that the banking group will expand on its own and will not buy stakes in other banks or seek new partners.

Azman hinted that Indonesia, where AmBank has a stockbroking business, could be a possible destination.

Nine senior KFH-Malaysia officials suspended

MALAYSIA: Islamic Finance *news* has learnt that Kuwait Finance House (KFH) suspended nine of its senior management officials in its Malaysian subsidiary on the 19th March. The suspension is for six weeks pending investigations regarding "certain transactions and contractual arrangements." For legal reasons, we are unable to name them.

KFH-Malaysia has attracted public attention since January 2008 for some alleged imprudent decisions and for reneging on a number of high value property deals. In the middle of last year, KFH-Malaysia's first managing director, Mohd Salman Younis, was posted back to Kuwait and leadership of the Malaysian operations was passed to deputy CEO Ab Jabar Ab Rahman.

On the 9th February 2010, Jamelah Jamaluddin returned to the Malaysian unit as CEO. She was at one time deputy CEO before moving to the RHB Group.

Responding to Islamic Finance *news*, Jamelah said: "The bank is taking a proactive approach and conducting a due diligence status audit, in light of the different and more challenging economic environment. This is aimed at obtaining an accurate picture of certain transactions and contractual arrangements that have been undertaken over the years.

"Some employees have taken leave to help facilitate the exercise, and the bank will be guided by pragmatism and act accordingly as per the recommendations of the audit team conducting the due diligence status audit."

(Also see IFN Report on page 9)

Al Hilal becomes pioneer

KAZAKHSTAN: Abu Dhabi's Al Hilal Bank is to set up Kazakhstan's first Islamic bank. Al Hilal Islamic Bank, fully owned by Al Hilal Bank, is capitalized at US$36 million. Its headquarters will be at Almaty with a branch in Astana.

Al Hilal Bank said the headquarters and the Astana branch will start operations on Thursday. Another two branches are to open by year end.

"Abu Dhabi companies like Mubadala Development Company and Aldar Properties are having a lot of tie-ups in Kazakhstan and we are looking at financing their projects," an Al Hilal Bank official is reported to have said.

Al Hilal Bank chairman Atiq Al Mazroui said the bank will support investments and projects of the UAE, the Gulf and Arabs in Kazakhstan.

He also noted that many of Kazakhstan's neighbors are seeking Shariah compliant banking products and services.

Double issuance

INDONESIA: Utility firm Perusahaan Listrik Negara (PLN) plans to issue IDR3 trillion (US$330 million) rupiah-denominated Sukuk and conventional bonds.

The funds generated from the bonds will be used to finance the company's transmission infrastructure, said PLN's head of corporate finance Yusuf Hamdani.

Second Shariah bank

KAZAKHSTAN: The Development Bank of Kazakhstan and several Bahrain-based banks plan to establish an Islamic bank with a capitalization of US$100 million with the focus on funding small and medium-sized enterprises.

Samruk-Kazyna (National Welfare Fund) CEO Kairat Kelimbetov said this is part of the government's move to tap Islamic financing. No further details were provided on the new bank.

Al Hilal Bank, owned by the Abu Dhabi government, will be the first Islamic bank in Kazakhstan, with its headquarters and first branch opening for business this Thursday.

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The Kazakh government is reportedly seeking a major role in the Islamic finance market and plans to issue its first Sukuk later this year.

EUROPE

Shariah-based PDA

UK: Bank of London and The Middle East (BLME) has launched its online Shariah compliant Premier Deposit Account (PDA), the first of its kind in the country.

BLME's PDA allows the investor competitive returns on their investment deposited with BLME when compared with other UK high street institutions' deposit products.

It pays profit upon maturity of the original agreement or on the anniversary of the investment - based on which comes first.

Investors can obtain this account with a minimum investment of GBP50,000 (US$76,000).

Shariah trading platform

UK: The first electronic trading platform — Ummah Securities Information Exchange (UMEX) — will be launched in May.

The exchange will provide a platform for Shariah compliant companies with a capital value of GBP20 million (US$31 million) and looking to raise 20% of their market value.

The manager for the exchange is Halal Industries. According to its chairman and CEO Mahesh Jayanarayan, UMEX would operate as a Multilateral Trading Facility (MTF). MTFs are low-cost electronic trading platforms created after the Markets in Financial Instruments Directive opened up exchanges to competition.

UMEX would be the only MTF in Europe so far to help companies raise funds.

GLOBAL

Blessing in disguise

GLOBAL: The Islamic finance industry is looking beyond the hiccups of Dubai developer Nakheel, a subsidiary of Dubai World, towards possible reforms that could help kindle greater interest from western players.

This, according to law firm Fulbright & Jaworski partner Michael J T McMillen, follows the setting up of a special tribunal to hear any claims by creditors of Nakheel.

Led by internationally renowned judges, the tribunal, according to McMillen, is recognition that the current legal system is underdeveloped and needs to be improved. This, he said, would benefit the Islamic finance industry in the long term.

Another long-term benefit arising from Nakheel's troubles, according to scholar Ibrahim A Warde, is that international players, who did not have a clear understanding of Islamic financing structures, are now improving their due diligence procedures and educating themselves to prevent another embarrassment like that faced by Dubai World.

Call for impartiality

GLOBAL: Prominent Saudi Shariah scholar and economist Mohamed Ali Elgari wants Shariah governance in Islamic finance to be addressed impartially, and in a transparent and positive way, and that the authority to issue fatwas should not be centralized or monopolized by one authority or body of Shariah scholars.

Describing diversity of Fiqh (jurisprudence) and interpretations as a strength, he stressed that although such diversity could be seen to be inconsistency and conflict amongst scholars, the aim should be to reach common and mutual understanding without superimposing one particular view on everything.

Elgari, seen as a leading proponent of developing and promoting a modern scientific methodology for the Shariah governance process, declared that "a fatwa is not obligatory or legally binding," yet the demand is for it to be applicable to all Islamic financial institutions.

He warns that without consistency and predictability of fatwas the Islamic finance industry "will have no hope of meeting international standards and growing beyond its 'niche' status."

Liquidity issue

GLOBAL: The managing director of Islamic finance at Global Commodity Finance, Abdulrauf Sivany said the Islamic finance sector should come up with a method to allow Sukuk investors to generate liquidity when needed. He said this would help resolve the lack of liquidity in the Islamic finance market.

Sivany said if this was not done, the Islamic bond market would have to wait until liquidity returns to 2007 and 2008 levels.

In view of this, he suggested that the industry should create a product to address the matter, such as Murabahah, enabling the central bank to provide Murabahah or Wakalah to the Sukuk holder.

MIDDLE EAST

Debt repayment

UAE: Debt-laden Dubai World will offer banks a single proposal to repay in full its US$26 billion debt with interest.

The company intends to propose a seven-year debt repayment plan to its 97 creditors.

According to a report, the banks however would face the prospect of booking losses for the year on this debt, given the differences on the proposed rate of return versus what the original contracts called for.

The firm rocked global markets last November with plans to request a delay in repaying US$26 billion in debt linked to its main property units Nakheel and Limitless World.

Almost complete

UAE: The ministerial committee in charge of restructuring Amlak Finance and Tamweel are in the final stages regarding a scenario to complete the proposed merger between the two, according to a report citing UAE's minister of finance Sultan Saeed Al Mansouri.

The restructuring scenario touched on the merger of the two firms and the establishment of an Islamic bank that will get the financial support of the government, according to a report.

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It adds that the committee had allocated AED2 billion (US$544.5 million), equally divided between the UAE government and the Dubai government, to support the financial solvency of the two companies.

Shariah business

UAE: United Arab Bank (UAB) has launched a Shariah compliant banking and financial service.

Its CEO Paul Trowbridge said the new service will address the growing demand of its clients for Shariah compliant transactions.

UAB's initial product offering includes current accounts, investment, and goods Murabaha and will soon expand to offer Vehicle Murabaha and Islamic credit card.

Last resort

KUWAIT: A number of Kuwaiti banks have decided to launch legal proceedings against troubled Saudi business groups Saad Group and Ahmad Hamad Al Gossaibi and Brothers for debts estimated at US$1.5 billion, according to a report.

The decision was taken after months of negotiations with the Saad and Al Gossaibi groups came to a deadlock.

The creditor banks involved are Gulf Bank, Commercial Bank of Kuwait and Burgan Bank, in addition to Kuwait Finance House.

Al Jazeera Finance makeover

QATAR: Islamic financial services provider Al Jazeera Finance has developed a new organizational structure and adopted a policy and procedure manual to execute different functions and tasks.

This is in line with the company's long-term development plans and to keep in step with the international standards for finance houses.

Al Jazeera Finance CEO Khursheed Hassan Qamber described the move as a qualitative leap in governance, supporting internal control and improving performance quality. It was developed in cooperation with consultancy KPMG.

Licensed to operate

JORDAN: Saudi Arabia-based Al Rajhi Bank has obtained approval from the Jordanian authorities to start operating in the country. Jordan is the bank's third market outside Saudi Arabia, after Malaysia and Kuwait.

The bank did not disclose further details of its impending presence in the country.

Opening up

SAUDI ARABIA: The country will allow its planned exchange-traded funds (ETFs) to include Sukuk, according to the Saudi Stock Exchange Company (Tadawul).

The world's top oil exporter has been trying to encourage more foreign money to Tadawul, having allowed indirect foreign ownership via so-called swap agreements in 2008, as part of gradual efforts to open up the bourse.

ETFs and exchange-traded commodities (ETCs) are not popular in the GCC markets, although in the context of Islamic finance, there are six ETFs/ETCs that have been launched over the last two years in the UK, Japan, Turkey, Malaysia and the UAE.

Profit down

BAHRAIN: Venture Capital Bank posted a 77% drop in its full-year net profit of BHD4.2 million (US$11 million) for the year ended the 31st December 2009.

Total income also went down by 61% to BHD12.2 million (US$32.4 million), despite the 38% drop in its total expenditure to BHD8.1million (US$21.4 million) for the period.

ASIA

Lifesaving Sukuk

MALAYSIA: The country plans to sell longer-dated sovereign Sukuk to help address a shortage of investments for Takaful firms, said Takaful Ikhlas.

An illiquid Sukuk market and a shortage of Islamic assets, especially long-term paper, have caused an over-reliance on regional equity and real estate markets, rendering the Takaful industry vulnerable to sudden shocks.

Takaful Ikhlas president and CEO Syed Moheeb Syed Kamarulzaman said the Sukuk might have more than a ten-year maturity period.

Eye on growth

MALAYSIA: Syarikat Takaful Malaysia aims to grow its market share in terms of asset base to 50% from the current 40%.

Group managing director Mohamed Hassan Kamil said the company intends to increase its industry market share with new products and agency initiatives.

He said the company also plans to grow its business further in Indonesia by undertaking collaboration initiatives with banks in the country.

"We have been in Indonesia for more than 10 years and we need a better distribution mechanism for our products to grow in the local market."

Premium target

MALAYSIA: Takaful Ikhlas is aiming for premium growth of RM625 million (US$188 million) for the current financial year ending the 31st March this year.

Its president and CEO, Syed Moheeb Syed Kamarulzaman said the figure is based on the positive growth recorded to date.

He said the company which now has 1.4 million customers, posted a premium growth of RM580 million (US$175 million) last year.

Triple offer

MALAYSIA: Takaful Ikhlas plans to introduce at least three new Takaful schemes by next year, especially those involving death, critical illness and permanent disability.

These products which are targeted at individual and corporate customers will be introduced, in line with the growing awareness of Takaful products in the country.

GLOBAL

Industry booster

GLOBAL: The International Sharia Research Academy for Islamic Finance (ISRA) has developed a new Wadiah reTakaful model which would provide further protection for Takaful insurers.

The new structure aims to address some of the Shariah objections to the popular Wakalah, Mudarabah and hybrid models used by Islamic reinsurers. In addition, the new model, according to ISRA would help Takaful companies reach a wider market.

MIDDLE EAST

About turn for Takaful Re

UAE: Takaful Re recorded a net profit of AED36.7 million (US$10 million) in its financial year 2009, reversing from a net loss of AED39 million (US$10.6 million) in 2008.

The gross contributions increased 43% to AED179 million (US$48.7 million).

Takaful Re also reported total investment earnings of AED26.5 million (US$7.2 million) in 2009 against a deficit of AED42.6 million (US$11.6 million) in 2008.

ASIA

Negative ratings

MALAYSIA: Malaysian Rating Corporation (MARC) has downgraded its ratings on Nam Fatt Corporation's (Nam Fatt) RM250 million (US$75.5 million) Islamic Commercial Paper/Islamic Medium Term Notes Program to 'MARC-4ID/CID' from 'MARC-3ID/BBB ID'.

MARC said the ratings would continue to be placed on MARCWatch Negative where it has been since last December.

The rating is attributed to Nam Fatt's failure to meet its principal and interest payment of about RM13.2 million (US$4 million) to Bank Kerjasama Rakyat Malaysia last week.

Solid ratings

MALAYSIA: RAM Rating Services has assigned the respective long- and short-term ratings of 'AA1' and 'P1' to CIMB Group Holdings' RM6 billion (US$1.8 billion) Islamic Commercial Papers and Medium-Term Notes Program (the Commercial Papers and MediumTerm-Notes Program).

The long-term rating has a stable outlook.

Poor showing

MALAYSIA: Malaysian Rating Corporation has

downgraded its rating on Malaysian Merchant Marine's (MMM) RM120 million (US$36 million) Al Bai' Bithaman Ajil Islamic Debt Securities to 'CID' from 'BB+ID'. It has also placed the rating on MARCWatch Negative.

The rating, according to MARC, is based on its prediction that a default appears imminent for MMM, given its recurring losses from operations, eroded capital base, and inability to generate sufficient cash flow.

MMM's principal activity is the provision of shipping services, ship management and ship-chartering services.

On solid ground

MALAYSIA: Malaysian Rating Corporation (MARC) has affirmed its 'AAAIS' and 'AA+IS' ratings on Tradewinds Plantation Capital's asset-backed RM180 million (US$54 million) Class A and RM30 million (US$9.1 million) Class B Sukuk Ijarah respectively, with a stable outlook.

MARC said the ratings of the Class A and Class B Sukuk Ijarah is due to the satisfactory performance of the securitized plantation assets and higher-than-projected net operating income.

MIDDLE EAST

Ratings downgraded

UAE: Standard & Poor's Ratings Services (S&P) has downgraded its long-term corporate credit rating on industrial conglomerate Eta Ascon Star Group to 'CCC' from 'BB-'.

All the firm's ratings were put on CreditWatch with negative implications.

S&P has also lowered the debt rating due in 2012 — on the group's US$300 million unsecured bank loan to 'CCC' from 'BB-'. All ratings were subsequently withdrawn at the firm's request.

ETA Ascon Star Group is the parent of Eta Star Property Developers which has put on hold its plans to raise US$400 million through a Sukuk and fund issue, citing unfavorable market conditions.

Ratings affirmed

YEMEN: Capital Intelligence has affirmed the long-and-short term foreign currency ratings of Tadhamon International Islamic Bank (TIIB) at 'B'. It has also affirmed the Financial Strength Rating at 'BB-'. The outlook for all the ratings is stable.

However, the Support Rating was adjusted to '4' from the previous level of '3'.

The downward adjustment is due to the more challenging domestic and regional operating environment.

Mashreq lower

UAE: Fitch Ratings has downgraded Mashreqbank's Individual Rating to 'C/D' from 'C', while keeping it on Rating Watch Negative.

The rating is attributed to Fitch's concerns on the bank's deteriorating asset quality, as a result of its exposure to Saad Group and Ahmad Hamad Al Gossaibi and Brothers.

Mashreq Al Islami is the Islamic division of Mashreqbank.

MALAYSIA

KFH suspends senior officials pending probe

Islamic Finance *news* has learnt that Kuwait Finance House (KFH) suspended several of its senior management in its Malaysian subsidiary pending an investigation into certain transactions and contractual arrangements.

The six week suspension took effect on Friday the 19th March. Due to legal constraints, we are unable to name these individuals. KFH-Malaysia has attracted public attention since January 2008 for alleged imprudent decisions and for reneging on a number of high value property deals.

In the middle of 2009, KFH-Malaysia's initial managing director, Mohd Salman Younis, was posted back to Kuwait and leadership of the Malaysian operations passed to deputy CEO Ab Jabar Ab Rahman.

On the 9th February 2010, Jamelah Jamaluddin, previously CEO of RHB Islamic Bank, returned to the Malaysian unit of KFH as CEO, where she had previously held the position of Deputy CEO under Mohd Salman Younis. Responding to Islamic Finance *news*, Jamelah Jamaluddin said: "The bank is taking a proactive approach and conducting a due diligence status audit, in light of the different and more challenging economic environment. This is aimed at obtaining an accurate picture of certain transactions and contractual arrangements that have been undertaken over the years.

"Some employees have taken leave to help facilitate the exercise, and the bank will be guided by pragmatism and act accordingly as per the recommendations of the audit team conducting the due diligence status audit."

KFH-Malaysia was launched in 2005 with Mohd Salman Younis leading the operations. It was actively involved in financing several economic projects as well as in expanding its branch networks. It also set up subsidiaries in Singapore and Australia in efforts to expand its profile to the Asia-Pacific.

In Malaysia, it also signed up to a number of high value property joint venture projects but since then some of the deals were aborted. One was between Mah Sing Group and Prompt Symphony in which KFH-Malaysia had an 80% stake. Mah Sing was to have sold part of The Icon@ Tun Razak office development in Kuala Lumpur to Prompt Symphony for RM237.1 million (US$71.3 million). But Prompt Symphony failed to meet the payments and forfeited its RM42.7 million (US$12.6 million) deposit.

It was a similar scenario for a purchase transaction for The Icon@Mont Kiara, it was reported.

According to analysts, KFH's darkest moment in Southeast Asia occurred when the company pledged to spend SG$818.4 million (US$518.4 million) on GuocoLand's Goodwood residencies in Singapore. The agreed financial consideration in this transaction had allegedly amounted to four times KFH-Malaysia's paid-up capital and it was claimed that the deal had not been approved by the KFH headquarters in Kuwait.KFH was the first Islamic bank to be established in Kuwait. It is positioned as the second largest Islamic institution in the world by assets with operations in Bahrain, Turkey, Jordan, Saudi Arabia, Malaysia and Australia.

JORDAN

Law reforms to permit Sukuk issue

The Jordanian government has decided to amend its laws so that land ownership transfers and using land as collateral are allowed when Sukuk are issued. Finance minister Dr Mohammad Abu Hammour told Islamic Finance *news* that current laws hinder the growth of Shariah compliant bonds.

"We will seek parliamentary approval to amend the respective Acts. Our legal system is a mix though we are an Islamic nation. Our legislative enactments are handicapped in approving the majority of Islamic finance products necessary for Jordan," he said.

The legal system in Jordan is based on Islamic principles as well as French codes, which are incapable of supporting the land transfers needed to create collaterals for Sukuk issues. "These amendments will enable Sukuk issues, which will generate the necessary funds to reduce the country's growing budget deficit and finance some development projects.

"The value of the (inaugural) issue will be between US$300 million and US$500 million but this has yet to be finalized. A specific timeframe cannot be given for these amendments," Hammour added.

There are 24 banks in Jordan of which three are Islamic with a market share of less than 10% – Jordan Islamic Bank, Islamic International Arab Bank and Dubai Islamic Bank.

The former CEO of Islamic International Arab Bank, Ghassan Bandakji, lamented to Islamic Finance *news* on the state of Islamic finance in Jordan: "Two banking systems exist in Jordan where conventional financing has a stronger presence compared to Islamic banking. Inadequate legal support has hindered the growth of Islamic finance."

Legal consultant at Barghouthi law firm Asem Ahmed said: "It is very important to create the necessary laws to expand Islamic banking and simultaneously not contradict the conventional banking system in the country."

According to the World Bank, Jordan is a lower middle income country with an estimated population of 6.3 million and a per capita gross national income of US$3,310. Though the country is enriched with natural resources — potash and phosphate — Jordan's economy is dominated by the services industry, accounting for over 70% of the GDP and more than 75% of jobs.

Jordan has faced several challenges due to the recent global economic slowdown. The decline in oil prices has created a negative impact on its capital account. The private capital inflow, considered to be a key source of growth for Jordan, has also declined due to low regional growth.

As a result of these constraints, government revenues declined during fiscal 2009 by 4.5% to JOD4.5 billion (US$6.3 billion) against JOD4.7 billion (US$6.6 billion) the year before, creating a budget deficit.

Reports by Ashwin Hemmathagama

Islamic Finance in Pakistan

By M Jamil Akhtar Khan

Islamic finance has come of age elsewhere in the Muslim world but is still in its infancy in Pakistan. Although several prominent scholars carried out research spanning the last 50 years or so, yet it was not until the landmark judgement against the practice of riba in banking, delivered by the Shariah appellate bench of the Supreme Court in early 2002, that serious thought was given to initiate efforts towards setting up parallel Islamic banking in the country.

Accordingly, the first dedicated Islamic commercial bank — Meezan Bank — was established in the same year. Over the next couple of years, several Middle East groups synergized with local investors and set up a number of Islamic banks in the country. In order not to miss the opportunity, many conventional banks also opened Islamic windows.

Meanwhile, the State Bank of Pakistan, as the regulator, set up an Islamic banking division and issued Islamic banking regulations that defined the framework for Islamic banks' operations.

A logical progression came in the form of Islamic investment/fund management entities that launched an impressive array of open and closed-end Islamic funds to meet the growing public and institutional appetite.

The introduction of Takaful came next, with the first general Takaful company being formed in 2004. However, the Securities and Exchange Commission of Pakistan (SECP) took more than 18 months to draw up the Takaful Rules 2005. Until these rules came into force in September 2005, SECP did not allow Takaful operations to commence. As a result, it was more than six months after the enforcement of the Takaful Rules that other Takaful companies began to be set up.

There are at present six Islamic banks operating with countrywide branch networks. In addition, 13 conventional banks have Islamic operations, including two foreign banks. Similarly, there are over a dozen Islamic fund, asset and investment management companies with significant portfolio sizes.

On the Takaful front, there are just three general and two Family Takaful companies which collectively constitute barely 3% of the overall insurance market. The Islamic banks' operations, on the other hand, already constitute over 7% of the national banking sector and are well poised to increase this market share to 12% by 2012.

Despite these developments, there have been snags and challenges hindering the growth of these Islamic financial institutions in the country. Although significant awareness has been created among the general public and demand for Islamic financial products has been constantly increasing, yet certain vested interests with a 'conventional mindset' have been trying to undermine their growth.

There is a general perception that there is over-regulation for Islamic banking as well as for Takaful where the practitioners not only have to scrupulously adhere to all the statutory and reporting requirements applicable to conventional banks and insurance companies, they need also meet all the additional requirements for Islamic banking and Takaful operations.

Coupled with this is constant pressure on banks to drastically increase their capitalization regardless of the existing economic downturn. As if that is not enough, they are also required to constantly expand their branch network, with no less than 20% of the new branches to be set up in remote rural areas. This has forced many of them to look for merger/takeover options.

This has been de-motivating the senior management, and most of the Islamic banking and Takaful professionals are looking at opportunities to move abroad. The newly-introduced as well as yet-to-be introduced IFRS 4 requirements and the tendency to blindly implement the IFSB's solvency requirements (though still in draft form) have further dampened the spirits of banking and Takaful professionals.

> "The Islamic banks in particular still rely heavily on three main financing products: Ijarah, Musharakah and Murabahah"

Being late starters in Islamic banking and Takaful, the local professionals as well as Shariah scholars have had the benefit of learning from the extensive Islamic banking and Takaful experiences of two predominant schools, of the Far East and the Middle East.

However, apart from picking up the finer points, there has been a tendency to reinvent the wheel, at times tending to be different just for the sake of being seen as such. This has somewhat hindered the growth and enrichment of Islamic financial products in the country.

Even where some 'refinement' was intended, such as by the introduction of Waqf in the Takaful Wakalah model, while it apparently resolved a particular set of issues, it also created other issues like the inability to underwrite the bond/guarantee business which is a normal line of business and is extensively underwritten elsewhere both by Takaful operators based on the Mudarabah model as well as the Wakalah model. It needs out-of-the-box thinking to surmount such mindsets. This may also have been a major hindering factor in devising new Islamic financial and Takaful products.

The Islamic banks in particular still rely heavily on three main financing products: Ijarah, Musharakah and Murabahah. Products have yet to be devised and introduced based on Salam and Istisna which are most suitable for the agricultural/farming and manufacturing sectors respectively. Seen in this context is Pakistan's economy which is predominantly based on the agricultural sector, yet has seen the small and medium-sized enterprises mushrooming over the last decade and now number over five million.

Once appropriate products are tailored and introduced for these two sectors, such as Salam and Istisna, not only will this help bring about phenomenal growth for Islamic banking may also enable the country to export such products with their track record of practicality, success and general acceptability.

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Islamic Finance in Pakistan (continued)

These products can be easily supplemented by devising appropriate Takaful products for covering such exposures. Thus both Islamic banking as well as the emerging Takaful industry will mutually benefit from the ensuing synergies.

Another sector that needs to develop alongside the Islamic banking and Takaful products are the Islamic investment modes. Apart from exceptionally good and dedicated management, open and closed-ended Islamic mutual funds such Islamic funds have developed an impressive track record of better-than-average yields and have particularly exceeded the market benchmarks.

A recent addition has been the establishment of a national commodity exchange to work on somewhat similar lines as the country's stock exchanges while dealing only in commodities. It is expected that within the next couple of years, more investors will be attracted towards this mode of market interaction than the stock exchanges.

Sukuk too have had their share of the market but their yields have been too volatile and vulnerable to the use and management of the underlying assets. As a result, apart from just a few well-performing Sukuk, their market demand has not picked up much and there seems to be no secondary market available even for those Sukuk that have performed well over the years.

A vital element, rather the missing link, to the development of Islamic finance is the availability and utilization of education and training facilities, both for the existing personnel as well as for the new entrants in this field. It has been observed that most of the junior to middle-level professionals in Islamic banks and Takaful companies (even senior level executives in certain cases) turn out to be "opportunists" who joined Islamic institutions either because that was the only job available for them or else they perceived an opportunity for rapid upward mobility in their careers.

They thus lack both the conviction as well as the commitment towards Islamic finance. The Islamic banks and Takaful companies are aware of this but tend to ignore it due to the imperatives of business growth and excessive work. At times even those employees who genuinely want to acquire more knowledge of Islamic finance do not find the time for it, being kept so engrossed in their day-to-day work.

Whatever knowledge they have is by virtue of their on-the-job training. This deficiency becomes manifest when their customers are keen to know the differences between products but leave disappointed when these staff are unable to enlighten them.

Fortunately, there are now a number of private institutions in all the major cities which organize short to full-time courses as well as masters and even PhD programs in Islamic banking, Takaful and finance. Most institutions offer courses in the evenings, thus making it convenient for employees of Islamic banks and Takaful companies. Correspondence courses in Islamic economics are also gaining popularity. What is needed is the concerted effort of the Islamic institutions to ensure that their employees take advantage of these courses and programs.

Conclusion

There remains a tremendous untapped market for Islamic financial products in Pakistan. By creating proper awareness and devising new and diversified products, Islamic financial institutions can tap this potential and the sheer volume of business can ensure viability.

The regulators can encourage this growth if, instead of further tightening the noose around these nascent Islamic financial institutions, pay attention to the existing conventional players and encourage them to join the realm of Islamic finance by making it easier for them to switch over to the Islamic mode.

Perhaps even a deadline can be announced for all the existing conventional banks and insurance companies to fully convert to the Islamic mode. This will ensure implementation of the Supreme Court Shariah appellate bench's judgement against riba in letter and in spirit and will be in line with the Islamic ideology of the country.

If a new Takaful company can be set up and become fully operational within 12 months and a new Islamic bank within 18 months, then there can be no excuse to meet such a deadline as the conventional banks and insurance companies already have the manpower and infrastructure in place.

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Dar Al Arkan Sukuk Wakalah (DAAR Sukuk II) Due 2015

By Nida Raza

Transaction Details	
Issuer	Dar Al Arkan International Sukuk Company II
Rating	Ba2/BB- (Moody's/S&P both stable outlook)
Joint lead manager and joint bookrunner	Deutsche Bank Securities, Goldman Sachs International and Unicorn Investment Bank
Guarantor	Dar Al-Arkan Real Estate Development Company (DAAR)
Documentation	144 A, Regulation S, Standalone
Maturity	Five years, bullet
Fixed rate	10.75% per annum
Public listing	London Stock Exchange
Issue type	Sukuk Wakalah
Governing law	Saudi law for property-related documents English law for trust deed and certificates
Shariah and structuring advisor	Unicorn Investment Bank

Company Details	
Dar Al-Arkan Real Estate Development Company	One of the largest developers of real estate in Saudi
Main products include	Land projects: purchase of undeveloped land and development of infrastructure Residential projects: construction of housing units catering primarily to the middle market segment
Financial highlights (as per 2009 audited accounts)	Equity base of US$3.69 billion Total assets of US$6.29 billion Gross revenue of US$1.5 billion and net profit of US$566 million for the financial year 2009

Highlights:

1. DAAR is one of the largest real estate developers in Saudi Arabia, with its headquarters in the capital, Riyadh. Incorporated in 1994, the company's six founding shareholders from prominent local families floated 30% of the company's capital in 2007 on the Tadawul, the country's stock exchange. DAAR's

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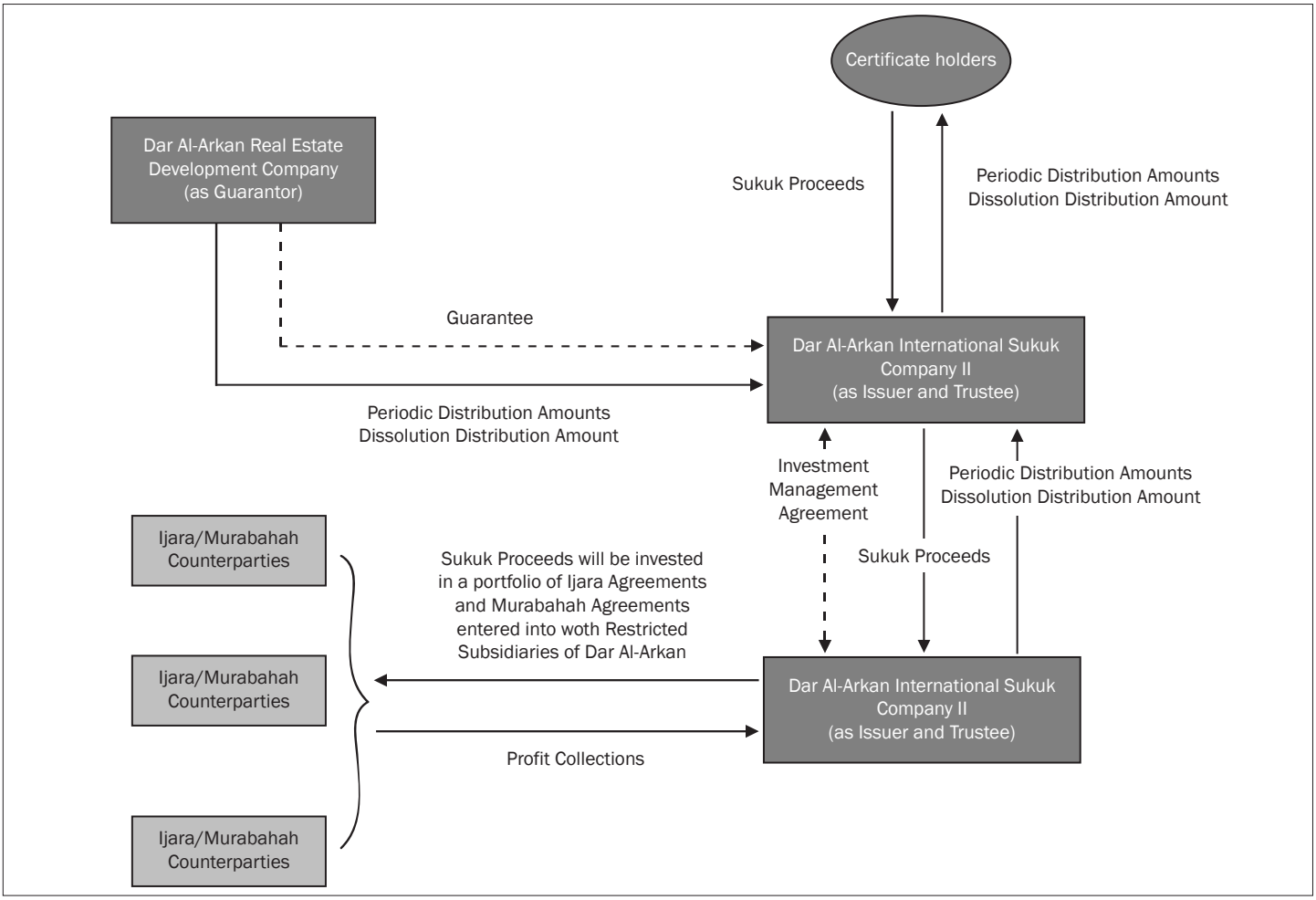

Dar Al Arkan Sukuk Wakalah (DAAR Sukuk II) Due 2015 (continued)

market capitalization at end-2009 was about SAR15 billion (US$4 billion).

2. Dar Al Arkan re-opened the GCC bond/Sukuk market with its US$450 million 44A/Reg S Sukuk issuance priced on the 11th February 2010. This is a landmark transaction that will set the benchmark for GCC corporate borrowers going forward.

3. From a global perspective it was the only emerging market transaction to price in the week of the 8th February 2010 across the entire credit spectrum.

4. This was the first bond/Sukuk transaction done out of the Middle East since the Dubai debacle. The transaction managed to successfully price in the most difficult week in 2010 with many other transactions failing to close or getting pulled from the market including:

   - United Gulf Bank (Baa3), an investment grade credit that went to the market with 10% coupon for a US$250 million-US$500 million deal. The deal was pulled in the middle of the soft sounding process.

   - GIB (A3/BBB+) pulled its transaction from the market in November and was rumored to be attempting to access the market in the last two weeks but was not able to find an access window with sufficient demand.

   - Qatar Islamic Bank (A Fitch) had planned to go to market in the first quarter but a deal has not yet materialized.

   - Outside the region credit such as Bombardier, Chaparral Energy , Bank of India, Snai, Songa Offshore, Kemet, Energy Transfer Partners and New World Resources all postponed planned issuances due to lack of sufficient demand.

5. DAAR's strength and credit story allowed it to set many precedents for the Islamic market:

   - 1st 144a deal from Saudi Arabia.

   - 1st ever sub-investment grade-rated Sukuk.

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Shariah Stocks Screening Criteria: A Critical Analysis

By Muhammad Faisal Siddiqui

Since the time Islamic finance has been in practice, the question of halal investment has been a big challenge for practitioners. It is not that Shariah compliant investment avenues are rare, just that companies having hundred percent halal investments are rare.

Many companies, though having core businesses which are halal, are engaged in some sort of haram activities at least in the shape of earning interest income. Although in principle investments in such companies should not be allowed, Shariah scholars, keeping in view impurities in today's world, set some tolerance limits. If a company to be invested in by share purchase has a third or more of haram investments, it becomes unqualified for investment. Similarly, investments are not allowed in companies with 5% or more of haram income.

Operating a company on interest-bearing debt is also undesirable. Besides these, some other criteria are also there but we will confine ourselves to income criteria in this article. It is praiseworthy that Islamic finance has brought to light and controlled several activities that in the pre-Islamic finance era were considered right but are prohibited. Purification of shares income is one of them.

This article is not meant to analyze these criteria nor is it our purpose to question the basis or authenticity of these. Rather we intend to analyze how these criteria are being implemented by the industry. It is our observation that different fields of knowledge have terms common in words but different in meanings.

For example "capital" does not indicate the same thing in economics as it does in finance. This lack of standardization between different fields, if not carefully dealt with, sometimes creates confusion. Liquidity, for instance, in finance refers to the capability of an asset to be converted into cash swiftly. But when used in shares screening scholars mean to say those assets that are prohibited to be traded at value other than face value.

Bills of exchange, debt papers and so on are examples of this. This necessitates that while applying any Shariah ruling in business, the intention of the scholars is clearly understood rather than depending on the term or word used.

The prevalent practice for determining the haram earnings ratio is that haram income is divided by gross revenue rather than net profit. This undercounts haram income at the time of investment and also at the time of income purification. Rationality requires that haram income is divided by net income (before tax) so that the accounting principle of consistency is not violated as in current practice denominator is gross revenue while numerator comprises income.

By haram income we mean haram revenue minus cost incurred for earning that income. So from interest income we can deduct those expenses (salary of treasurer, communication charges and the like) that have directly or indirectly incurred for earning interest. Administration and operating expenses that resulted from the core operations of the company cannot be attributed to interest income.

The logic given by the proponents of the prevalent practice is that scholars have set the limit in terms of revenue and not income. We argue that scholars take kasb to mean income and not revenue. However, if Kasb is interpreted otherwise, then the numerator should also be revenue. We assert that in the case of interest income, gross interest is not revenue, but principal plus interest is revenue.

Suppose two brothers inherited US$100,000 each. One brother started the business of clothes trading. Total expenses of US$100,000 are incurred while revenues stood at US$110,000. So profit of US$10,000 is earned. The other brother deposited his amount for one year @10% per annum. After one year, he received US$110,000. If the latter is asked to prepare an income statement, certainly US$110,000 will be taken as revenue with US$100,000 as cost.

> "If the ratio of haram income is less than 5%, shares of the company could be purchased"

The validity of the proposed method is evident from the fact that the current method does not purify the income completely. Take the example of a company whose gross revenues are US$100,000. Net income is US$25,000 including interest income of US$4,500. According to the prevalent formula, the haram income ratio will come out to be 4.5%. This ratio, since it is less than 5%, will allow the investment but will require purification of income.

At the time of income purification, dividend or EPS (earning per share) is multiplied by the ratio of haram income. The resulting figure is paid to a charity fund. In our example US$1,125 (US$25,000 x 4.5%) will go to charity. As a result, the interest income of US$3,375 is left even after purification. So, there is a basic flaw in the formula that is used to determine the ratio of haram income.

The second issue is income purification methodology. As mentioned earlier, if the ratio of haram income is less than 5%, shares of the company could be purchased. However, this does not imply that up to 5% haram income is allowed. The investor has to purify his/her income from shares. The issue that arises here is the charity rate (haram income ratio) that should be applied to determine the charity amount.

The industry practice, at least in Pakistan, is to apply the charity rate to the dividend amount. The basic argument against this methodology is that it is not necessary that a company pays dividend in case of a positive bottom line. However, the results of it will be reflected in the price of share.

Moreover, the whole earning is not usually paid out. So if a company's dividend payout is less than 100% and the charity rate is applied to the dividend amount, the whole income will not be purified.

In this regard the AAOIFI's (Accounting and Auditing Organization for Islamic Financial Institutions) standard rightly recommends that haram income per share should be given to charity. The plausibility of this is

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Shariah Stocks Screening Criteria: A Critical Analysis (continued)

questioned by some professionals on the ground that a company may incur net loss but have positive haram income. In this case, though the investor would have incurred loss, he/she has to pay charity. This argument has a very weak basis as bearing net loss does not mean that there is no effect of haram income in the overall result.

Had there been no haram income, we would have incurred more losses. Suppose EPS is -2 and haram income per share (HIPS) is 0.15, it means that EPS without HIPS would be -2.15. Therefore, it seems fallible to conclude that the happening of a net loss exonerates from charity payment at all.

> "The already earned haram income had been converted into assets for which the investor paid at the time of share purchase"

Related to income purification is another issue — the holding period of shares and income purification. The general practice in the Pakistani market is that that the whole dividend charity rate is applied irrespective of the period of holding. (Earlier it was explained that the charity rate should be applied to earning rather than dividend.)

The logic given for this practice is that no matter how much longer or shorter the script is held, if dividend is received, then the whole value amounts to income. This logic, along with the practice of purifying dividend only, shows that the approach of taking merely cash flows as income is technically wrong. If a share is purchased in the fourth quarter of its financial year, the already earned income of the company (during three quarters) will have been built into the price of the share.

For example, company ABC starts its business with a share price of US$10. After nine months its accumulated earning has reached to US$1.50 per share. Ignoring other factors for a while, its price for a purchaser at the 10th month of its operations will not be US$10 but US$11.50.

Now consider that 4.99% of the earning during nine months is haram and the dividend of US$1 is paid on the 10th month just a few days after purchase by a Shariah compliant investor. Theoretically, the ex-dividend price will be $10.50 (ignore few days' earning of the 10th month). The investor, after holding shares for 10 days, sells them at US$10.55. If the holding period is ignored, per share charity of US$0.07485 (1.5 x 4.99%) will be required to be paid. It is easy to observe that the investor earns only US$0.05 (US$10.55-US$11.5+US$1). However the charity given for purification is US$0.07.

Although accountants do understand this, they have failed however to convince Shariah scholars that the already earned haram income had been converted into assets for which the investor paid at the time of share purchase. If, after the purchase dividend is paid from the previous earning (income accrued before purchase), it amounts to the liquidation of asset, not earning. This is just like a person who purchases a house from another person who had built it by spending 4% from his haram income. Does this call for purification of sale proceeds if later the buyer sells the house?

It is argued that the price of a share depends on a number of variables and it is not the income of the company that determines the price of the script. The fact is that these variables do affect the price but they are in addition to the earning factor, not instead of.

These fallibilities in the stock screening and income purification methodology is not the result of the incompetence of Shariah scholars, nor can it be attributed to the malicious purposes of practitioners, but show that some of the Shariah concepts are not being applied to modern business practices in the manner that the complex structure of today's finance calls for. This demands further study in the area, which is going on.

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The World of Takaful — An Update

By Riadh Karray

In 2009 the world was struggling through the worst economic crisis since the great depression of 1929. The global economic and financial landscape has indeed undergone seismic changes over the last couple of years. Interestingly, the Islamic financial sector (banks and Takaful companies), although inevitably affected by the crisis, demonstrated sufficient resilience to weather much of the storm and come out relatively unscathed as compared to conventional finance.

Massive injections of liquidity from central banks and global bailout moves from most governments and supra-governmental bodies such as the World Bank and International Monetary Fund seem to have induced a slow and fragile recovery, until Dubai World announced in late November 2009 a six-month freeze in repaying its debt.

The announcement rocked the investment world with a particularly strong fallout in the Middle East and in the world of Islamic investing. Immediate concern focused on the holders of the US$3.5 billion of Sukuk that was due to mature on the 14th December 2009. The Sukuk issued by Dubai World's real estate subsidiary Nakheel were not backed by the Dubai government. This was the first serious aftershock, since the global crisis broke out, to test the credibility of Islamic finance.

This article assesses the impact of the crisis (including Dubai World) on the Takaful sector in terms of growth and efficiency.

Still growing but a little slower

One year down the line, a reality check clearly shows that, despite less favorable macroeconomics, the Takaful industry continues to grow at a healthy pace and faster than its conventional peers. This assertion is valid for both core Takaful markets: Southeast Asia and the Middle East.

Despite efforts to systematically compile reliable and consistent statistics about the sector, there is still significant divergence between sources. But notwithstanding the various disparities, one can affirm in confidence that Takaful growth is still robust.

As anticipated last year, some downwards corrections were recorded but double digit growth is still there. This is a continuation of the strong trend that has taken shape in recent years, and a testimony that there is ample opportunity for growth in a dynamic and underserved market.

Good overall performance

Overall, the industry recorded a strong performance in the first three quarters with some corrections in the fourth quarter of 2009. In Southeast Asia, Malaysia continues to be the leader, showing strong performance especially on the Family Takaful front where contributions grew by 20% (US$672 million in 2008) for a 11% market share of Malaysia's total life business. Two new licenses for foreign operators are in the process of being granted.

In Indonesia, the total Takaful contributions could drop to 30% in 2009 (down from 50% to 60% in recent years). It stood at US$194.1 million as of September 2009, 2.83% of the total insurance premium. Despite a small market share, this segment has attracted several foreign companies — Prudential, Allianz, ManuLife Financial Corp and AXA. Family Takaful contributions outstripped those recorded in 2008, reaching US$154 million, now accounting for about 3.2% of Indonesia life market, against 2.1% in 2008.

In the GCC, the Takaful industry is bucking the trend in the broader economy and continues to grow at a healthy pace. The leading Takaful firms in Saudi Arabia, the UAE and Bahrain have performed relatively well, while those in Kuwait have had a somewhat challenging year in 2009.

In Egypt, two new Takaful companies started their operations on the 1st January 2010 — Nile Family Takaful and Nile General Takaful — showing investors' keen interest in the sector. In Pakistan, bancassurance (six full-fledged Islamic banks and 12 conventional banks with Islamic windows) seems to be making good inroads as an efficient distribution channel for Takaful products. Specific guidelines for bancassurance were introduced by the Securities and Exchange Commission of Pakistan (SECP) effective on the 30th April 2010.

In India, the State Bank of India (SBI) and Life Insurance Corporation (LIC) are looking to launch Shariah compliant products, particularly Takaful, with a feasibility study underway.

Remarkable resilience

Broadly speaking, despite some impact on the short-term performance due to the financial crisis (mainly on the investment side), the Takaful industry showed remarkable resilience. While there are reasons to remain cautious about growth in the near term, Takaful is expected to grow faster than gross domestic product (GDP) for the foreseeable future.

The main reason for this is that the key growth drivers are still there:

1. Favorable demographics in core Takaful markets in Southeast Asia and the Middle East: Young and rapidly growing population; a significant decline in mortality rates; and an improvement in average life expectancy.

2. Increasing affluence: An expanding middle class potentially able and willing to insure (in all core Takaful markets). This is true for all core Takaful markets in Southeast Asia and the Middle East, but more specifically for the GCC, where the overall income levels more than doubled in the last five years, and the average per capita GDP is expected to grow at a CAGR of 7.4% in 2009-2012.

3. Regulation: Takaful regulation is gradually being introduced/ enhanced in several markets with expected significant changes in how insurance companies are managed, particularly in terms of investment strategy, enterprise risk management and governance. This should reinforce investors' and consumers' confidence in the sector and therefore stimulate growth.

   Markets benefitting from a specific Takaful law are Malaysia, Indonesia, Pakistan, Saudi Arabia and Bahrain. But more recently, Bangladesh is following suit. In Malaysia, a transition to a risk-based capital regime is proposed. Although a

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The World of Takaful — An Update (continued)

preliminary framework is already in place, a consultative paper is to be issued to key stakeholders in the Takaful industry. In Indonesia, new accounting and solvency guidelines for Takaful operators are being introduced, imposing clear segregation of Takaful and shareholders' funds. Details are still being finalized as to standards likely to be implemented by the end of April 2010.

Regulation plays also a major role as a growth driver through the introduction and implementation of mandatory insurance. In the GCC especially, mandatory motor and health insurance will continue to underpin growth in demand for general Takaful.

4. Islamic finance: Growth in Islamic finance and in the number of institutions promoting Shariah compliant products has and will continue to boost Takaful growth, resulting in greater availability of Takaful products.

5. Latent and inherent demand: A greater desire to consume Shariah compliant products is clearly perceived in all core Takaful markets. The greater availability of organized savings solutions, financing and mortgage products create a natural demand for family Takaful.

Family Takaful in GCC

Family Takaful, currently underrepresented in all GCC countries, is likely to grow at a relatively faster pace than general Takaful. With all the fundamentals in place, Takaful is poised to continue its growth with the ambition to prove that it is not just a niche product servicing a relatively limited demand but a mainstream risk-management offering.

But all is not rosy and the challenges ahead, already identified in previous years but further highlighted by the global financial crisis, have to be addressed in order to fulfil the potential and unlock the real growth opportunities of Takaful.

Investment constraints

One of the issues hampering the growth and efficiency of Takaful companies even before the crisis relates to investment with a relatively constrained choice of Shariah compliant assets. The prohibition against investing in conventional bonds has skewed investment portfolios too heavily towards equities.

This meant an imbalanced asset allocation:

- Higher risk equity investments.
- Real estate holdings lacking liquidity.
- Murabahah money market type funds.

Takaful players are therefore highly exposed to asset risk. This is very much at odds with norms and practices in more developed and regulated insurance markets. Conventional insurers have more diverse choice including bonds, placements with conventional banks, money market and index funds, and private equities. But there is definitely a growing tendency to play it safe.

Increasingly, products are based on conservative asset allocation aiming at 80% exposure to money market instruments and fixed income securities and just 20% to equities.

Sukuk, an opportunity?

Sukuk seem to fill the gap in the investment mix of many Islamic insurers. Despite the Dubai World Sukuk setback, there is robust demand for recently issued Sukuk. With the expected expansion in Sukuk issuances in 2010, better opportunities for investment diversification seem to emerge. With a caveat, however: the credit ratings of corporates which issue Sukuk need to be good.

> "Sukuk seem to fill the gap in the investment mix of many Islamic insurers"

Takaful firms cannot buy into sovereign Sukuk issues since a large chunk of these are absorbed by banks. Ideally, central banks and regulatory authorities should allocate a quota of 10% to 15% of such issues to Takaful companies.

Investment profiles are expected to change significantly over the coming years due to more sophisticated regulation, with capital requirements based on both insurance counterpart and asset risk exposure.

Another aspect which was further highlighted by the crisis is the need to improve efficiency in order to be competitive vis-a-vis conventional insurance. The Takaful industry is largely fragmented (small number of large players and large number of small players and start-ups).

Size matters, and large players are growing faster than the smaller ones as well as reporting stronger earnings. Reaching critical mass so as to gain from economies of scale seems to be a must. The Takaful industry is expected to undergo consolidation. Discussions are increasingly common with many international players also looking to enter the Takaful industry.

Another way to improve efficiency would be to capitalize on existing and future synergies with banks. Many regional and international banks offer Shariah compliant insurance products by partnering with local Takaful operators (Maybank-Etiqa, ING-Public Bank, CIMB-Aviva to mention a few). White labeling is widely used by banks to distribute Takaful/insurance products and seems to be a good proposition for both partners (banks and Takaful operators).

Another pressing risk for the Takaful industry is human resource availability and expertise. The development of local talent and the expansion of the human resources pool are expected to be high on the agenda of top Takaful executives.

More standardization needed

The need to reach a greater level of standardization in products goes along with the need for a more consistent regulatory framework and a basic level of uniformity on Islamic finance principles. The ongoing inconsistency on how Shariah boards determine whether a given product conforms with Shariah principles is a key issue. This leads to inconsistencies in interpreting Shariah compliance from one market to another.

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The World of Takaful — An Update (continued)

Typically, a number of Shariah boards may rule that a product is acceptable, while others disagree. The crisis highlighted many shortcomings in terms of governance and transparency on a global scale. Good governance and transparency standards are becoming a key requirement worldwide (from clients, investors, regulators and rating agencies alike).

Enterprise risk management is no longer just a buzz word but an inherent part of sound corporate governance practices. The Takaful industry is expected to rise up to the challenge being the advocate of an ethical product.

Despite the setback experienced in 2009 by Principle Insurance (the first Shariah compliant independent Takaful company authorized by the Financial Services Authority in 2008), the UK remains one of the biggest untapped western markets for Takaful together with Germany and France. All three countries have large Muslim populations which are potential consumers of Shariah compliant products.

Conclusion

Sound fundamentals and genuine growth drivers are there for the Takaful industry to unleash its potential. The challenges highlighted in this article are part of the coming of age for the Takaful industry. Necessary growing pains, which if addressed adequately, will pave the way to even more growth ...sustainable growth!

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Next Forum Question

With governments as well as regulatory and supervisory authorities mounting agendas to reform financial regulations, what potential impact will this have on the Islamic finance industry overall?

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, 29th March 2010.

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

Name: Yavar Moini
Position: Head of Islamic finance
Company: Morgan Stanley
Based: Dubai
Age: 42
Nationality: Pakistani

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

After completing my MBA from New York University in 1993, I commenced my career with Citibank in Pakistan and in 1997 joined the Islamic Development Bank's Young Professionals Program. Thus began the association with Islamic finance. I moved to Bahrain in 2000 to join Ernst & Young where I led and developed the business for its Islamic financial services group. From 2002 to 2006 I worked with Dubai-based banks to develop their Islamic business before joining Morgan Stanley to set up and lead its Islamic banking initiative.

What does your role involve?

Origination, structuring and facilitating execution for all Islamic products. The business at Morgan Stanley encompasses capital markets, asset management and structured products produced by our equities and fixed income businesses. Whilst the Islamic banking expertise is based in Dubai, the business has a global focus. I am responsible for overall strategy, product development and liaising directly with our Shariah board to ensure compliance of all products. My responsibilities also require me to work across jurisdictions with all businesses within Morgan Stanley that may originate Islamic products.

What is your greatest achievement to date?

There have been many high points and I would be hard pressed to name just one. Developing the concept, structure and eventually executing the private placement for the Liquidity Management Centre in Bahrain; originating and leading Dubai Bank's investment into Bank Islami Pakistan; creating Morgan Stanley's integrated platform for Islamic finance; executing the Petronas Sukuk last year which is the joint largest straight dollar Sukuk to date; and being involved in developing a Shariah compliant structure for The Investment Dar's restructuring have all been satisfying projects.

Which of your products/services deliver the best results?

Our capital market offerings comprising both straight and equity-linked Sukuk have been well received. In addition to the Petronas Sukuk, in 2007 we executed the first true sale securitization in the GCC for Tamweel (awarded "Best Structured Deal" by Islamic Finance *news*) and in 2008 completed the first public mandatory convertible for Tabreed in the UAE. We also continue to develop new products such as the Morgan Stanley Shariah Compliant Private Equity Fund, which is a global fund that benefits by being able to invest alongside Morgan Stanley's conventional fund and is therefore a very differentiated product. We also expect our structured products platform to become prominent this year.

What are the strengths of your business?

In a short span of three years, we have demonstrated the versatility of our business by creating products that span capital markets (straight and equity linked Sukuk), asset management (regional real estate funds and a global private equity fund) and structured certificates offering various payoffs across multiple asset classes. We continue to provide thought leadership in capital markets by developing new ideas for Sukuk structures and are currently involved in developing an extensive Shariah compliant restructuring plan for The Investment Dar that will potentially develop a template for such situations in the future.

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

A critical aspect is the centralization of Islamic expertise in Dubai which ensures strategic coherence and 'quality assurance' for potential products. Whilst the business is physically located in Dubai, it is being developed with a global focus and is integrated with all of the firm's primary businesses. Equally important is the firm's commitment to Islamic finance which is reflected in our Shariah board being recognized as a special committee of Morgan Stanley International's board.

What are the obstacles faced in running your business today?

Primarily the obstacles are market related as we need Islamic capital markets to recover post-2008. This will positively impact issuers' credits and reinvigorate investment activity.

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

Very broadly speaking, if we segment the industry into capital markets, commercial banking, Takaful and asset management, there is significant room for growth in each area. I would expect greater diversity of Sukuk products to emerge, ranging from short term money market type instruments to those that provide capital credit for financial institutions. There is great scope to further develop consumer banking products and services by Islamic banks.

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

Greater regulatory support that creates a level playing field for Islamic finance will act as a considerable catalyst. It is not by accident that Bahrain and Malaysia have the highest concentration of Islamic financial institutions, and support bodies such as AAOIFI, IIFM and IFSB. In addition, the creation of Islamic financial institutions has been facilitated by allowing conventional banks to operate Islamic windows or standalone Islamic branches in Malaysia. Proactive regulatory support that enables Islamic finance to exist equitably with conventional financial systems from a legal, tax and accounting perspective will not only provide impetus to the industry in the GCC but also expedite its emergence in new territories such as Europe, Southeast Asia and Central Asia.

SUMMARY OF TERMS & CONDITIONS

BMG Gold BullionFund

US$20 million

4th September 2009

Obligor/Issuer	Bullion Management Group
Fund Name	BMG Gold BullionFund
Fund Type	Open-end mutual fund trust – Mudarabah
Net Assets	CAD$19,201,231.83 (US$20 million)
Trustee	Bullion Management Services
Custodian	The Bank of Nova Scotia
Administrator	RBC Dexia Investor Services Trust
Legal Counsel	Fasken Martineau DuMoulin
Auditor	KPMG
Governing Law	Canadian
Shariah Advisor	Islamic Finance Advisory Board: Dr Hamid Slimi, Dr Iqbal Al-Nadvi, Shaikh Nafis Bhayat

The Q&A was conducted with Bullion Management Group:

1. **Why did you use this particular Islamic structure?**
   BMG BullionFund has actually been in existence since 2002. However, our Shariah compliancy was received in 2009. As per the guidelines set by our scholars, BMG Funds are classified as a Mudarabah. BMG Gold BullionFund, the latest addition to the BMG family of funds, was launched in late 2009 and holds physical gold bullion in allocated and insured storage with The Bank of Nova Scotia.

2. **Why did you choose an open-end mutual fund trust as your structure?**
   While there are many different structures to choose from, we chose an open-end mutual fund trust for several reasons. Firstly, we wanted to maintain the fundamental attributes of bullion which are: liquidity, no counterparty risk, no manager dependency for performance. Also, Canadian law states that a mutual fund must own the underlying assets. Lastly, we have structured our fund by using third party entities such as KPMG, RBC Dexia and the Bank of Nova Scotia to provide the most secure and transparent product possible for the investors while not compromising any of the fundamental attributes of bullion.

3. **Why did you choose to hold only physical metal?**
   In an era of unprecedented currency expansion by global governments, today's fiat (paper) currencies and fiat-currency-denominated portfolios are shrinking in value. Investors may be surprised to learn that the Canadian and US dollar have lost more than 85% of their purchasing power since 1971, and the decline is accelerating. In contrast, precious metals bullion (gold, silver and platinum) will continue to rise in value against all currencies because bullion is resuming its historical role as money: a store of value, and a proven source of real wealth and portfolio protection. No other investment offers the combination of downside protection and upside potential as well as precious metals bullion. Only physical unencumbered bullion, not mining stocks, certificates or derivatives, offers the lowest risk and best portfolio protection.

4. **Why invest in Canada?**
   Canada's top six major charter banks are ranked as some of the most stable in world. They represent a national rather than a regional banking system that ensures the health of the entire country's economy. Although this has been the case for decades, Canada's banks further strengthened this reputation by avoiding the subprime contagion that infected many of the world's other major financial institutions. In addition, Canada is a natural resource-based economy, thanks to the country's vast supply of wheat, oil, lumber, minerals and water. Finally, Canada is also known internationally for its stable democratic political system and its embrace of multiculturalism. Toronto, Canada's financial capital, holds the distinction of being the world's most multicultural city.

PERBADANAN INSURANS DEPOSIT MALAYSIA

MALAYSIA: National deposit insurer Perbadanan Insurans Deposit Malaysia has promoted Md Khairuddin Arshad to be chief operating officer.

He was previously general manager of the insurance, risk assessment and monitoring division. Before that, he was a member of Bank Negara Malaysia's deposit insurance task force.

Having served at the central bank for over 15 years, Khairuddin has extensive experience in Islamic banking and finance, and is currently a member of the Malaysian Accounting Standards Board's working group on Islamic financial transactions as well as chairman of the International Association of Deposit Insurers (IADI) committee on Islamic deposit insurance.

EON CAPITAL

MALAYSIA: EON Capital has appointed seven new directors to its board.

They are: Tengku Ahmad Faisal Tengku Ibrahim, Tengku Azman Ibni Sultan Abu Bakar, Haron Siraj, Zaha Rina Zahari, Wee Hoe Soon @ Gooi Hoe Soon, Nicholas John Lough @ Sharif Lough Abdullah and Ahmad Riza Basir.

EON CAPITAL

MALAYSIA: Four independent directors of EON Capital have resigned from the board. They are chairman Syed Anwar Jamalullail, Mohd Shahari Ahmad Jabar, Rodney Gordon Ward and Yeo Kar Peng.

This follows a move by shareholders to add more members to the company's board after the original board had rejected a RM4.9 billion (US$1.5 billion) takeover bid by Hong Leong Bank.

EON Capital is the holding company of EON Bank, which owns EONCAP Islamic Bank.

Deal tracker

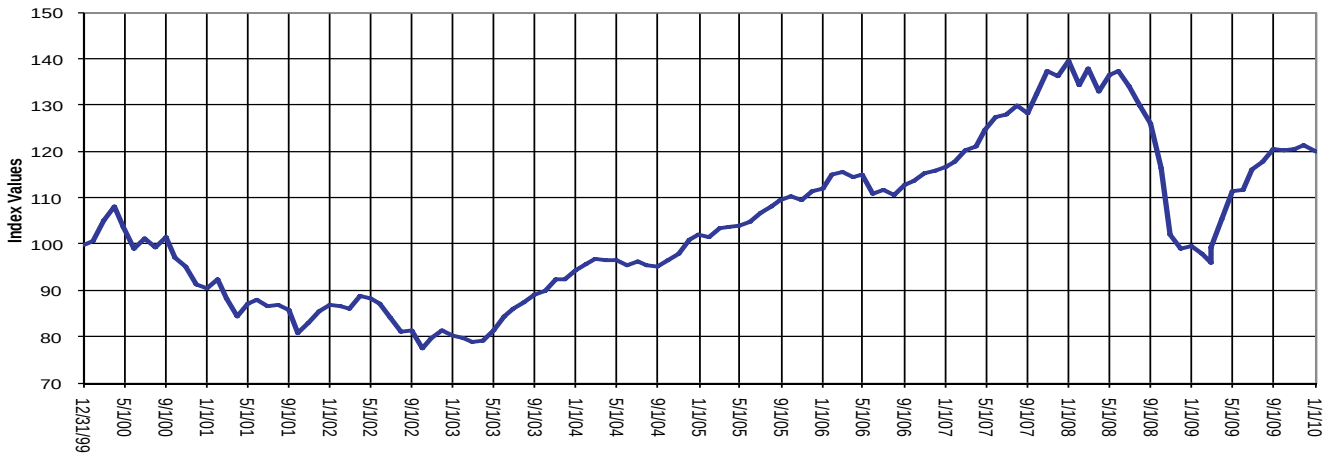
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Perusahaan Listrik Negara, Indonesia	IDR3 trillion	Sukuk and conventional bonds
Indonesia	TBA	Sukuk
BNM Sukuk, Malaysia	TBA	Sukuk Murabahah
Kazakhstan	TBA	Sukuk
Finance Ministry, Jordan	TBA	Sukuk
Private Healthcare, London	TBA	Sukuk
The Philippines	US$500 million	Sukuk
Deutsche Bank	US$500 million	Sukuk
Saudi Aramco-Total	US$1 billion	Sukuk
Titan Kimia Nusantara	IDR200 billion	Sukuk
Prime Rate Capital	US$250 million	Islamic Liquidity Fund
Jubail Refining & Petrochemical, Saudi Arabia	SAR3.7 billion	Sukuk
Qatar Islamic Bank	TBA	Sukuk
Al Aqeeq Real Estate Development, Saudi Arabia	SAR700 million	Sukuk
Islamic Development Bank	SAR3.8 billion	Sukuk
Titan Petrokimia Nusantara	IDR200 billion	Sukuk
Syarikat Prasarana Negara	RM3 billion	Sukuk
Islamic Bank of Thailand	THB55 billion	Sukuk
Al Ijarah Sharia Finance (ALIF), Indonesia	IDR100 billion	Sukuk
Mumtalakat	TBA	Sukuk
Ministry of Finance, Kazakhstan	KZT74 billion	Sukuk
VTB Bank, Russia	RUB10 billion	Sukuk
Axiata Group	US$1.2 billion	Sukuk
ETA Star Property Developers	AED1.5 billion	Sukuk
Jordan Dubai Islamic Bank	TBA	Sukuk
Malaysia	TBA	Sukuk
Kerala, India	TBA	Sukuk
Qatar, Sudan, Pakistan, Indonesia and Malaysia	TBA	Euro-denominated inter-government Sukuk issuance program
Binariang GSM	RM5 billion	Sukuk
Central Bank of Bahrain	BHD283 million	Sukuk
Pakistan	PKR43 billion	Sukuk

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

Eurekahedge Islamic Fund Index



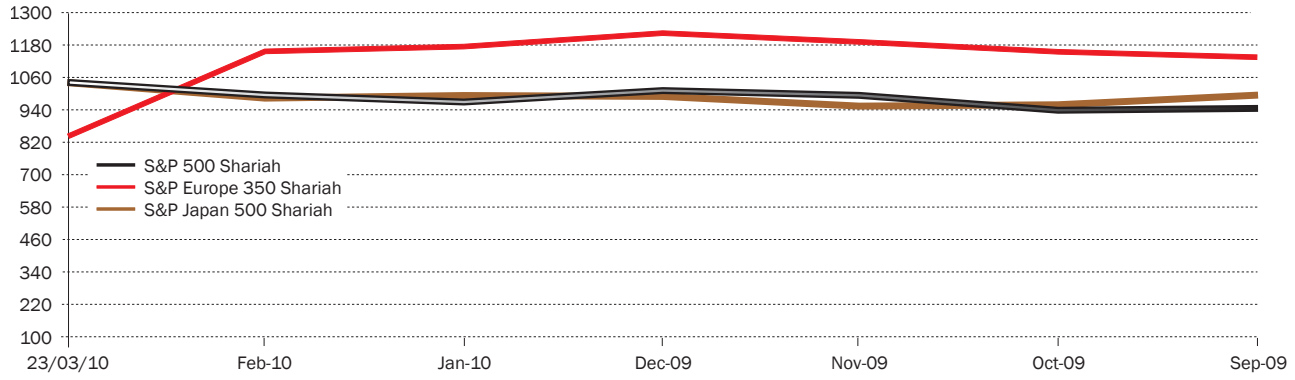
Annualized returns for ALL funds (as of the 22nd March 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Dow Jones DJIM Turkey ETF	BIZIM MENKUL DEGERLER (BMD)	7.44	Turkey
2	Aman - CIB & Faisal Islamic Bank Mutual	Commercial International Asset Management	6.26	Egypt
3	Islamic Certificate on the LLB Western Hilal TR Index	ABN AMRO Bank	4.92	Switzerland
4	Sanabel	Prime Asset Management	4.71	Egypt
5	ETFS Physical Palladium	ETFS Metal Securities	4.19	Jersey
6	Meezan Islamic	Al Meezan Investment Management	3.79	Pakistan
7	CIMB Islamic Small Cap	CIMB-Principal Asset Management	3.68	Malaysia
8	Al Meezan Mutual	Al Meezan Investment Management	3.61	Pakistan
9	ETFS Physical Platinum	ETFS Metal Securities	3.09	Jersey
10	SI Dana Saham Syariah	Batavia Prosperindo Aset Manajemen	2.88	Indonesia
	Eurekahedge Islamic Fund Index*		-1.17	

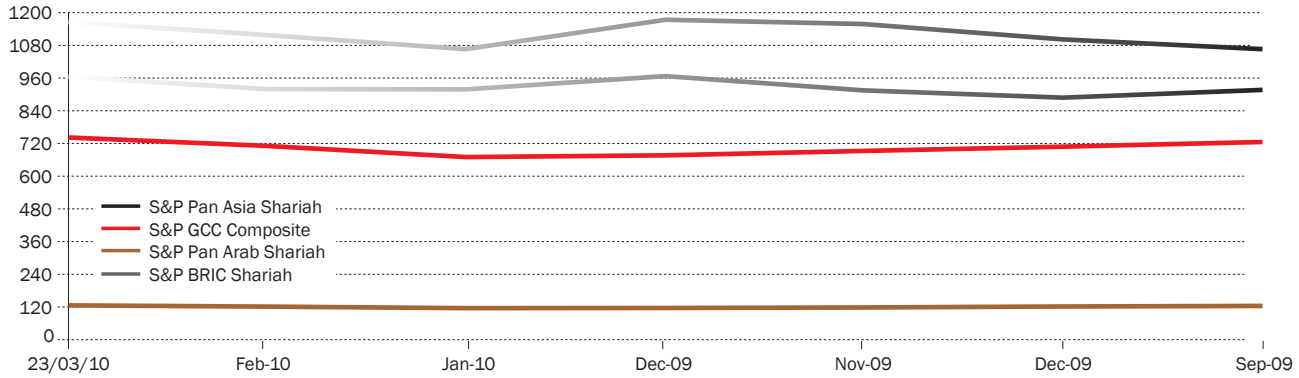
Annualized Standard Deviation for ALL funds (as of the 22nd March 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	Insight I-Hajj Syariah	Insight Investments Management	6.15	Indonesia
2	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	6.00	Pakistan
3	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	5.80	Pakistan
4	Al Dar Money Market	ADAM	3.52	Kuwait
5	Kagiso Islamic Equity	Kagiso Asset Management	3.22	South Africa
6	Shariah Benchmark Exchange Traded Scheme (Shariah BeES)	Benchmark Asset Management Company	2.41	India
7	Taurus Ethical B	Taurus Asset Management	2.33	India
8	Public Islamic Select Enterprises	Public Mutual	1.28	Malaysia
9	Symmetry Islamic	SYmmETRY Multi-Manager	1.20	South Africa
10	Am-Namaa' Asia-Pacific Equity Growth	AmInvestment Management	1.05	Malaysia
	Eurekahedge Islamic Fund Index*		-1.30	

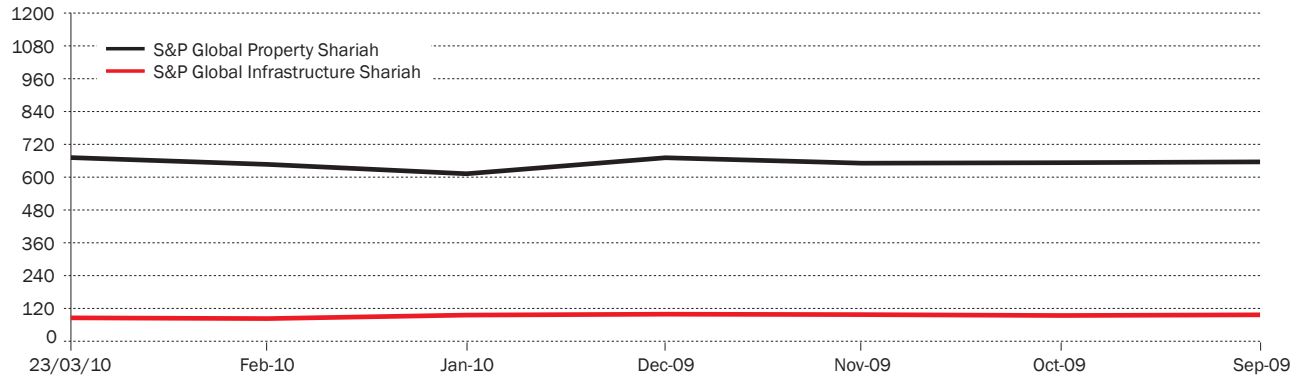
S&P Shariah Indices Price Index Levels



Index Code	Index Name	23/03/10	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09
SPSHX	S&P 500 Shariah	1041.466	995.080	968.978	1011.317	993.630	938.522	945.321
SPSHEU	S&P Europe 350 Shariah	842.632	1156.441	1174.161	1223.984	1191.590	1154.847	1134.881
SPSHJU	S&P Japan 500 Shariah	1040.345	983.363	993.055	989.581	953.814	958.793	994.367



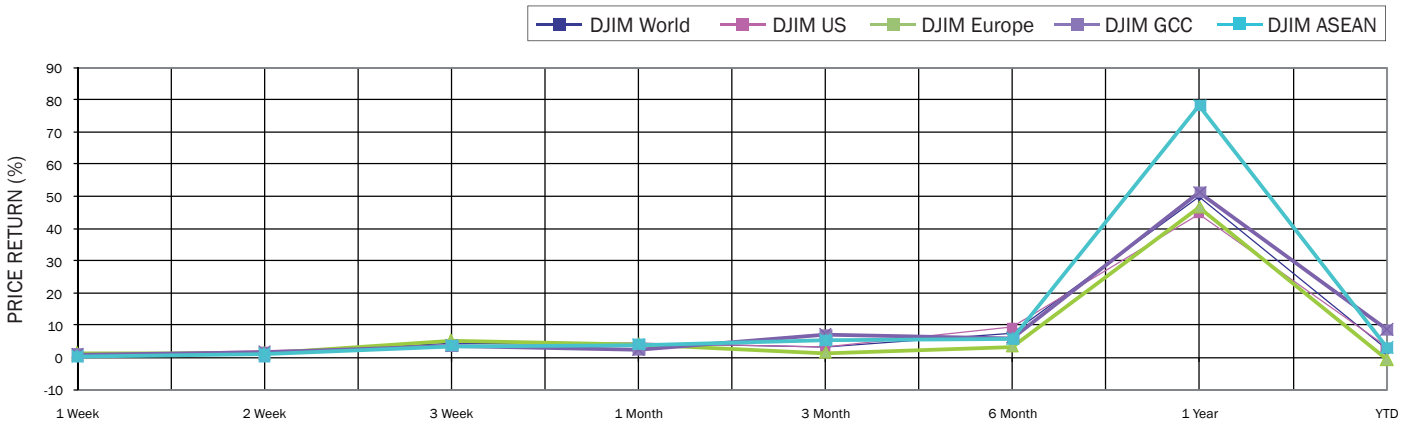
Index Code	Index Name	23/03/10	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09
SPSHAS	S&P Pan Asia Shariah	964.761	919.609	918.391	967.112	914.903	888.072	916.579
SPSHG	S&P GCC Composite Shariah	741.890	711.143	670.074	676.445	692.555	708.224	725.528
SPSHPA	S&P Pan Arab Shariah	125.915	121.354	115.703	116.267	118.162	121.749	123.831
SPSHBR	S&P BRIC Shariah	1165.636	1117.929	1066.062	1173.998	1158.319	1101.842	1066.062



Index Code	Index Name	23/03/10	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09
SPSHGU	S&P Global Property Shariah	671.526	646.637	612.470	670.976	651.064	652.897	655.839
SPSHIF	S&P Global Infrastructure Shariah	85.461	82.828	95.596	98.914	97.319	94.056	96.587

Data as of the 22nd March 2010

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	1.01	1.34	4.05	4.11	3.12	7.17	50.00	1.98
DJIM US	1.03	1.76	3.38	4.02	2.89	9.26	44.59	3.03
DJIM Europe	1.16	1.02	4.94	3.80	1.31	3.15	46.69	-0.58
DJIM GCC	0.93	1.41	3.40	2.26	7.00	5.98	51.35	8.42
DJIM ASEAN	0.37	1.15	3.64	4.09	5.31	5.71	78.31	3.02

*all performance is cumulative, based on price return and USD

DESCRIPTIVE STATISTICS	Market Capitalization (US$ billion)							Component Weight (%)	
INDEX	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2415	15508.08	12228.66	5.06	1.05	317.93	0.01	2.60	0.00
DJIM US	591	6754.59	6333.24	10.72	2.74	317.93	0.22	5.02	0.00
DJIM Europe	272	2917.11	2331.05	8.57	2.03	178.13	0.20	7.64	0.01
DJIM GCC	119	232.16	98.94	0.83	0.33	11.56	0.03	11.69	0.03
DJIM MENA	164	388.49	108.82	0.66	0.2	13.22	0.02	12.15	0.02
DJIM ASEAN	200	389.11	158.51	0.79	0.18	15.33	0.00	9.67	0.00
DJIM Titans 100	100	6856.83	6086.12	60.86	39.02	317.93	12.96	5.22	0.21
DJIM Asia/Pacific Titans 25	25	1013.80	672.10	26.88	20.45	68.68	12.96	10.22	1.93

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

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TOP 30 ISSUERS OF ISLAMIC BONDS

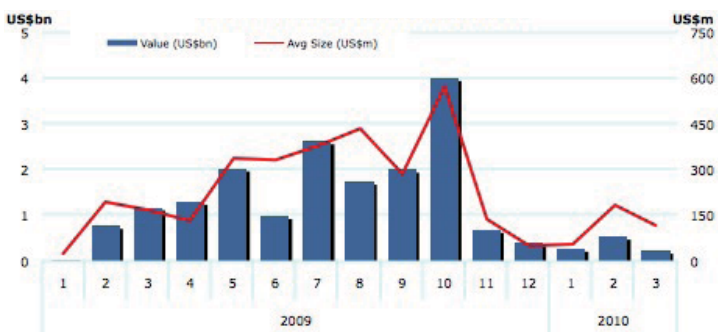
12 Months

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Government of Dubai	UAE	Sukuk	Euro market public issue	1,931,000,000	1	11.3	Standard Chartered, UBS National Bank of Abu Dhabi, Dubai Islamic Bank, Bahrain Islamic Bank, Mitsubishi UFJ Financial Group, Emirates, Al Hilal Bank
2	Saudi Electricity	Saudi Arabia	Sukuk Istithmar	Domestic market public issue	1,867,000,000	1	10.9	HSBC, Samba Financial Group
3	Petronas Global Sukuk	Malaysia	Sukuk Ijarah	Euro market public issue	1,498,000,000	1	8.7	Morgan Stanley, CIMB, Citigroup
4	Terengganu Investment Authority	Malaysia	Sukuk Murabahah	Domestic market private placement	1,422,000,000	1	8.3	AmInvestment
5	TDIC Sukuk	UAE	Sukuk Ijarah	Euro market public issue	1,000,000,000	1	5.8	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
6	Cagamas	Malaysia	Sukuk	Domestic market private placement; Domestic market public issue	958,000,000	7	5.6	Standard Chartered, AmInvestment, Maybank Investment Bank, HSBC, CIMB, RHB Capital, Cagamas
7	Islamic Development Bank	Saudi Arabia	Sukuk Wakalah	Euro market public issue	850,000,000	1	5.0	Deutsche Bank, BNP Paribas, HSBC, CIMB
8	Kingdom of Bahrain	Bahrain	Sukuk Ijarah	Euro market public issue	750,000,000	1	4.4	Deutsche Bank, HSBC, Credit Agricol
9	Republic of Indonesia	Indonesia	Sukuk Ijarah	Euro market public issue	650,000,000	1	3.8	Standard Chartered, HSBC, Barclays Capital
10	Sime Darby	Malaysia	Sukuk Musharakah	Domestic market public issue	590,000,000	1	3.4	Public Bank, CIMB, Maybank Investment Bank
11	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market private placement	573,000,000	1	3.3	CIMB, Maybank Investment Bank
12	GE Capital Sukuk	US	Sukuk	Euro market public issue	498,000,000	1	2.9	Goldman Sachs, KFH, National Bank of Abu Dhabi, Citigroup
13	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk	Euro market public issue	446,000,000	1	2.6	Goldman Sachs Deutsche Bank, Unicorn Investment Bank
14	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue	444,000,000	1	2.6	CIMB, AmInvestment
15	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	442,000,000	2	2.6	CIMB, Standard Chartered
16	RAK Capital	UAE	Sukuk	Euro market public issue	407,000,000	1	2.4	HSBC, CIMB, AmInvestment
17	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	368,000,000	2	2.2	HSBC, CIMB, AmInvestment
18	Pengurusan Aset Air	Malaysia	Sukuk Ijarah	Domestic market private placement	341,000,000	1	2.0	CIMB
19	Seafield Capital	Malaysia	Sukuk Musharakah	Domestic market private placement	269,000,000	1	1.6	CIMB
20	Dar Al Arkan Real Estate Development Company	Saudi Arabia	Sukuk Ijarah	Domestic market private placement	200,000,000	1	1.2	HSBC, Samba Financial Group
21	Saudi Hollandi Bank	Saudi Arabia	Sukuk	Domestic market public issue	193,000,000	1	1.1	Saudi Hollandi Bank, Riyad Bank
22	Islamic Republic of Pakistan	Pakistan	Sukuk	Domestic government debt	174,000,000	1	1.0	Standard Chartered
23	Penerbangan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	148,000,000	2	0.9	Bank Muamalat Malaysia, CIMB, HSBC, AmInvestment
24	UMW Holdings	Malaysia	Sukuk Murabahah	Domestic market private placement	141,000,000	1	0.8	Maybank Investment Bank
25	International Finance	US	Sukuk	Euro market public issue	100,000,000	1	0.6	HSBC, KFH Dubai Islamic Bank, Liquidity Management Centre
26	CIMB Islamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	86,000,000	1	0.5	CIMB
27	Putrajaya Holdings	Malaysia	Sukuk Musharakah	Domestic market public issue	82,000,000	1	0.5	CIMB, AmInvestment, Maybank Investment Bank
28	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	75,000,000	1	0.4	CIMB
29	Projek Lintasan Shah Alam	Malaysia	Sukuk Ijarah; Sukuk Mudarabah	Domestic market public issue; Domestic market private placement	65,000,000	3	0.4	RHB Capital
30	Jimah Energy Ventures Holdings	Malaysia	Sukuk Istisna	Domestic market private placement	60,000,000	1	0.4	RHB Capital, EON Bank, Bank Muamalat Malaysia, AmInvestment
	Total				**17,135,000,000**	**69**	**100.0**	

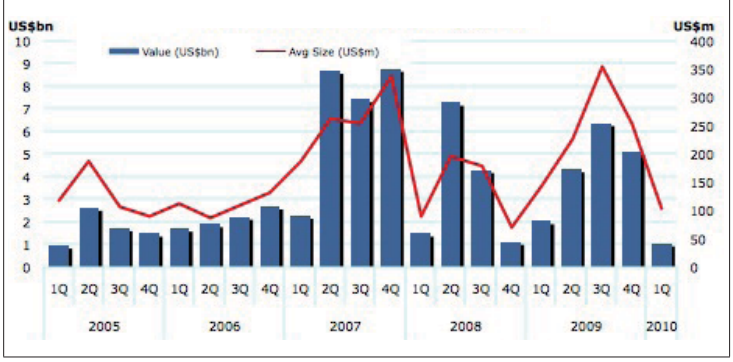
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
10th Mar 2010	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	359,000,000	Standard Chartered, CIMB
11th Feb 2010	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk	Euro market public issue	450,000,000	Goldman Sachs, Deutsche Bank Unicorn Investment
6th Jan 2010	Saudi Hollandi Bank	Saudi Arabia	Sukuk	Domestic market public issue	193,000,000	Saudi Hollandi Bank, Riyad Bank
21st Dec 2009	Cagamas	Malaysia	Sukuk	Domestic market public issue	148,000,000	Cagamas
19th Nov 2009	GE Capital Sukuk	US	Sukuk	Euro market public issue	500,000,000	Goldman Sachs, KFH National Bank of Abu Dhabi, Citigroup
16th Nov 2009	Cagamas	Malaysia	Sukuk	Domestic market public issue	142,000,000	CIMB, Maybank Investment Bank
28th Oct 2009	Government of Dubai	UAE	Sukuk	Euro market public issue	1,931,000,000	Standard Chartered, UBS, National Bank of Abu Dhabi, Dubai Islamic Bank, Bahrain Islamic Bank, Mitsubishi UFJ Financial, Emirates NBD, Al Hilal Bank
22nd Oct 2009	Pengurusan Aset Air	Malaysia	Sukuk Ijarah	Domestic market private placement	741,000,000	CIMB
14th Oct 2009	Sime Darby	Malaysia	Sukuk Musharakah	Domestic market public issue	590,000,000	Public Bank, CIMB, Maybank Investment Bank
13th Oct 2009	TDIC Sukuk	UAE	Sukuk Ijarah	Euro market public issue	1,000,000,000	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
16th Sep 2009	Islamic Republic of Pakistan	Pakistan	Sukuk	Domestic government debt	174,000,000	Standard Chartered
11th Sep 2009	UMW Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	141,000,000	Maybank Investment Bank
11th Sep 2009	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market private placement	573,000,000	CIMB, Maybank Investment Bank
11th Sep 2009	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	286,000,000	HSBC, CIMB
9th Sep 2009	Islamic Development Bank	Saudi Arabia	Sukuk Wakalah	Euro market public issue	850,000,000	Deutsche Bank, BNP Paribas, HSBC, CIMB
19th Aug 2009	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	368,000,000	CIMB
5th Aug 2009	Petronas Global Sukuk	Malaysia	Sukuk Ijarah	Euro market public issue	1,500,000,000	Morgan Stanley, CIMB, Citigroup
22nd Jul 2009	RAK Capital	UAE	Sukuk	Euro market public issue	400,000,000	Standard Chartered, BNP Paribas
16th Jul 2009	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	280,000,000	HSBC, CIMB, AmInvestment
7th Jul 2009	Cagamas	Malaysia	Sukuk	Domestic market public issue	138,000,000	RHB Capital, CIMB Group

GLOBAL ISLAMIC BOND VOLUME BY MONTH



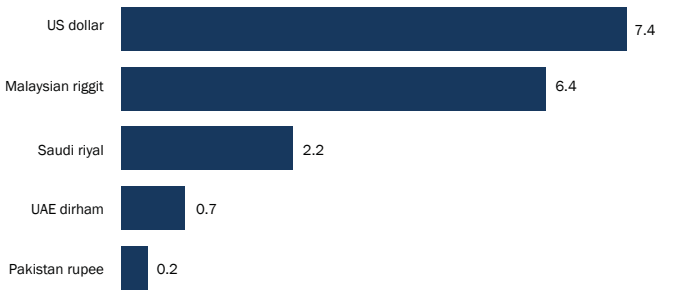
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



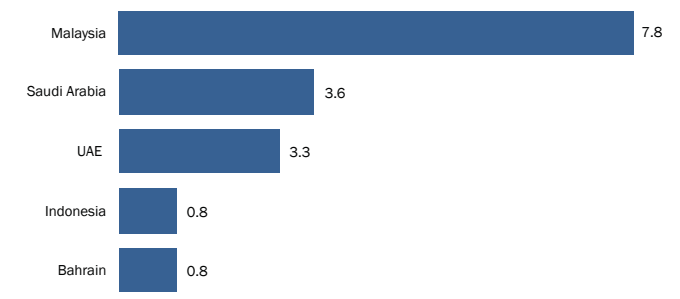
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB	3,165,000,000	30	18.47
2	HSBC	2,380,000,000	14	13.89
3	AmInvestment	1,909,000,000	10	11.14
4	Standard Chartered	1,466,000,000	12	8.55
5	Samba Financial Group	1,033,000,000	2	6.03
6	Maybank Investment Bank	869,000,000	9	5.07
7	Citigroup	624,000,000	2	3.64
8	Deutsche Bank	611,000,000	3	3.57
9	Morgan Stanley	499,000,000	1	2.91
10	BNP Paribas	416,000,000	2	2.43
11	Abu Dhabi Commercial Bank	333,000,000	1	1.95
12	Dubai Islamic Bank	331,000,000	2	1.93
13	UBS	306,000,000	1	1.78
13	Mitsubishi UFJ Financial Group	306,000,000	1	1.78
13	Emirates NBD	306,000,000	1	1.78
16	Goldman Sachs	273,000,000	2	1.59
17	Credit Agricole	250,000,000	1	1.46
18	National Bank of Abu Dhabi	222,000,000	2	1.29
19	Barclays Capital	217,000,000	1	1.26
20	Bahrain Islamic Bank	208,000,000	1	1.22
21	Public Bank	197,000,000	1	1.15
22	RHB Capital	183,000,000	6	1.07
23	KFH	150,000,000	2	0.87
24	Unicorn Investment Bank	149,000,000	1	0.87
25	Cagamas	101,000,000	1	0.59
26	Al Hilal Bank	97,000,000	1	0.57
27	Saudi Hollandi Bank	97,000,000	1	0.56
27	Riyad Bank	97,000,000	1	0.56
29	Bank Muamalat Malaysia	52,000,000	2	0.3
30	EON Bank	44,000,000	2	0.26
	Total	**17,135,000,000**	**69**	**100.00**

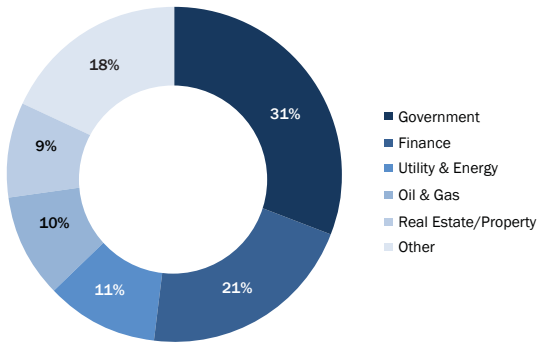
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



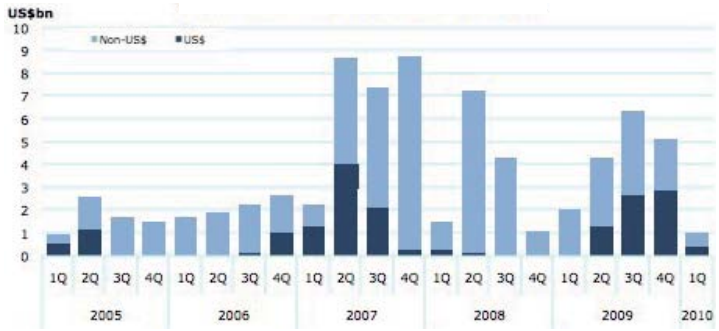
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



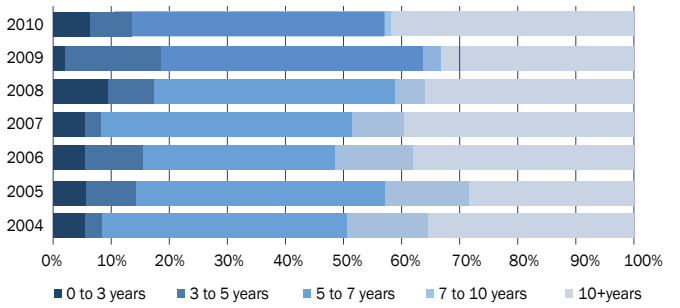
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



GLOBAL ISLAMIC LOANS - YEARS TO MATURITY *(YTD Comparison)*



ALL DATA AS OF THE 23rd MARCH 2010

SUKUK MANAGERS (12 months) MAR 2009 – MAR 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	18,987,153,141	113	46.6
2	CIMB	4,130,391,341	109	10.1
3	AMMB Holdings	2,316,880,629	85	5.7
4	HSBC Banking Group	2,146,923,263	55	5.3
5	Citigroup	1,276,560,949	7	3.1
6	Standard Chartered	1,222,158,762	22	3.0
7	Malayan Banking	1,219,046,926	96	3.0
8	Morgan Stanley	1,215,000,000	5	3.0
9	RHB Banking Group	1,122,937,081	50	2.8
10	Malaysian Industrial Development Finance	1,012,260,071	255	2.5
11	Samba Financial Group	933,261,000	1	2.3
12	Dubai Islamic Bank	602,646,875	3	1.5
13=	UBS	482,646,875	2	1.2
13=	Mitsubishi UFJ Financial Group	482,646,875	2	1.2
15	Barclays Bank	435,500,000	3	1.1
16	Cagamas	357,618,275	39	0.9
17	Affin Holdings	233,871,008	26	0.6
18	Indonesia (Government)	200,671,938	14	0.5
19	EON Capital	188,934,545	96	0.5
20	OSK Holdings	171,836,951	25	0.4

SUKUK MANAGERS (3 months) DEC 2009 - MAR 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	3,574,439,600	18	59.1
2	CIMB	194,783,794	14	3.2
3	RHB Banking Group	189,095,745	5	3.1
4	Malaysian Industrial Development Finance	182,784,958	44	3.0
5	Indonesia (Government)	167,871,925	7	2.8
6=	Unicorn Investment Bank	148,500,000	1	2.5
6=	Deutsche Bank	148,500,000	1	2.5
6=	Goldman Sachs & Company	148,500,000	1	2.5
9	Malayan Banking	127,227,109	15	2.1
10	OCBC Bank	116,834,399	11	1.9
11	AMMB Holdings	108,347,012	15	1.8
12	HSBC Banking Group	88,597,754	5	1.5
13	Standard Chartered	80,128,092	4	1.3
14	Affin Holdings	69,660,025	7	1.2
15=	Mega Capital Indonesia	58,103,648	3	1.0
15=	Danareksa Sekuritas	58,103,648	3	1.0
17=	Andalan Artha Advisindo Sekuritas	51,664,629	1	0.9
17=	Ciptadana Sekuritas	51,664,629	1	0.9
17=	Citigroup	51,664,629	1	0.9
17=	Bank Permata	51,664,629	1	0.9

SUKUK ISSUERS (12 months) MAR 2009 – MAR 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	7,609,840,176	24	16.8
2	BNM Sukuk	7,231,288,200	35	15.9
3	Bank Indonesia	4,243,732,283	53	9.3
4	Petronas Global Sukuk	3,000,000,000	2	6.6
5	Bank Negara Malaysia	2,895,246,367	51	6.4
6	Dubai DOF Sukuk	1,930,587,500	2	4.2
7	Saudi Electricity	1,866,522,000	1	4.1
8	Perusahaan Penerbit SBSN Indonesia	1,659,979,700	9	3.7
9	Terengganu Investment Auhority	1,419,647,927	8	3.1
10	Indonesia (Government)	1,300,000,000	2	2.9
11	Cagamas	1,273,771,851	39	2.8
12	TDIC Sukuk	1,000,000,000	1	2.2
13	ESSO Malaysia	823,224,051	12	1.8
14	Pengurusan Air SPV	739,865,000	3	1.6
15	Khazanah Nasional	706,310,000	2	1.6
16	Sime Darby	636,963,100	4	1.4
17	Syarikat Prasarana Negara	577,872,000	2	1.3
18	MISC	572,905,000	6	1.3
19	Danga Capital	454,287,337	2	1.0
20	Dar Al-Arkan International Sukuk	450,000,000	1	1.0

SUKUK ISSUERS (3 months) DEC 2009 - MAR 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	2,555,974,700	13	32.0
2	Perusahaan Penerbit SBSN Indonesia	1,320,972,588	4	16.5
3	Bank Indonesia	1,311,801,126	13	16.4
4	Malaysia (Government)	1,018,464,900	5	12.8
5	Dar Al-Arkan International Sukuk	450,000,000	1	5.6
6	Saudi Hollandi Bank	193,328,500	1	2.4
7	ESSO Malaysia	177,487,200	2	2.2
8	Cagamas	147,732,500	4	1.8
9	Hubline	68,441,075	6	0.9
10	Sunrise	58,794,800	2	0.7
11	Hytex Integrated	55,073,613	8	0.7
12	Perbadanan Kemajuan Negeri Selangor	52,894,640	4	0.7
13	TESCO Stores (Malaysia)	49,397,950	2	0.6
14	Tradewinds Plantation Capital	36,924,225	3	0.5
15	Perusahaan Perseroan (PERSERO) Perusahaan Listrik Negara	32,195,097	2	0.4
16	Toyota Capital Malaysia	29,546,500	1	0.4
17	Mulpha International	29,448,575	4	0.4
18	MM VIitaoils	28,857,094	21	0.4
19	Nam Fatt	26,720,700	2	0.3
20	Prinsiptek	24,003,000	3	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.

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ALL DATA AS OF THE 23rd MARCH 2010

LOAN MANDATED LEAD ARRANGERS — MAR 2009 – MAR 2010

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	HSBC	1,530,319,392.23	5,645,789,333.62	6	12.4
2	Standard Chartered	1,494,288,725.49	5,455,000,000.00	8	12.1
3	Samba Financial	1,289,688,778.30	4,643,622,223.41	4	10.5
4	Qatar Islamic	1,098,538,943.20	1,098,538,943.20	1	8.9
5	Credit Agricole Corporate & Investment Bank	835,322,058.82	4,520,800,000.00	4	6.8
6	National Commercial Bank	821,191,444.89	2,769,632,889.79	2	6.7
7	Al Rajhi Banking & Investment	791,722,058.82	4,302,800,000.00	3	6.4
8	Al Hilal Bank	541,370,616.42	1,833,741,232.85	3	4.4
9	Dubai Islamic Bank	495,500,000.00	2,109,000,000.00	2	4.0
10	Arab Bank	492,447,058.82	2,242,800,000.00	3	4.0
11	Noor Islamic Bank	385,870,616.42	1,252,741,232.85	4	3.1
12=	Alinma Bank	187,875,000.00	1,503,000,000.00	1	1.5
12=	Bank of China	187,875,000.00	1,503,000,000.00	1	1.5
14	WestLB	177,980,392.16	1,035,000,000.00	3	1.4
15=	National Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.3
15=	Gulf Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.3
15=	Standard Bank Group	155,000,000.00	775,000,000.00	1	1.3
18	Citigroup	130,500,000.00	130,500,000.00	3	1.1
19=	Emirates NBD	127,000,000.00	635,000,000.00	1	1.0
19=	Industrial & Commercial Bank of China	127,000,000.00	635,000,000.00	1	1.0
21	Riyad Bank	117,644,392.23	699,989,333.62	2	1.0
22	National Bank	99,997,333.40	399,989,333.62	1	0.8
23	Royal Bank of Scotland	75,000,000.00	225,000,000.00	1	0.6
24	Development Bank of Singapore	67,222,222.22	400,000,000.00	3	0.5
25	Societe Generale	61,247,058.82	518,000,000.00	2	0.5
26	BNP Paribas	56,647,058.82	467,000,000.00	3	0.5
27	Mitsubishi UFJ Financial	42,647,058.82	400,000,000.00	2	0.3
28	Liquidity Management House for Investment	40,555,555.56	265,000,000.00	2	0.3
29=	Raiffeisen Zentralbank Osterreich	33,333,333.33	100,000,000.00	1	0.3
29=	Deutsche Bank	33,333,333.33	100,000,000.00	1	0.3
31=	Masraf Al Rayan	26,666,666.67	160,000,000.00	1	0.2
31=	Malayan Banking	26,666,666.67	160,000,000.00	1	0.2
31=	Sumitomo Mitsui Financial	26,666,666.67	160,000,000.00	1	0.2
31=	Bank Islam Malaysia	26,666,666.67	160,000,000.00	1	0.2
35=	Arab Banking	25,000,000.00	75,000,000.00	1	0.2

LOAN BOOKRUNNERS (12 Months) — MAR 2009 - MAR 2010

	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	20.0
1=	Credit Agricole Corporate & Investment Bank	1,249,900,000.00	2,499,800,000.00	1	20.0
3	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	17.5
4	Dubai Islamic Bank	495,500,000.00	2,109,000,000.00	2	7.9
5	Standard Chartered	468,500,000.00	1,774,000,000.00	3	7.5
6=	Al Hilal Bank	368,500,000.00	1,474,000,000.00	1	5.9
6=	Samba Financial	368,500,000.00	1,474,000,000.00	1	5.9
8	Noor Islamic Bank	227,000,000.00	935,000,000.00	3	3.6
9	Citigroup	130,500,000.00	130,500,000.00	3	2.1
10=	WestLB	127,000,000.00	635,000,000.00	1	2.0
10=	Emirates NBD	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
13	Royal Bank of Scotland	75,000,000.00	225,000,000.00	1	1.2
14=	Gatehouse Bank	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
14=	BNP Paribas	41,666,666.67	125,000,000.00	1	0.7
17	Arab Banking	25,000,000.00	75,000,000.00	1	0.4

ISLAMIC LOANS RAISED (12 Months) — MAR 2009 - MAR 2010

	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	Qatari Diar Real Estate Investment	Qatar	1,500,000,000
4	Dubai Electricity & Water Authority	UAE	1,474,000,000
5	Saudi Binladen	Saudi Arabia	1,266,632,890
6	Qatari Diar Real Estate Investment	Qatar	1,098,538,943
7	Dubai Department of Civil Aviation	UAE	635,000,000
8	Etihad Etisalat	Saudi Arabia	399,989,334
9	International Petroleum Investment	UAE	317,741,233
10	Al Dur Power & Water	Bahrain	300,000,000
11	Dubai International Capital	UAE	225,000,000
12	Dolphin Energy	UAE	218,000,000
13	Qatar Airways	Qatar	160,000,000
14	Bahrain Mumtalakat Holding	Bahrain	140,000,000
15	Burgan Co for Well Drilling Trading & Maintenance	Kuwait	125,000,000
16	Olam International	Singapore	100,000,000
17	Gulf Finance House	Bahrain	100,000,000
18	Lana Development	Kuwait	77,500,000

ALL DATA AS OF THE 23rd MARCH 2010

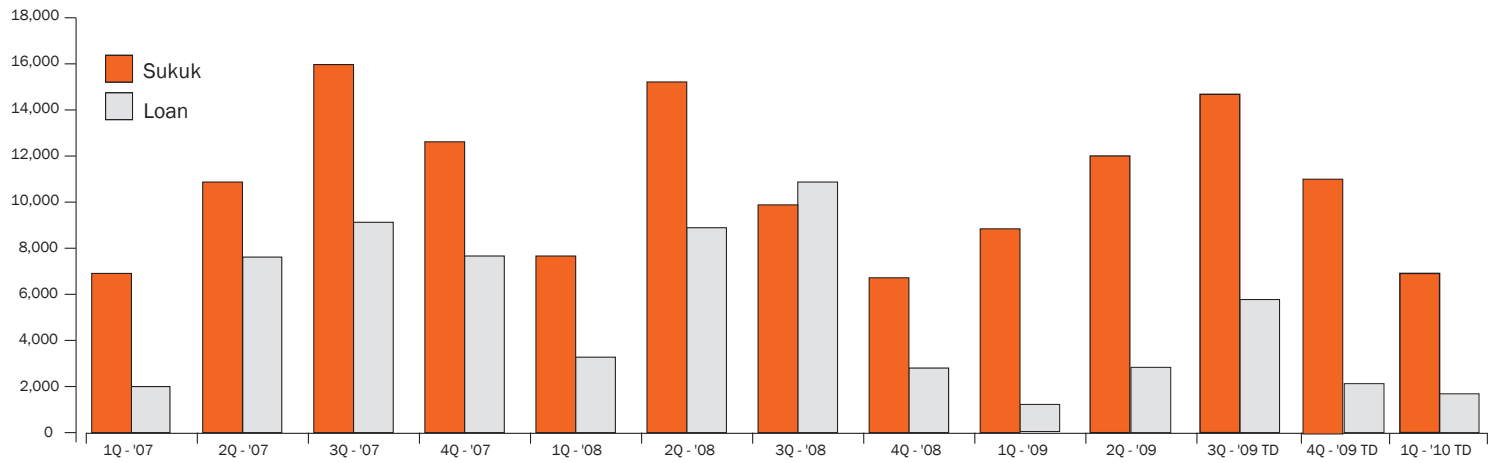
SUKUK BY COUNTRY	(12 Months)	MAR 2009 – MAR 2010
Country	Volume Issued	Volume Outstanding
Malaysia	29,232,377,776	17,880,539,061
Indonesia	6,102,731,776	2,115,476,923
Eurobond	5,080,587,500	5,080,587,500
US	2,600,000,000	2,600,000,000
Saudi Arabia	2,059,850,500	2,059,850,500
Pakistan	174,265,020	174,265,020
Bahrain	121,738,119	-
Singapore	56,757,284	56,757,284
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	MAR 2009 – MAR 2010
Country	Volume (US$)	Market Share (%)
Saudi Arabia	5,669,422,223	46.1
UAE	2,911,741,233	23.7
Qatar	2,758,538,943	22.4
Bahrain	540,000,000	4.4
Kuwait	202,500,000	1.6
Turkey	128,000,000	1.0
Singapore	100,000,000	0.8

SUKUK BY INDUSTRY	(12 Months)	MAR 2009 – MAR 2010
Industry	Volume Issued	Volume Outstanding
Other Financial	19,420,385,465	12,929,664,984
Sovereign	16,252,269,305	9,312,189,667
Agency	2,484,889,183	2,430,864,860
Electric Power	2,074,541,097	2,074,541,097
Manufacturing	1,937,369,413	1,160,335,432
Transportation	1,404,331,383	1,241,714,870
Energy company	928,151,381	143,982,825
Service company	408,105,793	253,231,060
Banks	280,009,300	280,009,300
Consumer goods	190,652,602	119,744,593
Gas distribution	26,405,451	-

LOANS BY INDUSTRY	(12 Months)	MAR 2009 – MAR 2010
Industry	Volume (US$)	Market Share(%)
Utilities	3,277,000,000	26.6
Telecommunications	2,977,289,334	24.2
Real estate	2,598,538,943	21.1
Construction	1,266,632,890	10.3
Government	635,000,000	5.2
Financial services	540,000,000	4.4
Oil and gas	343,000,000	2.8
Chemicals, plastics and rubber	330,741,233	2.7
Transportation	160,000,000	1.3

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



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EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
March			
30th – 31st	UFANA Conference 2010	Canada	UFANA
April			
12th – 13th	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			
3rd – 5th	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
16th – 19th	Sukuk Summit Day	Dubai	IIR
18th – 20th	World Islamic Economic Forum Foundation	Kuala Lumpur	WIEF Conference
24th – 25th	The World Islamic Funds & Capital Markets Conference	Bahrain	MEGA Events
26th – 27th	Annual Shari'a Conference	Manama	AAOIFI
June			
7th	IFN Roadshow Saudi Arabia	Saudi Arabia	Islamic Finance events
9th	IFN Roadshow Egypt	Egypt	Islamic Finance events
10th	London 2010 Sukuk Summit	London	ICG Events
11th	IFN Roadshow Turkey	Turkey	Islamic Finance events
22nd	IFN Roadshow Nigeria	Nigeria	Islamic Finance events
July			
13th	IFN Roadshow Japan	Japan	Islamic Finance events
15th	IFN Roadshow Korea	Korea	Islamic Finance events
August			
3rd	IFN Roadshow India	India	Islamic Finance events
5th	IFN Roadshow Pakistan	Pakistan	Islamic Finance events
October			
4th – 7th	Islamic Finance World Africa 2010	Johannesburg	Terrappin
18th – 22nd	25th East Asian Insurance Congress	Bali, Indonesia	EAIC Organizing Committee
25th – 28th	IFN Asia Forum 2010	Kuala Lumpur	Islamic Finance events
November 2010			
10th – 11th	Middle East Life & Family Takaful Summit	Dubai	Asia Insurance Review
18th	IFN Roadshow Canada	Canada	Islamic Finance events

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Individual Subscription Rate: US$695/Year
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